CHAPTER I
Finances of the State Government

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts of the Government of Arunachal Pradesh are laid out in nineteen statements, the structure and lay out of which are depicted in **Appendix 1.1**.

This chapter provides a broad perspective of the finances of the Government of Arunachal Pradesh during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. **Appendix 1.2** of the chapter briefly outlines the methodology adopted for assessment of the fiscal position of the State and **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2004-09.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 Summary of the Current Year's Operations

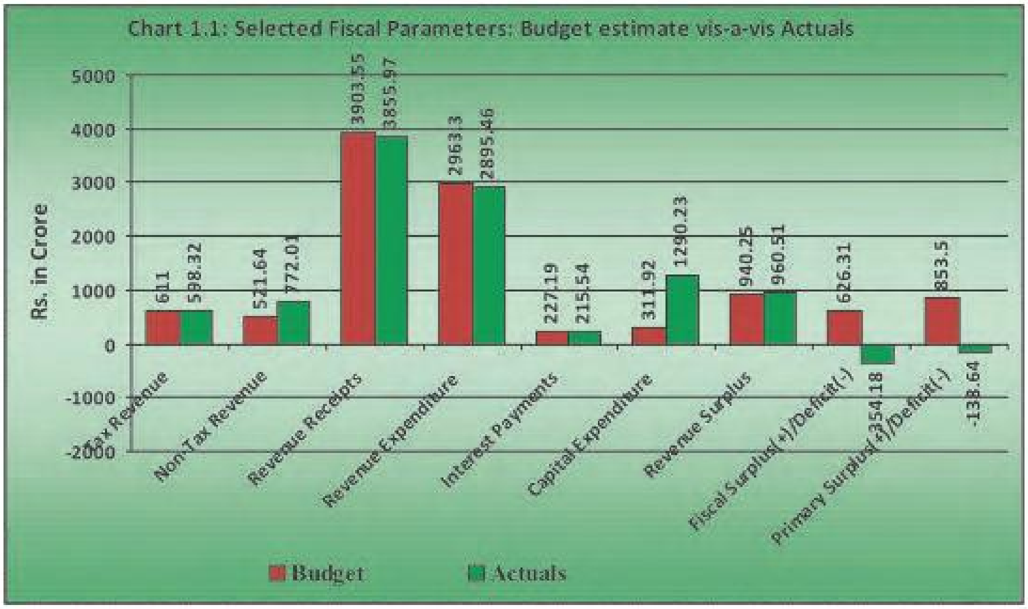
(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section A: Revenue							
					Non-Plan	Plan	Total
3003.01	**I. Revenue Receipts**	**3855.97**	**2259.55**	**I. Revenue Expenditure**	**1752.80**	**1142.66**	**2895.46**
98.09	Tax Revenue	136.23	620.06	General Services	751.25	22.99	774.24
656.92	Non-tax Revenue	772.01	706.58	Social Services	404.20	576.51	980.71
437.87	Share of Union taxes / duties	462.09	932.91	Economic Services	597.35	543.16	1140.51
1810.13	Grants from Government of India	2485.64	-	Grants-in-aid / contribution	-	-	-
Section B: Capital							
-	**II. Miscellaneous Capital Receipts**	-	**753.21**	**II. Capital outlay**	**10.62**	**1279.61**	**1290.23**
2.94	**III. Recoveries of Loans and Advances**	**2.78**	**2.97**	**III. Loans and Advances disbursed**	**1.71**	25.53	**27.24**
291.06	**IV. Public Debt receipts**	**143.88**	**77.13**	**IV. Repayment of Public Debt**		-	**63.46**
-	**V. Contingency Fund**	-	-	**V. Contingency Fund**	-	-	-
2423.76	**VI. Public Account receipts**	**7255.58**	**2169.85**	**VI. Public Account disbursements**	-	-	**4229.12**
67.34	**Opening balance**	**525.40**	**525.40**	**Closing balance**	-	-	**3278.10**
5788.11	**Total**	**11783.61**	**5788.11**	**Total**	-	-	**11783.61**

Following are the significant changes during 2008-09 over the previous year:

- Revenue receipts grew by Rs.825.96 crore (28.40 *per cent*) from Rs.3,003.01 crore to Rs.3,855.97 crore against revenue expenditure which increased by Rs.635.91 crore (28.14 *per cent*) from Rs.2,259.55 crore to Rs.2,895.46 crore during 2008-09 over the previous year, mainly due to increase in Tax Revenue by Rs.38.14 crore, Non-Tax revenue by Rs.115.09 crore, Central tax transfer by Rs.24.22 crore and Grants from GOI by Rs.675.51 crore
- Revenue expenditure grew from Rs.2,259.55 crore in 2007-08 to Rs.2,895.46 crore (28.14 *per cent*) in 2008-09 mainly on increase in General Services by Rs.154.18 crore (24.87 *per cent*), Social Services by Rs.274.13 crore (38.80 *per cent*) and Economic Services by Rs.207.60 crore (22.25 *per cent*) in 2008-09 over the previous year.
- Capital expenditure increased by Rs.537.02 crore (71.30 *per cent*) over the previous year.
- Loans and Advances of Rs.27.24 crore was disbursed during the year 2008-09 against Rs.2.97 crore in the previous year. Recovery in Loans and Advances decreased by Rs.0.16 crore over the previous year.
- Receipts from Public Debt were Rs.143.88 crore against disbursement of Rs.63.46 crore during the current year. Receipts from Public Debt decreased by Rs.147.57 crore mainly due to decrease in borrowing from market and other institutions by Rs.141.13 crore. Loans and Advances from GOI was nil during the year.
- Public Account Receipts increased by 199.35 *per cent* from Rs.2,423.76 crore in 2007-08 to Rs.7,255.58 crore in 2008-09 mainly due to more receipts from Small Savings, Provident Funds (SSPF) etc. by Rs.35.01 crore (28.65 *per cent*), Suspense Account by Rs.3,450.04 crore (778.97 *per cent*) and Remittance by Rs.1,059.62 crore (66.29 *per cent*). In the total disbursement of Public Account, there was an increase of Rs.2,059.27 crore (94.90 *per cent*) in 2008-09 over the previous year (Rs.2,169.85 crore) due to more disbursement in Suspense Account by Rs.858.31 crore (339.94 *per cent*) and Remittances by Rs.1,061.11 crore (66.38 *per cent*) during the same period.

Several reasons may account for the deviation of the actual realization from the budget estimates. It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage, etc. Actual realization of revenue and its disbursement, however, depends on a variety of factors, some internal and others external. **Chart 1.1** presents the budget estimates and actuals for some important fiscal parameters.

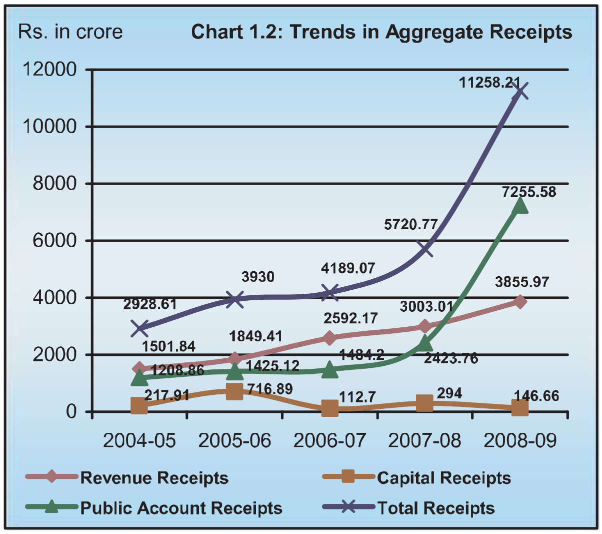


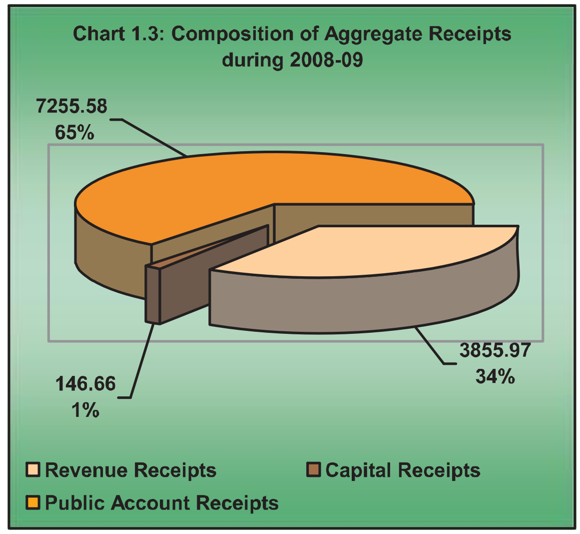
During the current year, while revenue expenditure increased by 28.14 *per cent* (Rs.6,35.91 crore), revenue receipts increased by 28.40 *per cent* (Rs.825.96 crore) over the previous year, resulting in increase in surplus by 29.19 *per cent* **(**Rs.217.05 crore) in revenue account. The increase in revenue surplus (Rs.217.05 crore) along with an increase of Rs.537.02 crore on account of increase in capital expenditure (Rs.1290.23 crore) as well as in loans and advances disbursed (Rs.27.24 crore) during 2008-09 led to an increase of Rs.354.18 crore in fiscal deficit during the current year. The revenue surplus (Rs.960.51 crore) during the year was higher by 2.15 *per cent* and capital expenditure (Rs.1290.23 crore) during the year was higher by 313.64 *per cent* compared to the assessment made by the State Government in the Budget. On the other hand, against the fiscal surplus (Rs.626.31 crore) and primary surplus (Rs.853.50 crore) estimated in budget, in actual they became negative. The wide variation between budget provisions and actual indicated that the budget estimates were unrealistic.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table-1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2004-09. **Chart 1.3** depicts the composition of resources of the State during the current year.





- Revenue Receipts of the State increased by 156.75 *per cent* from Rs.1,501.84 crore in 2004-05 to Rs.3,855.97 crore in 2008-09.
- State's own tax revenue increased by 171.86 *per cent* (from Rs.50.11 crore in 2004-05 to Rs.136.23 crore in 2008-09. Trends of yearly increase are depicted in **Table 1.3**.
- State's share of Union taxes and duties decreased from 13 *per cent* (2004-05) to 12 *per cent* (2008-09) of the total Revenue receipts, and Grants-in-aid from GOI decreased from 73 *per cent* in 2004-05 to 60 *per cent* in 2007-08 of the total Revenue Receipts and increased to 64 *per cent* in 2008-09.

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[1] for implementation of various schemes/programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, states' receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. An illustrative position of Central funds transferred to the State Implementing Agencies during 2008-09 for implementation of various schemes is given in **Appendix 1.5.** Scheme-wise position involving substantial amount of Central funds is given in **Table 1.2.**

[1] State Implementing Agency includes any organization/institution including non-governmental Organisation which is authorized by the State Government to receive funds from the Government of India for implementing specific programmes in the state e.g. State Implementing Society for SSA and state Health Mission for NRHM, etc.

Table 1.2: Funds Transferred directly to State Implementing Agencies

(Rupees in crore)

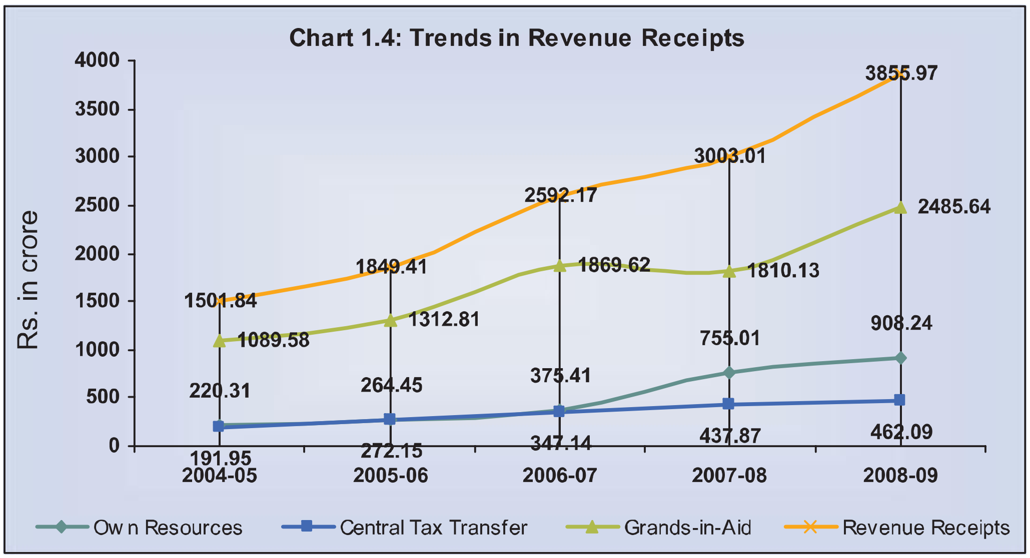
Programme/Scheme	**Implementing Agency in the State**	**Funds transferred by the GOI**
Central Rural Sanitation Programme	District Water and Sanitation Mission	15.30
National Rural Health Mission	State TB Control Society, Arunachal Pradesh State Blindness Control Society, Arunachal Pradesh, Arunachal Pradesh State Health Society	27.47
Integrated Watershed MGMT Programme	DRDA, Upper Subansiri District	32.83
National Rural Employment Guarantee Scheme	DRDA, West Kameng District	29.71
Pradhan Mantri Gram Sadak Yojana	S.G.O , Itanagar DRDAS	53.16
Rural Housing IAY	DRDA, Lohit	34.41
Sarva Shiksha Abhiyan	SSA Rajya Mission, Itanagar	136.84
State S&T Programme	Arunachal Pradesh Energy Development Agency Arunachal Pradesh State Council for Science and Technology	1.15
Buddhist & Tibetan Studies	Centre of Buddhist Cultural Studies Bomja Gonpa Welfare Committee Gurulhagan Gonpa Welfare Committee Buddhist Culture Preservation Society @ IHCS Mon Siddhanta Charitable Foundation Dratsang Gonpa Welfare Committee	1.47
GRID Interactive Renewable Power	Arunachal Pradesh Energy Development Agency	25.47
HIA for Coaching ST Students for Examination	OJU Welfare Association, Naharlagun, Arunachal Pradesh R.K.Mission, Narrotom nagar, Tirap, Arunachal Pradesh Arunachal Pali Vidya Chongkham, Arunachal Pradesh	3.95
MPLADs	Deputy Commissioners	7.00
Total		**368.76**

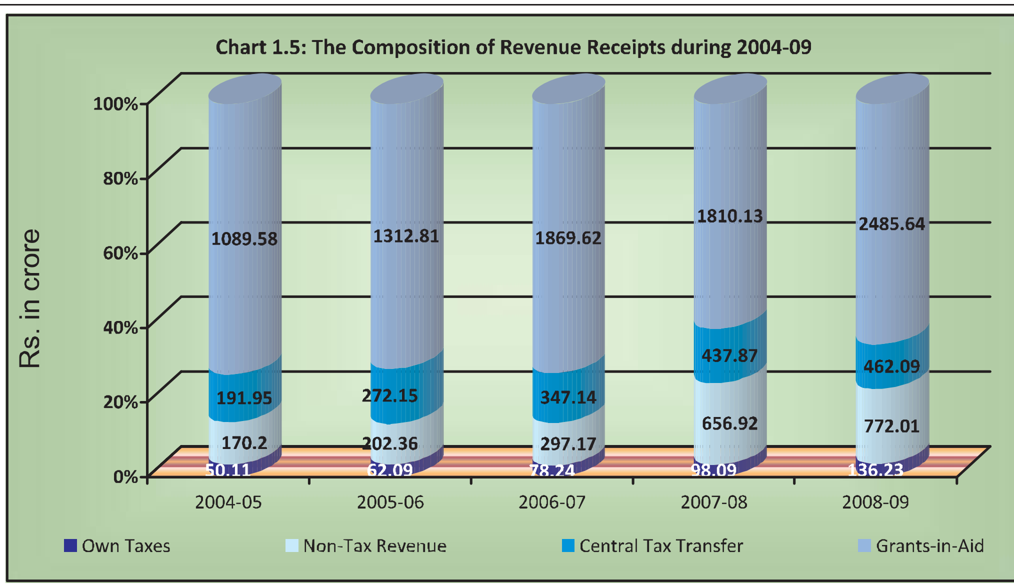
(Source: CPMS of CGA's website)

According to the available information, the GOI directly transferred Rs.422.45 crore to State Implementing Agencies during 2008-09. With this transfer, the total availability of State resources increased from Rs.11,258.21 crore to Rs.11,680.66 crore. Out of this amount, Rs.422.45 crore, Rs.111.73 crore (26.49 *per cent*) was transferred to the DRDA and Rs.136.84 crore (32.39 *per cent*) to State Mission Authority of Sarva Siksha Abhiyan. This data is yet to be verified from the implementing agencies. The consolidated data base at apex level is not maintained by either the State Government or the Union Government in a single place. Direct transfer from the Union to the State Implementing Agencies runs the risk of poor accountability. Unless uniform accounting practices are diligently followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts of the State consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively.





The trends in revenue receipts relative to GSDP are presented in **Table 1.3**.

Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) *(Rupees in crore)*	1502	1849	2592	3003	3856
Growth rate of Revenue Receipts (*per cent*)	-4.70	23.10	40.18	15.86	28.40
Rate of Growth of Own Taxes (*per cent*)	13.64	24	25.81	25.64	38.78
Revenue Receipts / GSDP (*per cent*)	52.64	63.37	75.94	77.24	85.01
Buoyancy Ratios[2]					
Revenue Buoyancy with respect to GSDP	-0.23	10.18	2.37	1.14	1.70
State's Tax Buoyancy with respect to GSDP	0.66	10.57	1.52	1.84	2.33
Revenue Buoyancy with reference to State's own taxes	-0.34	0.96	1.56	0.62	0.73

The revenue receipts of the State increased by Rs.2,354 crore from Rs.1,502 crore in 2004-05 to Rs.3,856 crore in 2008-09. During 2005-06, the revenue buoyancy with respect to GSDP was 10.18 due to higher growth of revenue (23.10 *per cent*) than the growth of GSDP (2.27 *per cent*) mainly due to introduction of VAT. There were, however, wide inter-year variations in the growth rates, which increased to 28.40 *per cent* in 2008-09 from 15.86 *per cent* during the preceding year.

All the components of revenue receipts have exhibited increase in absolute terms over the period 2004-09. The share of grants-in-aid has reduced from 73 *per cent* in 2004-05 to 64 *per cent* in 2008-09, whereas the Central Tax transfers increased by Rs.24.22 crore over the previous year and constituted 12 *per cent* of the revenue receipts. The Share of Non-Tax revenue increased from 11 *per cent* to 20 *per cent* during the period. The State's own tax revenue with reference to GSDP have increased primarily due to significant increase in the rates of growth of revenue under "Taxes on Sales, Trade, etc., in 2008-09 relative to the previous year

1.3.1 Grants-in-aid

Details of grants-in-aid from GOI are given in **Table 1.4.**

Table 1.4: Grants-in-aid from GOI

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Grants for State Plan Schemes	614	726	1049	1269	1665
Non-Plan grants	300	389	388	380	455
Grants for Central Plan Schemes	13	44	68	61	52
Grants for Centrally Sponsored Plan Schemes	129	105	320	62	249
Grants for Special Plan Schemes	34	49	45	38	65
Total	**1090**	**1313**	**1870**	**1810**	**2486**
Percentage of increase(+)/ decrease (-) over Previous year	(-)12.87	(+)20.46	(+)42.42	(-)3.21	(+)37.35

[2] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance State's own receipts buoyancy ratio with reference to its GSDP at 0.60 implies that revenue receipts tend to increase by 0.60 percentage points, if the GSDP increases by one *per cent*.

Gants-in-aid from the GOI have increased by 37.35 *per cent* from Rs.1810 crore in 2007-08 to Rs.2,486 crore in the current year. Within the plan grants, while grants for Central Plan Schemes decreased by 14.76 *per cent*, grants for State Plan Schemes, grants for Centrally Sponsored Plan Schemes and grants for Special Plan Schemes increased by 31.21 *per cent* (Rs.396 crore), 301.61 *per cent* (Rs.187 crore) and 71.05 *per cent* (Rs.27 crore) respectively. The major increase under State Plan Schemes was in the form of increase in Block grants (Rs.358 crore).The Non-Plan grants (Rs.455 crore) to the State constituted 18.30 *per cent* of the total grants during the year, of which 21.98 *per cent* (Rs.100.00 crore) was for Natural Calamities other than the margin money. Other components of non-plan grants mainly included (i) to meet the non-plan revenue deficit (Rs.23 crore), (ii) maintenance of forests (Rs.20 crore), (iii) contribution to calamity relief fund (Rs.23 crore) and (iv) maintenance of Public Building (Rs.14 crore)

1.3.2 State's Own Resources

The State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. **Table 1.5** and **Table 1.6** show the trends of tax and non-tax revenue during 2004-09.

Table 1.5: Tax Revenue

(Rupees in crore)

Heads	2004-05	2005-06	2006-07	2007-08	2008-09	
					Budget Estimate	Actuals
Taxes on Sales, Trade etc.	28.25	47.69	61.64	77.06	76.00	105.68
State Excise	17.79	9.51	10.98	11.61	12.50	16.61
Taxes on Vehicles	2.21	2.99	2.93	6.42	6.50	7.76
Stamp and Registration fees	0.46	0.41	0.55	0.86	0.95	1.25
Land Revenue	0.76	1.11	2.10	2.12	3.00	4.90
Other Taxes	0.64	0.38	0.04	0.02	0.16	0.03
Total	**50.11**	**62.09**	**78.24**	**98.09**	**99.11**	**136.23**

Table 1.6: Non-Tax Revenue

(Rupees in crore)

Heads	2004-05	2005-06	2006-07	2007-08	2008-09	
					Budget Estimate	Actuals
Interest receipts, dividends and profits	5	7	13	29	34	35
General services	14	41	75	53	31	28
Social services	4	4	9	7	7	11
Economic services	147	150	200	568	210	698
Total	**170**	**202**	**297**	**657**	**282**	**772**

1.3.2.1 Tax Revenue

Tax revenue has increased by 38.88 *per cent* during the current year (Rs.136.23 crore) over the previous year (Rs.98.09 crore). However, the actual collection of tax revenue during the year increased by 37.45 *per cent* of the budget estimate for the year mainly due to increase under Taxes on Sales, Trade etc. by over 39.05 *per cent*. The revenue from Sales Tax contributed the major share of tax revenue (77 *per cent*) and it increased by 37.14 *per cent* over the previous year. State excise and taxes on vehicles were the other major contributors in the state tax revenue.

1.3.2.2 Impact of implementation of Value Added Tax (VAT) on the State's Own Tax Revenue.

Table 1.7 gives the comparative position of pre-VAT (2001-02 to 2004-05) and post VAT (2005-06 to 2008-09) tax collection and the growth rate in each year.

Table-1.7

(Rupees in crore)

Pre-VAT			Post-VAT		
Year	**Actual collection**	**Percentage of growth**	**Year**	**Actual collection**	**Percentage of growth**
2001-02	16.78	104.88	2005-06	47.69	68.81
2002-03	17.62	5.00	2006-07	61.64	29.25
2003-04	21.79	23.67	2007-08	77.06	25.02
2004-05	28.25	29.65	2008-09	105.68	37.14
Average growth		**40.80**	**Average growth**		**40.06**

The revenue all along the years from 2001-02 to 2008-09 showed an increasing trend, yet the growth rate of revenue after implementation of VAT showed a negative trend except in 2008-09. The scenario would have been much better had the tax collection mechanism been more efficient and effective and instances of loss of revenue been avoided/minimized as pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2009.

BOX 1: Transition from Sales Tax regime to Value Added Tax System and audit of Sales Tax Department.

The Department failed to detect and register 5 dealers who sold taxable goods of Rs.2.88 crore, which resulted in evasion of tax of Rs.18.09 lakh. A forest division sold timber valued Rs.2.57 crore but neither applied for registration nor paid any tax on the aforesaid sale of timber resulted in non-realisation of revenue of Rs.32.13 lakh. Seven dealers imported taxable goods of Rs.4.04 crore at concessional rate by utilizing nine declaration Form'C' from dealers of other States. The dealers were neither registered nor were the 'C' forms issued by the authority to them. Thus failure of the authority to ensure proper custody and accounting of 'C' form led the Government to loss of revenue of Rs.43.10 lakh.

1.3.4.3 Non-Tax Revenue

The non-tax revenue (NTR), which constituted 20 *per cent* of the total revenue receipts, has increased by Rs.115.09 crore recording a growth of 17.52 *per cent* over the previous year. 90 *per cent* of non-tax revenue during 2008-09 was received from economic services with Power alone contributing 87.39 *per cent* (Rs.610 crore). **This was due to increase in receipts towards processing fee and upfront money against Power Projects for signing MoAs and may not be a regular source of income in future.** The trends in interest receipts and dividends and profits reveal significant improvement during 2008-09 when compared to 2004-05 mainly because of the increase in realization of interest on investment of Cash balances.

1.3.4.4 Own resources vis-a vis assessments made by the Twelfth Finance Commission

The mobilization of State's own resources vis-à-vis assessments made by the Twelfth Finance Commission (TFC) and State Government in its own fiscal correction Path (FCP) are given below:

Table-1.8

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in FCP	Actuals
Tax Revenue	157	71	136
Non-Tax Revenue	118	203	772

Tax revenue was 13.38 *per cent* lower as compared to the assessment made by the TFC, but it was higher by 91.55 *per cent* when compared to the assessment made in the FCP. The non-tax revenue exceeded by a big margin both the normative assessment of the TFC and FCP for 2008-09 mainly on account of huge receipts shown under power sector (Rs.609.74 crore).

1.3.4.5 Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

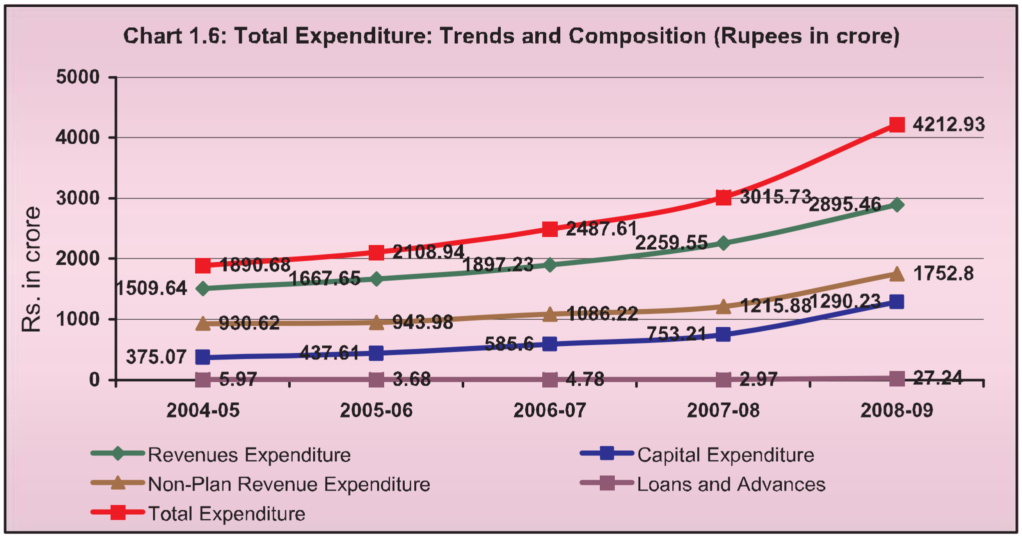
Test-check (2008-09) of records of Taxation, State Excise, Transport, Geology and Mining and other non-tax receipts revealed underassessment/short levy/non-levy/loss of revenue of Rs.23.26 crore. The total loss of revenue, which was 2.56 *per cent* of the State's own resources consisting of tax and non-tax revenue (Rs.908.24 crore) during 2008-09, indicate the presence of loopholes in resource mobilization system thereby adversely affecting the revenue generation required for the developmental activities of the State. Serious irregularities which resulted in loss of revenue of the State have been discussed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2009 (Revenue Chapter)

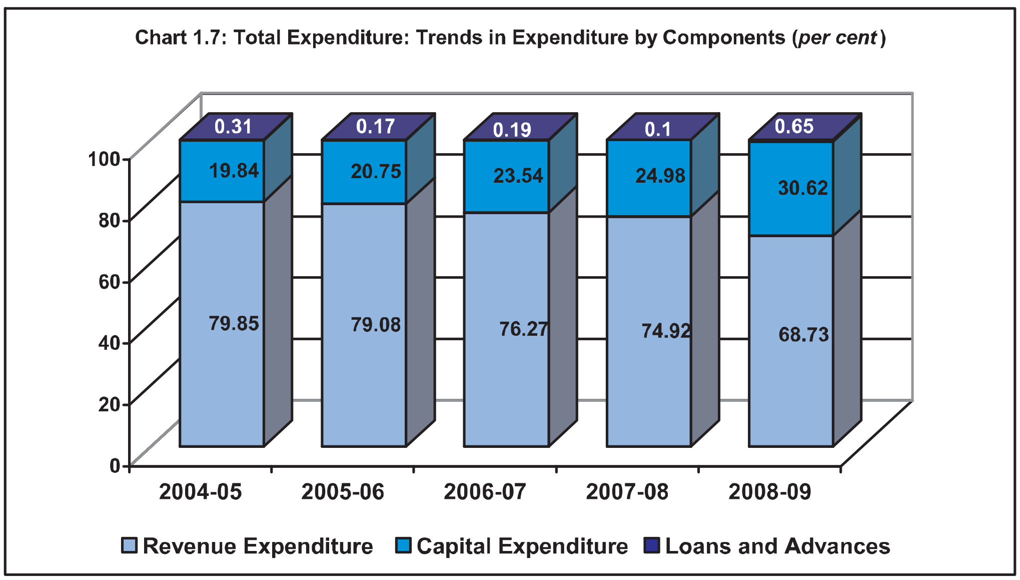
1.3.4.6 Revenue Arrears

The arrears of tax revenue at the end of March 2009 in respect of some principal heads of revenue were Rs.65.49 crore of which Rs.14.16 crore (21.62 *per cent*) relating to Land Revenue were more than five years old. As the pending revenue arrears constituted over 48.07 *per cent* of the tax revenue of the State during 2008-09, appropriate steps need to be initiated by the State Government for their early realization, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

1.4 Application of resources

The analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising the public expenditure financed by deficit or borrowings. It is therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, directed towards development and social sectors.

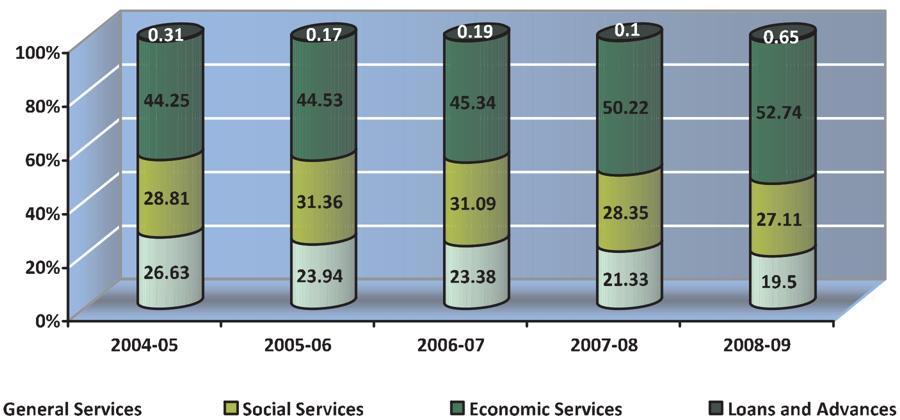




1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09), and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7** and **1.8**.

Chart 1.8: Total Expenditure: Trends in share of expenditure by Activities (*Per cent*)



1.4.1.1 Trends in Total Expenditure

The total expenditure during the current year has increased by Rs.1197.20 crore (39.70 *per cent*) over the previous year. Of the increase in total expenditure, revenue expenditure formed 68.73 *per cent* (Rs.635.91 crore), capital expenditure component was 30.62 *per cent* (Rs.537.02 crore) and disbursement of loans and advances 0.65 *per cent* (Rs.27.24 crore). While the share of Plan expenditure constituted 58.10 *per cent* (Rs.2447.80 crore) of the total expenditure, the remaining 41.90 *per cent* was non-plan expenditure (Rs.1765.13 crore). During the current year 91.53 *per cent* (Rs.3855.97 crore) of total expenditure was met from revenue receipts and the remaining (Rs.356.96 crore) from capital receipts and borrowed funds. **The buoyancy of total expenditure to GSDP stood at 2.38 in 2008-09 indicating a tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.**

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The movement of the relative share of these components of expenditure indicated that all components had inter-year variations. Of the total expenditure during 2008-09, expenditure on general services and interest payments, which is considered as non-developmental, together accounted for 19.50 *per cent*. On the other hand, expenditure on social and economic services together accounted for 79.85 *per cent* during 2008-09. The relative share of Social Services declined from 28.81 *per cent* in 2004-05 to 27.11 *per cent* in 2008-09. The relative share of economic services ranged between 44.25 *per cent* and 52.74 *per cent* during the period 2004-09, while loans and advances revealed wide fluctuations during the period 2004-08 and stood at 0.65 *per cent* during 2008-09.

1.4.1.2 Incidence of Revenue Expenditure

Revenue expenditure constituted 79.85 *per cent* to 68.73 *per cent* of total expenditure during 2004-09 and increased by 91.80 *per cent* from Rs.1509.64 crore in 2004-05 to Rs.2895.46 crore in 2008-09. The non-plan revenue expenditure (NPRE) during the same period increased from Rs.930.62 crore to Rs. 1752.80 crore, showing an increase of 88.35 *per cent*. The share of NPRE in total revenue expenditure declined from 61.65 *per cent* in 2004-05 to 60.54 *per cent* in 2008-09. As a result, plan revenue expenditure (PRE), which normally covers the maintenance expenditure incurred on services, has increased by Rs.563.64 crore during 2004-09 keeping its share in total revenue expenditure between 38.35 and 39.46 *per cent* during the period. The growth of PRE during 2008-09 declined to 9.48 *per cent* against 28.69 *per cent* during the previous year mainly due to decreased expenditure on providing nutrition, special programmes for rural development and Non conventional sources of Energy. The rate of growth of NPRE (44.16 *per cent*) in 2008-09 was more than that of the PRE. This expenditure at Rs.1752.80 crore during the year was 94.91 *per cent* (Rs.853.53 crore) higher than the normatively assessed level of Rs.899.27 crore by the TFC and 52.42 *per cent* (Rs.602.80 crore) higher than the assessments made by the State Government in its FCP **(Table 1.9).**

Table 1.9: Non-Plan Revenue Expenditure: actual vis-à-vis Normative assessment by TFC

(Rupees in crore)

Particulars	Assessed by the TFC	Assessment made by the State Government in		Actual	Difference with reference to (Excess (+) / Less (-)		
		FCP	Budget 2008-09		TFC	FCP	Budget
Interest payments	202.64	200.00	227.19	215.54	+12.90	+15.54	-11.65
Pension	97.11	92.00	84.30	113.55	+16.44	+21.55	+29.25
Other general services	195.64		300.58	422.16	+226.52		+121.58
Social services	216.44	858.00	224.79	404.20	+187.76		+179.41
Economic services	187.44		350.18	597.35	+409.91	+565.71	+247.17
Committed liabilities	48.47						NA
Total	**947.74**	**1150.00**	**1187.04**	**1752.80**	**+805.06**	**+602.80**	**+565.76**

The actual expenditure incurred on all other components of non-plan revenue expenditure was more than the assessment made by TFC. The expenditure also exceeded the assessment made in the Budget 2008-09 except interest payments.

1.4.1.3 Capital Expenditure

Capital Expenditure constituted only 19.84 *per cent* to 30.63 *per cent* of total expenditure during 2004-09 and increased by 244 *per cent* from Rs. 375.07 crore in 2004-05 to Rs.1290.23 crore in 2008-09. Compared to 2007-08, capital expenditure during the current year (2008-09) increased by 71.30 *per cent* mainly due to increased expenditure under 'Roads and Bridges (Rs.443.50 crore) Power Projects (Rs.132.10 crore), Flood Control Projects (Rs.58.14 crore) and tourism (Rs.14.05 crore). **Though there was an increase in capital expenditure during the current year compared to the previous year, the State Government failed to fulfil its commitment of incurring expenditure on capital account made in the FCP (Rs.392.00 crore).**

1.4.2 Committed Expenditure

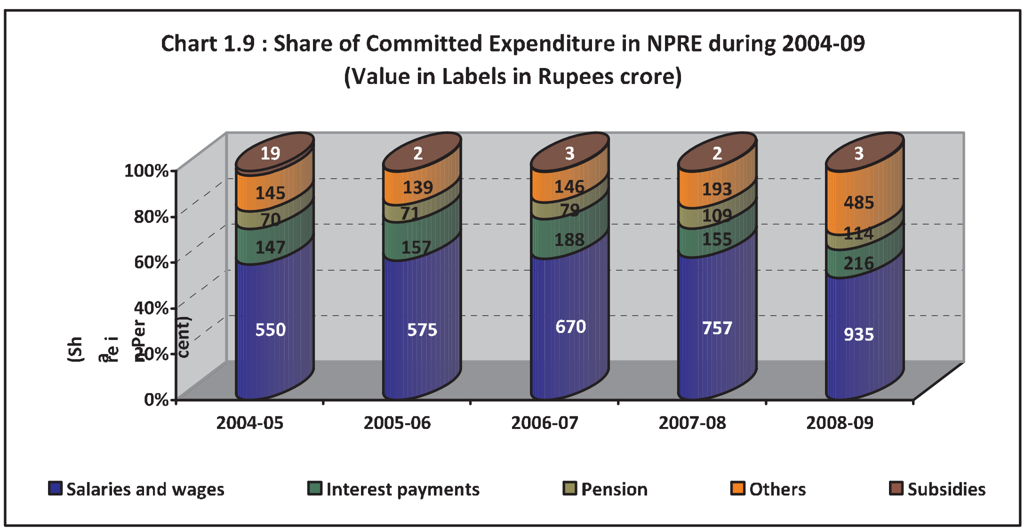
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.10** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

Table-1.10: Components of Committed Expenditure

(Rupees in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
Salaries & Wages	550(37)	575(31)	670(26)	757(25)	935(24)
Of which					
Non-Plan Head	398(26)	421(23)	485(19)	535(18)	816(21)
Plan Head	152(11)	154(8)	185(7)	222(7)	119(3)
Interest Payments	147(10)	157(8)	188(7)	155(5)	216(6)
Expenditure on Pension and other retirement benefits	70(5)	71(4)	79(3)	109(4)	114(3)
Subsidies	19(1)	2(1)	3(..)	2(..)	3(..)
Other Components	145(10)	139(8)	146(6)	193(6)	485(13)

(Figures in the parentheses indicate percentage to Revenue Receipts)
.. refers to negligible percentage)



1.4.2.1 Salaries and Wages

The expenditure on salaries and wages increased by 23.51 *per cent* during 2008-09 over the previous year and accounted for 20.61 *per cent* of GSDP and 24.25 *per cent* of the revenue receipts. The State Government could not restrict the expenditure on salaries during 2008-09 as assessed in its FCP (Rs.760 crore) for the year and also within the norm of 35 *per cent* prescribed by the TFC for the total salary bill relative to revenue expenditure net of interest payment and pension. This has to be viewed in the backdrop that the Sixth Pay Commission's award was not implemented in the State during the year.

1.4.2.2 Interest Payments

Interest payments increased by 14.67 *per cent* from Rs.146.90 crore in 2004-05 to Rs.215.54 crore in 2008-09. Compared to the previous year, interest payments during 2008-09 increased by 39.11 *per cent* as against a decrease of 17.48 *per cent* during 2007-08. The State Government could not restrict the interest payments during 2008-09 as assessed in its FCP (Rs.200 crore). Interest payments were on market loans (Rs.46.53 crore), Special Securities issued to National Small Savings Fund of the Central Government (Rs.50.00 crore), other internal debt (Rs.27.13 crore), loans and advances received from Central Government (Rs.36.95 crore) and Small Savings, Provident Fund, etc. (Rs.49.07 crore). Of the total interest payments during the year, about 21.58 *per cent* (Rs.46.53 crore) were paid on market borrowings. *The overall interest payments (Rs.215.54 crore) was higher than the projections made by the TFC (Rs.202.64 crore) and FCP (Rs.200 crore) but lower than the budget estimates (Rs.228.11 crore) of the year.*

1.4.2.3 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the five year period 2004-09. Pension payments during the current year have increased by Rs.5 crore recording a growth rate of over 4.59 *per cent* over the previous year mainly on account of increase in the number of pensioners. A comparative analysis of actual pension payments and the assessment/projections made by the TFC and the State Government (**Table 1.11**) reveals that *actual pension payments exceeded the projections made by the TFC and the State Government in its FCP and Budget by 17 per cent, 23 per cent and 35 per cent respectively.*

Table 1.11: Actual Pension Payments vis-à-vis Projection

(Rupees in crore)

	Assessment made by the TFC	Assessment made by the State Government in		Actual	Expenditure in excess of assessment made in the		
		FCP	Budget 2008-09		TFC	FCP	Budget
Pension Payments	97.11	92.00	84.30	113.55	16.44(17)	21.55(23)	29.25 (35)

1.4.2.4 Subsidies

Table 1.10 also shows a inter year variation in payment of subsidies which constituted only 0.08 *per cent* of revenue receipts during 2008-09 against 1.26 *per cent* during 2004-05. Subsidy was mainly given to Co-operative (Rs.1.32 crore), Special Programme for Rural Development (Rs.0.74 crore) and Civil Supplies (Rs.0.51 crore) during 2008-09. During the current year, expenditure on payment of subsidies increased by 61.40 *per cent* from Rs.1.17 crore in 2007-08 to Rs. 2.76 crore mainly due to increase in payment of subsidy to Co-operation (Rs.0.94 crore) and Civil Supplies (Rs.0.14 crore).

1.4.3 Financial Assistance by State Government to Local Bodies and Other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.12.**

Table 1.12: Financial Assistance to Local Bodies, etc.

(Rs. in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
University and Educational Institute	24.43	16.49	10.14	12.96	47.00
Cultural Institutions/Voluntary Organizations for promotion of Art and Culture	0.09	5.21	0.25	0.50	2.72
State Institute of Rural Development	0.85	24.36	..	1.07	..
Social Welfare	0.70	0.15	0.15	0.16	7.27
Ware Housing Corporations	..	4.94	14.93	23.06	44.97
Co-operation	..	..	..	..	..
Zilla Parishads/Village Panchayats etc.	0.48	..	..	..	..
Other Institutions	15.04	15.97	1.84	5.74	0.28
Total	41.59	67.12	27.31	43.49	102.24
Assistance as percentage of Revenue Expenditure	2.75	4.02	1.44	1.92	3.53

The financial assistance extended to local bodies and other institutions with inter year variations increased by 45.83 *per cent* from Rs.41.59 crore in 2004-05 to Rs.102.24 crore in 2008-09. Rs.47 crore (45.97 *per cent*) of the total assistance was released to University and Educational Institutions and Rs.44.97 crore (43.58 *per cent*) was released to Warehousing Corporation during the year 2008-09. The State Government is also giving adhoc grants on year to year basis to various institutions grouped under the head "Other Institutions" which varied from Rs.15.04 crore in 2004-05 to Rs.5.74 crore in 2007-08 and stood at Rs.0.28 crore in the current year.

1.5 Quality of Expenditure

The availability of better social and physical infrastructure in a State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services); efficiency of expenditure and the effectiveness (assessment of outlay-outcome relationships for select services).

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels require the States to step up their expenditure on key social services like, education, health, etc. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.13** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.13: Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2008-09

Fiscal priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	**19.50**	**61.44**	**30.41**	**14.13**
Arunachal Pradesh Average (Ratio) 2005-06	72.27	76.06	31.36	20.75
All States/National Average* (Ratio) 2008-09	**19.16**	**67.68**	**33.90**	**16.87**
Arunachal Pradesh Average (Ratio) 2008-09	92.87	80.50	27.12	30.63
Fiscal Capacity of the State	**DE#**	**SSE**	**CE**	
All States Average per capita expenditure 2005-06	**3010**	**1490**	**692**	
Arunachal Pradesh per capita expenditure (Amount in Rupees) in 2005-06	14,583	6011	3978	
All State's Averege per capita expenditure 2008-09	**5030**	**2520**	**1254**	
Arunachal Pradesh per capita expenditure (Amount in Rupees) in 2008-09	28,262	9,520	10,752	

*As *per cent* to GSDP
Calculated as per the methodology explained in the **Appendix 1.2-Part A.
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure CE: Capital Expenditure.
Population of Arunachal Pradesh 0.11 crore in 2005-06 and 0.12 crore in 2008-09.
#Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advance disbursed.
Source: (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics (2)Population figures were taken from projection 2001-2026 of the Registrar General & Census Commissioner, India Website:http://www.censusindia.gov.in) Population = Average of Projected population for 2005 and 2006.
All State's/National Average figures do not include Arunachal Pradesh.

Table 1.13 shows the fiscal priority given by the Arunachal Government to various expenditure heads in 2005-06 (the first year of the TFC Award Period) and the current year, i.e. 2008-09. The ratio of aggregate expenditure to GSDP for Arunachal Pradesh in both the years under consideration is much higher than all State's/National

Average. This means that on an average, other states are spending a lower proportion of their GSDP annually. Similarly, the ratio of development expenditure as a proportion of aggregate expenditure for Arunachal Pradesh is also higher than all States'/National Average. In case of social sector expenditure, though the State was having a higher expenditure than all States'/National Average during 2005-06, the position has deteriorated during 2008-09 and is lower (27.12 *per cent*) than All States average of 33.90 *per cent*. Therefore, there is need to give greater fiscal priority to this category of expenditure. In both the years, the ratio of capital expenditure as a proportion of aggregate expenditure is higher than all States'/National Average.

So far as per capita expenditure of the State is concerned, this is higher than the national average in respect of DE, SSE and CE in both the years under consideration mainly because Arunachal Pradesh has a relatively low population base.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[3]. Apart from improving the allocation towards development expenditure[4], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.14** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year vis-à-vis budgeted and the previous years, **Table 1.15** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

[3] Core public goods are which all citizens enjoy in common in the sense that each individual's consumption of such good of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation, etc.

[4] The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advance is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

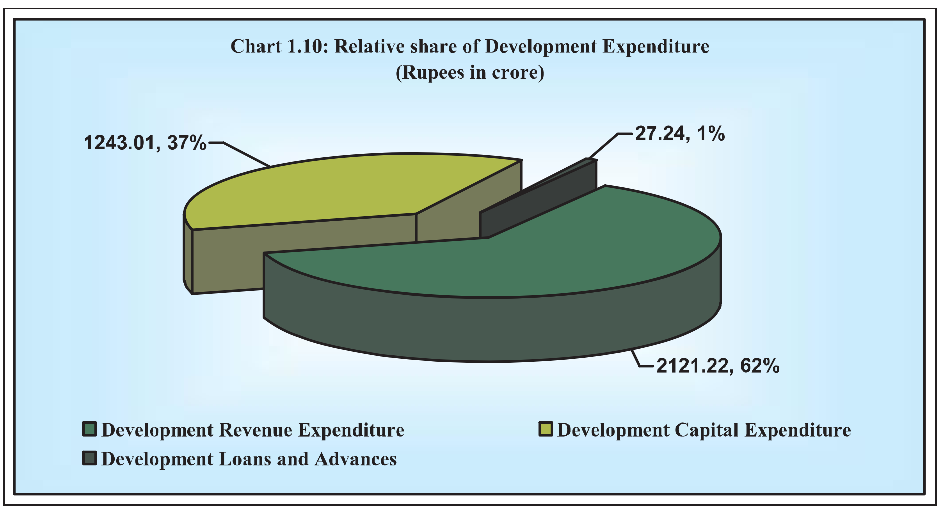
Table 1.14: Development Expenditure

(Rupees in crore)

Components of Development expenditure	2004-05	2005-06	2006-07	2007-08	2008-09 BE	2008-09 Actual
Development Expenditure (a to c)	1387.13 (73.39)	1604.14 (76.06)	1905.99 (76.62)	2372.56 (78.67)	2638.03	3391.47 (80.50)
a. Development Revenue Expenditure	1020.62 (53.98)	1178.92 (55.90)	1337.63 (53.77)	1639.49 (54.36)	2339.78	2121.22 (50.35)
b. Development Capital Expenditure	360.54 (19.09)	421.54 (19.99)	563.58 (22.66)	730.10 (24.21)	294.236	1243.01 (29.50)
c. Development Loans and Advances	5.97 (0.32)	3.68 (0.17)	4.78 (0.19)	2.97 (0.10)	4.02	27.24 (0.65)

(Figures in parentheses indicate percentage to aggregate expenditure)

The share of development expenditure to aggregate expenditure exhibited increase during the years 2005-06 to 2008-09. *Though the development expenditure increased 42.95 per cent over the previous year, it was much higher the level of Budget Estimates of Rs.753.44 crore for the year.* The relative share of development expenditure to total expenditure during 2008-09 given in **Chart 1.10** below showed that 62.55 *per cent* of it was incurred on revenue account and only 36.65 *per cent* was utilized as capital expenditure.



Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services (including 41.39 *per cent* revenue expenditure on salaries and wages under social services and 23.12 *per cent* under economic services) which did not result in any addition to State's infrastructure and service network. Thus, expenditure pattern under this sector needs to be more oriented towards asset creation in the ensuing years.

Table 1.15: Efficiency of Expenditure Use in Selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2007-08		2008-09	
	Ratio of Capital Expenditure to Total Expenditure[5]	In Revenue Expenditure, the share of Salary & Wages	Ratio of Capital expenditure to Total Expenditure	In Revenue Expenditure, the share of Salary & Wages
Social Service (SS)				
General Education	5.78	67.43	9.78	62.18
Technical Education, Sports, Arts & Culture	46.38	44.49	41.00	35.18
Health and Family Welfare	11.78	71.99	6.48	60.82
Water Supply & Sanitation, Housing and Urban Development	27.77	6.59	15.78	7.40
Other SS	15.46	34.78	13.85	31.30
Total (SS)	**17.36**	**44.68**	**15.51**	**41.39**
Economic Services (ES)				
Agriculture and Allied Activities	42.00	37.81	3.52	38.55
Irrigation & Flood control	10.05	15.77	37.34	18.12
Power and Energy	48.46	16.38	62.35	20.98
Transport	56.35	11.52	2.83	11.63
Other ES	19.46	14.75	70.32	17.25
Total (ES)	**38.41**	**21.36**	**40.65**	**31.89**

Social Services

The trends in capital expenditure on social services during 2007-08 and 2008-09 reveal that the share of capital expenditure to total expenditure during these years was around 17 and 16 *per cent* respectively, which indicated that the revenue expenditure was dominant. While there was some improvement in the share of capital expenditure to total expenditure under General Education during the current year in respect of other Categories of Social Services, there was decrease in this category of expenditure. Health and Family Welfare Sector was the worst sufferer as only 6.48 *per cent* of total expenditure was incurred on this sector on capital account during 2008-09 against 11.78 *per cent* during the preceding year.

Of the revenue expenditure on social services, the share of salary and wage component has decreased from 44.68 *per cent* in 2007-08 to 41.39 *per cent* in 2008-09 implying more expenditure on non-salary components. The non-salary and wage expenditure on social services has increased by 18.03 *per cent* during 2008-09 from Rs.529.26 crore in 2007-08 to Rs.636.50 crore in 2008-09. Within the priority sectors, non-salary and wage component continues to have the dominant share under technical education, sports, and art and culture and water supply, sanitation, housing and urban development. High salary and wage expenditure during 2007-08 (67 *per cent* and 71.99 *per cent*) and 2008-09 (62.18 *per cent* and 60.82 *per cent*) was observed under General Education and Health and Family Welfare respectively.

[5] Total revenue and capital expenditure of the services concerned.

Economic Services

The expenditure on economic services during 2008-09 (Rs.2221.83 crore) accounted for about 52.74 *per cent* of the total expenditure and 67.48 *per cent* of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 18.77 *per cent* was incurred on Power and Energy, 15.79 *per cent* on agriculture and allied services and 9.92 *per cent* on transport.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from Rs.288.65 crore in 2004-05 to Rs.1081.32 crore (274.61 *per cent*) in 2008-09. However, the share of capital expenditure to total expenditure on economic services during 2007-09 increased marginally from 38.41 *per cent* to 40.65 *per cent* which indicated that the revenue expenditure was dominant. Revenue expenditure also consistently increased from Rs.547.95 crore in 2004-05 to Rs.1140.51 crore (108.14 *per cent*) in the current year. An increase of Rs.1207.60 crore (22.25 *per cent*) during 2008-09 over the previous year in revenue expenditure was mainly due to the increase in General Education (Rs.92.94 crore), Health & Family Welfare (Rs.68.17 crore) and Water Supply & sanitation (Rs.65.69 crore). Within the revenue expenditure, salary and wage component constituted 8.82 and 9.11 *per cent* of the total revenue expenditure during 2007-08 and 2008-09 respectively. It increased from Rs.199.23 crore in 2007-08 to Rs.263.74 crore (32.38 *per cent*) during the current year. The non-salary and wage component also increased from Rs.1315.40 crore in 2007-08 to Rs.1958.09 crore (48.86 *per cent*) indicating change in allocative priorities of the State Government.

1.5.3 Effectiveness of the Expenditure, i.e., Outlay-Outcome Relationship

Two performance reviews pertaining to "Technology Mission for Integrated Development of Horticulture" and Implementation of Minor Irrigation Scheme" included in the Audit Report of Comptroller and Auditor General of India for the year ended 31 March 2009, highlights the following aspects:

BOX 2: Technology Mission for Integrated Development of Horticulture

"Technology Mission for Integrated Development of Horticulture in North Eastern States" a 100 *per cent* centrally funded scheme was launched by the Government of India in the State in 2001-02. While the performance audit of the Mission implementation revealed some achievements like success to some extent in the introduction of Kiwis, Rose and Anthurium in terms of productivity and area under cultivation, it also revealed inadequacies in planning, implementation and monitoring of the scheme; taking up of unviable crops, uneconomical procurement, absence or ineffective monitoring mechanism, etc., adversely impacting the implementation of the scheme.

BOX 3: Implementation of Minor Irrigation Projects (MIP)

The Accelerated Irrigation Benefits Programmes (AIBP), a centrally sponsored scheme was conceived in 1996 by the Government of India (GOI) in order to provide financial assistance to the States in completion of the various ongoing irrigation projects so that the envisaged irrigation potential of the projects could be created and thereby extended the irrigation facility to more areas.

While conducting the performance review, Audit noticed a few MIP schemes which functioned satisfactorily and the farmers were deriving the intended benefits from these schemes. However, the overall impact of implementation of the minor irrigation projects was far from satisfactory because of significant shortfalls in achievement of targets for creation of irrigation potential. The irrigation coverage of 19775 hectares as of March 2009 as claimed by the Department, is in fact only 18554 hectares, which was only 5.15 *per cent* of the ultimate irrigation potential (3.60 lakh hectares). Apart from non-adherence to financial rules, the department failed to monitor the schemes during execution. The objective of generating additional irrigation potential to increase the production of cultivable lands, thus, remained largely unachieved.

1.6 Financial Analysis of Government Expenditure and Investments

In the post-FRBM framework, the State is expected not only to keep its fiscal deficit (and borrowing) at low levels but also to meet its capital expenditure/investment (including loans and advances) requirements. In addition, in a transition to more dependence on market based resources, the State Government needs to initiate measures to earn adequate return on its investments and recover its cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy and also take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the current year vis-à-vis previous years.

1.6.1 Incomplete projects

According to the information available in Appendix II of the Finance Accounts for the year 2008-09, as of March 2009, there were 80 ongoing projects in the State. The department-wise information pertaining to incomplete projects as on 31 March 2009 is given in **Table 1.16**.

Table 1.16: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial estimated cost	Revised cost of Projects	Cum.actual exp. as on 31 March 2009	Percentage of initial expenditure
Irrigation and Flood control	2	14.89	-	7.30	49.01
Roads and Bridges	25	221.46	44.37	104.58	47.22
PWD (Building)	5	6.80	4.58	4.11	60.44
Others-Power	48	591.11	609.65	463.53	78.42
Total	**80**	**834.26**	**658.60**	**579.52**	**69.47**

As can be seen from the above table, 80 projects stipulated for completion on or before 31 March 2009 at an estimated cost of Rs.834.26 crore, remained incomplete with an expenditure of Rs.579.52 crore till March 2009. Out of 80 projects, 9 projects remained incomplete for more than 15 years after incurring expenditure of Rs.210.42 crore against the estimated cost of Rs.143.79 crore, and 32 projects remained incomplete for more than 5 years to 15 years. Effective steps need to be taken to complete the incomplete projects without further delays to avoid cost overrun due to time overrun.

1.6.2 Investment and returns

As of 31 March 2009, Government had invested Rs.220.41 crore in Government Companies and Co-operative Societies **(Table 1.17).** The average return on this investment was nil except during the year 2007-08 which was also less than one *per cent*, while the Government paid interest at an average rate of 6.19 *per cent* to 8.90 *per cent* on its borrowings during the period.

Table 1.17: Return on Investment

Investment/Return/cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rupees in crore)	16.23	27.27	31.76	217.58	220.41
Return (Rupees in crore)	0.00	0.00	0.00	*	0.00
Return (*per cent*)	-	-	-	-	-
Average rate of interest on Government borrowings (*per cent*)	8.90	7.58	7.99	6.19	7.71
Difference between interest rate and return (*per cent*)	8.90	7.58	7.99	6.19	7.71
*less than 0.01					

As of March 2009, the State Government had invested Rs.9.04 crore in five Government Companies and Rs.211.37 crore in 145 Co-operative Societies. Out of Rs.9.04 crore invested in Government Companies, Rs.5.04 crore was invested in three loss making companies, which had accumulated loss of Rs.16.55 crore as detailed in **Table 1.18**. Upto date working results of one Government company and all the Co-operative Societies had not been intimated.

Table 1.18: Details of loss making Government Companies

(Rupees in crore)

Name of Companies	Amount invested upto March 2009	Invested upto	Accumulated loss	Period upto[6]
Arunachal Pradesh Mineral Dev. and Trading Corporations	2.39	2006-07	0.25	1993-94
Handloom and Handicraft Development Corporation Limited	0.83	1996-97	3.48	1996-97
Arunachal Pradesh Industrial Dev. and Financial Corporation Ltd.	1.82	2006-07	12.82	2007-08
	5.04		16.55	

[6] Accounts for the subsequent years are in arrears.

1.6.3 Loans and advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, Government has also been providing loans and advance to many of these institutions/organizations. **Table 1.19** presents the outstanding loans and advances as on 31 March 2009, interest receipts vis-à-vis interest payments during the last five years.

Table 1.19: Average Interest Received on Loans and Advances given by the State Government

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Opening Balance	21	25	25	28	28
Amount advanced during the year	6	3	5	3	27
Amount recovered during the year	2	3	2	3	3
Closing Balance	25	25	28	28	52
Net addition	4	-	3	-	24
Interest Receipts	0.49	-	0.54	1.00	0.87
Interest received as *per cent* to Outstanding Loans and Advances	2.13	-	2.04	3.57	2.18
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	8.90	7.58	7.99	6.19	7.71
Difference between interest payments and receipts (*per cent*)	6.77	7.58	5.95	2.62	5.53

The total outstanding loans and advances as on 31 March 2009 was Rs.52 crore. Interest received against these loans and advances was meager, which had decreased by 13 *per cent* during the year over previous year.

The outstanding loans and advances were mainly in Co-operation (Rs.31.39 crore), Village and Small Industries (Rs.1.91 crore), and Government Servants (Rs.7.58 crore) during the current year. Major portion of loans were given as advances to other co-operatives (Rs.20.53 crore) and loans for Power Projects (Rs.5.00 crore).

1.6.4 Cash Balances and Investment of Cash balances

Table 1.20 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.20: Cash Balances and Investment of Cash balances

(Rupees in crore)

Particulars	As on 1st April 2008	As on 31st March 2009	Increase
Cash Balances	525.40	3278.10	2752.70
Investments from Cash Balances (a & b)	845.96	3655.70	2809.74
a. GOI Treasury Bills	845.96	3655.70	2809.74
b. GOI Stock/Securities	…	…	…
Fund-wise break-up of Investment from Earmarked balances (a & b)			
a. Sinking Fund Investment Account	44.90	58.90	14.00
b. Other Development and Welfare Fund	2.13	2.13	…
Interest realised on investment of cash balance	12.99	33.93	20.94

The cash balance of the State increased by Rs.2752.70 crore, from Rs.525.40 crore at the end of March 2008 to Rs.3278.10 crore at the end of March 2009. Interest realised on investment of cash balances also increased by Rs.20.94 crore during 2008-09 over that of previous year. By investment of Rs.845.96 crore on GOI Treasury Bills as on 1st April 2008, the State Government realised Rs.33.93 crore as interest during 2008-09, which was only 4.01 *per cent* of the amount invested. However, this has to be viewed in the backdrop that the State Government raised open market loan of Rs.26.05 crore during 2008-09 at the minimum rate of interest of 8.47 *per cent* per annum. **Thus, there is an urgent need for more prudent cash management by the State Government which would minimise borrowing of funds from open market to meet its expenses.** Instead of investing the cash balances, had the Government utilized the amount to discharge the market loan, it could have saved the difference of interest payable on market loan.

It is generally desirable that the state's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – Ordinary and Special – from Reserve Bank of India (RBI) has been put in place. The operating limit for Ordinary WMA is reckoned as the three year average of revenue receipts and the operative limit for Special WMA is fixed by RBI from time to time depending on the holding of Government securities.

Under the agreement with the RBI, the Government of Arunachal Pradesh has to maintain an all time minimum balance of Rs. 26 lakh with RBI. If the balance falls below the agreed minimum, the Government can take Ordinary WMA from the RBI. In addition, Special WMA is made available against GOI securities held by the State Government. Overdrafts are given by the RBI if the State has a minus balance after availing of the maximum ordinary WMA.

WMAs and Overdrafts availed, the number of occasions it was availed on and interest paid by the State during 2004-09 are detailed in **Table 1.21**.

Table 1.21: Ways and Means Advances and Overdrafts of the State

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Ways and Means Advances					
Availed in the Year	146.65	42.20	--	--	--
Number of days	74	59	--	--	--
Outstanding WMAs, if any	55.40	88.70	55.64	55.64	55.64
Interest Paid	0.24	0.21	8.18	--	--
Overdraft					
Availed in the Year	45.22	201.50	--	--	--
Number of days	6	35	--	--	--
Outstanding Overdraft, if any	0.50	172.98	--	--	--
Interest Paid	0.51	0.90	--	--	--

As can be seen from the above table, the Government did not have to resort to WMA during the current year (2008-09) as well as during the previous two years (2006-08), indicating comfortable position of the cash balances of the State.

The State Government had maintained a minimum cash balance of Rs.26 lakh as per the agreement with the Reserve Bank of India during the last three years.

1.7 Assets and Liabilities

1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. Appendix 1.4 gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.7.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3**. However, the composition of fiscal liabilities during the current year vis-à-vis the previous year is presented in **Charts 1.11** and **1.12**.

Chart 1.11: Composition of Outstanding Fiscal Liabilities as on 01 April 2008 (Rupees in crore)

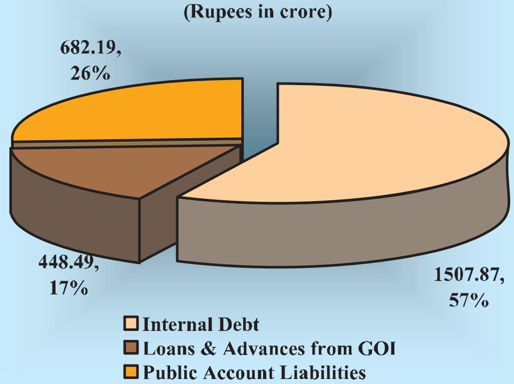
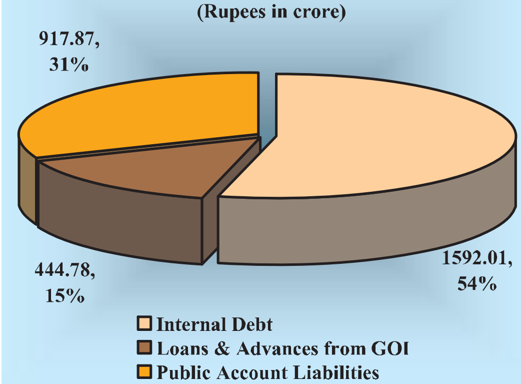


Chart 1.12: Composition of Outstanding Fiscal Liabilities as on 31 March 2009 (Rupees in crore)



Fiscal liabilities of the State increased from Rs.1777.54 crore in 2004-05 to Rs.2954.66 crore in 2008-09 and was mainly due to internal debt (Rs.1592.01 crore), loans and advances from Central Government (Rs.444.78 crore), small savings, provident funds (Rs.648.58 crore) and other non-interest bearing obligations such as deposit of local funds, civil deposits, etc. (Rs.269.29 crore). The fiscal liabilities registered a growth rate of 11.98 *per cent* over the previous year and its ratio to GSDP decreased from 67.86 *per cent* in 2007-08 to 65.13 *per cent* in 2008-09. These liabilities stood at 0.77 times of the revenue receipts and 21.69 times of the State's own resources during the current year. The buoyancy of these liabilities with respect to GSDP during the year was 0.72 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.72 *per cent*.

The State Government constituted a 'Consolidated Sinking Fund' for amortization of open market loans during 2008-09 and has appropriated Rs.14.00 crore from revenue and credited to this fund for investment in the GOI Securities.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Statement 6 of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2004-05 are given in **Table 1.22**.

Table 1.22: Guarantees given by the Government of Arunachal Pradesh

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Maximum amount guaranteed (year end)	14	24	24	12	12
Outstanding amount of guarantees (including interest)	8	6	13	0.98	0.61
Percentage of maximum amount guaranteed to total revenue receipts	0.93	1.30	0.93	0.40	0.31

Government has guaranteed loans by various Companies and others, which at the end of 2008-09 stood at Rs.0.61 crore (including interest). Bulk of the guaranteed amount (Rs.0.60 crore) was outstanding against Arunachal Pradesh Industrial Development and Financial corporation (APIDFCL). The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 0.31 *per cent* of revenue receipts of the state during 2008-09. *No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State. Even the APFRMM Act, 2006 also did not fix any ceiling limit for the maximum or outstanding guarantees to be given by the State Government.*

1.8 Debt Sustainability

Apart from the magnitude of debt of the State, it is important to analyse various indicators that determine the debt sustainability[7] of the State. This section assesses the sustainability of debt of the State in terms of debt stabilization[8], sufficiency of

[7] The Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match with the increase in capacity to service the debt.

[8] A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

non-debt receipt[9]; net availability of borrowed funds[10], burden of interest payments (measured by interest payments to revenue receipts ratio and maturity profile of State Government securities. **Table 1.23** analyses the debt sustainability of the State according to these indicators for the period of five year beginning from 2004-05.

Table 1.23: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread +Primary Deficit) (Rupees in crore)	-62	-6	+503	+329	+97
Sufficiency of Non-debt Receipts (Resource Gap)	-193	+190	+513	+48	+217
Net Availability of Borrowed Funds	107	403	-141	112	101
Burden of Interest Payments (IP/RR Ratio)	9.78	8.46	7.24	5.16	5.59

Table 1.23 reveals that quantum spread together with primary deficit/surplus has been negative in 2004-05 and 2005-06 but turned positive thereafter and continued till 2008-09. Viewed along with the ratio of fiscal deficit to GSDP which also indicated a fluctuating trend during the period 2004-09, it indicates oscillating debt-GSDP ratios during the period. The sum of quantum spread and primary deficit at Rs.97 crore during 2008-09 against Rs.329 crore during the previous year is a signal to the State Government for taking an immediate remedial measure to improve the fiscal imbalances for improving the debt sustainability position in medium to long run.

It was observed that debt stabilization in Arunachal Pradesh, though still stable, has shown a decreasing trend since 2006-07. Incremental Non-debt receipts were sufficient to cover incremental interest liabilities, incremental primary expenditure and the extent to which debt funds are used in debt redemption.

The trends in resource gap indicate the oscillation between positive and negative magnitudes, i.e., it remained positive during 2005-09 but negative in 2004-05 as incremental non-debt receipts in these four years were much above the incremental total expenditure. The negative resource gap in the year 2004-05 was mainly due to the steep increase in non-interest revenue expenditure (Rs.112.76 crore).

The debt redemption ratio has fluctuated widely during the period 2004-09 which remained less than unity in 2006-07 indicating the fact that debt repayments including interest charges were more than the fresh debt receipts while it varied between 12.87 *per cent* and 38.75 *per cent* in remaining years. During the current year, the Government repaid Rs.684 crore as principal and interest on internal debt (Rs.183 crore), loans and advances from the GOI (Rs.41 crore) and other obligations (Rs.460 crore), as a result of which borrowed funds of Rs101 crore were available for

[9] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

[10] Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

development purposes. Under the loans and advances from GOI, the net funds available continued to be negative during the entire period of five years. Over 44.20 *per cent* (Rs.80 crore) of the net funds available from other obligations (Rs.181 crore), were used to meet the repayment obligation of the Internal Debt and Loans and Advances from the GOI.

The maturity profile of 6003-Internal Debt of the State Government and 6004-Loans and Advances from Central Government were not available from the Government. Non-availability of the maturity profile indicates that the State does not have a management information system in place to effectively manage its debt.

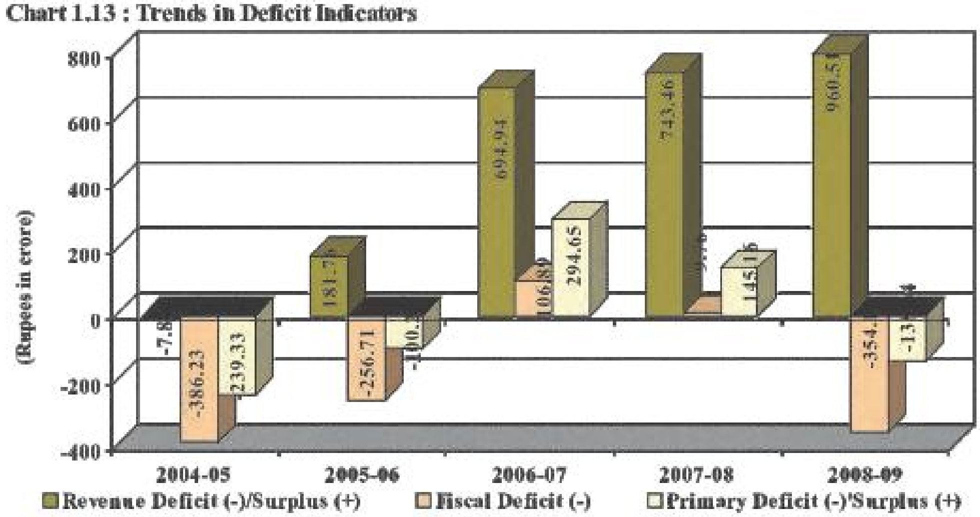
1.9 Fiscal Imbalances

Three key fiscal parameters – revenue, fiscal and primary deficits – indicate the extent of overall fiscal imbalances in the Finances of the State during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management by the Government. Further, the ways in which the deficit is financed and the resources raised and applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

Charts 1.13 and **1.14** present the trends in deficit indicators over the period 2004-09.

Chart 1.13 : Trends in Deficit Indicators



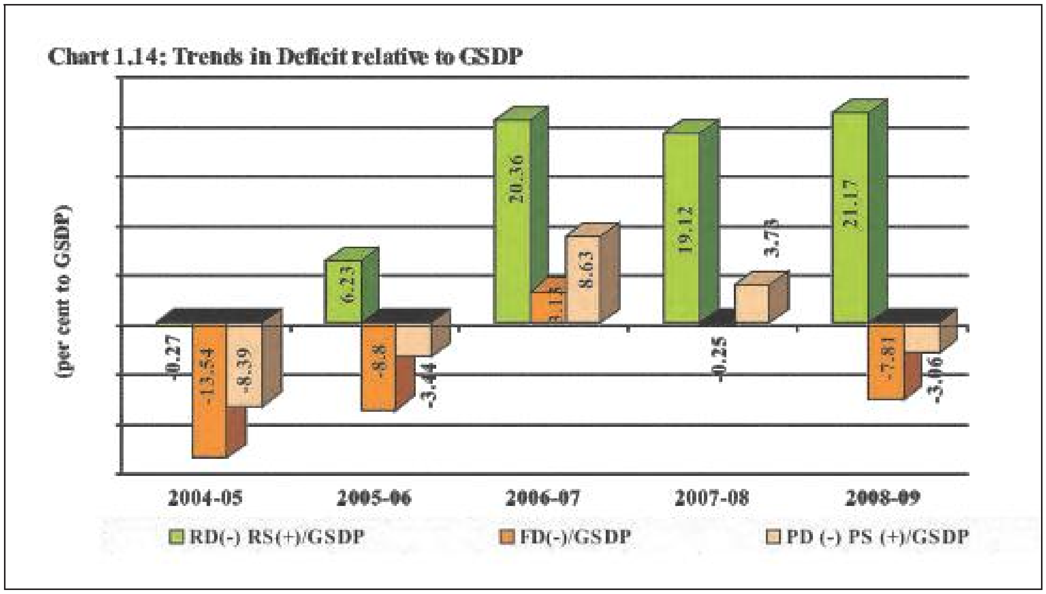


Chart 1.13 reveals that the revenue account experienced a situation of substantial deficit of Rs.7.80 crore during 2004-05. Since 2005-06, the revenue account turned into surplus which has steeply increased to Rs.960.51 crore during 2008-09. The significant increase during the current year was mainly on account of increase in revenue receipts by Rs.852.96 crore (28.40 *per cent*) against an increase of Rs.635.91 crore (28.14 *per cent*) in revenue expenditure over the previous year. The fact was that State's own resources contributed around 17.96 *per cent* (Rs.153.23 crore) in the incremental revenue receipts (Rs.852.96 crore) during 2008-09 against 92.40 *per cent* (Rs.379.60 crore) during 2007-08. The increase in revenue surplus in the current year was primarily on account of better growth rate of 37.32 *per cent* (Rs.675.51 crore) in grants-in-aid as compared to (-)3.19 *per cent* (Rs.(-) 59.49 crore) during 2007-08.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap also increased from the lowest level of Rs.193 crore in 2004-05 during the period 2004-09 to Rs.217 crore in 2008-09. The increase in revenue surplus (Rs.217 crore) along with an increase in capital expenditure (Rs.537 crore) as well as in loans and advances disbursed (Rs.24 crore) during 2008-09 led to an increase of Rs.344 crore in fiscal deficit during the current year. Contrary to the commitment for achieving fiscal deficit of 3 *per cent* of GSDP within a period of five financial years ending on 31st March 2010 made by the State Government in the APFRBM Act, the fiscal deficit increased to 7.81 *per cent* of GSDP during 2008-09 compared to 0.25 *per cent* during previous year.

The primary surplus which continued during 2006-07 and reached the level of Rs.145.16 crore during 2007-08, also took a downward turn in 2008-09 and resulted in a primary deficit[11] of Rs.138.64 crore. A sharp increase of Rs.344.40 crore in fiscal

[11] Primary deficit, defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

deficit and a moderate increase in interest payments (Rs.60.60 crore) resulted in a primary deficit of Rs.138.64 crore during the current year.

1.9.2 Components of Fiscal Deficit and its Financing Pattern.

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in **Table 1.24**.

Table 1.24 : Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit						
	Fiscal deficit (-)/surplus (+)(1 to 3)	-386	-257	+107	-10	-354
1	Revenue Deficit (-)/Surplus (+)	-8	+182	+695	+743	+960
2	Net Capital Expenditure	375	438	586	753	1290
3	Net Loans and Advances	-3	-1	-2	..	-24
Financing Pattern of Fiscal Deficit[(a)]						
1	Market Borrowing	17	42	100	172	14
2	Loans from GOI	44	-12	-28	-16	-4
3	Special Securities issued to NSSF	..	238	130	25	21
4	Loans from Financial Institutions	-1	30	22	33	49
5	Small Savings, PF. etc.	82	68	63	43	78
6	Reserve Funds	15	17	10	-80	14
7	Deposits and Advances	-5	20	-50	100	154
8	Suspense and Miscellaneous	39	-90	-90	191	2782
9	Remittances	..	22	-53	-458	-2752
10	Increase (-)/Decrease (+) in Cash Balances	+99	-244	-5	…	-2
11	Increase or decrease in Ways & Means Advances	+96	+166	-206	..	..
Overall Deficit (1 to 11) (-)		-386 (13.53)	-257 (8.81)	+107 (3.14)	-10 (0.26)	-354 (7.80)

Figures in brackets indicate the percent to GSDP.
[(a)]All the figures are net of disbursement/outflows during the year.

Except for the year 2006-07, there was a fiscal deficit during the five year period ending 2008-09, which reached its peak during 2008-09. During the current year, fiscal deficit increased by over 3540 *per cent* (Rs.10 crore) over previous year mainly due to increase in capital expenditure by Rs.537 crore. The fiscal deficit of Rs.354 crore during 2008-09 was mainly met from Suspense and Miscellaneous (Rs.2782 crore) and Deposits and Advances (Rs.154 crore). **Though increase in capital expenditure indicated that the borrowed funds were being utilised for productive uses, the solution to the Government debt problem lies on the method of application of borrowed funds, i.e., whether they are being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general.**

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and the Capital Expenditure (including loans and advances) would indicate the quality of deficits in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The analysis of the primary deficit (**Table 1.25**) would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which is desirable to improve the productive capacity of the State's economy.

Table 1.25 : Primary Deficit/Surplus – Bifurcation of Factors

(Rupees in crore)

Year	Non-debt receipt	Primary Revenue Expendi-ture	Capital Expendi-ture	Loans & Advances	Primary Expenditu re	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6	7	8
2004-05	1504	1363	375	6	1744	+141	-240
2005-06	1852	1511	438	4	1953	+341	-101
2006-07	2594	1709	586	5	2300	+85	+294
2007-08	3006	2105	753	3	2861	+901	+145
2008-09	3859	2680	1290	27	3997	+1179	-138

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2004-09 reveals that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure[12] requirements in the revenue account, rather some receipts were left to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2004-06 and 2008-09. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which to some extent may be desirable to improve the productive capacity of the State's economy.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of correction in deficit indicators. **Table 1.26** presents the change in revenue receipts of the State and the correction of the deficit during the last three years ending March 2009.

[12] Primary expenditure of the State, defined as the total expenditure net of the interest payments, indicates the expenditure incurred on the transactions undertaken during the year.

Table 1.26: Change in Revenue Receipts and Correction of Deficit

(*per cent* of GSDP)

Parameters	2006-07	2007-08	2008-09	
			BE	Actual
Revenue Receipts (a to d)	75.94	77.24	86.05	85.01
a. State's Own Tax Revenue	2.28	2.52	2.10	3.00
b. State's Own Non-Tax Revenue	8.70	16.90	11.50	17.01
c. State's Share in Central Taxes and Duties	10.17	11.27	11.37	10.19
d. Grants-in-Aid	54.79	46.55	61.08	54.81
Revenue Expenditure	55.58	58.13	65.32	63.82
Revenue Surplus	20.36	19.11	20.73	21.19
Fiscal Deficit (-)/Surplus (+)	+3.14	-0.26	13.82	-7.80

Arunachal Pradesh adopted FRBM Act in March 2006 (details in Appendix 1.2-Part B). The State had also developed its own Fiscal Correction Path (FCP) detailing the structural adjustments required for mobilizing additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the APFRBM Act. As prescribed in this Act, the State Government had incorporated Macro Economic Statement, MTFP Statement and Fiscal Plan Strategy Statement in the Budget for the year 2008-09.

Table 1.26 shows that the percentage of revenue receipts relative to GSDP had increased from 77.24 *per cent* in 2007-08 to 85.01 *per cent* in 2008-09, less than the projection made in the budget estimate for the year. The State, achieved the fiscal targets laid down in the FCP as well as in the Budget for the year 2008-09, as the year 2008-09 ended with a revenue surplus of Rs.961 crore against Rs.293 crore and Rs.940.25 crore targeted in the FCP and Budget respectively. As per the MTFP Statement, during 2008-09, the State Government had expected to achieve 10.84 *per cent* relative to GSDP as revenue surplus. Actual revenue surplus at Rs.961 crore during 2008-09 was 24.92 *per cent* of the total revenue receipts of the year.

The fiscal deficit relative to GSDP at 7.80 per cent was much higher than the target set in MTFP Statement for 2008-09 (3.00 per cent) and also the ceiling of 3 per cent to be achieved by 2008-09 as per the APFRBM Act.

1.10 Conclusion and Recommendations

Fiscal Correction Path

The fiscal position of the State viewed in terms of key fiscal parameters – fiscal deficit and primary deficit has shown decline in 2008-09 relative to the previous year. Revenue surplus increased by Rs.217 crore in 2008-09 but fiscal deficits have increased by over 35 times compared to the previous year. Moreover, the fiscal performance of the State vis-à-vis targets set in FCP as well as APFRBM Act and Budget indicate not very positive picture during the year. Central transfers comprising State's share of Central taxes and grants-in-aid from the Government of India increased by Rs.700 crore in 2008-09 and contributed around 82 per cent of the incremental revenue receipts during the year, indicating Central transfers being the key in the increase in revenue receipts of the State.

The total loss of revenue due to underassessment/short levy/non-levy of taxes, etc., which was 3 per cent of the State's own resources consisting of tax and non-tax revenue during 2008-2009, indicates the presence of loopholes in resources mobilization. Pending revenue arrears constituted over 48 per cent of tax revenue of the State during 2008-09.

The State should, therefore, make effort to increase tax compliance, collect revenue arrears and prune unproductive expenditure so that deficits are contained to the levels envisaged in the APFRBM Act, 2006. Effort should also be made to return to the state of primary surplus and reduction of fiscal deficits.

Expenditure Pattern

The expenditure pattern of the State reveals that though the revenue expenditure as a percentage of total expenditure declined by 6.20 per cent in the current year, it hovered around 80 per cent for the period (2004-09) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, NPRE at Rs.1753 crore in 2008-09 constituted 61 per cent and remained significantly higher than the normatively assessed level of Rs.948 crore by TFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPRE which was about 66 per cent during 2008-09.

Expenditure pattern under both the above sectors needs correction in the ensuing years. There is also need to give greater fiscal priority to the social sector expenditure, as the State has a lower expenditure on this category when compared to the ratio of aggregate expenditure to GSDP in respect of all States'/National Average.

Return on Investment

The average return on investment in Statutory Corporations, Government companies and Co-operative Societies was almost nil during 2004-09, while the Government paid interest at an average rate of 7.71 per cent on its borrowings during the period. The increased fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize additional resources both through the tax and non tax sources in the ensuing years.

The State Government should ensure better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return.

Accounting of funds transferred to State Implementing Agencies

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for implementation of various schemes/programmes in social and economic sectors.

Direct transfer from the Union to the State Implementing Agencies runs the risk of poor accountability. As such, a system should be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General.