Study on Off Budget Items of Expenditure

Long Term Consultancy: DFID Assisted SPMG Program
Government of Madhya Pradesh
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<tr>
<td>ARWSP</td>
<td>Accelerated Rural Water Supply Programme</td>
</tr>
<tr>
<td>BPLR</td>
<td>Benchmark Prime Lending Rate</td>
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<tr>
<td>BRC</td>
<td>Background Record Check</td>
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<tr>
<td>CA</td>
<td>Chartered Accountant</td>
</tr>
<tr>
<td>CBD</td>
<td>Central Business District</td>
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<tr>
<td>CINB</td>
<td>Corporate Internet Banking</td>
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<tr>
<td>DDO</td>
<td>Drawing and Disbursal Officer</td>
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<tr>
<td>EOI</td>
<td>Expression of Interest</td>
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<td>GOI</td>
<td>Government of India</td>
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<td>GoMP</td>
<td>Government of Madhya Pradesh</td>
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<td>HRD</td>
<td>Human Resource Development</td>
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<td>IAY</td>
<td>Indira Awaas Yojana</td>
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<tr>
<td>IFMIS</td>
<td>Integrated Financial Management Information System</td>
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<td>INGAF</td>
<td>Institute of Government Accounts and Finance</td>
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<td>IPAI</td>
<td>Institute of Public Auditors of India</td>
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<tr>
<td>IWMP</td>
<td>Integrated Watershed Management Programme</td>
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<td>JSSs</td>
<td>Jan Shikshan Sansthan</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>MPCDF</td>
<td>MP State Cooperative Dairy Federation</td>
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<td>NFSM</td>
<td>National Food Security Mission</td>
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<td>NREGS</td>
<td>National Rural Employment Guarantee Scheme</td>
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<td>NRHM</td>
<td>National Rural Health Mission</td>
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<td>NVBDCP</td>
<td>National Vector Borne Disease Control Programme</td>
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<td>PHED</td>
<td>Public Health Engineering Department</td>
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<td>PSE</td>
<td>Public Sector Enterprises</td>
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<tr>
<td>RKS</td>
<td>Rogi Kalyan Samiti</td>
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<tr>
<td>RKVY</td>
<td>Rashtriya Krishi Vikas Yojana</td>
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<tr>
<td>RMSA</td>
<td>Rashtriya Madyamik Shiksha Abhiyan</td>
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<tr>
<td>RNTCP</td>
<td>Revised National TB Control Programme</td>
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<tr>
<td>RSK</td>
<td>Rashtriya Shiksha Kendra</td>
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<tr>
<td>SBI</td>
<td>State Bank of India</td>
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<tr>
<td>SGSY</td>
<td>Swaranjayanti Gram Swarozgar Yojana</td>
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<tr>
<td>SLNA</td>
<td>State Level Nodal Agency</td>
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<tr>
<td>SPD</td>
<td>State Project Director</td>
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<td>SRCs</td>
<td>The State Resource Centers</td>
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<td>SSA</td>
<td>Sarva Shiksha Abhiyan</td>
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<tr>
<td>UTs</td>
<td>Union Territories</td>
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<td>VECs</td>
<td>Village Education Committee</td>
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1 Executive Summary

The purpose of this report is to analyze the current status of off-budget reporting and monitoring in Madhya Pradesh (MP) and suggest practices to improve the same.

In Indian Context, at state level, expenditures related to activities undertaken by the government are considered off-budget if they are:

- Not routed through consolidated fund of the state, or
- Outside the budgetary processes, or
- Not accounted for in the budget document.

Example of off-budget expenditure includes central assistance paid directly to government agencies under various schemes like Sarva Shiksha Abhiyan, NFSM etc. though these expenditures have been passed by central legislature but not by state legislature.

Possible forms of Off-budget expenditure at State Level include:-

- **Central assistance routed directly to government agencies under various schemes:** For example Sarva Shiksha Abhiyan, National Food Security Mission (NFSM);

- **Expenditure by state departments/agencies from user charges collected:** For example Rogi Kalyan Samitis, have been authorized by the state government to levy user charges for services provided

- **Public Private Partnership (PPP) Project:** These projects involve Government providing primary resources like land to the private concessionaire and the cost of assets provided by the Government to private contractor under a PPP agreement should be reflected in the budget as it is a part of public expenditure (capital);

- **Imputed subsidy cost of Government Loans:** State Government provides loans at concessional rates for developmental and social purposes in their respective states but this interest subsidy remains un-budgeted and forms off-budget expenditure for the Government;

- **Imputed subsidy cost of Government Guarantees:** Government often provides guarantee on loans raised by Public sector Enterprises (PSEs) at subsidized rate/fees. This guarantee fees is not sufficient to cover the financial risk in case the guarantee is invoked. Thus this imputed guarantee subsidy provided by government remains un-budgeted and constitutes off-budget expenditure.

- **Imputed value of tax reliefs and exemptions:** State Government provides tax exemptions and reliefs for promoting investment and economic growth in the state and for meeting certain desired social objectives. These exemptions and reliefs constitute a form of tax expenditure by State Government as these imply reduction in its revenue. Since no explicit expenditure is incurred in providing exemptions and reliefs, tax expenditure remain un-recorded in the budget and hence becomes off-budget expenditure.

Presently the only off-budget item being reported by Government of Madhya Pradesh (GoMP) includes reporting of direct receipts of central assistance by agencies. Off-budget expenditure items relating to (i) Expenditure funded from user charges, (ii) value of resources provided under PPP contracts, (iii) Imputed value of government loans and guarantees and (iv) Imputed value of tax reliefs and exemptions are not being reported currently by GoMP.

GoMP has been releasing the **statement on direct receipts of central assistance by agencies** since 2008-09. It is worth acknowledging that GoMP is one of the pioneer states in presenting this report along with its budget every year. Current reporting status with respect to other off-budget expenditure items is as following:
Expenditure by State Department/ agencies from user charges collected: Various departments and agencies of Government of Madhya Pradesh levies user charges for the services provided by them and are authorized to retain whole or a part of amount collected for meeting their expenditure requirement. We have observed two such user charges fund in the state, viz. User charges fund by Rogi Kalyan Samitis and Development Fund of Forest Department. However, no statement or information regarding collection of these user charges or expenditure from them is reported with the budget.

Public Private Partnership (PPP): Value of assets provided by the Government: A number of PPP projects have been initiated in Madhya Pradesh in recent years. Land is the main asset provided by GoMP in most of the PPP projects being undertaken in the state. Apart from road projects, PPP projects where land is being provided by GoMP, lease rent is levied on the private developer. For example, for IT park project in Bhopal, a lease rent of Rs.1 lakh per annum and for Sports City at Satgadhi Village, Bhopal, a lease rent of Rs.5 lakh per annum has been decided to be imposed. The lease rent is to be collected by revenue department and will be included in the budget. Private developer also pays to the government a premium for the PPP projects, which is over and above the lease rent. These premiums are collected by the implementing department/agency and are further transferred to revenue department and are included in the budget. However, there is no presentation of a single compiled statement presented with the budget providing details and current status of PPP projects in the state.

Imputed subsidy cost of Government Loans: Government of Madhya Pradesh is also providing loans and advances at concessional rates for various developmental and social purposes. The interest subsidy is provided in the form of lower interest rates charged from the borrowers. It therefore represents an implicit expenditure of the State government and hence remains un-budgeted.

Imputed subsidy cost of Government Guarantees: Government of Madhya Pradesh provides financial assistance to Statutory Corporations, Government Companies, Joint-Stock Companies, co-operative institutions, local bodies, firms and individuals, etc. by providing its guarantee on their behalf to the lending institutions/ investors. The guarantee fee rate is uniform 1% pa of the guaranteed amount. The guarantee subsidy is provided in the form of lower or no guarantee fees charged from the borrowers. It therefore represents implicit expenditure of the State government and hence remains un-budgeted.

Imputed value of tax reliefs and exemptions: Government of Madhya Pradesh also provides exemptions and reliefs in taxes under its purview to foster economic growth in the state. We have studied the exemptions provided under MP industrial policy to analyze its impact on state’s revenue collection and hence the magnitude of tax expenditure by GoMP for promoting industrial development in the state on a sample basis. Currently, GoMP is providing three major exemptions under its industrial policy. These include exemption from entry tax, Stamp Duty and Mandi Tax. These exemptions entail a cost for the State Government, thus these exemptions take the form of implicit subsidy for promoting industrial growth in the state. Our discussions with officials of Mandi Board, Commercial Tax Department and Registration and Stamps Department revealed that no compilation of information/data on amount exempted during a financial year due to various tax concessions and exemptions granted is being done as of now.

For improving monitoring of off-budget expenditure in MP, following recommendations have been suggested:

Opening Account with Single Bank for all off-budget schemes: It is recommended that GoMP opens a single group account with separate sub accounts for off-budget schemes at the state level. Separate sub-accounts can be opened for separate off-budget schemes. For example, one sub-account can be opened for SSA, one for NREGS and so on. This will improve the financial monitoring of funds received under off-budget schemes as these will be credited to a single account from which it will be allocated to district, block and village
level. It will be easier for the state government and central government to track flow of funds under various schemes through single group account with one bank instead of different accounts with different banks.

- **Institutionalizing Web-based financial monitoring:** In order to track the flow of funds from one stakeholder to another, it is recommended that a web-based monitoring mechanism be established with the support of the nodal bank with which single group account for off-budget schemes has been opened. Banks can provide “View-Right” facility to government on demand which allows the user to view the status of various accounts under the scheme. User is provided with a user-name and password with which he can log on to the web-page and view the current status and past transactions of various accounts.

A MoU can be signed with the nodal banker requiring the bank to provide State Government and Central Government with the facility of viewing current status of various bank accounts of off-budget schemes. Opening up of the single group account with a single bank will facilitate provision of view-right facility. Nodal bank should be allocated with the primary responsibility of collecting and providing information about accounts held with other banks.

- **Strengthening Integrated Financial Management Information System (IFMIS) to include off-budget entries and payments:** It is recommended that an interface be provided in the IFMIS for registering off-budget entries and payments in the system. This will ensure real-time data and information flow about receipts and disbursements of funds under various off-budget schemes to state government thereby ensuring improved financial monitoring. There can be two options for undertaking this- (i) Drawing and Disbursal Officer (DDO) of the department that has received the off budget fund can make entry in the IFMIS system regarding the amount received under the particular heads of the scheme or (ii) Banks can be provided with a web-based interface of the IFMIS system, through which they will make entry into the system regarding the receipt and disbursement of funds under off-budget schemes. GoMP can evaluate the pros and cons of both the options and decide on the appropriate way of registering off-budget entries in the IFMIS. This will entail a revision in the Treasury Manual.

- **Strengthening Internal Auditing:** For strengthening internal auditing of off-budget schemes, it is recommended to GoMP to hire Accounting firms on contractual basis. Various models for outsourcing can be used which include (i) District-wise contracts and/or (ii) Scheme-wise contracts. Further, training courses could be organized for accountants from firms undertaking internal audits covering sensitization on government fund flow and accounting mechanisms on concerned schemes. A comprehensive manual can be prepared on good and recommended practices of internal audit. Also, a model contract can be developed for contracting the services of the accounting firms.

- **Conducting Pre-Audits:** Pre-audit process requires that all audited transactions should be supported by evidence of pre-audit by an authorized pre-auditor. Pre-audit has the advantage of verifying and validating the transaction before it is processed and hence reduces the possibility of errors, frauds and malpractices. It encourages compliance at an early stage of financial transaction and reduces the effort required at post audit stage. However, it must be noted that a pre-audit process could lead to implementation issues and payment delays in the schemes. Utilising internal resources from the accounts and treasury service for undertaking pre-audits could be explored. The issue of delays could be partially addressed trough keeping a threshold value for bills or specifying type of bills that would be subject to pre audit.

**For improving reporting of off-budget expenditure in MP, following recommendations have been suggested:**

- Including the missing off-budget schemes in the statement of “Direct Receipt of Central Assistance by State agencies”: We observed that GoMP’s statement on “Direct Receipt of Central Assistance by State agencies” does not present an exhaustive list of off-budget schemes and programmes being implemented in
the state. We found a sample of schemes and programmes under which funds are being received off budget by state agencies and societies but is not being reflected in the statement. Thus it is recommended that GoMP departments should undertake a thorough analysis of their schemes and programmes to identify all of those under which funds are being received off-budget.

- **Inclusion of Statement on off-budget user charges collected and their expenditure in Budget Document:** It is recommended that schemes/programmes under which user-charges are being collected and retained by the implementing agency should be reported in budget as separate appendix. The statement can include information on amount received through collecting user charges during the year and expenditure incurred from these receipts. This will improve the transparency of the state budget. During our discussions with the department, we found that data and information on funds collected and expended is available with the departments. Thus including these in the budget is not expected to impose any additional burden on officials. An illustrative format of statement showing off-budget user charge receipts and expenditure from it is given in Figure 7.

- **Inclusion of a Statement on Current Status of PPP Projects in the Budget Document:** It is recommended that a statement on current status of PPP Projects in the state should be released along with the budget as a separate appendix in order to provide public with information about these and to improve transparency of the budget. An Illustrative format of statement of Current Status of PPP projects in Madhya Pradesh is presented in Figure 8

- **Estimation and Inclusion of Imputed cost of Government Loans in Budget Document:** It is recommended that information on imputed subsidy provided in the form lower interest rate charged by Government should be presented along with the Budget as a separate appendix- “Statement of Imputed Subsidy provided by GoMP”. This will improve the transparency of GoMP’s budget and will also inform general public about the various concessionary loans being provided by the government for developmental and social purposes and the cost that these entail to the government, as these lead to reduced revenues for the Government. In addition, it is recommended that information about the interest receipt arrears/defaults for the year can also be provided in the appendix. An illustrative format of statement showing Imputed Subsidy Cost of GoMP; Part A- Imputed Interest Subsidy is presented in Figure 9.

- **Estimation and Inclusion of Imputed cost of Government Guarantees in Budget Document:** It is recommended that information on imputed guarantee subsidy provided by the Government should be presented along with the Budget as a separate appendix-“Statement of Imputed Subsidy provided by GoMP”. This will improve the transparency of GoMP’s budget. An illustrative format of statement showing Imputed Subsidy Cost of GoMP; Part B- Imputed Guarantee Subsidy is given in Figure 10.

- **Study of Tax Reliefs and Exemptions: A Regular Exercise:** It is recommended that GoMP should undertake a detailed assessment of tax reliefs and exemptions being provided under various policies and schemes of the State Government after regular intervals (3-5 years). This will give an indication to the Government, investors, developers and general public regarding the amount of subsidy being provided through tax reliefs and exemptions. Also this exercise will allow government to review and revisit its exemption and relief policies so as to remove exemptions which are no longer useful in the current economic environment or are overlapping with other exemptions provided by central Government. Finance Department can collect information on these tax exemptions and reliefs from Commercial Tax Department, Registration and Stamp Duty and Department Revenue Department, A statement of Revenue lost/Subsidy provided through tax exemptions and reliefs can be released with budget after the regular intervals.
A proposed roadmap for implementing the above mentioned recommendations and measures is summarized in Table 1.

Table 1: Summary of recommendation for improving monitoring and reporting of off-budget expenditure with proposed implementation timelines

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Timeline</th>
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<tbody>
<tr>
<td>Single bank account with separate scheme-wise sub-accounts for off-budget schemes</td>
<td>1-2 years</td>
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<tr>
<td>Institutionalizing Web-based financial monitoring</td>
<td>1 year</td>
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<tr>
<td>Strengthening IFMIS to include off-budget entries and payments</td>
<td>3-5 years</td>
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<tr>
<td>Strengthening Internal Audit</td>
<td>1-3 years</td>
</tr>
<tr>
<td>Inclusion of missing off-budget schemes in statement of “Direct Receipt of Central Assistance by State Agencies”</td>
<td>Immediate</td>
</tr>
<tr>
<td>Inclusion of statement of off-budget user charges collected and expenditure therein as appendix to Budget</td>
<td>Immediate</td>
</tr>
<tr>
<td>Inclusion of statement on Current Status of Public Private Partnership (PPP) in Budget as Appendix</td>
<td>Immediate</td>
</tr>
<tr>
<td>Estimation of Imputed cost of Government Loans and inclusion of same in Budget as appendix</td>
<td>Immediate</td>
</tr>
<tr>
<td>Estimation of Imputed cost of Government Guarantees and inclusion of same in budget as appendix</td>
<td>Immediate</td>
</tr>
<tr>
<td>Study of Tax Reliefs and Exemptions: A Regular Exercise</td>
<td>1-2 years</td>
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2 Off- Budget Expenditure: Conceptual Framework

2.1 Budgeted Expenditure

As per OECD’s “Best Practice Guidelines – Off-Budget and Tax Expenditures”, the budget may be considered as the law or collection of laws authorizing expenditures and/or the incurrence of obligations to make expenditures, to be financed from taxes or levies, as well as the specification of the sources of revenue from which expenditures are to be financed. The government transactions may thus be called budgeted if they follow specified budgeting laws and become off-budget if they bypass these laws.

2.2 Expenditure: Outside Budget

As per the OECD guidelines, there are three principles which can be considered preconditions for the fulfillment of all budget functions:

- **Universality principle**—all expenditures financed by taxes or levies and all revenues collected through taxes or levies should be in the budget.
- **Unity principle**—all expenditures in the budget to be made during a certain period of time (usually a year or a few years) and all revenues in the budget to be collected during that period should be presented to the budgetary authorities for the purpose of decision making in a single document.
- **Specificity principle**—expenditures and revenues should be specified separately in the budget (“gross recording”) and at a level of detail required by the budgetary authorities.

Two forms of expenditure which generally do not reconcile with these principles and hence become un-budgeted include:-

- **Off-budget expenditure**: Expenditures financed by taxes or levies that are not in the budget (violating the universality principle).
- **Back door expenditure**: Expenditures financed by public taxes or levies that are in the budget, but that are materially authorized by substantive laws outside the budget process (violating the unity principle).

2.3 Off-Budget Expenditure

The main forms of off-budget expenditures include:

- Off-budget funds;
- Direct loans;
- Guarantees; and
- Public Private Partnerships (PPPs).

The above mentioned forms of off-budget expenditure are explained in detail in the Section 1: Off-Budget Expenditure Details of the Appendix.

2.4 Back-door expenditure

The main form of “back door” expenditure is tax expenditures which are tax reliefs created by tax laws. Tax expenditure can be defined as a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by a direct expenditure.
Tax expenditures may take a number of different forms:

- **exemptions**: amounts excluded from the tax base;
- **allowances**: amounts deducted from the benchmark to arrive at the tax base;
- **credits**: amounts deducted from tax liability;
- **rate relief**: a reduced rate of tax applied to a class of taxpayer or taxable transactions;
- **tax deferral**: a relief that takes the form of a delay in paying tax.

### 2.5 OECD Guidelines/Good Practices for treatment of Off-Budget Items

<table>
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<tr>
<th>Expenditure</th>
<th>Guideline</th>
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| Off-Budget Fund   | **Off budget funds should be avoided or only be allowed under the following conditions:**  
|                   | a. that the funds are exclusively or largely financed by earmarked levies;  
|                   | b. that the expenditures and revenues of the funds are subjected to regular budgetary control.  
<p>|                   | <strong>All expenditures and revenues of off-budget funds should be integrated in the budget documentation</strong> that is presented to the budgetary authorities. Regular expenditures and revenues and off-budget expenditures and revenues should be shown in this documentation side-by-side. |
| Direct Loans      | <strong>The budget should include the estimated subsidy costs of direct loans at the time they are made</strong> (not at the time the cash flows occur). The subsidy costs consist of interest rates below market rates or default risk and favorable repayment conditions in so far as they are not reflected in the interest rate or special risk fees. |
|                   | <strong>Credit Subsidy Budgeting</strong>: The subsidy costs have to be computed from all expected incoming and outgoing cash flows associated with the loan discounted by the public discount rate. |
|                   | <strong>Direct loan programs should be authorized by law.</strong> Budget documentation should provide information about the amount of direct loans outstanding for each program at the beginning and the end of each fiscal year or budget period and about the new direct loans for each loan program during the fiscal year or budget period. |
|                   | <strong>Cost estimates of credit programs should be based on robust estimation rules that are easily comprehensible for policy makers and citizens.</strong> |
| Guarantee         | <strong>The budget should include the estimated subsidy costs of guarantees at the time the guaranteed loans are made by the non-governmental lender.</strong> The subsidy costs consist of the default risk in so far as it not reflected in risk fees. |
|                   | <strong>Guarantee Subsidy Budgeting</strong>: The subsidy costs have to be computed from all expected incoming and outgoing cash flows associated with the guarantees, discounted by the public discount rate. |
|                   | <strong>Guarantee programs should be authorized by law.</strong> |
|                   | <strong>Budget documentation should provide information about the amount of guarantees outstanding</strong> at the beginning and the end of each fiscal year or budget period and about the new guarantees for each guarantee program during the fiscal year or budget period. |
|                   | <strong>Cost estimates of guarantees should be based on robust estimation rules that are easily comprehensible</strong> |</p>
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<thead>
<tr>
<th>Expenditure</th>
<th>Guideline</th>
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<tbody>
<tr>
<td></td>
<td>for policy makers and citizens.</td>
</tr>
<tr>
<td></td>
<td>• Guarantee should only be considered if the design of the programs attributes at least a part of the default risk to the private lender.</td>
</tr>
<tr>
<td>PPP</td>
<td>• No prescribed guideline</td>
</tr>
<tr>
<td>Tax Expenditure</td>
<td>• Tax expenditures should be identified by use of a benchmark tax. The benchmark does not necessarily need to represent the normative tax base. The benchmark should be comprehensive and unique.</td>
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<tr>
<td></td>
<td>• <strong>All tax expenditures should be estimated and integrated in the expenditure documentation that is presented to the budgetary authorities for all significant taxes.</strong> Regular expenditures and tax expenditures should be shown in this documentation side-by-side for the same number of years.</td>
</tr>
<tr>
<td></td>
<td>• Under nominal or structural deficit or operating/current balance rules tax expenditures should either be included in the total expenditure cap that is set every year during budget preparation or in a special tax expenditure cap.</td>
</tr>
<tr>
<td></td>
<td>• <strong>All tax expenditures should be reviewed in the same way as regular expenditures in the annual budget process.</strong> They should be reviewed by the financial staff of spending ministries and the budget division in the same way as regular expenditures. Special evaluation procedures, including program review, should be applied to tax expenditures in the same way as to regular expenditures.</td>
</tr>
<tr>
<td></td>
<td>• <strong>Tax expenditures should be estimated by revenue forgone,</strong> corrected by an equivalent tax margin. <strong>Revenue forgone</strong> measures revenue loss after introduction of tax expenditure, based upon a comparison of existing legislation and the legislation without the tax expenditure. The revenue foregone method is based on the behavior as it exists when the tax expenditure exists.</td>
</tr>
<tr>
<td></td>
<td>• <strong>The responsibility for tax expenditure estimates should remain with the Ministry/Department of Finance.</strong></td>
</tr>
</tbody>
</table>
3 Off-Budget Expenditure- Indian Context

3.1 Off-Budget Expenditure

In Indian Context, at state level, expenditure related to activities undertaken by the government is considered off-budget if they are:

- Not routed through consolidated fund of the state, or
- Outside the budgetary processes, or
- Not accounted for in the budget document.

Example of off-budget expenditure includes central assistance paid directly to government agencies under various schemes like Sarva Shiksha Abhiyan, NFSM etc. though these expenditures have been passed by central legislature but not by state legislature.

3.2 Possible forms of Off-budget expenditure at State Level

Based on the above definition, possible forms of off-budget items are:

3.2.1 Central assistance routed directly to government agencies under various schemes

For certain schemes like Sarva Shiksha Abhiyan, National Food Security Mission (NFSM), funds are released by Government of India (GOI) directly to state department or state implementing agency. The idea behind such schemes is generally to ensure quick transfer of funds to the implementation level bypassing the state treasury route. GOI presented along with its expenditure budget a statement on Direct Transfer of Central Plan Assistance to State/District Level Autonomous Bodies/Implementing Agencies. Figure 1 presents total transfer of central assistance directly to state implementing agencies. It can be seen from the figure that approximately Rs.95,567 crore is planned to be allocated by way of direct transfer of central assistance to state implementing agencies which accounts for 9.36% of total GOI’s expenditure. As % of central plan and non-plan expenditure, direct transfer accounts for 29.4% and 13.74% respectively.

Table 2 represents scheme-wise direct transfer of central plan assistance to state implementing agencies. It can be observed that about 40% allocation is done under NREGS which accounts for Rs. 37,779 crore in 2009-10. 12.5% allocation is made under Sarva Shiksha Abhiyan (SSA) which accounts for Rs.11,934 crore, 9% under Pradhan Mantri Gram Sadak Yojana (PMGSY) (Rs. 8,609 crore) and 8.28% under Indira Awaas Yojana (IAY).

It can thus be observed that there is a growing pattern in these transfers and the quantum of funds coming to states is very large and there may be day when expenditure through these schemes would overtake the total expenditure being undertaken in a state through the state budget and being routed through state treasuries. This is a cause of concern for the Finance Department in the states.
Table 2: Scheme-wise direct transfer of central plan assistance to state/district level autonomous bodies/implementing agencies

<table>
<thead>
<tr>
<th>Scheme</th>
<th>2007-08</th>
<th>2008-09 RE</th>
<th>2009-10 BE</th>
<th>% of Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Rural Employment Guarantee Scheme (NREGS)</td>
<td>12661.22</td>
<td>30000.19</td>
<td>37778.64</td>
<td>39.53%</td>
</tr>
<tr>
<td>Sarva Shiksha Abhiyan</td>
<td>11480.76</td>
<td>11939.98</td>
<td>11933.90</td>
<td>12.49%</td>
</tr>
<tr>
<td>Pradhan Mantri Gram Sadak Yojana (PMGSY)</td>
<td>6500.00</td>
<td>7225.15</td>
<td>8609.10</td>
<td>9.01%</td>
</tr>
<tr>
<td>Indira Awaas Yojana (IAY)</td>
<td>3885.53</td>
<td>7919.00</td>
<td>7912.70</td>
<td>8.28%</td>
</tr>
<tr>
<td>Flexible Pool for State PIP's</td>
<td>4992.81</td>
<td>5670.45</td>
<td>7103.47</td>
<td>7.43%</td>
</tr>
<tr>
<td>Accelerated Rural Water Supply Programme(ARWSP)</td>
<td>2023.91</td>
<td>2323.95</td>
<td>5800.17</td>
<td>6.07%</td>
</tr>
<tr>
<td>Swaranjayanti Gram Swarozgar Yojana (SGSY)</td>
<td>1697.06</td>
<td>2113.00</td>
<td>2075.54</td>
<td>2.17%</td>
</tr>
<tr>
<td>Integrated Watershed Management Programme (IWMP)</td>
<td>1046.99</td>
<td>1365.00</td>
<td>1633.40</td>
<td>1.71%</td>
</tr>
<tr>
<td>National Food Security Mission</td>
<td>381.00</td>
<td>780.00</td>
<td>1200.00</td>
<td>1.26%</td>
</tr>
<tr>
<td>National Horticulture Mission</td>
<td>919.16</td>
<td>1000.00</td>
<td>1100.00</td>
<td>1.15%</td>
</tr>
<tr>
<td>Rashtriya Madyamik Shiksha Abhiyan (RMSA)</td>
<td>0.00</td>
<td>0.00</td>
<td>983.46</td>
<td>1.03%</td>
</tr>
<tr>
<td>Rural Sanitation</td>
<td>848.63</td>
<td>878.30</td>
<td>878.30</td>
<td>0.92%</td>
</tr>
<tr>
<td>Pulse Polio Immunization</td>
<td>481.94</td>
<td>648.47</td>
<td>600.94</td>
<td>0.63%</td>
</tr>
</tbody>
</table>

3.2.2 Expenditure by state departments/agencies from user charges collected

User charges are contributions by individual users in the form of a charge per unit of service consumed, typically in the form of cash. State Departments and agencies collect user charges for a number of services provided like public transport, water supply, health facilities, education etc. Typically, Government departments collect these user charges and deposit it in the Treasury, which then forms a part of Government revenue (Non-tax revenue). Thus, these user charges are represented in the budget.

But in some cases, Government allows its departments or agencies to retain whole or a part of user charges collected by the latter to partially meet its contingent/emergency expenditure requirements. Since these user charges are not deposited in the state treasury, these remain un-recorded in the budget and hence becomes off-budget. Examples of such expenditure include expenditure by Rogi Kalyan Samitis, which is a management group made up of members of the state and of the community. These are authorized by the state government to levy user charges for services provided and also to receive donations. The user charges collected are used for new construction, providing modern testing facilities (e.g. CT scans etc.), recruiting part-time cleaning/security staff, paramedical staff and accountants on a contract basis.

3.2.3 Public Private Partnership (PPP)

Typically, PPP projects involve Government providing primary resources like land to the private concessionaire while the latter invest in construction of the asset, its operation and maintenance. For this, private contractor get revenue sharing rights in the asset created for a pre-determined period. Generally, information regarding PPP projects is not included in the budget since it is relatively new mode of financing as compared to typical ways of borrowing, raising bonds etc. It is therefore argued that the cost of assets provided by the Government to private contractor under a PPP agreement should be reflected in the budget as it is a part of public expenditure (capital).
3.2.4 Imputed subsidy cost of Government Loans

State Government provides loans at concessional rates for developmental and social purposes in their respective states. These include loans to farmers for agriculture and land improvement, loan to Cooperatives, loan to Public Sector Commercial and Industrial Enterprises, loan to people affected by violence, loan for State Plan, Centrally sponsored and Central Sector Schemes, loans to Academic and Social Service Organizations and Personal loans. The interest rate charged by Government on these loans is often lower than the prevailing market interest rate and thus implies an imputed cost for the State Government. Lower interest rate implies lower interest revenue for the Government but no actual expenditure, thus this interest subsidy remains un-budgeted and forms off-budget expenditure for the Government.

3.2.5 Imputed subsidy cost of Government Guarantees

Due to resource constraints, Government cannot always provide budgetary support to all the public sector enterprises and other official agencies to meet the latter’s fund requirements. It often helps them in raising needed resources by providing its guarantee on their behalf to the lending institutions/ investors. These guarantees are, however, provided when the latter are either not able to raise resources on the basis of their own Balance sheet or though able to raise resources on their own strength, the cost of raising such funds would be high or where guarantees are mandated by law such as loans given by the National Co-operative Development Corporation.

By providing its guarantee to the lenders, the government takes upon itself an obligation to repay the loan/bonds/debentures etc. and to pay interest thereon in case of default by the principal borrower. A guarantee thus is an important instrument of economic growth as it helps in mobilizing resources to meet the developmental expenditure. But at the same time it must be clearly recognized that every guarantee creates an explicit contingent liability and is a fiscal risk to the government. Thus to mitigate the risk, a guarantee fee is charged by the Government, which in most cases is concessional and does not cover the full cost of risk involved in providing guarantees.

Since all governments in India follow cash system of accounting, guarantees do not get recorded in fiscal accounts when these are issued. These are formally recognized as liabilities and enter fiscal accounts only when these are invoked and payments are made by government to lenders. When these contingent liabilities turn into real liabilities, they impose financial burden on State Government which cannot be covered by Guarantee fee since guarantees are generally provided at subsidized rate/fees by the government. Thus this imputed guarantee subsidy provided by government remains un-budgeted and constitutes an off-budget expenditure.

3.2.6 Imputed value of tax reliefs and exemptions

Taxes imposed and collected by State Government mainly consist of VAT, Excise, Stamps and Registration, Taxes on Vehicles, Land Revenue, Taxes on Goods and Passengers, and Taxes and Duties on electricity. State Government provides many exemptions and reliefs in these taxes for various reasons including boosting economic growth in the state and meeting certain desired social objectives. These exemptions and reliefs constitute tax expenditure by State Government as these imply reduction in its revenue.

Since no explicit expenditure is incurred in providing exemptions and reliefs, tax expenditure remain un-recorded in the budget and hence becomes off-budget expenditure.
4 Off-Budget status in MP

4.1 Present status of Off-Budget Reporting

Presently the only off-budget item being reported by Government of Madhya Pradesh (GoMP) includes reporting of direct receipts of central assistance by agencies. Off-budget expenditure items relating to (i) Expenditure funded from user charges, (ii) value of resources provided under PPP contracts, (iii) imputed value of government loans and guarantees and (iv) imputed value of tax reliefs and exemptions are not being reported currently by GoMP.

GoMP has been releasing the statement on direct receipts of central assistance by agencies since 2008-09. It is worth acknowledging that GoMP is one of the pioneer states in presenting this report along with its budget every year.

In the following sections, we present an item-wise current status of off-budget reporting in the state.

4.2 Direct receipt of central assistance by agencies - Facts and Figures

4.2.1 Total central assistance directly received by state agencies

Figure 2 presents the total amount of central assistance received directly by the state implementing agencies since 2006-07. It can be observed from the figure that the state received around Rs. 2,300 crore during 2006-07 which increased by 192% during 2007-08 to reach Rs. 6,721 crore. This increase has been mainly due to non-reporting of allocation received under National Rural Employment Guarantee Scheme for the year 2006-07 (as given in 2008-09 off-budget statement of GoMP). As per GOI published report (available on http://nrega.nic.in/), Rs. 350 crore has been released to districts in 2006-07 under NREGS, which increased to Rs. 2571.81 crore in 2007-08. Allocations under Sarva Shiksha Abhiyan, MP Rural Road Development, and Reproductive and Child Health Program also increased during 2007-08.

During 2008-09 (RE), direct receipts by state implementing agencies further increased by 113% to Rs. 14,305 crore. This increase arose due to high increase in receipts under schemes like NREGS, decentralized procurement of rice and state service delivery gateway.

Further during 2009-10 (BE), receipts have been projected to decrease by 31% to Rs. 9,806.1 crore due to reduced allocations under schemes like State Service Delivery Gateway, E-District and MP rural Road Development.

4.2.2 Direct receipt of central assistance by agencies - as % of Plan, Non-plan and Total Expenditure

Figure 3 presents direct receipt of central assistance by agencies as % of Plan, Non-plan and Total Expenditure. It can be seen from the figure that during 2008-09 (RE), receipt of direct central assistance by state implementing agencies accounted for about 35.4% of total state's budgeted expenditure, 91.1% of plan expenditure and 58% of non-plan expenditure.
During 2009-10, it is expected that these receipts will amount to around 21% of total budgeted expenditure of the state, 52% of plan expenditure and 36% of non-plan expenditure. Thus, it can be observed that the central assistance received directly by the state implementing agencies is significant with respect to budgeted expenditure of the state and thus it is imperative for GoMP to have regular updates and information about funds received, released and utilized under these schemes at department, district and block levels.

### 4.2.3 Department-wise Receipts

Table 3 presents department-wise receipts by state implementing agencies from Government of India (GOI). It can be seen from the table that Rural Development Department received the highest allocation with 52.8% of total state’s receipts going to the department during 2009-10. This is mainly on account of high allocation received under NREGS by the department. Further, Food, Civil Supplies and Consumer Protection Department and School Education Department received 16.5% and 13.6% respectively of total state’s receipts during 2009-10. Food, Civil Supplies and Consumer Protection Department received higher allocation under Scheme for Decentralized Procurement of Rice while School Education Department received higher allocation under SSA.

<table>
<thead>
<tr>
<th>Department</th>
<th>2007-08 A</th>
<th>2008-09 RE</th>
<th>2009-10 BE</th>
<th>% (2009-10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Development Department</td>
<td>4,635</td>
<td>6,465</td>
<td>5,178</td>
<td>52.8%</td>
</tr>
<tr>
<td>Food, Civil Supplies and Consumer Protection Department</td>
<td>42</td>
<td>1,102</td>
<td>1,621</td>
<td>16.5%</td>
</tr>
<tr>
<td>School Education Department</td>
<td>868</td>
<td>856</td>
<td>1,334</td>
<td>13.6%</td>
</tr>
<tr>
<td>Public Health and Family Welfare Department</td>
<td>470</td>
<td>543</td>
<td>686</td>
<td>7.0%</td>
</tr>
<tr>
<td>Farmer Welfare and Agriculture Development Department</td>
<td>58</td>
<td>152</td>
<td>226</td>
<td>2.3%</td>
</tr>
<tr>
<td>Information Technology Department</td>
<td>218</td>
<td>4,837</td>
<td>182</td>
<td>1.9%</td>
</tr>
<tr>
<td>Horticulture and Food Processing Department</td>
<td>48</td>
<td>112</td>
<td>174</td>
<td>1.8%</td>
</tr>
<tr>
<td>Labour Department</td>
<td>198</td>
<td>0</td>
<td>77</td>
<td>0.8%</td>
</tr>
<tr>
<td>Housing and Environment Department</td>
<td>24</td>
<td>8</td>
<td>56</td>
<td>0.6%</td>
</tr>
<tr>
<td>Urban Administration and Development Department</td>
<td>31</td>
<td>50</td>
<td>55</td>
<td>0.6%</td>
</tr>
</tbody>
</table>
4.2.4 Scheme-wise Receipts

Analyzing scheme-wise direct receipts from Central Government, it can be seen from Table 4 that highest allocation has been received under NREGS with about 47% of total state's direct receipts coming under the scheme. Further, amounts received under SSA and Scheme for Decentralized Procurement of Rice accounted for 16.5% and 12.7% respectively during 2009-10.

### Table 4: Scheme-wise Receipts

<table>
<thead>
<tr>
<th>Scheme/Programme</th>
<th>2007-08 A</th>
<th>2008-09 RE</th>
<th>2009-10 BE</th>
<th>% (2009-10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Rural Employment Guarantee Scheme</td>
<td>2571.81</td>
<td>4797.00</td>
<td>4640.00</td>
<td>47.3%</td>
</tr>
<tr>
<td>Decentralized Procurement of Rice (Under Scheme of Decentralized procurement of Food grain)</td>
<td>41.60</td>
<td>1086.99</td>
<td>1620.55</td>
<td>16.5%</td>
</tr>
<tr>
<td>Sarva Shiksha Abhiyan</td>
<td>789.26</td>
<td>811.75</td>
<td>1243.14</td>
<td>12.7%</td>
</tr>
<tr>
<td>Reproductive and Child Health Programme</td>
<td>327.93</td>
<td>357.31</td>
<td>428.77</td>
<td>4.4%</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>218.00</td>
<td>0.00</td>
<td>182.30</td>
<td>1.9%</td>
</tr>
<tr>
<td>National Rural Health mission</td>
<td>102.63</td>
<td>135.71</td>
<td>162.85</td>
<td>1.7%</td>
</tr>
<tr>
<td>Indira Awaas Yojana</td>
<td>112.72</td>
<td>155.11</td>
<td>159.00</td>
<td>1.6%</td>
</tr>
<tr>
<td>National Food Security Mission</td>
<td>46.13</td>
<td>119.89</td>
<td>135.15</td>
<td>1.4%</td>
</tr>
<tr>
<td>Swarnajayanti Gram Swarojgar Yojana</td>
<td>109.54</td>
<td>120.20</td>
<td>126.00</td>
<td>1.3%</td>
</tr>
<tr>
<td>Samagra Swachata Abhiyan</td>
<td>0.00</td>
<td>180.00</td>
<td>100.00</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

4.2.5 Report on direct receipt of central assistance by agencies: Our Observations

We have observed that Report on direct receipt of central assistance by agencies is currently not presenting an exhaustive list of such schemes. Possibility of schemes escaping reporting has been observed to exist. These schemes include Scheme of Support to Voluntary Agencies for Adult Education and Skill Development, National Project on Cattle and Buffalo Breeding, Livestock Insurance (Pashudhan Beema) Scheme, Integrated Dairy Development Project, Integrated Watershed Management Programme (IWMP), Studies of Inputs for Agricultural Economic Policy and Development and Development and Strengthening of Seed Infrastructure Facilities for production and distribution of seeds. *Section 2: Identification of Missing Off-Budget Expenditure Items of appendix presents details of these schemes.*

4.3 Expenditure by State Department/agencies from user charges collected

Various departments and agencies of Government of Madhya Pradesh levies user charges for the services provided by them and are authorized to retain whole or a part of amount collected for meeting their expenditure requirement. We have observed two such user charges fund in the state, viz. *User charges fund by Rogi Kalyan Samitis and Development Fund of Forest Department*. Details of these are provided Sections 4.3.1 and 4.3.2.
However, no statement or information regarding collection of these user charges or expenditure from them is reported with the budget. Hence these user charges and expenditure made out of these user charges remain off-budget.

4.3.1 Development Fund: Forest Department

Government of Madhya Pradesh passed an order in 1997 enabling all National Parks and Sanctuaries to directly utilize the receipts from wildlife tourism for development of the Protected Areas. Each Protected Area has its own development fund, which can be used for development works for which funds are not readily available under the normal budget. These development works include repair of roads around the park, putting up dustbins, providing safe drinking water, upgrading rest house, publicity etc. For expending from the development fund, it is required to get necessary approval from a State Level Committee.

Expenditure from this fund forms off-budget expenditure as the receipts are not included in the state budget. Approximately **Rs. 4-5 crore is collected annually** as entry fee from national parks and sanctuaries. These funds get deposited in separate bank account of Forest Department opened specifically for the purpose.

**10% of the amount collected from entry fee to national parks and sanctuaries is allotted to Madhya Pradesh Eco-tourism Development Board to fund their expenditure.**

4.3.2 Rogi Kalyan Samiti (RKS)

*Rogi Kalyan Samitis* are the registered societies constituted in the hospitals as an innovative mechanism to involve the people’s representatives in the management of public hospitals with a view to improve its functioning through levying user charges.

Traditionally, the delivery of health care to general population has been within the domain of public sector. Health care institutions at the districts and sub-district level have been funded by the Government. However, the availability of funds has been grossly inadequate when compared to the requirements.

The sources of income for RKS mainly includes user charges collected from indoor and outdoor patients for various services provided, private and public donations and grants and income by renting a part of hospital premises for commercial purpose. **Total income of RKS for the year 2008-09 and 2007-08 amounted to Rs. 23.57 crore and Rs. 20.39 crore respectively.**

Hospitals have used these funds for renovations of buildings, repair and maintenance of equipments, construction of additional wards and to install newer and better equipment, and furniture.

Charges are levied for all facilities provided in the hospital including the outdoor patient ticket, pathological tests, indoor beds, specialized treatment, operation etc. The economically weaker sections of the society and other groups as determined by the government are exempt from such charges. The collection from these charges is **deposited with the RKS and not in the government exchequer.** Thus these user charges constitute off-budget receipts of the government and expenditure from these form off-budget expenditure.

**User charges collected for the year 2008-09 amounted to Rs. 12.86 crore which increased from Rs. 7.62 crore from 2007-08. Thus about 55% of RKS income is accounted by the user charges.**

4.4 Public Private Partnership (PPP): Value of assets provided by the Government

A number of PPP projects have been initiated in Madhya Pradesh in recent years. Table 5 presents the key PPP projects being undertaken in Madhya Pradesh.
<table>
<thead>
<tr>
<th>Project</th>
<th>Implementing Agency</th>
<th>Area</th>
<th>Concession Period</th>
<th>PPP mode</th>
<th>Estimate Cost</th>
<th>Premium Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Park at Bhopal</td>
<td>Madhya Pradesh State Electronics Development Corporation</td>
<td>212 acres</td>
<td>99 years on license basis</td>
<td>BOOT</td>
<td>Rs. 2,050 crore</td>
<td>Rs. 61 crore</td>
</tr>
<tr>
<td>Sports City at Satgadhi Village, Bhopal</td>
<td>Department of Sports and Youth Welfare, GoMP</td>
<td>172 acres</td>
<td>3 yrs license for Sports city 99 yrs license for Real Estate Development</td>
<td>Sports City- Build &amp; Transfer (BT) basis Real Estate Development-BOOT basis</td>
<td>Rs. 900 crore</td>
<td>Rs. 18.1 crore</td>
</tr>
<tr>
<td>Central Business District (CBD) Bhopal</td>
<td>Madhya Pradesh Housing Board</td>
<td>15 acres</td>
<td>99 years on lease basis</td>
<td>BOOT</td>
<td>Rs. 1,500 crore</td>
<td>Rs. 338 crore</td>
</tr>
<tr>
<td>Digital City at Thatipur, Gwalior</td>
<td>Madhya Pradesh Housing Board</td>
<td>30.06 hectares</td>
<td>99 years on lease basis</td>
<td>BOOT</td>
<td>Rs. 1,200 crore</td>
<td>Rs. 266 crore</td>
</tr>
<tr>
<td>Logistics Hub at Mandideep, Distt. Raisen</td>
<td>MP Audyogik Kendra Vikas Nigam (Bhopal) Limited</td>
<td>18.50 acres</td>
<td>30 years, excluding construction period, with renewal option for another 30 years</td>
<td>BOOT</td>
<td>Rs. 35 crore</td>
<td>Rs. 3 crore</td>
</tr>
<tr>
<td>Public Conveniences at Bhopal</td>
<td>Bhopal Municipal Corporation (BMC)</td>
<td>15 years excluding construction period</td>
<td>BOOT</td>
<td>Rs. 2 crore</td>
<td>Rs. 7.87 crore</td>
<td></td>
</tr>
</tbody>
</table>

Land is the main asset provided by GoMP in most of the PPP projects being undertaken in the state. Apart from road projects, PPP projects where land is being provided by GoMP, *lease rent* is levied on the private developer. For example, for IT park project in Bhopal, a lease rent of Rs.1 lakh per annum and for Sports City at Satgadhi Village, Bhopal, a lease rent of Rs.5 lakh per annum has been decided to be imposed. *The lease rent will be collected by revenue department and will be included in the budget. The head for lease rent in Volume 2-1 of the budget is 0016* and is presented in Figure 4.
Private developers also pay to the government a premium for the PPP projects, which is over and above the lease rent. These premiums are collected by the implementing department/agency and are further transferred to revenue department. \textit{This is also being included in the budget, Vol2-1 under the head-0015 and is presented} in Figure 4.

\textbf{Our discussions with Madhya Pradesh Housing Board revealed that they had received Rs. 338 crore from a private developer as premium for Central Business District (CBD) Project in Bhopal, which they had immediately transferred to revenue department.}

Thus, in respect of PPP projects, the cost of land in the form of lease rent and premium is being collected from the private contractor which is being reflected in the budget. However, for an ease of reading, a separate compiled statement showing the receipts or expenditure on various PPP projects in the state is currently not being presented with the budget as an appendix.

\section*{4.5 Imputed subsidy cost of Government Loans}

Government of Madhya Pradesh is also providing loans and advances at concessional rates for various developmental and social purposes. As per the circular issued by Finance Department, GoMP dated 16.5.2008; interest rates as mentioned in Table 6 are applicable on various categories of loans provided by the Government. These interest rates have been in effect from 1\textsuperscript{st} April 2007 for the year 2007-08. The \textit{average (Median) interest rate charged by GoMP works out to 11\% pa}. 

---

\textit{Figure 4: Snapshot of Vol. 2-1 of Budget Books showing details of revenue receipts}
Table 6: Interest rate structure on loans provided by GoMP

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Category</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Loans under Agriculturalist Loan Act and Land Improvement Loan act and Taccavi Loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Loan for 4 years or less</td>
<td>9.00</td>
</tr>
<tr>
<td></td>
<td>(ii) Loan for more than 4 years</td>
<td>10.50</td>
</tr>
<tr>
<td>2.</td>
<td>Problems faced by Farmers and non-farmers due to natural disasters</td>
<td>9.00</td>
</tr>
<tr>
<td>3.</td>
<td>(i) Loan to Cooperatives having capital of less than 1 crore</td>
<td>11.50</td>
</tr>
<tr>
<td></td>
<td>(ii) Loan to Public Sector Commercial and Industrial Enterprises and Cooperatives having capital of more than Rs. 1 crore</td>
<td>11.50</td>
</tr>
<tr>
<td></td>
<td>• Investment Loan</td>
<td>14.50</td>
</tr>
<tr>
<td></td>
<td>• Working Capital Loans and loans to meet cash losses (Maximum 5 years)</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Loan for rectifying temporary water problem in urban areas (Plan and Non-plan)</td>
<td>11.50</td>
</tr>
<tr>
<td>5.</td>
<td>Loan to people affected by violence</td>
<td>9.00</td>
</tr>
<tr>
<td>6.</td>
<td>Loan to people/families aggrieved by dacoits</td>
<td>9.00</td>
</tr>
<tr>
<td>7.</td>
<td>Loan for purchasing guns for forest superintendent</td>
<td>12.00</td>
</tr>
<tr>
<td>8.</td>
<td>Loan for State Plan, Centrally sponsored and Central Sector Schemes</td>
<td>10.50</td>
</tr>
<tr>
<td>9.</td>
<td>Ad-hoc loans by state Government (Loans to Academic and Social Service Organizations and Personal loans)</td>
<td>11.50</td>
</tr>
<tr>
<td>10.</td>
<td>Penalty interest</td>
<td>+3.00%</td>
</tr>
</tbody>
</table>

We observed that as on 31st March 2008 and 31st March 2007, total outstanding loans and advances by the State Government amounted to Rs. 3,635.68 crore and Rs. 2,586.05 crore respectively. Applying an interest rate of 11% pa, the interest revenue for the year works out between Rs. 399.9 crore and Rs. 284.5 crore. As against this, the actual interest revenue for 2007-08 has been Rs. 207 crore which translates into an effective interest rate of 5.7%-8% pa.

In order to assess the interest subsidy, the difference of the interest rate charged by the government and the Benchmark Prime Lending Rate (BPLR) of SBI can be considered.

4.6 Imputed subsidy cost of Government Guarantees

Government of Madhya Pradesh also provides financial assistance to Statutory Corporations, Government Companies, Joint-Stock Companies, co-operative institutions, local bodies, firms and individuals, etc. by providing its guarantee on their behalf to the lending institutions/ investors. The total guarantees as on 31st March 2008 and 31st March 2007 were for Rs.12,086 crore and 12,424.26 crore.

Under the Guarantee Rules framed by the Government, guarantee fee is charged from the principal debtor, unless exempted specifically. The proceeds of the fee so realized are credited to the revenue of the Government. Government of Madhya Pradesh had issued a circular letter addressed to all the Administrative Departments on 31st March, 2005 laying down the rates of guarantee fee and the manner and the period within which the guarantee fee will be payable. The guarantee fee rate is uniform 1% pa of the guaranteed amount. The responsibility to collect the fee from the borrower institutions and to credit the amount to the government account rests with the Administrative Departments. During the year 2007-08 a sum of Rs.2.83 crore was recovered as guarantee fee and credited to Government Account. This amount is much less than 1% of total amount guaranteed (Rs.12086 as on 31st March 2008) mainly due to non-payment of guarantee fees on old guarantees and guarantee fee exemptions provided by the Government. We have observed that guarantee fees have been exempted on Rs. 6,035 crore worth of guarantee
provided to Statutory Corporations and Boards. **It must be noted that even after allowing for the exemption, the collection of guarantee fee has been much lower than the amount due.**

In order to understand the **market cost of guarantees**, meetings and discussions were held with officials of State Bank of Indore. Table 7 presents the Guarantee fees charged by the State Bank of Indore. It has been observed that the bank provides guarantees for a maximum of 3 years and all guarantees provided by it are secured (by collateral etc).

Table 7: Guarantee fees charged by the State Bank of Indore

<table>
<thead>
<tr>
<th>Guaranteed Amount</th>
<th>Guarantee fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 5 crore</td>
<td>2.5% pa</td>
</tr>
<tr>
<td>5-10 crore</td>
<td>2% pa</td>
</tr>
<tr>
<td>Above 10 crore</td>
<td>1.5% pa</td>
</tr>
</tbody>
</table>

The computation of **guarantee subsidy provided by GoMP can then be calculated based on the difference between market rates of guarantee fee and government rate of guarantee fee. Since this guarantee subsidy is provided in the form of lower or no guarantee fees charged from the borrowers, it represents implicit expenditure of the State government and hence remains un-budgeted.**

### 4.7 Imputed value of tax reliefs and exemptions

Government of Madhya Pradesh also provides exemptions and reliefs in taxes under its purview to foster economic growth in the state. **We have studied the exemptions provided under MP industrial policy to analyze its impact on state’s revenue collection and hence the magnitude of tax expenditure by GoMP for promoting industrial development in the state on a sample basis.**

Currently, GoMP is providing three major exemptions under its industrial policy. These include exemption from entry tax, Stamp Duty and Mandi Tax. As per the New Industrial Policy of Madhya Pradesh, following exemptions have been given in these taxes:

<table>
<thead>
<tr>
<th>Tax</th>
<th>Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry Tax</td>
<td>Industrial Units to be exempt from payment of entry tax on raw material, incidental and capital goods for 5 years from the date of first purchase. Such concessions are available for 11 years in case of units set up by NRIs and 100 % EOU's</td>
</tr>
</tbody>
</table>
| Stamp Duty| Key exemptions from stamp duty for industrial promotion include:  
  • Exemption to IT industries from payment of stamp duty on acquisition of property  
  • In Backward “B” and “C” district, 100% exemption from stamp duty has been provided to small scale industries.  
  • In Backward “B” and “C” district, 50% and 100% exemption, respectively, from stamp duty has been provided to Medium and Large Scale industries.  
  • Stamp Duty and Registration Charges would be fully exempted for the industrial units, which have been closed down and acquired by the financial institutions and banks or sick and closed units referred to BIFR or liquidator for disposal.  
  • Full exemption in stamp duty and registration charges for sale/transfer of sick units; as defined by RBI and closed down industrial units would be given. |
<table>
<thead>
<tr>
<th>Tax</th>
<th>Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>• If existing managements of an Industrial unit did not succeed in running the unit at more than 50% of its installed capacity for 3 years and for better utilization of capacity he sells the unit as &quot;on going concern&quot; to another entrepreneur or the said unit Merges/Amalgamates with another company then in the such cases stamp duty and registration charges would be limited to a maximum of Rs 10 lakh</td>
<td></td>
</tr>
<tr>
<td>Mandi Tax</td>
<td>Mandi Tax would not be levied on the agricultural produce brought from outside the state as raw material by a food processing industry. Agricultural produce used as raw material in the industries set up in the food parks would be exempted from Mandi Tax.</td>
</tr>
</tbody>
</table>

These exemptions entail a cost for the State Government as these lead to reduction in revenue collection. Thus these exemptions are a form of implicit subsidy, which are being provided for promoting industrial growth in the state. Our discussions with officials of Mandi Board, Commercial Tax Department and Office of Registration and Superintendent Stamps (under Commercial Tax Department) revealed that no compilation of information/data on amount exempted during a financial year due to various tax concessions and exemptions granted is being done as of now. However, we could gather as a sample from our visits to these departments that over Rs. 41 crore exemptions had been given to private companies during 2007-09 period. Such expenditure incurred by providing exemptions and reliefs are not being currently compiled and reported with the budget.
5 Off-Budget Schemes- Mapping of the Monitoring Mechanism

Several off-budget schemes are currently being implemented in Madhya Pradesh. These include schemes like National Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan, National Rural Health Mission, National food Security Mission and others. Some of the distinguishing features of these off-budget schemes include:

- Majorly funded by Central Government;
- Funds are provided directly to the implementing department/agency/society, bypassing the state treasury;
- Broad guidelines, strategy and methodology of implementation laid down by Central Ministry with flexibility of preparing state/district plans;
- Primary responsibility of monitoring and control rest with Central Ministry/Agency with monitorable targets at the central level; and
- Responsibility for implementation of these programmes is normally vested with the State Departments/agencies.

Most of the off-budget schemes of the Government requires establishment of alternative autonomous state and district level societies/councils registered under the Societies Registration Act. Though autonomous, these societies and councils have adequate representation from Government officials with Principal Secretary or sometimes the Chief Secretary heading the Societies' General Body. The Society model also facilitates representation of other related departments dealing with the social sector as members of the General Body and the Governing Board. Often, representatives of NGOs have also been included to ensure effective participation of civil society.

In the following sections, typical characteristics of off-budget schemes have been discussed in detail.

5.1 Fund Flow Mechanism

Initially, Central Government used to transfer funds directly to the state Government for implementing the central sector developmental programmes. However, due to intermittent fund flow problems, State Governments often used to delay the fund releases for implementation of the programmes. The establishment of alternative autonomous State society and district societies registered under the Societies Registration Act was, therefore provided as an alternative funding route for these programmes. Now, Central Government transfers fund for scheme/programme implementation directly to the bank account of these societies which further allocate it to district, block and village level implementing agencies.

Another innovation in the field of fund flow system include use of e-transfer facilities for transferring funds from Central Government to State Societies and further to district, block and Panchayat level. Implementing agencies at various levels are required to open bank accounts with nationalized/public sector banks. The release of funds by the State Government from out of the provision in the State Government’s budget would also be deposited in the same bank account of the Society/implementing agency in which the funds of the Government of India are deposited. E-transfer facility has not only reduced time involved in transferring funds but has also plugged leakages and scope for frauds that existed in previous transfer systems.

Release of funds under off-budget schemes is generally based on State proposals or plans rather than on predetermined allocations. Funds are released in installments with subsequent installments contingent on submission of Utilization Certificates, audit reports and other statements relating to previous tranche release. Thus this motivates implementing agencies to undertake regular audits and checks.
5.2 Monitoring and Review

Under the off-budget schemes, **multi-level monitoring and review mechanisms** have been established. Each agency/department is required to monitor and review processes and practices of implementing agencies under it. For example, under NREGS, **the Gram Sabha** is to monitor all the works at the village level, **the Intermediate Panchayat and the Programme Officer** is to monitor the registration of households, issue of Job Cards, maintenance of muster rolls, unemployment allowances paid, social audits, flow of funds etc of gram sabha. The Programme Officer is responsible for sending all reports and returns to the District Programme Coordinator, who in turn sends reports to the State and Central Governments.

Often these schemes include provision for vigilance and monitoring through community participation. Committees are required to formed, composed of members of the locality or village where the work is undertaken, to monitor the progress and quality of work while it is in progress.

Another distinguishing feature of their monitoring mechanism is **setting up of a central MIS system**, which is used for recording funds flow across the nation till the lowest level. An interface of the MIS is provided to the various implementing agencies which are required to enter status of funds and works at regular intervals. This enables real time data flow across implementing agencies and facilitate quick decision making. For example, under NREGS, all programme implementation authorities—from the Programme Officer to the District and State levels—are required to report regularly on the online MIS developed by the Central Ministry for NREGA: [www.nrega.nic.in](http://www.nrega.nic.in). The fund transfer from the Ministry, States and Districts may be entered online on [http://nrega.nic.in](http://nrega.nic.in) by going to the data entry option.

5.3 Auditing

The implementing agencies at all level are required to keep proper accounts of the funds received by them and the expenditure incurred from these funds. In order to ensure that the accounts are kept properly and the funds are utilized for the purpose for which they were sanctioned, **annual statutory audit of accounts by Chartered Accountant Firms is compulsory**. In addition, **a concurrent financial review and monitoring is generally carried out by the Institute of Public Auditors of India** on behalf of Government of India at periodic intervals. The audit objections, if any, should be sent to the implementing agencies for their reply. The implementing agency is required to furnish replies to the audit objections immediately on receipt.

The accounts of the Society are also subjected to the provisions of Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971 as amended from time to time. The Act also provides for a **special audit / performance audit of Societies by Comptroller and Audit General of India** which would be undertaken as necessary.

In addition, these schemes also require implementing agencies to conduct internal audits including payment audit as well as independent appraisals of the financial, operational and control activities of the programme. The State Implementing Society should introduce proper internal audit system and strengthen internal checks and the **in-house internal audit system** to ensure proper utilization of funds. In States where an in-house internal audit team is not available, **qualified Chartered Accountants firm** are to be engaged for carrying out internal audit. **Audit compliance is required to be reported to Government of India by the State Implementing Society on a regular basis.**

5.4 Financial Management: Common Issues

Based on the analysis of various off-budget schemes of the state, it has been observed that there is a common set of issues concerning financial management which is common across schemes. These include following:

- Inadequate trained accounts staff
• Lack of understanding/knowledge of manual on Financial Management and Procurement particularly at District/Block Level
• Non-maintenance of Books of Accounts like Cash Book, Ledger, Journal, Cheque issue register, Stock register, Asset register, Advance register etc. especially at sub-district levels
• Bank reconciliation statement not being prepared regularly
• Large outstanding advances
• Delay in submission of utilization certificate
• Weak internal audit system
• Delay in submission of statutory audit reports
• Delay in audit report compliance
• Diversion of funds
• Excess expenditure over and above the approved targets
• Keeping funds under Fixed Deposit to avoid lapse of funds
• Delay in transfer of funds to District and Sub-District level units
• E-Transfer not being followed where facilities exist.

In order to address these issues, various remedial actions have been recommended under off-budget schemes. In the following section, we present certain good practices/recommendations towards improving the financial monitoring of these schemes.

5.5 Identification of Good practices from the scheme’s monitoring mechanism

Following good practices have been identified in through the study and analysis of guidelines and implementation strategies of various off-budget schemes particularly National Rural Employment Guarantee Scheme (NREGS) and Sarva Shiksha Abhiyan (SSA):

5.5.1 One Scheme-One Bank

In order to avoid diversion of funds and improve financial monitoring, it is being recommended under many schemes that single bank should handle accounts relating to the scheme at all the levels starting from state government till the beneficiary level. For example, it is prescribed in the guidelines of SSA and NREGS to open accounts with single bank as far as possible.

In order to further ease fund transfer and improve financial monitoring, implementing societies/agencies have been allowed to avail the facility of Group Account which can have separate sub-accounts with single bank. For example, under NRHM, the state societies have been asked to open their bank accounts in the ICICI Bank which is providing them the facility of a Group Account with separate sub accounts.

Thus State Health Society will have one group bank account with separate 9 sub-accounts viz. (1) RCH, (2) Additionalities under NRHM, (3) Immunization, (4) Revised National TB Control Programme (RNTCP) (5) National Vector Borne Disease Control Programme (NVBDCP), (6) National Blindness Control Programme, (7) Iodine Deficiency Disorder Control Programme, (8) National Leprosy Eradication Programme, and (9) Integrated Disease Surveillance Programme. All funds transfers for all programmes under NRHM from GOI will be electronically credited
into respective programme specific sub-account of the group account. Similar group accounts have been recommended to be opened at district levels.

As per these guidelines, Government of Uttar Pradesh has opened around 930 group accounts (with one main accounts and nine sub accounts) for State Health Society, District Health Society and other subordinate levels in the whole state. E-transfer of funds from one account to another between branches can be done in seconds even at the block/village level.

5.5.2 Establishment of Bank Web-Portal for real time financial data capturing

Government of India in partnership with Canara Bank has introduced a web-based financial monitoring system for tracking the fund flow status in various accounts. Under this system, Canara Bank provides access to watch the cash balances available in the Bank accounts at State and District level to the management of SSA at Central, State and Districts. Currently the system is operational in Andhra Pradesh, Delhi, Karnataka, Tamil Nadu and Pondicherry. The system is being further extended to 8 more States.

Fund Flow under SSA through Canara Bank: Canara Bank has been appointed as the nodal bank for the scheme. Dedicated accounts exist with Canara Bank at all State Headquarters and at District Headquarters wherever Canara Bank is having a branch. Under SSA programme, funds flow through dedicated accounts from centre to state, district and further. Central ministry deposits the funds with Canara Bank in Delhi which further transfer fund to dedicated state accounts with Canara bank in various states. State Governments also deposit their share in the dedicated state accounts with the Canara Bank at state level. Canara bank at state level further transfers funds to district dedicated accounts with Canara/Other Bank. In respect of some of the districts where Canara Bank is not having a branch, dedicated accounts have been opened with other Banks in consultation with the Ministry of Human Resource Development (HRD).
Web Portal: The web portal broadly consists of tracking funds as under:

- Daily status of transfer of funds to State Headquarters
- Utilization at State Headquarters
- Receipt of State contribution
- Transfer of funds to districts
- Details of other Receipts
- Cash Balance at State level and district level on daily basis

**The URL of the portal is** [https://www.ssamonitoring.in](https://www.ssamonitoring.in)

**Information flow process under Web Portal:** The process of information flow starts from State Project Directors who is required to submit the Bank wise details of SSA Accounts and information on Change/transfer of existing SSA Accounts to HRD Ministry. HRD Ministry further advises these details to Canara Bank for creation of user-ids and for necessary training requirements of bank officials. After getting the information from HRD, Canara Bank creates the user-ids and informs the respective Banks about their access details. Various bank branches are required to upload the transaction details on to the web-portal using the user-ids created on a regular basis. This information can be accessed by State and Central Government for monitoring and control. Thus, this approach will help to create an up-to-date centralized repository of SSA Accounts which will facilitate quick flow of information and status updates.

Figure 6: Information flow process through Web Portal
Advantages of the web-based financial monitoring system

- Canara Bank is the Accredited Bank of HRD Ministry. Thus it is their responsibility to ensure proper monitoring of upload in the SSA web portal.
- It will not entail additional burden on Government staff to enter information/data.

Canara Bank forwards a report on progress of upload to Ministry of HRD. Canara Bank imparts necessary training to Government officials and other Bank officials on “train to the trainer” basis upon getting the request for the same from respective Banks as approved by HRD Ministry.

The States/Union Territories (UTs) have been encouraged to introduce this system. Secretary (SE&L) urged States/UTs to adopt this system, as the software developed by Canara Bank can be used free of cost by any State and any bank. He urged States to adopt the system by end Sept’2008 & request CCA/Canara Bank for training of its finance staff & bankers.

5.5.3 Building and Developing Accounting capacity in the State

Improper or non-maintenance of Books of Accounts like Cash Book, Ledger, Journal, Cheque issue register, Stock register, Asset register, Advance register etc. especially at sub-district levels have often been encountered during financial reviews of off-budget schemes. The reasons for the same are cited as shortage of accounting staff, insufficient training of accounting staff, lack of understanding/knowledge of manual on Financial Management and Procurement particularly at District/Block level and others.

In certain off-budget schemes, States have been recommended to provide accounting support at sub-district level by way of either a dedicated block level accountant or an accountant for a group of blocks or any other feasible option that may suit the State/UT. 9 States have already initiated this for SSA.

In order to strengthen accounting practices and procedures at ground level (district and block level), it is important to provide accounting staff with relevant training and incentives. In this respect, an example from Assam was presented during the Conference of Education Secretaries of States, on how strengthening of the financial monitoring system and building capacities in the State helped in achieving tangible results like increasing expenditure trends, decreased outstanding advances, reducing long pending unadjusted advances and ensuring timely statutory audit, with appropriate coverage of VECs. The presentation emphasizes the importance of optimal staffing and capacity building of accounts personnel at State, district and sub-district levels. He also indicated that promotional avenues have been created for accounts staff in SSA on the basis of their performance. Block level accounts staff have been appointed and they undertake field visits.

5.5.4 Strengthening Internal Audit

Weak internal audit system has been reported as one of the common issues hampering effective financial monitoring mechanisms of off-budget schemes. In order to improve internal audit processes and procedures, it has been suggested under various schemes to provide training and capacity building sessions to internal auditors for improving their auditing and reviewing skills.

Certain schemes also provide for engaging Accounting firms on contractual terms for conducting internal audits. However, the engagement of accounting firms has to be done after taking stock of the available personnel in-house from the Accounts and Treasury service and to the extent the work can be undertaken by them, it should be entrusted to such personnel.

Further “Section 3: Case Studies: Off-Budget Experience of selected Nations and Indian states” of appendix presents off-budget reporting practices of selected countries and along with identification of Good Practices.
6 Roadmap for Inclusion of Off-Budget items in State Budget Document

Measures to improve monitoring and reporting of off-budget expenditure have been summarized in the Table 8 together with the proposed timelines for implementing them.

Table 8: Summary of recommendation for improving monitoring and reporting of off-budget expenditure with proposed implementation timelines

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single bank account with separate scheme-wise sub-accounts for off-budget schemes</td>
<td>1-2 years</td>
</tr>
<tr>
<td>Institutionalizing Web-based financial monitoring</td>
<td>1 year</td>
</tr>
<tr>
<td>Strengthening IFMIS to include off-budget entries and payments</td>
<td>3-5 years</td>
</tr>
<tr>
<td>Strengthening Internal Audit</td>
<td>1-3 years</td>
</tr>
<tr>
<td>Inclusion of missing off-budget schemes in statement of “Direct Receipt of Central Assistance by State Agencies”</td>
<td>Immediate</td>
</tr>
<tr>
<td>Inclusion of statement of off-budget user charges collected and expenditure therein as appendix to Budget</td>
<td>Immediate</td>
</tr>
<tr>
<td>Inclusion of statement on Current Status of Public Private Partnership (PPP) in Budget as Appendix</td>
<td>Immediate</td>
</tr>
<tr>
<td>Estimation of Imputed cost of Government Loans and inclusion of same in Budget as appendix</td>
<td>Immediate</td>
</tr>
<tr>
<td>Estimation of Imputed cost of Government Guarantees and inclusion of same in budget as appendix</td>
<td>Immediate</td>
</tr>
<tr>
<td>Study of Tax Reliefs and Exemptions: A Regular Exercise</td>
<td>1-2 years</td>
</tr>
</tbody>
</table>

Following section presents the above mentioned recommendation in detail.

6.1 Strengthening Financial Monitoring by the State

Analyzing the implementation of various off-budget schemes in MP, certain issues have been noticed in their financial monitoring. Common among these include issues like excess expenditure over approved targets and delay in transfer of funds to District and Sub-District level units. For addressing these issues, the following recommendations are made.

6.1.1 Opening Account with Single Bank for all off-budget schemes

**It is recommended that GoMP opens a single group account with separate sub accounts for off-budget schemes at the state level.** Separate sub-accounts can be opened for separate off-budget schemes. For example, one sub-account can be opened for SSA, one for NREGS and so on. This will improve the financial monitoring of funds received under off-budget schemes as these will be credited to a single account from which it will be allocated to district, block and village level. It will be easier for the state government and central government to track flow of funds under various schemes through single group account with one bank instead of different accounts with different banks.
Currently, different banks are operating as nodal or main banker for different schemes in the state. For example, for NREGS, State Bank of Indore is the main bank, State Bank of India for SSA and Punjab and National Bank is nodal bank for Mid Day Meal Scheme and Integrated Watershed Management Programme (IWMP). Single bank for single scheme strategy is followed to the extent possible.

6.1.2 Institutionalizing Web-based financial monitoring

In order to track the flow of funds from one stakeholder to another, it is recommended that a web-based monitoring mechanism be established with the support of the nodal bank with which single group account for off-budget schemes has been opened.

Most of the banks have adopted Core banking Solution and are providing internet banking facility to their clients. Most of the funds are being transferred using e-transfer facility. Banks can provide “View-Right” facility to government on demand which allows the user to view the status of various accounts under the scheme. User is provided with a username and password with which he can log on to the web-page and view the current status and past transactions of various accounts.

Web-based system offers many advantages for financial monitoring of the scheme:

- Through this facility, financial (Cash) status of the entire mission at any point of time can be known.
- Statement of the district accounts can also be downloaded and printed any time through CINB by State Authorities. Online viewing of bank reconciliation statements is also possible.
- The financial progress of sub-offices can be monitored on real time basis and transfer of fund can be based on real time balances of sub-ordinate offices.
- Malpractices such as cash withdrawals can be curbed as bankers has been given direction not to allow drawal after a certain limit.

A MoU can be signed with the nodal banker requiring the bank to provide State Government and Central Government with the facility of viewing current status of various bank accounts of off-budget schemes. Opening up of the single group account with a single bank will facilitate provision of view-right facility. Nodal bank should be allocated with the primary responsibility of collecting and providing information about accounts held with other banks. Nodal bank can either sign an agreement with other banks to get view-right facility of off-budget scheme accounts held with the latter or can collect paper statements from these banks on weekly/monthly basis and provide it on the web-portal.

Web-based monitoring of funds is currently being undertaken for the SSA programme through Corporate Internet Banking (CINB) facility availed by SBI and SBI Indore in MP. State Bank of India has provided the facility to view accounts to the State as well as district offices. At the state level, The State Project Director has been provided with super user-id & Password, which allows access to all of the Accounts of Districts/Blocks/ Gram Panchayats across the State through www.onlinesbi.com and www.onlinesbindore.com. Detail of the current status of web-based monitoring in MP is provided in Section 4 of the appendix.

6.1.3 Strengthening IFMIS to include off-budget entries and payments

It is recommended that an interface be provided in the IFMIS for registering off-budget entries and payments in the system. This will ensure real-time data and information flow about receipts and disbursements of funds under various off-budget schemes to state government thereby ensuring improved financial monitoring.

There can be two options for undertaking this:
1. DDO of the department that has received the off budget fund can make entry in the IFMIS system regarding the amount received under the particular heads of the scheme. During the disbursement, the concerned DDO can raise the bill over the Treasury Disbursement System of IFMIS that will route the request to the bank’s site through which the payments can be done.

2. Banks can be provided with a web-based interface of the IFMIS system, through which they will make entry into the system regarding the receipt and disbursement of funds under off-budget schemes.

GoMP can evaluate the pros and cons of both the options and decide on the appropriate way of registering off-budget entries in the IFMIS. This will entail a revision in the Treasury Manual.

6.1.4 Strengthening Internal Auditing

It is required under most of the off-budget schemes to conduct internal audits. Though internal audit systems and staff exist for almost all schemes, but the process followed is inefficient and irregular. Reasons cited for the same include inadequate staff, insufficient training and lack of motivation on part of the staff.

To overcome the concern, the following recommendations are made:

6.1.4.1 Hiring accounting firms on contractual basis

In schemes where internal audit staff is insufficient to undertake comprehensive audits, it can be outsourced to accounting firms. Various models for outsourcing can be used which include:

- **District-wise contracts:** accounting firms can be contracted for conducting internal audit for all the off-budget schemes in a particular district. One accounting firm can be allotted a maximum of 2 districts with maximum tenure of 3 years for a particular district. The advantage of this model will be that it will be cost effective.

- **Scheme-wise contracts:** accounting firms can be contracted for conducting internal audit for a particular scheme in allotted districts. One accounting firm can be allotted a maximum of 2-5 districts with maximum tenure of 3 years for a particular district. The advantage of this model will be that the qualified accountants can specialize in the particular scheme and thus will be efficient in conducting the audit as they will develop an in-depth understanding and experience on practices, rules and loopholes associated with the scheme.

**Advantage:** The advantage of hiring accounting firms will be that it will ease off the excess burden from internal audit staff of the department. Also since accounting firms are hired on contractual basis for a predetermined period, they will be motivated to maintain the quality of audits undertaken, as otherwise they might not be contracted for next period.

6.1.4.2 Training on Government Fund Flow and Accounting Processes

Training courses should be organized for the qualified accountants from firms that are hired to undertake the internal audit work on the government fund flow mechanism for the schemes and the accounting and reporting requirements. A comprehensive manual can be prepared on good and recommended practices of internal audit which should form the basis of training courses organized for accounting firms. For example, Finance Department of Kerala has issued a handbook of Guidelines on Internal Audit which serves as a ready reference for internal auditors.

These training can be organized by the state government with the support of organizations like Institute of Public Auditors of India (IPAI), Institute of Government Accounts and Finance (INGAF) (training arm of CGA) and others, using their staff and trainers.

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1 This is the process recommended under the proposed treasury manual for GoMP
**Advantage:** The advantage of conducting these training will be that state will be able to develop a group of qualified accountants who are aware of the government financial system. This will improve the quality of internal audit.

### 6.1.4.3 Develop a standard TOR and MoU/contract for accounting firms

A standard/basic Terms of Reference (TOR) can be developed for contracting the services of the accounting firms. The TOR will specify the objective and scope of the audit. The scope should include the processes to be reviewed- finance, procurement, training, monitoring etc; documents, reports, statements to be checked and reviewed; financial management indicators to be estimated, outputs that the auditor is required to present etc. Report formats can be prescribed.

The desirable process for selecting the accounting firms should also be drafted. This can include drafting an Expression of Interest (EOI) for empanelment of firms and drafting a model contract agreement for hiring the services of the firm.

**Advantage:** The advantage of drafting TOR, contract agreement and other documents will be that it will simplify the service procurement process as officials can readily use these documents rather than creating these documents every time.

### 6.1.5 Conducting Pre-Audits

Pre-Audit refers to an examination of vouchers, contracts, etc., in order to substantiate/validate a transaction or a series of transactions before they are paid for and recorded. An authorized pre-auditor is an officer employee who has been delegated pre-audit approval authority, in writing, by the Government. The delegation document specifies the types of transactions that the officer is authorized to approve and provide an example of the form of the approval (signature, initials, stamp, etc.).

Pre-audit process requires that all audited transactions should be supported by evidence of pre-audit by an authorized pre-auditor. This evidence can be endorsed directly on the transaction or annexed to the transaction, such as on a voucher summary listing.

Pre-audit has the advantage of verifying and validating the transaction before it is processed and hence reduces the possibility of errors, frauds and malpractices. It encourages compliance at an early stage of financial transaction and reduces the effort required at post audit stage.

**However, it must be noted that a pre-audit process could lead to implementation issues and payment delays in the schemes.** This can be partially addressed by having a threshold value of bills or type of bills for which pre-audit will be required e.g. bills with value of less than Rs. 10,000 and salary or wage bills will not be subject to pre-audit.

### 6.1.5.1 Overall/Broad Terms of Reference

The nature of work of pre-auditor, while pre-auditing any expenditure voucher or bills can be similar to that of District Treasury officer/ Pay & Accounts Officer, while passing any bills/vouchers of expenditure from other offices.
The Pre-auditors will need to certify that the payment is in accordance with the scheme guidelines of Central/State Government, instructions, Financial Rules, Circulars, order of the concerned department or Commissionerate. The pre-auditor shall certify on all bills/vouchers that such bills/vouchers are fit for payment.

The pre-auditor will also need to confirm that all the payment orders are made, bills are cleared and cheques are issued only after pre-audit certificate/approval has been received.

It can also be included in the TOR of the pre-auditors to ensure that any decision of department, commissionerate or governing body having financial implications do not violate or contravene any of the instructions of Central/State Government. If the pre-auditor comes across any such resolution/decision which is violating any rule or guideline of scheme, program or ministry, the same shall be immediately brought to the notice of the Finance Department and the concerned administrative department.

6.1.5.2 Good/Recommended Practices

- A template for pre-audits approved by the finance dept should be used by the pre-auditors and such a checklist should be circulated to the concerned agencies incurring expenditure. All payments should be accompanied by a filled in checklist. To simplify, different checklists can be developed for different expenditure bands so that items of expenditure in the lower band do not require a lengthy checklist to be filled. Payment requests unaccompanied by checklists should be outright rejected. Similarly, those bills that do not have documentation as per the checklist (e.g. accompanying invoice or voucher or bill or signature of approving authority etc.) should also be rejected with cause indicated on the checklist itself.

- Pre-auditors should carry out fast, prompt, accurate and correct pre-audit. The pre-audit work should be carried out in an objective, impartial and fair manner.

- The pre-auditor should quarterly present their findings and the work done by them during the particular quarter to concerned department and Finance Department. The report should mention the number of bills checked; the number of bills in which irregularities were found and details thereof.

- Upon the operationalisation of the integrated financial management system, a module can be introduced within the system for submitting bills for pre-audit together with supporting evidences. This can possibly address some of the delay issues expected under the pre-audit process.

6.1.5.3 Staffing for Pre-audit

Staff from the concerned department and/or from Finance Department can be deployed to block/district level for carrying out pre-audit functions. A team of 2-4 pre-auditors can be assigned to a single window pre-audit in each block/district for undertaking pre-audit of financial transactions of off-budget schemes in that block/district. Required training can be provided to the selected staff members on scheme/program guidelines, Financial Rules, circulars and orders of the department having financial implications and others. Rotation of the pre-audit team can be undertaken once in two years.

6.2 Making the Off Budget Documentation Comprehensive

6.2.1 Including the missing off-budget schemes in the statement of “Direct Receipt of Central Assistance by State agencies”

We observed that GoMP’s statement on “Direct Receipt of Central Assistance by State agencies” does not present an exhaustive list of off-budget schemes and programmes being implemented in the state. We found a
sample of schemes and programmes under which funds are being received off budget by state agencies and societies but is not being reflected in the statement.

Thus it is recommended that GoMP departments should undertake a thorough analysis of their schemes and programmes to identify all of those under which funds are being received off-budget. This is particularly important not only to improve the reporting quality of the state budget but also to implement web-based monitoring mechanism and IFMIS interface in future.

6.2.2 Inclusion of Statement on off-budget user charges collected and their expenditure in Budget Document

It is recommended that schemes/programmes under which user-charges are being collected and retained by the implementing agency should be reported in budget as separate appendix. The statement can include information on amount received through collecting user charges during the year and expenditure incurred from these receipts. This will improve the transparency of the state budget. During our discussions with the department, we found that data and information on funds collected and expended is available with the departments. Thus including these in the budget is not expected to impose any additional burden on officials. Figure 7 presents the illustrative format of statement showing off-budget user charge receipts and expenditure from it.

Figure 7: Illustrative format of statement showing off-budget user charge receipts and expenditure from it

<table>
<thead>
<tr>
<th>Appendix- Statement showing Off-budget User Charge receipts and expenditure from it</th>
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<tbody>
<tr>
<td><strong>Statement showing Off-budget User Charge receipts and expenditure from it (Rs. Crore)</strong></td>
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<td><strong>Total</strong></td>
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6.2.3 Inclusion of a Statement on Current Status of PPP Projects in the Budget Document

It is recommended that a statement on current status of PPP Projects in the state should be released along with the budget as a separate appendix in order to provide public with information about these and to improve transparency of the budget. The statement can include following details of the project as illustrated in Figure 8.
6.2.4 Estimation and Inclusion of Imputed cost of Government Loans in Budget Document

It is recommended that information on imputed subsidy provided in the form lower interest rate charged by Government should be presented along with the Budget as a separate appendix—“Statement of Imputed Subsidy provided by GoMP”. This will improve the transparency of GoMP’s budget and will also inform general public about the various concessionary loans being provided by the government for developmental and social purposes and the cost that these entail to the government, as these lead to reduced revenues for the Government. In addition, it is recommended that information about the interest receipt arrears/defaults for the year can also be provided in the appendix.

**Method for Calculating imputed interest subsidy cost:** For calculating the imputed interest subsidy cost, Benchmark Prime Lending rate of State Bank of India, State Bank of Indore or any other nationalized or representative bank can be used as a proxy for commercial/market interest rate. This rate should then be applied on the average of opening and closing balance of GoMP’s loan portfolio of the concerned year. This will give the commercial interest revenue that could have been earned on the loans provided by the Government. Deducting actual interest receipts for the year from this will provide the imputed interest subsidy cost for the year.

**Data Requirement:**

- Actual Interest rate collection during the year (Available in Statement No.11: Detailed account of revenue receipts and capital receipts by minor heads of Finance accounts)
- Opening balance of loans and advances provided by the Government (Available in Statement No.5 Loans and advances by State Government of Finance accounts)
- Closing balance of loans and advances provided by the Government (Available in Statement No.5 Loans and advances by State Government of Finance accounts)
6.2.5 Estimation and Inclusion of Imputed cost of Government Guarantees in Budget Document

It is recommended that information on imputed guarantee subsidy provided by the Government should be presented along with the Budget as a separate appendix- “Statement of Imputed Subsidy provided by GoMP”. This will improve the transparency of GoMP’s budget.

**Method for Calculating Guarantee subsidy cost:** For calculating the guarantee subsidy cost, guarantee fees charged by State Bank of India, State Bank of Indore or any other nationalized or representative bank on amount of more than 10 crore can be used as a proxy for commercial/market guarantee fees. These fees should then be applied to the average of total amount guaranteed at the beginning and end of the concerned financial year by GoMP. This will give the guarantee fees that could have been earned on the loans provided by the Government. Deducting actual guarantee fee receipts for the year from this will provide the imputed subsidy cost of guarantee for the year.
Data Requirement:

- Actual guarantee fees collected during the year (*Available in Statement No.11*: Detailed account of revenue receipts and capital receipts by minor heads of Finance accounts)
- Opening balance of total guarantees provided by the Government (*Available in Statement No. 6 - Guarantee Given by the Government of Madhya Pradesh in respect of Loans, Etc. raised by Statutory Corporations, Government Companies, Local Bodies and other Institutions of Finance accounts*)
- Closing balance of total guarantees provided by the Government (*Available in Statement No. 6 - Guarantee Given by the Government of Madhya Pradesh in respect of Loans, Etc. raised by Statutory Corporations, Government Companies, Local Bodies and other Institutions of Finance accounts*)
- Guarantee fees charged by any nationalized bank on amount of more than 10 crore to be used as a proxy for commercial/market guarantee fees.

Figure 10 presents an Illustrative format of statement showing Imputed Subsidy Cost of GoMP; Part B- Imputed Guarantee Subsidy cost to GoMP.

Figure 10: Illustrative format of statement showing Imputed Subsidy Cost of GoMP; Part B- Imputed Guarantee Subsidy

### Appendix: Statement showing Imputed Subsidy Cost of Government of Madhya Pradesh

<table>
<thead>
<tr>
<th>Part B-Imputed Guarantee Subsidy provided by GoMP</th>
<th>Department</th>
<th>Maximum Amount guaranteed as on 1st April 2009</th>
<th>Maximum Amount guaranteed as on 31st March 2010</th>
<th>Guarantee fee received</th>
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<tr>
<td>1 Home Department</td>
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<td>2 Finance Department</td>
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<td>3 Transport Department</td>
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<td>4 Department of Commerce, industry and Employment</td>
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<td>5 Energy Department</td>
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<td>6 Department of Cooperation</td>
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<td>7 Urban Administration and Development Department</td>
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<td>9 Food and Civil Supplies Department</td>
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<td>10 Housing and Environment Department</td>
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<td>11 Animal Husbandry Department</td>
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<td>12 Department for Higher Education</td>
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<td>13 Village Industry Department</td>
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<td>14 Backward Classes and Minority Welfare Department</td>
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<td>15 Scheduled Caste Development Department</td>
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<td>16 Rural Development Department</td>
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<td><strong>Total Guarantees by State Government</strong></td>
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<thead>
<tr>
<th>Detail</th>
<th>Amount/Rate</th>
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<tr>
<td>Bank Guarantee Rate (Proxy for market guarantee fee)</td>
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<tr>
<td>Guarantee fee revenue as per bank guarantee fee</td>
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<tr>
<td><strong>Guarantee Subsidy</strong></td>
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<tr>
<th>Guaranteed Redemption Fund Details</th>
<th>2007.08</th>
<th>2008.09 RE</th>
<th>2009.10 RE</th>
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<tr>
<td>Opening Balance as on 1st April</td>
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<td>Closing Balance as on 31st March</td>
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<td>Amount transferred during the year</td>
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6.2.6 Study of Tax Reliefs and Exemptions: A Regular Exercise

It is recommended that GoMP should undertake *a detailed assessment of tax reliefs and exemptions being provided under various policies and schemes of the State Government after regular intervals (3-5 years)*. This will give an indication to the Government, investors, developers and general public regarding the amount of subsidy being provided through tax reliefs and exemptions. Also, this exercise will allow government to review and revisit its exemption and relief policies so as to remove exemptions which are no longer useful in the current economic environment or are overlapping with other exemptions provided by central Government. Further, this study will help in identifying the sectors which are being promoted by way of tax exemptions and sectors which might be left out from receiving these tax benefits which will facilitate the formulation of balanced, fair and cohesive tax benefit and development policies.

Finance Department can collect information on these tax exemptions and reliefs from Commercial Tax Department, Registration and Stamp Duty and Department Revenue Department, Circle-wise information on exempted amounts under various taxes can be collected from these department. This exercise can be taken up on regular basis after an interval of 3-5 years, which will help in studying growth and direction of tax exemptions over years. *A statement of Revenue lost/Subsidy provided through tax exemptions and reliefs can be released with budget after the regular intervals.*
Appendices
A1. Off-Budget Expenditure-Details

The main forms of off-budget expenditures include:

- Off-budget funds;
- Direct loans;
- Guarantees; and
- Public Private Partnerships (PPPs).

The above mentioned forms of off-budget expenditure are explained in detail in the following sub-sections.

**Off-budget funds:**

*Off-budget funds are special funds owned by the government, that are not part of the budget and that receive revenues from earmarked levies, possibly next to other sources such as fees and contributions from the general tax fund.* Earmarked levies are different from fees in that they do not reflect the market value of the services that are financed from the revenues. In particular they may be lower or higher in view of social considerations (capacity to pay or equality regardless of costs).

Off-budget funds mainly occur in the areas of social security, health care, transport, and pensions. The establishment of off-budget funds are sometimes undertaken to facilitate the privatization process.

**Direct loans**

*Direct loans are loans financed from taxes or levies.* Generally the conditions of these direct loans are more favorable to the borrower than those of bank loans in the private sector and these pertain to sectors/activities or for entities where credit risk is very high for private lender to enter e.g. loans to small and medium enterprises. The subsidy element in public loans may result from interest rates below market rates or default risk and favorable repayment conditions. Since these are not reflected in the interest rate or special risk fees charged for direct loans, the *subsidy element of direct loan remains un-budgeted.*

** Guarantees**

*Loan guarantees are guarantees by the government to non-government lenders in case of debtor default against an insurance fee.* Generally, guarantees are provided in cases where risk is exceptionally high or of a nature that private lenders are not willing to cover. Advantage of loan guarantee over direct loan is that a guarantee program assigns part of the risk associated with the loan in the first place to the private lender.

The governments across most countries and states in India are found to be reporting the amounts of loan guarantees in their budget documents, but few report subsidy costs when the guarantees are made. Thus *subsidy cost involved in providing guarantees by the Government remains off-budget* in most cases.

**Public-Private Partnerships (PPPs)**

PPPs describe a government service or private business venture which is funded and operated through a partnership of government and one or more private companies. It involves a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project.
In some types of PPP, the cost of using the service is borne exclusively by the users of the service and not by the general taxpayer. In other types (notably the private finance initiative), capital investment is made by the private sector on the strength of a contract with government to provide agreed services and the cost of providing the service is borne wholly or in part by the government. Government contributions to a PPP may also be in kind (notably the transfer of existing assets). In projects that are aimed at creating public goods like in the infrastructure sector, the government may provide a capital subsidy in the form of a one-time grant, so as to make it more attractive to the private investors. In some other cases, the government may support the project by providing revenue subsidies, including tax breaks or by providing guaranteed annual revenues for a fixed period.

Since PPP is a relatively new phenomenon in many countries, **commitments made by government under these projects are often not reflected in the budget and hence remains outside the budget.**
A2. Identification of Missing Off-Budget Expenditure Items

Schemes where direct central assistance paid to state government agencies but not reported in Off-Budget

Education

Off budget schemes where direct central assistance paid to state Department/agencies but not reported in State’s Off-Budget statement include:

- **Adult Education and Skill Development**

Scheme of Support to Voluntary Agencies for Adult Education and Skill Development is aimed at promoting Adult Education, particularly in 15-35 age group, through voluntary sector. Under the scheme, The Department of School Education and Literacy, Ministry of Human Resource Development, Government of India, is providing support to Voluntary Agencies (VA), which includes State Resource Centres and Jan Shikshan Sansthans.

**The State Resource Center(s) (SRCs)** are mandated to provide academic and technical resource support to adult and continuing education through development and production of material and training modules. SRCs are also instrumental in conducting action research and evaluation and monitoring of literacy projects. Based on the workload and size of their programme in the area of their jurisdiction, SRCs are categorized into two categories, namely, **Category ‘A’** and **Category ‘B’**. As per revised grants schedule, w.e.f. 1st April, 2009, SRCs in category A receives Rs. 1 crore and category B receives Rs. 70 lakh as annual recurring grants from GOI.

**Jan Shikshan Sansthans** (JSSs) are established to provide vocational training to non-literate, neo-literate, as well as school drop outs by identifying skills as would have a market in the region of their establishment. JSSs develop/source appropriate curriculum and training modules covering vocational elements, conduct trainings and workshops, administer simple tests and award certificates and network with employers and industries for trainees to get suitable placements. They have been categorized into three categories, namely, **Category ‘A’**, **Category ‘B’** and **Category ‘C’**. These receive annual recurring financial assistance of Rs. 40 lakh, Rs. 35 lakh and Rs. 30 lakh respectively from GOI for conducting operations as per their action plans.

**Status in MP:**

**State Resource Centre:** As per our discussions with officials of SRC Bhopal, there are presently 2 SRCs in Madhya Pradesh situated in Bhopal and Indore. Bhopal SRC covers 22 districts. These SRCs submit their action plans for ensuing year and gets funds accordingly. **Bhopal SRC is category B SRC and thus receives annual recurring grant of Rs. 70 lakh from GOI w.e.f. 1st April 2009. Indore SRC is category A SRC and receives annual recurring grant of Rs. 1 crore.** These SRCs receives funds directly from GOI through electronic transfers routed by Canara Bank in SRCs bank accounts. Recurring grants are received in installments, which are sanctioned after the submission of Utilization certificates and audited reports in respect of previous installments. A copy of sanction letter is send to the State Department (Rashtriya Shiksha Kendra (RSK)) also to keep them informed about the funds flow.

**Jan Shikshan Sansthans:** There are presently 34 JSS in Madhya Pradesh of which 27 are getting regular grants from MoHRD. Mostly JSS in Madhya Pradesh are Category C JSS and receives an annual grant of Rs. 30 lakh. As per our discussions, JSS Indore is category B JSS and is receiving Rs. 35 lakh grant per annum. These JSS are distributed district-wise without almost 1 JSS being allotted for one district. They organize and undertake vocational training courses in their respective districts and also distribute course and training materials.

JSS is required to submit their action plans every year, on the basis of which, funds are allotted to them. They are also mandated to conduct financial audits through qualified accountants every year and submit Utilization Certificates to...
receive subsequent installments. Funds are transferred directly to their account from the ministry through Canara Bank. JSS are required to open bank accounts either in Canara Bank or SBI. No intimation is sent to State Government regarding the funds transferred to JSS from MoHRD. However, their co-coordinating agency at the state level is RSK with which they interact frequently on concerned matters.

Department of Animal Husbandry and Dairying Development

Off budget schemes where direct central assistance paid to state Department/agencies but not reported in State’s Off-Budget statement include:-

- **National Project on Cattle and Buffalo Breeding:**

  Under this scheme, funds are released by GOI directly to State Livestock and Poultry Development Corporation (Madhya Pradesh Rajya Pashudhan Evam Kukkut Vikas Nigam). Corporation raises demand to GOI which after appraising it, releases funds through draft directly to the corporation. Corporation send Utilization Certificate directly to GOI for the funds received.

  The principal objective of the scheme is to ensure door step delivery of Breeding Services and total coverage of breedable cows and buffaloes. The project extends over a period of 10 years in 2 phases viz. Phase I -2000-2005 and Phase II - 2005-2010 and plans to cover all districts of Madhya Pradesh in phased manner. State Livestock and Poultry Development Corporation (Kukut Vikas Nigam) is the principal implementing agency for the project with Department of Animal Husbandry and Veterinary Services being the nodal department and M.P.Dugdh Mahasangh being the implementing agency.

- **Livestock Insurance (Pashudhan Beema):**

  - Tasks
    - Production of genetically evaluated bulls.
    - Production and Supply of Fr.Semen & Liquid Nitrogen to all AI Practitioners in the state.
    - Function as the channel for project fund flow to the state.

  - Tasks
    - Run cluster AI practices in Coop. sector
    - Basic training of AI practitioners
Under the Livestock Insurance Scheme, crossbred and high yielding cattle and buffaloes are being insured at maximum of their current market price. The premium of the insurance is subsidized to the tune of 50%. The entire cost of the subsidy is being borne by the Central Government. The benefit of subsidy is being provided to a maximum of 2 animals per beneficiary for a policy of maximum of three years. The scheme is being implemented through the State Livestock Development Boards of respective states.

Under this scheme, funds are released by GOI directly to State Livestock and Poultry Development Corporation (Madhya Pradesh Rajya Pashudhan Evam Kukkut Vikas Nigam). Corporation raises demand to GOI which after appraising it, releases funds through draft directly to the corporation. Corporation send Utilization Certificate directly to GOI for the funds received. A part of the premium is being subsidized by the state government also, which is being reflected in state budget.

- **Integrated Dairy Development Project**

Under this scheme, funds are released by GOI directly to MP State Cooperative Dairy Federation (MPCDF). MPCDF raises demand to GOI which after appraising it, releases funds through draft directly to the federation. Federation sends Utilization Certificate directly to GOI for the funds received.

In addition to the above mentioned schemes, direct assistance from GOI is received by the Department of Animal Husbandry and Dairying under following:

- **Charagaah Evam Chara Beej ka Vitaran**: Under this scheme, Seed Kits are received from GOI
- **Upgradation of Bio-Security Level-2 Laboratories**: Under this scheme, funds are released by GOI

Apart from these, one time off-budget grant has been received under Bird Flu Scheme for worker’s training program. Also, it has been reported by the department, that earlier, off-budget funds were received under Rashtriya Krishi Vikas Yojana (RKVY) but now these funds are routed through state government and thus are now on-budget.

Department of Panchayat and Rural Development

Off budget schemes where direct central assistance paid to state Department/agencies but not reported in State’s Off-Budget statement include:-

- **Integrated Watershed Management Programme (IWMP)**

IWMP is a comprehensive programme covering 3 earlier watershed programmes of GOI viz. Integrated Wastelands Development Programme, Drought Prone Areas Programme and Desert Development Programme. The main aims of the IWMP are to restore the ecological balance by harnessing, conserving and developing degraded natural resources such as soil, vegetative cover and water.

Under the scheme, States are required to submit detailed Annual Action Plans, based on which the Department Nodal Agency at the central level make allocation to the states. After States have received their allocation against ongoing and new projects, they will be free to sanction their projects within the State allocation. On receipt of the sanction orders for the new projects from State Level Nodal Agency (SLNA); the Nodal Ministry would release funds directly to the district level agency.

**Status in MP**: As per the discussion with Department of Panchayat and Rural Development, off budget funds are being received under IWMP by the state. Rs. 35.44 crore has been received under the scheme by the department by October 2009 and Rs. 135 crore is expected to be received during 2010-11.
Public Health Engineering Department (PHED)

- **Accelerated Rural Water Supply Programme (ARWSP)**

Rural water supply is a State subject thus States take up projects and schemes from their own resources. Through ARWSP, Government of India is supplementing State efforts in providing safe drinking water in rural areas. The programme envisages priorities like coverage of no safe source habitations, coverage of quality affected habitations with acute toxicity, upgradation of source level of safe source habitations, which get less than 40 liters per capita per day (lpcd) and coverage of schools and Anganwadis.

Under the scheme, funds are provided to States for making provision of safe drinking water in rural habitations. The State Governments are to provide matching funds from their own resources. To tackle water quality problems and to ensure source sustainability, up to 20 per cent of the fund can be utilized. Further, 15 per cent of the funds released can be spent on operation and maintenance (O&M) of the existing systems/sources of rural water supply.

After the 73rd Amendment to the Constitution of India, the subject of rural water supply was placed under the Panchayati Raj Institutions, and the Panchayats/local community has the power to implement schemes, particularly in selecting the location of hand pumps, stand-posts and spot sources; in management of sources and schemes.

**Status in MP:** Till 2008-09, fund allocated under the scheme was received by State Government in their treasury which was further allocated to the PHED through budget allocations. **Thus till 2008-09, ARWSP remained budgeted scheme for GoMP. However, GOI has asked PHED to open a separate bank account in its name, wherein the funds will be transferred directly through RBI.** As per the current status, department has opened the account in November 2009 and will receive allocation for the year 2009-10 directly from GOI without being routed through state treasury. Thus we understand that the scheme will become off-budget from the year 2009-10 onwards.

Department of Farmer’s Welfare and Agriculture Development

- **Studies of Inputs for Agricultural Economic Policy and Development**

It is a Central Sector Plan Scheme for studying the cost of cultivation of Principal crops in India which is being implemented since 1970-71. The estimates of cost of cultivation of principal crops are used by the Commission for Agricultural Costs and Prices (CACP) for recommending Minimum Support Prices (MSPs) of 25 crops to Government of India. The Directorate of Economics & Statistics (DES) in the Ministry of Agriculture gets this study conducted through 16 Agricultural/General Universities/College besides the Directorate of Tobacco Development. Under the scheme, the field data pertaining to the cost of cultivation/ cost of production are collected, compiled and analyzed.

The scheme is implemented in 19 states, namely, Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, **Madhya Pradesh**, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttaranchal and West Bengal. The studies in the States are undertaken by the Agricultural Universities/colleges located in their respective States.

**Status in MP:** Jawaharlal Nehru Krishi Vishwavidyalaya (JNKV), Jabalpur is the nodal university for the scheme which is conducting field studies through about 70 Farm Extension Officers (FEO). These officers conduct field studies and their findings and reports are sent to CACP directly. Under the scheme, **JNKV receives grant directly from GOI which is approximately Rs.50-60 lakh pa.** Since these grants are receives directly by the university and is not being routed through state treasury, these form off-budget funds for state government.

- **Development and Strengthening of Seed Infrastructure Facilities for production and distribution of seeds**
In order to establish/strengthen infrastructure facilities for production and distribution of quality seeds in states, assistance is being provided for creating facilities for seeds processing plants, machineries for seed cleaning, grading, treating, packing and seed storage godown under this scheme. The scheme is a Central Sector scheme with assistance being provided in the form of grant.

This scheme is being implemented in MP. The money is transferred to the account of State Institute of Agricultural Extension and Training, which is the nodal agency of the Department of Farmer Welfare and Agriculture Development for off-budget schemes. Department then instructs the institute to transfer the funds to various implementing agencies and private seed farms. **Currently around Rs.12 - Rs.12.5 crore is being received under the scheme annually.** Recently e-transfer of funds has been initiated by SIEAT and district accounts have been opened in single bank.
A3. Case Studies: Off-Budget Experience of selected Nations and Indian states

Case Study: Brazil

Brazil has achieved significant progress in the management of public finances over past few years. Various fiscal reforms have been initiated which has improved the realism of the federal budget and its effectiveness for resource allocation. The budget of Brazil is quite comprehensive and as a result it is rare that operations are not included in the budget. The budget documentation establishes fiscal targets for the federal government and nonfinancial public enterprises for the current fiscal year and for the following three years. It also provides information on budget execution for the preceding two fiscal years and on contingent liabilities and tax expenditures.

Off Budget Funds

There are no extra-budgetary funds. There are various budgetary funds, all of which require a specific law to be created. All budgetary funds enjoy earmarked revenue for their specific expenditures, but they are an integral part of the federal budget and must comply with all budgetary procedures during budget preparation and execution.

In general, the budgetary funds are understood as specific revenues that finance specific actions of the government. For example, the Fund for the Universalization of the Telecommunication Services receives revenues earmarked from the taxes on telephone tariffs, which finance telephone services in remote areas of the country.

Direct Loans

The government does not provide direct loans but imposes credit requirements on the public banks to channel loans at subsidized rates to priority sectors which are not the subject of credit by the private banks. Laws/rules guiding transparency in presentation of these loan programs are following:

- Law establishes that the government must submit a annual plan indicating the loan program of the development agencies, which must specify what has been executed in two previous fiscal years and projections for current year.
- The government must prepare a report showing the loans and financing sources of these institutions.
- The subsidy element associated with these loans is included in the budget.
- The subsidies provided through several programs or funds may be explicit or implicit.
  - The explicit subsidies ones may be granted through the equalization of interest rates and prices, issue of government paper, and direct payments. For example, the resources of the Social Housing Program are used to complement the paying capability of the borrower of loans for low income housing and to top up the payments received by the financial institution so that the loans are profitable for them.
  - The implicit or indirect subsidies granted through public funds or the opportunity cost of the resources assigned to these funds are calculated as the difference between the value of the net worth estimated as if it would have increased month to month at a market interest rate and its actual value. Budget transfers are used to compensate for these subsidies or implicit opportunity costs.

Guarantees

Strict rules are applied to the provision of guarantees by the federal government.
• The Fiscal Responsibility Law (FRL) authorizes the public entities to provide guarantees for internal and external loan operations which comply with certain requirements and, for the federal government, within certain limits and conditions determined by the Senate.

• Also, the provision of a guarantee is conditioned to collateral of equal or larger value, and that the borrower has no outstanding obligations to the guarantor.

• The guarantees are not defined by sectors but by lenders, and are granted on a case by case basis.

• The FRL established that the Annual Budget Directives Law (LDO) has to include an annex which assess the contingent liabilities and other risks that can affect the public accounts, and reports on the measures that would be adopted if these risks materialize.

• The budget only includes a guarantee when it is triggered. The budget includes a contingency reserve that may be used to cover guarantees which are triggered during the fiscal year as long as they have been previously defined as such. The guarantees which require a provision for debt issue in the future are included in the budget.

Public-Private Partnerships (PPPs)

The philosophy behind the framework defined for the PPPs is that they respect the fiscal responsibility rules in their execution, to obtain transparency in the procedures and decisions, and to achieve an objective assignment of risks between the parties which ensures the financial sustainability and the exploitation of the socioeconomic advantages of the projects. Following rules/laws seek to ensure transparency in PPP operations

• The Law establishes that the concession contracts must specify the assignment of risks between the parties, including those associated with force majeure.

• The Law creates a fund (FGP) which is to provide guarantees for the payments of the contractual obligations committed by the Government entities in the PPP contracts. However, there is a certain limit up to which government and government entities are authorized to participate in the FGP. The fund is managed by the Bank of Brazil. The FGP is authorized to provide collateral to insurance companies, financial institutions, and international organizations which guarantee the financial obligations of the public entities in PPP contracts.

• The Law limits the amount of resources that the federal government may commit on PPPs. It also seeks to define rules to prevent that the public entities increase expenditure through PPPs. In addition, the expenditure generated or increased by PPPs is subject to the FRL requirement that no permanent expenditure may be created without a corresponding increase in permanent revenues or cuts in other permanent expenditure.

Tax expenditures

Laws/Rules in respect of tax expenditures are following:

• All tax expenditures, which are known as fiscal renunciations in Brazil, must be approved by law.

• The concession or increase of a tax benefit must be accompanied by compensating measures for that the period, through an increase in revenues by rising tax rates, widening the tax base, or increasing or creating a tax or contribution.

• The tax expenditures are not treated as expenditure but as non revenue. The constitution establishes that congress must be informed on the tax expenditures.
A report which estimates the tax expenditures is presented together with the budget, detailing the fiscal benefits by sector, region, type of taxes and budget function. Tax expenditures are not discussed as part of the budget process.

Tax expenditures represented the equivalent of 1.7 percent of GDP in 2005 and 1.9 percent of GDP in 2006. With respect to tax revenues, tax

Case Study: Chile

The budget documents provide comprehensive coverage of the central government, with the exceptions of universities and research institutions and military expenditures financed under the Restricted Copper Law (RCL).

Thus the off-budget operations of Government of Chile includes revenues and expenditures associated with the RCL, the interest obligations accrued on bonds issued on account of pension obligations, and the revenues and expenditures of the Petroleum Prices Stabilization Fund (FEPC).

The off-budget accounts are not part of the budget but are integrated in the budget documentation and incorporated in the fiscal policy analysis. The fiscal projections presented in the Public Finances Report (IFP) as well as the public finances statistics include the off-budget expenditures with the central government budget aggregates to obtain the operational statements of the consolidated central government.

Reserved Copper Law (RCL)

RCL stipulates that 10% of CODELCO\(^2\) sales should be transferred to the Chilean military. Since October 2003, information on these transfers is being included in the fiscal accounts as off-budget operations.

Bonds issued on account of pension obligations

Bonds have been issued by Chilean Government to cover pension liabilities. Interest payments on these bonds become off-budget expenditure for government and reporting of these has been integrated with the budget. The interest payments accrued on these bonds are the main reason why the balance of the off-budget operations is negative all along the 1997-2004 period notwithstanding the surplus shown by the RCL in this period.

Petroleum Prices Stabilization Fund (FEPC)

Petroleum price stabilization fund (FEPC) has been created by Chilean Government to mitigate fuel price increases due to the impact of Hurricanes Katrina and Rita on the US Gulf of Mexico's refining capacity. The interest revenues from resources deposited into the Copper Compensation fund (FCC) were deposited in the FEPC. These transfers remained off-budget.

Off-budget funds

Two major off-budget funds of Chile include Copper Compensation Fund (FCC) and the Infrastructure Fund (FI). The Public finance reports (IFP) of Chile provides information on the balance sheets of these funds which belong to the government.

1. Copper Compensation Fund (FCC): The FCC accumulates resources when the actual price of copper is above the reference price per unit of production. Its resources supplement the budget when the price of copper

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\(^2\) CODELCO is the Chilean State owned copper mining company which is currently the largest copper producing company in the world. It produces 11% of the total world's production of copper. It owns the world's largest known copper reserves and resources.
is below the reference price and are used also to prepay debt. The FCC is recorded in the budget as a financing item since 2001 before which it was treated as off-budget.

2. **Infrastructure Fund (FI):** The FI was created in 1998 to deposit the payments generated by the concession of the profitable segments, while at the same time using these to provide subsidies to the less profitable segments. The objective was that the subsidies were more or less equal to the revenues, leaving a margin for the government. Today it is a virtual fund, not regulated by law, managed by the MoF.

**Direct loans**

Direct loan operations of the Chilean Government are very low corresponding to 0.3% of GDP in 2004. Mostly it operates as the second tier institution lending through intermediate channels. Two of its intermediate channels include Production Development Corporation (CORFO) and Agricultural Development Institute (INDAP).

*The implicit subsidy of the direct loans is not estimated or included in the budget*, which does not include also the flows of loans and payments because according to the GFSM 2001 and the accrual budget accounting being used, these operations are classified as financing as they do not affect the government’s net worth.

**Guarantees**

There are three types of guarantees provided to the private sector- minimum pensions, PPP contracts, and on private bank loans for higher education. *Budget and Public Finance Reports (IFP) includes separately the impact of the triggering of guarantees.* The information on contingent liabilities reported in the IFP includes a projection of the expenditures expected from the triggering of the government guarantee for minimum pensions for 2006-2020, including a description of the methodology used for the projection. It includes also information on the guarantees provided to the public enterprises and others, classified on the basis of the laws which authorized the guarantees and the respective limits and present situation.

**Public-Private Partnerships (PPPs)**

The management of the PPP program is centralized in the Concessions Coordinating Unit (UCC), which is part of the Ministry of Public Works (MOP). The UCC has its own budget and the financial impact of the projects is reflected in this budget, which in turn is part of the MOP’s budget.

The MoF is in charge of the assessment of the projects from a macroeconomic and fiscal point of view, including the contingent liabilities associated with the guarantees provided, of the valuation of expected value of guarantees provided and to be provided, and prepares the information on the concessions program which is included in the budget documentation since 2004.

*The expenditures are recorded in the budget of the public entity which has commissioned the concession.* The subsidies (provided to cover risk or supplement investment) are recorded as capital expenditure in the year that they occur. If a guarantee is triggered, the expense is recorded as a capital expense in the year in which it is paid.

**Tax expenditures**

The constitution requires that the *budget should report on the fiscal benefits which affect the government tax revenues.* The Internal Revenue Service (SII) estimated the tax expenditures for the first time in 2002 and has continued to do so since then. The IFP also presents information on tax expenditure and methodology used. Tax expenditures are not discussed with the draft budget proposal.
The estimations are done separately for each item, i.e., assuming that the rest of the benefits are not changed. The calculations assume a behavioral change by the taxpayers, according to which, the elimination of a benefit translates into a lower disposable income for the taxpayers and consequently in less consumption and VAT payments.

The tax expenditures represent about 3.6 percent of GDP and a 16 percent of the revenues in 2004-2006.

Case Study: Mexico

Mexico has made important strides over the past few years to increase the coverage of the budget through diverse mechanisms. These include the identification and quantification of off-budget operations, the tightening of the rules on trust funds, the enactment of a new fiscal regime for PEMEX (Mexican Petroleum Company), the definition of rules for concession and PPS contracts, the identification, quantification, and reporting of the guarantees provided by the government, the preparation of a tax expenditures budget, and the approval of a new budget and fiscal responsibility law.

Off-budget Investment expenditure and transfers

Government of Mexico incurs investment expenditure and transfers which are not fully covered in the budget. These include investment expenditure under PIDIREGAS projects and IPAB transfers.

- **PIDIREGAS projects** include projects with infrastructure investment in the petroleum and electricity sectors. In Budget, PIDIREGAS investments are recorded when the asset or parts of it are handed over to the public entity. However only payments corresponding to the current fiscal year are recorded and in the public debt, with the rest of the obligations recorded as contingent liabilities.

- **IPAB transfers** correspond to the banking sector rescue operations. Budget only includes fiscal transfers required to cover the real component of the financial cost of IPAB operations.

In order to encourage proper and transparent recording of these expenditure and transfers, Government includes the full cost of both PIDIREGAS projects and IPAB transfers in the calculation of its debt indicator- **Public Sector Financing Requirements (RFSP)**. The RFSP seek to identify the total borrowing needs stemming from both the budget operations as well as from off-budgetary operations. **RFSP is used in the preparation of the economy’s macroeconomic framework and are reported to Government.**

Nevertheless, the management of the fiscal policy does not include targets with respect to the RFSP, focusing only on the budgetary indicators.

Loans by Public Financial Entities on Account of the Government

**The federal government does not provide direct loans.** Development Banks and Public Funds (BDyFP) conducts financial intermediation operations on behalf of the Government of Mexico. They also provide loan at concessional rates for agriculture, infrastructure development and financing other ventures.

These receive government guarantees on their borrowing and lend mainly to private borrowers, public or private enterprises, and the states and municipalities, among others. The debt indicator, RFSP, takes into account these loans as if they were granted by the government and classify them as above the line operations.

Off-budget Funds

Off-budget funds of the government include trust funds like FARAC and FINFRA. For example, FARAC is the trust Fund for Rehabilitation of Concessioned Toll Roads. The fund is financed only through the tolls collected.
Information on the trust funds is not included in budget but is provided to congress through Quarterly Reports on the Economic Situation, Public Finances and Debt prepared by the Ministry of Finance and Public Credit. The report includes the type of activity conducted by the trust fund (pensions, labor compensations, public infrastructure, supports and subsidies, financial supports, and others), its revenues and expenditures, the objectives sought by the fund in the period, and the availability of resources at the end of the period.

Government has tightened the rules that regulate the creation of these funds, their functioning, and the fiscal transfers which they receive. For example, the PEF for 2006 explicitly prohibits the creation of trust funds for the sole purpose of circumventing the budgetary constraints. Also, the number of funds has been reduced. However, although there is more information and control over the expenditures conducted through these funds, they are still not subject to the budget rules and process.

Guarantees

The law requires the federal government to provide quarterly information to congress regarding the contingent liabilities that the government has taken over on account of guarantees, every year. In the quarterly report there is an annex which provides information on the explicit guarantees provided by the federal government in the corresponding period, and information on the value of the stock of guarantees at the end of the period. These guarantees are not included in the budget documents. However, a methodology to estimate the expected value of the guarantees does not exist. Guarantees are recorded at their maximum value.

When a guarantee is called, the government records it as a liability, takes it over as a loan and serviced. At the same time, the Federal Treasury registers it as an asset so as to be able to claim it from the original lender.

PPP Contracts

There have been important changes regarding the PPP contracts and a framework has been defined for the Service provision projects.

Government of Mexico has established a legal, institutional, and budgetary framework which seeks to exploit the benefits of PPP projects while protecting the public finances. In the budget framework, the rules require Ministry of Finance and Public Credit’s approval prior to the commitment of resources on these projects, with the obligations to be reported in the budget, and being granted a de jure (in principal) preferential status in the budget.

Tax Expenditure

The law requires that the government submits every year a budget for tax expenditures. This budget comprises the amounts that the government will not collect on account of differentiated tax rates for several taxes, exemptions, subsidies and fiscal credits, tax pardons, incentives, deductions, and special regimes established by law. A detailed account of these expenditures must be included. Fiscal expenses are calculated using the loss of revenue methodology prescribed by the OECD. Because of that, the estimates do not include behavioral effects.

Table 9 presents the tax expenditure of Government of Mexico for 2004-06. It can be seen that total tax expenditure has risen from 5.7% of GDP in 2004 to 7.2% of GDP in 2006.

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3 Explicit guarantees provided by the federal government through laws or contracts, for example, to facilitate the implementation of investment projects, exports, or support bank savings protection schemes. On the other hand, the implicit guarantees stem from government obligations which may be of a political or moral nature, which in some instances are the result of past expenditure commitments such as for example the expenditures associated with pensions.
Table 9: Tax expenditure of Government of Mexico for 2004-06

<table>
<thead>
<tr>
<th>Item</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of GDP</td>
<td>Millions pesos</td>
<td>% of GDP</td>
</tr>
<tr>
<td>Total</td>
<td>5.7</td>
<td>407,142.0</td>
<td>6.7</td>
</tr>
<tr>
<td>Income Tax</td>
<td>3.2</td>
<td>227,011.90</td>
<td>4.2</td>
</tr>
<tr>
<td>Corporate</td>
<td>1.7</td>
<td>118,074.20</td>
<td></td>
</tr>
<tr>
<td>Personal</td>
<td>1.5</td>
<td>108,937.70</td>
<td>2.7</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>2.0</td>
<td>142,517.70</td>
<td>1.5</td>
</tr>
<tr>
<td>Special Taxes</td>
<td>0.3</td>
<td>23,369.50</td>
<td>2.0</td>
</tr>
<tr>
<td>Fiscal Incentives</td>
<td>0.2</td>
<td>14,242.90</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Though the government submits an annual budget of tax expenditures but this is not incorporated in the discussion of the budget.

Lessons Learned/ Identification of Good Practices

- **Brazil:** The information presented in the budget annex regarding tax expenditure is very detailed, providing information by type of tax, regions, kind of benefit, and by budget function. The budget does not include, however, a description of the methodology used to estimate the fiscal benefits nor does it explain their behavior year on year. Tax expenditures are not compared with regular expenditures, are not allocated by ministries and there are no sub-limits to its use, but the granting of new fiscal benefits is subject to specific rules and the estimation of the tax expenditures is done by the MoF.

  Thus a look at the tax expenditure statements prepared by Government of Brazil as annexure to budget can be useful.

- **Chile:** Chile has made progress also in relation to the presentation of information on guarantees and tax expenditures.

Guarantees and contingent liabilities have been made more transparent by providing information on them in the budget documentation. **Budget and Public Finance Reports (IFP) includes separately the impact of the triggering of guarantees.** The information on contingent liabilities reported in the IFP includes a projection of the expenditures expected from the triggering of the government guarantee for minimum pensions for 2006-2020, including a description of the methodology used for the projection. It also includes information on the guarantees provided to the public enterprises and others, classified on the basis of the laws which authorized the guarantees and the respective limits and present situation.

Annual Budget of Chile includes a report on the fiscal benefits which affect the government tax revenues. The Internal Revenue Service (SII) estimates the tax expenditures. The Public Finances Report of Chilean Government includes information on tax expenditure and methodology used. The estimations are done separately for each item, i.e., assuming that the rest of the benefits are not changed. The calculations assume a behavioral change by the taxpayers, according to which, the elimination of a benefit translates into a lower disposable income for the taxpayers and consequently in less consumption and VAT payments.
Hence, Budget and Public Finance Report of Government of Chile can be studied to analyze methodologies used for projecting expenditure arising due to triggering of guarantees and revenue losses due to tax expenditure.

- **Mexico**: Mexico has made significant progress over the past few years to increase the coverage of the budget through diverse mechanisms. These include the identification and quantification of off-budget operations, the tightening of the rules on off-budget funds, reporting of obligations under PPP contract and the preparation of a tax expenditures budget.

  - Government of Mexico is including certain key off-budget operations in a fiscal indicator and a debt indicator which are used in the preparation of the macroeconomic framework and are reported to congress. These off-budget operations include investment expenditure and transfers incurred under PIDIREGAS projects (infrastructure investment in the petroleum and electricity sectors) and IPAB transfers (for banking sector rescue operations), which are not fully covered in the budget.

  - Off-budget funds of the government include trust funds like FARAC (trust Fund for Rehabilitation of Concessioned Toll Roads) and FINFRA. Information on these off-budget funds is not included in budget but is provided to congress through Quarterly Reports on the Economic Situation, Public Finances and Debt prepared by the Ministry of Finance and Public Credit. The report includes the type of activity conducted by the trust fund (pensions, labor compensations, public infrastructure, supports and subsidies, financial supports, and others), its revenues and expenditures, the objectives sought by the fund in the period, and the availability of resources at the end of the period.

  - Government of Mexico has established a legal, institutional, and budgetary framework which seeks to exploit the benefits of PPP projects while protecting the public finances. In the budget framework, the rules require Ministry of Finance and Public Credit’s approval prior to the commitment of resources on these projects, with the obligations to be reported in the budget, and being granted a de jure (in principal) preferential status in the budget.

  - The law requires that the government submits every year a budget for tax expenditures. This budget comprises the amounts that the government will not collect on account of differentiated tax rates for several taxes, exemptions, subsidies and fiscal credits, tax pardons, incentives, deductions, and special regimes established by law. A detailed account of these expenditures must be included. Fiscal expenses are calculated using the loss of revenue methodology prescribed by the OECD.

Web-based monitoring of funds is currently being undertaken for the SSA programme through Corporate Internet Banking (CINB) facility availed by SBI and SBI Indore. State Bank of India has provided the facility to view accounts to the State as well as district offices. The State Bank of Indore has provided this facility only at state level. This facility will soon be given at district level by State Bank of Indore also.

At the state level, The State Project Director has been provided with super user-id & Password, which allows access to all of the Accounts of Districts/Blocks/ Gram Panchayats across the State through www.onlinesbi.com and www.onlinesbindore.com. The user needs to log on to the web-page and enter into corporate banking (Figure 11).

Figure 11: SBI Online Web-portal- User needs to log on to Corporate Banking

In order to view the status of any SSA account in the state, the user needs to log on to the KhathaPlus link provided on the web-page (Figure 12).

Figure 12: User needs to log on to KhathaPlus to view SSA Accounts
The web-page will prompt for username and password which the user needs to type in (Figure 13).

Figure 13: User needs to provide username and password to access the accounts

After verifying the password and username, user will be allowed to view status of various SSA accounts in the state. State Project Director can view the status of all the accounts held at state, district, block and panchayat level (Figure 14).

Figure 14: View access given to State Project director
Figure 15 presents the account details of Anuppur district in Madhya Pradesh as viewed through View-right facility.

Figure 15: SSA Account details of Anuppur district- viewed by SPD through view access
In addition to State Project Director, each District office has been provided with independent user-id& Password for monitoring the accounts pertaining to their Districts/ Blocks/ Gram Panchayats
The primary purpose of this report and its contents is to provide technical assistance to the Government of Madhya Pradesh towards analyzing the current status of off-budget reporting and monitoring in Madhya Pradesh (MP) and suggest practices to improve the same. The contents of this report are based on the facts, assumptions and representations stated herein. Our assessment and opinions are based on the facts and circumstances and research from sources in public domain held to be reliable. If any of these facts, assumptions or representations is not entirely complete or accurate, the conclusions drawn therein could undergo material change and the incompleteness or inaccuracy could cause us to change our opinions. The assertions and conclusions are based on the information available at the time of writing this report and PwC will not be responsible to rework any such assertion or conclusion if new or updated information is made available.

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