

CHAPTER - I

AN OVERVIEW OF THE FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

This chapter discusses the financial position of the State Government, based on the analysis of the information in the Finance Accounts. The analysis is based on the trends in the receipts and expenditure, the quality of expenditure and the financial management of the State Government. In addition, the chapter also contains a section on the analysis of indicators of financial performance of the Government, based on certain ratios and indices developed on the basis of the information contained in the Finance Accounts and other information furnished by the State Government. Some of the terms used in this chapter are described in the **Appendix - I (A)**.

1.2 Financial position of the State

1.2.1 In the Government accounting system comprehensive accounting of fixed assets like land and buildings etc. owned by the Government is not done. The Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. An abstract of such liabilities and the assets as on 31 March 2002, compared with the corresponding position on 31 March 2001 is given below:

Table 1.1
SUMMARISED FINANCIAL POSITION OF THE GOVERNMENT OF
ARUNACHAL PRADESH AS ON 31 MARCH 2002

(Rupees in crore)

As on 31.03.2001	Liabilities		As on 31.03.2002
		External Debt	
219.41		Internal Debt	280.17
	74.14	Market loans bearing interest	101.34
		Market loans not bearing interest	-
	1.31	Loans from LIC	1.24
	143.96	Loans from other Institutions	177.59
		Ways and Means Advances	
		Overdraft from Reserve Bank of India	
442.96		Loans and Advances from Central Government	490.86
	87.02	Non-Plan loans	84.07
	309.42	Loans for State Plan Schemes	358.22
	0.45	Loans for Central Plan Schemes	0.45
	2.00	Loans for Centrally Sponsored Plan Schemes	3.19
	44.07	Loans for Special Schemes	44.93
0.05		Contingency Fund	0.05
263.20		Small Savings, Provident Funds etc.	303.23
17.77		Deposits	18.22
43.26		Suspense and Miscellaneous balances	151.54
7.68		Reserve Funds	9.74
2150.35		Surplus on Government Account	2206.10
	2168.56	(i) Revenue surplus as on 31 March 2001	2150.35
	18.21	(ii) Revenue surplus during the year	55.75
3144.68			3459.91

(Rupees in crore)

As on 31.03.2001	Assets		As on 31.03.2002
3072.13		Gross Capital Outlay on Fixed Assets	3373.64
	12.71	Investment in Shares on Companies, Corporation etc.	13.14
	3059.42	Other Capital Outlay	3360.50
16.31		Loans and Advances	19.35
	6.10	Loans for Other Industries and Minerals	6.10
	2.28	Other Development Loans	2.28
	3.76	Loans for Co-operatives	5.39
	4.17	Loans to Government Servants	5.58
		Reserve Fund Investment	
6.07		Advances	11.54
...		Suspense and Miscellaneous Balances	....
116.48		Remittance Balances	118.92
(-66.31)		Cash in Treasuries and Local Remittances	(-63.54)
	(-72.54)	Deposits with Reserve Bank	(-71.94)
	0.85	Departmental Cash Balance	0.65
	...	Permanent Advances	0.01
	...	Cash Balance Investment	...
	5.38	Investment of earmarked Funds	7.74
		Deficit on Government accounts	
		(i) Revenue Deficit of the Current Year	
		(ii) Appropriation of Contingency Fund	
		(iii) Miscellaneous Deficit	
3144.68			3459.91

1.2.2 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, loans and advances given by the State Government and the cash balances. It would be seen from the table that while the liabilities increased by 26.10 per cent, the assets grew only by 10.02 per cent during 2001-2002 over the previous year, mainly as a result of a very high growth in the market loans bearing interest (37 per cent), loans from other institutions (23 per cent), and Suspense and Miscellaneous balances (250 per cent).

1.3 Sources and application of fund

1.3.1 The position of sources and application of funds during the current and the preceding years is given in the table below.

Table 1.2
SOURCES AND APPLICATION OF FUNDS

(Rupees in crore)

2000-2001		SOURCES		2001-2002
961.41		1. Revenue receipts		1085.30
1.60		2. Recoveries of Loans and Advances		1.86
95.24		3. Increase in Public debt other than overdraft		108.66
180.14		4. Net receipts from Public account		140.85
	67.06	-Increase in Small Savings	40.03	
	5.69	-Decrease in Deposits and Advances	(-5.02)	
	105.68	-Net effect of Suspense and Miscellaneous transactions	108.28	
	(-) 1.71	-Net effect of Remittance transactions	(-)2.44	
0.30		5. Increase in Reserve Funds		(-) 0.31
2.72		6. Increase in earmarked Funds		2.37
...		7. Net effect of Contingency Fund transactions		...
5.20		8. Increase in closing cash balance		...
1246.61				1338.73

(Rupees in crore)

2000-2001	APPLICATION	2001-2002
979.62	1. Revenue expenditure	1029.55
2.74	2. Lending for development and other purposes	4.90
264.25	3. Capital expenditure	301.51
...	4. Net effect of Contingency Fund transactions	...
...	5. Decrease in closing cash balance	2.77
1246.61	Total	1338.73

1.3.2 The main sources of funds include revenue receipts of the Government, recoveries of loans and advances, public debt and receipts in Public Account. These are applied mainly on revenue and capital expenditure and lending for developmental purposes. It would be seen that revenue receipts constitute the most significant source of funds for the State Government. Their relative share increased from 77.12 *per cent* in 2000-2001 to 81.07 *per cent* in 2001-2002. This was mainly due to more receipts received from Food Storage and Warehousing (469 *per cent*), Sales Tax (105 *per cent*), Water Supply and Sanitation (252 *per cent*) and Forestry and Wildlife (94 *per cent*) in comparison with the previous year. The relative share of net receipts from Public Account, however declined from 14.45 *per cent* to 10.52 *per cent* in 2001-2002. The decline in net Public Account receipts was mainly due to decrease in “Deposits and Advances”.

1.3.3 The ratio of revenue expenditure to total application of funds went down from 78.58 *per cent* in 2000-2001 to 76.90 *per cent* in 2001-2002. The revenue expenditure was lower than the total revenue receipts of State Government which led to revenue surplus (Rs.55.75 crore). Despite having revenue surplus the percentage of capital expenditure and lending for development purposes went up marginally from 21.20 to 22.52 and 0.22 to 0.37 *per cent* respectively during 2001-2002 in comparison with 2000-2001.

1.4 Financial operations of the State Government

1.4.1 Exhibit-I (page 19-20) gives the details of the receipts and disbursements made by the State Government. The revenue expenditure (Rs.1029.55 crore) during the year was lower than the revenue receipts (Rs.1085.30 crore) resulting in revenue surplus of Rs.55.75 crore. The revenue receipts comprised tax revenue (Rs.30.89 crore), non-tax revenue (Rs.70.91 crore), share of net proceeds of divisible Union taxes (Rs.90.93 crore) and grants-in-aid from the Central Government (Rs.892.57 crore). The main sources of tax revenue were State Excise (34 *per cent*) and Sales Tax (54 *per cent*). Non-tax revenue came mainly from Forest and Wildlife (36 *per cent*), Power (17 *per cent*), Road Transport (10 *per cent*) and Non-Ferrous Mining and Metallurgical Industries (6 *per cent*).

1.4.2 The capital receipts comprised Rs.1.86 crore from recoveries of loans and advances and Rs.139.99 crore from public debt. Against this, the expenditure was Rs.301.51 crore on capital outlay, Rs.4.90 crore on disbursement of loans and advances and Rs.31.33 crore on repayment of public debt. The receipts in the Public Account amounted to Rs.947.58 crore, against which disbursement of Rs.807.04 crore were made. The net effect of

the transactions in the Consolidated Fund, Contingency Fund and Public Account was decrease of negative cash balance (Rs.2.77 crore) from Rs.(-)66.31 crore at the beginning of the year to Rs.(-)63.54 crore at the end of the year 2001-2002.

1.4.3 The financial operations of the State Government pertaining to its receipts and expenditure are discussed in the following paragraphs, with reference to the information contained in Exhibit-I (page 19-20) and the time series data for the five years period from 1997-98 to 2001-2002 presented below:

Table 1.3

TIME SERIES DATA ON STATE GOVERNMENT FINANCES

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Part A. Receipts					
1. Revenue Receipts	835.46	923.57	1008.92	961.41	1085.30
(a) Tax Revenue	9.83	11.29	13.88	20.63	30.89
Agricultural Income Tax	.....	.....	.....	...	...
Sales Tax	0.32	0.28	0.35	8.19	16.78
State Excise	5.56	7.58	10.08	9.01	10.55
Taxes on vehicle	0.97	1.01	1.12	1.12	1.61
Stamps and Registration fees	0.42	0.50	0.45	0.25	0.27
Land Revenue	1.98	1.33	1.36	1.45	1.00
Other Taxes	0.58	0.59	0.52	0.61	0.68
(b) Non Tax Revenue	57.27	64.54	67.01	63.65	70.91
(c) Share of net proceeds of divisible Union Taxes	243.83	268.84	340.77	115.67	90.93
(d) Grants-in-aid from Government of India	524.53	578.90	587.26	761.46	892.57
2. Misc. Capital Receipts	...	...	...	...	...
3. Total Revenue and non Debt Capital receipts (1+2)	835.46	923.57	1008.92	961.41	1085.30
4. Recoveries of Loans and Advances	1.33	1.38	1.35	1.60	1.86
5. Public Debt Receipts	65.36	76.78	94.81	116.14	139.99
Internal Debt (excluding Ways & Means Advance and Overdrafts)	15.59	18.61	24.50	59.64	71.12
Net Transactions under Ways & Means Advances & Overdraft	...	...	...	...	...
Loans and advances from Government of India ¹	49.77	58.17	70.31	56.50	68.87*
6. Total receipts in the Consolidated Fund (3+4+5)	902.15	1001.73	1105.08	1079.15	1227.15
7. Contingency Fund Receipts	...	...	...	...	...
8. Public Accounts Receipts	4003.49	2939.28	2674.81	875.54**	947.58**
9. Total Receipts of the State (6+7+8)	4905.64	3941.01	3779.89	1954.69	2174.73
Part B. Expenditure/Disbursement					
10. Revenue Expenditure	664.62	746.81	837.34	979.62	1029.55
Plan	260.18	282.51	297.67	371.44	454.48
Non-Plan	404.44	464.30	539.67	608.18	575.07
General Services	195.99	231.54	270.79	332.04	337.33
Social Services	225.76	234.80	280.48	298.60	342.50
Economic Services	242.87	280.47	286.07	348.98	349.72
Grants-in-aid and Contributions	...	...	...	...	...

* Excludes Ways and Means Advances from Government of India.

** Excludes Other Accounts figures.

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002	
11. Capital Expenditure	293.57	232.35	258.87	264.25	301.51	
Plan	294.24	232.50	257.81	264.06	302.64	
Non-Plan	(-)0.67	(-)0.15	1.06	0.19	(-)1.13	
General Services	15.71	15.23	15.29	15.88	22.04	
Social Services	44.91	28.83	31.07	42.89	51.61	
Economic Services	232.95	188.29	212.51	205.48	227.86	
12. Loans and advances given	1.06	1.54	2.85	2.74	4.90	
13. Total (10+11+12)	959.25	980.70	1099.06	1246.61	1335.96	
14. Repayments of Public Debt	12.29	16.07	17.87	20.90	31.33	
Internal Debt (excluding Ways & Means Advances and Overdrafts)	1.84	2.27	2.29	2.72	10.36	
Net Transactions under Ways & Means Advances & Overdraft	...	...	...	...	...
Loans and advances from Government of India*	10.45	13.80	15.58	18.18	20.97	
15. Appropriation to Contingency Fund	...	...	...	...	...
16. Total Disbursement out of Consolidated Fund (13+14+15)	971.54	996.77	1116.93	1267.51	1367.29	
17. Contingency Fund Disbursement	...	...	...	...	...
18. Public Account Disbursement	3913.07	2967.88	2628.03	695.10	807.04***	
19. Total Disbursement by the State (16+17+18)	4884.61	3964.65	3744.96	1962.61	2174.33	
Part C. Deficits/Surplus						
20.	Revenue Surplus (1-10)	170.84	176.76	171.58	-	55.75
	Revenue Deficit	18.21	...
21. Fiscal Deficit (3+4-13)	122.46	55.75	88.79	283.60	248.80	
22. Primary Deficit (21-23)	62.20	(-)15.51	8.99	162.92	139.81	
Part D. Other data						
23. Interest Payments (included in revenue expenditure)	60.26	71.26	79.80	120.68	108.99	
24. Arrears of Revenue (Percentage of Tax & non tax Revenue Receipts)	NA	NA	NA	NA	NA	
25. Financial Assistance to local bodies etc.	10.85	9.06	13.84	8.17	10.46	
26. Ways and Means Advances / Overdraft availed (days)	1	21	6	1	5	
27. Interest on WMA/Overdraft	....	0.010	0.02	0.00026	0.03
28. Gross State Domestic Product (GSDP)	996.19	1071.81	1110.58	1105.79	NA	
29. Outstanding Debt (year end)	565.15	652.80	763.28	925.58	1074.26	
30. Outstanding guarantees (year end)	0.50	0.50	0.50	0.55	0.55	
31. Maximum amount granted (year end)	...	....	....	...	...
32. Number of incomplete projects	...	41	106	241	445	
33. Capital blocked in incomplete projects		31.25	26.02	47.41	61.66	

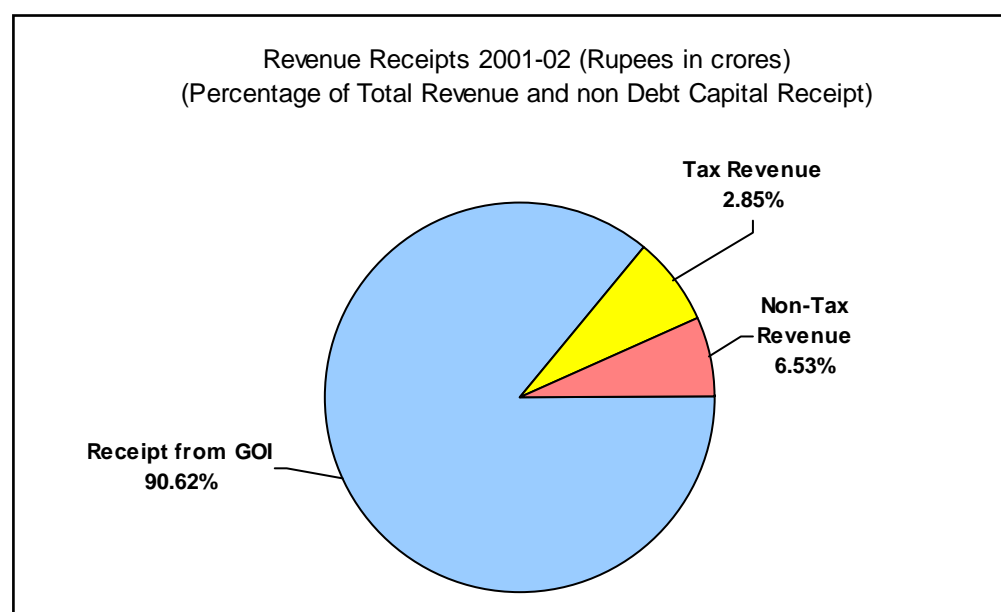
* Excludes Ways and Means and Advances from Government of India.

*** Excludes Other Accounts figures

1.5 Revenue receipts

1.5.1 The revenue receipts consist mainly of tax and non-tax revenue and receipts from Government of India. Their relative shares are shown at figure 1. Revenue receipts increased from Rs.961.41 crore in 2000-2001 to Rs.1085.30 crore in 2001-2002 which constituted an increase of 12.89 per cent.

Figure 1



Tax revenue

1.5.2 These constitute a negligible share (2.85 per cent) of the revenue receipts inspite of a 49.73 per cent growth over the previous year 2000-2001.

Non-tax revenue

1.5.3 The non-tax revenue constituted 6.53 per cent of the revenue receipts of the Government in 2001-2002. Despite having registered a significant growth of 469.40 per cent under Food Storage and Warehousing, the non-tax revenue increased marginally by 11.41 per cent over the previous year i.e. 2000-2001.

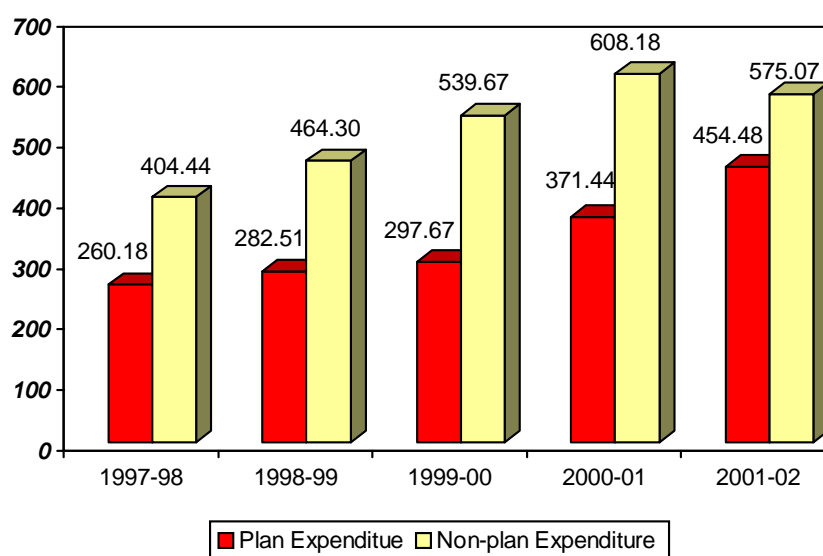
Share of net proceeds of the Union Taxes and grants-in-aid from the Central Government

1.5.4 The share of net proceeds of the divisible Union Taxes (share of net proceeds assigned to States, income other than corporation taxes) decreased by 21 per cent during the year, while the grants-in-aid from the Central Government increased by 17 per cent. These receipts (Rs.983.50 crore) financed 96 per cent of the revenue expenditure (Rs.1029.55 crore) of the State. The relative share of net proceeds of the Union Taxes to revenue receipts decreased from 29 per cent in 1997-98 to 8 per cent in 2001-2002 while the grants-in-aid from Government of India increased from 63 per cent in 1997-1998 to 82 per cent in 2001-2002.

1.6 Revenue expenditure

1.6.1 The revenue expenditure (both Plan and non-Plan) accounted for 77 per cent of the expenditure of the State Government during 2001-2002 and increased by 5 per cent as compared to 2000-2001. Compared to the previous year the increase was 22 per cent under the Plan side and the decrease 5 per cent in the non-Plan side. The share of non-Plan expenditure during 2001-2002 was 56 per cent of the revenue expenditure against 44 per cent under Plan. The trend analysis shows that the growth under non-Plan was faster than the Plan side as shown in figure 2.

Figure 2



1.6.2 Sector-wise analysis shows that while the expenditure on General Services increased by 72 per cent from Rs.195.99 crore in 1997-1998 to Rs.337.33 crore in 2001-2002, the corresponding increase in expenditure on Social Services and Economic Services were 52 per cent and 44 per cent respectively. As a proportion of total expenditure, the share of General Services increased from 29 per cent in 1997-98 to 33 per cent in 2001-2002, whereas the share of Economic Services and Social Services decreased from 37 per cent to 34 per cent and from 34 per cent to 33 per cent respectively.

Interest payments

1.6.3 Interest payments increased steadily by 81 per cent, from Rs.60.26 crore in 1997-1998 to Rs.108.99 crore in 2001-2002 but declined by Rs.11.69 crore in comparison with the previous year 2000-2001. This is further discussed in the section on financial indicators.

Financial assistance to local bodies and other institutions

1.6.4 The quantum of assistance in the form of grants-in-aid provided to different local bodies etc., during the period of five years ending 2001-2002 was as follows:

Table 1.4

(Rupees in crore)

		1997-98	1998-99	1999-2000	2000-01	2001-02
1	Universities and Educational Institutions	6.51	6.73	9.65	3.79	8.01
2	Art and Culture	...	...	...	0.46	0.27
3	Medical and Public Health and other charitable Institutions	3.55	...	...	...	...
4	Urban Development	...	...	...	...	...
5	Social Welfare	...	...	...	0.42	0.90
6	Rural Development	...	1.70	2.43	2.22	0.15
7	Other institutions	0.79	0.63	0.58	1.28	0.77
8	<i>Panchayat Raj</i> Institutions	...	...	1.18	...	...
9	Co-operation	...	...	...	...	0.36
	Total	10.85	9.06	13.84	8.17	10.46
	Percentage of growth over previous year	140	(-) 16.50	52.75	(-) 41	28
	Assistance as a percentage of revenue expenditure	1.63	1.21	1.65	0.83	1.02
	Assistance as a percentage of revenue receipts	1.30	0.98	1.37	0.85	0.96

During the year the assistance to local bodies and others increased by 28 per cent as compared to 2000-2001. The financial assistance to universities and educational institutions also witnessed an increase of 111 per cent over 2000-2001.

1.6.5 The assistance to local bodies and others ranged from 0.85 to 1.37 per cent of the revenue receipts and from 0.83 to 1.63 per cent of the revenue expenditure during 1997-2002.

Loans and Advances by the State Government

1.6.6 The Government gives loans and advances to Government companies, local bodies, autonomous bodies, cooperatives, non-government institutions, etc., for developmental and non-developmental activities. The position for the last five years given below shows that during 2001-2002 there was negligible

improvement in repayment as a result of which the closing balance increased by about 18.64 *per cent*.

Table 1.5**(Rupees in crore)**

	1997-98	1998-99	1999-2000	2000-01	2001-02
Opening balance	13.78	13.51	13.67	15.17	16.31
Amount advanced during the year	1.06	1.54	2.85	2.74	4.90
Amount repaid during the year	1.33	1.38	1.35	1.60	1.86
Closing balance	13.51	13.67	15.17	16.31	19.35
Net addition	(-) 0.27	(+)0.16	(+) 1.50	(+) 1.14	(+) 3.04
Interest received	0.42	0.03	0.001	0.0001	0.69

1.7 Capital expenditure

1.7.1 Capital expenditure leads to asset creation. In addition, financial assets arise from moneys invested in institutions or undertakings outside Government i.e. public sector undertakings (PSUs), corporations, etc. and loans and advances. The capital expenditure in 2000-2001 and 2001-2002 increased by 2 *per cent* and 14 *per cent* over the previous years *viz.* 1999-2000 and 2000-2001 respectively. The share of capital expenditure to total expenditure dropped from 31 *per cent* in 1997-1998 to 23 *per cent* in 2001-2002. The table in paragraph 1.4.3 shows that 75.57 *per cent* and 17.12 *per cent* of the capital expenditure during 2001-2002 was on Economic Services and Social Services respectively.

1.8 Quality of expenditure

1.8.1 Government spends money on different activities ranging from maintenance of law and order to various developmental activities. Government expenditure is broadly classified into Plan and non-Plan and revenue and capital. While the Plan and capital expenditure are usually associated with asset creation, the non-Plan and revenue expenditure are identified with expenditure on establishment, maintenance and services.

1.8.2 Wastage in public expenditure, diversions of funds and funds blocked in incomplete projects would also impinge negatively on the quality of expenditure. Similarly, funds transferred to Deposit heads in the Public Account after booking them as expenditure, can also be considered as a negative factor in judging the quality of expenditure. As the expenditure was not actually incurred in the concerned year it should be excluded from the figures of expenditure for that year. Another possible indicator is the increase in the expenditure on General services, to the detriment of Economic and Social Services.

1.8.3 The following table lists out the trend in these indicators :

Table 1.6

		1997-98	1998-99	1999-2000	2000-01	2001-02
1.	Plan expenditure as a Percentage of :					
	Revenue expenditure	39	38	36	38	44
	Capital expenditure	100	100	100	100	100
2.	Capital expenditure (<i>per cent</i> of total expenditure)	31	24	24	21	23
3.	Expenditure on General Services (<i>per cent</i>)					
	Revenue	29	31	32	34	33
	Capital	5	7	6	6	7
4.	Amount of wastage and diversion of funds detected during test audit	-	-	-		-
5.	Non-remunerative expenditure on incomplete projects (Rupees in crore)	-	31.25	26.02	47.41	61.66

1.8.4 It would be seen that the share of Plan expenditure under revenue increased by 6 *per cent* in 2001-2002 as compared to 2000-2001, whereas under capital *per cent* has been achieved. The share of capital expenditure to total expenditure showed a decreasing trend from 31 *per cent* to 23 *per cent* during 1997-98 to 2001-2002. The expenditure on General Services under both revenue and capital showed an increasing trend between 1998-99 and 2001-2002 in comparison with 1997-98. As on March 2002, Rs.61.66 crore was blocked in 445 incomplete projects.

1.9 Financial Management

1.9.1 The issue of financial management in the Government should relate to efficiency, economy and effectiveness of its revenue and expenditure operations. Subsequent chapters of this report deal extensively with these issues especially as they relate to the expenditure management in the Government, based on the findings of the test audit. Some other parameters, which can be segregated from the accounts and other related financial information of the Government, are discussed in this section.

Investments and returns

1.9.2 Investments are made out of the capital outlay by the Government to promote developmental, manufacturing, marketing and social activities. The sector-wise details of investments made and the number of concerns involved were as under :

Table 1.7**(Rupees in crore)**

Sector	Number of concerns	Amount invested	
		As on 31.03.2002	During 2001-2002
1 Government Companies	5	8.71	-
2 Cooperative Institutions	144	6.53	2.53
Total	149	15.24	2.53

1.9.3 The details of investments and the returns realised during the last five years by way of dividend and interest were as follows :

Table 1.8**(Rupees in Crore)**

Year	Investment at the end of the year	Return	Percentage of return	Rate of interest on Government borrowing (<i>per cent</i>)
1997-1998	11.80	0.01	0.08	13
1998-1999	12.07	0.03	0.25	13.05 and 12.30
1999-2000	12.34	0.001	0.008	14 and 11.30
2000-2001	12.71	0.0001	0.0008	14 and 11.30
2001-2002	15.24	0.0034	0.022	14 and 10.52

1.9.4 Thus, while the Government was raising high cost borrowings from the market, its investments in Government companies etc., fetched insignificant returns.

Ways and means advances and overdraft

1.9.5 Under an agreement with the Reserve Bank of India, the State Government had to maintain with the bank a minimum daily cash balance of Rs.10 lakh. If the balance fell below the agreed minimum balance on any day, the deficiency had to be made good by taking ways and means advances (WMA)/ overdraft (OD) from the bank. In addition special ways and means advances are also made by the bank whenever necessary. Recourse to WMA/OD means a mismatch between the receipts and expenditure of the Government, and hence reflects on the financial management in Government.

1.9.6 The extent to which the Government maintained the minimum balance with the bank and took WMA and OD during the year 2001-2002 is given below :

1. Number of days on which the minimum balance was maintained without obtaining any advance 360 days
2. Number of days on which the minimum balance was maintained by taking ordinary ways and means advance 05 days
3. Number of days on which overdraft was taken ...

1.9.7 During 2001-2002, the State Government took ordinary (Rs.14.73 crore) ways and means advance and the entire amount (Rs.14.73 crore) was repaid along with interest of Rs.2.72 lakh.

1.9.8 Deficits in Government account represent gaps between receipts and expenditure. The nature of deficit is an important indicator of the prudence of financial management in the Government. Further, the ways of financing the deficit and the application of the funds raised in this manner are important pointers of the fiscal prudence of the Government. The discussion in this section relates to three concepts of deficit viz., revenue deficit, fiscal deficit and primary deficit.

1.9.9 Revenue deficit is the excess expenditure over revenue receipts. Fiscal deficit may be defined as the excess of revenue and capital expenditure (including net loans given) over revenue receipts (including grants-in-aid received). Primary deficit is fiscal deficit less interest payments. The following exhibit gives a break-up of the deficit in Government account during 2001-2002 and how these were financed.

Table 1.9

OVERALL FINANCIAL TRANSACTIONS OF GOVERNMENT

(Rupees in crore)

CONSOLIDATED FUND (CF)					
Receipt	Amount			Disbursement	Amount
Revenue	1085.30	Revenue Surplus	55.75	Revenue	1029.55
Misc. Capital receipts	...			Capital	301.51
Recovery of loans & advances	1.86			Loans & advances disbursement	4.90
Sub Total	1087.16	Gross fiscal deficit	248.80	Sub Total	1335.96
Public debt receipts	139.99			Public debt repayment	31.33
Total	1227.15	A:Deficit in CF:	140.14		1367.29

PUBLIC ACCOUNT					
Receipt	Amount			Disbursement	Amount
Small savings, PF, etc.	85.59			Small savings, PF, etc.	45.56
Deposits & advances	78.67			Deposits & advances	83.69
Reserve Funds	2.06			Reserve Funds	2.37
Suspense & Misc.	148.21			Suspense & Misc.	39.93
Remittances	633.05			Remittances	635.49
Total Public Account	947.58	B : Surplus in Public Account :	140.54		807.04
		C : Investment in earmarked fund :	2.37		
Decrease in cash balances (B + C - A): 2.77					

1.9.10 The table shows that though there was no revenue deficit in Government accounts, it had a fiscal deficit of Rs.248.80 crore as of 31 March 2002. The deficit was mainly financed by net proceeds of the Public Debt (Rs.108.66 crore) and partly by the surplus from Public Account (Rs.140.14 crore). The table in paragraph 1.4.3 shows that the fiscal deficit has decreased by 12.27 per cent in 2001-2002, when compared to 2000-2001.

Application of the borrowed funds (fiscal deficit)

1.9.11 The fiscal deficit (FD) represents total net borrowing of the Government. These borrowings are applied for meeting the revenue deficit (RD), for making the capital expenditure (CE) and for giving loans to various bodies for development and other purposes. The relative proportions of these applications would indicate the financial prudence of the State Government and also the sustainability of its operations because continued borrowings for revenue expenditure would not be sustainable in the long run. The following table shows the position in respect of Arunachal Pradesh for the last five years.

Table 1.10

Ratio	1997-98	1998-99	1999-2000	2000-2001	2001-02
RS/FD	(-) 1.39	(-) 3.17	(-) 1.93	-	(-)0.22
RD/FD	-	-	-	0.06	-
CE/FD	2.39	4.17	2.92	0.93	1.21
Net loans/FD	-	-	0.01	0.01	0.01
Total	1.00	1.00	1.00	1.00	1.00

(RS : Revenue Surplus)

1.9.12 As there was revenue surplus during 2001-2002, revenue expenditure had not been met from borrowed funds.

Guarantees given by the State Government

1.9.13 Guarantees are given by the State Government for due discharge of certain liabilities like repayment of loans, share capital, etc., raised by the statutory corporations, Government companies and cooperative institutions etc., and payment of interest and dividend by them. They constitute contingent liability of the State. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limits within which Government may give guarantees on the security of the Consolidated Fund of the State. The outstanding guarantees as on March 2002 were Rs.55.00 lakh.

1.10 Public debt

1.10.1 The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an Act of Legislature of the State. No law had been passed by the State Legislature laying down any

such limit. The details of the total liabilities of the State Government as at the end of the last five years are given in the following table. During the five year period, the total liabilities of the Government had grown by 88 per cent. This was on account of 126 per cent growth in internal debt, 61 per cent growth in loans and advances from Government of India and 111 per cent growth in other liabilities. During 2001-2002, the Government raised market loan amounting to Rs.27.20 crore.

Table 1.11

(Rupees in crore)

Year	Internal debt	Loans and advances from Central Government	Total public debt	Other liabilities	Total liabilities	Ratio of debt to GSDP
1997-1998	123.93	305.55	429.48	153.10	582.58	0.58
1998-1999	140.28	349.91	490.19	178.75	668.94	0.62
1999-2000	162.49	404.64	567.13	209.89	777.02	0.70
2000-2001	219.41	442.96	662.37	283.29	945.66	0.86
2001-2002	280.17	490.86	771.03	323.45	1094.48	NA

1.10.2 The amount of funds raised through Public Debt, the amount of repayment and net funds available are given in the following table:

Table 1.12

(Rupees in crore)

	1997-98	1998-99	1999-2000	2000-2001	2001-2002
Internal Debt^(a)					
Receipt during the year	15.64	52.29	62.06	73.00	85.85
Repayment (Principal + Interest)	17.00	55.84	59.19	38.39	53.65
Net funds available (Per cent)	(-) 1.36 (-9)	(-) 3.55 (-7)	2.87 (5)	34.61 (47)	32.20 (38)
Loans and advances from Government of India					
Receipt during the year	49.77	58.17	70.31	56.50	68.87
Repayment (Principal + Interest)	39.63	47.58	55.29	64.77	74.89
Net funds available (Per cent)	10.14 (20)	10.59 (18)	15.02 (21)	(-) 8.27 (-15)	(-) 6.02 (- 9)
Other liabilities^(b)					
Receipt during the year	39.96	50.06	61.51	145.63	136.71
Repayment	31.25	40.71	48.75	124.02	123.05
Net funds available (Per cent)	8.71 (22)	9.35 (19)	12.76 (21)	21.61 (15)	13.66 (10)

^(a) Includes Ways and Means advances.

^(b) Other liabilities includes small savings, provident fund, reserve funds, deposits and other non-interest bearing obligations.

1.10.3 It would be seen that the bulk of the receipts from borrowings were utilised in repayments during the entire period and with very little available for investment and other expenditure. Considering that the outstanding debt has been increasing year after year the net availability of funds for investment is likely to get reduced.

1.11 Indicators of the financial performance

1.11.1 A Government may either wish to maintain its existing level of activity or increase its level of activity. For maintaining its current level of activity it would be necessary to know how far the means of financing are sustainable. Similarly, if Government wishes to increase its level of activity it would be pertinent to examine the flexibility of the means of financing, and finally, Government's increased vulnerability in the process. All the State Governments continue to increase the level of their activity principally through Five Year Plans which translate into annual development plans and are provided for in the State budget. Broadly, it can be stated that non-Plan expenditure represents Government maintaining the existing level of activity while Plan expenditure entails expansion of activity. Both these activities require resource mobilisation increasing Government's vulnerability. In short, the financial health of a Government can be described in terms of sustainability, flexibility and vulnerability. These terms are defined as follows:

(i) Sustainability

Sustainability is the degree to which a Government can maintain existing programmes and meet existing creditor requirements without increasing the debt burden.

(ii) Flexibility

Flexibility is the degree to which a Government can increase its financial resources to respond to rising commitments by either expanding its revenues or increasing its debt burden.

(iii) Vulnerability

Vulnerability is the degree to which a Government becomes dependent on and therefore vulnerable to sources of funding outside its control or influence, both domestic and international.

(iv) Transparency

There is also the issue of financial information provided by the Government. This consists of Annual Financial Statement (Budget) and the Accounts. As regards the budget the important parameters are timely presentation indicating the efficiency of budgetary process and the accuracy of the estimates. As regards, accounts, timeliness in submission, for which milestones exist and completeness of accounts would be the principal criteria.

1.11.2 Information available in Finance Accounts can be used to flesh out sustainability, flexibility, and vulnerability that can be expressed in terms of certain indices/ratios worked out from the Finance Accounts. The list of such indices/ratios is given in **Appendix - I (B)** to this chapter. The table in Exhibit-II (page 21) read in conjunction with **Appendix – II** indicates the behaviour of these indices/ratios over the period from 1997-98 to 2001-2002. The implications of these indices/ratios for the state of the financial health of the State Government are discussed in the following paragraphs.

1.11.3 *The behaviour of the indices/ratios is discussed below*

(i) *Balance from current revenues (BCR)*

BCR is defined as revenue receipts minus plan assistance grants minus non-plan revenue expenditure. A positive BCR shows that the State Government had surplus from its revenues for meeting plan expenditure. The table shows that the State Government had a negative BCR in all the five years, suggesting that Government had to depend only on borrowings for meeting its plan expenditure.

(ii) *Interest ratio*

The higher the ratio the lesser the ability of the Government to service any fresh debt and meet its revenue expenditure from its revenue receipts. In Arunachal Pradesh the ratio increased from 0.07 to 0.10. This rising interest ratio has adverse implications on sustainability since it points out to rising interest burden.

(iii) *Capital outlay/capital receipts*

This ratio would indicate to what extent the capital receipts are applied for capital formation. A ratio of less than 1 (one) would not be sustainable in the long term in as much as it indicates that a part of the capital receipt is being diverted to unproductive revenue expenditure. On the contrary, a ratio of more than one would indicate that capital investments are being made from revenue surplus as well. The trend analysis of this ratio would throw light on the fiscal performance of the State Government. A rising trend would mean an improvement in the performance. In Arunachal Pradesh, the ratio has come down from 3.42 in 1997-98 to 1.65 in 2001-2002 indicating that lesser revenue receipts were being applied for capital formation.

(iv) *Tax receipts vs Gross State Domestic Product (GSDP)*

Tax receipts consist of State taxes and State's share of Central taxes. The latter can also be viewed as Central taxes paid by people living in the State. Tax receipts suggest sustainability but the ratio of tax receipts to GSDP would imply that the Government can tax more, and hence its flexibility. A high ratio may not only point to the limits of this source of finance but also its inflexibility. Time series analysis shows that in Arunachal Pradesh this ratio during four years viz., 1997-98 to 2000-2001 decreased from 0.25 to 0.12. The ratio of State tax receipts compared to GSDP has increased from 0.01 to

0.02 during the period from 1997-98 to 2000-2001. The trend analysis for these four years suggests that while the State Government had the option to raise more resources through taxation, it chose the easier option of borrowing to meet its increasing revenue and fiscal deficits. As the GSDP figures pertaining to 2001-2002 have not yet been finalised by the Government for which the ratio of the year could not be worked out.

(v) Return on Investment (ROI)

The ROI is the ratio of the earnings to the capital employed. A high ROI suggests sustainability. The tables at (page 11) presents the return on Government's investments in statutory corporations, Government companies, joint stock companies and co-operative institutions. The ROI in Arunachal Pradesh has been negligible and ranged from 0.0001 to 0.03 during 1997-2002. As the investments are made from borrowed funds the insignificant return makes them unsustainable.

(vi) Capital repayments vs Capital borrowings

This ratio would indicate the extent to which the capital borrowings are available for investment, after repayment of capital. The lower the ratio, the higher would be the availability of capital for investment. In Arunachal Pradesh, this ratio has been in the ranges of 0.15 to 0.64 during the five years period ending March 2002. Compared to 2000-2001 (0.15) the ratio increased during 2001-2002 (0.20) indicating decrease in the availability of fund for capital investment.

(vii) Debt vs Gross State Domestic Product (GSDP)

The GSDP is the total internal resource base of the State Government which can be used to service debt. An increasing ratio of debt/GSDP would signify a reduction in the Government's ability to meet its debt obligations and therefore increasing risk for the lender. In Arunachal Pradesh, this ratio increased from 0.58 to 0.86 in 2000-2001 showing greater inability of the Government to meet debt obligations. The figures for 2001-2002 have not yet been furnished by the department (December 2002).

(viii) Primary deficit vs Fiscal deficit

Primary deficit is the fiscal deficit minus interest payments. This means that the lower the value of the ratio, the lesser is the availability of funds for capital investment. In Arunachal Pradesh, the ratio was less than one in all the preceding five years which was indicative of increased vulnerability since capital was being applied to meet fiscal deficit rather than increasing the assets.

(ix) Revenue deficit/Fiscal deficit

The revenue deficit is the excess of revenue expenditure over revenue receipts and represents the revenue expenditure financed by borrowings, etc. Evidently, the higher the revenue deficit, the more vulnerable is the State. Since fiscal deficit represents the aggregate of all the borrowings the revenue deficit as a percentage of fiscal deficit would indicate the extent to which the borrowings of the Government are being used to finance non-productive

revenue expenditure. Thus, the higher the ratio the worse off is the State because it would indicate that the deficit burden is increasing without adding to the repayment capacity of the State. In Arunachal Pradesh, there was no revenue deficit during the five years period ending March 2002 except for the year 2000-2001.

(x) Guarantees vs Revenue receipts

Outstanding guarantees including the letter of credit issued by the Government, indicate the risk exposure of a State Government and should therefore be compared with the ability of the Government to pay *viz.* its revenue receipts. Thus, the ratio of the total outstanding guarantees to total revenue receipts of the Government would indicate the degree of vulnerability of the State Government. In Arunachal Pradesh, the ratio ranged between 0.0005 and 0.0006 during 1997-2002 and was thus negligible.

(xi) Assets vs Liabilities

This ratio indicates the solvency of the Government. A ratio of more than 1 would indicate that the State Government is solvent (assets are more than liabilities) while a ratio of less than 1 would be a contra indicator. In Arunachal Pradesh this ratio has all along been more than 1 but has decreased from 4.12 in 1997-1998 to 2.76 in 2001-2002 indicating lowering of solvency of the Government.

(xii) Budget

Chapter II of this Report carries a detailed analysis of variations in the budget estimates and the actual expenditure as also of the quality of budgetary procedure and control over expenditure. It indicates defective budgeting and inadequate control over expenditure, as evidenced by persistent resumption (surrenders) of significant amounts every year *vis-à-vis* the final modified grant. Significant variations (excess/savings) between the final modified grant and actual expenditure were also persistent.

1.12 Conclusions

The financial position of the State Government is characterised by negative BCR, considerable increase in interest ratio and negligible return on investment during the period from 1997-1998 to 2001-2002 indicating that the State does not have any surplus for meeting Plan expenditure from its revenue after excluding the Central Plan Assistance received and meeting the non-Plan expenditure. This in turn limited the state's ability for creating assets and potential for increased revenues. Even the limited capital expenditure had no appreciable benefit due to negligible returns on investments. This had adverse implications for sustainability.

1.13 The matter was reported to Government in October 2002; reply has not been received (December 2002).

EXHIBIT - I
ABSTRACT OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2001-2002
(Rupees in crore)

Receipts			Disbursements		
2000-2001		2001-2002	2000-2001		2001-2002
	Section – A: Revenue				
961.41	I. Revenue receipts	1085.30	979.62*	I. Revenue expenditure	1029.55
20.63	Tax Revenue 30.89		332.04	General Services 337.33	
63.65	Non Tax Revenue 70.91			Social Services 342.50	
	Share of net proceeds of the divisible Union Taxes		142.88	-Education, Sports, Art and Culture	164.87
115.67	States Share of Union Taxes 90.93		57.08	-Health and Family Welfare	61.77
			54.22	-Water Supply, Sanitation, Housing and Urban Development	62.20
169.48	Non-Plan grants 246.76		2.87	-Information and Broadcasting	2.86
				-Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	...
			2.87	-Labour and Labour Welfare	6.78
514.89	Grants for State Plan Scheme 554.44		2.87	-Social Welfare and Nutrition	42.08
64.82	Grants for Central and Centrally Sponsored Plan Schemes 78.61		1.63	-Others	1.94
12.27	Grants for Special Plan Schemes 12.76			Economic Services 349.72	
			141.76	-Agriculture and Allied Activities	144.50
			24.46	-Rural Development	26.57
			7.03	-Special Areas programmes	13.17
			46.34	-Irrigation and flood control	43.18
			20.16	-Energy	16.37
			15.13	-Industry and Minerals	12.47
			46.83	-Transport	45.43
			2.31	-Science, Technology and Environment	0.29
			35.43	-General Economic Services	39.99
				-Grants-in-aid and contribution	...
			9.53	-Communication	7.75
18.21	II Revenue deficit carried over to Section B			II Revenue Surplus carried over to Section B	55.75
(-) 61.11	III Opening Cash balance including Permanent Advances and Cash Balance investment	(-) 66.31	---	III Opening Overdraft from RBI	---
	IV Miscellaneous Capital receipts		264.25	IV Capital Outlay	301.51
			15.88	General Services-	22.04
...				Social Services-	51.61
			10.46	-Education Sports, Art and Culture	18.34
			6.27	-Health and Family Welfare	5.90
			25.42	-Water Supply, Sanitation, Housing and Urban Development	21.20
				-Information and Broadcasting	0.12
				-Welfare of Scheduled Castes Scheduled Tribes and Other Backward classes	...
			0.60	-Social Welfare and Nutrition	5.36
			0.14	-Others	0.69
				Economic Services-	227.86
			3.15	-Agriculture and Allied Activities	5.69
			0.70	-Rural Development	0.78
			12.23	-Special Areas Programmes	23.27
			6.28	-Irrigation & Flood Control	5.47
			86.92	-Energy	91.67
			0.52	-Industry and Minerals	0.25
			94.03	-Transport	98.89
			1.65	-General Economic Services	1.84
1.60	V Recoveries of Loans and advances	1.86	2.74	V Loans and Advances disbursed	4.90
...	-From Power Projects ...		...	-For Power Projects	...

* Details of Plan and non-Plan expenditure are given in Appendix – I(C)

(Rupees in crore)

Receipts			Disbursements		
2000-2001		2001-2002	2000-2001		2001-2002
	Section – A: Revenue				
1.22	-From Government Servants 1.58		2.40	-To Government Servants 2.99	
0.38	-From Others 0.28		0.34	-To others 1.91	
...	VI Revenue Surplus brought down	55.75	18.21	VI Revenue deficit brought down	...
116.14	VII Public debt receipts	139.99	20.90	VII Repayment of Public Debt	31.33
	-External debt ...			-External debt ...	
59.64	-Internal debt other than ways and means Advances and Overdraft 71.12		2.72	-Internal debt other than Ways & Means Advances & Overdraft 10.36	
	-Net transactions under Ways and Means Advances including overdraft ...			- Net transactions under Ways and Means Advances including Overdraft ...	
56.50	-Loans and Advances from Central Government 68.87		18.18	-Repayment of Loans and Advances to Central Government 20.97	
...	VIII Appropriation to Contingency Fund		...	VIII Appropriation to Contingency Fund	
...	IX Amount transferred to Contingency Fund		...	IX Expenditure from Contingency Fund	
875.54	X Public Account receipts	947.58	695.10	X Public Accounts disbursements	807.04
102.96	-Small savings and Provident fund 85.59		35.90	- Small savings and provident fund 45.56	
3.02	Reserve Funds 2.06		2.72	- Reserve Funds 2.37	
133.26	-Suspense and Miscellaneous 148.21		27.58	-Suspense and Miscellaneous 39.93	
574.32	-Remittance 633.05		572.61	-Remittance 635.49	
61.98	-Deposits and Advances 78.67		56.29	-Deposits and Advances 83.69	
...	XI Closing Overdraft from Reserve Bank of India	...	(-) 66.31	XI Cash Balance at end of 31 March 2002	(-) 63.54
2.72	XII Earmarked funds	2.37		-Cash in Treasuries and Local Remittances	
			(-) 72.54	-Deposits with Reserve Bank (-) 71.94	
			0.85	-Departmental Cash Balance including permanent Advances 0.66	
				-Cash Balance Investment ...	
			5.38	-Investment of earmarked funds 7.74	
1914.51	Total	2166.54	1914.51	Total	2166.54

Explanatory notes

1. The abridged accounts in foregoing statement have to be read with comments and explanations in the Finance accounts.
2. Government accounts being mainly on cash basis, the surplus on Government account, as shown in paragraph 1.2 indicates the position on cash basis, as opposed to accrual basis in the commercial accounting, consequently, items payable or receivable or items like depreciation or variation in stock figure etc., do not figure in the accounts.
3. Suspense and miscellaneous balances includes cheques issued but not paid, payment made on behalf of the State and other pending settlements.
4. There was a difference of Rs.18.69 crore (net debit) between the figure reflected in the accounts Rs.(-) 63.13 crore and that intimated by the RBI under “Deposit with Reserve Bank” Rs.(-) 81.82 crore. The difference is under reconciliation.

EXHIBIT-II
FINANCIAL INDICATORS FOR GOVERNMENT OF ARUNACHAL
PRADESH

	1997-98	1998-99	1999-2000	2000-2001	2001-02
Sustainability					
BCR (Rs. in crore)	(-) 39.20	(-) 81.35	(-) 108.15	(-) 238.74	(-) 135.58
Primary Deficit (PD) (Rs.in crore)	62.21	(-) 15.51	8.99	162.92	139.81
Interest Ratio	0.07	0.07	0.08	0.12	0.10
Capital outlay/Capital receipts	3.42	2.24	1.99	1.43	1.65
Total tax receipts/GSDP	0.25	0.26	0.32	0.12	NA
State Tax Receipts/GSDP	0.01	0.01	0.01	0.02	NA
Return on Investment ratio	0.01	0.03	0.0001	Nil	0.0034
Flexibility					
BCR (Rs. in crore)	(-) 39.20	(-) 81.35	(-) 108.15	(-) 238.74	(-) 135.58
Capital repayments/Capital borrowings	0.64	0.21	0.19	0.15	0.20
State Tax receipts/GSDP	0.01	0.01	0.01	0.02	NA
Debt/GSDP	0.58	0.62	0.70	0.86	NA
Vulnerability					
Revenue Surplus (RS) (+) or Revenue Deficit (-) (Rs.in crore)	170.84	176.76	171.58	(-) 18.21	55.75
Fiscal Deficit (FD) (Rs. in crore)	122.46	55.75	88.79	283.60	248.80
Primary Deficit (PD) (Rs. in crore)	62.20	(-) 15.51	8.99	162.92	139.81
PD/FD	0.51	0.28	0.10	0.57	0.56
RS/FD	(-) 1.39	(-) 3.17	(-) 1.93	...	(-) 0.22
RD/FD	*	*	*	0.06	...
Outstanding Guarantees/revenue receipts	0.0006	0.0005	0.0005	0.0006	0.0005
Assets/Liabilities	4.12	3.99	3.79	3.16	2.76

Note :

1. The interest payment in 1998-99 was more than the fiscal deficit, hence the negative figure for primary deficit.
2. Fiscal deficit has been calculated as: Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Non-loan capital receipts.
3. In the ratio Capital outlay vs. Capital receipts, the denominator has been taken as internal loans + Loans and Advances from Government of India + Net receipts from small savings, PF, etc. + Repayments received from loans advanced by the State Government – Loans advanced by State Government.

* In all the years there was a revenue surplus