

CHAPTER – I

FINANCES OF THE STATE GOVERNMENT

In Summary

During the period 1999-2004 the State had revenue surplus for all the years except 2000-01 and the revenue expenditure had not been met from borrowed funds. The fiscal deficit, however, increased from Rs.88.79 crore in 1999-2000 to Rs.250.04 crore in 2003-04 and increased by 16.91 *per cent* over the previous year indicating that the State is gradually getting into a debt trap.

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.1008.92 crore in 1999-2000 to Rs.1576.36 crore in 2003-04 at an average trend rate of 12.35 *per cent*. There were, however, significant inter year variations in the growth rates. During the current year the revenue receipts grew by 42.23 *per cent*. On an average 9.36 *per cent* of the revenue came from State's own resources. The Central tax transfers as well as the grants-in-aid from Government of India increased by 31.99 *per cent* and 43.34 *per cent* respectively over the last year.

Total expenditure of the State increased from Rs.1099.06 crore in 1999-2000 to Rs.1828.75 crore in 2003-04 at an average trend rate of 13.98 *per cent*. The rate of growth of expenditure in 2003-04 was 38.08 *per cent* which was much higher than the average trend rate (13.98 *per cent*) for five years.

In 2003-04 there was an increase of 49.40 *per cent* in capital expenditure and 18.42 *per cent* in non-developmental expenditure over the previous year. The interest payment during 2003-04 was Rs.141.92 crore and the same grew by 13.17 *per cent* over the last year. The average growth rate of interest payment during the period 1999-2004 was 16.35 *per cent*. Debt burden (fiscal liabilities) of the State at the end of 2003-04 was Rs.1417.90 crore, up by 15.61 *per cent* over the previous year. The average rate of interest paid on the borrowings of the State during 1999-2004 (10.73 *per cent*) was more than the average rate of growth of GSDP (3.31 *per cent*), violating the cardinal rule of debt sustainability. The finances of the State continued to be dependent on borrowings for its plan and developmental expenditure.

Though it is not uncommon for a State to borrow for widening its infrastructure and creating income generating assets, an ever increasing ratio of fiscal liabilities to GSDP together with fiscal deficit could lead the State finances into a debt trap. State Government proposes to achieve fiscal sustainability in the medium term in accordance with the Arunachal Pradesh Medium Term Fiscal Reforms Programme in the coming years.

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 2004.

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 2004.

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:

(Rupees in crore)

2002-03	Sl.No.	Major Aggregates	2003-04
1108.29	1	Revenue receipts (2+3+4)	1576.36
37.26	2	Tax revenue	43.73
76.30	3	Non-tax revenue	120.57
994.73	4	Other receipts	1412.06
2.24	5	Non-debt capital receipts	2.35
2.24	6	Of which recovery of loans	2.35
1110.53	7	Total non debt receipts (1+5)	1578.71
612.40	8	Non-plan expenditure (9+11+12)	847.93
608.90	9	On revenue account	841.18
125.40	10	Of which interest payments	141.92
0.63	11	On capital account	3.61
2.87	12	On loans disbursed	3.14
712.01	13	Plan expenditure (14+15+16)	980.82
422.47	14	On revenue account	550.72
289.43	15	On capital account	429.74
0.11	16	On loans disbursed	0.36
1324.41	17	Total expenditure (8+13)	1828.75
213.88	18	Fiscal deficit (17-7)	250.04
76.92	19	Revenue surplus (9+14-1)	184.46
- 88.48	20	Primary deficit (-)/surplus (+) {10-18}	-108.12

1.3 Summary of Receipts and Disbursements for the year

Table 1.1 summarises the finances of the Government of Arunachal Pradesh for the year 2003-04 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 1.1: Summary of Receipts and Disbursements for the year 2003-2004

(Rupees in crore)							
2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
					Non-Plan	Plan	Total
Section – A : Revenue							
1108.29	I. Revenue receipts	1576.36	1031.37	I. Revenue expenditure	841.18	550.72	1391.90
37.26	Tax revenue	43.73	364.56	General services	421.78	16.42	438.20
76.30	Non-tax revenue	120.57	327.76	Social services	138.72	294.56	433.28
121.68	Share of Union taxes/ duties	160.60	339.05	Economic services	280.68	239.74	520.42
873.05	Grants from Government of India	1251.46	...	Grants-in-aid/ contribution	...	...	...
Section – B: Capital							
...	II. Miscellaneous capital receipts	...	290.06	II. Capital outlay	3.61	429.74	433.35
2.24	III. Recoveries of loans and advances	2.35	2.98	III. Loans and advances disbursed	...	...	3.50
143.08	IV. Public debt receipts	305.98	38.83	IV. Repayment of public debt	...	...	206.87
...	V. Contingency fund	...	...	V. Contingency fund	...	...	...
1513.88	VI. Public account receipts	958.09	1314.05	VI. Public Account disbursement	...	...	969.76
2.58	VII. Earmarked fund	2.58					
- 63.54	Opening balance	29.24	29.24	Closing balance			- 130.78
2706.53	Total	2874.60	2706.53	Total			2874.60

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**.

Box – 1.2
Reporting Parameters

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 average GSDP. The new GSDP, not published by the Economic and Statistics Department of the State Government, has been calculated at average growth rate of last five years.

For most series a trend growth during 1999-2004 has been indicated. The ratios with respect of GSDP have also been depicted. Some of the terms used here are explained in Appendix – I.

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**.

Box – 1.3		
State Government Funds and the Public Account		
<i>Consolidated Fund</i>	<i>Contingency Fund</i>	<i>Public Account</i>
<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>	<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>	<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>

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 proceeds from disinvestments, 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 2003-04 were Rs.2842.78 crore as shown in **Table 1.2**. Of these, the revenue receipts were Rs.1576.36 crore, constituting 55 *per cent* of the total receipts. The balance of receipts came from borrowings and Public Account receipts.

Table 1.2: Resources of Arunachal Pradesh

		(Rupees in crore)
I.	Revenue Receipts	1576.36
II.	Capital Receipts	308.33
	(a) Miscellaneous receipts	...
	(b) Recovery of loans and advances	2.35
	(c) Public debt receipts	305.98
III.	Contingency Fund Receipts	...
IV.	Public Account Receipts	958.09
	(a) Small savings, provident fund, <i>etc.</i>	141.33
	(b) Reserve fund	72.14
	(c) Deposits and advances	136.66
	(d) Suspense and miscellaneous	- 333.11
	(e) Remittance	941.07
	Total Receipts	2842.78

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 1.3**.

Table 1.3: Revenue Receipts-Basic Parameters

(Values in Rupees in crore and others in *per cent*)

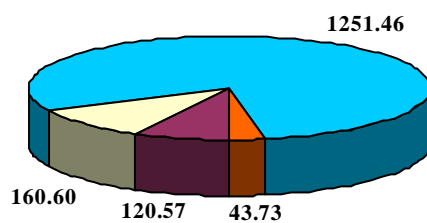
	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Receipts	1008.92	961.41	1085.30	1108.29	1576.36	1148.06
Own Taxes	1.38	2.15	2.85	3.36	2.77	2.50
Non-Tax Revenue	6.64	6.62	6.53	6.88	7.65	6.86
Central Tax Transfers	33.77	12.03	8.38	10.98	10.19	15.07
Grants-in-aid	58.21	79.20	82.24	78.78	79.39	75.56
Rate of Growth	9.24	-4.71	12.89	2.12	42.23	12.35
Revenue Receipt/GSDP	94.90	86.41	99.27	95.38	131.36	101.46
Revenue Buoyancy	2.277	-1.012	-7.402	0.337	12.918	1.42
GSDP	1063.19	1112.66	1093.29	1162.01	1200.00	1126.23
GSDP growth	4.06	4.65	(-) 1.74	6.29	3.27	3.31

The revenue receipts of the State increased from Rs.1008.92 crore in 1999-2000 to Rs.1576.36 crore in 2003-04 at an average rate of 12.35 *per cent*. There were, however, significant inter-year variations in the growth

rates. The revenue receipts in 2000-01 and GSDP in 2001-02 had recorded no growth. During 1999-2004, the GSDP growth of the State remained quite low at less than seven *per cent* in nominal terms. Revenue buoyancy shows no growth during 2000-01 due to no growth in revenue receipts during the year. Similarly, during 2001-02 revenue receipts also kept less buoyant due to no growth in GSDP during the year. During 2003-04, although the GSDP growth rate declined, higher growth in revenue receipts resulted in considerable growth in revenue buoyancy.

While 11 *per cent* of the revenue receipts during 2003-04 have come from State's own resources comprising tax and non-tax revenues, central tax transfers and grants-in-aid together contributed 89 *per cent* of the total revenue. Sales Tax was the major contributor (50 *per cent*) of the State's own tax revenue followed by State Excise (35 *per cent*), Land Revenue (eight *per cent*) and taxes on vehicles (five *per cent*). The tax revenue of the State declined from 3.36 *per cent* of the total revenue in 2002-03 to 2.77 *per cent* in 2003-04 while the non-tax revenue witnessed marginal increase to 7.65 *per cent* in 2003-04 from 6.88 *per cent* in 2002-03. Central tax transfers as percentage of total revenue of the State continuously declined from 33.78 in 1999-2000 to 10.19 in 2003-04.

Revenue Receipts for 2003-04
(Rupees in crore)



Own Taxes	Non-Tax Revenue
Central Tax Transfers	Grants-in-aid

The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 0.84 *per cent* for Education, Sports, Art and Culture, 0.42 *per cent* for Medical and Public Health and 1.51 *per cent* for Water Supply and Sanitation.

The total receipts by sources during 1999-2004 is indicated in **Table 1.4**.

Table 1.4: Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account	
1999-2000	1008.92	1.35	94.81	2674.81	3779.89
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

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.1099.06 crore in 1999-2000 to Rs.1828.75 crore in 2003-04 at an average trend rate of 13.98 *per cent* per annum. The rate of growth of total expenditure was higher than the rate of growth of revenue receipts during this period.

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 1.5** below:

Table 1.5: Total Expenditure-Basic Parameters

(Values in Rupees in crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Total Expenditure	1099.06	1246.61	1335.96	1324.41	1828.75	1366.96
Rate of Growth	12.07	13.43	7.17	-0.86	38.08	13.98
TE/GSDP Ratio	103.37	112.04	122.20	113.98	152.40	120.80
Revenue Receipts/TE Ratio	91.80	77.12	81.24	83.68	86.20	84.01
Buoyancy of Total Expenditure with						
GSDP	2.974	2.885	-4.117	-0.138	11.648	2.650
Revenue Receipts	1.306	-2.851	0.556	-0.408	0.902	-0.099

Consistent increase of total expenditure over a five-year period 1999-2004 except for the year 2002-03 was also reflected in gradual increase in the percentage of total expenditure to GSDP (103.37 to 152.40 *per cent*) and also revenue receipts to total expenditure (from 77.12 to 91.80 *per cent*). During 2003-04, total expenditure over the previous year increased by Rs.504.34 crore. The increase was mainly due to increase in revenue expenditure by Rs.360.53 crore which was 71 *per cent* of the net increase of total expenditure over the previous year.

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 1.6**.

Table 1.6: Components of Expenditure-Relative Share

	(in per cent)					
	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
General Services	18.77	18.23	18.74	19.43	18.33	18.70
Interest Payments	7.26	9.68	8.16	9.47	8.44	8.60
Social Services	28.35	27.39	29.50	27.67	27.86	28.15
Economic Services	45.36	44.48	43.23	43.21	45.12	44.28
Loans & Advances	0.26	0.22	0.37	0.23	0.25	0.26

The movement of the relative share of these components of expenditure indicated that all components of expenditure had, inter-year variations. But expenditure on General Services and interest payments, which were considered non-developmental, together accounted for 26.77 per cent in 2003-04 as against 26.03 per cent in 1999-2000. On the other hand, development expenditure *i.e.*, on Social and Economic services together accounted for 72.98 per cent in 2003-04 as against 73.71 per cent in 1999-2000. This indicated a decline in developmental expenditure.

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 1.7**.

Table 1.7: Revenue Expenditure-Basic Parameters

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Expenditure (Rupees in crore)	837.34	979.62	1029.55	1031.37	1391.90	1053.96
Rate of Growth (per cent)	12.12	16.99	5.10	0.18	34.96	13.87
RE/GSDP	78.76	88.04	94.17	88.76	115.99	93.14
RE as percentage of TE	76.19	78.58	77.06	77.87	76.11	77.16
RE as percentage of RR	82.99	101.89	94.86	93.06	88.30	92.22
Buoyancy of Revenue Expenditure with (per cent)						
GSDP	2.987	3.652	-2.928	0.028	10.694	2.887
Revenue Receipts	1.312	-3.608	0.396	0.083	0.828	-0.198

Overall revenue expenditure of the State increased at an average rate of 13.87 per cent. Rate of growth of revenue expenditure reached the level of 34.96 per cent in 2003-04. As a result revenue expenditure-GSDP ratio increased to

115.99 per cent in 2003-04 from 88.76 per cent in 2002-03. On an average 77.16 per cent of the total expenditure was on current consumption.

i) **High salary expenditure:** Salaries alone accounted for 31.30 per cent of the revenue receipts and 35.44 per cent of the revenue expenditure of the State during 2003-04. The expenditure on salaries increased from Rs.356.99 crore in 1999-2000 to Rs.493.35 crore in 2003-04 at an average annual rate of 8.72 per cent as indicated in **Table 1.8**.

Table 1.8

(Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Salary expenditure	356.99	396.89	401.57	407.81	493.35	411.32
Growth in salary expenditure	8.12	11.77	1.18	1.55	20.98	8.72
As a percentage of GSDP	33.57	35.58	36.73	35.09	41.11	36.42
As a percentage of Revenue Receipts	35.38	41.18	37.00	36.79	31.29	36.33
As a percentage of Revenue Expenditure	42.63	40.41	39.00	39.54	35.44	39.40

(Source: Information furnished by the State Government).

ii) **Huge expenditure on pension payments:** Pension payments have increased by 69.31 per cent from Rs.38.94 crore in 1999-2000 to Rs.65.93 crore in 2003-04 (average annual rate of 14.17 per cent). Year-wise break-up of expenditure incurred on pension payments during the years 1999-2000 to 2003-04 was as under:

Table 1.9

(Rupees in crore)

Year	Expenditure	Percentage to total revenue expenditure
1999-2000	38.94	4.65
2000-2001	47.50	4.85
2001-2002	54.16	5.26
2002-2003	60.13	5.83
2003-2004	65.93	4.74

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 1999-2000 to 2003-04 were as shown below:

Table 1.10

Year	Interest payment (Rupees in crore)	Percentage of interest with reference to	
		Revenue Receipt	Revenue Expenditure
1999-2000	79.80	7.91	9.53
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

Interest payments increased steadily by 77.84 *per cent* from Rs.79.80 crore in 1999-2000 to Rs.141.92 crore in 2003-04 primarily due to ever increasing borrowings. The interest payment was on Internal Debt (Rs.47.23 crore), loans received from Central Government (Rs.64.77 crore) and Small Savings, PF, *etc.*, (Rs.29.92 crore).

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

Table 1.11

(Rupees in crore)

Sl. No	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Industrial units	0.08	2.52	-	1.00	0.06
2.	Subsidy on rice	0.05	-	0.02	0.08	0.05
3.	Others	2.64	0.25	1.26	0.19	0.58
Total		2.77	2.77	1.28	1.27	0.69
Percentage of increase(+)/decrease(-) over previous year		---	---	(-) 53.79	(-) 0.78	(-) 45.67
Percentage of subsidy in total expenditure [#]		0.25	0.22	0.10	0.10	0.04

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

During the current year subsidies constituted 0.04 *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. Higher the ratio of these components to total expenditure, better is the quality of expenditure. Table 1.12 gives these ratios during 1999-2004, as follows:

Table 1.12: Quality of expenditure (*per cent to total expenditure*[#])

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Total expenditure (Rupees in crore)	1096.21	1243.87	1331.06	1321.43	1825.25	1363.56
Plan Expenditure	50.67	51.09	56.88	53.87	53.72	53.25
Capital Expenditure	23.62	21.24	22.65	21.95	23.74	22.64
Development Expenditure	73.90	72.03	73.00	71.04	75.17	73.03

All the three components of quality of expenditure indicated inter year variations. While the share of plan expenditure in total expenditure increased by 6.02 *per cent* in 2003-04 as compared to 1999-2000, that of capital expenditure as well as of developmental expenditure witnessed marginal

[#]Total expenditure excludes Loans and Advances.

increase by 0.51 *per cent* and 1.72 *per cent* respectively in 2003-04 when compared to 1999-2000.

Out of the developmental expenditure of Rs.1371.97 crore during the year, social services accounted for 35.78 *per cent* (Rs.490.87 crore). Expenditure on General Education, Health, Medical and Family Welfare, Water Supply and Sanitation constituted 77.72 *per cent* of the expenditure on Social sector.

Table 1.13: Social Sector expenditure

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
General Education, Sports, Art and Culture	134.01	153.34	183.21	165.59	198.66
Health, Medical and Family Welfare	56.42	63.35	67.67	62.81	76.28
Water Supply and Sanitation	80.82	79.64	83.40	82.46	106.56
Total	271.25	296.33	334.28	310.86	381.50
As a percentage of expenditure on Social Sector	87.06	86.78	84.82	84.84	77.72

Similarly, the expenditure on Economic Services (Rs.881.10 crore) accounted for 64.22 *per cent* of the development expenditure. Of this, Irrigation and Flood Control and Energy and Transport accounted for 52.35 *per cent*.

Table 1.14: Economic Sector expenditure

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Irrigation and Flood Control	27.33	52.62	48.65	50.41	77.23
Energy	104.68	107.08	108.04	126.96	195.36
Transport	131.54	140.86	144.32	117.55	188.67
Total	263.55	300.56	301.01	294.92	461.26
As a percentage of expenditure of Economic Sector	52.86	54.21	52.12	51.54	52.35

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 2003-04 was as follows:

Table 1.15

	(Rupees in crore)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Universities and Educational Institutions	9.65	3.79	8.01	10.12	15.89
Art and Culture	-	0.46	0.27	0.12	0.21
Rural activities	2.43	2.22	0.15	8.46	16.03
Social Welfare	-	0.42	0.90	0.50	0.46
Civil Supplies	-	-	-	0.77	4.77
Co-operation	-	-	0.36	-	-
Panchayat Raj Institutions	1.18	-	-	-	-
Others Institutions	0.58	1.28	0.77	2.43	27.42
Total	13.84	8.17	10.46	22.40	64.78

(Rupees in crore)					
	1999-2000	2000-01	2001-02	2002-03	2003-04
Percentage of increase (+)/decrease(-) over previous year	52.76	(-) 40.97	28.03	114.15	189.20
Assistance as a percentage of revenue expenditure	1.85	0.83	1.02	2.17	4.65

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

The total assistance at the end of 2003-04 had grown by 368 *per cent* over the level of 1999-2000, and increased by 189 *per cent* compared to previous year mainly as a result of increased assistance to Rural Sector and other Institutions. The assistance to local bodies as a percentage of total revenue expenditure had, also increased from 1.65 in 1999-2000 to 4.65 in 2003-04.

ii) Delay in furnishing Utilisation Certificates: Financial rules of Government require that where grants are given for specific purposes, certificates of utilisation should be obtained by the departmental officers from grantees and after verification, these should be forwarded to Accountant General within one year from the date of sanction, unless specified otherwise.

Although the Finance Department, Government of Arunachal Pradesh was requested (August 2004) to furnish department-wise position of utilisation certificates due and submitted during the last three years, the required information was not furnished (October 2004).

iii) 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 all the 13 DRDAs. One DRDA had not submitted the accounts for 10 years, one for nine years, one 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 2003-04 and utilisation thereof could not be ascertained (November 2004), 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 2003 is given below:

Table 1.16

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 [#] (NERIST), Nirjuli	2003-04	2003-04	2002-03	Upto 2001-02 (Information regarding placement of Report for the year 2002-03 is awaited from the Ministry)

[#] Audit of Institution has been entrusted to Comptroller and Auditor General of India from 2002-03 to 2006-07.

1.7.2 Misappropriation, losses etc.: As of March 2004 there were 32 cases of misappropriation, losses, etc., amounting to Rs.846.03 lakh.

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

1.8 Assets and liabilities

In the government accounting system, comprehensive accounting of the 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 2004 compared with the corresponding position on 31 March 2003. 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. The liabilities of 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 2003-04, sources and application of funds and time series data on State Government finances for the period 1999-2004 respectively.

1.8.1 Incomplete projects: As on 31 March 2004, there were 64 incomplete projects in which Rs.172.02 crore were blocked.

1.8.2 Investments and returns: As on 31 March 2004, Government had invested Rs.16.13^ψ crore in its Statutory Corporations, Government companies, Joint Stock 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 11.62 *per cent* being paid by Government on its borrowings, the average annual subsidy amounted to 11.61 *per cent* and the implicit subsidy during the period 1999-2004 was Rs.8.35 crore.

Table 1.17: Return on investment

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Investment (Rupees in crore)	12.34	12.71	15.24	16.08	16.13	14.49
Returns (Rupees in crore)	0.001	0.0001	0.0034	0.0028	0.00	0.00
Percentage of returns	0.01	0.00	0.02	0.02	0.00	0.01
Average interest rate paid by Government	11.27	14.29	10.90	10.90	10.73	11.62
Difference between interest rates & return	11.26	14.29	10.88	10.88	10.73	11.61
Implicit subsidy (Rupees in crore)	1.39	1.82	1.66	1.75	1.73	1.67

^ψ Figures as per Finance Accounts.

1.8.3 Loans and advances by State Government: In addition to investments in Co-operatives, Corporations and 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 2004 was Rs.21.25 crore. Interest received on such loans varied from 0.0006 *per cent* to 3.87 *per cent* during 1999-2004 (Table 1.18). Total implicit subsidy during 1999-2004, on such loans was Rs.8.47 crore.

Table 1.18: Average interest received on loans advanced by the State Government

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	13.67	15.17	16.31	19.35	20.09
Amount Advanced during the year	2.85	2.74	4.90	2.98	3.50
Amount repaid during the year	1.35	1.60	1.86	2.24	2.35
Closing Balance	15.17	16.31	19.35	20.09	21.25
Net Addition	1.50	1.14	3.04	0.74	1.15
Interest Received	0.001	0.000	0.690	0.330	0.350
Interest Received as <i>per cent</i> to loans advanced	0.007	0.0006	3.87	1.67	1.69
Average interest paid by the State (<i>per cent</i>)	11.27	14.29	10.90	10.90	10.73
Difference between interest paid and received (<i>per cent</i>)	11.26	14.28	7.03	9.23	9.04
Implicit Subsidy	1.54	2.17	1.15	1.79	1.82

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 annually *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 2004, 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 2003-04 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 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. The State has shown improvement in management of cash balances as it had not obtained WMA facilities and overdraft during the year as against WMA facilities availed for 28 days in previous year signifying distinct improvement in cash management.

1.8.6 Undischarged liabilities

i) **Fiscal liabilities - public debt and guarantees:** 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 the Act of its Legislature. However, no such law has been passed by the State. **Table 1.19** 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 1.19: Fiscal Liabilities- Basic Parameters

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

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Fiscal Liabilities [#]	763.28	925.58	1074.26	1226.43	1417.90	1081.49
Rate of Growth	16.92	21.26	16.06	14.17	15.61	16.81
Ratio of Fiscal Liabilities to						
GSDP	71.79	83.19	98.26	105.54	118.16	95.39
Revenue Receipt	75.65	96.27	98.98	110.66	89.95	94.30
Own Resources	943.60	1098.22	1055.27	1079.98	862.99	1008.01
Buoyancy of Fiscal Liabilities to						
GSDP	4.17	4.57	-9.23	2.25	4.78	1.31
Revenue Receipt	1.83	-4.52	1.25	6.69	0.37	1.12
Own resources	2.54	5.07	0.77	1.23	0.35	1.99

Overall fiscal liabilities of the State increased from Rs.763.28 crore in 1999-2000 to Rs.1417.90 crore in 2003-04 on an average rate of 16.81 per cent during 1999-2004. The ratio of these liabilities to GSDP also increased from 71.79 per cent in 1999-2000 to 118.16 per cent in 2003-04. These liabilities stood at 0.90 times of its revenue receipts and 8.63 times of its own resources.

In addition to these liabilities, Government have guaranteed loans raised by various Corporations and others which at the end of 2003-04 stood at Rs.22.76 crore^ψ (Principal: Rs.20.36 crore and Interest: Rs.2.40 crore). No law under Article 293 of the Constitution had been passed by the State Legislature laying

[#] Includes internal debt, loans and advances from GOI and Small Savings and Provident Fund.

^ψ Figure as per Finance Accounts.

down the maximum limit within which government may give guarantees on the security of the Consolidated Fund of the State.

The fiscal liabilities had grown faster than the State's GSDP, revenue receipts and own resources. Average buoyancy of these liabilities with respect to GSDP was 1.31 indicating that for each one *per cent* increase in GSDP fiscal liabilities were growing at the rate of 1.31 *per cent*.

Another important indicator of the debt sustainability is the net availability of the borrowed funds after repayment of principal and payment of interest. **Table 1.20** 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 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 18.65 *per cent* only. This was due to repayment of loans and interest from the borrowed funds.

Table 1.20: Net availability of Borrowed Funds

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Internal Debt						
Receipt	62.06	73.00	85.85	103.45	189.79	102.83
Repayment (Principal + Interest)	59.19	38.39	53.65	75.99	66.99	58.84
Net fund available	2.87	34.61	32.20	27.46	122.80	43.99
Net fund available (<i>per cent</i>)	4.62	47.41	37.51	26.54	64.70	36.16
Loans & Advances from GOI						
Receipt	70.31	56.50	68.87	67.02	116.19	75.78
Repayment (Principal + Interest)	55.29	64.77	74.89	88.47	251.88	107.06
Net Fund available	15.02	-8.27	-6.02	-21.45	-135.69	-31.28
Net fund available (<i>per cent</i>)	21.36	-14.64	-8.74	-32.01	-116.78	-30.16
Other obligations						
Receipt	61.51	145.63	136.71	220.73	317.88	176.49
Repayment (Principal + Interest)	48.75	124.02	123.05	180.08	188.65	132.91
Total Liabilities						
Receipt	193.88	275.13	291.43	391.20	623.86	355.10
Payments	163.23	227.18	251.59	344.54	507.52	298.81
Net receipts	30.65	47.95	39.84	46.66	116.34	56.29
Net Fund available (<i>per cent</i>)	15.81	17.43	13.67	11.93	18.65	15.50

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. Except for the year 2000-01,

the State had revenue surplus for all the four years and the revenue expenditure had not been met from borrowed funds. The fiscal deficit which represents the total borrowings of the Government and the total resource gap increased from Rs.88.79 crore in 1999-2000 to Rs.250.04 crore in 2003-04. The State also had primary deficit increasing from Rs.8.99 crore in 1999-2000 to Rs.108.12 crore in 2003-04. As proportion to State's GSDP, the fiscal deficit reached 20.84 *per cent* in 2003-04 from 8.35 *per cent* in 1999-2000 and primary deficit reached 9.01 *per cent* in 2003-04 from 0.85 *per cent* in 1999-2000.

Table 1.21 : Fiscal Imbalances – Basic Parameters

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

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue deficit (-)/ Revenue surplus (+)	171.58	(-) 18.21	55.75	76.92	184.41
Fiscal deficit	(-) 88.79	(-) 283.60	(-) 248.80	(-) 213.88	(-) 250.04
Primary Deficit	(-) 8.99	(-) 162.92	(-) 139.81	(-) 88.48	(-) 108.12
RD/GSDP	---	(-) 1.64	---	---	---
FD/GSDP	(-) 8.35	(-) 25.49	(-) 22.76	(-) 18.41	(-) 20.84
PD/GSDP	(-) 0.85	(-) 14.64	(-) 13.01	(-) 7.61	(-) 9.01
RD/FD	---	6.42	---	---	---

(Negative figures indicate deficit).

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.22** below presents a summarised position of government finances over 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

Table 1.22: Indicators of fiscal health

(in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Resource Mobilisation						
Revenue Receipt/GSDP	94.90	86.41	99.27	95.38	131.36	101.46
Revenue Buoyancy	2.28	-1.01	-7.40	0.34	12.92	1.42
Own Tax/GSDP	1.31	1.85	2.83	3.21	3.64	2.57
Expenditure Management						
Total Expenditure/GSDP	103.37	112.04	122.20	113.98	152.40	120.80
Revenue Receipt/Total Exp	91.80	77.12	81.24	83.68	86.20	84.01
Revenue Exp/Total Exp	76.19	78.58	77.06	77.87	76.11	77.16
Plan Exp/Total Exp	50.67	51.09	56.88	53.87	53.72	53.25
Capital Exp/Total Exp	23.62	21.24	22.65	21.95	23.74	22.64
Development Exp/Total Exp	73.90	72.03	73.00	71.04	75.17	73.03
Buoyancy of TE with RR	1.3060	-2.8509	0.5562	-0.4081	0.9017	-0.10

(in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Buoyancy of RE with RR	1.31	-3.61	0.40	0.08	1.12	-0.14
Management of Fiscal Imbalances						
Revenue Deficit (Rupees in crore)	0.00	18.21	0.00	0.00	0.00	3.64
Fiscal Deficit (Rupees in crore)	88.79	283.60	248.80	213.88	250.04	217.02
Primary deficit (Rupees in crore)	8.99	162.92	139.81	88.48	108.12	101.66
Revenue Deficit/Fiscal Deficit	0.00	6.42	0.00	0.00	0.00	1.28
Management of Fiscal Liabilities (FL)						
Fiscal Liabilities/GSDP	71.79	83.19	98.26	105.54	118.16	95.39
Fiscal Liabilities/RR	75.65	96.27	98.98	110.66	89.95	94.30
Buoyancy of FL with RR	1.83	-4.52	1.25	6.69	0.37	1.12
Buoyancy of FL with OR	2.54	5.07	0.77	1.23	0.35	1.99
Net Funds Available	15.81	17.43	13.67	11.93	18.65	15.50
Other Fiscal Health Indicators						
Return on investment	0.001	0.0001	0.0034	0.0028	0.00	0.00
BCR (Rupees in crore)	-108.15	-238.74	-135.58	-131.33	-209.87	-164.73
Financial Assets/Liabilities	3.79	3.16	2.76	2.46	2.50	2.93

The ratio of own taxes to GSDP had shown continuous improvement in the five-year period. The ratio of Revenue receipt to GSDP and its buoyancy showed inter-year variations. Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. The total expenditure to GSDP is buoyant. Revenue expenditure is on the increasing trend over the five-year period 1999-2004 and comprises 76.11 *per cent* of total expenditure in 2003-04 leaving very little for capital formation or asset creation. The development expenditure to total expenditure, however, did not witness any significant increase over the last five years. All these indicate State's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its developmental activities.

Increasing fiscal and primary deficit indicates growing fiscal imbalance of the State. All the four indicators of fiscal imbalance except for revenue surplus show continuous deterioration over time indicating increasing unsustainability and vulnerability of State finances.

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. Similarly, the higher buoyancy of the debt with regard to its revenue receipts indicate its increasing unsustainability. The average weighted interest rate paid by the State on its borrowings during 1999-04 has also exceeded the rate of growth of its GSDP, violating the cardinal rule of debt sustainability.

The State's insignificant return on investment indicates huge implicit subsidy and utilisation of high cost borrowing for investments that yield 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 of the State has also 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 2003-04 as compared to 2002-03 in various sectors, according to information furnished by the State Government.

The matter was reported to Government in November 2004; reply had not been received (December 2004).