**Chapter – IV**

# PUBLIC FINANCE AND FISCAL ISSUES: CENTRE STATE FISCAL RELATIONS

## 4.1 Introduction

Until 1998-99, Manipur had a surplus on the revenue account, which turned into a deficit in 1999-2000, reaching 22.8 per cent of GSDP. If this fiscal deficit was being used to finance income-generating capital expenditure, there would be no cause for worry since the fiscal deficit would increase revenue in the medium to long run. However, the present situation is untenable because the fiscal deficit is on account of high interest and salary payments due to a declining share of central funds, high rate of interest on government debt and implementation of the Fifth Pay Commission recommendations (in the context of dwindling government employment). The lack of resources has resulted in the deferment of crucial maintenance and development expenditure, non-payment of salaries on time, etc. Despite the comparatively favourable growth of state domestic product, employment opportunities have not kept pace with GSDP growth. The Human Poverty Index too worsened with widening rural-urban disparity. In the light of this grim backdrop the Shukla Committee Report made a convincing case for directing more resources to the Northeast. The report states:

> "It is often asserted that the northeastern states were created for good and sound political reasons and not on the basis of economic viability... The larger world of southeast Asia and southwest China; the Northeast is indeed India's cultural and economic bridgehead to these fast growing economies.
>
> There are four deficits that confront the Northeast: a basic needs deficit; an infrastructural deficit; resource deficit; and, most important, a two-way deficit of understanding with the rest of the country which compounds the others. The Northeast has so far depended exclusively on the Centre for development funding. A more rapid pace of growth would generate larger internal resources...
>
> Effecting quantum jump will require a very considerable increase in outlay and capacity-building to develop and implement programmes and projects with appropriate monitoring mechanisms to preclude leakages and time and cost overruns.
>
> However, some might question why the Northeast should be specially favoured when per capita outlays in Region are already high and all the units are Special Category States with a 90 per cent grant component by way of Central assistance. The reasons are clear.
>
> First and foremost, the Northeast was uniquely disadvantaged by partition, which left its external perimeter with no more that two per cent contiguity with the rest of India. The remaining 98 per cent represents what are often difficult and, until recently, inhospitable international boundaries. No other part of the country, barring J&K, has had to bear a comparable burden with severe market disruption, total isolation and loss of traditional communication infrastructure, all of which has pushed regional costs and prices well above national norms, transport subsidies notwithstanding. This rendered the normal market production processes in the region less attractive and state intervention that much more costly. Fifty years after Independence, partial redressal does not constitute a special favour.
>
> Secondly, no part of the country has been driven by prolonged and multiple insurgencies that have held development to ransom. The underlying discontents have a strong social and economic background with added trauma as pre-industrial tribal communities inevitably undergo rapid modernisation.
>
> Thirdly, this resource-rich region is truly a national asset. The development of its hydro-electric, oil and gas, coal, bio-diversity and agro-silvicultural potential holds out promise of national solutions through regional development. This in turn will add immeasurably to national security in every respect.
>
> Fourthly, with the recent softening of geo-political rigidities following understandings with China, then Myanmar and, most especially, with Bangladesh, the Northeast is no more a burdensome peripheral region somewhere out there, but is poised once again to resume its dynamic role as a bridge to the booming economies of Southeast Asia and Southwest China to mutual benefit. No surprise that proposals to construct a trans Asian Highway and Asian Railway have been revived.

According to the Gadgil formula, 30 per cent of the plan grants are for the Special Category states (SCS) and 90 per cent of these are grants that do not involve any interest payment, though they do require state governments to match the expenditure with salaries for personnel, etc. Despite such a financing arrangement, Manipur has been in the grip of a financial crisis for the past six years. On an average, the SCS receive seven times more per capita grants than the general category states. This has, however, not translated into higher growth largely due to lack of matching state level resources to ensure their full utilization. A larger plan size has great potential for growth, but under a regime of high interest rates, high maintenance costs and high salaries, it is likely to create fiscal pressures.

The Centre devolves its share in central taxes and grants to state governments. The grants-in-aid include 90 per cent of central assistance (Plan, centrally sponsored schemes, central plan schemes, calamity relief fund, non-plan revenue deficit grants, grants under Article 275(1) of the Constitution, etc.) Loans include 10 per cent of central assistance under the Plan, 75 per cent of net small savings of the state, special ways and means advances (to be repaid within the year), loan component of centrally-sponsored/central plan schemes, etc. Market borrowings include loans raised through the issue of SLR-based Manipur Development Bonds in keeping with the allocations made by the Planning Commission annually. Borrowings from the market are raised by the Reserve bank of India on behalf of the state government.[1]

### 4.2 Receipts and Expenditure

*(i) Revenue Receipts*

The major problem of Manipur is inadequate revenue. In 2001-02 only 6.77 per cent of the state's total expenditure was met from own tax revenue and non-tax revenue. If we include the share of central taxes this becomes 22.62 per cent of the total expenditure. The remaining comes from central grants. There has been a sharp decline in the share of revenue receipts in GSDP, from 48.9 per cent in 1985-86 to 34.4 per cent 1998-99. The only reason why this went up to 39.9 per cent in 2001-02 was due to higher central grants. There has been an overall fall in share of central taxes and grants, and while own tax revenue has remained stagnant at 1.5 per cent of GSDP, non-tax revenue peaked in the mid-1990s to fall again to 1.2 per cent of GSDP during 2001-02.

Table 4.1: Revenue Receipts of Manipur, 1984-85 to 2005-06(Rs. In Crore) & Percentage Shares of It in Total Revenue

| Year | Tax Revenue | Non-Tax Revenue | Share in Central Tax | Grants-in-Aid | Total Revenue |
|---|---|---|---|---|---|
| 1984-85 | 6.34 (3.00) | 5.21 (3.04) | 12.48 (7.28) | 147.34 (85.98) | 171.37 (100.00) |
| 1990-91 | 12.46 (3.20) | 19.67 (5.04) | 113.26 (29.02) | 244.80 (62.74) | 390.19 (100.00) |
| 1994-95 | 23.80 (4.02) | 50.02 (8.45) | 181.46 (30.64) | 336.80 (56.89) | 592.08 (100.00) |
| 2000-01 | 49.06 (4.70) | 41.64 (3.99) | 163.52 (15.65) | 791.14 (75.66) | 1045.36 (100.00) |
| 2003-04 | 69.17 (4.87) | 49.32 (3.47) | 239.97 (16.90) | 1061.26 (74.75) | 1419.72 (100.00) |
| 2004-05* | 83.07 (4.86) | 81.52 (4.77) | 301.22 (17.62) | 1243.88 (72.75) | 1709.69 (100.00) |
| 2005-06** | 100.19 (4.21) | 103.08 (4.33) | 344.06 (14.45) | 1832.95 (77.01) | 2380.28 (100.00) |

Note: * Revised Estimates, ** Budget Estimates, Figures in brackets are percentage.

Sources: RBI (2004) Handbook of Statistics on State Government Finances, p.10 & RBI: State Finances – A Study of Budgets, various issues.

Table 4.2: Structure of Taxes in Manipur in Rupees in Lakhs) and Percentage

| Year | Land Revenue | State Excise Duties | Sales Tax | Motor Vehicle Tax | Stamps & Registration | Taxes & Duties on Electricity | Other Taxes & Duties | Total Taxes |
|---|---|---|---|---|---|---|---|---|
| 1984-85 | 31.31 (4.94) | 132.14 (20.84) | 195.83 (30.88) | 47.19 (7.44) | 28.17 (4.44) | 71.01 (11.20) | 128.50 (20.26) | 634.15 (100.00) |
| 1990-91 | 35.01 (2.81) | 216.32 (17.36) | 543.49 (43.61) | 113.19 (9.08) | 90.28 (7.24) | 0.21 (0.02) | 247.80 (19.88) | 1246.30 (100.00) |
| 1994-95 | 24.30 (1.02) | 93.93 (3.95) | 1406.57 (59.10) | 252.25 (10.60) | 97.93 (4.11) | 0.07 (0.00) | 504.94 (21.22) | 2379.99 (100.00) |
| 2000-01 | 36.47 (0.75) | 124.20 (4.53) | 3129.79 (70.32) | 280.06 (4.54) | 179.73 (3.96) | 97.23 (0.00) | 1058.52 (15.90) | 4906.00 (100.00) |
| 2003-04 | 57.00 (1.00) | 296.00 (5.20) | 4612.00 (81.05) | 338.00 (5.94) | 233.00 (4.09) | 49.00 (0.86) | 105.00 (1.85) | 5690.00 (100.00) |
| 2004-05* | 71.00 (1.04) | 350.00 (5.12) | 5500.00 (80.53) | 432.00 (6.33) | 253.00 (3.70) | 100.00 (1.46) | 124.00 (1.82) | 6830.00 (100.00) |
| 2005-06** | 80.00 (0.94) | 392.00 (4.62) | 7000.00 (82.51) | 484.00 (5.70) | 283.00 (3.34) | 112.00 (1.32) | 133.00 (1.57) | 8484.00 (100.00) |

Note: * Revised Estimates, **Budget Estimates, Figures in brackets are percentage

Sources: RBI (2004) Handbook of Statistics on State Government Finances, p.12 & 13, RBI: State Finances – A Study of Budgets, various issues.

Thus, the growth in tax collection has not kept pace with the growth of the economy — a fact brought out clearly by the buoyancy in estimates of the different taxes. The picture was bleaker during the 1990s compared to the 1980s. Sales tax revenue, which was about half of the state's own tax revenue, fell marginally throughout the period, 1981-82 to 2000-01. The taxes that showed the maximum decline are profession tax, land revenue, stamps and registration, state excise duty and vehicles, etc. Manipur lags behind other

[1] Ibid., p. 11

northeastern states in respect of revenue earned from these taxes. Loss of excise due to prohibition introduced from April 1, 1991 has been a major cause of falling sales tax, excise duty, and license fees.

Indirect taxes have a higher though falling share in total taxes.

Table 4.3: Share of Direct and Indirect Tax Revenue in total Tax Revenues, (Rs in Lakhs).

| | Percentage to total Tax Revenue | | |
|---|---|---|---|
| Year | Direct Tax | Indirect Tax | Total |
| 1984-85 | 9.62 | 90.38 | 100.00 |
| 1990-91 | 14.06 | 85.94 | 100.00 |
| 1994-95 | 17.21 | 82.79 | 100.00 |
| 2000-01 | 20.33 | 79.67 | 100.00 |
| 2001-02 | 21.09 | 78.91 | 100.00 |
| 2002-03 | 22.28 | 77.72 | 100.00 |
| 2005-06 | 24.77 | 75.23 | 100.00 |
| 2006-07 | 25.31 | 74.69 | 100.00 |

Sources: Ibid. p. 13.

Thus, own revenue is grossly inadequate, and has stagnated or fallen as a share of NSDP both for tax and non-tax revenue in the 1990's. Professional tax, land revenue, state excise duty and vehicles tax all declined during the period. One cause of this is the prohibition introduced in 1991. This was lifted in 2002 since the prohibition simply drove the business underground into the black economy.

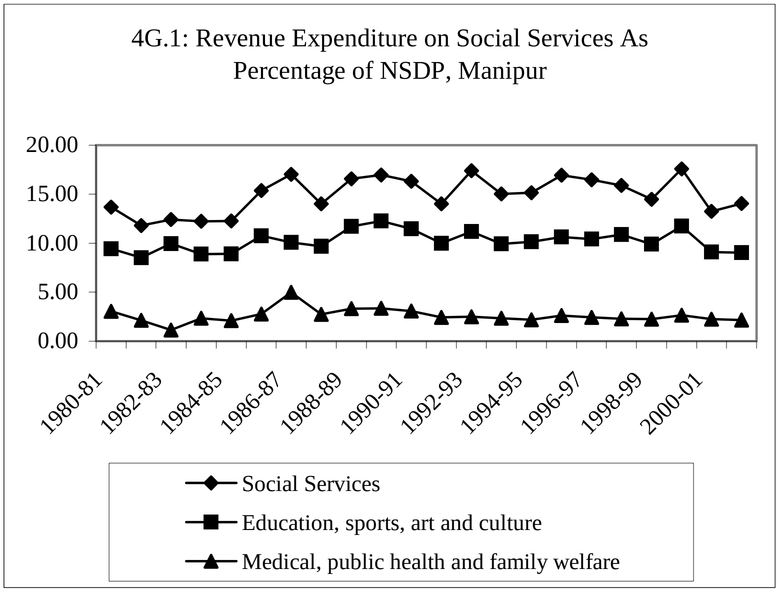
There are many public services where only the government can deliver such as public transport to remote areas, especially with dispersed and low-density population. This implies that financial viability cannot be the basis of public investment in these areas nor is cost recovery possible. The fact remains that the state level public enterprises (defunct or loss making) are bound to suffer some financial "losses" because of the very circumstances under which development is taking place in the state. Furthermore, the three power tariff revisions between July 1998 and July, 2001 have not addressed the principal problem in the power sector, namely the high transmission and distribution (T and D) losses. After Delhi (45.0 per cent) and Mizoram (42.5 per cent) Manipur recorded the highest T & D losses of 40 per cent.

The period between the late 1980's and 1990's witnessed a fall in non tax revenue (as a percentage of NSDP) from over 2.5 per cent to 1.5 per cent. Dividends from state level public sector enterprises were low, while lotteries are at the moment banned in the state, contributing very little to the exchequer. The share of central taxes increased by seven times between 1985-86 and 1999-2000, after which it more or less stagnated due to a reduced award by the Eleventh Finance Commission (EFC) as compared to the Tenth Finance Commission (TFC).

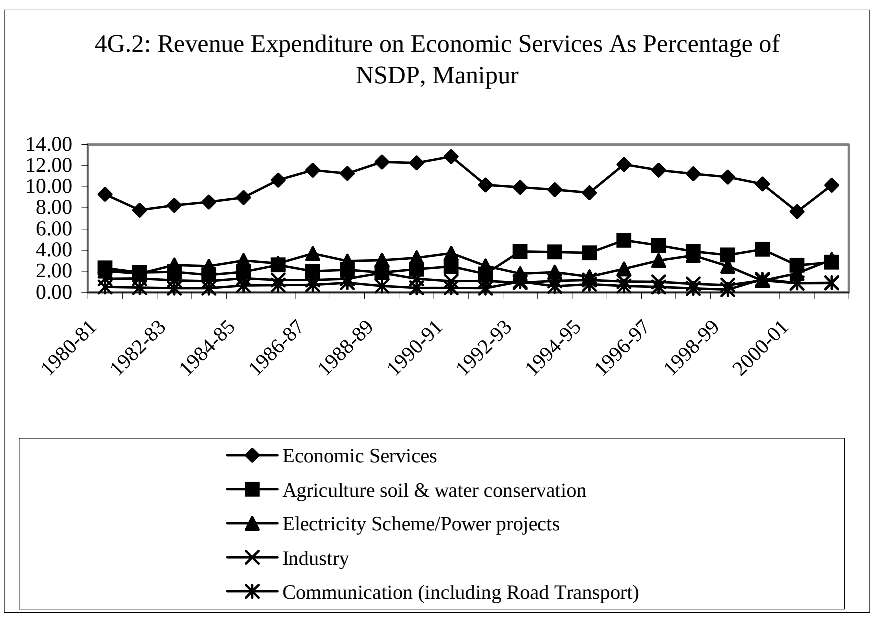
*(ii). Revenue Expenditure*

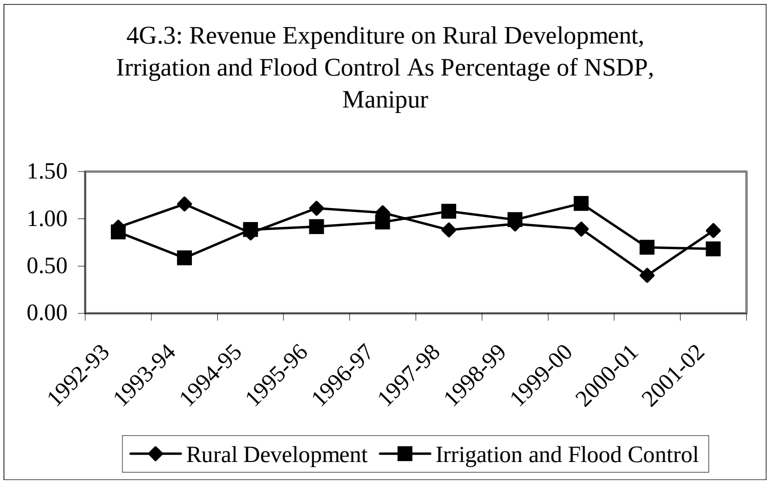
Revenue expenditure accounted for over 84 per cent of total expenditure in 2002-03, while the percentage share of total expenditure to GSDP fell from 50.4 per cent in 2000-01 to 39.6 per cent in 2002-03. The increase in revenue expenditure in 1999-2000 is attributed to general services, and since the early 1990s, both social services and economic services have fallen by 3-4 percentage points of NSDP.

Social sector expenditure as a percentage of NSDP increased during the mid 1980s till the early 1990s. After this, it fell to the level of the 1980s. The largest share of expenditure was on education, though this fluctuated between 9 per cent to 12 per cent. Health expenditure remained between 2 and to 3 per cent throughout the period, which is very low in terms of actual requirements. The high incidence of HIV/AIDS cases and malnutrition and other diseases reflect the fact that the health sector is in disarray (Graph 4G.1).



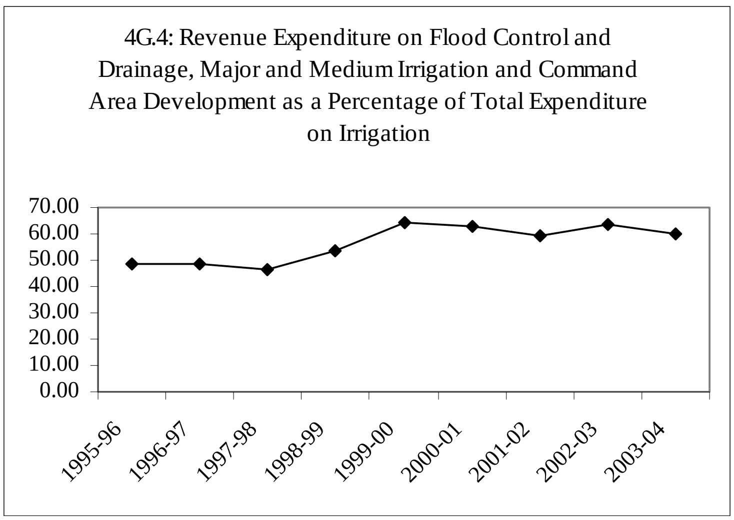

Economic expenditure (revenue) fluctuated between a low of 7 per cent to a maximum of 12 per cent. For consistent growth of the economy, a continuous support from the government is necessary, which has occurred in phases in Manipur. The first such phase was in the mid 1980s to early 1990s, when the expenditure rose from a level of 10.65 per cent in 1985-86 to 12.35 in 1988-89 and further to 12.85 per cent in 1990-91. The second such phase was 1995-96 to 1999-2000 when the expenditure hovered around 12.11 per cent to 10.26 per cent. Among the various sectors, the period between the 1980s and early 1990s saw a higher expenditure on electricity and power projects than on agriculture, communication and industry related activities, which saw a reversal during the 1990s with agriculture overtaking the other two sectors (Graph 4G.2). The share of agriculture and allied activities has gone down while energy increased as a share of revenue expenditure. This too changed after the implementation of the Fifth Pay Commission's recommendation.



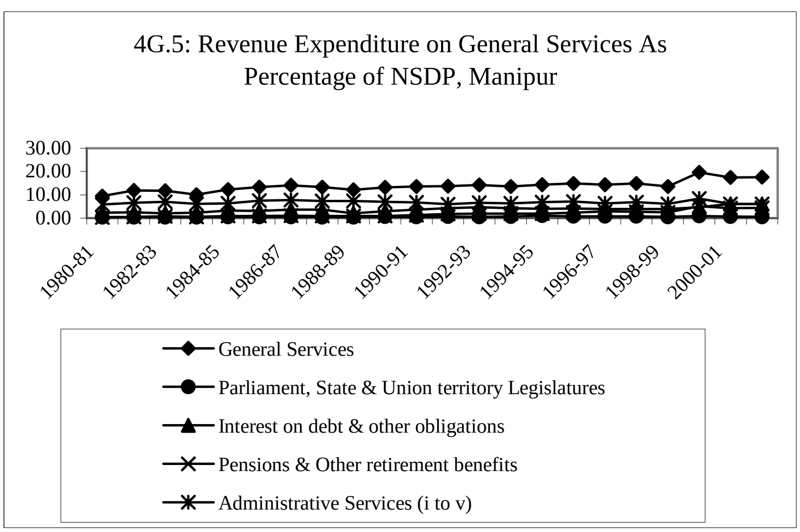



4G.3: Revenue Expenditure on Rural Development, Irrigation and Flood Control As Percentage of NSDP, Manipur

Revenue expenditure on irrigation and rural development as a percentage remained stagnant in the early 1990s, declining after that.




4G.4: Revenue Expenditure on Flood Control and Drainage, Major and Medium Irrigation and Command Area Development as a Percentage of Total Expenditure on Irrigation



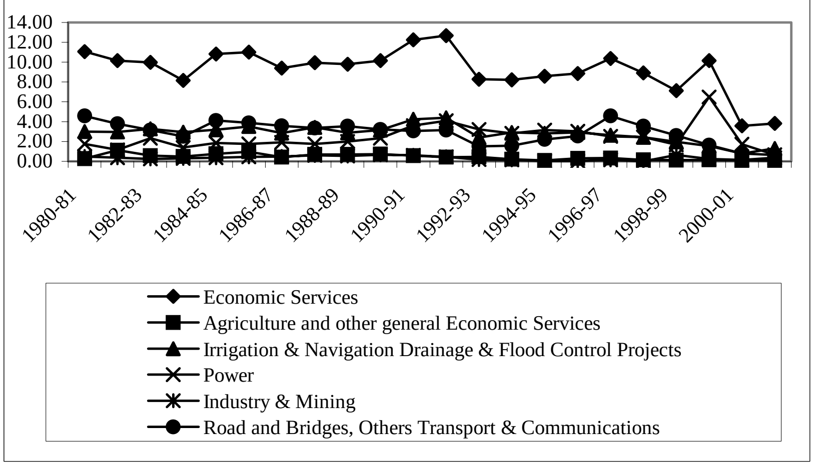

4G.5: Revenue Expenditure on General Services As Percentage of NSDP, Manipur

Moreover, over 60 per cent of the allocation under the stagnant irrigation head went to activities undertaken in the valley (4G.4). There has been a rising trend in the expenditure on general services. The expenditure increased consistently from 9.43 per cent in 1980-81 to 17.52 per cent in 2000-2001, peaking at 19.64 per cent in 1999-2000. This is due to the increase in salaries, pensions and other retirement benefits and administrative services. The total expenditure on pensions and administrative personnel is higher than the total combined expenditure on agriculture, electricity and power and communication. The interest payment has increased sharply during the latter half of the 1990s.

***Capital Expenditure***

Capital outlay as a proportion of NSDP has fluctuated through an overall declining trend, from 13.0 per cent in 1985-86 to 9.6 per cent in 2001-02.

4G.6: Capital Expenditure on Economic Services As Percentage of NSDP, Manipur




Manipur was awarded completely insufficient funds for maintenance of assets by the EFC. For example, such grants amount to only Rs. 130.6 crore for the period 2000-05, compared to Rs. 413.7 crore for Nagaland, Rs. 407.4 core for Meghalaya and Rs. 300 crore for Tripura. The EFC makes its assessment through a normative approach, relying on the past trends. Given the big financial crunch and therefore inability to undertake even moderately adequate expenditure, past trends do not reflect the needs of Manipur and give a downward bias to the estimates.

Table – 4.4: Plan Revenue Expenditure
(Inclusive of Central Sector Scheme) (Rs. In crores)

| Year | Total Plan Expenditure | Total Plan Revenue Expenditure | % of Plan Revenue Expenditure out of Total Plan Expenditure |
|---|---|---|---|
| 1990-91 | 191.95 | 64.05 | 33.37 |
| 1994-95 | 263.25 | 118.25 | 44.92 |
| 2000-01 | 336.16 | 190.77 | 56.75 |
| 2003-04 (Acc) | 433.21 | 192.65 | 44.47 |
| 2004-05 (RE) | 980.00 | 327.47 | 33.42 |
| 2005-06 (BE) | 1005.15 | 393.31 | 39.13 |

Table 4.5- Non-Plan Revenue Expenditure (Rs. In Crores

| Year | Total Non-Plan Expenditure | Total Non-Plan Revenue Expenditure | % of Non-Plan Revenue Expenditure out of Total Non-Plan Expenditure |
|---|---|---|---|
| 1990-91 | 261.03 | 243.11 | 93.13 |
| 1994-95 | 411.72 | 390.09 | 94.75 |
| 2000-01 | 1044.94 | 940.11 | 89.97 |
| 2003-04 (Acc) | 3638.15 | 1270.82 | 34.93 |
| 2004-05 (RE) | 3391.77 | 1346.63 | 39.70 |
| 2005-06 (BE) | 3424.91 | 1456.43 | 42.52 |

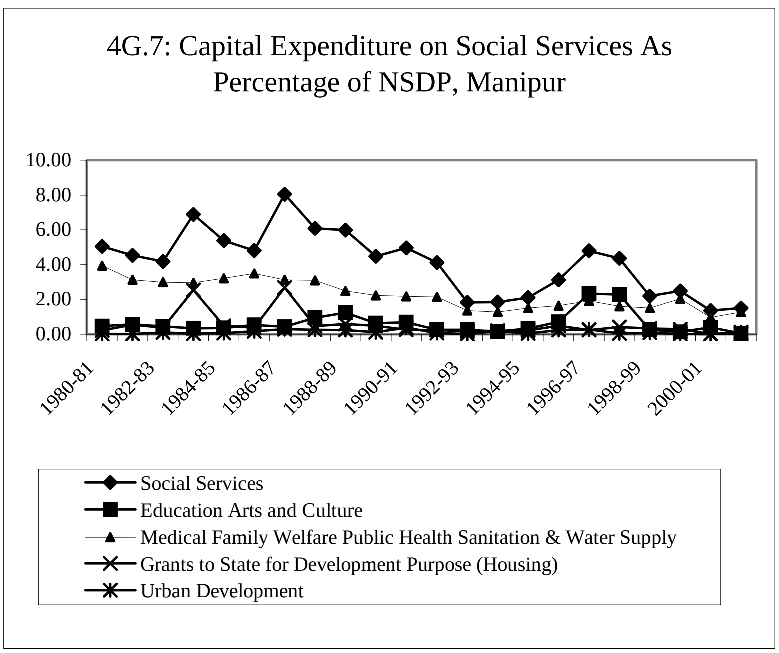
Sources: RBI (2004) Handbook of Statistics on State Government Finances & RBI: State Finances – A Study of Budgets, various issues.

The share of revenue expenditure in total plan expenditure has risen from 44.92 per cent in 1994-95 to 56.38 per cent in 2000-01 (Table 4.4) after which it declines, and in the case of non-Plan, almost the entire expenditure is on revenue account till 2002-03, after which the share of capital expenditure improves dramatically (Table 4.5). According to reliable sources, this is due to a change in accounting norms rather than any ground level changes. Debt servicing is a big chunk, with little or no capital investment under Non-Plan. Capital expenditure (exclusive of repayment of public debt) more than halved between 1990-91 and 2000-01, from 28.14 per cent to 11.66 per cent (Table 4.6). This is for two reasons: the pressure exerted by the escalating revenue expenditure financed by borrowings. This has adverse consequences for growth and long-term fiscal stability.

| Table 4.6- Expenditure Trends - Revenue and Capital (Rs in Crore) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Year | Revenue Expenditure | Capital Expenditure | Debt Servicing | Capital Expenditure (Exclusive of debt servicing) | Total (Inclusive of debt servicing) | Total (Exclusive of debt servicing) | % Share in Total Expenditure (exclusive of debt servicing) | | % Share in Total Expenditure (inclusive of debt servicing) | |
| | | | | | | | RE | CE | RE | CE |
| 1990-91 | 307.16 | 145.82 | 15.80 | 130.02 | 452.98 | 437.18 | 70.26 | 29.74 | 67.81 | 32.19 |
| 1994-95 | 508.34 | 166.63 | 19.26 | 147.37 | 674.97 | 655.71 | 77.53 | 22.47 | 75.31 | 24.69 |
| 2000-01 | 1,130.88 | 250.22 | 87.92 | 162.30 | 1,381.10 | 1,293.18 | 87.45 | 12.55 | 81.88 | 18.12 |
| 2003-04 | 1,463.47 | 2,607.89 | 559.74 | 2,048.15 | 4,071.36 | 3,511.62 | 41.68 | 58.32 | 35.95 | 64.05 |
| 2004-05 (RE) | 1,674.10 | 2,697.67 | 505.09 | 2,192.58 | 4,371.77 | 3,866.68 | 43.30 | 56.70 | 38.29 | 61.71 |
| 2005-06 (BE) | 1,849.73 | 2,580.32 | 428.66 | 2,151.66 | 4,430.05 | 4,001.39 | 46.23 | 53.77 | 41.75 | 58.25 |

Source: Sources: RBI (2004) Handbook of Statistics on State Government Finances & RBI: State Finances – A Study of Budgets, various issues.

Capital expenditure in the social sector has fallen drastically between 1980-81 to 2000-2001. Clearly there hasn't been any substantial development in terms of infrastructure. In education the capital expenditure stood at 0.26 in 1992-93 of the total, which remained almost the same throughout except for the two years 1996-97 and 1997-98 (when it was 4.79 per cent and 4.37 per cent). Health expenditure too is very small; at around 1 to 5 per cent, before falling to the lowest ever 0.96 per cent in 2000-2001. There has been negligible allocation for housing and urban development throughout the decade of the 1990s.

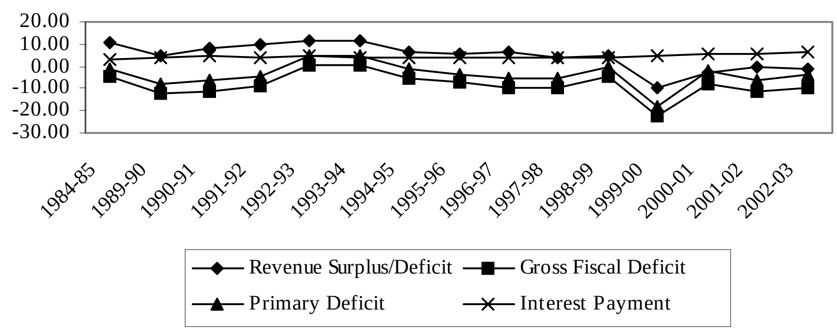



Capital expenditure on economic services as a percentage of NSDP has fluctuated between 11 per cent to 3.59 per cent during the period 1980-81 to 2000-2001. Agriculture and irrigation show a general falling trend in expenditure, the power sector is the only one showing a rising trend. During the 1990s there has been a massive fall in agricultural expenditure. The irrigation expenditure also witnessed a drastic cut. Between 1980-81 and 1990-91, it saw an increase of allocation of funds, which took a completely opposite turn in the subsequent period, both in minor and major irrigation.

### 4.3 Indicators of Deficit

We now look at the fiscal deficit, primary deficit and revenue deficit. The gross fiscal deficit (GFD) comprises revenue deficit, capital outlay and net lending. The state of Manipur had primary and revenue surpluses for a long time. There was revenue surplus in the state till 1998-99, beginning from 1984-85. In 1984-85 the surplus was 10.65 per cent of NSDP, which saw a sharp decline to reach the level of 4.72 per cent in 1989-90. A deficit appeared for the first time in 1999-2000. Barring 1992-93 and 1993-94 the state experienced a primary deficit throughout the 1990s. The increase in the fiscal deficit may be attributed in large measure to the increase in primary deficit, which rose from 1.66 per cent of NSDP in 2000-01 to 5.9 per cent in 2004-05. Along with this the interest payment remained almost stagnant at a level of 3-4 per cent upto 1998-99, after which it rose steadily to over 6 per cent of NSDP in 2002-03 falling a little thereafter. A spurt in the primary deficit led to the jump in the revenue deficit in the year 1999-2000. The gross fiscal deficit remained within the range of 5 per cent to 11 per cent in the 1990s except for the year 1999-2000, when it became 22.53 per cent of NSDP.

4G.8: Revenue, Fiscal and Primary Deficits and Interest Payments as Percentage of NSDP




After 1999-2000, the pay revision had an extremely adverse impact on the balance from current revenue (BCR), which is the difference between revenues and expenditures in the non-plan revenue account, and if positive, it can finance capital expenditure. Unfortunately, this has been continuously negative since 1990-91.[2]

Table 4.7- Balance From Current Revenues (Rs. In Crore)

| Year | State's Own Tax Revenue | Share in Central Taxes & Duties | State's Own Non-Tax Revenue | Non-Plan Grant (including Finance Commission) | Non-Plan revenue expenditure | BCR (1+2+3+4+5+6) |
|---|---|---|---|---|---|---|
| 1990-91 | 12.46 | 113.26 | 19.67 | 60.89 | 265.92 | -59.64 |
| 1994-95 | 23.80 | 181.46 | 50.02 | 81.57 | 389.79 | -52.94 |
| 2000-01 | 49.06 | 163.52 | 41.64 | 344.31 | 935.28 | -336.75 |
| 2003-04 (Acc) | 69.17 | 239.97 | 49.32 | 445.55 | 1270.82 | -466.81 |
| 2004-05 (RE) | 83.07 | 301.22 | 81.52 | 372.82 | 1346.63 | -508.00 |
| 2005-06 (BE) | 100.19 | 344.06 | 103.08 | 838.47 | 1456.43 | -70.63 |

Sources: Government of Manipur White Paper on Manipur State Finances, Finance Department, p.17 State Finances – A Study of Budgets 2005-06.

The deficits on the revenue account are part a reflection of the fall in grants from the Centre (from 30.9 per cent in 2001-02 to 18.0 per cent in 2004-05). There are three ways in which this deficit may be met in the short run. One, through increased market borrowings, two, through falling capital outlay, and three, through additional central assistance. Unfortunately, it is the capital outlay that always pays the price and gets reduced. This is unfortunate because there is a need to increase capital outlay for public sector capital formation in health, education and infrastructure. A cut back in capital outlay will have a deleterious effect on economic growth and employment expansion.

Throughout the period, capital outlay has decreased substantially. In the late 1980s and 1990s it was around 13 per cent of NSDP, which fell to 4.70 per cent in 2000-01. Simultaneously, central assistance relative to NSDP also fell during this period.

[2] White Paper, p. 17

| Table 4.8 - Revenue, Fiscal and Primary Deficits and Interest Payments to As Percentage of NSDP. | | | | |
|---|---|---|---|---|
| Year | Revenue Surplus/Deficit | Gross Fiscal Deficit | Primary Deficit | Interest Payment |
| 1984-85 | 10.65 | -4.17 | -0.91 | 3.27 |
| 1990-91 | 7.83 | -10.94 | -6.32 | 4.62 |
| 1994-95 | 6.85 | -5.08 | -0.84 | 4.23 |
| 2000-01 | -2.66 | -7.67 | -1.66 | 6.02 |
| 2003-04 | -1.08 | -7.04 | -1.77 | 5.27 |
| 2004-05(RE) | 0.56 | -9.61 | -5.91 | 3.70 |
| 2005-06(BE) | 7.43 | -1.06 | +3.08 | 4.14 |

Source: from Budget Documents of Various Years; NSDP from CSO & State Finances – A Study of Budgets 2005-06.
Note: '-' indicates deficit and '+' surplus

| Table 4.9- Financing of Gross Fiscal Deficit (Rs. crore) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | G.F.D. | Loans from the Centre (Net) | Market Borrowings (Net) | Others | G.F.D. | Loans from the Centre (Net) | Market Borrowings (Net) | Others |
| | Manipur | | | | All States | | | |
| 1996-97 | 167.50 | -0.40 | 17.50 | 150.30 | 37,251.30 | 17,547.40 | 6,515.10 | 13,188.80 |
| 2000-01 | 234.40 | 149.80 | 21.70 | 62.90 | 89,532.00 | 8,396.20 | 12,518.80 | 68,617.00 |
| 2003-04 | 286.00 | -30.00 | 179.00 | 392.00 | 123,070.00 | 14,117.00 | 47,286.00 | 28,340.00 |
| 2004-05 (RE) | 618.00 | 692.00 | 69.00 | -324.00 | 123,635.00 | 5,801.00 | 32,643.00 | 21,192.00 |
| 2005-06 (BE) | 76.00 | -29.00 | 74.00 | 158.00 | 110,070.00 | 17,382.00 | 16,108.00 | 5,222.00 |
| Source: Budget Documents of State Governments & State Finances – A Study of Budgets 2005-06. | | | | | | | | |

The fiscal deficit is usually financed through market borrowings, loans from the central government, and other sources (Table 4.9). Between the period 1996-2001, net loans from the centre have increased substantially. In the year 1997-98, the net loans were 20 per cent of the Gross Fiscal Deficit (GFD), while in the following years it was around 18 per cent. However the GFD rose substantially in 2000-2001. Market borrowings by the state government remained in the range of 10 per cent of GFD till 1996-97, but in the following years it declined further. The deficit is largely financed by other sources of financing. This includes loans from private institutions, small savings and provident funds, the ways and means advances and overdrafts made by the state government. The deposits in the small savings and provident funds increased over the years from 4.50 per cent of NSDP in 1984-85 to 17.70 per cent of NSDP in 2000-01. The ways and means advances were not of much importance till the early 1990s but after that, in the year 1998-99, it was 7.60 per cent of NSDP. The overdrafts were 4.10 per cent in 2000-01. Throughout the 1990s, the market interest rate has been lower than the interest that has to be paid to the centre on central government loans. (When the market borrowing was at 7.49 per cent, the centre charged 11.5 per cent on plan loans). However, States are not free to borrow at will from the market, nor are they all equally likely to attract borrowings.

From 1992-93 to 1996-97, there was substantial balance left after payment of salaries, pensions and interest for other maintenance and contingent expenditures. Though the Core Gap was positive from 1990-91 to 1996-97, the BCR has been negative and stable because the sharp reduction in the Core Gap was neutralised by increase in receipts and slower increase in revenue expenditures. The Core Gap exhibited a negative balance of (-) Rs. 26.89 crores for the first time in 1997-98 rose sharply to (-) Rs. 585.55 crores in 1999-2000 due to revision of pay scales and payment of arrears.

The White Paper's conclusion is clear: "In the current fiscal scenario, almost the entire blame for the imbalance has to be borne by the three crucial parameters related to payment of salaries, pensions and debt servicing..."[3] The state government has little or no control over the Pay Commission recommendations or the administered interest rates. Furthermore, market borrowings are fully monitored and severely restricted by RBI norms, so the degree of freedom that a state government has to raise resources through market borrowings too is restricted. Finally, the rate of interest on loans against small savings collected within the state itself is determined by the NSSF.

[3] White Paper, p. 17

Table 4.10 - Growing Burden Of Inescapable Expenditures - Salaries, Pensions & Debt Servicing. (Rs. In Crores)

| Year | Non-Plan Salaries | Plan Salaries | CSS/ CPS Salaries | Total (a to c) | % Increase over 1998-99 | Pensions | Total (d & f) | Interest | Principal Payment | Total (h to l) | Total (a+f+h) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1992-93 | 186.03 | 37.79 | 0.00 | 223.82 | 0.00 | 18.03 | 241.85 | 44.54 | 29.00 | 73.54 | 248.60 |
| 1993-94 | 205.39 | 48.31 | 0.00 | 253.70 | 0.00 | 21.42 | 275.12 | 48.90 | 28.82 | 77.72 | 275.71 |
| 1994-95 | 227.45 | 67.02 | 0.00 | 294.47 | 0.00 | 25.63 | 320.10 | 51.78 | 19.71 | 71.49 | 304.86 |
| 1995-96 | 266.81 | 68.77 | 0.00 | 335.58 | 0.00 | 32.30 | 367.88 | 57.55 | 14.41 | 71.96 | 356.66 |
| 1996-97 | 308.60 | 74.32 | 0.00 | 382.92 | 0.00 | 46.63 | 429.55 | 65.59 | 14.58 | 80.17 | 420.82 |
| 1997-98 | 332.57 | 90.08 | 9.58 | 432.23 | 0.00 | 53.84 | 486.07 | 78.90 | 18.94 | 97.84 | 465.31 |
| 1998-99 | 350.50 | 104.76 | 13.23 | 468.49 | 0.00 | 53.67 | 522.16 | 91.28 | 27.48 | 118.76 | 495.45 |
| 1999-00 | 726.55 | 183.24 | 17.33 | 927.12 | 97.90 | 145.17 | 1072.29 | 131.96 | 48.54 | 180.50 | 1003.68 |
| 2000-01 | 551.57 | 146.45 | 17.33 | 715.35 | 52.69 | 127.19 | 842.54 | 177.16 | 36.20 | 213.36 | 855.92 |
| 2001-02 (RE) | 581.88 | 61.26 | 18.92 | 662.06 | 41.32 | 167.89 | 829.95 | 177.20 | 46.93 | 224.13 | 926.97 |
| 2002-03 (BE) | 628.90 | 7.80 | 18.00 | 654.80 | 39.70 | 179.30 | 834.10 | 186.40 | 48.20 | 234.60 | 994.60 |

Sources: Government of Manipur White Paper on Manipur State Finances, Finance Department, p.18.

The growing fiscal burden has resulted in repeated dependence on ways and means advances and overdrafts from the Reserve Bank of India (RBI), well above the special and normal WMA limit of Rs. 50.00 crores and Rs. 4.57 crores, respectively. This assumed such serious proportions that during 2001-02, RBI suspended payments for most of the year, on 329 days.

Table 4.11 - Fiscal Summary (Rs. In Crore)

| | 1990-91 | 1994-95 | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05(RE) | 2005-06(BE) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue Receipts | 390.19 | 592.08 | 691.68 | 822.90 | 863.01 | 896.78 | 1069.92 | 1045.36 | 1431.97 | 1323.27 | 1419.72 | 1709.69 | 2380.28 |
| State's Own Tax | 12.46 | 23.80 | 27.90 | 31.18 | 35.72 | 30.74 | 39.95 | 49.06 | 54.34 | 61.75 | 69.17 | 83.07 | 100.19 |
| State's own Non-Tax | 19.67 | 50.02 | 45.50 | 53.30 | 40.57 | 31.52 | 42.65 | 41.64 | 42.64 | 49.37 | 49.32 | 81.52 | 103.08 |
| Share of Taxes and Grants from Centre | 358.06 | 518.26 | 618.28 | 738.42 | 786.72 | 834.52 | 987.32 | 954.66 | 1334.99 | 1212.15 | 1301.23 | 1545.1 | 2177.01 |
| Recovery of Loan and Advances | 1.24 | 1.09 | 0.89 | 0.82 | 0.62 | 0.39 | 0.56 | 0.62 | 0.62 | 0.74 | 0.48 | 0.51 | 5.51 |
| Disinvestments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue Expenditure | 335.85 | 508.34 | 618.78 | 710.28 | 792.44 | 790.76 | 1347.99 | 1123.58 | 1441.59 | 1366.64 | 1463.47 | 1674.1 | 1849.73 |
| of which interest payment | 32.07 | 51.78 | 57.55 | 65.59 | 78.90 | 91.28 | 131.96 | 177.16 | 177.20 | 186.41 | 215.33 | 239.51 | 298.18 |
| Capital Expenditure | 131.50 | 146.93 | 176.39 | 267.01 | 251.33 | 213.78 | 363.95 | 146.06 | 364.67 | 244.86 | 240.39 | 620.66 | 530.04 |
| Non-plan Capital Outlay | 1.06 | 1.45 | 2.16 | 3.36 | 9.62 | 0.91 | 2.41 | 2.25 | 0.05 | 0.22 | NA | 1.53 | 0.04 |
| Non-Plan lending | 1.73 | 0.48 | 0.40 | 7.79 | 0.08 | 0.18 | 0.84 | 0.39 | 0.45 | 0.28 | NA | NA | NA |
| Plan Capital Outlay | 126.55 | 143.46 | 173.04 | 259.19 | 244.95 | 213.34 | 361.35 | 145.24 | 344.33 | 232.29 | 240.39 | 619.13 | 530.00 |
| Plan lending | 2.16 | 1.54 | 2.95 | 0.03 | 6.30 | 0.26 | 1.76 | 0.43 | 19.89 | 12.29 | NA | NA | NA |
| Revenue Surplus (+)/Deficit (-) | 54.34 | 83.74 | 72.90 | 112.62 | 70.57 | 106.02 | -278.07 | -78.22 | -9.62 | -43.37 | 44.00 | -36.00 | -466.00 |
| Gross Fiscal Deficit/Surplus | -75.92 | -62.10 | -104.76 | -156.93 | -189.76 | -108.28 | -643.87 | -225.91 | -373.72 | -287.71 | -286.00 | -618.00 | -76.00 |
| Primary Deficit (GFD without Interest payment) | -43.85 | -10.32 | -47.21 | -91.34 | -110.86 | -17.00 | -511.91 | -48.75 | -196.52 | -101.30 | -70.67 | -378.49 | 222.78 |

Sources: Government of Manipur, White Paper on Manipur State Finances, Finance Department, p. 21 & State Finances – A Study of Budgets 2005-06.

This has meant less resources for the creation of infrastructure, employment generation, social development and growth. In a context of falling devolution of resources from the centre, the deficit has led to higher borrowings at high centrally administered interest rates resulting in burgeoning debt. Borrowings are often made outside the budget under state guarantees. The worst aspect of this is that the borrowings finance revenue expenditure and not capital expenditures. The state government has no choice but to divert funds to committed expenditure like interest and salaries away from capital investment, postponement of maintenance expenditure and public services.

As a SCS, Manipur gets 90 per cent of its plan size as grants and only 10 per cent as loans from the Centre. However, there is a marked absence of a steady and healthy relationship between GSDP and government expenditure. "There are two possible explanations of the ineffectiveness of government expenditure in the state's economy. First, a high 'import-intensity' of consumption, with a large proportion of both private as well as public expenditure being met out of goods and services bought from the rest of the country. Second, leakages on account of terrorism-related extortion and corruption. Funds siphoned out through terrorism-related extortion or corruption results in 'actual' expenditure being substantially less than the reported expenditure. Reported expenditure siphoned out through such unholy channels gets parked outside Manipur and fails to impart any impetus to either capital formation or to the growth momentum in Manipur... "[4]

Corruption as cause of leakages is reported by the White Paper too:

> "Corruption in the bureaucracy is perceived to be endemic and deep rooted. Cynicism and contempt for our failure to complete any developmental project in time has become pervasive. The general perception is that the sole benefactors of the Government are its employees who are yet to fully comprehend the precarious state of the state's finances, and the concerns and aspirations of the society that they are sworn to serve. The general feeling of apathy and disillusionment has been a major factor contributing to the disgruntled and misled youth taking the path of violence and anti-state activities. The society seems to be unmindfully drifting into a sense of helplessness and anarchy... The problem of increasing unemployment in the state is to a large extent responsible for social tensions manifesting in the form of drug abuse, social unrest, secessionism and internecine clashes. This in turn causes a further strain on the already limited resources of the state and hampers developmental activities... There is a growing body of unemployment even in specialised fields such as medicine, veterinary, engineering, architecture, agriculture and in the new sectors of computer science and information technology. There is definitely considerable scope for harnessing such a qualitative reservoir of human resources. The state has to develop policies to harness such talent into productive channels that would contribute to the productivity of the state and thereby raise the GSDP. If left unattended such latent talent could prove to be volatile and explosive..."

Source: Government of Manipur, *White Paper on Manipur 's State Finances*, Finance Department (as laid before the State legislature), p 2-6

There have been some recent attempts to initiate fiscal reforms in Manipur. These reforms tend to misread the causative factors, and do not address the fundamental problems in the state's finances. An MOU signed by the Government of Manipur with the Government of India on April 19, 1999 as an outcome of the Incentive Fund created under the states' Fiscal Reforms Facility on the recommendations of the EFC committed the state to several measures, like increasing revenue from various tax and non-tax sources, reducing revenue expenditure and stringently control debt levels, make ensuring the recycling of funds, etc. On June 20, 2002, a second MOU was signed which entailed a Medium-term Fiscal Restructuring Policy (MTFRP) for 2000-05, and an empowered Monitoring Committee to watch over progress. However, the non-achievement of the desired goals is not entirely on account of "poor implementation of ambitious plans" as held by the NIPFP Report, but a misspecification of the problem. The fact is that there are few opportunities for a substantive increase in resource mobilization within the state that can offset a decline in central devolution, and the development requirement is so large that cutting back on expenditure is difficult too. This is not to say that the expenditure incurred has translated into commensurate gains by way of state income or infrastructure. One of the primary causes of underutilization or mis-utilization of resources is the inability to absorb the funds by the state due to absence of matching resources. The second is the delay in the release of funds by the centre, which often reach at the end of the FY. The third is cascading corruption fuelled and excused by insurgency.

### 4.4 Potential For Resource Mobilization From Own Sources

Presently half of the state's own revenue, more revenue from sales tax may be earned if collection machinery can become more effective by deploying some staff from other departments, and if there is systematization of the sales tax system.

Profession tax contributes about 20 per cent of the state's own tax revenue. This rate was revised in January 2001. However, unless the ceiling on rates of professional tax is relaxed further, the possibility of mobilizing more revenues from this source is limited.  A betting tax will on lotteries is possible only once the ban on lotteries is lifted, along with all its implications. Prohibition was repealed in July 2002, and after vendors are

[4] Ashok K. Lahiri, Saumen Chattopadhyay, O.P. Bohra, E. Bijoy Kumar Singh, **A Study of State Fiscal Reforms in Manipur,** National Institute of Public Finance and Policy New Delhi-110067, p28

appointed, a significant amount of revenue from this source is possible. However, as Civil Society groups opposed this with support of the insurgents nothing came out of it. The irony is that it flourishes along with a vibrant black market in IMFL.

There is need to increase the number of personnel for the improvement in the administration of the state excise duty. Though the rates of stamp duties and registration fees on various instruments have been revised upwards, suppression of the true value continues unabated. Property tax in particular is important. Throughout this Report we have tried to show how the cost indexation of water, transport and power rates is not possible on account of the high per capita cost of supply arising out of the demographic and ecological features of the state and slack in the system like T&D losses that push up costs.

### 4.5 Impact of Twelfth Finance Commission

Table 4.12: Pre-Devolution & Post Devolution Non-Plan Revenue Surplus/Deficit(-)

| States | 2005-10 in Rs.crore | | Gap between Grant for NPRD and Requirement |
|---|---|---|---|
| | Pre | Post | |
| Arunachal Pradesh | -3125.2 | -1357.9 | 43.45 |
| Assam | -17984.0 | 1866.7 | 1.70 |
| Manipur | -6613.4 | -4392.0 | 66.41 |
| Meghalaya | -4073.5 | -1796.9 | 44.11 |
| Mizoram | -4444.3 | -2977.8 | 67.00 |
| Nagaland | -7150.2 | -5536.5 | 77.43 |
| Sikkim | -1580.2 | -187.3 | 11.94 |
| Tripura | -8120.3 | -5494.2 | 67.66 |

Source: Report of the Twelfth Finance Commission (2005-10), November 2004
Note: NPRD is Non-Plan Revenue Deficit

The level of non-Plan Revenue Deficit will not be covered by the devolution for the purpose except in the case of Assam, and Manipur will only be able to meet a third of its liabilities. This is despite the fact that Manipur receives the highest NPRD grant within the states of the Northeast.

Table4.13: Total Finance Commission Transfers to States 2005-10 in Rs. Crore

| States | Central Taxes & Duties (2005-10) | Share in Grants-in-aid | | | | | | | | | | | Total Trans-fers (Col.2+ Col. 13) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Non-Plan Revenue Deficit (2005-10) | Health Sector (2005-10) | Educa-tion (2005-10) | Mainte-nance of Roads & Bridges (2006-10) | Mainte-nance of Buildings (2006-10) | Mainte-nance of forests (2005-10) | Heritage Conser-vation (2006-10) | State Specific Needs (2005-10) | Local Bodies (2005-10) | Calamity Relief (2005-10) | Total (Col.3 to Col.12) | |
| Arunachal Pradesh | 1767.3 | 1357.88 | | | 44.36 | 57.42 | 100 | 5 | 10 | 71 | 112.56 | 1758.2 | 3525.6 |
| Assam | 19851.0 | 305.67 | 966.02 | 1107 | 330.12 | 230.64 | 40 | 20 | 130 | 581 | 767.89 | 4478.7 | 24329.0 |
| Manipur | 2221.4 | 4391.98 | | | 76.96 | 37.71 | 30 | 5 | 30 | 55 | 22.11 | 4648.8 | 6870.2 |
| Meghalaya | 2276.6 | 1796.86 | | | 86.4 | 35.02 | 30 | 5 | 35 | 58 | 44.88 | 2091.2 | 4367.8 |
| Mizoram | 1466.5 | 2977.79 | | | 42.12 | 23.29 | 25 | 5 | 65 | 30 | 26.19 | 3194.4 | 4660.9 |
| Nagaland | 1613.7 | 5536.5 | | | 120.88 | 46.17 | 25 | 5 | 45 | 46 | 15.19 | 5839.7 | 7453.4 |
| Sikkim | 1392.9 | 188.67 | | | 18.64 | 32.15 | 8 | 5 | 100 | 14 | 69.74 | 436.2 | 1829.1 |
| Tripura | 2626.1 | 5494.2 | | | 61.48 | 50.11 | 15 | 5 | 49 | 65 | 51.12 | 5790.9 | 8417 |

Source: Report of the Twelfth Finance Commission (2005-10), November 2004

Assam continues to receive the highest share. Selection and weightages to the criteria have also favoured better performing states. Distance, inverse income, backwardness and infrastructure would favour the poorer states while tax effort and fiscal discipline would favour the more developed or so called 'performing' or 'efficient' states. The TFC has reduced the weight of backwardness of infrastructure and income gap, while increasing the weight of population and resource mobilization. It claims that it does not want to discriminate against "performing states".

Table 4.14: Debt GSDP Ratio, % Share of Total Debt of States & Net proceeds of all Shareable Union Taxes

| States | Debt GSDP Ratio in 2002-03 | % Share in Total Debt of States in 2002-03 | Net proceeds of all Shareable Union taxes in each of the five financial years during the period 2005-06 to 2009-10 | |
|---|---|---|---|---|
| | | | Share % (all shareable taxes excluding service tax) | % Share of Service Tax |
| Arunachal Pradesh | 55.45 | 0.18 | 0.288 | 0.292 |
| Assam | 33.91 | 1.94 | 3.235 | 3.277 |
| Manipur | 43.08 | 0.31 | 0.362 | 0.367 |
| Meghalaya | 32.17 | 0.22 | 0.371 | 0.376 |
| Mizoram | 81.56 | 0.27 | 0.239 | 0.242 |
| Nagaland | 52.10 | 0.38 | 0.263 | 0.266 |
| Sikkim | 60.27 | 0.13 | 0.227 | 0.230 |
| Tripura | 37.78 | 0.46 | 0.428 | 0.433 |

Source: Report of the Twelfth Finance Commission (2005-10), November 2004

The TFC suggests time bound restructuring of public finances, with the adoption of legal limits on deficits. It also pushes the states on the market for loans, instead of depending on the Centre. The TFC suggests that the Centre bow out of its role as intermediary in state government borrowings. Central assistance to state plans is down by 98 per cent, from Rs 25,002 crore in 2004-05 to Rs 500 crore in the last budget. This will destroy the ability of smaller states like Manipur to borrow from the market. The TFC recommends a debt restructuring and a debt relief scheme, with the condition that only those states that "enact fiscal responsibility legislation" can avail of it. This will curtail the State's ability to undertake much needed development.

The increase in contingent liabilities or outstanding guarantees of state governments has prompted the TFC to suggest a Guarantee Redemption Fund through earmarked guarantee fees paid by the principle borrower after an assessment of the risks. The TFC recommends that the fee should be directly proportional to the riskiness of the venture. Similarly, it has recommended the setting up of a sinking fund for amortization of loans outside the consolidated fund of the states and Centre, to be managed by the RBI, which is also a condition for the debt relief scheme. The constitution of the Sinking Fund and the Guarantee Redemption Fund completely outside the Public Account is compulsory in order to avail the debt relief. Where a state like Manipur in such severe fiscal stress will raise resources for this is difficult to say. This condition for debt relief may have the paradoxical effect of deepening fiscal troubles.

### 4.6 Recommendations

As, there is limited scope for resource mobilisation from the state's own sources, the most crucial and immediate requirement is to write off all outstanding debt of the State Government. This is also essential in light of the fact that the debt swap scheme has not proved very effective. It needs to be ensured that the rate of interest on borrowings from the Centre and against small savings should not exceed 6-7 per cent. The expenditure on assets maintenance needs to be more realistic, keeping in mind the specificities of the state. As there seems to be no option for the state but to resort to borrowings, the Centre on its part can reduce the interest rates it charges besides doing away with the limit placed on borrowings by the state. This should benefit the state enormously. Moreover, the interest on small savings loan incurred by the state should be reduced. Finally, the requirement for the matching grants for centrally-sponsored schemes should be waived for at least 10 years for Manipur. The centre must ensure timely and complete devolution of resources.

Governance issues need to be addressed, and leakages too and in the name of militancy. There must be zero tolerance to corruption.

Lifting of prohibition is an issue on which the government has to be very firm. Prohibition has deprived the state of the much needed revenue and has only pushed the habit underground. A possible proposal is to ear mark the entire revenue from liquor for health, in addition to what this sector would have got in normal circumstances.

The government should also give top priority to managing the leakage to militants. The growing alienation of the people is essentially an issue of governance. Transparency accountability and participatory democracy can significantly improve governance. No amount of central assistance can revive the state economy if the current extent of leakage continues.