

## CHAPTER – I

### FINANCES OF THE STATE GOVERNMENT

#### In Summary

Large fiscal deficits year after year coupled with revenue deficits in two out of the last five years indicate continued macro financial imbalances in the State. In Arunachal Pradesh, revenue receipts decreased from Rs 1,576.36 crore in 2003-04 to Rs 1,501.84 crore in 2004-05 leading to revenue deficit of Rs.7.80 crore against revenue surplus during the previous year. Increase in fiscal deficit has been continuing since 2002-03 and reached its peak of Rs. 386.23 crore in 2004-05.

Revenue of the State comprises mainly its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs.961.41 crore in 2000-01 to Rs.1,501.84 crore in 2004-05 at an average rate of 9.56 *per cent*. There were, however, significant inter year variations in the growth rates. On an average 10.69 *per cent* of the revenue came from the State's own resources.

Total expenditure of the State increased from Rs.1,246.61 crore in 2000-01 to Rs.1,890.68 crore in 2004-05 at an average rate of 12.24 *per cent*. The rate of growth of expenditure in 2004-05 was 3.39 *per cent* against 38.08 *per cent* during the preceding year. Revenue expenditure during 2004-05 comprised 79.85 *per cent* of total expenditure during the year leaving very little for capital formation or assets creation. The ratio of development, plan and capital expenditure to total expenditure decreased during 2004-05 as compared to previous years. All these indicated inadequate expansion of the State's developmental activities.

Expenditure on General Services was generally stable during these years while the relative share of interest payments in total expenditure had declined. Relative share of expenditure in Economic Services was generally stable. Debt burden (fiscal liabilities) of the State at the end of 2004-05 was Rs.1,777.54 crore, up by 16.57 *per cent* over the previous year. The average rate of interest paid on the borrowings of the State during 2000-2005 (10.94 *per cent*) was more than the growth of GSDP (8.66 *per cent*) by 2.28 *per cent* resulting in negative interest spread in four out of five years. The negative spread of interest may affect debt sustainability.

It is not uncommon for a State to borrow for widening its infrastructure and creating income generating assets. However, increasing ratios of fiscal liabilities to GSDP together with a growing fiscal deficit indicate that the State is gradually getting into a debt trap. Also, use of high cost borrowings for investment with low yields, is not sustainable. Hence, the State should try to eliminate the revenue deficit and reduce the fiscal deficit to a reasonable level.

## **1.1 Introduction**

The Finance Accounts of the Government of Arunachal Pradesh are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in **Box – 1.1**.

### **Box – 1.1**

#### **Lay out of Finance Accounts**

*Statement No. 1 presents the summary of transactions of the State Government - receipts and expenditure, revenue and capital, public debt receipts and disbursements etc., in the Consolidated fund, Contingency Fund and Public Account of the State.*

*Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.*

*Statement No.3 gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.*

*Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.*

*Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.*

*Statement No. 6 gives the summary of guarantees given by the Government for repayment of loans etc., raised by the statutory corporations, local bodies and other institutions.*

*Statement No. 7 gives the summary of cash balances and investments made out of such balances.*

*Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2005.*

*Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.*

*Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.*

*Statement No. 11 gives the detailed account of revenue receipts by minor heads.*

*Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and centrally sponsored schemes separately and capital expenditure major head wise.*

*Statement No. 13 depicts the detailed capital expenditure incurred during and to the end of the current year.*

*Statement No. 14 shows the details of investment of the State Government in statutory corporations, government companies, other joint stock companies, cooperative banks and societies etc., up to the end of March 2005.*

*Statement No. 15 depicts the capital and other expenditure to the end of the current year and the principal sources from which the funds were provided for that expenditure.*

*Statement No. 16 gives the detailed account of receipts disbursements and balances under heads of account relating to debt, Contingency Fund and Public Account.*

*Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.*

*Statement No. 18 provides the detailed-account of loans and advances given by the Government of Arunachal Pradesh, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.*

*Statement No. 19 gives the details of balances of earmarked funds.*

## 1.2 Trend of finances with reference to previous year

The trend of finances of the State Government during the current year compared to the previous year was as under:

**Table 1.1**

(Rupees in crore)

2003-04	Sl.No.	Major Aggregates	2004-05
<b>1576.36</b>	<b>1</b>	<b>Revenue receipts (2+3+4)</b>	<b>1501.84</b>
43.73	2	Tax revenue	50.11
120.57	3	Non-tax revenue	170.20
1412.06	4	Other receipts	1281.53
<b>2.35</b>	<b>5</b>	<b>Non-debt capital receipts</b>	<b>2.61</b>
2.35	6	Of which recovery of loans	2.61
<b>1578.71</b>	<b>7</b>	<b>Total non debt receipts (1+5)</b>	<b>1504.45</b>
<b>847.93</b>	<b>8</b>	<b>Non-plan expenditure (9+11+12)</b>	<b>936.70</b>
841.18	9	On revenue account	930.62
141.92	10	Of which interest payments	146.90
3.61	11	On capital account	2.96
3.14	12	On loans disbursed	3.12
<b>980.82</b>	<b>13</b>	<b>Plan expenditure (14+15+16)</b>	<b>953.98</b>
550.72	14	On revenue account	579.02
429.74	15	On capital account	372.11
0.36	16	On loans disbursed	2.85
<b>1828.75</b>	<b>17</b>	<b>Total expenditure (8+13)</b>	<b>1890.68</b>
<b>250.04</b>	<b>18</b>	<b>Fiscal deficit (17-7)</b>	<b>386.23</b>
<b>184.46</b>	<b>19</b>	<b>Revenue deficit (9+14-1)</b>	<b>7.80</b>
<b>108.12</b>	<b>20</b>	<b>Primary deficit (18-10)</b>	<b>239.33</b>

### 1.3 Summary of Receipts and Disbursements for the year

**Table 1.2** summarises the finances of the Government of Arunachal Pradesh for the year 2004-05 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements as emerging from Statement-1 and other detailed statements of the Finance Accounts.

**Table 1.2: Summary of Receipts and Disbursements for the year 2004-05**

(Rupees in crore)							
2003-04	Receipts	2004-05	2003-04	Disbursements	2004-05		
					Non-Plan	Plan	Total
<b>Section – A : Revenue</b>							
1576.36	<b>I. Revenue receipts</b>	1501.84	1391.90	<b>I. Revenue expenditure</b>			1509.64
43.73	Tax revenue	50.11	438.20	General services	457.97	31.05	489.02
120.57	Non-tax revenue	170.20	433.28	Social services	149.33	323.34	472.67
160.60	Share of Union taxes/duties	191.95	520.42	Economic services	323.32	224.63	547.95
1251.46	Grants-in-aid from Government of India	1089.58	...	Grants-in-aid/contribution	...	...	...
<b>Section – B: Capital</b>							
...	<b>II. Miscellaneous capital receipts</b>	...	433.35	<b>II. Capital outlay</b>	2.96	372.11	375.07
2.35	<b>III. Recoveries of loans and advances</b>	2.61	3.50	<b>III. Loans and advances disbursed</b>	3.12	2.85	5.97
305.98	<b>IV. Public Debt receipts</b>	215.30 <sup>(a)</sup>	206.87	<b>IV. Repayment of public debt</b>	...	...	57.95
...	<b>V. Contingency fund</b>	...	...	<b>V. Contingency fund</b>	...	...	...
958.09	<b>VI. Public account receipts</b>	1208.86	969.76	<b>VI. Public Account disbursement</b>	...	...	1082.82
2.58	<b>VII. Earmarked fund</b>	4.00					
29.24	<b>Opening balance</b>	-130.78	- 130.78	<b>Closing balance</b>	...	...	-229.62
2874.60	<b>Total</b>	2801.83	2874.60	<b>Total</b>			2801.83

(a) Includes net ways and means and overdraft also.

### 1.4 Audit methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilization efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State government has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in **Box – 1.2**.

<b>Box – 1.2</b>
<b>Reporting Parameters</b>
<p><i>Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt, and revenue and fiscal deficits have been presented as percentage to the GSDP at current prices as furnished by the Directorate, Economics and Statistics, Government of Arunachal Pradesh. The new GSDP has been calculated at average growth rate of previous years from 2000-01 to 2003-04 as the same has not been published by the Economic and Statistics Department of the State Government so far (October 2005).</i></p> <p><i>For most series a trend growth during 2000-05 has been indicated. The ratios with respect of GSDP have also been depicted. Some of the terms used here are explained in <b>Appendix – I</b>.</i></p>

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in **Box – 1.3**.

<b>Box – 1.3</b>		
<b>State Government Funds and the Public Account</b>		
<i>Consolidated Fund</i>	<i>Contingency Fund</i>	<i>Public Account</i>
<p><i>All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled the Consolidated Fund of the State established under Article 266(1) of the Constitution of India.</i></p>	<p><i>Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent and unforeseen expenditure, pending authorisation by the Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from the Contingency Fund are recouped to the Fund.</i></p>	<p><i>Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, etc. are a few examples. The public moneys thus received are kept in the Public Account set up under Article 266(2) of the Constitution and the related disbursements are also made from it.</i></p>

## **1.5 State finances by key indicators**

**1.5.1 Resources by volumes and sources:** Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts comprise tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like recoveries of loans and advances, debt receipts from internal sources viz., market loans, borrowings from

financial institutions/commercial banks *etc.*, and loans and advances from Government of India as well as accruals from the Public Account.

The total receipts of the State Government for the year 2004-05 were Rs.2,928.61 crore as shown in **Table 1.3**. Of these, the revenue receipts were Rs.1,501.84 crore only constituting 51 *per cent* of the total receipts. The balance of receipts came from borrowings and Public Account receipts.

**Table 1.3: Resources of Arunachal Pradesh**

(Rupees in crore)		
<b>I.</b>	<b>Revenue Receipts</b>	<b>1501.84</b>
<b>II.</b>	<b>Capital Receipts</b>	<b>217.91</b>
	(a) Miscellaneous receipts	...
	(b) Recovery of loans and advances	2.61
	(c) Public debt receipts	215.30
<b>III.</b>	<b>Contingency Fund Receipts</b>	
<b>IV.</b>	<b>Public Account Receipts</b>	<b>1208.86</b>
	(a) Small savings, provident fund, <i>etc.</i>	134.07
	(b) Reserve fund	11.41
	(c) Deposits and Advances	90.87
	(d) Suspense and miscellaneous	47.09
	(e) Remittance	925.42
	<b>Total Receipts</b>	<b>2928.61</b>

**1.5.2 Revenue Receipts:** Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State comprise mainly its own tax and non-tax revenues, central tax transfers and grants-in-aid from Government of India. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's Gross Domestic Product (GSDP) and its buoyancy are indicated in **Table 1.4**.

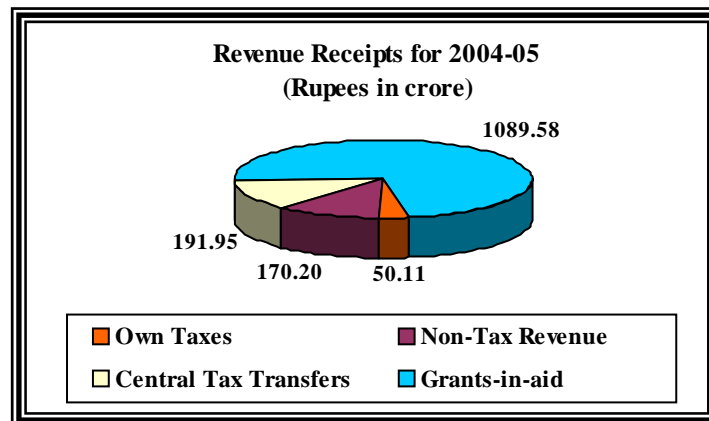
**Table 1.4: Revenue Receipts-Basic Parameters**

(Values in Rupees in crore and others in <i>per cent</i> )						
	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Receipts (Rupees in crore)	961.41	1085.30	1108.29	1576.36	1501.84	1246.64
Own Taxes ( <i>per cent</i> )	2.15	2.85	3.36	2.77	3.34	2.89
Non-Tax Revenue ( <i>per cent</i> )	6.62	6.53	6.88	7.65	11.33	7.80
Central Tax Transfers ( <i>per cent</i> )	12.03	8.38	10.98	10.19	12.78	10.87
Grants-in-aid ( <i>per cent</i> )	79.20	82.24	78.77	79.39	72.55	78.43
Rate of Growth (RR)	-4.71	12.89	2.12	42.23	-4.73	9.56
Revenue Receipt/GSDP	53.91	55.89	56.47	69.68	61.10	59.89
Revenue Buoyancy	(a)	1.451	1.971	2.766	(a)	1.270
Rate of growth (own taxes)	48.63	49.73	20.62	17.36	14.59	28.81
Buoyancy of own taxes	5.158	5.602	19.187	1.137	1.685	3.486
GSDP	1783.44	1941.78	1962.65	2262.29	2458.20	2081.67
GSDP growth	9.43	8.88	1.07	15.27	8.66	8.66

(a) Rate of growth of revenue receipts was negative.

Though the revenue receipts of the State increased from Rs.961.41 crore in 2000-01 to Rs.1,501.84 crore in 2004-05 at an average rate of 9.56 *per cent*, it had decreased by 4.73 *per cent* in the current year from Rs.1,576.36 crore in the previous year. There were also significant inter-year variations in the growth rates. The revenue receipts to GSDP ratio declined from 69.68 *per cent* in 2003-04 to 61.10 *per cent* in 2004-05 and the five years average ratio was 59.89 *per cent*. There was decline in growth rate of GSDP as well as revenue receipts during the year as compared to the previous year which led to sharp decline in revenue buoyancy during the year.

While 86 *per cent* of the revenue receipts during 2004-05 have come from central tax transfers and grants-in-aid from Government of India, the State's own sources of revenue comprising tax and non-tax sources together contributed around 14 *per cent* only. The tax revenue as percentage of total revenue of the State witnessed an improvement over the years and stood at 3.34 *per cent* in 2004-05 compared to 2.15 *per cent* in 2000-01. Of non-tax revenue sources, receipts from power (49 *per cent*) was the principal contributor. Sales Tax was the major contributor (56 *per cent*) of the State's own tax revenue followed by State Excise (36 *per cent*), taxes on vehicles (4 *per cent*) and land revenue (2 *per cent*).



The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 2 *per cent* for Fisheries, 3 *per cent* for Animal Husbandry and 5 *per cent* for Dairy Development.

The sources of total receipts under different heads during 2000-2005 is indicated in **Table 1.5**.

**Table 1.5: Sources of Receipts: Trends**

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account	
2000-01	961.41	1.60	116.14	875.54	1954.69
2001-02	1085.30	1.86	139.99	947.58	2174.73
2002-03	1108.29	2.24	143.08	1513.88	2767.49
2003-04	1576.36	2.35	305.98	958.09	2842.78
2004-05	1501.84	2.61	215.30	1208.86	2928.61

## 1.6 Application of resources

**1.6.1 Trend of growth:** Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs.1,246.61 crore in 2000-01 to Rs.1,890.68 crore in 2004-05 at an average trend rate of 12.24 per cent per annum. The rate of growth of total expenditure was higher than the rate of growth of revenue receipts during the year. After reaching its peak of 38.08 per cent during 2003-04, it declined to 3.39 per cent during 2004-05.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in **Table 1.6** below:

**Table 1.6: Total Expenditure-Basic Parameters**

(Total expenditure in Rupees in crore and others in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Total Expenditure <sup>(a)</sup> (Rupees in crore)	1246.61	1335.96	1324.41	1828.75	1890.68	1525.28
Rate of Growth	13.43	7.17	-0.86	38.08	3.39	12.24
TE/GSDP Ratio	69.90	68.80	67.48	80.84	76.91	72.79
Revenue Receipts/TE Ratio	77.12	81.24	83.68	86.20	79.43	81.53
<b>Buoyancy of Total Expenditure with</b>						
GSDP	1.424	0.807	(b)	2.494	0.391	1.023
Revenue Receipts	(c)	0.556	(b)	0.902	(c)	0.292

- (a) Total expenditure includes revenue expenditure, capital expenditure and loans and advances  
 (b) Rate of growth of total expenditure was negative.  
 (c) Rate of growth of revenue receipt was negative.

Though in monetary terms total expenditure in 2004-05 increased by Rs.61.93 crore over previous year, its ratio as a percentage to GSDP had declined. Average buoyancy of the total expenditure with GSDP during 2000-05 was 1.023 indicating that for every one per cent increase in the State's GSDP,



expenditure increased by 1.023 *per cent*. With regard to revenue receipts, the average buoyancy of total expenditure was lower than one.

In terms of activities, total expenditure could be considered as being composed of expenditure on General Services, interest payments, Social and Economic Services, grants-in-aid and other contributions to institutions and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.7**.

**Table 1.7: Components of Expenditure-Relative Share**

	(in per cent)					
	2000-01	2001-02	2002-03	2003-04	2004-05	Average
General Services	18.23	18.74	19.43	18.33	18.86	18.72
Interest Payments	9.68	8.16	9.47	8.44	7.77	8.70
Social Services	27.39	29.50	27.67	27.86	28.80	28.24
Economic Services	44.48	43.23	43.21	45.12	44.25	44.06
Loans & Advances	0.22	0.37	0.22	0.25	0.32	0.28

The movement of the relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Expenditure on General Services was generally stable during these years, while the relative share of interest payments in total expenditure had declined. There was also an increase in relative share of expenditure on Social Services during 2004-05 compared to 2000-01. Relative share of expenditure on Economic Services was also generally stable.

**1.6.2 Incidence of Revenue expenditure:** In the total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the States infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in **Table 1.8**.

**Table 1.8: Revenue Expenditure-Basic Parameters**

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Revenue Expenditure (Rupees in crore)	979.62	1029.55	1031.37	1391.90	1509.64	1188.42
Rate of Growth ( <i>per cent</i> )	16.99	5.10	0.18	34.96	8.46	13.14
RE as percentage of GSDP	54.93	53.02	52.55	61.53	61.41	56.69
RE as percentage of TE	78.58	77.06	77.87	76.11	79.85	77.90
RE as percentage of RR	101.89	94.86	93.06	88.30	100.52	95.73
<b>Buoyancy of Revenue Expenditure with</b>						
GSDP	1.802	0.574	0.164	2.290	0.977	1.161
Revenue Receipts	(a)	0.396	0.083	0.828	(a)	0.261

(a) Rate of growth of revenue receipts was negative.

Overall revenue expenditure of the State increased at an average rate of 13.14 per cent. Rate of growth of revenue expenditure after reaching its peak of 34.96 per cent in 2003-04 declined to 8.46 per cent in 2004-05. During 2004-05, revenue expenditure was higher than the revenue receipts, which led to revenue deficit of Rs.7.80 crore. Revenue expenditure-GSDP ratio marginally declined from 61.53 per cent in 2003-04 to 61.41 per cent in 2004-05. This was due to a lower growth of revenue expenditure relating to GSDP during 2004-05. On an average 78 per cent of the total expenditure was on current consumption.

i) **High salary expenditure:** Salaries alone accounted for 27.79 per cent of the revenue receipts and 27.64 per cent of the revenue expenditure of the State during 2004-05. The expenditure on salaries increased from Rs. 396.89 crore in 2000-01 to Rs.417.33 crore in 2004-05 at an average annual rate of 3.90 per cent as indicated in **Table 1.9**.

**Table 1.9**

Heads	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Salary expenditure (Rupees in crore)	396.89	401.57	407.81	493.35	417.33	423.39
Growth in salary expenditure	11.18	1.18	1.55	20.98	-15.41	3.90
As a percentage of GSDP	22.25	20.68	20.78	21.81	16.98	20.50
As a percentage of Revenue Receipts	41.28	37.00	36.79	31.29	27.79	34.83
As a percentage of Revenue Expenditure	40.51	39.00	39.54	35.44	27.64	36.43

(Source: Information furnished (October 2005) by the State Government).

ii) **Huge expenditure on pension payments:** Pension payments have increased by 48 per cent from Rs.47.50 crore in 2000-01 to Rs.70.34 crore in 2004-05 (average annual rate of 12.67 per cent). Year-wise break-up of expenditure incurred on pension payments during the years 2000-01 to 2004-05 was as under:

**Table 1.10**

Year	Expenditure (Rupees in crore)	Percentage to total revenue expenditure
2000-2001	47.50	4.85
2001-2002	54.16	5.26
2002-2003	60.13	5.83
2003-2004	65.93	4.74
2004-2005	70.34	4.66

With the increase in number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising pension liabilities of the retired State employees.

iii) **Interest payments:** Interest payments during the period from 2000-01 to 2004-05 were as shown below:

Table 1.11

Year	Interest payment (Rupees in crore)	Percentage of interest with reference to	
		Revenue Receipt	Revenue Expenditure
2000-2001	120.68	12.55	12.32
2001-2002	108.99	10.04	10.59
2002-2003	125.40	11.31	12.16
2003-2004	141.92	9.00	10.20
2004-2005	146.90	9.78	9.73

Interest payments increased steadily by 21.73 *per cent* from Rs.120.68 crore in 2000-01 to Rs.146.90 crore in 2004-05 primarily due to an increase in fiscal liabilities. The interest payment was on Internal Debt (Rs.48.55 crore), loans received from the Central Government (Rs.61.16 crore), Small Savings, Provident Fund, *etc.*, (Rs.34.12 crore) and other obligations (Rs.3.07 crore).

iv) **Subsidies by the Government:** During last five years, the State Government paid subsidies as under:

Table 1.12

(Rupees in crore)

Sl. No	Particulars	2000-01	2001-02	2002-03	2003-04	2004-05
1.	Industrial units	2.52	-	1.00	0.06	
2.	Subsidy on rice	-	0.02	0.08	0.05	0.13
3.	Others	0.25	1.26	0.19	0.58	17.32
<b>Total</b>		<b>2.77</b>	<b>1.28</b>	<b>1.27</b>	<b>0.69</b>	<b>17.45</b>
Percentage of increase (+)/decrease (-) over previous year		---	(-) 53.79	(-) 0.78	(-) 45.67	(+) 2428.99
Percentage of subsidy in total expenditure <sup>#</sup>		0.22	0.10	0.10	0.04	0.93

Source: Information furnished by the AG (A&E).

During the current year subsidies constituted 0.93 *per cent* of the total expenditure.

## 1.7 Expenditure by allocative priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. The higher the ratio of these components is to total expenditure, the better is the quality of expenditure. **Table 1.13** gives these ratios during 2000-2005 :

<sup>#</sup> Total expenditure excludes Loans and Advances.

**Table 1.13: Quality of expenditure (per cent to total expenditure)#**

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Total expenditure (Rupees in crore)	1243.87	1331.06	1321.43	1825.25	1884.71	1521.26
Plan Expenditure	51.09	56.88	53.87	53.72	50.47	53.21
Capital Expenditure	21.24	22.65	21.95	23.74	19.90	21.90
Development Expenditure	72.03	73.00	71.04	75.17	73.28	72.90

All the three components of quality of expenditure indicated inter year variations. In the year 2004-05, the share of expenditure on all these components in total expenditure decreased as compared to previous year.

Out of the developmental expenditure of Rs.1,381.16 crore during the year, Social Services accounted for 39 per cent (Rs.544.56 crore). Expenditure on general education, health and family welfare, water supply and sanitation constituted 86.61 per cent of the expenditure on Social Sector.

**Table 1.14: Social Sector expenditure**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
General Education, Sports, Art and Culture	153.34	183.21	165.59	198.66	223.92
Health and Family Welfare	63.35	67.67	62.81	76.28	94.00
Water Supply and Sanitation	79.64	83.40	82.46	106.56	153.74
<b>Total</b>	<b>296.33</b>	<b>334.28</b>	<b>310.86</b>	<b>381.50</b>	<b>471.66</b>
As a percentage of expenditure on Social Sector	86.78	84.82	84.84	77.72	86.61

Similarly, the expenditure on Economic Services (Rs.836.60 crore) accounted for 61 per cent of the development expenditure. Of this, irrigation and flood control, energy and transport accounted for 52.92 per cent.

**Table 1.15: Economic Sector expenditure**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Irrigation and Flood Control	52.62	48.65	50.41	77.23	43.29
Energy	107.08	108.04	126.96	195.36	254.96
Transport	140.86	144.32	117.55	188.67	144.50
<b>Total</b>	<b>300.56</b>	<b>301.01</b>	<b>294.92</b>	<b>461.26</b>	<b>442.75</b>
As a percentage of expenditure of Economic Sector	54.21	52.12	51.54	52.35	52.92

# Total expenditure excludes Loans and Advances.

### 1.7.1 Financial assistance to Local Bodies and other Institutions

i) **Extent of assistance:** The quantum of assistance provided to different local bodies *etc.*, during the period of five years ending 2004-05 was as follows:

**Table 1.16**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05
Universities and Educational Institutions	3.79	8.01	10.12	15.89	24.43
Art and Culture	0.46	0.27	0.12	0.21	0.09
Rural activities	2.22	0.15	8.46	16.03	0.85
Social Welfare	0.42	0.90	0.50	0.46	0.70
Civil Supplies	-	-	0.77	4.77	-
Co-operation	-	0.36	-	-	-
Panchayat Raj Institutions	-	-	-	-	0.48
Others Institutions	1.28	0.77	2.43	27.42	15.04
<b>Total</b>	<b>8.17</b>	<b>10.46</b>	<b>22.40</b>	<b>64.78</b>	<b>41.59</b>
Percentage of increase (+)/decrease (-) over previous year	(-) 40.97	28.03	114.15	189.20	(-) 35.80
Assistance as a percentage of revenue expenditure	0.83	1.02	2.17	4.65	2.75

(Source: Information furnished by the AG (A&E).)

The total assistance at the end of 2004-05 had grown by 409 *per cent* over the level of 2000-01, but decreased by 36 *per cent* compared to previous year mainly as a result of decrease in providing assistance to Rural Sector and other Institutions. The assistance to local bodies as a percentage of total revenue expenditure had also decreased from 4.65 *per cent* in 2003-04 to 2.75 *per cent* in 2004-05.

(ii) **Delay in submission of accounts:** According to provisions in the Manual, District Rural Development Agencies (DRDAs) are required to submit their certified accounts to Audit by 30 September each year. Certified accounts were in arrears in respect of 12 DRDAs out of 14. Two DRDAs had not submitted the accounts for 10 years and more, one for six years, two for five years and two for four years. In the absence of accounts, the amount of financial assistance received by the DRDAs from the State/Central Government upto 2004-05 and utilisation thereof could not be ascertained (August 2005) in audit.

The status of submission of accounts by autonomous bodies audited under Section 20 (1) of the CAG's (DPC) Act, 1971 (as amended from time to time) and submission of Audit Reports to the Parliament as of September 2005 is given below:

**Table 1.17**

Name of Body	Year upto which accounts due	Year upto which accounts submitted	Year upto which audit report issued	Year upto which audit report placed before Parliament
North Eastern Regional Institute of Science and Technology <sup>#</sup> (NERIST), Nirjuli	2004-05	2004-05	2003-04	Upto 2001-02. Information regarding placement of Report for the years 2002-03 and 2003-04 are awaited from the Ministry

**1.7.2 Misappropriation, losses etc.:** As of March 2005 there were 36 cases of misappropriation, losses, etc., amounting to Rs.8.92 crore.

The year-wise details are given in **Appendix – II**.

## **1.8 Assets and liabilities**

In the Government accounting system, comprehensive accounting of fixed assets like land and buildings, etc., owned by 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 by the Government. **Appendix – III** gives an abstract of such liabilities and the assets as on 31 March 2005 compared with the corresponding position on 31 March 2004. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government. The liabilities of the Government of Arunachal Pradesh depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to retired State employees. **Appendices – IV, V and VI** depict the abstract of receipts and disbursements for the year 2004-05, sources and application of funds and time series data on State Government finances for the period 2000-05 respectively.

**1.8.2 Investments and returns:** As on 31 March 2005, Government had invested Rs.16.23<sup>Ψ</sup> crore in Government companies and Co-operative Societies. Government's return on this investment was less than one *per cent* in the last five years. With an average interest rate of 10.94 *per cent* being paid by Government on its borrowings, the implicit subsidy during the period 2000-05 amounted to Rs.8.24 crore.

<sup>#</sup> Audit of Institution has been entrusted to Comptroller and Auditor General of India from 2002-03 to 2006-07.

<sup>Ψ</sup> Figures as per Finance Accounts.

**Table 1.18: Return on investment**

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Investment (Rupees in crore)	12.71	15.24	16.08	16.13	16.23	15.28
Returns (Rupees in crore)	0.0001	0.0034	0.0028	0.00	0.00	0.0013
Percentage of returns	0.00	0.02	0.02	0.00	0.00	0.008
Average interest rate paid by Government	14.01	10.68	10.81	10.32	8.90	10.94
Difference between interest rates & return	14.01	10.66	10.79	10.32	8.90	10.93
Implicit subsidy (Rupees in crore)	1.78	1.62	1.74	1.66	1.44	1.65

**1.8.3 Loans and advances by State Government:** In addition to investments in Co-operatives and Government Companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance as on 31 March 2005 was Rs.24.61 crore. Interest received on such loans varied from 0.0006 *per cent* to 3.87 *per cent* during 2000-2005 (Table 1.19). Total implicit subsidy during 2000-2005 on such loans was Rs.8.18 crore.

**Table 1.19: Average interest received on loans advanced by the State Government**

	2000-01	2001-02	2002-03	2003-04	2004-05
Opening Balance	15.17	16.31	19.35	20.09	21.25
Amount Advanced during the year	2.74	4.90	2.98	3.50	5.97
Amount repaid during the year	1.60	1.86	2.24	2.35	2.61
Closing Balance	16.31	19.35	20.09	21.25	24.61
Net Addition	1.14	3.04	0.74	1.15	3.36
Interest Received	0.000	0.690	0.330	0.350	0.49
Interest Received as <i>per cent</i> to loans advanced	0.0006	3.87	1.67	1.69	2.14
Average interest paid by the State ( <i>per cent</i> )	14.01	10.68	10.81	10.32	8.90
Difference between interest paid and received ( <i>per cent</i> )	14.01	6.81	9.14	8.63	6.76
Implicit Subsidy	2.13	1.11	1.77	1.73	1.44

**1.8.4 Commercial activities - Lack of accountability in the use of public funds in departmental commercial undertakings:** Activities of quasi-commercial nature are performed by the departmental undertakings of certain Government departments. These undertakings are required to prepare annual *proforma* accounts in prescribed formats showing the results of financial operations so that Government can assess their functioning. The Heads of Departments in Government are to ensure that the undertakings prepare the accounts in time and submit the same to the Accountant General for audit.

As of 31 March 2005, there were two departmentally managed commercial and *quasi*-commercial undertakings *viz.*, Arunachal Pradesh State Transport Services (APSTS) (Transport Department) and State Trading Scheme (Supply Department) under the control of Government of Arunachal Pradesh. Preparation of *proforma* accounts for these units from 2001-02 to 2004-05 were in arrears.

The failure of the Heads of Departments and the management of the undertakings, in timely preparation of the *proforma* account was repeatedly commented upon in the earlier Reports of the Comptroller and Auditor General of India. Yet, there was no improvement in the position.

**1.8.5 Management of cash balances:** It is 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 the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place. Compared to 2003-04 when WMA facilities were never used by the State, in 2004-05 these facilities were used for 74 days besides obtaining of overdrafts for six days, indicating deterioration in management of cash balances.

#### 1.8.6 Undischarged liabilities

i) **Fiscal liabilities - public debt and guarantees:** The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by an Act of its Legislature. However, no such law has been passed by the State. **Table 1.20** below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

**Table 1.20: Fiscal Liabilities- Basic Parameters**

(Value in Rupees in crore and ratios in *per cent*)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Fiscal Liabilities	945.66	1094.49	1226.53	1524.81	1777.54	1321.81
Rate of Growth	21.70	15.74	15.72	20.39	16.57	18.02
<b>Ratio of Fiscal Liabilities to</b>						
GSDP	53.02	56.37	64.53	67.40	72.31	62.73
Revenue Receipt	98.36	100.85	114.28	96.73	118.36	105.72
Own Resources	1122.05	1075.14	1115.30	928.06	806.84	1009.47
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP	2.301	1.773	14.692	1.335	1.913	4.403
Revenue Receipt	(a)	1.221	7.415	0.483	(a)	1.824
Own resources	5.179	0.757	1.361	0.456	0.486	1.648

(a) Revenue receipts had a negative growth.



Overall fiscal liabilities of the State increased from Rs.945.66 crore in 2000-01 to Rs.1,777.54 crore in 2004-05 on an average rate of 18.02 *per cent* during 2000-2005. The ratio of these liabilities to GSDP also increased from 53.02 *per cent* in 2000-01 to 72.31 *per cent* in 2004-05. These liabilities stood at 1.2 times of its revenue receipts and 8.1 times of its own resources.

In addition to these liabilities, Government have guaranteed loans raised by two Government Companies which at the end of 2004-05 stood at Rs.8.05 crore<sup>#</sup> (Principal: Rs.7.96 crore and Interest: Rs.0.09 crore). The guarantees are in the nature of contingent liabilities. Currently the fiscal liabilities together with the contingent liabilities exceeded the revenue receipts of the State by 1.19 times. Buoyancy of the direct fiscal liabilities with respect to GSDP and revenue receipts averaged greater than one per cent indicating that for each one per cent increase in GSDP and revenue receipts, fiscal liabilities were growing at the rate of 4.403 and 1.824 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. In Arunachal Pradesh, average interest rate on fiscal liabilities at 10.94 *per cent* during 2000-05 was more than the average rate of growth of GSDP by 2.28 *per cent* resulting in negative interest spread in four out of five years. The negative spread of interest may affect debt sustainability.

**Table 1.21 – Debt sustainability – Interest Rate and GSDP Growth (in *per cent*)**

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
Weighted interest rate	14.01	10.68	10.81	10.32	8.90	10.94
GSDP Growth	9.43	8.88	1.07	15.27	8.66	8.66
Interest spread	-4.58	-1.80	-9.74	4.95	-0.24	-2.28

Another important indicator of the debt sustainability is the net availability of the borrowed funds after repayment of principal and payment of interest. **Table 1.22** below gives the position of receipt and re-payment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available during 2000-05 from the total receipts on account of public debt, loans and advances from Government of India and other debt receipts (including Public Account) ranged between 11.93 *per cent* and 20.29 *per cent* only. This was due to repayment of loans and interest from the borrowed funds.

<sup>#</sup> Figure as per Finance Accounts.

**Table 1.22: Net availability of Borrowed Funds**

(Rupees in crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
<b>Internal Debt</b>						
Receipt	73.00	85.85	103.45	189.79	239.72	138.36
Repayment (Principal + Interest)	38.39	53.65	75.99	66.99	175.44	82.09
Net fund available	34.61	32.20	27.46	122.80	64.28	56.27
Net fund available ( <i>per cent</i> )	47.41	37.51	26.54	64.70	26.81	40.59
<b>Loans &amp; Advances from GOI</b>						
Receipt	56.50	68.87	67.02	116.19	71.14	75.94
Repayment (Principal + Interest)	64.77	74.89	88.47	251.88	87.78	113.56
Net Fund available	-8.27	-6.02	-21.45	-135.69	-16.64	-37.61
Net fund available ( <i>per cent</i> )	-14.64	-8.74	-32.01	-116.78	-23.39	-39.11
<b>Other obligations</b>						
Receipt	145.63	136.71	220.73	317.88	210.57	206.30
Repayment (Principal + Interest)	124.02	123.05	180.08	188.65	152.39	153.64
<b>Total Liabilities</b>						
Receipt	275.13	291.43	391.20	623.86	521.43	420.61
Payments	227.18	251.59	344.54	507.52	415.61	349.29
Net receipts	47.95	39.84	46.66	116.34	105.82	71.32
Net Fund available ( <i>per cent</i> )	17.43	13.67	11.93	18.65	20.29	16.39

## 1.9 Management of deficits

**1.9.1 Fiscal imbalances:** The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to its fiscal health. The State had a revenue deficit of Rs.7.80 crore during 2004-05 and the revenue expenditure had to be met from the borrowed funds during the year. The fiscal deficit which represents the total borrowings of the Government and the total resource gap increased from Rs.250.04 crore in 2003-04 to Rs.386.23 crore in 2004-05. The State also saw the primary deficit increasing from Rs.108.12 crore in 2003-04 to Rs.239.33 crore in 2004-05. In proportion to the State's GSDP the revenue deficit stood at 0.32 *per cent* during 2004-05, the fiscal deficit reached 15.71 *per cent* in 2004-05 from 11.05 *per cent* in 2003-04 and the primary deficit reached 9.74 *per cent* in 2004-05 from 4.78 *per cent* in 2003-04.

**Table 1.23 : Fiscal Imbalances – Basic Parameters**

(Values in Rupees in crore and ratios in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05
Revenue deficit (RD) (-)/ Revenue surplus (RS)(+)	-18.21	+55.75	+76.92	+184.41	-7.80
Fiscal deficit (FD)	283.60	248.80	213.88	250.04	386.23
Primary Deficit (PD)	162.92	139.81	88.48	108.12	239.33
RD/GSDP	1.02	RS	RS	RS	0.32
FD/GSDP	15.90	12.81	10.90	11.05	15.71
PD/GSDP	9.14	7.20	4.51	4.78	9.74
RD/FD	6.42	RS	RS	RS	2.02

**1.10 Fiscal ratios**

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.24** below presents a summarised position of government finances over 2000-2005, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, and highlights areas of concern and captures its important facets.

**Table 1.24: Indicators of fiscal health**

(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
<b>Resource Mobilisation</b>						
Revenue Receipt/GSDP	53.91	55.89	56.47	69.68	61.10	59.41
Revenue Buoyancy	(a)	1.451	1.971	2.766	(a)	1.270
Own Tax/GSDP	1.16	1.59	1.90	1.93	2.04	1.72
<b>Expenditure Management</b>						
Total Expenditure/GSDP	69.90	68.80	67.48	80.84	76.91	72.79
Revenue Receipt/Total Exp	77.12	81.24	83.68	86.20	79.43	81.53
Revenue Exp/Total Exp	78.58	77.06	77.87	76.11	79.85	77.91
Plan Exp/Total Exp	51.09	56.88	53.87	53.72	50.47	53.21
Capital Exp/Total Exp	21.24	22.65	21.95	23.74	19.90	21.90
Development Exp/Total Exp	72.03	73.00	71.04	75.17	73.28	72.90
Buoyancy of TE with RR	(a)	0.556	(b)	0.902	(a)	0.292
Buoyancy of RE with RR	(a)	0.396	0.083	0.828	(a)	0.261
Revenue Deficit (Rupees in crore)	18.21	RS	RS	RS	7.80	RS
Fiscal Deficit (Rupees in crore)	283.60	248.80	213.88	250.04	386.23	276.51
Primary deficit (Rupees in crore)	162.92	139.81	88.48	108.12	239.33	147.73
Revenue Deficit/Fiscal Deficit	6.42	RS	RS	RS	2.02	RS

(in per cent)

	2000-01	2001-02	2002-03	2003-04	2004-05	Average
<b>Management of Fiscal Liabilities (FL)</b>						
Fiscal Liabilities/GSDP	53.02	56.37	64.53	67.40	72.31	62.73
Fiscal Liabilities/RR	98.36	100.85	114.28	96.73	118.36	105.72
Buoyancy of FL with RR	(a)	1.221	7.415	0.483	(a)	1.824
Buoyancy of FL with OR	5.179	0.757	1.361	0.456	0.486	1.648
Interest spread	-4.58	-1.80	-9.74	4.95	-0.24	-2.28
Net Funds Available ( <i>per cent</i> )	17.43	13.67	11.93	18.65	20.29	16.39
<b>Other Fiscal Health Indicators</b>						
Return on investment	0.0001	0.0034	0.0028	0.00	0.00	0.0013
BCR (Rupees in crore)	-238.74	-135.58	-131.33	-209.87	-211.31	-185.37
Financial Assets/Liabilities (Ratio)	3.16	2.76	2.46	2.50	2.27	2.63

(a) Revenue receipts had a negative growth.

(b) Total expenditure had a negative growth.

RS Revenue surplus.

The ratio of own taxes to GSDP had shown continuous improvement in the five-year period. The ratio of Revenue receipt to GSDP which had reached its peak during 2003-04, declined in 2004-05. Various ratios concerning expenditure indicate the quality of expenditure and its sustainability in relation to resources. Revenue expenditure during the year increased as compared to earlier years and comprised 79.85 *per cent* of total expenditure in 2004-05 leaving very little for capital formation or asset creation. The development, plan and capital expenditure to total expenditure decreased during the year as compared to previous years. All these indicated inadequate expansion of the State's developmental activities.

Increasing fiscal and primary deficit indicates growing fiscal imbalance of the State. Similarly, increase in the ratio of revenue deficit to fiscal deficit indicates that the application of borrowed funds was largely to meet current consumption.

It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a growing fiscal deficit, indicate that the State is gradually getting into a debt trap. The average weighted interest rate paid by the State on its borrowings during 2000-2005 has also exceeded the rate of growth of its GSDP except during 2003-04, violating the cardinal rule of debt sustainability.

The State's insignificant return on investment indicated an implicit subsidy and use of high cost borrowings for investments, which yielded very little. The ratio of the State's total financial assets to liabilities has also deteriorated indicating that increasingly a greater part of liabilities are without an asset back up. The balance from current revenue continued to be negative

indicating continued dependence on borrowings for plan or developmental expenditure.

### **1.11 Impact of Government policies**

**Appendix – VII** depicts the progress achieved during 2004-05 as compared to 2003-04 in various sectors, according to information furnished by the State Government.

The matter was reported to Government in (November 2005); reply had not been received (December 2005).