CHAPTER I

OVERVIEW

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1.1 *Profile of the State*

Arunachal Pradesh is a North Eastern and Himalayan (NE&H) State, area-wise it is the largest State in the North-Eastern region (NER) with a geographical area of about 83,743 sq. km. It has an international border with Bhutan in the West (160 kms), China in the North and North-East (1,080 kms) and Myanmar in the East (440 kms). It also shares common boundaries with Assam and Nagaland. According to the Census of India-2011, population of the State stood at 13,83,727[1] with a population density of 17 persons per sq. km. as against the national average of 382 persons per sq. km. (lowest in the country) and 0.11 *per cent* of the country's population. The State's decadal growth rate of population was 9.71 *per cent*, slightly lower than the rate of growth of North Eastern & Himalayan (NE&H) States of 10.00 *per cent* and the all India growth rate of 11.09 *per cent.* The State had literacy rate of 65.38 *per cent*.

The per capita income of the State at current prices was ₹ 1,64,557 in 2019-20, which was higher than the all India average of ₹ 1,51,677 as well as the average of the NE&H States of ₹ 1,42,121. General and financial data relating to the State are given in ***Appendix 1.1***.

1.2 *Basis and Approach to State Finances Audit Report*

In terms of Article 151 (2) of the Constitution of India, the reports of the Comptroller and Auditor General of India (CAG) relating to the accounts of a State are to be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State. The State Finances Audit Report (SFAR) is prepared and submitted under Article 151 (2) of the Constitution of India.

The Accounts wing of the Principal Accountant General office annually prepares the Finance Accounts and Appropriation Accounts of the State, from the vouchers, challans and initial and subsidiary accounts rendered by the treasuries, offices and departments responsible for keeping of such accounts functioning under the control of the State Government, and the statements received from the Reserve Bank of India. These accounts are audited independently by the Audit Wing of the office, and certified by the CAG.

Finance Accounts and Appropriation Accounts of the State constitute the core data for this Report. Other sources include the following:

- Budget of the State: for assessing the fiscal parameters and allocative priorities *vis-à-vis* projections, as well as for evaluating the effectiveness of its implementation and compliance with the relevant rules and prescribed procedures;
- Results of audit carried out by the Office of the Pr. Accountant General (Audit);
- Other data with Departmental Authorities and Treasuries (accounting and MIS),
- GSDP data and other State related statistics; and

[1] Male: 7,13,912; Female: 6,69,815

- Various Audit Reports of the CAG of India.

The analysis is also carried out in the context of recommendations of the 14th Finance Commission (FC), State Financial Responsibility and Budget Management Act, best practices and guidelines of the Government of India. A meeting was held with Stare Finance Department on 12 January 2021 wherein the issues included in the report have been discussed. Replies of the Government, where received, are incorporated in this Report at appropriate places.

1.3 Report Structure

The SFAR is structured in to the following five Chapters:

Chapter - 1	**Overview** This Chapter describes the basis and approach to the Report and the underlying data, provides an overview of structure of government accounts, budgetary processes, macro-fiscal analysis of key indices and State's fiscal position including the deficits/ surplus.
Chapter – II	**Finances of the State** This Chapter provides a broad perspective of the finances of the State, analyses the critical changes in major fiscal aggregates relative to the previous year, overall trends during the period from 2015-16 to 2019-20, debt profile of the State and key Public Account transactions, based on the Finance Accounts of the State.
Chapter –III	**Budgetary Management and Budgetary Control** This Chapter is based on the Appropriation Accounts of the State and reviews the appropriations and allocative priorities of the State Government and reports on deviations from Constitutional provisions relating to budgetary management.
Chapter - IV	**Quality of Accounts & Financial Reporting Practices** This Chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.
Chapter - V	**Functioning of State Public Sector Enterprises** This Chapter provides a 'bird eye view' on the functioning of the State Public Sector Enterprises (SPSEs). The term SPSEs encompasses the State Government owned/ controlled Government Companies set up under the Companies Act, 2013 and Statutory Corporations setup under the statutes enacted by the Parliament and State legislature.

1.4 *Overview of Government Accounts Structure*

The Accounts of the State Government are kept in three parts:

1. **Consolidated Fund of the State (Article 266(1) of the Constitution of India)**

   This Fund comprises all revenues received by the State Government, all loans raised by the State Government (market loans, bonds, loans from the Central Government, loans from Financial Institutions, Special Securities issued to National Small Savings Fund, *etc*.), Ways and Means Advances (WMAs) extended by the Reserve Bank of India (RBI) and all moneys received by the State Government in repayment of loans. No moneys can be appropriated from this Fund except in accordance with law and for the purposes and in the manner provided by the Constitution of India. Certain categories of expenditure (*e.g.*, salaries of Constitutional authorities, loan repayments, *etc*.), constitute a charge on the Consolidated Fund of the State (Charged expenditure) and are not subject to vote by the Legislature. All other expenditure (Voted expenditure) is voted by the Legislature.

2. **Contingency Fund of the State (Article 267(2) of the Constitution)**

   This Fund is in the nature of an imprest which is established by the State Legislature by law, and is placed at the disposal of the Governor to enable advances to be made for meeting unforeseen expenditure pending authorisation of such expenditure by the State Legislature. The fund is recouped by debiting the expenditure to the concerned functional major head relating to the Consolidated Fund of the State.

3. **Public Account of the State (Article 266(2) of the Constitution)**

   Apart from above, all other public moneys received by or on behalf of the Government, where the Government acts as a banker or trustee, are credited to the Public Account. The Public Account includes repayables like Small Savings and Provident Funds, Deposits (bearing interest and not bearing interest), Advances, Reserve Funds (bearing interest and not bearing interest), Remittances and Suspense heads (both of which are transitory heads, pending final booking). The net cash balance available with the Government is also included under the Public Account. The Public Account is not subject to the vote of the Legislature.

There is a constitutional requirement in India (Article 202) to present before the House or Houses of the Legislature of the State, a statement of estimated receipts and expenditures of the government in respect of every financial year. This 'Annual Financial Statement' constitutes the main budget document. Further, the budget must distinguish expenditure on the revenue account from other expenditures.

Revenue Receipts consists of Tax Revenue, Non-Tax Revenue, Share of Union Taxes/ Duties, and Grants from Government of India.

Revenue Expenditure consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to various institutions (even though some of the grants may be meant for creation of assets).

The **Capital Receipts** consist of:

- **Debt receipts:** Market Loans, Bonds, Loans from financial institutions, Net transaction under WMAs, Loans & Advances from GoI, *etc*.
- **Non-Debt Receipts:** Proceeds from disinvestment, Recoveries of loans and advances.

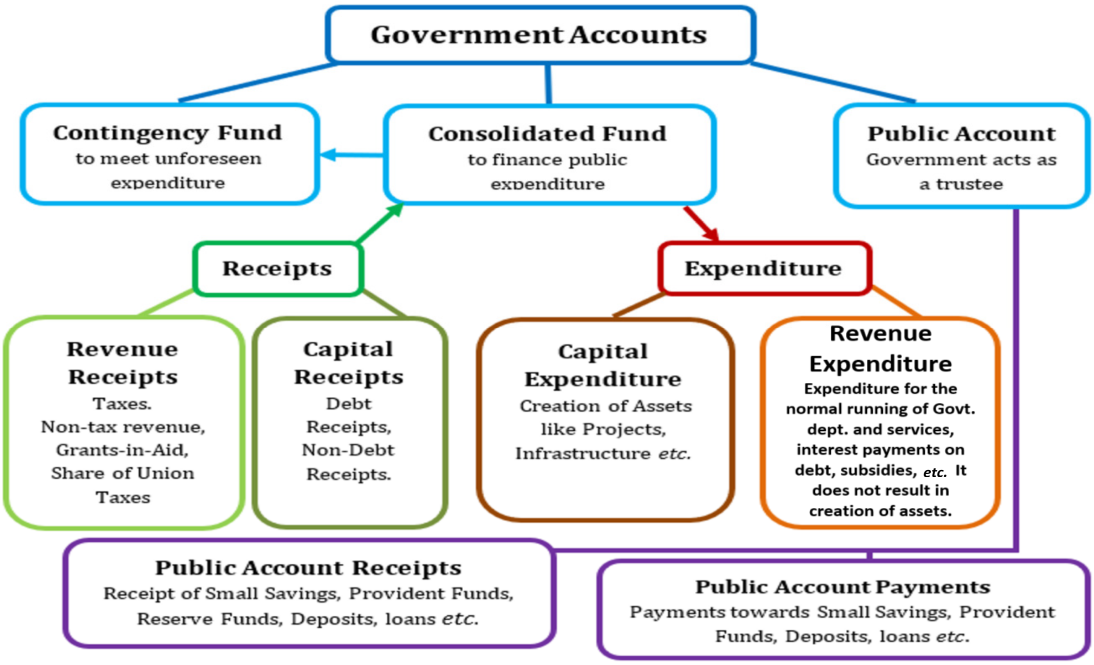
Capital Expenditure includes expenditure on the acquisition of land, building, machinery, equipment, investment in shares, and loans and advances by the government to PSUs and other parties.

At present, we have an accounting classification system in government that is both functional and economic.

	Attribute of transaction	Classification
Standardised in LMMH by CGA	Function- Education, Health, *etc*./ Department	Major Head under Grants (4-digit)
	Sub-Function	Sub Major Head (2-digit)
	Programme	Minor Head (3-digit)
Flexibility left for States	Scheme	Sub-Head (2-digit)
	Sub scheme	Detailed Head (2-digit)
	Economic nature/Activity	Object Head-salary, minor works, *etc*. (2-digit)

The functional classification enables us to know the Department, Function, Scheme or Programme, and object of the expenditure. Economic classification helps organise these payments as revenue, capital, debt, *etc*. Economic classification is achieved by the numbering logic embedded in the first digit of 4-digit Major Heads. For instance, 0 and 1 is for revenue receipts, 2 and 3 for revenue expenditure, *etc*. Economic classification is also achieved by an inherent definition and distribution of some object heads. For instance, generally "salary" object head is revenue expenditure, "construction" object head is capital expenditure. Object head is the primary unit of appropriation in the budget documents.

1.5 Structure of Government Accounts



1.6 Budgetary Processes

In terms of Article 202 of the Constitution of India, the Governor of State causes to be laid before the State Legislature, a statement of the estimated receipts and expenditure of the State for the year 2019-20, in the form of an **Annual Financial Statement**. In terms of Article 203, the statement is submitted to the State Legislature in the form of 84 Demands for Grants/ Appropriations and after approval of these grants, the Appropriation Bill is passed by the Legislature under Article 204 to provide for appropriation of the required money out of the Consolidated Fund. The State have more than one consolidated Budget which are in the nature of sub-budgets like Gender Budget, and Outcome budget.

The State Government did not have a Budget Manual to detail the budget formulation process and guide the State Government functionaries in preparing its budgetary estimates and monitoring its expenditure activities. In the absence of the Budget Manual the Budget preparation exercise is done based on the General Financial Rules issued by the Government of India and also the Budget circular issued from time to time. Results of audit scrutiny of budget and implementation of other budgetary initiatives of the State Government are detailed in **Chapter 3** of this Report.

1.7 Gross State Domestic Product

Gross State Domestic Product (GSDP) is the value of all the goods and services produced within the boundaries of the State in a given period of time. Growth of GSDP is an important indicator of the State's economy, as it denotes the extent of changes in the level of economic development of the State over a period of time.

Changes in sectoral contribution to the GSDP is also important to understand the changing structure of economy. The economic activity is generally divided into Primary, Secondary and Tertiary sectors, which correspond to the Agriculture, Industry and Service Sectors.

Trends in annual growth of State's GSDP *vis-à-vis* that of India's GDP are given in **Table 1.1**.

Table 1.1: Trends in growth of GDP and GSDP

(₹in crore)

Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
India's GDP *(₹in crore)*	1,37,71,874	1,53,91,669 (3rd RE)	1,70,98,304 (2nd RE)	1,89,71,237 (1st RE)	2,03,39,849 (PE)
Growth rate of India's GDP *(per cent)*	*10.46*	*11.76*	*11.08*	*10.95*	*7.21*
State's GSDP *(₹in crore)*	18,509.16	19845.44	22,432.48	24,602.88	27,036.64
Growth Rate of GSDP *(per cent)*	*3.06*	*7.22*	*13.04*	*9.68*	*9.89*

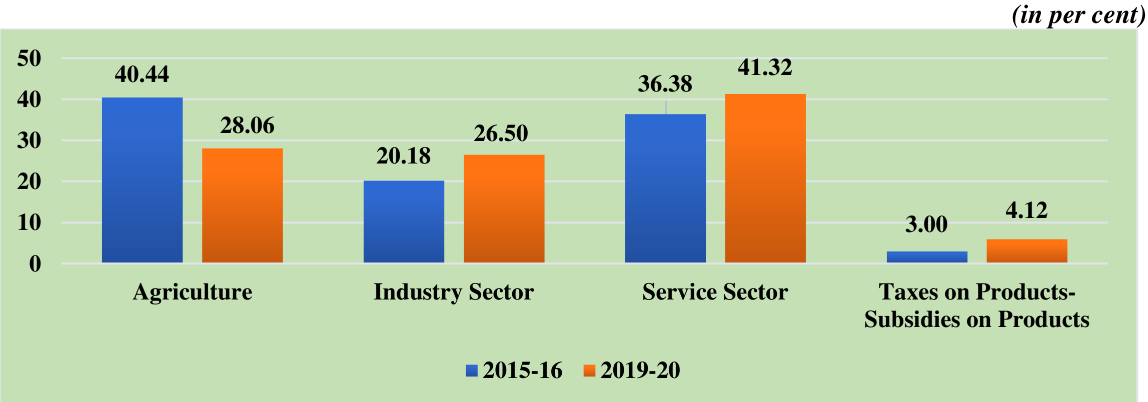
Source: GoI's Economic Survey (2019-20) and Department of Economics and Statistics, Arunachal Pradesh, R.E: Revised Estimates; P.E. - Provisional Estimates;

As can be seen from the details tabulated above, the State's GSDP grew at a lower rate during the period 2015-17 and in 2018-19 (three years) compared to the country's growth rate in the past five years, while in two years (2017-18 and 2019-20) the growth rate of the State GSDP was higher than the national growth rate. Due to this, the overall growth of the GSDP in the State over the five year period *i.e.*, 2015-20 was lower than the growth rate of the GDP of the country. The CAGR of GSDP (11.82) in the decade (2011-12 to 2019-20) was higher than the average CAGR of NE&H States (11.24) during the period and less than the average CAGR of all the States in the country (11.94). The CAGR of per capita GSDP of the State (9.60) for the same period was less than the average of North Eastern and Himalayan States (9.93) and average of all States (10.49). The tardy growth of the GSDP of the State when compared with the growth of GDP of the nation can be attributed mainly to decline in Agriculture sector in the State. The CAGR of the per capita GSDP during the period 2011-12 to 2019-20 of the State was 9.60 which is lower than the average of North Eastern and Himalayan States (9.93) and average of all the States (10.49).

In the last five years, there had been a significant decrease in the relative share of Agriculture to GSDP, reducing from 40.44 *per cent* to 28.06 *per cent.* Matching increase was seen in Service and Industry sectors. The share of Service Sector was higher than that of Industry Sector, as can be seen in **Chart 1.1**.

Chart 1.1: Change in sectoral contribution of GSDP (2015-16 to 2019-20)

(in per cent)



Source: Data furnished by the State Government

During 2019-20, there was a marginal increase in the growth rate in Agriculture and Industry Sector in comparison with the previous year.

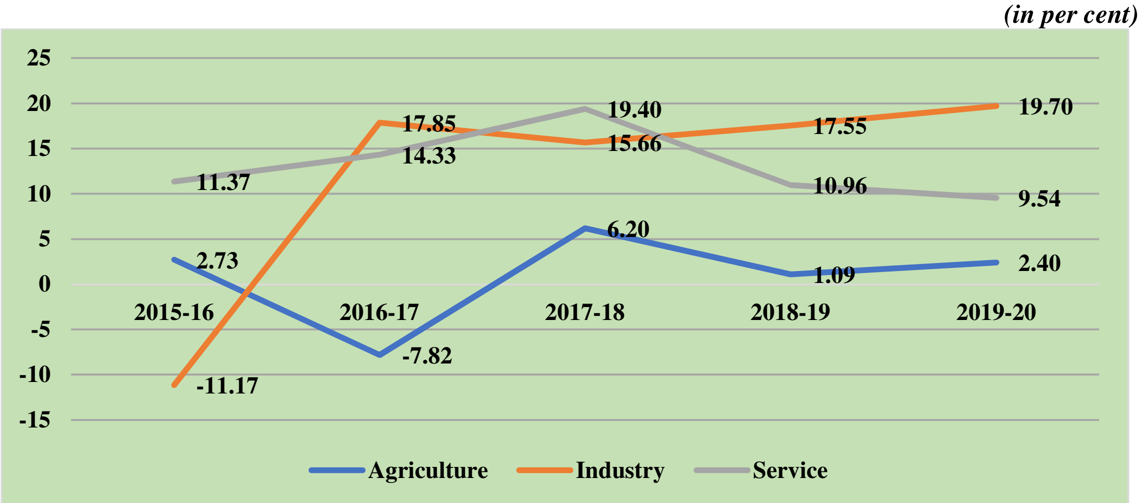
Growth rate of agriculture sector was inconsistent as the same was fluctuating, with alternate years experiencing the down trend. There was a sudden spurt in the growth rate of the Industry Sector in the year 2016-17 when it jumped from (-) 11.17 *per cent* in 2015-16 to 17.85 *per cent* in the subsequent year. However, this growth rate could not be sustained. The growth in Industry was mainly due to increased production and consumption of electricity and gas in the State.

The increased production of electricity was largely consumed in non-industrial sectors. The growth in Service Sector reached peak in 2017-18 and thereafter there had been a decreasing trend which continued till the current year as can be seen in the chart below. The decreasing trend in growth rate of the Service Sector in the past two years was due to slower growth in public administration and other services.

Chart 1.2 depicts the sectoral growth of GSDP over the period from 2015-16 to 2019-20.

Chart 1.2: Sectoral growth in GSDP

(in per cent)



Source: Data furnished by the State Government

The GSDP of the State fell short of the assessment made by the 14th Finance Commission (14th FC) during the award period. The actual GSDP of the State at the end of the award period of the 14th FC was ₹ 27,036.64 crore which fell short by ₹ 6,062.36 crore, constituting 22.42 *per cent* less than the assessment of the 14th FC (₹ 33,099.00 crore).

The percentage of aggregate Government expenditure (excluding the amounts spent by the Ministries of the GOI directly in the State) to GSDP in the State has been increasing at a greater pace over the past five years. It had increased from 56.02 *per cent* in 2015-16 to 73.88 *per cent* in 2018-19 and dropped to 58.91 *per cent* in 2019-20. The reduction in the share of the Government expenditure was attributable to reduced revenue resources available to the State. Although the percentage of Government expenditure to GSDP had come down in the year 2019-20 when compared with the previous year, it is still considered as high. The high percentage of Government expenditure to GSDP indicates that the State is heavily dependent on Government spending and non-government efforts have been minimum.

The CAGR in respect of GSDP for the period from 2011-12 to 2019-20 was 11.82 *per cent* which is higher than the average CAGR of NE&H States (11.24 *per cent*) but lower than the average CAGR of all the States (11.94 *per cent*) in the country indicating that despite the Government of India (GoI) providing more funds, the growth in economy of the State is not at par with other States.

1.8 Snapshot of Finances of the State

The following **Table 1.2** provides the details of financial results based on the actuals of 2019-20 and 2018-19 *vis-à-vis* Budget Estimates for the year 2019-20.

Table 1.2: Details of financial results based on the actuals of 2019-20 and 2018-19 *vis-à-vis* Budget Estimates for the year 2019-20

(₹in crore)

Sl. No.	Components	2018-19 (Actual)	2019-20 (Budget Estimate)	2019-20 (Actuals)	Percentage of Actual to B.E.	Percentage of Actuals of 2019-20 to GSDP
1	Tax Revenue	1,068.04	979.58	1,228.73	25.43	4.54
2	Non-Tax Revenue	608.87	1,050.00	651.38	(-) 37.96	2.41
3	Share of Union taxes/duties	10,436.14	12,031.52	8,987.57	(-) 25.30	33.24
4	Grants-in-aid and Contributions	4,082.91	6,796.82	4,020.87	(-) 40.84	14.87
5	Revenue Receipts (1+2+3+4)	16,195.96	20,857.92	14,888.55	(-) 28.62	55.07
6	Recovery of Loans and Advances	5.08	42.90	7.03	(-) 83.61	0.03
7	Other Receipts	0.00	0.00	0.00	0.00	0.00
8	Borrowings and other Liabilities (b)	1,204.97	1,492.63	1,031.83	(-) 30.87	3.82
9	Capital Receipts (6+7+8)	1,210.05	1,535.53	1,038.86	(-) 32.35	3.84
10	Total Receipts (5+9)	17,406.01	22,393.45	15,927.41	(-) 28.87	58.91
11	Revenue Expenditure	12,429.48	13,406.78	12,218.73	(-) 8.86	45.19
12	Interest payments	526.10	635.06	614.53	(-) 3.23	2.27
13	Capital Expenditure	5,727.43	8,006.72	3,693.05	(-) 53.88	13.66
14	Capital outlay	5,727.43	8,006.72	3,693.05	(-) 53.88	13.66
15	Loan and advances	20.16	8.30	16.02	93.01	0.06
16	Total Expenditure (11+13+15)	18,177.07	21,421.80	15,927.80	(-) 25.65	58.91
17	Revenue Surplus (+) (5-11)	3,766.48	7,451.14	2,669.82	(-) 64.17	9.87
18	Fiscal Deficit (-) {16-(5+6+7)}	(-) 1,976.03	(-)520.98	(-)1,032.22	98.13	3.82
19	Primary Deficit (-) (18-12)	(-) 1,449.93	(-) 114.08	(-) 417.69	(-)266.14	1.54

Source: Finance Accounts of respective years

(a) Includes State's share of Union Taxes.

(b) Borrowings and other Liabilities: Net (Receipts-Disbursements) of Public Debt + Net of Contingency Fund + Net (Receipts - Disbursements) of Public Account + Net of Opening and Closing Cash Balance.

(c) Expenditure on Capital Account includes Capital Expenditure and Loans and Advances disbursed

The detailed analysis on the finances of the State Government are made in the subsequent Chapters of the Report.

1.9 Snapshot of Assets and Liabilities of the Government

Government accounts capture the financial liabilities of the Government and the assets created out of the expenditure incurred. The liabilities consist mainly of internal borrowings, loans and advances from GoI, receipts from public account and reserve funds, and the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

Table 1.3: Summarised position of Assets and Liabilities

(₹in crore)

Liabilities				Assets			
	2018-19	2019-20	*Per cent*		2018-19	2019-20	*Per cent*
Consolidated Fund							
Internal Debt	4,835.40	6,298.78	30.26	Gross Capital Outlay	29,106.11	32,799.16	12.69
Loans and Advances from GoI	178.74	152.47	(-)14.70	Loans and Advances	88.00	96.99	10.22
Contingency Fund	**0.05**	**0.05**	**0.00**				
Public Account							
Small Savings, Provident Funds, *etc.*	2228.38	2,503.51	12.35	Advances	500.67	502.64	0.39
Deposits	314.59	239.32	(-)23.93	Remittance	(-)1,580.58	(-)213.53	(-)86.49
Reserve Funds	1,031.31	2,937.38	184.82	Cash balance (including investment in Earmarked Fund)	2,607.49	3,013.82	15.58
Suspense and Miscellaneous	(-)525.27	(-)1,260.76	140.02				
Surplus in Revenue Account	22658.50	25,328.32	11.78				
Total	**30721.70**	**36,199.07**	**17.83**	**Total**	**30721.70**	**36,199.07**	**17.83**

Source: Finance Accounts of respective years

1.10 Trends in Key Fiscal Parameters

Deficit is an indicator of prudent 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 APFRBM Act/ Rules for the financial year 2019-20.

1.10.1 What are Deficit and Surplus?

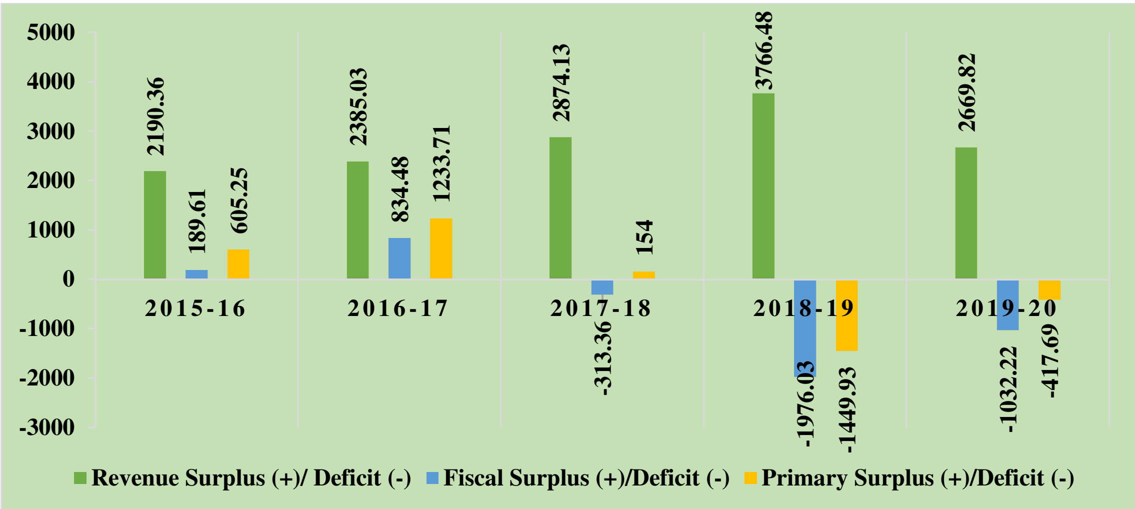
Revenue Deficit/ Surplus	*Refers to the gap between Revenue Expenditure and Revenue Receipts*
Fiscal Deficit/ Surplus	*This is the difference between the Revenue Receipts plus Non-debt Capital Receipts (NDCR) and the Total Expenditure. FD is reflective of the total borrowing requirements of Government*
Primary Deficit/ Surplus	*Primary Deficit is measured as Fiscal Deficit less Interest Payments*

1.10.2 Trends of Deficit/ Surplus

Though the State was successful in maintaining the targets specified by the 14th FC during the first three years of its award period of 2015-20 with regard to the key fiscal parameters, the trend could not be maintained, to meet the targets of key fiscal parameters with regard to Fiscal Deficit in the years 2018-19 and 2019-20. The actual Revenue Surplus was however, less than the projected Revenue Surplus in the entire award period. It was also observed that the actual Revenue Surplus was less than the amounts mentioned in MFTP of each year during the award period. The Revenue Surplus in the current year reduced to ₹ 2,669.82 crore from ₹ 3,766.48 crore in 2018-19. The trend of the surplus and deficit indicators in the past five years are given in **Chart 1.3**.

Chart 1.3: Trends in Surplus/Deficit indicators

(₹in crore)



Source: Finance Accounts of respective years

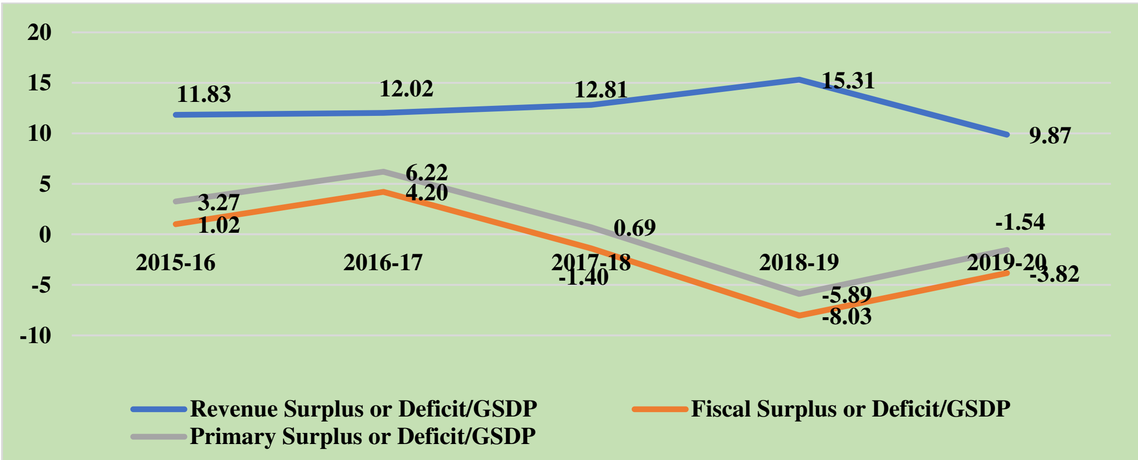
The Primary Surplus experienced by the State during the period 2015-18, took a turnaround in 2018-19, resulting in a Primary Deficit of ₹ 1,449.93 crore and continued in 2019-20 with a Primary Deficit of ₹ 417.69 crore. As can be seen from the chart above, the State could not maintain the trend of primary surplus in the last two years of the 14th FC award period.

The Government in its reply (January 2021) stated that the Primary Deficit was due to lower collection of non-debt receipts, and to meet the expenditure requirements the State had to depend on debt receipts.

The trend of these surplus and deficits with respect to GSDP over the five year period from 2015-16 to 2019-20 is depicted in **Chart 1.4**.

Chart 1.4: Trends in Deficit/Surplus relative to GSDP

(in per cent)



Source: Finance Accounts of respective years

Chart 1.4 reveals that the State maintained Revenue Surplus during the period 2015-16 to 2019-20, which increased from ₹ 2,190.36 crore in 2015-16 to ₹ 2,699.82 crore in 2019-20. Revenue Surplus in 2019-20 decreased by ₹ 1,096.66 crore (29.12 *per cent*) due to significant decrease in Revenue Receipts by ₹ 1,307.41 crore (28.62 *per cent*) over previous year with a marginal decrease in Revenue Expenditure by ₹ 210.75 crore (8.86 *per cent*). Fiscal Surplus, which represents excess of total resource gap over the total borrowings of the Government, decreased from ₹ 834.48 crore in 2016-17 and turned into Fiscal Deficit in 2017-18 culminating in Fiscal Deficit of ₹ 1,976.03 crore in 2018-19 and continued with the fiscal deficit of ₹ 1,032.22 crore in the current year.

The pre-devolution Revenue Deficit assessed by the 14th FC for the year 2019-20 was ₹ 7215 crore. However, the actual pre-devolution Revenue Deficit of the State was ₹ 10338.62 crore indicating that the State's actual revenue expenditure out of its own resources, far exceeded the projections of 14th FC. Further, it also implies that the State could not mobilise the resources as projected to the 14th FC and at the same time the Government could not control expenditure, as it overshot the amount projected to the 14th FC.

The Government in its reply (January 2021) stated that (i) the revenue surplus decreased significantly during the year due to reduced receipt of State's share of Union taxes and duties coupled with lower collection of own tax revenues (ii) the assessment of the 14th FC on the pre-devolution Revenue deficit might be based on estimation of low growth of the expenditure.

The post devolution Revenue Surplus indicated in the budget was more than the projections made by the 14th FC by ₹ 358.14 crore and at the Revised Estimates stage the Revenue Surplus was significantly revised, which was ₹ 3,499.06 crore less than the projections made in the 14th FC. However, the actual Revenue Surplus fell short of even the projections of the 14th FC. Against the Revenue Surplus of ₹ 7,451.14 crore projected in BEs, the year ended with a Revenue Surplus of ₹ 2,699.82 crore indicating that the budget was not prepared realistically. Normally, Public Debt is discharged through the use of Revenue Surplus. The Revenue Surplus of the State Government for 2019-20 (₹ 2,669.82 crore) was insufficient to meet the Public Debt discharged during the year (₹ 4,549 crore) which had to be met from Internal Debt.

Further, in 2019-20, the State Government saw Fiscal Deficit of ₹ 1,032.22 crore as against ₹ 520.98 crore projected in BEs. The actual Fiscal Deficit exceeded the projections made in the budget by ₹ 511.24 crore (98.13 *per cent*).

During 2019-20, the target of Revenue Surplus to GSDP set both by the 14th FC (21.43 *per cent*) and MTFP (26.57 *per cent*) could not be achieved, as the actual Revenue Surplus to GSDP was far less at 9.87 *per cent*. This was due to the significant increase in revenue expenditure *vis-à-vis* the projection made to 14th FC and lesser GSDP than projection.

The Government in its reply (January 2021) stated that the higher fiscal deficit was due to decreased Revenue Receipts attributable to lower growth of the State GSDP, while the Revenue Expenditure increased to meet the requirements. As regards the lower Revenue Surplus than projected in the budget, it stated that in the budget higher revenue surplus was anticipated due to control of revenue expenditure by cutting the administrative costs by bringing austerity measures under the State Policy.

The CAGR of the Revenue Receipts during 2018-19 to 2019-20 in the State was (-) 8.07 while it was (-) 9.88 for the NE&H States indicating that the decrease in Revenue Receipts was experienced by many NE&H States during the period.

1.10.3 Components of Fiscal Deficit and its financing pattern

The share of Revenue Deficit in Fiscal Deficit indicates the extent to which borrowed funds were used for current consumption. Persistently high ratio of Revenue Deficit to Fiscal Deficit also indicates that the asset base of the State is continuously being eroded and a part of borrowings (Fiscal Liabilities) does not have any asset backup.

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in **Table 1.4**.

Table 1.4: Components of Fiscal Deficit and its financing pattern

(₹ in crore)

Sl. No	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Decomposition of Fiscal Deficit						
Fiscal Deficit (-)/Surplus (+)		**189.61**	**834.48**	**(-) 313.36**	**(-) 1,976.03**	**(-)1,032.22**
1	Revenue Deficit (-)/ Surplus (+)	2,190.36	2,385.03	2,874.13	3,766.48	2,669.82
2	Net Capital Expenditure	(-) 1,993.25	(-)1,544.01	(-) 3,188.10	(-) 5,727.43	(-)3,693.05
3	Net Loans & Advances	(-)7.50	(-)6.54	0.61	(-) 15.08	(-)8.99

Sl. No	Particulars	2015-16	2016-17	2017-18	2018-19	2019-20
Financing pattern of Fiscal Deficit						
1	Market Borrowings	58.76	287.28	703.10	762.96	1,288.08
2	Other Loans	-	-	(-) 6.85	4.16	(-) 3.73
3	Loans from GoI	(-)26.49	(-)26.45	(-) 26.43	(-) 26.36	(-) 26.28
4	Special Securities issued to NSSF	98.07	86.77	93.42	50.45	77.36
5	Loans from Financial Institutions	(-)66.26	89.21	115.97	189.64	101.67
6	Small Savings, PF, *etc.*	135.66	157.23	241.13	225.89	275.14
7	Reserve Funds	200.00	171.55	137.87	307.32	1,906.08
8	Deposits and Advances	72.37	(-)1,305.66	(-)134.19	(-)75.93	(-) 77.23
9	Suspense and Miscellaneous	(-)454.00	148.74	(-)404.85	(-)176.63	(-)2,678.97
10	Remittances	723.89	(-)363.18	34.09	1,134.66	(-)1,367.05
11	Increase (-)/Decrease (+) in cash balances	(-)202.18	(-)71.67	(-)895.72	(-)364.49	1,537.15
12	Increase/Decrease in WMAs, Overdraft	(-)729.43	(-)8.30	455.82	(-)55.64	0.00
Overall Deficit (1 to 11) (-)		**(-)189.61**	**(-) 834.48**	**313.36**	**1,976.03**	**1,032.22**

Source: Finance Accounts of respective years

The components of fiscal deficit are Deduct Revenue Surplus, Net Capital Expenditure and Net Loans and Advances. Since the State had attained Revenue Surplus in 2015-20 itself, the surplus on revenue account was utilised to finance Capital Expenditure. As seen from the above table, the total Capital Expenditure was financed by Revenue Surplus in 2015-16 and 2016-17. In 2017-20, Revenue Surplus could finance only 65.76 *per cent* to 90.15 *per cent* of Capital Expenditure due to the huge increase in Capital Expenditure and reduced revenue surplus.

Table 1.5: Receipts and Disbursements under components financing the fiscal deficit

(₹in crore)

Particulars	Receipt	Disbursement	Net
Market Borrowings	1,367.13	79.05	1,288.08
Loans from GOI	0.00	26.28	(-) 26.28
Special Securities issued to NSSF	176.38	99.02	77.36
Loans from Financial Institutions	208.31	106.64	101.67
Other loans	0.00	3.73	(-) 3.73
Small Savings, PF, *etc.*	563.00	287.86	275.14
Deposits and Advances	353.28	430.51	(-)77.23
Suspense and Miscellaneous	(-) 2,700.59	(-) 21.62	(-) 2,678.97
Remittances	3,313.06	4,680.11	(-) 1,367.05
Reserve Fund	1,906.18	0.10	1,906.08
Overall Deficit			(-) 504.93
Increase/Decrease in cash balance			1,537.15
Gross Fiscal Deficit			1,032.22

Source: Finance Accounts 2019-20

In 2019-20, there was increase in Reserve Fund, market borrowings and Small Savings, PF, *etc*., which was partly offset by decrease in Suspense and Miscellaneous and Remittances. The increase in Reserve Fund was due to parking of State Compensatory Afforestation Fund amounting to ₹ 1,588.72 crore without incurring any expenditure during the year.

1.10.4 Actual Revenue Surplus and Fiscal Deficit

Excessive focus on short-term objectives for overcoming budget deficit, encourages creative accounting and recourse to one-off deficit-reducing measures. **Table 1.6** assesses actual surplus/ deficit after taking into account short/ non-contribution to funds and incorrect classifications/ booking by the State Government during 2019-20.

Table 1.6: Actual Revenue Surplus and Fiscal Deficit

(₹in crore)

Particulars	Impact on Revenue Surplus	Impact on Fiscal Deficit
	Understated (-) / overstated (+)	*Understated (+) / overstated (-)*
Short contribution to New Pension Scheme	(+) 22.49	(+) 22.49
Minor works budgeted/ booked under Capital Section instead of Revenue	(+) 32.46	---
Total	**(+) 54.95**	**(+) 22.49**

Source: Finance Accounts 2019-20

As can be seen from the above table, there was an over statement of Revenue Surplus by ₹ 54.95 crore during the year. However, considering that the overall Revenue Surplus depicted in the accounts was ₹ 2,669.82 crore, the State would have a Revenue Surplus of ₹ 2,614.87 crore during 2019-20.

The Fiscal Deficit during the year 2019-20 was also found understated by ₹ 22.49 crore. Considering that, the State would have Fiscal Deficit of ₹ 1,054.71 crore during 2019-20.

1.11 Fiscal Balance: Achievement of deficit and total debt targets

Deficit indicators, revenue augmentation and expenditure management are major yardsticks for judging the fiscal performance of the Government. Prudent financial management involves the generation of an annual Revenue Surplus (Revenue Receipts exceeding Revenue Expenditure). The Twelfth Finance Commission recommended that States enact their own Fiscal Responsibility and Budget Management (FRBM) Acts committing them to achieving Revenue Surplus and limiting Fiscal Deficit to three *per cent* of GSDP.

The Legislature of Arunachal Pradesh passed Fiscal Responsibility and Budget Management Act (FRBM) in the year 2006 with the objective of ensuring prudence in fiscal management by eliminating revenue deficit, reducing fiscal deficit and overall/ outstanding debt to acceptable level, establishing improved debt management and improving transparency in a medium term framework. In this context the Act provides quantitative targets to be adhered by the State with regard to deficit measures and debt level.

The last amendment of the FRBM Act (Details in ***Appendix 1.2***) in 2018 incorporated the recommendations of the 14th FC relating to the limit of fiscal deficit recommended for the States during its award period (2015-20). Although the award period of the 14th FC commenced in the year 2015 itself, the amendment to the FRBM Act incorporating the recommendations of the 14th FC was passed only in 2018. As per FRBM Act, the State Government was to maintain Revenue Surplus during the period 2015-20, reduce fiscal deficit to not more than 3.50 *per cent* of GSDP subject to fulfilling the conditions that the outstanding debt-GSDP ratio is limited to less than or equal to 25 *per cent* and Interest Payments are maintained to a level of less than or equal to 10 *per cent* of Revenue Receipts.

Revised targets relating to key fiscal parameters envisaged in the amended APFRBM Act and their achievement during the last five years are given in **Table 1.7**.

Table 1.7: Compliance with provisions of APFRBM Act

Fiscal Parameters	Fiscal targets set in the Act	Achievement (₹ in crore)				
		2015-16	2016-17	2017-18	2018-19	2019-20
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	Revenue Surplus	2,190.36	2,385.03	2,874.13	3,766.48	2,669.82
		✓	✓	✓	✓	✓
Fiscal Deficit as *percentage* of GSDP	3.25 *per cent*	Fiscal Surplus	Fiscal Surplus	1.39	8.03	3.82
		✓	✓	✓	X	X
Ratio of total outstanding debt to GSDP (in *per cent*)	25 *per cent*	31.85	28.34	32.13	34.91	44.87
		X	X	X	X	X

Source: Finance Accounts of respective years

The State Government was successful in maintaining Revenue Surplus as targeted in APFRBM Act during the last five years. The State maintained Fiscal Surplus in the initial two years of the 14th FC award period without resorting to any net borrowings during those years. However, from the year 2017-18 onwards, the trend of Fiscal Surplus reversed and the State went into Fiscal Deficit. Even in the current year the Fiscal Deficit and outstanding debt of the State Government could not be kept to the levels prescribed in the FRBM Act, as it was 3.82 *per cent* and 44.87 *per cent* of GSDP respectively.

During the five-year period 2015-20, which coincides with the award period of the 14th FC, the State Government was unsuccessful in maintaining the outstanding debt-GSDP ratio within the norms prescribed by the AFRBM Act and limiting the Fiscal Deficit to 3.5 *per cent* of GSDP in two years *i.e.*, 2018-19 and 2019-20. The 14th FC assessed that the State's Annual Fiscal Deficit would not exceed 3.25 *per cent* in all the five years of the award period. Similarly, it assessed that the outstanding debt to GSDP ratio would be limited to 29.62 *per cent* of GSDP by the end of the award period. However, the actual Fiscal Deficit was more than the assessment made by the 14th FC in two years, while the outstanding debt was more than the assessed limit.

As per the APFRBM Act, the State Government has to lay before the State Legislature, a Five-Year Fiscal Plan along with the Annual Budget. The Medium Term Fiscal Plan (MTFP) has to set forth a five-year rolling target for the prescribed fiscal indicators.

Table 1.8 indicates the variation between the projections made for 2019-20 in MTFP presented to the State Legislature with the Annual Budget for 2019-20 and Actuals for the year.

Table 1.8: Actuals *vis-à-vis* projection in MTFP for 2019-20

(*₹in crore*)

Sl. No.	Fiscal Variables	Projection as per MTFP	Actuals (2019-20)	Variation (in *per cent*)
1	Own Tax Revenue	979.58	1,228.73	25.43
2	Non-Tax Revenue	1,050.00	651.38	(-) 37.96
3	Share of Central Taxes	12,031.52	8,987.57	(-) 22.33
4	Grants-in-aid from GoI	6,796.82	4,020.87	(-) 40.84
5	Revenue Receipts (1+2+3+4)	20,857.92	14,888.55	(-) 28.62
6	Revenue Expenditure	13,406.78	12,218.73	(-) 8.86
7	Revenue Deficit (-)/ Surplus (+) (5-6)	(+) 7,451.14	(+) 2,669.82	(-) 64.17
8	Fiscal Deficit (-)/ Surplus (+)	(-) 520.98	(-) 1,032.22	(-) 98.13
9	Debt-GSDP ratio (*per cent*)	25.57	44.87	75.48
10	GSDP growth rate at current prices (*per cent*)	2.63	9.89	(-) 10.66

Source: MTFP Statement and Finance Accounts 2019-20

The State could not mobilise the resources as envisaged in its MTFP as the actual receipts fell short of the projections by more than seven *per cent*. The State MTFP envisaged containing revenue expenditure by reducing administrative costs through austerity measures and had pegged the Revenue Expenditure at ₹ 13,406.78 crore. The actual Revenue Expenditure was less than the projected expenditure by ₹ 1,188.05 crore constituting 8.86 *per cent*. It was observed that the reduction in the actual resources was 28.62 *per cent* but the reduction in expenditure was not proportionate due to which the Revenue Surplus indicated in the MFTP could not achieved. The non achievement of targeted Revenue Surplus impacted the Capital expenditure of the Government which was meant for improvement of infrastructure in the State. The actual Revenue Surplus fell short of the target by ₹ 4,781.32 crore, constituting a short fall of 64.17 *per cent.* The Debt-GSDP ratio also increased to 44.87 *per cent*.

The Government in its reply (January 2021) stated that the deficit targets could not be met due to reduced revenue receipts and increased revenue expenditure.

1.12 Conclusion

- The State GSDP which was ₹ 27036.64 crore during 2019-20 with a growth rate of 9.89 *per cent* over the previous year, was higher than the all India GDP growth rate of 7.21 *per cent*. Service Sector was the major contributor of GSDP during the year with 41.32 *per cent*. Agriculture was the second largest contributor with 28.06 *per cent* while Industry and Taxes on products were third and fourth respectively.

- Revenue Receipts of the State decreased by 8.07 *per cent* (₹ 1307.41 crore) over the previous year. The decrease was mainly due to decrease in States share of Union Taxes and Duties (₹ 1448.57 crore) and Grants-in-Aid (₹ 62.04 crore) which was offset by increase in Own tax Revenue (₹ 160.69 crore) and Non-Tax Revenue (₹ 42.51 crore).

- Own Tax Revenue (₹ 1228.73 crore) of the State increased by 15.05 *per cent* over the previous year (₹ 1068.04 crore). Non-Tax Revenue (₹ 651.38 crore) of the State increased by 6.98 *per cent* in comparison to the previous year (₹ 608.87 crore).
- Revenue Expenditure (₹ 12218.73 crore) decreased by 1.70 *per cent* (₹ 210.75 crore) over the previous year (₹ 12429.48 crore). The decrease was mainly due to decrease in expenditure on Social Services (₹ 216.20 crore) and Economic Services (₹ 2.28 crore) partly offset by increase on General Services (₹ 7.73 crore).
- Capital Expenditure (₹ 3693.05 crore) decreased by 35.52 *per cent* (₹ 2034.38 crore) over the previous year expenditure (₹ 5727.43 crore). It was mainly due to decrease in capital outlay under Roads and Bridges (₹ 769.62 crore), Water Supply, Sanitation, Housing and Urban Development (₹ 238.24 crore), Other Administrative Services (₹ 221.90 crore) and Public Works (₹ 198.98 crore) *etc*.
- Although the State had managed to achieve surplus on Revenue Account during the last five years, the Revenue Surplus (₹ 2669.82 crore) during the year decreased by 29.12 *per cent* (₹ 1096.66 crore) over the previous year (₹ 3766.48 crore).
- State was able to reduce Fiscal Deficit by 47.76 *per cent* (₹ 943.81 crore) as compared to previous year.
- The State was able to meet the projections made under Arunachal Pradesh FRBM Act regarding Revenue Surplus, but could not manage to achieve the ceiling prescribed for Fiscal Deficit-GSDP ratio (3.82 *per cent*) and Outstanding Debt-GSDP ratio (44.87 *per cent*).

1.13 Recommendations

- The State Government needs to keep up the trend of Own Tax Revenue collection achieved during 2019-20 by focusing on other potential areas, apart from SGST to secure a sustained increase in Own Tax Revenue collection.
- The State Government needs to increase its Capital Expenditure and give more impetus to asset creation for sustained economic growth.
- The State Government may take measures to keep the Fiscal Deficit-GSDP ratio and Outstanding Debt GSDP ratio under the ceilings prescribed in the Arunachal Pradesh FRBM Act through prudent financial management.