A study on Finance of Arunachal Pradesh

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Acknowledgements

We are thankful to 14th Finance Commission for giving us the responsibility to carry out the study on State Finance of Arunachal Pradesh. We also received valuable guidance and insights on different issues on the economy and public finance of from Prof. Atul Sarma, from the days of his tenure as the Vice Chancellor of Rajiv Gandhi University, till date. We express our sincere gratitude to them.

The support and inspirations received from Prof. Tamo Mibang, Vice Chancellor of Rajiv Gandhi University in carrying out the task cannot be expressed in lexis. The help received from Rachob Taba, Registrar of the University is also laudable.

The help and sincere support received from Shri Ramesh Negi (IAS), the Chief Secretary to the Government of Arunachal Pradesh cannot be expressed in words. Even with simple SMS to his mobile was enough to obtain his valuable time for us, despite his busy schedule. We also acknowledge the help received from many officials of Government of Arunachal Pradesh.

The support extended by officials of the 14th Finance Commission, is also acknowledged. In the course of official communication with the Finance Commission Shri Rajkumar, Assistant Director, who helped us, out of his way is also remembered.

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Chapter-I

Broad Budgetary Trend and Public Debt

1.1 Introduction

The cost of provisioning of public goods is relatively high in Arunachal Pradesh. For example, the unit cost of provisioning of merit goods like education and health facilities is two and half times that of the plain area (Sarma et al. 2006). However, the own resource of the State to finance its budget is very low, and the state is highly dependent on the central inflow. Thus, the budgetary policy of the government is constrained by limited own resources on the one hand, and high unit cost of supply of public and merit goods, on the other. The economic reform process initiated by the central government in the beginning of the 1990s has also constrained the state in terms of access to soft central resources. Adding to it, due to implementation of 6th pay commission, has resulted in bulging of the public debt which reached 68.9 per cent of the GSDP in 2006-07 and more than 100 percent in2008-09. Further, easy access to market borrowing (after the implementation of 12th Finance Commission Report) has refueled the process, and as a result, outstanding liability of the state as shown in the budget of 2007-08 climbed to 100 percent of GSDP in 2008-9. It is with this background that the finance and fiscal issues of the state have to be considered.

1.2 Broad Budgetary trend

From 1993-94 to 2000-01, except the years 2000-01, the state had surplus in revenue account (Arunachal Pradesh Development Report, 2009). The surplus was more than 10 percent of GSDP. From 2001-02 to 2005-06 the surplus was less than 5 percent. From 2006-7 onwards the surplus became more than 10 percent in average up to the year 2012-13.

The trend in fiscal deficit is also same in line of revenue deficit. It was 3 to 9 percent of GSDP in between 1993-1998-99. In 1999-2000, it went up above 40 percent of GSDP then remained stable around 15 to 20 percent of GSDP(Arunachal Pradesh Development Report, 2009). From 2001-2 to 2005-06it was hovering around 12 to 15 percent of GSDP. After the stricture given by 12th Finance commission, fiscal deficit came down to less than 5 percent of GSDP up to in 2006-07, 2007-8 and in 2009-10. Again from 20011-12 onwards fiscal deficit is hovering around 10 percent of GSDP.

Interest payment as a percentage of GSDP was around 5-6 percent in between 1993-94 to 2000-01. From 2001 to 2006-7 it remained around 4 percent and there after started declining and became 2.46 percent in 2012-13.

Debt-GSDP ratio remained around more than 50 percent in between 1993-2000-01. With some abnormality in 2006-07 and 2008-09 , ratio came down to 41 percent in 2009-10 and subsequently became 30.15 percent in 2012-13.

Repayment of loan in Capital disbursement was exerting a great pressure in the budget. In between 2001-07, it was as high as 43 percent in 2005-06 and 34 percent in 2006-07. Subsequently it came down to 5 to 6 percent in between 2008-9 to 2012-13. This means, the state was under severe fiscal stress in between 2001-2 to 2006-7 , which was eased out subsequently.

Table 1.1

Broad trend in fiscal indicators

	Fiscal Deficit (Rs in 000)	Fiscal Defici%GSDP	Primary Deficit(Rs in 000)	Primary Deficit %GSDP	Rev Deficit(Rs in 000)	Rev Deficit %GSDP	Repayment of loan As a % of Capital Expenditure	Interest payment (% of GSDP)
2001-2	3217857	12.54	2127949	8.29	-270205	-1.05	13.22	4.25
2002-3	2801470	11.09	1547443	6.12	-768990	-3.04	19.26	4.96
2003-4	4569065	15.82	3149825	10.90	-1844651	-6.39	32.68	4.91
2004-5	5397344	15.48	3928356	11.26	78048	0.22	29.83	4.21
2005-6	5847373	15.57	4282828	11.41	-1817581	-4.84	43.12	4.17
2006-7	1939166	4.72	61525	0.15	-6949427	-16.92	34.12	4.57
2007-8	612600	1.27	-936831	-1.95	-7434645	-15.46	9.98	3.22
2008-9	3938439	6.92	1782997	3.14	-9842839	-17.31	6.57	3.79
2009-10	6114195	8.18	3844345	5.14	-5961279	-7.98	22.43	3.04
2010-11	781263	0.89	-3217970	-3.69	-1.7E+07	-19.21	5.06	4.58
2011-12	11240759	10.09	8422699	7.56	-1.1E+07	-9.71	6.42	2.53
2012-13	12451085	9.80	9329628	7.35	-2.1E+07	-16.37	7.08	2.46
2013-14	787111	#DIV/0!	-2501290	#DIV/0!	-3.5E+07	#DIV/0!	6.41	#DIV/0!

Note:- Negative indicates surplus and positive sign indicates deficit.

1.3 Changing composition of Outstanding Debt

Outstanding liability of the states can be broadly grouped under three categories i.e. (i) Total internal debt comprising market loan, NSSF and loan from the financial institution; (ii) Loan from central government; and (iii) Public accounts comprising Provident Fund, Reserve Fund, Deposit and Advance, and Contingency Fund. Prior to 1999-2000, securities issued under NSSF was kept under central government loan. After 1999-2000, NSSF came as a different heading.

Table 1.3, gives the changing composition of outstanding debt of the states over time. Due to definitional problem as mentioned, table 1.2 and 1.3 reflect debt under NSSF and market loan together for the year 1991-92.. However, liabilities under the Market Loan, Public Accounts and Loan from Financial institutions are comparable consistently over time. Changing composition of each and every sub-component is discussed as follows:

Market Loan: Share of Market loan in total outstanding liability has undergone a significant change over time during 1991-92 and 2007-08.[1] In Arunachal Pradesh, the share went up from 12.24 percent in 1991-92 to 19.27 percent in 2006-07. Then, with some variation marker loan alone constitute 26.44 percent of total outstanding liability in 2013-14. Thus, over time, market loan is gaining importance in the state.

NSSF: As discussed above, NSSF became a separate head in the debt accounting system in 1999-2000. Therefore, here the analysis will pertain to the period 2000-01 and 2013-14.

In 2000-01, NSSF had a small share of 0.14 percent in 2001-02. In 2006-07, the share became 19.27 percent in Arunachal Pradesh and hovered around as low as 9 percent in 2008-09 and became 15.63 percent in 2013-14.

[1] Time period refers to 31st March of the year indicated.

Loan from Financial institutions: Under this head also a significant change in share was observed during 1991-92 and 2007-08 in Arunachal Pradesh. It was as low as 0.14 percent in 2000-01 and as high as 21 percent in 2006-07. Subsequently remained around 15-17 percent thereafter.

Loan and Advance from the Central government: Central government's Loan and Advance to the states was around 56.33 percent in 2006-07 in Arunachal Pradesh.Wihh a steady decline it became 6.97 percent in 2013-14.

Thus, in 2006-07, a drastic fall in the share of Central government loan in total outstanding debt liability took place. This was basically due to conversion of high interest rate bearing central loan by low interest loan from the market and financial institution. Further, it happened because of 12th Finance Commissions' incentives.

Public Accounts: Share of Public accounts in total debt liability was 40 percent and above in the state in 1991-2.Within the public accounts share of provident fund increased from 11.54 percent in 1991-92 to 36.33 percent in 2006-07. Then it declined to 11 percent in 2008-09. In between 2009-10 and 2013-14 it remained around 23 to 25 percent.

Thus, over time the importance of Loan and Advance from the Central Government is declining fast and the states are dependent more on the market for their borrowing requirements.

Table 1.2

Outstanding Debt

(In Rs Crore)

	1991-92	2000-01	2006-07	2008-09	2009-10	2010-11	2011-12	2012-13(RE)	2013-14(BE)
Market Loan	35.01	73.99	445.91	**633**	**700**	**670**	**670**	**810**	1100
NSSF	0	1.01	495.89	**543**	**590**	**650**	**650**	**670**	650
Loan from Financial Institutions	0	11	199	**362**	**370**	**400**	**450**	**380**	320
Total Internal Debt	35.01	85.99	1140.11	**1,537.00**	**1660**	**1700**	**1700**	**1850**	2430
Central Govt. Loan and Advance	134.99	405.01	478.07	**436**	**410**	**380**	**340**	**310**	290
Provident Fund	33	263.01	526.9	**649**	**790**	**870**	**1000**	**990**	990
Reserve Fund	0	16.03	117.09	**61**	**80**	**90**	**110**	**130**	150
Deposit and Advance	83	-50.98	52.07	**3,187.00**	**160**	**380**	**660**	**540**	500
Contingency Fund	35.01	0	0	0	**0**	**0**	**0**	**0**	0
Total Outstanding Debt (Without WMA RBI) Rs Crore	286	719	2314	**5,870.00**	**3100**	**3450**	**3820**	**3830**	**4160**
Debt as a % of GSDP	46.24	40.38	68.91	103.2121	41.483	39.5121	34.305	30.153	NA

Table 1.3

Composition of Outstanding Debt (%)

	Market Loan (%)	NSSF (%)	Loan from Financial Institutions (%)	Central Govt. Loan and Advance (%)	Provident Fund (%)	Reserve Fund (%)	Deposit and Advance (%)	Contingency Fund (%)	Total Outstanding Debt (Without WMA RBI) Rs Crore
1991-92	12.24	0	0	47.2	11.5	0	29.02	0	100
2000-01	10.29	0.14	1.53	56.3	36.6	2.23	-7.09	0	100
2006-07	19.27	21.43	8.6	20.7	22.8	5.06	2.25	0	100
2008-09	**10.78**	**9.25**	**6.17**	**7.43**	**11.1**	**1.04**	**54.29**	**0**	**100**
2009-10	**22.58**	**19.03**	**11.94**	**13.2**	**25.5**	**2.58**	**5.16**	**0**	**100**
2010-11	**19.42**	**18.84**	**11.59**	**11**	**25.2**	**2.61**	**11.01**	**0**	**100**
2011-12	**17.54**	**17.02**	**11.78**	**8.9**	**26.2**	**2.88**	**17.28**	**0**	**100**
2012-13(RE)	**21.15**	**17.49**	**9.92**	**8.09**	**25.9**	**3.39**	**14.1**	**0**	**100**
2013-14(BE)	**26.44**	**15.63**	**7.69**	**6.97**	**23.8**	**3.61**	**12.02**	**0**	**100**

1) Implementation of FRBM Act in Arunachal Pradesh.

In Arunachal Pradesh FRBM Act has been implemented since 2006-07. FRBM Act's provisions were passed into a law in March 2006. Since then the State Government has been implementing the different provisions in letter and spirit. The FRBM Act was amended in 2010-11 and the following targets were set:

- To maintain revenue surplus in all the years from 2010-11 to 2014-15;
- To reduce fiscal deficit to 3 per cent of GSDP by 2011-12 and maintain the same during 2011-15,
- The amended FRBM set the year-wise target of total debt in relation to the State's GSDP. The targets are as under:

Table 1.4

Year	Upper limit of the total debt as % of GSDP
2010-11	61.3
2011-12	58.2
2012-13	55.2
2013-14	52.5
2014-15	50.1

Thus, the state has maintained Debt-GSDP ratio much below the FRBM prescription . The concern is the fiscal Deficit. It is around 9.8 percent in 2012-13.

Subsidy in the state

No reliable data is available to estimate correctly the subsidy in the state.

Chapter-II

Composition of Revenue

The tax collected by the Government of Arunachal Pradesh constitutes a small portions, less than 5 percent, of the total revenue at its disposal. The rest are share of central tax, the state's own non-tax revenue, and most important of all, the grant from the Central Government. Table 2. 2. 1 shows the percentage distribution of the state's total revenue.

Table 2.1: Source of Revenue of the Government of Arunachal Pradesh

(Percentage Distribution of total revenue)

Period	Own tax	Share of central tax	Total tax	Own non-tax	Central grant	Total non-tax	Total revenue
2001-06	3.26	10.90	14.16	8.73	77.11	85.84	100.00
2006-09	3.28	13.28	16.56	17.83	65.61	83.44	100.00
2009-12	4.51	13.10	17.61	9.57	72.82	82.39	100.00
2001-12	3.63	12.31	15.94	11.92	72.14	84.06	100.00

REVENUE RECEIPTS OF THE GOVERNMENT OF ARUNACHAL PRADESH

(Rs.in Crore)

Year	Own tax	Own non-tax	Own revenue receipts	Share of central		Central share	Grad total tax and non-tax	GSDP
				Tax	Non-tax			
2007-08	98.07	656.92	754.99	437.89	1810.13	2248.02	3003.01	4810.00
2008-09	136.21	772.01	908.22	462.11	2485.64	2947.75	3855.97	5687.32
2009-10	173.42	511.25	684.67	475.42	3134.78	3610.20	4294.87	7472.97
2010-11	214.98	530.14	745.12	720.20	3956.78	4676.98	5422.10	8731.50
2011-12	317.65	360.71	678.36	838.97	3981.73	4820.70	5499.06	11135.53

Sources :(1) Budget Documents of the Government of Arunachal Pradesh, different years.,(2) GSDP date for 2011-12 are provisional.

From 2001-02 to 2011-12 own tax of the state averaged 3.63 percent of the total revenue. On the other end of the spectrum is the grant from the Central Government, which averaged as high as 84.06 percent of the total revenue. Not only own-tax revenue, but also the share of the central tax is not high, being only 12.31 percent of the total during the eleven-year period from 2001-02 to 2011-12.

Total tax, own and central share, averaged 15.94 percent of the total during 2001-12. Compared with the own tax, the state's own non-tax is high averaging 11.92 percent of the total revenue during 2001-02.

Table 2. 2. 2 shows the components of revenue as the percentage of GSDP. The revenue- GSDP ratio is high in the state: during 2001-12 total revenue averaged 54.02 percent of the state's GSDP. The average peaked during 2006-09, the revenue reaching 64.44 percent of the GSDP.

Table 2. 2: Components of Revenue as percentage of GSDP.

Period	Own tax	Share of central tax	Total tax	Own non-tax	Central grant	Total non-tax	Total revenue
2001-06	1.51	5.06	6.57	4.05	35.77	39.82	46.39
2006-09	2.11	8.56	10.67	11.49	42.28	53.77	64.44
2009-12	2.54	7.38	9.92	5.39	41.01	46.40	56.32
2001-12	1.96	6.65	8.61	6.44	38.97	45.41	54.02
Average yearly change during (2001-12)	0.14	0.46	0.60	0.44	0.65	1.09	1.69

The ratio went down to the trough during 2001-06 when the revenue was only 46.39 percent of the GSDP. Of the different components, the central Grant occupies the first position forming during 2001-12, as high 38.92 percent of the GSDP. At the other end is the State's own tax which is only 1.96 percent of the GSDP. The bottom row of Table 2. 2 shows the average yearly changes of different components during 2001-12, of all components, the state's own tax grew at the slowest rate, only 0.14 percentage points per annum. On the highest pint was the growth of the Central Grant, 0.65 percentage points per annum. The growth performance of the State's non-tax component was better than that of the tax. While the total tax as the percentage of GSDP grew at the yearly rate of 0.60, the growth of non-tax components was as high as 1.09 percentage points per annum.

Measures to Improve the Tax-GSDP Ratio

In Arunachal Pradesh, taxation by the government has a short history, it began only after the independence of the country when direct administration was introduced in the area. So the state lacked, and even today lacks, a well-established institutional mechanism to impose tax and collect it without any hitch. The best example illustrating the situation is the tax on land which in the past was an important source of revenue in the plains of the country. The imposition of land tax was systematized through a cadastral survey in the 16th century by Todar Mal, the talented minister of emperor Akbar, but even today in Arunachal Pradesh the cultivated land has not been brought under tax net. One important reason for delay is the fact that cadastral survey has not yet been conducted even in the plains, not to speak of the hilly part of the state. Unless the cultivated land is surveyed cadastrally and ownership is legally ascertained, tax cannot be imposed on the cultivated land. So the cadastral survey should be conducted in the state.

So far only urban land has been cadastrally surveyed and brought under a measure of tax net. Since the value of urban land is already high and increasing rapidly, the tax on urban land and its transactions remains a potentially good source whose tapping, of course, depends on having an improved land administration.

Revenue from Economic Services

Revenue from economic services also played an important role in the state. Table 2.3 shows the relative importance of revenue from economic services. As a proportion of total tax and non-tax revenue, the contribution of economic services is high but as a proportion of total revenue of the state its contribution is small. During 2007-09, revenue from economic services was about 50 percent of total tax and non-tax revenue and more than 10 percent of GSDP of the state. But in subsequent years there was a drastic fall.

In 2011-12, economic services contributed as low as 5.12 per cent of the total revenue and only 2.53 percent of the GSDP. The factor that contributed to the fall of revenue from economic services is the declining revenue from the power sector.

Table 2.3

Year	**Revenue from economic services as % of**		
	Total tax and non-tax revenue	**Total revenue**	GSDP
2007-08	47.57	18.90	11.80
2008-09	50.94	18.10	12.27
2009-10	37.85	10.22	5.88
2010-11	26.71	7.22	5.48
2011-12	18.57	5.12	2.53
2012-13	12.78	3.46	

Measures taken to improve the Tax-GSDP ratio in the State.

i. The State increased the rate of VAT on tobacco and allied products from 12.5 percent to 20 percent during 2010-11.

ii. In the same year, tax and excise departments initiated measures to check leakages of tax. Since most of the manufactured goods, both consumables and non-consumables, are brought from the rest of the country, the Government of Arunachal Pradesh planned during 2010-11 to install CC TV cameras and electronic weighbridge at the border checkgates. During the same year the Government initiated action on the computerization of treasuries, e-payment of taxes, and improvement of the statistical system of the state.

iii. The Government of Arunachal Pradesh has been trying to expand the power sector, but the rate of expansion is still slow. One way to raise revenue from economics services is to enhance the rates and tariffs not only on power but also other services.

Revenue and Capital expenditure

The overall expenditure of the Government of Arunachal Pradesh is dominated by what is called ‘consumption; the revenue part of the expenditure varied during 2001-12 from a low of 66.68 percent to a high of 74.62 percent of the total.

Table 2. 3: Revenue and Capital Expenditure

Year	Composition of expenditure			Expenditure as % of GSDP		
	Revenue	Capital	Total	Revenue	Capital	Total
2001-02	74.62	25.38	100.00	40.16	13.66	53.82
2002-03	74.16	25.84	100.00	40.82	14.22	55.04
2003-04	68.37	31.63	100.00	48.19	22.29	70.48
2004-05	73.86	26.16	100.00	43.29	15.33	58.61
2005-06	68.43	31.57	100.00	44.41	20.49	64.90
2006-07	68.09	31.91	100.00	46.18	21.64	67.82
2007-08	73.67	26.33	100.00	46.98	16.79	63.77
2008-09	67.53	32.47	100.00	50.49	24.28	74.77
2009-10	72.40	27.60	100.00	49.49	18.87	68.36
2010-11	68.09	31.91	100.00	42.88	20.10	62.98
2011-12	66.68	33.32		39.67	19.82	59.49

EXPENDITURE OF THE GOVERNMENT OF ARUNACHAL PRADESH (in Rs Crore)

Year	Revenue expenditure plan	Revenue expenditure non-plan	Total revenue expenditure	Capital expenditure plan	Capital expenditure non-plan	Total capital expenditure	Total expenditure
2007-08	1043.67	1215.87	2259.54	526.50	281.20	807.70	3067.24
2008-09	1048.58	1823.11	2871.69	1278.71	102.19	1380.90	4252.59
2009-10	1138.28	2560.46	3698.74	1213.05	197.19	1410.24	5108.98
2010-11	1211.16	2533.08	3744.24	1649.24	105.85	1755.39	5499.63
2011-12	1564.00	2853.86	4417.86	2060.46	147.12	2207.58	6625.44

The capital expenditure varied between 25.38 percent of the total to 33.32 percent. Table 2. 3 shows the composition of expenditure and its magnitude in the State's GSDP. The Government expenditure is very high in the state forming more than 50 percent of its GSDP. As Table 2. 3 shows, the expenditure varied during 2001-12 between 53.82 percent of the GSDP, the lowest value and 74.77 percent, the highest value. The revenue expenditure varied from a low of 39.67 percent of the GSDP in 2011-12 to a high of 50.49 percent of the GSDP in 2008-09. The capital expenditure as the percentage of the GSDP was lowest in 2001-02, only 13.66. This percentage reached the peak during the reference period in 2008-09 when it was 24.28 percent of the GSDP.

Plan-Non-Plan Composition

Revenue Expenditure

Table 2. 4 shows the plan-non-plan composition of revenue expenditure. On revenue account, non-plan expenditure appears to have exceeded the plan component significantly. Apart from this, the non-plan proportion in total revenue expenditure is on the increase. The non-plan expenditure averaged 60.87 percent of revenue expenditure during 2001-12 and the plan percentage was on average 39.13 percent.

Table 2. 4: Plan – Non-Plan composition of revenue expenditure during 2001-2012.

Year	Composition of expenditure		
	Non-Plan	Plan	Total
2001-02	55.85	44.15	100
2002-03	59.04	40.96	100
2003-04	60.43	39.57	100
2004-05	61.64	38.36	100
2005-06	56.61	49.39	100
2006-07	57.25	42.75	100
2007-08	53.81	46.19	100
2008-09	63.49	36.51	100
2009-10	69.23	30.77	100
2010-11	67.65	32.35	100
2011-12	64.40	35.40	100
Average	60.87	39.13	100

Capital Expenditure

Capital account is dominated by the plan expenditure. As shown in Table 2. 5 during 2001-12 plan component formed, on average, as high as 78.01 percent of all capital expenditure. The rest 21.99 percent was non-plan capital expenditure.

Table 2. 5: Plan – Non-Plan composition of capital expenditure.

Year	Composition of expenditure		
	Non-Plan	**Plan**	**Total**
2001-02	13.70	86.30	100
2002-03	19.41	80.59	100
2003-04	33.19	66.81	100
2004-05	29.85	70.15	100
2005-06	42.93	57.07	100
2006-07	33.94	66.06	100
2007-08	34.81	65.19	100
2008-09	7.40	92.60	100
2009-10	13.98	86.02	100
2010-11	6.03	93.97	100
2011-12	6.66	93.34	100
Average	21.99	78.01	100

There is high variation over the years. The non-plan percentage varied from a low of 6.03 in 2010-11 to a high of 34.81 in 2007-08, and the plan component varied over the range 65.19 to 93.97 percent.

Total Expenditure: Plan versus non-plan.

The aggregate expenditure over the period 2001-02 appears to have been evenly distributed between plan and non-plan components. The percentage of non-plan expenditure averaged to 49.32 and the plan expenditure averaged to 50.68 during the period.

Table 2. 6: Expenditure under non-plan and plan categories

Year	Composition of expenditure		
	Non-Plan	**Plan**	**Total**
2001-02	45.15	54.85	100
2002-03	48.80	51.20	100
2003-04	51.82	48.18	100
2004-05	53.33	46.67	100
2005-06	52.29	47.71	100
2006-07	49.82	50.18	100
2007-08	48.81	51.19	100
2008-09	45.27	54.73	100
2009-10	53.98	46.02	100
2010-11	47.98	52.02	100
2011-12	45.29	54.71	100
Average	49.32	50.68	100

Primary expenditure and interest payment

Inspite of a high inflow of central grants to the state, the Government of Arunachal Pradesh has to depend on borrowings in order to finance its ever increasing expenditure. Table 2. 7 shows the division of the aggregate expenditure into primary and interest payment during 2001-12 primary expenditure averaged 93.28 percent of the total, the rest 6.72 percent was used to finance the payment of interest.

Table 2.7: Primary expenditure and interest payment of the Government of Arunachal Pradesh.

Year	Composition of total expenditure		
	Primary Expenditure	Interest Payment	Total - 100
2001-02	91.92	8.08	100
2002-03	90.80	9.20	100
2003-04	92.72	7.28	100
2004-05	92.45	7.55	100
2005-06	93.13	6.87	100
2006-07	92.80	7.20	100
2007-08	94.54	5.46	100
2008-09	94.60	5.40	100
2009-10	95.26	4.74	100
2010-11	92.42	7.58	100
2011-12	95.46	4.54	100
Average	93.28	6.72	100

Primary Expenditure and Interest payment in relation to GSDP

Table 2. 8 shows the primary expenditure and interest payment as the percentage of GSDP. During 2001-12, primary expenditure as the percentage of GSDP averaged to 59.41, while the average of the interest payment as the percentage of GSDP stood at 4.23. During the period under study the aggregate expenditure as the percentage of GSDP shows a positive trend and this positive trend is due to the rise in the proportion of the primary expenditure. The interest payment as the percentage of GSDP shows a declining trend.

Table 2. 8: Primary Expenditure and Interest payment as percentages of GSDP

Year	Primary expenditure as % of GSDP	Interest Payment as % of GSDP	Total expenditure as % of GSDP
2001-02	49.47	4.35	53.82
2002-03	49.97	5.06	55.04
2003-04	65.34	5.13	70.47
2004-05	54.19	4.42	58.61
2005-06	60.44	4.46	64.90
2006-07	62.94	4.88	67.82
2007-08	60.29	3.48	63.77
2008-09	70.74	4.04	74.77
2009-10	65.13	3.24	68.37
2010-11	58.21	4.77	62.99
2011-12	56.80	2.70	59.50
Average	59.41	4.23	63.64

Suggestions:

In Arunachal Pradesh a significant portion of government expenditure is used for the creation of different infrastructural facilities. Most often the expenditure used on the creation of infrastructure including the administrative infrastructure is of compulsive nature and hence no proper project appraisal is made. In order to contain expenditure, it is essential that proper appraisal to be made before undertaking any project. Non-essential expenditure can be controlled through the creation of a data base and making objective analysis of these data in order to prioritize different projects.

Administrative efficiency must be increased in order to control the expenditure. A slow implementation of some projects leads to cost escalation; an efficient execution of projects demands both administrative and technical efficiency.

Chapter-III

Non-Tax Revenue

Introduction

Arunachal Pradesh is a revenue scarce State. The revenue receipts of the State comprises of own tax revenue, state's share in central taxes, own non-tax revenue and grant-in-aids from the centre. The revenue generation from the internal sources of the State is inadequate to finance its expenditure requirement. The revenue from its internal sources accounts from less than 15 per cent of its aggregate revenue. During 2004-07 the revenue from its own sources was only 14.46 per cent of aggregate revenue. This is mainly due to low tax base owing to low level of industrial and business activities. Thus, the State is highly dependent on inflow of funds from centre (Arunachal Pradesh Development Report 2009). The State plan is largely dependent on central assistance. However, the inflow of funds to the State from the centre has shown declining trend. The share in central taxes as well as the central plan assistance has been declining over the years. As a result, developmental activities of the State government have been affected adversely and remained almost stagnant for the last few years. On the other hand, the expenditure of the State has been rising sharply compared to its growth of revenue. The State has not been able to contain non-plan expenditure in spite of best efforts (Department of Planning, Government of Arunachal Pradesh). The State has resorted to market borrowing which has resulted in huge increase in public debt. As a result, the public debt of the State climbed from52.70 per cent of GSDP in 2002-03 to 80.06 per cent of GSDP in 2007-08.

Under such circumstances, it is in the interest of the State to make sincere efforts to mobilise more revenue from internal sources to finance its expenditure. Excessive dependence of the State on central inflow of funds has caused dependency syndrome which has led to less attention to generate sufficient revenue from its internal sources. The revenue from internal sources can be enhanced though extension of tax coverage, removal of exemption, improving tax administration, checking tax evasion and leakages and formulating appropriate pricing policy, improving performances of public sector enterprises, expansion and better delivery of public services.

In this background, this chapter proposes to analyse trend and growth in the State's own non-tax revenue and make suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

Trend in State's Own Non- Tax revenue

The State receives own non-tax revenue from the following sources:

(i) Fiscal services
(ii) Interest receipts
(iii) Dividends and profits
(iv) General services
(v) Social services
(vi) Economic services and

The share of State's own non-tax revenue in aggregate revenue has shown increasing trend during 2002-03 to 2007-08 (Table3.3. 1). The State's own non-tax revenue accounted for only 6.88 per of aggregate revenue in 2002-03. Its share in aggregate revenue rose sharply to 21.88 per cent in 2007-08. It fell marginally to 20.02 in 2008-09. After that the share of own non-tax revenue in aggregate revenue fell significantly to 11.9 per cent in 2009-10. Its share in aggregate revenue further fell and reached a level of 5.88 per cent.

The trend in non-tax revenue of the State relative to GSDP during 2002-03 to 2012-13 is given in Table3.3. 1 as below. The own non-tax revenue of the State relative to GSDP has shown increasing trend till 2007-08. However, after 2008-09 there has been sharp decline which is unhealthy and needs to be reversed (Figure 1). It has increased from 3.02 per cent of GSDP in 2002-03 to 7.23 per cent of GSDP in 2006-07. After that there was a sudden upward jump in own non-tax revenue of the State. It has increased sharply to 13.66 in 2007-08. This may be attributed to accrual of power royalty from the power producing companies in the State. It decline marginally to 13.57 per cent of GSDP in 2008-09. After that own non-tax revenue of the State relative to GSDP declined continuously. It sharply fell to 6.84 per cent of GSDP in 2009-10 and moderately fell to 6.07 per cent of GSDP in 20010-11. After that there was sharp deterioration in own non-tax revenue of the State. It fell sharply to 3.24 per cent of GSDP. However, it improved marginally to 3.38 per cent of GSDP in 20012-13.

Table3.1: Trend in State's Own Non-Tax Revenue

Year	**Own Non-Tax Revenue (as per cent of GSDP)**	**Own Non-Tax Revenue (as per cent of Aggregate Revenue Receipts)**
2002-03	3.02	6.88
2003-04	4.17	7.65
2004-05	4.88	11.33
2005-06	5.39	10.94
2006-07	7.23	11.46
2007-08	13.66	21.88
2008-09	13.57	20.02
2009-10	6.84	11.9
2010-11*	6.07	9.78
2011-12**	3.24	6.56
2012-13*** (RE)	3.38	5.88

Source: Computed from Annual Financial Statement (Various years), as presented to the Legislature, Government of Arunachal Pradesh and Statistical Abstract of Arunachal Pradesh, Directorate of Economics and Statistics.

Note: *indicate based on provisional estimate of GSDP, **indicate based on quick estimate of GSDP and *** indicate advance estimate of GSDP, RE: Revised estimate of non-tax revenue receipts.

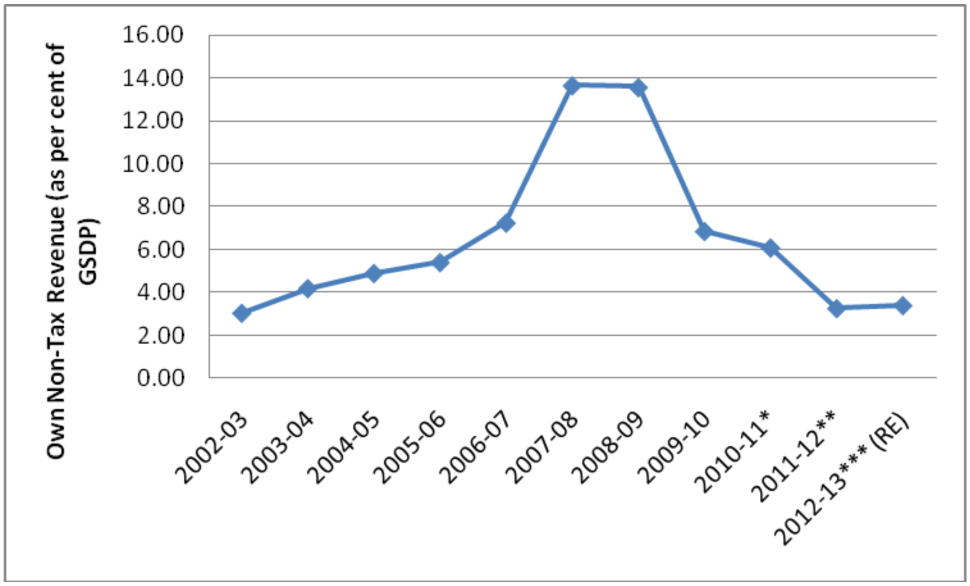

Figure 1: Trend in State's Own Non-tax Revenue relative to GSDP.

Composition of State's Own Non-Tax Revenue

The most important sources of State's own non-tax are found to be economic services, general services, interest receipts and social services. Dividends and profits are found to contribute no revenue, except for three years, during the period under review. Dividends and profits are found to contribute revenues of Rs. 28 thousand during 2002-03, Rs. 1 thousand during 2007-08 and Rs. 20 thousand during 2011-12. As a percentage of aggregate own non-tax revenue, the revenues from dividends and profits were negligible. The fiscal services were found to contribute revenue only during one year (Rs. 162 thousand 2009-10) during the period under review. However, as a percentage of aggregate own non-tax revenue, it was negligible.

Economic services were found to contribute the highest percentage share in the State's own non-tax revenue during the period under review (Annexure I). During the period under review, composition of own non-tax revenue has shifted in favour of economic services and interest receipts. The shares of economic services and interest receipts in aggregate own non-tax revenue have increased during the period under review. On the other hand, the relative importance of general and social services in aggregate own non-tax revenue have declined. In

2002-03, revenues from economic services accounted for 72.37 per cent of aggregate own non-tax revenue, followed by general services (14.33 per cent), interest receipt (7.82 per cent) and social services (5.48 per cent). The share of revenue from economic services significantly improved to 86.45 per cent of aggregate own non-tax revenue in 2004-05. On the other hand, the share of revenue from general services declined to 8.08 per cent. The share of interest receipts sharply fell to 2.98 per cent and the share of revenue from social services also fell to 2.49 per cent. In 2006-07 while the share of revenue from economic services in aggregate State's own non-tax revenue declined significantly to 67.30 per cent, the share of revenue from general services improved substantially to 25.20 per cent. The share of revenue from social services increased marginally to 2.95 per cent. In the same year the share of interest receipts improved to 4.56 per cent. In 2008-09, the share of revenue from economic services substantially improved to 90.42 per cent of aggregate own non-tax revenue. In the same year, the share of revenue from general services fell to 3.69 per cent, the share of revenue from social services fell to 1.39 per cent and the share of interest receipts fell to 4.51 per cent.

In 2011-12, economic services contributed 78.13 per cent of aggregate own non-tax revenue followed by interest receipts (13.50 per cent), general services (5.50 per cent) and social services (2.87 per cent). In 2012-13, the share of revenue from economic services improved to 79.52 per cent of own non-tax revenue. In the same year, the share of interest receipts marginally declined to 12.50 per cent. The share of general services and social services also declined marginally to 5.33 per cent and 2.66 per cent respectively. In 2013-14, economic services are expected to contribute 69.53 per cent of aggregate own non-tax revenue followed by interest receipts (18.60 per cent), general services (7.90 per cent) and social services (3.97 per cent).

During the period under review, there has been some change in the composition of the State's own non-tax revenue. Economic services continued to contribute the largest share in aggregate own non-tax revenue during the period under review. However, the importance of general services, which was the second largest contributor to aggregate non-tax revenue, has declined after 2007-08. After that interest receipts have come be the second largest contributor to the State's own non-tax revenue followed by general services and social services.

Growth of State’s Own Non-Tax Revenues

The growth rate of revenues from different sources of own non-tax revenue is analysed for the period 2002-07, 2007-12 and for 2002-12. The analysis of growth rate of revenues from different sources of State’s own non-tax revealed that during the first five year period i.e. 2002-07, the aggregate own non-tax revenue grew at a rate of 152.20 per cent per annum on an average which is substantially high. The high growth rate of aggregate own non-tax revenue during this period can be attributed to high growth of revenues from economic services, interest receipts and general services. During this period, the revenues from these heads grew at a rate of 185.54 per cent, 77.55 per cent and 77.01 per cent per annum on an average. During the same period the revenue from social services grew at a relatively slower rate of 14.95 per cent per annum on an average (Table3. 2).

Table3. 2: Growth rate of Revenue from Different Sources of Own Non-tax Revenue

Heads	2002-07	2007-12	2002-12
Interest receipts	77.55	16.83	79.81
General services	77.01	-11.37	10.92
Social services	14.95	11.23	17.29
Economic services	185.54	-7.98	51.76
Aggregate Own-Non Tax Revenue	152.2	-6.94	46.21

Source: Same as Table3. 1.

During the period 2007-12, the growth rate of the aggregate own non-tax revenue of the State was negative. Its growth rate was -6.94 per cent per annum on an average. It was mainly due to sharp fall in revenues from general services and economic services. The revenues from these heads grew at negative rates of -11.37 per cent and -7.98 per cent per annum on an average. During this period, the growth rates of interest receipts and social services were 16.83 per cent and 11.23 per cent per annum on an average. However, the positive growth of revenues from these sources could not compensate the loss of revenue from general services and economic services. Hence, there was a negative growth of aggregate own non-tax revenue during this period.

During the whole period 2002-12, the aggregate own non-tax revenue of the State grew at a rate of 46.21 per cent per annum on an average which is quite impressive growth. This high growth of aggregate own non-tax revenue was contributed by significant increase in revenue from interest receipts and economic services. During this period interest receipts and revenue from economic services grew at a rate of 79.81 per cent and 51.76 per cent per annum on an average. During the same period, the revenues from social services and general services grew at relatively slower rates of 17.29 per cent and 10.92 per cent per annum on an average.

Key Findings

The share of State's own non-tax revenue in aggregate revenue increased significantly during the period 2002-03 to 2007-08. Thereafter, its relative importance in aggregate revenue came down.

The State's own non-tax revenue relative to GSDP also improved substantially during the period 2002-03 to 2007-08. In 2007-08, there was a sudden upward jump in the State's own non-tax revenue relative to GSDP which can be attributed to accrual of power royalty from the power producing companies in the State. Thereafter, the own non-tax revenue of the State relative of GSDP suffered continuously. However, it showed sign of improvement in 2012-13.

The analysis of the composition of the State's own non-tax revenue shows that economic services, general services, interest receipts and social services are the most important sources. Dividends and profits are found to contribute negligible amount of revenue that too during some years. During the period under review, there has been slight change in the composition of the State's own non-tax revenue. Economic services continued to dominate the position as the highest contributor to the State's own non-tax revenue. However, the relative importance of general services has come down and that of interest receipts has improved during the period under review.

During the period 2002-07 average annual growth of aggregate non-tax revenue of the State was substantially high. It was on account of sharp increase in revenue from economic services, general services and interest receipts. However, during the period 2007-12 annual average growth of aggregate non-tax revenue of the State was negative which was due negative growth of revenue from general and economic services. During the period under review i.e. 2002-12 aggregate own non-tax revenue of the State grew at 46.21 per cent per annum on an average. It was mainly on account of higher growth of revenue from interest receipts and economic services.

Suggestions

The following suggestions can be considered for improving the State's Own Non-tax revenue:

■ State's own-non tax revenue as a percentage of GSDP has been declining after 2008-09 onwards. This trend needs to be reversed. This calls for immediate revision of existing charges and rates of various services and products.

■ The revenue from administrative services accounted for about 25 per cent of State's own non-tax revenue in 2006-07 which declined sharply to 5.50 per cent in 2011-12. The revenue from this source registered a negative growth during 2007-12. Hence, there is need to improve administrative revenue collection. This can be accomplished by improving administrative efficiency, accountability and transparency. At the same time, various rates should be reviewed and revised and new products should be introduced to generate more revenue.

■ Economic services contribute about 80 per cent of State's own non-tax revenue. But the revenue from this source recorded negative growth during the period 2007-12 which is a serious cause of concern. The revenue from economic services can be enhanced by applying economic principle in fixing the tariff rates and prices. Services at subsidised rate should be provided only to the BPL (below poverty line) households. At the same time, T&D losses power which is untenably high should be lowered through making investment in improving efficiency of distribution networks.

■ There is a high need to conduct proper audit of departments and agencies from time to time to check leakages of revenue and ensure transparency in revenue collection. In the absence of regular proper audit, a large proportion of revenue may be siphoned off by the officials themselves at cost of State exchequer.

■ The revenue from dividends and profits is found to be negligible. These sources did not contribute any revenue for many years during the period under review. This indicates either virtually non existence of Public Sector Undertakings or poor financial performance of PSUs. Hence, it calls for reviving PSUs and corporatize them for improving performance of the State PSUs.

■ The revenue from interest receipts is growing at a faster rate. Attempts should be made to maintain the momentum and efforts should be made to generate more revenue from this source by offering attractive rates.

■ The revenue from social service is growing at a fairly good rate. It should be maintained but this sector should not be much relied upon for revenue as it vital for social well-being of the poor people.

Annexure I

Composition of State's Own Non-Tax Revenue of Arunachal Pradesh

	Major Heads (As per cent of Total Own Non-Tax Revenue)						
	I) Fiscal Services	II) Interest receipts	III) Dividends and profits	IV) General services	V) Social services	VI) Economic services	A. Total Own-Non Tax Revenue
2002-03	0	7.82	0	14.33	5.48	72.37	100
2003-04	0	7.01	0	17.29	4.34	71.37	100
2004-05	0	2.98	0	8.08	2.49	86.45	100
2005-06	0	3.45	0	20.14	2.15	74.25	100
2006-07	0	4.56	0	25.2	2.95	67.3	100
2007-08	0	4.43	0	8.07	1.11	86.39	100
2008-09	0	4.51	0	3.69	1.39	90.42	100
2009-10	0	7.83	0	4.52	1.77	85.88	100
2010-11	0	21	0	3.33	1.82	73.84	100
2011-12	0	13.5	0	5.5	2.87	78.13	100
2012-13 (RE)	0	12.5	0	5.33	2.66	79.51	100
2013-14 (BE)	0	18.6	0	7.9	3.97	69.53	100

(Source: Computed from Annual Financial Statement (Various years), as presented to the Legislature, Government of Arunachal Pradesh)

Annexure II

Non-Tax Revenue of Government of Arunachal Pradesh from 2002-03 to 2013-14 (Absolute value)

(Rupees in Lakhs)

2002-03	7629.82	110828.88	252686
2003-04	12056.69	157636.17	288862
2004-05	17019.55	150183.73	348751
2005-06	20236.14	184940.94	375515
2006-07	29717.57	259217.66	410799
2007-08	65692.01	300301.07	481000
2008-09	77201.15	385596.72	568732
2009-10	51125.38	429487.19	747297
2010-11 (P) GSDP	53013.99	542209.44	873150
2011-12 (Q) GSDP	36070.73	549905.72	1113553
2012-13 (RE) (A) GSDP	42889	729090.00	1270181
2013-14 (BE)	31678	816102.00	-

Annexure III:
Composition of State's Own Non-Tax Revenue

(Rupees in thousands).

Heads	I) Fiscal Services	II) Interest receipts	III) Dividends and profits	IV) General services	V) Social services	VI) Economic services	A. Total Own-Non Tax Revenue
2002-03	0	59669	28	109304	41774	552207	762982
2003-04	0	84470	0	208465	52291	860443	1205669
2004-05	0	50725	0	137598	42338	1471294	1701955
2005-06	0	69837	0	407651	43534	1502592	2023614
2006-07	0	135364	0	748740	87542	2000111	2971757
2007-08	0	291037	1	530171	72997	5674995	6569201
2008-09	0	348002	0	284520	107295	6980298	7720115
2009-10	162	400232	0	230922	90735	4390487	5112538
2010-11	0	1113488	0	176725	96701	3914485	5301399
2011-12	0	487043	20	198427	103489	2818094	3607073
2012-13 (RE)	0	535900	0	228700	114000	3410300	4288900
2013-14 (BE)	0	589300	0	250100	125700	2202700	3167800

Chapter IV

Resource Transfer to Rural and Urban Local Bodies

Local bodies both rural and urban plays crucial role in ensuring participatory democracy. While the rural local bodies existed in the state of Arunachal Pradesh as early as 1969, the Urban Local Bodies (ULB) is relatively newer.

Rural Local Bodies in Arunachal Pradesh has been the catalyst of rural development. The RLBs came in to existence by 1969, when the first election took place. The RLBs then were regulated by the NEFA (North East Frontier Agency) Panchayati Regulation 1967, which itself emerged out of the Ering Committee recommendations 1964.

The NEFA Panchayati Raj Regulation 1967 was however overhauled completely by the Arunachal Pradesh Panchayati Raj Ordinance 1994 to confirm to the basic provisions of the Constitution (73rd Amendment) Act, 1992 and the ordinance was reserved by the Governor for presidential assent. The ordinance w3as however returned with few suggestions during 1996, and the Arunachal Pradesh Panchayati Raj Bill, 1997 was finally passed by the State. Except for the reservation of seats to SCs, all other suggestions were incorporated in the Bill. As the state is 100% ST state, such reservation was practically impossible. as such the Government of India passed Constitution (83rd Amendment) Act in 2000 which was later notified on 30th April, 2001. This Amendment exempted the requirement of SC reservation the state. Thus the 73rd Amendment Act of 1992 not only made the RLBs mandatory but suitable to this hilly state of Arunachal. Similarly the 74th Amendment Act of 1992 ensures smooth transition of urban management to local bodies so that efficient participatory development initiatives are possible.

Though the Amendment was passed during the same time as 73rd Amendment Act, the state of Arunachal Pradesh did not have any Urban Local Bodies (ULBs) till the year 2013. The Arunachal Pradesh Municipal Act, 2007 was notified in the year 2008, but it was not before 2013 when the state went for election of ULBs on experimental basis for two of the most populated towns namely, Itanagar and Pasighat.

The next step is to include 10 more populated towns in phased manner. In the two towns having ULBs there are 31 wards in case of Itanagar and only 12 wards in case of Pasighat.

In case of the development initiatives, the state does not have its own programmes, except the centrally sponsored flagship programmes. This is without any exception either to RLBs or ULBs. This can be understood from the fact that the state is a hill economy that is constrained by revenue sources. In the next section, state transfer of resources to RLBs and ULBs are dealt independently.

Resource Transfer to RLBs

As the state is hilly, landlocked, less developed and a late starter of development initiatives revenue constraints hinders the State's own initiatives. Hence, the state executives the centrally sponsored flagship programmes. These programmes are carried out by various nodal agencies, except the Directorate of Panchayati Raj. In the case of RLBs, it acts in tandem with the nodal agencies in the development initiatives. As such, the Department of Rural Development is responsible for executing and implementing three major flagship programmes of Ministry of Rural Development, Government of India. They are:

1. MGNREGS
2. IAY
3. IWMP

Mahatma Gandhi National Rural Employment Guarantee Scheme

The scheme was launched in the state during the financial year 2006-07. Keeping in view the 39.90 percent of rural gentry who are below poverty line, the programme is quite promising. Under the scheme, more than 2.5 lakh person days of work has been provided since 2006-06. Of the total person days of work generated, nearly 30% of employment comprised of womenfolk.

Although 18000 numbers of durable assets have been created, the high costs of maintenance have impacted the quality of the assets over time.

The status of the fund allocation amount released by the Central Government vis-à-vis the state governments are given in the Table 4.1A. It can be seen that there were no allocation made by the centre or the state during 2006-07 as it was the inception year of the programme. However, the amount were released by both the respective governments to the tune of Rs. 1262.85 lakhs, of which the central fund released was Rs .1212.85 while the state released Rs. 50 lakhs.

In the subsequent FY 2007-08 allocation was made to the tune of Rs. 1185.42 lakhs (Central share being Rs. 994.38 and that of state was Rs. 191.04 lakhs). This accounted for 83.88% of the total allocation central share and 16.12% as state's share.

During 2008-09 allocation to the tune of Rs. 1900.89 lakhs was made; comprising of allocation by centre and state to the tune of Rs. 1675.89 and Rs. 225 lakhs respectively. It may be noted that the percentage allocation of the central government was Rs. 88.16% while only Rs. 11.84% of resources were allocated by the state. The subsequent FY 2008-09 was an election year and no allocation was made by the state. The total allocation for FY 2008-09 was Rs. 226.31 lakhs which was also the centre's share of resources. During FY 2010-11 the allocation of centre's share was Rs. 4472.54 lakhs, the state Government Share was Rs. 800.00 lakhs, thus total allocation was mopped up to Rs. 5272.54 lakhs. In other words, the central share accounted for 84.83% while the state's share was 15.17% of the total allocation made.

Table 4.1A

Status of MGNREGS in Arunachal Pradesh during 2006-07 to 2010-11

Year	Share in the Total Allocation			Allocation as Percentage of Total		Amount Released		
	Centre	State	Total	Centre	State	Centre	State	Total
2006-07	--	--	--	--	--	1212.85	50.00	1262.85
2007-08	994.38	191.04	1185.42	83.88	16.12	994.38	150.00	1144.38
2008-09	1675.89	225.00	1900.89	88.16	11.84	2908.84	225.00	3133.84

2009-10	2226.31	0.00	2226.31	100.00	0.00	3386.17	0.00	3386.17
2010-11	4472.54	800.00	5272.54	84.83	15.17	3528.47	800.00	4328.47
Total	9369.12	1216.04	10585.16	88.51	11.49	12030.71	1225.00	13255.71

Source: Directorate of Rural Development, GoAP

Table 4.1B

Status of MGNREGS in Arunachal Pradesh during 2006-07 to 2010-11

Year	Difference in Allocation and Amount Released				Amount Released as % of Total		Amount Released as % of Respective Allocation	
	Centre	State	Total		Centre	State	Centre	State
2006-07	--	--	--		96.04	3.96	--	--
2007-08	0.00	41.04	41.04	3.46	86.89	13.11	100.00	78.52
2008-09	-1232.95	0.00	1232.95	64.86	92.82	7.18	173.57	100.00
2009-10	-1159.86	0.00	1159.86	52.10	100.00	0.00	152.10	0.00
2010-11	944.07	0.00	944.07	17.91	81.52	18.48	78.89	100.00
Total					90.76	9.24	128.41	100.74

Source: Directorate of Rural Development, GoAP

While allocation gives us the tentative and potential amount that state can part with for the scheme, it does not reveal the actual picture as to whether commitments are met or not. In Table 4.1B the amounts actually released by the central and state government are given[2]. From the table, it follows that during FY 2007-08, the actual amount released as central share is in equation with the allocation made. However, the state's share of amount actually released fell short by Rs. 41 lakhs. Contrast to 16.12% of the total allocation, only 13.11% of the actual expenses were borne by the state. Thus this short fall was 3.46 percent of the total allocation. Except for this particular FY i.e. 2007-08, the states share to the cost of programme was in equation of the allocation, except FY 2009-10, when no allocation was made. However, the central share of amount actually released, except FY 2007-2008, had been mostly in excess of the amount allocated.

[2] during 2006-07 only 3.96% of the total outlay was borne by the state government

During 2008-09, while centre's share in the allocation was Rs. 1675.89 lakhs, the actual amount released was Rs. 2008.84 lakhs. Thus, an excess of Rs. 1232.95 lakhs accounting 64.86% of the amount actually allocated was released. The same was the case during the FY 2009-10, when an excess amount of Rs. 1159.86 lakhs accounting to 52.10% was released. This amount actually released was against the allocation of Rs. 2226.31 lakhs.

However, during FY 2010-11 the amount actually released fell short by Rs. 944.07 lakhs accounting about 18% of the proposed allocation. Thus, except for the FY 2010-11 when the amount released as percentage of allocation by centre was 78.89%, the central share to the allocation commitment and actual release has been often more than satisfactory. Similarly, the state share as percentage of its allocation, except during initial year 2007-08, had remained consistent.

The trend of allocation in nutshell can be stated as below:

- Allocation of central share as percentage of total allocation was gradually increasing till FY 2008-09 after which it increased dramatically till FY 2009-10. Aftermath 2009-10, the central share of allocation is on decline.
- The state share to allocation as percentage of total allocation which was declining since inception dipped to all time low during 2009-10. However, after FY 2009-10, it is increasing steadily.
- No definite patter exists between central share of resources allocated and the amount actually released. Further, the relationship between centre state cost ratios also does not hold any definite patterns conforming to the grant conditionality's. This is true, in recent times, where the central share of amount released as a percentage of respective allocation is declining but the state's share is increasing.

While the state's share has been time consistent to allocation, the deteriorating status of central share points towards three important aspects. First, whatever be the reason, the non utilization of fund directs inefficient executing and supervision. Secondly, while state share being consistent, the decline in central share points towards, non- compliance of the fund release conditionality's at various stages. Thirdly, while the supply side is adequate, demand constraints may be the resultant impact of non-utilization of fund. Hence, it can be interpreted that the PRIs and nodal agencies are not working in tandem to educate the mass about the rights ensured under the scheme.

Indira Aawaas Yojana

Rural housing is another important centrally sponsored flagship programme. Since 1996 the programme was launched independently and is functioning in the state of Arunachal Pradesh. Nearly 52,000 houses have been claimed to be already constructed and handed over to the BPL families. However, such construction is highly doubtful as the state does not have approved pre-defined architectural structure. In fact, CGI sheets are distributed to the beneficiaries often 40 to 60 pieces.

Nonetheless, the programme despite its execution, supervision and technical loopholes is functioning. The fund details are given in Table 4.2. It can be seen from the table that the central share in total allocation increased from Rs. 569.92 lakhs in FY 2002-03 to Rs. 627.75 in FY 2003-04 and to Rs. 949.43 lakhs during FY 2005-06 and FY 2006-07 respectively. Corresponding to it, the proportionate shares were 72.16% in FY 2002-03, about the same (72%) during FY 2003-04 and thereafter 78.30% and 75% for the FY 2005-06 and FY 2006-07 respectively.

By FY 2007-08 it increased to Rs. 1642.14 lakhs, thereafter to more than twice to Rs. 3477.06 lakhs in the subsequent FY 2008-09. This was 78.77% of the total allocation. During FY 2009-10, there was only central share amounting to Rs. 3385.97 lakhs and state did not allotted any share. By FY 2010-11 the amount rose to Rs. 3819.86 lakhs which was 86.80% of the total allocation.

In the case of the state's share to total allocation, it was Rs. 219.83 lakhs during the FY 2002-03 which increased marginally to Rs. 243.50 lakhs during FY 2003-04 and thereafter declined to Rs. 159.58 lakhs during FY 2004-05. Correspondingly, the proportion of states share to the total allocation was around 28% (27.84 and 27.95%) for the FYs 2002-03 and FY 2003-04 respectively. The proportion declined to 16.19% during FY 2004-05.

During FY 2005-06 and FY 2006-07 the states share was Rs. 263.20 and Rs. 316.48 lakhs respectively. This accounted for 21.70% and 25% the total allocation respectively. The state's share nearly doubled to Rs. 621.91 in the subsequent FY 2007-08 accounting for 27.47% of the total allocation. Though the state's share increased to Rs. 937 lakhs in the subsequent FY 2008-09, it accounted for only 21.23% thereby registering a drop of more than 6 percent. This proportional share to total allocation further declined to 13.20% during 2010-11 during which the state's share to total allocation was only Rs. 580.85 lakhs.

However, despite the allocation and availability the funds, the expenditure pattern does not follow any rational pattern. The consolidated expenditure actually incurred reveals that while Rs. 789.75 lakhs was allotted ruing FY 2002-03 only Rs. 360.20 lakhs was actually spent; thus allocation exceeded the expenses by Rs. 429.55 lakhs, accounting for 54.39% of total allocation. However, during FY 2003-04 actual total expenditure (Rs. 1041.35 lakhs) exceeded the total allocation (Rs. 871.25 lakhs) by Rs. 170.10 lakhs which was 19.52% of the total allocation. The trend continued in the subsequent FY 2004-05 during which expenditure amounting to Rs. 1246.30 lakhs was incurred as against the allocation of Rs. 871.25 lakhs. Thus, expenditure of Rs. 260.68 lakhs over and above the allocation accounting as much as 26.45% was incurred.

During the FYs 2005-06 and FY 2006-07 against the allocation of Rs. 1212.63 and Rs. 1265.91 lakhs respectively, the respective expenses incurred for the respective financial years were Rs. 962 and Rs. 1023.40 lakhs. As such amount to the tune of Rs. 250.63 and Rs. 242.51 lakhs for the respective FYs were unspent. This accounted for 20.67% and 19.16% for the two FYs respectively.

In the subsequent FY 2007-08, while allocation was made to the tune of Rs. 2264.05 lakhs, expenditure actually incurred was Rs. 2496.34 lakhs. Thus an excess of Rs. 232.29 lakhs accounting for 10.26% of the total allocation was incurred. However for the FY 2008-09 and FY 2009-10, the expenditure actually incurred and the allocation made were in equation.

Table 4. 2
Status of IAY in Arunachal Pradesh during 2002-03 to 2010-11

Year	Share in the Total Allocation			Respective Share's as %		Total Actual Expenditure	Expenditure as % of Total Allocation	Difference in Allocation and Expenditure	Difference as % of Total Allocation
	Centre	State	Total	Centre	State				
2002-03	569.92	219.83	789.75	72.16	27.84	360.20	45.61	429.55	54.39
2003-04	627.75	243.50	871.25	72.05	27.95	1041.35	119.52	-170.10	-19.52
2004-05	826.04	159.58	985.62	83.81	16.19	1246.30	126.45	-260.68	-26.45
2005-06	949.43	263.20	1212.63	78.30	21.70	962.00	79.33	250.63	20.67
2006-07	949.43	316.48	1265.91	75.00	25.00	1023.40	80.84	242.51	19.16
2007-08	1642.14	621.91	2264.05	72.53	27.47	2496.34	110.26	-232.29	-10.26
2008-09	3477.06	937.00	4414.06	78.77	21.23	4414.06	100.00	0.00	0.00
2009-10	3385.97	0.00	3385.97	100.00	0.00	3385.97	100.00	0.00	0.00
2010-11	3819.86	580.85	4400.71	86.80	13.20	3841.18	87.29	559.53	12.71

Source: Directorate of Rural Development, GoAP

During FY 2010-11, as against Rs. 4400.71 lakhs of total allocation, the actual expenditure amounted to Rs. 3841.18 lakhs; thereby expenses falling short of the allocation by Rs. 559.53 lakhs. This accounted as much as 12.71%. Thus, expenditure as proportion of total allocation in majority of the FYs under consideration is more than satisfactory. From 45.61% in FY 2002-03, the percentage of expenditure as proportion of total allocation was 119.52% and 126.45% respectively. It was 110.26% during 2007-08 and 100% for the two subsequent FYs following it.

Except during FY 2005-06 and FY 2006-07 and in recent times i.e. FY 2010-11 the proportion has been less than 100%. It was 79.33% and 80.84% for FY 2005-06 and FY 2006-07 and 87.29% for the FY 2010-11. The state's share of the expenditure seems just opposed to the trend of central share i.e. with the increase in the central share, state share is diminishing and vice versa.

The general trend of expenditure is fluctuating. Since FY 2002-03 onwards there has been an increase in the expenditure actually incurred, which after couple of years have declined steeply. Sine FY 2007-08 onwards this trend is more or less constant, except minor fluctuation around the trend. One major problem in measuring the quality and output of the programme is the lack of predefined structural architectural designs[3]. As such CGI sheets are distributed the number of which depends upon place to place; often not more than 40 sheets of CGI sheets. Further, though the permanent waiting list has been prepared for majority of the blocks, such are often not publicized to the PRIs/Gram Sabhas leaving a grey area for manipulation.

Integrated Water Shed Management Programme

The IWMP was started since 2009-10. The programme aims at integrated management, conservation and development of a particular watershed to sustainably maintain ecology and

[3] Inhabited by 26 major and more than 100 sub tribes a general pre defined architectural structure design may not be possible. However, localized pre-defined architectural structural design can be approved to benefit the programmes. In fact, often the CGI sheet are found to be sold in the market at a much lesser price than the procurement price. A predefined design may at least induce the beneficiaries not to dispose the CGI sheets to market.

development initiatives. Since its inception over 4 lakh hectare of land waste land were brought under the programme.

Table 4.3 gives the details of the resources allocated and spent since FY 2009-10. It is revealed that as much as Rs. 548.32 lakhs were released during FY 2009-10. Of the amount about 94.34% (Rs. 544.69 lakhs) was released by central Government and state Government contributed Rs. 3.63 lakhs which was less than 1 percent. During the subsequent year i.e. FY 2010-11, total amount released by the centre was Rs. 2008-05 lakhs, while the state contributed Rs. 123.05 lakhs. The proportionate share for the year was 94.23% and 5.77% for the central and state contribution respectively. The central share of amount released declined to 91.12% (Rs. 2209.16 lakhs) while the states share increased to 8.88% amounting to Rs. 215.32 lakhs during FY 2011-12.

Table 4.3
Status of IWSMP in Arunachal Pradesh during 2009-10 to 2013-14

Year	Amount Released			Amount Released as Percentage of Total		Total Actual Expenditure	Difference between Amount Released and Actual Expenditure	Expenditure as % of Amount Released
	Centre	State	Total	Centre	State			
2009-10	544.69	3.63	548.32	99.34	0.66	548.32	0.00	100.00
2010-11	2008.05	123.05	2131.10	94.23	5.77	1311.07	820.03	61.52
2011-12	2209.16	215.32	2424.48	91.12	8.88	800.16	1624.32	33.00
2012-13	1597.02	331.12	1928.14	82.83	17.17	1632.28	295.86	84.66
2013-14	11083.14	16.91	11100.05	99.85	0.15	1730.32	9369.73	15.59

Source: Directorate of Rural Development, GoAP

The declining trend continued till FY 2012-13 for the central share of amount released as percentage to total outlay was 82.83% amounting to Rs. 1597.02 lakhs, while the state's share of amount released increased to Rs. 331.12 lakhs accounting as much as 17.17%.

During 2013-14 while the central share sought up to Rs. 11083.14 lakhs, the state's share of amount released was as meager as Rs. 16.91 lakhs. Hence, the central share of amount released constituted 99.85% of the fund.

While the entire amount released was spend during FY 2009-10, there were huge unspent amount for the successive couple of FYs. It was Rs. 820.03 and Rs. 1624.32 lakhs during FYs 2010-2011 and 2011-12 respectively. The unspent amount declined to Rs. 295.86 lakhs during FY 2012-13 but again soared as high as Rs. 9369.73 lakhs during FY 2013-14.

As such the percentage of actual expenditure incurred of the total amount available it was 100% during FY 2009-10 which increased to 61.52% in the subsequent year, but again, fell back to 33% during FY 2011-12. Expenditure as percentage of amount released incurred to 84.66% but again fell back as low as 15.59% for the FY 2013-14.

Thus, it can be inferred that:

- The central share contributes the major proportion of the fund under IWMP and states contribution has been very marginal.
- The decline in the state share has been pronounced much in the recent times, while the central share has increased dramatically. There is a vice versa relationship in the state centre contribution.
- The actual expenditure out of the total contribution of the two levels of government show erratic trends. The expenditure, however, has been rising after 2011-12 and is increasing continuously.
- Notwithstanding above, the expenditure as percentage of total amount released however reveals a poor picture. While the amount released by both centre and state government are increasing, expenditure actually increased are erratic as well declining lately. The management of the fund, therefore, lacks efficiency.

Thirteenth Finance Commission Grants

In addition to the allocation under various centrally sponsored schemes, the Finance Commission also makes grants to rural and urban local bodies. The allotment of Basic Grants and the amount released are given in the Table 4.4.

It can be seen that the allotment of basic grants for the FY 2010-2011 was to the tune of Rs. 2523 lakhs. Of the total grants to the RLBs (Rural Local Bodies) the amount released was to the tune of Rs. 2520 lakhs. in other words, Rs. 1275 lakhs and Rs. 1245 lakhs as the first and the second installment respectively; a short fall of Rs. 33 lakhs than the actual amount allotted.

Table 4.4
Thirteen Finance Commission Basic Grants and Grants Released (Rs. Lakhs)

Year	Basic Grants	Performance Grants	First Installment	Second Installment	Total Grant
2010-2011	2553	--	1275	1245	2520
2011-2012	2960	1001	1214	1614	3228
2012-2013	3457	2374	NYR	NYR	NYR
2013-2014	4094	2795	NYR	NYR	NYR
2014-2015	4846	3296	NYR	NYR	NYR

NYR= Not Yet Released
Source: Directorate of Panchayati Raj, GoAP

For the subsequent FY 2011-2012, the total allotment of basic grants under thirteenth finance commission was Rs. 2960 of which the first and second installments were Rs. 1214 and Rs. 1614 lakhs respectively. Thus, a total grant of Rs. 3228 lakhs with Rs. 268 lakhs over and above the actual allotment of Basic Grant of Rs. 2960 was made for the FY 2011-2012.
Since the FY 2012-2013 till date even the Basic Grants under the Thirteenth Finance Commission are yet to be released. The grants are pending due to non-meeting of the conditionalities set with the basic grants.

In case of the Performance Grants, the amount allotment for the FY 2011-2012 was Rs. 1001 Lakhs, while the allotment for the subsequent FY 2012-2013 was Rs. 2374 Lakhs. The allotment for the FY 2013-2014 was Rs.2795 and for the FY 2014-2015 is Rs. 3296 Lakhs. However, Performance Grants has neither been claimed for release by the state till date.

Thus, though the allotment of resources through the Thirteen finance commission are adequate, it has been the constant failure on the part of the state government and its machineries to claim the resources. Inefficient resource management, unprofessional conducts, non-meeting of the conditionalities and incapacity to provide the utilisation certification has led to stalling of the grants, not to mention of the Performance Grants.

Urban Local Bodies (ULBs)

Except for the JNNURM (Jawahar Nehru National Urban Renewal Mission), the state does not have any significant programme under ULBs till date. As per the 74th (Constitutional Amendment) Act, 1992, it is required mandatorily to follow a Uniform Urban Governance. However, prior to 2014 the ULBs did not come into practical existence despite the enactment of the Municipal Act in the state during 2008, notified in the Gazette by 2009. As such, the JNNURM was executed by the Department of Urban Development in the state.

The first election of the Municipal or the ULBs on experimental basis for the two most populated towns, namely, Itanagar and Pasighat. The two respective ULBs comprised of 31 and 12 wards respectively. The ULBs will be extended to another 10 more populated towns in phased manners.

Devolution of Functions

Out of the 18 functions under the 12th schedule of the 74 (Constitutional Amendment) Act 1992, 13 functions were transferred to the ULBs. The major components out of the 13 functions are MSWM (Municipal Solid Waste Management) and UPA (Urban Poverty Alleviation). On the other hand the Regulated Urban Growth as well Infrastructure and Basic Services comprises the broad areas of JNNURM operation of the ULBs.

During the FY 2013-2014, under the state plan allocation, an amount of Rs. 852.54 Lakhs was made for the construction, development and establishment of office and office infrastructure including Ward Development Office for both the existing municipal of Itanagar and Pasighat. Further, an amount of 24.76 Lakhs has been allotted as Basic Grant under the Thirteenth Finance Commission.

Reforms under UUG (Uniform Urban Governance)

As per the directives under UUG reforms were initiated under various levels for better coherence and coordination of the ULBs. The reforms were divided into three broad categories for respective levels, namely, the state level reforms, ULB level reforms, and optional level reforms. While the state level reforms were meant to be for the state as a whole, the ULB level reforms could be dealt independently by the respective local body. The optional level reforms were some kind of concurrent items that could be dealt either by respective ULBs or by the State. The lists of reforms undertaken are given in the Table 4.5

Table 4. 5
List of Reforms initiated Under UUG

Sl.No.	State Level
1	Implementation of the 74th (ConstitutionalAmendment) Act
2	Integration of City Planning and Delivery Function
3	Reform in Rent Control
4	Stamp Duty Rationalisation to 5%
5	Repeal of Urban Land Ceiling and Regulation Act
6	Enactment of Community Participation Law
7	Enactment of Public Disclosure Law
	ULB Level
8	e-Governance
9	Shift to Accrual Based Double Entry Accounting
10	Property Tax (85% Coverage and 90% Collection Efficiency)
11	100% O&M cost recovery in Water Supply and SWM
12	Internal Earmarking of Funds for Services to Urban Poor
13	Provison of Basic Services to Urban Poor
	Optional Level
14	Introductionof Property Title Certification in ULBs
15	Revision of Building Bye Laws - Streamlining the Approval Process
16	Revision of Building Bye Laws - To Make Rain Water Harvesting Mandatory
17	Earmarking 25% DevelopedLand in all Housing Projects to EWS/LIG
18	Simplification of Legal and Procedual Framework for Conversion of Agricultural land for non-Agricultural Purposes
19	Introduction of Computerised Process of Land Registration of Land and Property
20	Bye-Laaws for Reuse of Recycled Water
21	Administrative Reforms
22	Structural Reforms
23	Encouraging Public Private Participation

Source: IMC office Itanagar

Manpower

Manpower for smooth functioning of the IMC (Itanagar Municipal Council) manpower is drawn from various departments. It includes a Chief Managing cum Executive Officer, a Municipal Secretary, a Municipal Finance Officer, one Range Forest Officer for Urban forestry, a Statistical Officer and one Veterinary Officer. As the IMC are incapable to generate adequate resources for salaries and allowances, the salaries and allowances of the respective employees are borne by the parent departments. In addition to the above, 9 (nine) other officials are posted to various categories and the salaries, perk and allowances of these set of nine officials are borne by the IMC. Information regarding manpower status of PMC Pasighat Municipal Council) are not available.

USWM (Urban Solid Waste Management)

Prior to the coming up of the ULBs the USWM component was executed by the department of Urban Development. While the information of the PMC is not available, that of IMC cannot be valued as the used assets were transferred. As such, only types of the assets and their numbers can be given rather than true valuation of the assets. The valuation of the assets needs to be taken up on priority basis by IMC and put into public domain for greater interest of the public.

Under the scheme 28 (twenty eight) Dumpers and Loaders were transferred to IMC by the Urban Development department. Under the Tools and Plan 2 (two) motorcycles has been purchased and transferred to IMC by the UD. Further the IMC have recruited 157 (One Hundred Fifty Seven) contingency labourers' as sanitary workers.

Of the total assets transferred to IMC by the UD department, all the machinery were in the off road condition. In order to maintain the minimum requirement of solid waste management, an amount of 6 (six) lakhs was borrowed as loan from the Govt. of Arunachal Pradesh for the repair of dumpers, trucks and loaders. Till date 3 (three) JCB Robots and 6 (six) truck are functionally taking care of the USWM programme.

HUPA (Housing and Urban Poverty Alleviation)

Under the Ministry of Housing and Urban Poverty Alleviation a 10% lump sum provision is made for the North East Region of India, including Sikkim. As can be seen from Table 4.6, Under this initiatives, 8 (eight) projects have been completed at the total cost of Rs. 3185.724 lakhs as against the sanctioned allocation of Rs. 3185.54 lakhs. Of the total amount the central share to the project cost was Rs. 2867.17 while the state share was to the tune of Rs. 318.55 lakhs. However, information on the quality and usability of the assets created are unknown.

Under the same project, 4 (four) projects against the total sanctioned amount of Rs. 1981.14 Lakhs are at the verge of completion. The totsal central share so far is to the tune of 1781.27 lakhs, while the state share is Rs. 198.12 lakhs. There is, however, 1.761 lakhs due in case of the central share in one of the project.

Under the same scheme 5 (five) new projects have been approved during the FY 2013-2014 with a total cost of Rs. 5074.14 lakhs. As such the State's share to the fund provision stands at Rs. 507.41 lakhs. However, till date the state's share to the fund provision of 10% has not been released. Whereas, the central Govt. has released the first installments for all the 5 (five) projects to the tune of Rs. 1522.17 lakhs. The total central share due for the five projects are to the tune of Rs. 3044.56 lakhs.

In addition to the above there are 40 (forty) proijects that were completed by the department of Urban development, Govt. of Arunachal Praddesh. The said 40 (forty) projects were from the Ministry of Urban Development Govt. of India (See Appendix.1)

Table 4. 6 a

Completed Projects under 10% Lump sum Provision for North East Region under Ministry of Housing and Urban Poverty Alleviation

Sl No	Name of Works	Sanctioned cost of the Project	Year of Sanction	Amount Released		Financial Achievement	Physical achievement as on 31/03/13	Remarks
				Central Share	State Share			
1	Construction of Shopping complex -cum - Residential Building for unemployed women at Naharlagun town in Arunachal Pradesh	1342.61	2007-08	1208.35	134.261	1342.611	100%	Completed
2	Shopping complex for unemplyed women at Tawang	511.79	2009-10	460.8	51.179	511.979	100%	Completed
3	C/o Shopping complex cum Hostel for unemployed women at jairampur in AP	607.92	2010-11	547.12	60.792	607.912	100%	Completed
4	C/o Shopping complex cum Hostel for unemployed women at Ziro in AP	723.22	2010-11	650.9	72.322	723.222	100%	Completed
5	C/o Shopping Complex cum working women's Hostel at Basar Town in AP	659.04	2009-10	593.14	65.9	659.04	100%	Completed
6	C/o Working Women Hostel Shopping Complex & Community Toilet at Hawai in AP	609.39	2010-11	548.45	60.94	609.39	100%	Completed
7	C/o Shopping complex cum Hostel for unemployed women at Pasighat in AP	633.07	2010-11	569.76	63.31	633.07	100%	Completed
8	C/o Hostel Building for destitute Children, Women & Old Age urban dwellers at Daporijo in AP	327.46	2009-10	294.71	32.75	327.46	100%	Completed
		3185.54		**2867.17**	**318.554**	**3185.724**		

Source: Department of Urban Development, Govt. of Arunachal Pradesh

Table 4. 6 b

Ongoing Projects under 10% Lump sum Provision for North East Region under Ministry of Housing and Urban Poverty Alleviation

Sl No	Name of Works	Sanctioned cost of the Project	Year of Sanction	Total Central Share Released	Central Share Due	State share released	State Share Due	Financial Achievement	Physical Achievement as on 31/03/13	Target date of completion
1	C/o Housing Complex for Economically weaker section at Sagalee Town in AP	335.96	2009-10	302.36	0	33.6	-	**335.96**	82%	31-12-2013
2	C/o Working Women's Hostel, Shopping Complex and Community Toilet at Tezu in AP	678.29	2009-10	608.7	1.761	67.83	-	**676.53**	83%	31-03-2014
3	C/o Housing Infrastructure at Anini in AP	460.94	2009-10	414.85	0	46.09	-	**460.94**	85%	31-03-2014
4	C/o Hostel for unemployed women , Old age and Destitute Children Home at Seppa in AP	505.95	2010-11	455.36	0	50.6	-	**505.96**	90%	30-12-2013
		1981.14		**1781.27**	**1.761**	**198.12**		**1979.39**		

Source: Department of Urban Development, Govt. of Arunachal Pradesh

Table 4. 6 c

New Projects Sanctioned under 10% Lump sum Provision for North East Region under Ministry of Housing and Urban Poverty Alleviation

Sl.No.	Name of Work	Sanctioned Cost of the Project	Year of Sanction	Central Share Released (1st Installment)	Central Share Due	State Share Released	State Share Due	Financial Achievement
1	Construction of Hostel Building for working women, Distitute Children and Old age urban dwellers at Yingkiong.	661.64	2013-14	198.49	396.99		66.16	198.49
2	C/o Shopping Complex and unemployed women's Hostel at Miao Town in AP	1106.53	2013-14	331.96	663.92		110.65	331.96
3	C/o Shopping Complex and unemployed women's Hostel at Bomdila Town in AP	1233.38	2013-14	369.95	740.09		123.34	369.95
4	C/o Vendors market at Daporijo in A.P	904.11	2013-14	271.23	542.47		90.41	271.23
5	Construction of Shopping complex and Un-employed women Hostel at Longding	1168.48	2013-14	350.54	701.09		116.85	350.54
		5074.14		**1522.17**	**3044.56**		**507.41**	**1522.17**

Source: Department of Urban Development, Govt. of Arunachal Pradesh

JNNURM (Jawaharlal Nehru National Urban Renewal Mission)

Except for the JNNURM, the ULBs do not have other urban developmental schemes. Thescheme was earlier dealt directly by the department of Urban Development under the Govt. of Arunachal Pradesh. However, after the year 2013, as the ULBs came into existence, the programme was put under the supervision of the ULBs which was to be carried out in coordination with the Urban Development department as executing agency. The mission undertakes schemes on project to project basis rather than like usual schemes in continuum. The basic components of programmes undertaken by the ULBs under the JNNURM in the State are UIG (Urban Infrastructure and Governance), BSUP (Basic Services for Urban Poor), UIDSSMT (Urban Infrastructure Development Schemes for Small and Medium Town) and IHSDP (Integrated Housing for Slum Development Programme).

UIG (Urban Infrastructure and Governance)

It can be seen from Table 4.7a that under the UIG (Urban Infrastructure and Governance) component of the JNNURM, 5 (five) projects were undertaken. Of the total of 5 (five) projects 2 (two) projects are already completed and commission. While one more project is completed but is yet to be commissioned, another two projects are at the verge of completion. The total cost Sanctioned for the five projects was Rs. 19941.72, while the financial progress made till date is to the tune of Rs. 15159.87 lakhs.

BSUP (BASIC SERVICE FOR URBAN POOR)

As can be seen from Table 4.7 b, under the BSUP three housing projects are undertaken with the project cost of Rs. 6093.81 lakhs. While one project is already completed, the rest of two are near about completion. The total financial implication till date is to the extent of Rs. 4428.91

lakhs. The projects still under progress are supposed to be completed by the end of 2014, as per the executing agency.

UIDSSMT (Urban Infrastructure Development Schemes for Small and Medium Town)

As can be from Table 4.7c, there are 9 (nine) projects under consideration. The total cost of the project is estimated to be at Rs. 9993.40 lakhs. However, out of the nine projects only 03 (three) projects have been started so far. The financial implication for the three projects stands at Rs. 2004.71 lakhs so far with less than 30% physical achievement.

IHSDP (Integrated Housing for Slum Development Programme).

In case of the IHSDP (Integrated Housing for Slum Development Programme) only one project is being undertaken so far. The total cost of the project is estimated to be at Rs. 995.10 lakhs. While the physical achievement so far is about 65% with the financial achievement or implication of Rs. 547.31 lakhs. The project is targeted to be completed and commissioned by the year end of the FY 2014.

Table 4. 7 a

JNNURM: UIG (Urban Infrastructure and Governance) Component

(In Lakhs)

Sl. No	Name of Project	Project Cost	Commencement Year	Targeted date of completion	Financial progress	Physical progress
1	Setting up of Municipal Solid Waste Management in a Scientific Way for Itanagar	**1194.38**	**20-12-07**	**30-05-11**	**1086.89**	100% completed and commissioned on 7.3.2013
2	Augmentation of water supply for Itanagar City	**7725.32**	**11-12-08**	**31-03-13**	**7007.84**	100% completed.
3	Improvement and Creation of Infrastructure of Urban Transport including, roads and parking lots	**9128.50**	**28-09-10**	**31-08-14**	**6253.02**	82% completed.
4	Purchase of Buses for Urban Transport System in JNNURM City, Itanagar	**432.00**	**20-02-09**	**07-01-10**	**337.13**	100% completed & commissioned.
5	E-Governance under National Mission Mode Project (NMMP) for Mission City Itanagar	**1461.52**	**2013**	**31-03-15**	**474.99**	Under progress
	Total:-	**19941.72**			**15159.87**	

Source: Department of UD, Govt. of Arunachal Pradesh

Table 4. 7 b
JNNURM: BSUP (BASIC SERVICE FOR URBAN POOR) Component

(in Lakhs)

Sl. No	Name of Project	Project Cost	Commencement Year	Targeted date of completion	Financial progress	Physical progress
1	Construction and improvement of Shelter for Urban Poor/ Safai Karmacharis at Pappu Nallah at Naharlagun	**410.20**	22-10-07	10-03-11	410.20	100% Completed
2	Karsingsa Housing Project (BSUP) 752 DUs	**4515.25**	28-10-10	31-12-14	3491.84	60% Completed.
3	BSUP Housing Scheme for C/o 144 DUs at Nirjuli, Banderdewa & Itanagar Arunachal Pradesh.	**1168.36**	01-07-13	31-07-14	896.87	70% Completed
	Total=	**6093.81**			**4428.91**	

Source: Department of UD, Govt. of Arunachal Pradesh

Table 4. 7 c

JNNURM: UIDSSMT (Urban Infrastructure Development Schemes for Small and Medium Town)

(in Lakhs)

Sl.No.	Name of Project	Project Cost	Commencement Year	Targeted date of completion	Financial progress	Physical progress
1	Improvement of Town Road at **Koloriang**	1349.00				
2	Up-Gradation of Urban Renewal at **Roing**	1616.00				
3	Improvement of Road Network at **Dirang**	2143.00	25.02.2014	24.02.2016	1174.35	44%
4	Protection and Anti Soil Erosion work along Simar Nallah at **Yingkiong**	963.00				
5	Construction of Protection wall to prevent Soil Erosion/Landslide at at various places at **Aalo Town**.	880.22				
6	Prevention & Rehabilitation of Soil erosion/Lanslides at **Seppa Township**	615.52				
7	Solid Waste Management at **Basar**	719.85	25.03.2014	25.05.2014	395.43	44%
8	Solid Waste Management at **Bomdila**	799.84	06.03.2014	05.02.2016	434.93	28%

9	Up-gradation of **Doimukh township Road**	906.97				
	Total=	**9993.40**			**2004.71**	

Source: Department of UD, Govt. of Arunachal Pradesh

Table 4. 7 d
IHSDP (Integrated Housing for Slum Development Programme)

(In Lakhs)

Sl. No	Name of Project	Project Cost	Commencement Year	Targeted date of completion	Financial progress	Physical progress
1	C/o 176 Dus at Roing under Integrated Housing for Slum Development Programme (IHSDP)	**995.10**	22-04-2013	02-05-2014	547.31	65.00%
	Total=	**995.10**			**547.31**	

- The functioning of the Department of Urban Development has been average if not satisfactory. However, there has also emerged some problem of overlapping domain with the introduction of the ULBs, especially in the two towns of Pasighat and Itanagar.

- Still majority of the functions, earlier executed and supervised by the UD department, are still held by the state government. The state government should therefore constitute a body, other than UD department, in the towns with Municipal Council and delegate the activities specific to the ULBs for better convergence, supervision, efficiency and accountability.

- Also, budgetary provision for the ULBs requires special attention as they fail to generate adequate resources to mobilize the developmental activities. The resource constraints are due to lack of taxable base as well fragmented institutions.

- As a corollary to the above, there is urgent need for various reform other than mentioned in the list of the 23 (twenty three) reforms. In fact, the reforms related to land, property, tax, usage, and regulation of markets, price and other basic amenities should be a time bound priority of the Municipal Councils.

- Till such time that the entire District headquarters towns have a Municipal Council, the Department of Urban Development must be free from the ULBs. Unless so, there will be concentration of manpower in the areas depriving the lesser towns.

- Efficiency in terms of resource usage and execution of the projects by the UD or else the ULBs has to be enhanced. The cost overrun due to delay in the project execution has often led to compromise of the quality of the projects.

- There is lack of correspondence and convergence between the Town Planning department, the Architecture department, ULBs and the department of UD. The resultant outcome is the lack of landscaping, faulty structure of construction and environmental consequences.

- The ULBs also needs to focus on the urban transportation, rather than leaving it to the state operated Transport Corporation. Intra-city and intercity connectivity needs to be made operational through various modes of transportation.

At the face of resource constraint by the state as well the respective ULBs possible overlapping domain and negative external effects needs to be minimized along with maintenance of greater Accountability and Transparency.

Chapter V

SPSUs (State Public Sector Undertakings) in Arunachal Pradesh

The state in total has 7 (seven) PSUs of its own i.e. the Authorised Share Capital is being paid up by the State. Of the seven Corporations, the last two corporations as given in the Table 5. 1, namely; Parasuram Cement Limited and Arunachal Horticulture Processing Industries Limited are in the process of liquidation since the year 2013. The remaining five are still functional[4].

Table 5. 1
List of SPUs

	Corporations	Abbreviation
1	**APIDFC Ltd.**	Arunachal Pradesh Industrial Development Finance Corporation
2	**APHWC Ltd.**	Arunachal Police Housing and Welfare Corporation Limited
3	**APFC Ltd.**	Arunachal Pradesh Forest Corporation Limited
4	**APMD&TC Ltd.**	Arunachal Pradesh Mineral Development and Trading Corporation Limited
5	**HPDCAP Ltd.**	Hydro Power Development Corporation of Arunachal Pradesh Limited
6	**PC Ltd.**	Parasuram Cement Limited
7	**AHPI Ltd.**	Arunachal Horticulture Processing Industries Limited

Source: Directorate of Industries, Govt. Of Arunachal Pradesh

Before analysing the conditions of the SPUs, it must be mentioned that not only the Authorised share capital but also any kind of loans, be it secured or else are all borne by the state government. Hence, instead of absolute figures, the information of which was not available, we used the ratio analysis from the balance sheet. The method gives us a better picture of analysing not only the asset and liability burden but also solvency and feasibility of the companies.

[4] Of the Five SPSUs, data and information could be collected only for the three companies, namely, APIDFC, APH&WC and APFC. The data and information of the other SPUSs were not available despite repeated request. Hence, analysis here pertains to only the three respective SPSUs.

APIDFC Ltd. (Arunachal Pradesh Industrial Development Finance Corporation Limited)

The company was established in the year 1977 on the 9th day of August to cater to the needs of the industrial finance in the hilly state of Arunachal Pradesh. The Authorised Share Capital of the company is 6,00,000,00/- (Six Crore) divided into 6 lakhs equity of 100/- (hundred) rupees and is fully paid up by the government of Arunachal Pradesh.

Since its inception loans were advanced by the company under various refinance schemes of SIDBI and IDBI. Usually the amount advanced was to the tune of 90% (ninety per cent) of the respective individual projects for a period ranging from eight to ten years. The Primary Term Index as provided by SIDBI and IDBI ranged from six to nine percent, providing a margin of three to four percent interest to be earned by the company.

The company entered a difficult financial phase during the year 2000 when the Govt. Of Arunachal Pradesh took the decision to bifurcate some areas of operations of APIDFC to create the APTC (Arunachal Pradesh Trading Corporation).

Further, due to low rate of recovery, undue political interference in the administrative matters as well in getting the approval of projects, choosing faulty projects and finance designs and poor professional management personnel led the company to highest level of unavailability of doing business. In spite of the onetime settlement of recovering loans advanced to various individual industrial units' the recovery of loans are less than 10%.

The unavailability and unfeasible operational cost led to introduction of the VRS (Voluntary Retirement Scheme) by the company during the year 2007. However, liquidation of the company did not follow the introduction of VRS; instead it was kind of rationalising overstaffed company employees. Nevertheless, the operational costs increased all throughout these years and have rendered the company a huge loss making institution of the government of Arunachal Pradesh.

At present the company is only undertaking the refinance scheme of National Schedule Tribe Finance and Development Corporations scheme to finance rural micro industries. The scheme provides finance to those Scheduled Tribes who have income of Double the Poverty Line and want to set up rural industry or enterprises. Even in this case, the company have not received any fund since 1993-94 up to 2013-2014.

It can be seen from the Table 5. 1 below that Return on Investment of the company has been giving increasing negative return on investment. Debt-equity ratio was -24.63% during 2010-2011, it was -25.39% during 2011-2012 and -31.76% during 2012-13. Based on the audit reports and the resultant ratio, one can assume that the capital owned by the firm in the form of assets is not giving return due to its dead or obsolete nature. The suggestion to the management will be to identify the cash generating units in the form of fixed assets and stocks. There proper valuation should be carried out and other obsolete assets should be written off from the balance sheet.

Table 5. 1

Ratio Analysis of Balance Sheet

Sl. No	Particulars	Years		
		2010 -11	**2011 - 12**	**2012 -13**
1	ROI	-24.63%	-25.40%	-31.76%
2	Debt Equity Ratio	1.66	1.82	1.98
3	Ratio of Capital & Long term Funds to Fixed Asset	4.99	4.89	5.58
4	Fixed Asset Ratio	(0.303)	(0.250)	(0.183)
5	Current Ratio	5.134	3.975	2.780
6	Liquidity Ratio	5.070	3.937	2.752
7	Stock to Working Capital Ratio	0.010	0.020	0.016
8	Working Capital Turnover	1.011	1.554	1.820

Source: own computation from Balance Sheet of Various Years

Similarly the debt-equity ratio is in the higher side and it has been observed that this ratio is increasing over the years. It was 1.66 during 2010-2011, which increased to 1.82 during 2011-2012 and to 1.98 during 2012-2013. Proper analysis from the audited balance sheets from the period 2010 to 2013 shows that the unsecured loans from the government and accrued interest from it forms a major part of the long term loan. Further credit infusion to the company is not advisable as there is no much business activity carried out by the company.

An ideal ratio of Capital & Long term Funds to Fixed Asset is around 1.5. It shows that long term funds are used to acquire fixed assets of the company. This ratio was about 4.99 during

2010-2011, which almost remained stable at 4.89 during 2011-2012 and then increased drastically to 5.58 during 2012-2013. The ratio calculated for the company shows a very high rate which is indicative that long-term funds are being used for short-term purposes to an extent larger than necessary.

The ratio of fixed assets to net worth should ideally be only about 1.0, not more. If it is more, it indicates a tight short-term position. The ratio calculated for the company shows negative and below the ideal level of 1.0. It was -0.30 during 2010-2011, -0.25 during 2011-2012 and 0.18 during 2012-2013. This ratio supplements the observation in the previous Ratio above that long term funds are used to fund short term positions. In other words, working capital is managed out from the long term fund which is not ideal for any business activity.

The current ratio is the ratio of current assets to current liabilities and should be about 2, indicating that current assets are twice the current liabilities. However, the ratio for the company is very high indicating that a larger current asset is being held by the company. It was 5.13 during 2010-2011, which dropped to 3.98 during 2011-2012 and to 2.78 during 2012-2013. The reasons for this high ratio is indicated by the statutory auditors in their audit report stating that assets are not valued as per the accounting standard 2. The company is carrying larger dead or obsolete assets in its balance sheet.

Liquidity ratio is a part of current ratio. The liquid assets comprise of current assets other than stock and pre-paid expenses. These are goods for financial companies. The company has liquid ratio similar to current ratio which means the company does not have much stocks in their current assets. Liquidity ratio was 5.07 during 2010-2011 and it was 3.94 and 2.75 for the subsequent two years i.e. 2011-20112 and 2012-2013 respectively.

Since the company does not have much stock in the form of finished, semi-finished and raw materials, the calculated stock to working capital ratio for the company is very insignificant.

Working capital turnover expresses the number of times a unit invested in working capital produces sales. The ratio for last three years for the company shows an increase. It increased from 1.01 during 2010-2011 to 1.55 during 2011-2012 and then to 1.82 during 2012-2013. To improve the ratio, company have to utilize there working capital in generating more revenue through sales.

Few observations are of utmost important; if at all the company is required to be survived. They are as follows:

- Obsolete and dead capital and assets needs to be written off or liquidated immediately so that a part of cost can be recovered. It may go on to add some amount of solvency to the company.

- Revaluation of the assets is of prime requirement for the company to assess its true operational value. The assets of the company have been overvalued without keeping in to consideration the depreciation cost of the assets.

- Some amount can be guaranteed for secured loan to be invested freely in the market for specific purpose to targeted beneficiaries. Financing housing sector to the salaried employees of government can be an earning source for revival of the company.

- However, the final call is upon the state government as the stakeholder to decide. As on 2012-2013, the secured loans of the company guaranteed by the state government stands at Rs. 10,305,981 lakhs, while unsecured loan with overdue principal of 71,354,668 lakhs exclusive of the overdue interest repayment of 16,930,653 lakhs. Thus, the total financial implication to the state government, if at all the company be revamped, would amount to the tune of Rs. 24,659,1302 lakhs. Keeping in mind the increasing operational cost and the state's fund crunch, the company seems unviable and burden to the state exchequer despite its needs[5].

[5] This excludes other liabilities of the corporations. Only the liabilities directly liable to state government are considered.

APFC Ltd. (Arunachal Pradesh Forest Corporation Limited)

The APFC Ltd. (Arunachal Pradesh Forest Corporation Limited) came into existence on the 15th day of December 1977. The authorized Capital of the Corporation is Rs.6.20 Crore of which Rs.4.49 Crore stands paid up by the State Government.

The basic operation of the company was timber, along with operation of the sawn timber, Veener and Plywood mills that generated the 90% of revenue earnings of the company. The Corporation was profitable and had paid Rs.1.04 crore as dividend and Rs.61.00 crore as lease rent to the Government of Arunachal Pradesh.

The company being futuristic also diversified the business operation by investing in the Tea, Coffee and Rubber plantation in the Tirap and Changlang districts. The company has a tea garden of about 461.91 (two hundred) Hectares, which is leased out to private party for harvesting and processing.

The total coffee plantation is about 554.30 Hectares. As the company do not have its harvesting machineries, output produced from the plantation is purchased in raw by the Coffee Board, Guahati. In addition to it the company also owes a rubber plantation of about 36.57 Hectares.

In spite of having plantations worthy of generating revenue for the company, the company ran into loss after 1996 onwards. It drastically came to stand still when the Supreme Court banned the operation of timber in the year 1996. As such, by the year 2003, the company started the VRS (Voluntary Retirement Scheme) and in the year 2005 it initiated VRS/CRS (Voluntary Retirement Scheme/Compulsory Retirement Scheme). The financial implication was 17 (seventeen) crore; 12 (twelve) crore for VRS during 2003 and 5 (five) crore for VRS/CRS during 2005. This amount of 17 crore was borrowed as loans from the commercial bank (Axis Bank) which was secured and guaranteed by the Govt. of Arunachal Pradesh.

As per the decision of the Board of Directors of the Forest Corporation as well as decision of the State Government all regular posts have been abolished with effect from 31.12.2005 (AN) and all regular employees were given retirement either on VRS or CRS on 31st December 2005 (AN).

Aftermath 2005, the corporation is almost defunct and is performing only the residuary functions.

The corporation also gets Tax exemption which enhances the profitability of the corporation. In fact, the corporation lodged litigation during 2004 based on the argument that Arunachal Pradesh is 100% ST state and the individuals herein are exempted from paying income tax. Since the corporation works for the interest of the ST population in the state, hence tax on corporation's income be exempted from taxation. The Guahati High Court upheld the corporations claim and tax previously deducted was refunded during 2009-2010. The amount realised was to the tune of Rs. 15,56,00,000 (fifteen crore and fifty six lakhs). This amount could not, however, revamp the corporation due to the high operational cost and losses.

As can be seen from the Table 5. 2 below that the corporation is running on negative returns on investment. The return on investment was -3.15 during 2010-2011 that increased marginally to -3.78 during 2011-2012 and was about -3.57 during 2012-2013. The revenue generation or for that matter sales operations are not bringing value to the firm. Profitability has to be improved by way of bringing in operational efficiency in the system. The company is dependent on non-operational income which is giving less return to the investment.

From the same table we can find the debt-equity ratio. It can be seen that the corporation is lowly geared. The debt-equity ratio was 0.47 during 2010-2011, 0.40 during 2011-2012 and was 0.42 during 2012-2013. Credit infusion can be done to improve the debt-equity ratio. Increased in debt-equity ratio is desirable but the management has to see that the additional funds are used for quality asset creation rather than to provisioning of working capital.

Table 5. 2
Ratio Analysis of Balance Sheet

Sl. No	Particulars	Years		
		2010 -11	2011 - 12	2012 -13
1	ROI	-3.146%	-3.784%	-3.573%
2	Debt Equity Ratio	0.469	0.402	0.418
3	Ratio of Capital & Long term Funds to Fixed Asset	4.092	3.447	2.467
4	Fixed Asset Ratio	0.460	0.674	0.724
5	Current Ratio	331.645	21.530	4.230

6	Liquidity Ratio	330.232	21.279	4.173
7	Stock to Working Capital Ratio	0.009	0.012	0.018
8	Working Capital Turnover Ratio	0.017	0.076	0.097

Source: own computation from Balance Sheet of Various Years

As stated in the previous section, an ideal ratio of Ratio of Capital and Long term Funds to Fixed Asset would be under 1.5. This ratio gives us how a company uses its long term funds to acquire fixed assets. The ratio calculated for the company shows a very high rate. It is as high as 4.09 during 2010-2011, 3.45 during 2011-2012 and 2.47 during 1012-2013. Such high ratio indicates that long-term funds are being used for short-term purposes to an extent larger than necessary.

The ratio of fixed assets to net worth should be only about 1.0, not more. If it is more, it would indicate tight short-term position. The ratio calculated for the company shows below the ideal level of 1.0. It was 0.46 during 2010-2011, 0.67 during 2011-2012 and 0.72 during 2012-2013. It can be seen that the fixed ratio asset is gradually increasing and converging towards unity. The high fixed assets ratio at the backdrop of negative return on investment is directive of the fact that long term funds are used to manage the corporation's short term positions. In other words, the working capital fund is managed out from the long term fund which is not ideally viable for any business concerns.

The current ratio should ideally be about 2, indicating that current assets are twice the current liabilities. This ratio for the company is very high which is indicative of a larger current asset being held by the company. The ratio in the first year is abnormally very high (about 331.65 during 2010-2011), which is due to the change in format of the financial statement carried out by the statutory auditors which have resulted in some anomalies. By 2011-2012 the part of abnormality is carried forward and the ratio was 21.53. A sensible ratio of current asset to current liabilities can be seen only after 2012-2013 onwards, which is still very high at 4.23.

Liquidity ratio is a part of the current ratio. The liquid assets of a corporation comprises of current assets other than stock and pre-paid expenses, which are considered as goods for financial companies. The corporation has liquid ratio similar to current ratio which means the company does not have much stocks in their current assets. The liquidity ratio was 330.23 during 2010-2011, it was 21.28 during 2011-2012 and 4.17 during 2012-2013.

The stock to working capital ratio gives us the operational dimension of any business entity. One can infer that working capital comprises mostly of cash or cash equivalent, while stocks are the corporations assets. This ratio is very low, in fact it is around 1 per cent for the three financial; years of analysis i.e. 2010-2011, 2011-2012 and 2012-2013. The low ratio reveals that the company's stock plays insignificant role in generating operating income.

From the same Table 5. 2, we can verify the working capital turnover. The working capital turnover expresses the number of times a unit invested in working capital produces sales or revenue. The ratio for last three years for the company shows an insignificant ratio i.e. 0.02 during 2010-2011, only 0.08 during 2011-2012 and 0.10 during 2012-2013. To improve the ratio, companies have to utilize their working capital in generating more sales or revenue generation. The corporation seems to be more dependent on interest and rental income earnings for meeting its expenses.

Thus, the operation of the APFC Ltd. Seems unviable due to high loss incurred over time despite having all the avenues of revenue generation. Few observation requiring attentions are:

- Improvement in the management through delegation of greater autonomy and professionalism to recuperate the dying corporation.

- In addition to it, the leasing out of tea garden should be done based on open and technical tendering. A better way out for the corporation would be operation of the tea garden independently with greater autonomy in account and finance and decission. Further, the corporation can install its own processing plant so that higher profitability is realised through sale proceeds.

- Existing coffee and rubber plantation be enhanced in area and operation. Further, plant for processing or semi-processing of the output can be installed to realise quality products and higher profitability through sale proceeds.

- While other assets not generating revenues should be immediately liquidated to for part of cost recovery which can then be used as corpus fund. An equal contribution can be guaranteed by the state government to the corpus fund with the applied condition of minimum but set margin of dividend.

- Till date the financial implication of the state government to corporation has been to the tune of 17 crore as loan from the commercial bank. As mentioned above, the amount was guaranteed by the state government for the initiation of VRS in 2003 and VRS/CRS during 2005.

- In addition to the above, the total long term provisions and liabilities of the corporation is to the tune of Rs. 12,51,81,790.56/- (about twelve crore fifty one lakhs eighty one thousand seven hundred and ninety) as on march 2013.

- Further, the current liabilities are of the tune Rs. 4,24,50,833.91/- (about four crore twenty four lakhs fifty thousand eight hundred thirty three) as on march 2013.

- At the face of negative returns and zero profitability the combined liabilities to revamp the corporation would be to the tune of Rs. 16,76,32,624.47/- (Sixteen crore seventy six lakhs thirty two thousand six hundred twenty four)[6].

APHWC Ltd. (Arunachal Police Housing Welfare Corporation Limited)

The APHWC Ltd. (Arunachal Police Housing Welfare Corporation Limited) came into existence on the 9th day of November 2005. However, the company could start its operational business only after April 2006. The authorised share capital of the company is Rs. 5,00,00,000/- (five crore) divided into 5,00,000/- equity shares of Rs. 100/-. However, till 2013, the total share in the corporation was only 2,100 with the share capital of R. 2,10,000/-

The government of Arunachal Pradesh is the sole or 100% shareholder of the company through Director General of Police, Commissioner Home, Inspector General of Police, Deputy Inspector General (West), Deputy Inspector General (East), Deputy Inspector General (Head Quarter) and Finance and Account Officer of the Police Head Quarter.

[6] This excludes the liabilities of 2014.

Table 5. 3
Ratio Analysis of Balance Sheet

Sl. No	Particulars	Years			
		2008 - 09	2009 - 10	2010 -11	2011 - 12
1	ROI	30.150%	41.830%	27.046%	37.371%
2	Debt Equity Ratio	-	-	-	-
3	Ratio of Capital & Long term Funds to Fixed Asset	2.511	3.185	4.227	7.075
4	Fixed Asset Ratio	-0.051	-0.300	-0.037	-0.141
5	Current Ratio	2.701	1.371	1.103	1.200
6	Liquidity Ratio	2.701	1.371	1.103	1.200
7	Stock to Working Capital Ratio	-	-	-	-
8	Working Capital Turnover Ratio	0.866	0.521	0.372	0.267

Source: own computation from Balance Sheet of Various Years

It can be seen from the Table 5. 3 above that the return on investment is positive and promising. It was 30.15% during 2008-2009, which increased to 41.83% during 2009-2010. But it declined to 27.05% during but again increased to 31.38% during 2011-2012. Keeping in mind the low capital base, company is performing well and has been giving good return on investment. However, with further analysis of the four years balance sheet and profit & loss account, it is revealed that operating and non-operating incomes are equalled proportionately. The company has, therefore, to improve its operation and expansion to add value to the firm in the long run.

With regard to the debt-equity ratio for this company, has not been worked out as the company has not borrowed any loans secured or otherwise.

In case of the Ratio of Capital & Long term Funds to Fixed Asset, as previously mentioned, the ideal ratio will be under the value of 1.5. a higher ratio than 1.5 would mean that the company is not acquiring fixed assets for the company through provisions of long term funds. In case of this company, the ratio were initially small i.e. 2.51 during 2008-2009 which increased linearly to 3.20 and to 4.23 in the subsequent financial periods of 2009-2010 and 2010-2011 respectively. The ratio, thereafter, increased drastically to 7.08 during 2011-201. As the ratio calculated for the company are very high rate, it indicates that the long-term funds and provisions are being used to meet short-term purposes to an extent larger than necessary.

From the same Table 5. 3, we can see the fixed asset ratio. The fixed assets ratio is usually taken ideal at 1.0 and not beyond it. It gives us the fixed asset to net worth of the company. Beyond the prescribed ratio the company is taken to be in a tight short-term position. The fixed asset ratio calculated for the company gives the ratio well below the ideal value of 1.0 but negative. Since the company has not borrowed long term loans, the resultant negative fixed asset ratio are due to high current liabilities. To improve the ratio, the company has to lower or cut down the current liabilities.

The current ratio is the ratio of current assets to current liabilities. Ideally the ratio should be at most about 2, indicating that current assets are twice the current liabilities. The ratio for the company is high but is lower than the prescribed limits, except during 2008-2009 when it was 2.70. Still the company can take up and expand the operational activity rather than depend on financial activity of investing in deposits to improve long term value of the company.

The liquidity ratio is a part of current ratio. The liquid assets comprise of current assets other than stock and pre-paid expenses. These are good for financial companies. The company's liquidity ratio is exactly the same as current ratio i.e. during 2008-2009, both the current as well liquidity ratios were 2.70, while the same was 1.37 for both during 2009-2010. Similarly, both the current and liquidity ratio were 1.10 and 1.20 for the financial year 2010-2011 and 2011-2012 respectively. The equation between the current and liquidity ratio implies that the company does have stocks in their current assets.

In case of the stock to working capital ratio, the company does not have any stocks in the form of finished, semi-finished and other such inventories for which the calculated ratios are insignificant.

Finally from the same Table 5. 3, we can see the working capital turnover which expresses the number of times a unit invested in working capital produces sale proceeds. The working capital turnover ratio of the company shows a decreasing trend. It was 0.87 during 2008-2009, which decreased to 0.52 during 2009-2010 and then to 0.37 during 2010-2011. By the financial year 2011-2012 the ratio further declined to 0.27. the declining trend is a cause of concern. In order to improve the working capital turnover ratio, company has to utilize their working capital in such a manner that it generates more sale proceeds in continuum.

The company's solvency and profitability from business operation is, therefore, viable. However, few observations require immediate attentions. They are:

- The company needs to raise both its authorised as well paid up capital to reap the profit of expansion and scale.
- It should also owe some assets and inventories rather than leasing in from time to time.
- As the company did not borrow any loans, both secured or unsecured; and as the company is running at least in positive accounting profit, so the state government does not have any liability or financial implications. Instead the government should entrust and delegate more autonomy in the professional management and administration of the company than undue interferences.

Chapter VI

Impact of Power Sector Reforms on Fiscal Health of the State Government

Introduction

Power is an essential ingredient of economic development and well-being of the people. It is required for commercial as well as for non-commercial purposes. An access to reliable and efficient supply of power is vital for socio-economic development of any region. The availability of electricity boosts industrial and commercial activities and also raises the living standard of the people. The expansion of industrial activities leads to generation of employment and income and have positive impact on economic development of the region. The demand for electricity increases with increase in population and expansion of economic activities. Hence, adequate investment is necessary to augment generation capacity and transmission and distribution networks to meet growing demand for electricity.

India has always faced chronic shortage of power due to rising of demand at a faster rate than the generation and distribution of power. This chronic shortage of power was mainly due to inadequate investment because of poor financial performance of State Electricity Boards. Till 1991 power generation and distribution was undertaken by the SEBs. Distribution of power was solely under the control of the SEBs. Central sector power generating companies were also involved in power generation. However, they were required to sell power to the SEBs which distributes it to consumers. Each State had set up State Electricity Board which generate and distribute power, set tariffs and collect revenue from users. Over the years SEBs have become financially weak and incurring huge losses. The poor financial health of the SEBs were attributable to subsidies, transmission and distribution losses, over staffing, arrears, poor pricing policy etc. The SEBs were expected to earn 3 per cent rate of return on capital employed. But instead SEBs were earning negative returns (India Development Report 2002).

Power sector reforms were initiated in India in 1991 with a view to improve the performance of power sector. The main aims of the reforms were to introduce competition in power sector and improve financial health of the SEBs. The reforms were accompanied by a reduced emphasis on the public sector and opening up of the sector to private (both domestic and foreign) developers through the concept of Independent Power Producers. To attract foreign private investment a 100 per cent ownership was permitted and the requirement to balance dividends by export earnings was waived. The State governments were also directed to introduce reforms in power sector. In order to set economic tariff, Central Electricity Regulatory Commission (CERC) was set up in 1998. States were also urged to set up State Electricity regulatory Commissions (SERCs). SERCs are to be independent statutory bodies and are to prescribe power tariffs. If the State government wants to subsidise any particular set of consumers, it has to give direct budgetary support to SEBs. Reforms were also intended for restructuring and corporatisation of SEBs and privatisation of distribution.

Many States have initiated reforms in their power sector. The government of Orissa was the first to initiate reforms of the State power sector with substantially restructuring of SEBs to make the operation of power sector more efficient and financially viable. Under Orissa Electricity reform Act 1995, SEB has been unbundled into three separate corporations – Grid Corporation of Orissa, Orissa Hydro Power Corporation and Orissa Power Generation Corporation. It placed special emphasis on the reform of electricity distribution and privatisation of distribution on the basis of competitive bidding. Many States have initiated power sector reforms to address various problems plaguing the sector. These include independent regulators, corporatisation, unbundling and privatisation.

Status of Power Sector in Arunachal Pradesh

In Arunachal Pradesh power sector is under the control of Arunachal Pradesh Department of Power (APDOP) which is a part of the State government and is funded from the State budgetary sources (Arunachal Pradesh Development Report 2009, p. 264). The electricity in the entire State is supplied and distributed by the Department of Power The Department of power is responsible for generation, transmission and distribution of power to the consumers. It also manages the T&D assets of the State. It distributes power to the consumers and collects tariff revenue from them. It is also a key agency for undertaking reforms in the State power sector. In addition to Department of Power, a separate department namely, Department of Hydro Power Development, has been set up recently in order to oversee, coordinate and monitor the activities relating to hydro power development in the State. Besides these two departments, there is also department called Arunachal Pradesh Energy Development Agency (APEDA) which is a nodal agency to deal with all the programmes and schemes relating to development of renewable and non-conventional energy sources.

In addition to these departments, there are several Central power utilities which are engaged in a big way for development and generation of power in the State. They include – North Eastern Electric Power Corporation (NEEPCO), National Hydroelectric Power Corporation (NHPC), National Thermal Power Corporation (NTPC and Power Grid Corporation of India (PGCI Ltd.). The projects taken by the NHPC in the State includes the 2000 MW Subansiri Lower Project, 750 MW each Tawang-I and Tawang-II projects, 1600 MW Subansiri Middle, 2000 MW Subansiri Upper Projects and 3000 MW Dibang Multipurpose project. These projects are in various stages of development. The projects taken by NEEPCO includes 1120 MW Kameng-I hydroelectric project, 110 MW hydroelectric project. Recently many private power developers like Reliance Energy Ltd., Patel Engineering Ltd., Adishankar Power Private Ltd. Jai Prakash Associates Ltd., and Mountain Fall Private India Ltd. have also shown interest for power development in the State. The State government has signed MOUs with private power developers allowed them to invest in power development in the State. Thus, there has been a drastic change in perception of the State government towards private investment. The Small Hydro Power Policy 2007 has opened newer investment avenues for private power developers. With completion of various projects taken by the Central Power Utilities and private power developers, the State is expected to become the power house of the nation.

However, at present the total installed generation capacity is low. Hence, the State has to rely on capacity allocations in the central sector generating stations and import of power. The installed generation capacity under the State is presented in the Table 6. 1. It shows that the capacity has remained almost static over the years. There has been no significant capacity addition. It may be attributed to inadequate investment by the State Power Department which reflects the poor financial performance of the department.

Table 6. 1: Total Installed Capacity of the State

Year	Hydro (MW)	Diesel (MW)	Total (MW)
1997-98	23.83	30.05	53.88
1998-99	30.73	24.78	55.50
1999-2000	30.57	35.00	65.57
2000-01	31.83	27.12	58.95
2001-02	32.48	27.12	59.60
2002-03	32.28	27.12	59.40
2003-04	32.48	27.12	59.60
2004-05	33.00	27.12	60.12
2005-06	32.66	25.00	57.66
2006-07	32.66	25.00	57.66
2007-08	33.72	25.00	58.72
2008-09	43.10	25.00	68.10
2009-10	43.72	25.00	68.72
2010-11	57.63	17.70	75.33
2011-12	59.22	16.27	75.49

Source: Statistical Abstract of Arunachal Pradesh (for various years)

For instance, in 1997-98 the total installed generation capacity of the State was 53.88 MW (Hydro 23.83 MW and Diesel 30.05 MW). It rose marginally to 60.12 MW in 2004-05. It was mainly on account of increase in capacity under Hydro power from 23.83 MW in 1997-98 to 33 MW in 2004-05. However, there was a fall in capacity under diesel power from 30.05 MW to 27.12 MW during the same period. But the total installed capacity of the State fell to 57.66 MW in 2006-07. It again rose to 75.49 MW in 2011-12. The increase in capacity was contributed by Hydro power which increased from 33 MW in 2004-05 to 59.22 MW in 2011-12. During this period, there was a substantial fall in generation capacity from diesel power which fell from 27.12 MW in 2004-05 to 16.27 MW in 2011-12. Thus, we find that though the installed generation capacity in the State is increasing slowly over the years but there has been shift in favour of renewal source of energy as indicated by the growing share of hydro power in total generation capacity. The share of hydro power in total installed generation capacity has significantly increased from 44.23 per cent in 1997-98 to 78.45 per cent in 2011-12. There has also been fluctuation in the generation capacity which is attributable to fluctuation in generation capacity from hydro power as it is based on water availability.

Energy Availability and Consumption of Power

Energy availability and consumption of power in the State are given in the Table 6. 2 and the Table 6. 3 respectively. Data on energy availability indicates that the energy generation under State sector has been low and static. Hence the State is heavily dependent on power import from outside the State. It shows that more than 80 per cent of energy availability is imported from outside the State. For instance, in 2003-04 total energy availability in the State was 369.06 MU, out of which 66.50 (18.02 per cent) was generated in the State sector and the rest 302.56 MU (81.98 per cent) was imported from outside. This is mainly due to small and stagnant generation capacity of the State and high T&D losses. At the same time, the data indicates sharp fluctuations in energy availability during the period under consideration.

Table 6. 2: Energy Availability in Arunachal Pradesh

Year	State's Generation (in MU)	Import from outside (in MU)	Total Energy availability in (MU)
2003-04	66.50	302.56	369.06
2004-05	49.47	636.30	685.77
2005-06	52.07	317.47	369.54
2006-07	54.57	453.41	507.98
2007-08	55.32	571.07	626.39
2008-09	53.32	526.61	579.93
2009-10	55.77	NA	55.77
2010-11	62.81	568.94	631.75
2011-12	61.04	670.44	731.48

Source: Statistical Abstract of Arunachal Pradesh (for various years)

The total energy availability in the State increased significantly to 685.77 MU in 2004-05. This was mainly on account of jump in import of power to 636.30 MU from 302.56 MU in 2003-04. On the other hand, there was fall in State's generation by 17.03 MU in 2004-05 over 2003-04. In 2005-06 total energy availability fell sharply to 369.54 MU. This was due to substantial fall in power import to 317.47 MU in 2005-06. In 2006-07 total energy availability in the State increased to 507.98 MU. It further increased to 626.39 MU in 2007-08. The increase in energy availability during these periods was mainly contributed by import of power from outside. The contribution of the State's generation to increase in total energy availability was marginal. The total energy availability in the State fell to 579.93 Mu in 2008-09, thereafter, it again increased to 631.75 MU in 2010-11. In 2011-12 the total energy availability in the State increased to 731.48 MU. Out of which 61.04 MU (8.34 per cent) was generated in the State sector and the rest 670.44 MU (91.66 per cent) was imported from outside. The increase in energy availability during 20011-12 was on account of increase in power import by 101.5 MU over previous year.

The data on consumption/sale of power shows that the consumption of power in the State is small and the State is exporting substantial portion of power to outside the State (Table 6. 3). In the year 2010-11, for instance, 41.37 per cent (132.35 MU) of power consumption/sale was exported outside. The small consumption of power within the State may be mainly due to inadequate T&D infrastructure within the State. In the year, 2011-12, consumption/sale of power outside the State fell substantially to 21.08 per cent (65.37 MU) of total power consumption/sale.

Table 6. 3: Consumption/Sales of Power in Arunachal Pradesh (in MU)

Sl. No.	Category	2010-11	2011-12
1	Domestic (including BPL)	66.52 (20.79)	73.68 (23.76)
2	Commercial	15.49 (4.84)	19.29 (6.22)
3	Industrial Consumers	56.11 (17.54)	94.84 (30.59)
4	Public Lighting	6.45 (2.02)	6.79 (2.19)
5	Public water work and sewage	3.54 (1.11)	3.78 (1.22)
6	Irrigation and Agriculture	0.00	0.00
7	Bulk	13.89 (4.34)	14.22 (4.59)

8	General Purpose	25.54 (7.98)	32.07 (10.34)
9	Outside State	132.35 (41.37)	65.37 (21.08)
	Total	**319.89 (100)**	**310.04 (100)**

Source: Department of Power, Government of Arunachal Pradesh 2013
Note: Figures in the bracket indicate percentage of total.

The study of category-wise energy consumption/sales in the State during 2010-11 and 2011-12 reveals that within the State domestic sector accounts for the largest share in total energy consumption/sale followed by industrial sector (Table 6. 3). In the year 2010-11, 20.79 per cent of the total consumption/sale of power was consumed by domestic sector followed by industrial sector (17.54 per cent), general purpose (7.98 per cent), commercial sector (4.84 per cent) and bulk (4.34 per cent). Public water work and sewage accounted for very small proportion (1.11 per cent) of total energy consumption. In the same year, energy consumption by irrigation and agriculture was nil which signifies low level of agricultural development in the State. In 2011-12, total energy consumption in the State rose marginally to 310.04 MU. The consumption share of domestic sector rose to 23.76 per cent and that of industrial sector rose substantially to 30.59 per cent. This indicates growth of industrial sector. The shares of energy consumed by general purpose, commercial sector and bulk rose to 10.34 per cent, 6.22 per cent respectively. During the same period, the energy consumption share of bulk rose marginally to 4.59 per cent while the share of public water work and sewage remained more or less stagnant. The share of irrigation and agriculture was nil in 2011-12 too which is cause of concern and needs further investigation.

Transmission and Distribution (T&D) Losses

The transmission and distribution losses were quite high in most of the Indian States in the pre-reform period. Such losses were attributable to lack of proper distribution, planning and inadequate investments in T&D networks, particularly in sub-transmission and distribution networks, defective metering, unmetered supply and substantial power pilferage. With reforms in power sector, such losses were reduced to a varying extent in majority of the States. The T&D losses were reduced to 32.53 per cent of the total energy availability at all India level in 2003-04 and in the North Eastern Region it was reduced to 38.64 per cent (Arunachal Pradesh Development Report 2009, p. 262). In 2013 technical losses in India was 23.65 per cent compared to the world average of 15 per cent. At the national level, T & D losses were pegged at 24 per cent in 2011 and the government has a target to reducing them to 17.1 per cent by 2017 and 14.1 per cent by 2022. However, in Arunachal Pradesh, the T&D losses are found to be abnormally high. At the same time, T&D losses in the State are found to be growing over the years instead of coming down. This is clear from Table 6. 4.

The T&D losses are high in the State due lack of proper distribution network, rampant power pilferage, tempering of meters, low level of metering both at feeder as well as at the consumer level and inadequate billing, low accountability of employees, poor energy accounting and auditing etc. The low level of metering is one of the major reasons for huge energy losses in the State. Still a very large proportion of consumers are unmetered and power pilferage is quite high. This has made correct assessment of energy losses difficult and promoted inefficient usages of electricity.

Table 6. 4: Transmission and Distribution (T&D) Losses in Arunachal Pradesh

Year	T&D Loss (%)
2002-03	51.00
2003-04	44.23
2004-05	33.54
2005-06	39.18
2006-07	43.21
2007-08	NA
2008-09	NA
2009-10	NA
2010-11	62.10
2011-12	59.13
2012-13	60.4

Source: Department of Power, Government of Arunachal Pradesh

The T&D losses in the State were 51 per cent in 2002-03 which came down to 44.23 per cent in 2003-04. It further cane down to 33.54 per cent in 2004-05. However, after that it rose sharply to 39.18 per cent in 2005-06 and further rose to 43.21 per cent in 2006-07. In 2010-11 the T&D losses in the State had increased to as high as 62.10 per cent. It marginally moderated to 59.13 per cent in 2011-12 and again rose to 60.4 per cent in 2012-13. The high T&D losses indicate that the Department of Power has been losing major chunk of its revenue which has affected if finances severely. This has resulted in huge revenue gap. APSERC has approved the net revenue gap to be Rs. 274.57 crores against the APDOP claim of Rs. 692.55 crores (APSERC, 2013). It indicates poor performance of the Arunachal Pradesh Department of Power (APDOP) which is responsible for transmission and distribution of power in the State.

The issue of high T & D losses was also raised by the Arunachal Chamber of Commerce and Industries (ACCI) recently with APSERC and urged the commission to reduce tariff. It criticised APDOP for not making optimal use of the State's own hydropower stations but for purchasing power from outside at the cost of the State exchequer and then passing the cost of the purchase on to its consumers. The ACCI noted that T & D losses for 2012-13 are abnormally high at 60.4 per cent which reflected the department's inefficiency to reduce losses and the same has been passed on to poor, hapless, honest consumers who have been penalized (*The Arunachal Times, May 21, 2014, p. 1*).

The poor performance and inefficiency of APDOP is also indicated by high ratio of net revenue gap to aggregate revenue requirement (ARR). APDOP had claimed net revenue gap of 85.8 per cent of ARR for 2013-14. But the APSRRC approved it to 68.63 per cent for 2013-14. This can be attributed to high power purchase cost and employee cost on the one hand and on the other hand due to inefficiency in generation of revenue. For instance, APDOP had claimed non-tariff revenue for 2013-14 to be only Rs. 0.45 crore. This was unacceptable to the APSERC. Therefore, the Commission, considering the number of consumers and meter rent of Rs. 16 per month for LT 1-phase and Rs. 670 for HT category for 11 KV, has estimated the non-tariff revenue for 2013-14 at Rs. 8.0 crore which is much higher than the APDOP estimate. Hence, there is a need to take measures to reduce T&D losses as well as improve the performance of APDOP so as to make power business viable in the State.

In order to reduce, T & D losses APSERC has directed the APDOP to achieve reduction of AT & C losses by a minimum of 3 per cent each year with effect from 2011-12. Hence, for the year 2013-14 T & D losses are projected to be 53 per cent. The commission therefore considered T & D losses at 53 for the financial year 2013-14 per cent for energy requirement and aggregate revenue requirement (ARR) calculations. With 3 per cent reduction in AT & C losses, T & D losses are projected to come down to 50 per cent in 2014-15 and 47 per cent in 2015-16. This is a significant step taken by the APSERC to improve the performance of APDOP and reduce T & D Losses.

Cost of Power Supply and Tariff Rates

The cost of power supply is found to be much higher than the tariff rates. The data on cost of power supply is found to inadequate. The APSERC also pointed out lots of data gap in the data maintained by the department. There is a lack of data regarding cost of supply at various voltage levels. The average cost of supply of power has been worked out at Rs. 13.03 per kWh by the APSERC (APSERC, 2013). The average cost of power supply is very high in the State as compared to other States like Assam where it is about Rs. 5 per kWh. The Tariff Policy mandates that tariff rate should be within plus/minus 20 per cent of the average cost of supply by 2010-11. But in the State tariff rates are observed to be much lower than the average cost of supply. This is mainly due to high average cost of power supply. The tariff rates in the State are observed to be similar to that in Assam. Hence, there is need to improve efficiency to reduce cost of supply as high cost due to inefficiency cannot be passed on to consumers in the form of high tariff. Tariff rates may be increased but should be done in a phased manner. Sudden increase in tariff rates may be unacceptable to consumers resulting in protest and non payment of bills. The tariff rates for different categories of consumers in various years and percentage increase in tariff rates are given (annexure 6.1).

Power tariff rates in the State are found to vary for different category of consumers. In 2013-14, tariff rates ranged from Rs. 2.65 per kWh for domestic consumers (KJP & BPL) and agriculture consumers to Rs. 6.35 for temporary consumers. Power tariff rate is observed to be the highest for temporary consumers, followed by Public lighting and water supply consumers, commercial consumers (non-industrial), industrial consumers and domestic consumers. It is found to be the lowest for domestic consumers (KJP & BPL) followed by agricultural consumers and bulk mixed consumers. In the same year, power tariff rates for domestic consumers were Rs. 4 per kWh with 1-phase connection, Rs. 3.40 per kWh with 3-phase-11KV connection and Rs. 3.25 per kWh with 3-phase 33KV connections. For commercial consumers (non-industrial) tariff rates were Rs. 5 per kWh for 1-phase connection, Rs. 4.20 and 4.0 per kWh for 3-phase 11 KV and 33 KV connections. In the same year, Public lighting and water supply consumers were paying power tariff rates of Rs. 5.10 per kWh for 1-phase connections and Rs.4.20 and Rs. 4.0 per kWh for 3-phase 11 KV and 33 KV connections. Agricultural consumers were charged tariff of Rs. 3.10 for 1-phase connections and Rs. 2.75 and Rs. 2.65 per kWh for 3-phase 11KV and 33 KV connections. For industrial consumers power tariff rates were Rs. 4.20 per kWh for 1-phase connections and Rs.3.75, Rs. 3.40 and Rs. 3.25 per kWh for 3-phase 11KV,33KVand 132KV connections. Bulk mixed consumers were charged power tariff of Rs. 3.75, Rs. 3.40 and Rs. 3.25 per kWh for 3-phase 11KV, 33KV and 132KV connections respectively. In the same year, tariff rate was Rs. 6.35 per kWh for temporary consumers.

Regarding increase in tariff rates over the years for different categories of consumers in the State, it is found that during 2009-10 to 2013-14 the percentage increase in tariff rate was the highest for industrial consumers with 3-phase 132KV and bulk mixed consumers with 132KV connections (30 per cent each) followed by industrial consumers and bulked mixed consumers with 33KV connections (28.30 per cent each), industrial and bulk mixed consumers with 11KV connections (27.12 per cent each). During the same period, increase in tariff was the lowest for agriculture consumers with 3-phase 11KV connections (14.98 per cent) followed by agriculture consumers 3-phase 33KV and domestic consumer (KJP & BPL) (15.22 per cent each) (Annexure 6.1).

Power Sector Reforms in the State: Current Status and Future Prospects

The status of power sector reforms in Arunachal Pradesh is presented in the Table 6. 5. It clearly shows that power sector reform in the State is still modest even after more than 20 years of initiation of reforms in the country. In this State, reforms in power sector have not been undertaken in a major way. However, some steps in this direction have been initiated by the State government in the recent past. These include; constitution of the Arunachal Pradesh State Electricity Regulatory Commission (APSERC) in 2010 which started functioning from March

2011. The commission prescribed power tariff from the financial year 2013-14. This is significant step taken by the State government for improving the health of power sector. Another significant step taken is the formation of reform committee and provision of new connection with meter. These steps are important but are not likely to produce significant unless accompanied by reforms in other complementary areas.

Table 6. 5: Power Sector Reform Status in Arunachal Pradesh

Provision	Status
Constitution of State Electricity Regulatory Commission (SERC)	Constituted Pradesh through a notification No. PWRS/W-1075/2004 dated 7th May 2010. The Commission has started functioning w.e.f. 2nd March 2011.
Fixation of tariff by SERC	Started from financial year 2013-14.
Restructuring/Corporatisation	Not yet
Privatisation of distribution	Not yet started
Formation of Reform Committee	Yes
New connection with meter	Yes
Franchising of billing/collection, Consumer Indexing, Computerised billing	Not yet started

Source: Arunachal Pradesh Development Report 2009, http://www.apserc.in

Hence, there is need to expedite the reform process in the State to achieve improvement in financial health of power sector. There is need to restructure and corporatize the Arunachal Pradesh Department of Power in line with other States like Orissa. Privatisation of distribution and franchising of billing/collection have not been done yet. These are important to ensure efficiency in revenue collection, avoid default in bill payment, eliminate arrears and reduce T & D losses. It is really disturbing to note that the Arunachal Pradesh Department of power in still following the traditional method of bill collection. The department has not yet started computerised billing and bill collection. The computerisation of billing and bill collection will definitely improve collection efficiency and revenue generation by eliminating revenue leakages. At the same time, there is a need to introduce option of online payment of bill. This is expected to encourage timely payment of bill.

Thus, it is clear that power sector reforms in yet to begin in a big way in the State. The constitution of APSERC is an important step taken by the State government in this direction. However, the State is yet to undertake major reforms in its power sector like, restructuring and corporatisation of SEBs, privatisation of distribution etc. Given the poor financial performance of SEBs as indicated by huge T & D losses, there is an urgent need to unbundle and corporatize the SEBs in Arunachal Pradesh.

Potential Impact of Reforms on State's Financial Health

In Arunachal Pradesh, power business in the monopoly of Arunachal Pradesh Department of Power (APDOP). The department is responsible for generation, transmission and distribution of power. The department is also responsible for collection of bills from the consumers. Though in recent years the State government has allowed private power developers to invest in generation of power, the distribution is the sole monopoly of the APDOP. The department, till 2012-13, used to fix tariff rates for different categories of consumer. A large proportion of consumers are unmetered and there is extensive power pilferage. This led to huge T & D losses and huge loss of revenue which has adversely affected the fiscal health of the APDOP. Hence, there is a need to introduce reforms in a big way in the State power sector. Though the State government has initiated the reform process, reforms is true sense in yet to begin in the State. The government has constituted the reform committee and has set up APSERC to regulate power sector. Private power developers have also been allowed to invest in generation of power in the State. But there is a lot more to do like restructuring and corporatisation of APDOP, privatisation of distribution, 100 per cent metering and computerised billing for efficient revenue collection etc. There a need to introduce reforms in a major way in the State to improve the health of power sector. The main problem lies with the poor performance of APDOP which enjoy the monopoly of transmission and distribution of power in the State. The inefficiency of APDOP is clearly reflected by high AT & C losses. Hence, there is an urgent need to revamp and restructure APDOP to the health of State power sector.

The main problem of the State power sector is the high level of T & D losses which is attributable to poor performance of APDOP, inadequate investment in transmission and distribution, improper load management, extensive power pilferage, unmetered supply, defective meters, irregular meter readings, inadequate billing etc. The introduction of reforms in power sector can significantly contribute to reduction in T & D losses. This will certainly improve revenue generation and improve the financial health of power sector. The accurate estimation of T & D losses is important as the level of energy losses affects the sales and power purchase requirement and hence has a bearing on the determination of determination of electricity tariff. The reduction in energy losses will certainly reduce requirement for power purchase from outside and reduce cost which in turn may be reflected in tariff rate for benefit of poor consumers. The corporatisation of power APDOP is important to make them self reliant. This would induce discipline and efficiency in the department and reduce its dependence on State finances to finance its budget. Over the years, it may contribute positive revenue to the State government in the form of dividends.

Key Findings

■ In Arunachal Pradesh power business is still the monopoly of Arunachal Pradesh Department of Power (APDOP). Recently the government has allowed private developers to invest in generation of Hydro power by signing MOUs with several private companies. But power distribution is still under the monopoly of the APDOP. The department sales power and collect tariff and non-tariff revenue from consumers. But there is inefficiency, non-computerised billing and lack of employee accountability in revenue collection.

■ The performance of the APDOP is found to be inefficient as indicated by high level of T & D losses. This has adversely affected the financial health of the department. As a result of which it has been unable to make capital investment to augment generation capacity and strengthen transmission and distribution network. Hence, installed generation capacity in the State sector is found to increase marginally over the years.

■ The generation capacity in the State sector is found to be insufficient meet energy requirement. Therefore, the State has been importing huge amount of power from outside (91 per cent of energy availability in 2011-12). This has resulted in high cost of power supply (Rs. 13.03 per kWh in 2013-14 as compared to around Rs. 5 per kWh in Assam).

■ The consumption and sales of power shows that in 2011-12 industrial consumers account for the largest share followed by domestic consumers. It is interesting to note that the State is found to export huge amount of power (21.08 per cent of energy availability in 2011-12) whereas the people of the State is facing power crisis and suffering from poor quality of power supply. This shows poor transmission and distribution network within the State which needs to be strengthened urgently.

■ T & D losses are found to be abnormally high in the State (60.4 per cent in 2012-13). This issue was also raised by Arunachal Chamber of Commerce and Industries (ACCI) recently with APSERC. The high level of T & D losses reflects inefficiency of the department. This needs to be reduced so that it is not passed on to poor consumers.

■ Power tariff rates are found to be similar to other States like Assam. Among the different category of consumers, tariff rates are found to follow the principle of ability to pay. It is found to be the highest for temporary consumers followed by commercial consumers (non-industrial) and industrial consumers. It is found to be the lowest for domestic consumers (KJP & BPL) and agricultural consumers.

■ The status of power sector reforms in the State shows that reforms are yet to begin in a significant way. One important step in this direction in the establishment of APSERC which started functioning from March, 2011 and prescribed power tariff for financial year 2013-14. But there many reforms are yet to be undertaken like unbundling and corporatisation of APDOP, privatisation of distribution, franchising and computerisation of billing, 100 per cent temper proof metering etc.

Suggestions

The following suggestions may be incorporated to improve the health of power sector in the State.

■ The State government should undertake reforms in a major way in compliance with the other States of India. Arunachal Pradesh Department of Power (APDOP) should be restructured and corporatized.

■ The government should allow private parties to undertake distribution of power in some areas and sector. This will introduce competition in distribution of power and is likely to improve efficiency in power distribution. This will benefit both consumers and suppliers.

■ The main problem of the State power sector is high level of T & D losses (about 60 per cent against the national average of 24 per cent and 25 per cent in Assam). The T & D losses should be reduced in a phased manner. This can be accomplished through investment in transmission and distribution, proper maintenance of transformers and other equipment, proper load management, installation of capacitators, 100 per cent metering and installation of temper proof meters, computerised billing, reducing power pilferage etc. In this connection it is worth mentioning that to ensure regular payment of bill the APDOP has issued a notice which read as **'Defaulter for two months will be disconnected without further notice'**. This measure if implemented rigorously is expected to improve collection efficiency.

■ Power theft is a major problem in the State. This needs to be checked. Power theft is a cognizable offence under Electricity Act 2003. The anti-theft provision of the act should be strictly implemented to stop power theft. The department should go for coercive measures like arresting for repeated power theft and imposition of penalty.

■ There is much scope to improve efficiency of APDOP by introducing transparency and accountability. The government should introduce third party monitoring of various activities of the department and conduct regular and effective auditing to check revenue leakages.

■ Emphasis should be given to increase revenue generation. The revenue can be enhanced through improving technical efficiency, proper billing, metered supply, correct meter reading, checking power theft etc.

■ APDOP is observed to be overstaffing. This has resulted to high employee cost. This head is estimated to account for 40.2 per cent of Aggregate Revenue requirement (ARR) in 20103-14. As a result, APDOP has been unable to make capital investment which is important to augment capacity and improve technical efficiency. Hence, the burden of overstaff should be reduced. There is a need to monitor and audit the number of staffs actually working and number of staffs in salary bills to check inflated salary bills. At the same time, productivity of employees should be increased by introducing discipline and modernisation. This will also help to increase capital expenditure.

■ The power purchase cost is estimated to be 50.5 per cent of ARR in 2013-14. There is a need to make investment to increase generation capacity and improve technical efficiency. This will certainly reduce power purchase requirement and reduce cost.

■ The tariff rates in Arunachal Pradesh are found to be similar to that of Assam. But the cost of power supply is found to be much higher in Arunachal Pradesh. It is Rs. 13.03 per kWh in the State as compared to about Rs. 5 per kWh in Assam. At the same time, the APDOP is not maintaining voltage wise and category wise cost of power supply whereas it is maintained in Assam. Hence, there is an urgent need to reduce cost and learn lessons from Assam Power Development Corporation Limited (APDCL).

The strict implementation of the above suggestions can go a long way in improving financial health of the State power sector by introducing discipline and enhancing efficiency. This will be beneficial to the concern department, the State government and people of the State.

Annexure I

Table 6.5

Electricity Tariff Rates for Different Categories of Consumer in Arunachal Pradesh during various Financial Year (in Rs. Per kWh)

Sl. No.		Category	2009-10	2010-11	2011-12	2012-13	2013-14	% increase during 2009-2013
1	**Non Commercial Consumer (Domestic)**							
	LT	AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	3.45	3.60	3.80	4.00	4.00	15.94
		AC 50 Hz, 3-Phase, 400 Volt nominal Voltage	3.45	3.60	3.80	4.00	4.00	15.94
	HT	AC 50 Hz, 3-Phase, 11 KV nominal Voltage	2.95	3.10	3.25	3.40	3.40	15.25
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	2.80	2.95	3.10	3.25	3.25	16.07
	KJP & BPL Connection							
		AC 50 Hz, 1-Phase, 230 Volt KJP & BPL connection	2.30	2.40	2.50	2.65	2.65	15.22
2	**Commercial Consumers (Non-industrial)**							
	LT	AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	4.10	4.30	4.50	4.75	5.00	21.95
		AC 50 Hz, 1-Phase, 400 Volt nominal Voltage	4.10	4.30	4.50	4.75	5.00	21.95
	HT	AC 50 Hz, 3-Phase, 11 KV nominal Voltage	3.45	3.60	3.80	4.00	4.20	21.74
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	3.30	3.45	3.60	3.80	4.00	21.21
3		**Public Lighting and Water Supply Consumers**						
	LT	AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	4.20	4.40	4.60	4.85	5.10	21.43
		AC 50 Hz, 1-Phase, 400 Volt nominal Voltage	4.20	4.40	4.60	4.85	5.10	21.43
	HT	AC 50 Hz, 3-Phase, 11 KV nominal Voltage	3.45	3.60	3.80	4.00	4.20	21.74
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	3.30	3.45	3.60	3.80	4.00	21.21
4	**Agricultural Consumers**							

	LT	AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	2.65	2.80	2.95	3.10	3.10	16.98
		AC 50 Hz, 1-Phase, 400 Volt nominal Voltage	2.65	2.80	2.95	3.10	3.10	16.98
	HT	AC 50 Hz, 3-Phase, 11 KV nominal Voltage	2.40	2.50	2.60	2.75	2.75	14.58
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	2.30	2.40	2.50	2.65	2.65	15.22
5	**Industrial Consumers**							
	LT	AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	3.45	3.60	3.80	4.00	4.20	21.74
		AC 50 Hz, 1-Phase, 400 Volt nominal Voltage	3.45	3.60	3.80	4.00	4.20	21.74
	HT	AC 50 Hz, 3-Phase, 11 KV nominal Voltage	2.95	3.10	3.25	3.40	3.75	27.12
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	2.65	2.80	2.95	3.10	3.40	28.30
		AC 50 Hz, 3-Phase, 132 KV nominal Voltage and above	2.50	2.65	2.80	2.95	3.25	30.00
6	**Bulk Mixed Consumers**							
		AC 50 Hz, 3-Phase, 11 KV nominal Voltage	2.95	3.10	3.25	3.40	3.75	27.12
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	2.65	2.80	2.95	3.10	3.40	28.30
		AC 50 Hz, 3-Phase, 132 KV nominal Voltage and above	2.50	2.65	2.80	2.95	3.25	30.00
7	**Temporary Consumers**							
		Metered Supply Rs./kWh	5.25	5.50	5.75	6.05	6.35	20.95
		Unmetered supply Rs./kWh	5.80	6.10	6.40	NA	NA	NA

Source: Department of Power, Government of Arunachal Pradesh. http://www.apdrp.com

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