Evaluation of State Finances of Manipur

1st April 2006 to 31 March 2017

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2018

Acknowledgement

It is rightly said economic development of any region is closely associated with the quality of data available on various aspects of development. The quality of data for the entire Northeastern region of India has been improving a lot because policy decisions are increasingly based on our articulation of issues. This vicious cycle of low quality data has been broken. We are grateful to the Fifteenth Finance Commission for giving us the opportunity for examining the state of finance of Manipur for the second time. We had the opportunity of doing this for the XIV Finance Commission. We are grateful to the officers of our finance department, power department and Comptroller General of India for giving us access to their data. The study is for a limited period of eleven years starting from 1st April 2006 to 31 March 2017. Needless to say the study will providevaluable insights to our state of finance.

CONTENTS

Chapter 1: Revenue Capacity of Manipur and Measures to improve the tax-GSDP ratio during the last five years

Resource mobilisation is becoming increasingly important in fiscal consolidation exercise. Beginning from 2005 a number of fiscal reform measures were introduced. The enactment of FRBM Act in August 2005 and introduction of VAT in July 2005 were important landmarks. GST was introduced in July, 2017 ushering in One Nation, One Tax. It is to be seen whether resource mobilisation has gained strength in the post reform period or not.However any discussion on resource mobilisation cannot be complete without understanding the revenue capacity of the state. How the additional revenue is going to be generated has immense welfare implications.In the present context revenue basically refers to own non tax revenue and own tax revenue. Though the share of Central taxes as per Finance Commission awards and Grants-in-Aid from the centre constitute the bulk of the revenue receipts, the focus is on own revenue .Own Tax revenue (OTR) as a proportion of GSDP is a measure of tax effort.

Tax collection differs across States depending on their tax base (known astaxable capacity) and tax efforts (also known as tax efficiency). defines tax capacity can be defined as the ability of a government to raise tax revenues based on structural factors including the level of economic development, the number of 'taxhandles' available, and the ability of the population to pay taxes. (Chelliah (1971)) .On the other hand tax effort is as a measure of how well a country is using its taxable capacity, that is, tax effort is the ratio of actual tax revenue to taxable capacity (Bahl (1971). Measures of tax effort provide a tool for measuring differences between countries/ sub-national governments in how effectively they are using their potential tax bases. These indices may indicate the appropriate policy for dealing with budget deficits. For example, countries with a high tax effort index may need to look at reducing expenditure rather than raising taxes. Apart from differences in the size of the economy (scale of economic activities), states differ in structural composition of the economy, and socio-economic status of the populace which not only defines tax base but also tax payers' compliance behavior (tax morale and compliance behavior).Apart from the quality of institutions and tax rules and regulations, tax effort is a function of administrative strength and availability of infrastructure of the tax departments.

Table 1.1 Growth of Own Revenue in Manipur

Year	OTR	ONTR	GOTR	GONTR	OTR/GSDP%	ONTR/GSDP%	GSDP
2006-07	122	181			1.99	2.95	6137
2007-08	147	165	20.49	-8.84	2.17	2.43	6783
2008-09	170	253	15.65	53.33	2.3	3.42	7399
2009-10	196	240	15.29	-5.14	2.37	2.91	8254
2010-11	267	260	36.22	8.33	2.93	2.85	9108
2011-12	368	312	37.83	20	2.85	2.42	12915
2012-13	333	232	-9.51	-25.64	2.42	1.69	13748
2013-14	473	261	42.04	12.5	2.92	1.61	16198
2014-15	517	184	9.3	-29.5	2.87	1.02	18043
2015-16	550	149	6.38	-19.02	2.77	0.75	19890
2016-17	587	165	6.73	10.74	2.77	0.78	21154

Note: OTR Own Tax Revenue in ₹ crore GOTR Growth rate of OTR in percent
ONTR Own Non Tax Revenue in ₹ crore GONTR Growth rate of ONTR in percent
GSDP Gross State Domestic Product in ₹ crore 2006-7 to 2010-11 (2004-5=100) and 2011-12 to 2016-17 (2011-12=100)

Source: Finance Accounts, Govt. of Manipur; various issues

While the Own Tax Revenue has been growing steadily, Own Non Tax Revenue shows a declining trend both in absolute terms and as share of nominal GSDP.The decline is associated with the corporatisation of the electricity department in 2014-15. Before this revenue generated from the Electricity department through sale of power use to be part of non tax revenue. It exclusion led to the sharp decline in Own Non Tax Revenue since 2014-15.

Fig. 1.1: Growth of Own Tax Revenue &Own Non Tax Revenue in Manipur

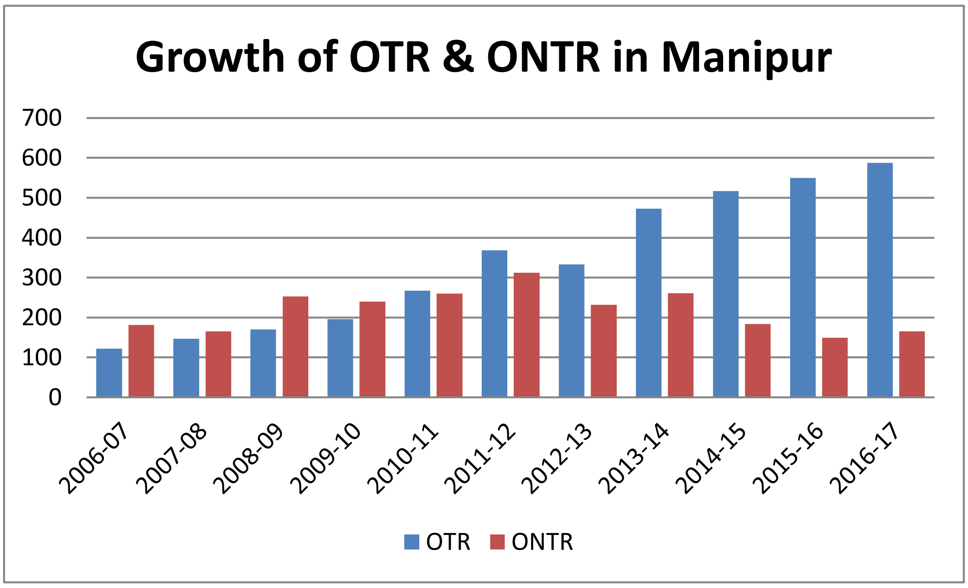


Fig 1.2: Growth Rates of Own Tax Revenue &Own Non Tax Revenue (2007-8 to 2016 17)

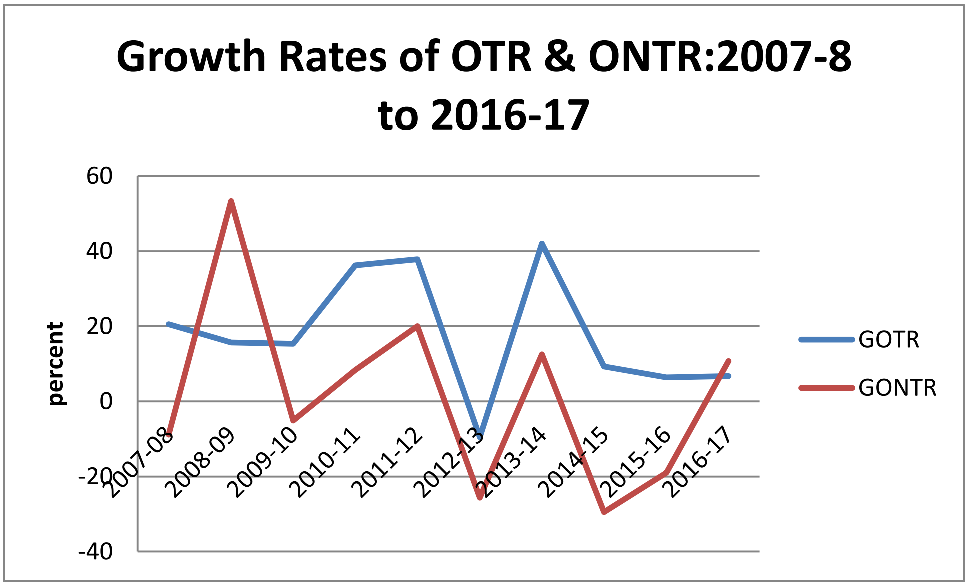


Table 1.2 shows the growth trends of GSDP and various components of Own Tax Revenue such as sales tax, land revenue, stamp & registration fee, tax on vehicle, excise tax and other taxes on income & expenditure.

Table 1.2: GSDP & Components of Own Tax Revenue

Year	ST	LR	STRG	TV	ET	OTIE	*OTR*	GSDP
2006-07	96.64	0.8	3	3	3.62	13.28	*122*	6137
2007-08	120.75	0.75	2.93	3.57	3.75	14.72	*147*	6783
2008-09	141.38	0.78	3.18	4.03	3.91	15.46	*170*	7399
2009-10	162.28	0.81	4.26	4.34	4.7	17.63	*196*	8254
2010-11	227.57	1.29	3.57	4.44	6.61	18.77	267	9108
2011-12	296.92	0.84	4.82	13.21	9.8	21.6	368	12915
2012-13	258.52	1.27	5.98	15.83	9.94	23.35	333	13748
2013-14	395.74	1.12	7.90	18.73	9.2	24.88	473	16198
2014-15	433.33	1.42	7.76	20.77	9.32	23.26	517	18043
2015-16	466.51	2.59	10.45	23.29	8.78	23.22	550	19890
2016-17	499.65	1.91	10.03	25.04	9.32	23.77	587	21154

Note: All are in ₹. crore

STSales tax
STRGStamp& registration fee
LRLand revenue
GSDPGross State domestic product
TVTax on vehicles
OTROwn tax revenue
OTIE other taxes on income & expenditure
ET Excise tax

Source: Finance Accounts, Govt. of Manipur; various issues

Sales tax is the dominant constituent of Own Tax Revenue. The following table shows the growth rates of these constituents . It shows that tax on motor vehicles has the highest growth rate at 24.7 %. The importance of Land Revenue has declined persistently.Own Tax Revenue has a trend growth rate of 16.7%.

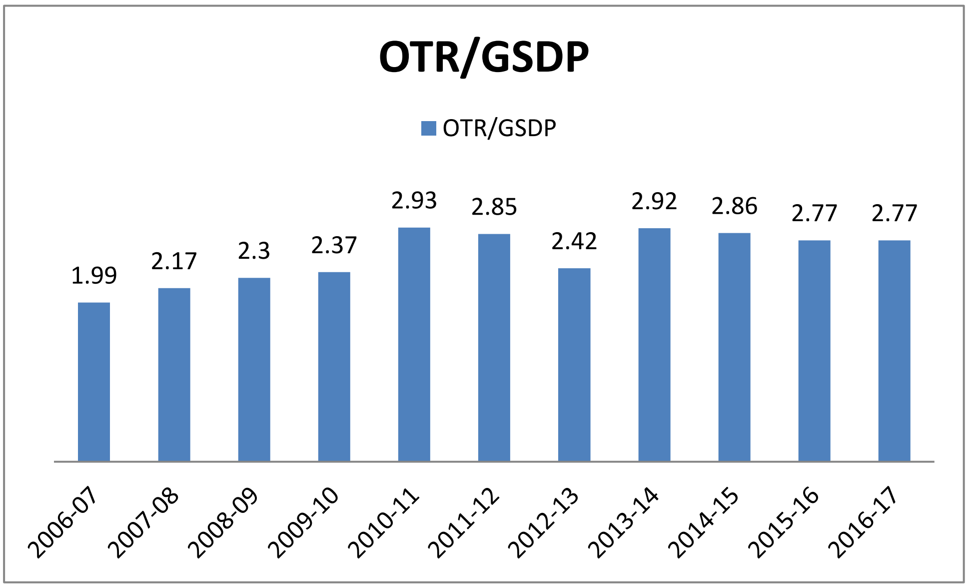
Table 1.3: Trend growth rates of Own Tax Revenue& its Constituents

Variable	Estimate of b	t statistic
ST	0.17	15.828
LR	0.11	5.197
STRG	0.14	12.069
TV	0.25	9.668
ET	0.11	5.612
OTIE	0.06	7.619
OTR	0.167	15.716

Note: $\log(y) = a + bt$

The proportion of Own Tax Revenue in GSDP has been low. Own Tax revenue has a trend growth rate of 16.7 % per annum.Its share in GSDP has increased from 1.99% in 2006-7 to 2.77 in 2016-17. The share peaked at 2.93 in 2011-12.

Fig 1.3: Own Tax Revenue/ GSDP in percent



Though the share of Own Tax revenue in GSDP has been gradually rising, it is still low even among the special category states in the Northeastern region.

Table 1.4: Own Tax Revenue /GSDP in percentage: A Comparative Profile

States	2006-07	2016-17
Arunachal Pradesh	1.9	3.2
Assam	5.38	4.7
Manipur	1.99	2.7
Meghalaya	3.53	4.2
Mizoram	2.06	2.3
Nagaland	1.64	2.3
Sikkim	8.01	3.5
Tripura	3.13	3.5

Source: State Finances: A Study of Budgets; RBI various Issues

The following table compares the structure of own tax revenue of Manipur with that of Meghalaya, a state in the region and close to Manipur in terms of area and population. The difference in taxes on profession etc may be attributed to Meghalaya being a tribal state where tribal citizens don't pay any income tax. Meghalaya has collected a much larger sales tax and state excise tax. Unlike Manipur Meghalaya is not a dry state.

Table 1.5 : Own Tax Revenues: A Comparative profile 2016-17

Items	Manipur		Meghalaya	
	Level in ₹ million	As percent of GSDP	Level in ₹ million	As percent of GSDP
Taxes on professions	237.7	0.11	37.4	0.01
Land revenue	19.1	0.01	12.7	0
Stamp registration	100.3	0.05	171.9	0.06
Sales tax	4996.5	2.36	9310.6	3.3
State excise	93.2	0.04	1689.8	0.6
Vehicle tax	250.4	0.12	482.2	0.17
Taxes on Goods & passengers	10	0	53.2	0.02
Taxes & duties on electricity	0.1	0	23.4	0.01
Entertainment tax		0	9.1	0

Other taxes & duties	159.6	0.08	69.8	0.02

Source: State Finances: A Study of Budgets of 2016-17 and 2017-18; RBI

Elasticity measures the response of the dependent variable to change in the independent variable. In the current context GSDP elasticity measures the responsiveness of the related variable to change in GSDP.

Table 1.6 : GSDP – Elasticity of OTR & its Constituents (2006-7 to 2016-17)

Variable	Estimate of elasticity	t statistic
ST	1.252	16.52
LR	0.743	4.41
STRG	1.035	13.088
TV	1.864	17.835
ET	0.857	6.716
OTIE	0.463	8.758
OTR	1.231	19.51

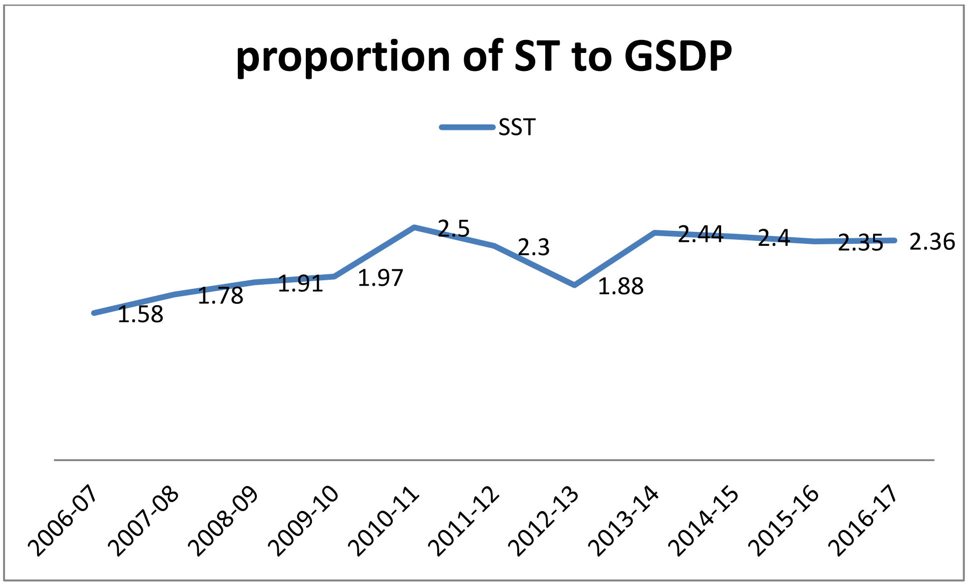
Note: log(y) = a +b log(X); b measures the elasticity with respect to X.

ST- Sales tax
LR- Land revenue
TV- Tax on vehicles
OTIE- other taxes on income & expenditure
STRG- Stamp& registration fee
GSDP- Gross State domestic product
OTR- Own tax revenue
ET- Excise tax

All the elasticities under consideration are statistically significant. A 1% growth in GSDP leads to a 1.25 % growth in Sales Tax, the most important item in Own Tax Revenue.

Tax base of sales tax/ VAT depends on consumption base of the State. Consumption base of a State depends on size of the population, level of urbanization, per capita income, level of poverty and inequality, level of education of the people, and physical location of the State, etc. Apart from domestic consumption, inter-state sales and purchases also influence tax mobilization of the states. It is expected that states where a substantial part of budgeted expenditure (revenue as well as capital) is financed by these transfers, they will putlittle effort to mobilize their own revenue. In other words, own tax revenue mobilization of a state is contingent upon availability of central transfers to finance its expenditures. The Sales Tax/GSDP ratio increased from 1.58 % in 2006-07 to 2.36% in 2016-17. The following graph shows the increasing trend after the reforms in 2005 i.e. introduction of VAT.

Fig 1.4: Proportion of Sales Tax to GSDP



Motor vehicle taxes are no longer paid annually. New vehicles pay tax for 15 years at the time of registration.The tax effort in this sector is measured by tax per vehicle. A major revision on motor vehicle tax came in 2011 only. Manipur Legislative Assembly passed the Motor Vehicle Taxation Amendment Bill 2011 which on becoming an Act is expected to fetch an annual revenue of ₹ 12 crore to the State exchequer. The Manipur Motor Vehicles Taxation (Amendment) Bill 2011 passed by the state assembly has been approved by the Governor.

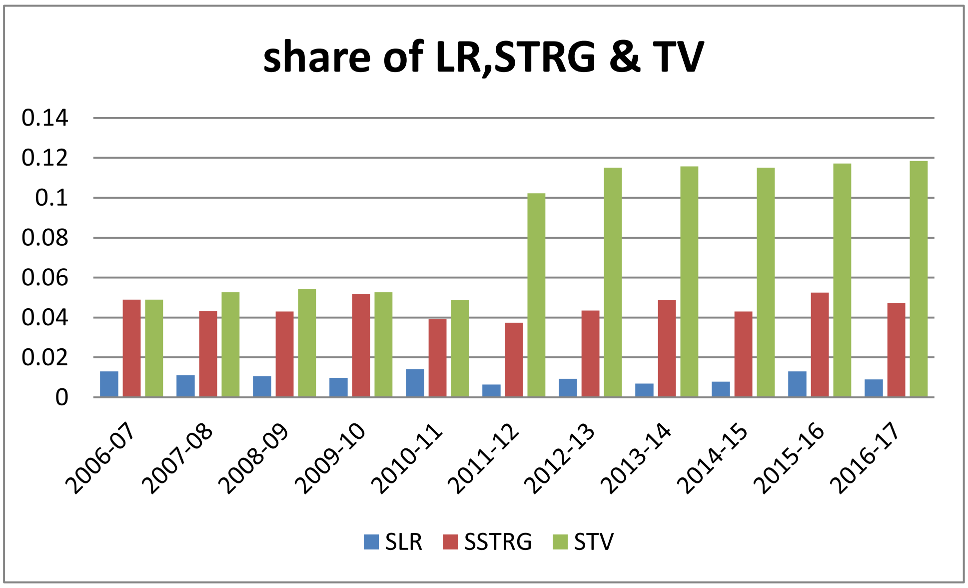
It seeks to levy ‘green tax’ @ 5% of the value of the vehicle on commercial and private vehicles that have passed the standard operational limit of 15 years and is considered a pollutant. 30 percent of the vehicles currently plying on the roads of Manipur are estimated to be over 15 years old.The income thus generated will be used in pollution control measures including maintenance of greenery. Tax on vehicle is highly progressive with higher priced vehicles paying higher rate of tax.For a vehicle in the range of ₹ 3 lakh the tax amount would be calculated at the rate of 3 percent with 4 % tax to be levied against vehicle worth ₹ 6 lakh whereas it would be 5 pc for vehicle purchased at ₹ 10 lakhs, , 6 per cent for those priced up to ₹ 15 lakhs, 7 per cent for those priced up to ₹ 20 lakhs and 8 per cent for jeeps/cars that are priced above ₹ 20 lakhs.

Under the new Act, annual permit fees and taxes for commercial vehicles would be increased by 100 per cent. Similarly, annual tax and permit fee for goods carrier vehicles would be raised by 100 per cent. Unlike the earlier practice where people could choose registration numbers of their vehicles without any fee, the new tax regime would charge certain amount for choosing registration number of one's liking.

Motor vehicle tax improved dramatically after the introduction of Motor vehicles taxation Act 2011. The average tax rose to ₹625.9 in 2011-12. The tax collection under the new regime rose from ₹ 13.21 crore in 2011-12 to ₹25.4 crore in 2016-17.

In the case of land revenue the measure chosen i.e. land revenue as a proportion of GSDP declined. From 0.013%in 2006-7 it declined to 0.009% in 2016-7. Though the supply of land is inelastic, as the economy undergoes structural change as in the case of Manipur, sale and transfer of land occur in large scale. This is not reflected in revenue collected from stamp &registration fees which should accompany any such transaction. Stamp & registration fee as proportion of GSDP remained stagnant.This is possible when value of real estate is persistently underestimated and subtle techniques are used to avoid such taxes. Fig.1.5 shows the dramatic rise in motor vehicle tax in 2011-12 subsequent to The Manipur Motor Vehicles Taxation (Amendment) Act 2011.

Fig. 1.5: Share of Land revenue, STRG and Motor vehicle tax



Note : STRG- Stamp& registration fee LR- Land revenue TV- Tax on vehicles

Implication of GST:

GST was introduced in Manipur with effect from July 1, 2017. The tax came into effect from July 1, 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the Indian government. The tax replaced existing multiple taxes levied by the central and state governments. As per the GST law, the centre compensates states to ensure that their revenue is protected at the level of 14 per cent over the base year tax collection in 2015-16.
The following taxes have been subsumed under GST taxes:

Central taxes (Central Excise Duty, Service Tax, Additional excise duties, excise duty levied under the medicinal and toiletries preparation Act; Countervailing Duty, special additional duty; Central Sales Tax (CST), surcharges and cess.)

State taxes (VAT/sales tax, entertainment tax (other than levied by local bodies), entry tax (all forms),purchase tax, luxury tax, taxes on lottery, betting and gambling, taxes on advertisement, state surcharges and cess.)

The following taxes are yet to be subsumed in GST

a. Basic Customs duty and safeguard duties on imports
b. Stamp duty
c. Road tax
d. Electricity duty
e. Profession tax

Petroleum products, alcoholic drinks, electricity, are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax regime.

All transactions such as sale, transfer, barter, lease, or importation of goods and/or services made for consideration will attract GST.Goods and services are divided into five tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. 32%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%, Post-GST, most goods are expected to be in the 18% tax range.

Manipur Deputy Chief Minister Yumnam Joykumar, who holds the finance portfolio, said that the State's tax revenue has increased manifold after the introduction of the GST (Goods & Services Tax).The total GST revenue collected in the State from July 2017 to January 2019 is Rs 857.89 crore, The government has projected to collect GST revenue of around Rs 765.78 crore in the next year. Manipur is at the second position among states showing maximum improvement in revenue collection up to February 2018 as per report submitted during the 26th meeting of GST Council. .

Table 1.7 : Month wise GST collection for FY 2017-18 in ₹ crore

Month	**SGST**	**IGST**	**Total**
August	8.97	11.09	20.06
September	7.91	17.19	25.1
October	12.26	19.47	31.73
November	6.37	24.74	31.11
December	8.52	28.76	37.28
January	7.52	29.20	36.72
February	7.59	41.17	48.76
March	16.38	39.28	55.66
Total	75.52	210.90	286.42

Source: Finance Dept, GOM

After its launch, the GST rates have been modified multiple times, the latest being on 22 December 2018, where a panel of federal and state finance ministers decided to revise GST rates on 28 goods and 53 services.

Table 1.8: Components of GST in ₹ lakh; Manipur

	Actuals 2017-18	Budget estimates 2018-19	Revised Estimates 2018-19	Budget estimates 2019-20
Central Goods and services tax	5932		130272	157717
State Goods and services tax	30152.84	40097.87	66209	75478.26
Integrated Goods and services tax	41956	29161.21		

Source: Annual Financial Statement 2019-20; GOM

Since GST has been introduced only recently data are not readily available. Any estimate of post GST elasticity has to be based on certain assumptions. The CAGR of own tax revenue, sales tax and GSDP during 2006-7 to 2016-17 were 15.35, 16.11 and 11.91 percent respectively. Sales tax always constitute a large share of own tax revenue in Manipur with an average share of 82 %. Though many other taxes are subsumed in GST, the trends in own tax revenue may be a good proxy of trends in SGST. It is assumed that both own tax revenue and GSDP will grow at the same rate till 2024-25. It is further assumed that SGST will maintain its share in own tax revenue given the buoyancy in the first few months since August, 2017.

Table 1.9: Alternative Projected GST in ₹ crore

Year	Finance Deptt, Govt. of Manipur , projection		Own projection	
	Own Tax Revenue	SGST	Own Tax Revenue	SGST
2017-18	773	302	677	559
2018-19	883	344	781	645
2019-20	1006	392	901	744
2020-21	1147	447	1039	858
2021-22	1308	509	1199	990
2022-23	1491	581	1383	1142
2023-24	1700	662	1595	1317
2024-25	1938	755	1840	1520

Note : Finance deptt. Projection assumes a constant share of 39 percent of own tax revenue. In the current exercise it is 82% of Own tax revenue. Own tax revenue grows at 15.35 percent per annum.

The important question is whether buoyancy of OTR and sale tax has undergone any significant change in post GST period? Using 2017-18 as a breakpoint Chow test reveals that there is no structural break at 2017-18. The Chow test statistic for GSDP elasticity of own tax revenue and sales tax are o.381 and 0.205 respectively. It indicates that the buoyancy of own tax revenue is unlikely to change.

Chapter 2: Trends in own non tax revenue and its components

Own Non Tax revenue as a proportion of GSDP is also a measure of resource mobilisation. A state's typical own non tax revenue consists of

1. Interest receipts
   i. Interest from departmental commercial undertakings
   ii. Interest realised on investment of cash balances
   iii. Interest from public sector and other undertakings
   iv. Interest from cooperative societies
2. Dividends and profits (from other investments)
3. General services (includes state lotteries)
   i. Public service commission
   ii. Police
   iii. Jails
   iv. Stationary & printing
   v. Public works
   vi. Other administrative services
   vii. Contributions and recoveries towards pension and other retirement benefits
4. Social services
   i. Education, sports, Arts and Culture
   ii. Medical and Public health
   iii. Family welfare
   iv. Housing
   v. Urban development
   vi. Labour and Employment
   vii. Social security and welfare
   viii. Water supply and sanitation
   ix. Others
5. Fiscal services
6. Economic Services
   i. Crop Husbandry
   ii. Animal Husbandry
   iii. Fisheries

iv. Forestry and wildlife
v. Plantations
vi. Co-operation
vii. Other agricultural programmes
viii. Major and medium irrigation projects
ix. Minor irrigation
x. Power
xi. Petroleum
xii. Village and small industries
xiii. Industries
xiv. Ports and light houses
xv. Road transport
xvi. Tourism
xvii. Others

Broadly speaking it consists of interests, dividends & profits, general services, social services, fiscal services and economic services. In the case of Manipur, dividends & profits and fiscal services are insignificant.

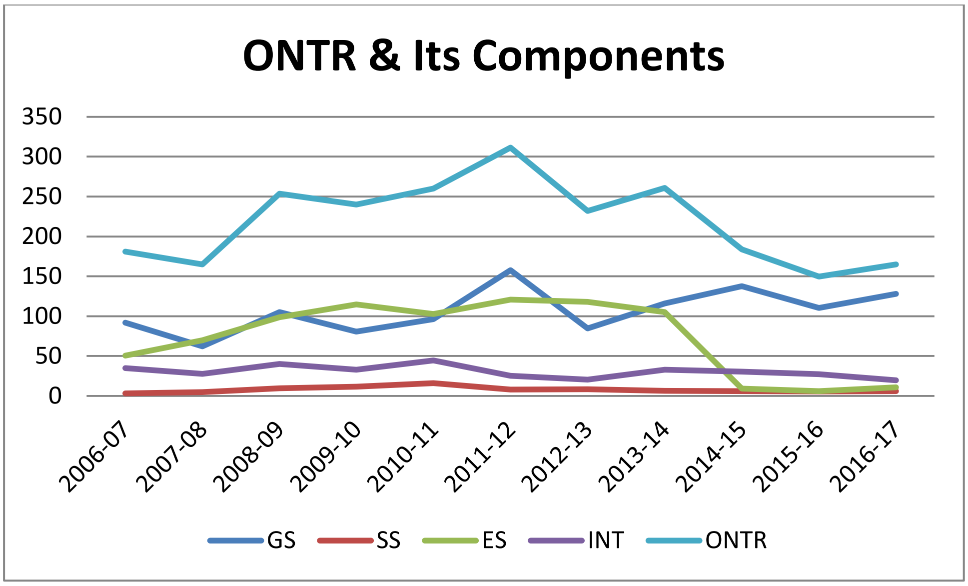
Table 2.1: Own Non Tax revenue and Its Components

	GS	SS	ES	INT	ONTR
2006-07	91.94	3.39	50.66	35.05	181.04
2007-08	62.31	4.79	70	27.61	164.71
2008-09	105.12	9.78	98.57	39.99	253.46
2009-10	80.74	11.63	114.65	32.73	239.75
2010-11	96.36	16.25	102.62	44.65	259.88
2011-12	157.73	7.89	120.73	25.18	311.53
2012-13	84.59	8.63	117.9	20.66	231.78
2013-14	115.97	6.3	105.29	33.1	260.66
2014-15	137.69	6.1	9.33	30.6	183.72
2015-16	110.17	5.66	6.22	27.43	149.48
2016-17	128.14	5.92	11.01	19.75	164.82

Notes: in ₹ crore
GS - General Services, SS - Social Services
ES - Economic Services, INT - Interest, ONTR - Own Non tax Revenue

Source: Finance Accounts, GOM, various years

Fig.2.1: Own Non Tax revenue& Its Components



Notes: in ₹ crore
GS - General Services SS - Social Services
ES - Economic Services INT - Interest ONTR - Own Non tax Revenue

The following table shows the trend growth rates and GSDP elasticities of the variables.

Table 2.3: Trend Growth Rates & GSDP Elasticity of ONTR& its Components

Receipt Head	Trend growth rate	GSDP elasticity
GS	0.0486	0.377
SS	0.001*	-0.06*
ES	-0.222	-1.56
INT	-0.0404*	-0.314*
ONTR	-0.016 *	-0.103*

Note: *Statistically insignificant

GS - General Services SS - Social Services
ES - Economic Services INT – Interest ONTR - Own Non tax Revenue

Trend growth rate log(y) = a + bt Elasticity log(y) = a +blog(GSDP)

Own Non tax revenue neither has a trend growth rate nor is associated with GSDP. The problem with Economic Services which has a negative trend and is negatively associated with GSDP is the corporatisation of Electricity department in 2014-15. As a result of this corporatisation, the power sector became two State PSUs and its revenue stopped accruing to the state exchequer.

Every Finance Commission also has in-house projections of tax revenue and non tax revenue. Table 2.4 shows how good those projections were. The significance of these projections arises from their role in determining the level of grant-in-aid from the centre. Lower and higher projections have asymmetric effect on fiscal deficit.

Table 2.4: Finance Commission Projection vs Actual Realisations

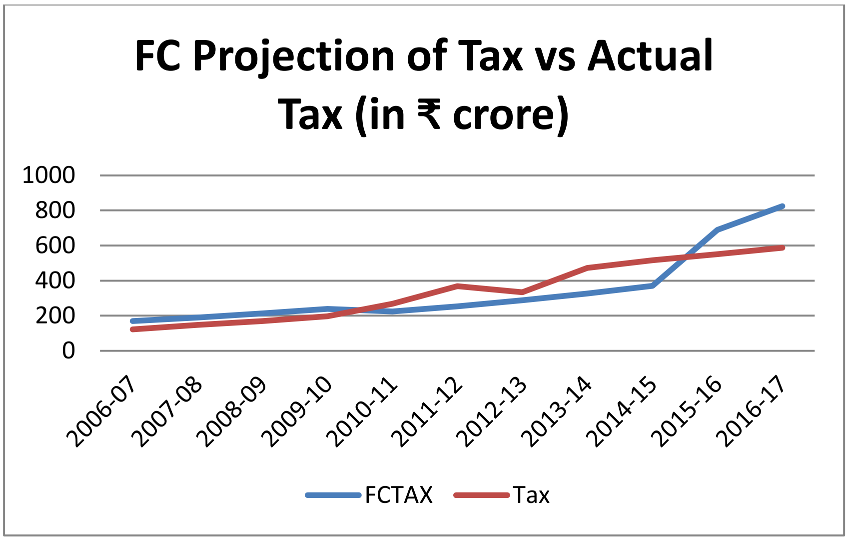
	FC Projection			**Actual**		
	FCTAX	FCNTAX	FCPTOT	Tax	Nontax	TOT
2006-07	169.65	40.15	209.8	121.57	181.04	302.61
2007-08	190.17	48.76	238.93	147.45	164.71	312.16
2008-09	213.18	58.34	271.52	170.07	253.46	423.53
2009-10	238.98	69.11	308.09	196.04	239.75	435.79
2010-11	223.41	49.96	273.37	267.05	259.88	526.93
2011-12	253.17	82.9	336.07	368.07	311.53	679.6
2012-13	287.47	211.76	499.23	332.83	231.78	564.61
2013-14	326.27	231.38	557.65	472.73	260.67	733.4
2014-15	370.16	252.27	622.43	516.83	183.73	700.56
2015-16	689	175	864	550.44	149.48	699.92
2016-17	824	190	1014	586.67	164.8	751.47

Notes: in ₹ crore

FCTAX - Tax revenue projected by Finance Commission
FCNTAX - Non tax revenue projected by Finance Commission
FCPTOT - Total own tax & non tax revenue projected by Finance Commission

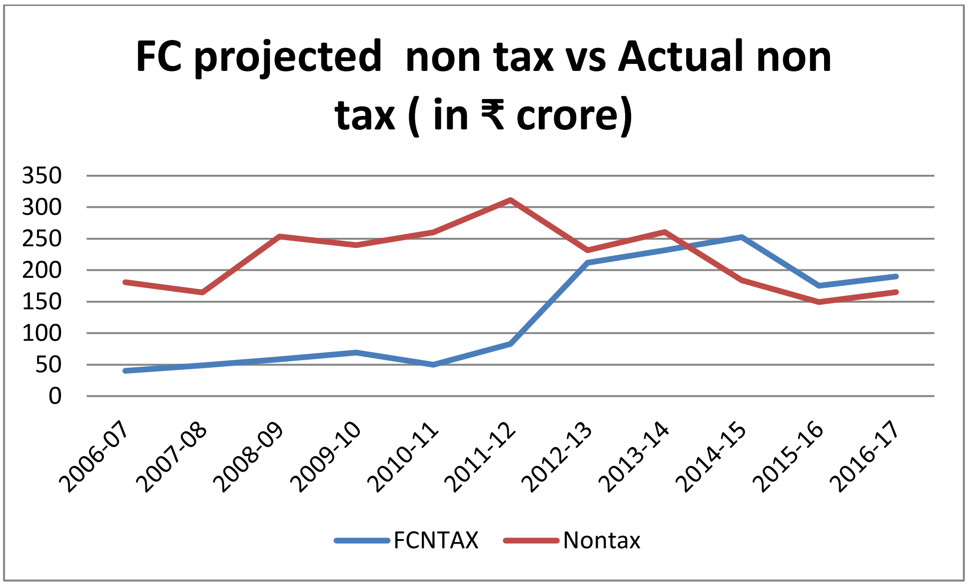
Till the end of FC-XII, FC overestimated the tax revenue. Throughout the award period of FC-XIII FC underestimated the tax revenue. Beginning the award period of FC-XIV, FC overestimated the tax revenues. Overestimation adversely affects the quantum of transfer.

Fig.2.2: FC projection of Tax vs. Actual Tax



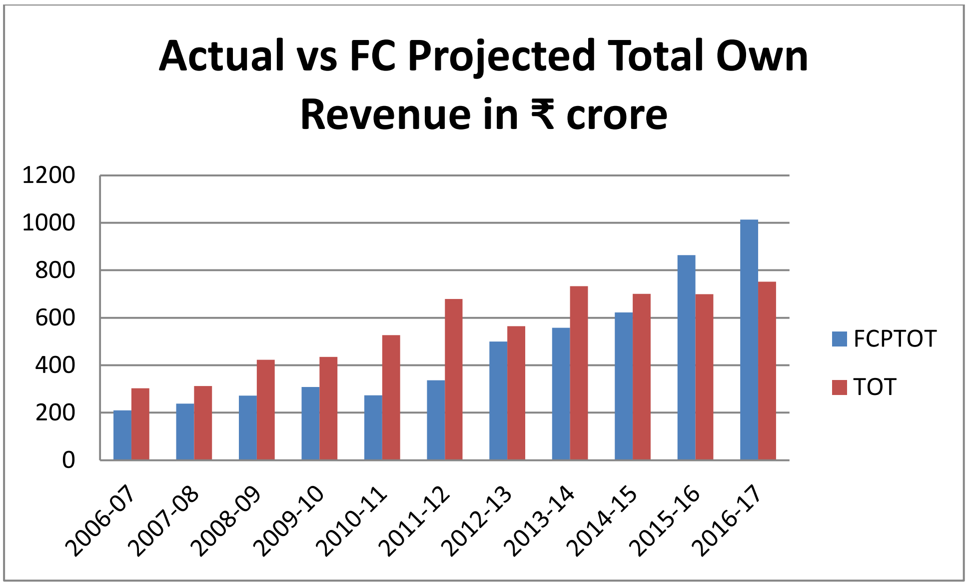
FC projection of own non tax revenue was consistently lower than actual own non tax revenue. The gap gradually narrowed down and after 2012-13 FC projections overshot the realizations.

Fig 2.3: FC projection of non Tax vs Actual non Tax revenue



It is interesting to note that except for 2015-16 and 2016-17 actual realizations exceeded projections by the Finance Commissions. This failure to meet targets coincides with the XIV Finance Commission award period.

Fig 2.4: Actual vs FC Projected Total Own Revenue in ₹ crore



Since the FC routinely provide gap filling grants in aid to states such systematic errors are likely to become a cause for concern. Higher FC projections mean lower provision in grant-in- aids. Since a state like Manipur which largely depends on transfers from the centre such lower provisions will affect the sustainability of public expenditure particularly when FRBM Act prescribes the level of borrowing it can resort to.

Now we come to the three constituents of non tax revenue namely General services, Social services and Economic services at a more disaggregated level.

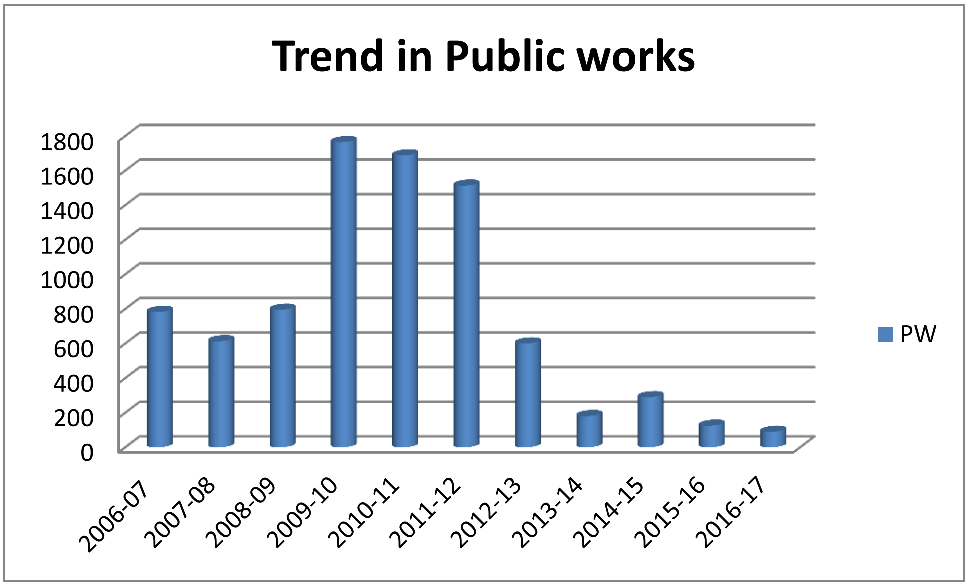
Table 2.5: Revenue from General Services

	PSC	POLICE	PW	PENSION	OTHER	GS
2006-07	9.49	56.75	783.06	22.89	8321.83	9194.02
2007-08	13.96	41.6	613.83	18.3	5543.76	6231.45
2008-09	3.74	336.43	795.51	35.74	9340.29	10511.71
2009-10	0	93.98	1764.89	28.35	6186.82	8074.04
2010-11	20.81	88.49	1688.08	31.91	7806.25	9635.54
2011-12	2.73	89.59	1513.45	38.54	14128.23	15772.54
2012-13	1.15	99.47	600.8	84.53	7672.93	8458.88
2013-14	49.79	102.95	180.96	58.09	11205.03	11596.82
2014-15	0	79.37	290.1	30.71	13368.32	13768.5
2015-16	35.51	72.35	125.51	64.48	10719.24	11017.09
2016-17	23.66	138.58	89.83	42.68	12518.91	12813.66

Note: All in ₹ lakh. PSC - Public service commission PW - public works PENSION contributions and Recoveries towards pension and other retirement POLICE - police
GS - General services OTHER the remaining sectors
Source: Finance Accounts, GOM, various years

Throughout **public works** has been the most important source till 2015-16..The category 'OTHER' is high on account of written off of Central loan given by Department of Expenditure, Ministry of Finance on the recommendations of Finance Commissions.

Fig.2.5: Trends in revenue receipts from Public works



It peaked in 2009-10 at ₹ 1764.89 lakh. Though it had started declining since then there was a sharp drop in 2012-13. The drop is due to dramatic decline in the head 'PERC' (Recovery of percentage charges)

Table 2.6: Components of Public works

	OFFICE	RENTS	HIRE	PERC	OTHERS	PW
2006-07		12.3	0.91	210.1	559.7	783.01
2007-08		77.2		78.54	458.05	613.79
2008-09	7.73	29.76	1.08	205.2	551.74	795.51
2009-10	1.72	1.01	26.02	1484.74	251.4	1764.89
2010-11	0.03	0.22	15.79	1154.73	517.31	1688.08
2011-12			38.03	1290.28	185.14	1513.45
2012-13	1.36		9.45	430.28	159.71	600.8
2013-14	0.84			0.06	180.06	180.96
2014-15		0.55			289.55	290.1
2015-16					125.51	125.1
2016-17					89.83	89.83

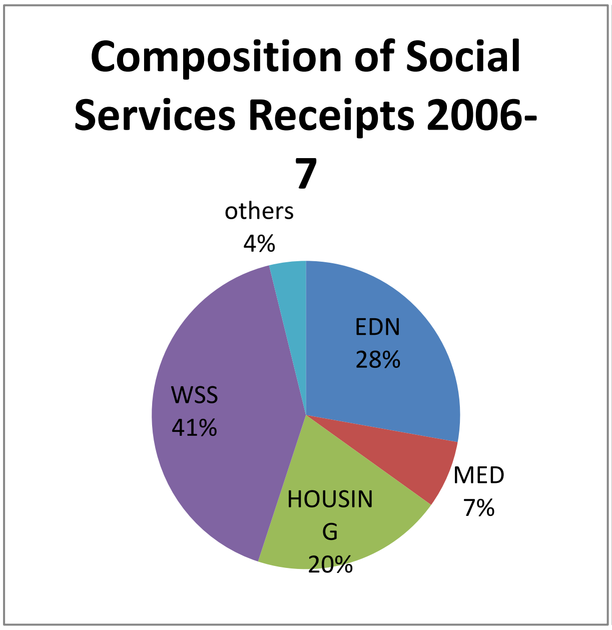
Note: All in ₹ lakh. OFFICE - office PERC - recovery of percentage charges HIRE - Hire charges of machinery & equipment OTHERS - other receipts PW - Public works

Source: Finance Accounts, GOM, various years

Revenue from social sector

Revenue receipts from Social Services rose from ₹338 lakh in 2006-7 to ₹592 lakh in 2016-17. It had risen to ₹1625 lakh in 2016-17.The important subsectors are water supply & sanitation,(WSS),Education, Sports , Art & Culture (EDN), Medical and public health (MED) and HOUSING.

Fig. 2.6: Composition of Social Services Receipts



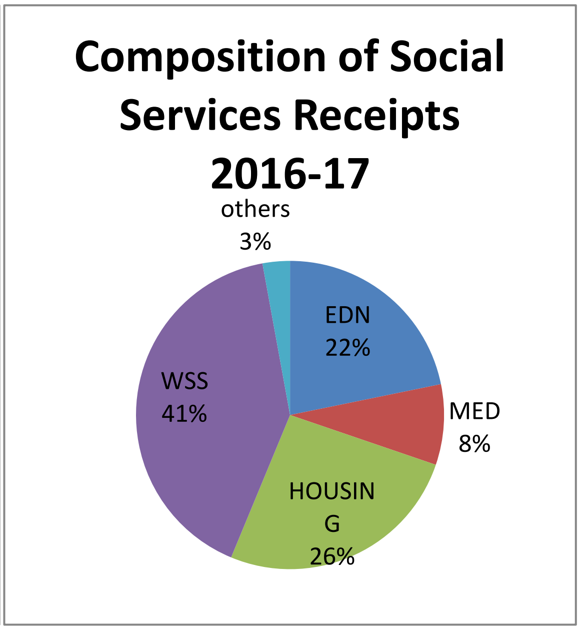


Fig 2.7: Composition of Social Services

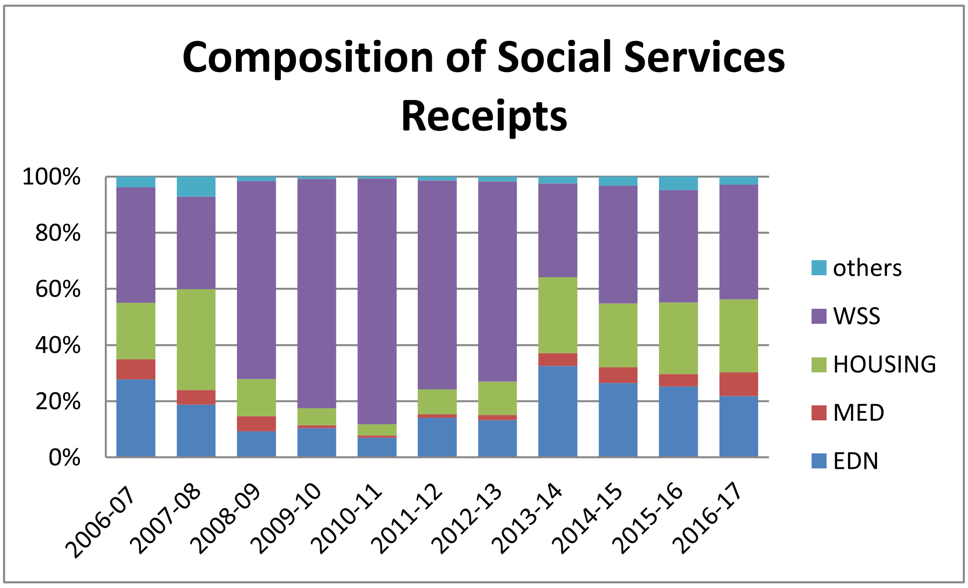


Table 2.7: Components of Social Services

	EDN	MED	HOUSING	WSS	others	Total SS
2006-07	94	24	68	139	13	338
2007-08	90	25	172	158	34	479
2008-09	91	52	130	689	16	978
2009-10	121	12	71	948	10	1162
2010-11	114	12	66	1421	12	1625
2011-12	111	10	70	587	11	789
2012-13	115	15	103	615	15	863
2013-14	205	29	170	211	15	630
2014-15	162	34	139	256	20	611
2015-16	143	25	144	227	27	566
2016-17	129	50	154	242	17	592

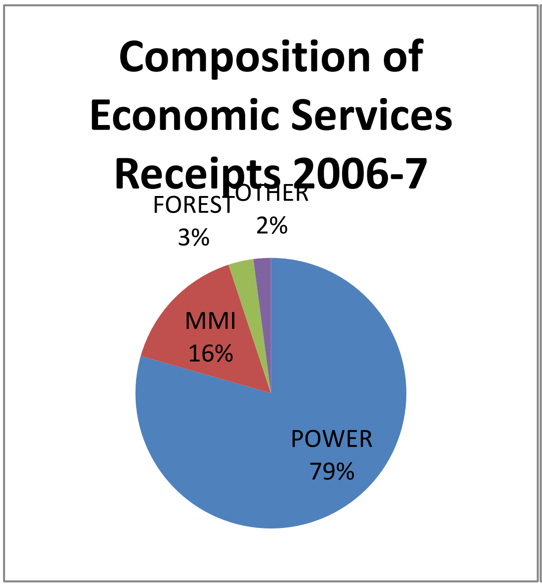
Note: All in ₹ lakh. EDN - Education, sports, Arts& culture; MED - Medical and Public health; HOUSING - Housing; WSS - Water supply and sanitation; SS - Social services;

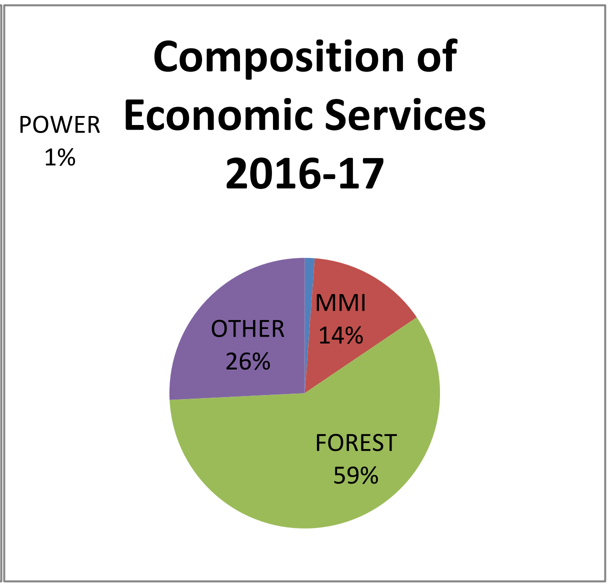
Source: Finance Accounts, GOM, various years

In this group only Education, Sports, Arts& culture has a trend growth rate of 5.66%. The trend growth rates for the others are statistically insignificant. Among the components of Education etc i.e. general education, technical education, sports & youth services and Arts & Culture, the biggest contribution comes from University & Higher education of general education. The most important contributor to Social services is Water Supply & sanitation which is dominated by Services & Service fees.

Economic Services

Fig 2.8: Composition of Economic services





Power sector use to generate the major share of economic services receipts. However the situation changed radically after corporatisation of the sector. Though forestry replaced power as the dominant contributor economic services receipts had dropped to ₹11.01 crore by 2016-17. The collapse in 2014-15 was from ₹ 105.29 crore in 2013-14 to ₹9.33 crore in 2014-15. Receipts from power sector (POWER) and major & medium irrigation (MMI) registered negative trend growth rates. Receipt from forestry & wild life (FOREST) had a positive trend growth rate of 15.25%.

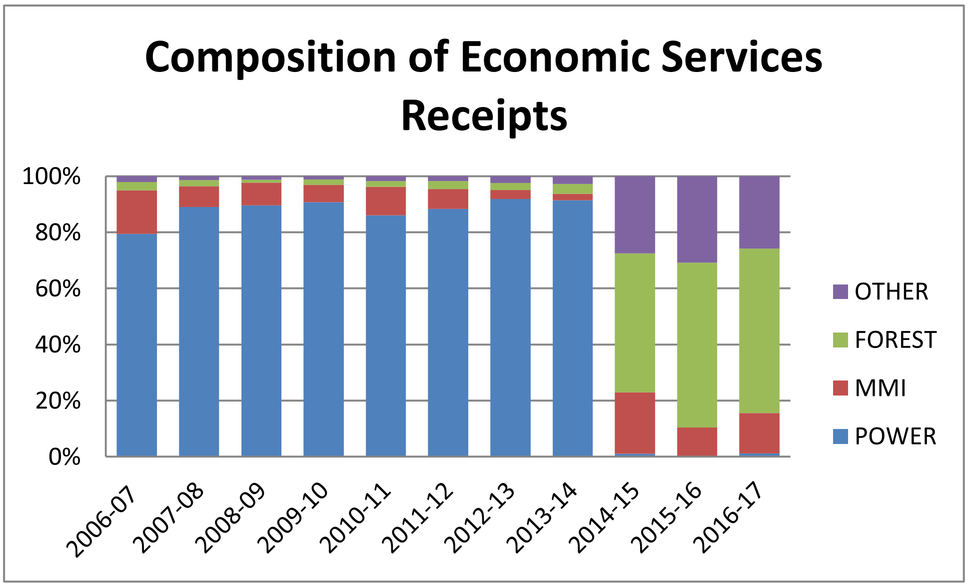
Table 2.8: Components of Economic Services

	POWER	MMI	FOREST	OTHER	ES
2006-07	40.24	7.85	1.52	1.05	50.66
2007-08	62.29	5.26	1.45	1.01	70.01
2008-09	88.28	8.00	1.02	1.26	98.57
2009-10	104.07	6.99	2.25	1.33	114.65
2010-11	88.29	10.49	2.1	1.74	102.62
2011-12	106.59	8.61	3.46	2.07	120.73
2012-13	108.3	3.75	2.94	2.91	117.9
2013-14	96.23	2.42	3.71	2.93	105.29
2014-15	0.1	2.04	4.62	2.57	9.33
2015-16	0.01	0.64	3.65	1.92	6.22
2016-17	0.13	1.58	6.46	2.84	11.01

Note: POWER Receipt from power sector MMI Receipt from major & medium irrigation FOREST Receipt from forestry & wild life ES Economic Services ; all in₹ crore

Source: Finance Accounts, GOM, various years

Fig 2.9: Composition of Economic Services Receipts



Chapter 3: Expenditure Patterns and Trends in revenue and capital expenditure

Expenditure pattern is as important as resource mobilisation and fiscal balance can be sustained only when both sides are properly understood, besides capital expenditure enhances the production potential of the economy. Disproportionate growth of revenue expenditure creates problems if market borrowings play an important role in financing the fiscal deficit. Increase in revenue expenditure and non plan expenditure are known to deter stimulus for economic growth. Committed expenditure subheads like salary, pensions, interest and subsidies pre-empt the state's capability for other development activities. The major goals of FRBMA are revenue surplus and 3% GFD/GSDP. It is not only the level but the constituents of expenditure also matter.

Aggregate expenditure:

Table 3.1 shows the trend growth of aggregate expenditure (AE), further disaggregating to revenue expenditure (RE) and capital expenditure (CE), the simplest way of categorising Aggregate Expenditure.

Table 3.1: Trends in composition of Expenditure

	GSDP	RE	CE	AE
2006-07	6137	2415	867	3339
2007-08	6783	2293	1108	3408
2008-09	7399	2622	1466.8	4090
2009-10	8254	3014	1587.78	4609
2010-11	9108	4078	1918.06	6000
2011-12	12915	5007	1695.41	6702
2012-13	13748	5317	1501.56	6821.39
2013-14	16198	5719	1291.89	7010.76
2014-15	18043	7267	1332.44	8600.07
2015-16	19890	7383	1237.87	8622.04
2016-17	21154	8185	1493.57	9678.58

Notes: GSDP Gross state domestic product at current prices

RE - Revenue expenditure; CE - Capital expenditure; AE - Aggregate expenditure(It is the sum of RE, CE and disbursement of loans & advances) All in ₹ crore.

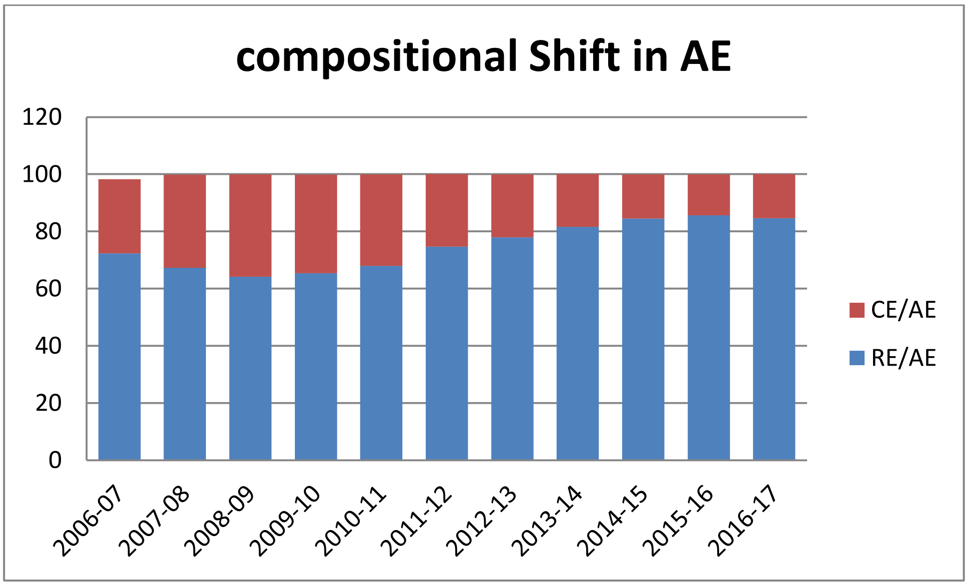
Source: Finance Accounts, GOM & Handbook of Statistics on Indian states, RBI

Table 3.2 :Descriptive Statistics of AE and its Components

	AE	RE	CE
Mean	6261.895	4845.455	1409.125
Median	6702.000	5007.000	1466.800
Maximum	9678.580	8185.000	1918.060
Minimum	3339.000	2293.000	867.0000
Std. Dev.	2190.535	2139.538	287.3016
Skewness	0.034936	0.214022	-0.137764
Kurtosis	1.751817	1.649571	2.755039
Jarque-Bera	0.716303	0.919820	0.062297
Probability	0.698967	0.631341	0.969331
Sum	68880.84	53300.00	15500.38
Sum Sq. Dev.	47984420	45776213	825421.8

During the study period aggregate expenditure grew from ₹3339 crore in 2006-07 to ₹9679 crore in 2016-17 registering a CAGR of 10.16 %. Fig 3.1 shows the trends in the share of revenue and capital expenditure in the growth of aggregate expenditure. The share of Revenue Expenditure has gradually risen from 72.33 % in 2006-7 to 84.57% in 2016-17 while the share of Capital Expenditure declined from 25.96 % to 15.43% during the same period. The share of Capital Expenditure has been declining since 2008-9 when it peaked at 35.86%.

Fig 3.1: Compositional shift in Aggregate Expenditure



The trend growth rate (obtained by estimating log(y) =a + bt) for Aggregate Expenditure is 11.12 %. The rate for Revenue Expenditure is 13.98% as against 2.01% of Capital Expenditure.. The elasticity of GSDP with respect to RE is 0.95 which is statistically significant. On the other hand CE elasticity of GSDP is found to be statistically insignificant.

Table 3.3: Correlation matrix GSDP and expenditure

	GSDP	RE	CE	AE
GSDP	1.000000	0.989694	0.077830	0.973108
RE	0.989694	1.000000	0.144685	0.992076
CE	0.077830	0.144685	1.000000	0.267748
AE	0.973108	0.992076	0.267748	1.000000

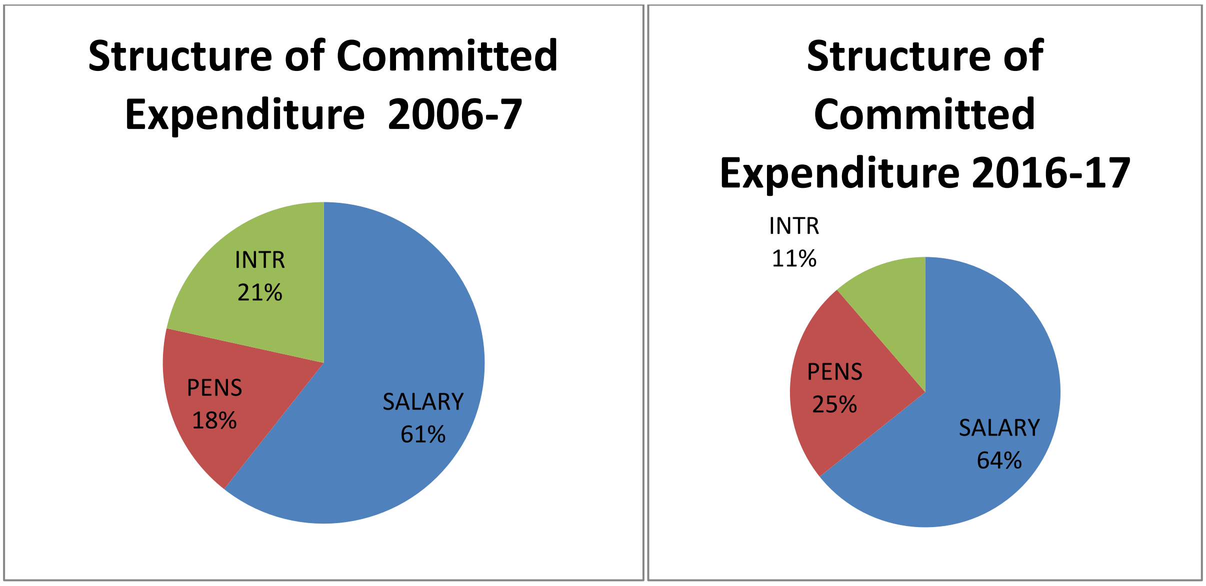
Note: RE - Revenue expenditure; CE - Capital expenditure; AE - Aggregate expenditure

Surprisingly capital expenditure has a low correlation with GSDP. Aggregate Expenditure elasticity of GSDP is 1.174 and Revenue Expenditure elasticity of GSDP is 0.951. However Capital Expenditure elasticity of GSDP is statistically insignificant. It implies that a 1 % rise in Aggregate Expenditure and Revenue Expenditure would lead to 1.174% and 0.951% rise in GSDP respectively, little will happen when Capital Expenditure changes.

Committed expenditure:

Salaries, pensions, interest and subsidies constitute committed expenditure and they have priority in public expenditure. Salaries have to be /paid to workers, pensions are paid for past service, interest has to be given for borrowed funds. The larger is the committed expenditure, the less will be the share for other activities. The following diagram shows the structure of committed expenditure in terms of three components – salary, pensions and interest.

Fig.3.2: Structure of Committed expenditure



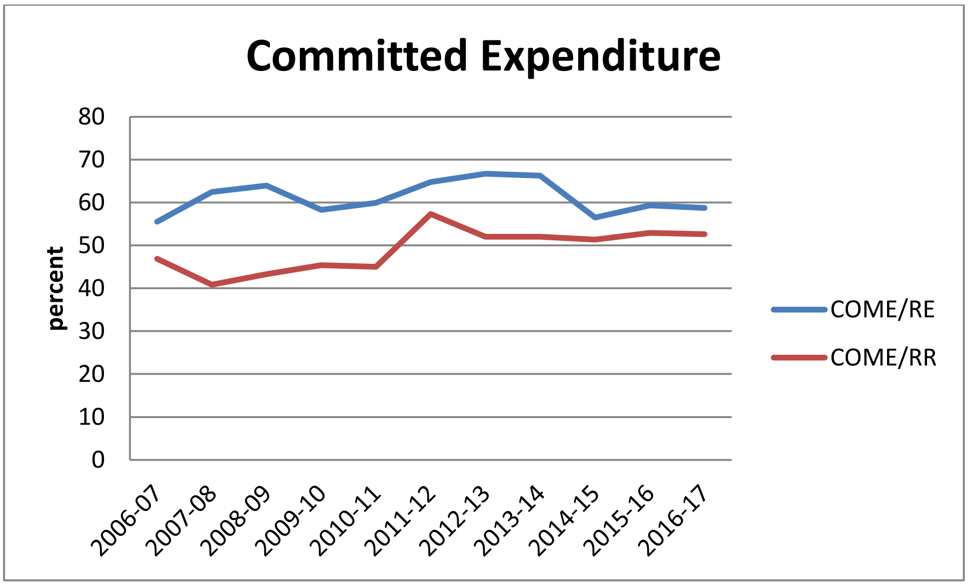
The share of interest rate only has declined.

Table 3.4: Descriptive statistics of Committed Expenditure

	SALARY	PENS	INTR
Mean	1949.000	607.4545	399.8182
Median	2216.000	628.0000	397.0000
Maximum	3088.000	1174.000	544.0000
Minimum	813.0000	206.0000	289.0000
Std. Dev.	842.1799	345.6647	89.28361
Skewness	-0.128318	0.242826	0.231801
Kurtosis	1.436521	1.628676	1.719057
Jarque-Bera	1.150568	0.970011	0.850549
Probability	0.562545	0.615694	0.653591
Sum	21439.00	6682.000	4398.000
Sum Sq. Dev.	7092670.	1194841.	79715.64

The following figure shows the significance of committed expenditure in revenue expenditure and revenue receipt. COME/RE does not exhibit any statistically significant trend. Its share hovered in the range between 55% and 67%. It has been persistently higher than COME/RR.

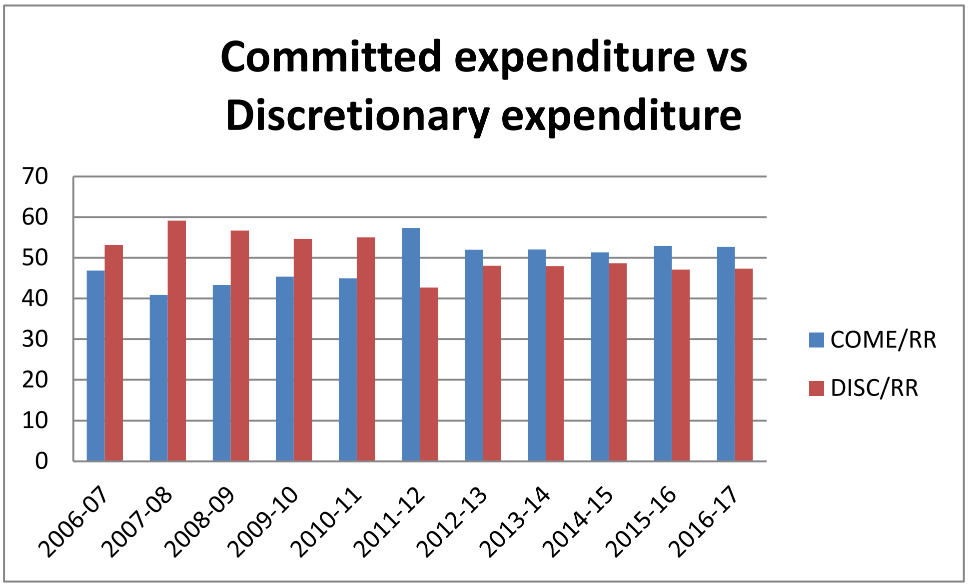
Fig.3.3: Trends in share of committed expenditure



Committed expenditure registered a CAGR of 12.3%. its components salary, pensions and interest grew by 12.9%,15.57% and 5.92% respectively.

The following fig. clearly shows the growing importance of committed expenditure. Since 2011-12 committed expenditure as a proportion of revenue receipts has been higher than that of discretionary expenditure. The difference will widen in 2019-20 when the state starts implementing the awards of the seventh pay commission for its employees and pensioners. If that happens without identifying additional sources of revenue, most of the revenue receipts will be used up in meeting committed expenditure and the revenue surplus status may become unsustainable.

Fig. 3.4: Committed vs Discretionary Expenditure



Development Expenditure:

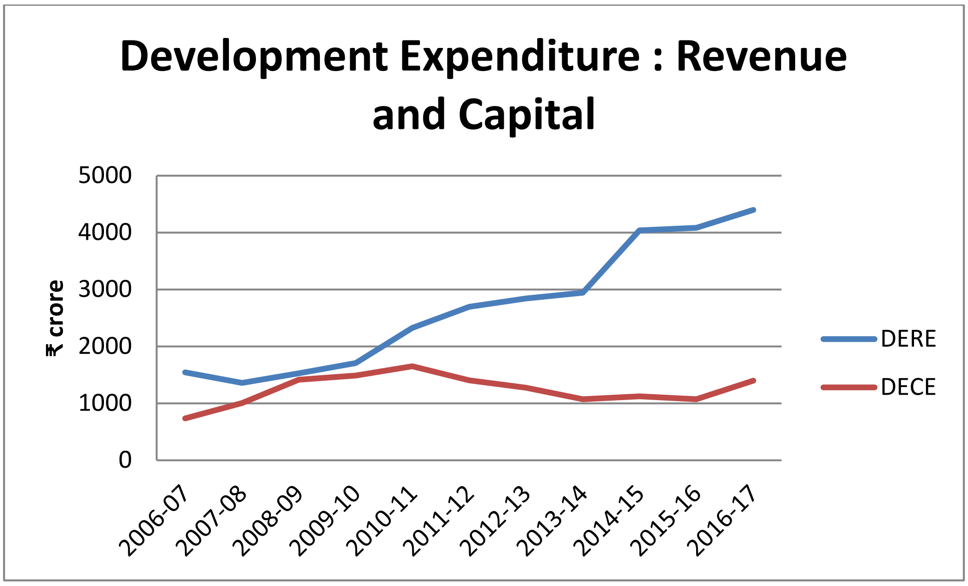
Both revenue and capital expenditure have the desirable development component. Expenditure with high development component will have an impact on development potential of the state largely different from expenditure with lower development component. The following table presents the descriptive statistics of these variables.

Table 3.5: Descriptive statistics of Development Expenditure

	DERE	DECE	DE
Mean	2678.482	1239.389	3917.871
Median	2696.660	1275.690	4013.840
Maximum	4399.730	1653.000	5797.300
Minimum	1360.000	736.0000	2278.000
Std. Dev.	1109.651	263.0762	1152.877
Skewness	0.320752	-0.302289	0.069137
Kurtosis	1.702955	2.391677	1.961362
Jarque-Bera	0.959683	0.337137	0.503199
Probability	0.618881	0.844873	0.777556
Sum	29463.30	13633.28	43096.58
Sum Sq. Dev.	12313253	692090.8	13291257

Note: DERE - Development expenditure component of revenue expenditure
DECE - Development expenditure component of capital expenditure
DE - Development expenditure (=DERE+DECE)
Source : Finance Accounts, GOM

Fig. 3.5: Trends in Development Expenditure



Development category of revenue expenditure shows a distinct positive trend while no such trend is visible with the capital counterpart. The two series start diverging around 2009-10. The stagnancy in DECE is a matter of concern as capital expenditure enhances the production potential at every level.

Fig.3.6: Trends in share of Development Expenditure

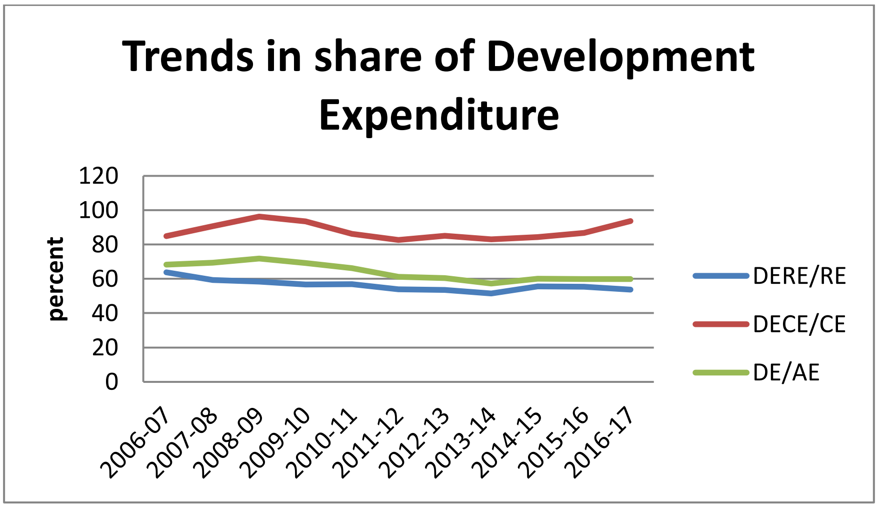
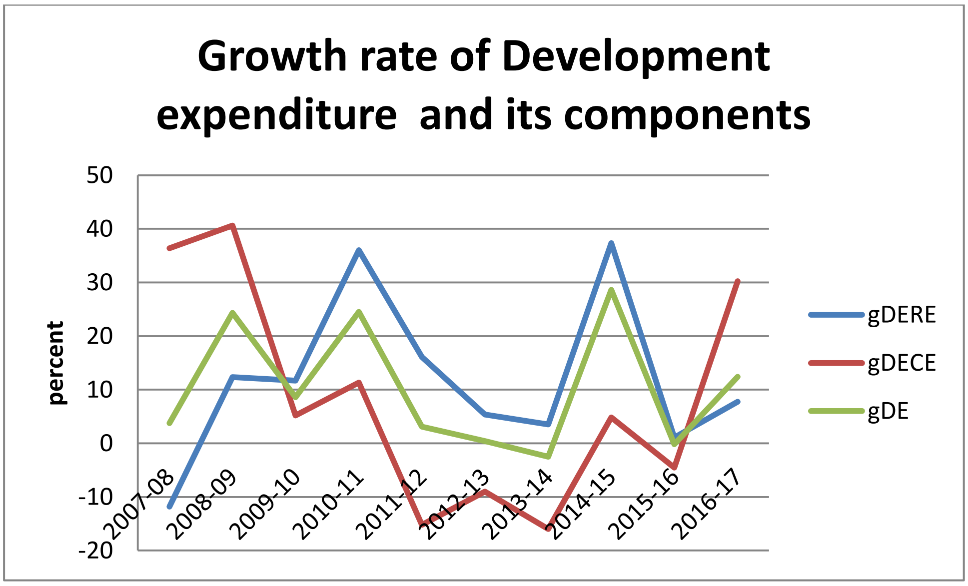


Fig.3.7: Growth Rates of Development expenditure and its components



An important issue is the association between GSDP and development expenditure. Table 3.6 gives us an idea of the association by using correlation method.

Table 3.6: Correlation matrix of GSDP and components of Development Expenditure

	GSDP	DE	DERE	DECE
GSDP	1.000000	0.947125	0.980571	0.014546
DE	0.947125	1.000000	0.973681	0.275326
DERE	0.980571	0.973681	1.000000	0.048971
DECE	0.014546	0.275326	0.048971	1.000000

Note : DERE Development expenditure component of revenue expenditure

DECE Development expenditure component of capital expenditure

DE Development expenditure (=DERE+DECE)

GSDP and DECE have low correlation. DE elasticity of GSDP is 1.387 and is statistically significant. DERE elasticity of GSDP works out at 1.037. However DECE elasticity of GSDP is statistically insignificant.

Expenditure can be further categorised into expenditure in social services, economic services and general services. Development expenditure consists of social services and economic services.

Table 3.7: Trends in expenditure in social services, economic services and general services

year	RE			CE			Total		
	SS	ES	GS	SS	ES	GS	SS	ES	GS
2006-07	6639.5	8773.4	8733.5	2732.9	4650.1	1314.5	11289.6	10087.9	8733.5
2007-08	7193.8	6412	9319.5	3783.2	6254.2	1049.1	13448	7461.1	9319.5
2008-09	8030	7250	10940	5470	8650	550	16680	7800	10940
2009-10	8911.58	8159.79	11812.9	5590.9	9256.7	1030.1	18168.28	9189.89	11812.9
2010-11	12384.6	10836.7	16427.6	6007.3	10525.6	2647.6	22910.2	13484.3	16427.6
2011-12	14375.8	12573.7	21336	4773.2	9246.7	2951.1	23622.5	15524.8	21336
2012-13	15282.2	13132.6	22818.3	3540.3	9216.5	2258.7	24498.7	15391.3	22818.3
2013-14	16036.5	13386.1	24410.7	3280.4	7435.2	2203.2	23471.7	15589.3	24410.7
2014-15	20280.6	20123.8	27511.2	5476.3	5759.9	2088.1	26040.5	22211.9	27511.2
2015-16	19736	21101.2	29508	3858.8	6869.6	1650.3	26605.6	22751.5	29508
2016-17	20567.6	23429.7	34211.8	4130	9845.7	960	30413.3	24389.7	34211.8

Note: RE - Revenue expenditure; CE - capital expenditure; AE - Aggregate expenditure; SS - social services; ES - Economic services. GS - General services. All in ₹ million.

Source: Finance Accounts, GOM, various issues

Table 3.8: Correlation matrix of various expenditure heads

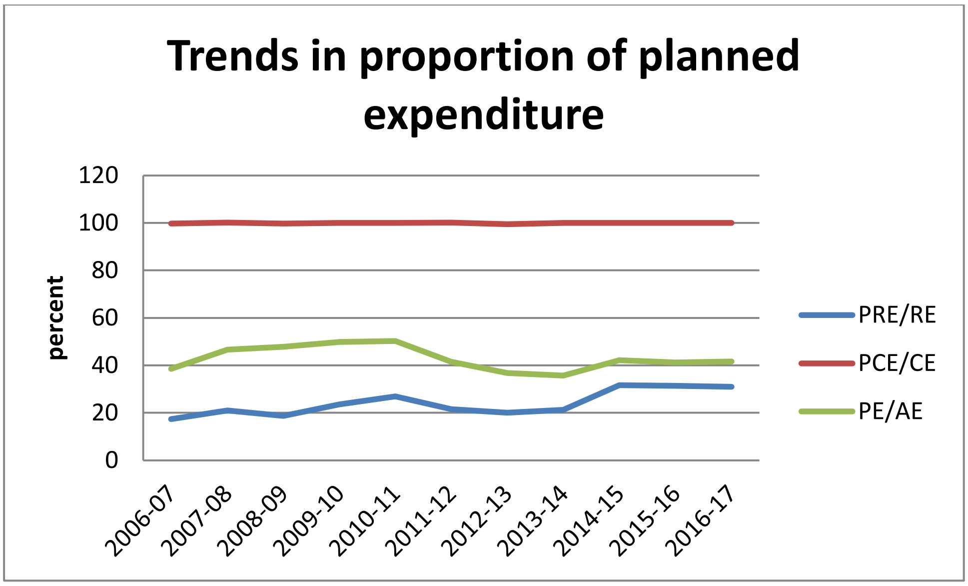
	GSDP	SS	ES	GS
GSDP	1.000000	0.911353	0.961997	0.989246
SS	0.911353	1.000000	0.897348	0.951588
ES	0.961997	0.897348	1.000000	0.967258
GS	0.989246	0.951588	0.967258	1.000000

All variables seem to be closely correlated with GSDP. Trend growth rates of expenditure in Social Services, Economic Services and General Services are 8.73%, 12.0 % and 14.5 % respectively. The elasticities of GSDP with respect to Social Services, Economic Services and General Services are 1.3507, 1.008 and 0.916 respectively. It underscores the importance of development expenditure.

Plan vs non plan expenditure

Expenditure both revenue and capital are further categorised into plan and non plan. Capital expenditure is overwhelmingly planned expenditure. On the other hand the proportion of planned component in revenue expenditure has been rising.

Fig.3.8: Trends in Proportion of planned expenditure



Note : PRE plan revenue expenditure ; PCE plan capital expenditure ; PE plan expenditure ;AE Aggregate expenditure

The share of planned revenue expenditure in revenue expenditure and planned expenditure in aggregate expenditure registered trend growth rates of 5.07 % and 7.65% respectively. PRE elasticity of GSDP and PE elasticity of GSDP are estimated to be 0.668 and 1.128. PCE elasticity of GSDP is found to be statistically insignificant.

The state government has decided to pay arrears at pre revised rates of allowances to the employees for the period 1.4.2019 to 31.3.2020. Payments based on revised rates of allowances will be paid from 01.04.2020.The Finance department has estimated that the impact of 7th pay revision during 2019-20 to 2024-25 would be ₹6363 crore for salaries and ₹ 2105 crore for pensions

Table 3.9

	Projected salaries in ₹ crore		Projected pensions in ₹ crore		Salary +pensions in ₹ crore	Projected GSDP in ₹ crore	Salary +pension as %age of GSDP
	Salaries	Additional exp due to pay revision	Pensions	Additional exp due to pay revision			
2018-19	3777		1511#		5288	26493	19.96
2019-20	4299	295*	1658##	169*	5957	29648	20.09
2020-21	5291	1048	1689	334	6980	33179	21.04
2021-22	5631	1133	1797	361	7428	37131	20.0
2022-23	5983	1214	1909	388	7892	41553	18.99
2023-24	6342	1288	2024	411	8366	46502	17.99
2024-25	6742	1385	2152	442	8894	52041	17.09

Note : * arrear # Revised estimate ## Budget estimate

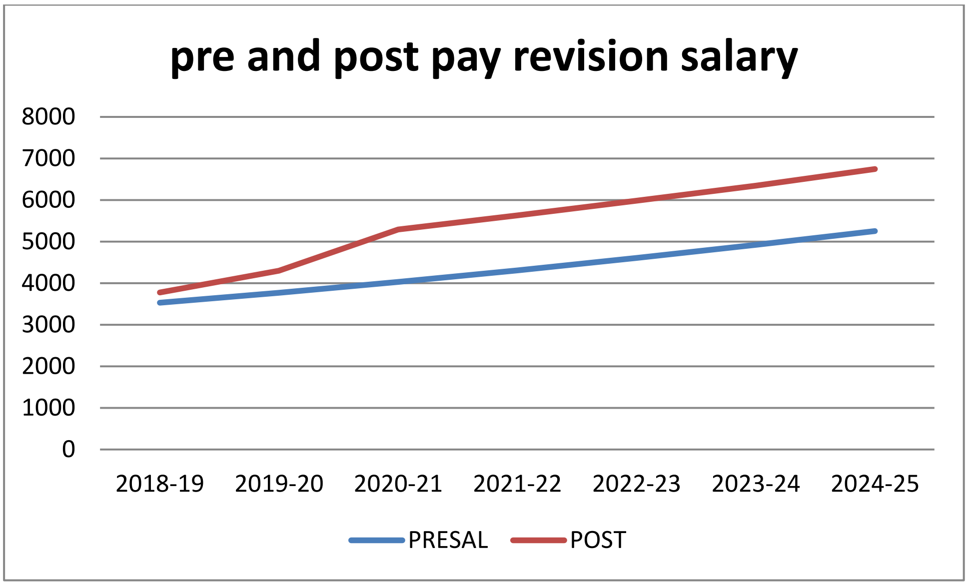
Source : Finance deptt., GOM Memorandom to XV Finance Commission

The following table shows the annual growth rate of salary head during 2006-7 to 2016-17. The sharp rise coincides with implementation of sixth central pay commission awards in the state. It will be more appropriate to consider the average growth rate of salary post revision rather than considering the entire period .without the revision it is projected to spend ₹ 30401 crore (2018-19 to 2024-25) as against ₹ 38065 crore post pay revision during the same period. Post pay revision salary bill always exceeded pre pay revision salary.

Table 3.9: Comparative study of pre and post pay revision

Year	Salary in ₹ crore without seventh central pay award	Salary in ₹ crore after seventh central pay award	Additional expenditure in ₹ crore
2018-19	3527	3777	250
2019-20	3769	4299	530
2020-21	4028	5291	1263
2021-22	4305	5631	1326
2022-23	4601	5983	1382
2023-24	4917	6342	1425
2024-25	5254	6742	1488
Total	30401	38065	7664

Fig 3.9: pre and post pay revision salary



Chapter 4: Analysis of Deficits- Fiscal and revenue

The FRBM Act made it obligatory on the part of the state government to consolidate state finance by reducing gross fiscal deficit to 3% of GSDP and revenue deficit to 0% of GSDP in a time bound manner. In this section we shall examine the trend in deficits –both fiscal and revenue and how the growing fiscal deficit is financed. Equally important is the factors leading to this growth. The overall impact of fiscal deficit would depend on its source and how it is financed.

For the entire period under study Manipur had surplus in revenue account, a desirable behaviour of state finance. Manipur has been a revenue surplus state since 2004-5. However for a state like Manipur which cannot generate even 10% of its revenue expenditure with the rest coming from the centre as part of Finance commission transfer and central grants-in-aid this should be interpreted with caution. There were two years with fiscal surplus i.e. 2007-8 and 2013-14.

Table 4.1: Trends in Deficits

	GFD	PD	RD	GSDP	GFD/GSDP	RD/GSDP	PD/GSDP
2006-7	-475	-186	448	6137	-7.74	7.3	-3.03
2007-8	102	400	1216	6783	1.5	17.93	5.9
2008-9	-216.88	96.95	1250.34	7399	-2.93	16.9	1.31
2009-10	-732.65	-410.08	858.74	8254	-8.88	10.4	-4.97
2010-11	-568.74	-203.96	1351.93	9108	-6.24	14.84	-2.24
2011-12	-1046.97	-649.58	646.63	12914.61	-8.11	5.01	-5.03
2012-13	-1.04	431.97	1503.23	13747.79	-0.01	10.93	3.14
2013-14	273.26	718.18	1563.96	16198.43	1.69	9.66	4.43
2014-15	-600.83	-127.64	730.98	18042.76	-3.33	4.05	-0.71
2015-16	-340.92	175.31	897.53	19889.88	-1.71	4.51	0.88
2016-17	-548.31	-4.56	944.36	21153.69	-2.59	4.46	-0.02

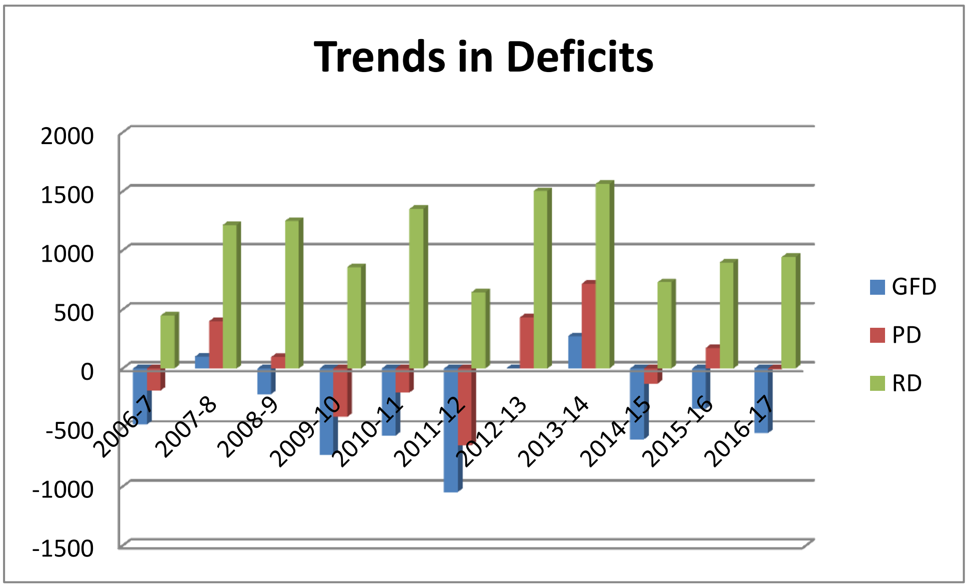
Notes : RD Revenue deficit(-)/surplus(+) ; PD primary deficit(-)/surplus(+)

FD Fiscal deficit(-)/ surplus(+) All in ₹ crore. The ratios are inpercent.

Source : Finance Accounts,GOM

The following figure shows the pattern of gross fiscal deficit, revenue deficit and primary deficit.

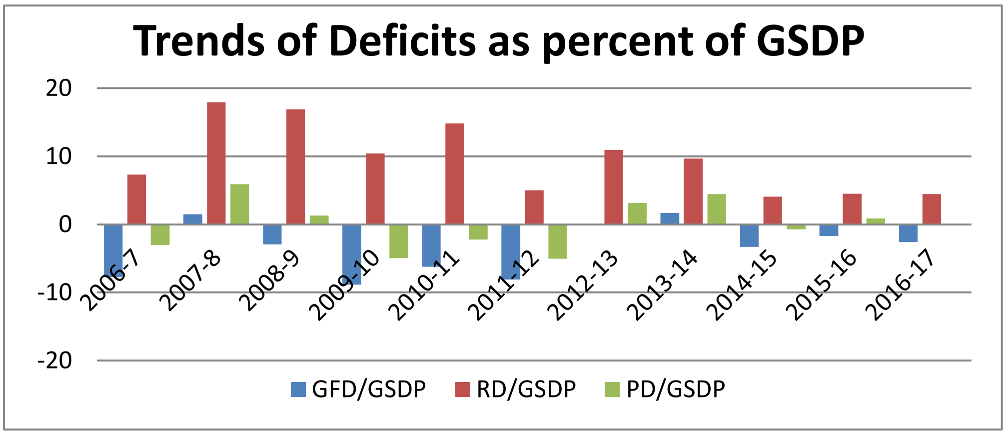
Fig. 4.1: Trends in deficits



Notes : RD Revenue deficit(-)/surplus(+) PD primary deficit(-)/surplus(+)
FD Fiscal deficit(-)/ surplus(+)

These figures become more meaningful when these are considered as proportion of GSDP as the FRBM targets are set in proportions. Revenue surplus should be not only maintained it must also be seen the more and more of the revenue surplus is available for capital expenditure. The diagram clearly shows that the revenue surplus to GSDP ratio has been declining.

Fig.4.2 : Trends of deficits as percentage of GSDP



In 2006-07, GFD as the percentage of GSDP was 7.8. The revenue surplus as percentage of GSDP peaked at 17.93% in 2007-8. However by 2014-15 the surplus both absolutely and as proportion of GSDP declined substantially.

Table 4.2 examines over time the decomposition of gross fiscal deficit into revenue surplus, net capital expenditure and net loans & advances.

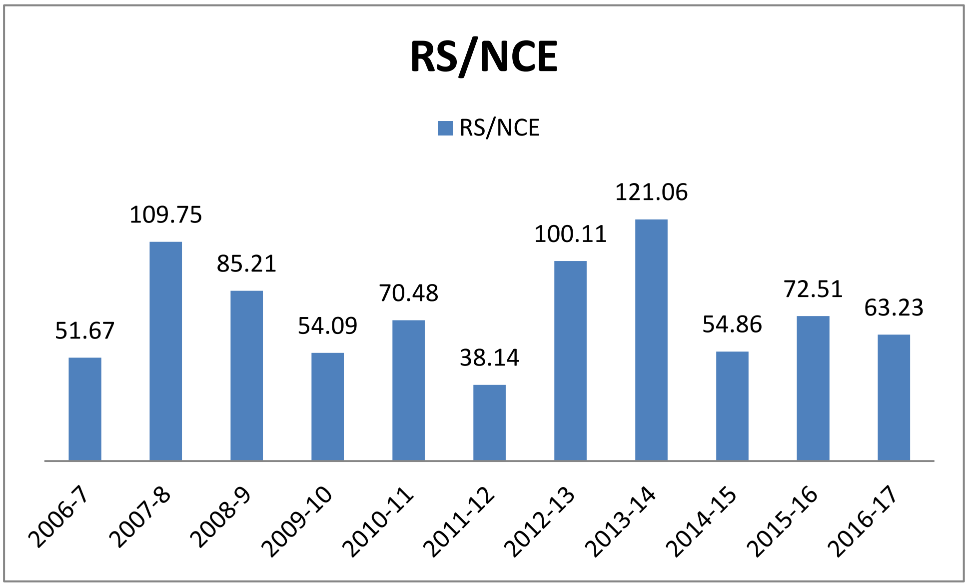
Table 4.2: Decomposition of Fiscal deficit (-)/surplus(+) in ₹ crore

Year	Revenue surplus	Net capital expenditure	Net Loans and Advances	Fiscal deficit(-) /surplus(+)
2006-07	448	-867	-56	-475
2007-08	1216	-1108	-6	102
2008-09	1250	-1467	-0.42	-217
2009-10	859	-1588	-3.61	-733
2010-11	1351.93	-1918.06	-2.61	-568.74
2011-12	646.63	-1695.41	1.81	-1046.97
2012-13	1503.23	-1501.56	-2.71	-1.04
2013-14	1563.96	-1291.89	1.19	273.26
2014-15	730.98	-1332.44	0.63	-600.83
2015-16	897.53	-1237.87	-0.58	-340.92
2016-17	944.36	-1493.57	0.90	-548.31

Source : CAG Reports

Fig.4.3 shows to what extent revenue surplus was used for bridging the net capital expenditure gap. In 2007-08, 2012-13 and 2013-14 revenue surplus exceeded the net capital expenditure helping in lowering gross fiscal deficit. In 2007-8 and 2013-14 the state witnessed gross fiscal surplus and in 2012-13 GFD was only ₹ 1.04 crore.

Fig.4.3: Revenue surplus as percentage of net capital expenditure



Quality of Deficit/Surplus

Primary revenue expenditure is total revenue expenditure net of interest payment. The decomposition of primary deficit into primary revenue deficit/surplus and capital expenditure (including loans and advances) would indicate the quality of deficit. If enhancement of capital expenditure is the main cause of deficit, it is desirable because it improves the productive capacity of the state's economy. The populist measures undertaken by the government necessitated by coalition politics has been a major source of rapid growth of revenue deficit. The non debt receipts of Manipur during 2006-7 to 2016-17 were sufficient to meet the primary revenue expenditure. Yet the quality of deficit remains a major issue. There has been a gradual decline in the share of capital expenditure in primary expenditure and a gradual overwhelming increase in the share of primary revenue expenditure.

Table 4.4: GFD and its revenue components

	GFD	OTR	ONTR	CG	CTS	gOTR	gONTR	gCG	gCT
2006-7	-475	122	181	2124	436				
2007-8	102	147	165	2646	550	20.49	-8.84	24.58	26.15
2008-9	-216.88	170	253	2868	581	15.65	53.33	8.39	5.64
2009-10	-732.65	196	240	2840	598	15.29	-5.14	-0.98	2.93
2010-11	-568.74	267	260	3912	991	36.22	8.33	37.75	65.72
2011-12	-1046.97	368	312	3820	1154	37.83	20	-2.35	16.45
2012-13	-1.04	333	232	4937	1318	-9.51	-25.64	29.24	14.21
2013-14	273.26	473	261	5111	1439	42.04	12.5	3.52	9.18
2014-15	-600.83	517	184	5771	1527	9.3	-29.5	12.91	6.12
2015-16	-340.92	550	149	4438	3142	6.38	-19.02	-23.1	105.76
2016-17	-548.31	587	165	4621	3757	6.73	10.74	4.12	19.57

Notes : GFD Gross Fiscal deficit ; OTR own tax revenue

ONTR own non tax revenue ;CG central grant ; CTS share in central tax ; all in ₹crore

Variables with g indicate the annual growth rates.

Source : Finance Accounts,GOM

During this period when GFD declined to ₹ 1.04 crore in 2012-13, central grant registered a massive increase of 29.24% while OTR and ONTR declined. Over the entire period GFD has a positive correlation with CG only. The surplus in 2013-14 can be attributed to growth in OTR and ONTR and the high value of gCG. The GFD in 2015-16 would have been much higher without the growth in share in central taxes.

Table 4.5: Descriptive Statistics GFD and its revenue components

	GFD	OTR	ONTR	CG	CTS
Mean	-377.8255	339.0909	218.3636	3917.091	1408.455
Median	-475.0000	333.0000	232.0000	3912.000	1154.000
Maximum	273.2600	587.0000	312.0000	5771.000	3757.000
Minimum	-1046.970	122.0000	149.0000	2124.000	436.0000
Std. Dev.	390.0922	171.6651	52.20780	1173.476	1086.608
Skewness	0.134241	0.149608	0.217051	-0.038887	1.260885
Kurtosis	2.254537	1.510677	1.889115	1.783827	3.300268

Table 4.6 :Correlation matrix of GFD and its revenue components

	GFD	OTR	ONTR	CG	CTS
GFD	1.000000				
OTR	-0.063260	1.000000			
ONTR	-0.233643	-0.214582	1.000000		
CG	0.107266	0.858976	-0.010950	1.000000	
CTS	-0.068439	0.872884	-0.449211	0.574295	1.000000

Quality of deficit/surplus refers to the extent to which it has been on account of enhancement of capital expenditure. Capital expenditure is essential to improve the productive capacity of the economy.

Table 4.7: Quality of Deficit/Surplus

Year	Non debt Receipts (NDR)	primary rev. exp.(PD)	capital exp.(CE)	Loans & advances	primary expenditure	primary rev def (-) /surp (+)	primary def (-) /surp(+)
1	2	3	4	5	6(3+4+5)	7(2-3)	8(2-6)
2006-7	2864	2126	867	57	3050	738	-186
2007-8	3510	1994	1108	8	3110	1516	400
2008-9	3874	2308	1467	1	3776	1566	98
2009-10	3876	2692	1588	7	4287	1184	-411
2010-11	5431	3713	1918	4	5635	1718	-204
2011-12	5655	4610	1695	0.08	6305	1045	-650
2012-13	6820.35	48883.52	1501.56	3.30	6888.38	1936.83	431.97
2013-14	7284.02	5273.91	1291.89	0.04	6565.84	2010.11	718.18
2014-15	7999.24	6794.10	1332.44	0.34	8126.88	1205.14	-127.64
2015-16	8281.12	6866.4	1237.86	1.6	8105.81	1414.78	175.31
2016-17	9130.27	7641.01	1493.57	0.25	9134.83	1489.26	-4.56
CAGR %	11.12	12.33	5.07		10.49		

Note: in ₹ crore

Source : Finance Accounts,GOM

Table 4.8: Descriptive Statistics

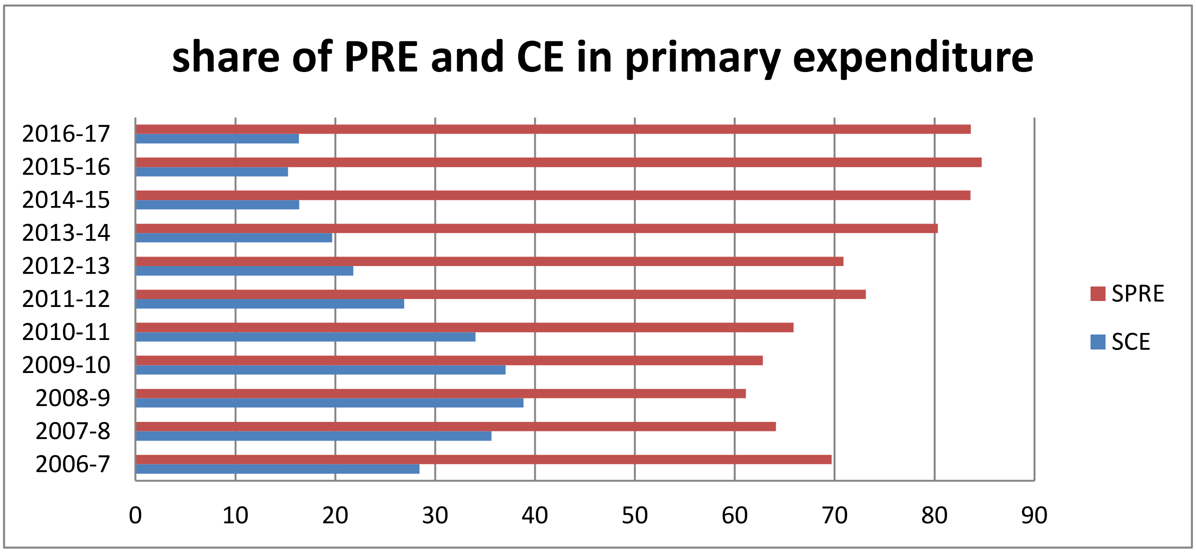
	NDR	PRE	CE	PD
Mean	5884.091	4445.631	1409.120	21.84182
Median	5655.000	4610.000	1467.000	-4.560000
Maximum	9130.270	7641.010	1918.000	718.1800
Minimum	2864.000	1994.000	867.0000	-650.0000
Std. Dev.	2160.592	2050.934	287.2684	397.6702
Skewness	0.039054	0.214588	-0.138306	0.094336
Kurtosis	1.596472	1.648917	2.755256	2.323489

Table 4.9: Correlation Matrix

	PRE	CE	PD
PRE	1.000000	0.144453	0.110194
CE	0.144453	1.000000	-0.386891
PD	0.110194	-0.386891	1.000000

Not only does Capital Expenditure have negative correlation with Primary Deficit, its share in primary expenditure also declined over time. There has been a sustained decline in share of capital expenditure in primary expenditure since 2008-9 giving increasing space to primary revenue expenditure which is essentially consumption expenditure. The following diagram shows the deteriorating quality of fiscal deficit as less proportion of primary expenditure goes to capital expenditure.

Fig. 4.4: share of PRE and CE in primary Expenditure



Note: SPRE share of primary revenue expenditure in primary expenditure

SCE share of capital expenditure in primary expenditure.

Financing the deficit:

How is the deficit financed? While there seems to be a consensus on the need for fiscal deficit in the near future for meeting capital expenses, what matters is how it is financed. Unlike the central government, printing money is not an option for state governments. If deficits are financed with borrowing, the cost of servicing the interest and repayment needs of the loan matters. A high cost loan will push the state to debt trap faster where it borrows to service the debt only. Earlier Finance Commissions proposed flexibility for swapping high cost central government debts with low cost market debts. Manipur has managed to remain revenue surplus yet its fiscal deficit has been erratic. It is quite different from running into fiscal deficit to finance revenue deficit in the early part of this decade.

Loans from the centre used to be the most important source of state government borrowing. Central plan assistance also would come with a loan component.

. Financing of GFD was to be primarily through market borrowings, the share of which was budgeted to increase due to net outgoes from certain public account items such as remittances and suspense and miscellaneous. Contribution of national small savings fund's (NSSF) investments in state governments' special securities in GFD financing would continue to remain negative due to redemptions exceeding fresh investments Table 4.10 shows that the importance of loan from GOI has been declining over the years in line with the all India trend. The debt swap facilities also have enabled the state to swap the costlier GOI debt with cheaper market loans. Interestingly the importance of market borrowings also has been declining since 2009-10 when it reached Rs 445 crore till 2011-12. Since then the volume of market borrowings has been on the rise. The importance of small savings, PF on the other hand has been increasing and it has become the most important component of deficit financing in 2011-12. This is in sharp contrast with the all India trend where the share of market borrowings has been rising and share of small savings has been falling. Manipur continues to avail of 100% share in NSSF collections. Among the states in NER only Mizoram and Tripura have reduced the mandatory allocation of net small savings collection to 50% from the fiscal year 2012-13 as per the recommendations of the Committee on Comprehensive review of national Small savings Fund. Small savings collection has been increasing and the state has to absorb the share of small savings collection earmarked to it irrespective of the relatively higher cost of borrowing. This has to some extent diluted the purpose of debt swap facility which enabled state governments to swap loans from central government with market loans carrying much lower interest rate. Interestingly when market borrowing was at the lowest in 2011-12, the most important source for financing fiscal deficit was small savings, PF etc. after reaching the peak in 2011-12 it has been declining falling from ₹ 234 crore in 2011-12 to ₹ 49.54 crore in 2016-17. Fig 4.5a & 4.5 b show the growing importance of market borrowing over the period under study.

Fig.4.5a

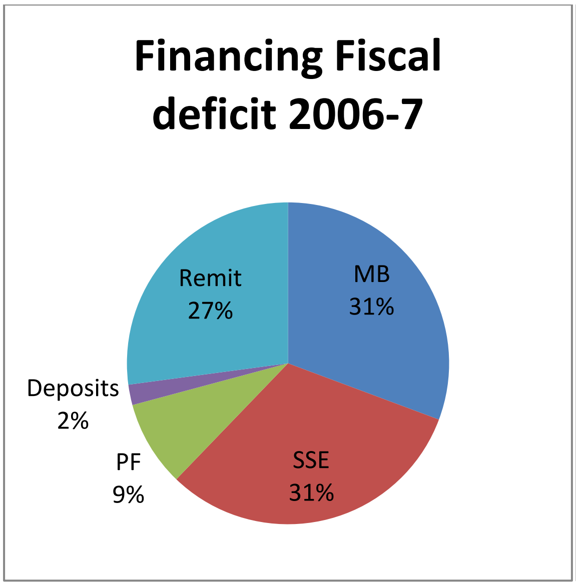
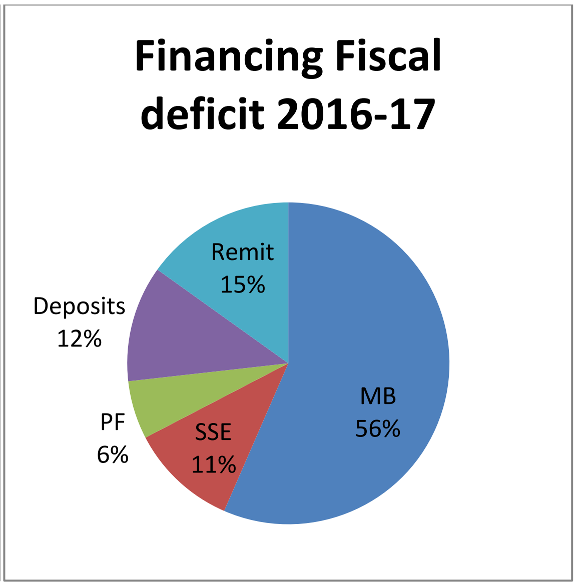


Fig.4.5b



Financing of Gross Fiscal deficit (in ₹ Crore)

Year	Market Borrowing	Special securities issued to NSSF	Loans from financial institutions	Ways& Means Adv RBI	Loans from GOI	Small savings PF etc	Deposits& advances	Suspense and Misc	Remittances	Reserve f
2006-7	224	230	-1		-239	63	15	-75	198	-7
2007-8	193	200	-3		-237	52	133	28	111	4
2008-9	249	199	-4		-240	52	84	-5	-48	5
2009-10	445	-3	3		-42	25	226	-34	-160	25
2010-11	206	-6	28		-45	41	387	-0.3	-81	28
2011-12	77	-13	44	90	-65	234	-114	6	22	38
2012-13	182.01	-16.19	38.66	7.97	-44.01	138.01	-36.74	1.77	-2.09	48.08
2013-14	288.17	-21.50	0.94	-97.92	-47.08	103.11	-14.43	1.91	-15.71	48.46
2014-15	339.23	-26.03	-52.87		-44.17	86.30	--70.88	-15.56	- 21.81	64.55
2015-16	311.29	18.51	9.29	184.75	-44.13	60.74	116.85	-19.13	-144.54	110.71
2016-17	478.17	-53.11	91.67	-82.33	-28.08	49.54	98.82	-21.61	-102.13	127.76

Table4.10: Financing the deficit

Source : Reports on State Finance,RBI

Chapter 5: Sustainability of Debt and a debt road map for 2020-25

A developing economy requires large amount of money for development purposes but often the fund at its disposal is found to be insufficient and lacking. Their tax and non tax revenues have not been enough for meeting both development and non development expenditures. In such situations, one way of raising money is by borrowing. The Eighth Finance Commission (1984:100) even accepted this fact and said “We see nothing basically wrong in the growth of public debt. With the expanding functions, no government, particularly in developing economy, can undertake large scale programmes of development without recourse to borrowing”. But it is very important to use public debt in a productive manner as they have to be repaid along with interest. But the states often due to political and other reasons have expanded much beyond their means.. Often there have been diversions of borrowed money for financing non productive expenditures.

It was the view of the FC-IX that the problem with borrowed funds was due to use of borrowed funds for revenue expenditure, not being used efficiently and productively for capital expenditure so as to either earn returns or increase the productivity of the economy leading to higher government revenues.. The FC-XI observed that the determination of stable and sustainable levels of debt would depend on

i. The rate of growth of (nominal) GSDP
ii. The effective rate of interest on borrowing by the concerned state
iii. The rate of growth of revenue receipts
iv. The proportion of expenditure net of interest payment to GSDP that may be considered desirable.

The debt burden can be reduced by ensuring that

i. Incremental revenue receipts should meet the incremental interest burden and the incremental primary expenditure
ii. A surplus should be generated on revenue account to go into a sinking fund to meet the future repayment /obligation
iii. It Should have and maintain balance in its revenue account

In order to introduce an inbuilt mechanism for controlling public debt, the Twelfth Finance Commission had recommended the introduction of fiscal responsibility legislation (FRL) in the states. The FRBMA of Manipur says that the state will maintain a gross fiscal deficit of 3 percent of the GSDP. With this it is hoped that the states' debt would be sustainable. In the FC -XIII, states are required to bring debt-GDP ratio to less than 25 %.

All special category states i.e. Manipur, Nagaland, Sikkim and Uttarakhand with base fiscal deficit of less than 3 per cent ofGSDP in 2007-08 could incur a fiscaldeficit of 3 per cent in 2011-12 and maintain it thereafter. These states should reduce their fiscal deficit to 3 per cent ofGSDP by 2013-14

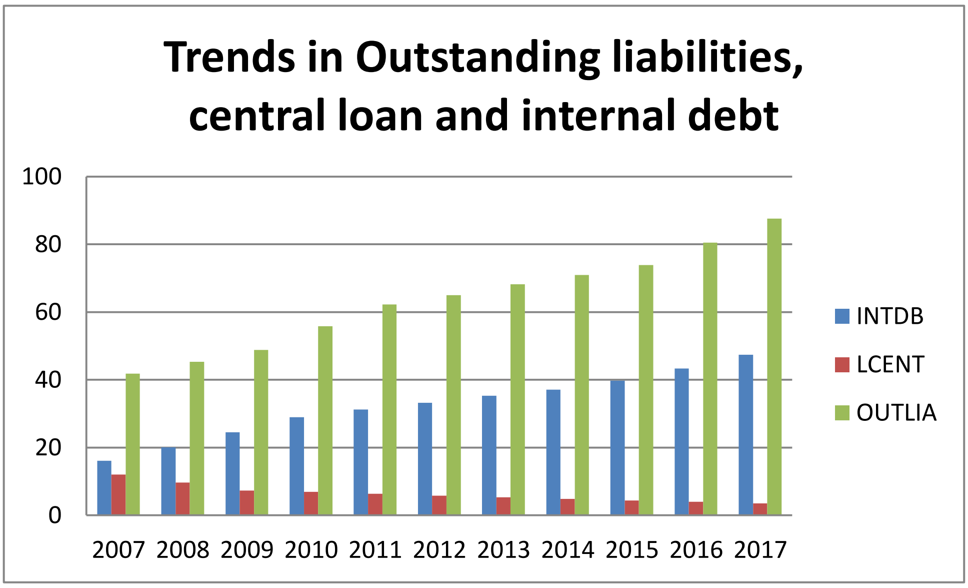
Composition of public debt

In India the state governments borrow money from various sources. As per the classification given in the Finance Accounts published by the CAG, Government of India, public debt can be divided into three groups:

1. Internal debt
    - Market loans
    - Loans from banks and other institutions
    - Ways and means advances from the RBI
2. Loans from the centre
3. Provident funds, etc.

Internal debt comprises of loans raised from the market, loans taken from banks and corporations like the LIC, NABARD, etc. and short term loans from the RBI. Central loans include loans taken from the centre for state plan schemes, centrally sponsored schemes, etc. Provident funds, etc. include state provident funds, small savings, etc. The outstanding liabilities (as on 31st March) of the state has slowly risen from ₹ 41.85 billion in 2007 to ₹87.6 billion in 2017 (Fig.5.1).

Fig.5.1: Outstanding liabilities of Manipur (₹ billion)

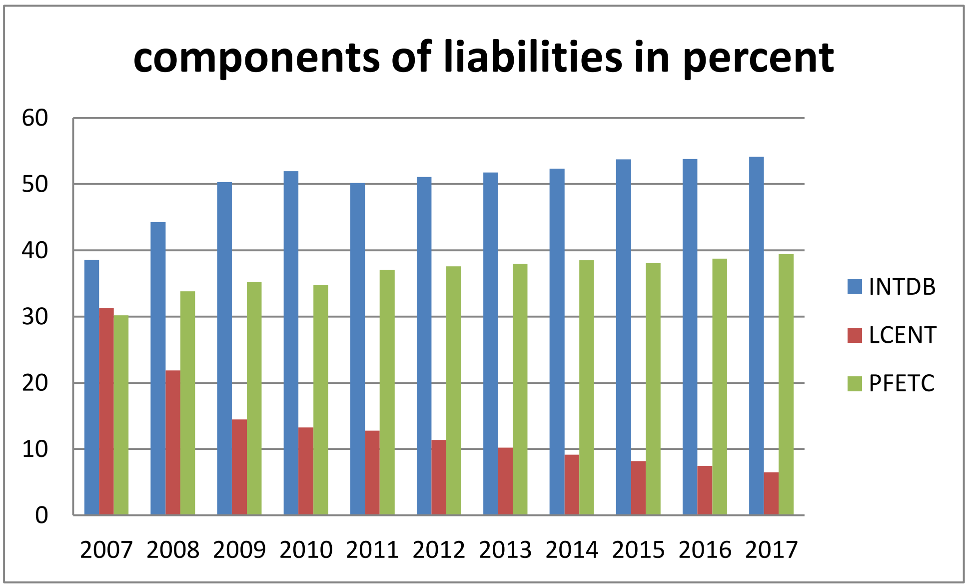


Note: INTDB Internal debt LCENT Loan from the centre

OUTLIA Outstanding liabilities

As far as the composition of the loans is concerned, the importance of central loans has gone down while that of internal debt and provident funds, etc. has gone up over the years. As on 31st March 2007, central loans were nearly 31.29 percent of the total outstanding liabilities but witnessed a gradual decline over the years falling to 6.47% in 2017. On the other hand the share of internal debt rose from 38.54 % in 2007 to 54.11% in2017. One important reason for this was the availability of cheaper loans in the market. The Twelfth Finance Commission (2004:231) suggested the states to take advantage of this and said "We feel that it would be appropriate for states to take advantage of the market rates and avoid the spread charged by the centre. We, therefore, recommend that in future, the central government should not act as an intermediary and allow the states to approach the market directly. If, however, some fiscally weak states are unable to raise funds from the market, the centre could resort to lending, but the interest rates should remain aligned to the marginal cost of borrowing of the states". Thus, from the year 2005-06 onwards the central government has started giving the states only the grant component of the central assistance for state plan schemes. It is expected that the loans from the centre will continue to fall while internal loans are expected to rise.

Fig.5.2: Components of liabilities



Note : INTDB Internal debt LCENT Loan from the centre PFETC Provident funds etc

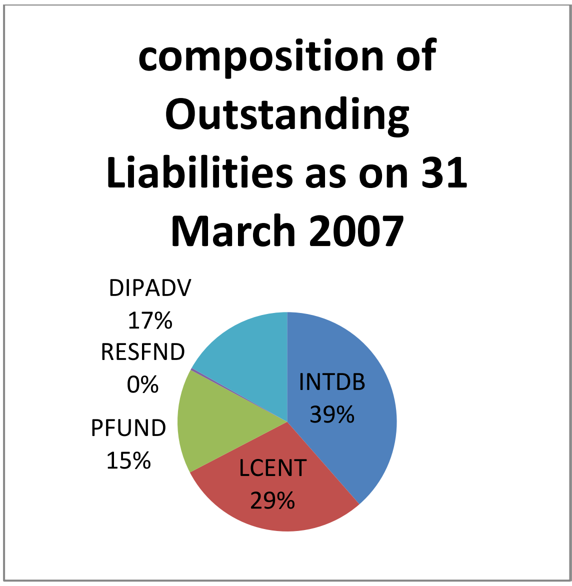
Table 5.1 shows the evolution of shares of the three components of Outstanding liabilities.

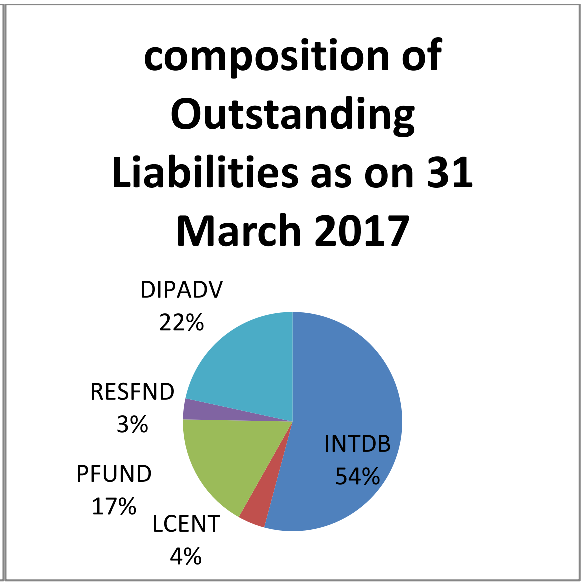
Table 5.1: Composition of outstanding liabilities of Manipur

(Percentage) (As on 31st March)

Year	Internal debt	Central loans	Provident funds, etc.
2007	38.54	31.29	30.17
2008	44.27	21.89	33.84
2009	50.3	14.49	35.21
2010	51.97	13.28	34.75
2011	50.16	12.76	37.08
2012	51.08	11.36	37.57
2013	51.76	10.24	38
2014	52.33	9.17	38.5
2015	53.72	8.19	38.09
2016	53.79	7.44	38.77
2017	54.11	6.47	39.42

Source: GOI, *Finance Accounts, GOM* (various issues)





It shows the growing importance of internal debt and falling importance of loans from the centre over the years. SDLs constitute the major share of internal debt with its share rising from 53.81% as on 31 March 2007 to 78.48% on 31 March 2017.

Table 5.2: Share of SDLs in Internal debt

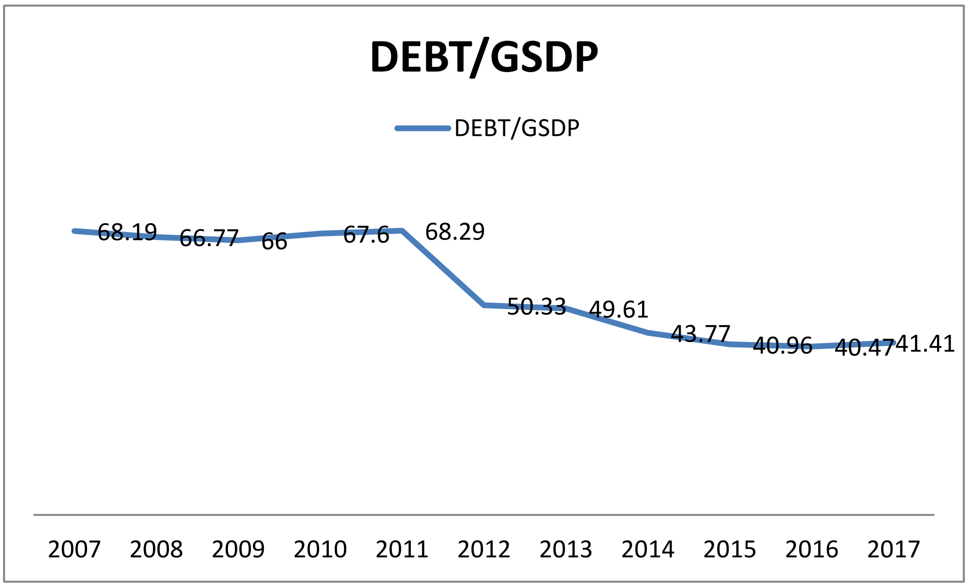
	SDLs	INTDB	SDLs/INTDB
2007	8.68	16.13	53.81277
2008	10.78	20.05	53.76559
2009	13.42	24.56	54.64169
2010	18	29	62.06897
2011	20.3	31.2	65.0641
2012	21.2	33.2	63.85542
2013	23.2	35.3	65.72238
2014	26.2	37.1	70.61995
2015	29.7	39.7	74.81108
2016	33	43.3	76.21247
2017	37.2	47.4	78.48101
CAGR	14.14	10.30	

Assessment of State Government Debt:

An assessment of the debt position of State Governments depends not only on the absolute level of its outstanding liability but also the various indicators which determine the sustainability of the debt. The high burden of interest payments tends to widen the revenue deficit and in turn, the GFD. Consequently, a vicious circle of deficit, debt and interest payments gets created in the State finances. The Second Finance Commission was the first to address the issue of State debt while from the Sixth Commission onwards State debt has been a terms of reference. With an estimate of the States 'debt position, the TFC has recommended targets on two of such indicators *viz.*; the ratios of IP-RR and debt-GDP. The targets to be achieved by 2009-10 for IP-RR is 15.0 per cent and debt-GDP being 30.8 per cent. In this write up it has been proposed that debt and liabilities be considered synonymous. Accordingly, all borrowings which are repayable and on which interest accrues are recommended to be considered as debt.

It is not possible for the state to generate own funds to repay loans as evident from the fact that the share of outstanding loans constituted about 68 percent of the GSDP in 2007 which fell to 41.41% in 2017.

Fig.5. 3: Debt GSDP ratio (percentage)



. But this does not mean the state would be in financial trouble as much of her funds come from the centre.Accumulation of debt reflects the outcome of state government's fiscal operations on the revenue and expenditure sides of the budgets. If expenditure, whether committed or discretionary, exceeds revenues – tax and non-tax – the excess can only be financed through fresh borrowings. If the mismatch in the growth of revenues and expenditure is of a temporary nature, borrowing provides a mechanism by which the gap between the two is bridged. However, if the mismatch persists over a long period and grows in volume, with the increase in revenue receipts turning out to be inadequate to cover the interest liabilities that are required to service the debt, it leads to growing revenue and fiscal deficits. This, in turn, results in unsustainable debt. The sustainable level of fiscal deficits can be derived with reference to three key parameters: growth rate, ratio of revenue receipts to GDP/GSDP and the interest rate on borrowings. The existing level of debt-GDP ratio is also quite material in the context of fiscal sustainability. Fiscal sustainability requires that a rise in fiscal deficit is matched by a rise in the capacity to service the increased debt.

Borrowing channels for a state are many, with most of these channels being controlled by the centre. Market borrowings, the most important of these channels, are controlled by the centre and managed by the Reserve Bank. States may not, without the consent of the central government, raise any loan if they are indebted to the central government (Article 293). The Reserve Bank manages the domestic borrowings of 28 states through separate agreements with each of them. Cost minimisation with minimum roll over risk remains a key objective in the management of states' market borrowings. The state governments issue dated securities, termed state development loans (SDLs), of varying tenures. As a debt manager of the states, the Reserve Bank initially underwrote states' borrowings, but with development of financial market, banks and financial institutions have been subscribing directly to these securities floated through a process managed by the Reserve Bank. The method of issuance of market loans has, however, migrated from the administratively controlled system to an auction based system for all the states since 2006-07.

Sustainability of Debt:

Debt sustainability is defined as a level of indebtedness that does not generate payment difficulties and therefore is linked to the ability of the government to service its debt. There is no internationally established threshold for assessing the sustainability of debt. It is monitored in terms of credit worthiness (solvency) indicators (nominal debt stock/ own current revenue ratio, present value of debt service/own current revenue ratio);and liquidity indicators (debt service/current revenue ratio and interest payment/current revenue ratio). These indicators broadly enable an assessment of the ability of governments to service interest payments and repay debt as and when it becomes due through current and regular sources of revenues.

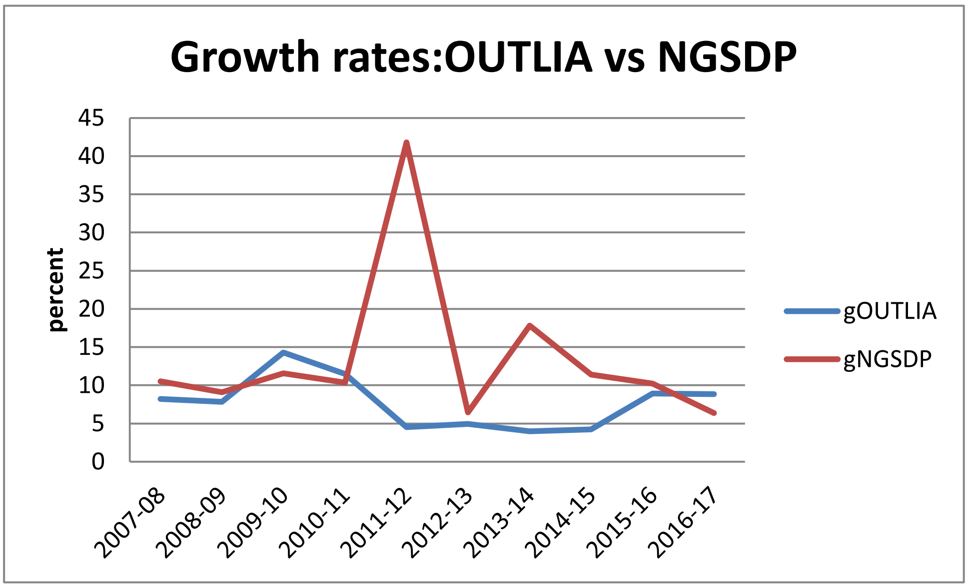
Fiscal and debt sustainability are inter-related; the latter has assumed significance with the adoption of debt rules as part of a fiscal rules framework. Apart from examining debt sustainability in a static framework, empirical studies have also analysed this issue taking into account the uncertainties about medium-term projections of economic growth, primary balance, cost of public sector borrowings and existence of implicit guarantees, and fiscal reaction functions incorporating dynamic properties of fiscal policymaking. In the Indian context, the debt situation of state governments has transited from a phase of unsustainable debt levels and increasing interest burden to a phase of fiscal consolidation and moderation in debt levels. The improvement in terms of sustainability indicators in the fiscal consolidation phase reflects the adherence to fiscal rules, including a phased reduction in debt levels, even though it was also backed by policy measures *viz.*, debt restructuring/ consolidation and relief measures.

Indicators of debt sustainability are as follows:

1. Rate of nominal growth of GSDP (Y) should be more than rate of growth of debt(D).
2. Real output growth (y) should be higher than real interest rate(r).
3. interest burden defined by interest payments (INT) to GSDP ratio should decline over time INT/GSDP↓↓
4. Interest payments as a proportion of revenue expenditure should decline over time INT/RE↓↓
5. Interest payments as a proportion of revenue receipts(RR) should fall over time INT/RR↓↓

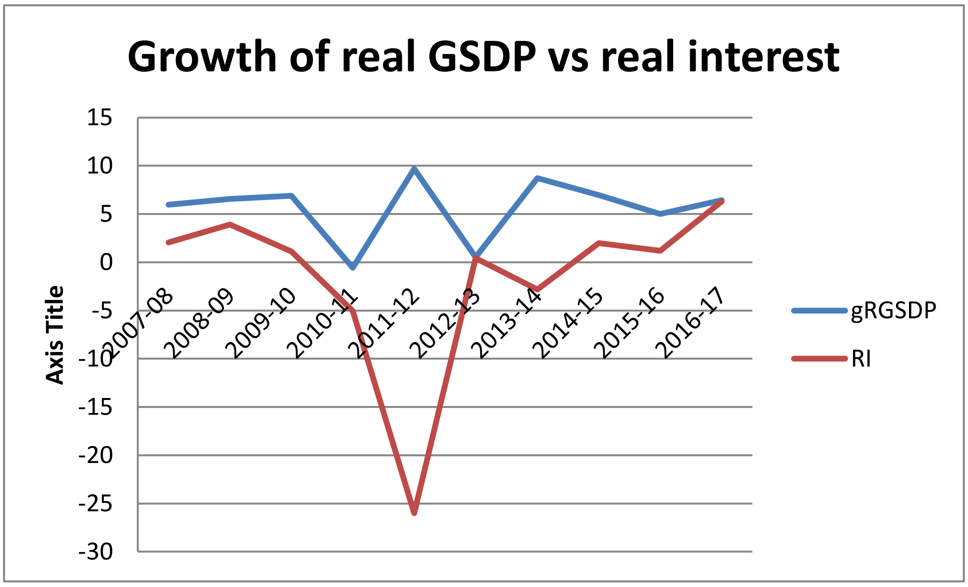
The sustainability of Manipur’s debt would be examined using the pattern anticipated of these indicators:

Fig.5.4: Growth profiles of Outstanding liabilities and nominal GSDP



Note: OUTLIA Outstanding liabilities NGSDP Gross State Domestic Product at current prices. Real interest rate is calculated as average interest rate (on outstanding debt) minus difference between growth of nominal GSDP and real GSDP (at 2011-12 prices).Real output growth rate has been higher than real interest rate for most of the period.

Fig.5.5: Growth profile of real GSDP and Real interest



Note: gRGSDP Growth rate of Gross State Domestic Product at 2011-12 prices RI Real interest rate INTR/GSDP, INTR/RR and INTR/RE show a declining trend throughout. These indicators show that there seems to have been an improvement in the sustainability of debt.

Fig.5.6: Sustainability of Debt

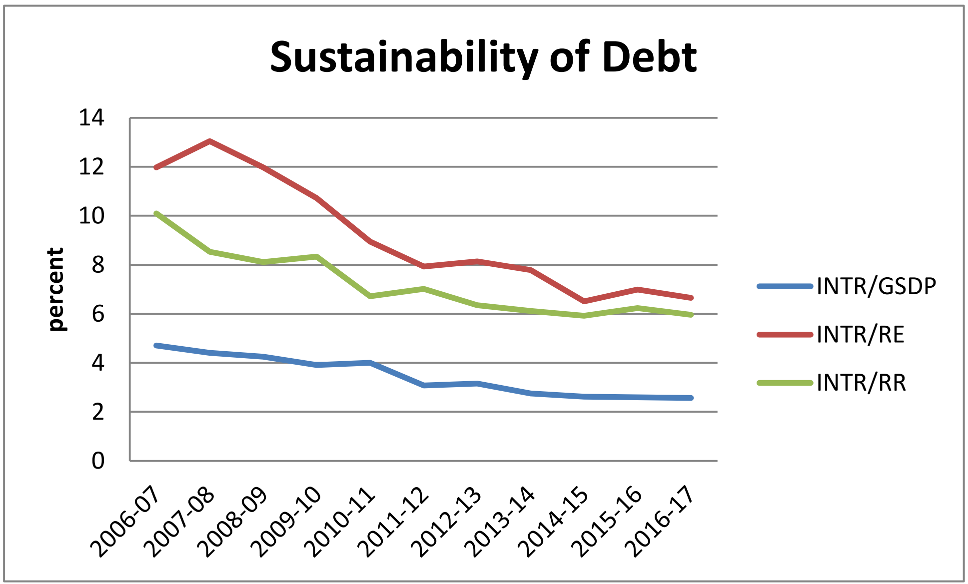


Table 5.3: Real interest rate

	GSDP at current price	GSDP at constant price 2011-12	Outstanding liabilities	Interest paid	Average interest rate	Growth of GSDP at current price	Growth of GSDP at constant price	Real interest rate
2006-07	6137	9814	4185	289	6.91			
2007-08	6783	10399	4529	299	6.6	10.53	5.96	2.04
2008-09	7399	11081	4883	314	6.43	9.08	6.56	3.91
2009-10	8254	11845	5580	323	5.79	11.56	6.89	1.13
2010-11	9108	11776	6220	365	5.87	10.35	-0.58	-5.06
2011-12	12915	12915	6500	397	6.11	41.8	9.67	-26.02
2012-13	13748	12985	6820	433	6.35	6.45	0.54	0.44
2013-14	16198	14116	7090	445	6.28	17.82	8.71	-2.83
2014-15	18043	15100	7390	473	6.4	11.39	6.97	1.98
2015-16	19890	15856	8050	516	6.41	10.24	5.01	1.18
2016-17	21154	16876	8760	544	6.21	6.35	6.43	6.29

Thus though the debt to GSDP ratio has been high it is not unsustainable.

Table 5.4 : Composition of Outstanding Liabilities

composition of outstanding liabilities ₹billion as on 31 March

	SDLs	PB	NSSF	LIC	NABARD	NCDC	OTH	BANKFI	INTDB
2007	8.68	1.41	4.81	0.08	0.1	0.17	0.88	1.23	16.13
2008	10.78	1.26	6.81	0.08	0.14	0.14	0.84	1.2	20.05
2009	13.42	1.18	8.8	0.08	0.14	0.11	0.83	1.16	24.56
2010	18	1	8.8	0.1	0.2	0.1	0.8	1.2	29
2011	20.3	0.8	8.7	0.1	0.5	0.1	0.9	1.5	31.2
2012	21.2	0.6	8.6	0.1	0.9	0.1	0.8	1.9	33.2
2013	23.2	0.5	8.4	0.1	1.4	0.1	0.8	2.3	35.3
2014	26.2	0.4	8.2	0.1	1.5	0.1	0.7	2.3	37.1
2015	29.7	0.2	8.1	0.1	1.4	0.1	0.3	1.8	39.7
2016	33		8.1	0.1	1.9	0.1	0.2	2.1	43.3
2017	37.2		7.7	0.1	2.3	0.1		2.5	47.4

	LCENT	PFUND	RESFND	DIPADV	OUTLIA
2007	12.06	6.48	0.14	7.04	41.85
2008	9.69	7.01	0.18	8.37	45.29
2009	7.29	7.53	0.23	9.21	48.83
2010	6.9	8	0.5	11.5	55.8
2011	6.4	8.4	0.8	15.3	62.2
2012	5.8	10.8	1.1	14.2	65
2013	5.3	12.1	1.6	13.8	68.2
2014	4.8	13.1	2.1	13.7	70.9
2015	4.4	14	2.7	13	73.9
2016	4	14.5	2.7	16	80.5
2017	3.5	15	2.7	18.9	87.6

Notes:

SDLs	state Development Loans	BANKFI	Loans from banks & financial institutions
PB	Power bonds	INTDB	Internal debt
NSSF	National small savings fund	LCENT	Loans from the Centre
LIC	Loan from Life Insurance Corporation	PFUND	provident fund
NABARD	Loan from NABARD	RESFND	Reserve Fund
NCDC	Loan from NCDC	DIPADV	Deposit and Advances
OTH	Loans from other institutions	OUTLIA	outstanding liabilities

Chapter 6: Impact of Power Sector Reforms

Electricity is in the concurrent list in the constitution. The primary responsibility of structuring its availability and distribution is that of the state. It was in 1930 that electricity was introduced in the state when two micro hydel stations having capacities of 100kw and 56kw were commissioned at Leimakhong. It catered to the needs of Palace compound and main bazar area of Imphal. It was controlled by Manipur State Hydro Electricity Board. It was then transferred to PWD, Govt. of Manipur. It started functioning independently as the Electricity department, Govt. of Manipur since February, 1970. A substation was commissioned at Yurembam in December 1981 to purchase power from Assam. LoktakHydel Electric project of capacity 3X35 MW was commissioned in 1984. Every central sector power project commissioned in the region earmarks a share of 7% for Manipur. With effect from 1 st Feb.,2014 the Electricity department was restructured into two state owned functionally independent companies, the Manipur State Power Distribution Company Limited (MSPDCL) responsible for distribution and the Manipur State Power Company Limited (MSPCL) responsible for transmission function. Manipur State Power Company Limited and the Manipur State Power Distribution Company Limited and had become fully functional from 1 April 2014.

Manipur has been perennially short of power. The power supply in Manipur depends entirely on the share of power allocated from the central sector plants such as Loktak Hydro electric plant, Kopili-Khandong Hydro electric plant, Assam Gas based power plant at Kathalguri and Agartala Gas Turbine power plant, Meghalaya State Electricity Board, Ranganadi Hydro Electric Plant and Doyang Hydro electric plant in Arunachal pradesh.The established potential is 2000 MW of hydro power. There is no proven reserve of coal or gas. Till 1980 the demand for electricity remained suppressed and the scenario changed with the beginning of bulk purchase of power from Assam in December 1981 when the 132/33 kv substation was commissioned at Yurembam. The installed capacity is 105 MW in Loktak Hydroelectric project (commissioned on Aug.4 ,1984). A 6x6 MW heavy fuel based power project at Leimakhong was commissioned on 5th Oct. 2002. It is in standby mode. The cost of generation from this unit is extremely high.

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Table 6.1 :Distribution system of Manipur (FY 2015)

Particulars	Unit	FY 2015
Consumers	lakh	2.8
Peak demand	MW	150
Energy availability	MU	678
33/11 KV S/s	Nos.	59
DTR	MVA	469
HT Line	kms	1221
LT Line	Kms	7498

Source : CRISIL 24X7 power For All(Manipur) p-23

24x7 Power for All is a Joint Initiative of Government of India (GoI) and State governments with the objective to provide 24x7 power to all households, industries, commercial consumers, public needs & any other electricity consuming entities and adequate power to agriculture farm holdings as per the policy of State government by FY 2018-19.

As per census 2011, there are 2379 villages in the state of Manipur. As on March 2016, 2178 villages have been electrified leaving a balance of 201 un-electrified villages in the state. Energy requirement of Manipur during FY 2015 was 705 MU with 3.8% of deficit. As per the 19^{th} electric power survey forecast the total demand of energy will be 754, 1121, 2060, 2249 MU in 2016-17, 2020-21,2025-26 and 2026-27. The state currently provides on an average 20 hours of power supply in urban areas to domestic consumers and 16-18 hours in rural areas. The average daily consumption of registered rural and urban domestic consumers was 1.00 kWh and 2.3 KWh in FY 2015.

The power supply in Manipur depends entirely on the share of power allocated from central sector power plants like Loktakhydro electric project, Kopili -Khandong HE project, Assam gas based power project at Kathalguri and Agartala gas turbine power project at Ramchandranagar, eastern regional electricity board, Meghalaya state electricity board, Ranganadi HE project and Doyeng HE project. During 1984 to 1996 a number of central sector power projects were commissioned in the north eastern region. Every project has earmarked a share of about 7% for Manipur. It has adequate quantity of power during the rainy seasons. It is different in the dry lean seasons. However Manipur has been experiencing an inordinately high transmission & distribution loss.

The electricity act 2003 addresses some of the core issues that affect this sector. The pathetic state of financé of electricity department also affected the progress in expansion of power supply and introduction of market reforms.

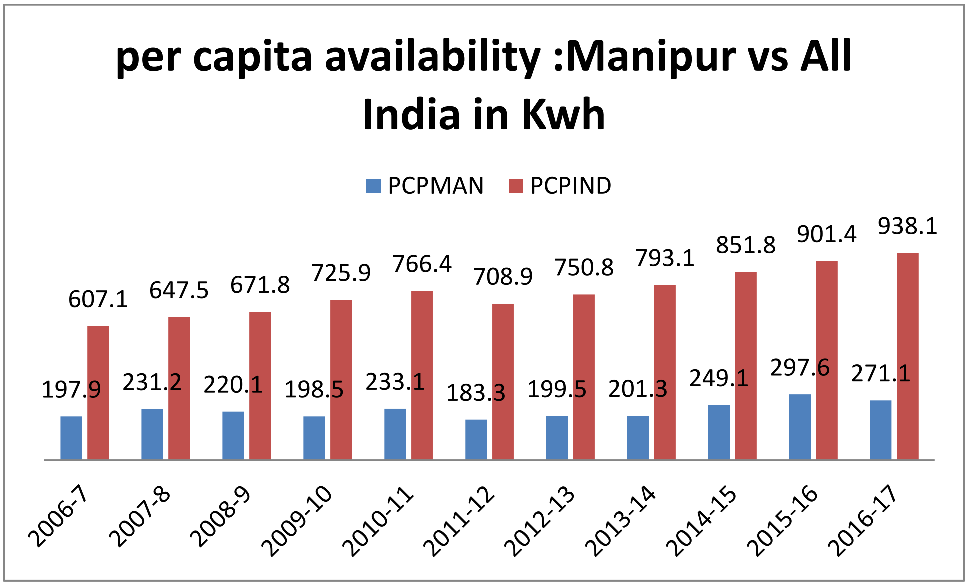
Table 6.2: Per Capita energy consumption

	PCPMAN	PCPIND	AVAIL	REQD
2006-7	197.9	607.1	429	451
2007-8	231.2	647.5	501	530
2008-9	220.1	671.8	477	556
2009-10	198.5	725.9	430	524
2010-11	233.1	766.4	505	568
2011-12	183.3	708.9	499	544
2012-13	199.5	750.8	543	574
2013-14	201.3	793.1	548	579
2014-15	249.1	851.8	678	705
2015-16	297.6	901.4	810	840
2016-17	271.1	938.1	738	764

PCPMAN per capita availability of power in Manipur in Kwh

PCPIND Per capita availability of power in India in Kwh
AVAIL Availability of power in Manipur in Million Units Net.
REQD Requirement of power
Source : RBI State Handbook 2018

Fig 6.3 : Per Capita availability of power: Manipur vs All India



As on 30.4.2017 only 72.37% of the rural households were electrified.

On 28 April 2018 Leisang , a nondescript village in Kangpokpi district 77 km away from Imphal became the last village in India to be ‘electrified’ through a tweet by the Prime

Minister under the Deendayal Upadhyaya Gram JyotiYojana (DDUGJY) . In 2011 Leisang village had 12 families with 65 people.Leisang would manage with solar lights, or through power sourced from generators, brought across the border from Myanmar. A village is said to be electrified if at least 10% of its households, as well as public places such as schools, panchayat offices and health centres have access to electricity.

Some of the electrification challenges faced by the state are as follows

1. Dearth of local contractors who can take up large scale works on EPC basis
2. Weak Financial Status of DISCOM who are not in a sound position to mobilize counterpart funding or invest in backend infrastructure
3. Lack of skilled manpower
4. High cost of material due to remote locations

Prepaid metering plan:

Manipur has successfully introduced the prepaid metering system. The MSPDCL has planned to cover all its consumers in valley areas along with District Headquarters in Hilly areas with prepaid meters to cover its 85% to 90% consumers under this plan. Installation of prepaid metering will help MSPDCL in reducing its AT&C losses and improve its realization. Some of the improvements that MSPDCL has observed while implementing prepaid metering are:

1. Drastic reduction in load demand
2. Improved Quality of power
3. Multi fold increase in revenue collection
4. 100% consumers satisfaction service delivery achieved
5. 100% collection efficiency and billing efficiency for prepaid consumers
6. Lower pilferage

Table 6.4:No. of consumers by categories in Manipur, 2016-17

	category	No. of consumer
1	Kutirjyoti	11783
2	Domestic	399420
3	Commercial	23842
4	Public lighting	56
5	Water works	
6	Irrigation/Agricultural	21
7	Industrial	458
8	Temporary	
9	Public water works	152
10	Medium industry	45
11	Large industry	16
12	Bulk supply	597

Source : Manipur State Power Company Limited Annual Administrative Report , 2016-17

Aggregate technical and non technical or commercial (AT&C) loss is a measure of loss. It is the actual measure of overall efficiency of the distribution business as it measures both technical and commercial loss. AT& C loss = [(Energy input-energy realized)]/ Energy input *100

The technical losses are non consumable whereas non technical losses are the unaccounted but consumed energy. The latter is also known as T&D loss. T&D loss is the difference between energy available at transmission and sub transmission system and energy sold. It is calculated as =1 - (energy sold as percent of energy available at transmission and sub transmission system)

It however does not capture the major gap between the billing and the collection of bills. Technical losses are inherent in a system and can be reduced to an optimum level. The level of T&D loss in the electricity department of Manipur declined from 53.5%' in 2006-7 to 41% in 2014-15.

Table 6.5: T&D loss ;Manipur

Year	T&D loss percent MANIPUR
2006-7	53.5
2007-8	63.6
2008-9	63.4
2009-10	54.7
2010-11	50.9
2011-12	40.5
2012-13	35.1
2013-14	38.5
2014-15	41.0

Source: Handbook of State Statistics; NITI Aayog

The main reasons for the technical loss are overloading of existing lines and substations, absence of upgradation of old lines and equipments, low HT:LT ratio, poor repair and maintenance of equipments and non installation of capacitors for power factor correction. The heavy T&D loss was due to low metering status, low billing and collection efficiency, low accountability of employees and corruption, lack of energy audit and lack of feeder, transformer and substation metering.

What happens in the power sector matters for the overall fiscal health of the state? The nature of revenue account balance would have been better with a performing power department. Table 6.6 and 6.7 show how important the performance of the power sector has been in determining fiscal balance.

Table 6.6: Revenue account of power sector (₹ crore)

	Receipt	Disbursement	Rev deficit power
2006-7	40.24	430.74	390.5
2007-8	62.29	154.25	91.96
2008-9	88.28	185.33	97.05
2009-10	104.07	164.67	60.6
2010-11	88.29	206.06	117.77
2011-12	97.12	253.18	156.06
2012-13	106.83	315.66	208.83
2013-14	96.23	321.13	224.9
2014-15	0.1	450.04	449.94
2015-16	0.01	623.46	623.45
2016-17	0.13	745.73	745.6

Source : Finance Accounts, GOM

Fig 6.4: power sector revenue deficit

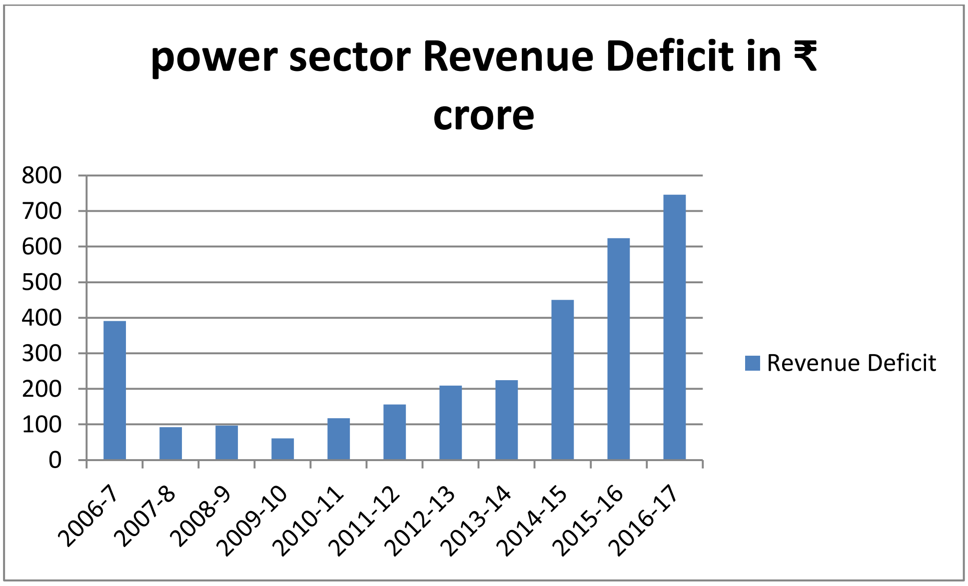


Table 6.7: Fiscal balance and Revenue deficit in power sector

year	Gross Fiscal Deficit	Revenue surplus	Revenue deficit in power sector
2006-07	475	408	390.5
2007-08	102	1216	91.96
2008-09	217	1250	97.05
2009-10	733	859	60.6
2010-11	569	1352	117.77
2011-12	1047	647	156.06
2012-13	2.25	1503	208.83
2013-14	273.3	1564	224.9
2014-15	600.49	731	449.94
2015-16	339.32	898	623.45
2016-17	548.02	944	745.6

Though the Electricity Act 2003 has been in operation, its provisions have not been used judiciously to tackle the problems of this department. Reports after report of CAA&G confirm this laxity on the part of the department.

Subsection 2 of section 56 of electricity Act, 2003 provides that no sum due from a consumer can be recovered after a lapse of 2 years from the date when such sum first became due unless it has been continuously shown as recoverable as arrears of electricity supplied. It also provides that the licensee (Generator Company) shall not cut off the supply of electricity in such cases. However this was blatantly flouted by the department who routinely cut off the power supply. The department failed to communicate the fact of arrears to the consumer and did not recover the outstanding amount within the prescribed period of 2 years of their becoming due. This led to a loss of Rs 5.50 crore in 2008 as the amount became irrecoverable. This was pointed out in CAAG report 2008.The outstanding dues owed to all the categories of consumers in the state as on 31/3/2013 Rs 351.164 crore rising from Rs 72.5 crore in 2002.

Under section 152(1) of the Electricity Act 2003, an offence committed by any consumer or person who committed or who is reasonably suspected of having committed an offence of theft of electricity punishable under the Act, can be compounded on realisation of compounding fee of Rs 4000. Though the officials disconnected the unauthorised connections, no case was initiated against the offenders. Where any consumer fails to pay dues for energy charges in respect of supply of energy to him, such charge shall be recovered by suit or on application to a magistrate having jurisdiction thereof, by distress and sale of any moveable property belonging to such consumer. In the event of a corporation being liquidated the assets of the corporation shall be divided among the central and state government and such other parties, if any, proportionately after meeting the liabilities of the corporation. Manipur State Road transport Corporation (MSRTC) had an arrear of Rs 92.41 lakhs upto October, 2003. It was liquidated on November 1, 2003. However not only demand notices were issued in January 2004 and May 2006, the liquidated corporation continued to draw power as of November 2005. An additional arrear of Rs 35.89 lakh for the period Nov. 2003 to Nov. 2005 came up.

The electicity act 2003 has been in force since 10 June 2003. As per provisions of the Act, two special courts (electricity) namely the special court (electricity), Manipur east and the special court (electricity), Manipur West were constituted on 28 June 2004 to deal with the theft of electricity, tempering of meters etc and speedy trial of the offences. However judges and public prosecutors of these courts were appointed on 22.1.2011 only. It enabled the department to undertake special drives for disconnection of un authorised/illegal connections and consumers with heavy outstanding dues in all the districts both in the valley and hills.

Such instances show the laxity on the part of the department in implementing the provisions of the Act which led to loss of substantial revenue over the years.

To reduce these losses the state power department has taken up the following measures

i. Strengthening of transmission, sub transmission and distribution systems
ii. Providing of 100% metering of feeders, distribution transformers and consumers
iii. Providing of energy meters for ring fencing of 13 census towns
iv. Detection and disconnection of unauthorised consumers
v. Setting up of special courts and special police station for effective control of energy theft
vi. Introduction of computer billing and revenue collection system
vii. Introduction of pre payment meters.

viii. More focus on revenue collection

ix. Energy accounting and auditing at all voltage levels

x. Area wise fixation of responsibility for revenue collection.

There was a focused metering drive, provision of new electronic meters for consumers and outsourcing of meter reading and billing activities. There was a drive for detection of and disconnection of unauthorised consumers and spot collection of revenue. About one lakh electronic energy meters are being checked. The outstanding dues owed to different government departments have been collected at source. No dues certificate from electricity department has been made mandatory before issuing certificates etc. to general public by DC and for government employee at the time of preparing their pay bills. An incentive scheme for waiving 25% of the outstanding surcharge amount for the domestic consumers in case of one time clearance of their bills was launched to be effective from 1-1-2013.

Prepaid system has been successfully introduced in Paona Bazar and Thangal bazar in the heart of the city in 2012 leading to a quantum jump in revenue collection of this department. It is planned to cover more towns gradually.

Under the power reform programme central funds can be made available to the state for acceleration of implementation of sub transmission works as 10% loan and 90% grant. For availing of the benefits the state government signed a memorandum of agreement with Ministry of power, GOI and RBI in 2003. Corporatisation of the electricity department is one of the conditions of the agreement.

Since 1971 the power tariff has been revised ten times. In 1971 the average tariff rate for power was 36 paise / kwh. By 2002 it rose to Rs 3.15/kwh. The Tariff revision of 3.8.2002 raised the average tariff to Rs 3.15 per kwh , a 12.5% increase over the earlier average tariff rate.It remained unchanged till 21.3.2011 when the Joint regulatory Commission (Manipur & Mizoram) issued the first tariff order on 15.3.2011. it was further revised w.e.f. 1.9.2012.

Since the inception of the Commission, filing of tariff applications and approval of the tariff schedule by the commission for every year has become a mandatory exercise of the department and the commission.

The following table shows the comparative tariff in Domestic light & power segment which dominates the consumer base of power.

Table 6.8: comparative tariff structure in domestic and commercial light & power segment in 2015-16

	Domestic		commercial		
	Fixed charges(/kw/kVA/ month)	Energy charge (Rs/kwh)		Fixed charges(/ kw/kVA/month)	Energy charge (Rs/kwh)
first 100 units	60	Rs 2.90	0-100 kwh/month	Rs 80	Rs 3.90
Next 100 units	60	Rs 3.50	0-200 kwh/month	Rs 80	Rs 4.65
Above 200 units	60	Rs 4.40	Above kwh/month	Rs 80	Rs 5.50

MSPDCL serves about 2.59 lakhs consumers of various categories. In 2014-15 the number of consumers was 2.58 lakhs, out of 258484 service connections, 40977 connections are reportedly without metres. The duration of power supply to the rural are 10 to 16 hours a day while in urban and state capital is 24 hours a day, Since the companies have been restructured they should become financially sustainable and the dependency on state Government support needs to be phased out gradually through periodic tariff revisions.

The MSPDCL serves about 2,58,484 consumers as on 31.03.2015 in its licensed area and the consumers are categorized as under:

a) Kurtir Joyti(LT)
b) Domestic(LT)
c) Commercial(LT&HT)
d) Public Lighting(LT)
e) Agricultural(LT&HT)
f) Public water works(LT&HT)
g) Cottage & Small industry(LT)
h) Medium industry(HT)
i) Large industry(HT)
j) Bulk supply(HT)

Table 6.9: No. of consumers and connected load of MSPDCL

Category	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18	
	No. of Consumers	Connected Load (MW)	No. of Consumers	Connected Load (MW)	Projection of no. of Consumers	Projection of Conn. Load (MW)	Projection of no. of Consumers	Projection of Conn. Load (MW)
KutirJyoti	24,472	1,707	27,343	1,802	30,550	1,902	34,134	2,008
Domestic	218,090	315,816	243,674	330,492	272,260	348,855	304,198	368,237
Commercial	12,100	33,837	12,781	34,897	13,501	36,836	14,262	38,882
Public Lighting	469	1,016	457	1,027	446	1,084	435	1,144
Public Water-works	172	20,303	174	19,851	176	20,954	178	22,118
Agri& Irrigation	63	1,035	64	1,131	65	1,194	66	1,261
Cottage & Small Industries	2,308	16,404	2,609	16,914	2,950	17,853	3,335	18,845
Bulk	694	50,758	785	52,732	887	55,662	1,003	58,755
Temporary	12	75	5	54	2	57	1	61
Medium Industries	81	8,096	84	8,381	87	8,847	91	9,338
Large Industries	23	2433	29	2321	38	2449	48	2586
TOTAL	**258,484**	**451,479**	**288,006**	**469,602**	**320,962**	**495,694**	**357,751**	**523,235**

Table 6.10: Consumer category wise energy sales from FY 11-12 to FY 15-16 (Till Aug`15)

(MU)

Energy Sales	FY 11-12 Actuals	FY 12-13 Actuals	FY 13-14 Actuals	FY 14-15 Actuals	FY 15-16 (till Aug-15)
KurtiJyoti		7.94	12.50	12.69	5.35
Domestic	173.72	195.81	202.03	243.95	110.83
Commercial	27.20	30.82	34.39	35.83	16.63
Public lighting	4.08	4.78	5.49	4.40	1.70
Public water works	20.17	23.60	28.25	16.99	6.44
Agriculture & Irrigation	0.83	1.59	3.12	2.41	0.86
Cottage & Small Industries	14.48	17.24	14.86	18.13	6.99
Bulk	68.48	80.45	97.61	96.86	36.30
Temporary	1.10	0.54	0.09	0.03	0.00
Medium Industry	2.92	2.36	2.37	2.79	1.35
Large Industry	11.86	13.93	14.38	8.22	1.95
Total Energy Sales	**324.83**	**379.04**	**415.09**	**442.29**	**188.40**

Source: Tariff order Multi Year Aggregate Revenue Requirement for control period FY 2016-17 to FY 2017-18, JERC Mizoram & Manipur

Table 6.11 Energy balance approved by the Commission for FY 2016-17 and FY 2017-18

Sl. No	Particulars	Unit	Approved by the commission	
			FY 2016-17	FY 2017-18
A	**Energy Requirement**	**MU**		
1	Energy Sales	%	**707**	**831**
2	Distribution loss	MU	19.40%	18.40%
3	Distribution loss	MU	170.11	187.38
4	Energy Requirement	MU	877.17	1018.38
B	**Energy Availability**	**MU**		
5	Own Generation (Net)	MU	1.01	1.01
6	Power Purchase	MU	1055.56	1163.47
7	Less:External Losses	%	3.25%	3.25%
8	Less:External Losses	MU	34.31	37.81
9	Net enegy available at state periphery(5+6-8)	MU	1022.26	1126.67
10	Tr Loss 3.6%	MU	36.80	40.56
11	Energy Available for Distribution	MU	985.46	1086.11
12	Surplus (12-4)		108.29	67.73
13	Surplus grossed up by 3.6% for sale outside the state		112.33	70.26

Source :Tariff order Multi Year Aggregate Revenue Requirement for control period FY 2016-17 to FY 2017-18, JERC Mizoram & Manipur

Table 6.17: Power Purchase Cost of MSPDCL approved by the Commission for FY 2016-17

Source	Quantity of Power Purchased (MU)	Average Rate (Rs/kWh)	Power Purchase Cost (Rs. Cr)
NEEPCO(Hydro)			
Kopili I HEP	46.71	0.97	4.53
Kopili II HEP	5.80	1.84	1.07
Khandong HEP	9.32	2.64	2.46
Ranganadi HEP	92.36	2.96	27.34
Doyang HEP	15.41	4.33	6.67
New Projects			
Kameng HEP Stage I	6.04	2.55	1.54
Kameng HEP Stage II			
Pare HEP	8.59	2.55	2.19
Turial HEP			
Sub Total	**184.23**		**45.80**
NEEPCO(Gas Based)			
Assam Gas based Power Project	138.67	3.85	53.39
Agartala Gas Turbine Power Project	51.15	4.23	21.64

Source	Quantity of Power Purchased (MU)	Average Rate (Rs/kWh)	Power Purchase Cost (Rs. Cr)
Agartala Gas Turbine Power Project-EXT	20.68	4.23	8.75
New Projects			
Monarchak Gas Based Power Project	29.33	3.25	9.53
Sub Total	**239.83**		**93.30**
NHPC(Loktak HEP)			
Purchased (20.02 MW)	117.76	2.93	34.50
Free Power (12.60 MW)	74.12	0.00	0.00
Sub Total	**191.88**		**34.50**
TRIPURA			
Baramura(Gas Based)(Unit IV & Unit V)	82.59	3.01	24.86
New Projects			
OTPC- (Pallatana-Unit I)	152.98	2.74	41.92
OTPC- (Pallatana-Unit II)			
Sub Total	**235.57**		**66.78**
NTPC			
NTPC Bongaigaon Unit I	90.84	3.00	27.25
NTPC Bongaigaon Unit II	90.82	3.00	27.25
NTPC Bongaigaon Unit II	22.39	3.00	6.72
Sub Total	**204.05**		**61.22**
Renewable Solar			0.92
Non Solar			8.30
Total Power	**1055.56**		**310.82**

Table 6.21: Power Purchase Cost of MSPDCL approved by the Commission for FY 2016-17

Source	Quantity of Power Purchased (MU)	Average Rate (Rs/kWh)	Power Purchase Cost (Rs. Cr)
NEEPCO(Hydro)			
Kopili I HEP	46.71	0.97	4.53
Kopili II HEP	5.80	1.84	1.07
Khandong HEP	9.32	2.64	2.46
Ranganadi HEP	92.36	2.96	27.34
Doyang HEP	15.41	4.33	6.67
New Projects			
Kameng HEP Stage I	6.04	2.55	1.54
Kameng HEP Stage II			
Pare HEP	8.59	2.55	2.19
Turial HEP			
Sub Total	**184.23**		**45.80**

Source	Quantity of Power Purchased (MU)	Average Rate (Rs/kWh)	Power Purchase Cost (Rs. Cr)
NEEPCO(Gas Based)			
Assam Gas based Power Project	138.67	3.85	53.39
Agartala Gas Turbine Power Project	51.15	4.23	21.64
Agartala Gas Turbine Power Project-EXT	20.68	4.23	8.75
New Projects			
Monarchak Gas Based Power Project	29.33	3.25	9.53
Sub Total	**239.83**		**93.30**
NHPC(Loktak HEP)			
Purchased (20.02 MW)	117.76	2.93	34.50
Free Power (12.60 MW)	74.12	0.00	0.00
Sub Total	**191.88**		**34.50**
TRIPURA			
Baramura(Gas Based)(Unit IV & Unit V)	82.59	3.01	24.86
New Projects			
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Sub Total	**235.57**		**66.78**
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Sub Total	**204.05**		**61.22**
Renewable Solar			0.92
Non Solar			8.30
Total Power	**1055.56**		**310.82**

The state govt. has contributed Rs 24.9684 crore as equity share in the North East Transmission company for construction of 400 KV D/C Pallatana-Silchar-Bongaigaon trunk transmission system from the Pallatana Gas power project and Bongaigaon Thermal Power Project.

Under the power reforms programme joint electricity commission (Manipur& Mizoram) was set up with HQ at Aizawl on 18-1-2005 and the commission started functioning on 28 jan 2008. The state Advisory Committee also functions with members from different departments and organisations from different districts of the state

Under the power reform programme Joint Electricity regulatory Commission (JERC) (Manipur and Mizoram) was set up with hq at Aizawl,Mizoram vide Government of India gazette (extra ordinary) notification no.23/3/2002,R&R dated 18-01-2005 .. The commission JERC started functioning w.e.f.28.1.2008. The state advisory committee under notification from the commission is also functional with members from different departments and organisations from different districts of the state. Since the inception of the JERC filing of tariff application and approval of the tariff schedule by the JERC for every year has become mandatory activity of the department. The first tariff order of the commission was issued on 15/3/2011 which became effective w.e.f. 21/3/2011. The second tariff order was issued on 14.4.2012 and effective w.e.f. 1.9.2012

The government of Manipur appointed the Administrative Staff College of India(ASCI) ,Hyderabad on 19.1.2002 to provide consultancy services

- To assess the restructuring options for the power sector
- To recommend suitable regulatory system for the power sector
- For financial restructuring of the power sector
- For formulating an implementation programme

Broad terms of reference for the ASCI were as follows:

1. Review of the present configuration of the state's power sector and assess its likely evolution over the next 20 years
2. Identify and define the restructuring options that GOM should consider to implement for power sector reform
3. Review the existing institutional and regulatory framework governing power sector in Manipur
4. Study the required changes in the existing legislations/laws
5. Assess the demand for power supply in Manipur for the next 20 years, capacity planning, investment needs, pricing of electricity and financial restructuring of the power sector.
6. Formulate and implementation programme defining priority measures and strategies to implement the reform process.

The report was submitted in 2005-6.In July 2012 SBICAPS was engaged to provide advisory service as how to unbundle and restructure the electricity department of Manipur. Based on the recommendation of SBICAPS there was a cabinet decision on 14 feb.2013 to go ahead with unbundling the the department into two companies; 100% government owned Manipur sate power Company Ltd(MSPCL) for transmission and generational activities and Manipur State Power Distribution Company Ltd (MSPDCL) a subsidiary of MSPCL for managing distribution functions. Though the employees of the department resist this move, it is going to stay.

Energy conservation

Mass awareness programmes on energy conservation, like distribution of leaflets, display of wall posters and insertion of advertisement in newspapers on the dos and don’ts while using electricity national energy conservation day 14 Dec the state government also issued notices on proper utilisation of electricity like replacement of incandescent lamps with compact fluorescent lamps (CFL) etc at the office complexes. A workshop on “general awareness of energy conservation act 2001 and role of bureau of energy efficiency and state designated agencies’ and conservation of energy conservation day was held on 17 Dec 2008.

Thus some important measures for rationalising the operation of the power sector have been introduced affecting both supply and demand side. Though cynics dismiss this like the experience of corporatizing Manipur State Road Transport Corporation, it is like an idea whose time has finally arrived. The growing transparency in governance due to RTI Act will compel any authority to behave with responsibility. .

Table 6.9: Electricity consumed

Domestic	Electricity consumed in million Kwh		Percentage growth
	2007-8	2015-16	
Domestic	117.916	298.85	153.44
Commercial light & small power	12.693	39.84	213.87
Industrial	8.859	23.81	168.77
Street lighting	3.306	4.13	24.92
Irrigation & agriculture	0.094	1.78	1793.62
Public water work & sewage pumping	10.008	16.69	66.77
Bu;k supply	44.215	89.75	102.99
Villages electrified (in number)	1966	2220	12.92

Source: Statistical Handbook of Manipur 2017, GOM

Though Manipur has a fairly high hydro power potential, it has remained largely untapped due to financial and environmental bottlenecks. Manipur has a hydropower potential of 2200 MW as assessed by the Manipur State Power Corporation Ltd (MSPCL). Out of this potential 0nly Loktak Hydroelectric project under the central sector Loktak hydroelectric project with 105 MW capacity is operating. Manipur is getting around 38.4 MW power from Loktak hydroelectric project. Whenever the neighboring States surrender power, Manipur used to get greater share of power. Loktak downstream project which can produce 66 MW power has not yet been completed. Tipaimukh hydroelectric project will be able to produce 1500 MW. Being a poor state, Manipur has to get financial assistance from the centre to start implementation of the project after availing environmental clearance

Chapter 7: Resource Mobilisation & Expenditure management

Development and Resource mobilisation are intricately linked. Development caters to unlimited wants of the people and development goals cannot be attained without resources particularly in a backward economy where the state has to be a facilitator everywhere. The government is expected to provide electricity, drinking water, education, health etc. on the other hand contrary to the popular myth of the government with unlimited resources many a times the government is confronted with the challenge of choice with a prioritisation dictated by resource scarcity. In this context how resources are mobilised is an important issue. High tax rates may end up with less tax revenue due to compulsive evasion and avoidance by tax payers..it has to be calibrated in such a manner that it is progressive with the rich paying more than the poor. It should also not compromise the incentive for work. This chapter will examine resource mobilisation and expenditure management in Manipur during 2006-7 to 2016-17.

The resources of a state government consist of revenue and capital receipts. Revenue receipts consist of own tax revenues, own non tax revenues, state's share of union taxes and duties and grants in aid from the Government of India. Capital receipts consist of receipts from disinvestments, recoveries of loans & advances, market loans, borrowing from financial institutions/ commercial banks, loans and advances from GOI and accruals from public accounts. Central government transfers a significant volume of fund directly to the state implementing agencies such as project directors, DRDA for MGNREGA, Manipur state health society for national Rural health Mission etc. Any serious question on resource mobilisation in a small backward state like Manipur has to be more concerned with own resource mobilisation in terms of own tax revenue and own non tax revenue. Share of central taxes is decided by the Finance Commission every five year. Any such aggregate exercise is likely to miss out many subtle and unique exercises. The consolation is that our share has been rising. The other component i.e. grant-in-aid from the Centre is largely dependent on Centre's assessment of our needs and has many discretionary elements. Though its importance has declined substantially it still dominates the revenue receipts of the state. Why higher share of central taxes is preferred to higher grant-in-aid is while the later is tied with specific projects the former is untied giving the state government a chance to decide the best policy.

Revenue receipts:

Table 7.1: Revenue Receipts

	OTR	ONTR	CT	GIA	RR
2006-07	122	181	436	2124	2863
2007-08	147	165	550	2646	3508
2008-09	170	253	581	2868	3873
2009-10	196	240	598	2840	3873
2010-11	267	260	991	3912	5430
2011-12	368	312	1154	3820	5654
2012-13	333	232	1318	4937	6820
2013-14	473	261	1439	5111	7283
2014-15	517	184	1527	5771	7998
2015-16	550	149	3142	4438	8280
2016-17	587	165	3757	4621	9129
CAGR	15.35	-0.84	21.63	7.32	11.12

Notes: in ₹ crore OTR Own Tax Revenue ONTR Own Non Tax Revenue CT share in Union taxes & duties GIA Grant In Aid from Centre RR Revenue receipts

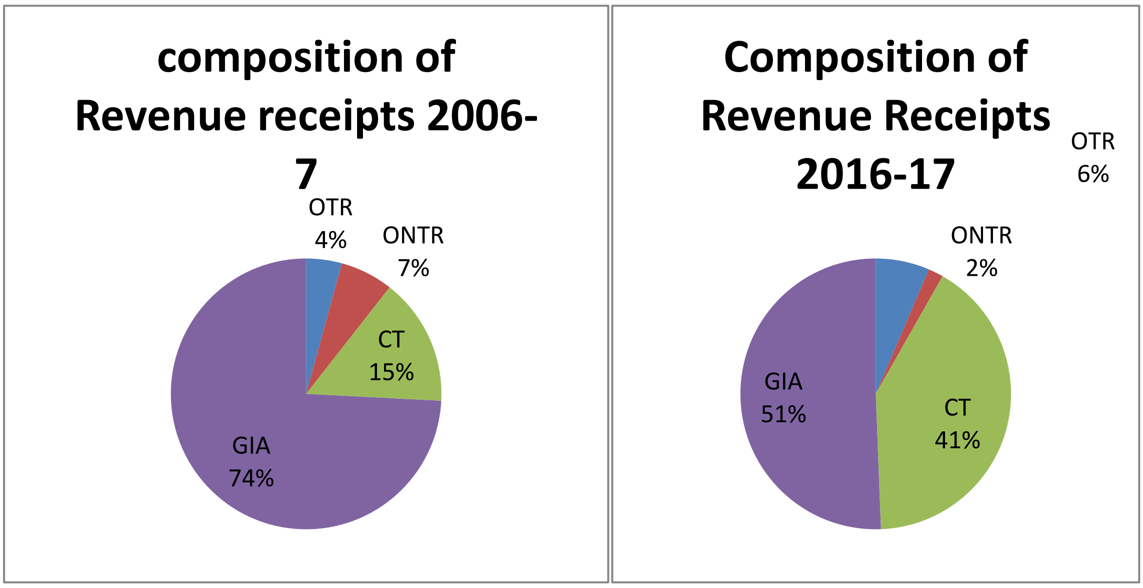
The state's share in central taxes & duties registered a CAGR of 21.63% while Own non tax revenue registered a decline. This rise is due to rise in share of states in every FC report.

Table 7.2: Changing share of Central taxes

Finance Commission	States share in Divisible Central taxes & Duties	Manipur's Share excluding service tax	Share of service tax
XII(2005-10)	30.5	0.362	0.367
XIII(2010-15)	32	0.450	0.458
XIV (2015-2020)	42	0.617	0.623

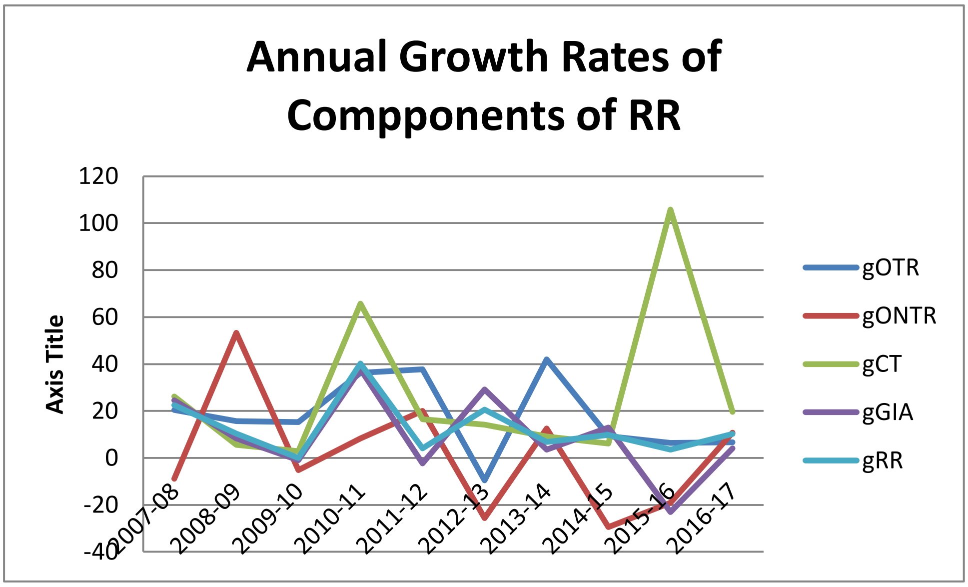
The share of grants from the centre declined from 74% in 2006-7 to 51% in 2016-17 while that of share of central taxes & duties rose from 15% to 41% during the same period. The share of own revenue in Revenue receipts marginally declined from 11% to 8 % .this should be attributed to ONTR whose share declined from 7 % to 2%.

Fig 7.1: Comparative Composition of Revenue Receipts



The following figure shows that ONTR component had several negative growth phases.

Fig.7.2 : Growth Rates of Components of Revenue Receipts



The beginning of the award period of the FC –XIV was accompanied by a sharp decline in grant- in- aid from the centre and a sharp rise in state share in central taxes .

Own Tax Revenue (OTR)

OTR consists of the following taxes

1. Taxes on professions, trades, callings and employment
2. Taxes on property and capital Transactions
   i. Land Revenue
   ii. Stamps and registration fees
   iii. Urban immovable property tax
3. Taxes on commodities and services
   i. Sales tax
      a. State sales tax/VAT
      b. Central sales tax
      c. Surcharge on sales tax
      d. Receipts of turnover tax
      e. Other receipts
   ii. State Excise
   iii. Taxes on vehicles
   iv. Taxes on Goods and passengers
   v. Taxes and duties on electricity
   vi. Entertainment tax
   vii. SGST
   viii. Other taxes and duties

Table 7.3: Components of Own Tax Revenue in ₹ crore

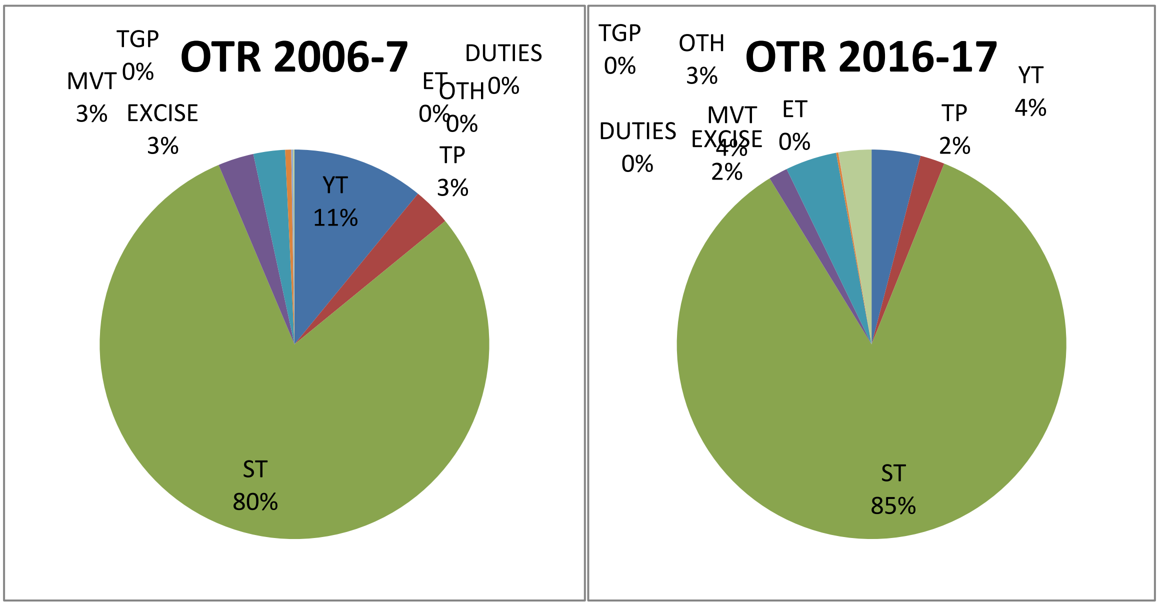
	YT	TP	ST	EXCISE	MVT	TGP	DUTIES	ET	OTH
2006-7	13.28	3.84	96.64	3.62	3.19	0.6	0.19	0	0.14
2007-8	14.72	3.68	120.75	3.75	3.57	0.76	0	0	0.18
2008-9	15.46	4.1	141.38	3.91	4.03	0.79	0.39	0.1	0
2009-10	17.63	5.63	163.28	4.7	4.35	0.81	0.01	0.728	0
2010-11	18.77	4.86	227.57	6.61	4.44	0.9	0	0	3.9
2011-12	21.6	5.66	296.92	9.8	13.21	1.4	0.34	0	19.14
2012-13	23.35	7.22	258.52	9.94	15.83	1.43	0.04	0	16.5
2013-14	24.88	9.02	395.74	9.2	18.73	1.24	0.05	13.87	
2014-15	23.27	9.17	433.33	9.32	20.77	1.2	0	19.77	
2015-16	23.22	13.04	466.51	8.78	23.29	1.02	0	0	14.56
2016-17	23.77	11.94	499.65	9.32	25.04	1	0.01	0.15	15.96

Note: in ₹crore .YT Income tax TP taxes on property and capital transaction ST/VAT sales tax Excise Excise tax, MVT Motor vehicle tax TGP Tax on Goods and Passengers DUTIES Duties on electricity ET Entertainment tax

Source: Finance Accounts, GOM

Sales tax/VAT has remained the main constituent of OTR. Its share in OTR rose from 80% in 2006-7 to 85% in 2016-17. The share of Excise duties can be raised substantially if prohibition is lifted.

Fig.7.3 : Structure of OTR



The subsector with highest elasticity is tax on vehicles. It is anticipated as more vehicles are demanded and subsequently purchased when we are better off. The high elasticity of sales tax also reflects the positive association between higher number of cars and prosperity.Manipur Legislative Assembly passed the Motor Vehicle Taxation Amendment Bill 2011 which on becoming an Act is expected to fetch an annual revenue of Rs 12 crores to the State exchequer. The Manipur Motor Vehicles Taxation (Amendment) Bill 2011 passed by the state assembly has been approved by the Governor. In 2016-17 the revenue from motor vehicles rose to ₹25crores.

Table 7.4: GSDP – Elasticity of OTR & its Constituents

Variable	Estimate of elasticity	t statistic
ST	1.252	16.52
LR	0.743	4.41
STRG	1.035	13.088
TV	1.864	17.835
ET	0.857	6.716
OTIE	0.463	8.758
OTR	1.231	19.51

Note: log(y) = a +b log(X) ; b measures the elasticity with respect to X.

It seeks to levy ‘green tax’ @ 5% of the value of the vehicle on commercial and private vehicles that have passed the standard operational limit of 15 years and is considered a pollutant. 30 percent of the vehicles currently plying on the roads of Manipur are estimated to be over 15 years old.The income thus generated will be used in pollution control measures including greenery. For a vehicle in the range of Rs 3 lakh the tax amount would be calculated at the rate of 3 percent with 4 % tax to be levied against vehicle worth Rs 6 lakh whereas it would be 5 pc for vehicle purchased at Rs 10 lakhs, , 6 per cent for those priced up to Rs 15 lakhs, 7 per cent for those priced up to Rs 20 lakhs and 8 per cent for jeeps/cars that are priced above Rs 20 lakhs.

Under the new Act, annual permit fees and taxes for commercial vehicles would be increased by 100 per cent. Similarly, annual tax and permit fee for goods carrier vehicles would be raised by 100 per cent. Unlike the earlier practice where people could choose registration numbers of their vehicles without any fee, the new tax regime would charge certain amount for choosing registration number of one’s like.

Motor vehicle taxes are no longer paid annually. New vehicles pay tax for 15 years at the time of registration.

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Own non tax revenue

A state’s typical own non tax revenue consists of

7. Interest receipts
8. Dividends and profits
9. General services (includes state lotteries)
10. Social services
    - x. Education, sports, Arts and Culture
    - xi. Medical and Public health
    - xii. Family welfare
    - xiii. Housing
    - xiv. Urban development
    - xv. Labour and Employment
    - xvi. Social security and welfare
    - xvii. Water supply and sanitation
    - xviii. Others

11. Fiscal services
12. Economic Services
    - xviii. Crop Husbandry
    - xix. Animal Husbandry
    - xx. Fisheries
    - xxi. Forestry and wildlife
    - xxii. Plantations
    - xxiii. Co-operation
    - xxiv. Other agricultural programmes
    - xxv. Major and medium irrigation projects
    - xxvi. Minor irrigation
    - xxvii. Power
    - xxviii. Petroleum
    - xxix. Village and small industries
    - xxx. Industries
    - xxxi. Ports and light houses
    - xxxii. Road transport
    - xxxiii. Tourism
    - xxxiv. Others

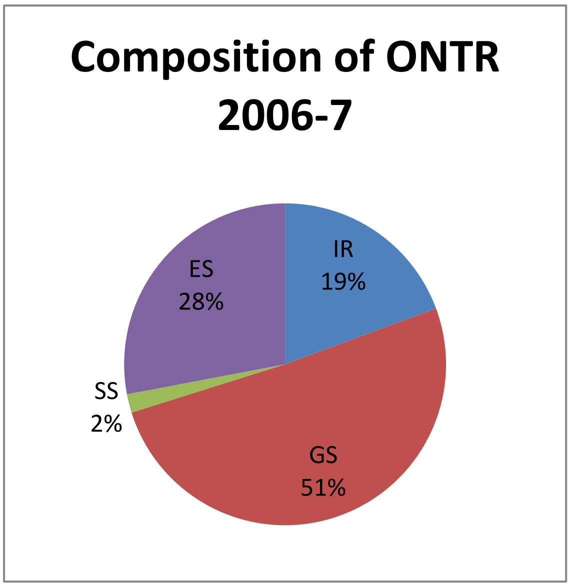
Not all of the subheads are important for Manipur. The receipts on account of dividends and profits and fiscal services have been insignificant. Among the subheads in economic services forestry and wildlife followed by major and medium irrigation projects were the predominant subheads in 2016-17. Among the subheads under social services the dominant subheads were water supply & sanitation, housing and education.

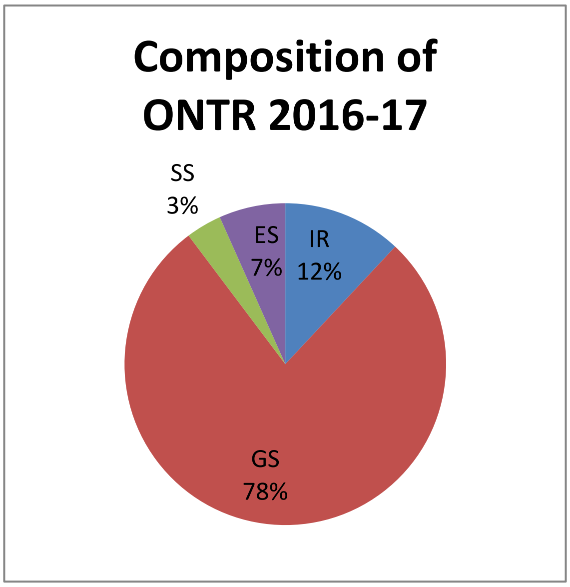
Table 7.5: Components of Own Non Tax Revenue in ₹ Crore

	IR	DIV	GS	SS	FS	ES
2006-7	35.05	0	91.94	3.38	0	50.66
2007-8	27.61	0	62.31	4.79	0	70.01
2008-9	39.99	0	105.12	9.78	0	98.57
2009-10	32.72	0.0028	80.74	11.62	0.0012	114.65
2010-11	44.65	0	96.36	16.25	0	102.62
2011-12	25.18	0	157.73	7.89	0	120.73
2012-13	20.66	0	84.59	8.63	0	117.9
2013-14	33.1	0	115.97	6.3	0.01	105.29
2014-15	30.6	0	137.69	6.11	0	9.33
2015-16	27.43	0	110.16	5.66	0	6.22
2016-17	19.73	0	128.14	5.92	0	11.01
CAGR	-5.09		3.06	5.23		-12.96

General services registered a CAGR of 3.06 % while the other two important sources Interest receipts and economic services registered negative CAGRs at (-)5.09 % and (-)12.96 % respectively.

Fig. 7.4 : Composition of ONTR





The share of GS rose from 51% in 2006-7 to 78% in 2016-17 while that of ES declined from 28% to 7%. As mentioned earlier corporatisation of power sector led to the collapse of accrual of power revenue to state exchequer which led to the dramatic fall in ES receipts.The following diagram shows how important is power revenue in revenue from economic services. Despite its corporatisation state government guarantees its loan- earlier it used to be implicit subsidy as cost recovery in power sector was dismal due to transmission losses and slack long overdue recovery drives. Introduction of pre paid meters is going to be a game changer in the state. It will make more electricity consumer to go for legal connection and motivate them not to waste power. A drop in power consumption was reported when pre paid meters were first introduced in the market area of Manipur.

Revenue from electricity was the major source of fund in Economic services. When corporatisation of the power sector happened in 2014-15, power receipts fell dramatically from ₹96.23 crore in 2013-14 to a mere ₹ 10 lakhs in 2014-15. Its share in revenue receipts from Economic Services declined from 91.4 % to a mere 1 percent.

Fig. 7.5 : Economic Services and Power

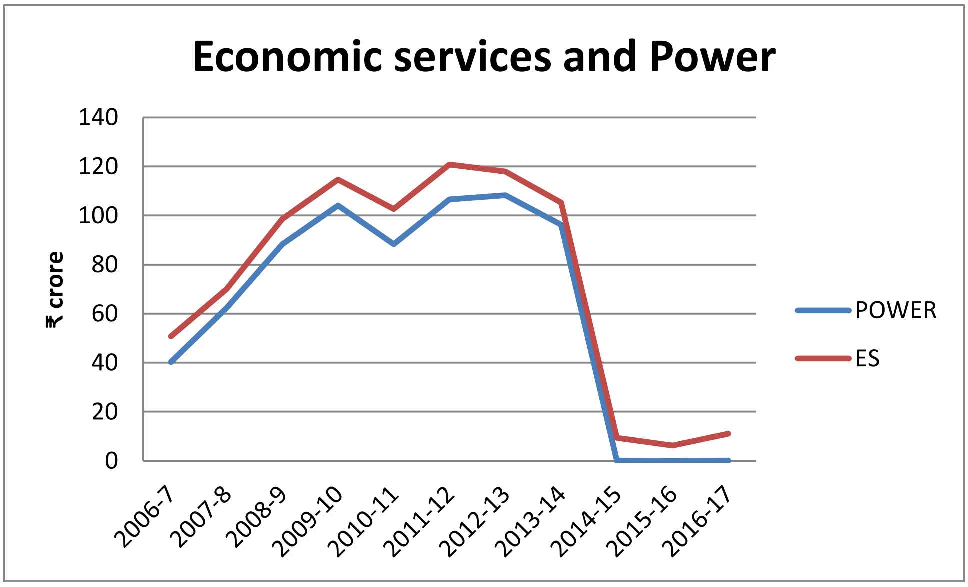


Table 7.6 : Importance of power sector in Economic Services

	POWER	ES	POWER/ES
2006-7	40.24	50.66	79.4315
2007-8	62.29	70.01	88.973
2008-9	88.28	98.57	89.56072
2009-10	104.07	114.65	90.77191
2010-11	88.29	102.62	86.03586
2011-12	106.59	120.73	88.28792
2012-13	108.3	117.9	91.85751
2013-14	96.23	105.29	91.39519
2014-15	0.1	9.33	1.071811
2015-16	0.01	6.22	0.160772
2016-17	0.13	11.01	1.180745

The collapse in receipts from economic services followed the corporatisation of the power sector in 2014-15. Earlier not less than 80% of the receipts came from power sector.

Share of central taxes

Divisible central taxes consist of corporation tax, income tax, estate duty, other taxes on income and expenditure, wealth tax, customs duty, union Excise duties, service tax and other taxes and duties on commodities and services. Amongst them corporation tax, income tax, customs duties, union excise duties and service tax constitute more than 97% of receipts under this head.

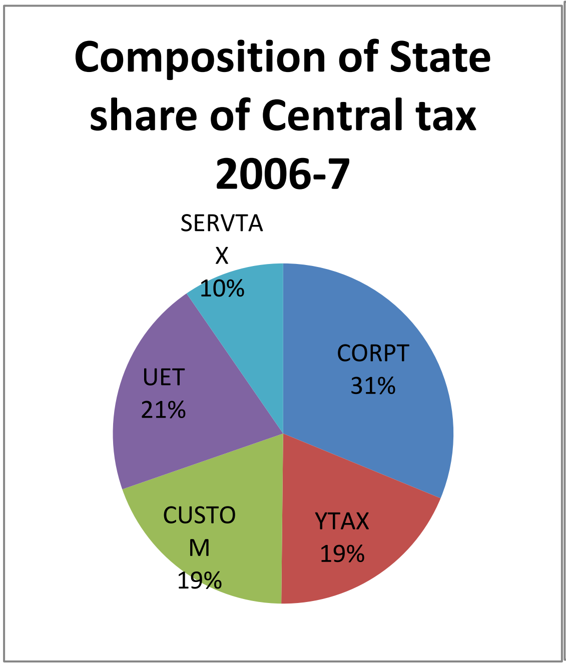
Table 7.7: Trends in state share in central taxes and its components

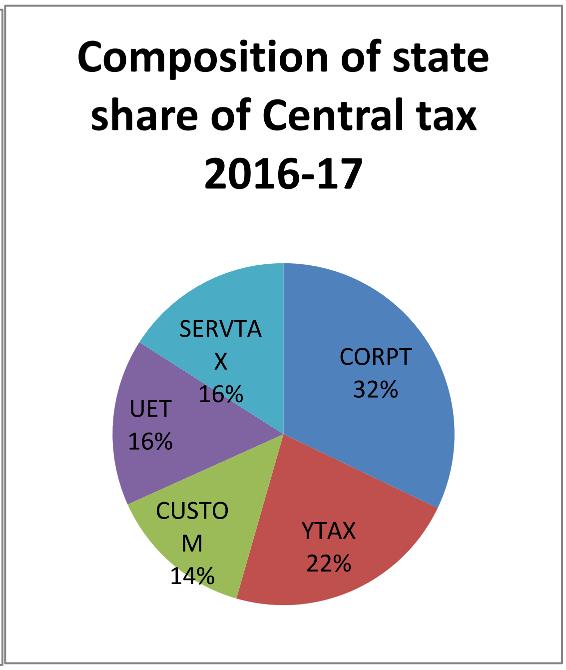
	CORPT	YTAX	CUSTOM	UET	SERVTAX	CT
2006-7	136.17	82.69	85.1	90.37	41.88	436.38
2007-8	174.67	117.24	104.03	99.31	54.99	550.43
2008-9	190.48	119.56	111.03	69.86	62.74	569.4
2009-10	245.9	136.98	83.63	67.36	63.13	620.45
2010-11	387.19	204.61	173.22	126.01	98.75	990.57
2011-12	454.25	230.74	200.09	129.48	137.71	1154.03
2012-13	473.39	283.41	218.99	148.86	192.38	1317.83
2013-14	483.9	318.64	234.77	165.8	234.35	1438.79
2014-15	533.24	380.79	246.96	139.45	225.01	1526.88
2015-16	993.78	694.88	501.73	413.53	536.63	3142.42
2016-17	1205.86	838.08	518.71	592.3	599.38	3757.12
CAGR	21.93	23.44	17.86	18.64	27.37	21.62

Note: in ₹ crore , CORPT= Corporation tax YTAX= Income tax CUSTOM = Customs duty UET Union Excise Tax SERVTAX = Service tax

Over the years there has been a marginal change in the structure. While the shares of service tax, corporate tax and income tax have registered some increase that of union excise tax and customs duty has declined. Table 7.2 shows that the dramatic rise in share of state since 2015-16 is due to the FC-XIV awards where the share of states has been hiked from 32% to 42%. It has been growing gradually over the various Finance Commissions.

Fig 7.9 : Comparative composition of State share of central Tax





Another component of revenue receipts is Grants from centre which has been very crucial for a small and backward state like Manipur.

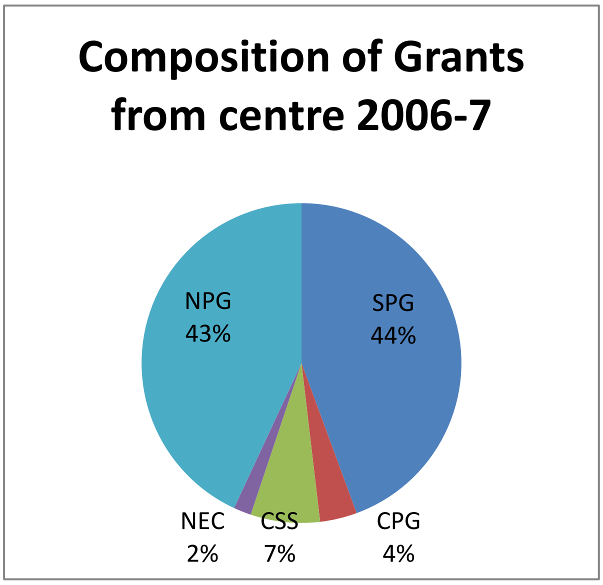
Table 7.8: Trends in Grants from Centre and its components

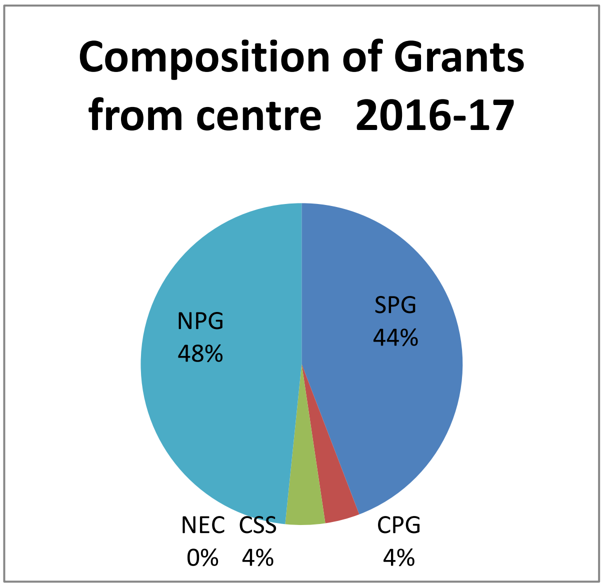
	SPG	CPG	CSS	NEC	NPG	GIA
2006-7	942.9	79.46	148.82	37.86	914.76	2123.8
2007-8	1417.71	7.52	205.89	46.75	967.84	2645.71
2008-9	1491.035	12.5317	329.9223	17.7075	1017.085	2868.281
2009-10	1416.736	6.22	328.3031	29.1295	1059.405	2839.793
2010-11	2041.23	12.71	413.2	164.65	1280.65	3912.44
2011-12	2041.92	12.47	349.81	122.63	1293.1	3819.93
2012-13	2711.55	36.55	306.34	0	1882.88	4937.32
2013-14	2674.41	13.64	652.68	0	1769.87	5110.6
2014-15	3021.45	14.05	836.14	0	1899.17	5770.81
2015-16	1758.39	83.13	178.36	199.71	2218.18	4437.77
2016-17	2041.21	160.52	184.07	0	2234.72	4620.52

Notes: in ₹ crore, SPG Grants from centre for state plan schemes, CPG Grants from centre for central plan schemes , CSS Grants from centre for centrally sponsored schemes, NEC Grants from centre for NEC / special plan scheme , NPG Non plan grants

Non plan grants consist of statutory grants , grants for relief on account of natural calamities and others. During the study period the positions of NPG and SPG have been interchanged with marginal changes in their weightages.

Fig :7.8.: Composition of Grants from Centre





Expenditure Management

Aggregate expenditure consists of revenue expenditure,capital expenditure and loans & advances. Revenue expenditure is consumption expenditure without any clear well defined flow of returns from it. On the other hand capital expenditure is expected to yield a future flow of income. We must borrow but we must borrow for activities which will yield some returns. Not only is the share of capital expenditure shrinking , its efficiency also seems to be declining as is clear from the tract records of SPSE and profits & dividends head in own non tax revenue receipts.

Table 7.9 : Trends in Aggregate Expenditure

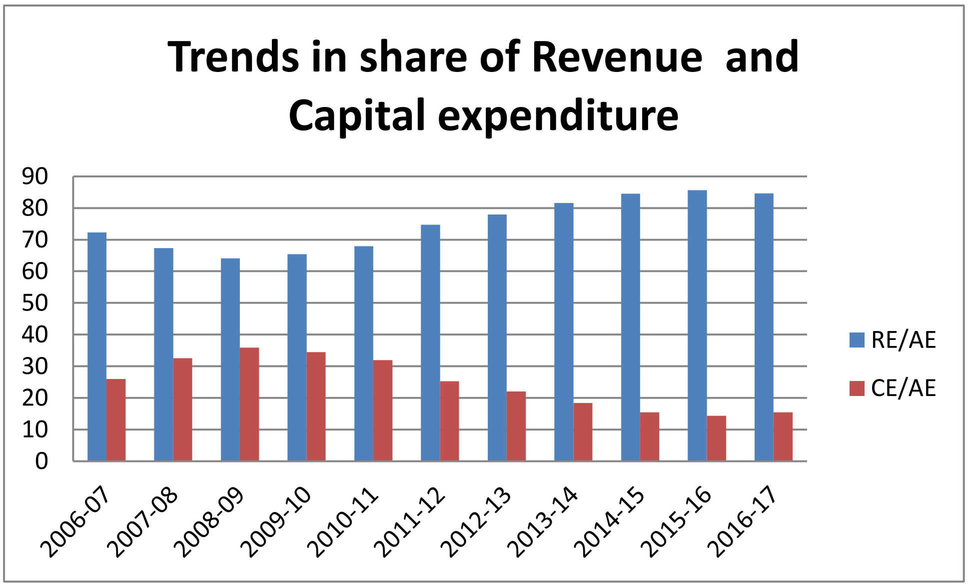
	RE	CE	AE	DE	DE/AE in %
2006-07	2415	867	3339	2278	68.22
2007-08	2293	1108	3408	2364	69.37
2008-09	2622	1466.8	4090	2940	71.88
2009-10	3014	1587.78	4609	3192	69.26
2010-11	4078	1918.06	6000	3975	66.25
2011-12	5007	1695.41	6702	4098.66	61.16
2012-13	5317	1501.56	6821.39	4117.17	60.36
2013-14	5719	1291.89	7010.76	4013.84	57.25
2014-15	7267	1332.44	8600.07	5164.06	60.05
2015-16	7383	1237.87	8622.04	5156.55	59.81
2016-17	8185	1493.57	9678.58	5797.3	59.9

Notes: RE Revenue expenditure CE Capital expenditure AE Aggregate expenditure

DE Development Expenditure All in ₹ crore

Aggregate expenditure rose from ₹ 3339 cr in 2006-07 to ₹9678.58 cr in 2016-17 registering an annual compound growth rate of 10.16%. The share of revenue expenditure has been rising gradually- rising from 72.33 % in 2006-7 to 84.57% in 2016-17. The trend growth rates of RE,AE and DE are 13.98 %,11.12 % and 9.07 % respectively while capital expenditure did not register any significant trend upwards or downwards.

Fig. 7.9: Trends in Share of Revenue and Capital Expenditure



Any attempt to reduce the growth rate of revenue expenditure has to deal with the issue of committed expenditure such as salary & wage, interest and pensions. A look at the components of revenue expenditure shows that committed expenditure's share has never been below 55 % of RE. The scope for compression of revenue expenditure lies with the 45% non committed component of revenue receipts. In the case of committed expenditure the emphasis should be on constraining their growth.

Table 7.10: Structure of Committed Expenditure

year	SALARY	PENS	INTR	COME	RE	COME/RE in %
2006-07	813	239	289	1341	2415	55.53
2007-08	928	206	299	1433	2293	62.49
2008-09	1095	267	314	1676	2622	63.92
2009-10	1141	293	323	1757	3014	58.29
2010-11	1678	400	365	2443	4078	59.91
2011-12	2216	628	397	3241	5007	64.73
2012-13	2352	760	433	3545	5317	66.67
2013-14	2575	771	445	3791	5719	66.29
2014-15	2700	934	473	4107	7267	56.51
2015-16	2853	1010	516	4379	7383	59.31
2016-17	3088	1174	544	4806	8185	58.72

Note : PENS pension INTR Interest SALARY salaries and wages

COME Committed Expenditure RE Revenue expenditure ; All in ₹ crore

Fiscal Responsibility and Budget Management Act was a major initiative for fiscal consolidation. The FC-XII recommended that each state should enact fiscal responsibility legislation. This legislation should, at a minimum, provide for

- Eliminating revenue deficit by 2008-9
- Reducing fiscal deficit to 3 percent of GSDP or its equivalent defined as ratio of interest payment to revenue receipts
- Bringing out annual reduction targets for revenue and fiscal deficits
- Bringing out annual statement giving prospects for the state economy and related fiscal strategy
- Bringing out special statements along with the budget giving in detail number of employees in government,public sector and aided institutions and related salaries.

States should follow a recruitment and wage policy such that total salary bill relative to revenue expenditure net of interest payments and pensions does not exceed 35%. It has been made a precondition for availing the debt relief scheme proposed by the commission. The FC-XII recommended the debt Consolidation and Relief Facility (DCRF) comprising consolidation of central loans contracted till March 2004 and outstanding on 31 March 2005 along with debt write off.

The Government of Manipur (2005) enacted the FRBMA in the year 2005 and mentioned that the state shall try to achieve the following goals:

- Generation of revenue surplus.
- Fiscal deficit to be reduced to 3 percent of the gross state domestic product.
- Limit the amount of outstanding government guarantee.
- To bring down the total salary so that it does not exceed 35 percent of revenue expenditure net of interest payments and pension.

As per the amendments in January and July 2006 the following fiscal targets were set

- Remain revenue surplus and build up further surplus having regard to the norms of central assistance for the state plan and the tax and non tax revenue potential of the state
- Reduce the fiscal deficit by a minimum of 1% of the GSDP by the end of each financial year, beginning with the financial year 2005-6 so as to reduce it to 3% or below by 2008-9 provided that, in the event of shortfall in the reduction of revenue and fiscal deficit as envisaged, the target of reduction of deficit in the succeeding year shall stand enhanced by the amount of shortfall in the preceding year.

The amendments in July 2010 and October 2011 reset the following targets

- Reduce the fiscal deficit to a maximum of 3.5% of the GSDP by 2010-11 and maintain it below 3.5% in succeeding financial yea₹.up to 2012-13 and thereafter reduce it to maximum of 3% of the GSDP from 2013-4 and beyond.
- Maintain outstanding debt to a maximum of 65.80% of GSDP in 2010-11, 62.9% of GSDP in 2011-12,60.1% of GSDP in 2012-13, 57% of GSDP in 2013-14 and 54.30% of GSDP in 2014-15.

Resource mobilisation through tax and non tax revenues is a challenging task as the state is a backward state by any indicator. There are no industries worth the name in the state. The tax administration is also notoriously weak. There is scope for substantial resource mobilisation when the existing rules are properly implemented. When these are not implemented or implemented by fits and start it creates additional problems. The case of the powers sector is a classic example. The absence of action from the electricity department encouraged consumers not to pay the user charges in time and after some time the accumulated amount became too large for prompt payment. The irregular power supply has become an excuse for defaulters and also led to the proliferation of dedicated power lines locally known as VIP connections everywhere. Similar is the case with water supply. While the consumers are unwilling to pay even a small monthly water charge to the Public Health & Engineering department, the breakdown of the water distribution system has led to the emergence of a market for water with the active participation of private operators. The public is yet to become fully aware of its role in resource mobilisation for development. The officers also are equally ill informed. Everyone wants to free ride. There is a gap in public awareness of what the public can do to enable the government carry out its various public activities. The government has failed to get the support of the public in lifting prohibition in the state. Tax on liquor used to be an important source of tax revenue till the early 90s when prohibition was imposed on public demand. Two things are clear. Prohibition has not stopped the illegal sale of liquor. Neighbouring states which are not dry states are no worse off because of the sale of liquor. On the one hand prohibition has not vanished the evils of drinking and on the other it has also deprived the state of a major source of revenue. A state as developed as Gujarat may afford to have prohibition because it has many other sources of revenue. Such moral posturing may not be worth its cost. The state has failed to initiate the debate on new calculation of costs and benefits.

One item which can be taxed is the tambola locally known as housie. From being an effective means of resource mobilisation of local clubs it has graduated into a very lucrative past time. Now prizes worth several lakhs are common. It should be taxed. Another activity that is generating substantial income is the catering houses locally known as Eigyagi Chaksangs or Brahmin's kitchen. It has proliferated in the valley districts. This is different from the traditional catering houses. It can also be taxed. Other such activities are the coaching centres,gyms which have come up in the urban areas in a big way. The spurt of coaching centres indicates the mess in education system in the state. The government schools have failed miserably in terms of performance of their students. This malaise is spreading in the higher education also.

Chapter 8: State Level Public Enterprises

Introduction:

State Public sector units (SPSUs) consist of state government companies and statutory corporation. The SPSUs are established to carry out activities of commercial nature while keeping in view the welfare of the people. The State Government has financial stake of ₹ 829.94 crore in these SPSUs as on 31 st March, 2017. This stake is of mainly three types:

1. **Share Capital and Loans**- In addition to the Share Capital Contribution, State Government also provides financial assistance by way of loans to the SPSUs from time to time.
2. **Special Financial Support-** State Government provides budgetary support by way of grants and subsidies to the SPSUs as and when required.
3. **Guarantees-** State Government also guarantees the repayment of loans (with interest) availed by the SPSUs from Financial Institutions.

In a backward state like Manipur where any market is highly imperfect SPSUs should play a major role as a facilitator and enabler for every activity both public and private. With this perspective a number of state PSUs have been established over the years. Like other states SPSUs have failed to flourish. They have failed to generate resources for development and continued contributing an insignificant percentage of GSDP. In fact SPSUs have unfortunately become synonymous with inefficiency.

In 2006-7 there were two statutory Corporations and 15 government companies in Manipur. Only eight of the government companies were operational.

Statutory corporations:

1. Manipur State Road Transport Corporation
2. Assam Financial Corporation

Government companies

1. Manipur Industrial development Corporation Limited
2. Manipur Spinning Mills Corporation Limited
3. Manipur Handloom and Handicrafts development Corporation Limited
4. Manipur Agro-industries Corporation Limited

5. Manipur Plantation crops Corporation Limited
6. Manipur Tribal development Corporation Limited
7. Manipur Cycle Corporation Limited
8. Manipur Electronics Corporation Limited
9. Manipur Film development Corporation Limited
10. Manipur cement Corporation Limited
11. Manipur Food Industries Corporation Ltd
12. Manipur Police Housing Corporation ltd
13. Manipur State Drugs and Pharmaceuticals Ltd.
14. Manipur State Power corporation Ltd
15. Manipur Pulp & Allied products Ltd

None of them is listed in stock exchanges. During 2006-7 to 2011-12 the following four PSUs were liquidated despite demand for their products. The products of the companies could not compete with the products coming from other states in terms of price and quality.

1. Manipur Cycle Corporation Limited
2. Manipur cement Corporation Limited
3. Manipur Spinning Mills Corporation Limited
4. Manipur State Drugs and Pharmaceuticals Ltd.

Manipur State Road Transport Corporation was also dissolved. Manipur state power development Corporation incorporated in 1997 was taken off from the register of companies in June 2011. Manipur Food Industries Corporation Ltd. which replaced Manipur Sugar Mills Ltd in 1987 was also dissolved in March 2003 after failing to be operational.

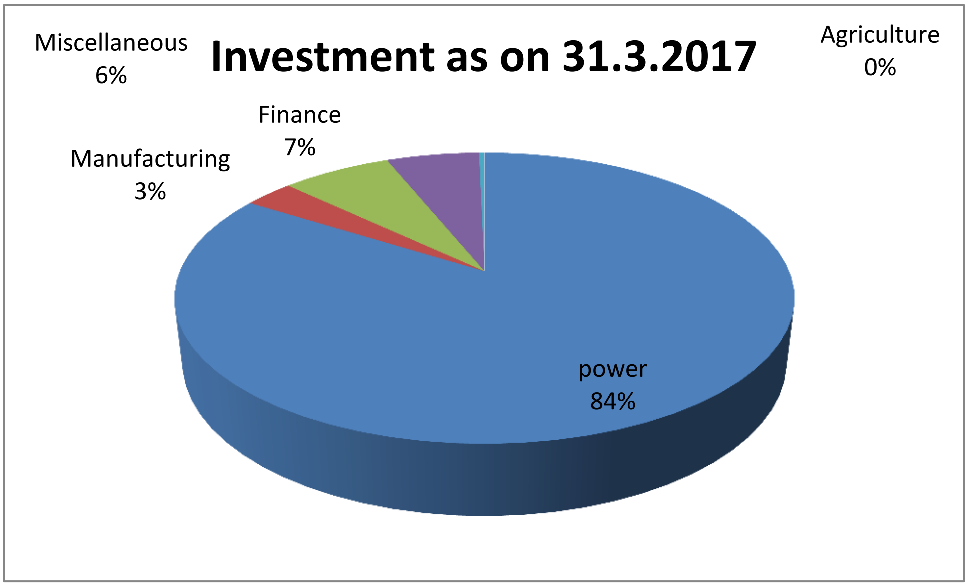
As on 31 March 2017, there were 13 SPSUs in Manipur. The 10 working SPSUs of the State registered a turnover of ₹ 161.02 crore as per their latest finalised accounts as of September 2017. This turnover was equal to 0.69 *per cent* of Gross State Domestic Product (GSDP)in 2016-17. The working SPSUs incurred an aggregate loss of ₹ 47.89 crore as per their latest finalised accounts as of September 2017. As on 31 March 2017, the investment (capital and long-term loans) in 13 SPSUs was ₹266.35 crore. Out of the total cumulative investment of ₹ 266.35 crore in SPSUs as on 31 March 2017, 98.92 *per cent* was in 10 working SPSUs and the remaining 1.08 *per cent* in 3 non-working SPSUs. The following table gives some details of these ten companies.

Table 8.1: Particulars of Government companies as on 31 March 2017

Sl.no.	Sector & name of the company	Year of incorporation	Paid up capital (Rs lakh)
Working Government Companies			
	Finance		
1	Manipur Industrial development Corporation Limited	1969	1224
2	Manipur Tribal development Corporation Limited	1979	77.50
	Infrastructure		
3	Manipur Police Housing Corporation ltd	1986	2.00
	Manufacturing		
4	Manipur Food Industries Corporation Ltd	1987	97.66
5	Manipur Electronics Development Corporation Limited	1987	376.35
	Power		
6	Manipur State Power Company Ltd	2014-5	1005.0
7	Manipur State power Distribution Company Ltd	2014-15	1005.0
Misc			
8	Manipur Handloom and Handicrafts development Corporation Limited	1976	1150.75
9	Manipur IT SEZ project development Company Limited	2013	
10	Tourism Corporation of Manipur Ltd	2016	
Non working			
	Agriculture & Allied		
1	Manipur Agro-industries Corporation Limited	1981	354.78
2	Manipur Plantation crops Corporation Limited	1981	1161.79
Misc			
3	Manipur Pulp & Allied products Ltd.	1988	154.20

The following pie chart shows the current sectoral investment of the government. As the number of working companies fell the amount invested also fell.

Fig. 8.1: Composition of Public investment 2017



The thrust of SPSU investment was in power sector which constituted the highest percentage (83.94 *per cent*) of total investment in SPSUs during 2016-17. This investment was due to formation of two power sector companies, *viz.*, (i) Manipur State Power Company Ltd. and (ii) Manipur State Power Distribution Company Ltd. during 2013-14. The increase of total investment in SPSUs from ₹ 205.32 crore during the previous year (2015-16) to ₹ 266.35 crore during the current year (2016-17) was mainly due to net increase of₹60.98 crore in loans received by SPSUs during the year 2016-17. The investments have increased in all sectors (except in agriculture sector and miscellaneous sector) during 2016-17.

Returns to SPSUs

Most of the companies incurred substantive losses due to deficiencies in financial management, planning and inefficient running and lack of proper monitoring. The following table shows the low rate of return to capital invested in these PSUs. It was negative in the last two years. This is an implicit subsidy.

Table 8.2: Performance of SPSUs

Year	Return on total capital employed (%)	Debt (Cr)	Turnover (Cr)	Profit (Cr)	Percent of turnover to GSDP	Debt/Turnover ratio	Accumulated losses(Cr)
2006-7	2.83	26.79	6.39	0.45	0.1	4.19	7.17
2007-8	2.52	30.91	6.75	0.08	0.1	4.58	7.17
2008-9	2.66	19.50	6.77	0.89	0.09	2.88	5.22
2009-10	2.08	30.73	6.51	0.6	0.08	4.72	5.18
2010-11	-2.23	31.06	5.71	-0.02	0.06	5.44	6.94
2011-12	-14.96	5.91	3.54	-4.91	0.03	1.67	10.37
2012-13	0.71	10.43	5.35	-0.44	0.04	1.95	40.76
2013-14	1.84	10.43	7.03	1.04	0.04	1.42	45.19
2014-15	-20.95	3.05	35.22	-20.69	0.2	0.08	74.74
2015-16	-955.51	150.58	34.70	-23.90	0.17	4.30	77.20
2016-17	-463.20	211.56	161.02	-47.89	0.76	1.31	121.24

Source: CAG Reports

During the year 2016-17, out of ten working SPSUs, only two SPSUs namely Manipur Police Housing Corporation Ltd. and Manipur Food Industries Corporation Ltd. earnedprofit of ₹ 0.29 crore. Six SPSUs incurred loss of ₹ 48.18 crore of which Manipur State Power Distribution Company Ltd. (₹ 30.49 crore) and Manipur State Power Company Ltd. (₹ 13.55 crore) were the major contributors. Manipur Agro Industries Corporation Ltd., Manipur Plantation Crops Corporation Ltd and Manipur Pulp and Allied Products Ltd. Were the non performing companies. The overall losses of working SPSUs were mainly on account of heavy losses incurred by two power sector SPSUs *viz.*, (i) Manipur State Power Company Ltd. and (ii) Manipur State Power Distribution Company Ltd.

The following table shows the state's performance over time with respect to statutory corporations, government companies and cooperative institutions.

Table 8.3: Performance of SPSUs

	INV	RET	%RET	AVERGB	GAP		
2006-7	173			7.14	7.14		
2007-8	174	0.05	0.03	6.84	6.81		
2008-9	176			6.69	6.69		
2009-10	176			6.22	6.22		
2010-11	176			6.27	6.27		
2011-12	181	*		6.36	6.36		
2012-13	160	**		6.52	6.52		
2013-14	160	*		6.42	6.42		
2014-15	167	Δ		6.56	6.56		
2015-16	175	*		6.67	6.67		
2016-17	176	**		6.42	6.42		
	INV Investment at the end of year in ₹ crore						
	RET Return in ₹ crore			% RET percent of return			
	AVERGB Average rate of interest on government borrowing in per cent						
	GAP Difference between %RET and AVERGB						
	* ₹ 3000 ** ₹ 4000		Δ₹ 2000				
	Source : CAG Reports						

So lax has been the accounting practice that all the PSUs had arrears in accounts varying from 9 to 27 years. The accounts of the companies for every financial year are required to be finalised within 6 months from the end of relevant financial year under the Companies Act 1956. The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year *i.e.*, by the end of September in accordance with the provisions of Section 96 (1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act. They are also to be laid before the legislature within nine months from the end of financial year. Despite such provisions in the Act substantial arrears built up in accounts finalisation due to laxity in administration. In the absence of accounts and their audit it cannot be ensured whether the investment and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not. Delay in finalisation of account also raises the risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act 2013.

The non working companies despite waiting for their dissolution or merger have been absorbing a portion of investment. Sick Companies may be dissolved if measures for reviving them failed. There is no justification in maintaining the non working companies at any cost. As per the Company's Act 2013 there are two ways of winding up a company. The State Government provides financial support to SPSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants/subsidies, loans written off and interest waived inrespect of State PSUs for the year ended 31 March 2017 are shown in

Table 8.4: Details regarding budgetary support to SPSUs Particulars 2016-17

Sl. No	**Particulars**	**2016-17**	
		No. of SPSUs	**Amount** ***(₹in crore)***
1	Equity Capital outgo from budget	6	633.81
2	Loans given from budget -		
3	Grants/subsidy from budget	6	633.81
4	Total outgo	6	633.81
5	Waiver of loans and interest	-	-
6	Guarantee issued	1	390.55
7	Guarantee commitment	1	318.94

During the last four years prior to 2016-17, there was no budgetary outgo towards loans, guarantees issued, loans and interest waived in respect of SPSUs.

The accounts of the SPSUs were in arrears for periods ranging from one year to 29 years. The delay in finalization of accounts were due to abnormal delay in compilation and approval of the accounts and delayed submission of the same to the Statutory Auditors by the Management and deficiency in monitoring of arrears of accounts of the Companies by the Government. The overall losses of working SPSUs increased from ₹ 40.76 crore in 2012-13 to₹ 121.24 crore in 2016-17. Six SPSUs incurred loss of ₹ 48.18 crore.The SPSUs employed 3,990 employees as at the end of March 2017.

According to Section 2(45) of the Companies Act, 2013 (Act), a Government Company is one in which not less than 51 *per cent* of the paid up capital is heldby the Central and/or State Government(s) and includes a subsidiary of a Government Company. Out of the total cumulative investment of ₹ 266.35 crore in SPSUs as on 31 March 2017, 98.92 *per cent* was in working SPSUs and the remaining 1.08 *percent* in non-working SPSUs. This total investment consisted of 20.57 *per cent* towards capital and 79.43 *per cent*in long-term loans. The investment has increased from ₹ 56.49 crore (2012-13) to ₹ 266.35 crore (2016-17) during last five years.

Exercising the option of winding up:

There are certain rules & regulations to be followed for winding up any company:

270. (*1*) The winding up of a company may be either

(*a*) by the Tribunal; or

(*b*) voluntary.

271. (*1*) A company may, on a petition under section 272, be wound up by the Tribunal,—

(*a*) if the company is unable to pay its debts;

(*b*) if the company has, by special resolution, resolved that the company be wound up by the Tribunal;

(*c*) if the company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality;

(*d*) if the Tribunal has ordered the winding up of the company under Chapter XIX;

(*e*) if on an application made by the Registrar or any other person authorised by the Central Government by notification under this Act, the Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up;

(*f*) if the company has made a default in filing with the Registrar its financial statements or annual returns for immediately preceding five consecutive financial years; or

(*g*) if the Tribunal is of the opinion that it is just and equitable that the company should be wound up.

304. A company may be wound up voluntarily,—

(*a*) if the company in general meeting passes a resolution requiring the company

to be wound up voluntarily as a result of the expiry of the period for its duration, if any, fixed by its articles or on the occurrence of any event in respect of which the articles provide that the company should be dissolved; or

(*b*) if the company passes a special resolution that the company be wound up voluntarily."

(The Company's Act 2013)

As per the Company's Act 2013 it is easier to wind up a company voluntarily. Thus the process of voluntary winding up under the companies Act should be initiated vigorously.

Conclusion:

The state PSUs are not functioning efficiently and there is scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitability. There is need for performance based system of accountability in PSUs. There is a need for professionalism and accountability in the functioning of PSUs. PSUs as a rule have been either headed by politicians or bureaucrats. Efficient delivery of the product or service for which the PSU has been incorporated in the first place is generally not a priority of either of them. This is borne by the records of most of the PSUs. Such an approach explains the death of Manipur State Road Transport Corporation and Manipur Spinning Mill. The rapid expansion of the transport sector in the state has been made possible by private sector. The handloom sector of Manipur also needs yarn in a scale which could have led to the rapid expansion of the mill. Instead of the growth of the Spinning Mill, it became unsustainable over time. The story is being repeated in every SLPE in the state.

There is an urgent need to induct management experts who would be accountable for any inefficiency. The business as usual approach is unlikely to deliver. Professional management and stringent monitoring should be introduced simultaneously. Only then PSUs will be able to contribute to economic development. The planning department, Govt. of Manipur had undertaken an analysis of the performance of the state public sector undertakings of Govt. of Manipur in 1994 covering 12 PSUs. A number of parameters related with short/long term viability, effectiveness of the corporations to fulfil their objectives and the government's ability to take decisions have been exhaustively studied individually. However no lessons were learnt. Twenty years down the line our PSUs are still plagued by the same problems. The positive side of the development is the readiness with which the private sector responds to the space created by PSUs. Almost every objective of PSUs is now served by private sector. The crux of the problem is the ability to rightly predict the time to go. The practice of maintaining non working PSUs indefinitely as preparations are made to dissolve them has been very costly. To expedite closing of non working companies there is also the need to set up a special cell. The right approach should be to withdraw as soon as possible when private sector enters and keep on looking for new activities where some leadership is needed. Thus instead of going for more SLPEs, the management of the existing ones should be streamlined and rationalised. There is also the exit through disinvestment. The rationale for having SLPEs is as strong as ever in developing and backward states like Manipur.

Chapter 9: Contingent Liabilities of the State

The state owned public sector enterprises and quasi government organisations borrow money from various sources on the guarantee of the state government. It is the duty of the state government to repay loans when the concerned entities fail to repay the guaranteed loan. Such loans are ‘contingent liabilities’ i.e. liabilities contingent upon their failure to pay back loans. However, as most of the PSUs in this state are incurring perennial losses and their liabilities have become liabilities of the state. This is one of the problems of the states as that they have not only to provide not only explicit and implicit subsidy for these enterprises but also repay contingent liabilities which in course of time has become a serious problem for many states.

The Eleventh Finance Commission (2010:107) expressed similar concern on the rise of contingent liabilities and said “there has been considerable growth of contingent liabilities arising out of guarantees given by the state governments from time to time. Guarantees are not immediate liabilities, but liabilities contingent on default by the borrower for whom the guarantee has been extended…Since many State level public enterprises are running in losses, the risk of default is high”.

It further continued

“We feel that there is a need to fix limit on the giving of such guarantees by enacting suitable legislation and such limit should form part of the overall limits of borrowing under articles 292 and 293.”

The Twelfth Finance Commission (2004:235) proposed a fund – a guarantee redemption sinking fund out of which government can repay such liabilities. “In order to provide for sudden discharge of the states’ obligations on guarantees, we further recommend that states should set up guarantee redemption funds through earmarked guarantee fees. This should be preceded by risk weighting of guarantees. The quantum of contribution to the fund should be decided accordingly.” If this is done, the burden to the government will be very much reduced.

In this way, a two pronged strategy was provided, one to limit guarantees of the state and the other to create a sinking fund to repay such liabilities.

The GOM passed the Manipur Ceiling on Government Guarantees Act, 2004 which *inter alia* states.

“The total amount of outstanding government guarantees on the first day of April of any year shall not exceed thrice the State’s Own Tax Revenue receipts of the second preceding year of such year as they stood in the books of the Accountant General of Manipur.”

This particular content of the Act was also endorsed by the FRBM Act which was subsequently passed in 2005. The Manipur ceiling on Government Guarantee Rules, 2010 was notified in the state gazette dated 5.3.2011.Further the government has created a guarantee redemption fund to repay such liabilities arising from such guarantees in Feb. 2008.

As per the FRBM Act and the Manipur ceiling on State Government Guarantee Act, 2004 the total outstanding guarantee as of April 1 of any year shall not exceed thrice the state’s own tax revenue receipts of the second preceding year. As far as the outstanding amount of guarantees is concerned, it was very small and negligible initially. It was just Rs. 9 crores in 2001-02. However, it jumped to Rs. 209 crores in 2005-06 and further to Rs. 251 crores in 2006-07. The incidence of such liabilities can be measured in terms of percentage of revenue receipts and in terms of percentage of the limit allowed by the Manipur Ceiling on Government Guarantees Act, 2004 which is thrice the amount of own tax receipts in the last second preceding year. The incidence as a percentage of revenue receipts as well as the FRBM limit has gone down despite a surge in the year 2008-09. Thus, it can be concluded that the contingent liabilities are well within the limits prescribed. The incidence as percent of revenue receipts picked up in 2015-16 and 2016-17 due to guarantees extended to Manipur State Power Distribution Company Limited. The incidence as percentage of FRBM limit declined gradually from 103% in 2006-7 to 26.02% in 2016-17.

Fig.9.1: Contingent liabilities of Manipur

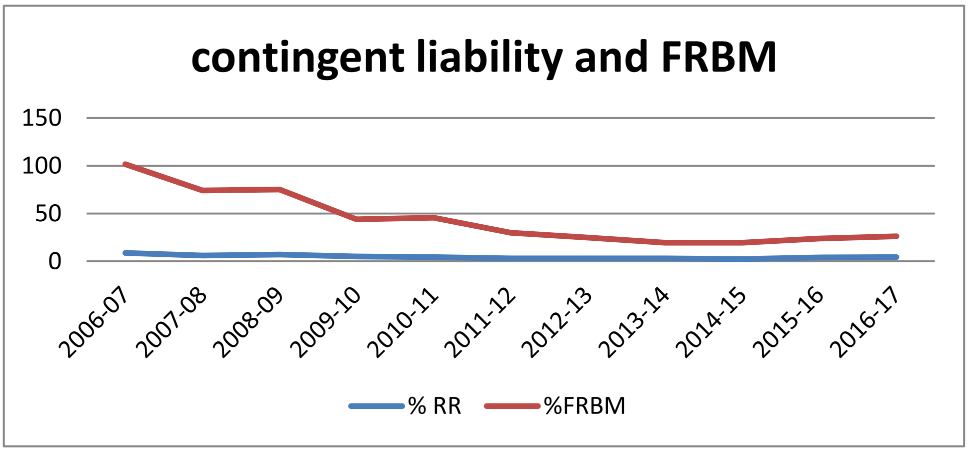


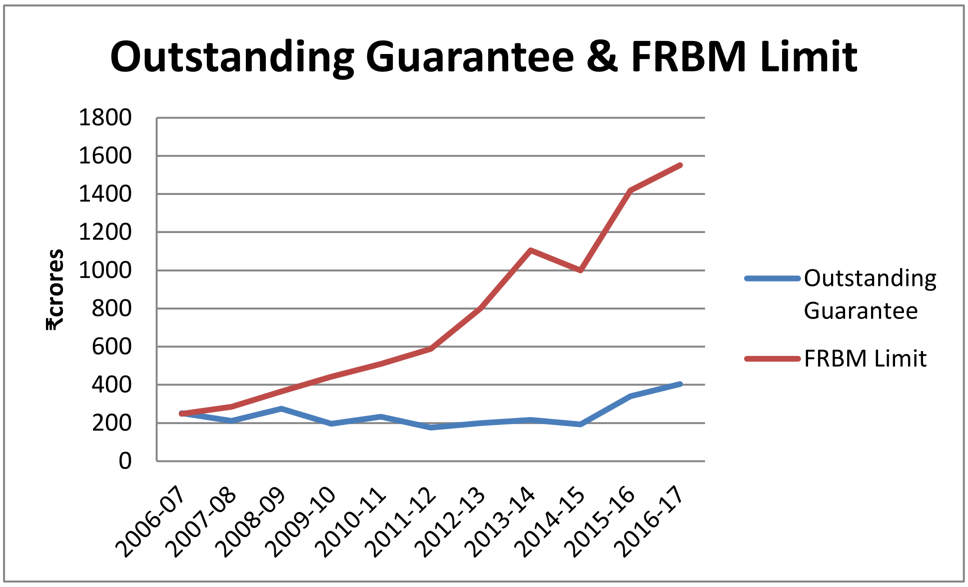
Table 9.1: Contingent liabilities of Manipur

	Maximum amount guaranteed in the year		Outstanding amount of guarantees at the end of the year		FRBM limit	% of FRBM limit	No. of guarantees
	(₹. cr)	(% of revenue receipts)	(₹. cr)	(% of revenue receipts)	(₹. cr)		
2006-07	194	6.78	251	8.77	247.17	103.01	
2007-08	207	5.90	211	6.01	285	74.07	
2008-09	197	5.09	274	7.08	364.71	75.17	
2009-10	197	5.09	195	5.03	442.35	44.09	17
2010-11	196	3.61	233	4.27	510.21	45.67	15
2011-12	196	3.47	175	3.10	588.09	29.76	14
2012-13	193.98	2.84	199.73	2.93	801.15	24.93	13
2013-14	197.45	2.71	215.3	2.96	1104.21	19.5	13
2014-15	197.5	2.47	192.95	2.41	998.49	19.32	13
2015-16	588	7.1	339.53	4.1	1418.19	23.94	14
2016-17	588	6.44	403.38	4.42	1550.49	26.02	14

Note: FRBM limit is thrice the state's own tax revenue receipts of the second preceding year. Percentage of FRBM limit refers to outstanding amount of guarantee as a percentage of FRBM limit.

Source: GOI: *Report of the Comptroller and Auditor General of India: Government of Manipur* (various issues).

Fig 9.2 : Outstanding Guarantee vs FRBM Limit



The outstanding amount of guarantees given in Table 3.1 is the principal amount plus the outstanding interest liability. The total outstanding principle and interest together rose from ₹251 crore in 2006-07 to ₹ 403.38 crore in 2016-17. The total outstanding amount is still much lower than the maximum amount provided under the Manipur Ceiling on Government Guarantees Act, 2004. Considering the fact that the existing guarantees are for promotion of Khadi& Village industries, disbursal of housing loans, etc., the state should continue to give guarantees to these institutions. However, following the principle of financial prudence and discipline, the existing institutions should be encouraged to repay loans. Repayment of loans of any kind has been a serious issue, the outcome of weak administration and ignorance. Most of the loanees cannot differentiate loans from grants. The growing margin should encourage the state government to take up and sponsor new innovative schemes.

The state government created in 2008-09 a consolidated Sinking Fund for amortization of market borrowings, other loans and debt obligation liabilities, as recommended by the XII Finance Commission. The state government was required to contribute a minimum of 0.5% of its outstanding liabilities (i.e. internal debt plus public account) to the Sinking Fund at the end of the previous year. In 2016-17 the state government contributed ₹28.91 crore, ₹ 11.72 crore short of the ₹ 40.63 crore (0.5% of outstanding liabilities of ₹ 8125.39 crore). The corpus of the Fund (including accumulated interest) was ₹ 378.42 crore as on 31 March 2017. The state government also enacted the Manipur Ceiling on Government Guarantee Act ,2004 and created a Guarantee Redemption Fund in 2008-9 with an initial corpus of ₹ 1 crore. The corpus with the Guarantee Redemption Fund was ₹ 93.46 crore (including interest) as on 31 March 2017. It was invested by the RBI in GoI Securities.

During 2016-17 the state government issued fresh guarantee of Rs 105.92 crore for Manipur State Power Distribution Company Limited. The guarantee fee was Rs 1.06 crore from the PSU. The corpus available in the Guarantee Redemption Fund was only Rs 93.46 crore at the end of 2016-17.

Table 9.2: Detailed statement of Guarantees by State Government 2016-17 (in ₹crore)

Sl.no.	Class(no. of guarantees within brackets)	Maximum amount guaranteed	Outstanding at the beginning of 2016-17		Outstanding at the end of 2016-17	
		Principal	Principal	Interest	Principal	Interest
1	Guarantee given to the statutory corporations on account of various social development schemes (5)	32.72	19.55	24.18	19.55	25.84
2	Guarantee given for repayment of principal and payment of interest for cash loan Housing scheme & Social Housing Scheme raised by urban Development Authority and Rural Housing Society.(7)	159.73	37.39	45.39	6.83	32.22
3	Guarantee given to Banks for the repayment of principal and payment of interest for financing seasonal agricultural operations and for providing working capital to the cooperative societies (1)	5.00				
4	Guarantee given to MSPDCL for repayment of principal and interest for loans availed from power Finance Corp.(1)	390.55	213.02		318.94	
5	Total	588.00	269.96	69.57	345.32	58.06

Source: **GOM Manipur Finance Account 2016-17**

Further, the sinking fund created for debt redemption of such liabilities seems to be very less considering the mounting liabilities. For example the amount transferred to this fund in the year 2012 was only Rs. 4.53 crores where the outstanding amount inclusive of interest was Rs. 175.35 crores. The corpus available in the Guarantee Redemption Fund was not adequate e.g. as against the outstanding guarantee of ₹339.53 crore in 2015-16, the corpus was only ₹64.19 crore. As the gap between the guarantee fund and the outstanding liability is high, it is of utmost importance that the state raises the fund to around Rs. 200 crores very shortly. It can contribute a small amount annually once there is enough funds to service such debt.

Table 9.3: Guarantee redemption fund (₹ crores) 2016-17

1.	Opening balance	64.19
2.	Amount transferred to the fund	29.27
3.	Total guarantee fund	93.46
4.	Amount met from the fund for the discharge of invoke guarantees	nil
5.	Closing balance	93.46
6.	Amount of investment made out of the guarantee redemption fund	93.46

Source: GOM: ***Finance Accounts 2016-17,***

No additional guarantee was given by the state government in respect of loans raised by statutory corporations, local bodies and other institutions during 2008-9,2009-10,2010-11,2011-12,2012-13,2013-14,During 2015-16 the state government issued fresh guarantee of ₹ 213.02 crore to Manipur State power Distribution Company Limited.

Two important conclusions drawn from the study are:

1. The state should continue to give guarantees considering their social and economic implications in the state. But they should be encouraged to generate surpluses as far as possible and repay loans on their own.
2. The amount contributed to the sinking fund to service these debts is small and hence should be enhanced. A fund of around Rs. 200 crores should be created in the near future after which the amount contributed to it can be reduced. The state will then be able to service these debts with ease.

Chapter 10: Implementation of FRBM Act in Manipur

Fiscal Responsibility and Budget Management Act was a major initiative for fiscal consolidation. The FC-XII recommended that each state should enact fiscal responsibility legislation. This legislation should, at a minimum, provide for

- Eliminating revenue deficit by 2008-09
- Reducing fiscal deficit to 3 percent of GSDP or its equivalent defined as ratio of interest payment to revenue receipts
- Bringing out annual reduction targets for revenue and fiscal deficits
- Bringing out annual statement giving prospects for the state economy and related fiscal strategy
- Bringing out special statements along with the budget giving in detail number of employees in government, public sector and aided institutions and related salaries.

States should follow a recruitment and wage policy such that total salary bill relative to revenue expenditure net of interest payments and pensions do not exceed 35%. It has been made a precondition for availing the debt relief scheme proposed by the commission. The FC-XII recommended the debt Consolidation and Relief Facility (DCRF) comprising consolidation of central loans contracted till March 2004 and outstanding on 31 March 2005 along with debt write off.

It will be pertinent to contextualize the fiscal crisis in the state .The Government of Manipur implemented the Fifth Pay Commission recommendations in the year 1999 with effect from 1996 which put a severe strain on its finances. The revenue expenditure increased from ₹ 789 crore in 1998-99 to ₹1357 crore in 1999-00 while the revenue receipts rose from ₹897 crores to ₹1070 crores only during the period. The rise in expenditure without a corresponding increase in revenues led to a deterioration in revenue account position resulting in the emergence of revenue deficit of ₹287 crores in 1999-00 which continued till 2003-4.The state was spending more than its revenues and it was surviving on short term borrowings from the Reserve Bank of India. It was even reported that the RBI denied withdrawals for as many as 329 days in 2001-02 as the state had no money (GOM 2002). The state was desperate for central bailout and it signed an MOU in 1999 for implementing a number of austerity measures in return for central assistance to tide over the problem. A second MOU was signed in the year 2002 for the implementation of a medium term fiscal reform programme (MTFRP) as was suggested by the Eleventh Finance Commission (FC-

XI). The state specific reform plan was drawn up by the centre in consultation with the state government with the aim of reducing revenue deficit. An incentive fund was also provided, the release of which was to be based on progress made in the reforms.

The state government introduced a number of austerity measures majority of which was aimed at curtailing expenditure. Some of these measures are:

1. Wage restraint
2. Non-hiring of new employees except in priority areas
3. Closure of sick or loss making public sector enterprises
4. Revision of user charges of public utilities

The measures did have an effect in curtailing the growth of expenditure on salary. Committed expenditure of the state consisting of expenditure on salary, pension and interest and subsidies which was 90 percent of the total revenue expenditure in 2000-01 declined to 56 percent in 2006-07 while expenditure only on salary declined from 87 percent of revenue expenditure net of payment on interest and pension to 43 percent during the same period. The revenue account position also witnessed an improvement from a deficit of 287 crores in 1999-00 to a surplus of ₹92 crores in the year 2004-05. Since then the state has maintained a healthy revenue account position. But the improvement in state finances must also be credited to a larger dose of central transfer. This is evident from Table 1 where there has been a sizeable increase in central grants from the year 2004-05 onwards. This enabled the state to fulfil the criterion laid down by the EFC which is reduction of the revenue deficit to zero. As a result, the state was able to get the full amount of incentive money amounting to ₹.. 272.23 crores set aside.

The Twelfth Finance Commission (2005-10) recommended a major debt relief program for the states. A large portion of central government debts was to be written off on the condition of the enactment of fiscal responsibility legislation (FRL) known as FRBMA (Fiscal Responsibility and Budget Management Act) by the respective state governments. The FRL was state specific but the basic framework was provided by the central government. The Government of Manipur (2005) enacted the FRBMA in the year 2005 and mentioned that the state shall try to achieve the following goals:

- Generation of revenue surplus.
- Fiscal deficit to be reduced to 3 percent of the gross state domestic product.
- Limit the amount of outstanding government guarantee.

- To bring down the total salary so that it does not exceed 35 percent of revenue expenditure net of interest payments and pension.

As per the amendments in January and July 2006 the following fiscal targets were set

- Remain revenue surplus and build up further surplus having regard to the norms of central assistance for the state plan and the tax and non tax revenue potential of the state
- Reduce the fiscal deficit by a minimum of 1% of the GSDP by the end of each financial year, beginning with the financial year 2005-6 so as to reduce it to 3% or below by 2008-9 provided that, in the event of shortfall in the reduction of revenue and fiscal deficit as envisaged, the target of reduction of deficit in the succeeding year shall stand enhanced by the amount of shortfall in the preceding year.

The amendments in July 2010 and October 2011 reset the following targets

- Reduce the fiscal deficit to a maximum of 3.5% of the GSDP by 2010-11 and maintain it below 3.5% in succeeding financial yea₹. up to 2012-13 and thereafter reduce it to maximum of 3% of the GSDP from 2013-4 and beyond.
- Maintain outstanding debt to a maximum of 65.80% of GSDP in 2010-11, 62.9% of GSDP in 2011-12,60.1% of GSDP in 2012-13, 57% of GSDP in 2013-14 and 54.30% of GSDP in 2014-15.

The 12th FC recommended that revenue deficits should be eliminated by the year 2008-09. Whether the government has been able to fulfill the FRBMA targets or not can be examined from Table2. 1 and the findings are given below:

1. As mentioned earlier, the state was able to generate revenue surplus for the entire period under study. Thus, generation of revenue surplus has been achieved before the enactment of FRBMA.
2. It was able to reduce the gross fiscal deficit to 3 percent by the year 2008-09. However, it witnessed deterioration since then. In the last five years except for 2014-15 the gross fiscal deficit target was achieved.

3. The state failed to reduce salary expenditure to 35 percent of revenue expenditure net of interest payments and pensions. Though it was stabilizing it was well above the target.

The state witnessed deterioration in the fiscal situation in 2009-10 which was due to a decline in central grants which has been a major source of revenue for the state government. Further, from the year 2010-11 onwards, the state implemented the recommendations of the Sixth Pay Commission which led to a rise in salary expenditure of the state from ₹1141 crores in 2009-10 to ₹2216 crores in 2011-12. Salary expenditure increased by as much as ₹537 crores in 2010-11 over the previous year figure while pension expenditure rose by ₹107 crores. In sharp contrast, the state had witnessed increase in salary expenditure by only ₹ 46 crores in 2009-10 over the previous year figure and by only ₹26 crores in pension expenditure.

The problem faced by the state in the wake of the Sixth Pay Commission recommendations was not confined to it alone. The states in the country in general witnessed a surge in their expenditure which had a serious dent in their effort to achieve the FRBMA goals. Taking into consideration of this problem, the Thirteenth Finance Commission recommended a new fiscal correction path for the states which is given below:

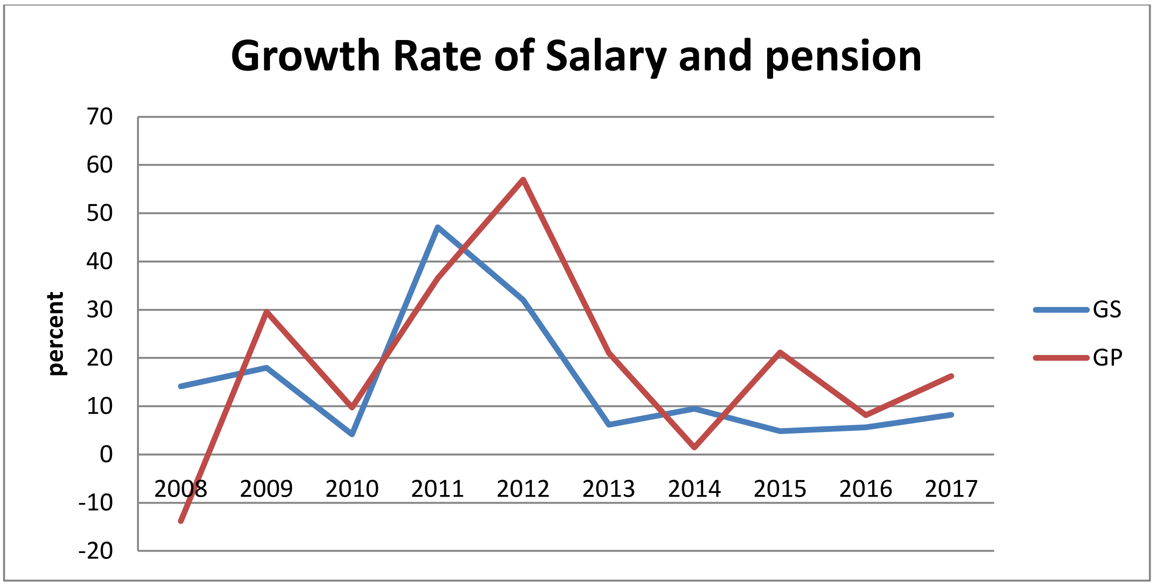
1. As far as reduction of revenue deficit is concerned, it is mentioned that states having revenue deficit in 2007-08 should eliminate it by 2014-15. Other states having surplus or zero revenue deficits in 2007-08 should eliminate revenue deficit by 2011-12.
2. For the reduction of fiscal deficit, different targets are set for general category states (GCS) and special category states (SCS). The GCS which achieved revenue balance or surplus by 2007-08 should reduce their fiscal deficit to 3 percent by 2011-12. For other GCS, they should achieve the target by 2013-14.
3. For special category states (SCS), it is mentioned that they receive large central transfers and hence continue to enjoy revenue surplus. This made recommendations for reducing revenue deficit unnecessary for them.
4. The yardstick for the fiscal adjustment path of the SCS for the various parameters. is the average of the three years. 2005-06 to 2007-08. Manipur is in the group of SCS which has fiscal deficit of over 3 percent but less than 6 percent of the GSDP. It is recommended that Manipur should bring down its fiscal deficit to 3 percent by 2013-14.

Table10. 1: Fiscal deficit (FD) path for Manipur (per cent of GSDP)

	State base	2011-12	2012-13	2013-14	2014-15
FRBM	4.1	3.5	3.5	3.0	3.0
Actual		8.11	-0.02	-1.69	3.3

Source: Thirteenth Finance Commission Report (p.139)

While the revenue deficit is the prime driver of the fiscal deficit amongst the general category states with high revenue deficit accompanying high fiscal deficit. It is different with the special category states, a category withdrawn by the FC- XIV. Manipur became a special category state in 1972 and since then has been enjoying the privilege of highly concessionary finance from the centre. Special category states have revenue surplus, yet some of them have high fiscal deficit also. These SC states are highly dependent on central grants. All central grants are classified as revenue receipt and capital expenditure incurred out of these grants is not accounted in the revenue deficit. Thus for special category states the revenue balance is not of much significance for purposes of fiscal adjustment. The base level fiscal deficit is the average of fiscal deficits of three years; 2005-06, 2006-07 and 2007-08. The phenomenal rise in salary and pension expenditure of the state in the wake of the new pay commission recommendations could have had an even more disastrous impact on state finances if not for the larger dose of central transfer from the new Finance Commission recommendations. But the state had wanted more. It seems that the recommendations for gap filling were made with the assumption that the states had implemented the new pay commission recommendations. However, the Government of Manipur implemented the pay revision only in the year 2010-11. This led to a huge fall in revenue surplus from ₹ 1352 crore in 2010-11 to ₹ 646 crore in 2011-12. The Finance Commission did make a vital mistake in overlooking it. It penalized a state like Manipur which postponed the pay hike for its employees. This has made impossible for the state to achieve the FRBMA targets.



The state government has already agreed to implement the recommendations of the seventh Pay commission from 1 April 2019 onwards. It will be deposited in employees GPF accounts. Actual payment will start from 1 April, 2020 when the awards of the XV FC become operational. The hike will become visible in 2019-20.

Requirements of FRBMA

FRBMA requires that the state should strive to remain revenue surplus by making a balance in revenue receipts and expenditure and build up further surplus.

Fig .10.1: Time path of projected and actual revenue surplus.

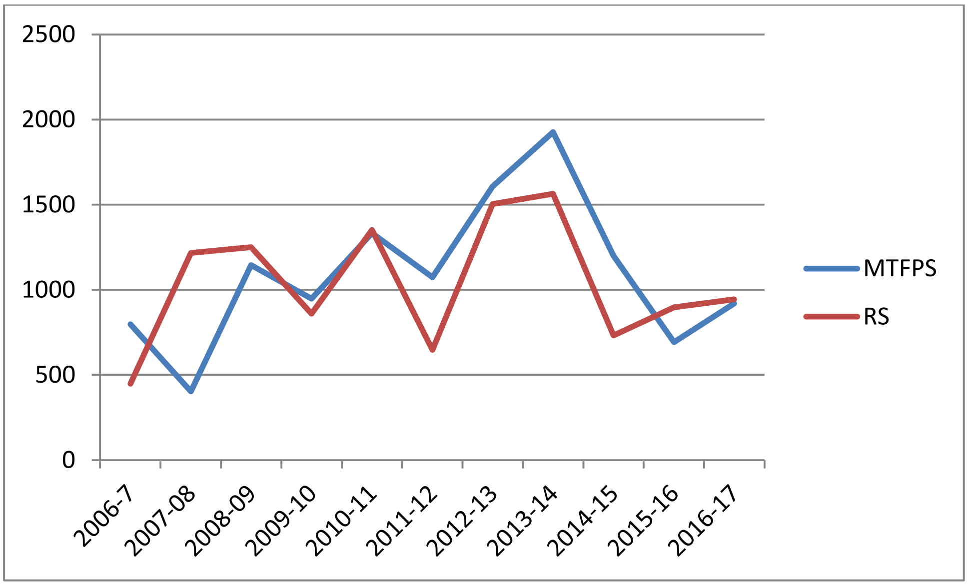
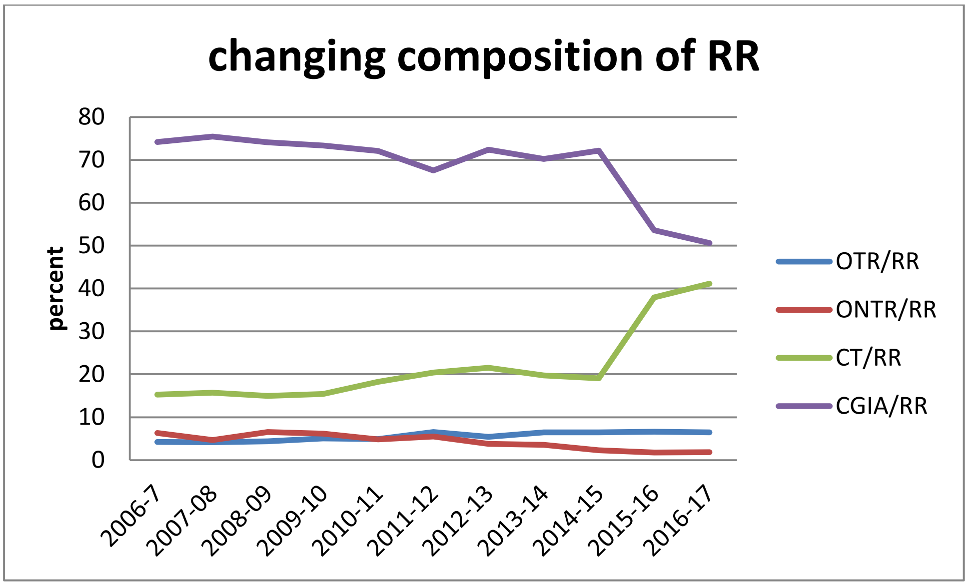


Fig.10.1 shows that the state has managed to remain a revenue surplus. However for a state like Manipur which depends on central funds overwhelmingly being revenue surplus need not be interpreted as improved management of finance. It is mainly through the flow of central funds. Own resources continue to remain below 10% of RR. The shares of ONTR and CGIA declined from 6.32% and 74.19% in 2006-7 to 1.81% and 50.62% in 2016-17 respectively. The share of central taxes rose from 15.23% to 41.15% during the same period.

Fig.10.2: Changing Composition of Revenue receipts

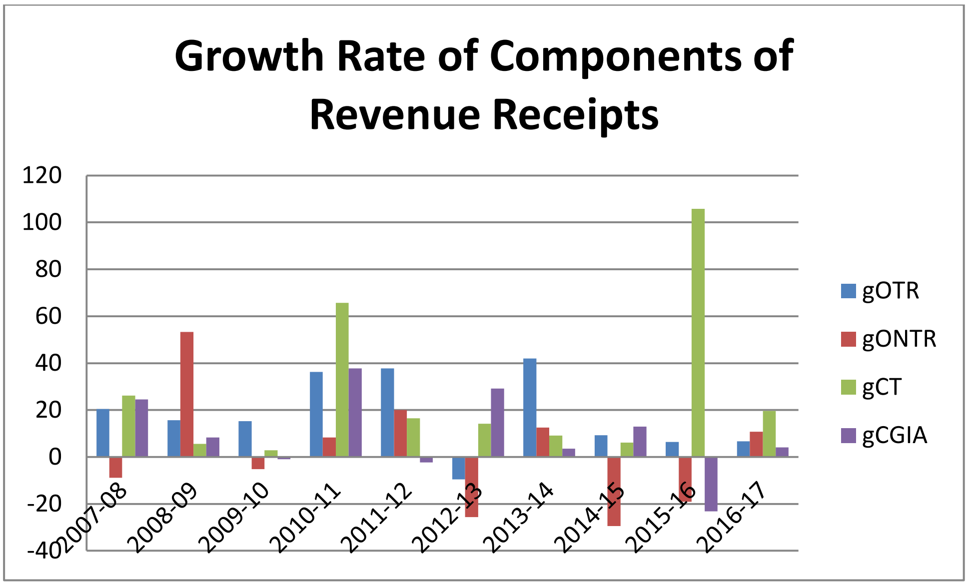


ONTR has an erratic growth rate and its share has been shrinking raising questions about the efficiency of expenditures. It registered a CAGR of (-)0.84% . The high growth rates of CT in 2010-11 and 2015-16 were due to higher shares in central taxes in the FC-XIII and FC-XIV. CT registered a CAGR of 21.63% followed by OTR at 15.35%.

Table 10. 2: Growth rate of components of RR

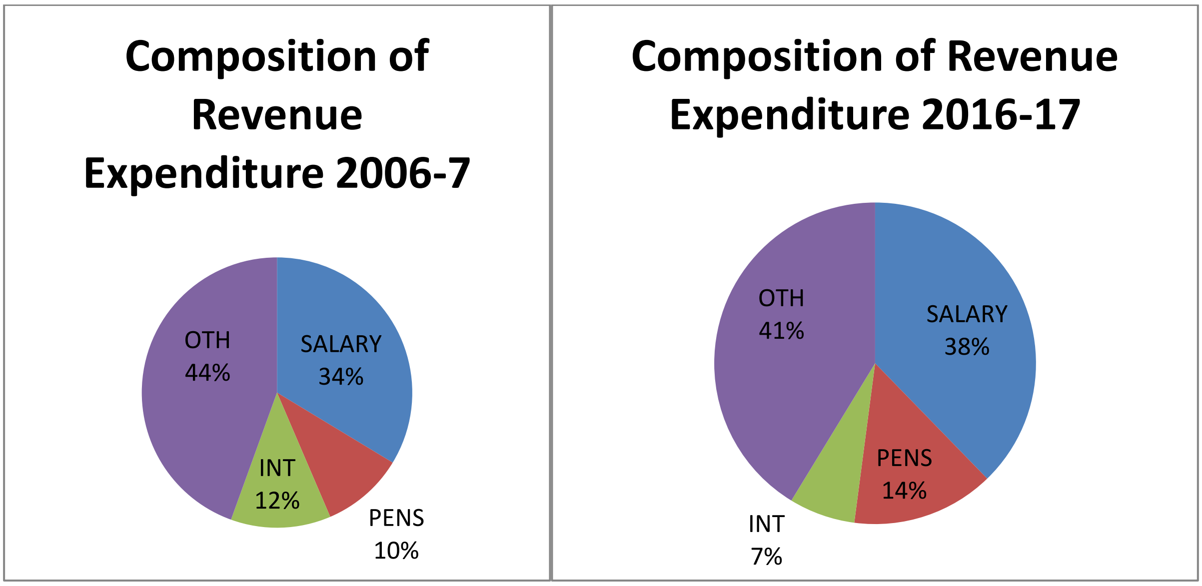
	gOTR	gONTR	gCT	gCGIA
2007-08	20.49	-8.84	26.15	24.58
2008-09	15.65	53.33	5.64	8.39
2009-10	15.29	-5.14	2.93	-0.98
2010-11	36.22	8.33	65.72	37.75
2011-12	37.83	20	16.45	-2.35
2012-13	-9.51	-25.64	14.21	29.24
2013-14	42.04	12.5	9.18	3.52
2014-15	9.3	-29.5	6.12	12.91
2015-16	6.38	-19.02	105.76	-23.1
2016-17	6.73	10.74	19.57	4.12
CAGR	15.35	(-)0.84	21.63	7.32

Fig.10.3 : Growth Rate of Components of Revenue Receipts



On the other hand the composition of revenue expenditure has not been changing much with salary as the dominant component. The share of pensions and interest also remains unchanged. It grew at a CAGR of 11.74 % , slightly higher than that of RR at 11.11%, pensions registered the highest CAGR at 15.57%.

Fig.10.4 : Composition of Revenue Expenditure



FRBMA requires not only maintaining revenue surplus but also building up further surplus. Fig.10.5 shows that the growth rate of RS has been erratic with three negative growth years.

Source: GOM Manipur Finance Account 2016-17

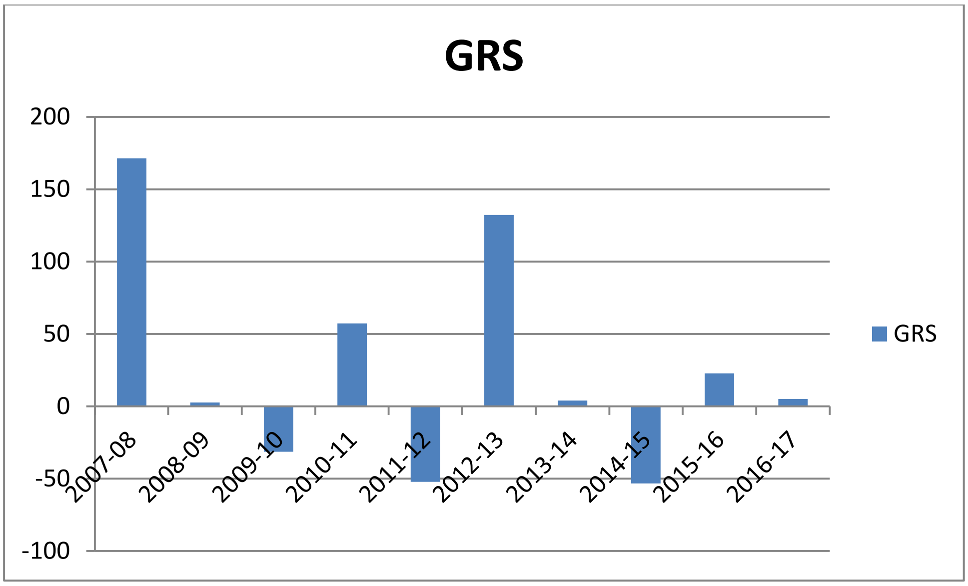


Table 10.3: Projected vs Actual Revenue Surplus

	MTFPS	RS	GRS
2006-7	797.41	448	
2007-08	404.01	1216	171.4286
2008-09	1145.82	1250	2.796053
2009-10	948.68	859	-31.28
2010-11	1333.59	1352	57.39232
2011-12	1074.17	647	-52.145
2012-13	1606.87	1503	132.3029
2013-14	1926.12	1564	4.05855
2014-15	1198.8	731	-53.2609
2015-16	692.77	898	22.84542
2016-17	920.21	944	5.122494

Another requirement of FRBMA is the limit imposed on expenditure for salaries. Salary expenditure should be below 35% of RE net of pensions and interest which are also committed expenditures. Fig 10.6 shows that Manipur has not even once been able to meet this obligation during the study period. The nearest was 43.08% in 2006-7. It reached 57% in 2012-13 and 2013-14. The gap between the desirable and actual has started coming down.

Fig.10.6 : Desirable vs Actual salary

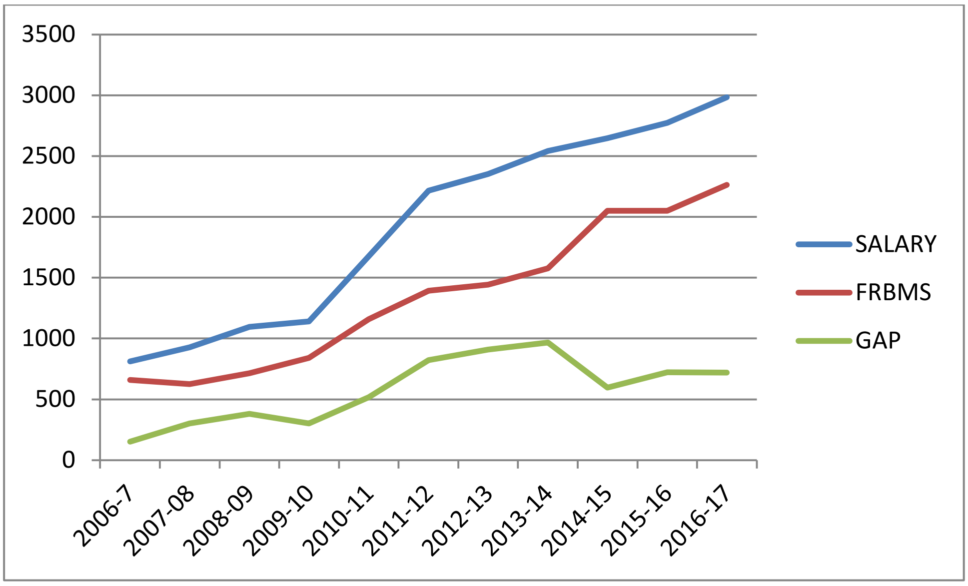


Table 10.4 : Desirable vs Actual Salary

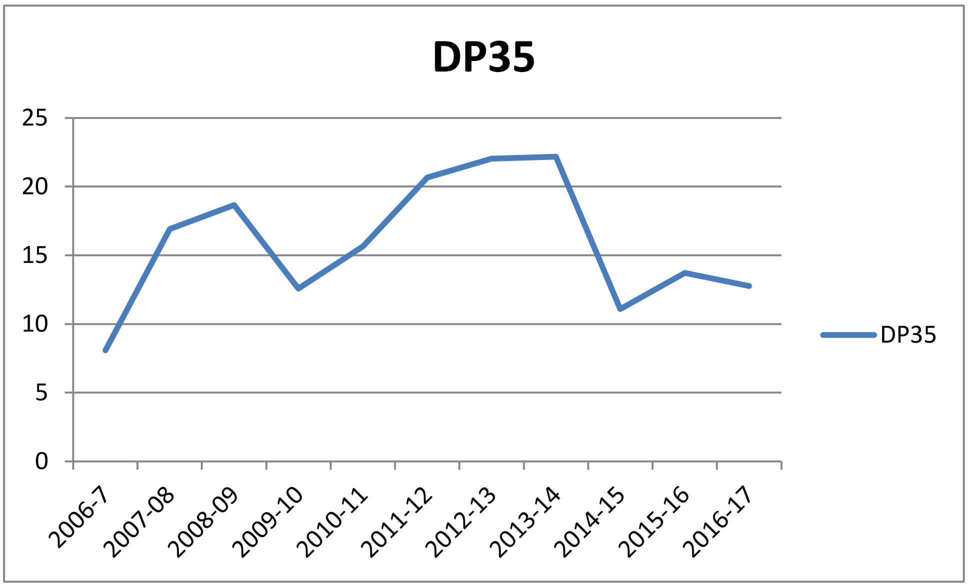
	SALARY in₹ crore	FRBMS in₹ crore	GAP in₹ crore	PRENIP in %	DP35 in %
2006-7	813	660.45	152.55	43.08	8.08
2007-08	928	625.8	302.2	51.9	16.9
2008-09	1095	714.35	380.65	53.65	18.65
2009-10	1141	839.65	301.35	47.58	12.58
2010-11	1678	1159.55	518.45	50.65	15.65
2011-12	2216	1393.35	822.65	55.65	20.65
2012-13	2352	1443.4	908.6	57.03	22.03
2013-14	2543	1576.05	966.95	57.18	22.18
2014-15	2646	2051	595	46.08	11.08
2015-16	2773	2049.95	723.05	48.71	13.71
2016-17	2983	2263.45	719.55	47.75	12.75

FRBMS : FRBM limit of salary 35% of revenue expenditure net of interest and pension payment

GAP = SALARY – FRBMS DP35 Difference between the actual proportion and FRBM rate 35%

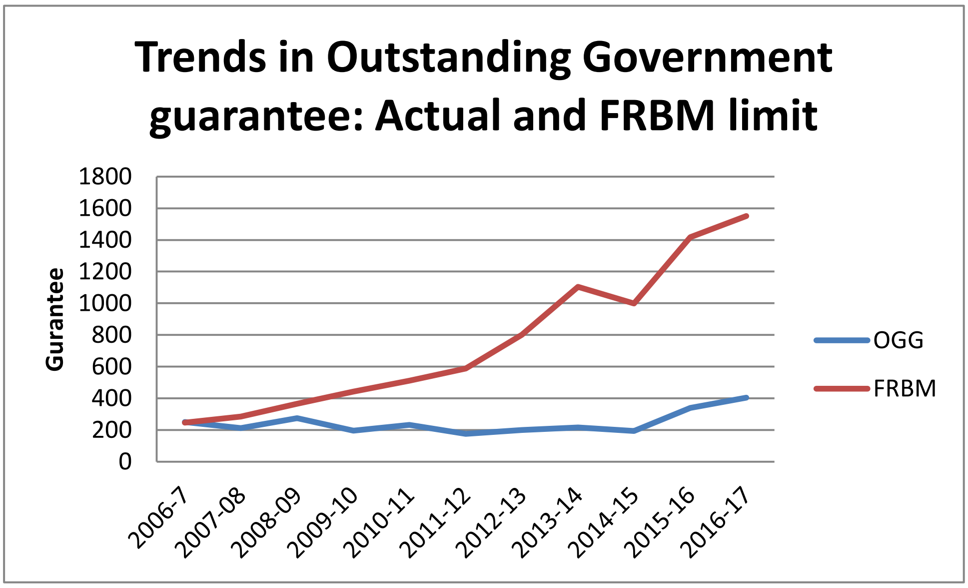
PRENIP salary as percent of revenue expenditure net of interest and pension

Fig.10.7 : Difference between the actual proportion and FRBM rate 35%



Yet another requirement of FRBMA is that the outstanding government guarantee should be limited as per the provisions of the Manipur ceiling on State Government Guarantee Act, 2004. Throughout the state has successfully contained government guarantees within the FRBM limits.

Fig.10.8: Trends in Outstanding Government Guarantee



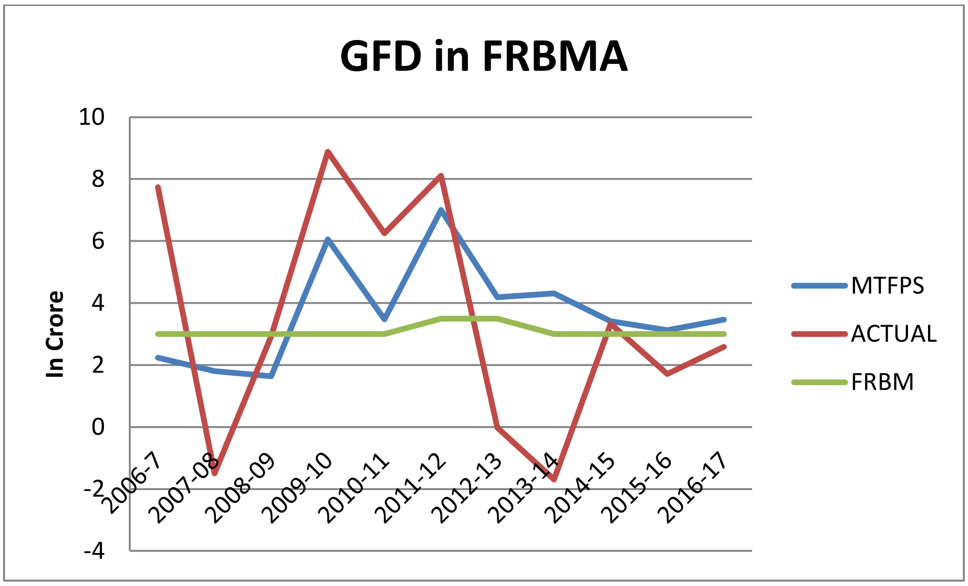
Gross fiscal deficit as percent of GSDP is yet another requirement to be fulfilled. In the case of Manipur GFD/GSDP has followed an erratic path. It was within the FRBM Act limit in 6 out of 11 years.

Table 10.5 : GFD/GSDP

	GFD/GSDP in %		
	MTFPS projected	Actual	FRBM
2006-7	2.24	7.74	3
2007-08	1.8	-1.5	3
2008-09	1.64	2.93	3
2009-10	6.05	8.88	3
2010-11	3.48	6.25	3
2011-12	7	8.11	3.5
2012-13	4.19	-0.02	3.5
2013-14	4.31	-1.69	3
2014-15	3.41	3.33	3
2015-16	3.12	1.71	3
2016-17	3.46	2.59	3

Source : CAG Reports

Fig.10.9



Conclusion:

Thus it is clear that Manipur has not been able to achieve the targets spelled out in FRBM Act except for maintenance of revenue surplus and outstanding guarantees. In the case of revenue surplus its growth has been erratic. It is likely to be serious in the near future when the state government starts implementing the awards of the seventh pay commission. However it should be noted that revenue surplus in Manipur has more to do with enhanced inflow of funds from the centre as state share in shareable central taxes and central Grant-in –aid.

Chapter 11: Subsidy: Its Targeting and Evaluation

Price subsidies constitute an important part of the anti-poverty discourse in the government's own policy toolkit. Both the central and state governments subsidise the price of a wide range of products and services with the expressed intention of making them affordable for the poor. Because of externality, normal market mechanisms do not adequately ensure an appropriate spread of such services. In such cases, subsidies provide the necessary corrective. Subsidies can enhance under consumption of goods with positive externalities. Benefits can be maximised only when the subsidies are transparent, well targeted and suitably designed for effective implementation without any leakages. Subsidies have been extended to health, education, sanitation and protection of environment. Rice, wheat, pulses, sugar, kerosene, LPG, naphtha, water, electricity, diesel, fertiliser, iron ore, railways –these are just a few of the commodities and services that the government subsidises. The following subsidies are extended by the state government under the State Industrial Policy - state capital subsidy, state transport subsidy, interest subsidy, power subsidy, subsidy for feasibility study, subsidy for technical knowhow, reimbursement and exemption of local sales tax, reimbursement of stamp duty and registration fee. It also extends many subsidies to the handloom sector. The general impact of a subsidy is to lower the price of a commodity or service since the government bears the extra cost. The government provides subsidy to the consumer or the producer or it can provide a service subsidy on the inputs going in to the production of a commodity. Subsidies are the converse of indirect taxes and are specific to goods and services. These are different from transfer payments, which are straight income supplements to individuals, who are normally the poor and the vulnerable.

The proliferation of subsidies in India is an outcome of undue expansion of Government activities in the provision of goods and services that are not pure public goods. Government expenditure is classified into general services, social services and economic services. General services e.g. justice, jails and police are in the nature of pure public goods. Government also provides a range of non public goods under the heads of social and economic services. Pure public goods, such as defence and law and order, are identified by the twin characteristics of non-rivalry and non-excludability. Subsidies result from the Government's inability to recover its cost adequately in many of these activities. Budgetary subsidies arise when the budgetary cost of providing a good or a service exceeds the recovery made from the users of the good or service. The Ministry of Finance, Govt. of India brought out a Discussion Paper (DP 1997) on the subject of subsidies in May 1997. This paper had taken a broad view of subsidies as unrecovered costs of public provision of non-public goods and services financed by the budget beyond what is explicitly mentioned in the budget document as subsidy. The DP 1997 critiqued the subsidy regime as being unduly large, non-transparent, largely input-based and poorly targeted, generally regressive in its incidence, and inducing waste and misallocation of resources. It had argued that the proliferation of subsidies in India could be attributed to an undue expansion of governmental activities in the provision of private goods. Apart from public goods like defence and maintenance of law and order, the government had extended itself into various social and economic sectors producing a wide range of private goods and services. However, in many of these areas, costs tended to be very high and cost recoveries poor, giving rise to an undue growth both in the extent and volume of subsidies implicit in the budgetary provision of these services.

The issue of subsidies has been growing more and more complex. Not only the level of subsidies has been rising inexorably due to various reasons, the efficiency and composition of subsidy is increasingly being questioned. The bulk of these explicit and implicit subsidies are cornered by the urban middle class. However, the political economy of subsidy distribution has changed with the rise of Dalit and backward class politics. The more assertive Dalit and backward class leaders are demanding a bigger slice of the implicit and explicit subsidies. Free supply of schoolbooks, cycles for girl students, lunch packets, saris and subsidised tuition fee, employment guarantee, food security etc. are becoming the norm in the governments. A price subsidy is said to be regressive when a rich household benefits more from the subsidy than a poor household. However it is increasingly realised that they may not be the best instrument in the fight against poverty. Subsidised services can also be regressive disproportionately benefitting the richer households. Electricity subsidy ends up benefitting the relatively wealthy households that are electrified. The poorest 50 percent of households consume only 25 percent of LPG. Only 46 percent of total consumption of subsidised kerosene is by households with a Below Poverty Line (BPL) or Antyodaya Anna Yojana (AAY) card and only 49 percent is consumed by households in the bottom 3 deciles of the expenditure distribution. Price subsidies can distort markets against the poor.

PDS leakages are defined as the difference between total allocation of PDS kerosene, rice and wheat and actual household consumption. Manipur has a high leakage in all items, According to Economic Survey 2014-15, Govt. of India the leakage of kerosene in Manipur was 84%. Out of total PDS allocation of 24967 kilo litres 0nly 3893 kilo litres were consumed as per aggregate NSS data 2011-12. Fraction of consumption by poor households also was only 35%. The government subsidised ₹33.9 per litre for 2013-14. In the case of PDS rice, of the total PDS offtake of 124,444 tonnes only 5268 tonnes were PDS consumed as per NSS 2011-12. The leakage was 96% with the fiscal cost of this excess allocation working out to 193 crore. With PDS wheat the leakage worked out to 100 %. Out of the offtake of 20440 tonnes only 3 tonnes were PDS consumed. The subsidy was ₹1237 and ₹1619 per quintal for rice and wheat respectively. The Prime Minister recently stated that leakages in subsidies must be eliminated without reducing the subsidies themselves. The same amount of benefit that households gain through subsidies can be directly transferred to the poor through lump-sum income transfers, avoiding the distortions that subsidies induce. Thus converting all subsidies into direct benefit transfers has come to be treated as a laudable goal of government policy. The JAM Number Trinity– **J**an Dhan Yojana, **A**adhaar and **M**obile numbers – allows the state to offer this support to poor households in a targeted and less distortive way.

The structural reforms programme initiated in 1991 aimed at, inter alia, reducing fiscal imbalances and improving allocative efficiency. Containing and targeting subsidies constituted an important element of reforms by minimizing the distortions in relative pricesarising from budgetary and fiscalimprudence. Management of subsidies is one of the most complex issues a government faces. The annual financial statements presented with the budget state only a small part of the subsidies in an explicit manner. Substantial subsidies remain hidden in the budgeted expenditures in the provision for social and economic services. Implicit subsidies arise when the government is unable to recover the costs it incurs in the provision of social and economic goods/services. The return on PSU investments is dismally low, implying large implicit subsidisation. The Discussion Paper on subsidies in 1997 had made the following important suggestions:

(a) Reducing the overall scale of subsidies.

(b) Making subsidies as transparent as possible (and duly reflected in the budget of the government).

(c) Using subsidies for well-defined economic objectives.

(d) Focussing subsidies to final goods and services with a view to maximising their impact on the target population at minimum cost.

(e) Instituting systems for periodic review of subsidies.

(f) Setting clear limits on duration of any new subsidy schemes.

There is a need to target subsidies at the poor and truly needy persons. The Report on central Government Subsidies in India (2004) brought out by Min. of Finance suggested 3 tiers of government social and economic services in terms of their deservingness.

Merit I: Elementary education, primary health care, prevention and control of diseases, social welfare & nutrition, soil and water conservation

Merit II: Education (other than elementary), sports and youth services, family welfare, urban development, forestry, agricultural research and education, other agricultural programmes, special programmes for rural development, land reforms, other rural development programmes, special programmes for north-eastern areas, flood control and drainage, non-convention energy, village and small industries, ports and light houses, roads and bridges, inland water transport, atomic energy research, space research, oceanographic research, other scientific research, census surveys and statistics, and meteorology.

Non merit: All others

At the state level not all items are relevant and the usual budgetary statements aggregate many items. Explicit subsidies provide only a limited view of the overall volume of subsidies. In order to have a complete picture, there is a need to estimate the implicit subsidies resulting from unrecovered costs of public provision of goods and services not classified as public goods. The cost of providing a service comprises of three elements: current costs, annualized capital costs (opportunity costs of funds used for capital assets and imputed depreciation), and opportunity cost of funds invested in the form of equity or loan for the service. In cases other than pure public goods, there is scope for cost recovery from the beneficiaries. In the exercises that follow , due to non availability of data, cost of providing a service comprises of two elements – current cost and capital costs.

There are three main approaches to measuring government subsidies: aggregating explicitly stated subsidies in government budgets, national income accounting approach and measuring budgetary subsidies as unrecovered costs. Explicit subsidies provide only a limited idea of the overall volume of budgetary subsidies in the system. In the national income framework subsidies net of indirect taxes, constitute the difference between product measures (GDP, GNP) at factor cost and market price. This is not available at state level. Budgetary subsidies are measured as unrecovered costs in the public provision of goods not classified as public goods through budgetary allocations. Services considered are social services and economic services. The aggregate costs comprise of current costs and annualised capital costs. Current costs consist of revenue expenditure related to the provision of that service. In the case of capital costs, the annualised cost of capital is obtained by applying the interest rate at which funds have been borrowed by the government to capital stock. This is essentially the opportunity cost of capital. A depreciation cost is also calculated for physical capital. The receipts may be revenue receipts from user charges, interest receipts on loans and dividends on equity investment.

The following table shows the level of explicit subsidy in Manipur.

Table 11.1: Explicit subsidy (₹crore)

Year	2006-7	2007-8	2008-9	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Subsidy	3	-	2	3	2	1.84	0.47	0.43	170.19	185.22	156.62

However this is only a small segment of the total amount of explicit and implicit subsidy born by the state exchequer. The sudden rise in subsidy in 2014-15 was due to a subsidy of ₹ 170 crore under power sector. The Electricity department started functioning as two separate companies from April 2014. Before that being a government department the subsidy used to be implicit. In this sector cost of purchase of power has been persistently higher than non taxrevenue collection under this sector implying a high implicit subsidy. In 2016-17 subsidy to power sector constituted 99.95% of explicit subsidy given.

Tables 11.2 and 11.3 give an idea of the extent of subsidisation in various services in terms of unrecovered costs and the rate of returns to the investment made.

Table 11.2 BUDGETARY SUBSIDY 2006-7 (Rs lakh)

	2006-7			lakhs		
	Rev	Capital	Total	Rec	subsidy	Returns
Education ,sports,Art& culture	38572.46	4733.56	43306.02	93.9	43212.12	0.216829
Health & Family welfare	6771.35	2885.95	9657.3	23.82	9633.48	0.246653
water supply ,sanitation,Housing & urban dev	6339.06	18751.14	25090.2	207.39	24882.81	0.826578
inf& broadcasting	253.95	49.99	303.94	5.41	298.53	1.779957
welfare of Sc,ST	6459.63	123.43	6583.06		6583.06	
Labour & labour welfare	624.43		624.43	3.76	620.67	0.602149
soc welfare & nutrition	7067.86	12.17	7080.03	4.39	7075.64	0.062005
soc services	66395.76	27050.22	93445.98	338.67	93107.31	0.362423
Agri& allied services	15613.17	383.91	15997.08	225.71	15771.37	1.410945
Rural dev	4932.83	14.1	4946.93		4946.93	
special areas programme	2095.9	1826.86	3922.76		3922.76	
Irrigation & flood control	4065.47	25815.88	29881.35	791.15	29090.2	2.647638
power	43073.97	6138.49	49212.46	4023.68	45188.78	8.176141
Ind& minerals	3789.37	3289.03	7078.4	14.53	7063.87	0.205272
Transport	9994.81	8309.57	18304.38	0.12	18304.26	0.000656
Science,tech& environment	404.6		404.6	1.09	403.51	0.269402
Tourism	201.4	723.98	925.38	4.15	921.23	0.448464
General economic services	3568.89	723.98	4292.87	9.92	4282.95	0.231081
Economic services	87734.01	46501.82	134235.8	5066.33	129169.5	3.774201

Table 11.3 Budgetary subsidy 2016-17 (₹ lakh)

	Rev.exp.	Capital Exp.	Total	Rec	subsidy	Returns
Education ,sports,Art& culture	115877.5	5231.3	121108.8	128.72	120980.1	0.106285
Health & Family welfare	42522.43	5397.14	47919.57	49.72	47869.85	0.103757
water supply ,sanitation,Housing & urban dev	10871.87	27534.66	38406.53	396.04	38010.49	1.031179
inf& broadcasting	543.19	103.75	646.94	7.72	639.22	1.19331
welfare of Sc,ST	8024.19	2785	10809.19		10809.19	0
Labour & labour welfare	1503.59		1503.59	4.38	1499.21	0.291303
soc welfare & nutrition	26333.32	247	26580.32		26580.32	0
soc services	205676.1	41299.5	246975.6	592.09	246383.5	0.239736
Agri& allied services	35725.3	174.56	35899.86	706.01	35193.85	1.966609
Rural dev	81082.52		81082.52	61	81021.52	0.075232
special areas programme	5737.35	5816.97	11554.32		11554.32	0
Irrigation & flood control	9070.7	40511.09	49581.79	175.03	49406.76	0.353013
power	74996.55		74996.55	12.84	74983.71	0.017121
Ind& minerals	7109.17		7109.17	26.45	7082.72	0.372055
Transport	11124.38	46481.61	57605.99	0.81	57605.18	0.001406
Science,tech& environment	2828.85	1000	3828.85	7.17	3821.68	0.187262
General economic services	43006.79	3187.89	46194.68	111.95	46082.73	0.242344
Economic services	270681.6	98457.27	369138.9	1101.29	368037.6	0.29834

The analysis of the rate of return shows that the returns in social services have been much lower than economic services. The returns on power sector, the service with the highest return has declined substantially from 8.17% to 0.017%.

Fig 11.1 : Comparative Rate of Return in percent

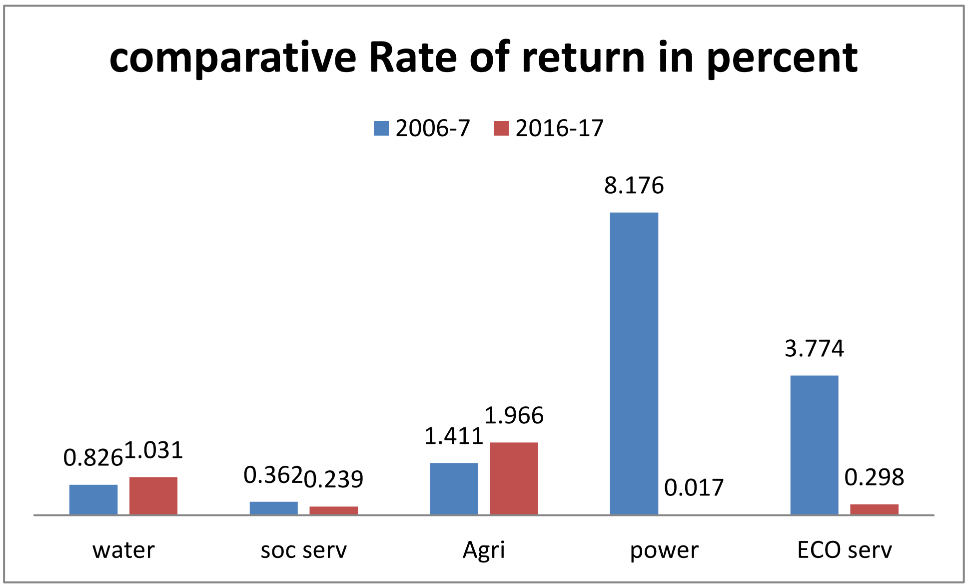


Table 11.4 shows the rates of return in social services and economic services during 2006-07 to 2016-17.

Table 11.4: Rate of return

Year	SS	ES
2006-7	0.36	3.77
2007-8	0.44	5.52
2008-9	0.72	6.2
2009-10	0.8	6.16
2010-11	0.88	4.56
2011-12	0.36	4.26
2012-13	0.46	4.86
2013-14	0.33	4.36
2014-15	0.24	0.3
2015-16	0.24	0.22
2016-17	0.24	0.33

Note: SS: social services ES: Economic services

The rate of return in economic services has declined over the decade from 3.77% in 2006-7 to 0.33% in 2016-17. The appearance of recovery has been reversed. In the case of social services returns on investment have been exceedingly low and there is also a reversal of rising trend.

Fig 11.2: Rate of returns

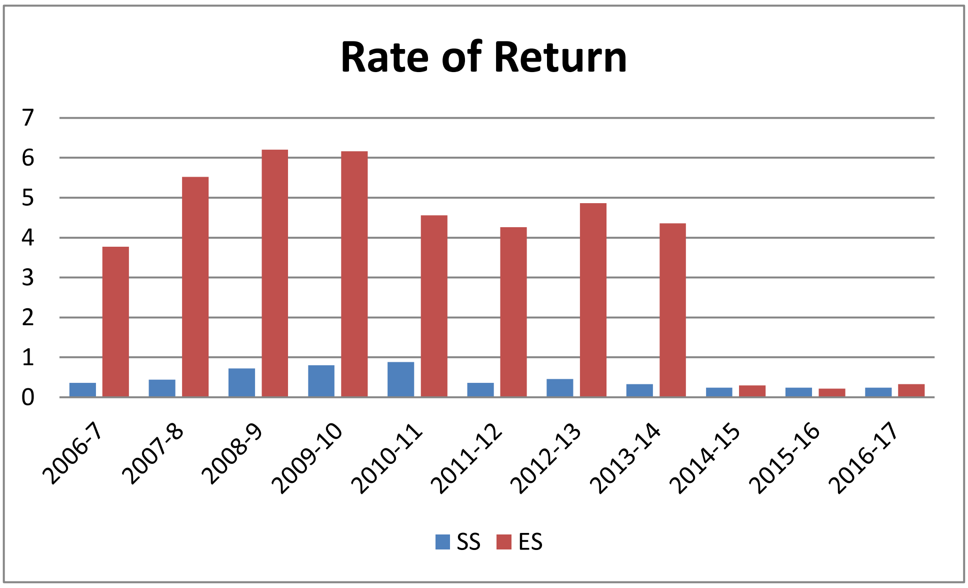


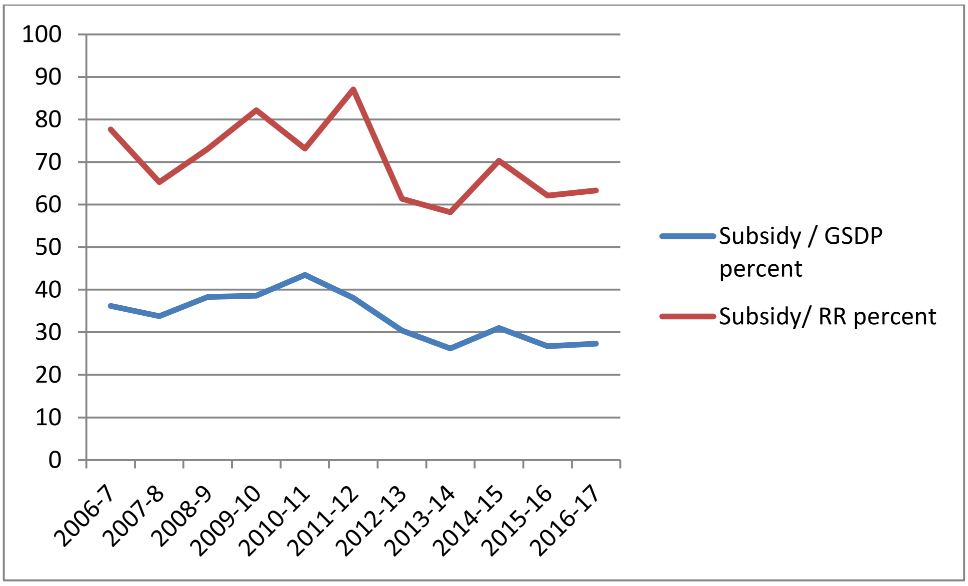
Table 11.5 shows the importance of subsidies in GSDP and revenue receipts (RR). Subsidies as proportion of revenue receipts have remained high fluctuating between 58.19% and 83%. Though the proportion of subsidies in gross fiscal deficit has gradually declined, it remains high.

Table 11.5: Incidence of subsidy

Year	Subsidy	GSDP	RR	GFD	Subsidy / GSDP percent	Subsidy/ RR percent	Subsidy/ GFD percent
2006-7	2223	6137	2863	475	36.22	77.64	467.95
2007-8	2289	6783	3508	-102	33.75	65.27	-2244.62
2008-9	2831	7399	3948	473	38.27	71.72	598.59
2009-10	3183	8254	4005	407	38.56	79.47	782.03
2010-11	3970	9108	5430	570	43.58	73.11	696.44
2011-12	4920	10410	5910	1650	47.26	83.24	298.16
2012-13	4184	13748	6820	0	30.43	61.35	
2013-14	4238	16198	7283	-270	26.16	58.19	-1569.63
2014-15	5624	18129	7998	600	31.02	70.32	937.33
2015-16	5145	19233	8280	1100	26.75	62.14	467.73
2016-17	5780	21154	9129	750	27.32	63.31	770.67
CAGR	9.08	11.91	11.12				

Note: in ₹ crore

Fig 11.3: Incidence of subsidy



The graph shows that the proportion of subsidies in GSDP and revenue receipts has been falling gradually.

As most of the subsidies have been incurred in financing social services and as the role of the government has become more complex there is little scope in reducing this subsidy. However there should be an attempt to sustain this with lower subsidies in the economic services. Services like power and water supply are being rationalised to reduce the subsidy element. Electricity department was corporatized in 2014. As of now given the growing gap between per capita consumption of electricity in Manipur and all India the level of subsidy in power sector will remain high in the near future even though it is expected to decline gradually. Besides this there is also a need to ensure efficient expenditure in the subsidised sectors in general and the social services in particular. In the health sector government institutions have failed to deliver the service and private health care institutions have proliferated at the cost of government hospitals. Commercialisation of health care should not mean sub standard facility in government hospitals and super speciality facility in private institutions mushrooming around every government institution as in the case of Jawaharlal Nehru Institute of medical Sciences and Regional Institute of Medical Sciences. The point is – as we are not in any position to drastically reduce the level of subsidies in the near future, utmost care should be taken to rationalise the expenditure i.e. by trying to recover user charges wherever possible and ensuring that the money is properly spent. The cost of subsidising inefficient expenditure will be substantially higher than subsidising efficient expenditure, efficiency defined in terms of realisation of set objectives.

Chapter 12: Trends in Local Body Finance

Local bodies play an important role in the development process. Yet the stage where the local bodies become capable of delivering high quality service to the people is a long way to go. Though the central FCs have been recommending building up of a proper data base, capacity building and e-governance by the local bodies and funds have been allocated, these aspects do not seem to have received enough attention.

Ever since the eleventh Finance Commission, Finance Commissions are required to make recommendations to augment the consolidated fund of the states to supplement the resources of the local bodies on the basis of State Finance Commissions awards. Though the tenth FC was not required to begin with making any recommendation regarding local bodies, subsequent to the 73rd and 74th amendments the FC recommended ad hoc grant due to the non availability of SFC reports. The XI and XII FC also recommended ad hoc grants due to practical difficulties in accommodating the SFC reports.

Table 12.1: Criteria for transfer to local bodies across Finance Commissions

XI FC	XII FC	XIII FC	XIV FC
i. Population 40% ii. Distance from highest per capita income:20% iii. Revenue effort :10% iv. Geographical are a :10% v. Index of decentralisation : 20%	i. Population : 40% ii. Distance from highest per capita income:20% iii. Revenue effort a. With respect to state's own revenue: 10% b. With respect to GSDP:10% iv. Geographical area:10% v. Index of deprivation: 10%	i. Population: 50% ii. Area :10% iii. Distance from highest per capita sectoral income PRIs 10% (primary)ULBs 20%(net of primary) iv. Index of devolution :10% v. SC/ST proportion in the population :PRIs 10% vi. FC local body grants utilisation index : 5%	i. Population 2011: 90% ii. Area: 10%

Source: Various Finance Commission Reports

In the XIV FC the grant to each State is divided into two - a grant to duly constituted gram panchayats and a grant to duly constituted municipalities, on the basis of urban and rural population of that State using the data of 2011 census.

The following table shows the state's share for Grants to local bodies in XIV FC.

Table 12.2 : Manipur's share for Grants to Local bodies In XIV FC (in ₹ crore)

	Rural Local Bodies		Urban local bodies	
	Basic Grants	Performance Grants	Basic Grants	Performance Grants
2015-16	22.25		16.57	
2016-17	30.80	4.04	22.95	6.77
2017-18	35.59	4.57	26.52	7.66
2018-19	41.17	5.19	`30.67	8.70
2019-20	55.63	6.80	41.45	11.40
	185.44	20.60	138.16	34.54

Source : XIV Finance Commission Report

State Finance Commissions

Manipur has had three state Finance commissions- First Manipur State Finance Commission (1996), second Manipur State Finance Commission (2004) and third Manipur State Finance Commission (2014). The First Manipur State Finance Commission was constituted in 1994 as a one man commission and it was reconstituted in 1996. The award of the 1st MSFC covered the period of five years from 1/4/1996 to 31/3/2001. The period of the 2nd MSFC was from 1/4/2001 to 31/3/2006 and that of the 3rd MSFC was from 01/4/2013 to 31/3/2018. The report of the 2nd SFC was passed in the state assembly during December 2005. The awards of the 3rd SFC however became operational 2014-15 onwards. The state government decided to extend the period covered by the 2ndMSFC upto 31/3/2010 and further till the report of the 3rd MSFC was submitted and adopted by the government. Article 243-I read with Article 243-Y requires that the SFC should be set up at the expiration of every fifth year. The XIII FC had observed the need for synchronising the period covered by the SFC and the Central Finance Commission. In the present context the period under consideration comes under second and third State Finance Commission awards (2ndSFC: 2006-7 to 2013-14, 3rd SFC: 2014-15 to 2016-17) and twelfth, thirteenth and fourteenth central finance Commission (.12 FC: 2006-07 to 2009-10, 13 FC : 2010-11 to 2014-15, 14 FC: 2015-16 to 2016-17).

The terms of reference for the third state Finance Commission were as follows:

1. The distribution between the state and the panchayats including Autonomous District Councils and Municipalities of the net proceeds of taxes ,duties, tolls and fees leviable by the state which may be divided between them under part –IX A of the Constitution and the allocation between the panchayats including Autonomous District Councils and Municipalities at all levels of their respective shares of such proceeds;
2. The determination of the taxes, duties, tolls and fees and the extent and amount thereof which may be assigned to , or appropriated by the panchayats including Autonomous District Councils and Municipalities;
3. The principles which should govern the grants –in-aid to the panchayats including Autonomous District Councils and Municipalities from the consolidated fund of the state; and
4. The measures needed to improve the financial position of the panchayats, the parishads, the Autonomous District Councils and the Municipalities.

Local Bodies in Manipur:

The 73 rd Constitutional Amendment Act conferred constitutional status to the panchayats and recognised them as the third tier of Government. It provides for devolution of powers and responsibilities to the panchayati Raj Institutions (PRIs) with respect to preparation of plans and programmes for economic development and social justice and implementation of the 29 subjects listed in the XI th schedule of the constitution of India. The 73 rd and the 74 th amendment of the Indian constitution are applicable only to the valley districts of Manipur. Following the 73rd amendment a two tier panchayati Raj structure was created for the four valley districts under the provisions of the Manipur Panchayati Raj Act 1994. Manipur has 4 zillaparishads and 161 Gram Panchayats. The first general election to the Zillaparishads and Gram Panchayats was held in 1997.

The Manipur Municipalities Act 1994 was enacted after the 74th amendment of the Constitution. It came into force on 24 June 1994. Since then general elections for the panchayats have been held every five years.There are 28 ULBs in Manipur comprising of 1 municipal corporation, 21 municipal councils , 5 Nagar Panchayats and 1 small town committee. There are 167 rural local bodies comprising of 161 Gram Panchayats and 6 ZillaParishads.

There is one small town committee namely Moreh in Chandel district. The hill areas of Manipur are exempted from the application of the 73rd constitutional amendment as per article 243M of the constitution. There are 6 Autonomous District Councils set up under the Manipur (Hill Areas) District Councils Act, 1971 in the five hill districts. Manipur has around 1856 Village Authorities set up under the provisions of Manipur (village Authorities in the Hill Areas), 1956. Village Authorities perform law and order functions in accordance with the tribal customs and traditions as per Village Authority Act. They also implement MGNREGA programmes

The SFC had *inter alia* recommended the following:

1. Transfer of functions and responsibilities to local bodies;
2. the principles of devolutions of fund and grants to local bodies;
3. Power of levying taxes and fees including enhancement of rates;
4. Transfer of staff and administrative control thereof necessary for performing assigned functions and
5. Making the local bodies representative in character by holding timely and regular election

The above recommendations have been accepted by the State Government (December, 2005). The ULB are funded through grants and assistance received from the state and the central government. Under section 74 and section 75 of the Manipur Municipalities Act, 1994, the ULBs may levy, collect and appropriate such taxes, duties, tolls and fees etc under prescribed conditions.

Table 12.3: SFC Reports

	1st SFC	2nd SFC	3rd SFC
Period covered	1996-7 to 2000-01	2001-02 to 2005-06,extended to31.03.2010 and subsequently till the award of the 3rd SFC becomes operational	2013-14 to 2017-18; it became operational since 2014-15
Date of submission	Dec,1996	Nov.,2004	Dec,2014
Date of submission of ATR	July,1997	13th Dec.,2005	24th June,2015
Devolution recommendation	(1) 5.229% of the state share in the Union taxes to LBs was suggested for the first year of SFC recommendations i.e.for the year 1996-97.Thereafter a fixed sum of Rs.8.67crore per annum was to be devolved to LBs for the remaining period (2) 50% of land revenue to PRIs	10 % of the state's own revenue including the state's share of central taxes to the local bodies including District councils. Out of this 10 % ,34.38 % is to be transferred to PRIs. The share of ULBs was 20.62% of the 10% share. The share of the district councils in the hill districts should not be less than 45% of the 10 %.	10% share in the state's own revenue including the state's share in central taxes and duties for the Panchayats including the ADCs and Municipalities , subject to the condition that the expenditure on the salaries of the teachers of schools run by the ADCs will be met through a grant-in-aid from the Consolidated Fund of the state. Share of PRIs 35.28% Nagar panchayats 6.88%,Municipal corporations 15.61% and ADCs 42.23%

Source : Various State Finance Commission Reports

The following criteria and weightage are used for deciding the share of various district councils:

Table 12.4: Devolution criteria in 2nd SFC

Sl.no.	criterion	Weight in %
1	Population (2001)	60
2	Area (sq.km)	10
3	Distance of ADC HQ from the state capital (km)	10
4	Economic backwardness(literacy rate 5% and percent of villages electrified 5%)	10
5	Additional resource mobilization and economy measures	10

An amount of ₹ 17.79 crore was released by the state government to ULBs as Grant-in-aid under 2nd SFC award for 2008-9. The shares of ULBs are Imphal Municipal Council 20 %, other Municipalities/Nagar Panchayats 80% and Small town committee (10% of the share of other Municipalities/Nagar Panchayats).

According to the 3rdSFC “the commission recommends allocation of a 10% share in the state’s own revenue including the state’s share in central taxes and duties for the Panchayats including the Autonomous District Councils and Municipalities, subject to the condition that the expenditure on the salaries of the teachers of schools run by the ADCs will be met through a grant-in-aid from the Consolidated Fund of the state. “(3rd SFC:p- 172). However the state government has accepted to transfer 10% of the gross state’s own tax revenue only not including that of share in central taxes to the local bodies every fiscal year (2015-16 to 2019-20).

The recommendations of 3rd SFC became operational from 2014-15.

Table 12.5: The distribution of the 10% share among the local bodies

S.no.	Category	Population	Share (%)
1	PRIs	1007041	35.28
2	Nagar Panchayats	196461	6.88
3	Municipal Councils	445560	15.61
4	Autonomous District Councils	1205275	42.23
5	Manipur	2854337	100

The share of PRIs should be divided between the Zilla parishads and Gram Panchayats in the ratio of 15:85. The 3rd SFC has not changed this but added that when the block level panchayats are created the shares of the three tiers will be as follows:

Zilla Parishads 10%

Block Panchayats 10%

Gram Panchayats 80%

Table 12.6: Indicators selected and weightages assigned for horizontal distribution in 3rd SFC

Sl.no.	Indicator	Weightage in %
1	Population(nos)	75
2	Area (sq.km.)	10
3	Illiterate population (number)	5
4	Population without piped water supply (nos)	5
5	Population without electricity (no.)	5
	Total	100

Table 12.7 to 12.9 show the evolution of sources of revenues of panchayati Raj institutions, municipal corporation and municipalities during 2010-2018 as provided by the Finance department , GOM in its submission to the XV FC.

Table 12.7 : Sources of Revenues of PRIs

	Sources of Revenue of PRIs ₹ lakh									
	IPT	Own Tax	Non tax rev	Own rev	TCG	TFC	Assigned + Devolution	GSG	Others	Total
2010-11			2.7	2.7		260.46		14177.27	42.32	14482.75
2011-12			2.6	2.6	158.29	609.69	30	17206.2	45.58	18052.36
2012-13			7.72	7.72	356.53	1026.1		17639.19	582.54	19612.08
2013-14			12.89	12.89	506.75	1317.75		19202.86	187.19	21227.44
2014-15	1.56		14.7	16.26	3649.39	5944.69	25.5	19837.05	929.05	30401.94
2015-16	1.56		14.45	16.01	3160.02		2793.93	19762.13	527.1	26259.19
2016-17	1.56		26.4	27.96	3087.85		2611.05	21133.45	897.17	27757.48
2017-18	1.56		42.3	43.86	1634.42	12754.9	3274.78	26973.27	938.3	45619.53

Source : Finance department,GOM

Notes : IPT Immovable Property tax TCG Transfers from Central Government
TFC Transfers from Finance Commission GSG Grant-in –Aid from State Government

Table 12.8 : Sources of Revenues of Municipal Corporation

	Sources of Revenue of municipal corporation in ₹ lakh									
	IPT	Own Tax	Non tax rev	Own rev	TCG	TFC	Assigned + Devolution	GSG	Others	Total
2010-11	0.39	10.09	64.71	75.19	979.83	76.2	225	244.73	31.94	1632.89
2011-12	0.88	11.52	62.63	75.03	1242.13	150	0	234.27	101.36	1802.79
2012-13	0.6	11.37	56.68	68.65	1329.51	223.28	225	67.68	39.8	1953.92
2013-14	0.33	11.39	78.18	89.9	111.43	118.26	225	165.37	1.49	711.45
2014-15	0.93	22.31	114.49	137.73	64.95	253.26	258.75	182.44	3.47	900.6
2015-16	0.7	8.24	107.26	116.2	119.6	746.44	570.96	210	0	1763.2
2016-17	1.01	1.15	156.66	158.82	13.14	417.64	0	31.55	0	621.15
2017-18	2.44	4.1	169.36	175.9	129.95	665.23	707.4	499.4	0	2177.88

Source : Finance department, GOM

Notes : IPT Immovable Property tax TCG Transfers from Central Government
TFC Transfers from Finance Commission GSG Grant-in –Aid from State Government

Table 12.9 : Sources of Revenues of Municipalities

	Sources of Revenue of Municipalities in ₹ lakh									
	IPT	Own Tax	Non tax rev	Own rev	TCG	TFC	Assigned + Devolution	GSG	Others	Total
2010-11	7.07	30.73	10.46	48.26	470.6	242.48	717.5	155.3	17.08	1651.22
2011-12	2.4	33.56	13.97	49.93	2928.64	186.15	0	249.38	9.75	3423.85
2012-13	7.02	45.65	17.98	70.65	743.09	270	749.9	360.12	66.8	2260.56
2013-14	9.79	52.82	19.25	81.86	323.66	401.42	749.44	342.23	157.57	2056.18
2014-15	10.87	69.53	37.05	117.45	129.33	860.11	861.87	410.03	29.1	2407.89
2015-16	13.94	70.81	35.91	120.66	145.29	1296.22	800.54	651.5	108.91	3123.12
2016-17	23.79	90.22	50.12	164.13	93.59	614.78	0	358.96	4.3	1235.76
2017-18	24.62	117.75	51.34	193.71	2126.06	979.17	1041.21	1084.14	123.14	5547.43

Source : Finance department, GOM

Notes : IPT Immovable Property tax TCG Transfers from Central Government

TFC Transfers from Finance Commission GSG Grant-in –Aid from State Government

The major source of own revenue for the LBs except for municipalities is fees and user charges. In the case of municipalities octroi/entry fees followed by fees and user charges is dominant. Octroi/entry fee has been subsumed under GST. Market borrowing by local bodies is not permitted nor is it permitted to issue municipal bonds as a source of finance. PRIs in the state do not levy property tax. Though ULBs are allowed to levy property tax on all types of residential and commercial properties, not much revenue has been collected through property tax.

Table 12.10 shows the balance over time between annual receipts and expenditures of three important local bodies viz panchayati Raj Institutions, municipal Corporation and municipalities.

Table 12.10: Receipts and Expenditures of Local bodies

	PRIs		Municipal Corporation		Municipalities	
	RECP	EXP	RECP	EXP	RECP	EXP
2010-11	14482.75	14475.17	1632.89	689.29	1651.22	1163.54
2011-12	18052.36	17882.24	1802.79	755.38	3423.85	485.46
2012-13	19612.08	19462.87	1953.92	898.43	2260.56	1450.67
2013-14	21227.44	20818.99	711.45	877.32	2056.18	1574.95
2014-15	30401.94	27361.11	900.6	1198.05	2407.89	2249.46
2015-16	26259.19	30424.47	1763.2	1847.32	3123.12	2868.92
2016-17	27757.48	25506.23	621.15	1563.65	1235.76	1137.87
2017-18	45619.53	35846.81	2177.88	2149.76	5547.43	3298.23

Source : Finance department, GOM

Table 12.11 shows the expenditure of various local bodies namely village panchayats, autonomous district councils, municipal corporations, municipalities and Nagar panchayats. Autonomous district councils operate in hill districts of Manipur which cover more than 90% of the geographical area. These councils were considered outside their terms of reference by the XIV FC.

Table 12.11 : Expenditure of Local bodies in ₹ lakh

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	CAGR
VP	467.55	541.58	582.83	687.93	4958.84	6707.98	10540.9	61.92
ADC	14506.22	17900.58	19435.41	20818.66	27104.24	30207.13	25399.05	15.24
MC	689.29	755.38	898.43	877.32	1198.05	1847.32	1563.65	17.64
M	1163.54	485.46	1450.67	1574.95	2249.46	2868.92	1137.87	16.05
NP	117.86	46.23	138.24	228.1	278.18	393.11	121.03	20.67
Total	16944.46	19729.23	22505.8	24187.96	35788.77	42024.6	38762.5	19.42

Source : Finance Deptt.,GOM

Notes : VP Village panchayats ADC Autonomous District Councils MC Municipal corporations

M Municipalities NP Nagar Panchayats

Transfer of functions to Local bodies

The 3rd SFC notes that " there is very little progress in regard to transfer of functions to the local bodies…Similarly ,in the matter of providing staff to the local bodies, particularly the PRIs and also the ULBs, not much has been done." (p-175)

Table 12.12 : Functions transferred to LBs

	Functions /services transferred to	
	PRIs	ULBs
1	Land improvement,implementation of land reforms,land consolidation and soil conservation	Regulation of land use and construction of buildings
2	Fisheries	Planning for economic and social development
3	Rural housing	Roads and bridges
4	Poverty alleviation programme	Water supply for domestic ,industrial and commercial purposes
5		Public health, sanitation, conservancy and solid waste management
6		Fire services
7		Urban forestry, protection of the environment and promotion of ecological aspects
8		Safeguarding the interest of weaker sections of society including the handicapped and mentally retarded
9		slum improvement and upgradation
10		urban poverty alleviations
11		provision of urban amenities and facilities such as parks, gardens, playgrounds
12		Promotion of cultural,educational and asthetic aspects
13		Burials and burial grounds,cremation,cremation grounds, and electric crematoriums
14		Cattle pounds; prevention of cruelty to animals
15		Vital statistics including registration of births and deaths
16		Public amenities including street lighting,parkinglots,bus stops and public conveniences
17		Regulation of slaughter houses and tanneries

Source : Finance department, GOM

Accounting Practices

Accounts of local bodies are prepared and audited on a regular basis in a uniform manner across all states by the C&AG. ULBs have been ordered to adopt the national Municipal Accounts Manual since 2011. A system has been put in place to electronically transfer local body grantsprovided by the Finance Commission to the respective local bodies within stipulated time. PRIs in the state do not levy property tax. Manipur Municipality Act has been amended to enable the ULBs remove any hindrance to levy property tax. In the case of PRIs Panchayat secretary maintains the accounts. All PRIs have adopted Model Accounting System (MAS) format for accounting purpose revised by CAG. Directorate of Local Fund Audit and CA&G are the accounting authority. Professional tax are levied on all employees .where the total gross income exceeds ₹ 125000 professional tax @ ₹2500 per annum is levied.

Table 12.13: Summary of Accounting practices in ADCs

ADC	Authority who maintains the accounts	Audit accounting Authority	Whether revised format s by CAG adopted for accounting	Is professional tax levied	Who collects professional tax
Chandel	Tribal affairs & Hills, Govt of Manipur	AG(Audit) Manipur & Local Fund Audit, Govt. of Manipur	Not yet	yes	ADC
Tamenglong	CEO,AO &FO,ADC, Tamenglong	AG(Audit) Manipur & Local Fund Audit, Govt. of Manipur	yes	yes	State govt.
Senapati	CEO & Internal Finance deptt. Of ADC	AG(Audit) Manipur & Local Fund Audit, Govt. of Manipur	Not yet	yes	State govt.
Churachandpur	AG, Manipur, /Deptt. Of TA & Hills/ADC	AG(Audit) Manipur & Local Fund Audit, Govt. of Manipur	yes	yes	ADC
Kangpokpi	ADC	AG(Audit) Manipur & Local Fund Audit, Govt. of Manipur	yes	yes	ADC
Ukhrul	TA& Hills/GOM	AG(Audit) Manipur & Local Fund Audit, Govt. of Manipur	No	Yes	State Govt.

Source : Finance department, GOM

In the case of ULBs accounts are maintained by themselves. Directorate of Local Fund Audit and C&AG are the accounting authority. The formats revised by CAG have been adopted partially. ULBs collect professional tax which is credited to the Government account. The state government had issued an order in March 2011 for adoption of the National Municipal Accounts Manual in maintenance of their accounts with immediate effect in all ULBs in the state. Unfortunately as of March 2016 none of the test audited ULBs had complied with this weakening there liability of data.
Test check of records maintained in 4 ZPs and 12 GPs revealed that major portion of the fund earmarked for creation of database and maintenance of accounts under EFC and TFC awards was diverted towards other office expenses such as purchase of stationery, furniture, extension of building etc.

Resource enhancement measures

The XIV FC had flagged two common issues arising out of SFC reports while recommending policies for local body finance namely the need to have reliable data on the finances of local bodies and the need to encourage local bodies to generate own revenues and to improve the quality of basic services they deliver.

There are certain recommendations of the XIV FC which are yet to be implemented. Implementation of these proposals can enhance the resource base of local bodies.

1. Levy of vacant land tax by peri-urban panchayats and sharing of land conversion charges by state governments with municipalities and panchayats
2. Levy of betterment tax under a clear framework of rules for the levy
3. Raising the ceiling of profession tax from ₹ 2500 per annum to ₹12000 per annum. This ceiling revised in 1988 through a constitutional amendment needs to be raised. It is applicable to all persons engaged in any employment or in any profession.
4. Rationalisation of service charges levied by urban local bodies to recover the operation and maintenance costs from the beneficiaries.
5. Entertainment and advertisement tax should be levied. New forms of entertainment such as cable TV, internet cafes, visits to picnic spots in general and newly developed gardens in rural areas can generate revenue for local bodies.

Both advertisement and entertainment taxes have been subsumed under GST. Some other measures for enhancing the resource base of local bodies are as follows:

1. Sand mining in river beds and hills and stone quarrying are widespread practices in the state. Most of them are illegal without any official lease from the Department of Forest.Regulation of these activities will not only generate revenue for local bodies but also help in minimising environmental damages .Sand mining has been a major source of livelihood along the Thoubal River in Manipur. There is a need for recommendations which would address concerns of sand mining and ensure availability of sand while maintaining the sustainability in sand mining.
2. Taxes on land/farm income in some form should be levied. Functions funds and functionaries as listed in XII th Schedule of the Constitution of India and the Finance Commissions should be transferred to ULBs.
3. .The PRIs and municipalities should be adequately empowered to levy property tax which has emerged as a major source of revenue for local bodies worldwide.PRIs in the state donot levy property tax. In the case of ULBs the Manipur Municipality Act 1994 has been amended to enable them to levy property tax for all types of residential and commercial properties. The potential for collection of property tax has not been properly tapped. Property/house tax should be levied with realistic rate structure and proper identification of properties to be taxed. A state level property tax Board should be in place to assist the local bodies in objective determination of the base and its regular revision.
4. The profession tax should be raised to at least ₹ 12,000 per annum. Its revision is long overdue. The collection and enforcement mechanism of the tax should be streamlined.
5. Productive local assets should be assigned to the Panchayats with consistent rules so that they can obtain the best returns while leasing or renting common resources.
6. Municipal bodies cannot access the capital market. In view of the growing gap between resource required and resource mobilised municipal bodies should be permitted to issue municipal bonds. A small state like Manipur can activate this source of finance with suitable support from the Union Government.

Chapter13: Outcome Evaluation of the recommendations of the XIV Finance Commission

Every Finance Commission has been recommending many policies. To what extent the state governments have been following or implementing them is also not widely known. Besides each commission is expected to be different incorporating many recent developments and therefore the earlier recommendations are no longer pursued. It reduces to a five year programme. Such an exercise examining the implementation of recommendations of various FCs since the FC-I would throw substantial light on political economy of India. The purpose of this chapter is to examine within a limited time frame this question. What do data up to March, 2017 say about the implementations of the recommendations of the FC-XIV? There is a need to understand the terms of reference of the FC-XIV to contextualise its recommendations.

The ToR requires the Commission also to review the present public expenditure management systems, including the budgeting and accounting standards and practices, the existing system of classification of receipts and expenditure, linking outlays to outputs and outcomes and best practices within the country and internationally. It is also mandated also to review the deficit and debt levels of the Union and States, keeping in view the fiscal consolidation roadmap recommended by the FC-XIII and recommend measures for ensuring a stable and sustainable fiscal environment, including amendment of the Fiscal Responsibility and Budget Management Acts. Another mandateis to review the prevailing arrangements regarding disaster management with reference to thefunds constituted under the Disaster Management Act, 2005 and make appropriaterecommendations regarding these.

The core mandate of the Commission remains no different from that of the previous Commissions — the distribution between the Union and the States of the net proceeds of taxes, the principles which should govern the grants-in-aid of the revenues of the State out of the Consolidated Fund of India and the measures needed to augment the Consolidated Funds of the States to supplement the resources of the rural and urban local bodies in each State.

Overall there is an effort to maintain continuity to a considerable extent and change and rebalancing wherever necessary. Continuity will ensure stability in the conduct of fiscal policy.

The award period is 2015-2020. The period under study covers only two years of the award period i.e. 2015-16 and 2016-17. At best it will give an idea of the direction in which we are heading.

Fiscal rules

The fiscal deficit targets and annual borrowing limits for the States during 2015-20 are as follows:

i. Fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP. The States will be eligible for flexibility of 0.25 per cent over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25 per cent in the preceding year.

ii. States will be further eligible for an additional borrowing limit of 0.25 per cent of GSDP in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year.

iii. The two options under these flexibility provisions can be availed of by a State either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a State can have a maximum fiscal deficit-GSDP limit of 3.5 per cent in any given year.

iv. The flexibility in availing the additional limit under either of the two options or both will be available to a State only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year.

If a State is not able to fully utilise its sanctioned borrowing limit of 3 per cent of GSDP in any particular year during the first four years of our award period (2015-16 to 2018-19), it will have the option of availing this un-utilised borrowing amount (calculated in rupees) only in the following year but within our award period.

In the case of Manipur INT/RR is well below 10% and it has been maintaining revenue surplus. However debt/GSDP ratio has remained way above 25%. Therefore the additional borrowing ceiling will be 0.25% i.e. Manipur can go for a fiscal deficit of 3.25% of GSDP. However actual fiscal deficit as proportion of GSDP were lower than the permissible levels. This leads to accumulation of the unutilised sanctioned borrowing limit. In the first two years of award period Manipur has accumulated ₹ 545.93 crores which can be availed of year by year in the next financial year as borrowing.

Table 13.1: Fiscal Deficit

S.no.	Head/subheads	2015-16	2016-17
1	Interest in ₹ crore	516	544
2	Revenue receipt in ₹ crore	8280	9129
3	Interest/ Revenue receipt	6.23	5.96
4	GSDP in ₹ crore	19889.88	21153.69
5	Debt/GSDP	40.47	41.41
6	Permissible borrowing limit as GFD/GSDP in percent	3.25	3.25
7	Actual GFD/GSDP	1.71	2.59
8	Balance (=5-6)	1.54	0.66
9	Balance in ₹ crore	306.31	139.62

In the case of contingent liabilities outstanding amount of guarantees have been substantially lower than the FRBM limits.

Table 13.2 : Contingent liabilities

year	Outstanding amount of guarantees at the end of the year		FRBM limit	% of FRBM limit	No. of guarantees
	(₹. cr)	(% of revenue receipts)	(₹. cr)		
2015-16	339.53	4.1	1418.19	23.94	14
2016-17	403.38	4.42	1550.49	26.02	14

Note: FRBM limit is thrice the state's own tax revenue receipts of the second preceding year.
Percentage of FRBM limit refers to outstanding amount of guarantee as a percentage of FRBM limit.
Source: GOI: *Report of the Comptroller and Auditor General of India: Government of Manipur* (various issues).

Fiscal Council:

The FC-XIV has proposed the establishment of a fiscal council to do ex ante analysis of budget proposals just as C&AG does the ex-post assessment of the budget proposal. The mission of the fiscal council would be to undertake ex-ante assessment of the fiscal policy implications of budget proposals and their consistency with fiscal policy and Rules. This institution should have the benefit of appropriate expertise, including getting its work done through outsourcing to reputed institutions. This can be extended to state level. However no step has been taken in this regard both at centre and state level.

Pricing of public utilities:

Power sector

There are two recommendations for the power sector . Firstly all consumers of electricity should have meters. Secondly there must be a State Electricity Regulatory Commission Fund by State governments, to enable the SERCs to perform their responsibilities, as envisaged under the Act. In 2017 there were 436774 consumers of electricity and only 28.84% of them were having prepaid meter installations.

Table 13.3 : Performance of power sector

year	AT&C loss in percent	Collection efficiency In percent	Percent of consumers with prepaid meters
2009-10	64.9	64.71	
2015-16	52.86	82.12	36.06
2016-17	34.19	91.77	28.84

Though there have been substantial reduction in AT&C loss and substantial rise in collection efficiency during this period universal metering is far behind. In the hill areas even metering will be a novelty. Institutionally MSPDCL has been very active in curbing the menace of illegal connections by regularization drives and stiff penal measures for power theft.

Manipur already has a joint electricity regulatory commission with Mizoram. In order to provide financial autonomy to the SERCs, Section 103 of the Electricity Act, 2003, provides for the establishment of a State Electricity Regulatory Commission Fund by State governments, to enable the SERCs to perform their responsibilities, as envisaged under the Act. No such fund has been established as yet.

State level Regulatory Authority for the Road transportation sector

There is no independent regulatory authority for the road transportation sector. The FC-XIV recommended the setting up of independent regulators for the passenger road sector, whose key functions should include tariff setting, regulation of service quality, assessment of concessionaire claims, collection and dissemination of sector information, service-level benchmarks and monitoring compliance of concession agreements. Manipur State Road Transport Corporation had played a key role in connecting the remote areas with the capital Imphal. However it was a losing concern despite the importance of road transport in the state and it was dissolved. Recently it has been revived however no independent regulatory authority for road transport has been established. Operationally also it is not certain whether the problems such as mismanagement and corruption which had led to its winding up have been taken care of.

Water Regulatory authority

At present, there is no uniform set of principles for fixing water rates. Water charges varyfrom State to State, project to project and crop to crop. Rates vary widely for the same crop in thesame State, depending upon the agricultural season and type of irrigation system, among otherfactors. Water rates are levied on a 'crop/area basis', except for irrigation from tube wells.The FC-XIV had recommended setting up of a statutory water Regulatory Authority **(WRA)** so that pricing of water for domestic, irrigation and other uses can be determined independently and in a judicious manner. WRAs already established should be made fully functional at the earliest. However, this may not be practical for the North-eastern states, due to the small size of their irrigation sectors, with Assam being the exception.
No statutory water Regulatory Authority has been established.

States (and urban and rural bodies) should progressively move towards 100 per cent metering of individual drinking water connections to households, commercial establishments as well as institutions. All existing individual connections in urban and rural areas should be metered by March 2017 and the cost of this should be borne by the consumers. All new connections should be given only when the functioning meters are installed. While providing protected water supply through community taps is unavoidable for poorer sections of population, metering of water consumed in such cases also would ensure efficient supply. As of now 100 percent metering is very remote as water meters are yet to be installed inspite of government plans to do so.

Public sector enterprises

PSE should be made competitive and market oriented. We have seen disinvestment in several enterprises mainly to raise budgetary resources. The FC –XIV was in favour of a nation-wide debate on the future of public sector enterprises in India. The issue of prioritisation of PSE has to factor in the eleven new realities which basically question the role of PSE in a radically different economic environment where private sector plays an important role and ' strategic importance ' needs to be redefined and public-private – partnership has emerged as an alternative . It calls for a comprehensive PSE policy with adequate focus on the fiscal costs and benefits and also incorporating the new realities.

The FC-XIII had recommended to the States to draw up, by March 2011, a roadmap for closure of non-working companies. It had suggested a detailed operational and administrative framework for closure/winding up of loss-making and non-working public sector enterprises. A holding company comprising of technical experts was also suggested for ease of liquidation as well as prompt settlement of all pending commercial and other disputes. Most of the States have not reported on the action taken on these recommendations.

Table 13.4 : Principles of prioritisation:

Category	Proposed extent of disinvestment
Non priority	100 percent
High priority	Not exceeding 25 percent
priority	Upto 49 percent
Low priority	74 percent

In the case of statutory corporations, a more nuanced view of ownership, management control and governance needs to be taken.

The process of disinvestment over the years has been generally ad-hoc, based on the limited approach of short term fiscal gains to cover the budgetary revenue gaps to the extent feasible, depending on market circumstances. The FC-XIV recommends that the level of disinvestment should be derived from the level of investmentthat the government decides to hold over the medium to long term in each enterprise, basedon principles of prioritisation in table 13.4, while the process of disinvestment should takeinto account the market conditions and budgetary requirements, on a year to year basis. The disinvestment policy of the government should be complemented with a public sector investment policy with a long-term perspective. The government should identify new areas of strategic interests and sectors to enhance the global competitiveness of the Indian industrial sector. Though there are several non working enterprises none has been disinvested.

Both the FC-XIII and the FC-XIV emphasised the significance of finalisation of accounts in a timely manner, and to review the policy of continued investments in them without any assurance on their proper utilisation. The desired levels of return on equity and interest on outstanding loans suggested by the previous Finance Commissions have not been achieved. The FC-XIII had noted that State public sector enterprises remain a drag on the finances of State Governments. It was the view of the FC-XIV that all working enterprises, except those in the welfare and utility sectors, should be financially viable.

Public expenditure management

Pay :

The FC-XIVrecommended the linking of pay with productivity, witha simultaneous focus on technology, skills and incentives. Pay Commissions should be designated as 'Pay and Productivity Commissions', with a clear mandateto recommend measures to improve 'productivity of an employee', in conjunction with payrevisions. We urge that, in future, additional remuneration be linked to increase inproductivity.

All state government employees have been demanding implementation of the Seventh Pay Commission awards in line with central government employees. Nowhere has the issue of productivity been given due importance while prescribing pay scales.

Pension:

Some of the factors contributing to pensions becoming a drag on the economy are: (i) the rise in pensions recommended by successive Pay Commissions; (ii) removal of the distinction between people retiring at different points of time, so that all pensioners are treated alike in their pension rights; (iii) taking over the liability for pensions of retired employees of aided institutions and local bodies; and (iv) increasing longevity. The New Pension Scheme (NPS), a contribution-based scheme introduced by the Union Government in 2004 for all new recruits after the cut-off date, has now been adopted by Manipur also.

Forecasts:

The Commission recommended that State Governments should improve their forecasts, by adopting a more scientific approach for this process. When forecasts are out of line with past trends, it is important to make a detailed statement on the intended reforms necessary to enhance revenue productivity and to rationalise expenditures. Again not much has been done in this regard.

Local bodies

The FC-XIV recommended grants in two parts - a basic grant and a performance grant for duly constituted gram panchayats and municipalities. In the case of gram panchayats, 90 per cent of the grant will be the basic grant and 10 per cent will be the performance grant. In the case of municipalities, the division between basic and performance grant will be on a 80:20 basis.

The grants for gram panchayats, which are directly responsible for the delivery of basic services, should be without any share for other levels. The State Governments will take care of the needs of the other levels. The earmarked basic grants for gram panchayats will be distributed among them, using the formula prescribed by the respectiveSFCs for the distribution of resources. Similarly, the basic grant for urban local bodies will bedivided into tier-wise shares and distributed across each tier, namely the municipal corporations,municipalities (the tier II urban local bodies) and the nagar panchayats (the tier III local bodies)using the formula given by the respective SFCs. The State Government should apply thedistribution formula of the most recent SFC, whose recommendations have been accepted. In case the SFC formula is not available, then the share of each gram panchayat as specified above should be distributed across the entities using 2011 population with a weight of 90 per centand area with a weight of 10 percent. In the case of urban local bodies, the share of each of the three tiers will be determined on the basis of population of 2011 with a weight of 90 per cent andarea with a weight of 10 per cent and then distributed among the entities in each tier in proportionto the population of 2011 and area in the ratio of 90:10. Performance grants will address the following issues: (i) making available reliable data on local bodies' receipt and expenditure through audited accounts; and (ii) improvement in own revenues. In addition, the urban local bodies will have to measure andpublish service level benchmarks for basic services. These performance grants will be disbursed from the second year of the award period, that is, 2016-17 onwards so as to enable sufficient time to State Governments and the local bodies to put in place a scheme and mechanism for implementation.

In Manipur the award of the third State Finance Commission has been operational since 2014-15. Table 13.5 shows that actual transfer to local bodies has been less than the share recommended by the third state Finance Commission.

Table 13.5: SFC share vs actual transfer to local bodies

year	SFC share	Actual transfer to Local bodies
2015-16	384.233	348.05
2016-17	450.86	363.85

There are recommendations for levy of vacant land tax, betterment tax, advertisement tax, entertainment tax, professions tax etc. The ceiling of professions tax should be raised from Rs. 2500 per annum to Rs.12,000 per annum. It further recommends that Article 276(2) of the Constitution should be amended to increase the limits on the imposition of professions tax by States not much has been done so far.

Disaster management:

The FC recommended granting tax exemption to private contributions to the NDRF. The Hazard Vulnerability Risk Profiles of States should be prepared. It has also recommended the establishment of a new institutional arrangement consistent withthe objective of strengthening cooperative federalism be evolved for: (i) identifying the sectors in the States that should be eligible for grants from the Union, (ii) indicating criteria for inter-state distribution, (iii) helping design schemes with appropriate flexibility being given to the States regarding implementation and (iv) identifying and providing area-specific grants.

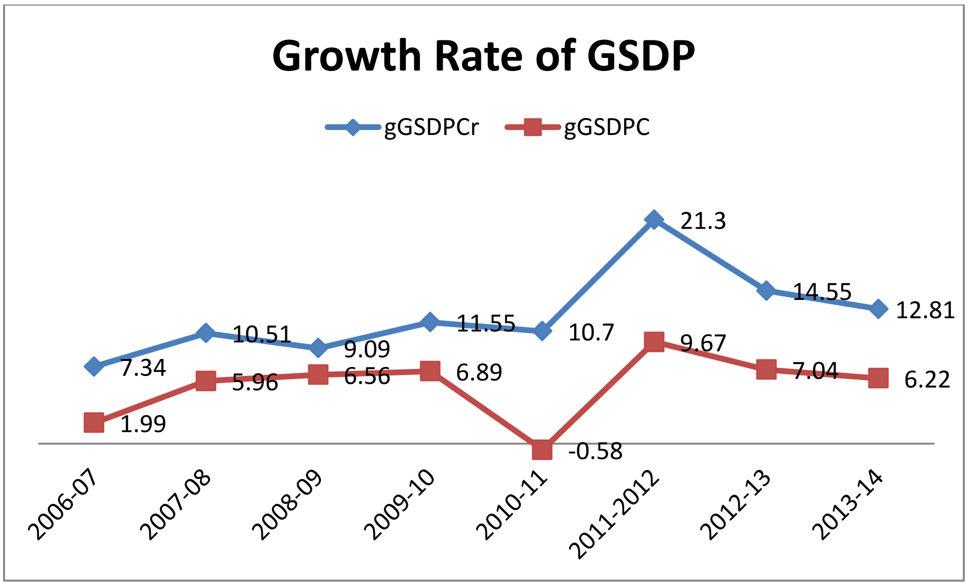
This new institutional arrangement can take up issues related to identifying and recommending resources for inter-state infrastructure schemes in the North-eastern States.

The issue of Northeast related with severe cost disabilities has never been dealt with satisfactorily in any FC. On all counts there is little progress.

Chapter 14: The Way Forward

The future should be based on two pillars- more resources for development and more efficient use of the resources. A small state like Manipur with highly underdeveloped capacity for resource mobilisation and also severe cost disabilities due to inadequate infrastructure should not aim for self reliance at least in the short run. The usual exhortation for resource mobilisation in an inherently resource poor state like Manipur should be adequately qualified. It should try to avail of the opportunities provided by being a part of India which includes having a share of national resources. Act East policy and its associated thrust areas are going to transform the development environment in the northeast in general and in the state in particular .Internal resource mobilisation accounts for less than 10 percent of public expenditure . While there is always the need to do some internal resource mobilisation, more emphasis should be given on how to utilise the available resources properly and how the share of this source is enhanced by identifying core areas. Proper utilisation of resources however needs a compatible environment supported by appropriate institutions. One of the reasons why the business as usual approach cannot work is the change in economic environment unleashed by Act East policy. The changes may even overwhelm the institutions. Any discussion of the way forward will be incomplete without an idea of the emerging economy of the state

Fig 14.1 : Growth rate of GSDP of Manipur

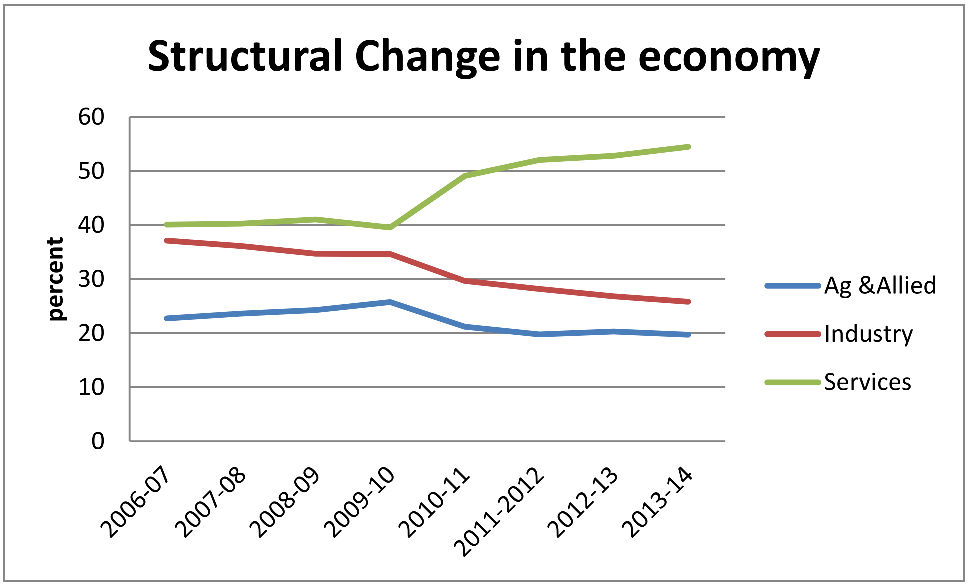


gGSDPCr Growth rate of GSDP at current prices (base :2004-05=100)

gGSDPC Growth rate of GSDP at constant prices(base :2004-05=100)

The state economy has grown at an average growth rate of 12.23 percent at current prices and 5.47% at constant prices. The highest growth rate was 21.3 percent in current prices and 9.67 percent in constant prices in 2011-12 . The graph indicates the inability to sustain the high growth phase.

Fig 14.2: Structural Change in the economy of Manipur



During the study period the shares of Agriculture & allied activities and industry gradually declined while that of services gradually rose from 40.09 % to 54.48%. The high share of industry is due to the high share of Construction which was as high as 28.18% in 2006-7. Among the subsectors in services the share of public administration gradually rose from 11.12 % to 18.9% becoming in the process the dominant subsector in 2013-14. By 2010-11 public administration overtook construction as the dominant subsector in the state economy.2010-11 was also a watershed because in this year income generated in construction declined by 26.09% while that of public administration rose by 85.9%.

Table 14.1 :	Sectoral Composition of Manipur's Economy (2004-05=100)							
Sector	2006-07	2007-08	2008-09	2009-10	2010-11	2011-2012	2012-13	2013-14
Agri	17.11	18.28	19.27	21.04	16.44	15.53	16.17	15.51
Forestry	3.46	3.25	3.02	2.85	2.84	2.69	2.43	2.29
Fishing	2.19	2.1	1.97	1.9	1.94	1.58	1.72	1.92
Ag &Allied	**22.76**	**23.63**	**24.26**	**25.78**	**21.22**	**19.8**	**20.32**	**19.72**
Mfg	4.91	5.43	4.96	4.97	5.19	5.07	4.94	4.63
Const	28.18	26.69	26.1	25.22	18.75	17.2	15.69	15
Electricity	4.06	3.99	3.64	4.47	5.75	5.89	6.21	6.16
Industry	**37.15**	**36.1**	**34.7**	**34.66**	**29.69**	**28.16**	**26.84**	**25.8**
Transp	3.65	3.86	3.98	4.16	4.48	4.54	4.34	4.44
Trade	7.35	7.66	7.42	7.71	7.71	7.15	7.03	6.91
Banking	2.11	2.24	2.08	2.48	3.23	3.48	3.32	3.17
Real Est	4.22	4.1	3.92	3.79	3.87	3.59	3.47	3.35
Pub Adm	11.12	11.33	11.52	10.14	18.96	18.57	18.87	18.9
Othserv	11.63	11.07	12.13	11.28	10.84	14.7	15.8	17.71
Services	**40.09**	**40.27**	**41.04**	**39.55**	**49.1**	**52.04**	**52.84**	**54.48**

Source :CSO

Fig 14.2 and 14.3 show that 2010-11 was a watershed year in structural change in the economy of Manipur when public administration overtook Construction .

Fig 14.3 : Income generated in Construction and Public Administration in ₹ lakh

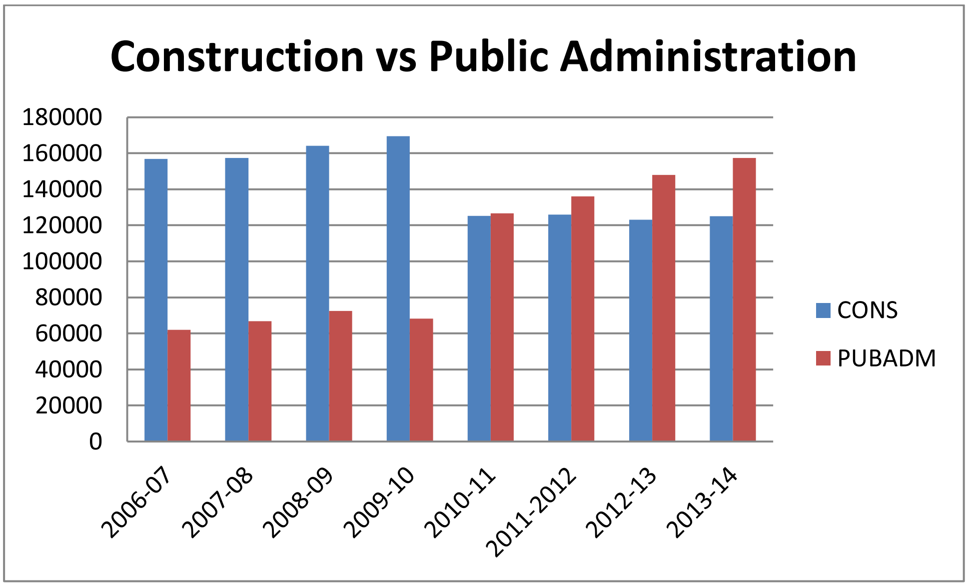
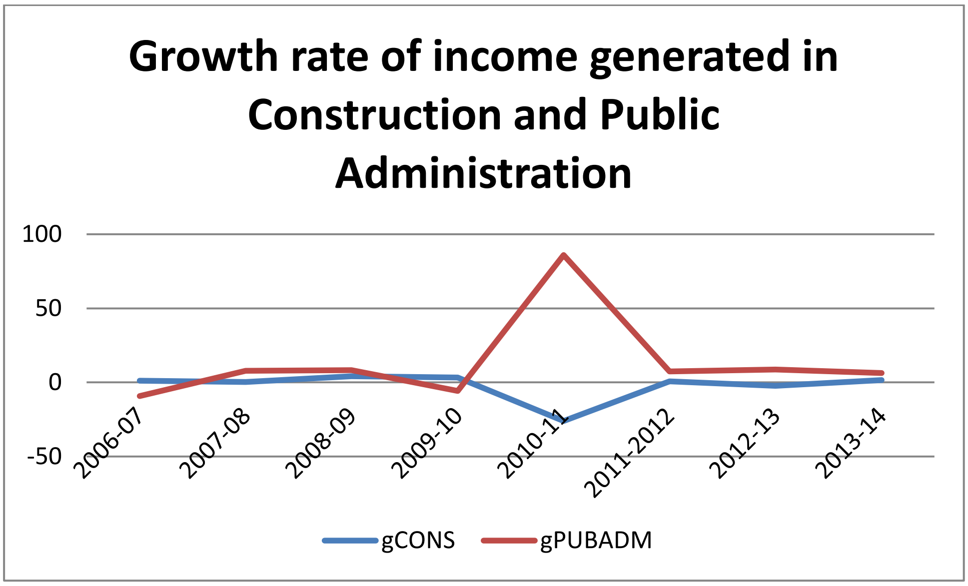


Fig 14.3 : Growth rate of Construction and Public Administration



The contribution of agriculture & allied activities to growth of real GSDP during 2006-7 to 2013-14 was 15.2% followed by 6.1 % of Industry and 78.7% of services. The contributions of the subsectors in services are as follows

Table 14.2 : Contribution of subsectors in services

Subsectors	Contribution to growth of real GSDP in percent
Transport, storage & communication	9.7
Trade, hotels & restaurants	9.1
Banking & insurance	8.7
Real estate, ownership of dwellings & business services	2.8
Public administration	54.4
Other services	15.2

It shows the importance of public administration in the growth of services.

Head count poverty ratio of Manipur using the Tendulkar methodology declined from 65% in 1993-4 to 36.9 % in 2011-12. However if we look for a period closer to our study period the decline is from 38% in 2004-5 to 36.9% in 2011-12. The poverty ratios in rural and urban Manipur in 2011-12 were 38.8% and 32.8% respectively. Despite significant reduction in incidence of urban poverty, the state continues to have the highest urban poverty ratio among the states. Thus, poverty in Manipur does not have a predominantly rural face and the problem of poverty is acute in both urban and rural areas. The decline in poverty ratio was not as marked as the all India fall and despite the marginal decline in poverty ratio, population of the poor rose unlike the all India experience.

Table 14.3 : Poverty ratio in Manipur using Tendulkar methodology

Year		Rural		Urban		Total	
		Poverty ratio in %	Poor in lakhs	Poverty ratio in %	Poor in lakhs	Poverty ratio in %	Poor in lakhs
2004-5	Manipur	39.3	6.6	34.5	2.1	38.0	8.7
	All India	41.8	3266.6	25.7	807.6	37.2	4076.1
2011-12	Manipur	38.8	7.4	32.6	2.8	36.9	10.2
	All India	25.7	2166.6	13.7	531.2	21.9	2697.8

Source : Rangarajan Report (2014)

Table 14.4 shows the diversity across the districts in terms of population density, population growth rate, urbanisation and road density. Currently the state has 16 districts however no official data are available for the newly created 7 districts. The hill districts comprising of the first five districts lag behind in terms of population density and road density. Such characteristics have ramification when public services are sought to be equalised across districts in terms of cost disabilities. The issue of cost disabilities in the northeast has been flagged in recent reports of finance commissions however no satisfactory solution has emerged so far.

Table14.4 : Inter district diversity in Manipur

	Area(sq.km)	Population density per sq.km (2011 census)	Inhabited villages	Decadal Growth of population (2001-11)	Urbanisation in percent 2011	Road length in km per sq.km.*
Senapati	3271	146	669	68.94**	1.56	0.4
Tamenglong	4391	32	174	26.15	13.77	0.26
Churachandpur	4570	60	596	20.29	6.7	0.26
Chandel	3313	44	430	21.85	11.68	0.27
Ukhrul	4544	40	213	30.7	14.78	0.32
Imphal East	709	643	191	15.51	40.17	1.19
Imphal West	519	998	107	16.56	62.33	1.35
Bishnupur	496	479	48	13.93	36.86	0.83
Thoubal	514	821	87	15.94	35.85	1.41
Manipur	22327	128	2515	24.5	29.21	0.39

Source : Statistical Handbook of Manipur 2017 Note : * as on March 31,2017.** 2001 population of Senapati excludes the population of Mao, Maram and Pao Mata subdivisions.

Manipur has been successful in bringing down maternal mortality rate (MMR) and infant mortality rate. NFHS-4 shows that mothers in Manipur have been cared better than all India in terms of antenatal checkups, protection against neonatal tetanus, consumption of iron folic acid, post neonatal care from skilled health personnel, home delivery by skilled health personnels. Both infant mortality and under five mortality rates in Manipur are much lower than the all India levels. Manipur consistently has been having relatively low infant mortality rates. More than half of the children ages 12-23 months have been fully immunized. Most of the vaccinations have been done in public health facilities. The proportion of children receiving an adequate diet in Manipur is almost double the all India level. This can be largely attributed to the high mean age at marriage of girls.

Manipur's morbidity rate is much lower than the all India picture. According to NSS 71 round (Jan.-June 2014) about 3% of rural population and 0.4% of urban population reported ailment during a 15 day reference period as against 9% and 12% for rural India and urban India respectively. Proportion of ailing persons was highest for the age group of 70+ in rural and 60-69 in urban. Every ailing person is given some treatment, predominantly allopathic. 4.3% of rural and 3.5% of urban patients are hospitalized. The highest proportions of male patients are treated by private doctors on medical advice and the highest proportions of female patients are treated in public hospitals. Most of the hospitalisations are in public hospitals.

Sharp contrasts exist between the valley and the hill as far as urbanization is concerned, revealing even more sharply the development disparity between the physical regions of the state. The plain areas, in Imphal East, Imphal West, Bishnupur and Thoubal districts have witnessed remarkable change in the growth of number of towns, i.e. from one urban centre in 1901 to 44 urban centres in the year 2011. Out of the four districts in the plain areas, Imphal West has much higher share of the urban population adding 2, 77,196 persons to its population in 2001. Though Imphal East district has 15 urban centres the increase in urban population is much less spectacular (21.96%) as many of these urban centres belong to Class-V and VII category. Churachandpur was the only town in 1971 located in the hills but was declassified in 2001. In 2011 the town area has been divided into three census towns. Similarly, Ukhrul, Senapati and Tamenglong were hill towns representing respective headquarters of the districts but were declassified according to the wisdom of local inhabitants who wanted autonomy for hill areas and rural infrastructural support. However, Moreh in Tengnoupal District, the border town located near Myanmar in the east has been a town since 1981.

Hence it is not real but administrative measures that made hill areas of Manipur experience negative growth in urbanization. This is clearly visible from the change in number of urban centres from one to nine between 1971 and 1981 then declined to one in 2001and then rose to seven towns in 2011 contributing 10.69 percent of urban population. In more recent years, between 2001 and 2011, the state as a whole experienced a phenomenal 69.04 percent increase in its urban population. The hill areas experienced only16.76 percent increase while the plain areas registered 75.20 percent increase in its urban population. This shows that the state is urbanizing at a faster rate in recent years not withstanding wide regional disparity in urbanization.

Potential areas for resource mobilisation are as follows

- **Tourism**: Manipur has have prospects for heritage tourism, adventure tourism, nature & ecotourism, war tourism, medical and educational tourism. It has been described as the "Switzerland of the East" and "jewel of India". Yet its tourism potential has remained largely undiscovered and underdeveloped. This again can become an opportunity Since the Manila declaration of World Tourism Conference in 1980 tourism has been accorded a significant role in ushering economic development. It declared that

"Tourism is considered an activity essential to the life of nations because of its direct effects on the social cultural, educational and economic sectors of national societies and their international relations. Its development is linked to the social and economic development of nations and can only be possible if man has access to creative rest and holidays and enjoys the freedom to travel within the framework of free time and leisure whose profoundly human character it underlines. Its very existence and development depend entirely on the existence of a state of lasting peace, to which tourism itself is required to contribute."

Manila Declaration 1980.

Tourism is a labour intensive service industry .unlike manufacturing it is consumed at the point of production and therefore provides a multitude of employment and income spin-offs. According to World Travel and Tourism Council an investment of ₹10 lakhs can generate 47.5 jobs as against 12.5 in manufacturing. It can also benefit the poor in three ways: direct earnings through direct and indirect employment, indirect and induced effects where tourism expenditure impacts the non tourism sector through supply-chain linkages. It has extensive employment effect which is crucial for inclusive development. Tourism is one of the fastest growing sectors of the world economy.

.Least touched and least discovered Manipur promises to be one of the greatest tourist destinations of the 21st century. By 2016-17 Manipur developed 72 tourist spots. A total of 148,721 tourists including 3036 foreigners visited Manipur in 2016-17 despite the restrictions. The people of Manipur include Meitei, Nagas, Kuki-Chin-Mizo and Gorkhas groups and Muslims and other communities which have lived in complete harmony for centuries. These are the people whose folklore, myths and legends, dances, indigenous games and martial arts, exotic handlooms and handicrafts reflect the mystique of nature and an indefatigable spirit of the people. These can be basis for heritage tourism. Loktak Lake remains one of the biggest assets of the state- providing livelihood to the people of the state in various forms. From being a provider of fish and various economic plants sustaining the people around it, the hydroelectric project transformed it into a provider of power without which industrialization is unthinkable. Now in addition to generation of hydropower it is being gradually transformed into a major tourist centre. The Sendra hillock and the Keibul Lamjao National park, the only natural habitat of the brow antlered deer locally known as Sangai provide enormous scope for tourism. The contribution of this lake to the state economy as a source of fish, power and a tourist destination can be immense. Its value can be enhanced by constructing ring road across the catchment area of the Loktak Lake to make the lake and its surrounding areas more accessible and attractive to the tourists. This will protect the ecosystem and develop better eco tourism facility around the Loktak Lake. This will also protect the unwanted encroachment in the lake and also promote avenues for development of resorts and rural/community based tourism in the catchment areas. This will encourage homestays, a tourism practice which is catching up fast.

To include the hills in development of tourism, there is a necessity of development of eco-tourism sites at various lakes, waterfalls and caves in the hill districts and promote them with the Manipur Tourism Tag. The holy place/pilgrimage of Baruni Hills and Koubru Hills can be popularised by adding items of adventure tourism like rock climbing, trekking, rafting, para-gliding, para-sailing/motor, cable cars etc. Further, in order to promote Koubru hills as a holy place for religious tourism and also for adventure tourism, cable car facility can be provided to reach the hill top. It will encourage domestic tourism among people in the state and bring the people of the valley and the hill closer. The promotion of the hill district headquarters of the state like Ukhrul, Tamenglong, Tengnoupal etc. upto the level of other famous hill stations in India will enhance the overall development of tourism in the state.

Manipur is having the potential to make a vibrant destination for medical and educational tourism too. Visitors from Myanmar are visiting Manipur for getting better medical treatment in the state. Shija hospital group has taken the lead by introducing many state-of-the art practices. Many Myanmarese citizens are ready to pay a visit to Gaya, Bodhgaya and Varanasi and other Buddhist monasteries etc. via the continental route. The proposed plan to ply regular bus services between Imphal (India) and Mandalay (Myanmar) should be expedited at the earliest. The introduction of this bus service will bring closer ties and better people- to- people contact between the two countries and subsequently it will also boost the tourism activities in the state. Immigration and visa on arrival facility on the continental route between Moreh-Tamu sector for the citizens from Myanmnar should be provided so that the foreign tourist inflow in Manipur can be increased to a considerable extent.

Today tourists are discerning travellers who look for new and unique experiences normally not available in star hotels. The experience of star hotels has become outdated. Home stays have developed to capitalise on the demand for unique experiences among such tourists. These are facilities provided in the houses of local volunteers where tourists can stay and share the experiences. This practice has caught up in kerala, Himachal Pradesh, Uttarakhand and Sikkim. In Manipur it is being tried in Moirang, Ukhrul and Churachandpur. Shirui in Ukhrul and the villages near Loktak lake in Bishenpur can be centres for home stays. This can go together with the growing number of festivals connected with local produces such as Shirui festival in Ukhrul, Orange festival in Tamenglong, pineapple festival in Thoubal, Loktak festival at Bishenpur etc. Quality tourism need not be big and expensive all the time.

War tourism is also catching up. The battle for Kohima & Imphal during World War II has been described by European war historians as the greatest battle in the war. Many war cemeteries are being restored to keep the memory of the sacrifices alive. It can become a frequented tourist destination for Japanese and allied war veterans and their descendents.

Now Manipur's participation in the First World War largely as recruits in the Labour Corps, the main basis of logistics in the war is being critically examined as watersheds in our world view. The Khongjom war memorial honouring our soldiers in the Anglo Manipuri war of 1891 has also become an important part of the war tourism circuit. It was in Moirang in Bishenpur district the Indian National Army (Azad Hind Fauz) had hoisted for the first time the flag of independent India on Indian soil.

The game of polo is developing as niche tourism considering the rich legacy of the game in the state. Manipur has been recognised as the origin of the game. Polo is only one aspect of our horsemanship. Manipuri horsemen played a significant role in Southeast Asia as cavalry. They were in high demand.

- The prohibition policy in this state implemented since 1991 is increasingly being contested by entrepreneurs who sense the opportunities in international market. Despite the people's movement against alcohol spearheaded by several civil society organisations, anecdotal evidence suggests that alcohol consumption in Manipur instead of declining has increased. How high the consumption would have been without prohibition and how severe the social consequences would have been should not be looked at linearly given the change in taste, advances in medical sciences and growing awareness of its consequences among the people. According to NFHS-4 ,52.5% of males and 6.1% females in Manipur consume alcohol. Tribals and some SC villages have local wine brewing as a major source of livelihood which is permitted by law as customary practice. SC villages like Andro and Sekmai have openly proposed production of the brew for commercial purposes capitalizing on its reputation. Manipur's black rice based wine is considered a potential export item. Some entrepreneurs are trying to produce this in breweries located in Assam where there is no prohibition. The main revenue in the form of excise duty is from procurement of liquor by the military, para-military and state armed forces which are exempted by Manipur liquor prohibition Act 1991. The three yearly average share of excise revenue in state own tax revenues was 19 %. Going by this Manipur would have been getting through tax a sum of neighbouring states except for Nagaland are not dry states. Mizoram is going to become a dry state again as part of a poll promise. The revenue accruing from excise duty in neighbouring wet states can be an indicator of revenue foregone.

Table 14.5 : Excise tax in ₹ crore.

year	Arunachal pradesh	Assam	Meghalaya	Sikkim	Tripura	Manipur
2016-17	109.05	963.81	168.98	156.24	163.19	9.32

Lots of liquor also enter the state from Myanmar. This has not only deprived the state of a major source of revenue while strengthening the black economy but also put a big question mark on the sensibility of prohibition policy in the state. This has led to a growing demand for a review of our prohibition policy based on a holistic analysis of the pros and cons of the policy. The revenue potential of liquor should be properly assessed. Since many Indian states are able to earn substantial revenue as excise duties which are used for social welfare schemes the debate in Manipur on prohibition should be raised at higher levels, not bogged down by prejudices associated with unregulated liquor consumption. If prohibition is considered a national virtue and hence desirable, the central government should reimburse the state government of the potential excise revenue foregone. The signal is mixed as at any time some state governments are abandoning it while others such as Bihar and Mizoram are reintroducing it.

- One of the priority areas should be the establishment of a research cell dedicated to analyzing the emerging fiscal implications as the state economy grows undergoing significant structural changes. Its importance has increased significantly as states are increasingly required to mobilize resources for their plans. There is also an important issue of cost disability of the region which inspite of its importance Finance Commissions have failed to incorporate adequately in devolution of resources. Our state level public enterprises have a poor track record which remains hidden for a long time due to inordinate delays in settling their annual accounts. The establishment of such a cell will enable the decision makers to have an ex ante understanding of alternative policies. The need for this capacity becomes apparent at the time of preparing the proposals to be submitted to the Finance Commission and the NITI Aayog.
- Improvement and streamlining of tax administration can go a long way in internal resource mobilisation. It is also clear that revenue generating potential of Indo Myanmar trade at Moreh has been highly underutilised. Smuggling and under-invoicing perpetuate this .Committed expenditure such as salary, pension and interest

pre-empt revenue expenditure and leave little for capital expenditure. Therefore every effort should be made to control the growth of these components of committed expenditure. In the case of salary we have failed even to satisfy the FRBM Acts mandatory ceilings in salary bills. Despite such possibilities public appointments continue to reflect a political cycle. Such appointments tend to peak just before the election even bypassing the Manipur Public Service Commission. More people are regularised. The much needed research cell will facilitate rigorous monitoring of the activities of the government, evaluate the policies ex ante and making forecast for the future.

- Professional tax should be hiked to ₹12,000 per annum from the current ₹ 2500 as per recommendation of FC XIV. Tax administration wise this is a weak area as the target was missed most of the time. The constitutional amendment is justified as it has remained stagnant when personal income has increased several folds.
- State lotteries have huge potential for resource mobilisation. This instrument for resource mobilisation should be revived taking into account our experience in management of state lotteries. The fact that it can be misused as a money laundering instrument needs to be examined holistically. Tambola, a variant of lottery, has been widely used for mobilising resources by civil society organisation normally in the last quarter of the year. Tax on such activities should be reintroduced with a rider, if required, that the resources so mobilised should be earmarked for acceptable social welfare schemes. The fear of scams should no longer be an excuse for abandoning this instrument. Entertainment in the state has undergone significant changes with musical shows, digital film shows, fashion shows etc. Entertainment tax should be imposed on new forms of entertainment. The proliferation of digital films in particular and that of entertainment industry in general indicate the improvement of standard of living on the one hand and raise several questions on the possibility of its being misused as a money laundering instrument. This question arises also in the context of several emerging 'financial' groups like the Salai group and the Lamjingba group whose growth and financial dealings cannot be explained . They should be properly probed and taxed. They have managed to corner a huge amount of investment.
- The quality of Tax administration in terms of the deviation of actual from budgeted tax revenue shows a growing slack. Sales tax targets were missed from 2014-15. In

the case of OTIE(taxes on professions, trades, callings and employment) most of the time targets were missed.

Table 14.6: Deviation of Actual tax revenue from Budgeted tax revenue in percent

Year	ST	OTIE	EXC	MVT	STRG	LR	OTR
2006-07	32.75	-2.71	-0.28	-24.62	-13	0	17.02
2007-08	20.75	5.14	-6.02	-18.49	-2.05	-14.77	15.35
2008-09	9.77	-1.4	-12.53	-17.92	5.66	-35	6.24
2009-10	10.52	-1.62	-7.84	-22.5	-10.09	-40.88	7.53
2010-11	3.44	-37.43	10.17	-70.4	180.11	-74.2	-7.53
2011-12	22.59	-28	-19.08	-15.59	221.99	-20	15.78
2012-13	3.08	-32.1	15.72	-7.8	11.04	-24.4	2.3
2013-14	2.56	-36.53	-27.56	-4.29	-20.76	2.75	-3.84
2014-15	-13.33	-47.95	-35.81	-6.9	-7.99	14.52	-16.72
2015-16	-18.16	-28.2	-26.59	-8.42	-1.72	78.62	-18.05
2016-17	-12.34	-4.92	-22.33	-7.26	9.67	-23.6	-12.02

Entertainment tax and urban immoveable property tax have not been implemented properly. The former started appearing in budget documents only recently. It was budgeted at ₹28.36 crore and ₹18.03 crore against realisation of ₹ 19.77 crore and ₹16.25 crore in 2014-15 and 2015-16 respectively. Since entertainment industry is an infant industry there should be a balance between incentive structure and resource mobilisation. Urban immoveable property tax is only in Tripura among north eastern states. Gujarat raised ₹ 259.47 crore from this tax in 2016-17.

Conclusion; Despite its shortcomings Manipur is a small state where proper fiscal management can achieve a lot. The capacity of the state for managing its finances properly deserves to be nurtured by establishing a dedicated cell either with the State Planning Board or Finance Department whose sole responsibility should be to provide advice to policy makers. In addition to the advice .such a cell should not be burdened with routine official matters.