CHAPTER I
Finances of the State Government

Profile of the State

Area-wise, **ARUNACHAL PRADESH,** which became a full-fledged state on February 20, 1987, is the largest state in the north-eastern region. Till 1972, it was known as the North- East Frontier Agency (NEFA). It gained the Union Territory status on January 20, 1972 and was renamed as Arunachal Pradesh. The State, being one of the Special Category State, is dependent on central assistance for plan investment because of poor resource base.

Arunachal Pradesh is thinly populated and is predominantly a tribal State. With a geographical area of 83,743 sq km, it has long international border with Bhutan in the west (160 km), China in the north and north-east (1,080 km) and Myanmar in the east (440km). It also shares common boundaries with Nagaland and Assam. It stretches from snow-capped mountains in the north to the plains of the Brahmaputra valley in the south. According to the Census 2001, it has a total population of 10,97,968. The State has the lowest density of 13 persons per sq. km (as against the national average of 312). The population growth of the state during 2000-2010 was 10.86 *per cent* which was lower than the population growth of NE states (11.79 *per cent*). The sex ratio of Arunachal Pradesh at 893 females to 1000 males is lower than the national average of 933.

Inhospitable terrain and low population density make rendering of health services rather difficult in Arunachal Pradesh. Though there has been a perceptible improvement in the public health facilities, most of the health care facilities are not well equipped with basic infrastructure like buildings, trained manpower, equipment etc. Despite, relatively poor public health care facilities, the infant mortality rate (per 1000 live births) is 32 while the All India average is 53. On the education front, literacy rate (as per 2001 census) was 54.30 per cent which was below the all India Average literacy rate of 64.80 per cent.

There has been a sharp increase in the growth rate of GSDP during 2009-10 which stood at ₹ 6257.88 crore 37.95 *percent* against ₹ 3888.25 crore (13.93 *percent*) during 2008-09. Considering the pre-revised GSPD series (base year 1999-2000), the Compound Annual Growth Rate (CAGR) of GSDP for Arunachal Pradesh between 2000-01 and 2008-09 was 12.38 per cent which was higher than that of NE average of 11.81 per cent during the same period.

This chapter provides a broad perspective of the finances of the Government of Arunachal Pradesh during the current year and analysis critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure of

Government Accounts, layout of Finance Accounts, methodology adopted for the assessment of fiscal position and State Profile are shown in **Appendix 1.1. Appendix 1.2** of the Chapter briefly outlines the fiscal responsibility and Budget Management Act of the Government and Outcome Indicators of the State's Own Fiscal Correction Path while **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 2005-10.

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 (2009-10) *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)

2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section A: Revenue							
					Non-Plan	Plan	Total
3855.97	**I. Revenue Receipts**	**4294.87**	**2895.46**	**I. Revenue Expenditure**	**2560.42**	**1135.17**	**3695.59**
136.23	Tax Revenue	173.44	774.24	General Services	1075.62	85.41	1161.03
772.01	Non-tax Revenue	511.25	980.71	Social Services	700.45	496.21	1196.66
462.09	Share of Union taxes / duties	475.40	1140.51	Economic Services	784.35	553.55	1337.90
2485.64	Grants from Government of India	3134.78	…….	Grants-in-aid / contribution	……	……	…..
Section B: Capital							
…	**II. Miscellaneous Capital Receipts**	**…**	**1290.23**	**II. Capital outlay**	**22.83**	**1007.48**	**1030.31**
2.78	**III. Recoveries of Loans and Advances**	**202.70**	**27.24**	**III. Loans and Advances disbursed**	**205.23**	**0.23**	**205.46**
143.88	**IV. Public Debt receipts**	**216.20**	**63.46**	**IV. Repayment of Public Debt**	**….**	**….**	**110.81**
…	**V. Contingency Fund**	**…**	**…**	**V. Contingency Fund**	**….**	**….**	**…..**
7255.58	**VI. Public Account receipts**	**4264.84**	**4229.12**	**VI. Public Account disbursements**	**….**	**…**	**3660.68**
525.40	**Opening balance**	**1334.62**	**3278.10**	**Closing balance**	**….**	**…**	**1610.39**
11783.61	**Total**	**10313.24**	**11783.61**	**Total**			**10313.24**

Following are the significant changes during 2009-10 over the previous year:

- Revenue receipts grew by ₹ 438.90 crore (11.38 *per cent*) from ₹ 3,855.97 crore to ₹ 4,294.87 crore against revenue expenditure which increased by ₹ 800.13 crore (27.63 *per cent*) from ₹ 2,895.46 crore to ₹ 3,695.59 crore during 2009-10 over the previous year. The increase in revenue is mainly due to increase in Tax Revenue by ₹ 37.21 crore, Central tax transfer by ₹ 13.31 crore and Grants from GOI by ₹ 649.14 crore.

- Revenue expenditure grew from ₹ 2,895.46 crore to ₹ 3695.59 crore (27.63 *per cent*) in 2009-10 mainly due to increase in General Services by ₹ 386.79 crore (49.96 *per cent*), Social Services by ₹ 215.95 crore (22.02 *per cent*) and Economic Services by ₹ 197.39 crore (17.31 *per cent*) in 2009-10 over the previous year.
- Capital expenditure decreased by ₹ 259.92 crore (20.15 *per cent*) over the previous year.
- Loans and Advances of ₹ 205.46 crore was disbursed during the year 2009-10 against ₹ 27.24 crore in previous year. Recovery of Loans and Advances increased by ₹ 199.92 crore over the previous year.
- Receipts from Public Debt were ₹ 216.20 crore against disbursement of ₹ 110.81 crore during the current year. Receipts from Public Debt increased by ₹ 72.32 crore mainly due to increase in borrowing from market loan by ₹ 53.00 crore. Loans and Advances from GOI was nil during the year**.**
- Public Account Receipts decreased by 41.21 *per cent* from ₹ 7,255.58 crore in 2008-09 to ₹ 4,264.84 crore in 2009-10 mainly due to less receipt in Suspense Account by ₹ 3,243.34 crore (83.31 *per cent*)**.** Public Account disbursement decrease by ₹ 568.44 crore (13.44 *per cent*) over the previous year.

1.2 Arunachal Pradesh Fiscal Responsibility and Budget Management Act, 2006

The performance of the State during 2009-10 in terms of key fiscal targets set for selected parameters laid down in Arunachal Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, 2006 *vis-à-vis* achievements are given in **Table 1.2**.

Table 1.2: Trends in major fiscal parameters *vis-à-vis* projections for 2009-10

Fiscal parameters	Targets as per prescribed in FRBM Act	2009-10	
		Projections made in Medium Term Fiscal Policy Statement	Actual
Revenue Deficit	Eliminate by 2008-09		-
Revenue Surplus/(as % GSDP)	-	20.39	
Fiscal Deficit (Rupees in crore)	-	-	
Fiscal Deficit/GSDP (*per cent*)	3 *per cent* by 2008-09	- 28.15	
Total Outstanding Liabilities/GSDP (*per cent*)	Not more than 28 *per cent* of GSDP	70.49	

As prescribed in the Act, the State had incorporated the following statements in the Budget for the year 2009-10.

- Macro-Economic Framework Statement giving an overview of the State economy.
- Medium Term Fiscal Plan Statement prescribing fiscal targets and assumptions for achieving them. Fiscal Plan Strategy Statement of the State for the ensuing year relating to taxation, expenditure, borrowings, lending and investments etc.

The State Government has also developed its own Fiscal Correction Path (FCP) detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the APFRBM Act.

The above table indicates that though the State was successful in restricting the Fiscal Deficit-GSDP ratio as prescribed in the APFRBM Act, the ratio of Total Outstanding Liabilities-GSDP far surpassed the target fixed in this Act. The State Government has to initiate requisite measures to contain the Total Outstanding Liabilities-GSDP ratio within the permissible limit.

1.3 Growth and Composition of GSDP

Gross State Domestic Product, a major fiscal indicator is considered to be a key factor for assessing the performance of the State's economy. It is prepared based on income generating approach that measures gross income generated by factors of production physically located within the geographical boundaries of the State and also represents the volume of goods and services produced within the State. As per GSDP series furnished (October 2010) by the Directorate of Economics and Statistics of the State Government, during 2009-10, the advance estimated GSDP for the State of Arunachal Pradesh was ₹ 6,257.88 crore, which was arrived at on the basis of current price taking into account the 1999-2000 as base year. The table below shows the trend of growth of GSDP for the last five years.

Table 1.3: Trends in Gross State Domestic Product (GSDP)

	2005-06	2006-07	2007-08	2008-09	2009-10
Gross State Domestic Product *(Rupees in crore)*	2918.34	3412.88	3888.25	4536.45	6257.88
Growth rate of GSDP	2.27	16.95	13.93	16.67	37.95
Source: Figures furnished by the State Government, Department of Economics and Statistics, (2005-06 & 2006-07-Revised estimate, 2007-08-Provisional estimate, 2008-09-Quick estimate and 2009-10 – Advance estimate)					

The GSDP at current prices increased from ₹ 4536.45 crore in 2008-09 to ₹ 6257.88 crore in 2009-10, representing an increase of 37.95 *per cent.* Considering GSDP figures (base year 1999-2000), the average compound annual growth rate in respect of GSDP for Arunachal Pradesh between 2000-01 and 2008-09 was 12.38 *per cent*, which was higher than that of NE average of 11.81 *per cent.*

1.4 Budget Analysis

The budget papers presented by State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. 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. **Table 1.4** presents the consolidated picture of State finances during 2008-09 (actuals) and 2009-10 (budget estimates, revised estimates and actuals) and **Chart 1.1** presents the budget estimates and actuals for some important fiscal parameters.

Table 1.4: Variation in major items – actuals of 2009-10 over 2009-10 Budget Estimates and Revised Estimates and actuals of 2008-09

(Rupees in crore)

Parameters	2008-09	2009-10		Percentage of Excess (+)/ Shortfall (-) with reference to	
	Actual	Budget Estimates	Actual	Actual of 2008-09	Budget Estimates
Tax Revenue	**598.32**	*624.60*	**648.84**	*8.44*	*3.88*
Non-Tax Revenue	**772.01**	*318.41*	**511.25**	*-33.78*	*60.56*
Revenue Receipts	**3855.97**	*3256.96*	**4294.87**	*11.38*	*31.87*
Non-debt Capital Receipts	**3855.97**	*3256.96*	**4294.87**	*11.38*	*31.87*
Revenue Expenditure	**2895.46**	*3607.07*	**3695.59**	*27.63*	*2.45*
Interest Payments	**215.54**	*253.00*	**226.98**	*5.31*	*-10.28*
Capital Expenditure	**1290.23**	*766.87*	**1030.31**	*-20.15*	*34.35*
Disbursement of Loans & Advances	**27.24**	*4.20*	**205.46**	*654.26*	*4791.9*
Revenue Surplus	**960.51**	*-350.67*	**599.28**	*-37.61*	*-270.9*
Fiscal Deficit (-)	**-354.18**	*-1177.66*	**-433.79**	*22.48*	*-63.17*
Primary Deficit (-) / Surplus (+)	**-138.64**	-864.66	**-206.81**	*49.17*	*-76.08*

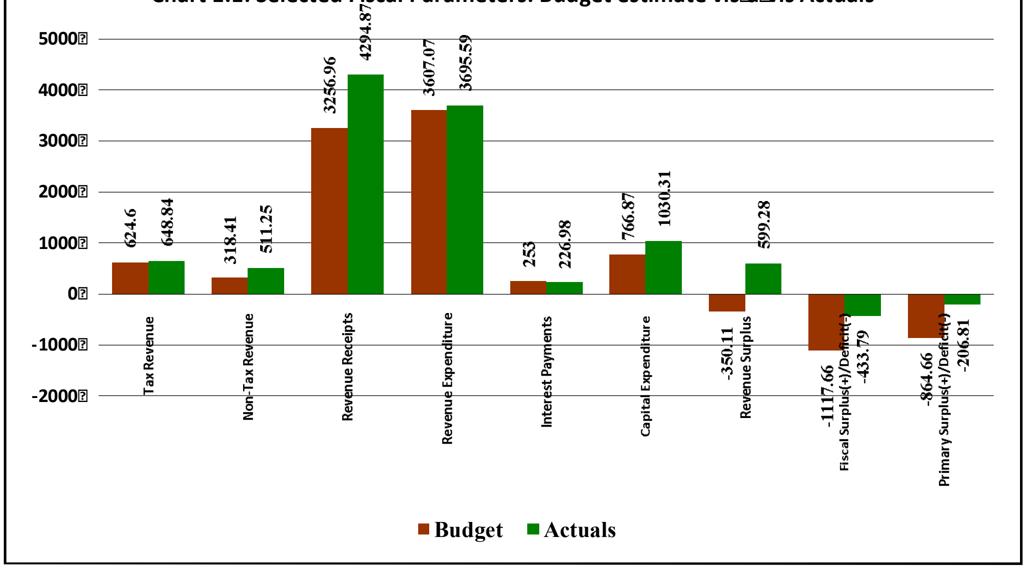


Chart 1.1: Selected Fiscal Parameters: Budget estimate vis-a-vis Actuals

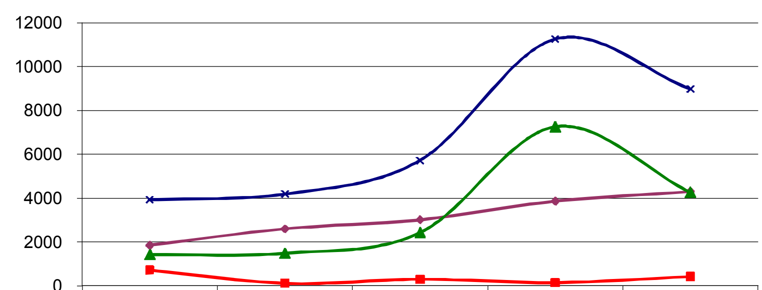
During the current year, while revenue expenditure increased by 27.63 *per cent* (₹ 800.13crore), revenue receipts increased by 11.38 *per cent* (₹ 438.90 crore) over the previous year, resulting in a decrease in surplus by 37.61 *per cent* (₹ 361.23 crore) in revenue account. The decrease in revenue surplus by ₹ 361.23 crore along with a decrease of ₹ 259.92 crore on account of decrease in capital expenditure and an increase in loans and advances disbursed during 2008-09 by ₹ 178.22crore led to an increase of Rs. 79.61 crore in fiscal deficit (₹ 433.79crore). The revenue surplus of the state during the year was ₹ 599.28 crore against the revenue deficit of ₹ 350.11 crore assessed by the State Government in the Budget. The fiscal deficit and the primary deficit of the state was ₹ 433.79 crore and ₹ 206.81 crore during the year as compared to the assessment made by the state government in the budget ₹ 1117.66 crore and ₹ 864 crore respectively. The wide variation between the budget provisions and actual indicated that the budget estimates were unrealistic and lacked credibility.

1.5 Resources of the State

1.5.1 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 2005-10.

Chart 1.2: Trends of various components of the receipts



	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts	1849.41	2592.17	3003.01	3855.97	4294.87
Capital Receipts	716.89	112.7	294	146.66	418.9
Public Account Receipts	1425.12	1484.2	2423.76	7255.58	4264.84
Total Receipts	3930	4189.07	5720.77	11258.21	8978.61

- Total Receipts during the current year has decreased by ₹ 2,279.60 (25.39 per cent) over the previous year. Of the increase in total receipts, revenue receipts formed 48 *per cent* (₹ 4,294.87 crore) followed by public account receipts 48 *per cent* (₹ 4,264.84 crore) and capital receipts 5 *per cent* (₹ 418.90 crore).
- Revenue Receipts of the State increased steadily from ₹ 1,849.41 crore in 2005-06 to ₹ 4294.87 crore in 2009-10 (132.23 *per cent)* at a CAGR of 23.45 *per cent.*
- State's own tax revenue increased by 179.34 *per cent* from ₹ 62.09 crore in

2005-06 to ₹ 173.44 crore in 2009-10. However, State's own tax revenue was only around 3 to 4 *per cent* of Revenue Receipts during the period 2005-10.

- Though in absolute terms State's share of Union taxes and duties has increased gradually from ₹ 272.15 crore (2005-06) to ₹ 475.40 crore (2009-10) but as a percentage of Revenue receipts it has decreased from 15 *per cent* (2005-06) to 11 *per cent* (2009-10).
- Similarly though in absolute terms, Grants-in-aid from GOI has increased from ₹ 1312.81 crore in 2005-06 to ₹ 3134.79 crore in 2009-10, as a percentage of Revenue Receipts fluctuated during the period 2005-10 and was 73 *per cent* in 2009-10.

1.5.2 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 for the human and social development of population. During 2009-10, the Government of India has transferred an approximate amount of ₹ 672.51 crore directly to the Implementing Agencies (detailed in Appendix 1.5). Significant amounts released for major programmes/schemes are detailed in **Table 1.5.**

Table 1.5: Funds Transferred directly to State Implementing Agencies

(Rupees in crore)

Programme/Scheme	Implementing Agency in the State	Funds transferred by the GOI
Accelerated Rural Water Supply Scheme	SWSM Papumpare	123.45
Sarva Shiksha Abhiyan	SSA Rajya Mission, Itanagar	114.28
National Rural Health Mission (Centrally Sponsored)	State TB Control Society, Arunachal Pradesh State Blindness Control Society, Arunachal Pradesh, Arunachal Pradesh State Health Society	40.81
National Rural Employment Guarantee Scheme	DRDAs, (East Siang, Tawang, Lower Subansiri, west Siang,Upper Subansiri,Papumpare, Anjaw,Tirap, Kameng, East Kameng, Upper Siang, Dibang Valley, Kurim Kume, Lower Dibang Valley District)	35.72
GRID Interactive Renewable Power	Arunachal Pradesh Energy Development Agency	51.39
Pradhan Mantri Gram Sadak Yojana (PMGSY)	Rural Road Development Agencies, Itanagar	152.03
Rural Housing IAY	All DRDAs, in the State	33.37
Total		**551.05**

(Source: CPMS of CGA's website)

[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 shows that an amount of ₹ 551.05 crore (81.94 *per cent* of the total funds transferred) was given for (i) Accelerated Rural Water Supply Scheme (ARWSS) (18.36 *per cent*), (ii) Sarba Siksha Abhijan (SSA) (16.99 *per cent*), (iii) Pradhan Mantry Gram Sadak Yojana (PMGSY) (22.61 *per cent*), during 2009-10. With this transfer, the total availability of State resources increased from ₹ 8978.61 crore to ₹ 9651.12 crore. It is evident from the above fact that there is no single agency monitoring the funds directly transferred by the GOI and there is no readily available data on how much is actually spent in a particular year on major flagship schemes and other important schemes which are being implemented by the State Implementing Agencies and funded directly by GOI. Therefore, utilization of these funds remained to be verified by audit to establish accountability of the State Government for these funds.

An analysis on how these funds are being transferred and utilized for the purpose for which they are sanctioned, is carried out based on the data/ information made available through web sites in respect of (i) Sarba Siksha Abhijan (SSA) (ii) Accelerated Rural Water Supply Scheme (ARWSS) (iii) Pradhan Mantry Gram Sadak Yojana (PMGSY) which revealed the following:

- **Accelerated Rural Water Supply Scheme (ARWSS)**

During the year 2009-10 the GOI transferred ₹ 123.45 crore directly to the Implementing Agency (CE, SWSM). Test check of records of the CE, SWSM, however, revealed that the Implementing Agency had received ₹ 121.65 crore up to July 2010. The reasons for less receipt of ₹ 1.80 crore was neither on records nor stated. Out of ₹ 121.65 crore, the CE released ₹ 118.09 crore to various Implementing Agencies leaving an unspent balance of ₹ 3.56 crore at the end of the year.

- **Sarva Shiksha Abhiyan (SSA)**

The SSA is implemented by the State Implementing Society headed by the Arunachal Pradesh State Project Director, Sarba Siksha Abhijan Rajya Mission, Itanagar.

During 2009-10 the State Project Director (SPD) SSA received ₹ 114.28 crore released by the GOI of which the SPD released ₹ 95.61 crore to the District level Institutions authorised for implementation of the SSA, National Programme of Education for girls at Elementary Level (NPEGL) and Kasturba Gandhi Balika Vidyalaya (KGBV) leaving an unspent balance of ₹ 18.67 crore at the end of the year.

- **Pradhan Mantry Gram Sadak Yojana (PMGSY)**

The GOI transferred Rs.152.03 crore during 2009-10 to the Chief Executive Officer (CEO). Rural Works Department, the empowered officer of Arunachal Pradesh Rural Road Development Agency, Itanagar. The CEO in turn, however, released the entire amount to various programme implementation units.

1.6 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 2005-10 are presented in **Appendix 1.3** and also depicted in **Charts 1.3** and **1.4** respectively.

Chart 1.3: Trends in Revenue Receipts

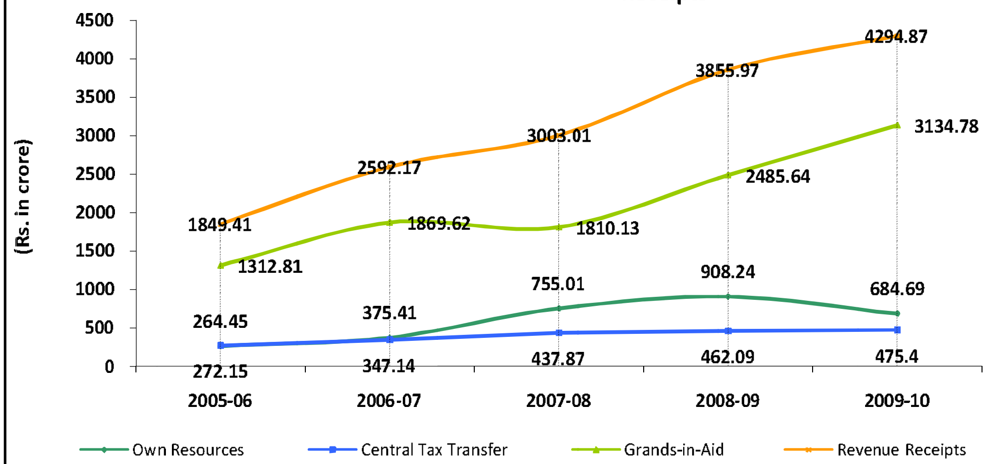
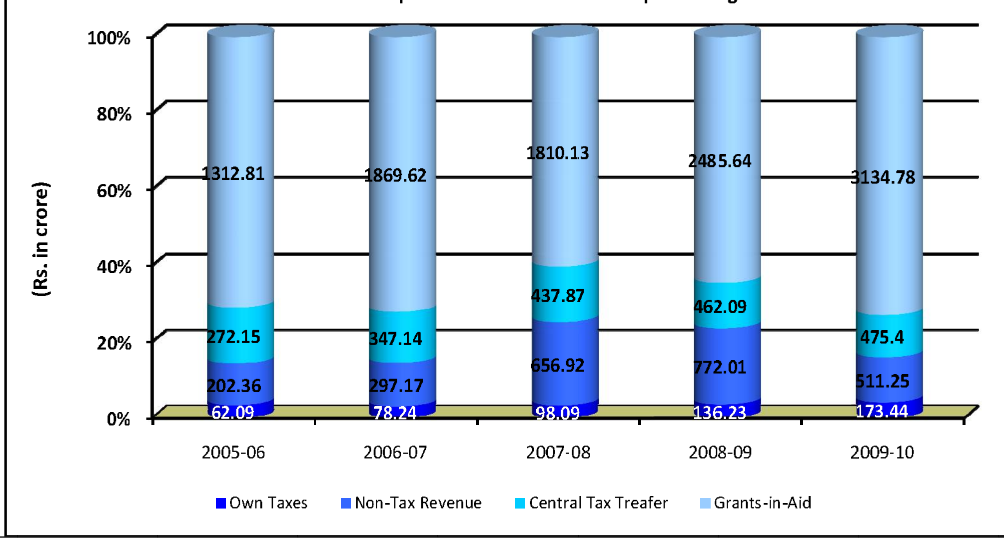


Chart 1.4: The Composition of Revenue Receipts during 2005-10



The trends in revenue receipts relative to GSDP are presented in **Table 1.6**.

Table 1.6: Trends in Revenue Receipts relative to GSDP

	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) *(Rupees in crore)*	1849	2592	3003	3856	4295
Rate of growth of Revenue Receipts (*per cent*)	23.10	40.18	15.86	28.40	11.38
Own Taxes Revenue *(Rupees in crore)*	62	78	98	136	173
Rate of growth of Own Taxes (*per cent*)	24	25.81	25.64	38.78	27.21
Revenue Receipts / GSDP (*per cent*)	63.37	75.94	77.24	85.01	68.63
Buoyancy Ratios[2]	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Revenue Buoyancy with respect to GSDP	10.18	2.37	1.14	1.70	0.30
State's Own Tax Buoyancy with respect to GSDP	10.57	1.52	1.84	2.33	0.72
State's own taxes Buoyancy with reference to Revenue Receipts	1.04	0.64	1.61	1.37	2.38

The revenue receipts of the State increased by ₹ 2,354 crore from ₹ 1849 crore in 2005-06 to ₹ 4295 crore in 2009-10. 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 and again decreased to11.38 *percent* during 2009-10. Buoyancy ratio of State's own taxes to revenue receipts indicates that the pace of growth of own taxes was faster than the revenue receipts during 2005-10 except during 2006-07.

While the grants-in-aid and state's share in Union taxes and duties constituted 73 and 11 *per cent* of Revenue Receipts, state's own tax revenue and non-tax revenue constituted a mere 04 and 12 *per cent* of Revenue Receipts. All the components of revenue receipts have exhibited increase in absolute terms over the period 2005-10 except in case of own resources which decreased during the year 2009-10. Though states own taxes registered an increase by ₹ 24.55 crore (27.21 *per cent*) in 2009-10 over the previous year, non-tax revenue decreased from ₹ 772.01 crore in 2008-09 to ₹ 511.25 crore in 2009-10, i.e., by ₹ 260.76 crore (33.78 *per cent*).

---

[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*.

1.6.1 Grants-in-aid

Details of grants-in-aid from GOI are given in **Table 1.7.**

Table 1.7: Grants-in-aid from GOI

(Rupees in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Grants for State Plan Schemes	726	1049	1269	1665	2297
Non-Plan grants	389	388	380	455	506
Grants for Central Plan Schemes	44	68	61	52	66
Grants for Centrally Sponsored Plan Schemes	105	320	62	249	142
Grants for Special Plan Schemes	49	45	38	65	124
Total	**1313**	**1870**	**1810**	**2486**	**3135**
Percentage of increase(+)/ decrease (-) over Previous year	(+) 20.46	(+) 42.42	(-) 3.21	(+) 37.35	(+) 26.11

Grants-in-aid from the GOI have increased by 26.11 *per cent* from ₹ 2486 crore in 2008-09 to ₹ 3135 crore in the current year. Within the plan grants, while grants for Central Plan Schemes decreased by 42.97 *per cent* compared to previous year, grants for State Plan Schemes, Central Plan Schemes and grants for Special Plan Schemes increased by 37.96 *per cent* (₹ 632 crore), 26.92 *per cent* (₹ 14 crore) 90.77 *per cent* (₹ 59 crore) respectively. The major increase under State Plan Schemes was in the form of increase in Block grants (₹ 2254 crore).The Non-Plan grants (₹ 506 crore) to the State constituted16.14 *per cent* of the total grants during the year, of which 19.76 *per cent* (₹ 100.00 crore) was for Natural Calamities other than the margin money. Other components of non-plan grants mainly included (i) maintenance of forests (₹ 20 crore), (iii) contribution to calamity relief fund (₹ 32 crore) and maintenance of Public Building (₹ 14 crore)

1.6.2 State's Own Resources

The States 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 1.8** and **Table 1.9** show the trends of tax and non-tax revenue during 2005-10.

Table 1.8 Tax Revenue

(Rupees in crore)

Heads	2005-06	2006-07	2007-08	2008-09	2009-10		
					Budget Estimate	Actual	Variation Increase (+)/ Decrease (-)
Taxes on Sales, Trade etc.	47.69	61.64	77.06	105.68	80.00	130.23	(+) 63%
State Excise	9.51	10.98	11.61	16.61	15.00	23.78	(+) 59%
Taxes on Vehicles	2.99	2.93	6.42	7.76	8.00	13.07	(+) 63%
Stamp and Registration fees	0.41	0.55	0.86	1.25	1.00	1.88	(+) 88%
Land Revenue	1.11	2.10	2.12	4.90	5.00	4.43	(-) 11%
Other Taxes	0.38	0.04	0.02	0.03	…	0.05	
Total	**62.09**	**78.24**	**98.09**	**136.23**	**109.00**	**173.44**	**(+) 59%**

Table 1.9: Non-Tax Revenue

(Rupees in crore)

Heads	2005-06	2006-07	2007-08	2008-09	2009-10		
					Budget Estimate	Actual	Variation
Interest receipts, dividends and profits	7	13	29	35	37	40	(+) 08%
General services	41	75	53	28	36	23	(-) 56%
Social services	4	9	7	11	11	9	(-) 81%
Economic services	150	200	568	698	234	439	(+) 88%
Total	**202**	**297**	**657**	**772**	**318**	**511**	**(+) 16%**

1.6.2.1 Tax Revenue

Tax revenue has increased by 27.31 *per cent* during the current year (₹ 173.44 crore) over the previous year (₹ 136.23 crore). However, the actual collection of tax revenue during the year increased by 59.12 *per cent* of the budget estimate for the year mainly due to increase under Taxes on Sales, Trade etc. by over 62.79 *per cent*. The revenue from Sales Tax contributed the major share of tax revenue (75 *per cent*) and it increased by 23.23 *per cent* over the previous year. State excise and taxes on vehicles were the other major contributors in the states tax revenue.

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

Table 1.10 gives the comparative position of pre-VAT (2001-02 to 2004-05) and post VAT (2005-06 to 2009-10) tax collection and the growth rate in each year.

Table-1.10: Position of pre-VAT and post VAT collection and its growth

(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
			2009-10	130.23	23.23
Average growth		**40.80**	**Average growth**		**36.69**

The revenue all along the years from 2001-02 to 2009-10 showed an increasing trend, yet the growth rate of revenue after implementation of VAT showed a negative trend except in 2008-09 and 2009-10. 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 2010.

1.6.2.3 Non-Tax Revenue

The non-tax revenue , which constituted 12 *per cent* of the total revenue receipts, has decreased by ₹ 260.76 crore (51 *per cent*) compared to the previous year. The decrease during the year was mainly due to less receipt under power by ₹ 280.47crore

(46 *per cent*) compared to 2008-09. The trends in interest receipt and dividends and profits reveal significant improvement during 2009-10 as compared to 2005-06 mainly because of the increase in realization of interest on investment of Cash balances.

1.6.2.4 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-1.11: State's own resources vis-à-vis assessments made by TFC and State Government in FCP

(Rupees in crore)

	Assessment made by TFC	Assessment made in FCP	Actual
Tax Revenue	180	75	173
Non-Tax Revenue	136	211	511

Tax revenue was 3.89 *per cent* lower as compared to the assessment made by the TFC, but it was higher by 130.67 *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 2009-10.

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

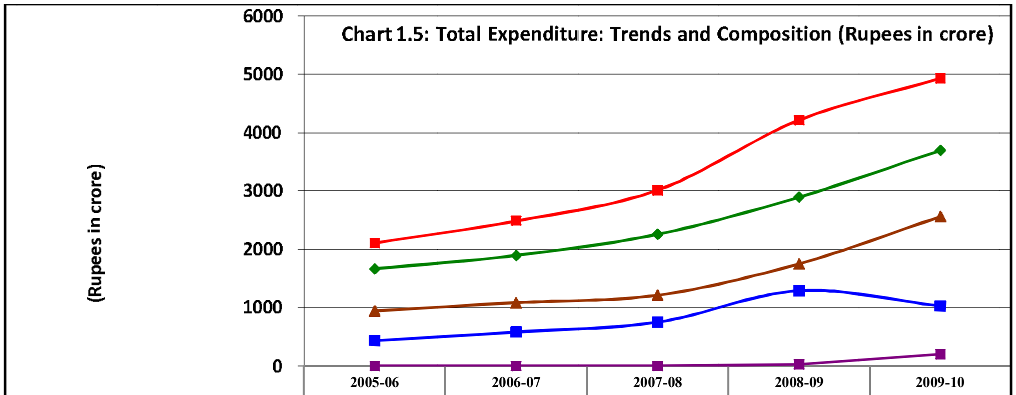
Test-check (2009-10) of records of Taxation, State excise, Transport, State Lottery and Mining and other non-tax receipts revealed under assessment/short levy/non-levy/loss of revenue of ₹ 45.87 crore. The total loss of revenue, which was 6.70 *per cent* of the State's own resources consisting of tax and non-tax revenue (₹ 1684.69 crore) during 2009-10, 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 2010 (Revenue Chapter)

1.6.2.6 Revenue Arrears

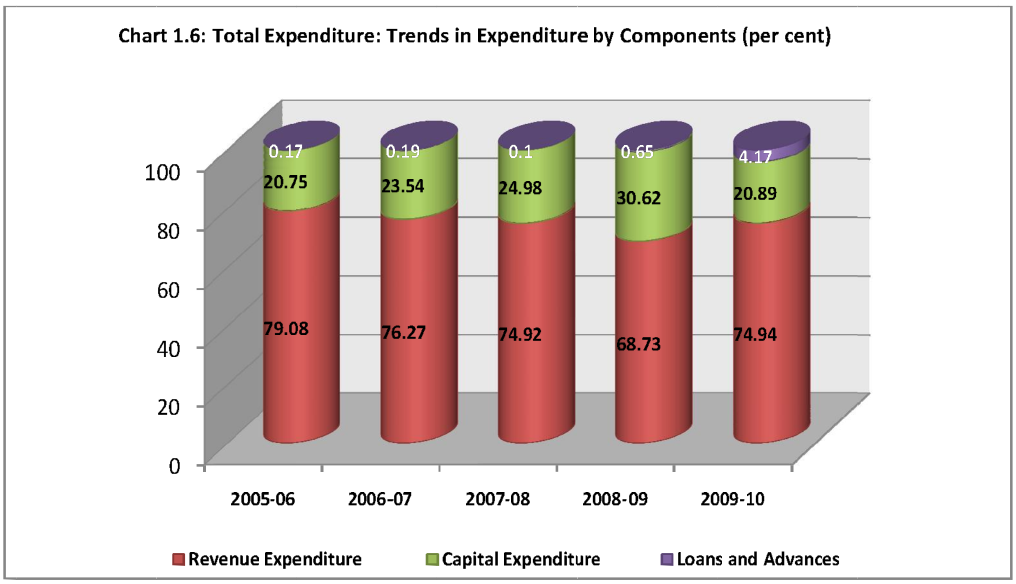
The arrears of tax revenue at the end of March 2010 in respect of some principal heads of revenue was ₹ 66.52 crore at the end of 2009-10. As the pending revenue arrears constituted over 38.35 *per cent* of the tax revenue of the State during 2009-10, appropriate steps need to be initiated by the State Government for their early recovery, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

1.7 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.



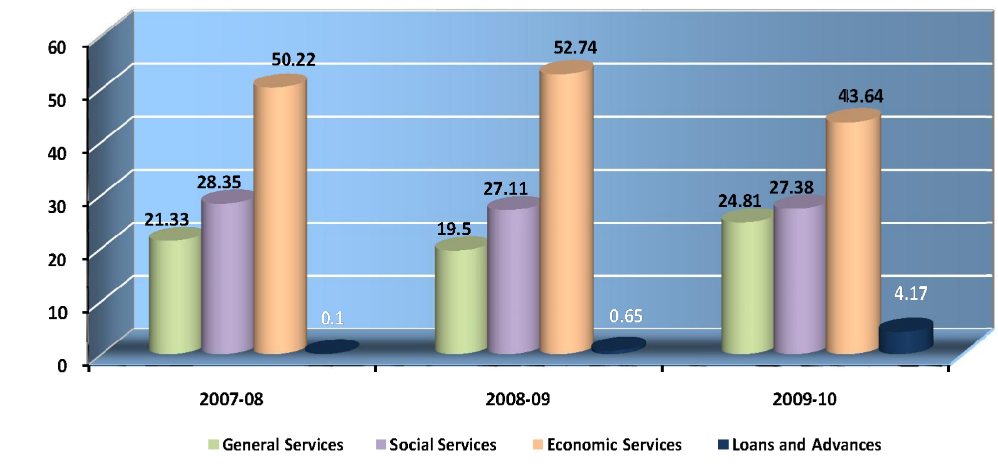
	2005-06	2006-07	2007-08	2008-09	2009-10
Revenues Expenditure	1667.65	1897.23	2259.55	2895.46	3695.59
Capital Expenditure	437.61	585.6	753.21	1290.23	1030.31
Non-Plan Revenue Expenditure	943.98	1086.22	1215.88	1752.8	2560.42
Loans and Advances	3.68	4.78	2.97	27.24	205.46
Total Expenditure	2108.94	2487.61	3015.73	4212.93	4931.36



1.7.1 Growth and Composition of Expenditure

Chart 1.5 presents the trends in total expenditure over a period of five years (2005-10), and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Chart 1.6 and Chart 1.7** respectively.

Chart 1.7: Total Expenditure: Trends in share of expenditure by Activities
(Per cent)



1.7.1.1 *Trends in Total Expenditure*

The total expenditure during the current year has increased by ₹ 718.43 crore (17.05 *per cent*) over the previous year. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.12**.

Table 1.12: Total Expenditure – basic parameters

	2005-06	2006-07	2007-08	2008-09	2009-10
Total Expenditure (TE) *(Rupees in crore)*	**2108.94**	**2487.61**	**3015.73**	**4212.93**	**4931.36**
Rate of growth (*per cent*)	11.54	17.96	21.23	39.7	17.05
TE/GSDP ratio (*per cent*)	**72.27**	**72.89**	**77.56**	**92.87**	**78.80**
RR/TE ratio (*per cent*)	87.69	104.2	99.58	91.53	87.09
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	5.08	1.06	1.52	2.38	0.45
RR (ratio)	0.5	0.45	1.34	1.4	1.5

The increase of ₹ 718.43 crore in total expenditure during the year over previous year was mainly on account of increase in revenue expenditure (₹ 800.13 crore) and disbursement of loans and advances (₹ 178.22 crore) offset by decrease in capital expenditure (₹ 259.92 crore).While the share of plan expenditure constituted 43.45 *per cent* (₹ 2142.88 crore) of the total expenditure, the remaining 56.55 *per cent* was non-plan expenditure (₹ 2788.48 crore). During the current year 87.09 *per cent* (₹ 4294.87 crore) of total expenditure was met from revenue receipts and the remaining (₹ 636.49 crore) from capital receipts and borrowed funds. **The buoyancy of total expenditure to GSDP stood at 0.45 in 2009-10 due to growth rate of GSDP at much greater pace as compared to that of total expenditure.**

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 2009-10, expenditure on general services and interest payments, which is considered as non-developmental expenditure together accounted for 24.81 *per cent*. On the other hand, expenditure on social and economic services together accounted for 75.15 *per cent*. The relative share of Social Services declined from 31.36 *per cent* in 2005-06 to 27.38 *per cent* in 2009-10. The relative share of economic services ranged between 44.53 *per cent* and 52.74 *per cent* during the period 2005-10, while loans and advances revealed wide fluctuations during the period 2005-09 and stood at 4.17 *per cent* during 2009-10.

1.7.1.2 Incidence of Revenue Expenditure

Revenue expenditure constituted 79.08 *per cent* to 68.73 *per cent* of total expenditure during 2005-10 and increased by 121.60 *per cent* from ₹ 1667.65 crore in 2005-06 to ₹ 3695.59 crore in 2009-10. The non-plan revenue expenditure (NPRE) during the same period increased from ₹ 943.98 crore to ₹ 2560.42 crore, showing an increase of 171.23 *per cent* indicating that the share of NPRE in total revenue expenditure increased from 56.61 *per cent* in 2005-06 to 69.28 *per cent* in 2009-10. Plan revenue expenditure (PRE), which normally covers the maintenance expenditure incurred on services, has increased by ₹ 411.50 crore during 2005-10 keeping its share in total revenue expenditure between 43.39 and 30.72 *per cent* during the period. The growth of PRE during 2009-10 declined to 0.66 *per cent* against 9.48 *per cent* during the previous year mainly due to decreased expenditure on special programmes for rural development and Rural Employment. The rate of growth of NPRE (46.08 *per cent*) in 2009-10 was more than that of the PRE. This expenditure ₹ 2560.42 crore during the year was 161.72 *per cent* (₹ 1582.12 crore) higher that the normatively assessed level of ₹ 978.30 crore by the TFC and 109.87 *per cent* (₹ 1340.42 crore) higher than the assessments made by the State Government in its FCP **(Table 1.13).**

Table 1.13: 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 2009-10		TFC	FCP	Budget
Interest payments	217.84	210.00	253.00	226.98	+ 9.14	+ 16.98	-26.02
Pension	106.82	100.00	143.79	182.93	+ 76.11	+ 82.93	+39.14
Other general services	217.23		490.09	665.71	+448.48		+175.62
Social services	236.36	910.00	502.92	700.45	+464.09		+197.53
Economic services	200.05		540.40	784.35	+584.30	+1240.51	+243.95
Committed liabilities	52.10						NA
Total	**1030.40**	**1220.00**	**1930.20**	**2560.42**	**+1530.02**	**+1340.42**	**+630.22**

The actual expenditure incurred on all other components of non-plan revenue expenditure was more than the assessment made by the TFC. The expenditure also exceeded the assessment made in the Budget 2009-10 in respect of Economic services.

1.7.2 Capital Expenditure

Capital Expenditure constituted only 20.75 *per cent* to 30.63 *per cent* of total expenditure during 2005-10 and increased by 135 *per cent* from ₹ 437.61 crore in 2005-06 to ₹ 1030.31 in 2009-10. Compared to 2008-09, capital expenditure during the current year (2009-10) decreased by 20.15 *per cent* mainly due to decreased expenditure under Tourism (₹ 106.98). The State Government failed to fulfill its commitment of incurring expenditure on capital account made in the FCP (₹ 440.00)

1.7.3 Committed Expenditure

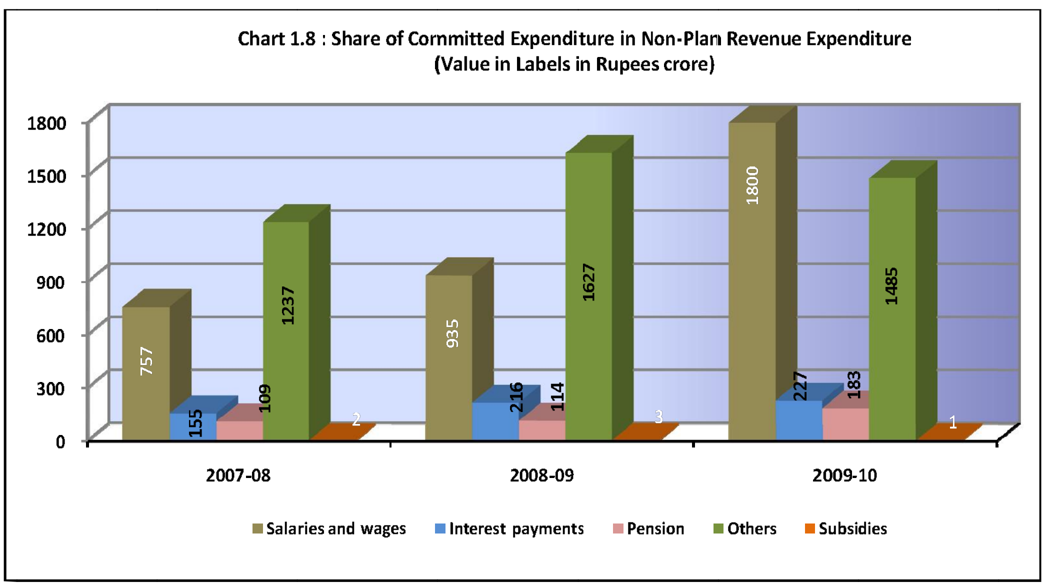
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.14** and **Chart 1.8** present the trends in the expenditure on these components during 2005-10.

Table-1.14: Components of Committed Expenditure

(Rupees in crore)

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Salaries & Wages	575(31)	670(26)	757(25)	935(24)	1800(42)
Of which					
Non-Plan Head	421(23)	485(19)	535(18)	816(21)	615(14)
Plan Head	154(8)	185(7)	222(7)	119(3)	1185(28)
Interest Payments	157(8)	188(7)	155(5)	216(6)	227(5)
Expenditure on Pension and other retirement benefits	71(4)	79(3)	109(4)	114(3)	183(4)
Subsides	2(1)	3(..)	2(..)	3(..)	1(..)
Other Components	863(47)	957(37)	1237(41)	1627(42)	1485(35)

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



1.7.3.1 Salaries and Wages

The expenditure on salaries and wages increased by 193 *per cent* during 2009-10 over the previous year and accounted for 28.76 *per cent* of GSDP and 41.91 *per cent* of the revenue receipts. The quantum jump in the expenditure on salaries and wages was mainly due to implementation of recommendation of Pay Commission's award during the year in the State. The State Government could not restrict the expenditure on salaries during 2009-10 as assessed in its FCP (₹ 820crore) 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.

1.7.3.2 Interest Payments

Interest payments increased by 45.08 *per cent* from ₹ 156.45 crore in 2005-06 to ₹226.98 crore in 2009-10. Compared to the previous year, interest payments during 2009-10 increased by 5.31 *per cent* as against an increase of 39.11 *per cent* during 2008-09. Interest payments were on market loans (₹ 47.47 crore), Special Securities issued to National Small Savings Fund of the Central Government (₹ 52.02 crore), other internal debt (₹ 29.75 crore),loans and advances received from Central Government (₹ 35.07 crore) and Small Savings, Provident Fund, etc. (₹ 61.18 crore). Of the total interest payments during the year, about 20.91 *per cent* (₹ 47.47 crore) were paid on market borrowings. *The interest payments (₹226.98 crore) was higher than the projections made by the TFC (₹ 217.84 crore) and FCP (₹210 crore) but lower than the budget estimates (₹ 253 crore) of the year.*

1.7.3.3 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the five year period 2005-10. Pension payments during the current year has increased by ₹69.38 crore recording a growth rate of over 61.10 *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 1.15**) reveals that *actual pension payments exceeded the projections made by the TFC and the State Government in its FCP by 71 per cent and 83 per cent respectively.*

Table 1.15: 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 2009-10		TFC	FCP	Budget
Pension Payments	106.82	100.00	143.79	182.93	76.11(71)	82.93(83)	39.14 (27)

1.7.3.4 Subsidies

Table 1.14 also shows a inter year variation in payment of subsidies which constituted only 0.02 *per cent* of revenue receipts during 2009-10 against 1.26 *per cent* during 2005-06. Subsidy mainly given to Co-operative (₹ 0.89 crore) and Civil Supplies (₹ 0.21 crore) during 2009-10. During the current year, expenditure on payment of subsidies decreased by 39.85 *per cent* from ₹ 2.75 crore in 2008-09 to

₹ 1.10 crore mainly due to decrease in payment of subsidy to co-operation (₹ 0.43 crore) and civil supplies (₹ 0.30 crore).

1.7.4 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 1.16.**

Table 1.16: Financial Assistance to Local Bodies, etc.

	2005-06	2006-07	2007-08	2008-09	2009-10
University and Educational Institute	16.49	10.14	12.96	47.00	3.45
Cultural Institutions/Voluntary Organizations for promotion of Art and Culture	5.21	0.25	0.50	2.72	28.76
State Institute of Rural Development	24.36	..	1.07	..	…
Social Welfare	0.15	0.15	0.16	7.27	0.32
Ware Housing Corporations	4.94	14.93	23.06	44.97	36.12
Co-operation	..	..	..	..	…
Zilla Parishads/Village Panchayats etc.	..	..	..	..	…
Other Institutions	15.97	1.84	5.74	0.28	0.93
Total	**67.12**	**27.31**	**43.49**	**102.24**	**69.58**
Assistance as percentage of Revenue Expenditure	*4.02*	*1.44*	*1.92*	*3.53*	*1.88*

The financial assistance extended to local bodies and other institutions with inter year variations increased by 3.67 percent from ₹ 67.12 crore in 2005-06 to ₹ 69.58 crore in 2009-10. ₹ 3.45 crore (4.96 *per cent*) of the total assistance was released to University and Educational Institutions and ₹ 36.12 crore (51.91 *per cent*) was released to Warehousing Corporation during the year 2009-10. 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 ₹ 15.97 crore in 2005-06 to ₹ 0.28 crore in 2008-09 and stood at ₹ 0.93 crore in the current year.

1.8 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).

1.8.1 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 and 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 1.17** 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 1.17: Fiscal Priority of the State during 2009-2010

Fiscal Priority of the State	AE/GSDP	DE/AE	SSE/AE	CE/AE	Education/ AE	Health/AE
All NE States Average (Ratio) 2005-06	29.92	65.98	32.91	16.21	18.06	4.63
Arunachal (Ratio) 2005-06	72.27	76.06	31.36	20.75	11.40	3.60
All NE States Average (Ratio) 2009-10	37.18	64.98	34.64	17.55	16.47	5.65
Arunachal (Ratio) 2009-10	78.80	75.19	27.44	20.89	12.92	4.41

*As per cent to GSDP

AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Expenditure CE: Capital Expenditure.

Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source: (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics and for the year 2009-10.

Table 1.17 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. 2009-10. The Government of Arunachal Pradesh had a much higher AE/GSDP ratio in both years under consideration compared to NE States' average and ratio of DE/AE was also higher than NE States' average during both years which indicated that the State has given priority to this category of expenditure as compared to other NE States. In Social Sector Expenditure involving the major components viz. Education and Health, the Arunachal Government expenditure as a percentage of AE was lower than the average of NE States, whereas in regards to CE, the ratio is higher in both 2005-06 and 2009-10 than the average of the NE States. This indicates that the Government had been attaching higher priority to economic services. The Government may consider giving greater emphasis to Social Sector, especially in the area of health considering most of the health care facilities are not well equipped.

1.8.2 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 1.18** 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 1.19** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.18: Development Expenditure

(Rupees in crore)

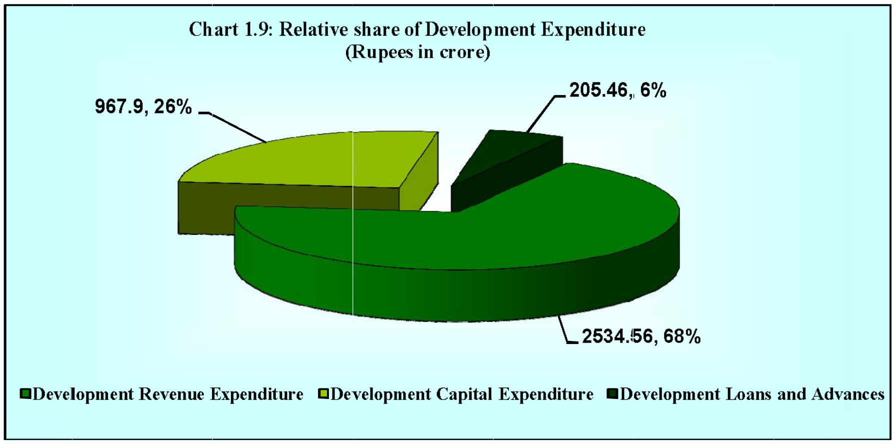
Components of Development expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	
					BE	Actual
Development Expenditure (a to c)	1604.14 (76.06)	1905.99 (76.62)	2372.56 (78.67)	3391.47 (80.50)	3465.80	3707.92 (75.19)
a. Development Revenue Expenditure	1178.92 (55.90)	1337.63 (53.77)	1639.49 (54.36)	2121.22 (50.35)	2712.33	2534.56 (51.40)
b. Development Capital Expenditure	421.54 (19.99)	563.58 (22.66)	730.10 (24.21)	1243.01 (29.50)	749.27	967.90 (19.63)
c. Development Loans and Advances	3.68 (0.17)	4.78 (0.19)	2.97 (0.10)	27.24 (0.66)	4.20	205.46 (4.16)

(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 below the level of Budget Estimate of ₹406.12 crore for the year.* The relative share of development expenditure to total expenditure during 2008-09 given in **Chart 1.9** 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.

[3] Core public goods are which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of that goods, 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.



Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services (including 30.85 *per cent* revenue expenditure on salaries and wages under social services and 19.48 *per cent* on 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 1.19: Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2008-09		2009-10	
	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	9.78	62.18	2.71	85.93
Technical Education, Sports, Arts & Culture	41.00	35.18	21.23	38.38
Health and Family Welfare	6.48	60.82	3.30	33.65
Water Supply & Sanitation, Housing and Urban Development	15.78	7.40	33.35	45.06
Other SS	13.85	31.30	4.00	72.78
Total (SS)	**15.51**	**41.39**	**11.39**	**65.33**
Economic Services (ES)				
Agriculture and Allied Activities	3.52	38.55	1.97	30.00
Irrigation & Flood control	37.34	18.12	25.62	32.75
Power and Energy	62.35	20.98	58.43	25.81
Transport	2.83	11.63	60.95	11.04
Other ES	70.32	17.25	26.36	70.12
Total (ES)	**40.65**	**31.89**	**37.84**	**36.90**

(a) Social Services

The trends in capital expenditure on social services during 2008-09 and 2009-10 reveal that the share of capital expenditure to total expenditure during these years was around 16 and 17 *per cent* respectively, which indicated that the revenue expenditure

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

was dominant. While there was some improvement in the share of capital expenditure to total expenditure under Water Supply & Sanitation, Housing & Urban development during the current year in respect of other Categories of Social Services, there was decrease in this category of expenditure. General Education Sector was the worst sufferer as only 2.71 *per cent* of total expenditure was incurred in this sector on capital account during 2009-10 against 9.78 *per cent* during the preceding year.

Of the revenue expenditure on social services, the share of salary and wage component has increased from 41.39 *per cent* in 2008-09 to 65.33 *per cent* in 2009-10 implying less expenditure on non-salary components. The non-salary and wage expenditure on social services has decreased by 22.83 *per cent* during 2009-10 from ₹ 636.50 crore in 2008-09 to ₹ 414.85 crore in 2009-10. Within the priority sectors, non-salary and wage component continues to have the dominant share under technical education, sports, art and culture; and water supply, sanitation, housing and urban development. High salary and wage expenditure during 2008-09 (62.18 *per cent* and 60.82 *per cent*) and 2009-10 (85.93 *per cent* and 33.65 *per cent*) was observed under General Education and Health and Family Welfare respectively.

(b) Economic Services

The expenditure on economic services during 2009-10 (₹ 2152.20 crore) accounted for about 43.64 *per cent* of the total expenditure and 69.99 *per cent* of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 23.35 *per cent* was incurred on Power and Energy, 21.09 *per cent* on agriculture and allied services and 26.55 *per cent* on transport.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from ₹ 331.33 crore in 2005-06 to ₹ 814.30 crore (145.77 *per cent*) in 2009-10. However, the share of capital expenditure to total expenditure on economic services during 2005-10 increased marginally from 35.28 *per cent* to 37.84 *per cent* which indicated that the revenue expenditure was dominant. Revenue expenditure also consistently increased from ₹ 607.87 crore in 2005-06 to ₹ 1337.90 crore (120.10 *per cent*) in the current year. Within the revenue expenditure on economic services, salary and wage component constituted 31.89 *per cent* and 36.90 *per cent* during 2008-09 and 2009-10 respectively. It increased from ₹ 363.71 crore in 2008-09 to ₹ 493.69 crore (35.74 *per cent*) during the current year. The non-salary and wage component of revenue expenditure also increased from ₹ 776.80 crore in 2008-09 to ₹ 844.21 crore during the current year. However, the capital expenditure decreased from ₹ 1081.32 crore in 2008-09 to ₹ 841.30 crore (22.20 *per cent*) during the current year indicating change in allocative priorities of the State Government.

1.9 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.

1.9.1 Investment and returns

As of 31 March 2010, Government had invested ₹ 220.41 crore in Government Companies and Co-operative Societies **(Table 1.20).** The average return on this investment was nil except during the year 2008-09 which was also less than one *per cent*, while the Government paid interest at an average rate of 6.19 *per cent* to 7.99 *per cent* on its borrowings during the period.

Table 1.20: Return on Investment

Investment/Return/cost of Borrowings	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*2009-10*
Investment at the end of the year *(Rupees in crore)*	27.27	31.76	217.58	220.41	220.41
Return *(Rupees in crore)*	0.00	0.00	*	0.00	…
Return (*per cent*)	-	-	-	-	…
Average rate of interest on Government borrowings (*per cent*)	7.58	7.99	6.19	7.71	7.47
Difference between interest rate and return (*per cent*)	7.58	7.99	6.19	7.71	7.47

*less than 0.01

As of March 2010, the State Government had invested ₹ 9.04 crore in five Government Companies and ₹ 211.37 crore in 145 Co-operative Societies. Out of ₹ 9.04 crore invested in Government Companies, ₹ 5.04 crore was invested in three loss making companies, which had accumulated loss of ₹ 16.55 crore as detailed in **Table 1.21**. Upto date working results of one Government company and all the Co-operative Societies had not been intimated.

Table 1.21: Details of loss making Government Companies

Name of Companies	Amount invested as of March 2010	Invested up to	Accumulated loss	Period up to[6]
Arunachal Pradesh Mineral Development 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 Development and Financial Corporation Limited	1.82	2006-07	12.82	2007-08
		5.04	16.55	

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

1.9.2 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 1.22** presents the outstanding loans and advances as on 31 March 2010, interest receipts vis-à-vis interest payments during the last five years.

Table 1.22: Average Interest Received on Loans and Advances given by the State Government

(Rupees in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Opening Balance	**25**	**25**	**28**	**28**	**52**
Amount advanced during the year	3	5	3	27	206
Amount recovered during the year	3	2	3	3	203
Closing Balance	**25**	**28**	**28**	**52**	**55**
Net addition	-	3	-	24	
Interest Receipts	-	0.54	1.00	0.87	5.19
Interest received as per cent to Outstanding Loans and Advances	-	*2.04*	*3.57*	*2.18*	*9.70*
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	7.58	7.99	6.19	7.71	7.47
Difference between interest payments and receipts (per cent)	*7.58*	*5.95*	*2.62*	*5.53*	*-2.23*

The total outstanding loans and advances as on 31 March 2010 was ₹ 55 crore. Interest received against these loans and advances was meager, which had decreased by 497 *per cent* during the year over previous year.

The outstanding loans and advances were mainly in Co-operation (₹ 200.23 crore), urban Development (₹ 0.98 crore), Power Projects (₹ 2.50 crore) and Government Servants (₹ 7.58 crore) during the current year. Major portion of loans were given as advances to Public Sector and undertakings (₹ 200.23crore) and loans for Power Projects (₹ 2.50 crore).

1.9.3 Cash Balances and Investment of Cash balances

Table 1.23 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.23: Cash Balances and Investment of Cash balances

(Rupees in crore)

Particulars	As on 1st April 2009	As on 31st March 2010	Increase
Cash Balances	1334.62	1610.39	275.77
Investments from Cash Balances (a & b)	1712.22	1616.37	-95.85
a. GOI Treasury Bills	1712.22	1616.37	-95.85
b. GOI Stock/Securities	…	…	…
Fund-wise break-up of Investment from Earmarked balances (a & b)			
a. Sinking Fund Investment Account	58.90	73.90	15.00
b. Other Development and Welfare Fund	2.13	2.13	…
Interest realised on investment of cash balance	33.93	34.80	0.87

The cash balance of the State increased by ₹ 275.77 crore, from ₹ 1334.62 crore at the end of March 2009 to ₹ 1610.39 crore at the end of March 2010. Interest realised on investment of cash balances also increased by ₹ 0.87 crore during 2009-10 over that of previous year. By investment of ₹ 1712.22 crore on GOI Treasury Bills as on 1st April 2009, the State Government realised ₹ 34.80 crore as interest during 2009-10, which was only 2.03 *per cent* of the amount invested. However, this has to be viewed in the backdrop that the State Government raised open market loan of ₹ 79.05 crore during 2009-10. **Thus, there is an urgent need for more prudent cash management by the State Government which would minimize 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.

The Government did not have to resort to WMA during the current year (2009-10) as well as during previous three years (2006-09), indicating comfortable position of the cash balances of the State.

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

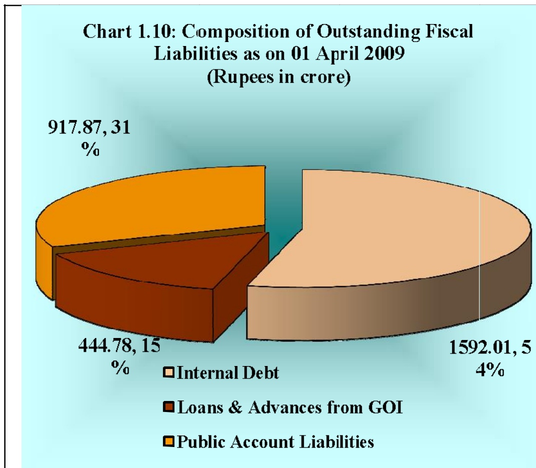
1.10 Assets and Liabilities

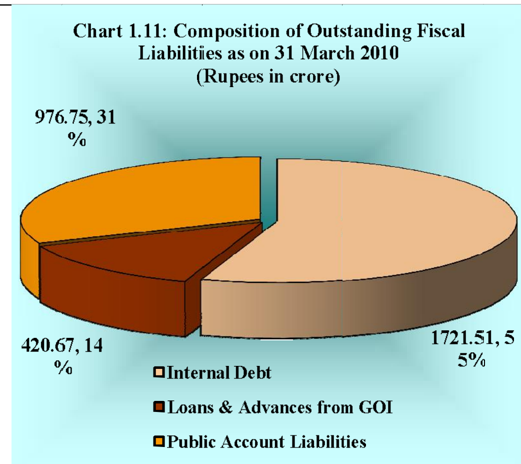
1.10.1 Growth and composition of Assets and Liabilities

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 2010, compared with the corresponding position on 31 March 2009. 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.

1.10.2 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 1.10** and **1.11**.





Fiscal liabilities of the State increased from ₹ 2337.20 crore in 2005-06 to ₹ 3118.93 crore in 2009-10 and was mainly due to internal debt (₹ 1721.51 crore), small savings, provident funds (₹ 791.32 crore) and other non-interest bearing obligations such as deposit of local funds, civil deposits, etc. (₹ 185.44 crore). The fiscal liabilities registered a growth rate of 7.93 *per cent* over the previous year and its ratio to GSDP decreased from 65.13 *per cent* in 2008-09 to 49.84 *per cent* in 2009-10. As per thirteenth finance commission recommendation the debt-GSDP ratio has to be brought down to 25 *per cent* by 2014-15. To achieve this target the State to make efforts from the very beginning itself. These liabilities stood at 0.73 times of the revenue receipts and 0.22 times of the State's own resources during the current year. The buoyancy of these liabilities with respect to GSDP during the year was 0.15 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.15 *per cent*.

The State Government constituted a 'Consolidated Sinking Fund' for amortization of open market loans during 2009-10 and has appropriated ₹15.00 crore from revenue and credited to this fund for investment in the GOI Securities.

1.10.3 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 9 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 2005-06 are given in **Table 1.24**.

Table 1.24: Guarantees given by the Government of Arunachal Pradesh

(Rupees in crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Maximum amount guaranteed (year end)	24	24	12	12	2
Outstanding amount of guarantees (including interest)	6	13	0.98	0.61	0.90
Percentage of maximum amount guaranteed to total revenue receipts	1.30	0.93	0.40	0.31	…

Government has guaranteed loans to one Company, which at the end of 2009-10 stood at ₹0.90 crore (including interest). The guaranteed amount (₹0.90 crore) was outstanding against Arunachal Pradesh Industrial Development and Financial corporation (APIDFCL). The outstanding amount of guarantees is in the nature of contingent liabilities on revenue receipts of the state during 2009-10. *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 did not fix any ceiling limit for the maximum or outstanding guarantees to be given by the State Government.*

1.11 Debt Sustainability

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 a balance between cost 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.

Apart from the magnitude of debt of the State, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State in terms of debt stabilization[7], sufficiency of non-debt receipt[8]; net availability of borrowed funds[9], burden of interest payments (measured by interest payments to revenue receipts ratio and maturity profile of State Government securities. **Table 1.25** analyses the debt sustainability of the State according to these indicators for the period of five year beginning from 2005-06.

Table 1.25: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread +Primary Deficit) (Rupees in crore)	-6	+503	+329	+97	+693.87
Sufficiency of Non-debt Receipts (Resource Gap)	+190	+513	+48	+217	-80
Net Availability of Borrowed Funds	403	-141	112	101	-61
Burden of Interest Payments (IP/RR Ratio)	8.46	7.24	5.16	5.59	5.28

[7] 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.

[8] 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.

[9] 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.

Table 1.23 reveals that quantum spread together with primary deficit/surplus has been positive during 2006-10. **Despite increase of primary deficit in 2009-10 by ₹ 68.17 crore over the previous year, the steep increase in quantum spread together with primary deficit/surplus during 2009-10 was mainly due to huge rate of growth of 37.95 *per cent* in GSDP during the year 2009-10, while during earlier four years the growth rate of GSDP was not more than 17 *per cent.***

Viewed along with the ratio of fiscal deficit to GSDP which also indicated a fluctuating trend during the period 2005-10, it indicates oscillating debt-GSDP ratios during the period. The sum of quantum spread and primary deficit at ₹ 693.87 crore during 2009-10 against ₹ 97 crore during the previous year is a signal improvement in the fiscal imbalances for improving the debt sustainability position in medium to long run.

Negative resource gap indicates the non-sustainability of debt, while the positive resource gap strengthens the capacity of the State to sustain the debt. The trends in resource gap which was positive during 2005-09, turned negative during 2009-10 as incremental non-debt receipts during 2009-10 was more than the incremental total expenditure. The negative resource gap in the year 2009-10 was mainly due to the steep increase in non-interest revenue expenditure (₹ 3468.61 crore).

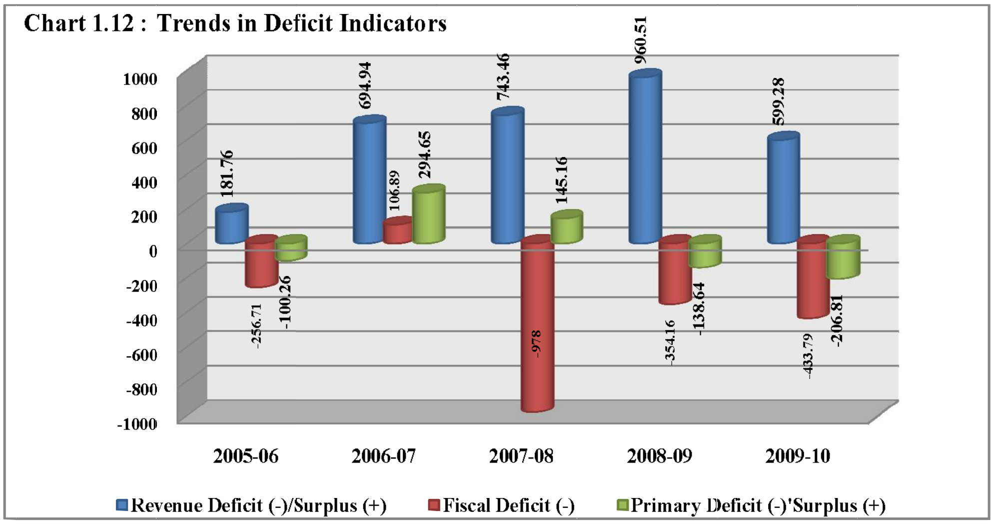
During the current year, the Government repaid ₹ 1038 crore as principal and interest on internal debt (₹ 164 crore), loans and advances from the GOI (₹ 111 crore) and other obligations (₹ 763 crore), as a result of which borrowed funds were not available for development purposes. Under the loans and advances from GOI, the net funds available continued to be negative during the entire period of five years.

1.12 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 which are raised are 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 2009-10.

1.12.1 Trends in Deficits

Charts 1.12 and **1.13** present the trends in deficit indicators over the period 2005-10.



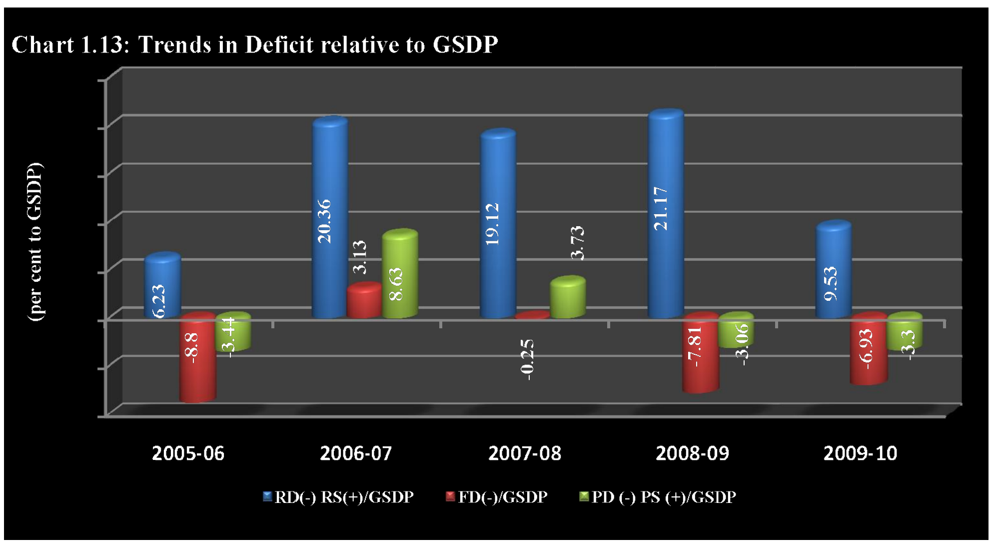


Chart 1.13 reveals that the revenue account experienced a situation of substantial surplus since 2005-06. The revenue surplus of ₹ 599.28 crore during 2009-10 was lower by ₹ 361.23 crore as compared revenue surplus of ₹ 960.51 crore during 2008-09. The significant decrease during the current year was mainly on account of an increase of ₹ 800.13 crore (27.63 *per cent*) in revenue expenditure which was partially offset by increase in revenue receipts of ₹ 438.90 crore (11.38 *per cent*) over the previous year. The fact was that State's own resources contributed around (-) 50.93 *per cent* (₹ (-) 223.55 crore) in the incremental revenue receipts (₹ 438.90 crore) during 2009-10 against 17.96 *per cent* (₹ 838.90 crore) during 2008-09. The revenue surplus in the current was primarily on account better growth rate of 26.12 *per cent* (₹ 649.14 crore) in grants-in-aid as compared to 37.32 *per cent* (₹ 675.51 crore) during 2008-09.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap also increased from ₹ 354.16 crore in 2008-09 to ₹ 433.79 crore in during 2009-10. The fiscal surplus in 2006-07 (₹ 106.39 crore) turned to deficit in 2007-08 and continued to deteriorate further during 2008-10. The increase in the fiscal deficit by ₹ 79.63 crore during the current year would have been much higher due to decrease in capital expenditure (₹ 259.92 crore) 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 was 6.93 *per cent* of GSDP during 2009-10 compared to 7.81 *per cent* during previous year.

The primary surplus which continued during 2006-07 and reached the level of ₹ 145.16 crore during 2007-08, also took a downward turn in 2008-09 and 2009-10 and resulted in a primary deficit[10] of ₹ 138.64 crore and ₹ 206.81 crore respectively. A sharp increase of Rs. 80 crore in fiscal deficit and a moderate increase in interest payments (₹ 11.44 crore) resulted in a primary deficit of ₹ 206.81 crore

1.12.2 Components of Fiscal Deficit and its Financing Pattern.

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.26**.

Table 1.26: Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit						
	Fiscal deficit (-)/surplus (+)(1 to 3)	-257	+107	-10	-354	-434
1	Revenue Deficit (-)/Surplus (+)	+182	+695	+743	+960	599
2	Net Capital Expenditure	438	586	753	1290	1030
3	Net Loans and Advances	-1	-2	..	-24	-3
Financing Pattern of Fiscal Deficit[(a)]						
1	Market Borrowing	42	100	172	14	67
2	Loans from GOI	-12	-28	-16	-4	-24
3	Special Securities issued to NSSF	238	130	25	21	50
4	Loans from Financial Institutions	30	22	33	49	13
5	Small Savings, PF. etc.	68	63	43	78	142
6	Reserve Funds	17	10	-80	14	15
7	Deposits and Advances	20	-50	100	154	-85
8	Suspense and Miscellaneous	-90	-90	191	2782	503
9	Remittances	22	-5	…	-2	28
10	Increase (-)/Decrease (+) in Cash Balances	-244	-53	-458	-2752	-275
11	Increase or decrease in Ways & Means Advances	+166	-206	..	..	…
Overall Deficit (1 to 11) (-)		***-257 (8.81)***	***+107 (3.14)***	***-10 (0.26)***	***-354 (7.80)***	***-434 (6.94)***

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 fiscal deficit during the five year period ending 2009-10, which reached its peak during 2009-10. During the current year,

[10] 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.

fiscal deficit increased by over 22.60 percent (₹ 80 crore) over previous year despite decrease in capital expenditure by ₹ 260 crore. The fiscal deficit of ₹ 434 crore during 2009-10 was mainly met out from Suspense and Miscellaneous (₹ 503 crore) and Small Savings etc (₹ 142 crore).

1.12.3 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 1.27**) 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 1.27: Primary Deficit/Surplus – Bifurcation of Factors

(Rupees in crore)

Year	Non-debt receipt	Primary Revenue Expenditure	Capital Expenditure	Loans & Advances	Primary Expenditure	Primary Revenue Surplus	Primary Deficit (-) / Surplus (+)
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
2009-10	4498	3469	1030	205	4704	+1029	-206

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2005-10 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[11] 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 2005-06, 2008-09 and 2009-10. 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.

[11] 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.

1.13 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 2009-10 relative to the previous year. Revenue surplus decreased by ₹ 361crore in 2009-10 but fiscal deficits have increased by over 1.22 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 does not indicate a very positive picture during the year.

Revenue Receipts

Central transfers comprising State's share of Central taxes and grants-in-aid from the Government of India increased by ₹ 662 crore in 2009-10 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 35 per cent of the State's own resources consisting of tax and non-tax revenue during 2009-2010, indicates the presence of loopholes in resources mobilization. Pending revenue arrears constituted over 38 per cent of tax revenue of the State during 2009-10.

The State should, therefore, make efforts 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 the revenue expenditure as a percentage of total expenditure, though increased by 6.21 per cent in the current year, hovered around 80 per cent for the period (2005-10) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, NPRE at ₹ 2560 crore in 2009-10 constituted 69 per cent and remained significantly higher than the normatively assessed level of ₹ 1030 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 86 per cent during 2009-10.

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 2005-10, while the Government paid interest at an average rate of 7.47 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.