

Evaluation of State Finances of Manipur



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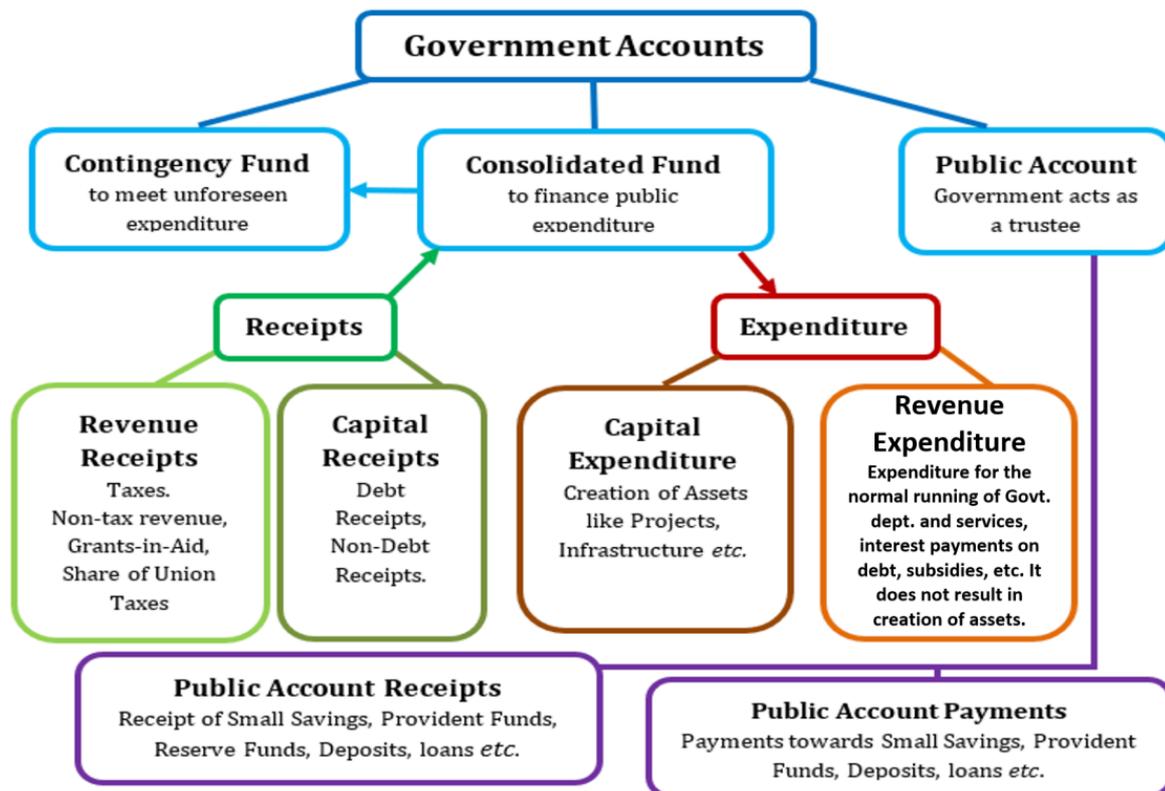
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Chapter 1: Revenue Capacity of Manipur and Measures to improve the tax-GSDP ratio during the last five years

The last five years have been highly challenging both for the country in general and Manipur in particular. The pandemic of covid-19 did not spare Manipur and it affected every sector of the economy and every section of the society putting a question mark on extant development policies and investment priorities. The first COVID -19 case in Manipur appeared on 24 March 2020 and by the time active cases came down to zero in March 2023 nearly 1.4 lakh persons were affected leaving 2149 deaths. A series of lockdowns and restrictions on free mobility of workers followed. The pursuit of SDGs was literally abandoned. The annual growth rate of GSDP plummeted from 8.85% in 2019-20 to -0.12% in 2020-21. Hardly it had recovered Since May, 2023 the state was plunged into another crisis. When the government cracked down, the illegal migrants successfully gave an ethnic dimension to the conflict. Economic activities have been adversely affected as the crisis affected free movement of the people. Between May 3,2023 to 30th July 2024, as per a statement made in the state assembly ,226 persons died, 4569 houses were destroyed requiring 302 relief camps to accommodate 59414 internally displaced persons. Rehabilitation of the displaced persons put heavy pressure on the state exchequer. The whole process has aggravated the trust deficit between the government and the public affecting in the process governance and rule of law. The crisis has severely affected the connectivity across the state with the hills as out of bound for the Meitei's, the dominant community and the valley as out of bound for the Kukis. In short the pandemic and the 'ethnic' crisis have severely affected the functioning of the economy with long term implications. There is an air of mistrust across the state. Any movement towards peace has been very slow and unpredictable.

Our constitution explicitly spells out the areas of resource mobilization by the union government and state governments. It also recognizes the asymmetry in revenue raising powers of the union and state government. It is the prime duty of the Union Finance commission and state Finance commission to address the issues of vertical and horizontal equity. The issue of distribution of resources for development is not only between the union government and state governments but also among the states and between the state government and local bodies which constitute the third tier of government. Vertical fiscal imbalance (VFI) indicates the fiscal gap arising due to the disparity between the revenue generation capacities and expenditure responsibilities across different tiers of government within a federation.

Manipur depends heavily on the Centre with central transfers accounting for 80-90% of the total revenue receipts. With the State having limited resource generation capacity and expenditure responsibility far greater than its resource mobilization capacity, the State has very high VFI. As against the lowest VFI of 0.36 (Maharashtra), the VFI of the State is 0.82 during FY2022-23. Because of improvement in State's collection, VFI has shown a decreasing trend. The following chart shows the structure of government account.



Source: State Finance Audit Report of the CAAG, GOM Report 1 of 2023

Together with the capital receipts, revenue receipts gives us an idea of the resources available for developmental activities. Revenue receipts consist of tax revenue, non-tax revenue, grant -in-aid and contributions, Finance commission grant and other transfer/grant to state. Grants from the center consist of revenue deficit grant, grants for local bodies, grants for SDRF and grants for CSS/CPS/NEC/NLCPR As per the state budget document Capital receipts consist of internal debt of the state government, loans and advances from the central government, loans and advances (recoveries),interstate settlement and transfer to contingency fund . The following table shows the growth of revenue receipts, capital receipts and total receipts of Manipur as reflected in budget documents during 2012-13 to 2023-24.

Table 1.1: Growth of Receipts, Manipur

	RECEIPTS			SHARE OF TR IN PERCENT	
	RR	CR	TR	RR	CR
2012-13	6820	868	7688	88.71	11.29
2013-14	7284	658	7942	91.71	8.29
2014-15	7999	490	8489	94.23	5.77
2015-16	8279	927	9206	89.93	10.07
2016-17	9130	1552	10682	85.47	14.53
2017-18	10357	1304	11661	88.82	11.18
2018-19	10562	3927	14489	72.90	27.10
2019-20	10726	6314	17040	62.95	37.05
2020-21	12982	9337	22319	58.17	41.83
2021-22	14091	12655	26746	52.68	47.32
2022-23	15892	11117	27009	58.84	41.16
2023-24	23627	8211	31838	74.21	25.79

Notes: in ₹ crore

RR Revenue receipts CR Capital receipts TR Total receipts

Source: State Finance Accounts various years

Revenue receipts dominate total receipts but its share in total receipts showed a declining trend. Their shares fluctuated between 94:6 in 2014-15 to 53:47 in 2021-22. Revenue receipts comprise of own tax revenue, own non tax revenue, share in central taxes and Grants-in-aid. Capital receipts comprise of recoveries of loans and advances, and public debt. Public debt can be divided into internal debt comprising of market loans and, loans from banks and other institutions, ways and means advances from the RBI, loans from the center and provident funds. Central loans are taken for state plan schemes and centrally sponsored schemes. Provident funds etc. include state provident funds, small savings etc. public debt has to be repaid and interest payment for accumulated loans forms an important component of committed expenditure. Thus, the growing share of capital receipts in total receipts has serious implications. It is like getting trapped in a vicious cycle where one has to borrow more and more to finance growing public expenditure along with the growing burden of debt servicing.

Table 1.2: Annual Growth rate of Receipts in percent

	GRR	GCR	GTR
2013-14	6.80	-24.19	3.30
2014-15	9.82	-25.53	6.89
2015-16	3.50	89.18	8.45
2016-17	10.28	67.42	16.03
2017-18	13.44	-15.98	9.16
2018-19	1.98	201.15	24.25
2019-20	1.55	60.78	17.61
2020-21	21.03	47.88	30.98
2021-22	8.54	35.54	19.84
2022-23	12.78	-12.15	0.98
2023-24	48.67	-26.14	17.88

GRR Growth rate of revenue receipts GCR Growth rate of capital receipts
 GTR Growth rate of total receipts

Source: State Finance Accounts various years

Though the CAGR of CR is double that of RR, it is unstable with annual growth rates swinging between (-) 26.14 and 201.15. CR grew by 201.15 % between 2018-19 and 2017-18 due to rise in ways and means advances from RBI from Rs 66339.74 lakhs to Rs 277654.7 lakhs. RR has shown a steady upward trend with positive growth all through .The annual rate of growth of RR swings between 1.55 and 48.67 percent.

Fig.1.1: Growth rates of RR, CR & TR

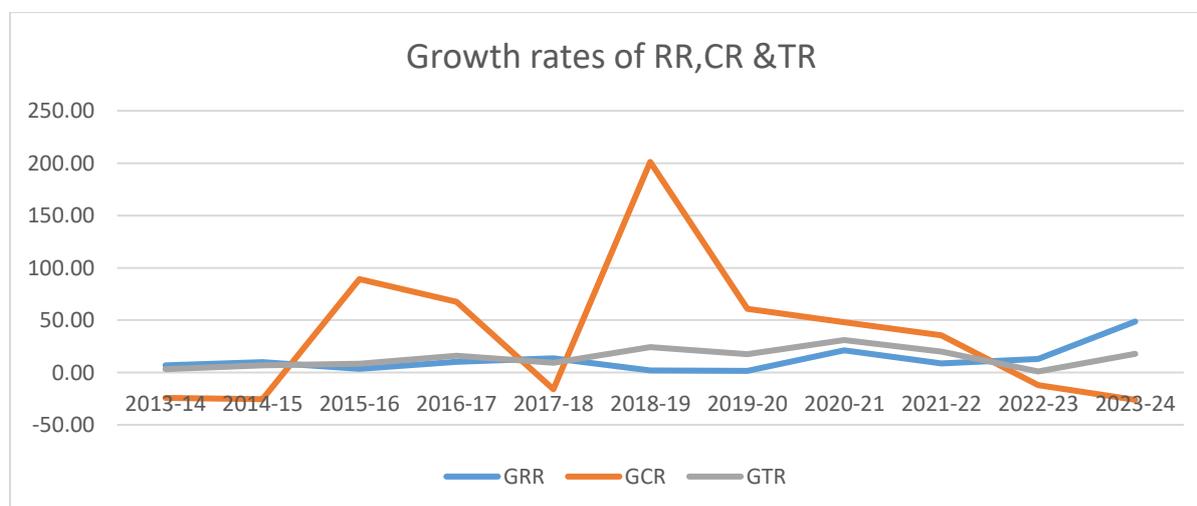


Table 1.3 shows the evolution of four broad components of revenue receipt namely own tax revenue (OTR), own non tax revenue (ONTR), share in central taxes (CT) and grants in aid from the Centre (GIA). The first two indicate resource mobilization in the state and the latter two transfers from the center both statutory and discretionary. Own tax revenue of the State consists of Taxes/VAT on Sales, Trade etc. , State Goods and Services Tax (SGST), State excise, taxes on vehicles, stamp duty and registration fees, land revenue, taxes on goods and passengers, etc. Own non tax revenue consists of revenue from General services, Social services, Economic services provided by the state and Interest receipts, dividends and profits from investment. Own tax revenue (OTR) and own non tax revenue reflect the fiscal health of the state. Share in central taxes is determined every five year by the Finance commission and is linked with the devolution criteria. Grants-in-Aid from the GOI consists of non-plan grants, grants for state plan schemes, grants for central plan schemes, grants for centrally sponsored schemes and grants for special plan schemes.

Table 1.3: Components of revenue receipts (RR)

	OTR	ONTR	CT	GIA	RR
2012-13	333	232	1318	4937	6820
2013-14	473	261	1439	5111	7284
2014-15	517	184	1527	5771	7999
2015-16	550	149	3142	4438	8279
2016-17	587	165	3757	4621	9130
2017-18	791	174	4154	5238	10358
2018-19	1046	166	4699	4651	10561
2019-20	1243	134	4048	5301	10726
2020-21	1294	148	4272	7268	12982
2021-22	1649	107	6010	6325	14090
2022-23	1867	457	6795	6773	15892
2023-24	1328	144	7908	14247	23627
CAGR	13.4	-4.24	17.69	10.11	11.16

Notes: in ₹ crore Source: State Finance Accounts (Various years)

OTR- Own tax revenue ONTR -Own non tax revenue CT-share in central taxes
GIA-Grant in-aid from center

OTR has an upward trend while ONTR shows a mixed trend with ONTR registering a negative CAGR over the period. Both have declined in 2023-24.

Table 1.4 shows how important transfers from the Union government have been in resource mobilization for development. On the average own resource mobilization accounts for only 10% of the revenue receipts, the rest coming from the center. The structure of transfers from the center in terms of share in shareable central taxes and Grants-in-Aid has changed significantly. In 2012-13 GIA constituted 72.39% of revenue receipts. It changed radically with the beginning of the XIV Finance commission award period in 2015-16 when the share of GIA dropped to 53.61% and the share of CT rose from 19.09% to 37.95%. During 2012-13 to 2014-15 the award of XIII FC was in operation when the share of states in net proceeds of shareable central taxes was 32%. Manipur's share was 0.451% of all shareable taxes excluding service tax. Manipur's share in service tax was 0.458. This separate formula for service tax was considered necessary because Jammu and Kashmir did not levy service tax and thus had no share in service tax. During 2015-16 to 2019-20 the XIV FC award was in operation when the share of states in net proceeds of shareable tax was hiked to 42% and the inter se share of Manipur was 0.617%. During 2020-21 to 2023-24 the XV FC award was in operation when the share of states was 41%. The inter se share of Manipur was 0.718% in 2020-21 and 0.716 during 2021-22 to 2023-24. It will remain so till 2025-26. In 2018-19 the share of CT marginally exceeded the share of GIA.

Table 1.4: percentage share of revenue receipts

	OTR	ONTR	CT	GIA	TOTAL
2012-13	4.88	3.40	19.33	72.39	100
2013-14	6.49	3.58	19.76	70.17	100
2014-15	6.46	2.30	19.09	72.15	100
2015-16	6.64	1.80	37.95	53.61	100
2016-17	6.43	1.81	41.15	50.61	100
2017-18	7.64	1.68	40.10	50.57	100
2018-19	9.90	1.57	44.49	44.04	100
2019-20	11.59	1.25	37.74	49.42	100
2020-21	9.97	1.14	32.91	55.99	100
2021-22	11.70	0.76	42.65	44.89	100
2022-23	11.75	2.88	42.76	42.62	100
2023-24	5.62	0.61	33.47	60.30	100
AVERAGE SHARE	8.26	1.9	34.28	55.56	100

Source: State Finance Accounts various years

Table 1.5 shows the annual growth rates of RR and its components. OTR has been growing except for 2023-24 registering the highest growth rate in 2017-18 with the introduction of GST. It continued growing till 2023-4 when it registered a sharp decline largely due to the ‘ethnic’ conflict. On the other hand, the growth of ONTR has been erratic registering a record increase in 2022-23. ONTR declined sharply in 2014-15 the decline is associated with the corporatisation of the electricity department in 2014-15. Before this revenue generated from the Electricity department through sale of power use to be part of non-tax revenue. Its exclusion led to the sharp decline in Own Non-Tax Revenue since 2014-15.

ONTR shows both positive and negative growth rates registering a spectacular growth of 327% in 2022-23. Share in central tax registered a 105.76% in 2015-16 and contracted by 12.97% in 2019-20, the Covid19 year. GIA also surprisingly showed both positive and negative growth phases. It contracted in 2015-16, 2018-19 and 2021-22. On the other hand RR has been growing throughout registering the highest growth in 2023-24.

Table 1.5: Annual Growth rate of Revenue receipts & its components

ANNUAL GROWTH RATE OF					
	OTR	ONTR	CT	GIA	RR
2013-14	42.04	12.50	9.18	3.52	6.80
2014-15	9.30	-29.50	6.12	12.91	9.82
2015-16	6.38	-19.02	105.76	-23.10	3.50
2016-17	6.73	10.74	19.57	4.12	10.28
2017-18	34.75	5.45	10.57	13.35	13.45
2018-19	32.24	-4.60	13.12	-11.21	1.96
2019-20	18.83	-19.28	-13.85	13.98	1.56
2020-21	4.10	10.45	5.53	37.11	21.03
2021-22	27.43	-27.70	40.68	-12.97	8.53
2022-23	13.22	327.10	13.06	7.08	12.79
2023-24	-28.87	-68.49	16.38	110.35	48.67
AVERAGE	15.11	17.97	20.56	14.10	12.58

Source: State Finance Accounts various years

Table 1.6 seeks to contextualize RR and its components by expressing them as ratio to nominal GSDP. In 2012-13 OTR to GSDP ratio was 2.42% gradually rising to 5.04% in 2022-23. In the case of ONTR to GSDP ratio it declined up to 2021-22. The share in central tax to GSDP ratio rose from 9.59% to 18.34% in 2022-23. GIA to GSDP ratio also declined till 2022-23.

Table 1.6: Ratio of RR and its component to GSDP in percent

AS PERCENT OF GSDP

	OTR	ONTR	CT	GIA	RR
2012-13	2.42	1.69	9.59	35.92	49.62
2013-14	2.92	1.61	8.89	31.58	45.01
2014-15	2.85	1.01	8.42	31.83	44.12
2015-16	2.82	0.76	16.09	22.72	42.39
2016-17	2.76	0.77	17.64	21.70	42.88
2017-18	3.07	0.67	16.11	20.31	40.16
2018-19	3.82	0.61	17.16	16.98	38.56
2019-20	4.17	0.45	13.58	17.78	35.98
2020-21	4.35	0.50	14.35	24.41	43.60
2021-22	4.87	0.32	17.74	18.67	41.59
2022-23	5.04	1.23	18.34	18.28	42.90
2023-24	2.91	0.32	17.36	31.27	51.86

Source: State Finance Accounts various years

Table 1.7 shows the evolution of important components of OTR which also shows the emergence of SGST as its dominant component since 218-19.

Table 1.7: Components of OTR in Manipur in Rs. crore

Year	PT	LR	STRG	ST/ VAT	SGST	EXC	MVT	GP T	TDE	ET	OTH	OTR
2012-13	23.3	1.2	5.99	258.5		9.94	15.8	1.4	0.04		16.5	332.84
	5	4		2			3	3				
2013-14	24.8	1.1	7.9	395.7		9.2	18.7	1.2	0.05	13.8		472.73
	8	2		4			3	4		7		
2014-15	23.2	1.4	7.76	433.3		9.32	20.7	1.2		19.7		516.84
	7	2		3			7			7		
2015-16	23.2	2.5	10.45	466.5		8.78	23.2	1.0		16.2		552.11
	2	9		1			9	2		5		
2016-17	23.7	1.9	10.00	499.6		9.32	25.0	1	0.01		15.9	586.663
	7	1	3	5			4				6	
2017-18	24.3	1.4	13.98	385.5	271.09	9.37	36.1	1.1	0.00		17.4	760.493
	2	4		8			4	3	3		4	
2018-19	33.7	3.5	17.62	253.0	787.3	8.18	39.8	1.1	0.00		5.13	1149.59
	8	4		2			3	9	3			3
2019-20	28.6	4.1	16.6	235.5	852.57	11.6	47.7	1.6	0.00		5.35	1203.67
	2			3					4			4
2020-21	27.8	3.8	8.65	336.4	866.5	11.8	37.9	0.4	0.00		3.71	1297.21
	6	1		5		5	6	2	3			3

2021-22	26.6	3.3	7.98	411.6	1125.5	15.9	56.6	0.4	0.00	7.1	1655.39
		5		8	6	9	6	7	3		3
2022-23	27.6	6.5	13.95	288.8	1426.1	19.2	83.2	1.3	0.00	12	1879.05
	6	8		9	5	4	1	7	9		9
2023-24	30	7	14	244	971	20	40	2		13.2	1341.21
										1	

Note: All are in ₹ crore

ST/VAT	Sales tax	STRG	Stamp & registration fee
LR	Land revenue		
MVT	Tax on vehicles	OTR	Own tax revenue
PT	professional tax	EXC	Excise tax
SGST	State Goods and services tax	GPT	Goods and passenger tax
TDE	Tax and duties on electricity	ET	Entertainment tax
OTH	Other taxes		

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

Sale tax constituted 85.17 % of OTR in 2016-17. SGST which was introduced in 2017 became the most important component of OTR contributing as much as 75.89% of OTR in 2022-23. GST was introduced in Manipur as in other states of India with effect from July 1, 2017. State Goods and services tax entirely accrue to the state while central GST is shared between the states and the Union and among the states as per devolution criteria provided by the five yearly finance commissions. The tax came into effect from July 1, 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the Indian government. The tax replaced existing multiple taxes levied by the central and state governments. As per the GST law, the centre compensates states to ensure that their revenue is protected at the level of 14 per cent over the base year tax collection in 2015-16.

The following taxes have been subsumed under GST taxes:

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

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

The following taxes are yet to be subsumed in GST

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

Petroleum products, alcoholic drinks, electricity, are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax regime. Manipur levies a VAT of Rs 19.10 per litre of motor spirit. Tax on petrol contributes such a significant amount to state exchequer that such states oppose inclusion of tax on petrol in GST.

Table 1.8 shows the trend growth rates of components of OTR and their elasticities with respect to nominal SDP

Table 1.8: Trend growth rate and Elasticity of OTR and its constituents with respect to GSDP

	TREND GROWTH RATE IN PERCENT	ELASTICITY WITH RESPECT TO GSDP
PT	2.4	0.234
LR	18	1.759
STRG	Insignificant	0.621
ST	Insignificant	Insignificant
SGST	18.9	Insignificant
EXC	7.18	0.687
MVT	12.2	1.206
GPT	Insignificant	Insignificant
OTR	14.94	1.475

Note: $\log(y) = a + bt$ for calculation of trend growth rate $\log(y) = a + b \log(\text{GSDP})$ for calculation of elasticity

Among the components of OTR, SRF, ST and GPT exhibit no significant trend growth rate. SGST has the highest growth rate followed by LR. It is encouraging because SGST has the highest growth rate. In the case of elasticity with respect to GSDP it is found that LR has the highest elasticity and estimates of elasticities of ST, SGST and GPT are found to be statistically insignificant. It means for these three components of OTR, factors other than GSDP must be investigated, to name a few – size of population, level of urbanization, level of poverty and inequality, level of education of the people and physical location of the state.

The following table 1.9 gives an idea of the structure of OTR Vis a Vis two high per capita income states. Sikkim not only has the highest per capita income but also belongs to the north eastern region. Gujarat is a big state and is considered a model state. While nearly 76% of OTR in 2022-23 is contributed by state goods and service tax in Manipur, its share in Gujarat is only 47.53%. Gujarat collects STRG and TDE amounting to 9.67% and 7.12 % of OTR respectively. Gujarat collected urban immovable property tax amounting to around Rs392 crore in 2022-23. In the case of Sikkim, EXC contributes 20.68% of OTR which underscores the importance of manufacturing in Sikkim.

Table 1.9. Comparative Structure of Own tax revenue in 2022-23

	SIKKIM	GUJARAT	MANIPUR
PT	1.11	0.19	1.47
LR	0.6	2.70	0.35
STRG	1	9.67	0.74
UIPT	0	0.29	0.00
ST/VAT	16.22	28.48	15.37
SGST	54.78	47.53	75.90
EXC	20.68	0.13	1.02
MVT	3.2	3.53	4.43
GPT		0.10	0.07
TDE		7.12	0.00
ET		0.00	0.00
OTH	2.41	0.26	0.64
OTR	100	100.00	100.00

Note: All are in percent

ST/VAT Sales tax
fee

STRG Stamp& registration

LR Land revenue

MVT Tax on vehicles

OTR Own tax revenue

PT professional tax

EXC Excise tax

SGST-State Goods and services tax

GPT Goods and passenger tax

TDE Tax and duties on electricity

ET Entertainment tax

OTH Other taxes

UIPT urban Immovable property tax

Source: Finance Accounts, Govt. of respective states

Fig.1.2: Comparative Growth of OTR and ONTR; Manipur

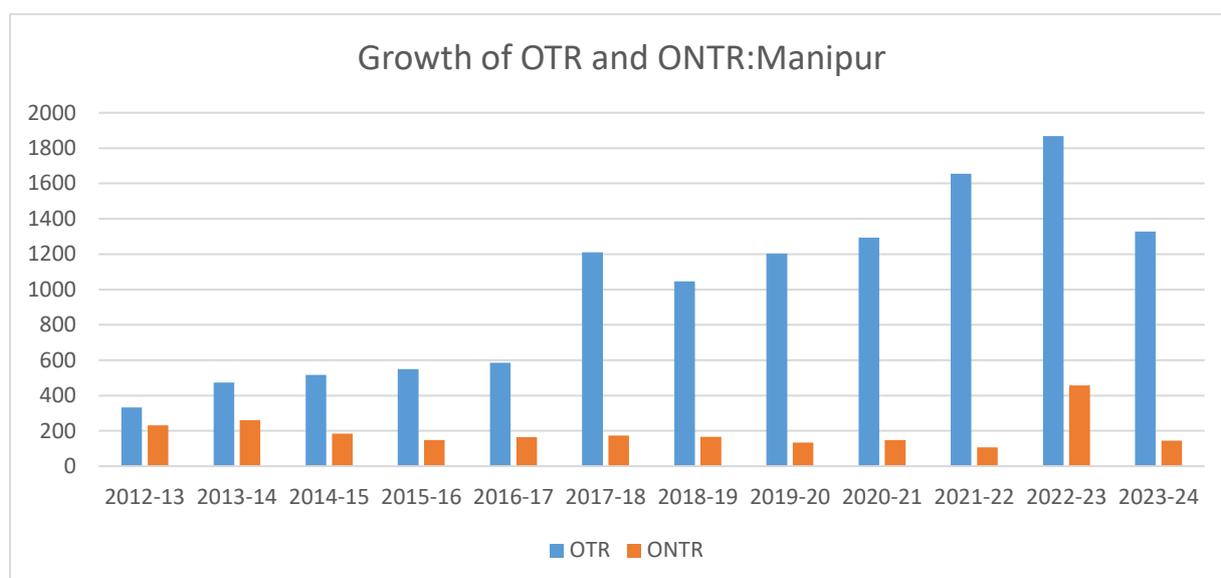


Table 1.9 seeks to provide a comparative profile of the significance of OTR among the NE states at two points of time. The ratio is increasing for all NE states except for Sikkim with Manipur registering the highest increase- from 2.7 to 4.36.

Table 1.9: OTR/GSDP in percent -A comparative profile of North Eastern states

	2016-17	2020-21	PERCENT INCREASE
ARUNACHAL PRADESH	3.2	4.70	47.00
ASSAM	4.7	4.85	3.10
MANIPUR	2.7	4.36	61.33
MEGHALAYA	4.2	6.14	46.13
MIZORAM	2.3	2.71	17.77
NAGALAND	2.3	3.21	39.65
SIKKIM	3.5	2.93	-16.32
TRIPURA	3.5	3.88	10.91

Source: State Finance Accounts various years

Table 1.10 shows OTR as proportion of total tax, revenue expenditure and total expenditure. It is encouraging to note that on the average about 19.75% of total tax receipt consists of own tax revenue. OTR/RE shows how much of the state's consumption expenditure can be financed by OTR. On the average 9.29% of revenue expenditure can be financed by own tax revenue. In the case of OTR/aggregate expenditure it is 6.16. It shows how insignificant OTR is in mobilizing resources appropriate for development.

Table 1.10: Contextualizing OTR in Manipur

	OTR/TT	OTR/RE	OTR/AE
2012-13	20.17	6.26	4.78
2013-14	24.74	8.27	6.63
2014-15	25.29	7.11	5.86
2015-16	14.90	7.45	6.38
2016-17	13.51	7.17	6.06
2017-18	16.00	8.53	6.95
2018-19	18.21	10.73	7.17
2019-20	23.49	12.14	7.24
2020-21	23.25	10.41	5.76
2021-22	21.53	13.04	6.15
2022-23	21.55	13.19	6.90
2023-24	14.38	7.15	4.07
AVERAGE SHARE	19.75	9.29	6.16

Source: State Finance Accounts various years

Note: All are in percent. OTR own tax revenue TT=total tax (OTR+CT) AE= Aggregate expenditure (revenue expenditure +capital expenditure)

The buoyancy of a tax system measures the total response of tax revenue both to changes in national income and to discretionary changes in tax policies over time, and it is traditionally interpreted as the percentage change in revenue associated to a one percent change in income. The elasticity of the tax system measures instead the responsiveness of tax revenue to changes in national income keeping all other parameters (including tax legislation) constant.

Table 1.11; Tax elasticity: A comparative study

TAX ELASTICITY : A COMPARATIVE STUDY

RANK	State	2004-5 to 2021-22
1	Nagaland	1.57
2	Arunachal pradesh	1.52
3	Manipur	1.49
4	Meghalaya	1.37
5	Mizoram	1.25
6	Bihar	1.17

7	West Bengal	1.14
8	Tripura	1.13
9	Jharkhand	1.10
10	Uttarpradesh	1.10
11	Odissa	1.07
12	Maharastra	0.99
13	Himachalpradesh	0.98
14	Assam	0.98
15	Chhatisgarh	0.98
16	Rajasthan	0.96
17	GOA	0.95
18	Uttarkhand	0.92
19	Madhyapradesh	0.91
20	Punjab	0.90
21	Kerala	0.89
22	Haryana	0.88
23	Gujarat	0.88
24	Tamilnadu	0.81
25	Karnataka	0.78
26	Sikkim	0.69
27	Andhrapradesh	0.55

A comparative study of tax elasticity among 27 states during 2004-5 to 2021-22 show that the top five states are northeastern states. Manipur occupies the third rank. A 1% in nominal GSDP in Manipur will raise own tax revenue by 1.49%. High GSDP elasticity of own tax revenue is a problem because raising GSDP is also a big challenge in these states. While trying to understand the changes in own tax revenue one has to appreciate the changes subsequent to the introduction of Goods and services tax (GST) in 2017.

Until the Constitution (One Hundred and First) Amendment Act, 2016 that introduced the landmark Goods and Service Tax (GST) in the country, the taxes that were collected and appropriated by the State Government comprised of the following:

- Sales tax or Value Added Tax on alcohol and petroleum products.
- Motor vehicles tax
- Stamps and registration,

- State Excise
- Land revenue,
- Professional tax,
- Duties on electricity,
- Entertainment tax and amusement tax.

The introduction of GST brought about a major structural change in the composition of SOTR of States bringing some of the major indirect taxes, hitherto exclusively under the state's domain, to the GST fold. The State's taxes subsumed in GST are listed below:

- (i) VAT/Sales Tax
- (ii) Purchase Tax
- (iii) Central Sales Tax (CST)
- (iv) Entry tax and Octroi
- (v) Entertainment Tax (unless it is levied by the local bodies)
- (vi) Luxury Tax
- (vii) Taxes on lottery, betting and gambling
- (viii) Taxes on Advertisements excluding Newspaper, Radio & TV
- (ix) State Cesses and Surcharges

Post-GST, the taxes levied, collected and appropriated by states are as below:

- State's Good and Service Tax
- Sales tax or Value Added Tax on alcohol and petroleum products.
- Motor vehicles tax
- Taxes on Goods and Passengers
- Stamps Duties and registration fees,
- State Excise
- Land revenue,
- Taxes on Professions, Trades, Callings and Employment or(Professional tax)
- Taxes & Duties on electricity,

Table 1.12 shows the gap between budget estimates of various components of OTR and actual realization. Positive values indicate success in the sense of realizing the budget estimates, targets set by the budget and negative values indicate failure to achieve the targets. Majority of subheads show underperformance. It suggests lax tax administration

Table 1.12: Gap between actual and budget estimate of OTR and its components

	OTR	PT	LR	SRF	ST	SGST	EXC	MVT	GPT	OTH
2012-13	2.25	-32.10	-26.19	-9.79	3.08		15.72	-7.80	22.22	226.23
2013-14	-3.89	-36.53	2.75	26.20	2.56		-27.79	-4.29	-31.87	-45.00
2014-15	-16.75	-47.93	14.52	8.68	-13.33		-35.81	-6.90	-42.03	-31.50
2015-16	-17.74	-28.20	78.62	1.75	-18.16		-26.59	-8.42	-36.65	-10.17
2016-17	-12.07	-4.92	-23.60	-9.06	-12.34		-22.33	-7.26	-37.89	-11.72
2017-18	18.61	-2.72	-42.40	15.54	-28.60		-21.92	21.68	-36.16	-3.58
2018-19	52.04	18.53	-31.92	-48.48	23.63	96.34	-40.20	-12.65	-41.09	-75.86
2019-20	1.62	-32.24	51.85	3.75	-18.35	12.96	31.97	5.34	-92.15	-9.41
2020-21	-2.07	-31.72	41.11	-45.94	22.46	-5.15	-18.28	-26.46	-91.25	-37.07
2021-22	-19.43	-62.26	-52.14	-66.75	17.62	-24.96	-11.17	-19.06	-90.60	-29.67
2022-23	-21.71	-60.76	-6.00	-41.88	-35.80	-17.82	6.89	4.01	-72.60	18.78
2023-24	-58.09	-62.66	-12.28	-48.83	-54.81	-59.11	-2.44	-69.70	-64.91	14.57
(ACT-BE)/BE*100										

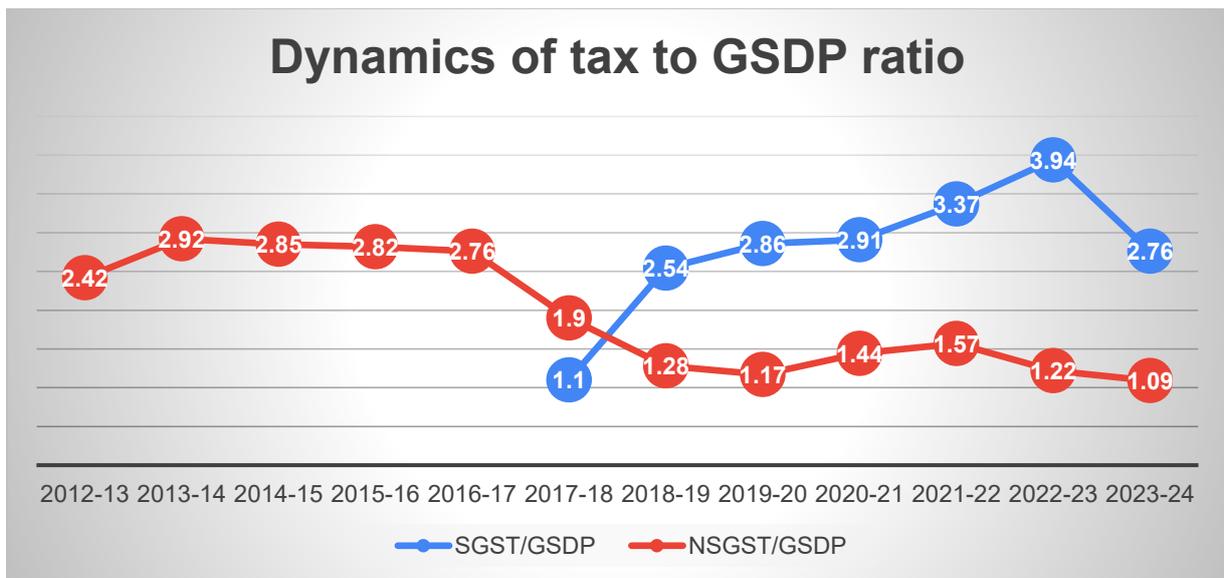
Source: State Finance Accounts various years

Measures to improve tax-GSDP ratio:

The government has initiated several measures to enhance OTR , the most successful being the introduction of SGST which has emerged as the dominant component of OTR. The state has introduced the following reforms in this connection

- i. Implementation of e-invoice to all the taxpayers of B2B having its turnover Rs 20 lakh and above
- ii. Installation of Radio Frequency Identification (RFID) at all the entry points of national highways no. 2,37 and 102
- iii. Monitoring and verification of all the GST-TDS deducted by the deductors
- iv. Monthly monitoring of top 500 tax payers
- v. Plan to collect GST from minor minerals
- vi. Identification of sensitive items having high tax rate

SGST is the main driver of improvement in tax to GSDP ratio. It rose from 1.17% in 2017-18 to 3.94 % in 2022-23. Non GST collection fell from 2.42 % in 2012-13 .to 1.09 % in 2023-24, largely attributed to the unrest in the state from may 2023 onwards. The unrest has seriously affected economic activities and transaction across the state. the activities of a large section of the population are restricted in the valley which constitutes only 10% of the geographical area of the state. The complementarity of hills and valley has been destabilised.



Post GST , tax to GSDP ratio rose from 3.07% in 2017-18 to 5.16% in 2022-23. The dip to 3.85% in 2023-24 is due to the prevailing unrest in the state. During 2017-18 to 2023-24 SGST registered a growth rate of 19.95 as against 1.72 of NSGST. State’s own tax revenue , taking these two together grew by 12.32 % per annum. Non SGST taxes comprise of sale tax,motor vehicle tax,land revenue, stamps and registration fees,professional tax etc. SGST actuals persistently exceeded projections as per the XV Finance Commission.

Table 1.13: SGST actuals vs XV FC projections

	SGST actuals vs XV FC projections	
		In ₹ crore
	Actuals	FC projections
2020-21	866.51	672.99
2021-22	1125.56	740.29

2022-23	1426.15	814.32
2023-24	1095.32	895.75

Another bold initiative of the government is the lifting of prohibition in Manipur ,in operation since 1991..The state lifted prohibition in the state through a gazette notification The Manipur Excise (Amendment) Rules 2024. The optimism on this head is reflected in the budget document of 2024-25 where excise revenue is budgeted at Rs 300 crore, a dramatic jump from Rs 20 crore the previous year. This was also repeated in budget estimates of 2025-6 despite the huge difference between the revised estimate and budget estimates . However the following table suggests that the collection is an underestimate when prohibition has been lifted from the state. As per the National Family Health survey -5 (2019-20) 37.5% of men age 15 years and above consume alcohol- a paradoxical situation in a state under prohibition since 1991. Availability of liquor is facilitated by the porous international border with Myanmar and leakages from defence canteens. Table 1.14 suggests that the budget estimate is not preposterous.

Table 1.14: Excise collection in selected states in ₹ crore

year	Sikkim	Arunachal Pradesh	Tripura	Goa
2018-19	183.08	136.73	214.73	477.97
2019-20	207.15	144.97	231.69	491.79
2020-21	210.27	32.7	287.36	219.42
2021-22	249.2	115.91	319.59	650.03
2022-23	298.46	280.86	368.1	865.77
Average	229.632	142.234	284.294	540.996

Source: RBI Handbook of states

The paradoxical coexistence of huge public support of prohibition and growing popularity of alcohol among the population has deprived the state exchequer of huge excise revenue on the one hand and on the other hand serious health issues associated with adulterated liquor courtesy unscrupulous vendors. Civil society organisations particularly ladies' groups vehemently oppose lifting of prohibition. This has repetitively aborted attempts to lift prohibition effectively though the authority has come a long way in enacting withdrawal of the policy. Apart from this there is also a need of transparency in implementing the policy

effectively negating the general perception that the benefits would be cornered largely influential people only.

Property tax is a levy enforced by the municipality and Urban Local Bodies (ULBs) on every property within their jurisdiction, comprising both land and buildings, determined by their evaluated worth. The Manipur Municipality Property Tax Board was established under the Manipur Municipality Act 1994. The tax rate and evaluation methods may differ contingent upon the jurisdiction and pertinent statutes. Property owners could benefit from rebates and exemptions communicated periodically by the respective municipality or government. Formerly known as Holding Tax in Manipur, Property Tax was renotified by the Government of Manipur as required under Section 208 of the Manipur Municipalities Act, 1994 (Act no. 43 of 1994). The Manipur Municipality Property Tax Board was assigned the task of formulating rules for implementing Property Tax collection in the Imphal Municipality Area and the 26 Urban Local Bodies (ULBs) of Manipur state.

As per The Manipur Gazette Extraordinary No. 127 published on 22-08-2020 and on the website of the Manipur Urban Development Agency (MUDA), the state Government made the Manipur Municipalities Property (Tax Rules) 2019 for the assessment and collection of Property Tax in Municipal Corporations, Municipal Councils, and Nagar Panchayats constituted in the State of Manipur under section 3 of the Manipur Municipalities Act 1994, based on the unit area method, thereby ensuring self-assessment methods of property taxation. Property in rural areas is not touched.

The Motor vehicle taxation Act ,2015 was implemented in 2016 by upward revision of the minimum fare rate from 3% to 4% in the one-time tax structure and brought more vehicle types under the one-time tax regime. MVT rose from ₹ 15.83 crore to 83.21 crore in 2022-23. Though it dipped to ₹40 crore in 2023-24 due to the prevailing state of unrest, it was much higher than 2012-13 figure. Launch of online system for e-challan, e-payment, dealer point registration and permit for vehicles on 1st October 2020 had helped in enhancing collections from motor vehicles. The fines related with motor vehicles offences have also been revised recently. In the notification issued by the Transport department, Government of Manipur in 2019 there were 26 MV/Traffic offences with fines ranging from ₹500 to ₹ 20000. In 2024 it rose to 45 items.

Another way of looking at the tax scenario is improved efficiency in tax collection as measured by ratio of Tax revenue to Revenue expenditure which shows the

cost of collecting tax. Land revenue collection is the least efficient where ₹100 is spent to collect ₹9 in 2018-19. In sales tax ₹3934.84 is collected by spending ₹ 100.

Table 1.15: Efficiency of tax collection

Tax rev/rev exp					
	Land Revenue	Stamps and Registration	State excise	Sales tax	Taxes on Vehicle
2018-19	9.17	261.81	544.67	3934.84	280.03
2019-20	10.70	425.64	757.52	4282.36	519.61
2020-21	8.62	265.34	1150.49	5097.73	270.76
2021-22	7.48	121.09	2252.11	7886.02	488.87
2022-23	15.31	221.97	7122.22	4735.74	612.74

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

Another component of revenue receipt which is an indicator of fiscal health of the state is Own Non-Tax revenue. Broadly speaking it consists of interests, dividends & profits, general services, social services, fiscal services, and economic services.

A state's typical own non tax revenue consists of

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

- iii. Fisheries
- iv. Forestry and wildlife
- v. Plantations
- vi. Co-operation
- vii. Other agricultural programmes
- viii. Major and medium irrigation projects
- ix. Minor irrigation
- x. Power
- xi. Petroleum
- xii. Non-conventional sources of energy
- xiii. Village and small industries
- xiv. Industries
- xv. Non-ferrous mining and metallurgical industries
- xvi. Roads and bridges
- xvii. Road transport
- xviii. Tourism
- xix. Other general economic services

In the case of Manipur, dividends & profits and fiscal services are insignificant.

Table 2.1 shows the growth of ONTR, its annual growth rate and its relation with own revenue, revenue receipts and GSDP. It registered an erratic growth rate and a whopping growth rate of 327.10% in 2022-23 followed by a 68.49% decline. Its share in own revenue comprising of own tax revenue and own non tax revenue gradually declined from 41.06% in 2012-13 to a mere 6.07% in 2021-22. Its share in revenue receipts also declined gradually.

Table 2.1: contextualising own non tax revenue

<i>Year</i>	<i>ONTR</i> <i>in Rs crore</i>	<i>Growth</i> <i>rate %</i>	<i>Percentage share in</i>		
			OR	RR	GSDP
2012-13	232		41.06	3.40	1.69
2013-14	261	12.50	35.56	3.58	1.61
2014-15	184	-29.50	26.25	2.30	1.01

2015-16	149	-19.02	21.26	1.80	0.76
2016-17	164	10.07	21.84	1.80	0.77
2017-18	174	6.10	18.63	1.68	0.67
2018-19	166	-4.60	12.61	1.57	0.61
2019-20	134	-19.28	10.01	1.25	0.45
2020-21	148	10.45	10.24	1.14	0.50
2021-22	107	-27.70	6.07	0.76	0.32
2022-23	457	327.10	19.56	2.88	1.23
2023-24	144	-68.49	9.70	0.61	0.32

Source: State Finance Accounts, various years

Table 2.2 shows its trend growth rate and elasticity with respect to nominal GSDP during 2012-13 to 2023-24.

Table 2.2; Trend and GSDP elasticity

	Trend	Elasticity
Coefficient	-0.016	-0.197
t	-0.5	-0.603
p value	0.6273	0.5598

Note : Trend $\log(\text{ONTR})=a +bt$;

Elasticity $\log(\text{ONTR})=a +b.\log(\text{GSDP})$

It is found that it exhibits no significant trend and elasticity of ONTR with respect to GSDP is also found to be statistically insignificant. The latter suggests that growth in GSDP does not have any significant impact on ONTR in aggregate.

Collection of ONTR is erratic and highly unpredictable.

Table 2.3 shows the growth of components of ONTR during 2012-13 to 2023-24.

Table 2.3: Components of ONTR

COMPONENTS OF OWN NON TAX REVENUE

	GS	SS	ES	INT	ONTR
2012-13	84.59	8.63	117.9	20.66	231.78
2013-14	115.97	6.3	105.29	33.1	260.66
2014-15	137.69	6.1	9.33	30.6	183.72
2015-16	110.17	5.66	6.22	27.43	149.48
2016-17	128.14	5.92	11.01	19.75	164.82
2017-18	119.96	8.52	26.3	19.27	174.05
2018-19	118.4	8.33	20.36	18.68	165.77
2019-20	107.43	8.2	12.5	6.39	134.52
2020-21	129.63	7.5	8.67	2.25	148.05
2021-22	90.34	6.83	8.93	1.36	107.46
2022-23	102.79	300	29.99	24.77	457.55
2023-24	96.67	8.43	37.52	2	144.62
GS GENERAL SERVICES SS SOCIAL SERVICES ES ECONOMIC SERVICES					
ONTR OWN NON TAX REVENUE					
INT INTEREST RECEIPTS, DIVIDENDS AND PROFITS IN ₹ CRORE					

Source: State Finance Accounts, various years

Table 2.4 shows the evolving structure of ONTR in terms of shares of the components. The share of GS gradually increased. It collapsed in 2022-23. In the case of SS, 2022-23 saw a record share of 65.57% mainly due to payments for social security. In the case of ES, it declined sharply in 2014-15 due to the corporatisation of the power department. Post corporatisation payments of electric bills were no longer entered as receipts of the department .it is part of revenue of the distribution company MSPDCL. Earlier electricity bill collection used to be the largest item in ONTR in Manipur . now highest contribution comes in the form of agency charges deposited by implementing agencies.The share of INT also gradually declined. Our earnings are mainly interest earned from investment of our cash surplus in treasury bill holdings. The receipts in terms of

dividends and interest from state public sector undertakings are at best negligible.
Agency charges deposited by during

Table 2.4: Structure of ONTR

	SHARE IN ONTR			
	GS	SS	ES	INT
2012-13	36.50	3.72	50.87	8.91
2013-14	44.49	2.42	40.39	12.70
2014-15	74.95	3.32	5.08	16.66
2015-16	73.70	3.79	4.16	18.35
2016-17	77.75	3.59	6.68	11.98
2017-18	68.92	4.90	15.11	11.07
2018-19	71.42	5.03	12.28	11.27
2019-20	79.86	6.10	9.29	4.75
2020-21	87.56	5.07	5.86	1.52
2021-22	84.07	6.36	8.31	1.27
2022-23	22.47	65.57	6.55	5.41
2023-24	66.84	5.83	25.94	1.38

Source: State Finance Accounts, various years

Table 2.5 shows the trend and elasticity of the four broad components of ONTR.

Table 2.5: Trend and elasticity of components of ONTR

		Trend	Elasticity
GS	Coefficient	0.008002	0.128015
	t	0.222986	0.356246
	P	0.828	0.7291
SS	Coefficient	0.147756	1.384685
	t	2.638096	2.354536
	P	0.0248	0.0403
ES	Coefficient	-0.06238	-0.57102
	t	-0.89886	-0.81298
	P	0.3899	0.4352
INT	Coefficient	-0.06238	-2.03333
	t	-3.97861	-3.45105
	P	0.0026	0.0062

Both GS and ES do not exhibit any significant trend. GSDP elasticities of GS and ES are also insignificant. On the other hand, SS shows an upward trend and a significant GSDP elasticity also. A one percent increase in GSDP will bring about a 1.385% growth in SS. INT shows a significant downward trend with a statistically significant negative elasticity. A 1% increase in GSDP will bring about a 2.033% decline in INT.

Table 2.6 shows the changes in 4 components of General services receipts.

Table 2.6: Components of General services receipts

COMPONENTS OF GENERAL SERVICES RECEIPTS						
YEAR	PSC	POLICE	PW	PENSION	OTHER	GS
2012-13	0.01	0.99	6	0.84	76.75	84.59
2013-14	0.49	1.02	1.8	0.58	112.08	115.97
2014-15	0	0.79	2.9	0.3	133.7	137.69
2015-16	0.35	0.72	1.25	0.64	107.21	110.17
2016-17	0.23	1.38	0.89	0.42	125.22	128.14
2017-18	0.05	0.91	1.86	0.35	116.79	119.96
2018-19	0.56	1.41	1.62	0.6	114.66	118.85
2019-20	0.93	0.8	1.22	0.57	103.91	107.43
2020-21	0.0027	1.23	1.56	0.39	126.45	129.63
2021-22	0	1.68	0.84	0.55	87.27	90.34
2022-23	0.17	1.71	3.18	3.26	94.47	102.79
2023-24	0.6	2.5	4	0.7	88.87	96.67

Notes: In ₹ crore. PSC-Manipur Public service commission POLICE PW-public works PENSION-Contributions and recoveries towards pension and other retirement benefits OTHER-includes jails, stationary and printing and other administrative services.

Source: State Finance Accounts, various years

Receipts from police service only show a statistically significant growth rate of 7.55%. the other components are erratic and donot exhibit any significant trend-upwards or downwards. Receipts from police department constitute a miniscule proportion of total receipts under GS.

Table 2.7 shows the changes in 4 components of SS

Table2.7: Components of Social services

COMPONENTS OF SOCIAL SERVICES

	EDN	MED	HOUSING	WSS	OTHER	SS
2012-13	1.15	0.15	1.03	6.15	0.15	8.63
2013-14	2.05	0.28	1.7	2.1	0.17	6.3
2014-15	1.62	0.34	1.39	2.56	0.2	6.11
2015-16	1.43	0.25	1.44	2.27	0.27	5.66
2016-17	1.29	0.5	1.54	2.42	0.17	5.92
2017-18	2.27	1.16	2.4	2.68	0.01	8.52
2018-19	2.01	0.69	2.21	3.32	0.1	8.33
2019-20	2.06	0.68	1.87	3.48	0.11	8.2
2020-21	0.47	0.44	1.93	4.52	0.14	7.5
2021-22	0.55	0.55	1.82	3.36	62.55	68.83
2022-23	98.07	1.25	2.37	31.26	167.07	300.02
2023-24	0.7	1.1	2.5	4	0.13	8.43
EDN EDUCATION, SPORTS, ART & CULTURE MED						
MEDICAL & PUBLIC HEALTH						
WSS WATER SUPPLY AND SANITATION OTHER OTHER						
RECEIPTS IN THIS HEAD						
IN ₹ CRORE						

Source: State Finance Accounts, various years

Table 2.8 shows the variables in this group with statistically significant trend and elasticity. It is found that EDN, WSS and OTHER do not exhibit any significant trend. MED and HOUSING show statistically significant upward trend with MED and HOUSING growing at the rate of 14.67% and 5.8% respectively. In terms of elasticity, a 1% growth in nominal GSDP would raise receipts under MED by 1.56%. in the case of HOUSING receipts would rise by 0.6 %. In 2022-23 OTHER rose sharply due a sudden jump in social security and welfare

Table 2.8: Trend and elasticity of selected components of SS

	Trend coefficient	Elasticity with respect to GSDP
MED	0.146776	1.56673
t	4.231079	5.114859
P value	0.0017	0.0005
HOUSING	0.058026	0.61994

t	4.080798	4.897804
P value	0.0022	0.0006

Table 2.9 examines 4 components of Economic services treating the rest as other.

Table 2.9; Components of Economic services

COMPONENTS OF ECONOMIC SERVICES						
	POWER	MMI	FOREST	TOURISM	OTHER	ES
2012-13	108.3	3.75	2.94	0.17	2.74	117.9
2013-14	96.23	2.42	3.71	0.28	2.65	105.29
2014-15	0.1	2.04	4.62	0.56	2.01	9.33
2015-16	0.01	0.64	3.65	0.43	1.92	6.22
2016-17	0.13	1.58	6.46	0.98	1.86	11.01
2017-18	0	0.26	23.61	0.56	1.87	26.3
2018-19	0.11	2.67	15.25	0.49	1.84	20.36
2019-20	0.1	0.76	9.7	0.58	1.36	12.5
2020-21	0	0.22	6.65	0.4	1.4	8.67
2021-22	0	0.09	7.75	0.14	0.96	8.94
2022-23	0	0.3	27.51	0.53	1.65	29.99
2023-24	0	3.47	28	0.5	5.56	37.53

Notes: POWER-power MMI-Major and medium irrigation FOREST-Forestry and wildlife TOURISM-Tourism OTHER other receipts in this head in ₹ crore

Source: State Finance Accounts, various years

Amongst the components of Economic services, only FOREST was found to have a significant upward trend growing at 17% per annum. However, its elasticity with respect to GSDP was also found to be statistically significant. A 1% rise in nominal GSDP would raise the receipts under this head by 1.88%. The trend components and GSDP elasticities of the other components were statistically insignificant.

$$\text{Log(FOREST)} = 1.1864 + 0.1756 t$$

$$\text{T value} \quad (3.94)$$

$$\text{Log(FOREST)} = -16.81 + 1.878 \log(\text{GSDP})$$

$$\text{T value} \quad (4.711)$$

Table 2.10 compares projections of various Finance Commissions with the actual values i.e.the difference between projections of OTR and ONTR made by different Finance commissions and actuals. An interesting pattern emerges over the award period of different FCs. During the award period of XIII FC actual figures persistently exceeded the projected figures. During the award period of XIV FC i.e. 2015-16 to 2019-20, projections far exceeded the actual figures.

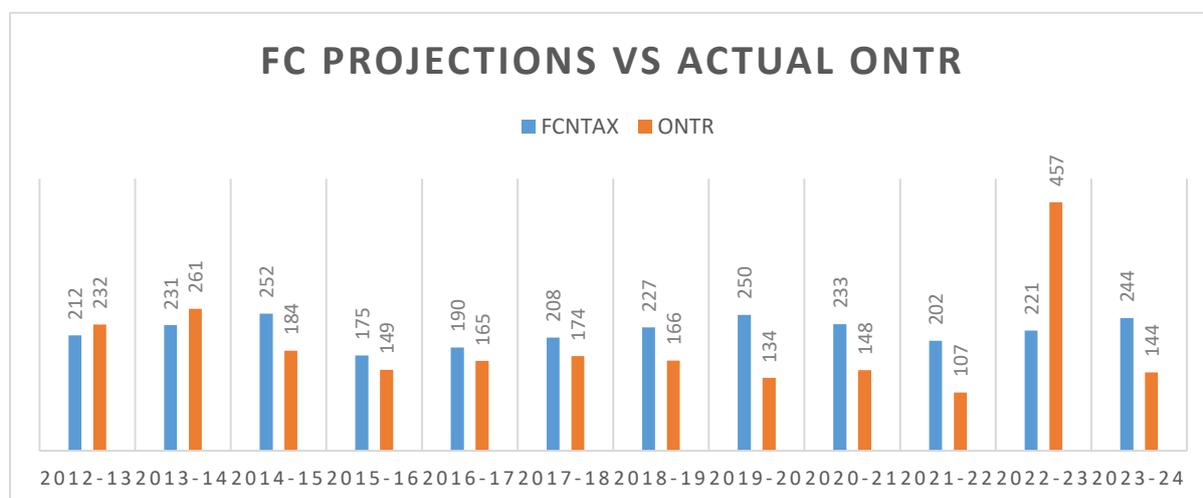
Table 2.10 : FC Projection vs. Actual Own revenue receipts

	FC PROJECTION			ACTUAL		
	FCTAX	FCNTAX	FCPTOT	OTR	ONTR	ORR
2012-13	287	212	499	333	232	565
2013-14	326	231	558	473	261	733
2014-15	370	252	622	517	184	701
2015-16	689	175	864	550	149	700
2016-17	824	190	1014	587	165	751
2017-18	985	208	1193	791	174	965
2018-19	1178	227	1405	1046	166	1212
2019-20	1408	250	1658	1243	134	1377
2020-21	1214	233	1447	1294	148	1442
2021-22	1260	202	1462	1649	107	1756
2022-23	1383	221	1604	1867	457	2324
2023-24	1531	244	1775	1328	144	1472

Note : All in Rs crores; FCTAX own tax revenue projected by FC FCNTAX non tax revenue projected by FCPTOT total own tax and own non tax revenue.

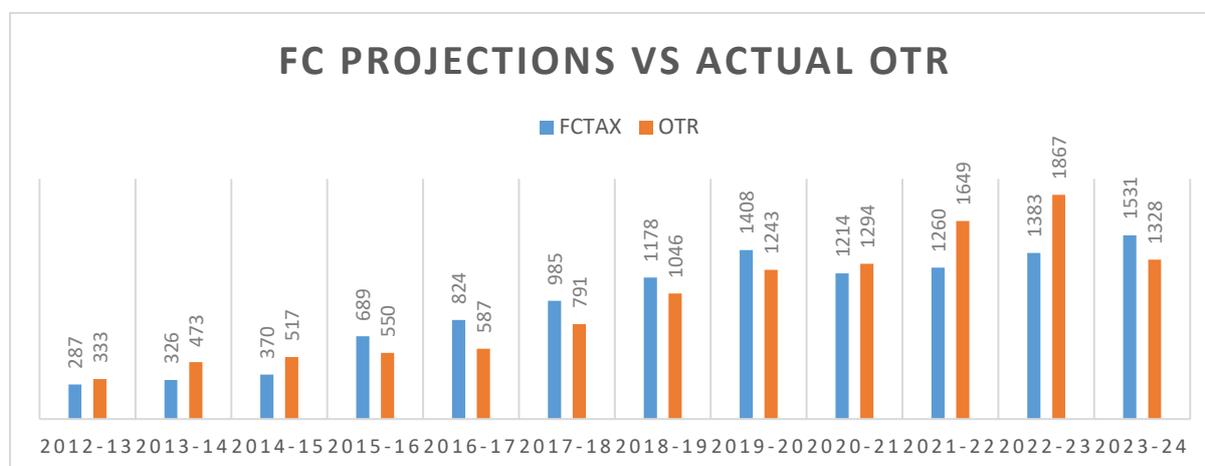
Source: XV Finance Commission Report

Fig.2.1 : FC projections vs Actual ONTR



In the case of ONTR , except for 2022-23 projections exceeded the actuals. As we have mentioned it was due to a dramatic rise in social security and welfare.

Fig.2.2 : FC projections vs Actual OTR



Actual OTR exceeded FC projected OTR systematically during the award period of XIII and XV FC except for 2023-24. During the award period of the XIV FC projections systematically exceeded the actuals.

Table 2.11: Actual devolution of central taxes vs Finance commission projections in Rs crore

	FCR PROJECTIONS	ACTUAL TAX DEVOLUTION	DIFFERENCE
2012-13	1272	1318	46
2013-14	1501	1439	-62
2014-15	1770	1527	-243
2015-16	3579	3142	-437
2016-17	4131	3757	-374
2017-18	4774	4154	-620
2018-19	5522	4699	-823
2019-20	6393	4048	-2345
2020-21	6140	4272	-1868
2021-22	4716	6010	1294

Source: XV Finance Commission Report

Table 2.11 shows the persistent difference between FC award and actual devolution of central taxes. Over the years there was a persistent short change when it comes to transfer of central taxes to Manipur. During this period the FCs had promised Rs 39798 crore and actual devolution was Rs 34366 crore the state

thus lost Rs 5432 crore during this period. The inter se share of Manipur during the XIII FC period was 0.451% of net proceeds of all shareable taxes excluding service tax and 0.458 percent of net proceeds of shareable service tax. The share as per XIV FC was 0.617 % of net proceeds of all shareable taxes excluding service tax and 0.623 percent of net proceeds of shareable service tax. As per XV FC Manipur's share was 0.718 *per cent* of net proceeds of total shareable taxes in 2020-21. For 2021-2 to 2025-26 it was 0.716 *per cent* of net proceeds of total shareable tax. This persistent discrepancy between projected devolution and actual devolution has a serious impact on the finance of a state like Manipur, heavily dependent on central transfers.

Measures for improving ONTR

Measures for improving ONTR should be based on specific items, rather than on general categories. This is being discussed in the context of some such items which have shown the potential for growth.

Table 2.12 : Some Selective no tax revenue items

	Non tax revenue					in ₹ lakh
	INT	PW	TIMBER	MEDIRR	MINERAL	ILP
2011-12	2041.7	1513.45	318.67	860.97	12.31	
2012-13	1860.22	600.8	270.24	375.42	79.63	
2013-14	2579.43	180.12	286.02	242.01	110.96	
2014-15	2960.38	290.1	365.71	204.24	0.59	
2015-16	2366.2	125.51	349.34	64.47	0.03	
2016-17	1541.24	89.83	638.33	157.94	14.35	
2017-18	1779.58	186.75	2352.7	26.5	28.95	
2018-19	1725.66	162.25	1509.15	267.98	10.42	
2019-20	619.3	122.62	937.31	76.03	8.56	
2020-21	208.13	156.04	654.74	22.02	0.43	22.7
2021-22	24.82	84.44	771.67	9.67	0.67	153.26
2022-23	162.54	318.33	2730.98	30.06		244.03
INT	interest realised on investment of cash balances					
PW	Public works					
TIMBER	Sale of timber and other forest produce					
MEDIRR	Medium irrigation					
MINERAL	Mineral concession fees, rents and royalties					
ILP	Inner Line Permit					

Source: Manipur Finance Accounts

There is a serious attempt to harness the resources of forests which has emerged as the dominant component of receipts under economic services. The main

revenue resources from forests are timber, non-timber forest produces, minor mineral like sand, stone etc. From ₹ 318.67 lakhs in 2011-22 it has increased to ₹ 2730.98 lakhs in 2022-23. Forest resources should be scientifically managed in every sense so that it is done sustainably.

Manipur Mineral policy 2021 seeks to initiate scientific mining with sustainable practices keeping in mind stakeholders' interest. High Court of Manipur passed an order on July 3,2019 enforcing a total ban on all unauthorized quarrying works and sand mining in all the rivers of the State. Furthermore, the Court also ordered that no one will be allowed to carry out any such activities except in case where a license or lease has been granted in accordance with the law. The government has started issuing licences for sandmining across the state. This has been necessitated by the damaging impact on quality of downstream water due to large scale sand and stone mining in upstream riverbeds.

Interestingly a major non tax revenue receipt of the state has been the interest earned by cash balances of the government in banks. It peaked at ₹ 2960.38 lakhs in 2014-15 and dropped to ₹ 24.82 lakhs in 2021-22. In the recent past the collection under this head dropped significantly reflecting the cash balance situation of the state. Proper management of cash balances may be useful in raising non tax revenue.

Receipts under the Inner Line Permit (ILP) has shown vibrancy despite leakages The Manipur Inner Line permit (ILP) is an official travel document issued by the state government to allow inward travel of an Indian citizen visiting Manipur for a specific time period vide order of President of India No.S.O.44339E) dated 11/12/2019. Its rate structure is as follows

Table 2.13 : Rate structure of Inner Line Permit

	1 st instance	Renewal
Special permit	₹ 5000	₹ 10,000
Regular permit	₹500	Non renewable
Temporary permit	₹ 100	₹
Labour permit	₹ 100	₹ 300
Half yearly work permit	₹ 1000	
A permit annual work	₹ 2000	

Source: Home Department.

This has come after decades of demand by the people of Manipur. It can be raised beyond the usual corruption as a significant contribution to nation

building by appealing to the sentiment of the stakeholders. Efficient and proper implementation of ILP will give to the citizens a sense of security and gradual undoing of earlier mistakes.

Mineral concession fees, rents and royalties peaked at ₹110.96 lakhs in 2013-14 and dropped to ₹0.67 lakhs in 2021-22. During the last few years, it has been showing a declining trend. This decline may be attributed largely to inefficiency at the collection stage and growing clout of illegal operators.

There is ample scope for raising non tax revenue from medium irrigation project and public works.

Drinking water in the urban areas is managed by the state public health engineering department (PHED) which is responsible for collection of user charges and operation and maintenance of water supply schemes. The cost recovery is also meagre as is evident from the following table

Table 2.14: Receipt and Expenditure in water supply

	RECEIPT	EXPEND
2015-16	2.27	215.44
2016-17	2.42	271.88
2017-18	2.68	303.41
2018-19	3.33	356.4
2019-20	3.48	336.94
2020-21	4.52	709.21
2021-22	3.36	874.52
2022-23	3.71	882
In ₹ crore		

Source: Finance Accounts

While in rural and remote areas the standard of living of the people may be a big constraint in making water supply sustainable across the state, urban areas can be dealt differently. The government is gradually moving towards 100% metering of individual drinking water connections with households and commercial establishments in urban areas. According to PHED, Manipur out of 44000 metres to be installed in Imphal Municipal Corporation areas meter installation has been completed in 30000 households using AMRUT fund. As per the Manipur water supply Act,1992 the rate of water tariff was revised upwards in August ,2020. The order also mentioned that the water tariff would be enhanced @ 5% every three years effective from 1st January of every 4th year, commencing from

01.01.2024. By 2024 smart water meters have been installed in urban areas and the tariffs would be based on amount of water used. For example, earlier the tariff rate for domestic use was ₹ 250 per month. Now it is going to be ₹ 249 per kilolitre of water. However, it is yet to be implemented. PHED has introduced online bill payment system at the old rate.

Chapter 3: Public Expenditure patterns and Trends in revenue and capital expenditure

Development has become increasingly multidimensional. Instead of gradual withdrawal, the participation of the state is being sought in new areas to create an environment conducive for development. The fact that the market mechanism failed in many respects to bring about the desired results, forced an increasing intervention on the part of the state. Public expenditure is incurred by the government for its own maintenance, the society and the economy and helping other countries. The ascent of public sector in Indian economy and the more recent emergence of the private sector as a driver of economic development are history. However, in backward states like Manipur, the state continues to be the driver of economic development and the situation is not likely to change soon. Manipur has been able to generate only about 10% of its requirement from internal sources like own tax revenue and own non tax revenue, the rest coming from the center in the form of share of central taxes and Grants-in -Aid. Expenditure pattern is as important as resource mobilization. As per Wagner's law, as the size of economy increases, the government expenditure increases. There is a functional relationship between the growth of an economy and government activities. The basic objective of any government expenditure in a developing country, is to achieve maximum welfare for the public. The government incurs expenditure to finance consumption expenditure in the form of revenue expenditure and asset creation in the form of capital expenditure. Capital expenditure is intricately linked with economic growth and the main thesis of Wiseman -Peacock is that public expenditure does not increase in a smooth and continuous manner but in jerks or step like fashion. Expenditure incurred for physical and social infrastructure like schools, hospitals, technology, roads, highways, etc. not only create future avenues for welfare but generates multiplier effect in the economy. This effect is seen in terms of higher productivity and capital stock generation which in long term translates to growth. Investments in transportation and communications also have rapid growth effects.

The important components of revenue expenditure are as follows:

- A. General Services
 - a. Organs of state
 - b. Fiscal services
 - c. Interest payment and servicing of debt
 - d. Administrative services

- e. Pensions and misc. general services
- B. Social services
 - a. Education, sports, Art & Culture
 - b. Health and family welfare
 - c. Water supply, sanitation, housing, and urban development
 - d. Information and broadcasting
 - e. Welfare of scheduled castes, scheduled tribes and OBC
 - f. Labor and labor welfare
 - g. Social welfare and nutrition
- C. Economic services
 - a. Agriculture and allied activities
 - b. Rural development
 - c. Special area programme
 - d. Irrigation and flood control
 - e. Power
 - f. Industry and minerals
 - g. Transport
 - h. Science, technology, and environment
 - i. General economic services

The important components of capital disbursement or expenditure are the same except for the fact that it is meant for asset creation rather than for current consumption. Capital outlay including public debt and loans and advances is known as capital expenditure. Public debt of the state government comprises of internal debt and loans and advances from the central government. Expenditure can also be categorised as developmental and non-developmental expenditure. Items of expenditure on various social and economic services, both on revenue and capital account can be classified as development expenditure. The principal non-development expenditure components of revenue expenditure are interest payments, administrative services, and pensions. On the capital expenditure side, the major items of non-development expenditure are repayment of loans to the centre and discharge of other debts.

Table 3.1: Trends in Expenditure

YEAR	RE	CE	AE	DE	DE/AE IN %
2012-13	5317	1652.51	6969.51	4117.17	59.07
2013-14	5718.83	1419.74	7138.57	4013.84	56.23
2014-15	7267.3	1561.49	8828.79	5164.06	58.49
2015-16	7383	1237.87	8620.87	5156.55	59.81

2016-17	8185	1493.57	9678.57	5797.3	59.9
2017-18	9274	2107.24	11381.24	5073.03	44.57
2018-19	9748.72	4829.86	14578.58	5193.99	35.63
2019-20	10238.63	6926.89	17165.52	5238.7	30.52
2020-21	12428.47	10037.34	22465.81	6749.86	30.05
2021-22	12642.15	14156.71	26798.86	6191.37	23.1
2022-23	14158.98	12896.54	27055.52	7510.5	27.76
2023-24	18567.38	14023.65	32591.03	10852.08	33.3

Notes: All in Rs crore, RE-Revenue expenditure CE-Capital expenditure

AE Aggregate expenditure DE Developmental expenditure

Source: Annual Financial Statements, various years

Table 3.1 shows the pattern of growth of aggregate expenditure and its components revenue expenditure, capital expenditure and development expenditure. It shows that capital expenditure has been growing erratically and it surpassed revenue expenditure in 2021-22. It has been rising since 2015-16.

Fig.3.1 shows the pattern of growth rates of these variables. While RE and AE have been growing persistently. CE registered phases of growth and decline. For a larger part of the period under study, CE had growth rates higher than that of RE and AE.

Fig.3.1: Growth rates of AE, RE&CE

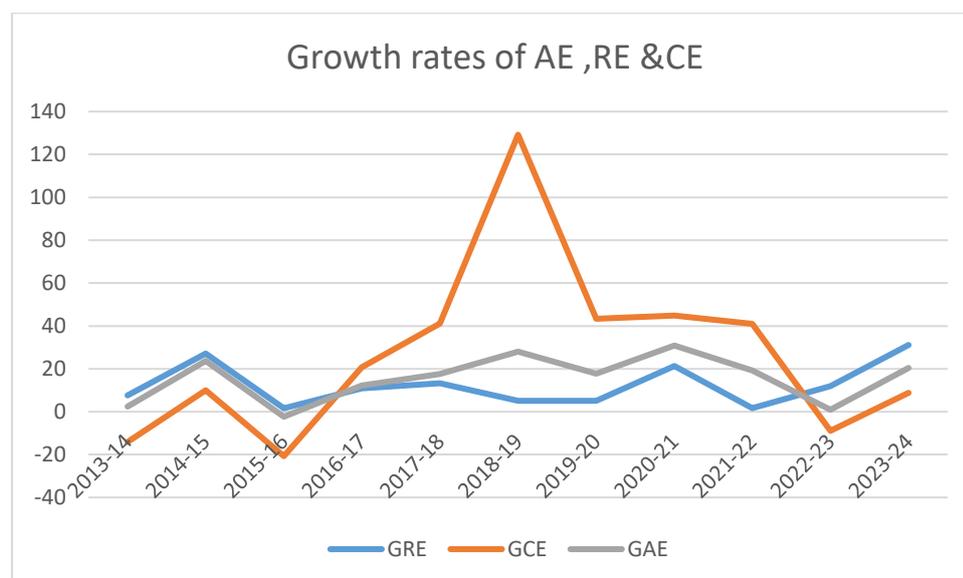


Table 3.2 shows the structure of public expenditure. Initially revenue expenditure dominated public expenditure. its share declined from 76.29% in 2012-13 to 56.97% in 2023-24. The share of CE almost doubled in 2018-19 and it even exceeded the share of RE in 2021-22. The inference of quality expenditure as

reflected by higher share of CE is diluted by the falling share of DE. However developmental expenditure as a proportion of aggregate expenditure shows a down ward trend falling from 59.07 % in 2012-13 to 33.3% in 2023-24.

Table 3.2: Structure of public expenditure in percent

	RE/AE	CE/AE	DE/AE
2012-13	76.29	23.71	59.07
2013-14	80.11	19.89	56.23
2014-15	82.31	17.69	58.49
2015-16	85.64	14.36	59.81
2016-17	84.57	15.43	59.9
2017-18	81.48	18.52	44.57
2018-19	66.87	33.13	35.63
2019-20	59.65	40.35	30.52
2020-21	55.32	44.68	30.05
2021-22	47.17	52.83	23.1
2022-23	52.33	47.67	27.76
2023-24	56.97	43.03	33.3

In table 3.3 the trend coefficients of these variables and their impact on GSDP are examined. All trend coefficients and elasticities are found to be statistically significant. All variables show statistically significant upward trend. CE exhibits the highest growth rate (26.12%) followed by RE (10.18%) and DE(6.5%). Not only DE registered the least growth rate, its share in AE also has been declining. Among the variables, DE has the highest impact on GSDP. A 1% growth of DE leads to 1.15% growth of GSDP. A 1% growth of RE leads to 0.95% growth in nominal GSDP. In the case of CE it is 0.31% only. The lower elasticity of CE should not be interpreted as having lower impact on GSDP. Instantaneous impact may be relatively less and lag in impact is more likely. Overall higher impact may emerge if lagged effects are also studied.

Table 3.3: Trend and elasticity (2012-13 to 2023-24)

	TREND COEFFICIENT	ELASTICITY
RE	0.101804	0.952192
T	19.58334	19.45989
P VALUE	0	0
CE	0.261223	0.319428

T	8.189217	6.496745
P VALUE	0	0.0001
AE	0.152052	0.621949
T	18.4296	11.55239
P VALUE	0	0
DE	0.065161	1.148229
T	5.549659	5.467347
P VALUE	0	0.0003

Trend: $\log(y) = a + bt$ Elasticity : $\log(y) = a + b \log(X)$

Committed expenditure comprises of those expenditure heads the government is committed to spend. Salaries and wages of employees, pensions for retired employees and interest paid for outstanding loans incurred by the government are committed expenditure to be repaid at any cost with top priority in spending. The employees must be paid their salaries. Pensionary benefits should be paid to retired employees. Interest on outstanding loans has to be serviced in time. These are to be paid out of revenue expenditure. The higher it is, the less fiscal space the state has. Table 3.4 shows that on the average around 59% of revenue expenditure have to be spent on these committed expenditure heads. About 41 % of revenue expenditure are available for consumption purposes. The issue with salary has been the inability of the state to keep it below the level allowed by FRBM act. According to the FRBM Act, salary should not exceed 35% of revenue expenditure net of interest payment and pension.

Table 3.4: Committed expenditure and its components in Rs. crore

YEAR	SALARY	PENS	INTR	COME	RE	COME/RE IN %
2012-13	2246.92	760.28	433	3440.2	5317	64.70
2013-14	2316.87	771.48	444.92	3533.27	5719	61.78
2014-15	2406.66	934	473	3813.66	7267	52.48
2015-16	2853	1010	516	4379	7383	59.31
2016-17	3088	1174	544	4806	8185	58.72
2017-18	3381.43	1324.32	562.96	5268.71	9274	56.81
2018-19	3662.39	1534.26	577.21	5773.86	9748.72	59.23
2019-20	3968.42	1620.8	663.54	6252.76	10238.63	61.07
2020-21	4400.45	1737.73	831.6	6969.78	12428.47	56.08
2021-22	4582.94	2439.17	690.8	7712.91	12642.15	61.01
2022-23	5077.51	2880.43	874.19	8832.13	14158.98	62.38
2023-24	6318.82	2777.49	946.84	10043.15	18567.38	54.09

Note: SALARY-salary PENS-pensions INTR-Interest COME-Committed expenditure

RE – Revenue expenditure

Source: CAG Report, various years

Fig.3.2 shows the evolving structure of components of committed expenditure in Manipur during 2012-13 to 2023-24.

Fig.3.2: Structure of committed expenditure in Manipur

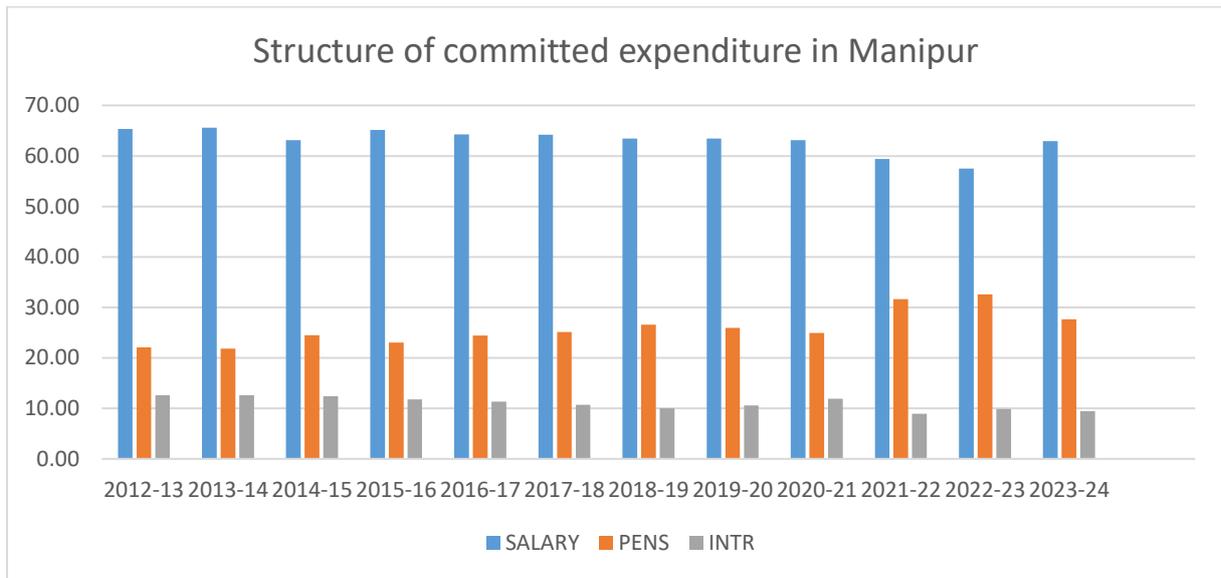
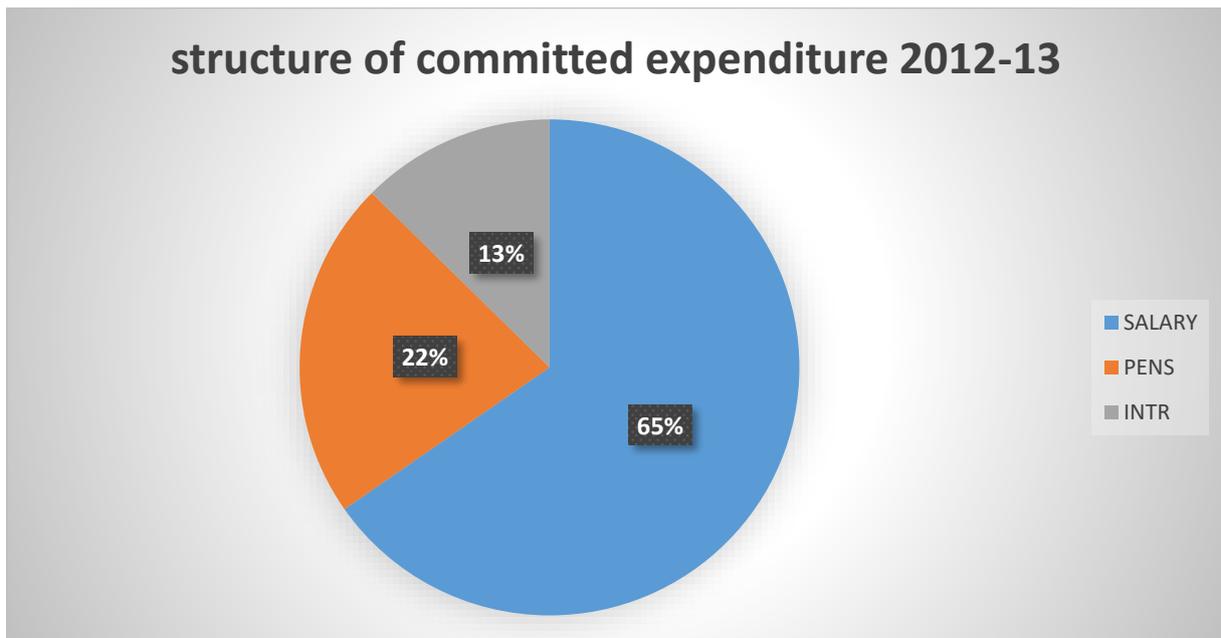


Fig.3.3: structure of committed expenditure in 2012-13 and 2023-24



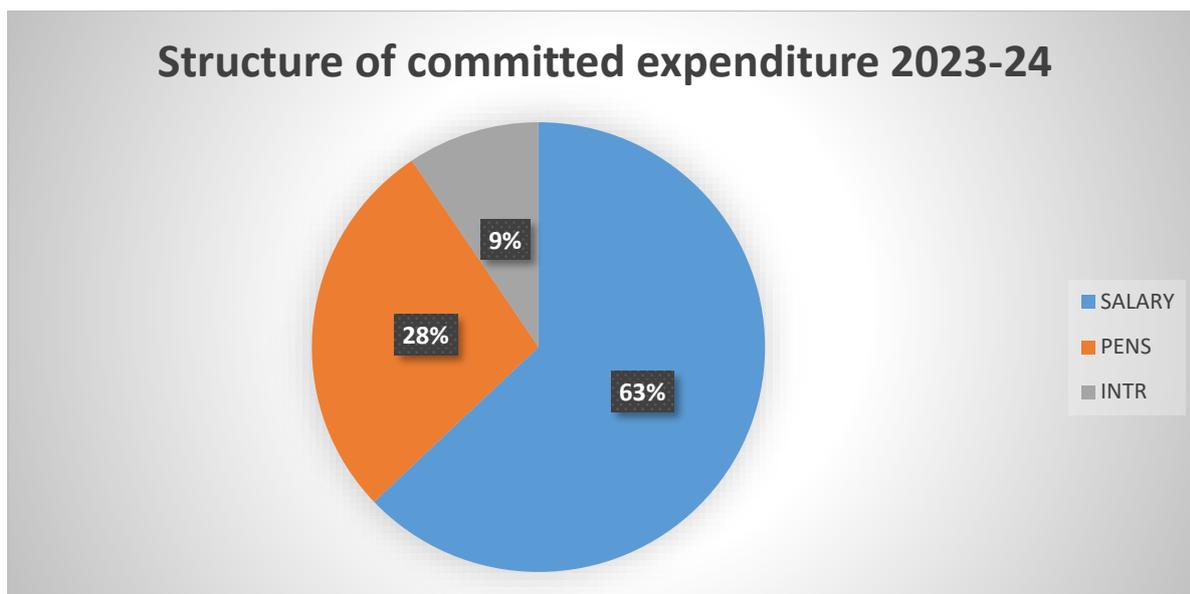


Fig 3.3 shows the changing structure of committed expenditure during this period. Despite the marginal changes in their shares the ranking of the components has remained unchanged.

Table 3.5 shows that all components of committed expenditure have statistically significant upward trends with PENS registering the highest growth rate followed by salary. The growth rates of salary, pensions, interest and committed expenditure are 9.1%,12.8%,7.1% and 9.8% respectively.

Table 3.5: Growth rate of committed expenditure and its components

	TREND COEFFICIENT	T STATISTICS	P- VALUE	GROWTH RATE%
SALARY	0.091	24.79	0	9.07
PENS	0.128	21.06	0	12.82
INTR	0.071	12.01	0	7.11
COME	0.098	37.98	0	9.85

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

As per the FRBM Act salary should not exceed 35% of revenue expenditure net of interest and pension. Table 3.6 shows that the state is yet to attain this even though it has declined from 54.5% in 2012-13 to 42.6% in 2023-24. This proportion does not exhibit any significant trend component.

Table 3.6: Share of salary in RE net of pension and interest

YEAR	SALARY IN RS CRORE	NRE IN CRORE	RS SALARY/NRE IN PERCENT
2012-13	2246.92	4123.72	54.49
2013-14	2316.87	4502.6	51.46
2014-15	2406.66	5860	41.07
2015-16	2853	5857	48.71
2016-17	3088	6467	47.75
2017-18	3381.43	7386.72	45.78
2018-19	3662.39	7637.25	47.95
2019-20	3968.42	7954.29	49.89
2020-21	4400.45	9859.14	44.63
2021-22	4582.94	9512.18	48.18
2022-23	5077.51	10404.36	48.80
2023-24	6318.82	14843.05	42.57

Table 3.7 shows capital expenditure and its components. Capital outlay indicates asset creation. The two components public debt and loans & advances do not involve asset creation directly. It involves repayment of internal debt and loans from the central government and sanction of loans and advances.

Table 3.7: Capital expenditure and its components

	CAPITAL EXPENDITURE					Total
	Capital outlay					
	SS	ES	GS	PD	LA	
2012-13	354.0389	921.6503	225.8728	698.4902	3.3	2203.352
2013-14	328.0455	743.5222	208.812	534.5876	0.044	1826.522
2014-15	547.629	575.9938	28.8126	273.2375	0.343	1606.016
2015-16	385.8821	686.9598	165.0263	343.3865	3.1501	1584.405
2016-17	412.995	984.5727	96.0019	1144.97	0.25	2638.79
2017-18	663.6996	658.1108	106.4945	675.5327	3.4	2107.238
2018-19	753.0931	865.7622	111.7879	3099.184	0.133	4829.961
2019-20	570.1368	538.6589	46.4468	5771.635	0	6926.878
2020-21	1247.106	1130.663	61.4115	7587.95	10.2	10037.33
2021-22	1303.321	1866.405	83.0687	10902.29	1.625	14156.71
2022-23	1386.036	2002.621	95.578	9404.722	7.575	12896.53
2023-24	3138.982	3826.683	325.2963	6724.487	8.2	14023.65

Notes: All in Rs crore .GS-General services SS-Social services

ES-Economic services PD-Public debt LA-Loans and advances

Source: Finance Accounts, various years

Table 3.8 shows the growth of revenue expenditure and its components.

Table 3.8: Revenue expenditure and its components

RE				
	GS	SS	ES	Total
2012-13	2281.83	1528.22	1506.48	5316.53
2013-14	2441.07	1603.66	1674.11	5718.84
2014-15	2751.13	2028.06	2488.1	7267.29
2015-16	2950.8	1973.6	2458.17	7382.57
2016-17	3421.18	2056.76	2706.77	8184.71
2017-18	3666.88	2569.42	3037.7	9274
2018-19	3981.3	2660.91	3106.5	9748.71
2019-20	4444.81	2916.83	2876.99	10238.63
2020-21	5055.21	3328.46	4044.8	12428.47
2021-22	5899.12	3556.79	3186.23	12642.14
2022-23	6648.47	4407.52	3102.98	14158.97
2023-24	7715.29	6527.92	5522.8	19766.01

Notes: All in Rs crore

GS-General services SS-Social services ES-Economic services

Source: State Finance Accounts various years

Table 3.9 examines whether the variables have any significant trend. It is found that all the components of revenue expenditure and GS and SS components of capital expenditure have statistically significant upward trend.

Table 3.9: Trend of components of expenditure

	TREND COEFFICIENT	T STATISTICS	P VALUE	GROWTH RATE
RGS	0.109	33.872	0	10.90
RSS	0.114	12.114	0	11.40
RES	0.085	5.933	0.0001	8.50
CGS	0.175	7.225	0	17.50
CSS	0.118	3.321	0.007	11.80
CES	-0.00937	-0.15493	0.88	Insignificant

Note: prefix R and C indicate revenue and capital.

Table 3.10 examines the structure of broad expenditure heads namely GS, SS and ES in terms of revenue expenditure and capital outlay. Capital outlay creates assets and a multiplier process is initiated when the environment becomes conducive for development. All components are dominated by revenue expenditure. ES is dominated most by revenue expenditure and its dominance is rising. The share of CO is the highest in SS and it is rising.

Table 3.10: Structure of expenditure

YEAR	GS		SS		ES	
	RE	CO	RE	CO	RE	CO
2012-13	86.57	13.43	62.38	37.62	86.96	13.04
2013-14	88.15	11.85	68.32	31.68	88.91	11.09
2014-15	83.40	16.60	77.88	22.12	98.86	1.14
2015-16	88.44	11.56	74.18	25.82	93.71	6.29
2016-17	89.23	10.77	67.63	32.37	96.57	3.43
2017-18	84.67	15.33	79.61	20.39	96.61	3.39
2018-19	84.09	15.91	75.45	24.55	96.53	3.47
2019-20	88.63	11.37	84.41	15.59	98.41	1.59
2020-21	80.21	19.79	74.64	25.36	98.50	1.50
2021-22	81.90	18.10	65.58	34.42	97.46	2.54
2022-23	82.75	17.25	68.76	31.24	97.01	2.99
2023-24	71.08	28.92	63.04	36.96	94.44	5.56

Source: State Finance Accounts various years

Table 3.11 shows the components of GS in revenue expenditure. Table 3.11 shows the structure of GS based on the share of these components. AS, PENS and INT are the dominant subheads. AS has the highest share in GS.

Table 3.11: components of GS in Revenue expenditure in Rs crore

	ORGS	FS	INT	AS	PENS	TOTAL
2012-13	64.46	39.96	460.92	955.57	760.92	2281.83
2013-14	92.76	44.43	475.22	1056.36	772.30	2441.07
2014-15	93.68	49.23	508.13	1165.08	935.01	2751.13
2015-16	108.46	50.26	554.40	1227.44	1010.25	2950.80
2016-17	154.77	51.20	654.09	1387.44	1173.68	3421.18
2017-18	169.77	65.21	634.39	1473.19	1324.32	3666.88
2018-19	181.25	67.95	577.21	1620.64	1534.26	3981.30
2019-20	194.40	58.77	663.54	1789.62	1738.47	4444.81

2020-21	241.80	69.58	831.60	2174.47	1737.75	5055.21
2021-22	344.98	69.43	690.80	2354.75	2439.17	5899.12
2022-23	347.88	69.76	874.19	2476.17	2880.48	6648.48
2023-24	526.01	87.55	946.84	3377.28	2777.61	7715.29

Notes:

ORG	organs of state
FS	Fiscal services
INT	interest payment and servicing of debt
AS	Administrative services
PENS	pensions and misc. general services

Source: State Finance Accounts various years

Table 3.12 shows the structure of GS in RE. Administrative services closely followed by pensions constitute the major shares of GS. The share of pensions surpassed that of administrative services in 2021-22 and 2022-23. The shares of ORGS, AS and PENS have increased while those of FS and INT have decreased.

Table 3.12: Structure of GS in RE

	ORGS	FS	INT	AS	PENS
2012-13	2.82	1.75	20.20	41.88	33.35
2013-14	3.80	1.82	19.47	43.27	31.64
2014-15	3.41	1.79	18.47	42.35	33.99
2015-16	3.68	1.70	18.79	41.60	34.24
2016-17	4.52	1.50	19.12	40.55	34.31
2017-18	4.63	1.78	17.30	40.18	36.12
2018-19	4.55	1.71	14.50	40.71	38.54
2019-20	4.37	1.32	14.93	40.26	39.11
2020-21	4.78	1.38	16.45	43.01	34.38
2021-22	5.85	1.18	11.71	39.92	41.35
2022-23	5.23	1.05	13.15	37.24	43.33
2023-24	6.82	1.13	12.27	43.77	36.00

Source: State Finance Accounts various years

Table 3.13 shows the trend growth rates of these components. All components had statistically significant upward trends

Table 3.13: growth rate of the components of GS

	TREND COEFFICIENT	T-VALUE	P VALUE	GROWTH RATE
ORGS	0.170881	18.59611	0	17.09
FS	0.060055	9.080414	0	6
INT	0.061295	8.72866	0	6.13
AS	0.105589	19.73147	0	10.56
PENS	0.12881	22.20363	0	12.88

Organs of state registered the highest growth rate followed by pensions and administrative services. FS registered the least growth rate.

Table 3.14 shows the components of SS in revenue expenditure.

Table 3.14 : Components of SS in Revenue expenditure in Rs crore

	EDN	HFW	WSS	INFBR	WSC	LW	SWN	SS
2012-13	794.71	262.28	124.61	4.95	199.75	12.46	129.43	1528.19
2013-14	879.07	296.26	102.54	4.48	132.22	14.01	175.05	1603.64
2014-15	1111.22	417.65	115.93	5.16	157.60	13.37	203.82	2024.76
2015-16	1062.52	442.92	111.28	5.10	108.35	15.50	227.89	1973.57
2016-17	1158.78	425.22	108.72	5.43	80.24	15.04	263.33	2056.76
2017-18	1304.36	560.95	162.86	19.59	166.87	20.59	334.18	2569.39
2018-19	1397.51	594.45	134.81	9.81	169.60	20.07	334.64	2660.89
2019-20	1481.60	621.61	259.10	9.40	142.00	34.11	369.00	2916.81
2020-21	1578.19	825.68	296.17	12.15	168.03	63.17	384.32	3327.71
2021-22	1752.00	996.20	167.46	13.29	129.39	36.93	460.68	3555.95
2022-23	2151.04	1105.86	324.60	15.34	132.26	26.77	651.62	4407.49
2023-24	3364.45	1264.85	514.80	22.61	228.72	66.90	1064.56	6526.89

Notes:

EDN	Education, sports, Art and Culture
HFW	Health and family welfare
WSS	water supply, sanitation , Housing and Urban development
INFBR	Information and broadcasting
WSC	Welfare of SC/ST/OBC
LW	Labour and labour welfare
SWN	Social welfare and nutrition

Source: State Finance Accounts various years

Table 3.15 shows the share of various components of SS in Revenue expenditure. EDN has been the most important expenditure head followed by HFW and SWN.

Table 3.15: Structure of SS in RE

	EDN	HFW	WSS	INFBR	WSC	LW	SWN
2012-13	52.00	17.16	8.15	0.32	13.07	0.82	8.47
2013-14	54.82	18.47	6.39	0.28	8.24	0.87	10.92
2014-15	54.88	20.63	5.73	0.25	7.78	0.66	10.07
2015-16	53.84	22.44	5.64	0.26	5.49	0.79	11.55
2016-17	56.34	20.67	5.29	0.26	3.90	0.73	12.80
2017-18	50.77	21.83	6.34	0.76	6.49	0.80	13.01
2018-19	52.52	22.34	5.07	0.37	6.37	0.75	12.58
2019-20	50.80	21.31	8.88	0.32	4.87	1.17	12.65
2020-21	47.43	24.81	8.90	0.37	5.05	1.90	11.55
2021-22	49.27	28.01	4.71	0.37	3.64	1.04	12.96
2022-23	48.80	25.09	7.36	0.35	3.00	0.61	14.78
2023-24	51.55	19.38	7.89	0.35	3.50	1.03	16.31

Source: State Finance Accounts, various years

Table 3.16 shows the trend growth rates of the components. Except for WSC all components had statistically significant upward trends

Table 3.16: Growth rate of the components of SS

	TREND COEFFICIENT	T VALUE	P VALUE	GROWTH RATE
EDN	0.104541	9.732799	0	10.45
HFW	0.138311	19.67121	0	13.8
WSS	0.125384	5.281596	0.0004	12.53
INFBR	0.138791	5.348111	0.0003	13.88
WSC	0.014106	0.589317*	0.5687	
LW	0.142924	5.658558	0.0002	14.29
SWN	0.155045	11.9658	0	15.5

Note : * statistically insignificant

Table 3.17 shows the dynamics of 10 components of Economic services in revenue expenditure.

Table 3.17: Components of ES in Revenue expenditure in Rs crore

	AGR	RD	SAP	IFC	POW	IND	TRSP	STE	TOU R	PRI	ES
2012-13	371.6	139.21	59.6	77.7	319.6	88.95	137.4	22.1	5.49	193.2	1415.1
	4		7	4	6		6	1		2	3
2013-14	347.4	155.50	73.0	79.2	324.6	94.28	124.0	43.5	6.16	335.5	1583.4
	3		8	4	3		7	6		0	3
2014-15	469.7	539.93	45.6	95.1	452.9	78.16	131.7	76.8	8.76	475.7	2374.6
	0		7	6	3		9	5		3	7
2015-16	374.1	697.14	36.8	75.2	624.8	84.96	99.02	38.5	11.70	348.0	2390.4
	8		1	4	0			8		5	9
2016-17	357.2	810.83	57.3	90.7	749.9	71.09	111.2	28.2	20.25	363.8	2660.8
	5		7	1	7		4	9		5	5
2017-18	471.2	987.55	67.2	89.7	565.6	80.31	98.79	44.0	16.64	534.0	2955.3
	8		6	5	4			1		9	2
2018-19	549.0	966.11	65.1	66.2	543.3	82.74	112.5	43.7	21.21	573.4	3023.5
	0		7	6	9		7	2		3	9
2019-20	478.6	1100.8	9.67	64.8	405.4	70.45	72.20	39.3	20.50	555.1	2817.1
	8	5		7	5			2		2	0
2020-21	613.9	1998.0	15.0	71.2	409.9	80.33	75.36	81.8	4.70	623.3	3973.9
	9	5	8	0	9			3		9	2
2021-22	497.7	1341.5	10.5	59.5	426.5	68.18	79.11	95.0	6.64	551.6	3136.6
	9	9	2	6	4			3		6	2
2022-23	491.6	1554.9	28.3	66.6	317.9	70.66	87.55	43.9	39.86	358.6	3060.1
	3	3	2	1	5			6		3	1
2023-24	913.6	1699.6	45.4	73.9	536.9	136.3	97.01	71.0	14.84	635.2	4224.1
	1	3	2	7	3	6		9		8	3

Notes :

AGR	Agriculture and Allied activities	STE	Science,technology and environment
RD	Rural development	TOU R	Tourism
SAP	Special areas programme	PRI	Compensation and assignment to local bodies and Panchayati raj Institutions.
IFC	Irrigation and flood control		
PoW	power		
IND	Industry and mineral		
TRSP	Transport		

Source: State Finance Accounts; various years

Table 3.18 shows the shares of these components of ES in Revenue expenditure. RD has emerged as the most important component with its share rising from 9.84% in 2012-13 to 40.24% in 2023-24. It had crossed 50% twice during this period.

Table 3.18: Structure of ES in RE

	AGR	RD	SAP	IFC	POW	IND	TRSP	STE	TOUR	PRI
2012-13	26.26	9.84	4.22	5.49	22.59	6.29	9.71	1.56	0.39	13.65
2013-14	21.94	9.82	4.61	5.00	20.50	5.95	7.84	2.75	0.39	21.19
2014-15	19.78	22.74	1.92	4.01	19.07	3.29	5.55	3.24	0.37	20.03
2015-16	15.65	29.16	1.54	3.15	26.14	3.55	4.14	1.61	0.49	14.56
2016-17	13.43	30.47	2.16	3.41	28.19	2.67	4.18	1.06	0.76	13.67
2017-18	15.95	33.42	2.28	3.04	19.14	2.72	3.34	1.49	0.56	18.07
2018-19	18.16	31.95	2.16	2.19	17.97	2.74	3.72	1.45	0.70	18.97
2019-20	16.99	39.08	0.34	2.30	14.39	2.50	2.56	1.40	0.73	19.71
2020-21	15.45	50.28	0.38	1.79	10.32	2.02	1.90	2.06	0.12	15.69
2021-22	15.87	42.77	0.34	1.90	13.60	2.17	2.52	3.03	0.21	17.59
2022-23	16.07	50.81	0.93	2.18	10.39	2.31	2.86	1.44	1.30	11.72
2023-24	21.63	40.24	1.08	1.75	12.71	3.23	2.30	1.68	0.35	15.04

Source: State Finance Accounts; various years

Table 3.19 presents the trend growth rates of the components of ES . Amongst the components PoW, IND and TOUR were found to have no significant trend. SAP, IFC and TRSP showed declining trend while AGR,RD,STE and PRI exhibited rising trend. RD registered the highest growth rate.

Table 3.19 : Trend growth rates of the components of ES

	TREND COEFFICIENT	T VALUE	P VALUE	GROWTH RATE
AGR	0.0592	4.0015	0.0025	5.92
RD	0.2125	6.0862	0.0001	21.25
SAP	-0.1106	-2.0595	0.0664	-11.06
IFC	-0.0244	-2.3747	0.0390	-2.44
POW	0.0039	0.1586*	0.8771	
IND	0.0030	0.1847*	0.8571	
TRSP	-0.0457	-3.7702	0.0037	-4.57
STE	0.0670	2.0776	0.0645	6.7
TOUR	0.0753	1.4140*	0.1877	
PRI	0.0664	2.9395	0.0148	6.64

Note : * insignificant

Efficiency of public expenditure

An assessment of the quality of each rupee spent by the government becomes relevant in the context of exponentially rising public expectations and relatively slow growth in traditional sources of public revenue. The improvement of the efficiency and effectiveness of public expenditure features high on the political agenda. The focus is not on how to cut public expenditure, but rather more on increasing the value of money of public expenditure. The conceptual challenges in measuring efficiency and effectiveness of public expenditure arise because public spending has multiple objectives and public sector outputs are often not sold in the market. The price data is not available and the output cannot be quantified. Most of the studies on public expenditure efficiency analysis use non parametric approach such as Data Envelopment Analysis (DEA) or the Free Disposable Hull (FDH). However more important than to identify relative differences in the efficiency of public expenditure, the more interesting challenge is how to address the inefficiencies.

Technical Efficiency measures the pure relation between inputs and outputs taking the production possibility in to account. Allocative efficiency reflects the link between the optimal combination of inputs considering costs and benefits and the outputs achieved. It occurs when resources are used in a way that the marginal benefit to society from consuming a good or service equals the marginal cost of producing it. This ensures that limited resources are directed toward their most valuable uses. X-efficiency, a major element of which is motivation, is also not discussed. Given the backdrop of corruption in health and education sectors the less said about motivation, the better it is. Some of the attributes of good governance are

1. Accountability both financial and political
2. Transparency
3. Easy access to information
4. Popular participation in decision making and implementations
5. Responsiveness
6. Efficient delivery system of services and goods
7. Enforcement of rule of law
8. Citizen satisfaction
9. An overall caring and humane ambience promoting an egalitarian and equitable social and economic order.

According to Public Affairs Index 2022, a sub national index of governance Manipur's rank among 10 small states was 8th. The state maintained the same

rank in social justice, political justice, and economic justice. However, it topped in Delta ranking which means that it has stellar rate of positive change along key governance parameters. Low ranking in governance will nurture X-inefficiency by demotivating the workforce. Allocative efficiency has not been examined. DEA is used to examine the efficiency of public expenditure in Manipur during 2015-16 to 2020-21. DEA allows the calculation of technical efficiency measures that can be either input or output oriented. The input efficiency of a given DMU (decision making unit – state in the current context) indicates how much input quantities can be reduced without varying the output (input oriented). The output efficiency score of a DMU tells us how much output be proportionately increased without changing the input quantities used (output oriented). Its range is 0 to 1. All the DMUs placed on the efficient frontier are assigned the maximum score of 1. The exercise has been done with respect to education and health only.

Table 3.20: Variables used in DEA

	Output	Input
Education	GER of elementary (class I to VIII)	Educational expenditure as a percentage of GSDP
	GER of secondary (IX-X)	Non educational expenditure as a percentage of GSDP
	GER of Higher secondary (XI-XII)	
	GER of Higher education	
Health	Life expectancy at birth for both sexes	Public health expenditure as a percentage of GSDP
	Infant survival rate	Public non-health expenditure as a percentage of GSDP

Table 3.21: Technical Efficiency

	Efficiency score of DEA Manipur variable returns to scale (BCC)			
	Education		Health	
	Input oriented	Output Oriented	Input oriented	Output Oriented
2017-18	0.334	1	0.334	0.955
2018-19	0.32	0.949	0.32	0.955
2019-20	0.385	0.96	0.358	0.958
2020-21	0.684	0.982	0.955	0.956
2021-22	0.485	0.95	0.29	0.956
Average	0.4416	0.9682	0.4514	0.956

Source: Aguraj,S. (2025): Assessing Public Expenditure Efficiency in the North Eastern Region of India . Unpublished Ph.D. Thesis, Manipur University.

Banker,Charnes and Cooper(BCC)

The average input efficiency score of 0.4416 means that the state could have achieved the target by spending 44.16% of expenditure in education. The balance of 55.84% was wasted or used inefficiently. The average output efficiency score of Manipur in education is 0.9682, which implies that only 96.82 per cent of outputs are produced with the existing resources (3.18 per cent output can be enhanced). In the case of health, the current output could have been produced with 45.14% of current expenditure. Only 95.6% of health output are produced with the existing resources (4.4% output can be enhanced).

The source of productivity change is further examined using the Malmquist index in table 3.22.

Table 3.22: Malmquist Index, Manipur ,2016-17 to 2021-22

Malmquist Index	Manipur		2016-17 to 2021-22		
	Effch	techch	pech	scch	tfpch
Education	0.947	1.031	0.991	0.955	0.977
Health	0.981	0.975	1	0.981	0.9

source : Aguraj,S.(2025) Assessing Public Expenditure Efficiency in the North Eastern Region of India . Unpublished Ph.D. Thesis, Manipur University.

Effch-Efficiency change techch-technological change pech-pure efficiency change

Scch-scale efficiency change tfpch-total factor productivity change

Malmquist productivity index enables us to decompose the change in total factor productivity into four components- efficiency change, technological change, pure efficiency change and scale change. In education efficiency has declined by 5.3%. there is a 4.5% decline in scale efficiency with the state moving away from its optimal size of operation. Technology has progressed by 3.1%. overall total factor productivity declined by 2.3%. in the case of health, the declines in efficiency, technology and scale were 1.9%,2.5% and 1.9% respectively leading to a decline of 10% with respect to total factor productivity.

Conclusion:

Public expenditure has increased significantly in the last few decades. However, the responsibility of the state has grown even faster. The backwardness of the economy makes self-financing growth a dream. There is so much of hand holding to be done and our dependence on transfers from the centre has remained as high as before. Efficiency analysis shows that on the one hand the state finds itself perennially short of fund, on the other hand the expenditures have been highly inefficient. Our exercise with respect to education and health, two important heads under social sector showed that in both more than 50% of the expenditure have been used inefficiently. The current output could have been attained by cutting expenditure by 50% and diverting the savings to other deserving sectors. On the issue of X-efficiency, the quality of governance has consistently failed to motivate workers. Good governance can enhance X-efficiency. Therefore, the focus should be on identifying the constraints on efficient use of resources.

Chapter 4: Analysis of Deficits

Introduction

Though we talk of the state gradually withdrawing from the activities which the market can manage, the role of the government remains due to failure of the market and emerging new areas of state intervention. Fiscal deficit is looked upon as the best available summary indicator of the macroeconomic impact of a budget. Government's borrowing tends to crowd out private investment and introduce a distortion in the allocation of resources. If govt. borrowing is used for meeting shortages in the revenue account of a budget, increased govt. borrowing will mean displacement of capital formation in the economy leading to lower rate of growth of the economy. Net borrowing by the government adds to public debt. A fast growth of debt/GSDP ratio would have adverse effects on the economy. Increasing government borrowing tends to lead to a rise in the rate of interest which in turn affects the growth rate. The issue of higher interest payment after higher public debt need not mean that public debt is harmful. It is the slow growth in tax revenues and the low rate of recovery in the form of interest receipts and dividends accruing to the government that are responsible for the interest payment burden on the government, not debt as such.

There are several measures of deficit namely

- i. Deficit on revenue account
- ii. Deficit on capital account
- iii. Budgetary deficit
- iv. Fiscal deficit
- v. Net fiscal deficit
- vi. Primary deficit
- vii. Net primary deficit

Revenue deficit = expenditure on revenue account - revenue receipts

Deficit on capital account = expenditure on capital – capital receipts

Budgetary deficit = Total expenditure – Total receipts

Fiscal deficit = Total expenditure – [revenue receipts + recoveries + sale of public assets]. It is also known as Gross fiscal deficit. It measures the portion of government expenditure which is financed by borrowing and drawing down of cash balance. It measures an addition to the liabilities of the government whether backed by acquisition of some assets or not. The additional liabilities

are backed by acquisition of assets if the item ‘drawing down of cash balances’ is zero.

Net fiscal deficit = Fiscal deficit – loans and advances in capital expenditure account

Primary deficit = Fiscal deficit – net interest payment in expenditure on revenue account. Payment and receipt of interest is a consequence of past actions of the government when loans were taken and given prior to the year under consideration. Exclusion of such interest transactions indicates the way the government is currently conducting its financial transactions.

Net primary deficit = primary deficit - loans and advances in capital expenditure account

Fiscal deficit reflects planning big, going beyond the means. It is necessary when the development process is initiated. The stage beyond which the effects of fiscal deficit overshadow its benefits is known as the tolerable limit of deficit. It is related to economic conditions of the country/state. It also depends on how it is financed. Another reason for concern with deficit is the belief that inflation is largely caused by deficit financing.

Trends of deficits

Table 4.1 Measures of Deficits

	GFD	PD	RD	GSDP	GFD/GSDP IN %	RD/GSDP IN %	PD/GSDP IN %
2012-13	1.04	-431.97	-1503.23	13747.79	0.01	-10.93	-3.14
2013-14	-273.26	-718.18	-1563.96	16198.43	-1.69	-9.66	-4.43
2014-15	600.83	127.64	-730.98	18042.76	3.33	-4.05	0.71
2015-16	340.92	-175.31	-897.53	19889.88	1.71	-4.51	-0.88
2016-17	548.31	4.56	-944.36	21153.69	2.59	-4.46	0.02
2017-18	339.99	-223.11	-1083.83	25789.00	1.32	-4.20	-0.87
2018-19	917.20	339.99	-812.98	27870.00	3.29	-2.92	1.22
2019-20	708.91	45.45	-445.54	31790.00	2.23	-1.40	0.14
2020-21	1891.90	1060.30	-554.18	37690.00	5.02	-1.47	2.81
2021-22	1803.18	1112.38	-1448.85	37760.00	4.78	-3.84	2.95
2022-23	1756.56	882.37	-1734.17	42300.00	4.15	-4.10	2.09
2023-24	2234.84	1288.00	-5060.53	45100.00	4.96	-11.22	2.86

Notes: Deficit figures in Rs.crore, Minus sign indicates surplus in deficit indicator, GFD-Gross fiscal deficit RD Revenue deficit PD primary deficit GSDP Gross state domestic product

Source: CAG reports and Annual Financial statements

Fig.4.1: Comparative picture of Deficits

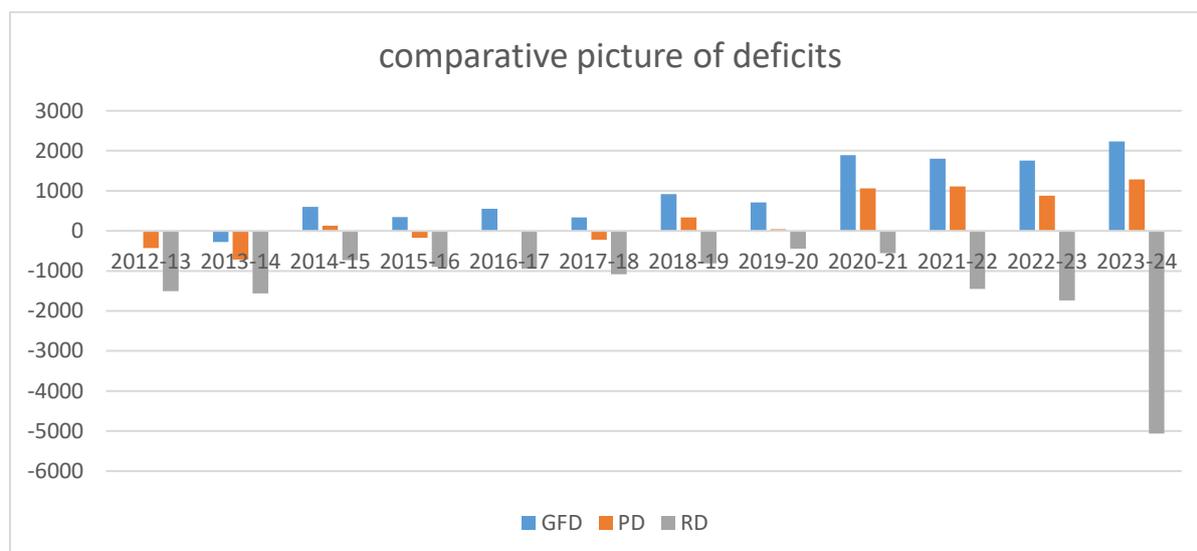


Table 4.1 and fig.4.1 show a comparative picture of gross fiscal deficit, revenue deficit and primary deficit of Manipur during 2012-13 to 2023-24. The state had surplus in the revenue account, not due to own resource mobilization but due to transfer from the center in the form of share of central taxes and Grants-in-aid. As much as 90% of revenue receipts of the state come from the center in the form of share of central taxes and Grants-in-aid. GFD was in surplus in 2013-14 only. It grew gradually and at the later part of the period under study it exceeded the ceiling provided by the implementation of FRBM Act. The growth of primary deficit suggests that activities of the incumbent government are responsible for larger deficit. A gradually falling PD would have meant that past activities are drivers of GFD.

Table 4.2 shows the dynamics of components of fiscal deficit. Net loans and advances constitute a small proportion of fiscal deficit. The persistent excess of expenditure in capital account is partially reduced by the revenue surplus. The increase in net capital expenditure indicated that borrowed funds were being utilized for productive uses. this is part of prudential management of government funds where funds are increasingly used for productive purposes the problem with debt arises when it is used for unproductive purpose creating challenges for repayment and servicing of debt. Up to 2013-14, revenue surplus was enough to finance the deficit in capital account. However, post 2014-15 revenue surplus was no longer adequate. The growing difference is shown by fig.4.2. In the initial years the entire capital deficit could be financed by revenue surplus. The adequacy gradually declined and by 2021-22 the revenue surplus was sufficient for about 55% of capital deficit. It means the state must increasingly depend on

additional borrowings with growing burden of debt servicing. The issue of sustainability of debt will be discussed in another chapter.

Table 4.2: Components of fiscal deficit

DECOMPOSITION OF FISCAL DEFICIT (-)/SURPLUS (+) IN RS. CRORE

YEAR	Revenue surplus	Net capital expenditure	Net Loans and Advances	Fiscal deficit
2012-13	1503.23	-1501.6	-2.71	-1.04
2013-14	1563.96	-1291.9	1.19	273.26
2014-15	730.98	-1332.4	0.63	-600.83
2015-16	897.53	-1237.9	-0.58	-340.92
2016-17	944.36	-1493.6	0.9	-548.31
2017-18	1083.83	-1428.31	4.62	-339.86
2018-19	812.98	-1730.64	0.46	-917.2
2019-20	445.53	-1155.24	0.8	-708.91
2020-21	554.18	-2439.18	-6.9	-1891.9
2021-22	1448.85	-3252.79	0.76	-1803.18

Source: CAG reports

Fig.4.2: Revenue surplus vs capital deficit

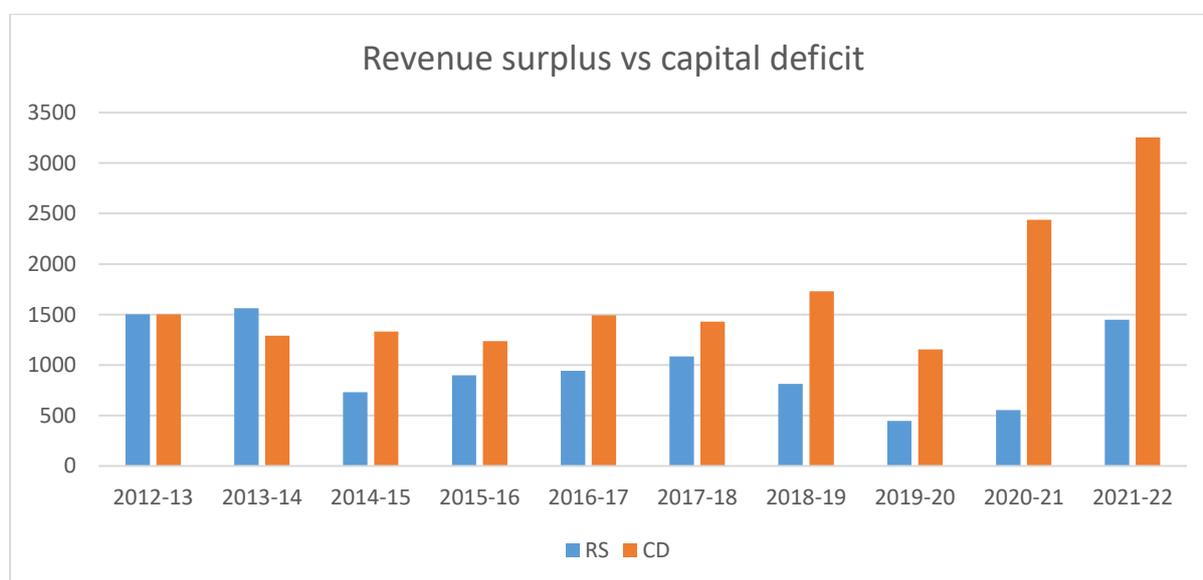


Table 4.3 shows the way the fiscal deficit is being financed in Manipur during 2012-13 to 2021-22.

Table 4.3: Financing pattern of Fiscal deficit

	2012 -13	2013 -14	2014 -15	2015 -16	2016 -17	2017 -18	2018 -19	2019- 20	2020- 21	2021- 22
MARKET LOAN	182.01	288.17	339.23	311.29	478.17	277.77	666.69	1255.43	1154.03	1218.82
LOANS FROM GOI	-	-	-	-	-	-	-	-36.13	319.4	213.5
	44.01	47.08	44.17	44.13	28.08	35.13	44.06		4	8
SPECIAL SECURITIES ISSUED TO NSSF	-	-21.5	-	18.5	-	-	-	-54.15	-54.15	-54.16
	16.19		26.03	1	53.11	53.11	53.51			
LOANS FROM FI	38.66	0.94	-	9.29	91.6	47.3	125.	-4.95	112.5	111.1
			52.87		2	3	99		3	8
WMA	7.97	-		184.	-	383.	132.	-	214.2	260.6
		97.92		75	82.33	52	22	618.16	4	7
SMALL SAVINGS,PF	138.01	103.11	86.3	60.74	49.54	-3.48	-	-15.13	29.54	4.27
							15.29			
DEPOSITS & ADVANCES	-	-	-	116.	98.8	-	-	24.73	-59.2	61.81
	36.74	14.43	70.88	85	2	24.32	54.28			
SUSPENSE & MISC	1.77	1.91	-	-	-	-	-	0.16	11.08	-13.19
			15.56	19.13	21.61	21.65	20.15			
REMITTANCES	-2.09	-	-	-	-	-	-	1.88	-16.31	-41.52
		15.71	21.81	144.54	102.13	60.54	46.94			
RESERVE FUND	48.08	48.46	64.55	110.71	127.7	165.53	139.96	391.91	59.74	354.18
OVERALL DEFICIT	317.47	245.95	258.76	604.34	558.59	675.92	830.63	945.59	1770.94	2115.64
INCREASE(+)/DECREASE(-) IN CASH BALANCE	-	-	342.07	-	-	-	86.5	-	120.9	-
	316.43	519.21		263.42	10.39	336.06	6	236.68	6	312.45
GROSS FISCAL DEFICIT	1.04	-	600.83	340.92	548.2	339.86	917.19	708.91	1891.9	1803.19
		273.26								

Source: Handbook of states, RBI

GFD is largely financed by market borrowing and about 58% of overall deficit is financed by market borrowing. The sum of overall deficit and change in money balance gives Gross fiscal deficit. The change in the structure of deficit financing is the emergence of loans from GOI and WMA as vital component of deficit financing. In 2012-13 small savings, PF was important.

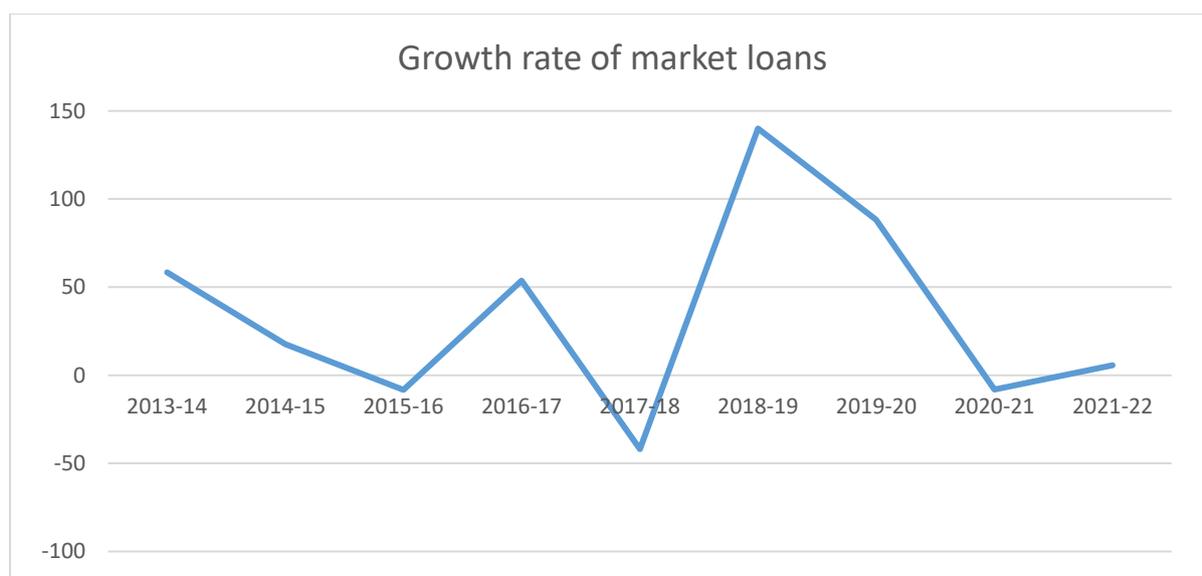
The State has four Reserve Funds *viz.*, State Disaster Response Fund, Consolidated Sinking Fund, Depreciation Reserve Funds of Government Commercial Departments/Undertakings and Guarantee Redemption Fund. Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund of the State.

Suspense heads are operated in Government accounts to reflect transactions that cannot be booked initially to their final Head of Account due to lack of information such as non-furnishing of Schedule of Settlement by the Treasuries/PAOs, non-receipt of clearance memos from RBI, non-receipt of vouchers *etc.* These are finally cleared by minus debit or minus credit when the amount is taken to its final Head of Account. If the amounts under suspense heads remain unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and payments. Remittances embrace all transactions which are adjusting Heads of Account and the debits or credits under these heads are eventually cleared by corresponding credit or debit within the same or in another circle of accounting.

The Reserve Bank of India (RBI) provides financial accommodation to the States banking with it through agreement to tide over temporary mismatches in the cash flow of their receipts and payments as Ways and Means Advances. They are intended to provide a cushion to the States to carry on their essential activities and normal financial operations. Ways and Means Advances (WMA) are repayable in each case not later than three months from the date of the making of the advance in terms of Section 17 (5) of the RBI Act. The Reserve Bank has been extending such advances to State Governments since 1937 under this provision. The maximum amount of WMA by the Reserve Bank and the interest charged thereon are regulated by agreements with the State Governments as also based on the recommendations of various Committees/ Groups constituted for this purpose. In addition to Normal WMA, Special Drawing Facility (SDF) (nomenclature changed from Special WMA) has also been in operation since April 1953. When the advances to the State Governments exceed their SDF and WMA limits, Overdraft (OD) facility is being provided.

The operative limit for Ordinary WMAs is based on three years average of Revenue Receipts and the operative limit for Special WMAs/ Special Drawing Facility is fixed by the RBI from time to time, depending on the holding of Government securities. The WMA scheme is periodically reviewed, keeping in view the States' requirements, the evolving financial and institutional developments, as well as the objectives of monetary and fiscal management.

Fig. 4.3: Growth rate of market loans of Manipur



During 2013-14 to 2021-22 market loans grew at annual average of 33.93%. In 2018-19 it registered a rise of 140.01%. Higher dependence on market loans means higher debt servicing burden in the future.

Table 4.4: Financing the GFD, 2021-22

	<i>Receipts</i>	<i>Disbursements</i>	<i>Net</i>
<i>Market loan</i>	1476.96	258.14	1218.82
<i>Loans from GOI</i>	253.86	40.28	213.58
<i>Special securities issued to NSSSF</i>	0	54.16	-54.16
<i>Loans from FI</i>	180.09	68.91	111.18
<i>Ways and Means Advances (net)</i>	10741.47	10480.8	260.67
<i>Small savings, PF</i>	327.59	323.32	4.27
<i>Deposits & advances</i>	485.71	423.9	61.81
<i>Suspense & Misc</i>	158.29	171.48	-13.19

<i>Remittances</i>	1681.94	1723.46	-41.52
<i>Reserve fund</i>	407.85	53.67	354.18
<i>Overall deficit</i>	15713.76	13598.12	2115.64
<i>Increase(+)/Decrease(-) in cash balance</i>	760.74	1073.19	-312.45
<i>Gross Fiscal deficit</i>	16474.5	14671.31	1803.19

Notes: all in Rs crore

Source: State Finance Accounts (various years)

Table 4.4 shows how the GFD is financed in a typical year by showing both receipts and expenditures. The third column of this table is the last column of table 4.3. WMA also is highly significant. What is important is the net figure. The deficit in 2021-22 was financed by market borrowing (Rs 1218.82 crore), reserve fund (Rs 354.18 crore), WMAs (Rs 260.67 crore), loans and advances from GOI (Rs 213.58) etc. Suspense heads are operated in Government accounts to reflect transactions that cannot be booked initially to their final Head of Account due to lack of information such as non-furnishing of Schedule of Settlement by the Treasuries/PAOs, non-receipt of clearance memos from RBI, non-receipt of vouchers etc. These are finally cleared by minus debit or minus credit when the amount is taken to its final Head of Account. If the amounts under suspense heads remain unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and payments.

Conclusion

GFD has been growing gradually and it is higher than the levels permitted by FRBM Act. GFD is largely financed by market borrowing. WMA has emerged as an important source of finance.

Chapter 5: Public Debt

Introduction:

Being indebted has many implications. Being indebted at the individual and government level has many implications. Debt of a government is the aggregate of borrowings made to finance fiscal deficits over the years, higher revenue and fiscal deficits lead to larger additions in the stock of debt. At the government level it is becoming increasingly challenging to mobilise adequate resources for financing ever expanding matrix of government activities – both traditional and non-traditional. Borrowing is an easy option for the incumbent government and as a result government debt has been growing fast. Servicing of the debt through payment of interest and repayment can also become a drag on state finance. Borrowing thus is necessary evil we should ensure that it is done in the most efficient or cost effective manner without distorting the state finance system. In other words, debt should be sustainable.

The public debt of states comprises of

- i. internal debt [(including market borrowings, loans from banks and Financial institutions, special securities issued to the National Small Savings Fund (NSSF)],
- ii. loans from the centre, and
- iii. Small savings and provident funds, etc

Ways and means advances and reserve funds and deposits are known as short term components of debt.

The rising debt of states reflects the deterioration in the fiscal performance of states and signifies a long- term mismatch between the growth of revenues and Expenditures of the states. It is the consequence of persistent increases in non-plan revenue expenditure, such as interest payments, subsidies, salaries, and pensions, together with sluggish growth in tax-GDP ratios, inadequate returns from public investments and insufficient growth in central transfers. Interest payment liabilities of the Government depend on three factors — level of interest-bearing outstanding liabilities, effective interest rate on these liabilities and weighted interest rate on incremental borrowings. Large revenue deficits have led to large fiscal deficits and spiralling debt, resulting in the emergence of a vicious cycle of deficit, debt and debt service payments.

Finance commissions after finance commissions have examined the nature of public debt, its causes and remedial policy measures. The Ninth Finance

Commission was of the view that the solution to the problem of public debt lay in borrowed funds (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure to either earn returns or increase the productivity of the economy resulting in increased governmental revenues. The Tenth Finance Commission had, similarly, commented that the disturbing features of the debt profile of states were the diversion of borrowed funds for meeting revenue expenditure, use of loans in unproductive or non-performing enterprises and non-provision of depreciation or amortization of funds in respect of government owned assets. This led to repayments being made from fresh borrowings. The EFC observed that the determination of stable and sustainable levels of debt would depend critically upon the rate of growth of (nominal) GDP/GSDP, the effective interest rate on borrowing by the concerned governments (centre/states), the rate of growth of revenue receipts and the proportion of primary expenditure (expenditure other than interest payments) relative to GDP/GSDP that may be considered desirable. Given other things, a state which had a higher growth rate relative to interest rate, would be able to sustain debt at a higher level relative to GSDP. The EFC also identified the steps desirable for reducing the debt burden of states as the following :- (i) incremental revenue receipts should meet the incremental interest burden and the incremental primary expenditure, (ii) A surplus should be generated on revenue account to go into a sinking fund to meet future repayment/obligation, and (iii) State should have and maintain balance in its Revenue account.

The XII FC had commented on the need to consider the cost of debt, the use and the productivity of borrowed funds and the arrangements for amortization of debt while resorting to borrowings.

The XV FC suggested that the centre should bring down fiscal deficit to 4% of GDP by 2025-26. For states, it recommended the fiscal deficit limit of: (i) 4% of GSDP in 2021-22, (ii) 3.5% in 2022-23, and (iii) 3% during 2023-26. If a state is unable to fully utilise the sanctioned borrowing limit as specified above during the first four years (2021-25), it can avail the unutilised borrowing amount (calculated in rupees) in subsequent years (within the 2021-26 period).

Extra annual borrowing worth 0.5% of GSDP will be allowed to states during first four years (2021-25) upon undertaking power sector reforms including: (i) reduction in operational losses, (ii) reduction in revenue gap, (iii) reduction in payment of cash subsidy by adopting direct benefit transfer, and (iv) reduction in tariff subsidy as a percentage of revenue.

The Commission observed that the recommended path for fiscal deficit for the centre and states will result in a reduction of total liabilities of:

- (i) The centre from 62.9% of GDP in 2020-21 to 56.6% in 2025-26, and
- (ii) The states on aggregate from 33.1% of GDP in 2020-21 to 32.5% by 2025-26.
- (iii) It recommended forming a high-powered inter-governmental group to: (i) review the Fiscal Responsibility and Budget Management Act (FRBM), (ii) recommend a new FRBM framework for centre as well as states, and oversee its implementation.

In recent years, market borrowings have emerged as the cheapest source of funds for state governments, the states' access to market borrowings is, however, regulated by the central government keeping in view its own requirements and the liquidity in the market. The central loans to states form the largest component of the states' debt. These are often market loans raised by the centre at the prevailing interest rates but on lent to states at rates of interest quite different from the market rates. The practice of the central government providing loans to the states enables the centre to exercise control over the borrowings of states, as under article 293 of the Constitution, a state cannot raise any loan without the consent of government of India, if any part of a loan which has been made to a state by the central government or a guarantee is still outstanding.

In the context of sustainable levels of debt, the EFC had recommended that the proportion of interest payments to revenue receipts, including tax devolution and grants, should be reduced to about 18 per cent compared to the then average of 22 per cent. The Ministry of Finance, in its review of the Fiscal Reform Facility, has worked out sustainable levels of debt as a percentage of total revenue receipts. In its formulation, debt has been defined as inclusive of guarantees. It considers non special category states as 'highly stressed' in terms of debt and debt servicing, if this ratio exceeds 300 per cent. In the case of special category states, the threshold is 200 per cent.

Public debt of Manipur

Table 5.1 shows the outstanding liabilities or public debt of Manipur along with nominal GSDP. OL/GSDP ratio seeks to contextualise the growing public debt. Ratios above 35% are said to be on the high side.

Table 5.1: Outstanding liabilities of Manipur

	OL	GSDP	OL/GSDP
2013	6820	13743.24	49.62
2014	7089	16182.04	43.81
2015	7391	18129.05	40.77
2016	8147	19530.67	41.71
2017	8831	21293.89	41.47
2018	9565	25789.23	37.09
2019	10463	27388.07	38.20
2020	11406	29813.03	38.26
2021	13061	29776.09	43.86
2022	14399	35027.48	41.11
2023	15917	40242.94	39.55

Notes: OL-outstanding liabilities or public debt as at end March, GSDP-nominal gross state domestic production in a financial year. For GSDP, 2013 means 2012-13, all in Rs crore

Source: RBI state Handbook

Fig.5.2: outstanding liabilities vs GSDP

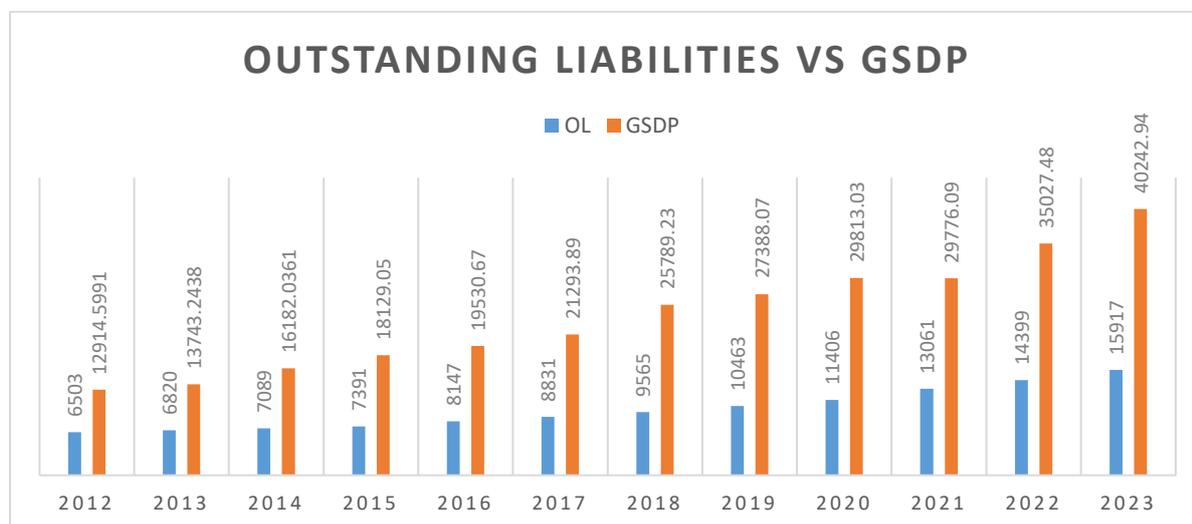


Table 5.2 shows the growth rates of OL,GSDP and OL/GSDP.

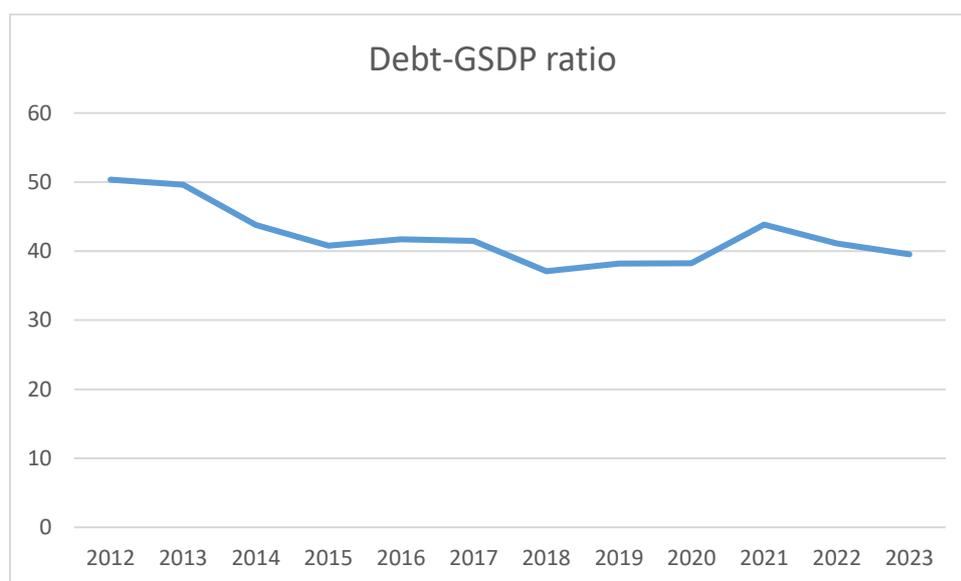
Table 5.2 : Growth rates of OL,GSDP and OL

	TREND COEFFICIENT	T	P VALUE	GROWTH RATE
OL	0.08748	25.15296	0	8
GSDP	0.100428	23.28132	0	10
OL/GSDP	-0.01295	-1.85927	0.0959	statistically insignificant

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

Table 5.2 shows that both OL and GSDP have statistically significant upward rising trend and GSDP grows faster than OL. Apparently, OL/GSDP seems to on the decline. However, OL/GSDP does not have a statistically significant trend coefficient. It is neither growing nor falling. Stagnancy on the high side is not encouraging.

Fig 5.2: Debt-GSDP ratio



Public debt has three broad components namely internal debt, loans and advances from the central government and public account liabilities. Table 5.3 shows the dynamics of these components during 2012-23. Public debt is dominated by internal debt and in the last two years public debt increased despite a contraction in LAC and PA. The share of internal debt rose from 51% in 2012 to 72% in 2023. The share of loans and advances from the centre declined from 9% to 3% during the same period. More attention should be given to internal debt management.

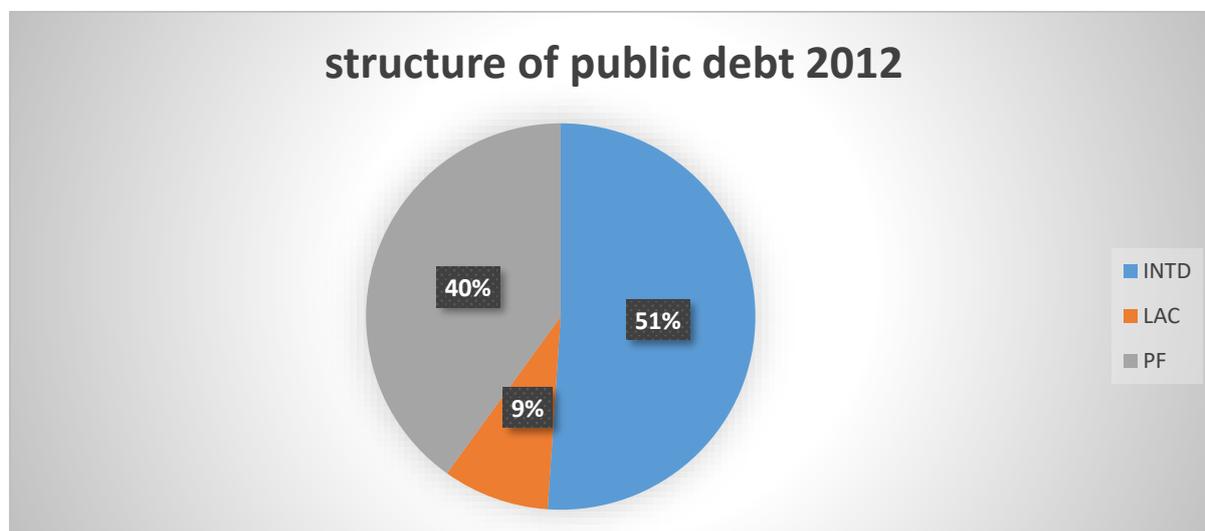
Table 5.3: Broad components of Public debt

	INTD	LAC	PA	OL
2012	3321	576	2606	6503
2013	3533	529	2758	6820
2014	3710	485	2894	7089
2015	3974	440	2977	7391
2016	4487	396	3264	8147
2017	4921	368	3542	8831
2018	5554	333	3678	9565
2019	6425	290	3748	10463
2020	7002	254	4150	11406
2021	8319	562	4180	13061
2022	9820	520	4059	14399
2023	11500	478	3939	15917

Notes: All in Rs crore; INTD=Internal debt, LAC =loans and advances from the centre

PA= public account funds etc, OL = outstanding liabilities

Fig 5.3: Structure of public debt in Manipur



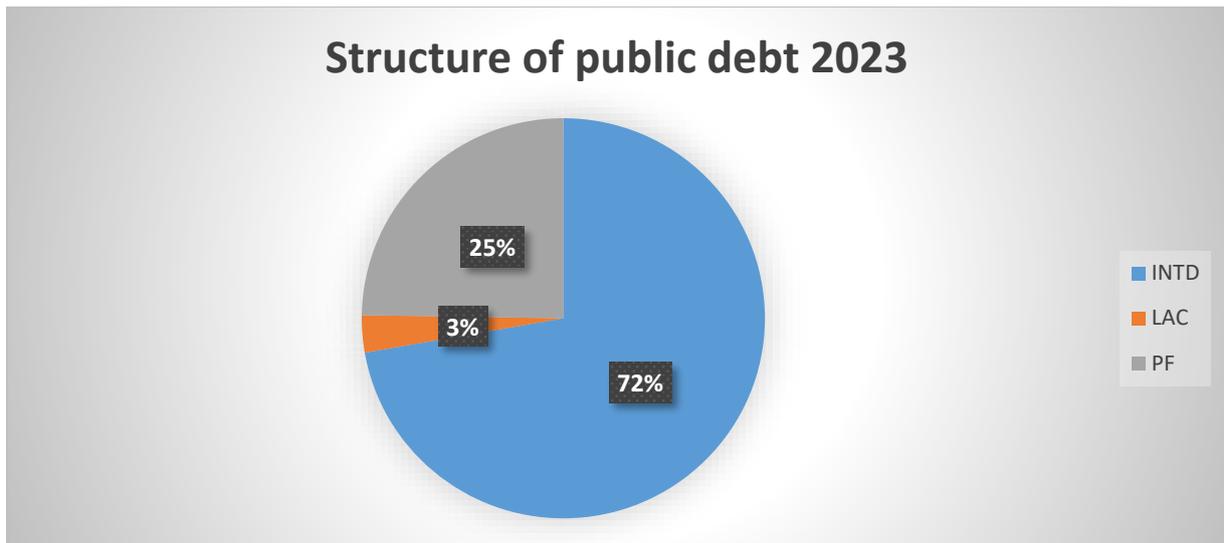


Fig 5.3 shows the importance of internal debt in Manipur and it is also rising faster than the other components. Its proportion is also rising at the cost of proportion of LAC and PF. Its share has increased from 51% in 2012 to 72% in 2023. The share of loans and advances from the centre declined from 40% to 25%

Fig 5.3: Broad components of public debt

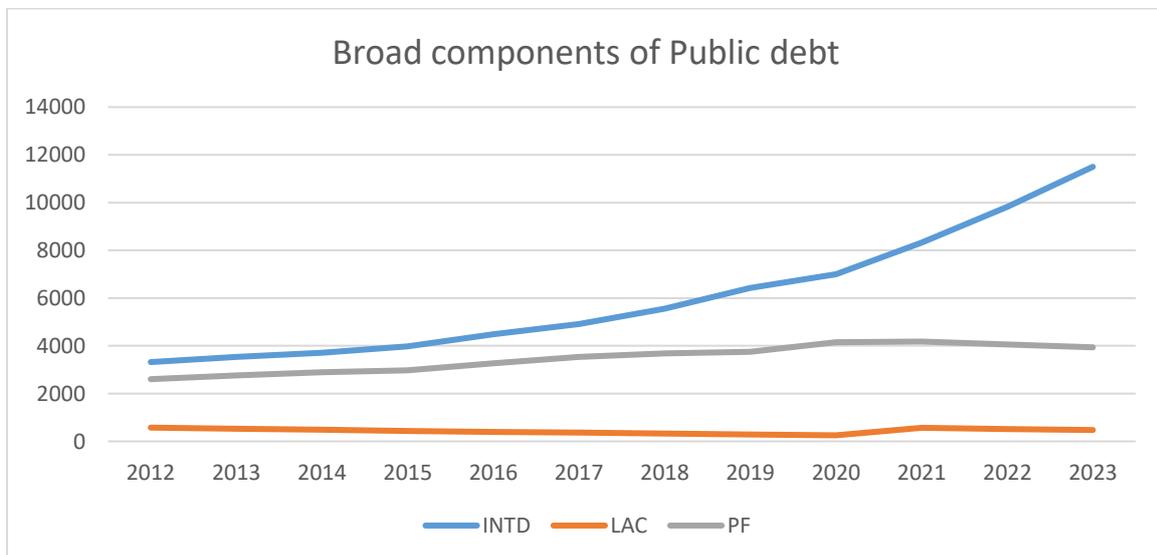


Table 5.4 shows the growth rates of the components of public debt.

Table 5.4: Growth rate of components of public debt

	Trend coefficient	t	p value	growth rate
INTD	0.113797	20.33203	0	11.38
PAC	-0.01733	-0.75946	0.4651	Insignificant
PF	0.044438	9.930386	0	9.9

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

The components of internal debt are as follows

- i. State development loans (SDLs)
- ii. Power bonds
- iii. Compensation and other bonds
- iv. National small savings fund (NSSF)
- v. Ways and means advances (WMA) from RBI
- vi. Loans from
 - a. LIC
 - b. GIC
 - c. NABARD
 - d. SBI and other banks
 - e. NCDC
 - f. Other institutions
 - g. Item 6 can be clubbed as loans from banks and FIs.

The loans given by the central government to states comprise:

- a) loans for state plan schemes as a part of normal central assistance, additional central assistance for state projects funded by external agencies and the loan component of the schematic portion of several state plan schemes (state plan loans), which are consolidated as one loan on October 1 every year, carrying the same rate of interest and other terms of conditions;
- b) small savings loans comprising of loans given prior to April 1, 1999, when the National Small Savings Fund was created;
- c) loans for centrally sponsored schemes/central plan schemes and other miscellaneous loans provided through central ministries; medium term loans given by the Ministry of Finance; and
- d) Ways and means advance loans by the Ministry of Finance.

The standard criterion for determining the sustainability of debt of states has been to arrive at the acceptable levels of debt-GSDP ratios and the ratio of interest payments to total revenue receipts.

The components of public account liabilities are as follows:

- a. Provident funds etc
- b. Reserve funds
- c. Deposits

Table 5.5: components of internal debt

	SDLs	PB	NSSF	WMA	LBFi	INTD
2012	2118	63	859	90	191	3321
2013	2315	47	843	98	230	3533
2014	2619	39	821	0	231	3710
2015	2974	16	806	0	178	3974
2016	3301		814	185	187	4487
2017	3779		761	102	279	4921
2018	4057		685	486	326	5554
2019	4724		631	618	452	6425
2020	5978		577		447	7002
2021	7022		523	214	560	8319
2022	8348		469	214	789	9820
2023	9873		415	214	998	11500

Notes: all in Rs crore.

SDLs	State development loans
PB	Power bonds
NSSF	National small saving fund
WMA	Ways and Means advances from RBI
LBFi	Loans from banks and financial institutes
INTD	Internal debt

Source: RBI State Finances

Table 5.6 shows the share of major components of internal debt. the shares of SDLs have increased from 63.78% in 2012 to 85.85% in 2023. the share of LBFi has also increased while the shares of WMA and NSSF have declined.

Table 5.6: share of major components of internal debt

	SDLS	NSSF	WMA	LBFI
2012	63.78	25.87	2.71	5.75
2013	65.53	23.86	2.77	6.51
2014	70.59	22.13	0.00	6.23
2015	74.84	20.28	0.00	4.48
2016	73.57	18.14	4.12	4.17
2017	76.79	15.46	2.07	5.67
2018	73.05	12.33	8.75	5.87
2019	73.53	9.82	9.62	7.04
2020	85.38	8.24	0.00	6.38
2021	84.41	6.29	2.57	6.73
2022	85.01	4.78	2.18	8.03
2023	85.85	3.61	1.86	8.68

Source: RBI State Finances

Table 5.7 shows the growth rates of SDLs, NSSF and LBFI. All have statistically significant growth rates. While SDLs and LBFI had positive growth rates, NSSF contracted and showed a falling trend.

Table 5.7 : Trend coefficient of selected components of Internal debt

	TREND COEFFICIENT	T	P VALUE	GROWTH RATE
SDLS	0.13992	26.02478	0	13.99
NSSF	-0.06635	-10.3844	0	-6.6
LBFI	0.149959	7.959329	0	14.9

The deteriorating debt situation of states is reflected both in terms of the debt-GSDP ratio and the ratio of interest payments to revenue receipts. The position seems particularly grim for the states with high debt-GSDP ratios (i.e. over 35 per cent) coupled with high ratios of interest payments to revenue receipts (over 22 percent). In the case of Manipur debt-GSDP ratio was on the high side but the interest payment to revenue receipts ratio cannot be described as high. The XI FC had suggested to stabilise it around 18%.

Table 5.8: Debt situation of Manipur

	OL/RR	OL/GSDP	INT/RR
2012-13	95.35	50.35	6.35
2013-14	93.63	49.62	6.11
2014-15	88.62	43.81	5.91
2015-16	89.27	40.77	6.23
2016-17	89.23	41.71	5.96
2017-18	85.26	41.47	5.44
2018-19	90.57	37.09	5.47
2019-20	97.55	38.20	6.19
2020-21	87.86	38.26	6.41
2021-22	92.70	43.86	4.90
2022-23	90.61	41.11	5.50
2023-24	67.37	39.55	4.01

Source: RBI State Finances

Sustainability of Debt:

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

Fiscal and debt sustainability are inter-related; the latter has assumed significance with the adoption of debt rules as part of a fiscal rules framework. Apart from examining debt sustainability in a static framework, empirical studies have also analysed this issue taking into account the uncertainties about medium-term projections of economic growth, primary balance, cost of public sector borrowings and existence of implicit guarantees, and fiscal reaction functions incorporating dynamic properties of fiscal policymaking. In the Indian context, the debt situation of state governments has transited from a phase of unsustainable debt levels and increasing interest burden to a phase of fiscal consolidation and

moderation in debt levels. The last few FCs were highly concerned with the problem of debt. 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↓↓
6. The sustainability of Manipur’s debt would be examined using the pattern anticipated of these indicators:

Table 5.9: Indicators of debt sustainability

	INT/RR	INT/RE	INT/GSDP
2012-13	6.35	8.14	3.15
2013-14	6.11	7.78	2.75
2014-15	5.91	6.51	2.61
2015-16	6.23	6.99	2.64
2016-17	5.96	6.65	2.55
2017-18	5.44	6.07	2.18
2018-19	5.47	5.92	2.11
2019-20	6.19	6.48	2.23
2020-21	6.41	6.69	2.79
2021-22	4.90	5.46	1.97
2022-23	5.50	6.17	2.17

Table 5.9 examines indicators of debt sustainability no. 3,4 and 5. All of them are declining suggesting the sustainability of debt in the state.

Fig. 5.4: Debt sustainability indicators

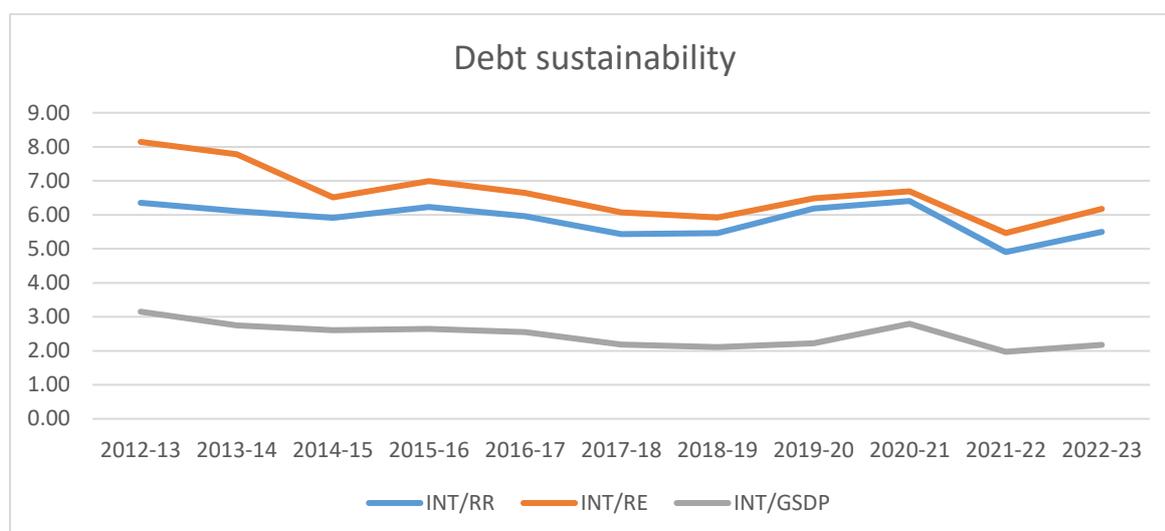


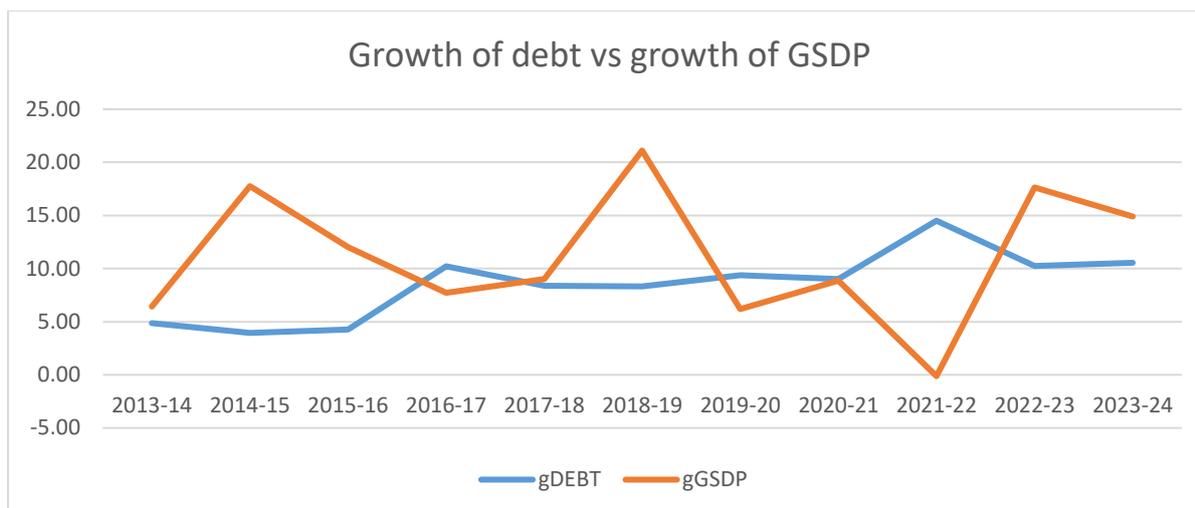
Table 5.10 examines indicator 1. The growth rate of debt exceeded the growth rate of nominal GSDP four times. In the remaining years the growth rate of GSDP exceeded the growth rate of debt. The average growth rate of GSDP was higher than average growth rate of debt.

Table 5.10: Growth rate of debt vs GSDP

	GDEBT	GGSDP
2013-14	4.87	6.42
2014-15	3.94	17.75
2015-16	4.26	12.03
2016-17	10.23	7.73
2017-18	8.40	9.03
2018-19	8.31	21.11
2019-20	9.39	6.20
2020-21	9.01	8.85
2021-22	14.51	-0.12
2022-23	10.24	17.64
2023-24	10.54	14.89
AVERAGE GROWTH RATE	8.52	11.05

Note: gDEBT-growth rate of debt, gGSDP-growth rate of nominal GSDP

Fig.5.5: Growth of debt vs growth of GSDP



The second indicator requires the calculation of real interest rate . Table 5.11 shows the calculation of real interest rate

Table 5.11: Derivation of real rate of interest

	OL	INTR	ROI	GRGSDP	GNGSDP	GRD	RROI
2012-13	6503	433	6.66	0.61	6.42	5.81	0.85
2013-14	6820	444.92	6.52	8.64	17.75	9.11	-2.58
2014-15	7089	473	6.67	8.00	12.03	4.03	2.64
2015-16	7391	516	6.98	7.73	7.73	0.00	6.98
2016-17	8147	544	6.68	4.01	9.03	5.02	1.66
2017-18	8831	562.96	6.37	9.77	21.11	11.34	-4.97
2018-19	9565	577.21	6.03	-2.61	6.20	8.80	-2.77
2019-20	10463	663.54	6.34	5.06	8.85	3.79	2.55
2020-21	11406	831.6	7.29	-5.80	-0.12	5.68	1.61
2021-22	13061	690.8	5.29	10.56	17.64	7.08	-1.79
2022-23	14399	874.19	6.07	11.38	14.89	3.51	2.56

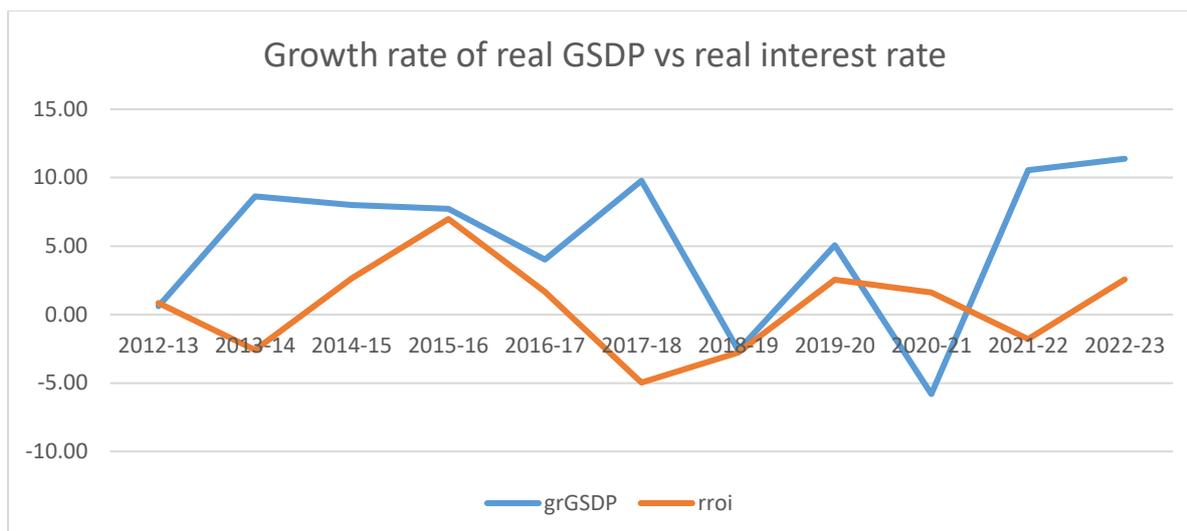
Note: OL-outstanding liabilities, INTR-interest paid , ROI-rate of interest

grGSDP-growth rate of real GSDP, gNGSDP-growth rate of nominal GSDP

grD = gnGSDP- grGSDP , rroi real rate of interest = roi-grD

For most of the years the growth rate of real GSDP exceeded the real rate of interest. The dynamics of these five indicators together suggest that debt sustainability is yet to become unsustainable.

Fig.5.6: Growth rate of real GSDP vs real interest rate



The pattern of these indicators suggest that Manipur’s debt is sustainable.

Conclusion

Manipur’s debt has been increasing largely based on market borrowing. The initial dependence on loans from the centre is no longer there. The main player in internal debt is the SLDs whose share rose to 86%. Though debt is worrisome, the stage of unsustainable debt is yet to be reached. Manipur has been maintaining revenue surplus and the state’s deficit has been mainly to finance capital expenditure. Such asset formation will create a conducive atmosphere and also lead to future flow of profits and revenue. A fast growing economy need not worry much on deficit. Therefore reduction of debt need not be a priority. What is important is efficient use of debt. This should not be at the same time an open invitation for indiscriminate borrowing.

Chapter 6: Power sector and deficit

Introduction:

The availability of reliable, quality, and affordable power is vital for rapid growth in agriculture, industry and for overall economic development of the State. An efficient, resilient, and financially healthy power sector is an essential requirement for growth of the State and economic empowerment of the people of the State. The availability of power facilitates growth and higher growth generates more demand for power. It was in 1930 that electricity was introduced in the state when two micro hydel stations having capacities of 100kw and 56kw were commissioned at Leimakhong. It catered to the needs of Palace compound and main bazar area of Imphal. It was controlled by Manipur State Hydro Electricity Board. It was then transferred to PWD, Govt. of Manipur. It started functioning independently as the Electricity department, Govt. of Manipur since February, 1970. A substation was commissioned at Yurembam in December 1981 to purchase power from Assam. Loktak Hydel Electric project of capacity 3X35 MW was commissioned in 1984. The hydro power potential of the State has been assessed at about 2,000 Mega Watt (MW). However, the potential could not be harnessed due to assorted reasons including paucity of fund. The 105 MW Loktak Hydroelectric Project is the only project developed so far in the State under Central Sector which is not even five per cent of the potential available

To provide this basic key infrastructure, with effect from the 1st February, 2014, the State Electricity Department has been unbundled and corporatized into two state owned functionally independent successor entities namely:

(i) Manipur State Power Company Limited (MSPCL) as the Holding Company (HOLDCO)

With the following responsibilities

- a. Transmission network of 33kv and above
- b. All substations of 33/11 kv and above
- c. All generation units other than those mentioned in MSPDCL
- d. State level load dispatch centre (SLDC) is currently with MSPCL.

(ii) Manipur State Power Distribution Company Limited (MSPDCL) as the deemed

Distribution License (DISCOM) with the following responsibilities

- a. Transmission network of 11kv and below
- b. All other distribution activities
- c. Generation assets Heavy fuel project at Leimakhong, hydel plant at Leimakhong, existing diesel generating sets
- d. Revenue collection activities

Manipur has been perennially short of power. The power supply in Manipur depends entirely on the share of power allocated from the central sector plants such as Loktak Hydroelectric plant, Kopili-Khandong Hydroelectric plant, Assam Gas based power plant at Kathalguri and Agartala Gas Turbine power plant, Meghalaya State Electricity Board, Ranganadi Hydro Electric Plant and Doyang Hydroelectric plant in Arunachal Pradesh. Every central sector power project commissioned in the region earmarks a share of 7% for Manipur.

The established hydro power potential is 2000 MW. There is no proven reserve of coal or gas. Till 1980 the demand for electricity remained suppressed and the scenario changed with the beginning of bulk purchase of power from Assam in December 1981 when the 132/33 kv substation was commissioned at Yurembam. The installed capacity is 105 MW in Loktak Hydroelectric project (commissioned on Aug.4 1984). A 6x6 MW heavy fuel based power project at Leimakhong was commissioned on 5th Oct. 2002. It is in standby mode. The cost of generation from this unit is extremely high. Hydro-electric plays a major role in the field of power development in the state.

Manipur Renewable Energy Development Agency (MANIREDA) is the nodal agency for Government of Manipur to develop renewable energy resources and to utilize solar and wind power. The State has a total of 2000 MW of hydro potential and 10,630 MWe of solar power. Only a miniscule portion of its hydropotential has been exploited in Loktak hydropower project.

At present, the State has no power generation of its own thereby incurring huge expenditure on purchase of power from other sources.

The State Government has recently identified 29 nos. of small and medium range hydro power projects having a total capacity of about 305.76 MW. Three agencies are presently undertaking survey and investigation of these projects including formulation of the Detailed Project Reports.

Manipur has a potential for more than 2000MW of hydropower balancing the growing need of power and concerns related to ecology and rehabilitation and resettlement MSPCL has projected at incremental 171 MW by 2030 and 900MW by 2047.

Currently a significant part of the state's power requirement is met through external gas based generating stations.

By 2047 Manipur will become self-sufficient in energy. Renewable sources of power i.e. water will have replaced conventional energy sources completely and the energy needs will be met entirely by a mix of renewable sources.

Power scenario in Manipur

Table 6.1: consumers and its growth rate

	CONS	GCONS
2014-15	258484	
2015-16	288006	11.42
2016-17	320962	11.44
2017-18	366708	14.25
2018-19	497656	35.71
2019-20	501260	0.72
2020-21	501742	0.09
2021-22	506202	0.89
2022-23	516850	2.10

Notes: CONS-Number of consumers, gCONS growth rate of number of consumers

Source: Manipur Vision 2047

Table 6.1 shows the growth of consumers of electricity in the state during 2014-15 to 2022-23. The growth rate of number of consumers peaked in 2018-19 and fell drastically subsequently probably due to saturation in domestic consumer category, the dominant category of power consumer. During this period, beginning with the corporatisation of power department in 2014 number of consumers registered an annual compound growth rate of 9%. The number of consumers was 164034 in 2001-02.

Table 6.2: Distribution of consumers in 2022-23

Type of consumer	Number	% share
<i>kutir jyoti</i>	14406	2.79
<i>Domestic</i>	469435	90.83
<i>Commercial</i>	28132	5.44
<i>Public lighting</i>	494	0.10
<i>Public water supply-LT</i>	42	0.01
<i>Irrigation and Agricultural-LT</i>	48	0.01
<i>Small industry -LT</i>	2385	0.46

<i>Commercial -HT</i>	1109	0.21
<i>Public water supply-HT</i>	208	0.04
<i>Irrigation and Agricultural-HT</i>	21	0.00
<i>Medium industry-HT</i>	112	0.02
<i>Large industry-HT</i>	42	0.01
<i>Bulk supply-HT</i>	416	0.08
<i>Total</i>	516850	100.00

Source: MSPDCL

Table 6.2 shows the distribution of consumers in different categories. Domestic consumers constitute 90.8% of the consumers in 2022-23 and power is mainly used for lighting purpose. Only about 5.5% of the consumers are commercial.

Table 6.3: Distribution of substations in Manipur

No. of sub stations in the districts of Manipur in 2021-22

	400/132kv	132/33kv	33/11kv
<i>Bishnupur</i>	0	1	5
<i>Thoubal</i>	1	1	7
<i>Imphal East</i>	0	1	15
<i>Imphal West</i>	1	2	13
<i>Senapati</i>	0	0	6
<i>Ukhrul</i>	0	1	8
<i>Chandel</i>	0	1	4
<i>Churachandpur</i>	0	1	8
<i>Tamenglong</i>	0	0	5
<i>Jiribam</i>	0	1	1
<i>Kangpokpi</i>	0	2	6
<i>Kakching</i>	0	2	4
<i>Tengnoupal</i>	0	1	4
<i>Kamjong</i>	0	0	3
<i>Noney</i>	0	1	3
<i>Pherzawl</i>	0	2	4
<i>Total</i>	2	17	96

Source: MSPDCL

Table 6.3 shows infrastructure for power transmission across the state. Every district has provision for power substations to achieve universal electrification. Under the flagship programme Deen Dayal Upadhyaya Gram Jyoti Yojana

(DDUGJY) rural households are to be provided power round the clock. Imphal east has the highest number of 33/11 KV power substations.

Table 6.4 : Type of consumers

	Total consumer	POSTPAID	PREPAID			
			Hill	Valley	Total	%prepaid
2017-18	366708	45765	67398	25354	32094	87.5200
				5	3	4
2018-19	497656	170360	75278	25201	32729	65.7675
				8	6	2
2019-20	501260	173964	75278	25201	32729	65.2946
				8	6	6
2020-21	501742	173966	78562	24921	32777	65.3276
				4	6	
2021-22	506202	138066	80989	28714	36813	72.7251
				7	6	2
2022-23	516850	109702	99125	29737	39650	76.7147
				5	0	1

Source: MSPDCL

Table 6.4 shows the distribution of prepaid and post consumers of power since the introduction electricity meters. The introduction of prepaid system is considered a major step in resource mobilisation. Surprisingly the share of prepaid consumers has declined from 87.52% in 2017-18 to 76.71 % in 2022-23. Prepaid system is becoming popular in the hills also. Prepaid system not only reduces the cost of collection, it inculcates a sense of economy among the users. As per PLFS 2021-22 the estimated number of households in Manipur was 622900. Since consumers are households, the percentage of households covered works out to be 82.97%. 100% electrification of villages should not be confused with 100% electrification of households. Villages may be electrified and some households may still be left out.

Table 6.5: Composition of power

	PE	FE	Total	PE/Total
2012-13	578.34	66.9	645.24	89.63
2013-14	606.4	73.6	680	89.18
2014-15	642.58	42.42	685	93.81

2015-16	885.95	61.8	947.75	93.48
2016-17	985.35	85.84	1071.19	91.99
2017-18	959.19	97.16	1056.35	90.80
2018-19	998.51	69.46	1067.97	93.50
2019-20	920.36	41.97	962.33	95.64
2020-21	1016.17	72.78	1088.95	93.32
2021-22	1103.91	46.7	1150.61	95.94
2022-23	1097	56.17	1153.17	95.13

Notes: PE purchased electricity in MU FE Free electricity from Loktak Hydroelectric project in MU (MU-Million Units)

Source: MSPDCL

Table 6.5 shows the major sources of power. Our main sources are purchase from outside the state and free power from the Central project, Loktak hydroelectric power project. Power purchased from outside dominates the source. Now 95% of power available in the state have been purchased from outside with the free power from the Loktak project constituting about 5% of power availability.

According to XV FC

“Most States have reduced, to some extent, their aggregate technical and commercial

(AT&C) losses and the difference between average cost of supply and average rate of return

(ACS-ARR) after implementation of the Ujwal Discoms Assurance Yojana (UDAY) in 2016-17. However, this progress does not seem to be sustainable unless the systemic issues in the power sector are suitably addressed. In view of the above, robust and systemic reforms are required to improve the health of the power sector.”

Table 6.6: Emerging power scenario in Manipur

	Electrical Energy consumption ,Requirement and Peak Electricity Demand										
Energy Consumption	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Domestic	490	530	572	617	666	717	771	823	890	955	1020
Commercial	91	99	107	116	125	135	147	159	173	189	205
Public lighting	5	5	5	6	6	6	6	6	6	6	6
Public water works	22	23	25	26	27	28	30	31	33	34	36

irrigation	7	7	7	7	8	8	8	8	8	8	8
LT industries	20	21	22	24	25	26	28	29	31	32	34
HT industries	12	13	14	15	16	17	19	20	22	23	23
Bulk supply	84	85	86	87	88	89	90	91	92	92	93
Total energy consumption	732	784	839	897	961	1027	1098	1172	1253	1339	1425
T&D losses-MU	275	282	288	294	300	306	312	317	322	327	330
T&D losses-in %	27.31	26.44	25.56	24.69	23.83	22.97	22.12	21.28	20.45	19.63	18.83
Energy requirement - MU	1007	1066	1127	1191	1261	1333	1410	1488	1575	1666	1755
Annual load factor -%	44.12	44.13	44.18	44.21	44.25	44.28	44.32	44.4	44.49	44.59	44.72
Peak Demand MW	260	276	291	308	325	344	363	383	404	426	448
MU	1029	1089	1152	1218	1289	1363	1441	1522	1610	1703	1794
T&D losses (Ex-Bus) in %	28.89	28.04	27.18	26.33	25.49	24.65	23.82	23	22.18	21.38	20.6

Source: 20th Electric Power Survey

Table 6.6 shows the emerging power scenario in Manipur. It shows an ambitious programme which cannot be delinked from state finance soon.

Power and fiscal deficit in Manipur

The relation between power and fiscal deficit seeks to examine the consequences of financing the power sector on gross fiscal deficit. The period under study has two distinct parts- the first two years when power generation was departmental and second starting on 2014-15 when the electricity department was corporatized into Manipur power company ltd (MPCL) and Manipur state power distribution company ltd (MSPDCL)

Table 6.7: Revenue account of Power

	POWER		
	DISBURS	RECEIPT	DEFICIT
2012-13	319.66	108.3	211.36
2013-14	324.63	96.23	228.4
2014-15	452.93	0.1	452.83
2015-16	624.8	0.01	624.79
2016-17	749.97	0.13	749.84
2017-18	565.64	0	565.64

2018-19	543.39	0.11	543.28
2019-20	405.45	0.1	405.35
2020-21	409.99	0	409.99
2021-22	426.54	0	426.54
2022-23	317.95	0	317.95
2023-24	536.93	0	536.93

Notes: All in Rs crore

DISBURS-Disbursement RECEIPT-Receipt in state exchequer Deficit
Difference between disbursement and receipt

Source: State Finance Accounts; various issues

Table 6.7 shows the magnitude of revenue account deficit in the revenue sector. The deficit rose post corporatisation and during this period receipts practically disappeared. Post corporatisation collection of electricity bills becomes receipt of the company. The reduction in transmission losses and the widespread use of prepaid meters must have enhanced the receipts under this head. A source contributing Rs 96 crore in 2013-14 turned into a trickle. The deficit can also be treated as implicit subsidy to the power sector.

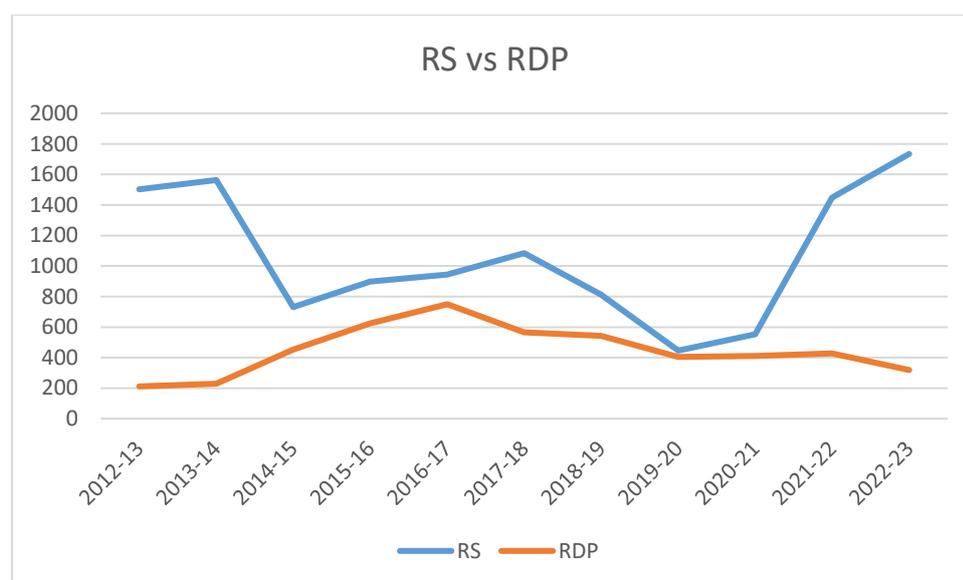
Table 6.8: Fiscal deficit and power sector

	<i>GFD</i> <i>Rs.crore</i>	<i>in RS in Rs.crore</i>	<i>RDP</i> <i>Rs.crore</i>	<i>in RDP/RS in %</i>
<i>2012-13</i>	1	1503	211.36	14.06
<i>2013-14</i>	-273	1564	228.4	14.60
<i>2014-15</i>	601	731	452.83	61.95
<i>2015-16</i>	341	898	624.79	69.58
<i>2016-17</i>	548	944	749.84	79.43
<i>2017-18</i>	340	1084	565.64	52.18
<i>2018-19</i>	917	813	543.28	66.82
<i>2019-20</i>	709	446	405.35	90.89
<i>2020-21</i>	1891	554	409.99	74.01
<i>2021-22</i>	1803	1449	426.54	29.44
<i>2022-23</i>	1756	1734	317.95	18.34
<i>2023-24</i>	2235	5061	536.93	10.61

Notes: GFD-Gross fiscal deficit RS-Revenue surplus RDP-revenue deficit in power sector

Table 6.8 shows the relation between revenue surplus and revenue deficit of power sector. The ratio peaked in 2019-20. Then it declined from 90% in 2019-20 to 10.6% in 2022-23. Rise in revenue deficit in power sector can wipe off the revenue surplus. Without the persistently growing revenue deficit in power sector, revenue surplus would have been higher by that deficit.

Fig.6.1: Revenue surplus vs deficit in power sector



It must be noted that the episode when revenue surplus was nearly wiped off by revenue deficit in power sector coincided with a decline in revenue surplus. Deficit in power sector seems to be stable.

Table 6.9: Growth rates of Revenue surplus vs revenue deficit in power sector

	TREND COEFFICIENT	T	P VALUE
RS	-0.01792	-0.40595	0.6943
RDP	0.027767	0.71536	0.4925

Both are found to be statistically insignificant.

Table 6.10: Power subsidy vs total budgetary subsidy

	POWER SUBSIDY	TOTAL SUBSIDY	P/S IN %
2014-15	170.00	170.19	99.89
2015-16	184.89	185.23	99.82
2016-17	156.54	156.62	99.95
2017-18	123.00	123.47	99.62

2018-19	120.00	120.36	99.70
2019-20	120.00	120.11	99.91
2020-21	120.00	120.08	99.93
2021-22	120.00	120.31	99.74
2022-23	120.00	120.18	99.85

Note: all in Rs. Crores

Source: Manipur Finance Accounts; various issues

Table 6.10 shows the evolving share of power subsidy in overall budgetary explicit subsidy. It shows that throughout more than 99% of budgetary explicit subsidies were power subsidy, mainly to MSPDCL. That crowds out subsidies in other sectors like social welfare, veterinary and animal husbandry, cooperation, commerce and industry and sericulture.

Table 6.11: outstanding guarantees of Manipur

	OG IN RS CRORE	FRBM IN RS CRORE	OG/FRBM IN %
2012	175.4	588.09	29.83
2013	191.4	801.15	23.89
2014	215.3	1104.21	19.50
2015	193	998.49	19.33
2016	339.5	1418.19	23.94
2017	403.4	1550.49	26.02
2018	513.7	1651.32	31.11
2019	475.1	1760.01	26.99
2020	411.6	2372.82	17.35
2021	593.3	3138.15	18.91
2022	868.55	3603.36	24.10
2023	1177.16	3831	30.73

Notes: OG outstanding guarantees as at end March FRBM ceiling of government guarantees as per FRBM Act.

Source: RBI state handbook and Manipur Finance Accounts

Outstanding guarantees per se given in table 6.11 may not be an issue but it becomes a liability when the guarantee is invoked. These guarantees are needed to provide a hand holding experience to entrepreneurs and corporates which are engaged in socially valuable but unremunerative activities. This led to the FRBM Act which provided a ceiling to guarantees as three times the own tax revenue in

the second preceding year. Though the outstanding guarantees provided by Manipur government have been well below the FRBM ceiling, it has been growing.

During 2011-12 , the government issued a guarantee of Rs 117.86 crore to PDA(Rs 61.26 crores) Khadi and village industries(Rs 34.36 crore)and MTDCCL (Rs 21.24 crore).. In 2015-16 MSPDCL was given a guarantee of Rs 213.02 crore. In 2016-17 a fresh guarantee of Rs 105.92 crore was given to MSPDCL. In 2017-18 a fresh guarantee of Rs 10.92 crore was given to MSPDCL. In 2019-20 a fresh guarantee of Rs 0.72 crore was given to MSPCL. In 2020-21 MSPDCL received a guarantee of Rs 111.48 crore out of Rs. 235.54 crore of fresh guarantee sanctioned that year. In 2021-22 the state government issued fresh guarantee of Rs.174.27 crore with Rs 102.09 crore going to the power sector. During 2022-23 Out of additional guarantee of Rs 308.61 crore, power sector got Rs 143.92 crore followed by urban development and housing with Rs 123.19 crore. Thus most of the guarantees issued by the state government was for the power sector – MSPCL and MSPDCL. One endemic problem of finance has been the persistent failure in collecting guarantee fees from beneficiaries. In some years the fees were waived off by Finance department order. Under the Manipur Ceiling on Government Guarantee Act 2004, the Government shall charge a minimum of one *per cent* of the guaranteed amount as guarantee commission. At this rate between 2012 and 2022 the state government has foregone Rs.53.52 crore by way of guarantee commission.

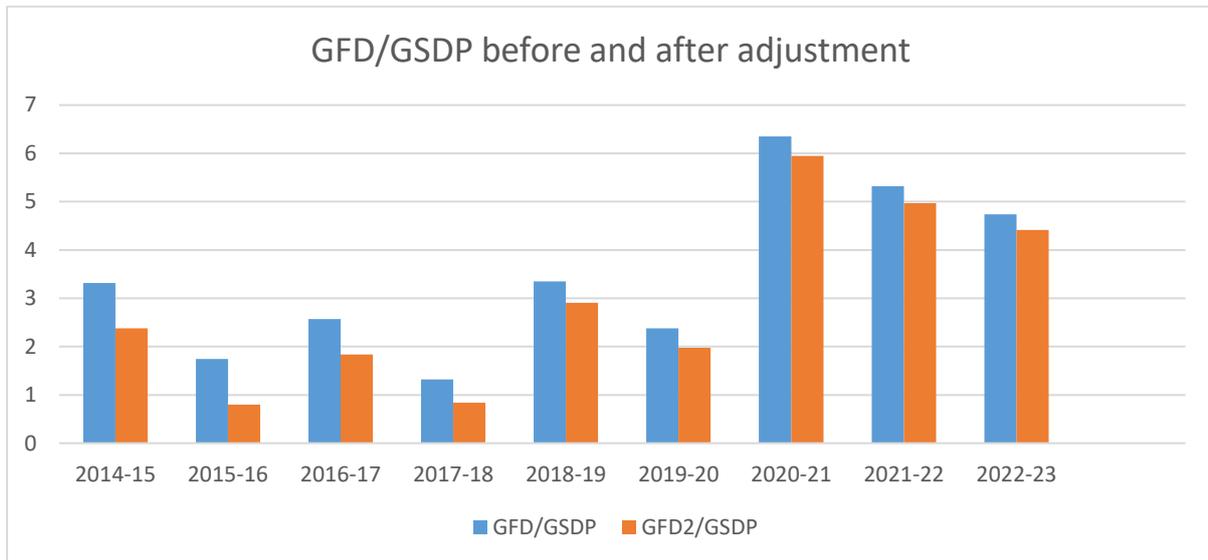
Table 6.12: GSDP after adjusting power subsidy

	GFD	PS	GFD2	GFD/GSD P	GFD2/GSDP
2014-15	601	170	431	3.32	2.38
2015-16	341	185	156	1.75	0.80
2016-17	548	157	391	2.57	1.84
2017-18	340	123	217	1.32	0.84
2018-19	917	120	797	3.35	2.91
2019-20	709	120	589	2.38	1.98
2020-21	1891	120	1771	6.35	5.95
2021-22	1803	120	1683	5.32	4.97
2022-23	1756	120	1636	4.74	4.42

Notes: GFD: Gross Fiscal deficit PS power subsidy GFD2: GFD after adjusting power subsidy.

The adjustment for power subsidy reduces the GFD /GSDP though it is yet to fall below the FRBM ceiling. This is however a hypothetical scenario as electricity, a key input for all economic activities, must be provided irrespective of the cost incurred.

Fig.6.2



Post reforms Power sector in Manipur

The power sector has improved considerably post reforms both in terms of AT&C loss and ACS-ARR gap. AT&C (aggregate technical and non-technical or commercial) loss is a comprehensive measure of loss. It is calculated as

$$\text{AT\&C loss} = \frac{\text{Energy input} - \text{Energy realised}}{\text{Energy input}} * 100$$

The technical losses are not consumed but lost in transmission. It is unavoidable. It arises due to overloading of existing lines and substations, obsolete old lines and equipments, poor repair and maintenance of equipment's and non-installation of capacitors for power factor correction. The non-technical losses, also known as T&D loss, are the energy consumed but unaccounted. It is the difference between energy available at transmission and sub transmission system and energy sold.

$$\text{T\&D loss} = 1 - \frac{\text{Energy sold}}{\text{Energy available at transmission and subtransmission system}} * 100$$

It is due to low metering status, low billing and collection efficiency, low accountability of employees and corruption, lack of energy audit and lack of

feeder, transformer, and substation metering. It was as high as 64% in 2007-08 and it fell to 41% in 2014-15.

Several initiatives were taken up to improve the power situation in the state prepaid metering system has been implemented in the valley. To improve billing and collection efficiency in remote villages, MSPDCL introduced single point metering through installation of distribution transformers and village electricity committees have been formed. Large scale infrastructure augmentation works have been taken up. The introduction of 132 kv, 33 kv and 11 kv feeder meters helped in energy accounting and audit and locating constraint areas for taking necessary remedial measures. The beneficial results of such reform measures are amply reflected in the evolution of AT&C losses.

Table 6.13: AT&C losses; MSPDCL

	AT&C	Annual decline
	losses%	post corporatisation
2012-13	54	
2013-14	43.55	
2014-15	48.3	
2015-16	31.72	-34.33
2016-17	33.01	4.07
2017-18	27.46	-16.81
2018-19	25.26	-8.01
2019-20	23.3	-7.76
2020-21	20.3	-12.88
2021-22	23.62	16.35
2022-23	13.82	-41.49

Source: MSPDCL

Post corporatisation, it declined by 56%, from 31.72% in 2015-16 to 13.82% in 2022-23 and it is the lowest among North eastern states.

Another measure of efficiency of DISCOMS is Average cost of supply (ACS) and Average revenue realisation (ARR).

Average Cost of Supply (ACS) is the average cost incurred by a DISCOM to produce and distribute electricity, including costs like power purchase, transmission, distribution, and administrative expenses.

Average Revenue Realized (ARR) is the average revenue a DISCOM collects from selling electricity to its customers, including government subsidies and other financial assistance.

ACS-ARR Gap is the difference between ACS and ARR. A higher gap indicates the DISCOM is facing greater financial challenges and potential losses.

The ACS-ARR gap is a key indicator of a DISCOM's financial health and profitability. It helps assess the effectiveness of tariff policies and government subsidies. It can be used to identify areas where DISCOMs need to improve their operational and financial performance.

Essentially, it measures how much a DISCOM loses money for every unit of electricity it sells. A positive gap means the cost of supplying electricity is higher than the revenue earned, while a negative gap indicates the DISCOM is making a profit.

Table 6.14: ACS&ARR gap losses

	ACS &ARR gap losses, MSDPCL
2013-14	3.01
2018-19	0.49
2019-20	0.46
2020-21	0.53
2021-22	0.82
2022-23	1.02
source: MSDPCL	

In 2013-14 the gap was ₹3.01 per Kwh and declined to ₹0.49 per Kwh in 2018-19. The gap has increased from ₹ 0.49 per Kwh in 2018-19 to ₹1.02 per Kwh in 2022-23. Low tariff on power supplied to consumers is a major cause behind the growing ACS&ARR gap. Electricity Tariffs can be revised by the Joint Electricity Regulatory Commission, Manipur and Mizoram. The current cost of power supply is ₹10.53/Kwh. The state will have a separate Electricity Regulatory commission by 2025-26.

Power supply improved from 6-8 hours a day in 2011 to about 22-24 hours currently. As per REC report- Consumer Services ratings for DISCOMS(CSRD) for 2022-23 the state's rating was upgraded to A on account of improvement in

operations and reliability, connection and other services, metering, billing & collection, fault rectification and grievance redressal. Only 4 DISCOMS (3 in Delhi and 1 in UP) have A+ in 2022-23.

Thus, to make the DISCOMS financially sustainable, more infrastructural investments are necessary. The electricity tariffs also should be set realistically. Policy makers should not ignore the paying capacity of the consumers as of now. In short, the power sector should continue to be subsidized and modernised. The emergence of alternative renewable sources of power can be a game changer.

Conclusion

Power sector continues to be a drag on state finance. It has been absorbing budgetary subsidies almost entirely and most of the outstanding guarantees are for the power sector. The revenue deficit in the power sector can wipe off the revenue surplus the state has been having so far. Another issue is the economics with almost 95% of power required being purchased from outside sources. Guarantee fee waiving should be reviewed. Prepaid system should be fully implemented to reduce the problems in dues collection. Consumers should be able to recharge without any hassles close to their houses in widely dispersed recharge network. Massive amounts of dues both government departments and consumers are owed and the record in realising these dues has been dismal. T&D losses should be minimised. Power may be free for the public but the government must provide for it. Nothing is free. The problem of finance of this sector needs to be examined further as power should be made available at any cost both for economic development and improved quality of life.

Chapter 7: Resource Mobilisation & Expenditure management

Governments must play a key role in mobilising resources for development and ensuring that the resources so mobilised are efficiently utilised, not wasted. Though the government is withdrawing, by way of disinvestment, from many activities, the process of development has generated new avenues for government intervention. The government is expected to provide electricity, drinking water, education, health etc. on the other hand contrary to the popular myth of the government with unlimited resources, resource scarcity has been found to dictate the government intervention. This chapter will examine resource mobilisation and expenditure management in Manipur during 2012-13 to 2023-24.

The resources of a state government consist of revenue and capital receipts. Revenue receipts consist of own tax revenues, own non tax revenues, state's share of union taxes and duties and grants in aid from the Government of India. Capital receipts consist of receipts from disinvestments, recoveries of loans & advances, market loans, borrowing from financial institutions/ commercial banks, loans, and advances from GOI and accruals from public accounts. Central government transfers a significant volume of fund directly to the state implementing agencies such as project directors, DRDA for MGNREGA, Manipur state health society for national Rural health Mission etc. Share of central taxes is decided by the Finance Commission every five year. The Finance commission also gives state specific and sector specific grants, in addition to the share of divisible net taxes. The other component i.e. grant-in-aid from the Centre is largely dependent on Centre's assessment of the needs of the state and has many discretionary elements.

Revenue receipts:

Table 7.1: Revenue Receipts

	OTR	ONTR	CT	GIA	RR
2012-13	333	232	1318	4937	6820
2013-14	473	261	1439	5111	7284
2014-15	517	184	1527	5771	7999
2015-16	550	149	3142	4438	8279
2016-17	587	165	3757	4621	9130
2017-18	791	174	4154	5238	10358
2018-19	1046	166	4699	4651	10561

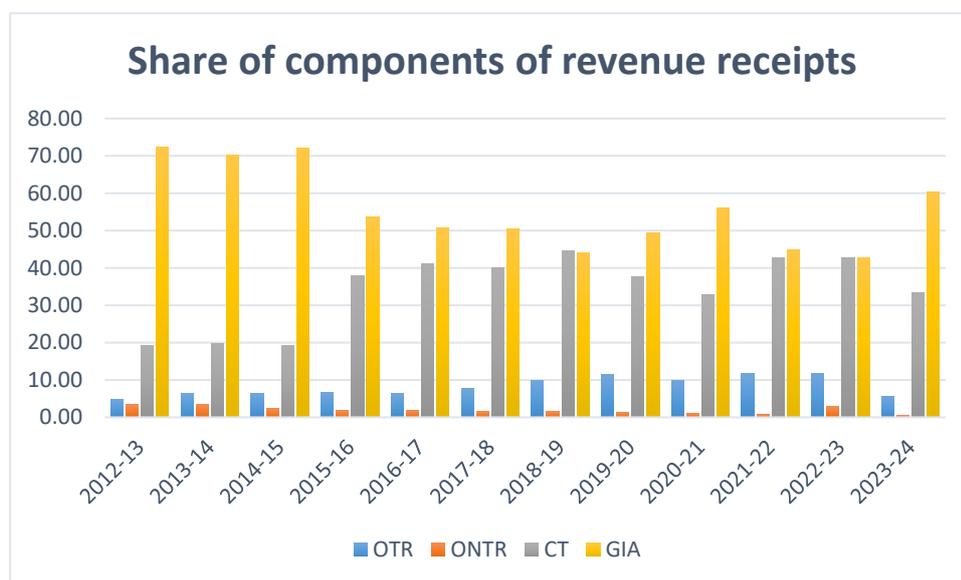
2019-20	1243	134	4048	5301	10726
2020-21	1294	148	4272	7268	12982
2021-22	1649	107	6010	6325	14090
2022-23	1867	457	6795	6773	15892
2023-24	1328	144	7908	14247	23627
CAGR	13.4	-4.24	17.69	10.11	11.96

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

Source: State Finance Accounts; various issues

All components except for ONTR registered double digit CAGR. The predominance of the GIA component declined significantly and the share of union taxes and duties has risen. The state's share in central taxes & duties registered a CAGR of 17.69% while own non tax revenue registered a decline. This rise is due to rise in share of states in every FC report.

Fig.7.1: Structure of Revenue receipts

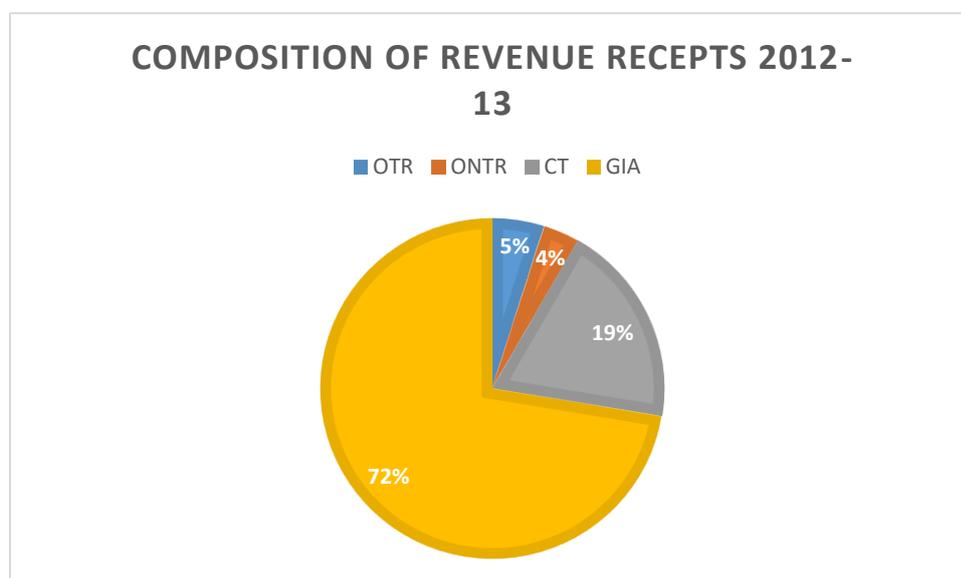


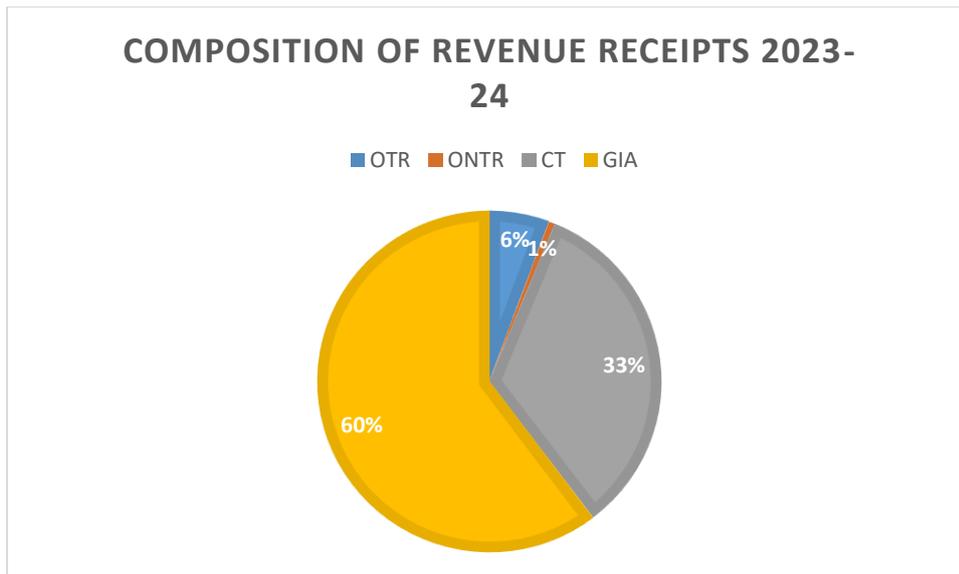
The share of grants from the centre declined from 72.39% in 2012-13 to 60.3% in 2023-24 while that of share of central taxes & duties rose from 19.33% to 33.47% during the same period. The share of own tax revenue marginally increased from 4.88% to 5.62% while that of ONTR whose share declined from 3.40% to 0.61%.

Table 7.2: Changing share of Central taxes

FINANCE COMMISSION	STATES SHARE IN DIVISIBLE CENTRAL TAXES & DUTIES	MANIPUR'S INTERSE SHARE EXCLUDING SERVICE TAX	SHARE OF SERVICE TAX
XII(2005-10)	30.5	0.362	0.367
XIII(2010-15)	32	0.450	0.458
XIV (2015-2020)	42	0.617	0.623
XV(2020-26)	41	0.716	

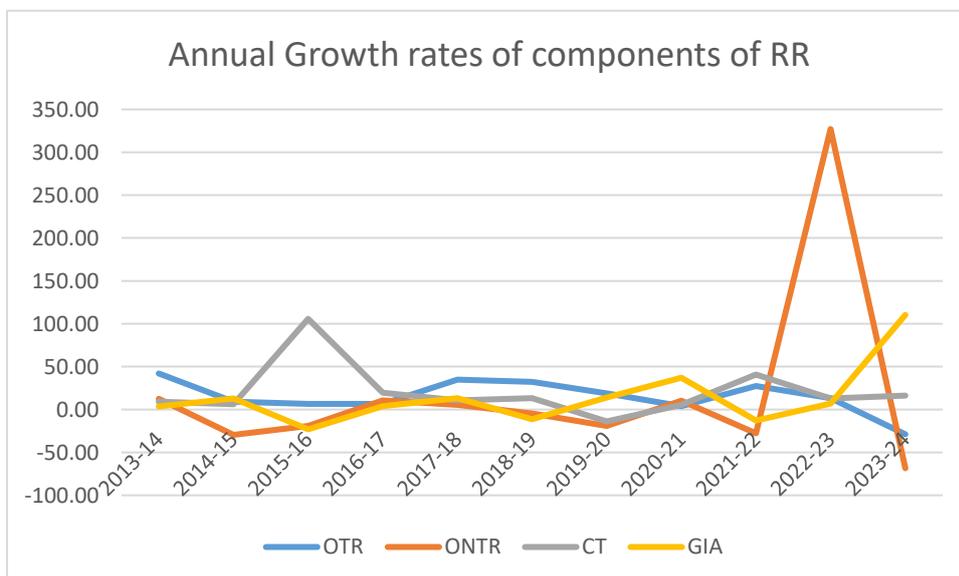
Fig 7.2: Comparative Composition of Revenue Receipts





The following figure shows that ONTR component had several negative growth phases. The instability in ONTR in Manipur can be attributed to the corporatisation of the power department which took out the receipts in power sector from public receipts.

Fig.7.3: Growth Rates of Components of Revenue Receipts



The beginning of the award period of the FC –XIV was accompanied by a sharp decline in grant- in- aid from the centre and a sharp rise in state share in central taxes . Significantly, the current slowdown in India also coincides with major structural reforms in the economy over the last five years – a new monetary policy framework; a bankruptcy code for resolution of stressed assets; demonetisation; introduction of GST in July 2017; a new corporate tax order; a series of other

announcements by the Union Government to boost the housing sector and exports; plans to privatise a large set of public sector entities including oil companies; and introduction of direct tax reforms.

Own Tax Revenue (OTR)

OTR consists of the following taxes

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

Table 7.3: Components of Own Tax Revenue in ₹ crore

Year	PT	LR	STR G	ST/V AT	SGST	EX C	MV T	GP T	TD E	ET	OT H	OT R
2012-13	23.35	1.24	5.99	258.52		9.94	15.83	1.43	0.04		16.5	333
2013-14	24.88	1.12	7.9	395.74		9.2	18.73	1.24	0.05	13.87		473

2014-15	23.27	1.42	7.76	433.33		9.32	20.77	1.2		19.77		517
2015-16	23.22	2.59	10.45	466.51		8.78	23.29	1.02		16.25		552
2016-17	23.77	1.91	10.003	499.65		9.32	25.04	1	0.01		15.96	587
2017-18	24.32	1.44	13.98	385.58	271.09	9.37	36.14	1.13	0.003		17.44	760
2018-19	33.78	3.54	17.62	253.02	787.3	8.18	39.83	1.19	0.003		5.13	1150
2019-20	28.62	4.1	16.6	235.53	852.57	11.6	47.7	1.6	0.004		5.35	1204
2020-21	27.86	3.81	8.65	336.45	866.5	11.85	37.96	0.42	0.003		3.71	1297
2021-22	26.6	3.35	7.98	411.68	1125.56	15.99	56.66	0.47	0.003		7.1	1655
2022-23	27.66	6.58	13.95	288.89	1426.15	19.24	83.21	1.37	0.009		12	1879
2023-24	30	7	14	244	971	20	40	2			13.21	1341

Note: in ₹crore .PT professional tax TP taxes on property and capital transaction ST/VAT sales tax EXC Excise tax, MVT Motor vehicle tax TGP Tax on Goods and Passengers TDE Duties on electricity STRG Stamp and registration ET Entertainment tax OTH others OTR Own tax revenue

Source: Finance Accounts, GOM

Since GST was introduced in 2016 most of the existing taxes have been subsumed in GST. SGST has become the most vital component of OTR, its share rising from 35.67% in 2017-18 to 72.41% in 2023-24.

The component of OTR with highest elasticity is land revenue followed by MVT. However, land revenue constitutes a miniscule proportion of OTR. It is anticipated as more vehicles are demanded and subsequently purchased when income increases. The high elasticity of MVT reflects the positive association between higher number of cars and prosperity. 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.

Table 7.4: GSDP – Elasticity of OTR & its Constituents

<i>Variable</i>	<i>Estimate of elasticity</i>
<i>PT</i>	0.234
<i>LR</i>	1.759
<i>STRG</i>	0.621
<i>ST</i>	Statistically insignificantt
<i>SGST</i>	Statistically insignificantt
<i>EXC</i>	0.687
<i>MVT</i>	1.206
<i>GPT</i>	Statistically insignificantt
<i>OTR</i>	1.475

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

Apart from introduction of GST, the state government has withdrawn the prohibition act and it is reflected in the state budget. The withdrawal of prohibition in the state enabled the state government to show a dramatic rise in state excise tax rising from Rs 19.23 crore in 2022-23 to Rs 300 crore in 2024-25 (BE). the state has introduced a series of reforms to augment the collection of SGST such as

- a. Implementation of e-invoice to all taxpayers of B@B having turnover of Rs 20 lakhs and above
- b. Installation of radio frequency identification (RFID) at all the entry points of national Highways no.2,37 and 102
- c. Monitoring and verification of all GST-TDS deducted by the deductors
- d. Monthly monitoring of top 500 tax payers
- e. GST Prime implementation

(source: GOM Memorandum to XVI Finance Commission)

Sales tax/VAT has declined as many components of VAT have been subsumed in GST. Only taxes on petrol and liquor are left. The state has introduced first point taxation and collection of advance taxes in the case of oil marketing companies. Collection from motor vehicles has grown from Rs 15.83 crore in 2012-13 to Rs 83.21 crore in 2022-23. e-challan, e payment, dealer point registration and permit for vehicles are on line since 1st October,2020.

Own non tax revenue

A state's typical own non tax revenue consists of

1. Interest receipts
2. Dividends and profits
3. General services (includes state lotteries)
 - i. Organs of state
 - ii. Fiscal services
 - iii. Interest payments and servicing of debt
 - iv. Administrative services
 - v. Pensions and misc. general services
4. Social services
 - i. Education, sports, Arts and Culture
 - ii. Medical and Public health

- iii. Family welfare
 - iv. Housing
 - v. Urban development
 - vi. Labour and Employment
 - vii. Social security and welfare
 - viii. Water supply and sanitation
 - ix. Others
5. Fiscal services
6. Economic Services
- x. Crop Husbandry
 - xi. Animal Husbandry
 - xii. Fisheries
 - xiii. Forestry and wildlife
 - xiv. Plantations
 - xv. Co-operation
 - xvi. Other agricultural programmes
 - xvii. Major and medium irrigation projects
 - xviii. Minor irrigation
 - xix. Power
 - xx. Petroleum
 - xxi. Village and small industries
 - xxii. Industries
 - xxiii. Ports and light houses
 - xxiv. Road transport
 - xxv. Tourism

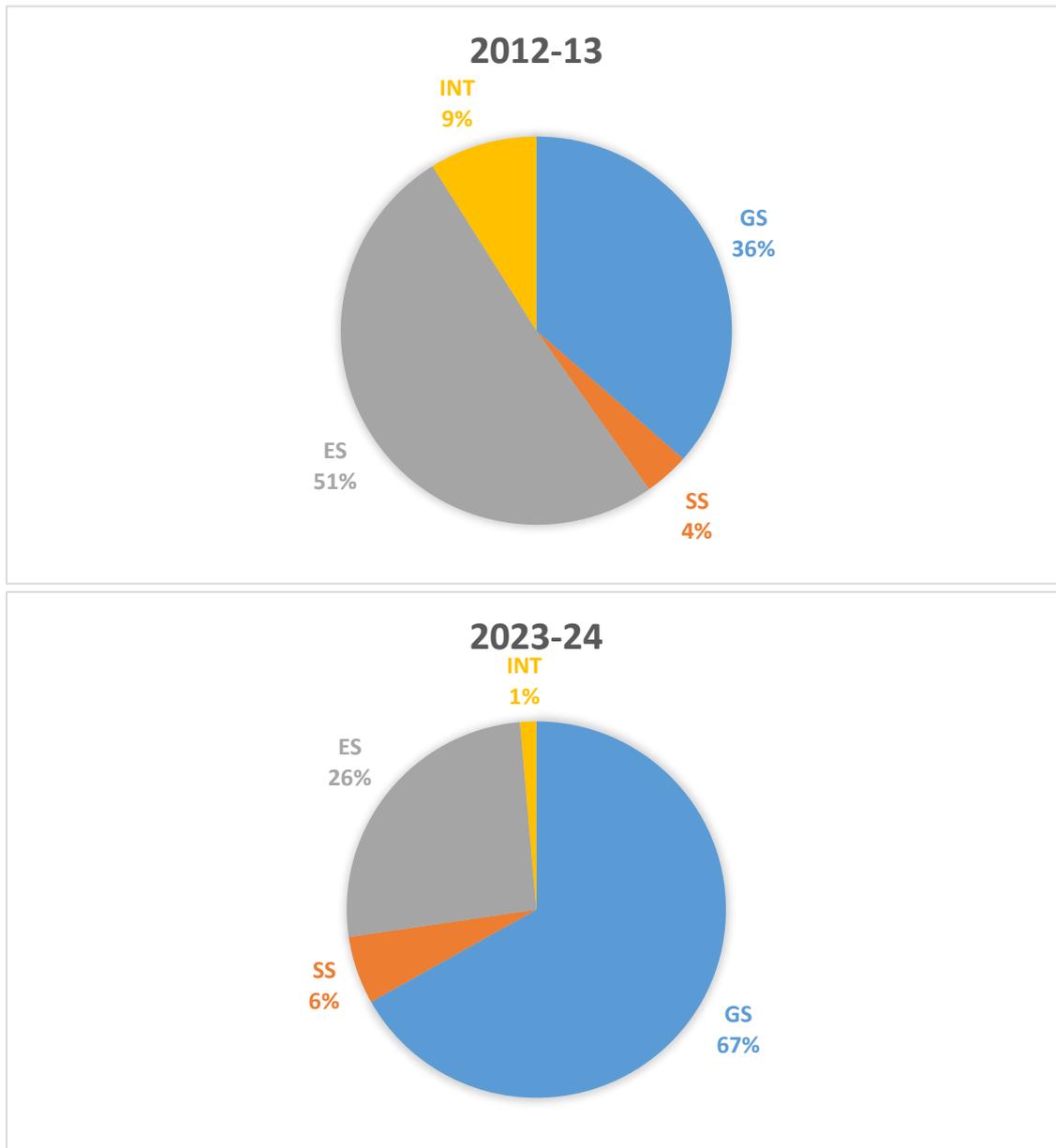
Not all the subheads are important for Manipur. The receipts on account of dividends and profits and fiscal services have been insignificant.

Table 7.5 shows the evolving structure of ONTR in terms of the share of its components. The share of Economic services shrank from 51% in 2012-13 to 26% in 2023-24. Its share collapsed to 5% in 2014-15 due to the corporatisation of the power department as part of reform in the power sector. Since then GS has been the dominant component.

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

	GS	SS	ES	INT	ONTR
2012-13	84.59	8.63	117.9	20.66	231.78
2013-14	115.97	6.3	105.29	33.1	260.66
2014-15	137.69	6.1	9.33	30.6	183.72
2015-16	110.17	5.66	6.22	27.43	149.48
2016-17	128.14	5.92	11.01	19.75	164.82
2017-18	119.96	8.52	26.3	19.27	174.05
2018-19	118.4	8.33	20.36	18.68	165.77
2019-20	107.43	8.2	12.5	6.39	134.52
2020-21	129.63	7.5	8.67	2.25	148.05
2021-22	90.34	6.83	8.93	1.36	107.46
2022-23	102.79	300	29.99	24.77	457.55
2023-24	96.67	8.43	37.52	2	144.62

Fig. 7.4 : Composition of ONTR



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

Table 7.6 : Economic Services and Power

	POWER	MMI	FOREST	TOURISM	OTHER
2012-13	91.86	3.18	2.49	0.14	2.32
2013-14	91.40	2.30	3.52	0.27	2.52
2014-15	1.07	21.86	49.52	6.00	21.54
2015-16	0.16	10.29	58.68	6.91	30.87
2016-17	1.18	14.35	58.67	8.90	16.89
2017-18	0.00	0.99	89.77	2.13	7.11
2018-19	0.54	13.11	74.90	2.41	9.04
2019-20	0.80	6.08	77.60	4.64	10.88
2020-21	0.00	2.54	76.70	4.61	16.15
2021-22	0.00	1.01	86.69	1.57	10.74
2022-23	0.00	1.00	91.73	1.77	5.50
2023-24	0.00	9.25	74.61	1.33	14.81

Source : Finance Accounts,GOM

The growth in ES is due to forests whose share rose from 2.49% in 2012-13 to 74.61% in 2023-24. Its share rose to 92% in 2022-23. The main revenue sources from forests are timber, non-timber forest produces, minor minerals like sand, stone etc. The Manipur schedule of rates of royalty on forest products has been revised several times. However, the contribution of forests has been very

erratic. In 2017-18 it registered a growth rate of 265.48% and the next three years growth was negative. It again registered a growth rate of 254.97% in 2022-23. This calls for scrutiny of the receipts in this subsector. Medium and minor irrigation and tourism continued to contribute a miniscule proportion of ES.

Table 7.7 :Growth rate of receipts from forests

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
GFOREST	26.19	24.53	-21.00	76.99	265.48	-35.41	-36.39	-31.44	16.54	254.97	1

Note : GFOREST growth rate of receipts from forests in percent

Table 7.8 : Finance Commission projection vs actual OTR and ONTR

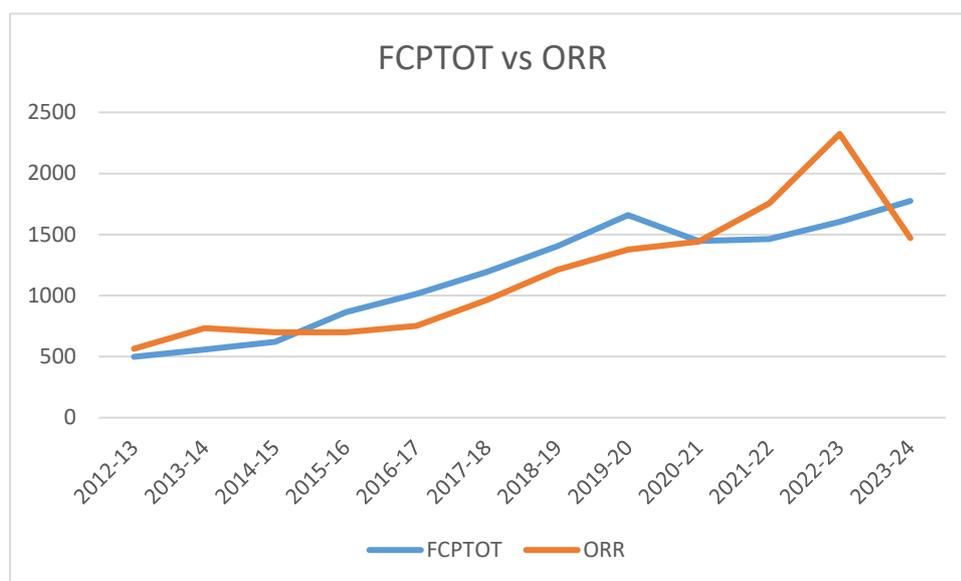
	FC PROJECTION			ACTUAL		
	FCTAX	FCNTA X	FCPTOT	OTR	ONTR	ORR
2012-13	287	212	499	333	232	565
2013-14	326	231	558	473	261	733
2014-15	370	252	622	517	184	701
2015-16	689	175	864	550	149	700

2016-17	824	190	1014	587	165	751
2017-18	985	208	1193	791	174	965
2018-19	1178	227	1405	1046	166	1212
2019-20	1408	250	1658	1243	134	1377
2020-21	1214	233	1447	1294	148	1442
2021-22	1260	202	1462	1649	107	1756
2022-23	1383	221	1604	1867	457	2324
2023-24	1531	244	1775	1328	144	1472

Notes: FCTAX Tax revenue projected by FC FCNTR Non Tax revenue projected by FC

FCPTOT Total tax and non-tax revenue projected by FC, OTR Own tax revenue ONTR own non tax revenue ORR own revenue receipts

Fig .7.5 : FCPTOT vs ORR



Expenditure Management

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

Table 7.9 : Trends in Aggregate Expenditure

	RE	CE	AE	DE
2012-13	5317	1652.51	6969.51	4117.17
2013-14	5718.83	1419.74	7138.57	4013.84
2014-15	7267.3	1561.49	8828.79	5164.06
2015-16	7383	1237.87	8620.87	5156.55
2016-17	8185	1493.57	9678.57	5797.3
2017-18	9274	2107.24	11381.24	5073.03

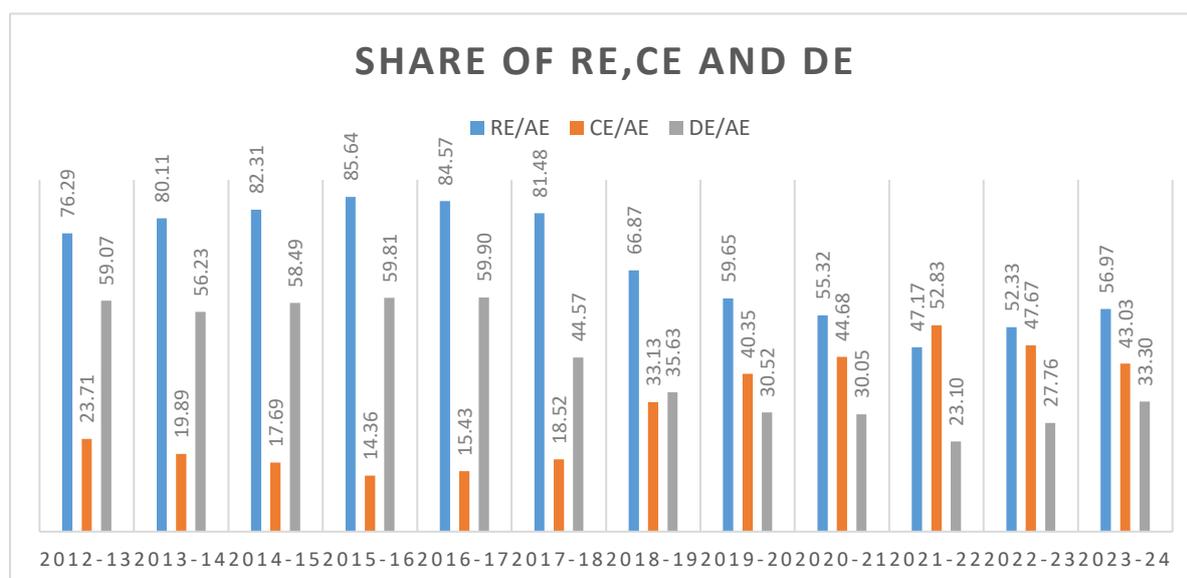
2018-19	9748.72	4829.86	14578.58	5193.99
2019-20	10238.63	6926.89	17165.52	5238.7
2020-21	12428.47	10037.34	22465.81	6749.86
2021-22	12642.15	14156.71	26798.86	6191.37
2022-23	14158.98	12896.54	27055.52	7510.5
2023-24	18567.38	14023.65	32591.03	10852.08
CAGR	12.04	21.46	15.05	9.21

Notes: RE Revenue expenditure CE Capital expenditure AE Aggregate expenditure DE Development Expenditure All in ₹ crore

Aggregate expenditure rose from ₹ 6969.51 crore in 2012-13 to ₹32591.03 crore in 2023-24 registering an annual compound growth rate of 15.05%. its components revenue expenditure, capital expenditure and development expenditure registered CAGR of 12.04,21.46 and 9.21 % respectively.

The share of revenue expenditure has been declining gradually- falling from 76.29 % in 2012-13 to 56.97% in 2023-24. It has been declining since 2016-17. On the other hand, the share of capital expenditure has been rising from 23.71% in 2012-13 to 43.03% in 2023-24. It has been rising since 2015-16. However, the share of developmental expenditure has gradually declined from 59.07% in 2012-13 to 33.3% in 2023-24, its declining phase starting from 2017-18. The trend growth rates of RE, AE and DE are 13.98 %,11.12 % and 9.07 % respectively while capital expenditure did not register any significant trend upwards or downwards. The growth in the share of capital expenditure is a welcome sign.

Fig.7.6 : Bar chart of shares of RE,CE and DE



Any attempt to reduce the growth rate of revenue expenditure must deal with the issue of committed expenditure such as salary & wage, interest, and pensions. A look at the components of revenue expenditure shows that committed expenditure's share has never been below 52.48 % of RE. The scope for compression of revenue expenditure lies with the 47% non-committed component of revenue expenditure . In the case of committed expenditure, the emphasis should be on constraining their growth.

Table 7.10: Structure of Committed Expenditure

YEAR	SALARY	PENS	INTR	COME	RE	COME/RE IN %
2012-13	2246.92	760.28	433	3440.2	5317	64.7019
2013-14	2316.87	771.48	444.92	3533.27	5719	61.78126
2014-15	2406.66	934	473	3813.66	7267	52.47915
2015-16	2853	1010	516	4379	7383	59.31193
2016-17	3088	1174	544	4806	8185	58.71717
2017-18	3381.43	1324.32	562.96	5268.71	9274	56.81162
2018-19	3662.39	1534.26	577.21	5773.86	9748.72	59.22685

2019-20	3968.42	1620.8	663.54	6252.76	10238.63	61.07028
2020-21	4400.45	1737.73	831.6	6969.78	12428.47	56.07915
2021-22	4582.94	2439.17	690.8	7712.91	12642.15	61.00948
2022-23	5077.51	2880.43	874.19	8832.13	14158.98	62.37829
2023-24	6318.82	2777.49	946.84	10043.15	18567.38	54.09029
CAGR	9.86	12.5	7.37	10.23	12.04	

Note : PENS pension INTR Interest SALARY salaries and wages
COME Committed Expenditure RE Revenue expenditure ; All in ₹ crore

Source: CAG Reports; various years(GOM)

These heads are committed in two ways- firstly they must be paid at any cost. Employees need to be paid their salaries. Pensioners need to have their pensions as payment for past service. Interest must be paid on borrowings and borrowing from the public is an integral part of public finance. Secondly development needs human resources and financial resources. Workers retire. As of now pension is paid to workers who had joined before 2004. Workers in general have protested the non-payment of pension. The government has come up with an alternative, however only central government employees can avail of this. The number of state government employees declined marginally from 70930 in 2012-13 to 69338 in 2023-24. Salary has remained the predominant component of committed expenditure and it registered a CAGR of 9.86%. among the three components pension registered the highest CAGR at 12.5%.

Table 7.11 :Structure of committed expenditure

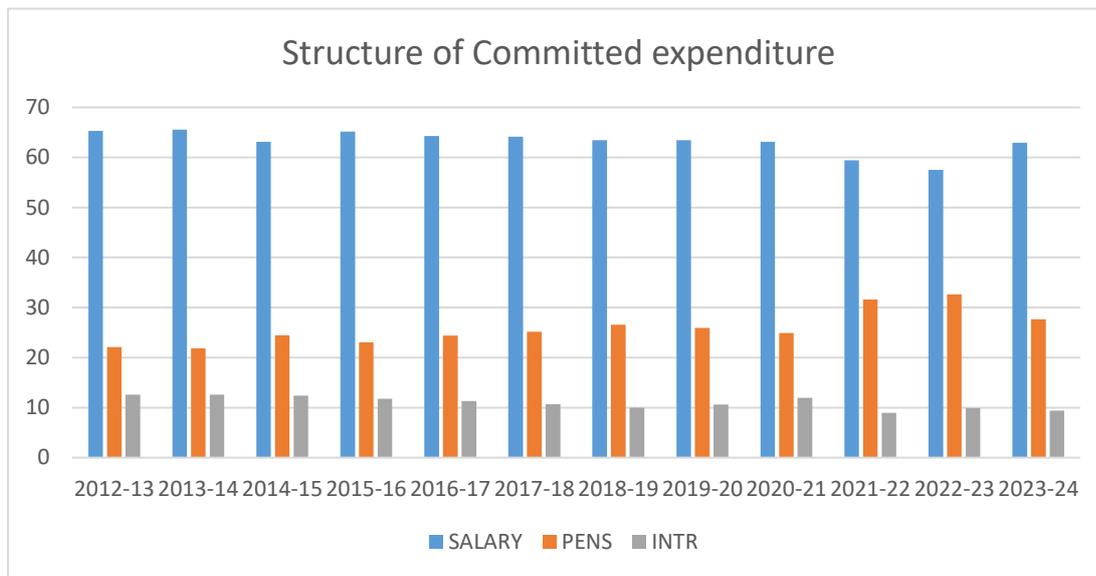
YEAR	SALARY	PENS	INTR	COME
2012-13	65.31	22.10	12.59	100
2013-14	65.57	21.83	12.59	100
2014-15	63.11	24.49	12.40	100

2015-16	65.15	23.06	11.78	100
2016-17	64.25	24.43	11.32	100
2017-18	64.18	25.14	10.68	100
2018-19	63.43	26.57	10.00	100
2019-20	63.47	25.92	10.61	100
2020-21	63.14	24.93	11.93	100
2021-22	59.42	31.62	8.96	100
2022-23	57.49	32.61	9.90	100
2023-24	62.92	27.66	9.43	100

Note: PENS pension INTR Interest SALARY salaries and wages
COME Committed Expenditure (All in percent)

In between 2012-13 and 2023-24 the shares of salary and interest have declined from 65.31% to 62.92% and 12.59% to 9.43% respectively. The share of pension has risen from 22.10% to 27.66%. The shares of the components have remained stable with the shares fluctuating between 57.49 to 62.92 for salary, 21.83 to 32.61 for pension and 8.96 to 12.59 for interest.

Fig 7.7: Bar chart of structure of committed expenditure



Conclusion:

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. This is not an exception. 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 public comes to think that the rules need not be honoured. The public is yet to become fully aware of its role in resource mobilisation for development. The trust deficit is so large that it is not possible to persuade the people that they have a prominent role in resource mobilisation and also in development. 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. Prohibition has been withdrawn in Manipur but the rules are confusing. IMFL and local brew from Sekmai and Andro are regularly caught and destroyed. Tribals are allowed to produce and consume liquor in the name of religion

Chapter 8: State Public Sector Enterprises

Introduction

The term State Public Sector Enterprises (SPSEs) encompasses those Government companies in which the direct holding of the State Government is 51 *per cent* or more and the subsidiaries of such Government companies. The Statutory Corporations set up under Statutes enacted by the Legislature and other companies owned or controlled, directly or indirectly by the State Government have also been categorised as SPSEs.

A Government Company is defined in Section 2 (45) of the Companies Act, 2013 as a Company in which not less than 51 *per cent* of the paid-up share capital is held by Central Government, or by any State government or governments, or partly by the Central Government and partly by one or more State governments and includes a Company which is a subsidiary of a Government. Public enterprises are not guided by profit motive. Their major focus is on providing the service or commodity at reasonable prices. Take the case of Indian Oil Corporation or GAIL India Limited. They provide petroleum and gas at subsidised prices to the public. Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication etc. They are vital instruments of public policy for the states. There has been a spectacular growth in the number of these enterprises and the investment in them since the 50s. However, their financial record has been utterly disappointing. A large number of these enterprises were set up as public organisations to take advantage of the institutional funding from the long-term financial institutions and development banks as these institutions do not extend financial support, as a policy measure, to the government departments.

Many SPSEs have been set up to undertake promotional activities to provide infra- structural and institutional support for the developmental activities by the states. An important component of the SPSEs in this category relates to the welfare corporations which have come up almost in all the states following the all-India pattern. Finally, a considerable number of these enterprises have seen the light of the day on account of the decisions of the various state governments to assume the entrepreneurial responsibilities.

The objectives of the SPSEs vary widely across the various states. In main, they have been set up to exploit the local resources, mobilise institutional finance, fulfil social purposes, speed up the rate of growth, act as catalysts for the

development of specific backward areas or target population groups and earn surpluses. In other words, they were set up at different points of time to implement the public policy by the various state governments.

SPSEs are engaged in a wide variety of activities ranging from industrial development, agro industries, mining and mineral development, manufacturing, small industries promotion, passenger road transport, export promotion, electricity generation and supply, warehousing, financial assistance, dairying and milk supply, printing and publishing, river transport, commodity trade and fisheries development. In the recent times they have taken up the responsibility of developing the small industries and tourism potential. No reform programme can succeed unless the SLPEs become financially viable and only such enterprises are retained in the SLPEs portfolio which are high on social purpose.

Why has it become important again?

COVID-19 pandemic had a significant impact on India's fiscal position, reducing its fiscal space for a sustained increase in priority spending—health care, social safety nets and public infrastructure—to help achieve high, sustainable, and inclusive growth. While concerted action will be necessary to improve revenue mobilization and increase expenditure efficiency, the reduced fiscal policy space has added impetus to the government's privatization agenda and looking more carefully at the public sector balance sheet.

The Indian government has recently announced a new and ambitious state-owned enterprises (SOE) strategy, which envisions the privatization or closure of all SOEs in non-strategic sectors, while keeping a bare minimum presence in strategic sectors.¹ Privatization has long been identified as an important reform priority in India, owing to the existence of many SOEs that operate on a commercial basis.

Privatization can make the use of public resources more efficient and facilitate the financing of priority spending on health, social safety nets and infrastructure. A standard argument for privatization is the fact that there is no rationale for the government to own and run a commercial business if it can just as well be done by the private sector. In fact, if the private sector is more effective in managing a commercial business, privatization should also improve allocative efficiency in the economy. A related second argument is whether the government is getting a good return on its assets. Loss-making, low-productivity enterprises may not only pose a direct drain on public finances; but can also expose the

government's balance sheet to risks. Finally, the opportunity cost of owning SOEs may be large if there are other high-return investments or markets where the government can instead play a more important role—if there are market failures or where the private sector may not be willing or able to step in. Privatization can in that case, free up resources for other more productive public sector spending. Equally important is governance and management of SOEs to increase efficiency, reduce cost to governments, and facilitate future privatization

SPSEs in Manipur

As of 31 March 2022, Manipur had 13 State Public Sector Enterprises (SPSEs) as detailed in the following **Table**.

Table8.1: SPSEs in Manipur

Type of SPSE	Working SPSEs	Non-working SPSEs	Total
Government companies	10	3	13
Statutory corporations	Nil	Nil	Nil
Total	10	3	13

Source: CAG report

Statutory Corporation (or public corporation) refers to a corporate body created by the Parliament or State Legislature by a special Act which define its powers, functions and pattern of management. Statutory Corporation is Also Known as Public Corporation. Its capital is wholly provided by the government. Examples of such organisations are Life Insurance Corporation of India, State Trading Corporation etc. Manipur State Road Transport Corporation was a statutory corporation.

Government Company refers to the company in which 51 percent or more of the paid up capital is held by the government. It is registered under the Companies Act and is fully governed by the provisions of the Act. Most business units owned and managed by government fall in this category.

The working SPSEs are as follows

Finance

1. Manipur Industrial development corporation ltd
2. Manipur Tribal development corporation ltd

Infrastructure

3. Manipur Police Housing corporation ltd

Manufacturing

4. Manipur Food Industries corporation ltd
5. Manipur Electronics development corporation ltd

Power

6. Manipur state power company ltd
7. Manipur state power Distribution Company ltd

Miscellaneous

8. Manipur handloom and handicrafts Development corporation ltd
9. Tourism Corporation of Manipur Ltd
10. Cyber Corporation Manipur Ltd.

The non-working government companies are as follows

1. Manipur Agro-Industries Corporation ltd
2. Manipur Plantation Crops Corporation ltd.
3. Manipur Pulp and Allied products ltd.

These have been non-functional for many years and they are in the process of liquidation in accordance with the provisions of the Companies Act. The process has taken unduly long. The winding up of a company may be either by the Tribunal or voluntary. As per the Companies Act 2013 it is easier to wind up a company voluntarily than through a tribunal. This option should be examined with more seriousness. During 2013-14 the following four PSUs in manufacturing 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.

Cyber Corporation Manipur Limited was incorporated on 15 October 2020 under the Companies Act 2013. Manipur IT SEZ project development Company ltd ceased to exist with effect from 15 March 2022.

None of them is listed in stock exchanges.

The thrust of PSU investment was in power sector. Since 2017-18, as much as 90% of PSU investment was in power sector due to the formation of two power

sector companies namely Manipur State Power Distribution Company Limited and Manipur State Power Company Limited during 2013-14. Incidentally power was not even explicitly mentioned.

Table 8.2 : Composition of PSU investment

	<i>Year</i>	<i>Percentage</i>	<i>Year</i>	<i>Percent</i>	<i>Year</i>	<i>Percentage</i>
	2013-14	<i>Share</i>	2017-18	<i>Share</i>	2021-22	<i>Share</i>
<i>Power</i>	-	—	511	92.26491	612.51	91.52869
<i>Manufacturing</i>	4.74	8.376038	10.16	1.834465	10.15	1.516736
<i>Finance</i>	16.93	29.91695	16.37	2.955727	15.65	2.338613
<i>Agriculture & Allied</i>	17.79	31.43665	0.9	0.162502	15.17	2.266886
<i>Misc.</i>	17.13	30.27037	15.41	2.782392	15.72	2.349074
<i>Total</i>	56.59	100	553.84	100	669.2	100

Source: CAG Reports

Notes: In ₹ crore

The state Government provides financial support to PSUs in various forms through the annual budget such as equity capital outgo from budget, loans given from budget, grants/subsidy from budget, waiver of loans and interest, guarantee issued and guarantee commitment. In 2016-17 the state Government issued a loan guarantee of Rs.390.55 crore in favour of MSPDCL. In 2017-18 the state Government provided budgetary support of Rs.470.78 crore to five PSUs in the form of grants/subsidies. The share of power sector PSUs in grants/subsidies from budget was 98.76%.

Table 8.3: Performance of SPSUs by returns on Investment

	INV	RET	%RET	AVERGB	GAP
2012-13	160	**	0	6.52	6.52
2013-14	160	*	0	6.42	6.42
2014-15	167	#	0	6.56	6.56
2015-16	175	*	0	6.67	6.67
2016-17	197.08	**	0	6.42	6.42
2017-18	198.33	**	0	3.98	3.98
2018-19	206.32	**	0	3.72	3.72
2019-20	214.12	Nil	0	3.92	3.92
2020-21	227.84	Nil	0	4.43	4.43
2021-22	232.62	Nil	0	5.84	5.84

Notes: INV Investment at the end of the fiscal year in Rs crore RET Return in Rs crore

%RET return in percent. AVERGB Average rate of interest on Government borrowing in percent GAP Difference between percent RET and AVERGB

*Rs.3000 ** Rs.4000 # Rs.2000

Source: CAG Reports

Table 8.4: Working SPSEs turnover vis-à-vis GSDP

YEAR	TURNOVER	GSDP	PERCENTAGE OF TURNOVER TO GSDP
2012-13	5.35	13743	0.039
2013-14	7.03	16182	0.043
2014-15	35.22	18129	0.194
2015-16	34.7	19531	0.178
2016-17	161.02	21294	0.756
2017-18	161.02	25789	0.624
2018-19	232.6	27388	0.849
2019-20	232.63	29813	0.780
2020-21	480.88	29776	1.615
2021-22	584.92	33881	1.726

Note: Turnover and GSDP in Rs crores

Source: CAG report

SPSEs direct contribution to GSDP in terms of their turnover Vis a Vis nominal GSDP has been insignificant. The encouraging fact is that it has been growing rising from a mere 0.039 percent in 2012-13 to 1.726 percent in 2021-22.

Table 8.5: Performance of SPSEs by debt to turnover ratio

	<i>Debt</i>	<i>Turnover</i>	<i>Debt/Turnover ratio</i>	<i>Accumulated losses</i>
2012-13	10.43	5.35	1.949533	40.76
2013-14	10.43	7.03	1.483642	45.19
2014-15	3.05	36.34	0.08393	74.74
2015-16	150.58	35.02	4.299829	77.2
2016-17	211.56	161.34	1.311268	121.24
2017-18	497.97	161.02	3.092597	124.53
2018-19	151.71	232.6	0.652236	166.35
2019-20	160.56	232.63	0.690195	166.52
2020-21	493.11	480.88	1.025433	250.06
2021-22	477.51	584.92	0.816368	302.77

Note: In Rs. Crores

Source: CAG report

A low debt-to-turnover ratio (DTR) indicates a good balance between debt and income. Debt servicing and repayment can become a big drag on the finance of the SPSE. The aggregate figure does not show the variations across SPSEs. The accumulated loss is growing with uneven growth rates. During 2017-22 the accumulated losses increased by Rs 178.24 crore mainly due to increase of Rs.175 .83 crore in the accumulated losses of power sector SPSEs from Rs 64 .09 in 2017-18 to Rs.239.92 crore (2021-22)

Table 8.6: Performance of SPSEs by earnings

	<i>Total inv during the year</i>	<i>Total inv at the end of year</i>	<i>Average rate of Interest in percent</i>	<i>Minimum expected return to cover cost of funds</i>	<i>Total earnings after tax for the year</i>
	Rs crore	Rs crore		Rs crore	Rs crore
2012-13	44.57	44.57	6.52	2.91	0.18
2013-14	0	47.48	6.42	3.05	0.78
2014-15	20.1	70.62	6.56	4.63	-20.95
2015-16	261.98	337.24	6.67	22.49	-24.59
2016-17	250.7	610.43	6.42	39.19	-48.58
2017-18	286.89	936.51	6.13	57.41	-48.75
2018-19	299.36	1293.28	5.76	74.49	-42.26
2019-20	165.41	1533.18	6.78	103.95	-42.43
2020-21	192.16	1829.29	4.43	81.04	-34.04
2021-22	348.95	2259.28	5.84	131.94	-25.16

Source: CAG Reports

It shows a dismal picture with total earnings after tax being persistently negative since 2014-15. The sharp rise in investment was due to increase in investment in the form of loans in power sector.

Table 8.7: Disaggregated working results of SPSEs

Summarised working results of SPSE as per their latest finalised financial statements as on 30 September 2022 in Rs crore

	Paid up capital	Loans outstanding at the end of the year	Accumulated profit (+)/loss (-)	Return on capital employed	Percentage return on capital employed
MIDCL	12.14	6.31	(-)31.78	(-)1.45	not workable
MTDCL	0.52		(-)0.23	(-)0.12	(-)41.38
MPHCL	0.02		0.59	0.29	47.54
MFICL	7.41	15.74	(-)0.88	(-)0.17	(-)0.84
MEDCL	2.74		(-)7.11	(-)0.22	not workable
MSPC	10.05		(-)83.22	(-)12.54	not workable
MSPDCL	10.05	451.95	(-)156.7	(-)22.52	(-)7.38

<i>MHHDCL</i>	12.21		(-)16.18	(-)0.31	not workable
<i>TCML</i>	0.05				
<i>CCML</i>	0.25			(-)0.01	not workable
<i>MAICL</i>	0.32		(-)0.45	(-)0.04	not workable
<i>MPCCL</i>	0.51	0.07			not workable
<i>MPAPL</i>	0.9	1.75	(-)6.81	(-)0.25	not workable

Source: CAG Report

All SPSEs except MPHCL show loss and negative return on capital employed. It suggests that SPSEs are not necessarily doomed to be loss making companies. In 2013-14 out of seven working SPSUs, four earned profit of Rs 1.75 crore. Manipur Industrial development corporation ltd earned a profit of Rs 1.33 crore.

Table 8.8: Erosion of net worth of SPSEs

Rs. crore

<i>Net worth of SPSEs</i>	<i>2022</i>
<i>MIDCL</i>	(-)19.64
<i>MTDCL</i>	(-)0.21
<i>MFICL</i>	(-)0.1
<i>MEDCL</i>	(-)4.96
<i>MSPC</i>	(-)73.17
<i>MSPDCL</i>	(-)146.65
<i>MHHDCL</i>	(-)3.97

Source: CAG Reports

Table 8 shows that net worth of the companies, the value of the company after deducting any liabilities, have become negative over the years.

Government policy on SPSEs

In principle loss making non-strategic SPSEs should either be liquidated or subjected to disinvestment. Between 2013-14 to 2021-22 only 5 SPSEs were liquidated. the three nonfunctional SPSEs have been so for the last 18 to 20 years. The financial statements of the companies for every fiscal year are required to be finalised within six months from the end of the relevant fiscal year i.e., by the end of September in accordance with the provisions of Section 96(1) of the Companies Act, 2013. Failure to do so may attract penal provisions under Section 99 of the Act.

As has been mentioned while discussing X-efficiency of public expenditure the deplorable situation with SLPEs, good governance can be a game changer. A properly motivated workforce and management can improve the situation significantly.

Conclusion

The discouraging performance of SPSEs of Manipur is not an exception. The debate on the relevance of SPSEs has been revived by the acute need for fiscal space post covid -19. What the private sector can deliver should be left with the private sector. Public sector should concentrate on basic needs of the people where affordability is also an issue. However, disinvestment is easier said than done. Different sectors in a developing economy needs to be nurtured differently as the private sector participation is low. In that sense every sector is strategic and in that context disinvestment from non-strategic sector is not a simple proposition. Every investment in a sector may contribute in nurturing a conducive environment.

Chapter 9: Contingent liabilities of the state

Introduction

Apart from directly funding several activities the government is also involved in providing guarantees. Guarantees are liabilities contingent on the consolidated fund of the state in case of default by the borrower for whom the guarantee has been extended. Indiscriminate extension of guarantees when seen in the context of lackluster performance of state public sector undertakings can become a serious drag on state finance. The XI FC flagged this issue even though the guarantees were not immediate liabilities. The XII FC proposed a guarantee redemption sinking fund out of which a government can repay such liabilities. Guarantees, if extended, should be preceded by careful examination of risk of default. The XII FC (2005-10) suggested that “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”.

Government Guarantees in Manipur

As per the FRBM Act, 2005 and the Manipur ceiling on state government guarantee act, 2004, the total outstanding guarantees as of 1 April of any year shall not exceed thrice the state’s own tax revenue receipts of the second preceding year.

Manipur government passed the Manipur ceiling on government guarantee act in 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 was endorsed further FRBM Act 2005. The proposed guarantee redemption fund was also created in Feb. 2008. The State has four Reserve Funds *viz.*, State Disaster Response Fund, Consolidated Sinking Fund, Depreciation Reserve Funds of Government Commercial Departments/Undertakings and Guarantee Redemption Fund. Reserve Funds are created for specific and defined purposes under the Public Account of the State Government. These funds are met from contributions or grants from the Consolidated Fund of the State. State Government constituted ‘Guarantee Redemption Fund’ for meeting the payment obligations arising out of the guarantees issued by the Government in respect of

bonds issued and other borrowings by the State Public Sector Undertakings or other Bodies and invoked by the beneficiaries. The accumulations in the Fund are to be utilised only towards payment of the guarantees issued by the Government and not paid by the institutions on whose behalf guarantee was issued.

Consequent to the enactment of Manipur Ceiling on Government Guarantees Act, 2004, and recommendation of XII FC the State created a Guarantee Redemption Fund in 2008 with an initial corpus of ` Rs one crore'. The State was required to contribute one-fifth of the invoked outstanding guarantees at the end of the previous year. State Government constituted 'Guarantee Redemption Fund' for meeting the payment

The latest amendment to the Fund notification issued by the State Government, effective from the year 2013-14, stipulates that the State Government shall initially contribute a minimum one *per cent* of outstanding guarantees at the end of the previous year and thereafter minimum 0.50 *per cent* every year to achieve a minimum level of 3 *per cent* in next five years. The fund shall be gradually increased to a desirable level of 5 *per cent*. If guarantees have been invoked or likely to be invoked, additional Funds (over and above 5 *per cent*) shall be maintained.

Table 9.1: outstanding guarantees of Manipur

	OG	FRBM	OG/FRBM
2012	175.4	588.09	29.83
2013	191.4	801.15	23.89
2014	215.3	1104.21	19.50
2015	193	998.49	19.33
2016	339.5	1418.19	23.94
2017	403.4	1550.49	26.02
2018	513.7	1651.32	31.11
2019	475.1	1760.01	26.99
2020	411.6	2372.82	17.35
2021	593.3	3138.15	18.91
2022	868.55	3603.36	24.10
2023	1177.16	3831	30.73

Notes: OG outstanding guarantees as at end March FRBM ceiling of government guarantees as per FRBM Act. OG and FRBM in Rs crore; OG/FRBM in percent

Source: RBI state handbook and Finance Accounts

Fig.9.1 seeks to provide a comparative picture of OG and limits of guarantees linked to FRBM Act, 2005. Both are growing fast. The proportions have moved within a band of 17.35% to 31.11%.

Fig.9.1: Outstanding Guarantees vs FRBM limits of guarantees

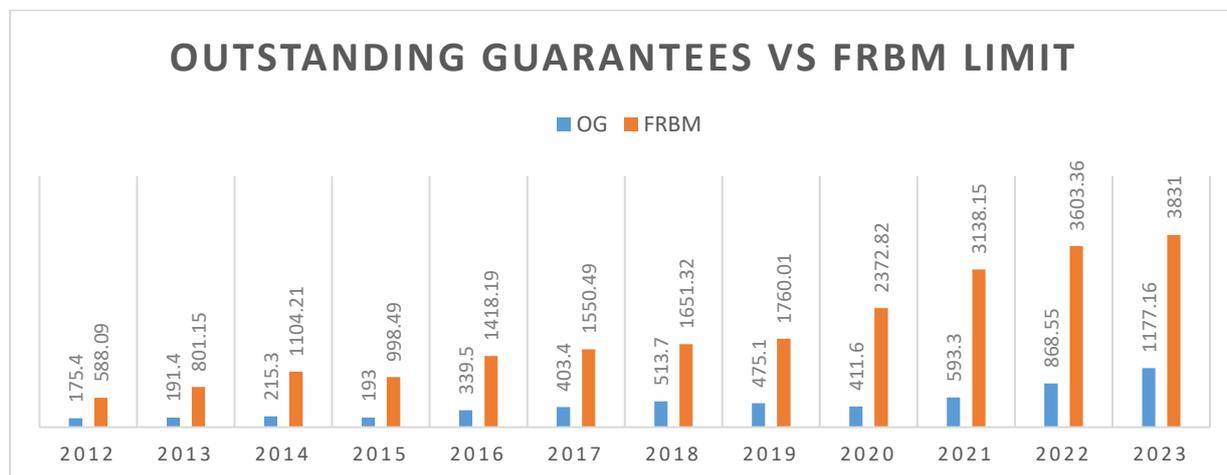


Table 9.2 : Trend growth rates

	trend coefficient	t	p value	Growth rate
Outstanding guarantees	0.163238	10.31964	0	16.32
FRBM limit	0.162575	18.24201	0	16.25

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

Table 9.2 shows the trend growth rates of OG and FRBM limits. Both were found to be highly statistically significant. OG registered a growth rate of 16.32% as against 16.25% of FRBM limit. The FRBM limit is linked to own tax revenue. Faster growth rate of OG vis-a-vis FRBM limit even though it is marginal suggests that the gap may eventually disappear.

During 2011-12, the government issued a guarantee of Rs 117.86 crore to PDA (Rs 61.26 crores) Khadi and village industries (Rs 34.36 crore) and MTDCL (Rs 21.24 crore). In 2015-16 MSPDCL was given a guarantee of Rs 213.02 crore. In 2016-17 a fresh guarantee of Rs 105.92 crore was given to MSPDCL. In 2017-18 a fresh guarantee of Rs 10.92 crore was given to MSPDCL. In 2019-20 a fresh guarantee of Rs 0.72 crore was given to MSPCL. In 2020-21 MSPDCL received

a guarantee of Rs 111.48 crore out of Rs. 235.54 crore of fresh guarantee sanctioned that year. In 2021-22 the state government issued fresh guarantee of Rs.174.27 crore with Rs 102.09 crore going to the power sector. During 2022-23 Out of additional guarantee of Rs 308.61 crore, power sector got Rs 143.92 crore followed by urban development and housing with Rs 123.19 crore. Thus most of the guarantees issued by the state government was for the power sector – MSPCL and MSPDCL. One endemic problem of finance has been the persistent failure in collecting guarantee fees from beneficiaries. In some years the fees were waived off by Finance department order. Under the Manipur Ceiling on Government Guarantee Act 2004, the Government shall charge a minimum of one *per cent* of the guaranteed amount as guarantee commission. At this rate between 2012 and 2022 the state government has foregone Rs.53.52 crore by way of guarantee commission.

Table 9.3: Guarantees given by state government in 2022-23

<i>sector</i>	<i>maximum amount of guarantee</i>	<i>outstanding the beginning of 2021-22</i>	<i>at Addition during of 2022-23</i>	<i>Outstanding at the end of 2022-23</i>
<i>cooperatives</i>	1.18	1.18		
<i>Urban development and Housing</i>	975.32	220.2	123.1 9	343.31
<i>Power</i>	985.98	550.39	143.3 2	694.37
<i>Any other</i>	218.68	96.78	41.5	138.28
<i>Total</i>	2181.16	868.55	308.0 1	1175.9 6

Note: All in Rs crore

Source: State Finance Accounts

Table 9.3 shows the disaggregated picture of state government guarantees in 2022-23. Power sector (MSPDCL) has received guarantees for Rs 985.98 crore. Outstanding guarantees at the end of 2022-23 with power sector was Rs 694.31 crore. Apart from loans for improvement of infrastructure such as system strengthening, LED Street lighting, new scheme for prepaid meter, MSPDCL took loan from REC for overdue payment surcharge of Rs 161.32 crore which was guaranteed by the state government.

Table 9.4 shows the operation of the fund in a year. All the fund is invested by the RBI and the state government received Rs 30.86 crore as interest from the investment managed by the RBI. During 2022-23 the government did not contribute anything to the corpus of the Fund. On the disbursement side also no guarantee was invoked.

Table 9.4: operation of GRF 2022-23

	AMOUNT
OPENING BALANCE	868.55
AMOUNT TRANSFERRED TO THE FUND DURING THE YEAR	30.86
CONTRIBUTION OF STATE GOVERNMENT	Nil
TOTAL	1177.16
AMOUNT MET FROM THE FUND FOR THE DISCHARGE OF INVOKED GUARANTEE	Nil
CLOSING BALANCE	1177.16
AMOUNT OF INVESTMENT MADE OUT OF THE FUND	1177.16

Note: All in Rs crore

Source: State Finance Account 2022-23

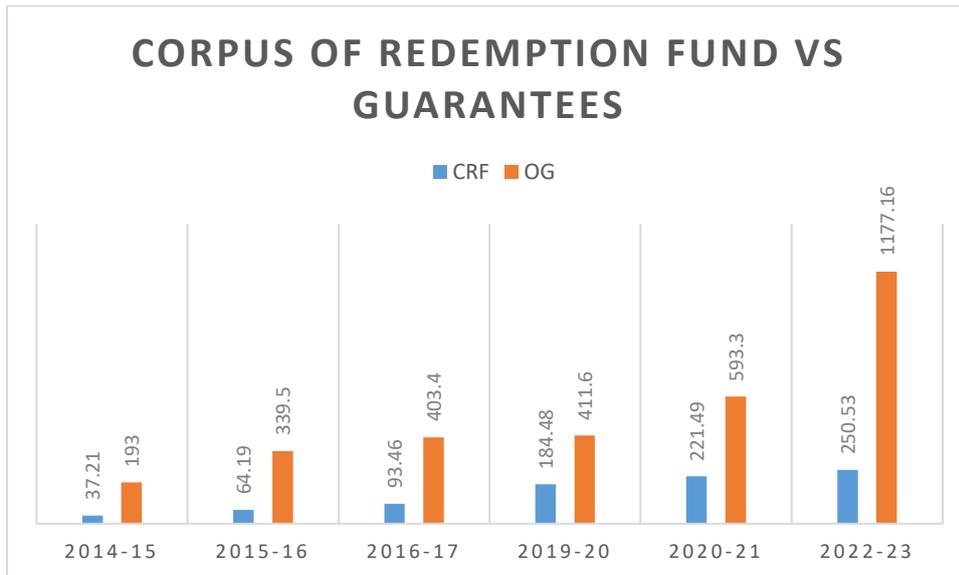
Though the outstanding guarantees at any year has been well below the ceiling provided by the FRBM Act, the corpus created for redemption of guarantees is found to be highly inadequate. If the government is ever required to honour these guarantees, the guarantee redemption fund created for this purpose is highly inadequate. If the guarantees are invoked on the failure of the beneficiary to service them, the fiscal position of the government will be compromised.

Table 9.5: Guarantee redemption

	CORPUS GUARANTEES REDEMPTION FUND	OF OUTSTANDING GUARANTEES
2014-15	37.21	193
2015-16	64.19	339.5
2016-17	93.46	403.4
2019-20	184.48	411.6
2020-21	221.49	593.3
2022-23	250.53	1177.16
NOTES : ALL IN RS. CRORE		

Source: CAG reports and Finance Accounts

Fig .9.2 : Corpus of redemption fund vs Guarantees



Conclusion

Guarantees have been growing faster than the FRBM limits. Besides state public sector undertakings except for Manipur police Housing Corporation Ltd have been plagued by various management and funding issues making most of them nonfunctional. The redemption fund is highly inadequate in the event of the guarantees being invoked. Thus even if it is not an immediate liability, it can become so and create serious problems for state finance. At the same time the hand holding effect provided by guarantees cannot be ignored completely. The redemption funds should be enhanced and guarantee commissions should be levied regularly. More discretion is need at the time of issuing a guarantee. A balance between efficiency and social relevance should be struck.

Chapter 10: FRBM Act and its implementation in Manipur

FRBM is a significant development in state finances which made the process of fiscal correction a binding force by augmenting fiscal discipline and providing a more realistic correction path. The RBI Annual report 2005-06 observed “Adhering to the FRBM targets in respect of fiscal deficit and revenue deficit is therefore critical for macroeconomic, financial, external sector and budgetary sustainability. Furthermore, as the use of borrowed resources for meeting the current expenditure requirement has resulted in widening of asset-liability mismatches over the years, it is essential to eliminate revenue deficit and generate sufficient revenue surplus which may be utilized for asset creation without crating liabilities. Any slippage in achieving the FRBM targets could erode the gains achieved in the initial year of the FRBM. It could also generate a chain effect at the state levels to relax targets set out in their fiscal responsibility legislations.”

The Fiscal Responsibility and Budget Management Act, 2003 (FRBMA) came into force on 26th August, 2003 and rules thereunder were notified on 2nd July, 2004. In terms of the Act, the centre’s revenue deficit was required to be eliminated by 31st March, 2008. The 12th FC recommended that revenue deficits should be eliminated by the year 2008-09. The Act further require the central government to reduce the revenue deficit by an amount equivalent to 0.5 per cent or more of GDP at the end of each year beginning with 2004-05. The fiscal deficit is to be reduced by 0.3 per cent or more of GDP at the end of each financial year beginning with 2004-05, so that it is brought down to 3 percent of GDP in 2008. Manipur adopted FRBM Act in August 2005. It came with legislations in respect of various fiscal parameters such as guarantees, setting up of sinking funds and fiscal responsibility. After the FRBMA was passed, the central government set up a Task Force for drawing up a medium-term framework for fiscal policies to achieve the objective of the FRBMA and to formulate annual targets indicating the path of adjustment as well as the required policy measures. Manipur was not one of the states which proposed setting up of committees/working groups for targeted purposes. Each state must enact a fiscal Responsibility legislation prescribing specific annual targets with a view to eliminating liabilities on account of NSSF etc. States should set up guarantee redemption funds through earmarked guarantee fees.

Clause 3 of the FRBMA provides that the central government shall lay in each Fiscal year before both houses of Parliament, three statements relating to

- (i) Medium Term Financial Policy (MTFP) Statement
- (ii) Fiscal Policy Strategy Statement, and
- (iii) Macroeconomic Framework Statement, which shall contain an assessment regarding (a) growth in GDP (b) fiscal balance of the Union government as reflected in the revenue balance and gross fiscal balance, and (c) external sector balance of the economy as reflected in the current account balance in the balance of payments.

This legislation at the state level should, at a minimum, provide for

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

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 Thirteenth Finance Commission recommended a new fiscal correction path for the states which is given below:

1. As far as reduction of revenue deficit is concerned, it is mentioned that states having revenue deficit in 2007-08 should eliminate it by 2014-15. Other states having surplus or zero revenue deficits in 2007-08 should eliminate revenue deficit by 2011-12.
2. For the reduction of fiscal deficit, different targets are set for general category states (GCS) and special category states (SCS). The GCS which achieved revenue balance or surplus by 2007-08 should reduce their fiscal deficit to 3 percent by 2011-12. For other GCS, they should achieve the target by 2013-14.

3. For special category states (SCS), it is mentioned that they receive large central transfers and hence continue to enjoy revenue surplus. This made recommendations for reducing revenue deficit unnecessary for them.
4. The yardstick for the fiscal adjustment path of the SCS for the various parameters is the average of the three years 2005-06 to 2007-08. Manipur is in the group of SCS which has fiscal deficit of over 3 percent but less than 6 percent of the GSDP. It is recommended that Manipur should bring down its fiscal deficit to 3 percent by 2013-14.

As per the XIV FC the fiscal deficit targets and annual borrowing limits for the States during our award period are enunciated as follows:

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

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

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

iv. The flexibility in availing the additional limit under either of the two options or both will be available to a State only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year. If a State is not able to fully utilise its sanctioned borrowing limit of 3 per cent of GSDP in any particular year during the first four years of our award period (2015-16 to 2018-19), it will have the option of availing this un-utilised borrowing amount (calculated in rupees) only in the following year but within the award period.

The XV FC recommended for states the fiscal deficit limit (as % of GSDP) of: (i) 4% in 2021-22, (ii) 3.5% in 2022-23, and (iii) 3% during 2023-26. If a state is unable to fully utilise the sanctioned borrowing limit as specified

above during the first four years (2021-25), it can avail the unutilised borrowing amount (calculated in rupees) in subsequent years (within the 2021-26 period).

Extra annual borrowing worth 0.5% of GSDP will be allowed to states during first four years (2021-25) upon undertaking power sector reforms including: (i) reduction in operational losses, (ii) reduction in revenue gap, (iii) reduction in payment of cash subsidy by adopting direct benefit transfer, and (iv) reduction in tariff subsidy as a percentage of revenue.

The Commission observed that the recommended path for fiscal deficit for the centre and states will result in a reduction of total liabilities of: (i) the centre from 62.9% of GDP in 2020-21 to 56.6% in 2025-26, and (ii) the states on aggregate from 33.1% of GDP in 2020-21 to 32.5% by 2025-26.

It recommended forming a high-powered inter-governmental group to: (i) review the Fiscal Responsibility and Budget Management Act (FRBM), (ii) recommend a new FRBM framework for centre as well as states, and oversee its implementation.

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

- Strive to remain revenue surplus and build further surplus
- Fiscal deficit to be reduced to 3 percent of the gross state domestic product.
- Limit the amount of outstanding government guarantee as per the provisions of the Manipur ceiling on State Government Guarantee Act ,2004
- Follow a recruitment and wage policy to bring down the total salary bill so that it does not exceed 35 percent of revenue expenditure net of interest payments and pension.

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 year. 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 following table shows the state's track record in implementation of the FRBM Act.

Table 10.1: Implementation of FRBM Act

Year	Revenue def		Fiscal deficit as percent of GSDP		Outstanding guarantee		Salary expenditure		Debt/GSDP*	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
2012-13	Surplus	(+)1503	3	(-)0.02	801	191.4	1443.30	2246.9	60.1	49.60
2013-14	Surplus	(+)1563.96	3.5	(-)1.69	1104.21	215.3	1575.85	2543.3	57	46.36
2014-15	Surplus	(+)730.98	3	3.67	1418.19	192.9	2050.92	2646.0	54.3	44.96
2015-16	Surplus	(+)897.53	below 3	1.71	1550.49	339.5	2049.63	2772.7	47.66	41.6
2016-17	Surplus	(+)944.36	below 3	2.35	1550.49	269.9	2263.57	2982.8	45.42	41.36
2017-18	Surplus	(+)1083.83	below 3	1.47	1651.32	490.1	2585.35	3381.4	43.43	37.09
2018-19	Surplus	(+)812.99	3	3.29	1761	513.7	2673.03	3662.3	41.66	38.2
2019-20	Surplus	(+)445.53	below 3	2.22	2373	475.1	2784.00	3968.4	40.11	36.45
2020-21	Surplus	(+)554.18	3	5.76	3138	411.6	3450.69	4400.4	42.8	38.65
2021-22	Surplus	(+)1449	3	5.321	3729	593.3	3329.26	4582.9	41.5	40.66
2022-23	Surplus	(+)1734	3	4.740	3882	1840.1	3641.52	5077.5		42.49

Source: CAG reports

Notes: Revenue deficit in Rs crore Fiscal deficit as percent of GSDP outstanding guarantees /salary in Rs crore Debt/GSDP in percentage. FRBMA provided targets up to 2014-15 only for Debt/GSDP. The subsequent figures are the XIVFC/XV FC projections.

The state has maintained revenue surplus throughout. However, it is due to central transfers rather than own resource mobilisation. Share in central tax (CT) and grants in aid (GIA) contributed on the average 89.89% of revenue receipts. Thus, the state's ability for maintaining a revenue surplus is contingent on transfers from the centre. During this period under study the share of central taxes has increased significantly with the beginning of XIV FC awards. In 2018-19 the share of central taxes exceeded grants-in-aid. In the case of own revenue receipts, the introduction of GST was accompanied by a significant rise in the

share of own tax revenue. The share of own non tax revenue remained not only low but highly erratic also.

Table 10.2: Percentage share of Revenue receipts

<i>Year</i>	<i>OTR</i>	<i>ONTR</i>	<i>CT</i>	<i>GIA</i>
2012-13	4.88	3.40	19.33	72.39
2013-14	6.49	3.58	19.76	70.17
2014-15	6.46	2.30	19.09	72.15
2015-16	6.64	1.80	37.95	53.61
2016-17	6.43	1.81	41.15	50.61
2017-18	7.64	1.68	40.10	50.57
2018-19	9.90	1.57	44.49	44.04
2019-20	11.59	1.25	37.74	49.42
2020-21	9.97	1.14	32.91	55.99
2021-22	11.70	0.76	42.65	44.89
2022-23	11.75	2.88	42.76	42.62
2023-24	5.62	0.61	33.47	60.30

Source: Finance Accounts (various years)

Notes: OTR Own tax revenue ONTR Own non tax revenue CT share in central tax GIA Grants-in -aid

In the case of gross fiscal deficit since 2020-21, the pandemic year, it exceeded the FRBM target though it is coming down. The state had gross fiscal surplus in 2013-14. In 2013-14 there was a fiscal surplus of Rs 273.26 crore and in 2012-13 the fiscal deficit was Rs 1.02 crore only. In the case of outstanding guarantees, it has been well within the limits though it has been increasing. Outstanding guarantees should not exceed thrice the state's own tax revenue receipts of the second preceding year. The Outstanding guarantees as proportion of sanctioned limit rose from 23.89% in 2012-13 to 47.4% in 2022-23.

In the case of salary expenditure, an important committed expenditure it should not exceed 35% of revenue expenditure net of interest payment and pension. Salary bills constitute on the average 63 % of committed expenditure. Actual salary expenditure persistently exceeded the limit. The proportion exceeded has declined from the early part of the period and there is no clear declining trend in the subsequent years. Actual salary bill has been growing at positive rates and it rose even during the covid pandemic. The following table gives a comparative picture of growth rates of actual salary bill and salary in line with FRBM Act. An interesting point regarding salary bills is that the state government had implemented the recommendations of the seventh pay

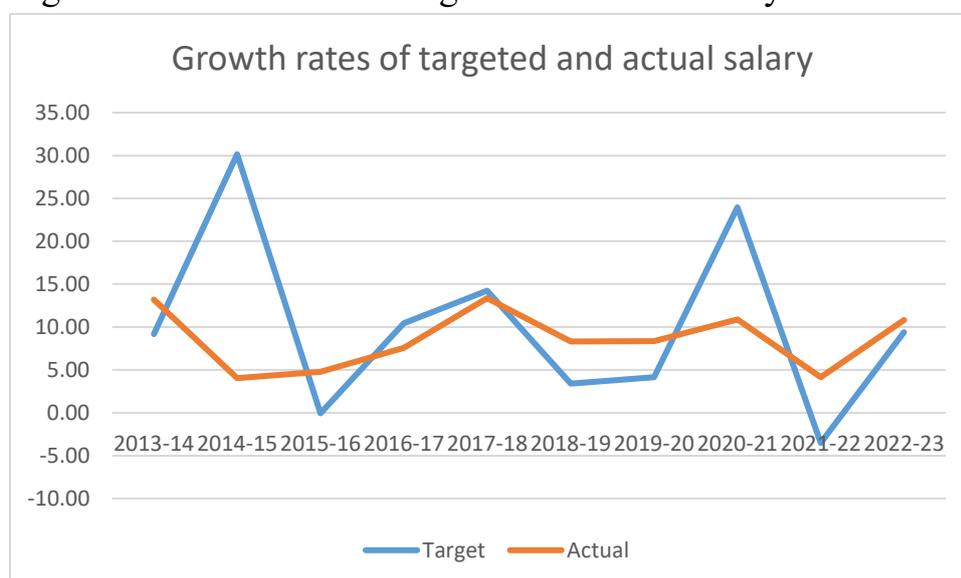
commission from 1st April onwards subject to the condition that actual payment would start from 1st April,2020 when the awards of the XV Finance commission would become operational. This partially explains the 10.89% rise even though it was the pandemic year when everything slowed down.

Table 10.3: Growth rates of targeted salary and actual salary

Year	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	Average
Target	9.18	30.15	-0.06	10.44	14.22	3.39	4.15	23.95	-3.52	9.38	10.13
Actual	13.19	4.04	4.79	7.58	13.36	8.31	8.36	10.89	4.15	10.79	8.54

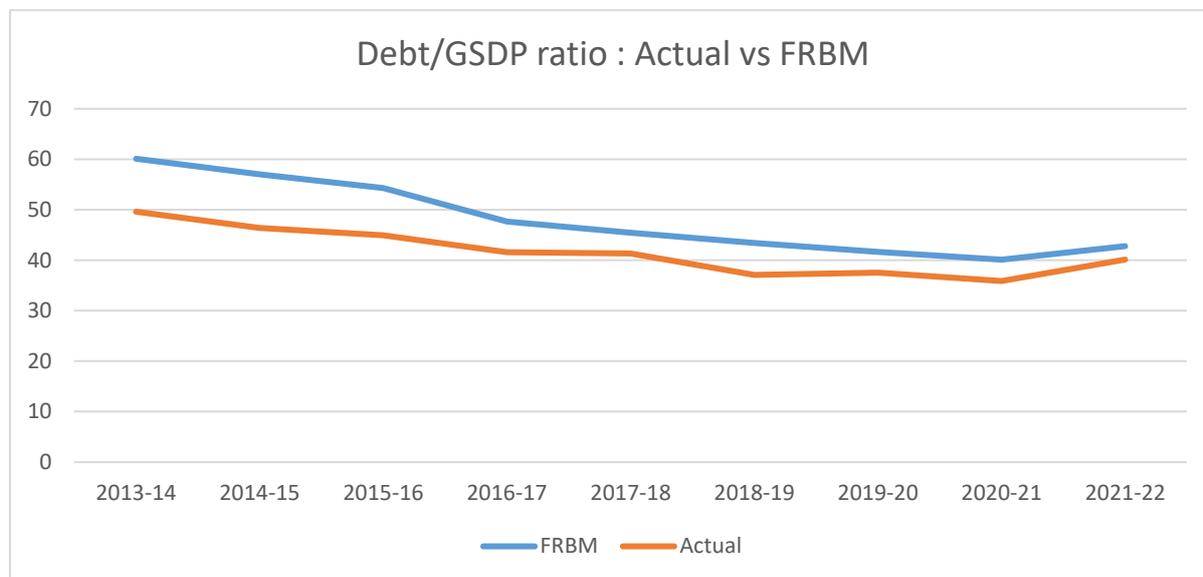
Source: CAG Reports

Fig.10.1: Growth rates of targeted and actual salary



Debt management is the process of establishing and executing a strategy for managing the Government's debt to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals that the Government may have set through enactment or any other annual budget announcements. In the case of debt/GSDP ratio FRBM Act provided the target upto 2014-15 only when it was targeted to a maximum of 54.3 %. However, the outstanding Debt-GSDP ratio was within the limit of the XIV and XV Finance commission projections during the post 2014-15 period.

Fig 10.2: Comparative Debt/GSDP ratio of Manipur: Actual vs FRBM



FRBM Act also requires that a medium term fiscal policy statement should be placed in the state legislative assembly every year which will set yearly targets of several fiscal parameters. The following table shows how far these targets have been achieved. MTFPS targets are different from FRBM Act targets. While FRBM Act sets revenue deficit at zero, MTFPS provides specific targets for revenue surplus.

The Medium-Term Fiscal Policy (MTFP) statement for Manipur outlines the state government's fiscal strategy for the next three years, as required by the Manipur Fiscal Responsibility and Budget Management (FRBM) Act. Besides the budget estimate, forecasts for the next two years. This statement includes the Fiscal Policy Strategy Statement and the Macro-economic Framework Statement, providing an assessment of the state's economic growth prospects and the government's strategies for taxation, expenditure, and borrowing. The MTFP is designed to guide fiscal management and ensure sustainable economic growth for Manipur. However, it has been found that the state government has not disclosed the information despite the requirement of FRBM Act. In the case of Manipur despite the mandatory nature of disclosures, budgets are also presented without MTFP statement. The BE figures are part of such statements and its assessment can be done in terms of differences between budget estimates and actuals.

Conclusion

FRBM Act had set targets and ceilings for several fiscal parameters. The persistent revenue surplus is contingent largely on central transfers, not based on own resource mobilisation. Outstanding guarantees is not an issue as there are few medium and large industries and a few state level public sector units. It has managed to keep outstanding debt/GSDP also within bounds. In the case of GFD/GSDP ratio and salary the record is mixed. With the former it is a deteriorating situation and with the latter it has been a chronic problem.

Chapter 11: Subsidy

Introduction

The term 'Subsidy' has been used by economists with different meanings and connotations in different contexts. The dictionary [Concise Oxford] defines it as "money granted by state, public body, etc., to keep down the prices of commodities, etc." Environmental economists define subsidies as uncompensated environmental damage arising from any flow of goods and services. In a budgetary context, it may be defined as "unrecovered costs in the public provision of private goods". Prest [1974] had commented that economists have not settled upon a commonly acceptable definition of subsidy. What Houthakker (1972) had observed that "the concept of a subsidy is just too elusive to even attempt to define" seems to be valid still. Thus defining a subsidy is not a straightforward proposition. In a budgetary context, the context with which we are concerned, subsidies are taken as unrecovered costs of public provision of goods that are not classified as public goods. There are two broad categories of budgetary deficit- explicit deficit and implicit deficit. While, several subsidies are explicitly stated in the central budget, the state budgets show few subsidies explicitly. In the central budget explicit subsidies are food, fertilisers, interest etc. For food, subsidy is the difference between economic cost and Food Corporation of India's (FCI) average sales realisation. The economic cost consists of two elements: (i) cost of procurement, and (ii) cost of FCI operations involving handling, storage, and transportation.

Therefore, explicit subsidies provide, in general, only a limited idea of the overall volume of subsidies in the state budget. There are many off-budget subsidies in the system. An important off-budget subsidy is the subsidy that arise due to guarantees extended by governments for loans taken by the public enterprises. These are not payable immediately but have the potential of becoming budgetary liabilities if there are defaults in loans guaranteed by the government.

Subsidies are justified in the presence of positive externalities because in these cases social benefits require higher consumption levels than what would be obtained based on private benefits only. In addition, subsidies are sometimes justified for well-defined redistributive objectives. However, the financing of subsidies induces its own costs whether these are financed through additional

taxation or borrowing. The welfare gains of subsidies should be matched against the costs of financing subsidies. Subsidies can have a major impact in augmenting welfare of the society provided these are designed and administered efficiently to serve a clearly stated set of objectives. However, subsidies can also be very costly if they are poorly designed and inefficiently administered. Over subsidisation could adversely affect allocation of resources and environment.

According to Srivastava et al (2003) some of the important contemporary subsidy related issues in India are as follows:

1. Are budgetary subsidies being provided for the right reasons, especially in the context of arguments like the infant industry argument which may not be valid anymore?
2. Are there many wrong goods/services being subsidized, especially in the context of many goods/services belonging to the non-merit category?
3. Does over-subsidisation lead to perverse results, especially in the light of experience regarding the damage to soil productivity by subsidy-induced distortions in the NPK ratio and other environmentally adverse effects?
4. Are subsidies too large relative to resources, especially in the context of the fall of the tax-GDP ratio in the nineties?
5. What are the implications of cross subsidization and off-budget subsidies?
6. Have budgetary subsidies increased relative to the GDP and revenue receipts in recent times?
7. What are the implications of subsidising inputs?
8. Is the subsidy regime in India regressive in its final incidence?
9. Do subsidies hide and promote inefficiencies?
10. Is there a case for increasing subsidies in some sectors?
11. Is there need for distinguishing between subsidies that are to be given on a long-term basis from those that should be used on a temporary basis with a predetermined life?

The proliferation of subsidies in India flowed from an undue expansion and growth of governmental activities in the provision of private goods. Apart from public goods like defence and maintenance of law and order, the government had extended itself into various social and economic sectors producing a wide range of private goods and services. However, in many of these areas, costs tended to be extremely high and cost recoveries poor, giving rise to an undue growth both in the extent and volume of subsidies implicit in the budgetary provision of these services. In another context subsidies are said to promote inefficiencies. For

example, fertiliser subsidies promote inefficiencies, and are ill-targeted. In general, administering subsidies through inputs should be discouraged. There may be a case of subsidising small and marginal farmers to a limited extent.

Srivastava et al (2003) had found that Agriculture and irrigation sectors accounted for the largest share in the state subsidies, followed by elementary education, energy, secondary education, and medical and public health. For the special category states, subsidies relative to their GSDPs are extremely high amounting to 22 percent for the larger special category states, and about 34 percent of their GSDPs for the smaller special category states.

In a budgetary context, it is useful to distinguish between three sets of goods provided by the government, *viz.*, public goods, private goods and 'club' goods or congestible goods. Public goods are identified by the twin characteristics of non-rivalry (consumption by one user does not reduce the quantity available for another) and non-excludability (consumption by one cannot be distinguished from consumption by another). Defence and law and order are examples of public goods. In the case of private goods, the consumer is identifiable, and the extent of his consumption is measurable. In modern economies, there are many goods/services that do not clearly fall into the exclusive categories of purely public or purely private goods. Both the characteristics of rivalry and excludability are matters of degree, and often there are some goods which can be seen as characterised by different degrees of 'publicness' and, therefore, fall in an intermediate category. Examples of 'club' goods or congestible goods are roads or swimming pools which relate to goods that are non-rival for small groups but become rival when the group of users becomes large. In the case of congestible goods, user charges are leviable, although these may be varied according to groups of consumers rather than individual consumers.

Government expenditures in India are broadly classified with respect to three service categories: general, social, and economic. In the general services, expenditure heads like organs of state, fiscal and administrative services are included. These services are in the nature of public goods. These are not supplied by the market although sometimes services can be individualised. In most cases, individuals cannot be charged for services according to the extent of their consumption. Governments in India, both at the centre and in the states, actively participate in the provision of a range of private goods or congestible goods under the head of social and economic services where users or groups of users are

identifiable and user charges can be levied. Budgetary subsidies arise when the budgetary cost of providing the good/service is more than the recovery made from the user/beneficiary of the service, the difference being financed by the taxpayer or additional borrowing.

Government services have been categorised in three groups

Merit I:

- i. Elementary education,
- ii. primary health centres, prevention, and control of diseases,
- iii. social welfare and nutrition,
- iv. soil and water conservation, and
- v. Ecology and environment.

Merit II:

- i. Education (other than elementary),
- ii. sports and youth services,
- iii. family welfare,
- iv. urban development,
- v. forestry,
- vi. agricultural research and education,
- vii. Other agricultural programmes,
- viii. special programmes for rural development,
- ix. land reforms,
- x. other rural development programmes,
- xi. special programmes for north-eastern areas,
- xii. flood control and drainage,
- xiii. non-conventional energy,
- xiv. village and small industries,
- xv. ports and light houses,
- xvi. roads and bridges,
- xvii. inland water transport,
- xviii. atomic energy
- xix. research, space research, oceanographic research, other scientific research,
- xx. census surveys and statistics,
- xxi. Meteorology.

Non-Merit: All others.

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. It is a general practice to exclude pure public goods such as defence, general administration, etc., as these are meant to be financed by tax revenues, although, sometimes, subsidies are implicit in these cases also.

In the Central Statistical Organisation's NIA methodology, subsidies include grants on current account which private industries, public corporations and government enterprises receive from the government. These may be in the form of direct payments or those estimated on the basis of differentials between buying and selling prices of government trading organisations. The NIA approach focuses only on firms/producers or government departments. It does not fully cover all the budgetary costs in the public provision of non-public goods.

Uncovering Implicit Subsidies: Subsidies as Unrecovered Costs

Here, budgetary subsidies are measured as unrecovered costs in the public provision of goods not classified as public goods through budgetary allocations.

In the present exercise, the focus is on budgetary subsidies and the main objective is to uncover implicit subsidies. Accordingly, subsidies are measured here as "unrecovered" costs of governmental provision of goods/services that are not classified as public goods. In particular, the goods/services under reference are those that are categorised as social services and economic services. The unrecovered costs are measured as the excess of aggregate costs over receipts from the concerned budgetary head. The aggregate costs comprise two elements: (i) Current costs, and (ii) annualised capital costs. Current costs consist of revenue (current) expenditures directly related to the provision of services classified under different heads.

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.

Table 3.10 gives growth rates of the major central explicit subsidies for selected periods.

For the special category states, subsidies relative to their GSDPs are extremely high amounting to more than 22 percent for the larger SC states and more than 34 percent for the smaller special category states.

Subsidy in Manipur

Both explicit and implicit subsidies will be examined.

Table 11.1 Explicit budgetary subsidies in Manipur 2012-13 to 2022-23

	<i>SW</i>	<i>VAH</i>	<i>COP</i>	<i>IND</i>	<i>SERI</i>	<i>POWER</i>	<i>Total</i>
2012-13	6	38.37	2.61				46.98
2013-14	7	32	2	1.62			42.62
2014-15	2.36		17			17000	17019.36
2015-16	17.04		17			18488.8	18522.84
2016-17				7.79		15654.18	15661.97
2017-18	16.13		17	12.29	2	12300	12347.42
2018-19	14.4		21.5			12000	12035.9
2019-20	7.2				4	12000	12011.2
2020-21	4.25				4	12000	12008.25
2021-22	7.2		19.9		3.69	12000	12030.79
2022-23	14.4				3.97	12000	12018.37

Notes: All in Rs lakhs SW social welfare VAH veterinary and animal husbandry COP cooperation IND Industries SERI sericulture POWER power

Source: Finance Accounts ,GOM

A few departments such as social welfare, veterinary and animal husbandry, Cooperation Industries, sericulture and power enjoyed budgetary subsidies. Since 2014-15 more than 99% of the budgetary subsidies went to the power sector which was corporatized in 2014.

Table 11.2: Subsidized programmes in budgets of Manipur

<i>Department</i>	<i>Purpose</i>
<i>Social welfare</i>	production cum training center under Right to Information Act
<i>Cooperation</i>	i. Miscellaneous cooperative societies ii. Financial assistance to Handloom weavers' Cooperative society ltd
<i>Commerce and Industries</i>	Incentives under industrial policy
<i>Sericulture</i>	General sericulture Development programme
<i>Veterinary and Animal Husbandry</i>	i. Integrated poultry /piggery development

<i>Power</i>	programme/search programme
	ii. Pony development programme Financial assistance to MSPDCL

According to Srivastava (2003) agriculture and irrigation sectors account for the largest share in the state subsidies, followed by elementary education, energy, secondary education, and medical and public health. In the case of Manipur, energy became the most subsidised activity. Power is mainly used for domestic lighting and irrigation & agricultural users constituted only about 0.01 % of the users of power in 2022-23.

Table 11.3: Explicit subsidies in Manipur

	SUBS	GSDP	SUBS/GSDP IN %
2012-13	0.47	13743	0.00
2013-14	0.43	16182	0.00
2014-15	170.19	18129	0.94
2015-16	185.22	19531	0.95
2016-17	156.62	21294	0.74
2017-18	123.47	25789	0.48
2018-19	120.36	27388	0.44
2019-20	120.11	29813	0.40
2020-21	120.1	29776	0.40
2021-22	120.3	33881	0.36
2022-23	120.4	37043	0.33

Notes: SUBS explicit budgetary subsidy. All in Rs crore

Source: Finance Accounts, GOM

The share of explicit budgetary subsidy has been not only low but also declining. Since 2014-15, 99% of the subsidies have gone to the power sector.

Budgetary subsidies are largely implicit in the form of unrecovered cost of activities undertaken by the government for providing goods/services that are not classified as public goods. Such goods /services are categorized as social services and economic services. The unrecovered costs are measured as the excess of

aggregate costs over receipts. There are two components of aggregate cost namely current cost and annualized capital cost. Current costs consist of revenue expenditure directly related to the provision of services under different heads in these two broad categories. Annualized cost of capital is obtained by multiplying capital expenditure with the interest rate at which funds have been borrowed by the government. In the standard formula

Cost is given by

$$C = RX + (i+d^*)K_0 + iZ_0$$

Where RX= revenue expenditure on the service head

i=effective interest rate

d*=depreciation rate

K_0 =aggregate capital expenditure at the beginning of the period

Z_0 =sum of loans and equity investment at the beginning of the period

In this exercise $C = Rx + iK_0$

Depreciation and loans & equity investment have been left out due to unavailability of data. To that extent cost will be an underestimate and estimate of subsidy will be an overestimate.

Outstanding loans are given for end March which means the outstanding loan in 2012 refers to outstanding loans at end March 2012. Interest paid in 2012-13 is for the outstanding liability at the beginning of the period i.e. end March. The aggregate capital expenditure at the beginning of the period refers to the capital expenditure in the preceding period. For example, capital expenditure in 2012-13 is the relevant capital expenditure for 2013-14.

Table 11.4: Rate of interest in percent

	OL	INT	ROI%
2012	6503	433	6.66
2013	6820	444.92	6.52
2014	7089	473	6.67
2015	7391	516	6.98
2016	8147	544	6.68
2017	8831	562.96	6.37
2018	9565	577.21	6.03

2019	10463	663.54	6.34
2020	11406	831.6	7.29
2021	13061	690.8	5.29
2022	14399	874.19	6.07
2023	15917	946.84	5.95

Notes: OL outstanding liabilities INT Interest; In Rs crore

Source: Finance Accounts, GOM

Table 11.4 shows the average interest rate paid by the government. Outstanding liabilities are given at March end. Interest is paid in the following year. For example, the interest paid in 2012-13 is for outstanding debt at the end March of 2012. It fluctuates in a narrow band peaking in 2020. The interest rate thus worked out is used to annualize the capital outlay.

Table 11.5: Cost of social services

COST STRUCTURE SOCIAL SERVICES

	RE	CE	r%	r*CE	C (RE+r*CE)
2013-14	1603.65	328.04	6.523754	21.40052	1625.051
2014-15	2028.06	547.62	6.672309	36.5389	2064.599
2015-16	1973.6	385.89	6.981464	26.94077	2000.541
2016-17	2056.76	412.99	6.677305	27.5766	2084.337
2017-18	2569.4	663.69	6.374816	42.30902	2611.709
2018-19	2660.91	753.09	6.034605	45.44601	2706.356
2019-20	2976.83	570.13	6.341776	36.15637	3012.986
2020-21	3328.45	1247.1	7.2909	90.92481	3419.375
2021-22	3556.78	1303.32	5.289028	68.93297	3625.713
2022-23	4407.52	1386.03	6.071185	84.14845	4491.668
2023-24	6527.91	3138.98	5.948608	186.7256	6714.636

Note: RE Revenue expenditure CE Capital expenditure r Rate of interest r*CE annualized capital expenditure C cost

Source: Finance accounts; GOM

Table 11.5 shows the calculation of cost in social services category including the annualization of capital outlay. Annualization involves multiplying capital expenditure by rate of interest calculated in table 11.4. The revenue expenditure is added to the annualized value to get the cost.

Table 11.6: Subsidy in social services in Rs. crore

**SUBSIDY
C-RX**

	Social Services		
	C	RX	subsidy
2013-14	1625.051	6.3	1618.751
2014-15	2064.599	6.1	2058.499
2015-16	2000.541	5.66	1994.881
2016-17	2084.337	5.92	2078.417
2017-18	2611.709	8.52	2603.189
2018-19	2706.356	8.33	2698.026
2019-20	3012.986	8.2	3004.786
2020-21	3419.375	7.5	3411.875
2021-22	3625.713	6.83	3618.883
2022-23	4491.668	300	4191.668
2023-24	6714.636	8.43	6706.206

Note: c cost RX revenue receipts (all in Rs crore)

Source: Finance accounts; GOM

Table 11.6 shows the implicit subsidy in this category. Subsidy in the form of uncovered cost is obtained by subtracting revenue receipt from cost.

Table 11.7 shows the cost of economic services. Revenue expenditure and annualized capital expenditure are added to get the cost. Annualized capital expenditure is obtained by multiplying capital expenditure by rate of interest.

Table 11.7: Cost of Economic services

ECONOMIC SERVICES

	RE in Rs crore	CE in Rs crore	r %	r*CE	C
2013-14	1338.61	743.52	6.523754	48.50541	1387.115
2014-15	2012.38	575.99	6.672309	38.43183	2050.812
2015-16	2110.12	686.95	6.981464	47.95917	2158.079
2016-17	2342.97	987.57	6.677305	65.94306	2408.913
2017-18	3037.7	658.11	6.374816	41.9533	3079.653
2018-19	3106.5	865.76	6.034605	52.2452	3158.745
2019-20	2876.98	538.65	6.341776	34.15998	2911.14
2020-21	4044.8	1130.66	7.2909	82.43528	4127.235

2021-22	3186.23	1866.4	5.289028	98.71443	3284.944
2022-23	3102.98	2002.62	6.071185	121.5828	3224.563
2023-24	4324.16	3826.47	5.948608	227.6217	4551.782

Note: RE Revenue expenditure CE Capital expenditure r Rate of interest r*CE annualized capital expenditure C cost

Source: Finance accounts; GOM

Table 11.8: subsidy in Economic services in Rs crore

	<i>C</i>	<i>RX</i>	<i>subsidy</i>
2013-14	1387.115	105.29	1281.825
2014-15	2050.812	9.33	2041.482
2015-16	2158.079	6.22	2151.859
2016-17	2408.913	11.01	2397.903
2017-18	3079.653	26.3	3053.353
2018-19	3158.745	20.36	3138.385
2019-20	2911.14	12.5	2898.64
2020-21	4127.235	8.67	4118.565
2021-22	3284.944	8.93	3276.014
2022-23	3224.563	29.99	3194.573
2023-24	4551.782	37.52	4514.262

Note : c cost RX revenue receipts (all in Rs crore)

Table 11.7 and 11.8 show the calculation of cost in Economic services category and implicit subsidy.

Table 11.9 shows the total of implicit subsidies in social services and economic services.

Table 11.9: Total implicit subsidy

	SUBSIDY			SHARE IN TOTAL IMPLICIT SUBSIDY%	
	SS	ES	Total implicit	SS	ES
2013-14	1618.75	1281.83	2900.58	55.81	44.19
2014-15	2058.50	2041.48	4099.98	50.21	49.79
2015-16	1994.88	2151.86	4146.74	48.11	51.89
2016-17	2078.42	2397.90	4476.32	46.43	53.57
2017-18	2603.19	3053.35	5656.54	46.02	53.98

2018-19	2698.03	3138.39	5836.41	46.23	53.77
2019-20	3004.79	2898.64	5903.43	50.90	49.10
2020-21	3411.87	4118.57	7530.44	45.31	54.69
2021-22	3618.88	3276.01	6894.90	52.49	47.51
2022-23	4191.67	3194.57	7386.24	56.75	43.25
2023-24	6706.21	4514.26	11220.47	59.77	40.23

NOTES : SS SOCIAL SERVICES ES ECONOMIC SERVICES IN RS CRORE

Table 11.10 shows the trend growth rates of implicit subsidies in social services, economic services and total implicit subsidy. All of them have statistically significant rising trends.

Table 11.10: Growth rates of Implicit subsidies

Subsidy	Trend coefficient	t	p value	Growth rate
SS	0.12	10.18	0	11.7
ES	0.09	5.78	0.0003	9.4
TOTAL	0.11	9.90	0	10.6

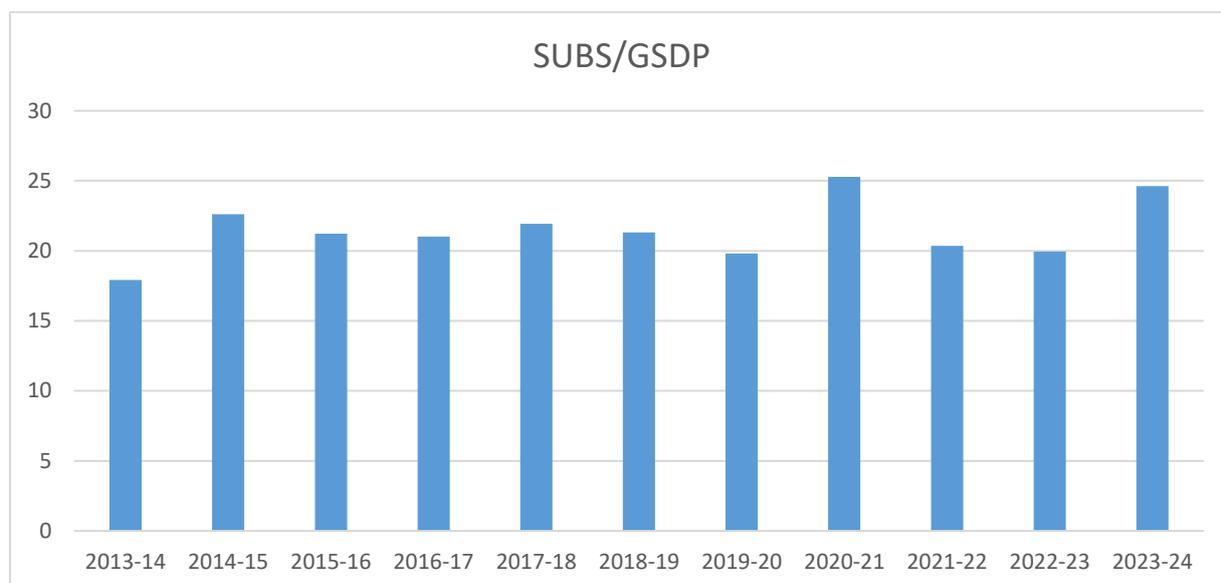
Table 11.11 shows total implicit subsidies as percent of nominal GSDP.

Table 11.11: Subsidy and GSDP

	SUBS	GSDP	SUBS/GSDP
2013-14	2900.576	16182	17.92471
2014-15	4099.981	18129	22.61559
2015-16	4146.74	19531	21.23158
2016-17	4476.32	21294	21.02151
2017-18	5656.542	25789	21.93393
2018-19	5836.411	27388	21.3101
2019-20	5903.426	29813	19.80152
2020-21	7530.44	29776	25.2903
2021-22	6894.897	33881	20.35034
2022-23	7386.241	37043	19.93964
2023-24	11220.47	45558	24.62897

The proportion of subsidies both explicit and implicit has been rising.

Fig.11. 1: Dynamics of Subsidy to GSDP ratio



Thus during 2013-14 to 2023-24 subsidy to GSDP ratio had an average of 21.45%.

Table 11.12 shows both explicit and implicit subsidies. Explicit budgetary deficit constitutes a miniscule proportion of total subsidies. Implicit subsidy is unrecovered cost and it has been growing.

Table 11.12: Explicit and implicit subsidies of Manipur

	Explicit SUBS	Implicit SUBS	TOTAL SUBS	Implicit subsidy as% of TOTAL SUBS
2013-14	0.43	2900.58	2901.01	99.99
2014-15	170.19	4099.98	4270.17	96.01
2015-16	185.22	4146.74	4331.96	95.72
2016-17	156.62	4476.32	4632.94	96.62
2017-18	123.47	5656.54	5780.01	97.86
2018-19	120.36	5836.41	5956.77	97.98
2019-20	120.11	5903.43	6023.54	98.01
2020-21	120.1	7530.44	7650.54	98.43
2021-22	120.3	6894.90	7015.20	98.29
2022-23	120.4	7386.24	7506.64	98.40

Impact of subsidies

Most of the subsidies of the state are directed towards the power sector. The power sector management has been corporatised and is being developed in modern lines. The need to develop the power infrastructure simply cannot be and should not be left with the MSPDCL. It calls for adequate subsidy. In this context the stirring of industrialisation in the state should be attributed to the subsidy in power sector. Besides both the social services and Economic services have high proportion of implicit subsidy. Therefore, it can be asserted with confidence that subsidies have played and continue to play a key role in economic development of the state.

Conclusion

The state's subsidy is dominated by implicit subsidy or unrecovered cost. Explicit subsidy constitutes a miniscule proportion of total subsidy. Most of the implicit subsidies are for the power sector. Given the backwardness of the state and the need provide an environment conducive for economic development subsidies continue to have a positive role. To understand the performance at ground level disaggregated analysis would have thrown better light. The factors behind differences in cost recovery should be properly understood if subsidies must be controlled.

Chapter 12: Local bodies Finance

Introduction

Inclusive development needs a well-organized system for realistic financing of every tier of governance. In India despite the recognition of the importance of the lowest tier of governance in the form of panchayats, the 73rd and 74th amendment of the constitution were watersheds in this connection. The six valley districts have panchayat raj institutions and Municipalities/Nagar panchayats as per article 243 and schedule-XI and schedule -XII of the constitution. The panchayats are under Manipur Panchayati Raj Act 1975 and its amended version Manipur Panchayati Raj Act 1994. There is a two-tier system- zilla parishad at the district level and Gram panchayat at the village level. There are 6 ZPs and 161 GPs. Urban local bodies are under the Manipur Municipalities Act 1994. There are one municipal corporation, 23 Municipal councils and 3 Nagar panchayats in Manipur. Except for the small-town committee in Moreh, there are no ULBs in the 11 hill districts of Manipur. The eleven hill districts have ten Autonomous District Councils (ADCs) constituted as per the Manipur (Hill Areas) District councils Act 1971. The ADCs are exempt from article 243 and schedule XI of the constitution. The ADCs do not come under schedule V and schedule VI of the constitution. The 73rd or 74th amendment of the constitution do not cover the ADCs. As per the Manipur (village authorities in the Hill areas) Act 1956 every tribal village which number around 1856 has a village authority. Local bodies constitute the third tier of governance and must deal with ground level realities. Table 12.1 gives an idea about the challenges. The ground level needs of more than six lakh households must be provided for.

Table 12.1: Number of households as per 2011 census

Rural local bodies	No. of households
Gram panchayats	205925
ADCs	218803
Subtotal	424728
Urban local bodies	
Nagar panchayets/town	6793
municipal councils	68600
Imphal Municipal corporation	57764
subtotal	133157
Grand total	557885

Source: 4th State Finance Commission Report

Local bodies depend on central finance commission and state finance commission transfers. Their track record in resource mobilization has been poor. The central finance commission makes provision for local bodies.

The State Finance Commission also *inter alia* recommends on the following:

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

Specific powers and functions relating to 22 Line departments have been devolved to the PRIs. The following shows important functions devolved to the PRIs.

1. Veterinary and animal husbandry
2. Fisheries
3. Rural development
4. Horticulture
5. Tribal development department
6. Development of water bodies for pisciculture schemes, land reclamation schemes,
7. Integrated rural energy projects
8. Management of public health institutions
9. Maintenance of veterinary institutions
10. Implementation, supervision, and monitoring of various centrally sponsored schemes
11. Poverty alleviation programmes
12. Maintenance of village approach roads, school buildings, implementation of family welfare programmes

In respect of municipalities 7 important functions have been transferred namely

1. Regulation of land use and building constructions
2. Solid waste management and sanitation
3. Slum improvement and upgradation
4. Cattle pounds
5. Registration of births and deaths
6. Regulation of slaughter houses

7. Works under urban poverty alleviation

Municipalities constitute an important part of urban local bodies. The following provides the list of revenue items for municipalities:

Revenue items and activities of local bodies

Revenue items of a municipality, an urban local body are as follows:

1. Tax revenue
 - a. Advertisements
 - b. Toll tax
2. Non tax revenue
 - a. Rental of council owned shops
 - b. Delay fine
 - c. Women vendor rent
 - d. Women vendor renewal fee
 - e. Women vendor card fee
 - f. Women vendor transfer fee
 - g. Hotel space rent
 - h. Hotel space renewal, registration etc fee
 - i. Shop registration and license fee
 - j. License renewal fee
 - k. Parking fee
 - l. Parking registration renewal fee
 - m. Scavenging/SWM fee
 - n. Births and deaths fee
 - o. Public latrine fee
 - p. Bazar lighting fee
 - q. Shop mutation/transfer fee
 - r. Tender form sale, land user fee, building permit, advertisement fee etc.

Source: 4th State Finance Commission Report

The following shows the work done by Municipal councils

1. Installation of net tapping at major drains
2. Construction of shopping complex
3. Construction of drain
4. Door to door waste collection
5. Construction of culvert

6. Construction of public/private toilet
7. One day free health check-up camp
8. Construction of vermi-compost plant
9. Construction of solid waste management plant
10. Construction of market shed
11. Construction of public library/reading room
12. Street lighting
13. Construction of houses under PMAY-HFA(U)
14. Construction of household latrine under SBM(U)
15. Construction of tube well/hand pump
16. Distribution of PM-JAY card
17. Construction of crematorium
18. Installation of public tap for hand washing
19. Construction of ward development committee office
20. Construction of dump site

Source: 4th State Finance Commission Report

The revenue heads of the Imphal Municipal corporation are as follows Revenue of IMC

Tax revenue

1. Holding tax (property tax)
2. Advertisements
3. Toll tax

Non tax revenue

1. Interest
2. Fees/fines
 - a. Birth and death certificate
 - b. Butcher and traders of meat
 - c. Driving license
 - d. Driving license
 - e. RC registration
 - f. Thellagari license
 - g. Shop registration
 - h. Shop license renewal fee
 - i. Transfer fee/women vendor
 - j. Sanitary hawker

- k. Obstruction fee
- l. Shop license
- m. Building plan approval fee
- n. Registration for engineer agencies firm
- o. Application fee
- p. Garbage collection charge
- q. Septic tank clearance
- r. Pay & use toilet
- s. Parking fee
- t. Spot fine
- u. Desilting machine
- v. Hotel registration & renewal fee
- w. Water tanker
- x. Roller, jcb, tipper, recovery plan
- y. Installation of mobile tower fees.
- 3. Rent from market/land/owned building
- 4. Hire/sale charges

Source: 4th State Finance Commission Report

The list of Work done by ADCs is as follows

- 1. Construction of water reservoir
- 2. Construction of ring well
- 3. Construction of drain
- 4. Construction of public toilet
- 5. Construction of footpaths
- 6. Construction of green house for nursery
- 7. Construction of tube(bore) well
- 8. Construction and maintenance of inter village road
- 9. Construction and maintenance of school building
- 10. Playground maintenance
- 11. Renovation of fishery pond
- 12. Vaccination program in coordination with veterinary department
- 13. Distribution of fertilizer, pesticide and hybrid seeds, sprayer etc
- 14. Construction and maintenance of dumping site
- 15. Construction of culvert
- 16. Construction of rain harvesting pond
- 17. Construction of mini dam

- 18. Free health camp
- 19. Construction of retaining wall

Financing local bodies

The transfer of funds to local bodies depends on devolution criteria which have changed in every report of the commission both state and central. It has been changing to take care of our understanding of equity and efficiency.

The period under consideration spans over the award period of different union and state finance commissions. The overlaps in the central finance commissions are as follows

XIII FC (2010-15) 2012-13 to 2014-15

XIV FC (2015-20) 2015-16 to 2019-20

XV FC (2020-26) 2020-21 onwards

In the case of state Finance commissions, the award period of the second SFC which was 01/04/2001 to 31/03/2006 was extended several times. The award period of the third SFC was 2015-16 to 2020-21. The award period of the fourth SFC is 2021-26.

Though the 2nd & 3rd SFC had recommended the transfer of 10% of the state's own resources which included state's own tax and non-tax collections and state's share of central taxes the state government followed the practice of transferring 10% of State's own tax revenue. The fourth SFC recommend 10% of tax, non-tax, and state's share of central taxes as share of the local bodies. The practice of using the share of own tax revenue despite the recommendation, was highly inadequate for meeting the demands on local bodies. The second and third SFCs had recommended that the share of PRIs be divided between zilla parishads and Gram panchayats in the ratio of 15:85 the government followed the practice of dividing the shares among ZPs and GPs in the ratio of 40:60. The fourth SFC recommended the following inter se distribution of funds between ZPs and GPs

Not less than 70% and not more than 85% for village panchayats

Not less than 15% and not more than 30% for district/zilla parishad

Table 12.2 shows the evolution criteria as proposed by the 3rd SFC.

Table 12. 2: Indicators selected and weightages assigned for horizontal distribution in 3rd SFC

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

Table 12.3 and 12.4 show the devolution criteria recommended by the 4th SFC. The criteria for valley and hill local bodies have been differentiated.

Table 12.3: Devolution criteria for local bodies in valley 4 SFC

(PRIs,ULBs,MCs,IMC,NPs /towns)

Criteria	Weight in percent
Population (nos)	85
Area(in sq.km)	7.5
Illiterate population (nos)	7.5

Table12. 4 : Criteria for horizontal distribution for ADCs

Criteria	Weight in percent
Population (nos)	85
Area (in sq km)	5
Illiterate population (nos)	5
Total forest cover as PC of total area	5

The funds earmarked for ADCs are distributed amongst them as per table 12.4.As regards the distribution of resources to the constituencies within an ADC, the devolution criteria as adopted for valley based local bodies in table 12.4 will apply.

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

XIII FC	XIV FC	XV FC
i. Population: 50% ii. Area :10% iii. Distance from highest per capita sectorial income PRIs 10% (primary)ULBs 20%(net of primary) iv. Index of devolution :10% v.SC/ST proportion in the population: PRIs 10% vi. FC local body grants utilisation index: 5%XI FC	i. Population 2011:90% ii. Area:10%	i.Population 2011:90% ii. Area :10% year RLB:ULB 2021-22 67:33 2022-23 67:33 2023-24 66:34 2024-25 66:34 2025-26 65:35 Manipur's share in all India devolution RLB 0.29% ULB 0.29%

Source: Various Finance Commission Reports

Table 12.5: Funds released to PRI, ULB and ADCs

Funds released to PRI, ULB and ADCs under 3rd SFC (in crore)								
		LB	PRI		ULB		ADC	
		Mandatory	Mandatory	Actual	Mandatory	Actual	Mandatory	Actual
		10%	35.28% of		22.49% of		42.23% of	
	OTR		LB		LB		LB	
2017-18	790.94	79.09	27.9	27.9	17.79	18.71	33.4	32.11
2018-19	1046.05	104.60	36.90464	36.9	23.52566	21.33	44.17469	40.05
2019-20	1201.12	120.11	42.37551	42.38	27.01319	24.69	50.7233	46.37
2020-21	1294.49	129.449	45.66961	45.67	29.11308	29.79	54.66631	55.94
2021-22	1648.5	164.85	58.15908	58.16	37.07477	29.79	69.61616	55.94

LB local bodies PRI Panchayat raj institutions zilla parishad and gram panchayats
 ULB urban local bodies municipalities, municipal corporation , nagar panchayats,
 ADC Autonomous district council

Source: CAG report 2021-22

Table 12.5 shows that the mandatory transfers of the 3 SFC have been largely made.

The 4th SFC worked out the minimum fund requirements for the local bodies in Manipur during its award period. The activities concerned are as follows

1. Direction and control (salary, honorarium, pensions, retirement benefits, NPS contribution)
2. office expenses

Table 12.6: Minimum fund requirement for local bodies

Minimum fund requirement for local bodies in Rs lakhs								
	GP	ZP	IMC	MCs	NP	STM	ADCs	Total
2021-22	8609.14	2362.46	2253.56	6153.96	489.84	163.28	51878.4	71910.64
2022-23	9125.27	2502.33	2453.85	6479.53	513.83	171.28	55685.21	76931.3
2023-24	9674.76	2655.41	2516.76	6955.16	540.02	180.01	59834.22	82356.34
2024-25	10293.47	2822.95	2649.47	7254.13	568.64	189.55	64364.09	88142.3
2025-26	10962.62	3006.37	2813.18	7656.86	599.91	199.97	69318.9	94557.81
GP Gram panchayats ZP Zilla parishads IMC Imphal Municipality corporation MC municipality councils NP Nagar Panchayat STM Small town Moreh ADC Autonomous district councils all in Rs lakh								

Source: 4th State Finance Commission Report

It will be interesting to compare the minimum needs with the proposed transfers of XV FC and 4 SFC given that these constitute the major sources of funds for local bodies.

The recommended devolution by the XV FC and 4th SFC present a rosy picture. The devolutions exceed the minimum needs estimated by the 4 SFC. It shows that financing local bodies is feasible.

Table 12.7: LB fund position in XVI FC period

	<i>Grants of XV FC</i>			<i>4 SFC</i>	<i>Total LB</i>	<i>Min.need</i>
	RLB	ULB	Total	forecast	Fund	
<i>2021-22</i>	131	64	195	617.75	812.75	719.1064
<i>2022-23</i>	135	67	202	684.96	886.96	769.313

2023-24	137	71	208	767.76	975.76	823.5634
2024-25	145	75	220	868.97	1088.97	881.423
2025-26	142	76	218	988.97	1206.97	945.5781

Notes: All in Rs crore

Source: XV FC report and 4 SFC

Conclusion

Financing the local bodies now gets the due attention it deserves. The local bodies are expected to play a key role in India's drive towards inclusive growth. It is found that the local bodies are highly constrained and transfer of functions and funds has been nominal only. However if the amounts proposed to be devolved by SFC and FC in their award periods are actually transferred local bodies will become viable.

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

Finance commission awards play a significant role in state finance of a small state like Manipur. In its memorandum to the Finance commission the state routinely places its requirement and FC awards reflect these proposals either in the general formula for devolution or state specific grants. The purpose of this chapter is to examine within a limited time this question. What do data up to March, 2023 say about the implementations of the recommendations of the FC-XV? Even though several states in India have come up with outcome budgets, Manipur is yet to produce an outcome budget. Among the Northeastern states only Assam and Arunachal Pradesh have outcome budgets. Therefore the evaluation of performance must be limited to financial terms. While doing so there is a need to understand the terms of reference of the FC-XV to contextualise its recommendations.

The Commission shall make recommendations as to the following matters, namely: —

- (i) The distribution between the Union and the States of the net proceeds of taxes which are to be, or may be, divided between them and the allocation between the States of the respective shares of such proceeds;
- (ii) The principles which should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of grants-in-aid of their revenues under Article 275 of the Constitution for purposes other than those specified in the provisos to clause (1) of that article; and
- (iii) The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State based on the recommendations made by the Finance Commission of the State.

The Commission shall review the current status of the finance, deficit, debt levels, cash balances and fiscal discipline efforts of the Union and the States, and recommend a fiscal consolidation roadmap for sound fiscal management, taking into account the responsibility of the Central Government and State Governments to adhere to appropriate levels of general and consolidated government debt and deficit levels, while fostering higher inclusive growth in the country, guided by the principles of equity, efficiency and transparency. The Commission may also examine whether revenue deficit grants be provided at all. keeping in view the

fiscal consolidation roadmap recommended by the preceding FCs. Another mandate is to review the prevailing arrangements regarding disaster management with reference to the funds constituted under the Disaster Management Act, 2005 and make appropriate recommendations regarding these.

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

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

The award period is 2020-2026. The period under study covers only three years of the award period i.e. 2020-21 ,2021-22 and 2022-23. At best it will give an idea of the direction in which we are heading.

XV FC Transfers

The transfers recommended by the XV FC are as follows

Table 13.1: Total transfer recommended by FC-XV

		Rs crore
1	Share in central taxes and duties	30251
2	Post devolution revenue deficit	9796
3	Local Governments	1277
4	Disaster management	234
5	Health	191
6	PMGSY roads	1193
7	statistics	28
8	Judiciary	30
9	Higher education	54
10	Agriculture	101
11	state specific	900
12	Total Grants-in-Aid (2 to 11)	13804
13	Total transfers (1+12)	44055

Source: XV FC

It shows the various heads under which the Finance commission has transferred funds for the state. Table 13.2 shows how important is such transfers for a backward state like Manipur. Pre devolution revenue deficit is the difference between own revenue receipts and revenue expenditure. Revenue deficit indicates inability to meet consumption needs. Capital outlays should be preferably made of surplus in revenue account.

Table 13.2: Pre devolution revenue deficit

PRE DEVOLUTION REVENUE DEFICIT	
	Rs crore
2021-22	7240
2022-23	7556
2023-24	8007
2024-25	8407
2025-26	8837
TOTAL	40047

The transfer by the FC takes care of pre devolution revenue deficit and post devolution revenue deficit rendering Manipur a revenue surplus.

The XV FC had recommended Rs 900 crore for state specific projects namely

1. Housing complex for ministers/MLAs Rs 75 crore
2. Housing complex at Imphal for officers and employees Rs 210 crore
3. Housing complex for officers and employees at district and sub divisional offices in hill districts Rs 130 crore
4. Completion of Manipur secretariat complex Rs 75 crore
5. Setting up of Nursing Institute Rs 15 crore
6. Provision and improvement of sewerage, drainage, solid waste management and internal roads in six hill district headquarters- Churachandpur, Ukhrul, Senapati, Kangpokpi, Chandel and Tamenglong @ Rs 50 crore each
7. Special improvement in Raj bhavan Rs 15 crore
8. Construction of state guest house Rs 80 crore

It is difficult to say to what extent the implementation of these projects has been affected by the current ethnic conflict since May 2023. The fate of projects to be taken up in the hills is highly uncertain.

The commission had recommended the constitution of a high-level committee at state level for reviewing and monitoring the proper utilisation of state -specific and sector-specific grants. The chief secretary, the Finance secretary and the secretaries/heads of relevant departments should be members of such committee. It should meet at least once a quarter. It is not known whether such a committee has been constituted or not. It is also possible that it has been entrusted to some existing committees.

Fiscal rules

The fiscal deficit targets and annual borrowing limits for the States during 2020-26 are as follows:

- i. Fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP. The States will be eligible for flexibility of 0.25 per cent over and above this for any given year for which the borrowing limits are to be fixed if their debt-GSDP ratio is less than or equal to 25 per cent in the preceding year.
- ii. States will be further eligible for an additional borrowing limit of 0.25 per cent of GSDP in a given year for which the borrowing limits are to be fixed if the interest payments are less than or equal to 10 per cent of the revenue receipts in the preceding year.
- iii. The two options under these flexibility provisions can be availed of by a State either separately, if any of the above criteria is fulfilled, or simultaneously if both the above stated criteria are fulfilled. Thus, a State can have a maximum fiscal deficit-GSDP limit of 3.5 per cent in any given year.
- iv. The flexibility in availing the additional limit under either of the two options or both will be available to a State only if there is no revenue deficit in the year in which borrowing limits are to be fixed and the immediately preceding year.

In the case of Manipur INT/RR is well below 10% and it has been maintaining revenue surplus. However, debt/GSDP ratio has remained way above 25%. Therefore, the additional borrowing ceiling will be 0.25% i.e. Manipur can go for a fiscal deficit of 3.25% of GSDP. However actual fiscal deficit as proportion of GSDP were higher than the permissible levels.

Table 13.3: Fiscal Deficit

S.NO.	HEAD/SUBHEADS	2020-21	2021-22	2022-23
1	Interest in ₹ crore	831.6	690.8	874.19
2	Revenue receipt in ₹ crore	12982	14091	15892
3	Interest/ Revenue receipt in percent	6.40579264	4.90242	5.50082
4	GSDP in ₹ crore	29776	33881	37043
	Outstanding liabilities in ₹ crore	13061	14399	15917
5	Debt/GSDP in percent	43.8641859	42.4987	42.969
6	Permissible borrowing limit as GFD/GSDP in percent	3.25	3.25	3.25
7	Actual GFD/GSDP in percent	5.76	5.32	4.74
8	Balance (=6-7)	-2.51	-2.07	-1.49
9	Excess expenditure in ₹ crore	747.38	701.34	551.94

In the case of contingent liabilities outstanding number of guarantees have been substantially lower than the FRBM limits. However, it is rising fast mainly due to Power sector.

Table 13.4 : Contingent liabilities

year	Outstanding number of guarantees at the end of the year		FRBM limit	% of FRBM limit
	(₹. cr)	(% of current revenue receipts)	(₹. cr)	
2020-21	593.3	4.57	3138	18.91
2021-22	1840.1	13.06	3729	49.35
2022-23	1840.1	11.58	3882	47.40

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).*

Table 13.5: Debt path

INDICATIVE DEBT PATH OF STATE GOVERNMENT AS % OF GSDP

2020-21	42.8
2021-22	41.5
2022-23	41.8
2023-24	41.2
2024-25	40.4
2025-26	39.6

Source: XV FC

How realistic is this indicative debt path provided by the XV FC? Is the state able to lower OL/GSDP to 39.6% by 2026? In 2021 OL/GSDP was above the indicative path value. In the next two years the actual values were lower than the indicative path values.

Table 13.6 shows the debt path of Manipur -actual, indicative and forecast. A simple forecasting exercise also showed that the actual OL/GSDP would be even

lower suggesting that the indicative debt path is attainable. However our outlook is that despite the FRBM Act the debt profile of the state is yet to become unsustainable and our resource position has been rather weak. In this context a restraint on debt may be counterproductive. Any developing country is confronted with so many constraints and a strategy based on debt consolidation may become counterproductive. Indiscriminate debt consolidation may end up aborting many growth impulses.

Table 13.6 : Debt path -Actual,Indicative and Forecast

	Actual		
	OL/GSDP	Indicative path FC	Forecast
2013	49.62		
2014	43.81		
2015	40.77		
2016	41.71		
2017	41.47		
2018	37.09		
2019	38.2		
2020	38.26		
2021	43.86	42.8	
2022	41.11	41.5	
2023	39.55	41.8	
2024		41.2	38.0
2025		40.4	37.5
2026		39.6	36.9

Local bodies

The XV FC used population and area for intense distribution of funds for local bodies. Manipur's share in devolution for local bodies were 0.29% both for rural local bodies and urban local bodies. The distribution will be as follows

Table 13.7: FC Grants for Local bodies

	<i>Rural local body</i>		<i>Urban local body</i>	
	Amount in Rs crore	share%	Amount in Rs crore	share%
2021-22	131	67	64	33
2022-23	135	67	67	33
2023-24	137	66	71	34

2024-25	145	66	75	34
2025-26	142	65	76	35

Source: XV FC

This is to be supplemented by the state Finance commission transfer. Table 13.8 shows that if both are considered the minimum needs of the local bodies as estimated by fourth SFC can be taken care of.

Table 13.8: LB fund position in XVI FC period

	GRANTS OF XV FC			4 SFC	TOTAL LB	MIN. NEED
	RLB	ULB	Total	forecast	Fund	
2021-22	131	64	195	617.75	812.75	719.1064
2022-23	135	67	202	684.96	886.96	769.313
2023-24	137	71	208	767.76	975.76	823.5634
2024-25	145	75	220	868.97	1088.97	881.423
2025-26	142	76	218	988.97	1206.97	945.5781

Notes: All in Rs crore

Source: XV FC report and 4 SFC

According to the Annual administrative report 2023-24 of Rural Development and Panchayati Raj department, no fund was released during 2023-24 to the PRIs as transfer certificate to claim for further funds were not submitted to the Ministry. Another issue is the inability to have elections in local bodies both in the valley and hills. This is bound to have profoundly serious implications for local governance and subsequently on development finance.

Disaster management:

The XV FC adopted a combination of capacity (as reflected through past expenditure), risk exposure (area and population) and hazard and vulnerability (disaster risk index) for determining state wise allocation of fund for disaster management/mitigation

Table 13. 9: Disaster risk index score

Disaster risk index score							
	Flood	Earth quack	Others	Total score (out of 70)	poverty points (out of 30)	Total score	Index
Manipur	5	15	10	30/70	30	60	0.6

Source : XV FC

Table 13.10

<i>Annual allocation for Disaster Management based on area(15%), population (15%), average expenditure (70%)</i>						
<i>Rs crore</i>						
	2021-22	2022-23	2023-24	2024-25	2025-26	2021-26
<i>Union</i>	42	44	47	50	51	234
<i>State share</i>	5	5	5	5	6	26
Total	47	49	52	55	57	260

In the event of SDRMF and NDRMF assistance falling short of the required assistance, the Union and States should have recourse to other financial instruments. These instruments are identified as reconstruction bonds, contingent credit/stand-by facility with international financial institutions, crowdfunding platforms, and corporate social responsibility.

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

Conclusion:

The effectiveness of policy has been adversely affected by the current crisis in Manipur. the government and the public have been contributing significantly in making the burden of displacement lighter. As the stalemate continues, the need for funds to enable the IDPs lead a normal life has increased. This can be incorporated in poverty points.

Chapter 14: Way Forward

This chapter deals with suggestions of policies to improve the state of finance of Manipur. Resource mobilization and expenditure management are the broad tools for achieving this goal. Had we been bringing out Outcome budgets, deeper insights would have emerged. There is a need to tap optimally every potential resource in the state and there is also an equally urgent and important concern regarding the efficiency of expenditure. Inefficiency in expenditure and lower allocation of funds are the same. The following steps are flagged for action.

1. Hike in professional tax
2. Scrapping of prohibition meaningfully
3. Legalization of marijuana
4. Taxing coaching centres
5. Plugging the leakages in royalties of forest resources
6. Rent from economic activities along river beds in municipal areas
7. Transformation of informal trade in Indo Myanmar border to formal trade
8. Renting out school/college buildings to private bodies after school hour
9. Hike in registration fee of civil society organisations along with a complete ban on unregistered bodies.
10. Property tax in the entire state to be paid by everyone
11. Diligent implementation of all policies, not by fits and starts.
12. Expenditure management
13. Monitoring of each expenditure head by a third party
14. Analysis of differences between budget and actual figures
15. Analysis of efficiency of expenditure

All the flagged heads are briefly discussed below.

Hike in profession tax

It has been suggested in several Finance commission reports that the ceiling of ₹ 2500 should be revised upwards. It was fixed at ₹ 2500 by the Constitution (sixtieth amendment) Act 1988. The XIV FC recommended raising it to ₹ 12,000 per annum. Using the accumulated inflation since 1988, the XV FC recommended raising it to ₹ 18,000 at 2019-20 prices. In the finance accounts profession tax is reflected in 'other taxes on income and expenditure'. In between 2020-21 and 2022-23 it hovered at ₹ 27 crore at the ceiling of ₹2500. The inflation adjusted hike can raise the receipt 7 times. It would rise to ₹ 194 crore. Article 276(2) of the constitution must be amended.

Scrapping of prohibition meaningfully

Manipur became a dry state after it enacted the Manipur Liquor Prohibition Act, 1991, following demand from the public, particularly from women's groups, because of the social issues and domestic violence arising out of the consumption of alcohol. At that time there were 63 foreign liquor shops and 3 bonded warehouses. Taxes from sale of liquor was around ₹30 crore. It disappeared post prohibition and state excise receipt in 2022-23 was a mere ₹19.24 crore. The main source of revenue collection is the Excise Duty levied on the liquor procured and used by military and paramilitary forces developed in the state and the state armed forces which are exempted from prohibition. Prohibition was not implemented properly. It failed to reduce drinking and the state incurred heavy losses. The ban was partially lifted in September 2022, permitting the sale and consumption of alcohol at district headquarters, hotels with a minimum of 20 beds, and the export of locally-brewed country liquor. The gazette notification published on December 6, 2023 outlined detailed rules and regulations for the legalisation of liquor.

"In exercise of the power conferred under proviso to sub-section (2) of section 1 of the Manipur Liquor Prohibition Act, 1991 (Manipur Act No 4 of 1991), the government of Manipur hereby withdraw the said Act from the areas of the state of Manipur," stated the gazette notification.

The following table provides a comparative view of excise receipts among north eastern states. in 2021-22 Manipur, Mizoram and Nagaland were under prohibition. It gives us an idea of the revenue foregone by officially following prohibition.

Table 14.1: Excise receipts of North-eastern states

Excise Receipts of North-eastern states in 2021-22(Rs. Lakh)	
State	Excise
Meghalaya	30799.3
Sikkim	24920.9
Assam	193907.3
Tripura	31959
Arunachal Pradesh	11591.9
Mizoram	100
Nagaland	332.1
Manipur	1599.5

Source : RBI (2023) "State Finances: A study of budgets of 2023-24"

The following table indicates the revenue potential of alcohol. In a regime of prohibition not only alcohol is costlier, adulteration is also rampant. The profit is so huge that every stage of enforcement can be compromised. The patronage has a price and much more could have accrued to the state exchequer, had there been no prohibition.

Table 14.2: Percent of persons who consume alcohol in Manipur

	year	women (age 15-49)			Men (age 15-49)		
		Rural	urban	Total	Rural	urban	Total
NFHS -4	2015-16	6.2	6.1	6.1	52.9	52.4	52.6
NFHS-5	2019-21	1.8	1.4	1.6	42.2	52.1	47.9

Source: National Family Health Survey

Despite prohibition quite a sizeable section of men in the age group 14-49 years drink alcohol. 50% of urban male drink alcohol and the proportion declined marginally. It has become fashionable to offer alcoholic drinks in every social function. People drink in both happy and sad occasions. Non state actors are immensely benefitting from this nonfunctional prohibition. Law enforcement agencies are also not above suspicion. Then why should we fool ourselves by implementing prohibition in this manner?

This was expected that around ₹600 crore would accrue to the state exchequer after lifting of prohibition. Budget 2024-25 showed ₹ 300crore as receipt under excise tax. However, it continues to lack clarity. The necessary permits are yet to be issued. Liquor continues to be confiscated by civil society organisations and state police. What is needed is a consultation with pro-prohibition CSOs to convince them of the need for withdrawing prohibition. Political will is also necessary and what is considered necessary for the welfare of the people should be implemented at any cost. Failure to do so reflects indecisiveness of the government.

Legalisation of cultivation and sale of marijuana or Ganja

Cannabis has been used as a medicine for thousands of years. The earliest recorded use dates to 4000 BC in China. It was recognised as a medicine in both ancient Egypt and India and in the Greek and Roman cultures. The history of Cannabidiol in ancient India is deeply rooted in the country's rich tradition of hemp cultivation. Hemp is a variety of cannabis with low tetrahydrocannabinol

(THC) and high cannabidiol (CBD) content. Dating back to 4000-3000 BC, the Vedas provide the earliest mentions of hemp and its diverse applications. Within the Vedas, the Atharvaveda specifically highlights hemp's significance in magic and medicine, praising it as one of the five sacred plants capable of alleviating human suffering.

In the past, hemp cultivation thrived across India until the 20th century, when legal restrictions and societal stigma emerged. In the 19th and 20th centuries it was widely used around the world as a treatment for migraine, neuropathic and musculoskeletal pain, and in childbirth. The cannabis plant contains over 100 cannabinoids and many terpenes, flavonoids, and other components. The two most studied are tetrahydrocannabinol (THC) and cannabidiol (CBD). THC gives the recreational “high” but CBD does not—to some extent it counteracts the psychoactive effect of THC.¹ Policy changes over the past few years have dramatically reshaped the global cannabis market, opening legal markets for medical cannabis and, increasingly, also for adult, non-medical use. Research has shown that cannabis-infused medicines including cannabis oil may be effective in treating a range of health conditions, including chronic pain, anxiety, depression, and epilepsy. Moreover, cannabis oil’s health benefits have been linked to improving skin health, reducing acne, and slowing down the aging process. While cannabis and its derivatives face legal restrictions, CBD has gained recognition for its potential therapeutic benefits. Several Indian states have legalized the use of CBD -rich products for medicinal purposes, especially for conditions like chronic pain, epilepsy, and anxiety. The law permits its use for medical and scientific purposes. The Centre encouraged individual State Governments to regulate and permit the cultivation, production, manufacturing, possession, transport, import, export, sale, purchase, consumption, or use of cannabis (excluding charas) for medical, scientific, and industrial purposes. Medical cannabis is a term used to describe the use of the Cannabis plant and its components for therapeutic or medical purposes. This involves utilizing various parts of the plant, such as its leaves, seeds, or extracts, to alleviate symptoms, manage medical conditions, or improve the overall well-being of individuals. The legality and regulations surrounding medical cannabis vary from one region to another in India. In 2018, Uttarakhand became the first state in India to allow commercial cultivation of hemp crops. In 2019, Madhya Pradesh followed suit. In 2020, India opened its first medical cannabis clinic in Bengaluru, called VEDI Wellness Centre.

Cannabis for medical use is legal in 29 US states and in Australia, Austria, Belgium, Canada, Croatia, Czech Republic, Denmark, Germany, Israel, Italy, Malta, Netherlands, Portugal, and Spain, and 26 other countries worldwide. The

affidavit filed by the Director of Narcotics Control under the Department of Revenue, Ministry of Finance, stated, "There is no absolute ban on cannabis under the NDPS Act. It can be used for medical, scientific, and industrial purposes by obtaining the necessary permissions from the respective State Governments."

Manipur is known to produce the best quality cannabis or Marijuana, locally known as Ganja. the plant thrives in some districts of Manipur naturally and there is huge demand for Manipur marijuana in neighbouring states as is evident from the frequent seizures during transportation phase. Now the question is – can this resource be made to contribute to our revenue by removing/relaxing the restrictions on its market. As of 2024, 37 states and Washington, D.C. in the USA have moved to legalize marijuana, whether for medical use, recreational use, or both. According to a report, in 2023 total cannabis -related revenue collected by all American states topped \$4.18 billion. It was predicted that by 2026, only one year down the line, the economic impact of the cannabis industry in the U.S. would be worth nearly \$150 billion.

The presumed benefit of the criminalisation of cannabis possession is the deterrence of cannabis use. There is, however, little evidence of a strong deterrent effect. Besides laws prohibiting cannabis possession entail considerable enforcement and social costs, yet they appear to have negligible impact on deterring cannabis use.

The following table shows the own tax revenue of Uttarakhand which was the first Indian state to allow commercial cultivation of hemp in 2018. If the covid - 19 years are ignored, the post liberalisation period registers persistently high growth rates suggesting a desirable revenue effect. GST was introduced in 2017.

Table 14.3: Own tax revenue of Uttarkhand

<i>Year</i>	<i>Rs. In crore</i>	<i>Annual Growth Rate</i>
2010-11	4405	
2011-12	5616	27.49
2012-13	6414	14.21
2013-14	7355	14.67
2014-15	8338	13.37
2015-16	9378	12.47
2016-17	10897	16.20
2017-18	10880	-0.16
2018-19	12346	13.47
2019-20	11513	-6.75
2020-21	11938	3.69
2021-22	14176	18.75

2022-23	16952	19.58
2023-24	19983	17.88

Source: RBI (2024) Handbook of statistics on Indian states 2023-24

The following table shows the seizure of Ganja in Manipur. However it may be the proverbial tip of the iceberg. The real picture would emerge if its cultivation and sale are legalised. The high profit margin would make this business still profitable after paying the tax and the risk of being caught and confiscated becomes less.

Table 14.4: Amount of Ganja seized in Manipur

AMOUNT OF GANJA SEIZED IN MANIPUR

YEAR	Ganja (in Kg)
2018	2970
2019	61
2020	139
2021	1322
2022	5136
MAY 2023	445

Source - RAJYA SABHA SESSION - 260 UNSTARRED QUESTION No 1490. ANSWERED ON, 2nd August 2023. Data 2023 (31st May, 2023). Data. Source - Narcotics Control Bureau (NCB).

Therefore, the state government may encourage the use of local cannabis for medical, scientific, and industrial purposes by granting the necessary permissions. the government may help the producers find the proper market or provide the necessary infrastructure for further value addition. This will generate significant amount of tax revenue and lower the cost of enforcement of a failed rule.

Taxing coaching centres

Running a coaching centre has of late, become a highly lucrative and popular business as is evident from its mushrooming growth in urban areas. So lucrative the business has become that many erstwhile coaching centres have been converted into schools. They pay a paltry profession tax of ₹2500 per annum. They should pay commensurate income tax. The idea of exemption of income tax for tribals needs to be reviewed by incorporating the idea of creamy layer as in the case of OBCs. Those who can pay tax, should pay.

Plugging the leakages in royalties of forest resources

Forests cover a large part of the state yet income generated by it is exceedingly small. The royalties of forest resources are not properly collected. Plugging the leakage can be a major source of revenue. Forestry & logging contributed 2.27% of NSVA in 2022-23 at 2011-12 prices. The State has reported a recorded forest area of 17,418 sq km which is 78.01% of the State's geographic area. Optimal extraction of forest resources in Manipur has been greatly hampered by the lack of governance in the hills. Rules are there but not enforced. Timber has been indiscriminately felled and poppy plants have taken over the land so cleared. Illegal timber trade is conducted in a cartel like manner involving timber traders of the hills and valley. Dingpi Area Truck Drivers Association in Chandel district and the All Moreh Truck owners and Driver's welfare Association in Tengnoupal district issue passes to their members and they also pay the insurgent groups operating in their areas. What is clear is that the forest department, the law enforcement agencies -police and Assam Rifles and insurgent groups benefit out of this. This can be plugged by removing the collusive corruption. Royalties for timber, sand and stones can be an important source of revenue for the state. Despite a court ban on illegal mining, it continues as is evident from the thriving construction sector.

Renting out khas lands on riverbanks

River banks in Imphal valley are dotted by encroachment and hence illegal activities. Bamboo based industry, shops, hotels, and automobile workshops are found along the river banks in Imphal valley. Despite occasional eviction followed by demolition of these structures, they return once the drive is over. The government cannot sustain such drives. Such frequently encroached spots can be rented out. This will generate revenue and deter people from trespassing on state land. This can be a promising source of fund for local bodies. Eviction in urban areas has become complex as the main cause of eviction has been obstruction in free flow of river water. In the heart of the city most of such free flow obstructing structures belong to local clubs by way of community halls and conversion of river beds into playgrounds. All such bodies should pay rent to the concerned authority. While giving them permission the issue of sustainable use of the riverbank can be taken care of and this will also provide a more stable source of income to some sections of the population. Such drives should be sustained to show how serious the authority is.

Transformation of informal trade in Indo Myanmar border to formal trade

Indo Myanmar border trade at Moreh has failed to live upto expectations. The entire valley depends a lot on border trade but customs duty is a trickle. Data maintained by Myanmar government on their side show that our data base is weak. Trade is growing. Besides a casual look in markets in and around Imphal will show how important are these goods imported through Myanmar. The goods are not only cheap but are also highly functional. Yet little reach the exchequer. It is a surprise as the Imphal-Moreh route is notorious for the number check posts and payments at every such check post both legal and illegal. Official postings in Moreh, at least before the current crisis, used to be considered prize postings. This leakage needs to be plugged immediately by moving personnels before they begin to have personal stake. This can be facilitated by monitoring their pre and post posting wealth carefully.

Table 14.5 : Border trade at Tamu

BORDER TRADE AT TAMU IN \$ MILLION			
	Export	Import	Total
2012	7.4	1.74	9.14
2013	15.82	9.83	25.65
2014	33.05	12.57	45.63
2015	32.77	12.79	45.56
2016	38.47	10.09	48.56
2017	42.76	3.53	46.29
2018	95.39	1.28	96.67
2019	40.73	1.44	42.17
2020	33.56	1.7	35.26

Source: Ministry of Commerce, Union Govt. of Myanmar

Renting out school/college buildings to private bodies after school hour

Infrastructure of school/colleges should be rented out to the public after school/college hour for a fee. After office hours the infrastructure remains idle. On the other hand, proprietors of many coaching centres are without proper educational infrastructure. Many CSOs cannot organise many programmes for lack of space. The proposed practice will largely mitigate these needs. Resources so generated by way of rent may be earmarked for development of the institution.

Hike in registration fee of civil society organisations along with a complete ban on unregistered bodies.

Manipur is notorious for innumerable civil society organisations. It grew exponentially during the current crisis. Sometimes coordinating such an immense

body is a challenge. A complete ban on unregistered CSOs will act not only as a deterrent to proliferation but also generate resources. Every CSO should be registered supplying the requisite details like KYCs.

Property tax in the entire state to be paid by everyone

Everyone in the state including the STs should pay property tax. Instead of lump sum property tax, the worth of the property should be properly assessed by experts and taxed accordingly. Hill house tax should be replaced by property tax. Tribal crorepatis may enjoy income tax exemption but they should be made to pay appropriate property tax. Imphal Municipal corporation has initiated the process of evaluation of property. This should be expedited and rural areas also should be gradually covered.

Diligent implementation of all policies, not by fits and starts.

Few policies are diligently implemented in this state. A classic example is the occasional crackdown on traffic rule violators. The crackdown is abandoned after a fortnight and people unlearn. It has to wait for the next cycle and everything will start anew. What is needed is consistency and continuity in policy implementation. No policy will be sustainable if the public doubt the credentials of the policy maker and come to think that the policy will be only for a short period.

Expenditure management

Monitoring of each expenditure head by a third party

Public expenditure has increased substantially over the years and there is also a demand for more all the time. It is imperative to examine whether the expenditure incurred has been incurred for the right purpose with efficiency. The monitoring is best done by a third party. Official committees may be constrained from many directions. Monitoring of every expenditure head by a third party preferably a body not under the government should be initiated.

Analysis of differences between budget and actual figures

It is a widespread practice to see actual figures deviating from budgeted figures. Sometimes actual figures fall short of budgeted figures introducing savings. Sometimes actual figures far exceed budgeted figures. Both are equally serious as these can cumulate over time. It will be helpful to know why it has fallen short or overshot the budgetary heads. It should be done at disaggregated level. Analysing the causes behind the difference is as important as estimating the difference. The purpose of this exercise is to fine tune economic policy.

Analysis of efficiency of expenditure

Analysis of expenditure using DEA should be routinely done. So far some work has become available for education and health expenditure. The coverage should be extended to the remaining expenditure heads. It is highly imperative that every expenditure head is efficient since resource mobilisation is no longer as simple as it used to be. This may be taken up either by the Planning department or the finance department. It can also be done through a body specifically established for this purpose. The issue of capability can be accounted for by training the staffs over a period. For states like Manipur largely dependent on central transfer the gradual transition to formula-based transfer has serious implications. Indian states are heterogenous and no transfer formula is available which takes care of the heterogeneity of Indian states. One such issue is that of cost disability where costs are found to be higher in hilly states because of transport bottleneck . Every finance commission has tried to take account of this issue which has serious implications for such states. Because of cost disability such states are always short of fund and seen as underperformers. It is high time that financial budgets are supplemented with outcome budgets as is done in Assam and Arunachal Pradesh and nine more states in India. SDGs can provide the appropriate framework as in Assam.

Conclusion

Manipur is known to have many undiscovered resources. Their optimal exploitation can add to the national wealth as well. What are lacking are the capability and infrastructure for organising that. It is understandable that states should mobilise its resources in a sustainable manner. However, in the context of the challenges of development Manipur is like a child and it should be nurtured to maturity. As of now it is passing through a difficult phase and it has made the challenges more complex. Before it could recover from the shocks of covid-19 pandemic it became embroiled in the ethnic conflict since May 2023. Several sectors of the economy like trade, hotels, transport etc have been adversely affected and the slowdown will show up. Moreh is no longer what it used to be. It is no longer accessible to every citizen. Hill areas have become out of bound for most citizens. Thus, Manipur needs to be nurtured back to health and peace will have a significant role to play. It is not to assert that the government is not doing anything. Its efforts have not yielded results so far in the desirable direction. Finally, one should understand that there are several parties involved with contradictory aspirations. Resolving these contradictions is an equally critical issue. Illegal migration and drugs may be too simple explanation for the ground reality.