

CHAPTER – I: Finances of the State Government

Profile of Arunachal Pradesh

Arunachal Pradesh, the largest State area-wise in the North-Eastern region, is a Special Category State¹ 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. As per data furnished by the Director of Economics & Statistics, Govt. of Arunachal Pradesh (December, 2012), Gross Domestic Product of the State was ₹ 11135.53 crore (Base Year 2004-05) and the estimated per capita GSDP of the State stood at ₹ 79,710 during 2011-12.

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 2007-08 was 17.09 *per cent*, and reached its peak in 2009-10 (31.40 *per cent*), it declined to 27.53 *per cent* in 2011-12. The average Compound Annual Growth Rate (CAGR) in respect of GSDP for Arunachal Pradesh between 2004-05 and 2011-12 was 18.04 *per cent*.

The State depends mostly on resources transferred by the Central Government as the State's own resources during 2007-12 contributed only about 13 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 2007-12. It declined from its peak of 54.86 *per cent* in 2007-08 to 36.25 *per cent* in 2011-12.

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 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.** and **Appendix 1.2** of the Chapter, which briefly outline 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 State Government finances for the period 2007-12.

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 (2011-12) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts/disbursements and the overall fiscal position during the current year.

Table 1.1: Summary of Fiscal Transactions (Current Year)

(₹ in crore)							
2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
Section – A : Revenue							
					Non-Plan	Plan	Total
5422.09	Revenue Receipts	5499.06	3744.24	Revenue Expenditure	2853.86	1564.00	4417.86
214.99	Tax Revenue	317.65	1265.23	General Services	1244.80	39.64	1284.44
530.14	Non-tax Revenue	360.71	994.28	Social Services	756.72	628.70	1385.42
720.18	Share of Union Taxes/Duties	838.97	1484.73	Economic Services	852.34	895.66	1748.00
3956.78	Grants-in-aid from Government of India	3981.73					
Section – B : Capital							
...	Miscellaneous Capital receipts	...	1649.20	Capital Outlay	6.03	2059.85	2065.88
2.41	Recoveries of Loans and Advances	2.90	6.31	Loans and Advances Disbursed	9.69	...	9.69
122.36	Public Debt Receipts ³	168.66	86.50	Repayment of Public Debt	...	137.33	137.33
...	Contingency Fund	...	...	Contingency Fund	...	...	...
3077.77	Public Account Receipts	4224.65	2949.79	Public Account Disbursements	...	...	3954.68
1610.39	Opening Balance	1798.98	1798.98	Closing Balance	...	...	1108.81
10235.02	Total	11694.25	10235.02	Total			11694.25

Following are the significant changes during 2011-12 over the previous year:

- **Revenue Receipts** increased by 1.42 *per cent* (₹ 76.97 crore) over the previous year. The increase was contributed by Grants-in-aid of ₹ 24.95 crore (0.63 *per cent*) from the Government of India (GOI), State's share of Union Taxes and Duties of ₹ 118.79 crore (16.49 *per cent*), Tax Revenue of ₹ 102.66 crore (47.75 *per cent*), which was partly offset by decrease under Non-tax Revenue of ₹ 169.43 crore (31.96 *per cent*).
- **Revenue Expenditure** increased by 17.99 *per cent* (₹ 673.62 crore) over the previous year. While 29.13 *per cent* (₹ 352.84 crore) of the increase was under Plan heads, the increase under Non-plan heads was 12.66 *per cent* only (₹ 320.78 crore)

³ Includes net Ways and Means Advances.

over previous year. **Capital Expenditure** during the year increased by 25.27 *per cent* (₹ 416.68 crore) over the previous year.

- **Recovery and Disbursement of Loans and Advances** during the current year increased by ₹0.49 crore and ₹ 3.38 crore respectively compared to the previous year.
- **Public Debt Receipts** increased by ₹ 46.30 crore over the previous year mainly due to increase in receipts under Internal Debt (₹ 46.67 crore). **Repayment of Public Debt** also increased by ₹ 50.83 crore over the previous year.
- **Public Account Receipts and Disbursements** increased by ₹ 1146.88 crore and ₹ 1004.89 crore respectively over the previous year.
- The total inflow during 2011-12 was ₹ 9895.27 crore against ₹ 8624.63 crore in 2010-11, while the total outflow during 2011-12 was ₹ 10585.45 crore against ₹ 8436.04 crore during the previous year, registering an increase of 14.73 *per cent* and 25.48 *per cent* respectively, leading to a decline in the cash balances of the State by ₹ 690.17 crore (38.36 *per cent*) over the previous year.

1.2 Arunachal Pradesh Fiscal Responsibility and Budget Management Act

The performance of the State during 2011-12 in terms of key fiscal targets set for selected parameters laid down in the Arunachal Pradesh Fiscal Responsibility and Budget Management (Amendment) Act, 2011 *vis-à-vis* achievements are given below in **Table 1.2**.

Table 1.2: Trends in Major fiscal parameters/variables *vis-à-vis* projections for 2011-12

Fiscal Parameters	2011-12		
	Targets as per prescribed in FRBM Act	Projections made in Medium Term Fiscal Policy Statement	Actual
Revenue Surplus	Strive to remain revenue surplus during the period 2010-15	-	+ ₹ 1081.20
Revenue Surplus/(as % of GSDP)	Strive to maintain in a consistent manner	24.81	9.71
Fiscal Deficit/GSDP (<i>per cent</i>)	Not more than 3 <i>per cent</i> by 2011-12	2.08	8.90
Total outstanding debt/GSDP (<i>per cent</i>)	58.2	38.22	36.25

The above table indicates that though the State was able to achieve targets prescribed in the FRBM Act/MTFPS in respect of Revenue Surplus and Total Outstanding Debt as percentage of GSDP. However, the ratio of Fiscal Deficit-GSDP (in *percentage*) far surpassed the target fixed in the FRBM Act/MTFPS. The State Government has to initiate requisite measures to contain the Fiscal Deficit-GSDP ratio within permissible limits.

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 the New GSDP series furnished (December 2012) by the Directorate of Economics and Statistics, Government of Arunachal Pradesh, the quick estimated GSDP for the State of Arunachal Pradesh was ₹ 11135.53 crore during 2011-12, 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 1.3: Trends in Gross State Domestic Product

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Gross State Domestic Product⁴ (₹ in crore)	4810.00	5687.32	7472.97	8731.50	11135.53
Growth Rate of GSDP	17.09	18.24	31.40	16.84	27.53

GSDP at current prices increased from ₹ 8731.50 crore in 2010-11 to ₹ 11135.53 crore in 2011-12, representing an increase of 27.53 *per cent*. Increase in the growth of GSDP during 2011-12 over that of previous year was mainly due to increase of 34.70 *per cent* under Industry, like Transport, Storage & Communications, Trade, Hotels, etc., followed by 31.26 *per cent* under Agriculture and Allied Activities. The growth of GSDP during 2011-12 also significantly exceeded the projection made by the XIIIth FC. The average compound annual growth rate in respect of GSDP for Arunachal Pradesh between 2004-05 and 2011-12 was 18.04 *per cent*.

1.4 Budget Analysis

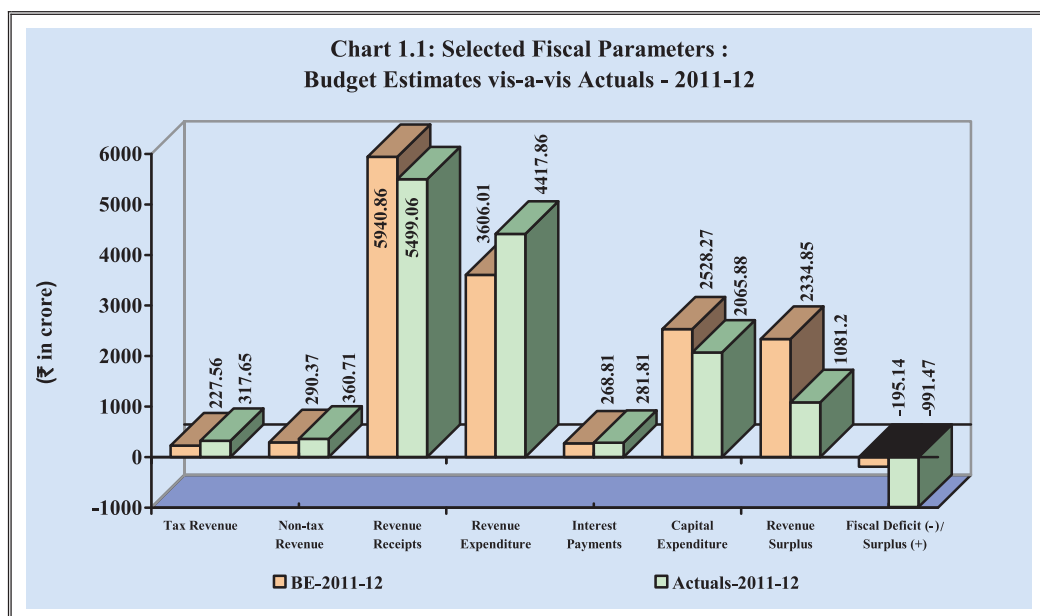
Budget documents presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for the deviation from actual realisation from the Budget Estimates. It may be due to 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 1.4** presents the consolidated picture of State finances during 2010-11 (Actuals) and 2011-12 (Budget Estimates, Revised Estimates and Actuals) and **Chart 1.1** presents the Budget Estimates and actuals for some important fiscal parameters for 2011-12.

⁴ 2007-08 to 2009-10 - Revised Estimate; 2010-11 - Provisional Estimate; and 2011-12- Quick Estimate

Table 1.4: Variation in major items – actuals of 2011-12 over 2010-11 and Budget Estimates/Revised Estimates with actuals of 2011-12

(₹ in crore)

Parameters	2010-11	2011-12			Percentage of Excess (+)/ Shortfall (-) with reference to		
	Actuals	Budget Estimates (BE) ⁵	Revised Estimates (RE) ⁵	Actuals	Actuals of 2010-11	BE	RE
Tax Revenue	214.99	227.56	251.10	317.65	47.75	39.59	26.50
Non-Tax Revenue	530.14	290.37	371.25	360.71	-31.96	24.22	-2.84
REVENUE RECEIPTS	5422.09	5940.86	6650.78	5499.06	1.42	-7.44	-17.32
Non-debt Capital Receipts	2.41	3.30	3.30	2.90	20.33	-12.12	-12.12
REVENUE EXPENDITURE	3744.24	3606.31	4803.87	4417.86	17.99	22.50	-8.04
Interest Payments	399.92	268.81	310.36	281.81	-29.53	4.84	-9.20
CAPITAL EXPENDITURE	1649.20	2528.27	3415.22	2065.88	25.27	-18.29	-39.51
Disbursement of Loans and Advances	6.31	5.02	12.05	9.69	53.57	93.03	-19.59
REVENUE SURPLUS	+ 1677.85	+2334.45	+1846.91	+1081.20	-35.56	-53.69	-41.47
Fiscal Deficit (-)/Surplus (+)	+ 24.75	-195.44	-1577.06	-991.47	-4105.94	-407.30	37.13



- During 2011-12, the actual **Revenue Receipts** as compared with the Budget Estimates and Revised Estimates fell short by 7.44 *per cent* and 17.32 *per cent* respectively. The actual **Revenue Expenditure** as compared with the Budget Estimates, exceeded by 22.50 *per cent* but fell short of the Revised Estimates by 8.04 *per cent*.

- The **Capital Expenditure** as compared with the Budget Estimates and Revised Estimates was less by 18.29 *per cent* and 39.51 *per cent* respectively. Compared to the previous year, the Capital Expenditure of the State increased by ₹ 416.68 crore (25.27 *per cent*), which was mainly due to increase of ₹ 91.71 crore

⁵ Net estimates

(102.93 per cent) under General Services, ₹ 135.91 crore (33.17 per cent) under Social Services and ₹ 189.06 crore (16.43 per cent) under Economic Services.

- **Revenue Surplus** (₹ 1081.20 crore) during the year was less by 53.69 per cent (₹ 1253.65 crore) and 41.47 per cent (₹ 766.01 crore) compared to the assessment made in the Budget Estimates and Revised Estimates respectively. Against the fiscal deficit of ₹ 195.44 crore and ₹ 1577.06 crore, as assessed in the Budget and Revised Estimates, the year ended with a fiscal deficit of ₹ 991.47 crore. The wide variation between the Budget Estimates and 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 Revenue, Non-tax Revenue, State's share of Union Taxes and Duties and Grants-in-aid from the Government of India (GOI). Capital Receipts comprise 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 1.5** depict the trends in various components of receipts of the State during 2007-12. **Chart 1.3** depicts the composition of resources of the State during the current year.

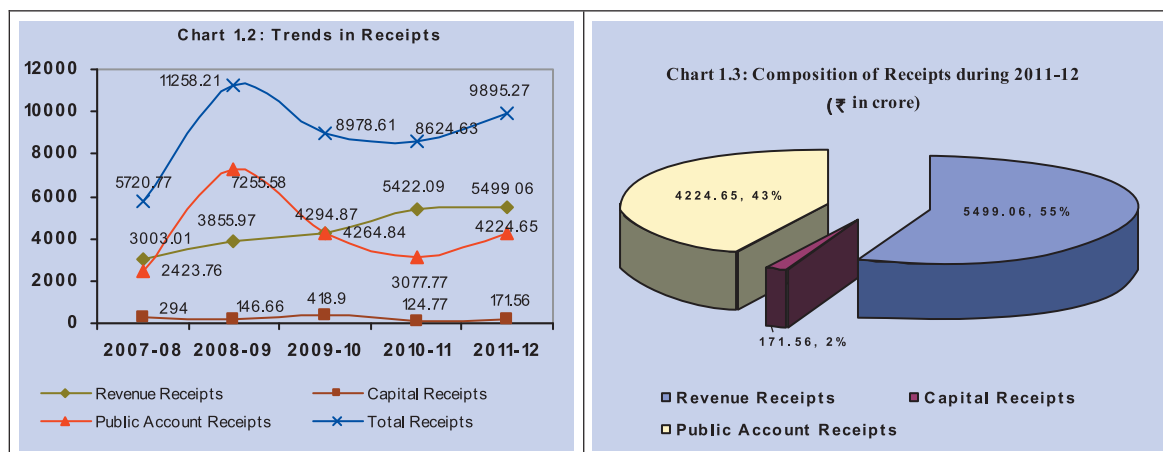


Table 1.5: Trends in Growth and Composition of Receipts

		(₹ in crore/Rate of Growth in per cent)				
Sl. No.	Sources of State's Receipts	2007-08	2008-09	2009-10	2010-11	2011-12
I	REVENUE RECEIPTS	3003.01	3855.97	4294.87	5422.09	5499.06
II	CAPITAL RECEIPTS (CR)	294.00	146.66	418.90	124.77	171.56
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	2.94	2.78	202.70	2.41	2.90
	Public Debt Receipts	291.06	143.88	216.20	122.36	168.66
	Rate of growth of Non-debt Capital Receipts	26.18	5.44	7191.37	- 98.81	20.33
	Rate of growth of Debt Capital Receipts	163.71	- 50.57	50.26	- 43.40	37.84
	Rate of growth of GSDP	17.09	18.24	31.40	16.84	27.53
	Rate of growth of CR	160.87	- 50.12	185.63	- 70.21	37.50
III	CONTINGENCY FUND	-	-	-	-	-
IV	PUBLIC ACCOUNT RECEIPTS	2423.76	7255.58	4264.84	3077.77	4224.65
	Small Savings, Provident Fund, etc.	122.21	157.21	220.14	183.41	256.02
	Reserve Funds	10.00	14.00	15.00	17.00	19.00
	Deposits and Advances	250.28	533.44	540.38	650.90	940.44
	Suspense and Miscellaneous	442.90	3892.93	649.59	- 219.28	10.55
	Remittances	1598.37	2658.00	2839.74	2445.74	2998.64
	TOTAL RECEIPTS	5720.77	11258.21	8978.61	8624.63	9895.27

Total Receipts during the current year increased by ₹ 1270.64 crore (14.73 per cent) over the previous year. Of the increase in total receipts, Public Account Receipts formed 37.26 per cent (₹ 1146.88 crore), followed by Revenue Receipts at 1.42 per cent (₹ 76.97 crore) and Capital Receipts by 37.50 per cent (₹ 46.79 crore). Out of the total receipts under Public Account, remittances constituted 70.98 per cent, out of which Public Works remittances constituted 93.74 per cent (₹ 2810.94 crore).

Total Receipts of the State for 2011-12 was ₹ 9895.27 crore, of which ₹ 5499.06 crore (55.57 per cent) came from Revenue receipts and the remaining (44.43 per cent) from borrowings and Public Account. The total receipts of the State increased by 72.97 per cent from ₹ 5720.77 crore in 2007-08 to ₹ 9895.27 crore in 2011-12.

Revenue Receipts increased steadily by 83.12 per cent from ₹ 3003.01 crore in 2007-08 to ₹ 5499.06 crore in 2011-12, whereas Public Debt receipts, which create future repayment obligations, decreased by 42.05 per cent from ₹ 291.06 crore in 2007-08 to ₹ 168.66 crore in 2011-12. Public Account receipts increased from ₹ 2423.76 crore (42.37 per cent of total receipts) in 2007-08 to ₹ 4224.65 crore (42.69 per cent of total receipts) in 2011-12.

Capital Receipts decreased by 41.65 per cent from ₹ 294.00 crore in 2007-08 to ₹ 171.56 crore in 2011-12.

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 State Implementing Agencies⁶ for implementation of various Schemes/ Programmes

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.

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 reflect 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 2011-12 for implementation of various Schemes is given in **Appendix 1.5**. The GOI directly transferred ₹ 1098.98 crore (approx.) to State Implementing Agencies during 2011-12. With this transfer, the total availability of State resources increased from ₹ 9895.27 crore to ₹ 10994.25 crore. The scheme-wise position involving substantial amount of Central funds is given in **Table 1.6**.

Table 1.6: Funds Transferred directly to State Implementing Agencies

(₹ in crore)		
Programme/Scheme	Implementing Agency in the State	Funds Transferred by the GOI
Sarva Shiksha Abhiyan	SSA Rajya Mission, Itanagar	238.80
PMGSY	Rural Road Development, Itanagar	214.27
National Rural Drinking Water Programme	SWSM, Arunachal Pradesh	184.83
MGNREGA	DRDA(District)	78.42
Grid Interactive Renewable Power, MNRE	AP Energy Development Agency	62.77
NRHM(Centrally Sponsored)	AP State Health Society	52.83
Integrated Watershed Management Programme	DRDA(District)	38.06
Forward Linkages to NRHM, New Initiatives in NE	AP State Health Society	35.58
Rural Housing(IAY)	DRDA(District)	31.98
Adult Education & Skill Development Scheme	AP State Literacy Mission Authority, Itanagar	22.61
TOTAL		960.15

Source: Central Plan Scheme Monitoring System of CGA website

Out of ₹ 960.15 crore, ₹ 238.80 crore (24.87 per cent) was transferred to the Rajya Mission of Sarva Shiksha Abhiyan and ₹ 214.27 crore (22.32 per cent) to the Rural Road Development Agency. 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.

1.6 Revenue Receipts

Statement - 11 of the Finance Accounts details the Revenue receipts of the Government. Revenue receipts consist of its own Tax and Non-tax revenue, Central Tax transfers and Grants-in-aid from GOI. The trends and composition of Revenue receipts over the period 2007-12 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**.

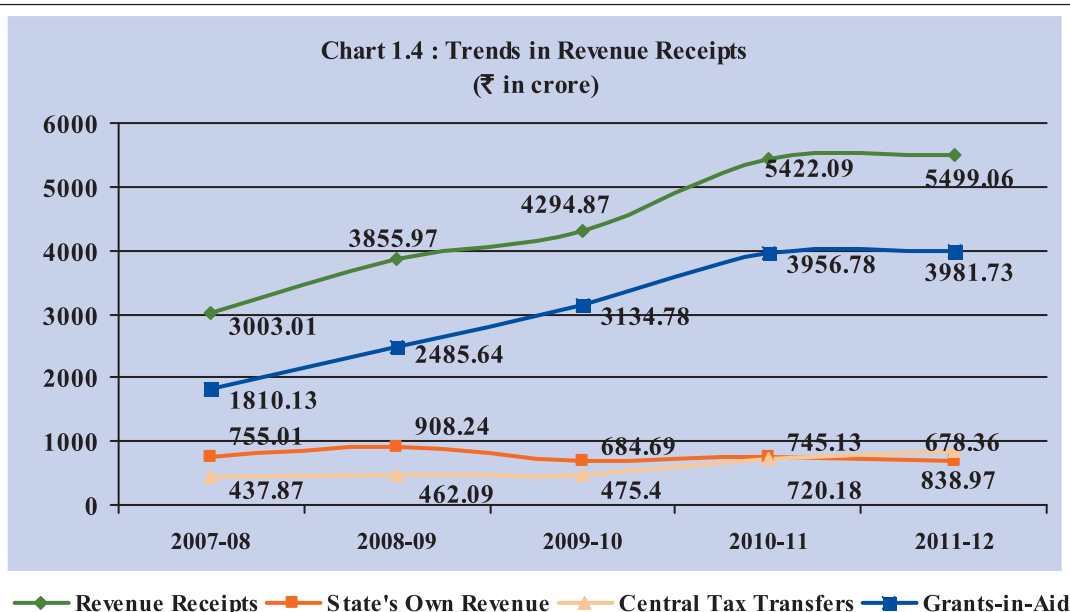
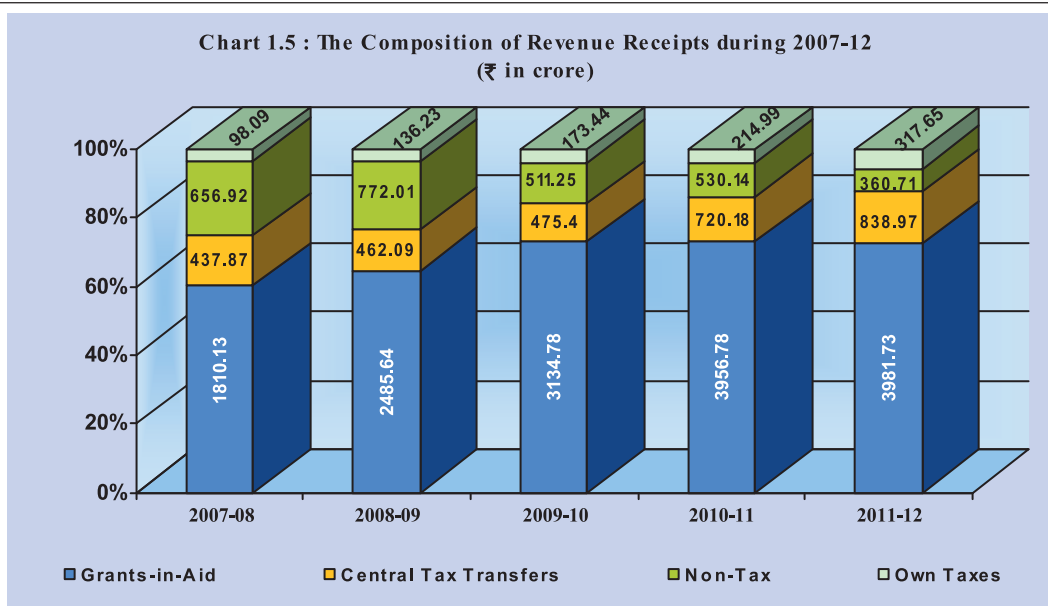


Table 1.7: Trends in Revenue Receipts relative to GSDP

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	3003.01	3855.97	4294.87	5422.09	5499.06
Rate of growth of Revenue Receipts (per cent)	15.85	28.40	11.38	26.25	1.42
Rate of growth of Own Taxes (per cent)	25.37	38.88	27.31	23.96	47.75
Revenue Receipts/GSDP (per cent)	62.43	67.80	57.47	62.10	49.38
Buoyancy Ratio					
Revenue Buoyancy Ratio with reference to GSDP	0.93	1.56	0.36	1.56	0.05
State's Own Taxes Buoyancy Ratio with reference to GSDP	1.48	2.13	0.87	1.42	1.73
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	1.60	1.37	2.40	0.91	33.63

1.6.1 General Trends

Revenue Receipts of the State increased by ₹ 2496.05 crore from ₹ 3003.01 crore in 2007-08 to ₹ 5499.06 crore in 2011-12. Tax revenue increased by ₹ 219.56 crore from ₹ 98.09 crore in 2007-08 to ₹ 317.65 crore in 2011-12, whereas Non tax revenue decreased by ₹ 296.21 crore from ₹ 656.92 in 2007-08 to ₹ 360.71 crore in 2011-12. The Buoyancy Ratio of Revenue receipts with reference to GSDP decreased due to significant increase in the rate of growth of GSDP in 2011-12 compared to the previous year. But the Buoyancy Ratio of the State's own Tax revenue with reference to GSDP increased due to significant increase in the growth rate of the State's own Tax revenue under Taxes on Sales, Trade, etc., (28.60 *per cent*) and State Excise (26.53 *per cent*). The Buoyancy Ratio of the State's own taxes to Revenue receipts indicates that the pace of growth of its own taxes. State's own taxes buoyancy ratio with reference to Revenue Receipts during the current year was 33.63. This may not reflect the correct picture as the increase in revenue receipts during the year was restricted by significant decline in non-tax revenue and a very moderate increase in Grants-in-aid from Government of India during the current year compared to previous year.

1.6.2 Central Tax Transfers

Central Tax Transfers increased by 16.49 *per cent* (₹ 118.79 crore) over the previous year and constituted 15.26 *per cent* of Revenue receipts. The increase was mainly due to transfer of additional amount in Corporation Tax (₹ 48.77 crore), Service Tax (₹ 28.25 crore), Customs (₹ 19.54 crore) and Taxes on Income other than Corporation Tax (₹ 19 crore).

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	2007-08	2008-09	2009-10	2010-11	2011-12
Non-Plan Grants	380.30	454.97	505.76	836.29	850.18
Grants for State Plan Schemes	1268.96	1664.36	2296.66	2616.44	2565.22
Grants for Central Plan Schemes	60.38	52.18	66.43	47.59	30.74
Grants for Centrally Sponsored Schemes	62.33	248.81	142.39	378.31	352.96
Grants for Special Plan Schemes	38.16	65.33	123.54	78.15	182.63
Total	1810.13	2485.65	3134.78	3956.78	3981.73
Percentage of increase(+)/decrease(-) over previous year	- 3.18	+ 37.32	+ 26.12	+ 26.22	+ 0.63

Grants-in-aid from the GOI increased by 0.63 *per cent* (₹ 24.95 crore) from ₹ 3956.78 crore in 2010-11 to ₹ 3981.73 crore in the current year. The increase was mainly due to increase in grants for Special Plan Schemes by ₹ 104.48 crore (133.69 *per cent*) and Non-Plan grants by ₹ 13.89 crore (1.66 *per cent*). The increase was partly offset by decrease in grants for State Plan Schemes by ₹ 51.22 crore (1.96 *per*

cent), grants, grants for Central Plan Schemes by ₹ 16.85 crore (35.41 per cent) and grants for Centrally Sponsored Schemes by ₹ 25.35 crore (6.70 per cent).

Non-Plan grants (₹ 850.18 crore) constituted 21.35 per cent of the total grants during the year, of which 94.35 per cent (₹ 802.14 crore) was under the proviso to Article 275(1) of the Constitution. The remaining amount (₹ 48.04 crore) was released mainly as modernization of the Police force (₹ 41.53 crore) and reimbursement of security related expenditure (₹ 2.20 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 2007-12 and the variation between the Budget Estimates of Revenue receipts and the actual receipts under the principal heads of Tax and Non-tax revenue for 2011-12.

Table 1.9: Tax Revenue

(₹ in crore)

Heads	2007-08	2008-09	2009-10	2010-11	2011-12		
					Budget Estimate	Actuals	Variations Increase (+) /Shortfall (-)(per cent)
Taxes on Sales, Trade, etc.	77.06	105.68	130.23	168.24	173.46	216.36	24.73
State Excise	11.61	16.61	23.78	29.74	28.78	37.63	30.75
Taxes on Vehicles	6.42	7.76	13.07	11.76	17.00	12.41	- 27.00
Stamp and Registration Fees	0.86	1.25	1.88	1.86	2.27	2.24	- 1.32
Land Revenue	2.12	4.90	4.43	3.37	6.05	3.85	- 36.36
Other Taxes ⁷	0.02	0.03	0.05	0.02	-	45.16	-
Total	98.09	136.23	173.44	214.99	227.56	317.65	39.59

Table 1.10: Non-Tax Revenue

(₹ in crore)

Heads	2007-08	2008-09	2009-10	2010-11	2011-12		
					Budget Estimate	Actuals	Variations Increase (+) Shortfall (-) (per cent)
Fiscal Services	-	-	0.02	-	-	-	-
Interest Receipts, Dividends and Profits	29.10	34.80	40.02	111.35	50.00	48.71	- 2.58
General Services	53.02	28.45	23.09	17.67	19.64	19.84	1.02
Social Services	7.30	10.73	9.07	9.67	11.20	10.35	- 7.59
Economic Services	567.50	698.03	439.05	391.45	209.53	281.81	34.50
Total	656.92	772.01	511.25	530.14	290.37	360.71	24.22

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.

1.6.4.1 Tax Revenue

Tax Revenue increased by 47.75 *per cent* during the current year (₹ 317.65 crore) over the previous year (₹ 214.99 crore). Revenue from Taxes on Sales, Trade, *etc.*; contributed to the major share of Tax revenue (68.11 *per cent*) and it increased by 28.60 *per cent* over the previous year. State Excise, Taxes on Vehicles and Stamp and Registration Fees were the other major contributors in the State's Tax revenue. Though there was an increase in the Tax revenue during 2011-12 over the previous year, the Tax-GSDP ratio (2.85 *per cent*) during 2011-12 was marginally lower than the projection (2.91 *per cent*) made by the XIIIth FC.

1.6.4.2 Non-Tax Revenue

Non-tax revenue (NTR), which constituted around 6.56 *per cent* of the total revenue receipts, significantly decreased by ₹ 169.43 crore (31.96 *per cent*) during 2011-12 over the previous year. Around 78.13 *per cent* (₹ 281.81 crore) of Non-tax revenue during 2011-12 was received from Economic Services, and within this category, receipts under Power Sector alone contributed 51.47 *per cent* (₹145.04 crore). Also receipt under power sector declined from its peak (₹ 609.74 crore) during 2008-09 to its lowest (₹ 145.04 crore) in 2011-12. Interest receipts decreased by ₹ 62.64 crore (56.26 *per cent*) during 2011-12 compared to the previous year, mainly due to decrease in Interest Receipts on State/Union Territory Governments by ₹ 62.65 crore. The CAGR of Non-tax revenue for Arunachal Pradesh between 2002-03 and 2010-11 (27.42 *per cent*) had, however, significantly declined to 18.84 *per cent* between 2002-03 and 2011-12.

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

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	2011-12			2010-11		
	Non-Tax Revenue Receipts	Non-Plan Revenue Expenditure	Cost Recovery (<i>per cent</i>)	Non-Tax Revenue Receipts	Non-Plan Revenue Expenditure	Cost Recovery (<i>per cent</i>)
Elementary Education	80.16	27038.13	0.30	49.40	23775.55	0.21
Secondary Education	32.28	10355.72	0.31	9.55	8847.61	0.11
Medical and Public Health	43.05	18835.84	0.23	35.19	17654.79	0.20
Public Works	900.39	10792.29	8.34	302.36	8254.05	3.66

As can be seen from above, while the cost recovery for Public Works during 2011-12 was 8.34 *per cent*, for Elementary Education, Secondary Education and Medical & Public Health, the percentages were 0.30, 0.31 and 0.23 respectively. However, there was an 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

Mobilisation of the State's own resources vis-à-vis assessments made by the XIIth FC (2007-10)/XIIIth FC (2010-12) and State Government in its own Fiscal Correction Path (2007-10)/Budget Estimate (BE) (2010-12) are given below:

Table 1.12

(₹ in crore)

Year	Assessment made by XIIth/ XIIIth FCs			Assessment made by State Government in Fiscal Correction Path (FCP)/BE-2010-12			Actuals		
	Tax Revenue	Non-Tax Revenue	Total	Tax Revenue	Non-Tax Revenue	Total	Tax Revenue	Non-Tax Revenue	Total
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
2011-12	172.17	217.89	390.06	227.56	290.37	517.93	317.65	360.71	678.36

Though the State failed to achieve the target fixed by the XIIth FC in collection of Tax revenue during 2007-10, it successfully achieved the target fixed by the XIIIth FC for the remaining two years (2010-11 and 2011-12). During 2011-12, Tax revenue was 84.50 per cent higher than the assessment made by the XIIIth FC and 39.59 per cent higher than the assessment made in the Budget Estimates for the year. Also, collection of Non-tax revenue during 2011-12 was higher than the assessment made by the XIIIth FC (65.55 per cent) and in Budget Estimates (24.22 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 seven units of Commercial Tax, State Excise, Motor Vehicles, Forest and other Departmental offices conducted during the year 2011-12 revealed underassessment/short levy/loss of revenue aggregating to ₹ 12.60 crore in 44 cases. The total loss of revenue, which was around 2 per cent of the State's own resources consisting of Tax and Non-tax revenue (₹ 678.36 crore) during 2011-12, 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.

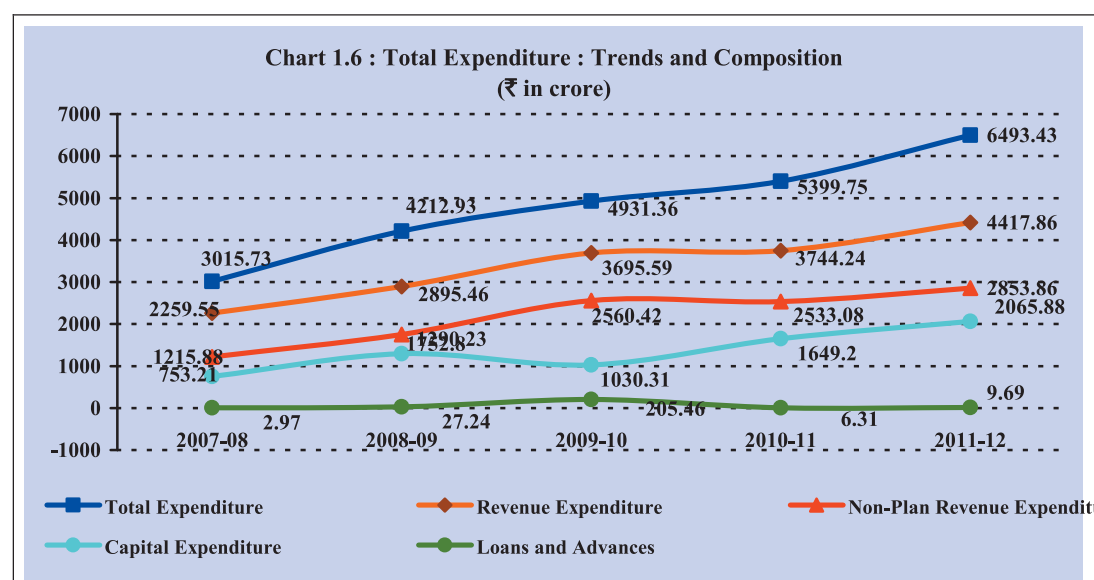
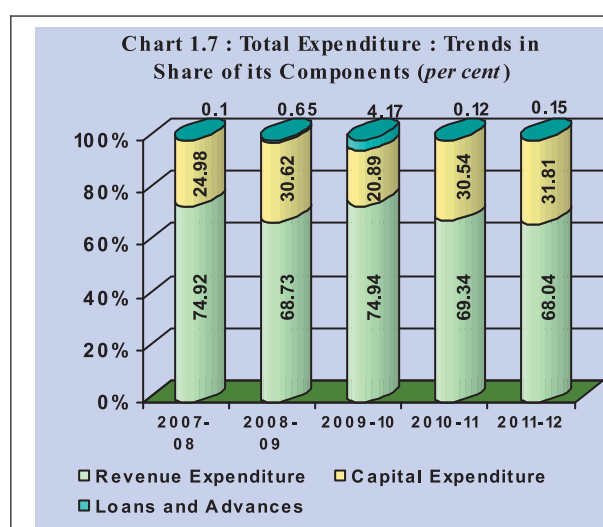
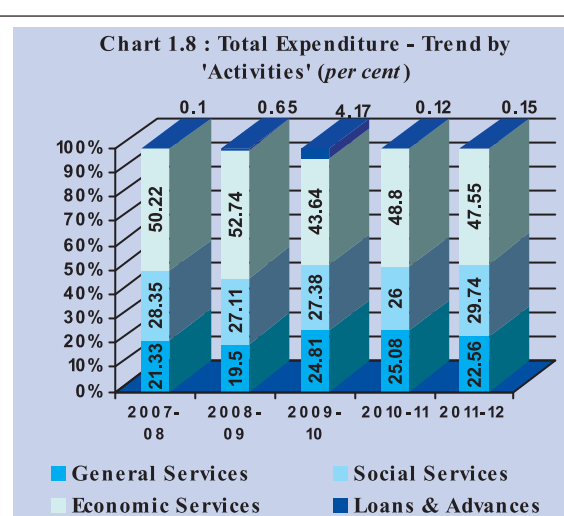
1.7.1 Growth and Composition of Expenditure

The total expenditure and its compositions during the years 2007-08 to 2011-12 are presented in the **Table 1.13**

Table 1.13: Total Expenditure and its Composition

₹ in crore)					
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
TOTAL EXPENDITURE	3015.73	4212.93	4931.36	5399.75	6493.43
Revenue Expenditure	2259.55	2895.46	3695.59	3744.24	4417.86
of which, Non-plan Revenue Expenditure	1215.88	1752.80	2560.42	2533.08	2853.86
Capital Expenditure	753.21	1290.23	1030.31	1649.20	2065.88
Loans and Advances	2.97	27.24	205.46	6.31	9.69

Chart 1.6 presents the trends in total expenditure over a period of five years (2007-12), 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 ₹ 3477.70 crore (115.32 *per cent*) from ₹ 3015.73 crore in 2007-08 to ₹ 6493.43 crore in 2011-12. 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	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure (TE) (₹ in crore)	3015.73	4212.93	4931.36	5399.75	6493.43
Rate of Growth (<i>per cent</i>)	21.23	39.70	17.05	9.50	20.25
TE/GSDP Ratio (<i>per cent</i>)	62.70	74.08	65.99	61.84	58.31
RR/TE Ratio (<i>per cent</i>)	99.58	91.53	87.09	100.41	84.69
Buoyancy of Total Expenditure with reference to...					
GSDP (ratio)	1.24	2.18	0.54	0.56	0.74
RR (ratio)	1.34	1.40	1.50	0.36	14.26

The increase of ₹ 1093.68 crore (20.25 *per cent*) in total expenditure during 2011-12 over the previous year was mainly on account of increase of ₹ 673.62 crore in Revenue expenditure, ₹ 416.68 crore in Capital Expenditure and ₹ 3.38 crore in Loans and Advances. While the share of Plan expenditure constituted around 55.81 *per cent* (₹ 3659.88 crore) of the total expenditure, the remaining 44.19 *per cent* (₹ 2869.58 crore) was Non-plan expenditure. The buoyancy of total expenditure to GSDP stood at 0.74 in 2011-12 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 14.26, indicating increase in expenditure at a pace much higher than receipts.

In terms of activities, total expenditure comprises of expenditure on General Services, including Interest payments, Social and Economic Services, Grants-in-aid and Loans and Advances. Of the total expenditure during 2011-12, expenditure on General Services, including Interest payments, which are considered as non-developmental, together accounted for 22.56 *per cent*. On the other hand, expenditure on Social and Economic Services (Revenue and Capital) together accounted for 77.29 *per cent* during 2011-12. The relative share of Social Services increased from 26 *per cent* in 2010-11 to 29.74 *per cent* in 2011-12. The relative share of Economic Services was 47.55 *per cent* in 2011-12, which was lowest in the last five years after reaching its peak in 2008-09 (52.74 *per cent*). Loans and Advances revealed wide fluctuations during the period 2007-12 and stood at 0.15 *per cent* of the total expenditure during 2011-12.

1.7.1.2 Incidence of Revenue Expenditure

Revenue Expenditure is incurred to maintain the current level of services and payment of 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	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure (RE)	2259.55	2895.46	3695.59	3744.24	4417.86
<i>of which</i>					
Non-Plan Revenue Expenditure (NPRE)	1215.88 (53.81)	1752.80 (60.54)	2560.42 (69.28)	2533.08 (67.65)	2853.86 (64.60)
Plan Revenue Expenditure (PRE)	1043.67 (46.19)	1142.66 (39.46)	1135.17 (30.72)	1211.16 (32.35)	1564.00 (35.40)
Rate of Growth of					
RE (<i>per cent</i>)	19.10	28.14	27.63	1.32	17.99
NPRE (<i>per cent</i>)	11.94	44.16	46.08	- 1.07	12.66
PRE (<i>per cent</i>)	28.69	9.48	- 0.66	6.69	29.13
Ratio (<i>per cent</i>)					
RE as percentage of TE	74.93	68.73	74.94	69.34	68.04
NPRE/GSDP (<i>per cent</i>)	25.28	30.82	34.26	29.01	25.63
NPRE as percentage of TE	40.32	41.61	51.92	46.91	43.95
NPRE as percentage of RR	40.49	45.46	59.62	46.72	51.90
Buoyancy Ratio of Revenue Expenditure with...					
GSDP	1.12	1.54	0.88	0.08	0.65
Revenue Receipts	1.21	0.99	2.43	0.05	12.67

(Figures in brackets represent percentages to Revenue expenditure)

Revenue Expenditure constituted 68.04 *per cent* to 74.94 *per cent* of the total expenditure during 2007-12 and increased by 95.52 *per cent* from ₹ 2259.55 crore in 2007-08 to ₹ 4417.86 crore in 2011-12. The Non-Plan Revenue Expenditure (NPRE) during the same period increased from ₹ 1215.88 crore in 2007-08 to ₹ 2853.86 crore in 2011-12, an increase of 134.72 *per cent*, outpacing the growth of Revenue Expenditure during the period. As a percentage of total Revenue expenditure, NPRE also increased from 53.81 *per cent* in 2007-08 to 64.60 *per cent* in 2011-12. As a result, the share of Plan Revenue Expenditure (PRE) in the total revenue expenditure, which normally covers maintenance expenditure incurred on services decreased from 46.19 *per cent* during 2007-08 to 35.40 *per cent* during 2011-12.

Compared to previous years, NPRE during 2011-12 increased by ₹ 320.78 crore. The positive growth of 12.66 *per cent* in NPRE during 2011-12 against a negative growth of 1.07 *per cent* during the previous year was mainly due to increased expenditure on Education, Sports and Arts and Culture (₹ 55.27 crore), followed by Agriculture and Allied Activities (₹ 52.51 crore). PRE increased by ₹ 352.84 crore (29.13 *per cent*) over the previous year. The growth of PRE was mainly due to increased expenditure on Education, Sports and Arts and Culture by ₹ 45.69 crore, followed by ₹ 22.14 crore on Health and Family Welfare.

The NPRE at ₹ 2853.86 crore during 2011-12, was around 72.72 *per cent* (₹ 1201.58 crore) higher than the normatively assessed level of ₹ 1652.28 crore by the XIIIth FC (Table 1.16).

Table 1.16 : Non-Plan Revenue Expenditure during 2011-12: Actuals *vis-à-vis* Normative Assessment by XIIIth FC

Sectors	XIIIth FC Recommendations	Actuals
Salary	834.57	1569.99
Interest Payments	257.78	281.81
Pension	175.38	237.98
Other General Services	137.00	208.86
Social Services	62.66	117.74
Economic Services	184.89	437.48
TOTAL	1652.28	2853.86

During 2011-12, the actual expenditure incurred on all other components of NPRE was more than the assessments made by the XIIIth FC. The total NPRE during 2011-12 also exceeded the projection made by the State Government in its Budget (₹ 2329.48 crore) by 22.51 *per cent* (₹ 524.38 crore).

According to the recommendation of the XIIIth FC, “*the practice of diverting of Plan assistance to meet Non-plan needs of Special Category States should be discontinued.*” During 2011-12, the Revenue receipts of Arunachal Pradesh, excluding Plan assistance (₹ 3131.55 crore), was ₹ 2367.51 crore. Against this, the NPRE during the year was ₹ 2853.86 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 2011-12 (₹ 2065.88 crore) increased by ₹ 416.68 crore over the previous year mainly due to increased expenditure on Transport (by ₹ 172.25 crore) and General Services (by ₹ 91.72 crore). However, this expenditure constituted only 31.81 *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 (₹ 2528.27 crore) by 18.29 *per cent*

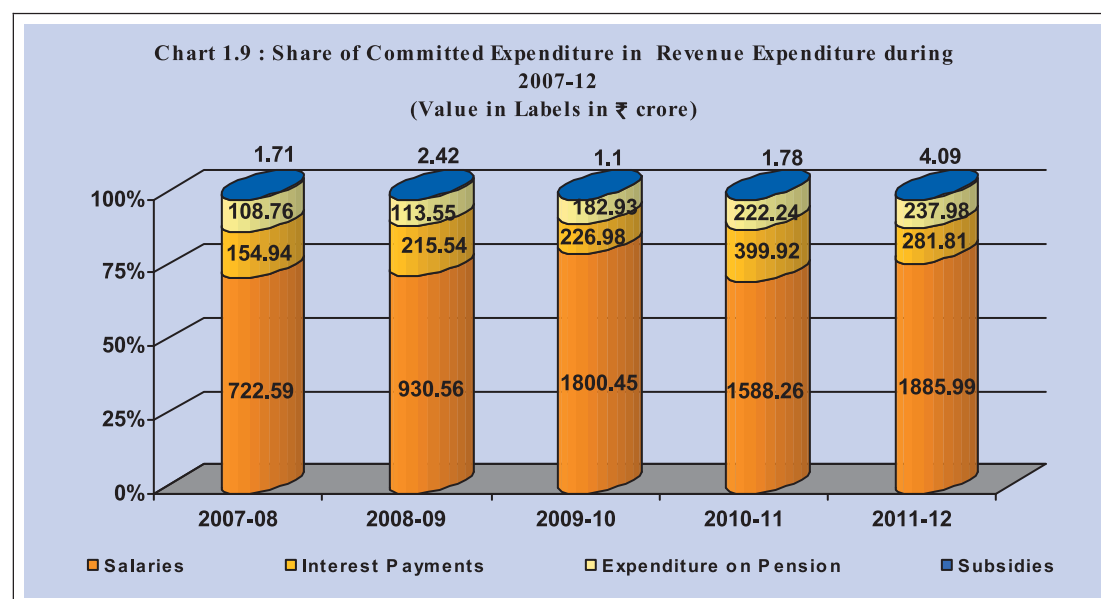
1.7.2 Committed Expenditure

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 expenditure on these components during 2007-12.

Table-1.17: Components of Committed Expenditure

(₹ in crore)					
Components of Committed Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Salaries	722.58 (24.06)	930.56 (24.13)	1800.45 (41.92)	1588.26 (29.29)	1885.99 (34.30)
<i>of which</i>					
<i>Non-Plan Head</i>	511.11 (17.02)	812.55 (21.07)	1492.54 (34.75)	1368.19 (25.23)	1569.99 (28.55)
<i>Plan Head</i>	211.47 (7.04)	118.01 (3.06)	307.91 (7.17)	220.07 (4.06)	316.00 (5.75)
Interest Payments	154.94 (5.16)	215.54 (5.59)	226.98 (5.28)	399.92 (7.38)	281.81 (5.12)
Expenditure on Pension and other Retirement Benefits	108.76 (3.62)	113.55 (2.94)	182.93 (4.26)	222.24 (4.10)	237.98 (4.33)
Subsidies	1.71 (0.06)	2.42 (0.06)	1.10 (0.03)	1.78 (0.03)	4.09 (0.07)
Other Components of Revenue Expenditure, i.e., other than Committed Expenditure	1271.56 (42.34)	1633.39 (42.36)	1484.13 (34.56)	1532.04 (28.26)	2007.99 (36.52)

(Figures in the parentheses indicate percentage to Revenue Receipts)



Overall Committed expenditure increased by ₹ 1421.88 crore from ₹ 987.99 crore in 2007-08 to ₹ 2409.87 crore in 2011-12. Committed expenditure during 2011-12 constituted 54.55 *per cent* of the Revenue expenditure and 43.82 *per cent* of the Revenue receipts. The component-wise analysis is given as under:-

1.7.2.1 Salaries

Salaries during 2011-12 alone accounted for 34.30 *per cent* of the Revenue receipts of the State during the year. It increased by 18.75 *per cent* from ₹ 1588.26 crore in 2010-11 to ₹ 1885.99 crore in 2011-12, and also exceeded the projection made in the Macro-Economic Framework (MEF) Statement of March 2011 (₹ 1421.35 crore) by

₹ 464.64 crore. The expenditure on Non-plan Salary component during 2011-12 (₹1569.99 crore) was also exorbitantly higher by around 88.12 per cent than the assessment made by the XIIIth FC for the State (₹834.57 crore).

1.7.2.2 Interest Payments

Interest Payments comprising of interest on Internal Debt, Small Savings, Provident Funds, etc., Loans and Advances from the Central Government and other obligations decreased by ₹ 118.11 crore from ₹ 399.92 crore in 2010-11 to ₹ 281.81 crore in 2011-12. Interest payments (₹ 281.81 crore) were higher than the projections of the year made by the XIIIth FC (₹ 257.78 crore) as well as in the MEFS of March 2011 (₹ 268.81 crore).

1.7.2.3 Pension Payments

Pension payments (including other Retirement Benefits) indicated an increasing trend during the five year period (2007-12). Pension payments during the current year increased by ₹ 15.74 crore, an increase of 7.08 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 ₹ 62.60 crore and the projection made by the State Government in its Budget and MEF Statement for the year 2011-12 by ₹ 27.98 crore and ₹ 27.09 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
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)
2011-12	175.38	NA	210.00/ 210.89	237.98	62.60 (35.69)	NA	27.98 (13.32)/ 27.09 (12.85)

(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 129.78 per cent from ₹ 1.78 crore in 2010-11 to ₹ 4.09 crore during the current year. It constituted 0.09 per cent of the Revenue Expenditure. The major recipients of subsidies during 2011-12 were Agriculture (₹ 3.30 crore) and Rural Development and Panchayati Raj (₹ 0.77 crore).

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	2007-08	2008-09	2009-10	2010-11	2011-12
University and Educational Institutions	12.96	47.00	3.45	8.42	3.95
Cultural Institutions/Voluntary Organisations for promotion of Arts & Culture	0.50	2.72	28.76	8.11	0.46
State Institute of Rural Development	1.07	0	0	0.50	0.20
Social Welfare	0.16	7.27	0.32	0.34	0.60
Ware Housing Corporations	23.06	44.97	36.12	22.13	18.57
Co-operation	0	0	0	2.10	1.27
Other Institutions	5.74	0.28	0.93	16.51 ⁸	0.58
TOTAL	43.49	102.24	69.58	58.11	25.63
Assistance as percentage of RE	1.92	3.53	1.88	1.62	0.58

Financial assistance extended to Local Bodies and other institutions with inter-year variations declined by 55.89 *per cent* from ₹ 58.11 crore in 2010-11 to ₹ 25.63 crore in 2011-12. The share of financial assistance in revenue expenditure also marginally decreased from 1.62 *per cent* in 2010-11 to 0.58 *per cent* during the current year. The Warehousing Corporation was the major recipient (around 72.45 *per cent*) of the financial assistance followed by University and Educational Institutions (around 15.41 *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. Analysis of expenditure data is disaggregated into Development and Non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized 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.

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).

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 Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods⁹. Apart from improving 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* budget 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.

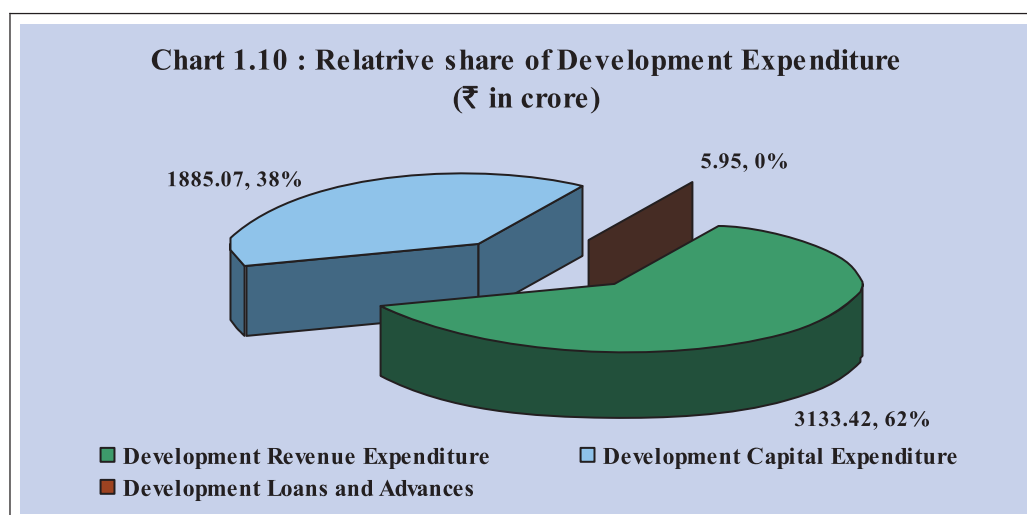
Table 1.20: Development Expenditure

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE (Net)	Actuals
Development Expenditure {(a) to (c)}	2369.78 (78.58)	3389.76 (80.46)	3706.17 (75.16)	4042.27 (74.86)	3425.09	5024.44 (77.38)
(a) Development Revenue Expenditure	1639.49 (54.36)	2121.22 (50.35)	2534.56 (51.40)	2479.01 (45.91)	2518.41	3133.42 (48.26)
(b) Development Capital Expenditure	730.10 (24.21)	1243.01 (29.50)	967.90 (19.63)	1560.11 (28.89)	905.26	1885.07 (29.03)
(c) Development Loans & Advances	0.19 (0.01)	25.53 (0.61)	203.71 (4.13)	3.15 (0.06)	1.42	5.95 (0.09)

(Figures in parentheses indicate percentage to Aggregate Expenditure)

Development expenditure increased by 24.30 *per cent* over the previous year and also exceeded the assessment made in the Budget Estimates by 46.70 *per cent*. The relative share of Development expenditure during 2011-12 given in **Chart 1.10** below showed that around 62 *per cent* of the Development expenditure was incurred on Revenue account and only 38 *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 increased to 29.03 *per cent* as compared to 28.89 *per cent* in 2010-11, and also exceeded the budget projection by 108.24 *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	2010-11		2011-12	
	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)	29.18	67.53	28.25	55.91
General Education	15.77	83.68	15.75	76.91
Technical Education, Sports and Arts & Culture	35.02	35.10	57.44	46.48
Health and Family Welfare	13.59	83.74	17.31	77.11
Water Supply & Sanitation, Housing and Urban Development	60.31	33.59	50.54	25.48
Other SS	20.39	46.58	21.11	28.62
ECONOMIC SERVICES (ES)	43.66	31.43	43.38	33.52
Agriculture and Allied Activities	4.20	33.74	6.84	32.38
Irrigation & Flood Control	38.38	18.23	28.62	23.06
Energy	48.16	18.23	36.16	27.64
Transport	66.45	33.42	72.13	40.62
Other Economic Services	36.28	42.54	39.01	38.41

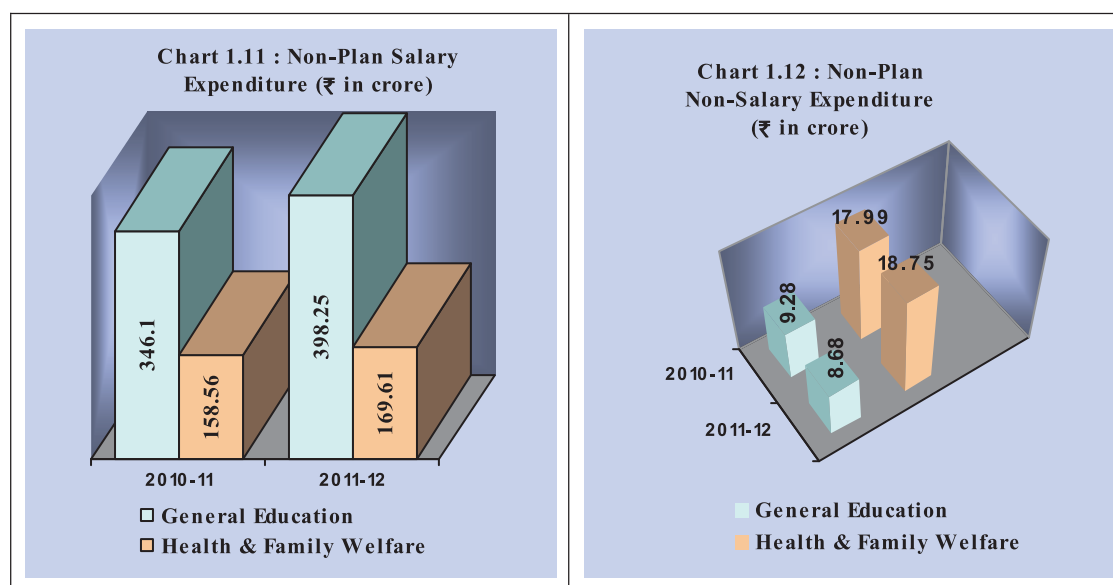
¹⁰ Total Revenue and Capital expenditure of the services concerned.

Social Services

Trends in Capital expenditure on Social Services during 2010-12 revealed that the share of Capital expenditure to total expenditure during these years was 29.18 and 28.25 *per cent*, which indicated that Revenue expenditure was dominant. While there was some improvement in the share of Capital expenditure to total expenditure on Technical Education, Sports, Art and Culture; Health and Family Welfare. Water Supply & Sanitation, Housing and Urban Development were the worst sufferers, as only 50.54 *per cent* of the total expenditure was incurred on Capital account during 2011-12, as against 60.31 *per cent* during the previous year.

Of the Revenue expenditure on Social Services, the share of Salary component significantly decreased from 67.53 *per cent* in 2010-11 to 55.91 *per cent* in 2011-12, implying more expenditure on non-salary components. The Non-salary and Wage expenditure on Social Services increased by 89.19 *per cent* during 2011-12 from ₹ 322.89 crore in 2010-11 to ₹ 610.89 crore in 2011-12. Within the priority sectors, Non-salary and Wage components continued to have the dominant share under Technical Education, Sports, Arts and Culture, Water Supply, Sanitation, Housing and Urban Development. High Salary and Wage expenditure was observed under General Education (2010-11 - 83.68 *per cent* and 2011-12 - 76.91 *per cent*) and Health and Family Welfare Services (2010-11 - 83.74 *per cent*; 2011-12 - 77.11 *per cent*).

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



Expenditure on both the Non-plan Salary component under General Education and Health and Family Welfare sector during 2011-12 increased by 15.07 *per cent* and 6.97 *per cent* respectively. While the Non-salary (Non-plan) expenditure under Health and Family Welfare registered an increase of 4.22 *per cent* during 2011-12 over the previous year, it decreased by 6.47 *per cent* under General Education.

Economic Services

The expenditure on Economic Services (including Loans and Advances) during 2011-12 (₹ 3093.43 crore) accounted for about 47.64 *per cent* of the total expenditure¹¹ and 61.57 *per cent* of the Development expenditure during the year. Out of the total expenditure on Economic Services during the current year, 33.62 *per cent* (₹ 1039.99 crore) was incurred on Transport, 18.20 *per cent* (₹ 562.99 crore) on Energy and 17.39 *per cent* (₹ 537.98 crore) on Agriculture and Allied Activities.

Trends in Revenue and Capital expenditure on Economic Services indicated that except for 2010-11, Capital expenditure on Economic Services increased by 189.06 crore (16.43 *per cent*) from ₹ 1150.42 crore in 2010-11 to ₹ 1339.48 crore in 2011-12. However, the share of Capital expenditure on Economic Services to the total Revenue and Capital expenditure on Economic Services during 2007-12 ranged between 37.84 *per cent* and 48.67 *per cent*, which indicated that Revenue expenditure was dominant. Revenue expenditure on Economic Services also consistently increased from ₹ 932.91 crore in 2007-08 to ₹ 1748.00 crore (87.37 *per cent*) in the current year. An increase of ₹ 263.27 crore (17.73 *per cent*) during 2011-12 over the previous year in Revenue expenditure was mainly due to the increase under Agriculture and Allied Activities (₹ 88.42 crore), Energy (₹ 82.50 crore), Special Areas Programmes (₹ 50.99 crore), General Economic Services (₹ 23.89 crore), partly offset by decrease under Transport (₹ 2 crore). Within Revenue expenditure on Economic Services, the Salary component constituted 31.43 *per cent* and 33.52 *per cent* during 2010-11 and 2011-12 respectively.

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 and 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 Investment and Returns

As per Statement 14 of the Finance Accounts for 2011-12, as of 31 March 2012, the State Government invested ₹ 221.66 crore in five Government Companies (₹ 9.04 crore) and 145 Co-operative Banks and Societies (₹ 212.62 crore). Details are given in **Table 1.22**.

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

Table 1.22: Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
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	208.55	211.38	209.14	209.11	212.62
TOTAL	217.59	220.42	218.18	218.15	221.66
Return (₹ in crore)	(a)	0	0	0	0
Return (per cent)	0	0	0	0	0
Average Rate of Interest on Government Borrowings (per cent)	6.19	7.71	7.47	12.16	7.52
Difference between Interest Rate and Return (per cent)	6.19	7.71	7.47	12.16	7.52

(a) less than 0.01

During 2007-12, 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 7.52 *per cent* on its borrowings during the period.

1.9.2 Loans and Advances by the State Government

In addition to investments in Co-operative Societies, Corporations and Companies, the Government was also providing Loans and Advances for other purposes, e.g., loans for Power Projects, loans to Government servants, loans for Tourism, *etc.* **Table 1.23** presents the outstanding Loans and Advances as on 31 March 2012 and interest receipts *vis-à-vis* Interest payments during the last five years.

Table 1.23: Average Interest Received on Loans and Advances given by the State Government

(₹ in crore)					
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
OPENING BALANCE	27.92	27.95	52.41	55.17	59.07
Amount advanced during the year	2.97	27.24	205.46	6.31	9.69
Amount recovered during the year	2.94	2.78	202.70	2.41	2.90
CLOSING BALANCE	27.95	52.41	55.17	59.07	65.86
<i>Net Addition</i>	<i>0.03</i>	<i>24.46</i>	<i>2.76</i>	<i>3.90</i>	<i>6.79</i>
Interest Receipts	1.00	0.87	5.22	1.78	0.66
Interest received as <i>percentage</i> to outstanding Loans & Advances	3.58	2.17	9.70	3.12	1.06
Interest payments as <i>percentage</i> to outstanding fiscal liabilities of the State Government	6.19	7.71	7.28	12.16	7.52
Difference between Interest Payments and Receipts (<i>percentage</i>)	2.61	5.54	- 2.23	8.98	6.46

Loans and Advances given by the State Government during 2011-12 increased from ₹ 6.31 crore in 2010-11 to ₹ 9.69 crore. During 2007-12, recovery of Loans and Advances was ₹ 213.73 crore against ₹ 251.67 crore advanced during the period. The total outstanding Loans and Advances as on 31 March 2012 was ₹ 65.86 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 ₹ 0.66 crore on Loans and Advances by the Government of Arunachal Pradesh during 2011-12 constituted only 1 per cent of the outstanding Loans and Advances at the end of 2011-12 (₹ 65.86 crore) and thus, much below the Interest rate of 7 per cent as applied by the XIIIth FC.

1.9.3 Cash Balances and Investment of Cash Balances

Table 1.24 depicts the Cash Balances and Investments made by the State Government out of Cash Balances during the year.

Table 1.24: Cash Balances and Investment of Cash Balances

Particulars	(₹ in crore)		
	As on 1 st April 2011	As on 31 March 2012	Increase(+)/ Decrease(-)
Cash Balances¹²	1798.98	1108.81	- 690.17
Investments from Cash Balances (a & b)	1903.64	874.34	- 1029.30
a. GOI Treasury Bills	1903.64	874.34	- 1029.30
b. GOI Stock/Securities	...	...	...
Fund-wise break-up of Investment from Earmarked Balances (a & b)	90.90	109.90	+ 19.00
a. Sinking Fund Investment Account	90.90	109.90	+ 19.00
b. Other Development and Welfare Funds	...	...	...
Interest realised on Investment of Cash Balances	109.57	48.04	- 61.53

Cash Balances of the State Government at the end of the current year decreased from ₹ 1798.98 crore in 2010-11 to ₹ 1108.81 crore in 2011-12. As on 31 March 2012, the State Government invested ₹ 874.34 crore in GOI Treasury Bills. During 2011-12, Interest of ₹ 48.04 crore was earned on investment of Cash Balances. The Interest realised on investment of Cash Balances (considering opening cash balance of ₹ 1798.98 crore) was 2.67 per cent during 2011-12, while the average rate of interest on Government borrowings during the year was 7.52 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.

¹² Excluding investment of Earmarked Funds.

The Government did not have to resort to WMA during the current year or during 2007-12, 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, Government accounts do capture financial liabilities of the Government and assets created out of expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from Public Account and Reserve Funds, assets comprise mainly of Capital Outlay and Loans and Advances given by the State Government and Cash Balances.

1.10.2 Fiscal Liabilities

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

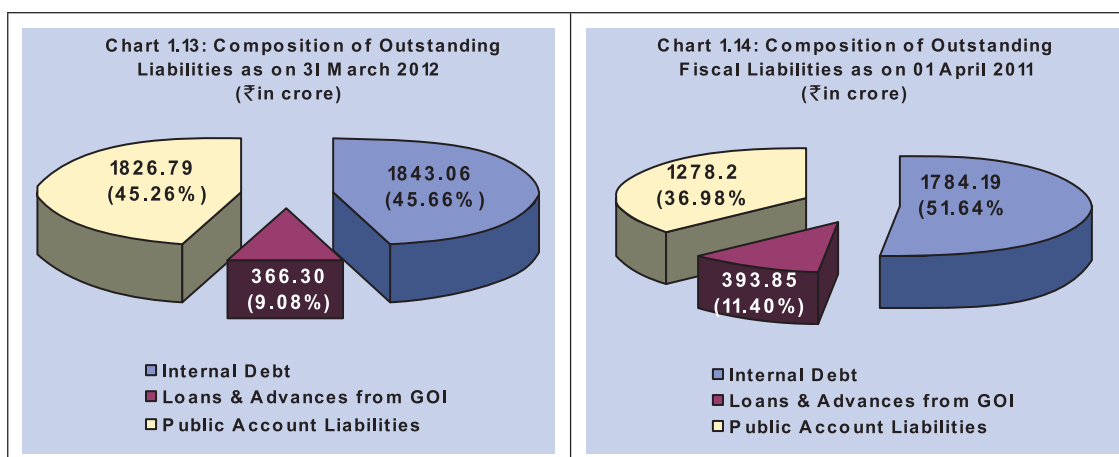


Table 1.25 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP to Revenue receipts and the State's own resources and also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.25: Fiscal Liabilities – Basic Parameters

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Liabilities¹³ (₹ in crore)	2638.55	2954.66	3119.05	3456.24	4036.15
Rate of Growth (<i>per cent</i>)	11.27	11.98	5.56	10.81	16.78
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	54.86	51.95	41.74	39.58	36.25
Revenue Receipts (<i>per cent</i>)	87.86	76.63	72.62	63.74	73.40
Own Resources (<i>per cent</i>)	349.47	325.32	455.54	463.84	594.99
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	0.66	0.66	0.18	0.64	0.61
Revenue Receipts (ratio)	0.71	0.42	0.49	0.41	11.82
Own Resources (ratio)	0.11	0.59	-0.23	1.22	-1.87

Fiscal liabilities of ₹ 4036.15 crore during 2011-12 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.*: (₹ 1843.06 crore), Loans and Advances from the Central Government: (₹ 366.30 crore), Public Account Liabilities, e.g. Small Savings, Provident Funds, Reserve Funds and Deposits, *etc.*: (₹ 1826.79 crore). Overall fiscal liabilities of the State increased from ₹ 2638.55 crore in 2007-08 to ₹ 4036.15 crore in 2011-12. The growth rate in 2011-12 was 16.78 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP decreased from 39.58 *per cent* in 2010-11 to 36.25 *per cent* in 2011-12. These liabilities were around 73 *per cent* of Revenue receipts and stood at around 6 times of the State's own resources at the end of 2011-12. The buoyancy of these liabilities with respect to GSDP during the year was 0.61, indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.61 *per cent*.

As per 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 APFRBM Act (amended in December 2011), the State Government targeted to maintain the outstanding debt GSDP ratio at 58.2 per cent during 2011-12, 55.2 per cent during 2012-13 and 50.1 per cent during 2014-15. As seen from Table 1.25 above, the fiscal liabilities to GSDP ratio during 2011-12 decreased by only 3.33 per cent from 39.58 per cent in 2010-11 to 36.25 per cent in 2011-12.

During 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortization of Open Market Loans. In 2011-12, the Government appropriated ₹ 19 crore from Revenue and credited it to this fund for investment in Government of India Securities.

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

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 2007-08, are given in **Table 1.26**.

Table 1.26: Guarantees given by the Government of Arunachal Pradesh

(₹ in crore)					
Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Maximum Amount Guaranteed	12.00	12.00	12.00	Information not furnished by the State Government	2.00
Outstanding Amount of Guarantees (including Interest)	0.98	0.61	0.61		1.55
Percentage of Maximum Amount Guaranteed to Total Revenue Receipts	0.40	0.31	0.28		0.04

The Government guaranteed loans to one Company, i.e., Arunachal Pradesh Industrial Development and Financial Corporation Ltd. (APIDFCL), which at the end of 2011-12 stood at ₹ 1.55 crore. As a percentage of Revenue receipt, it decreased from 0.40 per cent in 2007-08 to 0.04 per cent in 2011-12. No law under Article 293 of the Constitution was passed by the State Legislature laying down the maximum limit within which the Government may give guarantees on the security of the Consolidated Fund of the State.

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 analyze various indicators that determine debt sustainability of the State. This section assesses the debt sustainability of the State Government in terms of debt stabilization¹⁴, 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 1.27** analyses the debt sustainability of the State according to these indicators for the five year period beginning from 2007-08.

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.

Table 1.27: Debt Sustainability : Indicators and Trends

(₹ in crore)					
Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Deficit)	403.63	139.20	500.24	570.64	-18.07
Sufficiency of Non-debt Receipts (Resource Gap)	- 116.67	- 344.40	- 79.61	458.54	-1016.22
Net Availability of Borrowed Funds	112.33	100.57	- 47.59	- 45.73	207.21
Burden of Interest Payments (IP/RR ratio) (<i>per cent</i>)	5.16	5.59	5.28	7.38	5.12

Table 1.27 reveals that Debt of the State was stable during 2007-12, but it became unstable during the current year as there was substantial amount of primary deficit (₹ 709.66 crore), which in turn effected Debt Stabilisation.

Trends in Resource Gap indicate the oscillation between positive and negative magnitudes. Resource Gap was negative in four out of the five year period, indicating that incremental Non-debt receipts were not sufficient to meet incremental primary expenditure and Interest burden. The State experienced a substantial negative Resource Gap in 2011-12, indicating that the State needs to make sustainable efforts to mobilize more resources to meet incremental liabilities arising on account of additional primary expenditure and interest payments during the year.

Debt Redemption ratio fluctuated widely during 2007-12, which remained more than unity in 2009-10 and 2010-11, while during 2007-08, 2008-09 and 2011-12, this ratio was around 82, 87 and 84 *per cent* respectively. In the current year, against borrowed funds of ₹ 1320.62 crore, the Government repaid ₹ 1113.41 crore as Principal and Interest on Internal Debt (₹ 255.36 crore), Loans and Advances from the Central Government (₹ 59.02 crore) and other liabilities¹⁷ (₹ 799.03 crore), as a result of which borrowed funds of ₹ 207.21 crore were available for development purposes.

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 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 resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude, 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 2011-12.

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

1.12.1 Trends in Deficits

Charts 1.15 and 1.16 present the trends in deficit indicators over the period 2007-12.

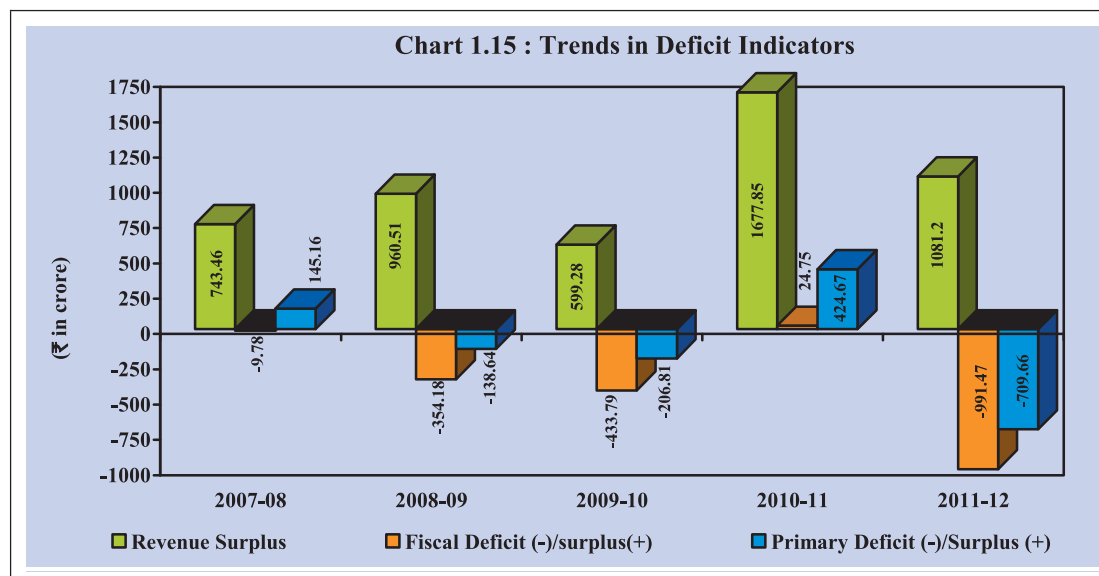
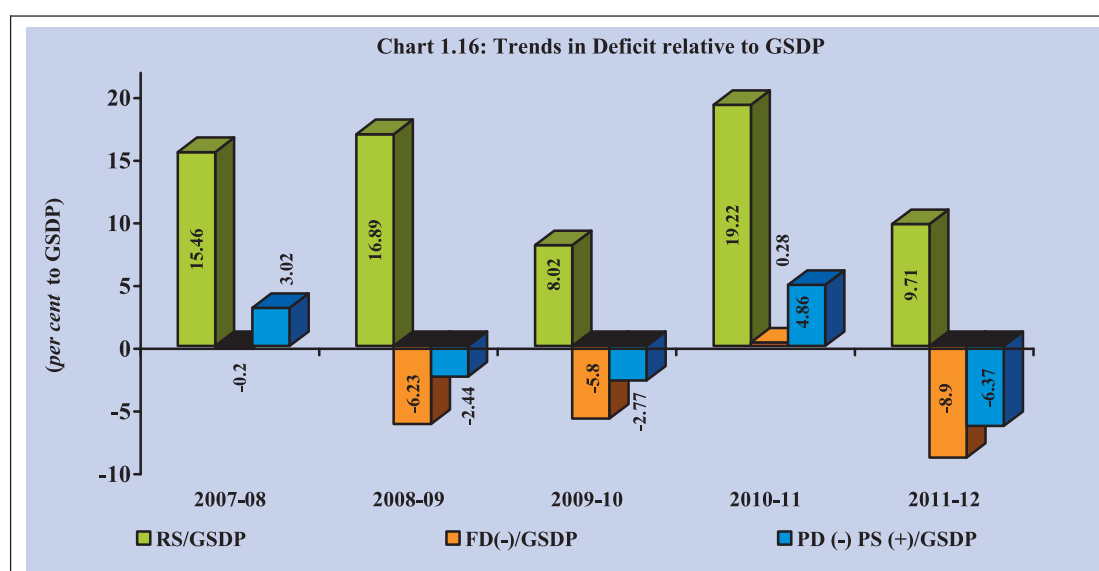


Chart 1.15 reveals that the State had a Revenue Surplus during the period 2007-12, which after inter-year variations, decreased from ₹ 1677.85 crore in 2010-11 to ₹ 1081.20 crore during the current year. Compared to 2010-11, Revenue Surplus during 2011-12 significantly decreased by ₹ 596.65 crore (35.56 per cent) due to marginal increase in Revenue receipts by ₹ 76.97 crore during 2011-12 and significant increase in Revenue expenditure by ₹ 673.62 crore during 2011-12.

Fiscal deficit, which represents total borrowings of the Government and its total Resource Gap, decreased significantly from positive ₹ 24.75 crore during 2010-11 to negative ₹ 991.47 crore during 2011-12. The decrease in Revenue Surplus (₹ 596.65 crore) offset by increase in Capital expenditure (₹ 416.68 crore) over the previous year mainly led to a fiscal deficit of ₹ 991.47 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.* While the Government of Arunachal Pradesh was successful in restricting the fiscal deficit-GSDP ratio during 2010-11, the State was unsuccessful during the current year as the fiscal deficit-GSDP ratio during 2011-12 was 8.90 per cent.

The primary surplus of ₹ 424.67 crore, experienced by the State during 2010-11, took a turnaround in 2011-12 and resulted in a primary deficit of ₹ 709.66 crore. The significant decrease of ₹ 118.11 crore (29.53 per cent) in Interest payment during 2011-12 over the previous year and a fiscal deficit of ₹ 991.47 crore witnessed during the year, led to the primary deficit.

1.12.2 Components of fiscal deficit and its financing pattern

The financing pattern of the fiscal deficit underwent a compositional shift as reflected in **Table: 1.28**

Table 1.28: Components of Fiscal Deficit and its Financing pattern

(₹ in crore)						
Sl No	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
DECOMPOSITION OF FISCAL DEFICIT						
	Fiscal Deficit (-)/Surplus (+)	- 9.78	- 354.18	- 433.79	+ 24.75	- 991.47
1	Revenue Deficit (-)/Surplus (+)	+743.46	960.51	599.28	1677.85	1081.20
2	Net Capital Expenditure	753.21	1290.23	1030.31	1649.20	2065.88
3	Net Loans and Advances	- 0.03	- 24.46	- 2.76	- 3.90	- 6.79
FINANCING PATTERN OF FISCAL DEFICIT						
1	Market Borrowings	171.96	14.09	66.82	- 12.93	-1.34
2	Loans from GOI	- 16.11	-3.71	- 24.13	- 26.82	- 27.55
3	Special Securities issued to NSSF	24.45	21.62	49.90	55.10	5.48
4	Loans from Financial Institutions	33.62	48.43	12.78	20.51	54.73
5	Small Savings, PF, etc;.	42.71	78.55	142.74	79.49	128.18
6	Reserve Funds	-79.70	14.00	15.00	17.00	19.00
7	Deposits and Advances	100.35	153.45	-85.40	218.01	281.45
8	Suspense and Miscellaneous	190.36	2782.13	502.98	- 196.33	- 166.77
9	Remittances	0.18	-1.67	28.85	9.81	8.12
10	Increase(-)/Decrease(+) in Cash Balances	- 458.06	-2752.71	- 275.77	- 188.59	+ 690.17
11	Increase or Decrease in Ways and Means Advances	-	-	-		
Overall Deficit (1 to 11) (-)		- 9.78	- 354.18	- 433.79	24.75	- 991.47

The Fiscal Surplus of ₹ 24.75 crore, experienced by the State in 2010-11 took a turnaround in 2011-12 and resulted in a Fiscal deficit of ₹ 991.47 crore. During 2011-12, the Fiscal Deficit was mainly met out from decrease in Cash Balances

(₹ 690.17 crore) and Deposits and Advances (₹ 281.45 crore). The Cash Balances decreased by ₹ 878.76 crore (465.96 per cent) over the previous year.

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 and 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 back-up. 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 Expenditure	Capital Expenditure	Loans & Advances	Primary Expenditure	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2 -6)
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
2011-12	5501.96	4136.05	2065.88	9.69	6211.62	1365.91	-709.66

Analysis of the factors resulting into Primary deficit or surplus of the State during 2007-12 revealed that in three (2008-09, 2009-10 and 2011-12) out of the five years, the State experienced Primary deficit, which was on account of Capital expenditure incurred and Loans and Advances disbursed by the State Government. In other words, Non-debt receipts of the State were sufficient to meet the Primary Revenue expenditure. But the Non-debt receipts were not enough to meet the expenditure requirements under Capital account and Loans and Advances during 2008-10 and 2011-12, resulting in Primary deficit. However, during 2007-08 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 of ₹ 424.67 crore during 2010-11 turned into primary deficit of ₹ 709.66 crore during the current year mainly on account of significant increase in Primary Revenue Expenditure by ₹ 791.73 crore, Capital Expenditure by ₹ 416.68 crore and off-set by marginal increase in Non-debt receipts by ₹ 77.46 crore as compared to the previous year, which may not be desirable and needs improvement.

1.13 Conclusion and Recommendations

The fiscal position of the State viewed in terms of key fiscal parameters - Revenue Surplus, Fiscal Deficit and Primary Deficit - indicated that the State maintained Revenue Surplus during 2007-12, but the State was not able to maintain the level in the remaining two parameters. Both the fiscal surplus (₹ 24.75 crore) and primary surplus (₹ 424.67 crore) during 2010-11 took a turnaround and resulted in fiscal deficit (₹ 991.47 crore) and primary deficit (₹ 709.66 crore) during the current year.

❖ Revenue Receipts

Revenue receipts during 2011-12 grew by 1.42 *per cent* (₹ 76.97 crore) over the previous year. Tax revenue and Non-tax revenue receipts exceeded the normative assessment made by the XIIIth FC by about 85 *per cent* and 66 *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 ₹ 143.74 crore in 2011-12 and contributed about 88 *per cent* of the 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 (25.14 *per cent*) in 2007-08 to its lowest (12.34 *per cent*) in 2011-12. 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 95.52 *per cent* from ₹ 2259.55 crore in 2007-08 to ₹ 4417.86 crore in 2011-12. This expenditure as a percentage of total expenditure, though decreased to 68.04 *per cent* in 2011-12 from 69.34 *per cent* in 2010-11, averaged around 71 *per cent* during the period 2007-12, leaving inadequate resources for expansion of services and creation of assets. NPRE during the same period increased from ₹ 1215.88 crore in 2007-08 to ₹ 2853.86 crore in 2011-12, which was around 73 *per cent* (₹ 1201.58 crore) higher than the normative level of ₹ 1652.28 crore assessed 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 54 *per cent* during 2011-12. Development expenditure during 2011-12 increased by 24.30 *per cent* over the previous year and also exceeded the assessment made in the Budget Estimates by 46.70 *per cent*. The relative share of Development expenditure during 2011-12, however, showed that 62.36 *per cent* of the Development expenditure was incurred on Revenue account and only 37.52 *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 components of Non-plan Revenue Expenditure and to emphasize on provision of Development Capital Expenditure.

❖ ***Fiscal Correction Path***

During 2011-12, the State witnessed significant decrease in all the fiscal parameters, viz., Revenue Surplus, Fiscal Deficit and Primary Deficit over the previous year. Fiscal deficit during 2011-12 against fiscal surplus during the last year indicated an unstable fiscal position of the State. Prevalence of fiscal liabilities of the State over the period 2007-12, which stood at 36.25 *per cent* of the GSDP in 2011-12, 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 2011-12, while the Government paid Interest at an average rate of 7.52 *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). Cash Balances of the State at the end of 2011-12 decreased to ₹ 1108.81 crore

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 the 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 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.