CHAPTER - I
Finances of the State Government

Profile of Arunachal Pradesh

Arunachal Pradesh, a Special Category State[1], is situated in the North-Eastern region, with a geographical area of about 83,743 sq km. It has a long international border with Bhutan in the west (160 km), China in the north and north-east (1080 km) and Myanmar in the east (440 km). It also shares common boundaries with Assam and Nagaland. Arunachal Pradesh provides shelter to 0.11 *per cent* population of the country. According to the Census of India, 2011 (provisional data), the population of the State stands at 13,82,611 (Male:7,20,232; Female: 6,62,379) and the density of population of the State is 17 persons per sq km. Gross Domestic Product of the State during 2010-11 was ₹ 8233.06 crore (Base Year 2004-05). The estimated per capita GSDP of the State stood at ₹ 59,547 during 2010-11.

As per Gross State Domestic Product (GSDP)[2] series (Base Year 2004-05), there was a fluctuating trend in the growth rate of GSDP. While the growth of GSDP during 2006-07 was 9.37 *per cent,* and reached its peak in 2009-10 (24.13 *per cent*), it declined to 16.62 *per cent* in 2010-11. The average Compound Annual Growth Rate (CAGR) in respect of GSDP for Arunachal Pradesh between 2004-05 and 2010-11 was 15.39 *per cent.*

The State depends mostly on resources transferred by the Central Government as the State's own resources during 2006-11 contributed only about 14 to 25 *per cent* of the total revenue receipts. The outstanding fiscal liabilities of the State as percentage to GSDP indicated a decreasing trend during the period 2006-11. It declined from its peak of 57.79 *per cent* in 2006-07 to 41.98 *per cent* in 2010-11.

This Chapter provides a broad perspective of the finances of the Government of Arunachal Pradesh during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year, keeping in view the overall trends during the last five years. The analysis has been made based on the State Finance Accounts and the information obtained from State Government. The structure of Government Accounts, lay-out of Finance Accounts, methodology adopted for assessment of the fiscal position and State Profile are shown in **Appendix 1.1. Appendix 1.2** of the Chapter briefly outlines the Fiscal Responsibility and Budget Management Act of the Government while **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2006-11.

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[1] The Fifth Finance Commission accorded (1969) special status to three states on the basis of harsh terrain, backwardness and social problems prevailing in these states. Thereafter, the number of such states has increased to 11, including Arunachal Pradesh.

[2] GSDP is defined as the total income of the State or the market value of goods and services using labour and all other factors of production.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2010-11) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as the overall fiscal position during the current year.

Table 1.1: Summary of Fiscal Transactions (Current Year)

(₹ in crore)

2009-10	Receipts	2010-11	2009-10	Disbursements	2010-11		
Section – A : Revenue							
					Non-Plan	**Plan**	**Total**
4294.87	**Revenue Receipts**	**5422.09**	**3695.59**	**Revenue Expenditure**	**2533.08**	**1211.16**	**3744.24**
173.44	Tax Revenue	214.99	1161.03	General Services	1239.44	25.79	1265.23
511.25	Non-tax Revenue	530.14	1196.66	Social Services	631.02	363.26	994.28
475.40	Share of Union Taxes/Duties	720.18	1337.90	Economic Services	662.62	822.11	1484.73
3134.78	Grants-in-aid from Government of India	3956.78					
Section – B : Capital							
…	**Miscellaneous Capital receipts**		**1030.31**	**Capital Outlay**	**17.17**	**1632.03**	**1649.20**
202.70	**Recoveries of Loans and Advances**	**2.41**	**205.46**	**Loans and Advances Disbursed**	**6.31**	**-**	**6.31**
216.20	**Public Debt Receipts[3]**	**122.36**	**110.81**	**Repayment of Public Debt**	**-**	**86.50**	**86.50**
…	**Contingency Fund**		**…..**	**Contingency Fund**			
4264.84	**Public Account Receipts**	**3077.77**	**3660.68**	**Public Account Disbursements**		**-**	**2949.79**
1334.62	**Opening Balance**	**1610.39**	**1610.39**	**Closing Balance**			**1798.98**
10313.24	**Total**	**10235.02**	**10313.24**	**Total**			**10235.02**

Following are the significant changes during 2010-11 over the previous year:

- **Revenue Receipts** increased by 26.25 *per cent* (₹ 1127.22 crore) over the previous year. The increase was contributed by Grants-in-aid of ₹ 822 crore (26.22 *per cent*) from the Government of India (GOI), State's share of Union Taxes and Duties of ₹ 244.78crore (51.49 *per cent*), Tax Revenue of ₹ 41.55crore (23.96 *per cent*) and Non-tax Revenue of ₹18.89crore (3.69 *per cent*).

- **Revenue Expenditure** increased by 1.32 *per cent* (₹ 48.65 crore) over the previous year. While ₹ 75.99 crore of the increase was under Plan heads, this was partly offset by decrease under Non-plan heads amounting to ₹27.34 crore.

[3] Includes net Ways and Means Advances.

Capital Expenditure during the year increased by 60.07 *per cent* (₹ 618.89 crore) over the previous year.

- **Recovery and Disbursement of Loans and Advances** during the current year decreased by ₹200.29 crore and ₹ 199.15 crore respectively compared to the previous year. This was due to non-payment of any loan by the State Government to the Co-operative Apex Bank during 2010-11 against loans of ₹ 200 crore paid and recovered during the previous year.

- **Public Debt Receipts** decreased by ₹ 93.84 crore over the previous year mainly due to decrease in receipts under Internal Debt (₹ 94.21 crore). Repayment of Public Debt also decreased by ₹ 24.31 crore over the previous year.

- **Public Account Receipts** and **Disbursements** decreased by ₹ 1187.07 crore and ₹ 710.89 crore respectively over the previous year.

- The total inflow during 2010-11 was ₹ 8624.63 crore against ₹ 8978.62 crore in 2009-10, while the total outflow during 2010-11 was ₹ 8436.04 crore against ₹ 8702.85 crore during the previous year, registering a decrease of 3.94 *per cent* and 3.07 *per cent* respectively leading to ***increase in the cash balances of the State by ₹188.59 crore (11.71 per cent) over the previous year***.

1.2 Arunachal Pradesh Fiscal Responsibility and Budget Management Act

In accordance with the Twelfth Finance Commission (XIIth FC), the Government of Arunachal Pradesh enacted the Arunachal Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, 2006 (**Appendix 1.2**). The State Government also developed its own Fiscal Correction Path detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the APFRBM Act. According to the recommendations of the Thirteenth Finance Commission (XIIIth FC), *the states should amend/enact FRBM Acts to build in the fiscal reform path worked out. State-specific grants recommended for a state should be released upon compliance.* However, the APFRBM Act was amended by the State Government only in December 2011, though it was deemed to have come into force with effect from 1st April 2010. The amended APFRBM Act {read with APFRBM (Amendment) Ordinance, 2012} *inter alia* substituted Sub-section (3) of Section 4 of the APFRBM Act, 2006 and inserted a new Clause (g) under Section 4 as follows:

(a) Maintain the level of revenue surplus in all the years beginning from the initial financial year on the 1st day of April 2010 and ending 31st March 2015 {Clause (a) of Sub-section 3 - Section 4};

(b) Maintain revenue surplus as a percentage of GSDP in each of the financial years beginning on the 1st day of April 2010 and ending on 31st March 2015 in a manner consistent with the goal set out in Clause (a) {Clause (b) of Sub-section 3 - Section 4};

(c) Reduce fiscal deficit to not more than 3 *per cent* of estimated GSDP by the year 2011-12 and to maintain the same in the subsequent years during 2012-13 to 2014-15 {Clause (c) of Sub-section 3 - Section 4};

(d) Maintain the outstanding debt not to be more than 61.3 *per cent* of GSDP during 2010-11, 58.2 *per cent* of GSDP during 2011-12, 55.2 *per cent* of GSDP during 2012-13, 52.5 *per cent* of GSDP during 2013-14 and 50.1 *per cent* of GSDP during 2014-15 {Clause (d) of Sub-section 3 - Section 4};

(e) Set up by the Government an independent review or monitoring system, so as to ensure compliance of the provisions of this Act {Clause (d) of Sub-section 3 – Section 4}

(f) Government shall notify a Medium Term Fiscal Plan with three year rolling targets, giving details of all significant items of receipts-expenditure, along with underlying assumptions made for projection purposes {Clause (g) of Section 4}.

1.3 Growth and Composition of GSDP

Gross State Domestic Product, a major fiscal indicator is considered to be a key factor for assessing the performance of the State's economy. It is prepared based on an income generating approach that measures gross income generated by factors of production physically located within the geographical boundaries of the State and also represents the volume of goods and services produced within the State. As per New GSDP series furnished (December 2011) by the Directorate of Economics and Statistics, the Government of Arunachal Pradesh (GoAP), the quick estimated GSDP for the State of Arunachal Pradesh was ₹ 8233.06 crore during 2010-11, which was arrived at on the basis of current prices, taking into account 2004-05 as base year. The table below shows the trend of growth of GSDP for the last five years.

Table 1.2 : Trends in Gross State Domestic Product

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Gross State Domestic Product[4] (₹ in crore)	4102.93	4806.91	5687.62	7059.83	8233.06
Growth rate of GSDP	9.37	17.16	18.32	24.13	16.62

The GSDP at current prices increased from ₹ 7059.83 crore in 2009-10 to ₹ 8233.06 crore in 2010-11, representing an increase of 16.62 *per cent.* The increase in the growth of GSDP during 2010-11 over that of previous year was mainly due to increase of 39.18 *per cent* under Secondary Sectors like Transport, Storage, Communications, Trade, Hotels, *etc;.* followed by 33.38 *per cent* under Industries. The growth of GSDP during 2010-11 also exceeded the projection made by the XIIIth FC (10.71 *per cent*). The average compound annual growth rate in respect of GSDP for Arunachal Pradesh between 2004-05 and 2010-11 was 15.39 *per cent.*

[4] 2006-07 to 2008-09 - Revised Estimate; 2009-10 - Provisional Estimate; and 2010-11- Quick Estimate

1.4 Budget Analysis

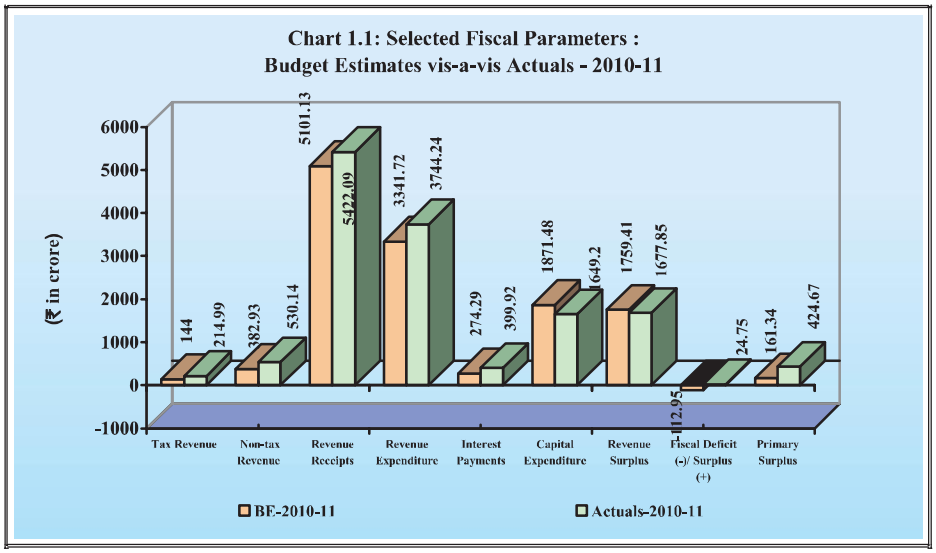
The budget documents presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for the deviation of the actual realisation from the Budget Estimates. It may be because of unanticipated and unforeseen events or under or over-estimation of expenditure or revenue at the budget stage, *etc.* Actual realisation of revenue and its disbursement, however, depends on various factors, some internal and others external. **Table 1.3** presents the consolidated picture of State finances during 2009-10 (actuals) and 2010-11 (Budget Estimates, Revised Estimates and actuals) and **Chart 1.1** presents the Budget Estimates and actuals for some important fiscal parameters for 2010-11.

Table 1.3 : Variation in major items – actuals of 2010-11 over 2009-10 and Budget Estimates/Revised Estimates with actuals of 2010-11

(₹ in crore)

Parameters	2009-10	2010-11			Percentage of Excess (+)/ Shortfall (-) with reference to		
	Actuals	Budget Estimates (BE)[5]	Revised Estimates (RE)[5]	Actuals	Actuals of 2009-10	BE	RE
Tax Revenue	**173.44**	144.00	199.56	214.99	**+ 23.96**	**+ 49.30**	**+ 7.73**
Non-Tax Revenue	**511.25**	382.93	496.21	530.14	**+ 3.69**	**+ 38.44**	**+ 6.84**
Revenue Receipts	**4294.87**	**5101.13**	**6716.93**	**5422.09**	**+ 26.25**	**+ 6.29**	**- 19.28**
Non-debt Capital Receipts	**202.70**	2.72	3.00	2.41	**- 98.81**	**- 11.40**	**- 19.67**
Revenue Expenditure	**3695.59**	**3341.72**	**3792.15**	**3744.24**	**+ 1.32**	**+ 12.05**	**- 1.26**
Interest Payments	**226.98**	274.29	252.40	399.92	**+ 76.19**	**+ 45.80**	**+ 58.45**
Capital Expenditure	**1030.31**	**1871.48**	**3045.32**	**1649.20**	**+ 60.07**	**- 11.88**	**- 45.84**
Disbursement of Loans and Advances	**205.46**	3.60	6.10	6.31	**- 96.93**	**+ 75.28**	**+ 3.44**
Revenue Surplus	**+ 599.28**	**+ 1759.41**	**+ 2924.78**	**+ 1677.85**	**+ 179.98**	**- 4.64**	**- 42.63**
Fiscal Deficit (-)/Surplus (+)	**- 433.79**	- 112.95	- 123.64	+ 24.75	**+ 105.71**	**+ 121.91**	**+ 120.02**
Primary Deficit (-)/ Surplus (+)	**- 206.81**	+ 161.34	+ 128.76	+ 424.67	**+ 305.34**	**+ 163.21**	**+ 229.82**

[5] Net estimates



- During 2010-11, both the actual **Revenue Receipts** and **Revenue Expenditure,** as compared with the Budget Estimates, exceeded by 6.29 *per cent* and 12.05 *per cent* respectively and fell short of the Revised Estimates by19.28 *per cent* and 1.26 *per cent* respectively.

- The **Capital Expenditure,** *vis-à-vis* Budget Estimates, was less by 11.88 *per cent* (₹ 222.28 crore). Compared to the previous year, the Capital Expenditure of the State increased by ₹ 618.89 crore, which was mainly due to increase of ₹ 256.08 crore (166.72 *per* cent) under Social Services and ₹ 336.12 crore (41.28 *per cent*) under Economic Services.

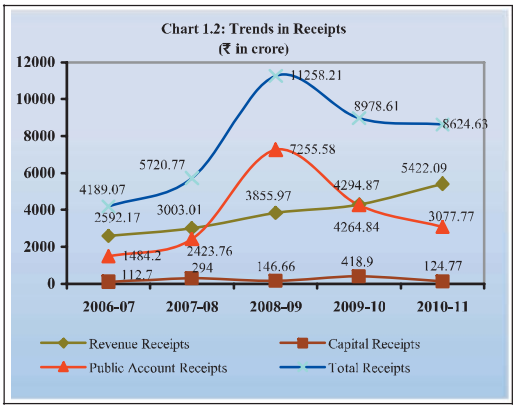
- The **Revenue Surplus** (₹ 1677.85 crore) during the year was less by 4.64 *per cent* (₹ 81.56 crore) and 42.63 *per cent* (₹ 1246.63 crore) compared to the assessment made in the Budget Estimates and Revised Estimates respectively. Against the fiscal deficit of ₹ 112.95 crore and ₹ 123.64 crore, as assessed in the Budget and Revised Estimates, the year ended with a fiscal surplus of ₹ 24.75 crore. Actual primary surplus also exceeded the Budget and Revised Estimates by 163.21 *per cent* and 229.82 *per cent.* The wide variation between the Budget Estimates and the actuals indicated that the budgeting was unrealistic.

1.5 Resources of the State

1.5.1 Resources of the State as per Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of Tax Revenues, Non-tax Revenues, State's share of Union Taxes and Duties and Grants-in-aid from the Government of India (GOI). Capital Receipts comprise of miscellaneous Capital Receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from the GOI and accruals

from Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2 and Table 1.4** depicts the trends in various components of the receipts of the State during 2006-11. **Chart 1.3** depicts the composition of resources of the State during the current year.



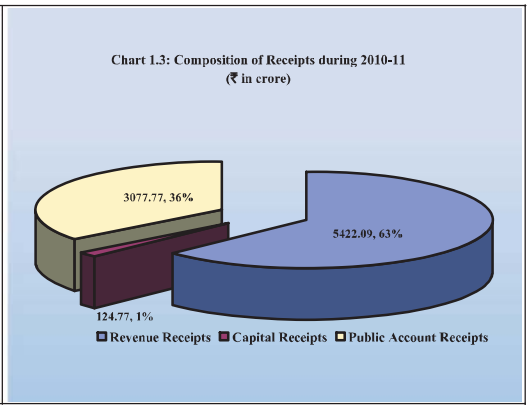


Table 1.4 : Trends in Growth and Composition of Receipts

(₹ in crore/rate of growth in *per cent*)

Sl. No.	Sources of State's Receipts	2006-07	2007-08	2008-09	2009-10	2010-11
I	**Revenue Receipts**	**2592.17**	**3003.01**	**3855.97**	**4294.87**	**5422.09**
II	**Capital Receipts (CR)**	**112.70**	**294.00**	**146.66**	**418.90**	**124.77**
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	2.33	2.94	2.78	202.70	2.41
	Public Debt Receipts	110.37	291.06	143.88	216.20	122.36
	Rate of growth of Non-debt Capital Receipts	*- 17.38*	*26.18*	*5.44*	*7191.37*	*- 98.81*
	Rate of growth of Debt Capital Receipts	*- 84.54*	*163.71*	*- 50.57*	*50.26*	*- 43.40*
	Rate of growth of GSDP	*9.37*	*17.16*	*18.32*	*24.13*	*16.62*
	Rate of growth of CR	*- 84.28*	*160.87*	*- 50.12*	*185.63*	*- 70.21*
III	**Contingency Fund**	**-**	**-**	**-**	**-**	**-**
IV	**Public Account Receipts**	**1484.20**	**2423.76**	**7255.58**	**4264.84**	**3077.77**
	Small Savings, Provident Fund, *etc.*	132.77	122.21	157.21	220.14	183.41
	Reserve Funds	10.00	10.00	14.00	15.00	17.00
	Deposits and Advances	230.32	250.28	533.44	540.38	650.90
	Suspense and Miscellaneous	- 236.81	442.90	3892.93	649.59	- 219.28
	Remittances	1347.92	1598.37	2658.00	2839.74	2445.74
	Total Receipts	**4189.07**	**5720.77**	**11258.21**	**8978.61**	**8624.63**

The **Total Receipts** during the current year decreased by ₹ 353.98 crore (3.94 *per cent*) over the previous year. Of the decrease in total receipts, Capital Receipts formed 70.21 *per cent* (₹ 294.13 crore) followed by Public Account Receipts at 27.83 *per cent* (₹ 1187.07 crore) and partly offset by the increase in Revenue Receipts by 26.25 *per cent* (₹ 1127.22crore). Out of the total receipts under Public Account, remittances constituted 79.46 *per cent.* While 94.17 *per cent* (₹ 2303.15 crore) of the remittances came from Public Works remittances, Cash remittances between Treasuries and currency chests (₹ 61.05 crore) and Forest remittances (₹ 63.64 crore) together constituted 5.10 *per cent.*

The **Total Receipts** of the State for 2010-11 was ₹ 8624.63 crore, of which ₹ 5422.09 crore (63 *per cent*) came from Revenue receipts and the remaining (37 *per cent*) from borrowings and Public Account. The total receipts of the State increased by 105.88 *per cent* from ₹ 4189.07 crore in 2006-07 to ₹ 8624.63 crore in 2010-11. The share of Revenue receipts in total receipts of the State increased by 1 *per cent* from 62 *per cent* in 2006-07 to 63*per cent* in 2010-11. On the other hand, the Capital receipts together with Public Account receipts decreased by 15 *per cent* from 52 *per cent* in 2009-10 to 37 *per cent* of total receipts in 2010-11.

Revenue Receipts increased steadily by 109.17 *per cent* from ₹ 2592.17 crore in 2006-07 to ₹ 5422.09 crore in 2010-11, whereas the Debt Capital receipts which create future repayment obligation, increased by 10.86 *per cent* from ₹ 110.37 crore (2.63 *per cent* of total receipts) in 2006-07 to ₹ 122.36 crore (1.42 *per cent* of total receipts) in 2010-11. The Public Account receipts increased from ₹ 1484.20 crore (35.43 *per cent* of total receipts) in 2006-07 to ₹ 3077.77 crore (35.69 *per cent* of total receipts) in 2010-11.

The rate of growth of Capital Receipts decreased from 185.63 *per cent* in 2009-10 to a negative 70.21 *per cent* in 2010-11. Compared to 2006-07, the rate of growth of Debt Capital receipts increased from a negative 84.54 *per cent* in 2006-07 to a negative 43.40 *per cent* in 2010-11 while the rate of growth Non-debt capital receipts decreased from a negative 17.38 *per cent* in 2006-07 to a negative 98.81 *per cent* in 2010-11.

1.5.2 Funds Transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[6] for the implementation of various Schemes/ Programmes in social and economic sectors recognized as critical. As these funds are not routed through the State Budget/State Treasury System, the Annual Finance Accounts do not capture the flow of these funds, and to that extent, the State's receipts and expenditure and fiscal variables/parameters derived from them, are underestimated. An illustrative position of Central funds transferred to the State Implementing Agencies during 2010-11 for implementation of various Schemes is given in **Appendix 1.5**. The GOI directly transferred ₹ 1219.17 crore (approx.) to State Implementing Agencies during 2010-11. With this transfer, the total availability of State resources increased from ₹ 8624.63 crore to ₹ 9843.80 crore. The Scheme-wise position involving substantial amount of Central funds is given in **Table 1.5.**

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

Table 1.5: Funds Transferred directly to State Implementing Agencies

(₹ in crore)

Programme/Scheme	Implementing Agency in the State	Funds Transferred by the GOI
Crime & Criminal Tracking Network & Systems	Police Housing & Welfare Co-operation Ltd.	15.36
DRDA Administration	All DRDAs in the State	18.66
Forward Linkage to NRHM New Initiatives	AP State Health Society	19.96
Grid Interactive Renewable Power MNRE	Arunachal Pradesh Energy Development Agency	65.71
Sarva Shiksha Abhiyan	SSA, Rajya Mission, Itanagar	204.02
National Integrated Watershed Management Programme	All DRDAs in the State	46.48
Human Resources for Health	AP State Health Society	12.50
Pradhan Mantri Gram Sadak Yojana	Rural Road Development Agency, Itanagar	371.87
Mahatma Gandhi National Rural Employment Guarantee Scheme	All DRDAs in the State	59.33
National Rural Drinking Water Programme	SWSM, AP Agency	200.00
National Rural Health Mission Centrally Sponsored	AP State Health Society	61.91
Rashtriya Madhyamik Siksha Abhiyan	AP Rajya Madhyamik Siksha Mission Authority	26.98
Rural Housing- IAY	All DRDAs in the State	37.84
Total		**1140.62**

Source: Central Plan Scheme Monitoring System of CGA website

Of ₹ 1219.17 crore, ₹ 371.87 crore (30.50 *per* cent) was transferred to the Rural Road Development Agency and ₹ 204.02 crore (16.73 *per cent*) to the Rajya Mission of Sarva Shiksha Abhiyan. Direct transfer from the Union to the State Implementing Agencies runs the risk of poor accountability. Unless uniform accounting practices are diligently followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

An analysis on how these funds are being transferred and utilised for the purposes for one of these Schemes, *viz.*, Sarva Shiksha Abhiyan, revealed the following:

➢ *Sarva Shiksha Abhiyan*

Sarva Shiksha Abhiyan (SSA), a comprehensive and integrated flagship programme of the GOI, was launched by the GOI in January 2001 to provide useful and relevant elementary education to all children in the age group of 6-14 years.

The SSA was being implemented in Arunachal Pradesh by the SSA Rajya Mission since 2001-02. The financial pattern under SSA is 90 *per cent* Central Government contribution and 10 *per cent* State Government share. The table below shows the

position of funds received *vis-à-vis* releases under the SSA Programme during 2010-11:

Table 1.6

(₹ in crore)

Opening Balance	Funds Received			Total Funds Available	Expenditure	Unspent Balance (*per cent*)
	GOI	State	Total			
11.01	204.02	1.35	205.37	216.38	212.42	3.96 (1.83)

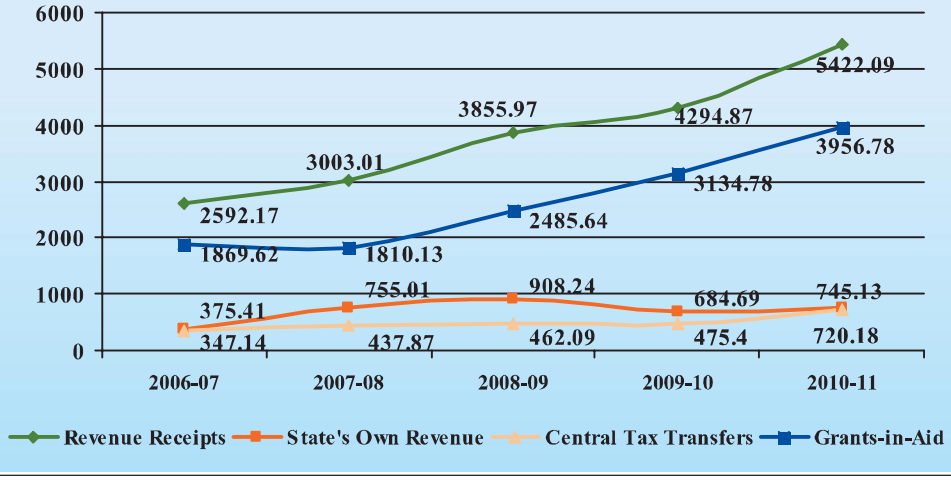
Funds released by the GOI and State Government for implementations of SSA were to be utilised during the respective years. But the SSA Rajya Mission could not utilise about 2 *per cent* of funds available during 2010-11. Information regarding submission of Utilisation Certificates for funds received during 2010-11 was not furnished.

As per the Financial Statement furnished by the SSA Rajya Mission, the cumulative State share due as on March 2011 was ₹ 45.90 crore. In fact, there was a continuous backlog of State share from ₹ 84.40 lakh in 2001-02 to ₹ 45.90 crore in 2010-11. SSA Rajya Mission, admitting the fact (October 2011), stated that steps were being taken to clear the backlog during the financial year 2011-12.

1.6 Revenue Receipts

Statement - 11 of the Finance Accounts details the Revenue receipts of the Government. The Revenue receipts consist of its own Tax and Non-tax revenues, Central Tax transfers and Grants-in-aid from GOI. The trends and composition of Revenue receipts over the period 2006-11 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively. The trends in Revenue receipts relative to GSDP are presented in **Table 1.7.**

Chart 1.4 : Trends in Revenue Receipts
(₹ in crore)



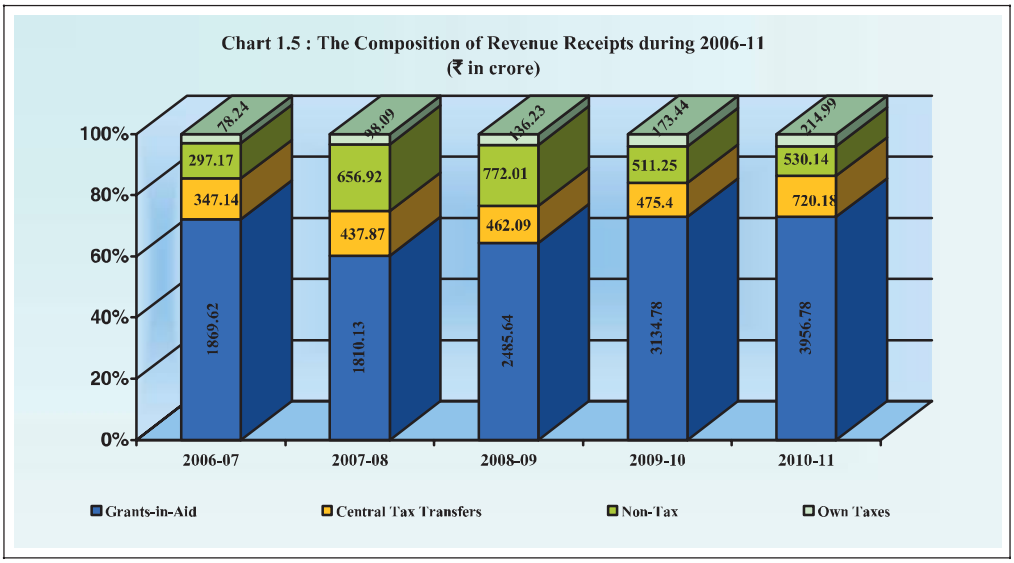


Table 1.7: Trends in Revenue Receipts relative to GSDP

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Receipts (RR) (₹ in crore)	2592.17	3003.01	3855.97	4294.87	5422.09
Rate of growth of Revenue Receipts (*per cent*)	40.16	15.85	28.40	11.38	26.25
Rate of growth of Own Taxes (*per cent*)	26.01	25.37	38.88	27.31	23.96
Revenue Receipts/GSDP (*per cent*)	63.18	62.47	67.80	60.84	65.86
Buoyancy Ratio					
Revenue Buoyancy Ratio with reference to GSDP	4.29	0.92	1.55	0.47	1.58
State's Own Taxes Buoyancy Ratio with reference to GSDP	2.78	1.48	2.12	1.13	1.44
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	0.65	1.60	1.37	2.40	0.91

1.6.1 General Trends

The **Revenue Receipts** of the State increased by ₹ 2,829.92 crore from ₹ 2592.17 crore in 2006-07 to ₹ 5422.09 crore in 2010-11. There were, however, wide inter-year variations in the growth rates, which increased to 26.25 *per cent* in 2010-11 from 11.38 *per cent* during the preceding year. All the components of Revenue receipts exhibited increases in absolute terms over the period 2006-11. The Buoyancy ratios of Revenue receipts and the State's own tax revenue with reference to GSDP have increased primarily due to significant increase in the rate of growth of both Revenue receipts and the State's own tax revenue under Taxes on Sales, Trade, *etc.* (29 *per cent*) and State Excise (25 *per cent*) in 2010-11 compared to the previous year. The Buoyancy ratio of the State's own taxes to Revenue receipts indicates that the pace of growth of own taxes was faster than the Revenue receipts in three (2007-08 to 2009-10) out of five years while it grew at a lower pace during the remaining two years.

1.6.2 Central Tax Transfers

The **Central Tax transfers** increased significantly by 51.49 *per cent* (₹ 244.78 crore) over the previous year and constituted 13 *per cent* of Revenue receipts. The increase was mainly due to transfer of an additional amount of ₹ 85.96 crore as Corporation Tax during 2010-11 (₹ 281.59 crore) compared to the previous year (₹ 195.63 crore). The Central Tax transfers also contributed around 22 *per cent* of the incremental Revenue receipts (₹ 1127.22 crore) during the year.

1.6.3 Grants-in-Aid

Details of Grants-in-aid from the GOI are given in **Table 1.8.**

Table 1.8: Grants-in-Aid from the GOI

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Non-Plan Grants	387.54	380.30	454.97	505.76	836.29
Grants for State Plan Schemes	1048.91	1268.96	1664.36	2296.66	2616.44
Grants for Central Plan Schemes	67.70	60.38	52.18	66.43	47.59
Grants for Centrally Sponsored Schemes	320.17	62.33	248.81	142.39	378.31
Grants for Special Plan Schemes	45.30	38.16	65.33	123.54	78.15
Total	**1869.62**	**1810.13**	**2485.65**	**3134.78**	**3956.78**
Percentage of increase(+)/decrease(-) over previous year	*+ 42.41*	*- 3.18*	*+ 37.32*	*+ 26.12*	*+ 26.22*

Grants-in-aid from the GOI increased by 26.22 *per cent* (₹ 822 crore) from ₹ 3134.78 crore in 2009-10 to ₹ 3956.78 crore in the current year and contributed around 73 *per cent* of the incremental Revenue receipts during the year. Within the Plan grants, while grants for Centrally Sponsored Plan Schemes increased by 166 *per cent* (₹ 235.92 crore), grants for State Plan Schemes increased by 14 *per cent* (₹ 319.78 crore). However, grants received during 2010-11 for Central Plan and Special Plan Schemes were less by 28 *per cent* and 37 *per cent* respectively, compared to the previous year. The major increase under Centrally Sponsored State Plan Schemes was in the form of increased grants for Accelerated Rural Water Supply Programme (₹ 64.49 crore) and Integrated Child Development Services (₹ 54.34 crore) and also release of grants of ₹ 43.19 crore for Multi-Sartorial Development Programme for Minorities.

The Non-Plan grants (₹ 836.29 crore) constituted 21 *per cent* of the total grants during the year, of which 98 *per cent* (₹ 815.91 crore) was under the proviso to Article 275(1) of the Constitution. The remaining amount (₹ 20.38 crore) was released mainly as reimbursement of security related expenditure (₹ 11.38 crore), for raising of the IRBN (₹ 5.18 crore) and modernisation of the Police force (₹ 2.65 crore).

1.6.4 State's Own Resources

As the State's share in Central taxes and Grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of Central tax receipts and Central assistance for Plan schemes, *etc.*, the State's performance in mobilisation of

additional resources should be assessed in terms of its own resources comprising of revenue from its own tax and non-tax sources. **Tables 1.9 and 1.10** below show the trends of tax and non-tax revenue during the period 2006-11 as well as the variation between the Budget Estimates of Revenue receipts and the actual receipts under the principal heads of tax and non-tax revenue for the year 2010-11.

Table 1.9: Tax Revenue

(₹ in crore)

Heads	2006-07	2007-08	2008-09	2009-10	2010-11		
					Budget Estimate	Actuals	Variations Increase (+)/ Shortfall (-) (*per cent*)
Taxes on Sales, Trade, *etc.*	61.64	77.06	105.68	130.23	110.00	168.24	+ 52.95
State Excise	10.98	11.61	16.61	23.78	17.00	29.74	+ 74.94
Taxes on Vehicles	2.93	6.42	7.76	13.07	10.00	11.76	+ 17.60
Stamp and Registration Fees	0.55	0.86	1.25	1.88	1.50	1.86	+ 24.00
Land Revenue	2.10	2.12	4.90	4.43	5.50	3.37	- 38.73
Other Taxes[7]	0.04	0.02	0.03	0.05	-	0.02	-
Total	**78.24**	**98.09**	**136.23**	**173.44**	**144.00**	**214.99**	**+ 49.30**

Table 1.10: Non-Tax Revenue

(₹ in crore)

Heads	2006-07	2007-08	2008-09	2009-10	2010-11		
					Budget Estimate	Actuals	Variations Increase (+) Shortfall (-) (*per cent*)
Fiscal Services	-	-	-	0.02	-	-	-
Interest Receipts, Dividends and Profits	13.54	29.10	34.80	40.02	40.00	111.35	+ 178.38
General Services	74.87	53.02	28.45	23.09	45.86	17.67	- 61.47
Social Services	8.75	7.30	10.73	9.07	13.20	9.67	- 26.74
Economic Services	200.01	567.50	698.03	439.05	283.87	391.45	+ 37.90
Total	**297.17**	**656.92**	**772.01**	**511.25**	**382.93**	**530.14**	**+ 38.44**

1.6.4.1 Tax Revenue

Tax Revenue increased by 23.96 *per cent* during the current year (₹ 214.99 crore) over the previous year (₹ 173.44 crore). The revenue from Taxes on Sales, Trade, *etc.* contributed to the major share of tax revenue (78 *per cent*) and it increased by 29 *per cent* over the previous year. State Excise, Taxes on vehicles and Stamp & Registration Fees were the other major contributors in the State's tax revenue. Though there was an increase in the Tax revenue during 2010-11 over previous year, *the Tax-GSDP ratio (2.61 per cent) during 2010-11 was marginally lower than the projection (2.85*

[7] Other Taxes include taxes on professions, trades, callings and employment, taxes on goods and passengers, taxes and duties on electricity and other taxes and duties on commodities and services.

per cent) made by the XIIIth FC. The CAGR of Tax revenue between 2001-02 and 2009-10 was 24.07 *per cent*, which was almost similar (24.06 *per cent*) between 2001-02 and 2010-11.

1.6.4.2 Non-Tax Revenue

The Non-tax revenue (NTR), which constituted around 10 *per cent* of the total revenue receipts, has increased by ₹ 18.89 crore during 2010-11 recording a growth rate of 3.69 *per cent* over the previous year. Around 74 *per cent* (₹ 391.45 crore) of Non-tax revenue during 2010-11 was received from Economic Services and within this category, receipts under Power Sector alone contributed 53.23 *per cent* (₹282.18 crore). However, receipts under this sector declined by 14.3 *per cent* (₹ 47.09 crore) compared to the previous year. Interest receipts showed significant improvement (178 *per cent*) during 2010-11 compared to the previous year, mainly because of increase in realisation of Interest on investment of Cash Balances by ₹ 74.77 crore. The CAGR of Non-tax revenue for Arunachal Pradesh between 2001-02 and 2009-10 (28.01 *per cent*) had, however, marginally declined to 25.05 *per cent* between 2001-02 and 2010-11.

➢ *Cost Recovery in Supply of Merit Goods and Services*

The current levels of cost recovery (Non-tax revenue receipts as a percentage of Non-plan revenue expenditure) in supply of merit goods and services by Government were negligible, as depicted in **Table 1.11.**

Table 1.11: Cost Recovery

(₹ in lakh)

Particulars	2009-10			2010-11		
	Non-Tax Revenue Receipts	Non-Plan Revenue Expenditure	Cost Recovery *(per cent)*	Non-Tax Revenue Receipts	Non-Plan Revenue Expenditure	Cost Recovery *(per cent)*
Secondary Education	1.43	9167.62	0.02	9.55	8847.61	0.11
Elementary Education	0.21	29760.84	0.00	49.40	23775.55	0.21
Medical and Public Health	22.77	15992.80	0.14	35.19	17654.79	0.20
Water Supply & Sanitation	384.36	4389.71	8.76	406.48	2151.21	18.90

As can be seen from above, while the cost recovery for Water Supply and Sanitation during 2010-11 was 18.90 *per cent*, for Secondary Education, Elementary Education and Medical & Public Health the percentages were 0.11, 0.21 and 0.20 respectively. However, there was increase in the cost recovery during the current year as compared to the previous year in all four heads.

1.6.4.3 Own Resources vis-à-vis assessments made by the Twelfth/Thirteenth Finance Commissions

The mobilisation of the State's own resources *vis-à-vis* assessments made by the XIIth FC (2006-10)/XIIIth FC (2010-11) and State Government in its own Fiscal Correction Path (2006-10)/Budget Estimate (BE) (2010-11) are given below:

Table 1.12

(₹ in crore)

Year	Assessment made by XIIth/ XIIIth FC			Assessment made by State Government in Fiscal Correction Path (FCP)/BE-2010-11			Actuals		
	Tax Revenue	Non-Tax Revenue	Total	Tax Revenue	Non-Tax Revenue	Total	Tax Revenue	Non-Tax Revenue	Total
2006-07	121.03	91.73	212.76	62.80	187.49	250.29	78.24	297.17	375.41
2007-08	138.07	103.85	241.92	67.06	195.00	262.06	98.09	656.92	755.01
2008-09	157.51	118.42	275.93	71.06	202.80	273.86	136.23	772.01	908.24
2009-10	179.69	136.03	315.72	75.06	211.00	286.06	173.44	511.25	684.69
2010-11	151.72	199.53	351.25	144.00	382.93	526.93	214.99	530.14	745.13

Though the State failed to achieve the target fixed by the XIIth FC in collection of Tax revenue during 2006-10, it has successfully achieved the target fixed by the XIIIth FC during 2010-11. During 2010-11, Tax revenue was 41.7 *per cent* higher than the assessment made by the XIIIth FC and 49.3 *per cent* higher than the assessment made in the Budget Estimates for the year. Collection of Non-tax revenue during 2010-11 was significantly higher than the assessment made by the XIIIth FC (166 *per cent*) and in Budget Estimates (38 *per cent*).

1.6.4.4 Loss of Revenue due to Evasion of Taxes, Write-offs/Waivers and Refunds

Test-check of the records of 25 units of Commercial Tax, State Excise, Motor Vehicles, Forest and other Departmental offices conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating ₹ 170.99 crore in 133 cases. The total loss of revenue, which was around 23 *per cent* of the State's own resources consisting of Tax and Non-tax revenue (₹ 745.13 crore) during 2010-11, indicated the presence of loopholes in resource mobilization, thereby adversely affecting the developmental activities of the State.

1.7 Application of Resources

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

1.7.1 Growth and Composition of Expenditure

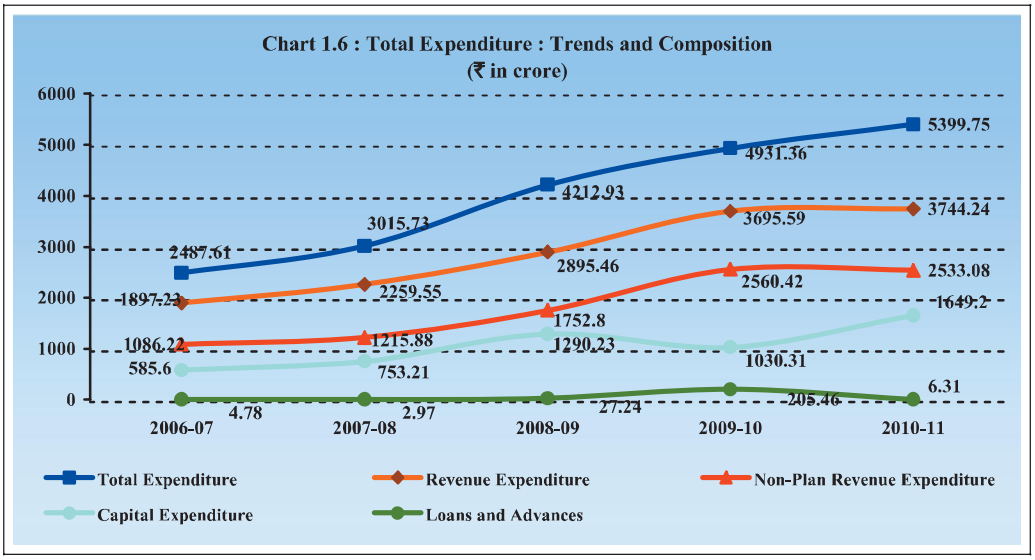
The total expenditure and its compositions during the years 2006-07 to 2010-11 are presented in the **Table 1.13**

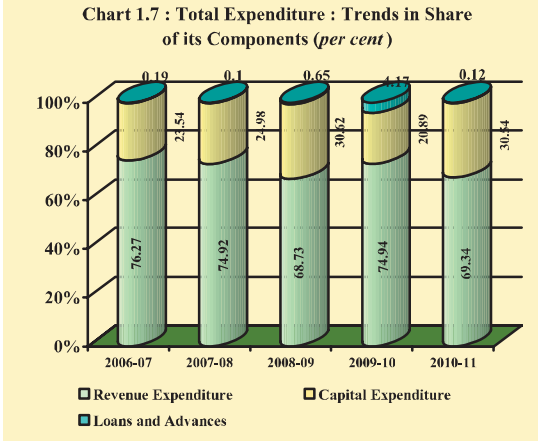
Table 1.13: Total Expenditure and its Composition

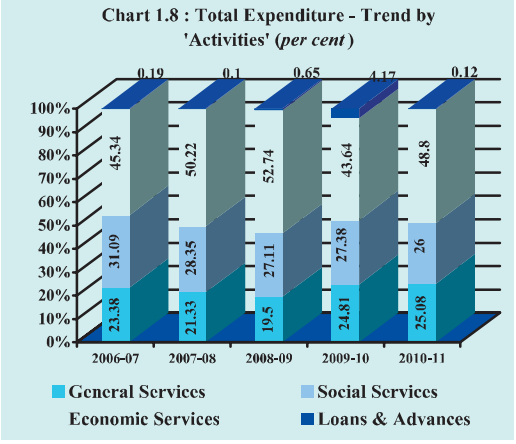
(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure	**2487.61**	**3015.73**	**4212.93**	**4931.36**	**5399.75**
Revenue Expenditure	1897.23	2259.55	2895.46	3695.59	3744.24
of which, Non-plan Revenue Expenditure	*1086.22*	*1215.88*	*1752.80*	*2560.42*	*2533.08*
Capital Expenditure	585.60	753.21	1290.23	1030.31	1649.20
Loans and Advances	4.78	2.97	27.24	205.46	6.31

Chart 1.6 presents the trends in total expenditure over a period of five years (2006-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**







1.7.1.1 Trends in Total Expenditure

The total expenditure of the State increased by ₹ 2912.14 crore (117.07 *per cent*) from ₹ 2487.61 crore in 2006-07 to ₹ 5399.75 crore. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to Revenue receipts and its buoyancy with respect to GSDP and Revenue receipts are indicated in **Table 1.14**

Table 1.14: Total Expenditure – Basic Parameters

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Total Expenditure (TE) (₹ in crore)	**2487.61**	**3015.73**	**4212.93**	**4931.36**	**5399.75**
Rate of Growth (*per cent*)	17.96	21.23	39.70	17.05	9.50
TE/GSDP Ratio (*per cent*)	60.63	62.74	74.07	69.85	65.59
RR/TE Ratio (*per cent*)	104.20	99.58	91.53	87.09	100.41
Buoyancy of Total Expenditure with reference to…					
GSDP (ratio)	1.92	1.24	2.17	0.71	0.57
RR (ratio)	0.45	1.34	1.40	1.50	0.36

The increase of ₹ 468.39 crore (9.5 *per cent*) in total expenditure during 2010-11 over the previous year was mainly on account of increase of ₹ 618.89 crore in Capital expenditure followed by increase in Revenue expenditure (₹ 48.65 crore) – offset by decrease in disbursement of Loans and Advances by ₹ 199.15 crore. While the share of Plan expenditure constituted around 53 *per cent* (₹ 2843.19 crore) of the total expenditure, the remaining 47 *per cent* (₹ 2,550.25 crore) was Non-plan expenditure. During the current year, the Revenue receipts were sufficient to meet the total expenditure. The buoyancy of total expenditure to GSDP stood at 0.57 in 2010-11 due to growth rate of total expenditure at a much slower pace as compared to that of GSDP. Similarly, the buoyancy ratio of total expenditure to Revenue receipts stood at 0.36, indicating increase in expenditure at a pace much lower than receipts.

In terms of the activities, total expenditure comprises of expenditure on General Services, including Interest payments, Social and Economic services, Grants-in-aid and Loans & Advances. Of the total expenditure during 2010-11, expenditure on General Services and Interest payments, which is considered as non-developmental, together accounted for 25.08 *per cent.* On the other hand, expenditure on Social and Economic services (revenue and capital) together accounted for 74.80 *per cent* during 2010-11. The relative share of Social Services declined from 27.38 *per cent* in 2009-10 to 26 *per cent* in 2010-11. The relative share of Economic Services when compared to 43.64 *per cent* in 2009-10, which was lowest in the last five years after reaching peak in 2008-09 (52.74 *per cent*), stood at 48.8 *per cent* in 2010-11. Loans and Advances revealed wide fluctuations during the period 2006-11 and stood at 0.12 *per cent* of the total expenditure during 2010-11.

1.7.1.2 Incidence of Revenue Expenditure

Revenue Expenditure is incurred to maintain the current level of services and payment for past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall Revenue expenditure, its rate of

growth, ratio of Revenue expenditure to GSDP and to Revenue receipts and its buoyancy are indicated in **Table 1.15.**

Table 1.15: Revenue Expenditure – Basic Parameters

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Expenditure (RE)	**1897.23**	**2259.55**	**2895.46**	**3695.59**	**3744.24**
of which					
Non-Plan Revenue Expenditure (NPRE)	1086.22 (57.25)	1215.88 (53.81)	1752.80 (60.54)	2560.42 (69.28)	2533.08 (67.65)
Plan Revenue Expenditure (PRE)	811.01 (42.75)	1043.67 (46.19)	1142.66 (39.46)	1135.17 (30.72)	1211.16 (32.35)
Rate of Growth of					
RE (*per cent*)	13.77	19.10	28.14	27.63	1.32
NPRE (*per cent*)	15.07	11.94	44.16	46.08	- 1.07
PRE (*per cent*)	12.07	28.69	9.48	- 0.66	6.69
Ratio (*per cent*)					
RE as percentage of TE	76.27	74.93	68.73	74.94	69.34
NPRE/GSDP (*per cent*)	26.47	25.29	30.82	36.27	30.77
NPRE as percentage of TE	43.67	40.32	41.61	51.92	46.91
NPRE as percentage of RR	41.90	40.49	45.46	59.62	46.72
Buoyancy Ratio of Revenue Expenditure with…					
GSDP	1.47	1.11	1.54	1.15	0.08
Revenue Receipts	0.34	1.21	0.99	2.43	0.05

(Figures in brackets represent percentages to Revenue expenditure)

Revenue Expenditure constituted 69 *per cent* to 76 *per cent* of the total expenditure during 2006-11 and increased by 97.35 *per cent* from ₹ 1897.23 crore in 2006-07 to ₹ 3744.24 crore in 2010-11. The Non-plan Revenue expenditure (NPRE) during the same period increased from ₹ 1086.22 crore in 2006-07 to ₹ 2533.08 crore in 2010-11, an increase of 133 *per cent* outpacing the growth of Revenue Expenditure during the period. As a percentage of total Revenue expenditure, NPRE also increased from 57.25 *per cent* in 2006-07 to 67.65 *per cent* in 2010-11. As a result, Plan Revenue expenditure (PRE), which normally covers the maintenance expenditure incurred on services, decreased its share in total revenue expenditure from 42.75 *per cent* during 2006-07 to 32.35 *per cent* during 2010-11.

The NPRE constituted a dominant share of 67.65 *per cent* in the Revenue expenditure during 2010-11. However, compared to previous years, NPRE during 2010-11 decreased by ₹ 27.34 crore. The negative growth of 1.07 *per cent* in NPRE during 2010-11 against a positive growth of 46.08 *per cent* during the previous year was mainly due to decreased expenditure on Education, Sports and Arts & Culture (₹ 64.85 crore), followed by Agriculture and allied activities (₹ 57.70 crore). PRE increased by ₹ 75.99 crore over the previous year. The growth of PRE during 2010-11 at 6.69 *per cent* against a negative growth of 0.66 *per cent* during the previous year

was mainly due to increased expenditure on Transport by ₹ 67.22 crore, followed by ₹ 53.50 crore on Irrigation & Flood Control.

The NPRE at ₹ 2533.08 crore during 2010-11 was around 63 *per cent* (₹ 978.92 crore) higher than the normatively assessed level of ₹ 1554.16 crore by XIIIth FC (**Table 1.16).**

Table 1.16 : Non-Plan Revenue Expenditure during 2010-11: Actuals *vis-à-vis* Normative Assessment by XIIIth FC

(₹ in crore)

Sectors	XIIIth FC Recommendations	Actuals
Salary	787.33	1368.19
Interest Payments	244.47	399.92
Pension	159.43	222.24
Other General Services	132.50	174.53
Social Services	58.02	61.52
Economic Services	172.41	306.68
Total	**1554.16**	**2533.08**

During 2010-11, the actual expenditure incurred on all other components of NPRE was more than the assessments made by the XIIIth FC. The total NPRE during 2010-11 also exceeded the projection made by the State Government in its Budget (₹ 2023.67 crore) by 25.17 *per cent* (₹ 509.41 crore).

According to the recommendation of the XIIIth FC, "*the practice of diversion of plan assistance to meet non-plan needs of special category states should be discontinued to leave these states with adequate plan expenditure*". During 2010-11, the Revenue receipts of Arunachal Pradesh, excluding Plan assistance (₹ 3120.49 crore), was ₹ 2301.60 crore. Against this, the NPRE during the year was ₹ 2,533.08 crore. Obviously, Plan assistance was diverted for Non-plan heads and thus, the State could not adhere to the recommendation of the XIIIth FC.

1.7.1.3 Capital Expenditure

Capital Expenditure during 2010-11 (₹ 1649.20 crore) increased by ₹ 618.89 crore over previous year mainly due to increased expenditure on Transport (by ₹ 229.61 crore) and Water Supply, Sanitation, Housing and Urban Development (by ₹ 116.52 crore). However, this expenditure constituted only 30.54 *per cent* of total expenditure during the year. Though there was an increase in Capital expenditure during the current year compared to the previous year, the State Government could not fulfill its commitment made in the Budget Estimates for incurring Capital expenditure during the year, as this expenditure fell short of the Budget Estimates (₹ 1871.48 crore) by around 12 *per cent*

1.7.2 Committed Expenditure

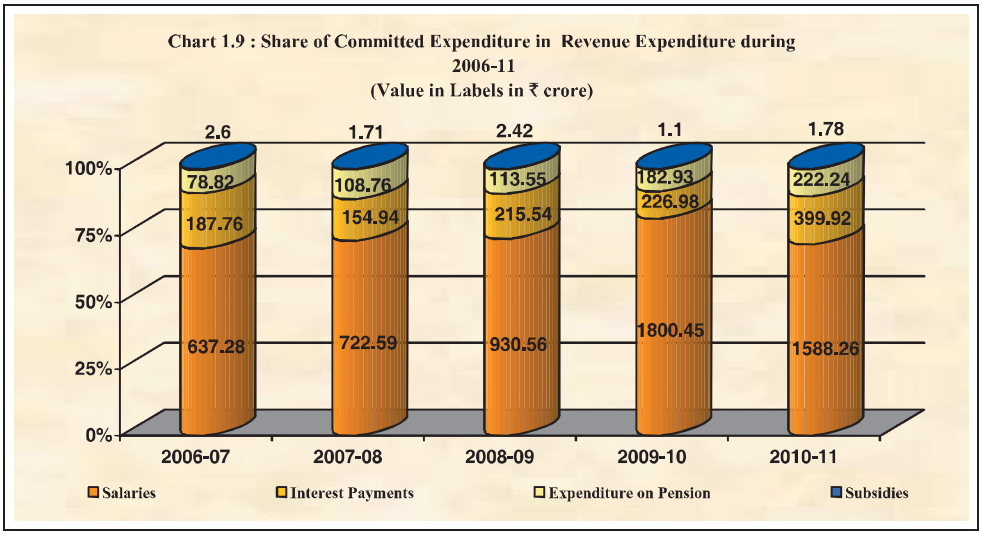
The Committed Expenditure of the State Government on Revenue account mainly consists of Interest payments, expenditure on salaries, pensions and subsidies. **Table 1.17** and **Chart 1.9** present the trends in the expenditure on these components during 2006-11.

Table-1.17: Components of Committed Expenditure

(₹ in lakh)

Components of Committed Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11
Salaries	637.28 (24.58)	722.58 (24.06)	930.56 (24.13)	1800.45 (41.92)	1588.26 (29.29)
of which					
Non-Plan Head	*461.96 (17.82)*	*511.11 (17.02)*	*812.55 (21.07)*	*1492.54 (34.75)*	*1368.19 (25.23)*
Plan Head	*175.32 (6.76)*	*211.47 (7.04)*	*118.01 (3.06)*	*307.91 (7.17)*	*220.07 (4.06)*
Interest Payments	187.76 (7.24)	154.94 (5.16)	215.54 (5.59)	226.98 (5.28)	399.92 (7.38)
Expenditure on Pension and other Retirement Benefits	78.82 (3.04)	108.76 (3.62)	113.55 (2.94)	182.93 (4.26)	222.24 (4.10)
Subsidies	2.60 (0.10)	1.71 (0.06)	2.42 (0.06)	1.10 (0.03)	1.78 (0.03)
Other Components of Revenue Expenditure, i.e, other than Committed Expenditure	990.77 (38.22)	1271.56 (42.34)	1633.39 (42.36)	1484.13 (34.56)	1532.04 (28.26)

(*Figures in the parentheses indicate percentage to Revenue Receipts*)



Committed Expenditure during 2010-11 constituted 59.08 *per cent* of Revenue expenditure and around 87 *per cent* of NPRE during the year.

1.7.2.1 Salaries

Salaries during 2010-11 alone accounted for over 29 *per cent* of the Revenue receipts of the State during the year. However, it decreased by 11.79 *per cent* from ₹ 1800.45 crore in 2009-10 to ₹ 1,588.26 crore in 2010-11, but exceeded the projection made in the Macro-Economic Framework (MEF) Statement of March 2011 (₹ 1395.79 crore) by ₹ 192.47 crore. *The expenditure on Non-plan Salary component during 2010-11(₹1368.19 crore) was also exorbitantly higher by around 74 per cent than the assessment made by the XIIIth FC for the State (₹787.33 crore).*

1.7.2.2 Interest Payments

Compared to the previous year, Interest payments during 2010-11 increased by 76.19 *per cent.* Interest payments were on Market Loans (₹ 62.85 crore), Special Securities issued to the National Small Savings Fund (₹ 219.26 crore), other internal debts (₹ 30.07 crore), State Provident Funds and Insurance and Pension Fund (₹ 53.26 crore), Loans & Advances received from the Central Government (₹ 33.21 crore) and on other obligations (₹ 1.28 crore). *Interest payments (₹ 399.92 crore) were higher than the projections of the year made by the XIIIth FC (₹ 244.47 crore) as well as in the MEFS of March 2011 (₹ 252.40 crore).*

1.7.2.3 Pension Payments

Pension payments (including other retirement benefits) indicated an increasing trend during the five year period (2006-11). Pension payments during the current year increased by ₹ 39.31 crore, an increase of 21.49 *per cent* over the previous year. A comparative analysis of actual pension payments and the assessment/projection made by the XIIIth FC and the State Government showed that actual Pension payments exceeded *the assessment made by the XIIIth FC by ₹62.81 crore* and the projection made by the State Government in its Budget and MEF Statement for the year 2010-11 by ₹ 62.24 crore and ₹ 21.09 crore respectively as shown in (**Table 1.18**).

Table 1.18 : Actual Pension Payments *vis-à-vis* Projection

(₹ in crore)

Year	Assessment made by the XII/ XIIIth FC	Assessment made by the State Government in		Actuals	Expenditure in excess of Assessment made in		
		FCP	Budget/ MEF Statement of March 2011		XII/XIIIth FC	FCP	Budget
2006-07	80.26	78.47	77.98	78.82	- 1.44 (1.79)	0.35 (0.45)	0.84 (1.08)
2007-08	88.28	85.00	85.48	108.76	20.48 (23.20)	23.76 (27.95)	23.28 (27.23)
2008-09	97.11	92.00	84.30	113.55	16.44 (16.93)	21.55 (23.42)	29.25 (34.70)
2009-10	106.82	100.00	143.79	182.93	76.11 (71.25)	82.93 (82.93)	39.14 (27.22)
2010-11	159.43	NA	160.00/ 201.15	222.24	62.81 (39.40)	NA	62.24 (38.90)/ 21.09 (10.48)

(*Figures in brackets represent percentages*). NA: Not available.

1.7.2.4 Subsidies

Table 1.17 shows that the expenditure on payment of Subsidies increased by about 62 *per cent* from ₹ 1.10 crore in 2009-10 to ₹ 1.78 crore during the current year. The increase was mainly due to Special Programmes for Rural Development (₹ 1.10 crore), offset by ₹ 0.53 crore due to payment of less subsidy for Co-operation compared to the previous year.

1.7.3 Financial Assistance by the State Government to Local Bodies and other institutions

The quantum of assistance provided by way of grants and loans to Local Bodies and others during the current year relative to previous years is presented in **Table 1.19**.

Table 1.19 : Financial Assistance to Local Bodies, *etc.*

(₹ in crore)

Financial Assistance to Institutions	2006-07	2007-08	2008-09	2009-10	2010-11
University and Educational Institutions	10.14	12.96	47.00	3.45	8.42
Cultural Institutions/Voluntary Organisations for promotion of Arts & Culture	0.25	0.50	2.72	28.76	8.11
State Institute of Rural Development	…	1.07	…	…	0.50
Social Welfare	0.15	0.16	7.27	0.32	0.34
Ware Housing Corporations	14.93	23.06	44.97	36.12	22.13
Co-operation					2.10
Other Institutions	1.84	5.74	0.28	0.93	16.51[8]
Total	**27.31**	**43.49**	**102.24**	**69.58**	**58.11**
Assistance as percentage of RE	1.44	1.92	3.53	1.88	1.62

The financial assistance extended to Local Bodies and other institutions with inter-year variations declined by 16.48 *per cent* from ₹ 69.58 crore in 2009-10 to ₹ 58.11 crore in 2010-11. The share of financial assistance in Revenue expenditure also marginally decreased from 1.88 *per cent* in 2009-10 to 1.55 *per cent* during the current year. The Warehousing Corporation was the major recipient (around 38 *per cent*) of the financial assistance followed by University and Educational Institutions (around 14 *per* cent).

1.8 Quality of Expenditure

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

[8] Other Institutions include assistance to Local Bodies, Corporations, Urban Development Authorities, Town Development (₹ 14.23 crore) and Assistance to Scientific bodies (AP Science Centre Society) (₹ 2.28 crore).

expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans & Advances is categorised into Social Services, Economic Services and General Services. Broadly, Social and Economic services constitute Development expenditure, while expenditure on General Services is treated as Non-development expenditure.

1.8.1 Efficiency of Expenditure Use

In view of the importance of public expenditure for Social and Economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[9]. Apart from improving the allocation towards development expenditure, the efficiency of expenditure use is also reflected by the ratio of Capital expenditure to total expenditure (and/or GSDP) and proportion of Revenue expenditure being spent on operation and maintenance of the existing Social and Economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.20** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years, **Table 1.21** provides the details of Capital expenditure and the components of Revenue expenditure incurred on maintenance of the selected Social and Economic services.

Table 1.20: Development Expenditure

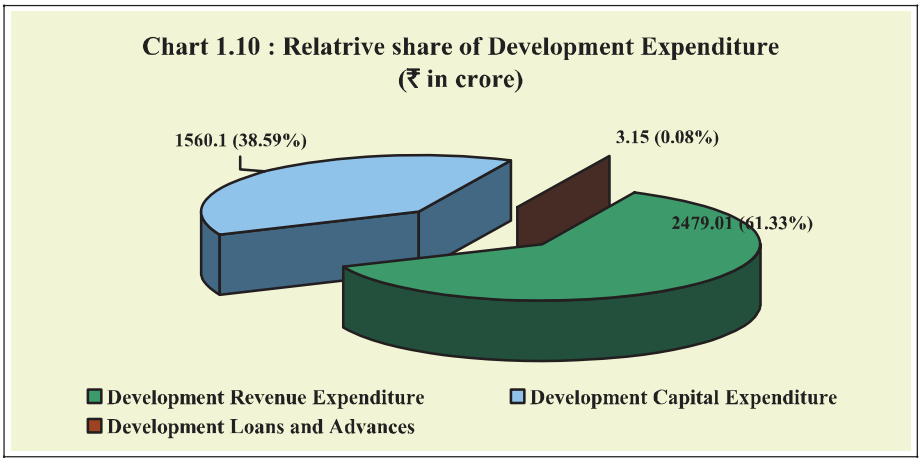
(₹ in crore)

Components of Development Expenditure	2006-07	2007-08	2008-09	2009-10	2010-11	
					BE (Net)	Actuals
Development Expenditure (a to c)	**1902.80 (76.49)**	**2369.78 (78.58)**	**3389.76 (80.46)**	**3706.17 (75.16)**	**2990.69 (57.33)**	**4042.27 (74.86)**
a. Development Revenue Expenditure	1337.63 (53.77)	1639.49 (54.36)	2121.22 (50.35)	2534.56 (51.40)	2392.03 (45.85)	2479.01 (45.91)
b. Development Capital Expenditure	563.58 (22.66)	730.10 (24.21)	1243.01 (29.50)	967.90 (19.63)	598.66 (11.48)	1560.11 (28.89)
c. Development Loans and Advances	1.59 (0.06)	0.19 (0.01)	25.53 (0.61)	203.71 (4.13)	-	3.15 (0.06)

(*Figures in parentheses indicate percentage to Aggregate Expenditure*)

Development Expenditure increased by 9.07 *per cent* over the previous year and also exceeded the assessment made in the Budget Estimates by 35.16 *per cent*. The relative share of Development expenditure during 2010-11 given in **Chart 1.10** below showed that 61.33 *per cent* of the Development expenditure was incurred on Revenue account and only 38.59 *per cent* was utilised for Capital expenditure.

[9] Appendix 1.1.c.



During the current year, Development Capital expenditure as a percentage of aggregate expenditure had increased to 28.89 *per cent* as compared to 19.63 *per cent* in 2009-10 and also exceeded the budget projection of 11.48 *per cent*. This was a desirable improvement in expenditure pattern. However, the predominant share of Revenue expenditure in Development expenditure indicated that more emphasis was given on maintenance of the current level of services, which did not result in any addition to State's infrastructure and service network. Thus, the expenditure pattern under this sector needs further correction in the ensuing year.

Table 1.21: Efficiency of Expenditure Use in Selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2009-10		2010-11	
	Ratio of Capital Expenditure to Total Expenditure[10]	In Revenue Expenditure, the share of Salary	Ratio of Capital Expenditure to Total Expenditure[11]	In Revenue Expenditure, the share of Salary
Social Services (SS)	**11.38**	**65.33**	**29.18**	**67.53**
General Education	2.68	85.88	15.77	83.68
Technical Education, Sports and Arts & Culture	21.23	39.08	35.02	35.10
Health and Family Welfare	3.30	88.15	13.59	83.74
Water Supply & Sanitation, Housing and Urban Development	33.35	21.53	60.31	33.59
Other SS	4.09	35.07	20.39	46.58
Economic Services (ES)	**37.84**	**37.13**	**43.66**	**31.43**
Agriculture and Allied Activities	1.97	56.19	4.20	33.74
Irrigation & Flood Control	25.62	32.90	38.38	18.23
Energy	58.43	26.17	48.16	18.23
Transport	60.95	22.44	66.45	33.42
Other Economic Services	26.36	30.14	36.28	42.54

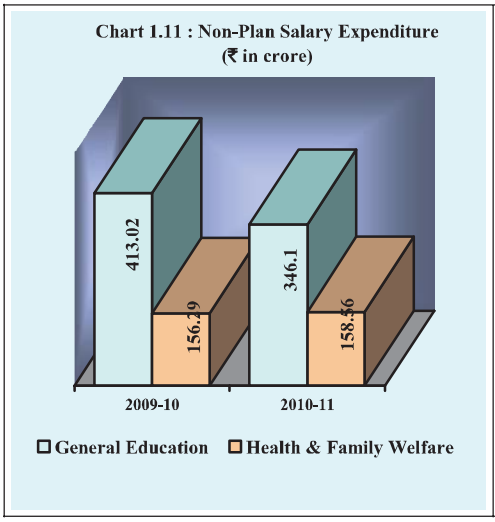
[10] Total Revenue and Capital expenditure of the services concerned.

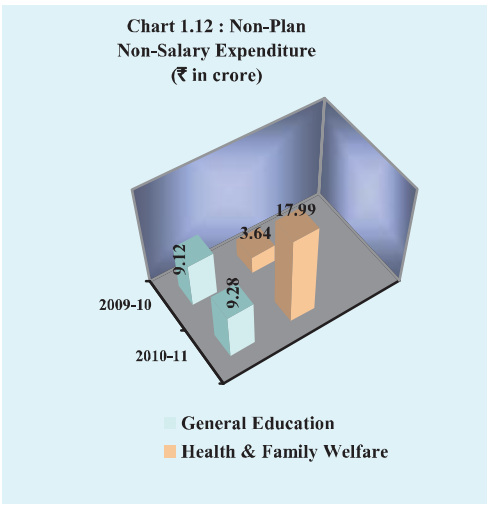
Social Services

The trends presented in **Table 1.21** reveal that Development Capital expenditure as a percentage of total expenditure increased from 11.38 *per cent* in 2009-10 to 29.18 *per cent* in 2010-11, which indicated that more emphasis was given on Capital expenditure. There was significant improvement in the share of Capital expenditure during 2010-11 under Water Supply, Sanitation, Housing & Urban Development, General Education, Technical Education, Sports, Arts & Culture and Health & Family Welfare.

Of the Revenue expenditure on Social Services, the share of Salary component marginally increased from 65.33 *per cent* in 2009-10 to 67.53 *per cent* in 2010-11. The Non-salary and Wage expenditure on Social Services decreased by 22.17 *per cent* during 2010-11 from ₹ 414.85 crore in 2009-10 to ₹ 322.89 crore in 2010-11. Within the priority sectors, Non-salary and Wage components continue to have the dominant share under Technical Education, Sports, Arts & Culture and Water Supply, Sanitation, Housing and Urban Development. High Salary and Wage expenditure was observed under General Education during 2009-10 (85.88 *per cent*) and 2010-11 (83.68 *per cent*) and Health & Family Welfare services (2009-10: 88.15 *per cent*; 2010-11: 83.74 *per cent*).

Charts 1.11 and **1.12** provide the Non-plan Salary and Non-salary expenditure under Social Services incurred during 2009-11.





While the expenditure on Non-plan Salary component under General Education during 2010-11declined by 16.20 *per cent*, this expenditure under Health & Family Welfare sector marginally increased by 1.45 *per cent*. While the Non-salary (Non-plan) expenditure under Health & Family Welfare registered an increase of almost 400 *per cent* during 2010-11 over the previous year, under General Education it had increased marginally. This indicates improvement in the expenditure pattern.

Economic Services

The expenditure on Economic Services (including Loans & Advances) during 2010-11 (₹ 2638.31 crore) accounted for about 48.86 *per cent* of the total expenditure[11] and 65.27 *per cent* of the Development expenditure during the year. Out of the total expenditure on Economic Services during the current year, 32.97 *per cent* (₹ 869.74 crore) was incurred on Transport, 20.34 *per cent* (₹ 536.67 crore) on Energy and 16.14 *per cent* (₹ 425.72 crore) on Agriculture and allied activities.

The trends in Revenue and Capital expenditure on Economic Services indicate that except for 2009-10, Capital expenditure on Economic Services consistently increased from ₹ 423.73 crore in 2006-07 to ₹ 1081.32 crore in 2008-09 and ₹ 1150.43 crore in 2010-11. However, the share of Capital expenditure on Economic Services to total of Revenue and Capital expenditure on Economic Services during 2006-11 ranged between 37.57 *per cent* and 48.67 *per cent,* which indicated that the Revenue expenditure was dominant. Revenue expenditure on Economic Services also consistently increased from ₹ 704.04 crore in 2006-07 to ₹ 1484.73 crore (110.89 *per cent*) in the current year. An increase of ₹ 146.83 crore (10.97 *per cent*) during 2010-11 over the previous year in Revenue expenditure was mainly due to the increase under Transport (₹ 68.68 crore), Energy (₹ 68.06 crore), General Economic Services (₹ 37.44 crore) and Irrigation & Flood Control (₹ 33.72 crore), partly offset by decrease under Agriculture and allied activities (₹ 37.68 crore) and Special Area Programme (₹ 32.96 crore). Within the Revenue expenditure on Economic Services, the Salary component constituted 37.13 *per cent* and 31.43 *per cent* during 2009-10 and 2010-11 respectively. It decreased from ₹ 496.76 crore in 2009-10 to ₹ 466.60 crore (6.07 *per cent*) during the current year.

1.9 Financial Analysis of Government Expenditure and Investments

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

1.9.1 Incomplete Projects

According to the information available in Appendix X of the Finance Accounts for 2010-11, as of 31 March 2011, there were 50 ongoing projects in the State. Information like target date of completion, estimated cost, etc. in respect of the 34 projects was not available in the Finance Accounts. In remaining, 16 Water Supply

[11] Revenue expenditure + Capital expenditure + Disbursement of Loans and Advances

projects (estimated cost: ₹ 219.64 crore) under execution by the Public Health Engineering Department and stipulated for completion by March 2011, remained incomplete with an expenditure of ₹ 162.78 crore till March 2011. The revised cost of two of these projects increased by about 336 *per cent* from ₹ 5.76 crore (estimated cost) to ₹ 25.09 crore (total revised cost), resulting in a total cost overrun of ₹ 19.33 crore as detailed in **Table 1.22.**

Table 1.22: Incomplete projects having cost overruns

(₹ in crore)

Name of project	Target date of completion	Original Estimated cost	Revised cost	Cost overrun (Per Cent)	Expenditure as of 31 March 2011
Water Supply to Naharlagun-Nirjuli (Ph-I) for 3.50 MLD	March 2011	1.78	14.90	13.22 (744)	14.90
Water Supply at Daporijo Township	March 2011	3.98	10.19	6.21 (156)	5.43
Total		**5.76**	**25.09**	**19.33 (336)**	**20.33**

Effective steps need to be taken to complete the incomplete projects without further delay to avoid cost overrun due to time overrun.

1.9.2 Investment and Returns

As per Statement 14 of the Finance Accounts for 2010-11, as of 31 March 2011, the State Government had invested ₹ 218.15 crore in five Government Companies (₹ 9.04 crore) and 145 Co-operative Banks and Societies (₹ 209.11 crore). Details are given in **Table 1.23.**

Table 1.23 : Return on Investment

Investment/Return/Cost of Borrowings	2006-07	2007-08	2008-09	2009-10	2010-11
Investment at the end of the year (₹ in crore)					
(i) Government Companies	9.04	9.04	9.04	9.04	9.04
(ii) Co-operative Bank/Societies	22.72	208.55	211.38	209.14	209.11
Total	**31.76**	**217.59**	**220.42**	**218.18**	**218.15**
Return (₹ in crore)	0	(a)	0	0	0
Return (per cent)	*0*	*0*	*0*	*0*	*0*
Average Rate of Interest on Government Borrowings *(per cent)*	7.98	6.19	7.71	7.47	12.16
Difference between Interest Rate and Return (*per cent*)	7.98	6.19	7.71	7.47	12.16

(a) less than 0.01

During 2006-11, the average Return on Investment was nil, except during 2007-08, which was less than one *per cent*, while the Government paid Interest at an average rate of 6.19 *per cent* to 12.16 *per cent* on its Borrowings during the period.

1.9.3 Loans and Advances by State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government has also been providing Loans & Advances for other purposes, e.g., loans for Power Projects, loans to Government servants, loans for Tourism, *etc.* **Table 1.24** presents the outstanding Loans & Advances as on 31 March 2011 and Interest receipts *vis-à-vis* Interest payments during the last three years.

Table 1.24 : Average Interest Received on Loans and Advances given by the State Government

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Opening Balance	25.47	27.92	27.95	52.41	55.17
Amount advanced during the year	4.78	2.97	27.24	205.46	6.31
Amount recovered during the year	2.33	2.94	2.78	202.70	2.41
Closing Balance	27.92	27.95	52.41	55.17	59.07
Net Addition	***2.45***	***0.03***	***24.46***	***2.76***	***3.90***
Interest Receipts	0.54	1.00	0.87	5.22	1.78
Interest received as *per cent* to outstanding Loans & Advances	2.02	3.58	2.17	9.70	3.12
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	7.98	6.19	7.71	7.28	12.16
Difference between Interest Payments and Receipts (*per cent*)	5.96	2.61	5.54	- 2.23	8.98

Loans and advances given by the State Government during 2010-11 significantly decreased from ₹ 205.46 crore in 2009-10 to ₹ 6.31 crore as no loan was paid to the Co-operative Apex Bank against a loan of ₹ 200 crore paid during the previous year. During 2006-11, recovery of Loans & Advances was ₹ 213.16 crore against ₹ 246.76 crore advanced during the period. The total outstanding Loans & Advances as on 31 March 2011 was ₹ 59.07 crore. *As the current level of recovery on Loans advanced by the states is extremely poor, the XIIIth FC projected the Interest receipts of States on a normative basis without linking it to the current level. Outstanding loans and advances at the end of 2009-10 have been projected by the XIIIth FC as constant over the projection period and applied an interest rate of 7 per cent to these outstanding loans and taken as the interest receipt in each of the years.* Interest receipt of ₹ 1.78 crore on Loans & Advances by the Government of Arunachal Pradesh during 2010-11 constituted 3.01 *per cent* only of the outstanding Loans & Advances at the end of 2009-10 (₹ 59.17 crore) and thus, much below the Interest rate of 7 *per cent* as applied by the XIIIth FC.

1.9.4 Cash Balances and Investment of Cash Balances

Table 1.25 depicts the Cash Balances and Investments made by the State Government out of Cash Balances during the year.

Table 1.25 : Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1st April 2010	As on 31 March 2011	Increase
Cash Balances[12]	**1610.39**	**1798.98**	**188.59**
Investments from Cash Balances (a & b)	**1616.37**	**1903.64**	**287.27**
a. GOI Treasury Bills	1616.37	1903.64	287.27
b. GOI Stock/Securities	…	…	…
Fund-wise break-up of Investment from Earmarked Balances (a & b)	**73.90**	**90.90**	**17.00**
a. Sinking Fund Investment Account	73.90	90.90	17.00
b. Other Development and Welfare Funds	…	…	…
Interest realised on Investment of Cash Balances	**34.80**	**109.57**	**74.77**

Cash Balances of the State Government at the end of the current year increased from ₹ 1610.39 crore in 2009-10 to ₹ 1798.98 crore in 2010-11. As on 31 March 2011, the State Government had invested ₹ 1,903.64 crore in GOI Treasury Bills. During 2010-11, Interest of ₹ 109.57 crore was earned on investment of Cash Balances. The Interest realised on investment of Cash Balances (considering opening cash balance of ₹1616.39 crore) was 6.78 *per cent* during 2010-11, while the average rate of interest on Government borrowings during the year was 12.16 *per cent.* The XIIIth FC recommended that States with large Cash Balances make efforts towards utilizing their Cash Balances before resorting to fresh borrowings.

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – Ordinary and Special – from the Reserve Bank of India (RBI) has been put in place.

The Government did not have to resort to WMA during the current year as well as during 2006-10, indicating a comfortable position of Cash Balances of the State. However, there was a balance of WMAs amounting to ₹ 55.64 crore since March 2007 (Ordinary WMA: ₹ 50.24 crore; Special WMA: ₹ 5.40 crore).

1.10 Assets and Liabilities

1.10.1 Growth and Composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of Fixed Assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities in this Appendix consist mainly of

[12] Excluding investment of Earmarked Funds.

internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly of the Capital Outlay and Loans & Advances given by the State Government and Cash Balances.

1.10.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.3.** However, the composition of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Charts 1.13** and **1.14.**

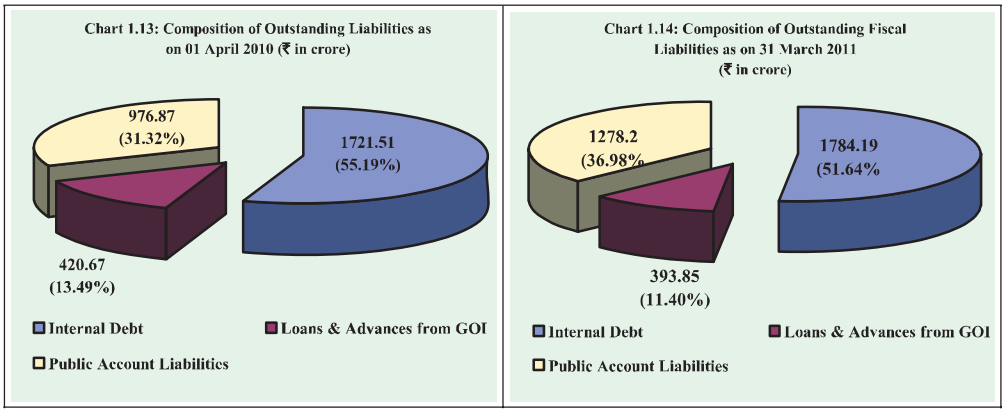


Table 1.26 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP to Revenue receipts and the State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.26: Fiscal Liabilities – Basic Parameters

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Fiscal Liabilities[13] (₹ in crore)	**2371.27**	**2638.55**	**2954.66**	**3119.05**	**3456.24**
Rate of Growth (*per cent*)	1.46	11.27	11.98	5.56	10.81
Ratio of Fiscal Liabilities to					
GSDP (*per cent*)	57.79	54.89	51.95	44.18	41.98
Revenue Receipts (*per cent*)	91.48	87.86	76.63	72.62	63.74
Own Resources (*per cent*)	631.65	349.47	325.32	455.54	463.84
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	0.16	0.66	0.65	0.23	0.65
Revenue Receipts (ratio)	0.04	0.71	0.42	0.49	0.41
Own Resources (ratio)	0.03	0.11	0.59	-0.23	1.23

Fiscal liabilities of ₹ 3456.24 crore during 2010-11 consisted of Internal Debt, e.g., Market Loans bearing interest, WMA, loans from financial institutions and special securities issued to the National Small Savings Fund, *etc.* (₹ 1784.19 crore), Loans & Advances from the Central Government (₹ 393.84 crore), Small Savings, Provident

[13] Includes Internal Debt, Loans and Advances from Government of India, Small Savings, Provident Funds, *etc.*, Reserve Funds and Deposits.

Funds (State Provident Funds and Insurance & Pension Funds: ₹ 870.81 crore) and other liabilities, e.g., Reserve Funds and Deposits (₹ 407.40 crore). The overall fiscal liabilities of the State increased from ₹ 2371.27 crore in 2006-07 to ₹ 3456.24 crore in 2010-11. The growth rate in 2010-11 was 10.81 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP decreased from 44.18 *per cent* in 2009-10 to 41.98 *per cent* in 2010-11. These liabilities were around 64 *per cent* of the Revenue receipts and stood at 4.64 times of the State's own resources at the end of 2010-11. The buoyancy of these liabilities with respect to GSDP during the year was 0.65, indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.65 *per cent*.

As per the recommendations of the XIIIth FC, the Fiscal Consolidation Path embodies the steady reduction in augmented debt stock of the States to less than 25 per cent of GDP by 2014-15. But as per the AFRBM Act (amended in December 2011), the State Government targeted to maintain the outstanding debt GSDP ratio at 61.3 per cent during 2010-11 and 50.1 per cent during 2014-15. As can be seen from **Table 1.26** above, the fiscal liabilities to GSDP ratio during 2010-11 decreased by only 2.2 *per cent* from 44.18 *per cent* in 2009-10 to 41.98 *per cent* in 2010-11.

During 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of Open Market Loans. In 2010-11, the Government appropriated ₹ 17 crore from Revenue and credited to this fund for investment in the Government of India Securities.

1.10.3 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per the Finance Accounts, the maximum amount for which Guarantees were given by the State and outstanding Guarantees at the end of the year since 2006-07 are given in **Table 1.27**.

Table 1.27 : Guarantees given by the Government of Arunachal Pradesh

(₹ in crore)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Maximum Amount Guaranteed	23.99	12.00	12.00	12.00	Information not furnished by the State Government
Outstanding Amount of Guarantees (including Interest)	13.32	0.98	0.61	0.61	
Percentage of Maximum Amount Guaranteed to Total Revenue Receipts	0.93	0.40	0.31	0.28	

The Government had guaranteed loans raised by various Corporations and others. The outstanding amount of Guarantees was in the nature of contingent liabilities. However, the position of the contingent liabilities as of March 2011 could not be ascertained as the requisite information was not furnished by the State Government (January 2012).

1.11 Debt Sustainability

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

Apart from the magnitude of debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[14]; sufficiency of non-debt receipts[15]; net availability of borrowed funds[16]; burden of Interest payments (measured by Interest payments to Revenue receipts ratio) and maturity profile of State Government securities. **Table 1.28** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2006-07.

Table 1.28: Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2006-07	2007-08	2008-09	2009-10	2010-11
Debt Stabilisation (Quantum Spread + Primary Deficit)	327.14	405.29	141.31	285.44	563.78
Sufficiency of Non-debt Receipts (Resource Gap)	363.60	- 116.67	- 344.40	- 79.61	458.54
Net Availability of Borrowed Funds	- 153.69	112.33	100.57	- 47.59	- 45.73
Burden of Interest Payments (IP/RR ratio) (*per cent*)	7.24	5.16	5.59	5.28	7.38

Table 1.28 reveals that the quantum spread together with primary deficit has been positive for the last five years (2006-11), resulting in decline in the Debt/GSDP ratio from 57.79 *per cent* in 2006-07 to 41.98 *per cent* in 2010-11. These trends indicate the tendency towards debt stabilization, which would eventually improve the debt sustainability of the State.

The trends in Resource Gap indicate the oscillation between positive and negative magnitudes. The Resource Gap has been negative in three out of the five year period, indicating that the incremental Non-debt receipts were not sufficient to meet the incremental primary expenditure and Interest burden. However, the positive Resource Gap during 2010-11 indicated an increasing capacity of the State to sustain the debt in the medium to long run.

[14] Appendix 1.1.c.

[15] Appendix 1.1.c.

[16] It indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

The Debt Redemption ratio fluctuated widely during 2006-11, which remained more than unity in 2006-07 and 2009-11, while during 2007-08 and 2008-09, this ratio was around 82 and 87 *per cent* respectively. During the current year, against borrowed funds of ₹ 928.28 crore, the Government repaid ₹ 974.01 crore as Principal and Interest on Internal Debt (₹ 371.48 crore), Loans & Advances from the Central Government (₹ 60.40 crore) and other liabilities[17] (₹ 542.13 crore), as a result of which the State Government utilised ₹ 45.73 crore from its other sources for repayment of debt.

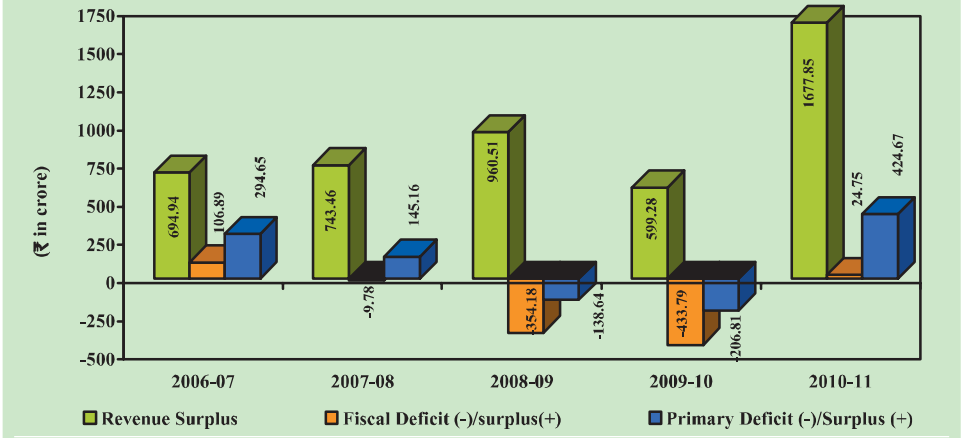
1.12 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2010-11.

1.12.1 Trends in Deficits

Charts 1.15 and **1.16** present the trends in deficit indicators over the period 2006-11.

Chart 1.15 : Trends in Deficit Indicators



[17] Small Savings, Provident Funds, Reserve Funds, Deposits, *etc.*

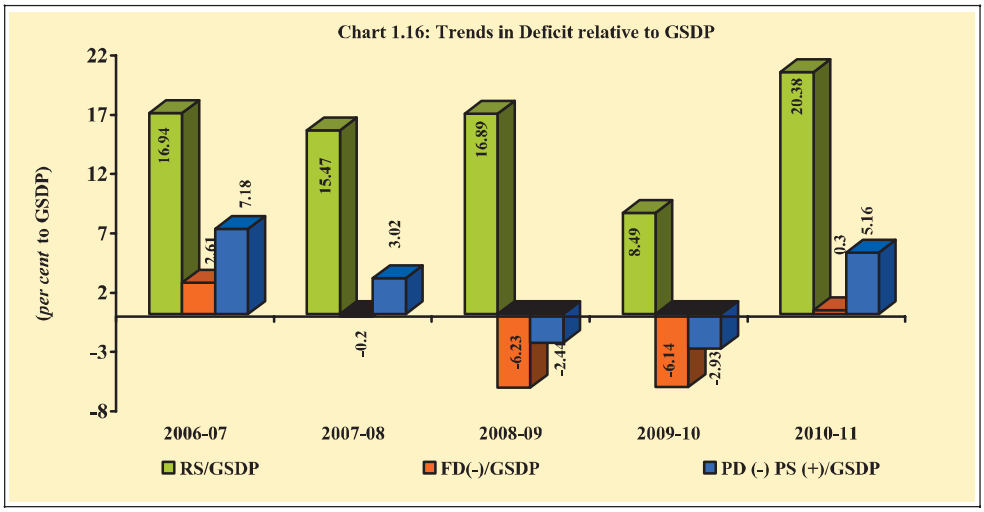


Chart 1.15 reveals that the State had a revenue surplus during the period 2006-11, which after inter-year variations, increased from ₹ 694.94 crore in 2006-07 to ₹ 1677.85 crore during the current year. Compared to 2009-10, revenue surplus during 2010-11 significantly increased by ₹ 1078.57 crore (180 *per cent*) mainly on account of increase in Central Transfers (₹ 1066.78 crore) and increase in Own Resources (₹ 60.44 crore) marginally offset by increase in Revenue expenditure (₹ 48.65 crore).

The fiscal deficit, which persisted during 2007-10, took a turnaround and resulted in fiscal surplus of ₹ 24.75 crore during 2010-11. The increase in Revenue Surplus (₹ 1078.57 crore) offset by increase in capital expenditure (₹ 618.89 crore) over the previous year mainly led to a fiscal surplus of ₹ 24.75 crore during the current year.

As per the recommendations of the XIIIth FC, *all special category states with base fiscal deficit of less than 3 per cent of GSDP in 2007-08 could incur a fiscal deficit of 3 per cent in 2011-12 and maintain it thereafter.* However, the Government of Arunachal Pradesh was successful in restricting the fiscal deficit-GSDP ratio as would be evident from the fact that the State achieved a fiscal surplus during 2010-11 against a fiscal deficit-GSDP ratio of 6.14 *per cent* during the previous year.

The primary deficit of ₹ 206.81 crore, experienced by the State during 2009-10, also took a turnaround in 2010-11, and resulted in a primary surplus of ₹ 424.67 crore. Although there was substantial increase ₹ 172.94 crore (76.19 *per* cent) in Interest payment during 2010-11 over the previous year, a fiscal surplus of ₹ 24.75 crore witnessed during the year led to the primary surplus.

1.12.2 Quality of Deficit/Surplus

The ratio of Revenue deficit to Fiscal deficit and the decomposition of Primary deficit into Primary Revenue deficit and Capital expenditure (including Loans & Advances) would indicate the quality of deficit in the States' finances. The ratio of Revenue deficit to Fiscal deficit indicates the extent to which borrowed funds were used for

current consumption. Further, a persistently high ratio of Revenue deficit to Fiscal deficit also indicates that the asset base of the State is continuously shrinking and a part of borrowings (fiscal liabilities) do not have any asset backup. The bifurcation of the Primary deficit **(Table 1.29)** would indicate the extent to which the deficit has been on account of enhancement in Capital expenditure, which may be desirable to improve the productive capacity of the State's economy.

Table 1.29: Primary Deficit/Surplus – Bifurcation of Factors

(₹ in crore)

Year	Non-debt Receipt	Primary Revenue Expendi-ture	Capital Expendi-ture	Loans & Advances	Primary Expendi-ture	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2 -6)
2006-07	2594.50	1709.47	585.60	4.78	2299.85	885.03	+ 294.65
2007-08	3005.95	2104.61	753.21	2.97	2860.79	901.34	+ 145.16
2008-09	3858.75	2679.92	1290.23	27.24	3997.39	1178.83	- 138.64
2009-10	4497.57	3468.61	1030.31	205.46	4704.38	1028.96	- 206.81
2010-11	5424.50	3344.32	1649.20	6.31	4999.83	2080.18	+ 424.67

The analysis of the factors resulting into Primary deficit or surplus of the State during 2006-11 revealed that in two (2008-09 and 2009-10) out of the five years, the State experienced Primary deficit, which was on account of Capital expenditure incurred and Loans & Advances disbursed by the State Government. In other words, Non-debt receipts of the State were sufficient to meet the Primary Revenue expenditure. But the surplus Non-debt receipts were not enough to meet the expenditure requirements under Capital account and Loans & Advances during 2008-10, resulting in Primary deficit. However, during 2006-08 and 2010-11, Non-debt receipts were sufficient to meet the expenditure requirement both under Revenue and Capital accounts, resulting in Primary surplus. Primary surplus was mainly on account of increases in Non-debt receipts by ₹ 926.93 crore and Capital expenditure by ₹ 618.89 crore, decreases in Primary Revenue expenditure by ₹ 124.29 crore and disbursement of Loans & Advances by ₹ 199.15 crore during 2010-11, as compared to the previous year. This is a desirable change for improving the productive capacity of the State's economy, which may be continued in ensuring years.

1.13 Conclusion and Recommendations

The fiscal position of the State during 2010-11 showed significant improvement over previous year, as the State not only maintained Revenue Surplus during the last five-year period ending 2010-11, but also the Revenue Surplus reached its peak during the current year. The fiscal deficit of the State, which was persistent during 2007-10 as well as the primary deficit of 2008-10, turned into Fiscal surplus and Primary surplus during 2010-11.

❖ *Revenue Receipts*

Revenue receipts during 2010-11 grew by 26.25 *per cent* (₹ 1127.22 crore) over the previous year. The Tax revenue and Non-tax revenue receipts exceeded the normative assessment made by the XIIIth FC by about 42 *per cent* and 166 *per cent* respectively. Central Transfers, comprising of the State's share of Central taxes and Grants-in-aid from the Government of India, increased by ₹ 1066.78 crore in 2010-11 and contributed about 95 *per cent* of the incremental Revenue receipts during the year. However, the State depends mostly on resources transferred by the Central Government. The State's own resources as percentage of the total receipts declined from its peak (25 per cent) in 2007-08 to its lowest (14 per cent) in 2010-11. This indicates that Central Transfers were the key to the increase in Revenue receipts of the State.

The State should make efforts to increase its own resources and maintain Revenue Surplus in the ensuing years.

❖ *Revenue and Total Expenditure*

Revenue expenditure of the State increased by 97.35 *per cent* from ₹ 1897.23 crore in 2006-07 to ₹ 3744.24 crore in 2009-10. This expenditure as a percentage of total expenditure, though decreased to 69.34 *per cent* in 2010-11 from 74.94 *per cent* in 2009-10, averaged around 73 *per cent* during the period 2006-11, leaving inadequate resources for expansion of services and creation of assets. NPRE during the same period increased from ₹ 1086.22 crore in 2006-07 to ₹ 2533.08 crore in 2010-11, which was around 63 *per cent* (₹ 978.92 crore) higher than the normatively assessed level of ₹ 1554.16 crore by the XIIIth FC for the year. Further, Salaries, Pensions, Interest payments and Subsidies continued to consume a major share of the Revenue expenditure, accounting for more than 59 per cent during 2010-11. Development expenditure during 2010-11 increased by 9.02 *per cent* over the previous year and also exceeded the assessment made in the Budget Estimates by 35.16 *per cent*. The relative share of Development expenditure during 2010-11, however, showed that 61.33 *per cent* of the Development expenditure was incurred on Revenue account and only 38.59 *per cent* was utilised for Capital expenditure. A predominant share of Revenue expenditure in Development expenditure indicated that more emphasis was given on maintenance of the current level of resources, which did not result in any addition to State's infrastructure and service network.

The expenditure pattern of the State Government needs correction in the ensuing years. The Government should initiate suitable measures to compress the components of Non-plan Revenue Expenditure and to emphasize on provision of Development Capital Expenditure.

❖ *Fiscal Correction Path*

During 2010-11, there were significant improvements in all the three major fiscal indicators, *viz*., Revenue Surplus, Fiscal Deficit and Primary Deficit over the previous

year. Achievement of Fiscal surplus during 2010-11 against a Fiscal deficit during the last three years indicated a comfortable fiscal position of the State. Prevalence of fiscal liabilities of the State over the period 2006-11, which stood at 41.98 *per cent* of the GSDP in 2010-11, appeared to be quite high, especially when compared with the limit prescribed by the XIIIth FC, i.e., steady reduction in augmented Debt Stock of States to less than 25 *per cent* of GDP by 2014-15.

During 2006-11, while the Government paid Interest at an average rate of 6.19 *per cent* to 12.16 *per cent* on its borrowings during the period, the average Return on Investment in Government Companies and Co-operative Societies was 'zero' (except less than one *per cent* during 2007-08). The Cash Balances of the State at the end of 2010-11 increased to ₹ 1798.98 crore and Interest received on investment of Cash Balances was only 6.78 *per cent.*

The increasing fiscal liabilities, accompanied by no return on Government investments and inadequate interest cost recovery on loans and advances, might lead to an unsustainable fiscal situation in medium to long term time-frame.

The State Government should make efforts to restrict its fiscal liabilities and also ensure proper Debt Management through advanced planning, which could minimise the need to hold large cash surpluses.

❖ *Accounting of Funds Transferred to State Implementing Agencies*

The GOI has been transferring substantial amounts directly to the State Implementing Agencies for implementation of various Schemes/Programmes in the Social and Economic sectors. As long as these funds remain outside the State budget, there is no single agency monitoring their use and data is not readily available on how much is actually spent in a particular year.

A system has to be put in place to ensure proper accounting of these funds and updated information should be validated by the State Government and also by the Accountant General.