Evaluation of State Finances of Manipur

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Acknowledgement

North eastern states are notorious for the quality of economic data and Manipur is no exception. The quality of data is poor because there is practically a very few decisions taken on the basis of our data. Few decisions are taken using the data because it is considered to be poor. This vicious cycle has to be broken. We are grateful to the XIV finance Commission for giving us the opportunity for examining the state of finance of Manipur .We have used the data provided by RBI in its various issues of State Finance. 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 and this gave us the opportunity for examining the data over a much longer period. The insights provided by the study in its preparation will not be lost.

CONTENTS

Chapter I: Fiscal Reforms

Fiscal reforms include the reform measures the state government had taken up during the period under study to mobilise resources and rationalise expenditure. The objective is to make our expenditure more sustainable and also more efficient. That will be reflected inter alia in what we have done regarding taxes, user charges, revenue deficit and subsidies both explicit and implicit. It will also cover the reforms in the power sector and state level public sector units (SLPSU).

The state government submitted a Medium Term Fiscal restructuring policy (MTFRP) 2000-05 to GOI in compliance to the recommendation of XI Finance Commission. An MOU was signed between the GOI and Manipur on June 20,2002. The main objectives of the MOU were to

i. Compress revenue expenditure
ii. Enhance revenue and no debt capital receipts to control debt levels
iii. Increase overall transparency and efficiency in governance

The measures taken up for revenue expenditure compression were

- Abolition of 14385 posts (regular and workcharged)
- To maintain a comprehensive nominal roll of state government employee/employees of government owned or funded organisations
- To evolve an appropriate voluntary retirement scheme for government employees
- No fresh grant-in-aid commitment to any institution
- Legislative cap on the amount of guarantee to be provided by the state government for loans to be taken by other entities sponsored by state government and exclude totally the private sector from being extended guarantee on their borrowing

The revenue receipt enhancement measures are

- Revision of taxes and user charges

- Explore possibility of lifting prohibition
- A cap on announcing new tax concessions

The government revised the rate of land revenue, hill house tax and drinking water supply during 2002-3.

FRBM Act 2005

The state government enacted , as per recommendation of XII Finance Commission, the Manipur FRBM Act in August 2005 to ensure prudence in fiscal management and fiscal stability by achieving sufficient revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the government. The following fiscal targets were adopted

i. Strive to remain revenue surplus by making a balance in revenue receipts and expenditure and build up further surplus.
ii. Strive to bring down fiscal deficit to 3% of Gross state domestic product.
iii. Limit the amount of outstanding government guarantees as per the provisions of the Manipur ceiling on State government Guarantee Act, 2004. It is not to exceed thrice the state's own tax revenue receipts of the second preceding year.
iv. Follow a recruitment and wage policy, in a manner such that the total salary bill relative to revenue expenditure excluding interest payments and pensions does not exceed 35%.

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 years 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 state adopted the new restructured defined contribution pension scheme of the GOI mutatis mutandis in respect of new entrants to the state's service with effect from Jan.1,2005. This would mitigate the impact of rising pension liabilities in future.

Manipur Value Added Tax (Manipur Act No.6 of 2005) was adopted in Dec. 2005. It had five rates: 0%.1%.4%.12.5% and 20 %.The last slab is applicable on motor spirit (including turbine fuel, aviation spirit and aviation gasoline), liquor, petrol and lottery ticket. Minor modifications were introduced in June 2006, March 2008, June 2008, September 2009, February 2010, September 2010 and July 2012. The partial exemption of the Manipur VAT on the enhanced portion of ex-delivery prices of petrol, diesel and domestic LPG to the authorised oil companies /dealers was withdrawn in Feb. 2010(w.e.f. March 1,2010). The gross turnover of a dealer who shall get his accounts audited by an accountant shall be above Rs 60,00,000. In the case of works contract dealer it should be Rs 2,00,00,000 (two crore).The Manipur VAT (1st amendment) Act 2012 became operational from 1st September 2012.

The Manipur Motor vehicles Taxation Act 1998(Manipur Act no.3 of 1998) was amended as the Manipur Motor vehicles Taxation (Amendment) Act 2011(Manipur Act no.5 of 2011).

The government has made considerable progress in corporatisation of the power department. 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 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 in the power sector a joint regulatory commission started functioning since January 2008. During September 2002 and March 2011 the average tariff remained unchanged. However with the functioning of the commission filing of tariff applications and approval of the tariff schedule by the Commission for every year has become mandatory.

These sum up the measures taken in the last ten years. Though , as the subsequent chapters show, these are not adequate , a small state has to operate with its own peculiar constraints. It would be unfair to examine these using the same standard of more advanced states. The optimal level of self financing by a small state is an open question. While there is no dispute as to the need for internal resource mobilisation through various fiscal measures, how adequate is the level of mobilisation is still a question. An equally ,if not more,important issue is the efficiency of expenditure. Under a highly inefficient system more resources would be required for achieving the same thing that could have been achieved with a much smaller amount in a more efficient system. The inefficiency of the institutions involved in the delivery of services also is an area needing intervention.

Chapter 2: Manipur Government and FRBM Act

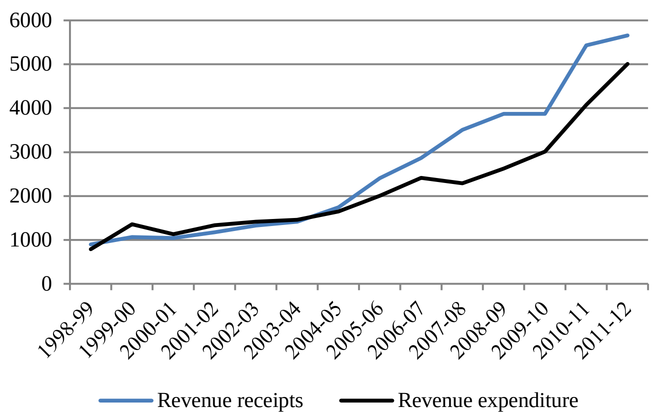
The Government of Manipur implemented the Fifth Pay Commission recommendations in the year 1999 with effect from 1996 which put a severe strain on its finances. The revenue expenditure increased from Rs. 789 crores in 1998-99 to Rs.1357 crores in 1999-00 while the revenue receipts rose from Rs. 897 crores to Rs. 1070 crores only during the period (Table 1). The rise in expenditure without a corresponding increase in revenues led to a deterioration in revenue account position resulting in the emergence of deficit of Rs. -287 crores in 1999-00. The state was spending more than its revenues and it was surviving on short term borrowings from the Reserve Bank of India which is the central bank of the country. 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 (EFC). The state specific reform plan was drawn 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 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 adeficit of Rs. 287 crores in 1999-00 to a surplus of Rs. 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 transfers. 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. As a result, the state was able to get the full amount of incentive money amounting to Rs. 272.23 crores set aside.

Fig.2.1: Revenue receipts and expenditure of Manipur (Rs.cr)



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:

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

4. To bring down the total salary so that it does not exceed 35 percent of revenue expenditure excluding 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 years 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.

Table2. 1. Fiscal profile of Manipur (Rs.cr)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Own tax receipts	31	40	49	52	65	69	81	95	122	147	170	196	267	368
Central tax share	332	388	164	141	188	240	287	342	436	550	581	598	991	1154
Own non-tax receipts	32	43	42	29	56	49	70	76	181	165	253	240	260	312
Central grants	503	599	790	955	1018	1061	1305	1895	2124	2646	2868	2840	3912	3820
Revenue receipts	897	1070	1045	1177	1328	1420	1743	2409	2863	3508	3873	3873	5430	5654
Contribution of own tax and non tax receipts to revenue receipts	7	8	9	7	9	8	9	7	11	9	11	11	10	12
Salary expenditure	468	927	715	662	655	667	731	872	813	928	1095	1141	1678	2216
Pension	54	145	127	140	167	166	183	168	239	206	267	293	400	628
Interest	91	132	177	191	255	215	266	238	289	299	314	323	365	397
Others	175	153	111	344	338	415	471	726	1074	860	946	1258	1635	1765
Revenue expenditure	789	1357	1131	1338	1415	1463	1651	2005	2415	2293	2622	3014	4078	5007
Revenue deficit	-108	287	86	161	87	44	-92	-404	-448	-1216	-1250	-859	-1352	-647
GFD (p.c. of the GSDP)	3	18	7	9	6	6	9	5	8	-2	3	9	6	10
Rev.exp.net of interest & pension	644	1080	827	1006	993	1082	1202	1598	1887	1788	2041	2399	3313	3981
Committed expenditure	78	89	90	74	76	72	71	64	56	62	64	58	60	65
Salary/rev. exp. net of interest and pension	73	86	87	66	66	62	61	55	43	52	54	48	51	56
GSDP	3184	3664	3497	3786	3941	4472	5133	5718	6137	6783	7399	8254	9108	10410
Gross fiscal deficit (GFD)	106	656	234	340	249	286	449	271	475	-102	217	733	569	1047

Note: Salary data of 2003-04 is revised estimates. Minus revenue deficit indicates revenue surplus. GSDP data is current price converted to 2004-05 series

Source: RBI (2010) *Handbook of statistics on state finances*. RBI: *State finances: A study of budgets* (various issues)

GOM(2002): *White paper on Manipur State Finances* (for salary data up to 2003-04)

GOI *Finance Accounts*, GOM (various issues for salary data 2004-05 to 2011-12)

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 by the year 2004-05. 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.
3. The state failed to reduce salary expenditure to 35 percent of revenue expenditure net of interest payments and pensions.

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 Rs. 1141 crores in 2009-10 to Rs. 2216 crores in 2011-12. Salary expenditure increased by as much as Rs. 537 crores in 2010-11 over the previous year figure while pension expenditure rose by Rs. 107 crores. In sharp contrast, the state had witnessed increase in salary expenditure by only Rs. 46 crores in 2009-10 over the previous year figure and by only Rs. 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. The fiscal correction path of six SCS is given in Table 2. Manipur, Nagaland, Sikkim and Uttarakhand had fiscal deficit of over 3 percent but less than 6 percent of the GSDP. It is recommended that they should bring their fiscal deficit to 3 percent by 2013-14. Jammu & Kashmir and Mizoram had higher fiscal deficit and they were to bring down their FD level by 2014-15.

Table2. 2: Fiscal deficit (FD) path for Special Category States (per cent of GSDP)

	State base	2011-12	2012-13	2013-14	2014-15
Manipur	4.1	3.5	3.5	3.0	3.0
Nagaland	4.8	3.5	3.5	3.0	3.0
Sikkim	5.2	3.5	3.5	3.0	3.0
Uttarakhand	5.2	3.5	3.5	3.0	3.0
Jammu & Kashmir	5.9	4.7	4.2	3.6	3.0
Mizoram	8.5	6.4	5.2	4.1	3.0

Source: Thirteenth Finance Commission Report (p.139)

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 transfers from the new Finance Commission recommendations. But the state had wanted more. The problem for the state is that while central transfers witnessed some increase in the year 2011-12, revenue expenditure increased by Rs. 928 crores reducing the revenue surplus by the state from Rs.1351 in 2009-10 to Rs. 646 crores in 2010-11. 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. The Finance Commission did make a vital mistake in overlooking it. It penalizes a state like Manipur which postponed the pay hike for its employees. This has made impossible for the state to achieve the FRBMA targets.

Chapter 3: Contingent Liabilities of Manipur

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 them. Such loans are 'contingent liabilities' i.e. liabilities contingent upon their failure to pay back loans. However, as most of the PSUs 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 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) said that it is also better to provide a fund - a sinking fund out of which government can repay such liabilities. If this is done, the burden to the government will be very much reduced.

"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."

In this way, a two prong 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. Further the government has created a fund to repay such liabilities.

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 mount 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. Since then the amount both 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.

Fig.3.1: Contingent liabilities of Manipur

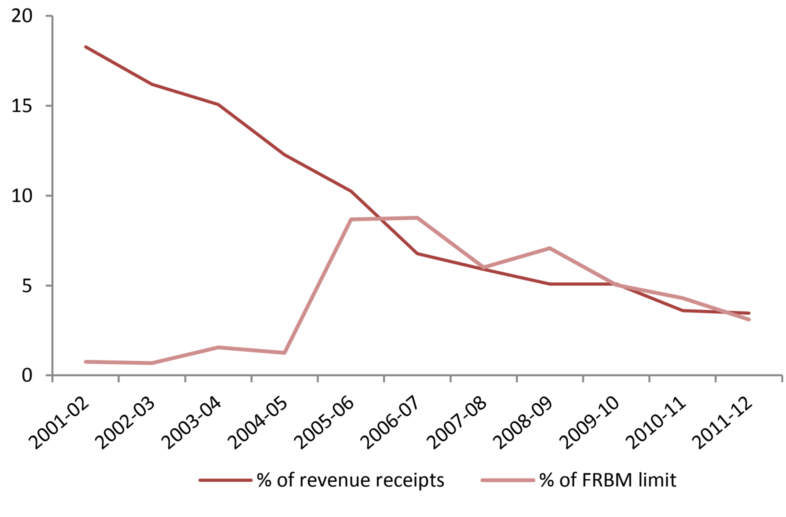


Table 3.1: Contingent liabilities of Manipur

	Maximum amount guaranteed in the year		Outstanding amount of guarantees		FRBM limit	% of FRBM limit
	(Rs. cr)	(% of revenue receipts)	(Rs. cr)	(% of revenue receipts)	(Rs. cr)	
2002-03	215	16.19	9	0.68	147.21	6.11
2003-04	214	15.07	22	1.55	155.91	14.11
2004-05	214	12.28	22	1.26	195.48	11.25
2005-06	247	10.25	209	8.68	207.51	100.72
2006-07	194	6.78	251	8.77	243.66	103.01
2007-08	207	5.90	211	6.01	284.88	74.07
2008-09	197	5.09	274	7.08	364.53	75.17
2009-10	197	5.09	195	5.03	442.23	44.09
2010-11	196	3.61	233	4.27	510.21	45.67
2011-12	196	3.47	175	3.10	588.09	29.76

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).

The outstanding amount of guarantees given in Table 3.1 seems to be the principal amount only. As seen from Table 3.2, the outstanding interest liability seems to be more than the principle amount. The total outstanding principle and interest together stood at Rs. 175.35 crores in 2011-12 as against outstanding principle of Rs. 78.84 crores only. 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.

Table3. 2: Outstanding guaranties of institutions (Rs. crores)

	Maximum amount guaranteed during the year	Sum guaranteed outstanding as on 31st March 2012	
		Principal	Interest
Manipur State Apex long term Co-operative Housing Society Limited	1.25	1.18	15.36
Housing and Urban Development Cooperation, New Delhi	6.15	5.49	34.01
Manipur State Cooperative Bank Ltd	5.00	2	0.45
Planning and Development Authority	136.25	42.03	19.23
Manipur Plantation Crops Corporation Ltd.	1.57	0	0
Manipur Tribal Development Corporation	9.00	8.59	12.65
Khadi& Village Industries	36.33	19.55	14.81
Grand total	195.55	78.84	96.51

Source: GOI: *Finance Accounts 2011-12, GOM* (pp.52-53)

Further, the sinking fund created for debt redemption of such liabilities seem 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. 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 3.3: Guarantee redemption fund (Rs. crores)

1.	Opening balance	6.30
2.	Amount transferred to the fund	4.53
3.	Total guarantee fund	10.83
4.	Amount met from the fund for the discharge of invoke guarantees	nil
5.	Closing balance	10.83
6.	Amount of investment made out of the guarantee redemption fund	10.83

Source: GOI: *Finance Accounts 2011-12, GOM* (pp.52-53)

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 ablet to service these debts with ease.

Chapter 4: Public Debt of Manipur

A developing economy requires large amount of money for development purposes but often the fund 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.

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.

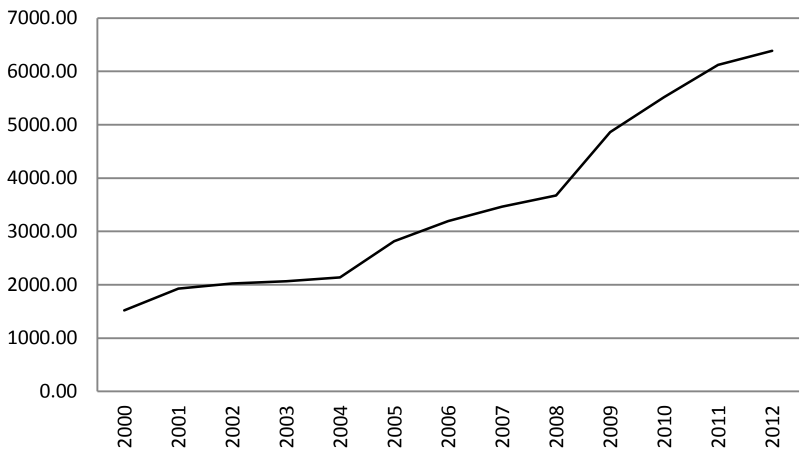
Composition of public debt

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 comprise 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 loans (as on 31st March) of the state has slowly risen from Rs. 569.87 crores in 1996 to Rs. 6383.78 crores in 2012 (Fig.1).

Fig.4.1: Outstanding debt of Manipur (Rs.cr)



As far as the composition of the loans is concerned, the importance of central loans has gone down while internal debt and provident funds, etc. have gone up over the years. As on 31st March 1990, central loans were nearly 50 percent of the total outstanding debt but witnessed a gradual decline over the years. However, it again saw a rise to as much as 52 percent at the end of 2005. Since then it has gone down tremendously and stood at 9 percent at the end of 2012. 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 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 week 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 or 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.

Table 4.1: Composition of outstanding loans of Manipur
(Percentage) (As on 31st March)

Year	Internal debt	Central loans	Provident funds, etc.
1990	32.41	48.74	18.84
1991	33.90	47.72	18.37
1992	37.96	41.20	20.84
2000	43.01	26.23	30.76
2001	42.53	28.46	29.01
2002	47.60	22.74	29.66
2003	29.31	43.93	26.77
2004	35.79	39.04	25.17
2005	27.52	52.59	19.89
2007	32.71	34.71	32.58
2008	36.05	26.32	37.63
2009	49.92	14.95	35.13
2010	52.03	12.40	35.56
2011	50.63	10.44	38.93
2012	51.67	8.99	39.34

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

Table 4.2: Details of outstanding loans (Rs.cr)

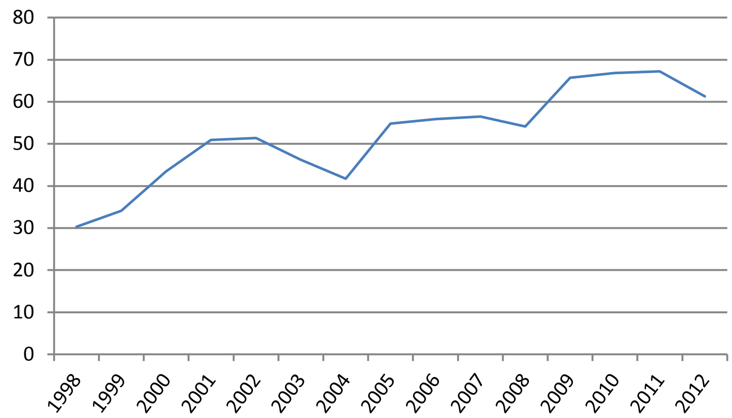
	2008	2012
Internal loans		
Market loan	1203.66	2180.62
Loans from the LIC	8.29	5.93
Loans from the NABARD	13.92	94.93
Ways & Means loans from the RBI	0	89.95
Others	98.02	1016.74
Internal debt total	*1323.89*	*3298.22*
Central loans		
Non-plan loans	847.44	492.72
Loans for state plan schemes	88.73	77.65
Loans for centrally sponsored schemes	22.67	0
Loans for NEC schemes	5.16	3.99
Others	7.71	4.06
Central loans total	*966.55*	*574.43*

Provident funds, etc.		
State provident funds	719.13	1072.60
Insurance and Pension fund	4.11	2.88
Investment in small savings	658.38	0.01
Provident funds, etc. total	*1381.62*	*1075.49*
Grand total	*3672.06*	*4948.14*

Note: Provident funds, etc. shown here does not include reserve funds and deposits

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

Fig.4. 2: Debt GSDP ratio (percentage)



Assessment of State Government Debt:

It is not possible for the state to generate own funds to repay loans as evident from the fact that outstanding loans comprise about 60 percent of the GSDP in 2012. 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 tenors. As a debt manager of the states, the Reserve Bank initially underwrote states' borrowings, but with financial market development, 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.

There is no internationally established threshold for assessing the sustainability of SNG 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. 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 SNGs 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↓↓

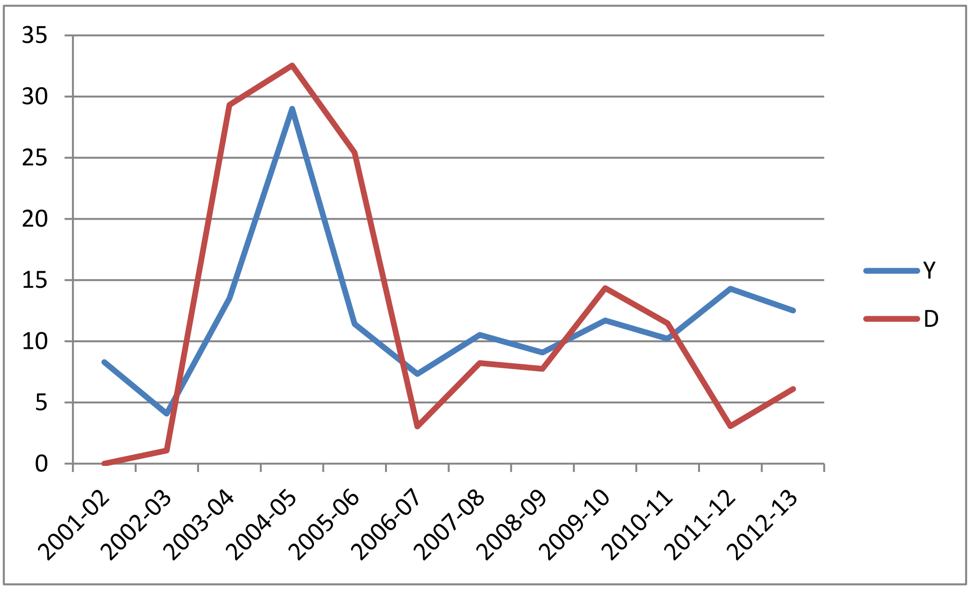
The sustainability of Manipur's debt would be examined using the pattern anticipated of these indicators:

Table 4.3: Nominal GSDP growth vs Debt growth

	2000-1 – 2003-4	2004-5 – 2007-8	2008-9 – 2011-12
Y	8.55	9.74	12.05
D	9.33	11.82	9.52

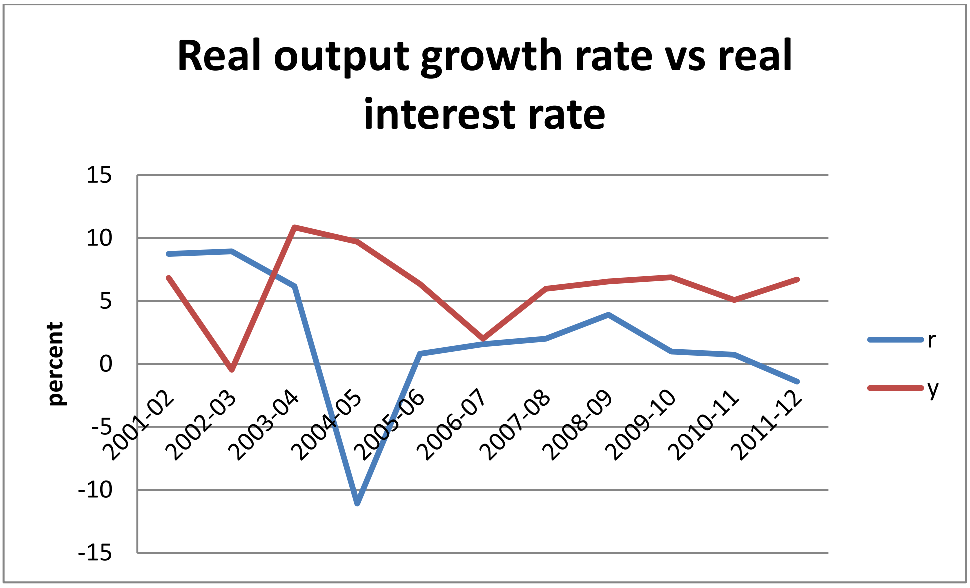
In the initial sub-periods the growth rate of nominal GSDP was less than that of debt. It was reversed in the later period.

Fig 4.3: Growth rate of nominal GSDP and debt



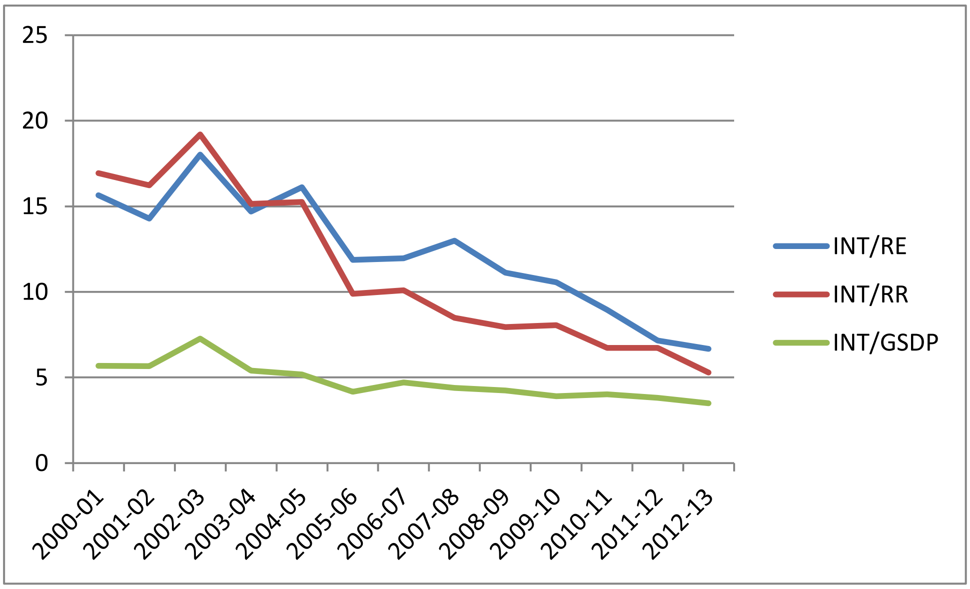
Real output growth rate has been higher than real interest rate for most of the period. Real interest rate is calculated as average interest rate (on outstanding debt) minus difference between nominal growth of GSDP and real output growth (at 2004-5 prices).

Fig 4.4: Real output growth rate and real interest rate



INT/GSDP, INT/RR and INT/RE show a declining trend throughout. These indicators show that though in the beginning they indicated unsustainability, it gradually improved subsequently.There seems to have been an improvement in the sustainability of debt

Fig 4.5: Interest burden



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

Chapter 5: Financing the Fiscal deficit

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 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.

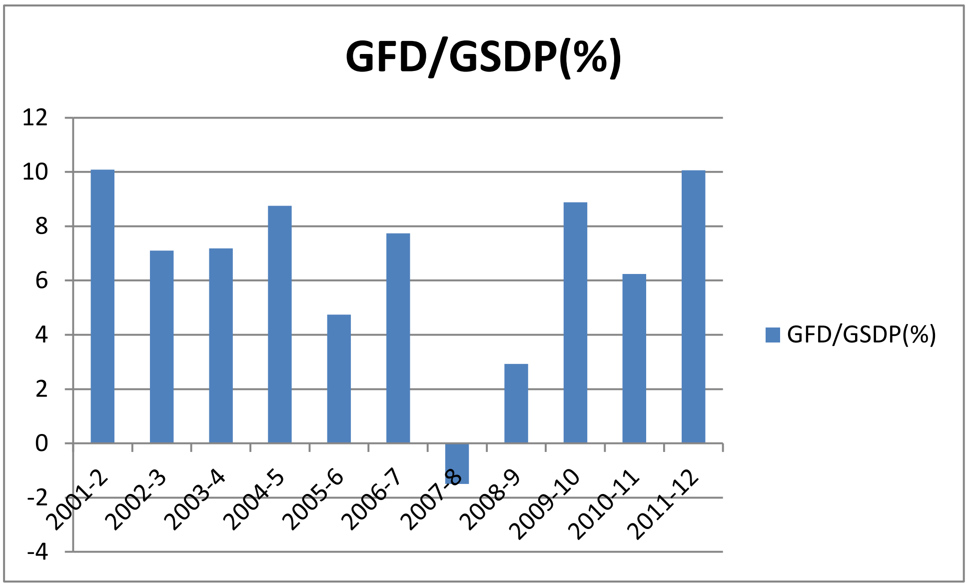
The following table shows the pattern of gross fiscal deficit, revenue deficit and primary deficit. As the following table shows the state seems to have come a full circle in the case of fiscal deficit. In 2001-2, GFD as the percentage of GSDP was 10.09 and after declining and even becoming surplus in 2007-8 it started rising to reach 10.06 in 2011-12. The state entered the decade with substantial revenue deficit and became a revenue surplus by 2004-5. The surplus as percentage of GSDP peaked at 17.93% in 2007-8. However by 2011-12 the surplus both absolutely and as percent of GSDP declined substantially.

Table 5.1: Deficit indicators

Year	G.F.D.	Primary Def	Rev.Def	GSDP	GFD as % of GSDP	Rev Def as % of GSDP
1999-00	656	524	287	3260	20.12	8.8
2000-01	234	57	86	3111	7.52	2.76
2001-02	340	149	161	3369	10.09	4.78
2002-03	249	-6	87	3506	7.1	2.48
2003-04	286	70	44	3979	7.19	1.11
2004-05	449	183	-92	5133	8.75	-1.79
2005-06	271	34	-404	5718	4.74	-7.07
2006-07	475	186	-408	6137	7.74	-6.65
2007-08	-102	-401	-1216	6783	-1.5	-17.93
2008-09	217	98	-1250	7399	2.93	-16.89
2009-10	733	-411	-859	8264	8.87	-10.39
2010-11	569	-204	-1352	9108	6.25	-14.84
2011-12	1047	-650	-647	10410	10.06	-6.22

Note: GFD, GSDP, Rev Def and Primary Def. are in Rs crore.

Fig 5.1: Gross fiscal deficit as percent of GSDP



Deficits can be assessed in terms of its causes and the manner in which it is financed.

Quality of Deficit/Surplus

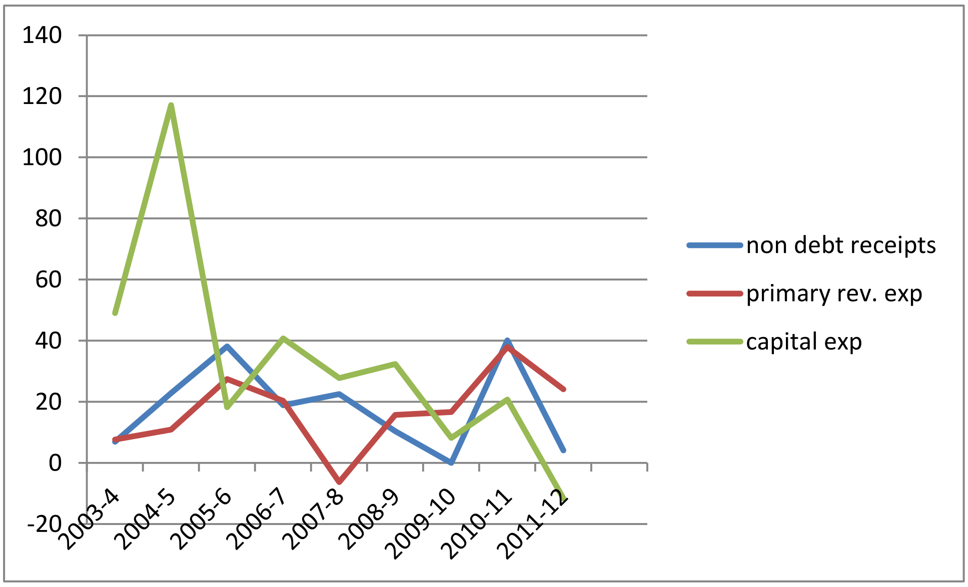
Primary revenue expenditure is total revenue expenditure net of interest payment. The decomposition of primary deficit into primary revenue deficit/surplus and capital expenditure (including loans and advances) would indicate the quality of deficit. If enhancement of capital expenditure is the main cause 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 2002-3 to 2011-12 were sufficient to meet the primary revenue expenditure. The proportion of capital expenditure went on rising.

Table 5.2: Quality of Deficit/Surplus

Year	Non debt receipts	primary rev. exp	capital exp	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)
2002-3	1328	1160	161	1	1322	168	6
2003-4	1420	1249	240	2	1491	171	-71
2004-5	1744	1385	521	20	1926	359	-182
2005-6	2410	1766	616	61	2443	644	-33
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

Note: in Rs. crore

Fig 5.3: Quality of Deficit/Surplus



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 rising. 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.Table 5.3 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. 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..

Table5.3: Financing the deficit

Financing of Gross Fiscal deficit (in Rs 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 fund	Increase(+) decrease(-) in cash balance	others	overall surplus (-)/def(+)	Gfsurplus(-) Gfdeficit(+)
1999-00	21				46							589		656
2000-01	22				150							63		234
2001-2	45				-88							383		340
2002-3	77				447							-276		249
2003-4	179	-41			-30	-33	2	-49	55	-2		392	-187	286
2004-5	69	33			645	-11	108	10	-62	-1		-674	332	449
2005-6	189	127	5		-38	150	437	-74	-237	8			-295	271
2006-7	224	230	-1		-239	63	15	-75	198	-7	-536	-3	72	476
2007-8	193	200	-3		-237	52	133	28	111	4	-583			-102
2008-9	249	199	-4		-240	52	84	-5	-48	5	-76			217
2009-10	445	-3	3		-42	25	226	-34	-160	25	249			733
2010-11	206	-6	28		-45	41	387	-0.3	-81	28	11			569
2011-12	77	-13	44	90	-65	234	-114	6	22	38	728			1047

Source : Reports on State Finance,RBI

Chapter 6: Resource Mobilisation in Power Sector

Electricity is in the concurrent list in the constitution. The primary responsibility of structuring its availability and distribution is that of the state. Electricity department was separated from PWD, Govt. of Manipur in Feb. 1970. Manipur has been perennially short of power.The established potential is 2000 MW of hydro power. There is no proven reserve of coal or gas. The installed capacity is 105 MW in Loktak Hydroelectric project (commissioned on Aug.4,1984). 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. A 6x6 MW heavy fuel based power project at Leimakhong was commissioned on 5^{th} Oct. 2002. It is in standby mode. The cost of generation from this unit is extremely high.

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 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 6.1: Per Capita energy consumption

	(KWh)	Annual growth rate
2001-2	114	
2002-3	143	25.4386
2003-4	135	-5.59441
2004-5	146	8.148148
2005-6	141	-3.42466
2006-7	132	-6.38298
2007-8	141	6.818182
2008-9	154	9.219858
2009-10	148	-3.896
2010-11	150	1.351351
2011-12	158	5.333333

The per capita consumption of power gradually rose from 114kwh in 2001-2 to 158 kwh in2011-12.

Table 6.2: Growth of consumers

	No. of consumers	*percentage growth*
2001-2	164034	
2002-3	166562	1.541144
2003-4	145375	-12.7202
2004-5	150938	3.826655
2005-6	161131	6.753104
2006-7	178800	10.96561
2007-8	180609	1.011745
2008-9	183686	1.70368
2009-10	187490	2.070925
2010-11	192857	2.862553
(Dec.2010)		

The number of consumers also rose from 164034 in 2001-2 to 192857 in 2010-11.

Table 6.3: Categories of consumers

Categories of Consumers	
Domestic	178837
Commercial	10352
Industries	2193
Irrigation/Agri	61
public water work	137
Public lighting	740
Bulk supplies & others	537
Total	192857

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 in 2012-13 was 28.83%' and AT&C loss was 54%. AT&C loss shows a downward trend.

Table 6.4: Loss

Year	AT& C loss percent MANIPUR
2002-3	63.66
2003-4	65.18
2004-5	70.61
2005-6	63.12
2006-7	53.47
2007-8	63.56
2008-9	63.37
2009-10	64.9
2010-11	62.6
2011-12	58.1
2012-13	54

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 sub station metering.

What happens in the power sector matters for the overall fiscal health of the state. For example in 2004-5 the revenue deficit of power sector was Rs 71 crore. This reduced the level of revenue surplus in the state. Without the power sector the state would have had a much higher revenue surplus of Rs 168.56 crore. In short the nature of revenue account balance would have been better with a performing power department.

Table 6.5: Revenue account of power sector (Rs lakhs)

	Receipt	Disbursement	Rev deficit power
2001-2	1972.83	9859.09	7886.26
2002-3	4390.52	8608.91	4218.39
2003-4	3677.38	10102.14	6424.76
2004-5	5440.48	12578.34	7137.86
2005-6	4987.14	19328.23	14341.09
2006-7	4023.69	43073.97	39050.28
2007-8	6228.62	15424.91	9196.29
2008-9	8828.43	18532.53	9704.1
2009-10	10406.83	16467.13	6060.3
2010-11	8828.95	20606.37	11777.42
2011-12	9711.85	25317.52	15605.67
2012-13	10683.04	30403	19719.96

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 6.6 : comparative tariff structure in domestic light & power segment

2002		2012		
	Energy charge (Rs/kwh)		Fixed charge	Energy charge (Rs/kwh)
first 100 units	Rs 2.60	0-100 kwh/month	Rs 60	Rs 2.40
Next 100 units	Rs 2.90	0-200 kwh/month	Rs 60	Rs 3.00
Above 200 units	Rs 3.20	Above kwh/month	Rs 60	Rs 3.60

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

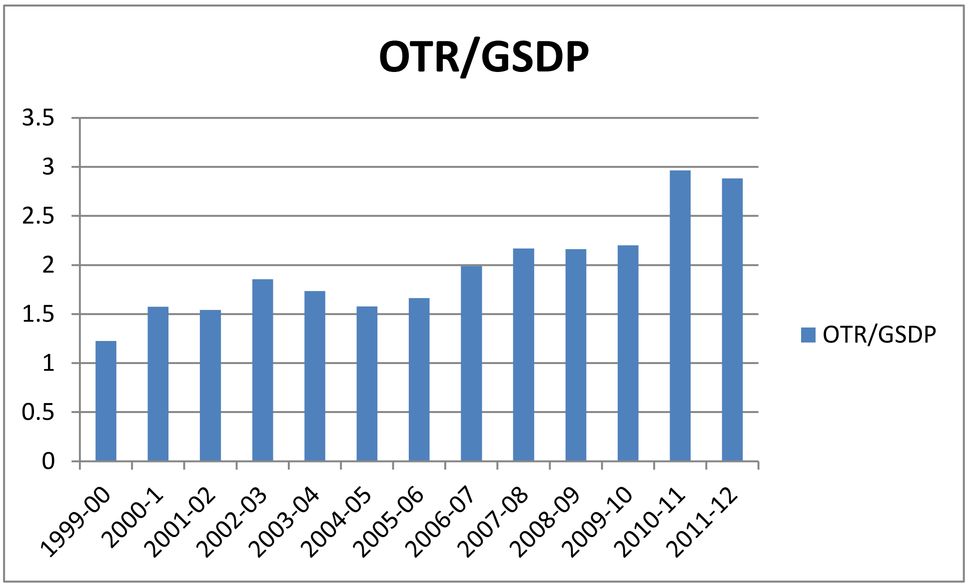
Mass awareness programmes on energy conservation, like distribution of leaflets, display of wall posters and insertion of advertisement in newspapers on the dos and don’ts while using electricity national energy conservation day 14 Dec the state government also issued notices on proper utilisation of 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. .

Chapter 7: Resource Mobilisation & Financial management

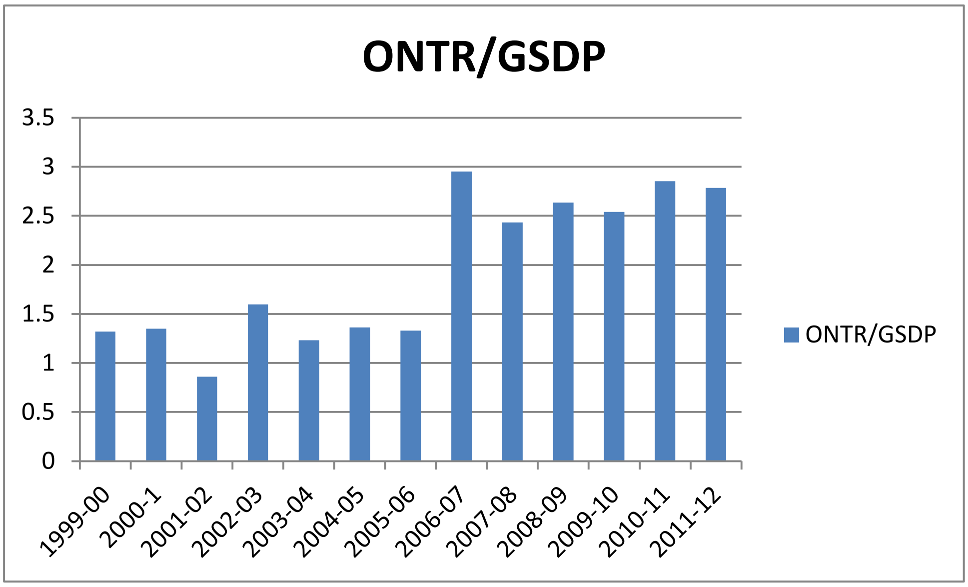
Resource mobilisation is becoming increasingly important in fiscal consolidation exercise. Beginning from 2005 a number of fiscal reform measures were introduced. The enactment of FRBM Act in August 2005 and introduction of VAT in July 2005 were important landmarks. It is to be seen whether resource mobilisation has gained strength in the post reform period or not. OTR as a proportion of GSDP is a measure of tax effort. The average OTR/GSDP during 1999-00 to 2004-5 , representing the pre reform period works out to be 1.58% and that for 2005-6 to 2011-12 works out to be 2.29%. it indicates higher tax effort in the post reform period. The following graph shows the time path of this ratio.

Fig 7.1: Tax effort



ONTR as a proportion of GSDP is also a measure of resource mobilisation. Its average value rose from 1.287% during 1999-00 to 2004-5 to 2.504% during 2005-6 to 2011-12.

Fig 7.2: Own non tax revenue



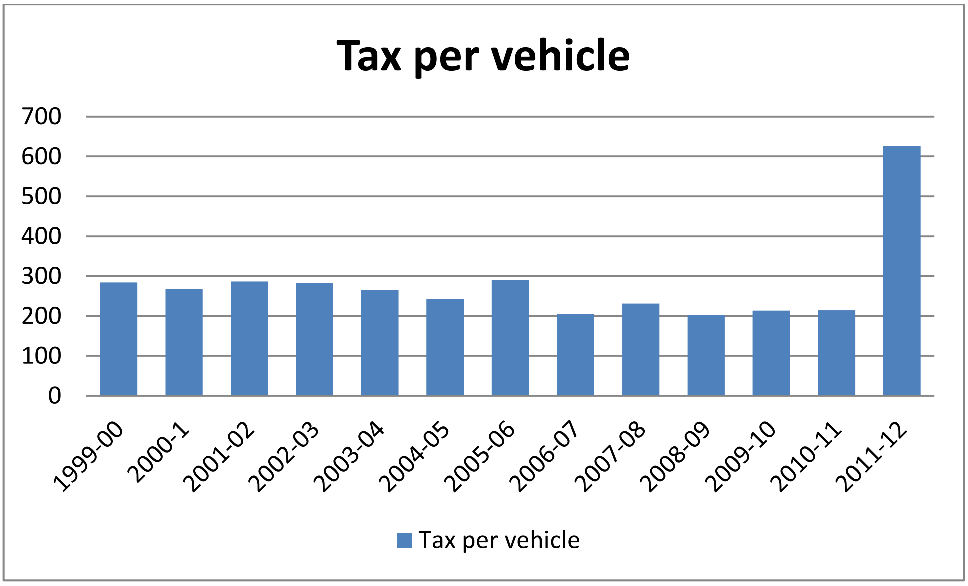
Manipur Legislative Assembly passed the Motor Vehicle Taxation Amendment Bill 2011 which on becoming an Act is expected to fetch an annual revenue of Rs 12 crores to the State exchequer. The Manipur Motor Vehicles Taxation (Amendment) Bill 2011 passed by the state assembly has been approved by the Governor.

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.

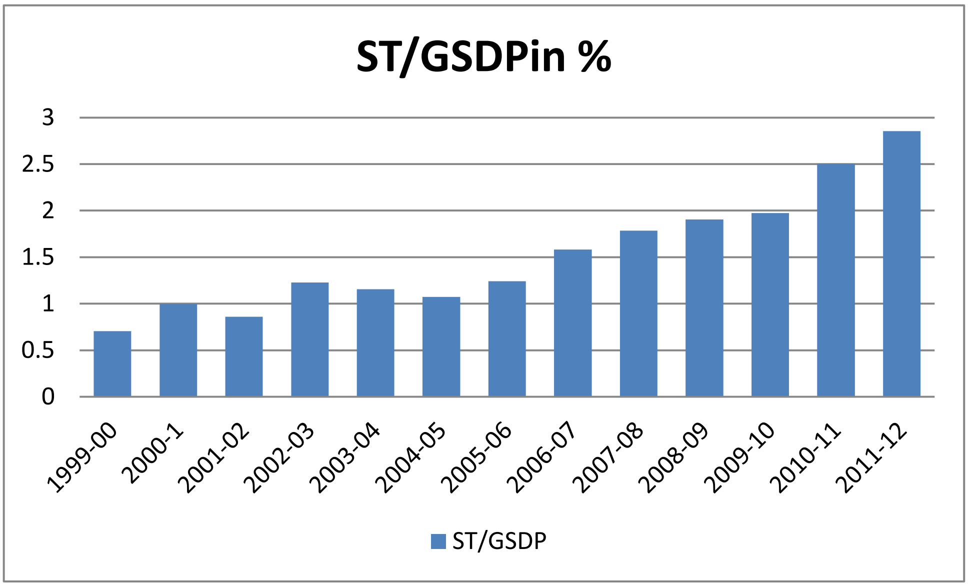
Motor vehicle taxes are no longer paid annually. New vehicles pay tax for 15 years at the time of registration. The tax effort in this sector is measured by tax per vehicle. Using this measure the average tax per vehicle during 1999-00 to 2004-5 works out to be Rs 271.63 which declined to Rs 226.05 during 2005-6 to 2010-11. 2004-5 has been chosen as the dividing line as improved collection of taxes was a part of the reforms introduced in 2005. A majir revision on motor vehicle tax came in 2011 only. It improved dramatically after the introduction of Motor vehicles taxation Act 2011. It rose to Rs 625.9 in 2011-12 and the average for 2005-6 to 2011-12 rose to Rs 283.17. The tax collection under the new regime rose from Rs 4.44 crore in 2010-11 to Rs 13.21 crore in 2011-12.

Fig 7.3: Tax per vehicle



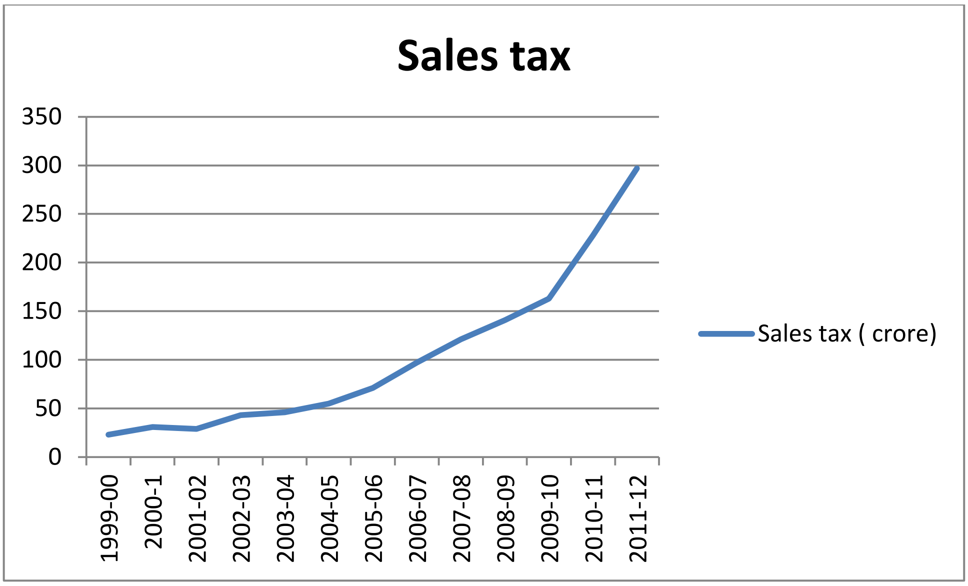
The ST/GSDP ratio increased from 1.003% during 1999-00 to 2004-5 to 1.977% during 2005-6 to 2011-12. The following graph shows the increasing trend after the reforms in 2005 i.e. introduction of VAT.

Fig 7.4: Sales Tax



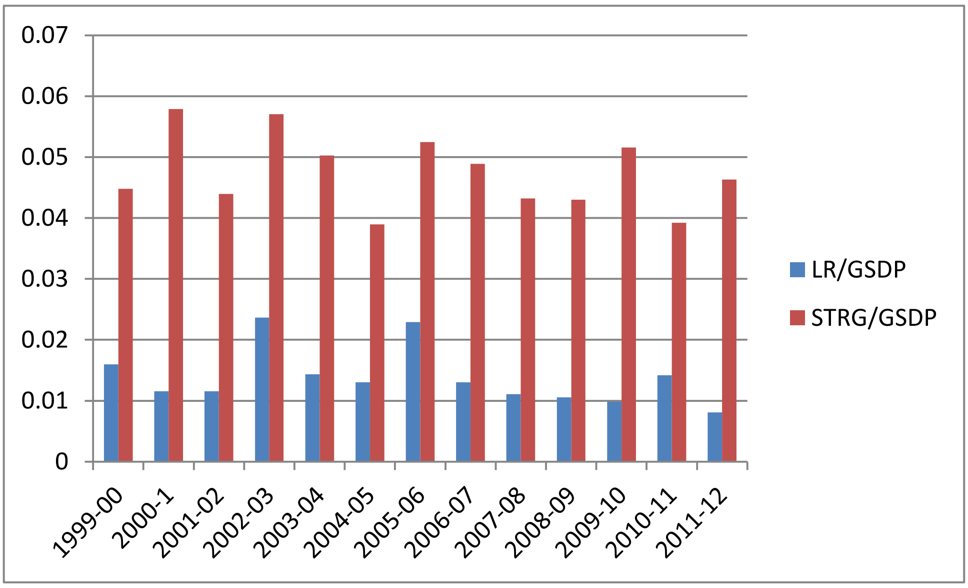
Sales tax picked up after the introduction of VAT in 2005 as shown by the following graph

Fig 7.5: Growth of Sales tax



In the case of land revenue the measure chosen land revenue as a proportion of GSDP declined during the two sub periods. From 0.015% during 1999-00 t0 2004-5 it declined to 0.012% during 2005-6 to 2011-12. Though the supply of land is inelastic, as the economy undergoes structural change as in the case of Manipur, sale and transfer of land occurred in large scale. This was not reflected in land revenue. This was not also reflected in revenue collected from stamp &registration fees which should accompany any such transaction. Stamp & registration fee as proportion of GSDP remained stagnant during the two sub periods falling marginally from 0.049 to 0.046.

Fig 7.6: Land revenue and Stamps & Registration



Other measures of buoyancy are as follows

Table 7.1: Measures of buoyancy

	1999-00 to 2004-5	2005-6 to 2011-12	1999-00 to 2011-12
Sales tax/VAT	1.473*	2.252*	1.929*
Land revenue	0.921	-0.077	0.654*
Stamp & registration fee	0.475	0.789*	0.88*
Own tax revenue	1.19*	1.186*	1.522*
Own non tax revenue	1.174	1.73*	1.827*
Tax on vehicles	0.708*	1.503	0.99*

Note: * significant at 5%

The formula used is

Log(y)=a +log(X) . for tax on vehicles the base is number of motor vehicles and for others GSDP

Though the elasticities for each of them is statistically significant over the entire period, sub period analysis shows certain differences. Sales tax/VAT, stamp & registration fee, own tax revenue and non tax revenue have statistically significant elasticities in the post reform period. In the case of sales tax/VAT there is a significant increase in elasticity in the post reform period. The findings support the earlier finding that resource mobilisation efforts became stronger in the post reform period.

However chow test for structural break for these relationships at 2005-6 did not suggest any structural break. Quite predictably the tax on vehicles- number of vehicles relationship showed a structural break at 2010-11. The sharp rise in fee collection was mainly due to the upward revision of registration fees.

Table 7.2: Tax data

Year	ST	LR	STRG	GSDP	TV	MV	ONTR	OTR
2000	23	0.52	1.46	3260	2.33	82005	43	40
2001	31	0.36	1.8	3111	2.41	90063	42	49
2002	29	0.39	1.48	3369	2.77	96626	29	52
2003	43	0.83	2	3506	3	105761	56	65
2004	46	0.57	2	3979	3	113351	49	69
2005	55	0.67	2	5133	3	123395	70	81
2006	71	1.31	3	5718	4	137860	76	95
2007	97	0.8	3	6137	3	146730	181	122
2008	121	0.75	2.93	6783	3.57	154713	165	147
2009	141	0.78	3.18	7399	4.03	198889	195	160
2010	163	0.81	4.26	8264	4.34	202944	210	182
2011	228	1.29	3.57	9108	4.44	207000	260	270
2012	297	0.84	4.82	10410	13.21	211056	290	300

Note: except for MV, all are in Rs. crore

ST Sales tax
LR Land revenue
TV Tax on vehicles
ONTR Own non tax revenue
OTR Own tax revenue
STRG Stamp & registration fee
GSDP Gross State domestic product
MV No. of registered motor vehicles
2000=1999-2000

Expenditure Management

Aggregate expenditure rose from Rs 1381 cr in 2000-1 to Rs 7700 cr in 2011-12 registering an annual compound growth rate of 16.91%. the following table gives the CAGR of some expenditures during this period. Aggregate expenditure (AE),revenue expenditure (RE)and social service expenditure (SSE) have grown faster in the latter period. It has declined with capital expenditure (CE) and development capital expenditure (DEC)..

Table 7.3: Growth of expenditure

	AE	RE	CE	DE	DEC	SSE
2000-1 – 2005-6	14.71	12.13	24.17	15.88	24	15.87
2006-7 - 2011-12	16.26	18.11	12.17	15.34	18.43	17.51
2000-1 – 2011-12	16.91	15.56	21.61	16	25.10	16.12

Table 7.4: Some important expenditures

	RE	RR	SSE	CE	DE	DEC	AE
2000-01	1131	1045	450	250	615	146	1381
2001-02	1338	1177	550	779	776	171	2117
2002-03	1415	1328	560	742	765	156	2157
2003-04	1463	1420	600	857	837	231	2320
2004-05	1651	1743	870	949	950	507	2600
2005-06	2005	2409	940	738	1285	428	2743
2006-07	2415	2863	1040	1211	1541	736	3626
2007-08	2293	3508	1180	1427	1360	1004	3720
2008-09	2820	3948	1450	1922	1705	1534	4742
2009-10	3056	4005	1540	1473	3192	1885	4529
2010-11	4080	5430	1930	2040	2322	1653	6120
2011-12	5550	5910	2330	2150	3146	1715	7700

RE	revenue expenditure	RR	Revenue receipt	in Rs crore
SSE	social service expenditure	CE	capital expenditure	
DE	Developmental expenditure	DEC	development capital expenditure	
AE	Aggregate expenditure			

Aggregate expenditure as percentage of GSDP has gradually increased from 44% in 2000-1 to 74% in 2011-12. Aggregate expenditure has persistently exceeded revenue receipts. RE as percentage of AE declined from 82 to 72. The proportion of SSE remained fairly stable. The proportion of capital expenditure gradually grew from 18.1% to 27.92%. the proportion of MED in AE gradually fell and recovered . However the proportion of expenditure in education in aggregate expenditure gradually declined from 20.2 % to 11.3%. The proportion of DEC in AE also has risen from 10.57% to 22.27%.

Table 7.5: Expenditure Management

	AE/GSDP	AE/RR	RE/AE	SSE/AE	CE/AE	DE/AE	MED/AE	EDN/AE	DEC/AE
2000-01	44.39	132.15	81.9	32.59	18.1	44.53	4.8	20.2	10.57
2001-02	62.84	179.86	63.2	25.98	36.8	36.66	3.4	13.7	8.08
2002-03	61.52	162.42	65.6	25.96	34.4	35.47	2.9	13.3	7.23
2003-04	58.31	163.38	63.06	25.86	36.94	36.08	3.2	13.1	9.96
2004-05	50.65	149.17	63.5	33.46	36.5	36.54	2.6	15.3	19.5
2005-06	47.97	113.86	73.1	34.27	26.9	46.85	3	15.4	15.6
2006-07	59.08	126.65	66.6	28.68	33.4	42.5	2.7	11.9	20.3
2007-08	54.84	106.04	61.64	31.72	38.36	36.56	4.1	14.2	26.99
2008-09	64.09	120.11	59.47	30.58	40.53	35.96	3.5	12	32.35
2009-10	54.8	113.08	67.48	34	32.52	70.48	4.4	11.9	41.62
2010-11	67.19	112.71	66.67	31.54	33.33	37.94	5	10.7	27.01
2011-12	73.97	130.29	72.08	30.26	27.92	40.86	5.7	11.3	22.27

RE	revenue expenditure	RR	Revenue receipt	in percentage
SSE	social service expenditure	CE	capital expenditure	
GSDP	Gross state domestic product	DE	Developmental expenditure	
AE	Aggregate expenditure	MED	medical, health & family welfare expenditure	
EDN	Education exp	DEC	development capital expenditure	

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

State Public sector units consist of state government companies and statutory corporation. The state PSUs are established to carry out activities of commercial nature while keeping in view the welfare of the people. In a backward state like Manipur PSUs 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 state PSUs have failed to flourish. They have failed to generate resources for development and continued contributing an insignificant percentage of GSDP. In fact PSUs have unfortunately become synonymous with inefficiency.

As on 31 March 2001 there were 15 government companies (13 working and 2 non working) and one working statutory corporation.

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.

Statutory Corporation

1. Manipur State Road Transport Corporation.

By 31 March 2001 the Govt, of Manipur had invested Rs 45.54 crore and the amount of dividend declared/ interest received & credited to Govt. during the year was only Rs 2.1 lakh.

However by 31st March 2012 the number of PSUs declined to 10 only (all companies including 3 non working). The following table gives some details of these ten companies.

Table 8.1: Particulars of Government companies as on 31 March 2012

Working Government Companies				
Sl.no.	Sector & name of the company	Year of incorporation	Paid up capital (Rs lakh)	Debt equity ratio 2011-12
Finance				
1	Manipur Industrial development Corporation Limited	1969	1224	0.30:1
2	Manipur Film development Corporation Limited	1987	6.00	
3	Manipur Tribal development Corporation Limited	1979	77.50	0.13:1
Infrastructure				
4	Manipur Police Housing Corporation ltd	1986	2.00	
Manufacturing				
5	Manipur Food Industries Corporation Ltd	1987	97.66	
6	Manipur Electronics Corporation Limited	1987	376.35	
Misc				
7	Manipur Handloom and Handicrafts development Corporation Limited	1976	1150.75	0.18:1
Non working				
Agriculture and 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	

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.

The following pie charts show the changing sectoral investment of the government. The share of industry shrank significantly from 65% in 2005 to 9% in 2012. As the number of working companies fell the amount invested also fell.

Fig.8.1 Composition of investment 2005

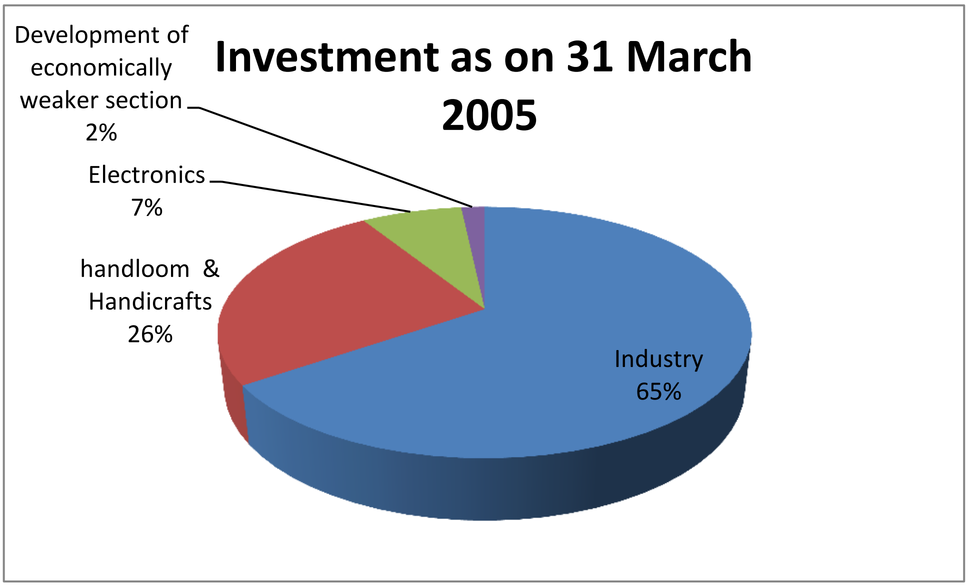


Fig. 8.2 Composition of investment 2012

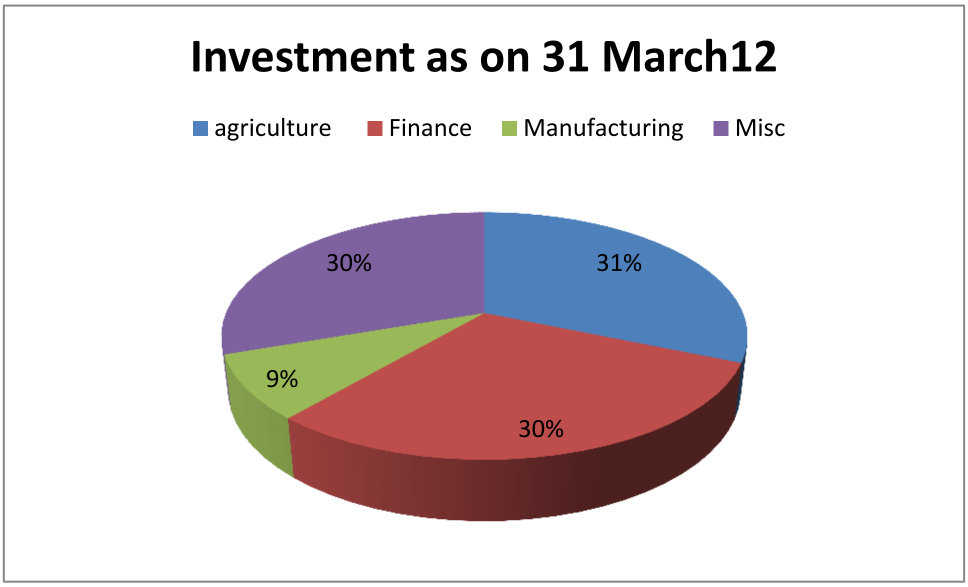


Table 8.2: Investment in working PSUs

As on 31 march	No. of working PSUs	Investment in working PSUs (Rs. crore)		Total (Rs.crore)
		Equity	Loan	
2001	14	84.75	15.27	100.02
2002	14	87.23	16.38	103.61
2003	13	62.20	37.47	99.67
2004	9	44.35	35.45	79.8
2005	7	28.32	23.59	51.91
2006	7	28.37	19.02	47.39
2007	8	29.34	10.03	39.37
2008	8	29.34	14.15	43.49
2009	8	29.34	13.74	43.08
2010	8	29.34	23.66	53
2011	8	29.34	21.86	51.2
2012	7	29.34	5.96	35.3

Source: CAAG reports

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 8.3: Performance of PSUs

Year	Return on 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	0.09	4.19	7.17
2007-8	2.52	30.91	6.75	0.08	0.12	4.58	7.17
2008-9	2.66	19.50	6.77	0.89	0.10	2.88	5.22
2009-10	2.08	30.73	6.51	0.6	0.07	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

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 section 166,210,230,619 and 619-B of the Companies Act 1956. 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.

Table 8.4: Arrears in Accounts finalisation of working PSUs in 2012

Sl.no.	Name of the undertaking	Accounts finalised upto	Investment as per last account finalized (Rs. Crore)
1	Manipur Industrial development Corporation Limited	1998-99	7.93
2	Manipur Handloom and Handicrafts development Corporation Limited	1990-91	0.38
3	Manipur Electronics Corporation Limited	2004-5	2.15
4	Manipur Food Industries Corporation Ltd	2006-7	0.78
5	Manipur Tribal development Corporation Limited	1987-88	0.01
6	Manipur Police Housing Corporation ltd	1996-97	0.02
7	Manipur Film development Corporation Limited	1995-96	0.03

Source: Report of CAAG on State Finances for the year ended 31 March 2012; p-100.

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.

As on 31 March 2012, of the total investment in SPSUs 62.39% was in working PSUs and the remaining 37.61% in non working PSUs. 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 then on working companies at any cost. As per the Company's Act 2013 there are two ways of winding up a company.

"WINDING UP

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.

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: Subsidy Management

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. 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. 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.

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. Containing and targeting subsidies constitute an important element of fiscal reforms since the early 90s. 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. Budgetary subsidies arise when the budgeted cost of providing a good or services exceeds the recovery made from the users of the good or service. The Min. of Finance report on central Government Subsidies in India (2004) 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.

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 9.1: Explicit subsidy (Rs crore)

Year	2005-6	2006-7	2007-8	2008-9	2009-10	2010-11	2011-12
Subsidy	3	3	-	2	3	2	1.84

However this is only a small segment of the total amount of explicit and implicit subsidy born by the state exchequer.

The following tables 9.2 and 9.3 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 9.2 BUDGETARY SUBSIDY 2002-3(Rs lakh)

	Rev. Exp.	Cap Exp	Total	Receipt	Subsidy	Returns
Social services	46143.25	7475.31	53618.56	371.36	53247.2	0.69
education ,Sports, Arts	28421.88	203.21	28625.09	112.76	28512.33	0.39

and Culture						
Medical and Public Health	5057.82	268.49	5326.31	34.2	5292.11	0.64
Family Welfare	911.25		911.25	1.11	910.14	0.12
Water Supply & Sanitation	3602.44	6097.45	9699.89	142.71	9557.18	1.47
Housing	492.14	367.89	860.03	75.28	784.75	8.75
Urban Development	740.96	120.26	861.22	0.01	861.21	0
Information and Publicity	175.47		175.47	0.75	174.72	0.43
Labour and Employment	350.95		350.95	3.04	347.91	0.87
Social Security and Welfare	2621.9	418	3039.9	0.86	3039.04	0.03
Economic services	30308.37	8076.67	38385.04	4584.43	33800.61	11.94
Crop Husbandry	2147.77	-4.86	2142.91	7.67	2135.24	0.36
Animal Husbandry	1860.46	49.75	1910.21	8.17	1902.04	0.43
Dairy development	45.47		45.47	3.85	41.62	8.47
Fisheries	838.46		838.46	7.9	830.56	0.94
Forestry and Wild Life	1279.63		1279.63	81.16	1198.47	6.34
Food Storage and Warehousing	351.78	0.09	351.87	0.11	351.76	0.03
Co-operation	602.16	24	626.16	42.09	584.07	6.72
Major and Medium Irrigation	1521.9	1973.11	3495.01	24.22	3470.79	0.69
Minor Irrigation	660.26	180.42	840.68	2.24	838.44	0.27
Power	8608.91	1644.48	10253.39	4390.52	5862.87	42.82
Village and Small Industries	2268.41	15	2283.41	7.77	2275.64	0.34
Industries	52.81		52.81	0.02	52.79	0.04
Roads & Bridges	4171.86	3033	7204.86	1.56	7203.3	0.02
Tourism	131.27		131.27	0.55	130.72	0.42

Table 9.3: BUDGETARY SUBSIDY 2010-11(Rs lakh)

	Rev. Exp.	CAP EXP	Total	Receipt	Subsidy	Returns
Social Services	123846.4	60073.22	183919.6	1624.84	182294.7	0.88
Education, Sports , Arts and Culture	56901.85	8240.07	65141.92	113.55	65028.37	0.17
Medical and Public Health	19342.13	9496.22	28838.35	12.17	28826.18	0.04
Family Welfare	1590.59		1590.59	0.12	1590.47	0.01
Water Supply & Sanitation	4714.79	27810.83	32525.62	1421.31	31104.31	4.37
Housing	537.57	1557.65	2095.22	66.23	2028.99	3.16
Urban Development	4977.35	8038.8	13016.15		13016.15	0
Information and Publicity	466.14	15	481.14	6.97	474.17	1.45
Labour and Employment	1059.88		1059.88	3.96	1055.92	0.37
Social Security and	9719.61		9719.61		9719.61	0

Welfare						
Economic Services	119678.4	105256.7	224935.1	10262.22	214672.9	4.56
Crop Husbandry	11028	749.69	11777.69	18.38	11759.31	0.16
Animal Husbandry	4850.47	583.84	5434.31	24.38	5409.93	0.45
Dairy development	157.92		157.92	6.1	151.82	3.86
Fisheries	2387.02	161.48	2548.5	9.72	2538.78	0.38
Forestry and Wild Life	5876.62		5876.62	210.03	5666.59	3.57
Food storage and Warehousing	749.67	98.21	847.88	22.07	825.81	2.6
Co-operation	1283.01	54.5	1337.51	18.51	1319	1.38
Major and Medium Irrigation	3416.13	16821.95	20238.08	1048.78	19189.3	5.18
Minor irrigation	837.65	12865.05	13702.7	19.1	13683.6	0.14
Power	20606.37	30874.58	51480.95	8828.95	42652	17.15
Village and Small Industries	6859.92	709.27	7569.19	15.99	7553.2	0.21
Industries	383.65		383.65		383.65	0
Roads & Bridges	10040.26	28172.63	38212.89	2	38210.89	0.01
Tourism	459.55	494.15	953.7	2.36	951.34	0.25

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 43% to 17%. There is no improvement in industries and tourism.

Table 9.4: Rate of return

Year	SS	ES
2002-3	0.69	11.94
2003-4	0.87	7.65
2004-5	0.48	8.47
2005-6	0.51	1.67
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

Note: SS: social services ES: Economic services

The rate of return in economic services has declined over the decade from 12% in 2002-3 to 4% in 2011-12. 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 9.1: Rate of returns

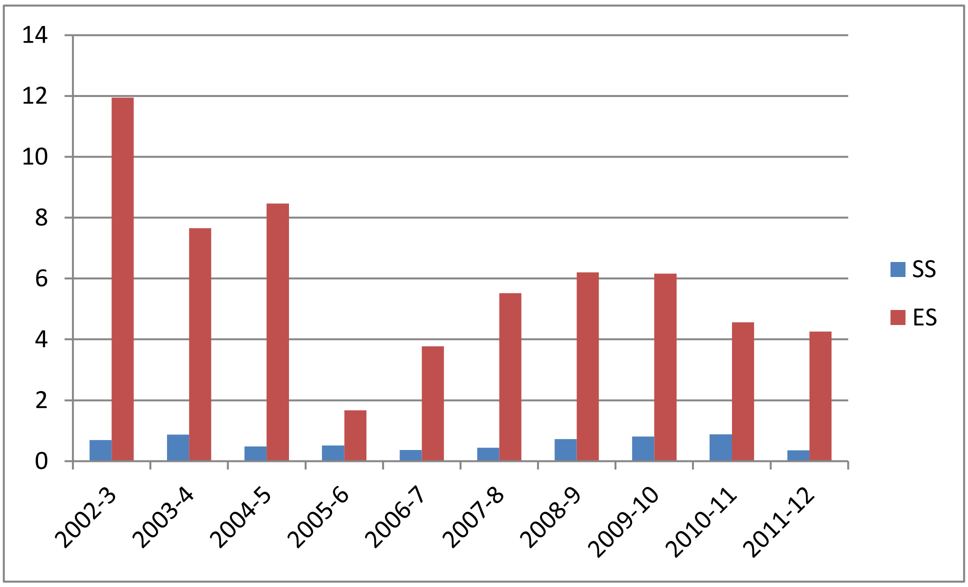


Table 9.5 shows the importance of subsidies in GSDP, revenue receipts (RR) and gross fiscal deficit (GFD). Subsidies as proportion of revenue receipts have remained high and in 2005-6 it exceeded the revenue receipt. Though the proportion of subsidies in gross fiscal deficit has gradually declined, it remains high. From being 3.5 times in 2002-3 it has declined to 3 times in 2011-12.

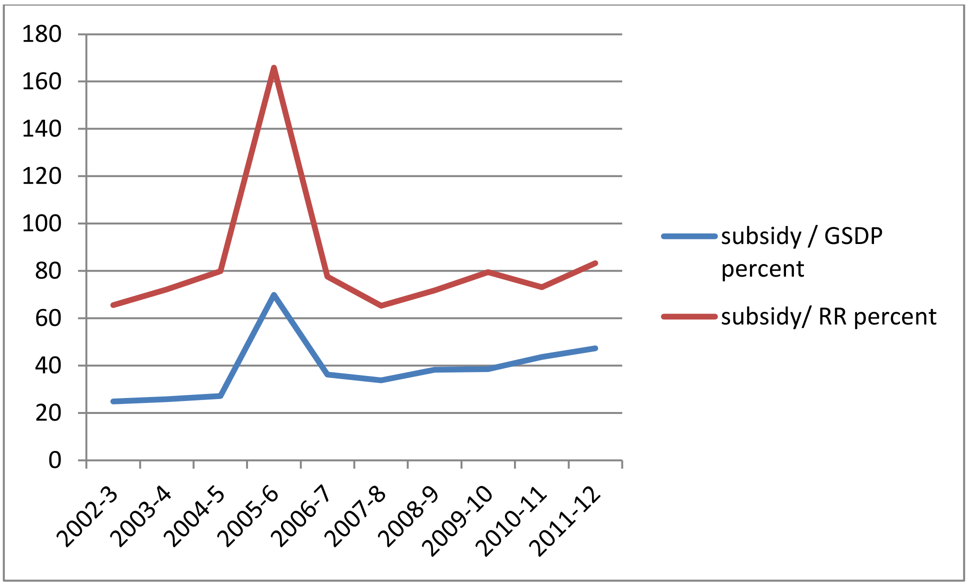
Table 9.5: Incidence of subsidy

Year	Subsidy	GSDP	RR	GFD	Subsidy / GSDP percent	Subsidy/ RR percent	Subsidy/ GFD percent
2002-3	870.48	3506	1328	249	24.83	65.55	349.59
2003-4	1024.95	3979	1420	286	25.76	72.18	358.37
2004-5	1392.93	5133	1743	449	27.14	79.92	310.23

2005-6	3995.19	5718	2409	271	69.87	165.84	1474.24
2006-7	2222.77	6137	2863	475	36.22	77.64	467.95
2007-8	2289.51	6783	3508	-102	33.75	65.27	-2244.62
2008-9	2831.33	7399	3948	473	38.27	71.72	598.59
2009-10	3182.86	8254	4005	407	38.56	79.47	782.03
2010-11	3969.68	9108	5430	570	43.58	73.11	696.44
2011-12	4919.63	10410	5910	1650	47.26	83.24	298.16

Note: in Rs crore

Fig 9.2: Incidence of subsidy



The graph shows that the proportion of subsidies in GSDP and revenue receipts has been rising . 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. 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 superspeciality 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 10: The Way Ahead

It is clear that the requirements of finance for development cannot be met by the resources of the state and the centre has to step in to meet the requirements of the state.

Otherwise the state will be trapped in low level equilibrium. The incremental resource mobilisation can in no way meet the requirements for development. The state is basically a consumption driven economy importing a major segment of its requirement of goods and services. At the same time education and improved connectivity of the state have fired the imagination of the people and the desire for development keeps on growing. The state is yet to get on self sustaining growth path and has to be assisted in many ways. An appropriate industrial policy is also needed. The issue of comparative advantage should not only be examined in the conventional sense. Comparative advantage should be created through research and economic policy. This issue has become all the more important in the context of the Look east policy. Yet there is the need for accountability. It is important to understand the relation between on the one hand the expenses of the government and on the other the objectives of development such as lower unemployment rate, lower poverty ratio etc. There is substantial leakage in resource mobilisation and this has to be plugged.

It is clear that planning in the state is yet to be initiated in the true spirit of the exercise. It is common practice to find major part of plan money unutilised at the end of the financial year not once but year after year. One is left wondering whether vested interest has developed in maintaining the status quo. In our opinion a little investment in the monitoring mechanism and governance in the financial sector will have a multiplier effect much larger than any direct investment in economic activities. The institutional mechanism needs to be streamlined and strengthened. The Planning department needs to be organised beyond the routine administrative work. Preparing the appropriate plan for the state and the identification of priority sectors can be better coordinated by such a revamped body. The current practice of gradually raising the allocation over time should not be expected to achieve much. In short what is needed is a rationalisation at the institutional level, not tinkering with sectoral figures as is the current practice. Such exercises will tell us which way to move.

A small state has its own unique constraints and many practices cannot be replicated. Superimposition of effective practices in bigger and more advanced states does not hold the key to development of small states. The trade offs between many policy instruments may be different. Just as the problems of small countries are beginning to be examined from a different perspective, small states also deserve to be differentiated until they can stand on their own. They deserve more than the exercise of Finance Commission once every five year . How meaningfully this can be pursued also depends on capacity building in such states. The better equipped stakeholders of such exercise should collaborate to come up with appropriate policies ex ante, rather than ex post. What a finance commission can contribute in the fiscal consolidation of small states is to strengthen the institutional mechanism if it is already there and introduce such a mechanism if it is already not there. The latter is, in our opinion, more appropriate for Manipur. Such collaborative exercises will also lessen the sense of alienation , so acutely felt in this region in general and Manipur in particular. It also takes care of increasing need for being pragmatic. One such example is the issue of prohibition in the state. Despite the promulgation of prohibition in the early 90s liquor is available in the state and other intoxicants like heroin and other drugs have taken a heavy toll of the youth irrespective of gender. Neighbouring states such as Meghalaya, Assam and Sikkim are earning substantial revenue from tax on liquor and cannot be said to be worse off in any manner. The initiation of a more informed debate is called for because we already have the experience of 20 years of prohibition. One is struck by the static nature of policy response to this issue. It is as if we have banished a scourge by decree. We ignore the existence of this problem in many new forms and manifestations. This issue has also been dealt with a comprehensive cost benefit exercise, However there is a need to re-examine the costs and benefits in the context of liberalisation. Costs and benefits keep on changing..