

OUTCOME EVALUATION OF STATE FINANCE OF ARUNACHAL PRADESH

Prepared by

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EXECUTIVE SUMMARY

1.1 Introduction

The present Arunachal Pradesh, which was known as North Eastern Frontier Tract was under Ministry of External Affairs during 1947-1965. It came under Ministry of Home in 1965 and became a Union Territory. Full statehood was granted in 1986-87. The economy of the state was primitive and there was community ownership of land. With the process of modernization, individual ownership of land is gaining importance over community ownership. The traditional consumption pattern of the people has changed as new products have entered into their consumption basket.

Landscape pattern of the state is basically hilly and only 5% of the total land is plain land. State has a low density of population and there is no gender bias.

In 1971-72, per capita NSDP of the state was around 56.14% of the national average. Due to better performance of the economy the difference between Arunachal's and national per capita income declined up to 1990-91. After 1995-96, per capita income of the state fell below the national average and became 84.64% of the national average in 1999-2000. Due to better growth performance, the gap got reduced and it became above the national average in 2009-10. In 2017-18, per capita GSDP of the state is 18 percent above the national average.

During 2011-18, share of Agriculture in Gross value added is 34.5% and that of industry and service is 30.25 and 36.25 percent respectively. In recent times growth rate of agriculture is 0.5% per annum and that of Industry and service sector is 24.5 and 6.5 percent respectively. Government expenditure to GSDP ratio is 83 percent, Multiplier effect of expenditure in the state is very low. Credit Deposit ratio is also low (30%). With the above background public finance of the state is analyzed below.

1.2 Objectives

With the above background the main objectives of the present study are:

- To examine the major deficit indicator like Fiscal Deficit, revenue deficit, primary deficit.
- To examine the main sources of revenue.
- To examine the main components of public expenditure.

- To examine outstanding debt stock and its composition.
- To examine the financial performance of some major centrally sponsored schemes.
- To examine the performance of public enterprise and power sector.
- To examine the financial performance of urban local bodies and Rural local bodies of the State.

1.3 Data Source

- (a) The main data source of the studies are
- (b) Reserve Bank of India
- (c) Report of Controller and Accountant General of India.
- (d) Government of Arunachal Pradesh data submitted to 15th Finance Commission
- (e) Department of Statistics, Government of Arunachal Pradesh.

1.4 Main Findings of the study

Chapter-I

- During 2008-09 to 2018-19, fiscal deficit behaved in a volatile way. It was as high as 11 percent in 2013-14. State experienced fiscal surplus consecutively for three years during 2014-15 to 2016-17, which was mainly because of sudden rise in share in central taxes because of 14th Finance Commission award.
- State consistently experienced revenue surplus during last ten years. This implies a healthy trend in the fiscal health of the State, as revenue surplus is diverted towards asset creation.
- There was huge primary deficit during 2008-09, 2009-10, 2011-12 and 2013-14. After that, the State had primary surplus in most of the years except 2017-18 (RE).
- Total outstanding liability (internal debt + provident fund) was as high as 104.2 % of GSDP in 2009. Then onwards. it started declining and up to March 2019, it became 27.9% of GSDP.

- There is a structural change in the composition of total outstanding liability. Share of loan from centre has declined from 20.66% in 2007 to 2.78% in 2018.
- In the total outstanding internal debt of 25.9 billion, SDL constitution 16.1 billion which is the main component of internal debt.

Chapter-II

The collection of revenue by the Government is, like the introduction of formal administration is a post-independence phenomenon. In the course of last 70 years, especially after the statehood in 1987, the fiscal profile of the State has changed.

- The State has been strengthening the revenue administration and taking steps to enhance the efficiency of expenditure.
- Own tax revenue of the State is still low. It is much lower than her share of the Central tax.
- The State's own non-tax revenue is also not high.
- The major part of the State's revenue is the Central grant.
- Relative importance of own tax revenue in total revenue of Arunachal Pradesh is comparable with that of Nagaland, Mizoram and Manipur.
- Like Arunachal Pradesh, all the hilly States of Northeast except Meghalaya depend heavily on grant from the Centre.
- In case of public expenditure, the revenue component, not the capital component holds the major share.
- In most years under study total expenditure is more than 50 per cent of GSDP.
- In Arunachal Pradesh the size of the Government is high relative to the population, this necessitates a considerable measure of revenue expenditure.

Chapter-III

- The revenue from its own source (tax and non-tax) accounts for only around 10 per cent of the total revenue.
- The State finance is highly dependent on inflow of funds from centre. The Central transfer (share in central taxes and grant-in-aid) accounts for about 90 per cent of the State's aggregate revenue. In the recent years, the share of central transfer has increased and reached a level of 91.21 per cent of its aggregate revenue in 2015-16 (RBI, 2017).

- However, the composition of central transfer to the State has undergone significant changes during the 14th Finance Commission period. The share in central taxes increased sharply and that of the grant-in aid component has declined sharply after 2014-15.
- There was no adverse effect on the total transfer as the increase in share in central taxes fully compensated the fall in grant-in aid. However, the State should make efforts to raise revenue from its own source as the sudden decline in central transfer may adversely affect its expenditure programmes.

- Arunachal Pradesh collects ONTR from the following sources; economic services, dividends and profits, general services, social services, interest receipts. The trend and growth in State's Own Non-Tax Revenue (ONTR) has been found to be fluctuating during the period under review (2006-07 to 2016-17). Initially, it increased sharply by 121.05 per cent from Rs. 297.18 crore in 2006-07 to Rs. 656.92 in 2007-08. It further rose to a peak level of Rs. 772.01 crore in 2008-09. This was mainly due to receipt of huge amount of power royalty from Hydro Power Companies (NEEPCO) (power alone contributed Rs. 609.74 crore which was 78.98 per cent of the States' own non-tax revenue). However, thereafter the own non-tax revenue declined sharply to Rs. 511.25 crore in 2009-10. The decline was mainly due to substantial fall in revenue from power to Rs. 329.27 crore. The state's own non-tax revenue increased by 3.69 per cent to Rs. 530.14 crore in 2010-11. It was mainly due to significant increase in interest receipts. But in 2011-12, it again fell sharply by 31.96 per cent to Rs. 360.71 crore. The decline was on account of sharp fall in revenue from interest receipts and economic services. But in recent year there has been upward trend in the State's Own Non-Tax Revenue and it grew by 38.93 per cent to Rs. 544.82 crore in 2016-17 which was due to significant increase in revenue from economic services.

- The relative importance of State's own non-tax revenue in aggregate revenue has declined in the recent years. The State's own non-tax revenue accounted for only 11.46 per of aggregate revenue in 2006-07. Its share in aggregate revenue rose sharply to 21.88 per cent in 2007-08. Thereafter, there has been declining trend in its share in aggregate revenue. Its share in aggregate revenue fell to the lowest level of 3.72 per cent in 2015-16 and improved marginally to 4.63 per cent in 2016-17.

- The analysis of the composition of the State's ONTR showed that economic services were found to contribute the highest percentage share in the State's own non-tax revenue during the period under review. Within the economic services, the highest share is contributed by the power sector. The revenue from economic services and interest receipts accounted for around 70-75 per cent of the total ONTR. For instance, the share of economic services in the ONTR increased from 67.30 per cent in 2006-07 to 90.42 per cent in 2008-09. The contribution of economic services declined and in 2016-17 it accounted for 66.43 per cent of ONTR. The relative importance of general services has declined till 2014-15. Its share in ONTR declined from 25.20 per cent in 2006-07 to 6.66 per cent in 2014-15. However, since then its share has improved and in 2016-17 it accounted for 20 per cent of the ONTR. On the other hand, the contribution of social services to aggregate own non-tax revenue, after declining initially from 2.95 per cent in 2006-07 to 1.11 per cent in 2007-08, has shown increasing tendency and its share

improved to 7.28 per cent in 2015-16. The revenue from dividends and profits is found to be zero during the period under review, except in 2011-12 when it contributed a small amount of Rs. 20 thousands only. This indicates the poor performance of public sector enterprises.

- Since the relative importance of own non-tax revenue in aggregate revenue of the State was found to be declining, there is a need to reverse the trend. The following suggestions have been put forwarded to increase collection of non-tax revenue; revision of existing charges and rates of various services, improve administrative revenue collection through efficiency, accountability and transparency. T&D losses of power should be lowered, promote industrial activities in the State, enhance interest receipts by offering attractive rates, revitalise and corporatize those enterprises for improving their performances.

Chapter-IV

- The expenditure of Arunachal Pradesh is increasing but at a decreasing rate. However, while during the study period revenue expenditure is increasing continuously, the increase of capital expenditure is not continuous.
- As per estimate based on expenditure during 2009 (A) to 2019 (BE), the total expenditure of Arunachal Pradesh is supposed to be Rs.24256.59 crore by 2025. The estimated revenue expenditure and capital expenditure for the state in 2025 are Rs. 16434.82 crore and Rs.7821.76 respectively. By 2025, the growth rate of total expenditure, revenue expenditure and capital expenditure are estimated to be 5.8 per cent, 5.53 per cent and 6.37 per cent respectively.
- As per account data, as a per cent of GSDP, both revenue and capital expenditures decreased in 2016-17 as compared to 2009-10. It is found that the expenditure in Arunachal Pradesh is dominated by revenue expenditure. Looking in to the broad component of revenue expenditure, it is found that the revenue expenditure on general services, economic services and social services increased at the end of the study period but it has increased continuously only in case of general services. The capital expenditure on general services, economic services and social services are also increased at the end of the study period as compared to the initial year but with ups and downs in between.
- The distribution of total expenditure between plan and non-plan heads is more or less same. The absolute expenditure under plan and non-plan heads shows an increasing trend. However, as a per cent of GSDP, expenditure under both plan and non-plan heads decreased at the end of the study period compared to initial year. The share of

non-plan component is more than plan component in revenue expenditure and it is just reverse in case of capital expenditure.

- The expenditure under both the development and non-development heads are increased at the end of the study period as compared to initial year. However, as a per cent of GSDP, the increase in development and non-development expenditure are marginal. The share of development expenditure in total expenditure is more than non-development expenditure. As per account data, compared to 2009-10, in 2016-17 the shares of developmental capital expenditure in total expenditure and total developmental expenditure have declined.

Chapter-V

- The FRBM Act I targeted to reduce fiscal deficit to 3% by 2008-09 and the amendment made in 2010-11 attempted to continue this 3% target up to 2015. Arunachal Pradesh state government has achieved this target; although sometimes it is found to be higher.
- In the FRBM I, there was no target for debt GDP ratio. The amendment made in the FRBM act in 2010-11 set the target to reduce Debt GDP ratio from 63.1% in 2010-11 to 50.1% during 2014-15. However, the actual Debt-GDP ratio were below this targeted level. Although there are no such targets beyond 2014-15, the Debt-GDP ratio is continued to be significantly below this targets.
- The values of fiscal deficit are fluctuating from time to time, it is difficult to have a clear scenario for the future. Despite of this fact, fiscal deficit as a percentage of GSDP is assumed to be constant at base year level (2018-19) i.e. 2.01% of GSDP. In absolute terms fiscal deficit is estimated to increase from 728.31 crores in 2020-21 to 1283.03 crores in 2024-25. Public debt both in absolute terms and also as a percentage of GSDP is expected to increase during this period. Public debt is estimated to be 31.9% and 39.9% of GSDP in the year 2020-21 and 2024-25 respectively.

Chapter-VI

- Arunachal Pradesh also introduced power sector reforms but on a limited scale. Power sector is still 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. The entire power requirement of Arunachal Pradesh Department

of Power (APDOP) is met through purchase of power from the Department of Hydro Power Development (DHPD) and electricity traders/other sources.

- The State is a late starter of power sector reforms. In order to improve the performance of power sector, the State government initiated some reforms. Power sector reform in the State is still modest even after more than 25 years of initiation of reforms in the country.
- 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. The State introduced prepaid meter connection on optional basis in 2016. 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. Thus, it is observed that power sector reforms in yet to begin in a big way in the State.

- Arunachal Pradesh has a huge hydro power potential. There are five major river basins in the state namely Kameng River Basin, Subansiri River Basin, Siang River Basin, Dibang River Basin and Lohit River Basin. There are many tributaries and distributaries of the said major rivers which also offer suitable sites for the development of hydro-electric power projects. As per the study carried out by the Central Electricity Authority (CEA), the State alone has potential for 50,328 MW hydro powers which is 33.8 per cent of the country's total 148,701 MW identified hydropower potential above 25 MW.

- However, the total installed capacity in the State sector is very low. Hence, the State has to rely on capacity allocations in the central sector generating stations and import/purchase of power. For instance, in 2006-07 the total installed generation capacity of the State was 5.84 MW (Hydro 33.84 MW and Diesel 25 MW). It rose marginally to 81.52 MW in 2008-09. It was mainly on account of increase in capacity under Hydro power from 33.84 MW in 2006-07 to 56.52 MW in 2008-09. The total installed capacity increased steadily and reached 89.83 MW in 2016-17. The increase in capacity was contributed by Hydro power which increased from 57.66 MW in 2010-11 to 70.26 MW in 2016-17. Data on energy availability indicates that the energy generation under State sector has been low. Hence the State is heavily dependent on purchase of power from electricity traders and power import from outside the State. It shows that around 90 per cent of energy availability is imported from outside the State. The share of State's net generation to total energy availability has declined from 10.08 per cent in 2014-15 to 8.48 per

cent in 2016-17 which indicates increasing dependence of the State on power import to meet the requirement.

- The analysis of sources and cost of power purchase by the State showed that the State purchases power from 14 sources. The unit cost of power purchase was the highest from Ranganadi up to 2014-15 and it was the lowest from the Kopili-I (Rs. 1.11 per unit). In the same year, the PGCIL charge was Rs. 0.45 per unit which was lower than Rs. 0.82 per unit in 2014-15. The data on consumption/sale of power show that the domestic consumers account for the largest share followed by industrial and commercial consumers. For instance, in 2016-17 domestic consumers accounted for 40 per cent of the total sale/consumption followed by industrial consumers (28.6 per cent) and commercial consumers (12 percent).

- With reforms in power sector, T & D losses were reduced to a varying extent in majority of the States. In 2013 technical losses in India was 23.65 per cent compared to the world average of 15 per cent. However, in Arunachal Pradesh, the T&D losses are found to be abnormally high (62.43 per cent in 2014-15). At the same time, T&D losses in the State are found to be growing over the years. However, it has shown declining trend from 2014-15 due to continuous insistence and suggestions of SERC to APDOP. The high T&D losses in the State can be attributed to lack of proper distribution network, power pilferage, tempering of meters, low level of metering both at feeder as well as at the consumer level and inadequate billing, poor energy accounting and auditing etc.

- The impact of power reforms on the fiscal health of the State was evaluated by analysing the gap between cost (expenditure) and revenue of the power sector. The gap indicates the extent of fiscal burden on the State and poor financial performance of the power sector. The volume of deficit in absolute amount has increased from Rs. 151.27 crore in 2010-11 to 338.46 crore in 2015-16. In 2016-17, it declined sharply to 291.68 crore. The decline in the volume of deficit was mainly due to substantial improvement in revenue from Rs. 117.35 crore in 2015-16 to 247.14 crore 2016-17 while the expenditure rose by Rs. 83.01 crore. The decline in volume of deficit in 2016-17 indicates sign of improvement. However, the volume of deficit is still quite large and needs to be reduced further.

- The absolute volume of deficit does not give a clear picture of the fiscal health of the department. Therefore, the ratio of revenue to expenditure was calculated which shows the percentage of total expenditure financed by its own revenue. The increase in ratio is an indicator of improvement in the fiscal health of the department. The ratio of revenue to expenditure after declining initially from 37.51 per cent in 2010-11 to 23.04 per cent in 2012-13, it improved to 32.98 per cent in 2014-15. But it fell sharply to 25.75 per cent in 2015-16. However, it improved sharply to 45.87 per cent in 2016-17. The improvement in the ratio in the recent year is very encouraging and it must be sustained to improve the fiscal health of the department and reduce the burden on State exchequer.

- The following suggestions have been made to improve the performance of power sector in the State: complete restructuring of the power sector, privatise distribution of power some areas and sector, reduce T & D losses through investment in transmission and distribution, proper maintenance of transformers and other equipment, proper load management, connection with correct automated meters, replace defective meters with automated meters, computerised billing, reducing power pilferage etc., conduct energy audit regularly, invest in power generation to reduce dependence on imports, eliminate power theft and imposition of penalty, reduce unproductive expenditure, reduce average cost of power supply.

Chapter-VII

- Local bodies both rural and urban plays crucial role in ensuring participatory democracy.

Compared to the Rural Local Bodies the Urban Local Body is relatively new (RLBs and ULBs hereafter). RLB in Arunachal Pradesh has been the catalyst of rural development since 1969, when it was first elected. However, it was only after year 2013 that the state of Arunachal Pradesh had ULB although the Arunachal Pradesh Municipal Act, 2007 was notified as early as the year 2008. The experiment for ULBs was meant for the two towns of Itanagar and Pasighat, considered to be the most populated amongst other.

- Due to states own revenue constraints there is absence of states own developmental initiatives. It largely delves upon Centrally Sponsored Schemes (CSS) and other flagship programmes sponsored by the Central government. This applies to both RLBs and ULBs, without any exception. This understandably is due to limited avenues of own revenue generation at the backdrop of poor and rural nature of the economy rendering it with acute revenue paucity.

Resource Transfer to RLBs

- The state is hilly, landlocked, less developed in addition to being a late starter of development initiatives and mostly the state executes 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 agency - the Department of Rural Development - for development initiatives. Four major flagship programmes of Ministry of Rural Development, Government of India are executed by the nodal department. They are:

- 1. MGNREGA¹
- 2. IAY or PMAY-G²
- 3. IWMP or PMKSY³
- 4. PMGSY⁴
-

Observations

- The execution and performance of MGNREGA posits certain lapses. *One*, there is lack of awareness by the public regarding the procedure to place demand for work. *Two*, beneficiaries also are unaware about the right or legal claim attached to the scheme. While the administrative expenditures are met out of fund allotted to the schemes, there is gross inefficiency and lack of proactive dissemination of information to create awareness about the issue. The very basic and fundamentals of success necessitate to even out the information asymmetry, but this has been grossly undermined by design and by those in the helm of affairs.
- The MGNREGA is a demand based scheme. But often, the supply side has been made as the constraint by the politico-bureaucratic class by insulating even the few who claims their right. There are cases of poor maintenance of records, especially of the muster roll and materials issued and stock register maintained. Cases of misappropriation through inflated figures of material cost and through ghost workers have emerged time and again.
- There are also the case of the issued job cards in the custody of RLBs workers and officials due to mala fide nexus. While job cards are issued, in many cases, the card itself is not in the custody of the worker against whom it has been issued. This leaves a grey area for mala fide practices leading to siphoning of resources by the nexus leaving astray the actual beneficiary. Such cases are rather common in places where the DBT (Direct Benefit Transfer) are not in place and often due to ignorance of the beneficiary who are at the mercy of those in the nexus.
- Then there is gross lack of intent by nodal agencies to converge the scheme with other activities which may compound the output. Instead of inter-sectoral convergence and

¹ Mahatma Gandhi National Rural Employment Guarantee Act

² Indira Awas Yojana which was restructures as Pradhan Mantri Awas Yojana – Gramin since FY 2016-17

³ Integrated Watershed Management Programme restructured as Pradhan Mantri Krishi Sinchayee Yojana since FY 2015-16

⁴ Pradhan Mantri Gram Sadak Yojana

flexibility diligence is adhered religiously to continue with the same old unskilled mud and earth works. This has piled up duplicity of works and assets thereby squandering of scarce resources. Instead of officials putting up plans of work and dictating the supply side, the scheme should be followed in its spirit and the set pattern should be reversed.⁵

- With respect to the purported claim of success for IAY/PMAY-G, the case seems doubtful. In fact, there is no approved pre-defined specified architectural designing. While the structure and design vary even within a limited spatial-location depending upon the tribes and communities under consideration, it is not impossible to design and approve an architectural layout. The planners and architecture professionals of the state should work out in detail outlays or designs based on micro assessment so as to keep in tandem with the locality and custom of the grass root beneficiaries.
- The lack of such design has but led to difficulties in taking stock of success that the scheme claims to. Accounting the actual work undertaken is, therefore, not only problematic but provides grey areas, thereby, scopes for mala fide practices. Also, the lack of such pre-defined design and outlay has reduced the scheme to the only scheme for distribution of the CGI (Corrugated Galvanised Iron) roofing sheets. Usually, the provided roofing materials are forty pieces in number without any consideration of the thickness (in mm), total surface area (in square feet) and quality whatsoever.
- Even the selection of the beneficiary is contentious to the extent of duplicity and deprivation by the ones yielding in the hierarchy of power structure built on politico-bureaucratic nexus. At times the nexus operates to benefits of their own class and fraternity through some ghost beneficiary.
- The purported success is also doubtful, which emerged post restructuring of the IAY scheme as PMAY-G, and can be ascertained from the observation of low financial achievements of Rs. 4049.71 against the very high financial outlay target in its initial year 2016-17 at Rs. 11744.20 Lakh and the subsequent stiff fall of the financial target itself to 2187 Lakh in 2018-19, thereof.
- In case of the OWSMP/PMKSY, while few projects were undertaken by the state nothing can be ascertained of its outcome. Similar is the case of the PMGSY. Nonetheless, it can be truly be ascertained that the quality and better guidelines can be expected to bring about a better execution and outcomes.

⁵ Few issues related to the Scheme is reflected in Appendix

- To sum up, the Third Party Monitoring Agencies undertaking the social or account audits too are, therefore, contentious and questionable. Rather than verifying facts and in accordance with the given guidelines, only data mining and analysis of provided data have been undertaken and fed so far up till now. Unless a proper mechanism or agency conforming to regulating and monitoring process is not configured independent of the system, the poor rural gentry are far from being emancipated and will continue to dwell in abject poverty.
- In case of the scheme PMGSY, the Per Capita Total Outlay as well as Per Capita Actual Expenditure (PCTO and PCAE hereafter respectively) was even less than a thousand rupee. The PCTO and PCAE were Rs. 1000 and Rs. 3000 respectively for grants in aid made by the state government and the salaries and wages components.
- In case of the MGNREGA while the PCTO was Rs. 1000, the PCAE turned out to be higher at Rs. 2000. The case was contrary in case of IAY/PMAY – G and for IWSMP/PMKSY where the PCTO turned out higher than the PCAE incurred. The PCTO for IAY/PMAY – G was Rs. 5000 while the PCAE turned out to be lower at Rs. 4000 only. In case of the IWSMP/PMKSY the PCTO was Rs. 3000 while the PCAE was only Rs. 2000.
- The consolidated aggregate PCTO was about Rs. 13000, while the consolidated aggregate PCAE was Rs. 12000 only. Thus, it can be inferred that both the per capita allocation as well as the per capita actual expenditure incurred are relatively low. In fact, at the backdrop of the hilly and mountainous nature of the state, numerous bottlenecks either administrative, communication and transportation and low level of social infrastructure renders the state dependent on every front. The bottlenecks peculiar to the state and its heavy dependency on others have renders cost escalation but also high transaction costs. These bottlenecks and constraints need immediate redress for which not only the Per Capita Outlay has to be enhanced substantially but also the rate at which the resources are utilised. Inefficiency in the expending the outlaid amount requires to be accelerated such that the Per Capita Actual Expenditure becomes fructuous.

Resource Transfer to ULBs (Urban Local Bodies)

- **The ULBs came into existence on experimental basis for the two most populated towns, namely, Itanagar and Pasighat. The two respective ULBs comprised of 31 and 12 wards respectively. More of such ULBs are supposed to be extended in**

future to another 10 more populated towns in a phased manner which seems but a distant reality as of now.

- **AMRUT (Atal Mission for Rejuvenation and Urban Transformation)/JNNURM (Jawaharlal Nehru National Urban Renewal Mission)**
- Except for the JNNURM (Jawaharlal Nehru National Urban Renewal Mission), now renamed and restructured as AMRUT (Atal Mission for Rejuvenation and Urban Transformation). These schemes were earlier dealt directly by the Department of Urban Development (UD hereafter) under the state government which was later brought under the ULBs, specifically in the two towns where it came into existence after 2013. The ongoing programmes undertaken by the ULBs are specifically
 1. Urban Infrastructure and Governance (UIG hereafter)
 2. Basic Services to Urban Poor (BSUP hereafter)

Various Ongoing Social Infrastructure Projects

- **In addition to the AMRUT/JNNURM the other ongoing projects includes those in the social infrastructure sectors. These were the projects funded out of the Non Lapsable Central Pool of Resources under the scheme North East Special Infrastructure Development Scheme (NLCPR and NESID hereafter respectively) for the construction of the foot over bridges in the twin capital towns at various locations.**

Table 10

Ongoing Social Infrastructure Projects (Various)

	Project cost	Fund Share		Progress (%)	
		Centre	State	Financial	Physical
Foot Over Bridges at various locations of State Capital under NLCPR (NESID)	909.92	610.30 (67.07)	90.99 (10)	77.07	70
Ongoing Projects under Rajiv Awas Yojana (RAY)	4431.20	3098.32 (69.92)	558.30 (12.60)	82.52	80
Projects under SIDF (DoNER)					
	Project cost	Fund Received		Financial	Physical
Multi-Storied Parking at Ganga, Itanagar	1471.68	735.84		50	..
Multi-Storied Parking at Civil Secretariat, Itanagar	1471.68	735.84		50	..
Ongoing Major Projects under Special Plan Allocation (SPA)					
	Project cost	Fund Released		Financial	Physical

Outdoor Stadium at Yupia	5948.80	5948.80	68	65
Flat for Senior Government Officials (Phase -I)	7000	6985	99.79	60
Apartments for MLA	13582	13582	79.60	60

Source: Compiled from data provided by GoAP

***Project Cost, Fund Share, Fund Received, and Fund Released in Rs. Lakh, Progress - Financial or Physical – are in percentage.**

****Figures in the parenthesis are percentage of the Project Cost**

National Urban Livelihood Mission (NLUM)

- **One of the dynamic schemes capable of generating livelihood and of immense import and signification is the National Urban Livelihood Mission (NULM hereafter). As data relating to two specific towns of Pasighat and Itanagar, wherein ULBs exists, the analysis below is of aggregate nature for the state in entirety. As can be seen there are primarily four operational components under NULM and are as follows:**

1. Employment, Skills, Training & Placement (EST&P hereafter)
2. Support to Urban Street Vendors (SUSV hereafter)
3. Social Mobilization & Institutional Development (SM&ID hereafter)
4. Self Employment Programme (SEP hereafter)

Observations

- The ongoing incomplete projects, in spite of the near about or full exhaustion of allotted resources or outlay for the purpose is setting a bad precedent with regard to the performance of the ULBs. This is true for all the ongoing projects, especially related to constructions, be it under AMRUT/JNNURM, or under the various schemes of Social Infrastructure creation like NESID, SIDF funded out of various resource bases like NLCPR, SPA or agencies like DoNER. Such may be the causal outcome of poor execution and supervisions or may be either due to undertrained, untrained or unqualified professionals estimating the projects costs or due to unethical leakages; either one or all can be true without any consideration to its contrary whatsoever.

- The fluctuation in the relative share of Non-Tax Revenue including Users Charges is due to the significant rise in the revenue elements either due to Central transfers, FC grants or due to the States grants in aid. In fact, the State makes significant contribution to the revenue base of the ULBs through grants in aid, which is without any consideration to the required warranted rate. It may, therefore, have implications in terms of furtherance of the same perpetually unless certain norms are not regulated.
- Also, being revenue constrained state at the backdrop of absence of capital expenditure yields ULBs with low level and availability of urban amenities. Given the circumstances, the exponential growth of revenue through Non-Tax Revenue including Users Charges only highlights increasing burden that is shifted to the general public for the limited and given amounts of public goods provisioned. This is not in the general interest of public and may cause larger non compliance in future.
- Schemes under livelihood mission for urban areas are gaining importance and positive response in spite of dwindling endeavour of the nodal agencies. This diminution is understandably because of not so vibrant and sluggish outcomes of the efforts. Nonetheless the efforts are rewarding of late. Livelihood context requires in depth understanding of the complex web of all the capitals involved. The agency in concern needs effort to edify itself the interlinked vortex of the pentagon and the input-output matrix. Unless such an exercise of reorientation and revamping is undertaken, the success of livelihood mission will still yield slothful outcomes despite increasing popularity.
- Akin to the exercise undertaken for the RLBs, attempt has been undertaken to work out the total financial implication upon the ULBs. The total outlay is the consolidated aggregate of outlay of various years under consideration under particular project head as specified. Actual expenditure in similar fashion is also the consolidated aggregate of actual expenditures made during various years as represented in the above analysis. Also, attempt have been made to work out the financial implication at two levels, one for the NULM separately and as aggregate for the ULB pertaining to the capital town of the state. This is justifiable, as the implication under NULM do require independent understanding. This does not, however, discard the inclusion of the financial implication of the NULM to that of the ULB pertaining to the capital towns of the state. This is partly for the reason that most of the beneficiary are from the

capital town itself, and partly because such inclusion will be more representative in the complete absence of the data pertaining to the ULB representing Pasighat. Of course, the total population under consideration will be minimum, given the population representing the ULB of Pasighat.

- Further, for the simplicity of the analysis we have considered the minimum members required for creation of SHGs to represent one such institution. As such, a SHG represents 10 members uniformly across board for our analytical purpose. As two or more SHGs merges to form an ALF, hence to do away the risk of double counting we only consider the lower limits of SHGs membership and the total individuals under EST&P scheme. This is without any consideration to other members included the SHGs, ALFs, CLC, and individual beneficiary under SEP schemes.
- The total beneficiary under NULM, particularly under ES&TP, SUSV and SM&ID, for the year 2015-16 was about 6346 individuals. This was against the total outlay or expenditure of Rs. 193.87 Lakh. As such the Per Capita Outlay (PCO hereafter) or expenses for the year was about Rs. 0.03 Lakh i.e. only Rs. 3000 (three thousand).
- For the year 2016-17 the total beneficiary was about 3005 individuals as against the total outlay of Rs. 146.26 Lakh. As the total number of beneficiary was reduced to nearly half of what was during the previous financial year without corresponding or equivalent reduction in the total outlay, the PCO increased marginally to Rs. 0.05 Lakh i.e. to rupees five thousand. The PCO remained at the same level of Rs. 0.05 Lakh during the subsequent year 2017-18, in spite of marginal increment in the beneficiary.
- For the year 2018-19, the total beneficiary accounted to about 83 individuals against the total outlay of Rs. 288.40 Lakh. Hence, the PCO amounted to Rs. 3.47 Lakh. However, as the year is on progress, it is expected to decline drastically to somewhere around few thousand by the end of financial year. The consolidated PCO for the entire span of the time period under consideration is just Rs. 0.06Lakh or six thousand rupees only.
- For the entire time period beginning from the latter half of year 2013; when the ULBs came into being, up till the current proceeding financial year i.e. 2018-2019, the Per Capita Expenditure (hereafter PCE) has been worked out. For the entire period covering a time span of five years and six months (as on November 2018), the consolidated PCE is Rs. 0.48 Lakh only. In other words for the entire span of time

covering nearly six years the cumulative total financial implication by the ULBs has been mere forty eight thousand rupees only.

- Keeping in mind the low level of social infrastructures and amenities, more resources needs to dedicate and in a fructuous manner. While it is understandable that there are enormous bottlenecks consequent upon hilly geo-spatial nature of the state, higher transaction cost due to low social overheads, cost overrun as resultant of longer monsoon and shorter working days, but such usual causes should not become a regular contingent for unqualified incidental potholes of in-equations. As such, there is dire need of best practices and setting accountability, irrespective of all the levels in hierarchy of power pyramid whatsoever. Nonetheless, keeping the state drench of resources may lead further to already messed up state of affairs. Hence safety nets along with supervision and additional allocation can only help this late starter land to reach the threshold sill so that it churns by itself sustainably the growth and development paddles.

Chapter-VIII

The State Public Sector Undertakings (SPSUs hereafter) comprises of the state owned companies which were 7 (seven) in numbers before the year 2013. Of the total SPSUs of the state, the process of liquidation for the SPSUs began during 2013, namely; Parsuram Cement Limited (PCL) and Arunachal Horticulture Processing Industries Limited (AHPIL). However, the process is yet to be completed. Thus, the last two corporations, given in the Table 7.1 below are already not operational. The remaining of the 5 (five) SPSUs are still operational but are not listed companies.

Table 7.1
State Public Sector Undertakings

Sl. No	Corporations	Operational
1	APIDFC Ltd. (Arunachal Pradesh Industrial Development Finance Corporation)	Yes
2	APHWC Ltd. (Arunachal Police Housing and Welfare Corporation Limited)	Yes
3	APFC Ltd. (Arunachal Pradesh Forest Corporation Limited)	Yes
4	APMD&TC Ltd.	Yes

	(Arunachal Pradesh Mineral Development and Trading Corporation Limited)	
5	HPDCAP Ltd. (Hydro Power Development Corporation of Arunachal Pradesh Limited)	Yes
6	PC Ltd. (Parsuram Cement Limited)	No
7	AHPI Ltd. (Arunachal Horticulture Processing Industries Limited)	No

Source: Directorate of Industries, Govt. Of Arunachal Pradesh

- **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 Rs. 6 (Six) Crore divided into 6 (six) Lakh equity of Rs. 100/- (hundred) each which is fully paid up by the government of Arunachal Pradesh.

Since the inception of **APIDFC** it advanced loans through various refinance schemes of SIDBI and IDBI. Usually the advances were up to tune of 90% (ninety per cent) of the total outlay of respective projects for a period ranging from eight to ten years.

The company entered a difficult financial phase during the year 2000 when some of operational areas were bifurcated to create the APTC (Arunachal Pradesh Trading Corporation).

The low rate of recovery of advances and defaults resulted into mounting Non Performing Assets (NPAs). The undue political and administrative meddling of autonomy and in assessment of project feasibility at the expense of faulty projects and finance designs led the APIDFC into unfeasible region of business operation.

The non-viability and unfeasible operational cost led to introduction of the VRS (Voluntary Retirement Scheme) during the year 2007. The VRS was, however, not followed by liquidation of the company; instead it was kind of rationalising overstaffed company employees. Nevertheless, the operational costs are still increasing by multitude, making it a soak pit of scarce resources. Even at the worst of its health, unlike other corporation, it is akin to any other regular bureaucratic branch with poor professional and personnel orientation including lack of austerity.

The only survival of the company is through the refinancing of National Schedule Tribe Finance and Development Corporations (NSTF&DC) scheme related to establishment of the rural micro industries. Even in this case, the company could not receive any fund since 1993-94 up to 2013-2014.

Thus, the resultant ratio reveals that the company is generating increasingly negative returns on investments which are compounding over time. The suggestion to the company is to identify the return generating units and to write off and liquidate the non functional units.

With respect to the worth and assets three ratios has been worked out, namely, Debt Equity Ratio, Ratio of Capital & Long Term Funds to Fixed Assets, Fixed Asset Ratio (DER, RCLFA and FAR hereafter).

The Debt Equity Ratio increased over time from 1.663 during 2010-11 to 3.105 in 2016-17. The increase is largely due to the unsecured loans given by the state government and accrued interest thereon. At the backdrop of the limited cash generating activities of the company, the cumulated outstanding debts and interest incurred, the continual increase is highly indicative that the razors edge has been breached and any further infusion of credit is highly discouraged and is not advisable.

- **HPDCAP Ltd. (Hydro Power Development Corporation of Arunachal Pradesh Limited)**

The HPDCAP was incorporated on the 8th day of December 2006 with an authorised share capital of 5 (five) Crore, which has been paid to the full extent by the government of Arunachal Pradesh.

Return on Investment was negative for the first three years after the company was operational in the 2006. The RoI was -1.116 percent during 2007-08 to negative at -1.725 percent but lately by 2016-17 onwards it is growing positively at 3.736 percent.

The overall state of affairs in terms of the RoI with respect to the HPDCAP, except for few initial years is quite satisfactory. The relatively higher RoI is largely due to huge upfront paid (considered as returns) at the backdrop of low base of share capital in relation thereby positing to yield good returns. As such, the paid up capital including fixed assets has to be geared up to make the company sustainable in the long run. Also the performance of the

Company can be improved through its operation in the value chain, particularly in generation, to add value to the firm in long run.

The Debt Equity Ratio in the context of this company seems sound and prudent, as it rarely borrows for the operational purposes.

- **The APFC Ltd. (Arunachal Pradesh Forest Corporation Limited)**

The APFC Ltd. (Arunachal Pradesh Forest Corporation Limited) was incorporated 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 company being futuristic also diversified the business operation by investing in tea, coffee and rubber plantation in Tirap and Changlang districts of the state. 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. 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. In fact, the basic operation of the company was timber, veneer and Plywood that generated the 90 percent of revenue earnings. It was profitable to the extent of paying Rs.1.04 Crore as dividend and Rs.61.00 Crore as lease rent to the Government of Arunachal Pradesh before the year 1996.

In spite of having revenue generating assets and the list of ambitious projects (part of which are operational), the role of company has been relegated as keeper of the few existing assets. Nonetheless, it is still operational.

Return on Investment for the company has been negative throughout the time span from 2010-11 to 2014-15. Thus, the return on the investments made by the company seems unviable and this is pronounced in a more compounding manner particularly after 2013-14.

With regard to the Debt Equity Ratio the company is geared lowly and in spite of having assets in terms of plantations for various produces it is significantly low. With this backdrop of available assets, credit infusion can be done to improve the health of the company.

However, the increased debt is desirable to the extent that the management is promisingly professional to judiciously use the additional funds in the creation and quality improvement and management of the assets rather as mere working capital for non austere conspicuousness.

- **APHWC Ltd. (Arunachal Police Housing and Welfare Corporation Limited)**

The APHWC Ltd. (Arunachal Police Housing Welfare Corporation Limited) was incorporated on the 9th day of November 2005 and started its operational business only after April 2006. The authorised share capital of the company is Rs. 5 (five) Crore divided into 5 (five) Lakh equity shares with face value of Rs. 100/- each. Usually the APHWC carries out construction related to housing, which it sublets to another party and does not enter into any direct construction. Also, it undertakes various welfare activities at quoted rates par nominal.

Return on Investment for the company is not only positive but relatively high too. It was about 30.150 percent during 2008-09 and was 27.046 as late as 2010-11. Thus, the RoI while positive is fluctuating but is significantly higher compared to any other SPSUs of the state.

The relatively higher Return on Investment is also due to the low base of share capital (with an authorized share capital of 5 Crore, the paid up capital is only 2 (two) Lakh 10 (ten) Thousand with an equity share of only 2,100 paid by the state government). Thus, the paid up capital of the company has to be raised by multiple of times and to the full extent of the authorized capital.

With respect to the Debt Equity Ratio, it could not be derived as the company did not borrow from other sources for the period under consideration.

Main recommendation of the Studies

- I. The State needs to enhance the revenue base.
- II. To, monitor the public expenditure in a more efficient way by appointing third party monitoring agencies.
- III. The Government official who prepare data base for Finance Commission needs full training on definition of data. For example the real data collector is the computer

person in the Department. They have lack of knowledge on basic concepts like revenue expenditure, capital expenditure etc. So, training of the new person is a must.

IV. For each and every Chapter, recommendation has been made above suitably above.

CHAPTER – I

BROAD BUDGETARY TREND AND PUBLIC DEBT

1.1. Introduction

The present Arunachal Pradesh, which was known as North Eastern Frontier Tract was under Ministry of External Affairs during 1947-1965. It came under Ministry of Home in 1965 and became an Union Territory. Full statehood was granted in 1986-87. The economy of the state was primitive and there was community ownership of land. With the process of modernization, individual ownership of land is gaining importance over community ownership. The traditional consumption pattern of the people has changed as new products have entered into their consumption basket.

Landscape pattern of the state is basically hilly and only 5% of the total land is plain land. State has a low density of population and there is no gender bias.

In 1971-72, per capita NSDP of the state was around 56.14% of the national average. Due to better performance of the economy the difference between Arunachal's and national per capita income declined up to 1990-91. After 1995-96, per capita income of the state fell below the national average and became 84.64% of the national average in 1999-2000. Due to better growth performance, the gap got reduced and it became above the national average in 2009-10. In 2017-18, per capita GSDP of the state is 18 percent above the national average.

During 2011-18, share of Agriculture in Gross value added is 34.5% and that of industry and service is 30.25 and 36.25 percent respectively. In recent times growth rate of agriculture is 0.5% per annum and that of Industry and service sector is 24.5 and 6.5 percent respectively. Government expenditure to GSDP ratio is 83 percent, Multiplier effect of expenditure in the state is very low. Credit Deposit ratio is also low (30%). With the above background public finance of the state is analyzed below.

1.2. Broad Budgetary Trend

Various fiscal indicators are given in table 1.1 reveals that during 2011-12 and 2013-14 the state had high fiscal deficit of 8.95 and 11.04 percent of GSDP respectively. After that, the situation improved as the state as the state had fiscal surplus consecutively for three years.

In the revised estimates of 2017-18 and budgeted estimate of 2018-19, the fiscal deficit is well below 3 percent of GSDP.

Table 1.1: Broad Budgetary Trend

Year	Fiscal Deficit (in Rs Crore)	Interest Payment (in Rs Crore)	Primary Deficit (Rs Crore)	Revenue Deficit (Rs in Crore)	GSDP (Rs in Crore)	Fiscal Deficit(% GSDP)	Interest Payment (% GSDP)	Primary Deficit (% GSDP)	Revenue Deficit (% GSDP)	Repayment of loan as a % of Total Capital Disbursement
2008-09	330	216	114	-984	5699.21	5.79	3.79	2.00	-17.27	6.57
2009-10	500.0	230.0	270.0	-600	7673.73	6.52	3.00	3.52	-7.82	22.43
2010-11	-11.4	400.0	-411.4	-1680	9263.33	-0.12	4.32	-4.44	-18.14	9.05
2011-12	990.0	280.0	710.0	-1080	11064.04	8.95	2.53	6.42	-9.76	7.88
2012-13	230.0	270.0	-40.0	-980	12545.85	1.83	2.15	-0.32	-7.81	22.82
2013-14	1610.0	310.0	1300.0	-90	14579.98	11.04	2.13	8.92	-0.62	17.17
2014-15	-520.0	350.0	-870.0	-1980	17958.82	-2.90	1.95	-4.84	-11.03	62.64
2015-16	-190.0	420.0	-610.0	-2190	20431.81	-0.93	2.06	-2.99	-10.72	45.87
2016-17	-850.0	400.0	-1250.0	-2390	22151.71	-3.84	1.81	-5.64	-10.79	44.36
2017-18(RE)	670.0	490.0	180.0	-4310	24353.09	2.75	2.01	0.74	-17.70	20.22
2018-19 (BE)	550.0	790.0	-240.0	-7300	27383.00	2.01	2.89	-0.88	-26.66	12.96

Indicates surplus, + indicates deficit

Source: Fiscal indicators are computed from, Reserve Bank of India, State Finances: A Study of Budgets, various issues. GSDP data is taken from Department of Statistics, Government of Arunachal Pradesh.

Table 1.1 gives the broad budgetary trend of Government of Arunachal Pradesh from 2008-9 to 2018-19. Fiscal Deficit increased from 5.79 percent of GSDP in 2008-9 to 6.52 percent in 2009-10 and experienced fiscal surplus in 2010-11. This fiscal surplus was mainly because of better performance of the state in terms of Revenue front. First, in 2010-11 over 2009-10, there was a sudden jump in total revenue collection by 12.16 percent of GSDP in 2010-11 over previous period. This was mainly due to substantial increase in grants from centre (8.87 % of GSDP) and share in central taxes (2.64 % of GSDP). Again the state experienced high fiscal deficit in 2011-12 (8.95% of GSDP).

Again in 2011-12, Fiscal Deficit went up to 8.95 percent of GSDP. Here with an increase in total tax revenue of 2.01 percent of GSDP and virtual stagnancy in increment in non tax revenue, government increased total expenditure by 1075 crore over 2010-11 (9.72 % of GSDP) which includes incremental revenue expenditure of 673.6 crore and capital expenditure of Rs 401 crore.

In 2012-13, fiscal deficit fell to 1.83 percent of GSDP. This fall was mainly due to increment in non tax revenue by 2.08 percent of GSDP over previous period and fall in capital expenditure by 6.86 percent of GSDP.

In 2013-14, fiscal deficit went up to 11.04 percent of GSDP. This is mainly attributed to fall in central inflow by 1.84 percent of GSDP and virtual stagnancy in total tax and non tax revenue collection. Further, revenue expenditure and capital expenditure increased by 6.48 percent and 3.35 percent of GSDP over 2012-13.

In 2014-15, state experienced a fiscal surplus of 2.9 percent of GSDP. This happened because of substantial increment of grants from the centre by 17.66 percent of GSDP over 2013-14 though there was virtual stagnancy in total tax and own non tax revenue collection. On the revenue expenditure side, there was positive increment of 7.94 percent of GSDP and decline in capital expenditure by 1.17 percent of GSDP.

In 2015-16 and 2016-17, there was revenue surplus because of substantial increase in share in central taxes because of implementation of 14th Finance commission awards. The increment in share in central taxes was 29.19 percent of GSDP and fall in grants from the centre by 22.30 percent of GSDP resulting in net increment in revenue of around 7 percent of GSDP. In 2015-16, increment in revenue and capital expenditure was 5.9 and 2.54 percent of GSDP respectively.

In 2016-17, fiscal surplus was Rs 850 crore (3.84 % of GSDP). This was mainly due to decline in capital expenditure by 2.06 percent and increase in revenue expenditure by 4.66 percent of GSDP resulting in net increase in expenditure by 2.6 percent of GSDP. Net increase in revenue was 5.54 percent of GSDP. So, fiscal surplus was mainly due to increment in expenditure was less than the increment in revenue.

In 2017-18, Arunachal Pradesh achieved fiscal deficit of 2.75 percent of GSDP. Revenue collection was substantially improved over 2016-17, which was mainly due to implementation of GST. Own tax revenue collection which was Rs 708 crore in 2016-17 went up to Rs 3104 crore in 2017-18. Thus, the net increment was Rs 2395.95 crore (9.84 % of GSDP). Share in central taxes fell by Rs 1355 crore, resulting in net increase of tax revenue collection of Rs1040.92 crore. There was also an increase in magnitude of central grants by an amount Rs 2763 crore amounting to 11.35 percent of GSDP resulting in an increment of Rs 3958 crore (16.26 % of GSDP) in total revenue. With a comfortable revenue position, total expenditure increased by Rs 5500 crore in 2017-18 over 2016-17. Incremental

capital expenditure was 14.22 and that of revenue expenditure was 8.36 percent of GSDP during the same time.

Table 1.2: Increment in Revenue over Previous period (% of GSDP)

Year	Tax Revenue			Non Tax Revenue			Total
	Own Tax Revenue	Share in central Taxes	Total Tax revenue	Own Non Tax Revenue	Grants from the centre	Total Non Tax Revenue	
2010-11 over 2009-10	0.45	2.64	3.09	0.20	8.87	9.07	12.16
2011-12 over 2010-11	0.93	1.08	2.01	-1.53	0.23	-1.3	0.71
2012-13 over 2011-12	-0.01	0.94	0.93	-0.61	1.76	1.15	2.08
2013-14 over 2012-13	0.81	0.60	1.41	0.83	-1.84	-1.01	0.4
2014-15 over 2013-14	0.15	0.36	0.51	0.29	17.66	17.95	18.46
2015-16 over 2014-15	0.36	29.19	29.55	-0.32	-22.30	-22.62	6.93
2016-17 over 2015-16	0.78	5.93	6.71	0.69	-1.86	-1.17	5.54
2017-18 over 2016-17	9.84	-5.56	4.28	0.63	11.35	11.98	16.26
2018-19 over 2017-18	6.42	0.01	6.43	0.37	-0.17	0.2	6.63

Source: Computed from, Reserve Bank of India, State Finances: A Study of Budgets, various issues

1.3. Outstanding Liability and its Composition

Table 1.3 depicts the outstanding liability of the state since 2001. Total liability has increased from Rs. 7.4 billion in 2001 Rs. 64 billion by the end of 31st March 2018. As a percentage of GSDP it was highest and above 100 percent in 2009. Thereafter, it started declining and has reached to a level of 26.5%. This declining trend is mainly because of primary surplus experienced in some years and a rising trend of GSDP of the state.

Table 1.3: Outstanding Liability of Arunachal Pradesh

Year	Total Outstanding Liability (In Billion)	Outstanding Liability as a % of GSDP
2001	7.4	33.8
2002	7.9	30.7
2003	9.7	38.1
2004	17.4	60
2005	20.7	59.3
2006	24.1	64.2
2007	23.7	57.7
2008	28.4	59
2009	59.3	104.2
2010	31.6	42.3
2011	35.1	38.9
2012	39.5	35.7
2013	42.7	34
2014	47.1	32.3
2015	61.6	34.3
2016	57.2	28
2017	56.7	25.6
2018 (RE)	64.6	26.5
2019 (BE)	76.4	27.9

Source: Reserve Bank of India, State Finances: A Study of Budgets, various issues

Table 1.4 shows the changing composition of outstanding debt of the state. Between 2007 and 2018, share of loan from Banks and Financial Institution has declined from 8.6% to 0.31%, SDL loan has increased from 18.32 % to 35-65 % Share of loan and advance from centre has declined from 20-66% to 2.78%, Same is the case with NSSF, whose share has declined from 21.4% in 2007 to 17.44% in 2018. Share of provident fund in the total outstanding liability has been increasing from 22.77% in 2007 to 27.6% in 2018.

Table 1.4: Composition of Outstanding Liability (%)

Year	SDLs	Power Bonds/UD AY	Compensation and other bonds	NSSF	Loans from banks and FIs	Total Internal Debt	Loans and Advances from Centre	Provident Funds, etc.	Reserve Fund + Deposit & advance + Contingency fund	Total
2007	18.32	0.95	0	21.43	8.60	49.27	20.66	22.77	7.30	100
2010	21.12	0.50	0	18.35	7.87	47.81	15.83	24.30	12.06	100
2015	21.61	0	0	12.86	7.55	42.02	4.46	25.21	28.47	100
2016	21.57	0	0	13.73	6.05	41.50	3.76	26.14	28.43	100
2017	26.52	0	0	15.32	7.41	49.26	3.29	29.00	18.29	100
2018	35.65	0	0	17.44	0.31	53.40	2.78	27.62	16.20	100

Source: Reserve Bank of India, State Finances: A Study of Budgets , various issues

Table 1.5: Outstanding Liability (Rs Billion)

Year	SDLs	Power Bonds/ UDAY	Compensation and other bonds	NSSF	Loans from banks and Fls	Total Internal Debt	Loans and Advances from Centre	Provident Funds, etc.	Reserve Fund + Deposit & advance + Contingency fund	Total
2018	16.1			9.3	4.5	25.9	2.0	17.6	11.1	56.7

Source: Reserve Bank of India, State Finances: A Study of Budgets, various issues

Therefore, it may be concluded that dependency in NSSF, loan and advance from centre and loans from Banks in gradually declining and dependency of SDL is rising in the state.

CHAPTER - II

COMPOSITION OF REVENUE

During 2009-19, the reference decade of the present study the fiscal structure in general, and the revenue structure in particular, of Arunachal Pradesh radically changed. The State's taxing capacity was in the past very low and even now it is low. For example, in 2009-10 the State's own tax formed only 4.04 per cent of its total revenue and in the same year the share of the central tax flowing to the state was 11.07 percent of its total revenue. These two - own tax and the share of the central tax – together constituted only 15.11 percent of the total revenue. The rest, 84.89 per cent, was partly from own non-tax sources and mainly from the grant of the Central Government. Again, the relative weight of the State's own non-tax sources is small. It was only 11.90 percent of the aggregate revenue compared to as high as 72.99 percent from the grant of the Centre in 2009-10.

Table 2.1: Percentage Distribution of total Revenue

Year	Own tax	Share of central tax	Total tax	Own non-tax	Central grant	Total non-tax	Total revenue
2009-10	4.04	11.07	15.11	11.90	72.99	84.89	100
2010-11	3.97	13.28	17.25	9.78	72.97	82.75	100
2011-12	5.77	15.26	21.03	6.56	72.41	78.97	100
2012-13	5.49	16.63	22.12	4.93	72.95	77.88	100
2013-14	7.46	17.97	25.43	6.96	67.61	74.57	100
2014-15	5.06	12.15	17.21	5.01	77.78	82.79	100
2015-16	5.08	67.04	72.12	3.72	24.16	27.88	100
2016-17	6.02	71.21	77.23	4.63	18.14	22.7	100
2017-18	19.73	44.69	64.42	4.44	31.14	35.58	100
2018-19	27.70	40.08	67.78	4.56	27.66	32.22	100

The revenue structure of the State changed rather radically during the decade under study. The structural change of the State's revenue was initially small, becoming well-marked, as shown in table-2.1, from 2013-14. The basic characteristic of this change is first a slow rise, and then a rapid rise in the share of the State's own tax. Till 2016-17, the State's revenue from its own tax did not exceed 7.46 per cent of its total revenue. In 2016-17 the State's own tax was 6.02 percent of the total revenue, but in the next year, 2017-18, the share of the own tax jumped to 19.73 per cent of the total revenue (revised budget estimate, not the final figure). The budgeted share of the own tax for 2018-19 is 27.70 percent of the total revenue.

The share of Central tax carries some similarity with the State's own tax. The Central share was only 11.07 percent of the total revenue in 2009-10, it fluctuated between 12.15 percent to 17.97 percent during 2010-15 but in 2015-16 there was an abrupt increase forming as high as 67.04 percent of the total revenue. This represents a rise of 54.89 percentage points over the previous year. The rise in the share of the Central tax was accompanied by a fall in the share of Central grant. During 2009-15, the Central grant averaged 72.78 percent of the total revenue in the state. In the next four years 2015-19 of the decade under study, the share of the Central grant dropped down to 25.27 percent of the State's total revenue, and the share of Central tax averaged 55.75 percent of the State's total revenue.

Table 2.2: Relative Importance of Sources of Revenue in Arunachal Pradesh

Period	Own tax	Share of central tax	Total tax	Own non-tax	Central grant	Total non-tax	Total revenue
2009-14	5.35	14.84	20.19	8.03	71.78	79.81	100
2014-17	5.39	50.13	55.52	4.45	40.03	44.48	100
2017-19	23.71	42.39	66.10	4.50	29.40	33.90	100
2009-19	9.03	30.94	39.97	6.25	53.78	60.03	100

As summarized in Table 2.2, the decade 2009-19 witnessed major changes in the revenue structure of Arunachal Pradesh. This change is largely due to the tax reform introduced by the Central Government. Traditionally, Arunachal Pradesh has depended largely upon central grant to support its finance. The major changes in the revenue structure of the state that took place during 2009-19 are as below:

- (a) Steep rise in the share of tax and a fall in the share of non-tax revenue.
- (b) A rise in the share of Central tax and a fall in that of the central grant. During 2009-14, central tax contributed only 14.84 percent of the State's total revenue; this rose to 50.13 percent during 2014-17 and in the last two years 2017-19 the share of central tax declined by 7.74 percentage points to 42.39 percent.
- (c) In the past Arunachal Pradesh depended heavily upon the central grant. For example, during 2009-14 the central grant averaged 71.78 percent of the total revenue of the state. This declined steeply to 29.40 percent of the total revenue during 2017-19.

Table 2.3: Revenue Receipts as percentage of GSDP

Year	Own tax	Share of central tax	Total tax	Own non-tax	Central grant	Total non-tax	Total revenue
2011-12	2.87	7.59	10.46	3.26	35.99	39.25	49.71
2012-13	2.52	7.64	10.16	2.26	33.50	35.76	45.92
2013-14	2.98	7.17	10.15	2.78	26.99	29.77	39.92
2014-15	2.57	6.18	8.75	2.55	39.57	42.12	50.87
2015-16	2.63	34.62	37.25	1.92	12.48	14.40	51.65
2016-17	3.16	37.42	40.58	2.43	9.54	11.97	52.55
2017-18*	12.70	28.78	41.48	2.86	20.05	22.91	64.39

*Provisional

The revenue of the state is indeed high compared with the Gross Domestic Product of the State (GSDP). In 2011-12 total revenue was 49.71 percent of the GSDP and in 2017-18 it rose to 64.39 percent of the GSDP, the highest in the seven-year period. The lowest value of this percentage is 39.92 taking place in 2013-14. Compared with the size of the GSDP, own tax appears very small, it varied between 2.52 percent to 3.16 percent except in 2017-18 when the percentage soared to a provisional value of 12.70 percent.

Tax and Non-tax Revenue: A Comparison among Northeastern States

The pattern of taxation in Northeast India provides a binary picture which, to a large extent, is reflective of the topography of the region: hills and plains. Assam with largely a plain topography has a long tradition of taxation, and it has over a long period of time built an elaborate institutional structure of revenue collection. Unlike the plains of Assam, hilly states of Northeast India including Arunachal Pradesh are in the process of building an institutional mechanism of taxation. The best example illustrating this lagging of the Northeastern hills is the tax on the cultivable land. In the plains of Assam and of the rest of the country the tax on cultivable land and its institutional instrument, the cadastral survey, have a long history. But the hilly states of Northeast India are yet to conduct the cadastral survey to institutionalize the transactions on land and impose tax on it, especially the one which has been brought under permanent cultivation. Given a short history of taxation and immaturity of the instrument of tax collection, it is not unexpected that the own tax and non-tax revenue of Arunachal Pradesh like most other hilly states are low.

Table 2.4 gives a comparative picture of the sources of revenue of all the Northeastern states. On the relative importance of own tax in total revenue, Arunachal Pradesh and Assam are at diametric opposites. In Arunachal Pradesh own tax forms only 5.07 percent of the total revenue, the lowest in Northeast India. On the other extreme, Assam's own tax forms as high as 23.81 percent of her total revenue. Meghalaya, Tripura and Sikkim have also more than 10

percent of their revenue coming from their own tax. Like Arunachal Pradesh, three other hill states, Nagaland, Mizoram and Manipur have less than 10 percent of their revenue from own tax.

Table 2.4: Sources of Revenue: A comparison among Northeastern States 2015-16.

Sl. No.	States	Total Tax	Own Tax	Share of Central Tax	Total Non-Tax	Own Non-Tax	Central Grants	Total Revenue
1	Arunachal Pradesh	72.12	5.07	67.05	27.88	3.72	24.16	100.00
2	Meghalaya	61.52	15.00	46.52	38.48	3.25	35.23	100.00
3	Nagaland	36.90	5.31	31.59	63.10	3.19	59.91	100.00
4	Mizoram	40.54	5.37	35.17	59.46	4.46	55.00	100.00
5	Manipur	44.60	6.67	37.93	55.40	1.81	53.59	100.00
6	Tripura	48.78	14.13	34.65	51.22	2.79	48.43	100.00
7	Assam	63.34	23.81	39.53	36.66	6.46	30.20	100.00
8	Sikkim	64.40	14.98	49.42	35.60	10.91	24.69	100.00
9	Average	54.03	11.29	42.74	45.97	4.57	41.40	100.00

Arunachal's relative position among the Northeastern states is better in case of own non-tax revenue. Two extreme points are occupied by Sikkim on higher end, with own non-tax revenue being 10.91 percent of her total revenue and Manipur, on lower end with own non-tax forming only 1.81 percent of her total revenue. Arunachal's position is fourth from above, with her own non-tax revenue forming 3.72 percent of her total revenue. One distinctive feature of Arunachal's revenue structure is the relative importance of the share of central tax. In 2015-16 the share of central tax formed as high as 67.05 percent of her total revenue. In the same year, the second position in the Northeast was occupied by Sikkim with the share of central tax forming 49.42 percent of her total revenue. In 2015-16, the share of central tax averaged 42.74 percent of the total revenue of all the Northeastern states.

Another way of looking at the structural features of the revenue is to relate the yields of different revenues to the overall economic base, the Gross State Domestic Product (GSDP). We take Own Tax Revenue (OTR) and Non-Tax Revenue (NTR) as percentage of GSDP. As shown in table 4 OTR and NTR relative to GSDP are low in

Arunachal Pradesh but there are states in Northeast India whose OTR and NTR are lower than her position. OTR is 2.89 percent of GSDP in Arunachal Pradesh, which is higher than Nagaland's 2.19 percent and Mizoram's 2.37 percent. Assam's OTR forms 4.43 percent of her GSDP, the highest value among the Northeastern states. The average Northeastern value of OTR as percentage of GDSP is 3.95.

In case of NTR as percentage of GSDP Arunachal's position in Northeast is a tied second, with both Arunachal Pradesh and Sikkim having the same value, 2.12 percent. Assam occupies the first position with a high value of 6.83 percent. Tripura, Meghalaya and Manipur have values which are less than 1 percent. Northeastern average value of NTR as percentage of GSDP is 4.64. If Assam is excluded, then the remaining seven states have an average value of only 1.33.

Table 2.5: Own tax (OTR) and Non-tax Revenue (NTR) Relative to GSDP in Northeastern States: 2015-16.

S l. N o.	States	GSDP (Current price in Crore of Rs.)	Own Tax Revenue (Rs. In Crore)	Own Non-Tax (Rs. In Crore)	OTR as percentage of GSDP	NTR as percentage of GSDP	Sum of OTR and NTR as percentage of GSDP	Total Revenue as percentage of GSDP
1	Arunachal Pradesh	18534	535.07	392.16	2.89	2.12	5.01	41.06
2	Assam	227959	10106.50	15566.32	4.43	6.83	11.26	18.63
3	Manipur	18129	552.13	149.49	3.05	0.82	3.87	45.67
4	Meghalaya	25117	1056.82	228.60	4.21	0.91	5.12	28.04
5	Mizoram	15139	358.41	297.63	2.37	1.97	4.34	44.10
6	Nagaland	19524	427.10	256.39	2.19	1.31	3.50	41.20
7	Sikkim	18034	566.81	412.99	2.90	2.12	5.02	19.38
8	Tripura	35938	1332.25	262.60	3.71	0.73	4.44	26.23
9	Northeast India	378374	14935.09	17566.18	3.95	4.64	8.59	24.77
10	Northeast India except Assam	150415	4828.59	1999.86	3.21	1.33	4.54	34.08

The low values of OTR/ GSDP and NTR / GSDP underlie the dependence of most of the Northeastern states upon the Central funds. Given the level and growth profile of income it is necessary that specially the states including Arunachal Pradesh should take measures to raise the fiscal resources locally.

Arunachal Pradesh, a resource-rich state, should take measures to enhance the public revenue. The basic thrust would be upon strengthening the instruments of tax collection. The following measures appear to be relevant:

1. The price of urban land has skyrocketed in recent years, and the volumes of transactions have increased. The Government should enhance the registration fee in a progressive manner so as to generate a higher revenue from transactions on land.
2. Raising sales tax rate especially on luxury goods is a sure way to enhance the volume of tax.
3. Revenue intelligence branch of the government should be strengthened in order to keep track of the transactions whose values exceed some threshold level.

4. In order to enhance the efficiency of tax collection, the corrupt practices must be eliminated through a better administration of justice. For justice to be done its delivery should be quick and fair.

Public Expenditure

The basic feature of the public expenditure of Arunachal Pradesh is predominance of revenue expenditure. During the decade under study revenue expenditure varied from a low of 54.98 percent (budgeted) in 2018-19 to a high of 81.47 percent of total expenditure in 2016-17. In six out of 10 years revenue expenditure exceeded 70 percent of total expenditure. In three years revenue expenditure varied between 60 to 70 percent. Only in one year 2018-19 the budgeted revenue expenditure was below 60 percent of total expenditure. A high value of revenue expenditure is indicative of the fact that the Government spends more on current consumption than on construction of permanent assets.

Table 2.6: Composition of Expenditure in Arunachal Pradesh.

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure	Composition of expenditure		Total
				Revenue	Capital	
2009-10	3698.74	1093.97	4792.71	77.17	22.83	100
2010-11	3744.24	1666.48	5410.72	69.20	30.80	100
2011-12	4417.86	2207.58	6625.44	66.68	33.32	100
2012-13	4786.24	1376.33	6162.57	77.67	22.33	100
2013-14	5731.39	1867.31	7598.70	75.43	24.57	100
2014-15	7156.59	2552.27	9708.86	73.71	26.29	100
2015-16	8362.74	3292.67	11655.41	71.75	28.25	100
2016-17	9394.54	2137.00	11531.54	81.47	18.53	100
2017-18	11431.33	5674.96	17106.29	66.83	33.17	100
2018-19	10255.66	8396.84	18652.50	54.98	45.02	100

As shown in table 2.7 the Government expenditure was well above the 50 percent of the state's GSDP in all years except one viz 2012-13 when the expenditure was 49.12 percent of the state's GSDP.

Table 2.7: Expenditure as percentage of GSDP

Year	Revenue expenditure	Capital expenditure	Total expenditure
2011-12	39.93	19.96	59.89
2012-13	38.15	10.97	49.12
2013-14	39.31	12.81	52.12
2014-15	39.85	14.21	54.06
2015-16	40.93	16.11	57.04
2016-17	41.91	9.54	51.45
2017-18	46.77	23.22	69.99

Note: GSDP data of the same base being not available, percentages for 2009-10 & 2010-11 could not be calculated.

PRIMARY EXPENDITURE AND INTEREST PAYMENT

Over the years interest payment has grown to become a significant component of Government expenditure in Arunachal Pradesh. During the decade under study, interest payment shows a clear upward trend. It stood at Rs. 226.00 in 2009-10 and in the next year it rose to Rs. 399.92 crore, a big jump of 76.96 percent. However in the following year 2011-12 it fell by 29.53 percent to Rs. 281.81; a further decline of 3.53 percent occurred in 2012-13. In all subsequent years, except 2016-17 which saw a marginal fall of 3.95 percent, there was a rise in the interest payment.

The level of interest payment like that of the primary expenditure shows a clear positive trend, and their relative position measured by the interest payment as the percentage of total expenditure does not show any well-marked trend; rather it shows a fluctuating behaviour. In 2010-11, interest payment rose to 7.39 percent of the total expenditure, the highest percentage in the decade under study. The opposite happened in 2017-18, when the payment of interest plummeted to 2.84 percent of the total expenditure, the lowest in the decade.

Table 2.8: Composition of Expenditure of the Government of Arunachal Pradesh

Year	Composition of Total Expenditure		
	Primary Expenditure	Interest Payment	Total
2009-10	95.26	4.74	100
2010-11	92.61	7.39	100
2011-12	95.75	4.25	100
2012-13	95.59	4.41	100
2013-14	95.89	4.11	100
2014-15	96.39	3.61	100
2015-16	96.43	3.57	100
2016-17	96.54	3.46	100
2017-18	97.16	2.84	100
2018-19	95.75	4.25	100
Average	95.74	4.26	100

Government expenditure in Arunachal Pradesh is high relative to the Gross State Domestic Product (GSDP). In 2011-12 total expenditure was 59.89 percent of the GSDP; primary expenditure was 57.34 percent and interest payment 2.55 percent of GSDP. Table 9 shows the position of primary expenditure and interest payment relative to GSDP in Arunachal Pradesh during 2011-18. There is a significant variation of the proportion spent on interest payment. The lowest proportion, 1.78 percent of the GSDP took place in 2016-17. It was in 2011-12 that the interest payment as percentage of GSDP rose to 2.55. Primary expenditure in 2011-12 was also high, 57.34 percent of GSDP. During 2011-18, primary

expenditure averaged 54.14 percent of an interest payment averaged 2.09 percent of GSDP. Primary expenditure and hence total expenditure of 2017-18 is not actual, it is budgeted. It seems to be an outlier. If 2017-18 is excluded, the total expenditure as percentage of GSDP falls down to 53.94, a fall of 2.29 percentage points. Average primary expenditure falls down to 51.84 percentage of GSDP during 2011-17 from 54.14 percentage of GSDP during 2011-18. It shows a fall of 2.29 percentage points.

Table 2.9: Primary Expenditure and Interest Payment Relative to GSDP in Arunachal Pradesh

Year	Composition of Total Expenditure		
	Primary Expenditure	Interest Payment	Total
2011-12	57.34	2.55	59.89
2012-13	46.95	2.17	49.12
2013-14	49.97	2.14	52.11
2014-15	52.10	1.95	54.05
2015-16	55.01	2.03	57.04
2016-17	49.66	1.78	51.44
2017-18	68.00	1.99	69.99
Average	54.14	2.09	56.23
Average (excluding 2017-18)	51.84	2.10	53.94

Overall government expenditure in Arunachal Pradesh as percentage of GSDP is much higher than that of the Central Government. For example, in no year during 2014-18, total expenditure of the Government of India exceeded 14 percent of GDP. In this period the primary expenditure was less than 1 percent of GDP.

Committed Expenditure

In Arunachal Pradesh committed component constituted more than one third of government expenditure during 2010-18. All the three committed components – salary, pension and interest payment – do not carry the same weight. It is the salary that takes the lion’s share of the committed expenditure. Again, committed expenditure also carries a heavy weight in the budget of the Government. During 2010-18, committed expenditure averaged 36.65 percent of the total expenditure of the Government of Arunachal Pradesh. Table 2.10 shows the distribution of committed expenditure among the three elements – salary, pension and interest payment. It also shows the committed segment in total expenditure of the Government of Arunachal Pradesh. As shown in table 10, salary formed on average 73.33 percent of committed expenditure during 2010-18. The rest two, pension and interest payment, averaged almost equally during the period. Table 11 gives the details of

distribution of committed expenditure. Salary peaked to 30.96 percent of Government expenditure in 2012-13. Its lowest value (provisional) was 20.91 percent in 2017-18.

Table 2.10: Committed Expenditure of the Government of Arunachal Pradesh.

(Rupees in Crore)

Year	Total Salary	Pension	Interest payment and servicing of debts	Total committed expenditure	Committed expenditure as percentage of total expenditure
2010-11	1430.77	222.24	416.92	2069.93	38.26
2011-12	1736.02	237.85	300.81	2274.68	34.33
2012-13	1907.78	330.70	291.85	2530.33	41.06
2013-14	2150.05	398.40	332.51	2880.96	37.91
2014-15	2751.94	480.71	370.88	3603.53	37.12
2015-16	2951.23	539.74	615.64	4106.61	35.23
2016-17	3381.17	630.81	549.23	4561.21	39.55
2017-18	3577.75	827.81	685.99	5091.55	29.76
Average	2485.84	458.53	445.48	3389.85	36.65
Distribution of committed expenditure	73.33	13.53	13.14	100.00	

The high value of committed expenditure especially the salary component is due to the rapid expansion of the size of the Government of Arunachal Pradesh. The staff strength of the Government has increased because of the expansion of Government administrative services. It may be noted that up to the beginning of 1970s there are only five districts in Arunachal Pradesh. From the 1980s, the number of districts started increasing. As of now there are 25 districts in Arunachal Pradesh and an average population per district is only 53 thousand. Compared to it the number of districts in UP is 75 and population per district is 26.64 lakh, about double the population in entire Arunachal Pradesh. In Bihar the population per district is 26.02 lakh. The large number of districts in Arunachal Pradesh is due to its linguistic and cultural diversity. There are good number of major tribes and sub-tribes. Independent cultural expression demands a measure of administrative autonomy. This is possible through the creation of administrative and other services in a linguistic and cultural unit.

Table 2. 11: Components of committed expenditure as percentage of total expenditure in Arunachal Pradesh.

Year	As percentage of total expenditure			Committed expenditure as percentage of total expenditure
	Total Salary	Pension	Interest payment	
2010-11	26.44	4.11	7.71	38.26
2011-12	26.20	3.59	4.54	34.33
2012-13	30.96	5.37	4.73	41.06
2013-14	28.29	5.24	4.38	37.91
2014-15	28.34	4.95	3.82	37.11
2015-16	25.32	4.63	5.28	35.23
2016-17	29.32	5.47	4.76	39.55
2017-18	20.91	4.84	4.01	29.76
Average	26.97	4.78	4.90	36.65
Highest	30.96	5.47	7.71	41.06
Lowest	20.91	3.59	3.82	29.76

Table 2.12: Revenue Receipt of the Government of Arunachal Pradesh. (Rs. in Crores)

Year	Own tax	Share of central tax	Total tax	Own non-tax	Central grant	Total non-tax	Total revenue
2009-10	173.43	475.41	648.84	511.25	3134.78	3646.03	4294.87
2010-11	214.98	720.19	935.17	530.14	3956.78	4486.92	5422.09
2011-12	317.65	839.97	1156.62	360.71	3981.73	4342.44	5499.06
2012-13	316.50	957.92	1274.42	284.22	4202.88	4487.10	5761.52
2013-14	434.51	1045.85	1480.36	405.06	3935.01	4340.07	5820.43
2014-15	462.16	1109.97	1572.13	457.64	7106.27	7563.91	9136.04
2015-16	536.31	7074.34	7610.65	392.16	2550.33	2942.49	10553.14
2016-17	708.75	8388.30	9097.05	544.82	2137.70	2682.52	11779.57
2017-18	3104.70	7033.28	10137.97	699.30	4901.03	5600.33	15738.31
2018-19	4862.54	7035.93	11898.47	800.00	4855.10	5655.10	17553.57

Table 2.13: Trend of Primary Expenditure and Interest Payment during 2009-19.

Year	Primary Expenditure	Interest Payment	Total Expenditure	Percentage of		Total
				Primary expenditure	Interest Payment	
2009-10	4565.72	226.99	4792.71	95.26	4.74	100
2010-11	5010.80	399.92	5410.72	92.61	7.39	100
2011-12	6343.63	281.81	6625.44	95.75	4.25	100
2012-13	5890.72	271.85	6162.57	95.59	4.41	100
2013-14	7286.19	312.51	7598.70	95.89	4.11	100
2014-15	9357.98	350.88	9708.86	96.39	3.61	100
2015-16	11239.77	415.64	11655.41	96.43	3.57	100
2016-17	11132.31	399.23	11531.54	96.54	3.46	100
2017-18	16620.30	485.99	17106.29	97.16	2.84	100
2018-19	17860.60	791.90	18652.50	95.75	4.25	100
Average				95.737	4.263	100

Box 2.1 : A Note on Subsidies Given By Arunachal Pradesh

Government gives subsidies to people through different schemes. Box 2.1. gives the details of subsidies

Year	Amount of subsidies (Rs Crore)	Subsidies as % of GSDP	Subsidies as % of Total Committed Expenditure
2009-10	1.1	0.01	0.05
2010-11	1.78	0.02	0.08
2011-12	4.08	0.04	0.17
2012-13	4.05	0.03	0.15
2013-14	5.86	0.04	0.18
2014-15	7.02	0.04	0.19
2015-16	12.03	0.06	0.29
2016-17	4.99	0.02	0.11
Average	5.11	0.04	0.16

Source: CAG Report on State Finances, Government of Arunachal Pradesh, (Various Issues)

Table shows the amount of subsidies given by Government Of Arunachal Pradesh in various years. It ranges from Rs 1.1crore in 2009-10 to Rs 12.03 crore in 2015-16. Average subsidy per annum was Rs5.11 crore which comes to 0.04 percent of average GSDP and 0.16 percent of total committed expenditure. Therefore, ne may conclude that subsidy is not a major challenge in the fiscal health of Arunachal Pradesh

CHAPTER -III

OWN NON-TAX REVENUES

3.0. Introduction

Arunachal Pradesh is a revenue scarce State. The revenue receipts of the State comprises of own tax revenue, state's own non-tax revenue, share in central taxes, and grant-in-aids from the centre. The revenue generation from the internal sources of the State is highly inadequate to finance its expenditure requirement. For example, in 2015-16 the total revenue from its own sources could finance only 11 per cent of its total expenditure (RBI, 2017). In the same year the revenue from its internal sources accounted for only around 9 per cent of its aggregate revenue. This is mainly due to low tax base owing to low level of industrial and business activities and also due to poor tax administration.

Thus, the State finance is highly dependent on inflow of funds from centre (Arunachal Pradesh Development Report 2009). The State plan is largely dependent on central assistance. The Central transfer (share in central taxes and grant-in-aid) accounts for more than 80 per cent of the State's aggregate revenue. In the recent years, the share of central transfer has increased and reached a level of 91.21 per cent of its aggregate revenue in 2015-16 (RBI, 2017). However, the inflow of funds to the State from the centre which had shown declining trend in 2007-08, again started rising from 2008-09 onwards. The share in central taxes increased sharply after 2014-15. However, the grant-in aid component has declined sharply after 2014-15. This decline may adversely affect developmental activities of the State government. 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 from 64.2 per cent of GSDP in 2006-07 to 104.2 per cent in 2009-10. However, after that it has shown declining trend. In 2016-17 the public debt of the State had declined to 27.9 per cent (RBI, 2018). This improvement can be attributed to fiscal consolidation after the implementation of FRBM Act from 2006-07 and significant jump in share in central taxes during 14th Finance Commission period.

The excessive dependence on the Central transfer is not conducive for the State's financial health as sudden fall in central inflow can adversely affect its developmental activities. The excessive dependence on central inflow of funds is not conducive from the long run perspectives as the 14th Finance Commission has withdrawn the status of special category States and as a result inflow of grants-in-aid has drastically reduced from 2015-16 onwards (Annexure I). Therefore, the State has to make sincere efforts to mobilise more revenue from internal sources; both tax and non-tax to finance its growing expenditure. The revenue from tax source can be enhanced through widening of tax net, reducing leakages and improving tax administration. The implementation of GST is likely to reduce leakages and improve revenue collection. The revenue collection from non-tax sources can be enhanced through appropriate pricing policy, improving performances of public sector enterprises, expansion and better delivery of public services, power royalty and corporatisation of departmental enterprises.

In this background, this chapter analyses 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.

3.1. Trend in State's Own Non- Tax revenue

The various sources of the State's own non-tax revenue are as follows:

- (i) Interest receipts – includes revenue from interest receipts on loans and advances given by the State government to its employees and interest from deposits in the banks.
- (ii) Dividends and profits – includes dividends and profits from departmental and non-departmental commercial enterprises of the State government.
- (iii) General services – includes revenue from administrative services like fees, license, permit, fines and penalties etc.
- (iv) Social services – includes revenue from education, sports, art and culture, medical and public health, family welfare, housing, urban development, labour and employment, social security and welfare, water supply and sanitation etc.
- (v) Economic services – includes revenue from power, crop husbandry, animal husbandry, fisheries, forestry and wildlife, cooperation, agricultural programmes, minor irrigation projects, industries, village and small scale industries, road transport, tourism etc.

The trend and growth in State's Own Non-Tax Revenue (ONTR) has been found to be fluctuating during the period under review (Table 3.1). Initially, it increased sharply by 121.05 per cent from Rs. 297.18 crores in 2006-07 to Rs. 656.92 in 2007-08. It further rose to

a peak level of Rs. 772.01 crores in 2008-09. This was mainly due to receipt of huge amount of power royalty from Hydro Power Companies (NEEPCO) (power alone contributed Rs. 609.74 crores which was 78.98 per cent of the States' own non-tax revenue). However, thereafter the own non-tax revenue declined sharply to Rs. 511.25 crores in 2009-10. The decline was mainly due to substantial fall in revenue from power to Rs. 329.27 crores. The sharp fall in revenue from power after 2008-09 can be attributed to the fact that 10 per cent power royalty receipt by the State government from Power Companies was not shown in the budget document.

The state's own non-tax revenue increased by 3.69 per cent to Rs. 530.14 crores in 2010-11. It was mainly due to significant increase in interest receipts. But in 2011-12, it again fell sharply by 31.96 per cent to Rs. 360.71 crore. The decline was on account of sharp fall in revenue from interest receipts and economic services. It further declined by 21.20 per cent to Rs. 284.22 crores in 2012-13. It was also due to fall in revenue from interest receipts and economic services (mainly power). In 2013-14 Own Non-Tax Revenue of the State increased by 42.52 per cent to Rs. 405.06. The increase was contributed by substantial improvement in revenue from general, social and economic services (industries and power). It further improved by 12.98 per cent to Rs. 457.64 crores in 2014-15 which was mainly due to significant increase in revenue from economic services (industries and power). But the ONTR fell by 14.31 per cent to Rs. 392.16 crores in 2015-16. It was due to sharp fall in revenue from economic services (industries and power) which could not be compensated by the improvement in revenue from interest receipts and general services. But in recent year there has been upward trend in the State's Own Non-Tax Revenue and it grew by 38.93 per cent to Rs. 544.82 crores in 2016-17 which was due to significant increase in revenue from economic services (power revenue more than doubled). The revenue from interest receipts and general services also contributed to the improvement in ONTR in 2016-17 (Annexure II).

Table 3.1: Trend in Own Non-Tax Revenue (ONTR) of the Government of Arunachal Pradesh

Year	Own Non-Tax Revenue (Rs. in Crore)	Growth rate of ONTR (%)	ONTR as percentage of Total Revenue
2006-07	297.18	46.85	11.46
2007-08	656.92	121.05	21.88
2008-09	772.01	17.52	20.02
2009-10	511.25	-33.78	11.90
2010-11	530.14	3.69	9.78
2011-12	360.71	-31.96	6.56
2012-13	284.22	-21.20	4.93
2013-14	405.06	42.52	6.96
2014-15	457.64	12.98	5.01
2015-16	392.16	-14.31	3.72
2016-17	544.82	38.93	4.63

Source: State Finances: A Study of Budget, RBI

The fluctuation in the State's ONTR during the period under review can be attributed to fluctuation in revenue from interest receipts and economic services (mainly power) as these two sources together account for around 75 per cent of ONTR. This is clearly depicted in figure 3.1 and 3.2. The State's own tax revenue has peaked with the power revenue and vice-versa. The growth in own tax revenue is shown in figure 3. 3.

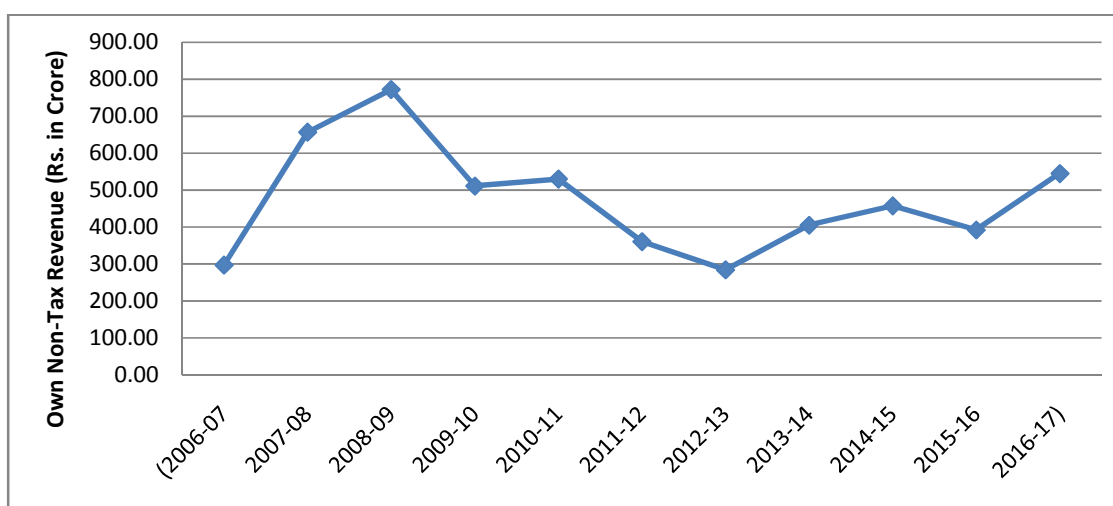


Figure 3.1: Trend in State's Own Non-Tax Revenue

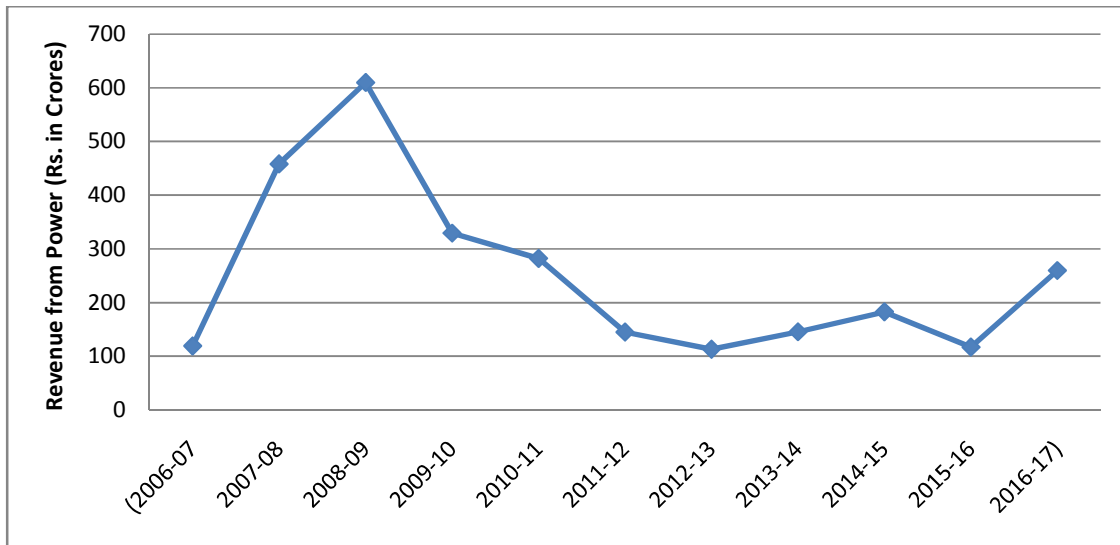


Figure 3.2: Trend in Revenue from Power

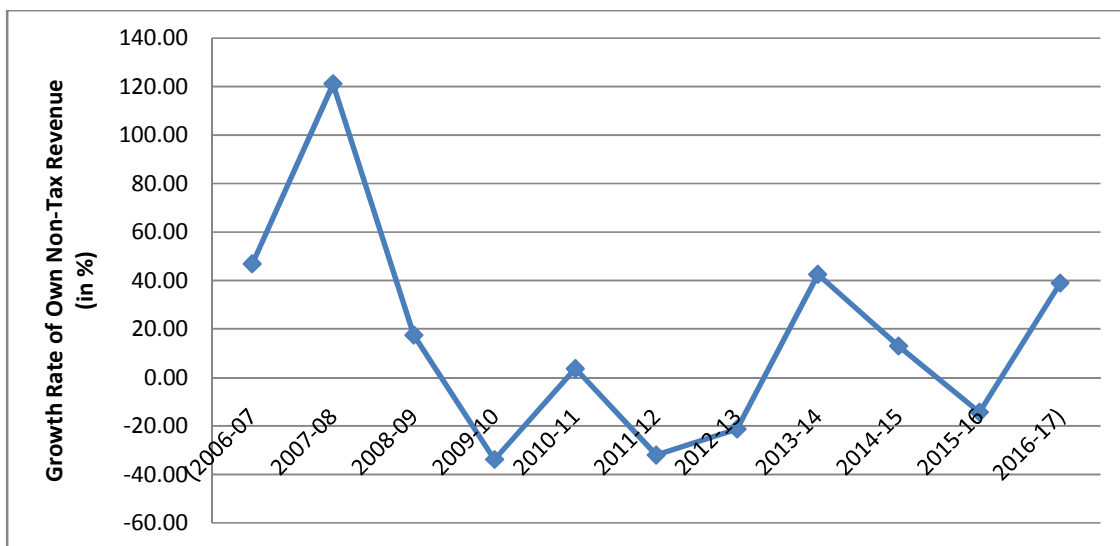


Figure 3.3: Growth in State's Own Non-tax Revenue.

The share of State's own non-tax revenue in aggregate revenue has shown declining trend during the period under review (Table 3.1). The State's own non-tax revenue accounted for only 11.46 per of aggregate revenue in 2006-07. Its share in aggregate revenue rose sharply to 21.88 per cent in 2007-08. Thereafter, there has been declining trend in its share in aggregate revenue. 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 the lowest level of 3.72 per cent in 2015-16. In 2016-17 its share in aggregate revenue improved marginally to 4.63 per cent.

The trend in the State's ONTR relative to GSDP during 2006-07 to 2015-16 is given in the Annexure I (c). The ONTR relative to GSDP, after increasing initially has shown declining trend. However, after 2008-09 there has been sharp decline in the ONTR as percentage of GSDP which is unhealthy and needs to be reversed. It initially increased from 7.23 per cent of GSDP in 2006-07 to 13.57 per cent of the GSDP in 2008-09. Thereafter, it fell sharply to 2.27 per cent of GSDP in 2012-13. It improved marginally to 2.78 per cent of GSDP in 2013-14 after which it fell again. In 2015-16, the State's ONTR was only 1.95 per cent of GSDP which is the lowest during the period under review.

3.2. Impact of Discontinuation of Plan Grants State's Revenue Receipts

The total revenue receipts of the State relative to GSDP has also shown declining trend during the period under review. After increasing initially from 63.10 per cent of GSDP in 2006-07 to 67.80 per cent of GSDP in 2008-09, the total revenue receipt of the State declined and reached a level of 39.92 per cent of GSDP in 2013-14. The increase in total revenue receipt relative to GSDP during 2006-07 to 2008-09 was mainly contributed by sharp increase in own non-tax revenue and grant-in aid from Centre. The decline in total revenue receipt relative to GSDP during 2011-12 to 2013-14 was mainly on account of fall in own non-tax revenue, sharp fall grant-in-aid from the Centre and fall in share in central taxes as well as grants (Annexure I (c)).

However, after 2013-14 there has been improving tendency in the revenue receipt of the State. The total revenue receipts of the State relative to GSDP improved to 51.23 in 2014-15 and further improved to 52.44 per cent in 2015-16. The improvement in 2014-15 was mainly on account of sharp increase in grant-in-aid from the Centre which rose from 26.99 per cent of GSDP in 2013-14 to 39.85 per cent of GSDP in 2014-15. But in 2015-16 there was a sharp fall in grant-in-aid from the centre. The grant-in-aid as percentage of the GSDP fell from 39.85 per cent in 2014-15 to 12.67 per cent of GSDP in 2015-16. This was mainly on account of fall in grant component owing to discontinuation of plant grants like, SCA and NCA after the abolition of Planning Commission. However, the fall in grant-in-aid was compensated by the substantial increase in the share in central taxes which increased from 6.22 per cent of GSDP to 35.16 per cent of GSDP in 2015-16. As a result the total central transfer marginally improved from 46.07 per cent of GSDP in 2014-15 to 47.83 per cent in 2015-16 and total revenue receipts of the State improved by 1.21 percentage points to 52.44 per cent of GSDP in 2015-16. The substantial increase in share in central taxes can be

attributed to the implementation of the recommendations of the 14th Finance Commission which had increased the States' share in divisible pool of resource from 32 per cent to 42 per cent (Economic Survey 2014-15). Accordingly the share of Arunachal Pradesh in the States' share in tax proceeds increased substantially to 1.37 during the 14th Finance Commission period (2015-2020) compared to 0.328 during 13th Finance Commission period.

As a percentage of total revenue receipts, grant-in-aid from the centre declined by 53.61 percentage points in 2015-16 i.e. from 77.78 per cent in 2014-15 to 24.17 per cent in 2015-16 and it further fell to 18.15 per cent in 2016-17. However, the total central transfer increased from 89.93 per cent in 2014-15 to 91.21 per cent in 2015-16 and but fell marginally to 89.36 per cent in 2016-17. This was mainly due sharp rise in the share in central taxes by 54.9 percentage points in 2015-16 i.e. from 12.15 per cent in 2014-15 to 67.05 per cent in 2015-16 and to 71.21 per cent. The increase in share in central taxes more than to compensate the fall the grant-in aid component as a result the total central transfer as well as total revenue receipts improved marginally. In absolute term the total central transfer increased from Rs. 8216.24 crore in 2014-15 to Rs. 9625.91 crore in 2015-16 and to Rs. 10526 crore in 2016-17. Hence, there was no negative impact of fall in plan grants on the revenue receipts of the State.

Further, the plan grants from the Planning Commission to the State used to be tied grants under which the State had to use the fund for the specific purpose. During the 14th Finance Commission period, the share of plan grants in total Central transfer has fell sharply and that of share in Central taxes has increased substantially. In the changed situation, the State can enjoy greater freedom to decide over the use of resources. This may lead to adverse effect on quality of public expenditure.

3.3. Growth of State's Own Non-Tax Revenues

The own non-tax revenue of the State initially grew at a very high rate. In 2006-07 the ONTR grew at 46.85 per cent and in 2007-08 it grew at 121.05 per cent. The high growth was mainly due to substantial growth in power revenue which grew at 285 per cent in that year (Annexure III). After that the growth in ONTR slowed down and in 2009-10 it declined by 33.78 per cent. It was due to fall in power revenue by 46 per cent. But it grew by 3.69 per cent in 2010-11 despite fall in power revenue by 14.30 per cent. The growth was on account of high growth in revenue from interest receipts (178.2 per cent). It started to improve from 2013-14 onwards when it grew at 42.52 per cent. It was mainly due to growth power revenue

by 28.6 per cent and growth in industrial revenue by 115 per cent. In 2015-16 the ONTR again declined by 14.31 per cent. It was on account of fall in power revenue by 35.9 per cent and fall in revenue from industries by 47 per cent. However, in 2016-17 ONTR of the State improved by 38.93 per cent which was mainly due to growth in power revenue by 121.8 per cent. During the period under review (2006-07 to 2016-17) the States ONTR grew at 8.33 per cent per annum on an average. The growth in revenue from different sources is given in the Annexure III.

3.4. 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 (Annexure IV). Dividends and profits are found to contribute no revenue, except for one year, during the period under review. Dividends and profits are found to contribute revenue 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. 1.62 lakh 2009-10) during the period under review. However, as a percentage of aggregate own non-tax revenue, it was negligible (Annexure IV).

Economic services were found to contribute the highest percentage share in the State's own non-tax revenue during the period under review (Annexure III). Within the economic services, the highest share is contributed by the power sector. During the period under review, composition of own non-tax revenue has shifted in favour of economic services and interest receipts. However, the revenue from these two sources has been highly fluctuating. Together these two sources accounted for around 70-75 per cent of the total ONTR. Thus, the fluctuation in the State's ONTR during the period under review has been mainly due to fluctuation in revenue from these two sources.

The shares of interest receipts in aggregate own non-tax revenue have increased, with some fluctuations, during the period under review. The revenue from interest receipts has been fluctuating but it is the third largest contributor to ONTR. The share of interest receipts in ONTR has increased from 4.56 per cent in 2006-07 to a peak level of 21 per cent in 2010-11. Thereafter, its share declined and reached the lowest level of 2.87 per cent in 2014-15. After that its share improved significantly and accounted for 10.35 per cent of ONTR in 2016-17 (Annexure II).

The economic services are found to be the largest contributor to the State's ONTR. Within the economic services power is the most important contributor. However, the revenue from the power is found to highly fluctuating which resulted in drastic fluctuation in the aggregate ONTR as it is a significant contributor. For instance, the share of economic services in the ONTR increased from 67.30 per cent in 2006-07 to 90.42 per cent in 2008-09. Thereafter, its share fell to 85.88 per cent in 2009-10 and further fell to 73.84 per cent in 2010-11. After that its share improved and in 2014-15 it accounted for 84.34 per cent of ONTR. Thereafter, the contribution of economic services declined and in 2016-17 it accounted for 66.43 per cent of ONTR.

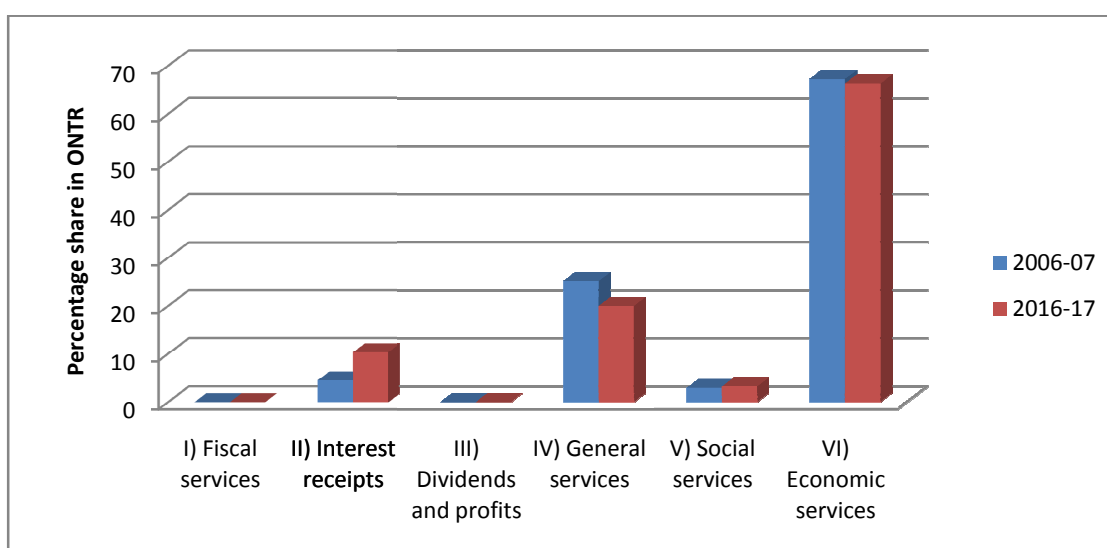


Figure 3.4: Change in Share of different sources in the State's own non-tax revenue

The relative importance of general services has declined till 2014-15. Its share in ONTR declined from 25.20 per cent in 2006-07 to 6.66 per cent in 2014-15. However, since then its share has improved and in 2016-17 it accounted for 20 per cent of the ONTR. On the other hand, the contribution of social services to aggregate own non-tax revenue, after declining initially from 2.95 per cent in 2006-07 to 1.11 per cent in 2007-08, has shown increasing tendency and its share improved to 7.28 per cent in 2015-16.

The revenue from dividends and profits is found to be zero during the period under review, except in 2011-12 when it contributed a small amount of Rs. 20 thousands only. This indicates the poor performance of public sector enterprises. However, there is a need to undertake indebt study to find out the reasons for such poor contribution. 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 and general services continued to be the largest and second largest contributors to aggregate own non-tax revenue during the period under review. But over the years, the relative importance of interest receipts and social services has increased during the period under review (Annexure IV).

3.5. Key Findings

The States' own non-tax revenue has increased from Rs. 297.18 crores in 2006-07 to 544.82 crores in 2016-17. The average annual growth in ONTR during this period was 8.33 per cent per annum.

The importance of State's own non-tax revenue to aggregate revenue after increasing initially fell substantially in the subsequent years. The share of ONTR in aggregate revenue increased from 11.46 per cent in 2006-07 to 21.88 per cent in 2007-08. Its share marginally fell to 20.02 per cent in 2008-09. Thereafter, the share of ONTR showed declining tendency

and declined substantially to only 3.72 per cent in 2015-16. Its share improved marginally to 4.63 per cent in 2016-17. The decline in share of ONTR in total revenue receipts can be attributed to slow growth in ONTR as well as significant increase in the Central transfers (share in central taxes).

The growth in the State's own non-tax revenue was found to be highly fluctuating with high growth in the initial years and negative growth in subsequent years. The fluctuation in growth rate of ONTR was mainly due to fluctuations in growth of revenues from power and interest receipts. However, in the recent years ONTR of the State is growing at positive rate.

During the period 2006-07 to 2016-17 average annual growth of the State's own non-tax revenue was 8.33 per cent which was higher than that of total non-tax revenue. This is mainly due to slow growth of grants-in-aid from the Centre which grew at marginal rate of only 1.43 per annum on an average. This can be attributed to substantial fall in grants during the 14th Finance Commission period.

Within the various components of the State's ONTR, interest receipts recorded the highest growth. It grew at an annual average growth rate of 31.66 per cent during the review period. It was followed by social services (10.07 per cent per annum) and economic services (8.09 per cent per annum). The revenue from General Services grew at 4.55 per cent per annum during the period 2006-07 to 2017-17.

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. Within the economic services, power and industries are the significant contributors to the ONTR. They, together, account for about 60 per cent of the total ONTR. The revenue from dividends and profits is found to be nil during period under review, except in 2011-12. This indicates poor performance of public enterprises. The performance of public enterprises is discussed in Chapter 8.

There has been slight change in the composition of the State's own non-tax revenue. Economic services continued to be 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 and social services have improved during the period under review.

Suggestions

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

- ❖ The revenue from the State's own non-tax sources can be enhanced through revision of existing charges and rates of various services and products.
- ❖ The revenue from General services accounted for about 25 per cent of State's own non-tax revenue in 2006-07 declined sharply to 6.66 per cent in 2014-15. It improved thereafter. 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 more than 60 per cent of State's own non-tax revenue. But the revenue from this source recorded negative growth during the period 2008-09 to 2012-13 which is a serious cause of concern. The decline was mainly due to substantial fall in revenue from power.
- ❖ Power is the single largest contributor to the State's ONTR. This sector must be promoted and efficiency must be improved to increase revenue collection.
- ❖ The revenue from economic services can be enhanced by applying economic principle in fixing the tariff rates and prices. The supply of 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 by making investment in improving efficiency of distribution networks.
- ❖ The industries have come to emerge an important source of ONTR of the State in the recent years (since 2011-12). In 2014-15 it accounted for 35.89 per cent of the total ONTR of the State. Hence, there is a need to promote industrial activities in the State by providing incentives and concessions to the entrepreneurs.
- ❖ The revenue from dividends and profits is found to be negligible or nil in most of the years under review. These sources did not contribute any revenue during the period under review, except in 2011-12. This indicates very poor performance of Non-Departmental Commercial Enterprises. Hence, is a need to revitalise and corporatize those enterprises for improving their performances.
- ❖ 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.

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Annexure I (a)
Revenue from different Sources of Government of Arunachal Pradesh from 2006-07 to 2016-17

(Rs. In Lakh)

Year	Own Tax Revenue	Own Non-Tax Revenue	Total Own Revenue	Share in Central Taxes	Grants-in-Aid from Centre	Total Central transfer	Total Revenue receipt	Total Tax Revenue	Total Non-Tax Revenue	GSD P at Current Prices
2006-07	7,819.00	29,717.57	37,536.57	34,719.00	186,962.22	221,681.22	259,217.66	42,538.00	216,679.79	410799
2007-08	9,807.00	65,692.01	75,499.01	43,789.00	181,013.01	224,802.01	300,301.07	53,596.00	246,705.02	481000
2008-09	13,620.00	77,201.15	90,821.15	46,211.00	248,564.19	294,775.19	385,596.72	59,831.00	325,765.34	568732
2009-10	17,342.00	51,125.38	68,467.38	47,542.00	313,477.80	361,019.80	429,487.19	64,884.00	364,603.18	747445
2010-11	21,497.00	53,013.99	74,510.99	72,020.00	395,677.95	467,697.95	542,209.44	93,517.00	448,691.94	902144
2011-12	31,765.00	36,070.73	67,835.73	83,897.00	398,173.01	482,070.01	549,905.72	115,662.00	434,243.74	1106269
2012-13	31,650.00	28,422.00	60,072.00	95,793.00	420,288.00	516,081.00	576,152.00	127,443.00	448,710.00	1254666
2013-14	43,451.00	40,506.00	83,957.00	104,585.00	393,501.00	498,086.00	582,043.00	148,036.00	434,007.00	1458106
2014-15	46,216.00	45,764.00	91,980.00	110,997.00	710,627.00	821,624.00	913,605.00	157,213.00	756,391.00	1783233
2015-16	53,506.00	39,216.00	92,722.00	707,558.00	255,033.00	962,591.00	1,055,314.00	761,065.00	294,249.00	2012402
2016-17	70,875.00	54,482.00	125,357.00	838,830.00	213,770.00	1,052,600.00	1,177,957.00	909,705.00	268,252.00	NA

Source: State Finances: A Study of Budget, RBI (2006-07 to 2017-17) and Statistical Abstract of Arunachal Pradesh (2007-2016)

Annexure I (b)
As Percentage of Total Revenue Receipts

Year	Own tax revenue	Own non-tax revenue	Total Own Revenue	Share in Central Taxes	Grant-in-aid from Centre	Total Central transfer
2006-07	3.02	11.46	14.48	13.39	72.13	85.52
2007-08	3.27	21.88	25.14	14.58	60.28	74.86
2008-09	3.53	20.02	23.55	11.98	64.46	76.45
2009-10	4.04	11.90	15.94	11.07	72.99	84.06
2010-11	3.96	9.78	13.74	13.28	72.98	86.26
2011-12	5.78	6.56	12.34	15.26	72.41	87.66
2012-13	5.49	4.93	10.43	16.63	72.95	89.57
2013-14	7.47	6.96	14.42	17.97	67.61	85.58
2014-15	5.06	5.01	10.07	12.15	77.78	89.93
2015-16	5.07	3.72	8.79	67.05	24.17	91.21
2016-17	6.02	4.63	10.64	71.21	18.15	89.36

Source: Based on Annexure I

Annexure I (c)
As Percentage of GSDP

Year	Own tax revenue	Own non-tax revenue	Total Own Revenue	Share in Central Taxes	Grant-in-aid from Centre	Total Central transfer	Total Revenue receipt
2006-07	1.90	7.23	9.14	8.45	45.51	53.96	63.10
2007-08	2.04	13.66	15.70	9.10	37.63	46.74	62.43
2008-09	2.39	13.57	15.97	8.13	43.70	51.83	67.80
2009-10	2.32	6.84	9.16	6.36	41.94	48.30	57.46
2010-11	2.38	5.88	8.26	7.98	43.86	51.84	60.10
2011-12	2.87	3.26	6.13	7.58	35.99	43.58	49.71
2012-13	2.52	2.27	4.79	7.63	33.50	41.13	45.92
2013-14	2.98	2.78	5.76	7.17	26.99	34.16	39.92
2014-15	2.59	2.57	5.16	6.22	39.85	46.07	51.23
2015-16	2.66	1.95	4.61	35.16	12.67	47.83	52.44

Source: Based on Annexure I

Annexure II
Revenue from different Sources of Own Non-Tax Revenue of the Government of
Arunachal Pradesh from 2006-07 to 2016-17

(Rs. In Lakh)

Heads	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	2012 -13	2013 -14	2014 -15	2015 -16	2016 -17
I)Fiscal services	0	0	0	1.62	0	0	0	0	0	0	0
I) Interest receipts	1353.64	2910.37	3480.02	4002.32	1113.488	4870.43	4,032.0	2,466.0	1,312.0	3,911.0	5,639.0
II) Dividends and profits	0	0	0	0	0	0.20	0	0	0	0	0
III) General services	7487.4	5301.71	2845.2	2309.22	1767.25	1984.27	2,777.0	4,275.0	3,046.0	8,169.0	10,896.0
IV) Social services	875.42	729.97	1072.95	907.35	967.01	1034.89	1,697.0	3,686.0	2,807.0	2,853.0	1,757.0
V) Economic services	20001.11	56749.95	69802.98	43904.87	39144.85	28180.94	19,916.0	30,079.0	38,598.0	24,284.0	36,190.0
<i>(a) Power</i>	11,905	45,806	60,974	32,927.0	28,218.0	14,504.0	11,307.0	14,541.0	18,263.0	11,704.0	25,961.0
<i>(b) Industries</i>	4,768	4,582	4,296	5,756.0	3,727.0	7,491.0	5,423.0	11,657.0	16,425.0	8,672.0	6,102.0
A. Total Own-Non Tax Revenue	29717.57	65692	77201.15	51123.76	53013.99	36070.73	28,422.0	40,506.0	45,764.0	39,216.0	54,482.0

Source: State Finances: A Study of Budget, RBI (2006-07 to 2017-17)

Annexure III

Growth rate of Revenue from Different Sources of Non-tax Revenue (in %)

Heads	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
I) Fiscal services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
I) Interest receipts	93.83	115.00	17.95	15.01	178.21	56.26	17.21	38.84	46.80	198.09	44.18
II) Dividends and profits	0.00		0.00	0.00		0.00	0.00	0.00	0.00	0.00	0.00
III) General services	83.67	29.19	10.11	18.84	23.47	12.28	39.95	53.94	28.75	168.19	33.38
IV) Social services	101.09	16.61	22.69	15.43	6.58	7.02	63.98	117.21	23.85	1.64	38.42
V) Economic services	33.11	183.73	45.64	37.10	10.84	28.01	29.33	51.03	28.32	37.08	49.03
(a) Power	34.11	284.76	33.11	46.00	14.30	48.60	22.04	28.60	25.60	35.91	121.81
(b) Industries	90.64	3.90	31.86	33.99	35.25	100.99	27.61	114.95	40.90	47.20	29.64
A. Total Own-Non Tax Revenue	46.85	121.05	39.70	33.78	3.70	31.96	21.20	42.52	12.98	14.31	38.93
B. Grants-in-Aid	42.41	3.18	35.86	26.12	26.22	0.63	5.55	6.37	80.59	64.11	16.18
C. Total Non-Tax Revenue (A+B)	43.01	13.86	15.74	11.92	23.06	3.22	3.33	3.28	74.28	61.10	8.84

Source: State Finances: A Study of Budget, RBI (2006-07 to 2017-17)

Annexure IV
Composition of the State's Own Non-Tax Revenue of the Government of Arunachal Pradesh from 2006-07 to 2016-17

(As % of total ONTR)

Heads	200 6-07	200 7-08	200 8-09	200 9-10	201 0-11	201 1-12	201 2-13	201 3-14	201 4-15	201 5-16	201 6-17
I) Fiscal services	0	0	0	0.00 3	0	0	0	0	0	0	0
II) Interest receipts	4.56	4.43	4.51	7.83	21.0 0	13.5 0	14.1 9	6.09	2.87	9.97	10.3 5
III) Dividends and profits	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV) General services	25.2 0	8.07	3.69	4.52	3.33	5.50	9.77	10.5 5	6.66	20.8 3	20.0 0
V) Social services	2.95	1.11	1.39	1.77	1.82	2.87	5.97	9.10	6.13	7.28	3.22
VI) Economic services	67.3 0	86.3 9	90.4 2	85.8 8	73.8 4	78.1 3	70.0 7	74.2 6	84.3 4	61.9 2	66.4 3
<i>(a) Power</i>	40.0 6	69.7 3	78.9 8	64.4 1	53.2 3	40.2 1	39.7 8	35.9 0	39.9 1	29.8 4	47.6 5
<i>(b) Industries</i>	16.0 4	6.97	5.56	11.2 6	7.03	20.7 7	19.0 8	28.7 8	35.8 9	22.1 1	11.2 0
A. Total Own-Non Tax Revenue	100. 00	100. 00	100. 00	100. 00	100. 00	100. 00	100. 00	100. 00	100. 00	100. 00	100. 00

Source: Based on Annexure II

CHAPTER IV

TRENDS AND PATTERN OF EXPENDITURE

4.1 Aggregate Expenditure:

Government expenditure has broadly two components- revenue expenditure and capital expenditure. The trends in total expenditure by the government of Arunachal Pradesh are declining in the last ten years (Table 4.1). It increased from Rs.49981.7 million in 2009-10 to Rs.181371.2 in 2018-19 (BE). However, there was a decline in total expenditure in 2012-13 which is accompanied by reduced capital expenditure. In the reference period, both the revenue expenditure and capital expenditure increased at the end of the period as compared to the beginning of the period. But, while increased in revenue expenditure is continuous, it is not so regarding capital expenditure. There was a reduction of expenditure of the government under the capital account in 2012-13 and in 2014-15.

Table 4.1: Trends of Expenditure(in million)

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure
2009-10 (A)	36987.4	12994.3	49981.7
2010-11 (A)	37442.4	16688.9	54131.3
2011-12 (A)	44178.7	20702.4	64881.1
2012-13 (A)	47862.4	12096.9	59959.3
2013-14 (A)	57313.9	16982.3	74296.2
2014-15 (A)	71565.9	14881.1	86447.0
2015-16 (A)	83627.4	20062.3	103689.7
2016-17 (A)	93945.4	15502.3	109447.7
2017-18 (RE)	114313.4	50137.9	164451.3
2018-19 (BE)	102556.6	78814.6	181371.2

Source: State Finances: A Study of Budgets, RBI, accessed from <https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets> on 13/09/2018

Assuming a linear trend, the revenue expenditure, capital expenditure and total expenditure for the period 2020-25 have been estimated using the data for 2009-10 to 2018-19. The annual arithmetic growth rates of estimated expenditures have also been calculated. The total expenditure of Arunachal Pradesh is estimated to be Rs. 242560.59 million in 2014-25 against Rs. 172229.69 million in 2019-10 (Table 4.2). The estimated revenue expenditure

and capital expenditure in 2024-25 are Rs.164344.82 and Rs.242560.59 respectively. However, the growth rates of total revenue and its two broad components reveal a declining trend. The growth rate of estimated total expenditure is supposed to be 5.80 per cent in 2024-25 against 8.17 per cent in 2019-20. The growth rates of estimated revenue and capital expenditures in 2019-20 are 7.64 per cent and 9.35 per cent respectively which are suppose to be 5.53 per cent and 6.37 per cent respectively in 2024-25.

Table 4.2 Estimated Expenditures (in million) and Growth Rates (in per cent)

Year	Revenue Expenditure (RE)	Growth rate of RE	Capital Expenditure (CE)	Growth rate of CE	Total Expenditure (TE)	Growth rate of TE
2019-20	118932.69	7.64	53296.97	9.35	172229.69	8.17
2020-21	128015.12	7.09	58280.73	8.55	186295.87	7.55
2021-22	137097.55	6.62	63264.49	7.88	200362.05	7.02
2022-23	146179.97	6.21	68248.24	7.30	214428.23	6.56
2023-24	155262.40	5.85	73232.00	6.81	228494.41	6.16
2024-25	164344.82	5.53	78215.76	6.37	242560.59	5.80

Source: Estimated using data provided by State Finances: A Study of Budgets, RBI, accessed from <https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets> on 13/09/2018

Total expenditure as a per cent of GSDP fluctuated during the reference period (Table 4.3). It was 65.13 per cent in 2009-10 and raised 67.53 in 2017-18 (RE). As a per cent of GSDP, total expenditure was highest in 2017-18(RE) and lowest in 2011-13. Excluding 2017-18, for which expenditure figure is as per revised estimate, on an average the trend of total expenditure as a per cent of GSDP is declining. As a per cent of GSDP, expenditure under both revenue and capital accounts has fluctuated in the study period. Revenue expenditure as a per cent of GSDP declined from 48.20 per cent in 2009-10 to 46.94 per cent in 2017-18(RE) with a variation from 48.20 per cent to 38.15 per cent. In contrast, capital expenditure as a per cent of GSDP increased from 16.93 per cent to 20.59 per cent, highest in the reference period, in 2017-18 (RA). Capital expenditure as a per cent of GSDP was lowest (7 per cent) in the period in 2016-17.

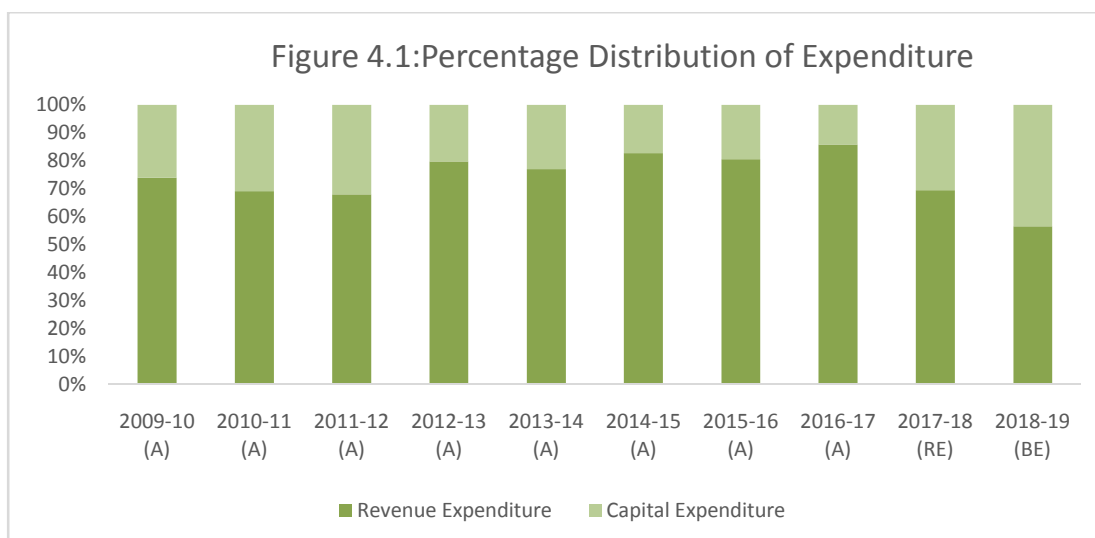
Table 4.3: Expenditure as a Percent of GSDP at current prices

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure
2009-10 (A)	48.20	16.93	65.13
2010-11 (A)	40.42	18.02	58.44
2011-12 (A)	39.93	18.71	58.65
2012-13 (A)	38.15	9.64	47.79
2013-14 (A)	39.31	11.65	50.95
2014-15 (A)	39.85	8.29	48.13
2015-16 (A)	40.93	9.82	50.75
2016-17 (A)	42.41	7.00	49.41
2017-18 (RE)	46.94	20.59	67.53

Source: State Finances: A Study of Budgets, RBI, accessed from <https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=State%20Finances%20:%20A%20Study%20of%20Budgets> on 13/09/2018 and Handbook on Indian States, accessed from http://rbidocs.rbi.org.in/rdocs/Publications/DOCs/15T_STATE8C8B495500DF438DBE1D42D43A26581D.XLSX on 23/09/18

Note: GSDP is at current prices with base 2011-12. For 2009-10 and 2010-11, GSDP has been calculated using backward splicing.

Figure 4.1 made it clear that the government expenditure in the state is dominated by revenue component. The share of revenue expenditure in the total expenditure ranged from 86 per cent to 57 per cent in the reference period. The share of revenue expenditure was highest in 2016-17 and it was both the increased absolute revenue expenditure and decreased absolute capital expenditure. On the other hand, the share of capital expenditure in the total expenditure was highest in 2018-19 (BE) which was due to the reduction of revenue expenditure and a rise in capital expenditure.



Source: Same as Table 4.1

In the last ten years, revenue expenditure on general services was continuously increasing. As per Table 4.4 revenue expenditure on general services was Rs. 11610.3 million in 2009-10 and it raised to Rs.37251.8 million in 2018-19 (BE). Revenue expenditure on both social services and economic services were also increased at the end of the study period as compared to the beginning but not continuously. There was a curtailment of revenue expenditure on social services and economic services in 2018-19 (BE) compared to 2017-18(RE). Revenue expenditure on social services 2010-11 was also less than that in the previous year. Revenue expenditure on interest payment also increased and at the end of the study period, it becomes more than triple of the initial amount. The capital outlay of the government of Arunachal Pradesh increased sharply to Rs. 49999.3 million in 2017-18(RE) which was fluctuating from Rs.10939.7 million to Rs. 20659 million in the previous eight years. In contrast, capital expenditure on loan and advances declined significantly from Rs.2054.6 million in 2009-10 to just Rs. 24.1 million in 2010-11 and thereafter it fluctuated in the range of Rs.36 million to Rs. 185.3 million. As a per cent of GSDP, revenue expenditure on general services and economic services declined in 2017-18 (RE) compared to that in 2009-10 and this trend was also followed by capital outlay. On the other hand, as a per cent of GSDP, revenue expenditure on social services and loan and advances component of capital expenditure were increased in 2017-18 (RE) that in 2009-10. Interest payment as per cent of GSDP also decreased from 2.96 per cent in 2009-10 to 2 per cent in 2017-18 (RE).

Table 4.4: Composition of Expenditure (in million)

Head	2009-10 (A)	2010-11 (A)	2011-12 (A)	2012-13 (A)	2013-14 (A)	2014-15 (A)	2015- 16 (A)	2016- 17 (A)	2017-18 (RE)	2018-19 (BE)
Revenue Expenditure	36987	37442	44179	47862	57314	71566	83627	93945	114313	102557
General Services	11610.3	12652	12845	14235	17800.6	20626	25181	27678	33692.2	37251.8
<i>Interest Payments</i>	<i>2269.9</i>	<i>3999.2</i>	<i>2818.1</i>	<i>2718.5</i>	<i>3125.1</i>	<i>3508.8</i>	<i>4156.4</i>	<i>3992.3</i>	<i>4862.7</i>	<i>7919</i>
Social Services	11967	9942.8	13854	15063	17701.6	23584	25567	30465	43850.7	31878.3
Economic Services	13410.1	14847	17480	18565	21811.7	27356	32880	35803	36770.5	33426.5
Capital Expenditure	12994	16689	20702	12097	16982	14881	20062	15502	50138	78814.6
Capital Outlay	10939.7	16665	20659	12063	16797	14832	19933	15440	49999.3	78778.6
<i>General Services</i>	<i>1242.1</i>	<i>891</i>	<i>1808.1</i>	<i>838.6</i>	<i>1878.1</i>	<i>1207</i>	<i>3455.8</i>	<i>1130.9</i>	<i>11735</i>	<i>39407.3</i>
<i>Social Services</i>	<i>1536</i>	<i>4096.3</i>	<i>5455.9</i>	<i>2797.6</i>	<i>5038</i>	<i>4425.1</i>	<i>4222.6</i>	<i>5799.1</i>	<i>12830.6</i>	<i>19169.6</i>
<i>Economic Services</i>	<i>8161.6</i>	<i>11678</i>	<i>13395</i>	<i>8426.6</i>	<i>9880.9</i>	<i>9199.7</i>	<i>12254</i>	<i>8510.2</i>	<i>25433.7</i>	<i>20201.7</i>
Loans and Advances	2054.6	24.1	43.4	34.1	185.3	49.3	129.8	62.2	138.6	36
As per cent of GSDP at current prices										
Revenue Expenditure	48.20	40.42	39.93	38.15	39.31	39.85	40.93	42.41	46.94	-
General Services	15.13	13.66	11.61	11.35	12.21	11.48	12.32	12.50	13.84	-
<i>Interest Payments</i>	<i>2.96</i>	<i>4.32</i>	<i>2.55</i>	<i>2.17</i>	<i>2.14</i>	<i>1.95</i>	<i>2.03</i>	<i>1.80</i>	<i>2.00</i>	-
Social Services	15.59	10.73	12.52	12.01	12.14	13.13	12.51	13.75	18.01	-
Economic Services	17.47	16.03	15.80	14.80	14.96	15.23	16.09	16.16	15.10	-
Capital Expenditure	16.93	18.02	18.71	9.64	11.65	8.29	9.82	7.00	20.59	-
Capital Outlay	14.26	17.99	18.67	9.61	11.52	8.26	9.76	6.97	20.53	-
<i>General Services</i>	<i>1.62</i>	<i>0.96</i>	<i>1.63</i>	<i>0.67</i>	<i>1.29</i>	<i>0.67</i>	<i>1.69</i>	<i>0.51</i>	<i>4.82</i>	-
<i>Social Services</i>	<i>2.00</i>	<i>4.42</i>	<i>4.93</i>	<i>2.23</i>	<i>3.46</i>	<i>2.46</i>	<i>2.07</i>	<i>2.62</i>	<i>5.27</i>	-
<i>Economic Services</i>	<i>10.64</i>	<i>12.61</i>	<i>12.11</i>	<i>6.72</i>	<i>6.78</i>	<i>5.12</i>	<i>6.00</i>	<i>3.84</i>	<i>10.44</i>	-
Loans and Advances	2.68	0.03	0.04	0.03	0.13	0.03	0.06	0.03	0.06	-

Source: Same as Table 4.3

Table 4.5: Ratio of Capital Expenditure to Total Expenditure (in per cent)

Head	2009-10 (A)	2010-11 (A)	2011-12 (A)	2012-13 (A)	2013-14 (A)	2014-15 (A)	2015-16 (A)	2016-17 (A)	2017-18 (RE)	2018-19 (BE)
Social Services (SS)	3.07	7.57	8.41	4.67	6.78	5.12	4.07	5.30	7.80	10.57
<i>Education, Sports, Art and Culture</i>	0.63	2.10	2.67	1.26	1.53	1.53	1.15	0.86	1.18	2.80
<i>Health & Family Welfare</i>	0.14	0.60	0.78	0.22	0.38	0.39	0.25	0.14	0.62	2.37
<i>Water Supply & Sanitation, Housing and Urban Development</i>	2.16	4.15	3.62	2.35	3.96	2.56	2.15	3.85	4.80	4.60
<i>Other Social Service</i>	0.14	0.71	1.34	0.84	0.91	0.63	0.52	0.45	1.20	0.80
Economic Services (ES)	16.33	21.57	20.65	14.05	13.30	10.64	11.82	7.78	15.47	11.14
<i>Agriculture & Allied Activities</i>	0.33	0.65	0.56	0.26	0.25	0.08	0.14	0.07	0.25	2.30
<i>Irrigation & Flood Control</i>	0.77	1.67	0.94	0.37	0.27	0.36	1.17	0.75	0.43	0.70
<i>Energy</i>	5.87	4.75	3.14	2.77	1.61	1.24	1.24	1.61	2.24	0.33
<i>Transport</i>	7.03	10.68	11.56	7.49	8.94	7.00	7.82	3.49	9.92	4.86
<i>Tourism</i>	0.44	0.62	0.60	0.44	0.44	0.55	0.10	0.49	0.77	0.68
<i>Other Economic Services</i>	1.88	3.14	3.56	2.59	1.60	1.37	1.24	1.30	1.78	2.05
Total (SS+ES)	19.40	29.14	29.05	18.72	20.08	15.76	15.89	13.07	23.27	21.71

Source: Same as Table 3.1

Table 4.5 depicts discouraging trends in capital expenditure on social and economic services in terms of the ratio of it to the total expenditure. As a ratio to the total expenditure, capital expenditure on social and economic services declined to 13.07 per cent in 2016-17 from 19.40 per cent in 2009-10. It implies a lack of emphasis on asset creation in the state. However, the ratio of capital expenditure on social and economic services was increased in 2017-18 (RE) and 2018-19 (BE) but these figures are not as per account estimate. The reduction of the ratio of capital expenditure on social and economic services to the total expenditure was in terms of reduction of in economic services. Moreover, it is found that as a ratio to the total expenditure, capital expenditure on energy and transport was declined while on tourism it has remained more or less the same.

4.2 Plan-Non-plan Composition:

After the abolition of Planning Commission of India, the plan-non-plan composition of expenditure was also removed from the union budget of the country. Hence, the plan-non-plan composition of expenditure is available only up to 2016-17. Table 4.6 depicts that government spending under both the plan and non-plan heads increased in Arunachal Pradesh. Plan expenditure of the government was Rs. 23513.3 million in 2009-10 and it raised to Rs.65690 million in 2016-17(BE). Non-plan expenditure also increased from Rs.26468.4 million to Rs. 66047.7 million in 2016-17(BE).

Table 4.6: Plan-Non-Plan Composition of Total Expenditure (in million)

Year	Plan	Non-Plan	Total
2009-10 (A)	23513.3	26468.4	49981.7
2010-11 (A)	28607.0	25524.3	54131.3
2011-12 (A)	36244.6	28636.5	64881.1
2012-13 (A)	29046.3	30913.0	59959.3
2013-14 (A)	34444.2	39852.0	74296.2
2014-15 (A)	43799.4	42647.7	86447.0
2015-16 (RE)	57634.1	59766.1	117400.1
2016-17 (BE)	65690.0	66047.7	131737.9

Source: Same as Table 4.1

In contrast to the absolute figures, as a per cent of GSDP expenditure under both plan and non-plan heads were declining in the study period. Plan expenditure as a per cent of GSDP declined from 30.64 per cent in 2009-10 to 29.66 per cent in 2016-17(BE). Similarly,

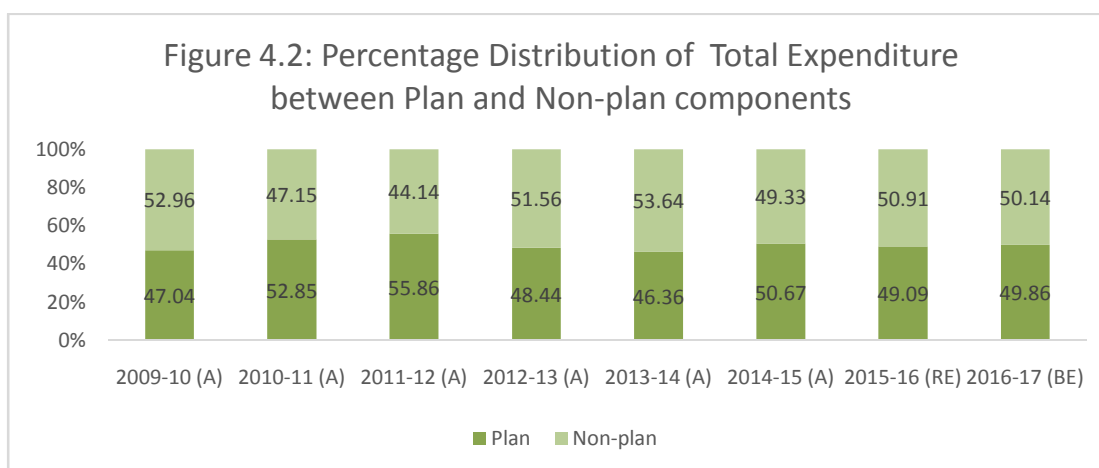
non-plan expenditure decreased from 34.49 per cent in 2009-10 to 29.82 per cent in 2016-17(BE).

Table 4.7: Plan-Non-plan Composition of Expenditures as a per cent of GSDP at current prices

Year	PLAN	NON-PLAN
2009-10 (A)	30.64	34.49
2010-11 (A)	30.88	27.56
2011-12 (A)	32.76	25.89
2012-13 (A)	23.15	24.64
2013-14 (A)	23.62	27.33
2014-15 (A)	24.39	23.75
2015-16 (RE)	28.21	29.25
2016-17 (BE)	29.66	29.82

Source: Same as Table 4.3

The distribution of total expenditure between plan and non-plan components is more or less equally throughout the study period (Figure 4.2). The share of plan expenditure was varying from 46.36 per cent to a maximum of 55.86 per cent in 2011-12. On the other hand, the share of non-plan expenditure in the total expenditure ranged from 44.14 per cent to 52.96 per cent.



Source: Same as Table 4.1

Revenue expenditure under both plan and non-plan heads increased in 2016-17(BE) as compared to 2009-10. While plan revenue expenditure increased continuously during the period of study, there was a fall down of non-plan revenue expenditure in 2010-11 as

compared to the previous year. However, capital expenditure of plan type increased but non-plan type decreased in the period.

Table 4.8: Plan-Non-Plan Composition of Revenue and Capital Expenditures

Year	Revenue Expenditure			Capital Expenditure		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total
2009-10 (A)	11382.8	25604.6	36987.4	12130.5	863.8	12994.3
2010-11 (A)	12111.6	25330.8	37442.4	16495.4	193.5	16688.9
2011-12 (A)	15640.0	28538.6	44178.7	20604.6	97.9	20702.4
2012-13 (A)	16988.3	30874.1	47862.4	12058.0	38.9	12096.9
2013-14 (A)	17738.0	39575.8	57313.9	16706.2	276.2	16982.3
2014-15 (A)	29108.9	42457.1	71565.9	14690.5	190.6	14881.1
2015-16 (RE)	32093.7	59628.3	91721.9	25540.4	137.8	25678.2
2016-17 (BE)	39530.7	66002.5	105533.3	26159.3	45.2	26204.6

Source: Same as Table 4.1

As a per cent of GSDP, there was the increase in plan revenue expenditure and the decrease of non-plan revenue expenditure (Table 4.9). Plan revenue expenditure as a per cent of GSDP was 14.83 per cent in 2009-10 and it reached 17.85 per cent in 2016-17(BE). Non-plan revenue expenditure declined from 33.36 per cent in 2009-10 to 29.80 per cent in 2016-17(BE). Both the components of capital expenditure as a per cent of GSDP, on the other hand, declined during 2009-17.

Table 4.9: Plan-Non-plan Composition of Expenditures As a per cent of GSDP at current prices

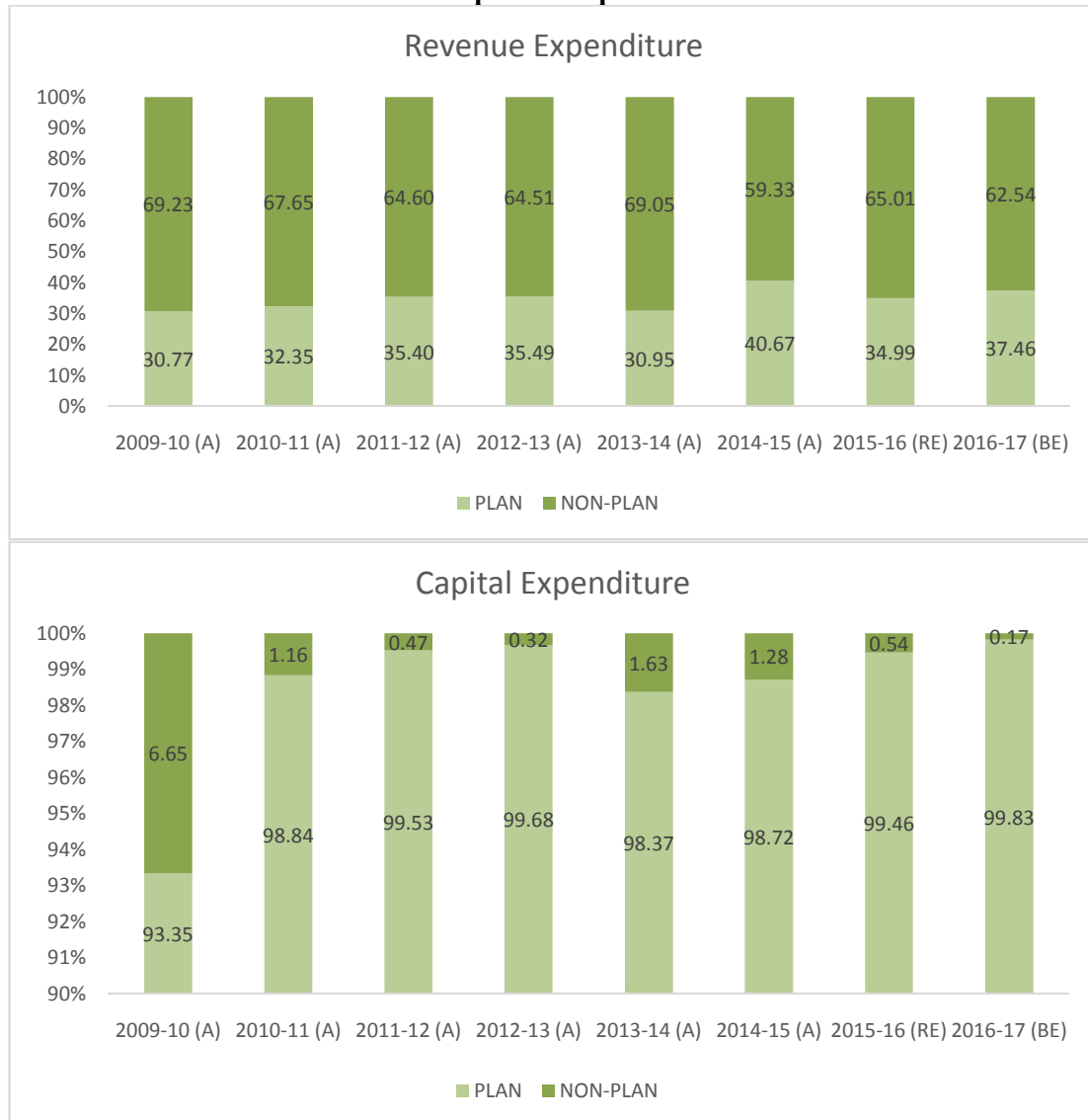
Year	Revenue Expenditure		Capital Expenditure	
	PLAN	NON-PLAN	PLAN	NON-PLAN
2009-10 (A)	14.83	33.36	15.81	1.13
2010-11 (A)	13.08	27.35	17.81	0.21
2011-12 (A)	14.14	25.80	18.63	0.09
2012-13 (A)	13.54	24.61	9.61	0.03
2013-14 (A)	12.17	27.14	11.46	0.19
2014-15 (A)	16.21	23.64	8.18	0.11
2015-16 (RE)	15.71	29.18	12.50	0.07
2016-17 (BE)	17.85	29.80	11.81	0.02

Source: Same as Table 4.3

Revenue expenditure in the state was mostly non-plan type and it was just reverse in case of capital expenditure as presented by Figure 4.3. Throughout the period of study, the

share of plan revenue expenditure was not less than 59.33 per cent and it was highest in 2013-14 at 69.05 per cent. The share of plan expenditure in the total revenue expenditure fluctuated within 30.95 per cent to 40.67 per cent. However, after 2009-10, capital expenditure was predominantly non-plan in nature. The share of plan expenditure in total capital expenditure was not more than two per cent from 2010-12.

Figure 4.3: Percentage Distribution of Revenue and Capital Expenditures by Plan-Non-plan Composition



Source: Same as Table 4.1

4.3 Development-Non-development Composition:

The development expenditure of the government of Arunachal Pradesh increased from Rs.37111.8 million in 2009-10 to Rs. 104676.1 million in 2018-19 (BE) (Table 4.10). In 2012-13, there was a reduction of development expenditure due to curtailment of capital outlay. The revenue component of development expenditure was increasing continuously while there were ups and downs in case of loans and advances component of it. Non-development expenditure increased continuously from Rs. 12869.9 million in 2001-10 to Rs. 76695.1 million in 2018-19 (BE). In the case of non-development expenditure too, revenue expenditure maintained an increasing trend but the other two components, viz, capital expenditure on general services and loans and advances were fluctuating.

Table 4.10: Expenditure by Development and Non-development Composition

Head	2009-10 (A)	2010-11 (A)	2011-12 (A)	2012-13 (A)	2013-14 (A)	2014-15 (A)	2015-16 (A)	2016-17 (A)	2017-18 (RE)	2018-19 (BE)
Development expenditure	37,111.8	40,566.2	50,191.0	44,856.2	54,590.7	64,602.0	75,025.3	80,584.5	1,18,988.1	1,04,676.1
Revenue expenditure	25,377.1	24,790.0	31,334.1	33,627.8	39,513.3	50,940.0	58,446.5	66,267.8	80,621.2	65,304.8
<i>Social services</i>	<i>11967</i>	<i>9942.8</i>	<i>13854.2</i>	<i>15062.8</i>	<i>17701.6</i>	<i>23583.9</i>	<i>25566.7</i>	<i>30464.7</i>	<i>43850.7</i>	<i>31878.3</i>
<i>Economic services</i>	<i>13410.1</i>	<i>14847.3</i>	<i>17480</i>	<i>18565</i>	<i>21811.7</i>	<i>27356.1</i>	<i>32879.8</i>	<i>35803.1</i>	<i>36770.5</i>	<i>33426.5</i>
Capital outlay	9697.6	15773.9	18850.9	11224.2	14918.9	13624.8	16476.7	14309.3	38264.3	39371.3
<i>Social services</i>	<i>1536</i>	<i>4096.3</i>	<i>5455.9</i>	<i>2797.6</i>	<i>5038</i>	<i>4425.1</i>	<i>4222.6</i>	<i>5799.1</i>	<i>12830.6</i>	<i>19169.6</i>
<i>Economic services</i>	<i>8161.6</i>	<i>11677.6</i>	<i>13395</i>	<i>8426.6</i>	<i>9880.9</i>	<i>9199.7</i>	<i>12254.1</i>	<i>8510.2</i>	<i>25433.7</i>	<i>20201.7</i>
Loans and advances	2,037.1	2.3	6.0	4.2	158.5	37.2	102.1	7.4	102.6	0.0
Non-development expenditure	12,869.9	13,565.1	14,690.0	15,103.1	19,705.6	21,845.0	28,664.4	28,863.3	45,463.2	76,695.1
Revenue expenditure	11,610.3	12,652.3	12,844.5	14,234.6	17,800.6	20,625.9	25,180.9	27,677.6	33,692.2	37,251.8
<i>Organ of states</i>	<i>732.1</i>	<i>488.4</i>	<i>533.7</i>	<i>563.9</i>	<i>834.4</i>	<i>1,297.3</i>	<i>798.4</i>	<i>1,239.6</i>	<i>1,541.1</i>	<i>1,986.5</i>
<i>Fiscal services</i>	<i>172.4</i>	<i>160.7</i>	<i>222.9</i>	<i>211.6</i>	<i>263.8</i>	<i>310.9</i>	<i>332.0</i>	<i>416.8</i>	<i>523.1</i>	<i>448.4</i>
<i>Interest payment and servicing of debt</i>	<i>2,419.9</i>	<i>4,169.2</i>	<i>3,008.1</i>	<i>2,918.5</i>	<i>3,325.1</i>	<i>3,708.8</i>	<i>6,156.4</i>	<i>5,492.3</i>	<i>6,862.7</i>	<i>10,319.0</i>
<i>Administrative services</i>	<i>6,447.6</i>	<i>5,601.9</i>	<i>6,695.8</i>	<i>7,229.8</i>	<i>9,389.3</i>	<i>10,498.8</i>	<i>12,333.2</i>	<i>14,113.4</i>	<i>17,084.8</i>	<i>15,527.4</i>
<i>Pensions</i>	<i>1,829.3</i>	<i>2,222.4</i>	<i>2,379.8</i>	<i>3,307.0</i>	<i>3,984.0</i>	<i>4,807.1</i>	<i>5,552.5</i>	<i>6,405.8</i>	<i>7,665.3</i>	<i>8,960.0</i>
<i>Miscellaneous</i>	<i>9.1</i>	<i>9.6</i>	<i>4.2</i>	<i>3.9</i>	<i>4.1</i>	<i>3.0</i>	<i>8.3</i>	<i>9.8</i>	<i>15.2</i>	<i>10.5</i>
Capital expenditure on general services	1,242.1	891.0	1,808.1	838.6	1,878.1	1,207.0	3,455.8	1,130.9	11,735.0	39,407.3
Loans and advances	17.5	21.8	37.4	29.9	26.9	12.1	27.7	54.8	36.0	36.0

Source: Same as Table 4.1

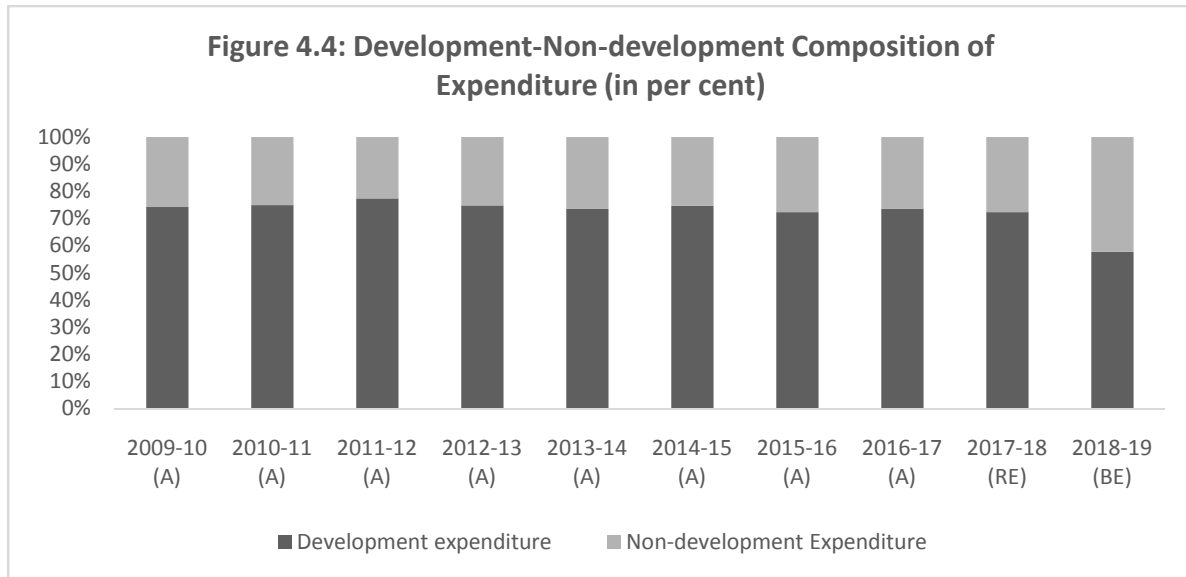
As a per cent of GSDP, the trend of development expenditure is not very clear (Table 4.11). It fluctuated throughout the study period from 35.75 per cent in 2012-13 to 48.86 per cent in 2018-19 (BE). Similarly, non-development expenditure as a per cent of GSDP was varied from 12.04 per cent to 18.67 per cent. As a per cent of GSDP, the trend of revenue and loans and advances components of development expenditure and revenue, capital expenditure and loans and advances of non-developmental expenditure were also erratic during the period.

Table 4.11: Expenditure by Development and Non-development Composition as a percent of GSDP at current prices

	2009-10 (A)	2010-11 (A)	2011-12 (A)	2012-13 (A)	2013-14 (A)	2014-15 (A)	2015-16 (A)	2016-17 (A)	2017-18 (RE)
Development expenditure	48.36	43.80	45.37	35.75	37.44	35.97	36.72	36.38	48.86
Revenue expenditure	33.07	26.76	28.32	26.80	27.10	28.36	28.60	29.92	33.11
<i>Social services</i>	15.59	10.73	12.52	12.01	12.14	13.13	12.51	13.75	18.01
<i>Economic services</i>	17.47	16.03	15.80	14.80	14.96	15.23	16.09	16.16	15.10
Capital outlay	12.64	17.03	17.04	8.95	10.23	7.59	8.06	6.46	15.71
<i>Social services</i>	2.00	4.42	4.93	2.23	3.46	2.46	2.07	2.62	5.27
<i>Economic services</i>	10.64	12.61	12.11	6.72	6.78	5.12	6.00	3.84	10.44
Loans and advances	2.65	0.00	0.01	0.00	0.11	0.02	0.05	0.00	0.04
Non-development expenditure	16.77	14.65	13.28	12.04	13.51	12.16	14.03	13.03	18.67
Revenue expenditure	15.13	13.66	11.61	11.35	12.21	11.48	12.32	12.50	13.84
<i>Organ of states</i>	0.95	0.53	0.48	0.45	0.57	0.72	0.39	0.56	0.63
<i>Fiscal services</i>	0.22	0.17	0.20	0.17	0.18	0.17	0.16	0.19	0.21
<i>Interest payment and servicing of debt</i>	3.15	4.50	2.72	2.33	2.28	2.06	3.01	2.48	2.82
<i>Administrative services</i>	8.40	6.05	6.05	5.76	6.44	5.85	6.04	6.37	7.02
<i>Pensions</i>	2.38	2.40	2.15	2.64	2.73	2.68	2.72	2.89	3.15
<i>Miscellaneous</i>	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Capital expenditure on general services	1.62	0.96	1.63	0.67	1.29	0.67	1.69	0.51	4.82
Loans and advances	0.02	0.02	0.03	0.02	0.02	0.01	0.01	0.02	0.01

Source: Same as Table 4.3

Figure 4.4 depicts that expenditure by the government of Arunachal is mostly development expenditure. The share of development expenditure in total expenditure was at least 57.71 per cent and it was not exceeding 77.36 per cent in the period. During the study period, the share of development expenditure in total expenditure was lowest in 2018-19 which was as per budget estimate.



Source: Same as Table 4.1

In the state, development capital expenditure as a per cent of total expenditure was 23.48 per cent in 2009-10 and it came down to 21.71 per cent in 2018-19 (BE). There was also a decline in the ratio of development capital expenditure to total development expenditure to 17.77 per cent in 2016-17 from 31.62 per cent in 2009-10.

Table 4.12: Share of Development Capital Expenditure in Total Development Expenditure and Total Expenditure

Year	Total Expenditure	Total Development Expenditure
2009-10 (A)	23.48	31.62
2010-11 (A)	29.14	38.89
2011-12 (A)	29.06	37.57
2012-13 (A)	18.73	25.03
2013-14 (A)	20.29	27.62
2014-15 (A)	15.80	21.15
2015-16 (A)	15.99	22.10
2016-17 (A)	13.08	17.77
2017-18 (RE)	23.33	32.24
2018-19 (BE)	21.71	37.61

Source: Same as Table 4.1

4.4 Policy Measures for Improvement of Efficiency of Government Spending:

From the above discussion, it has come to the notice that

1. The share of capital expenditure in total expenditure was declining till 2016-17 although there was an enhancement of it in 2017-18(RE) and 2018-19 (BE) those are not actual figures.
2. As a ratio of total expenditure, the trends of actual capital expenditure on social and economic services were discouraging. More importantly, the ratio of capital expenditure on transportation and energy to total expenditure was decreasing.
3. The share of development expenditure is more than non-development expenditure but it has declined substantially in 2017-18 (RE). As a per cent of GSDP, development expenditure came down to 36.38 per cent in 2016-17 from 48.36 per cent in 2009-10. However, in the next year development expenditure raised but the figure was as per revised estimates.
4. The trends of the share of development capital expenditure in the total development expenditure and total expenditure were not encouraging.

Broadly, it is observed that government spending is increasing in the state. However, there is scope for improving the efficiency of use of government spending. As for instance, given the state of development of Arunachal Pradesh, more funds should be diverted to capital account and development heads in order to achieve higher asset creation. Particularly, expenditure on transportation, energy and tourism should be enhanced substantially. Because, while poor

transportation facility is a major obstacle in the development of the state, energy and tourism are the two most potential sources of revenue in the state.

CHAPTER - V

IMPLEMENTATION OF FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT ACT

5. 1. Introduction:

One of the fundamental objectives of economic reform was to reduce government's unproductive expenditure and accordingly to reduce revenue and fiscal deficit. To create an institutional framework for the rule-based conduct of fiscal policy, the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was enacted. It contributed to public accountability by promoting inter-generational equity in fiscal management and ensuring long run macroeconomic stability. The rules framed to implement FRBM Act in 2004 made it necessary to have explicit annual reduction targets in revenue deficit and fiscal deficit, government debt management and the medium term fiscal policy and strategy statement. Further, the rules made it mandatory for the central government to disclose any changes in policies and practices those influences fiscal indicators. The initial target of FRBM policies was to eliminate revenue deficit of the country (building revenue surplus thereafter) and bring down the fiscal deficit to a manageable 3% of the GDP by March 2008. However, due to global slowdown during 2007-08, these targets could not be achieved. The central government also places Medium Term Fiscal Policy Statement (MTFPS) along with the union budget as a part of FRBM policies. The MTFPS gives various fiscal targets for an additional year; which is a rolling statement reviewed every year. For example, based on the fiscal performance in the course of year 't', at the time of finalizing the revised estimates for the year and while presenting budget for the year 't + 1', the fiscal targets for the year 't+1' and 't + 2' should be reviewed, rather than retaining targets for 't+1' and 't + 2', and adding targets only for the year 't+3' (Malhotra, 2012).

The FRBM Act was amended through the Finance Act, 2012 (FRBM II) in May 2012. The rules made there under notified in May 2013, contained revised targets for revenue deficit and effective revenue deficit, to be achieved by 31 March 2015. Further, in the Medium-Term Fiscal Policy Statement (MTFPS) placed along with union budget 2014-15, the Government shifted target for achievement of revenue deficit to March 2017. Through Finance Act 2015, amendment was made in the FRBM Act by which the target dates for achievement of all the deficit indicators were again extended to March 2018. In May 2016, the government set up a

committee under NK Singh to review the FRBM Act; as the government believed the targets were too rigid. The committee recommended that the government should target a fiscal deficit of 3 per cent of the GDP in years up to March 31, 2020 cut it to 2.8 per cent in 2020-21 and to 2.5 per cent by 2023.

5.2. Arunachal Pradesh FRBM Act:

In Arunachal Pradesh Fiscal Responsibility and Budget Management Act, 2006 (APFRBM) came into force with effect from 12th February, 2006. Again the Fiscal Responsibility and Budget Management Rules, 2007 came into force with effect from 12th February, 2007. The objectives of these legislatures were:

- a) To maintain the revenue surplus (deficit) at least at the level of the base year (average of 2001-02 to 2003-04) in the subsequent years, beginning with financial year 2005-06 and ending with 2008-09 and adhere to it thereafter.
- b) The fiscal deficit is to be reduce every year by a minimum of 0.3% of GSDP by the end of each financial year, beginning with financial year 2005-06 so as to reduce the same to 3% or below by 2008-09 and adhere to it thereafter.

The Arunachal Pradesh FRBM Act, 2006 was amended in 2010-11. The new amendment set the following targets:

- a) To maintain revenue surplus in all the years from 2010-11 to 2014-15.
- b) To reduce fiscal deficit to 3% of gross state domestic product (GSDP) by 2011-12 and maintain the same during 2011-15.
- c) The amended FRBM set the year wise target of total debt in relation to the state's GSDP. It aimed to reduce Debt-GSDP ratio from 61.3% in 2010-11 to 50.1% in 2014-15.

The targets and achievement of the FRBM Act in Arunachal Pradesh is given in Table 5.1. In case of revenue, the FRBM Act., 2006 of Arunachal Pradesh targeted to maintain revenue surplus throughout the years. And the government was able to achieve its target.

The FRBM Act I targeted to reduce fiscal deficit to 3% by 2008-09 and the amendment made in 2010-11 attempted to continue this 3% target up to 2015. Arunachal Pradesh state government has achieved this target although it is found to be higher in some years.

In the FRBM I, there was no target for debt GDP ratio. The amendment made in the FRBM act in 2010-11 set the target to reduce Debt GDP ratio from 63.1% in 2010-11 to 50.1% during 2014-15. However, the actual Debt-GDP ratio was below this targeted level. Although there are no such targets beyond 2014-15, the Debt-GDP ratio is continued to be significantly below this targets.

Table 5.1: Different Targets and Achievements under FRBM Acts

		2005-06(A)	2006-07(A)	2007-08 (A)	2008-09 (A)	2009-10 (A)	2010-11 (A)	2011-12 (A)	2012-13 (A)	2013-14 (A)	2014-15 (A)	2015-16 (A)	2016-17 (A)	2017-18 (R E)
Revenue deficit (in million)	Actual	-1817.7	-6949.3	-7434.5	-9842.8	-5961.2	-16778.4	-10811.9	-9752.9	-890.4	-19794.5	-21903.9	-23850.3	-43069.7
	Target ¹	Surplus	Surplus	Surplus	Surplus	Surplus	Surplus	Surplus	Surplus	Surplus	Surplus	Surplus	Surplus	Surplus
Fiscal deficit as a % of GSDP	Actual	6.6	-2.5	-0.3	5.7	6.5	-0.1	8.9	1.8	11.0	-2.9	-0.9	-3.8	2.8
	Target				3	3	3	3	3	3	3	NA	NA	NA
Δ of Fiscal deficit as a % of GSDP	Actual ²	-4.2	-9.2	2.2	6.0	0.9	-6.6	9.0	-7.1	9.2	-13.9	2.0	-2.9	-0.7
	Target	0.3	0.3	0.3	0.3	0.3	NA	NA	NA	NA	NA	NA	NA	NA
Outstanding debt as a % of GSDP	Actual	30.9	18.5	16.5	15.2	14.6	12.3	14.9	15.3	15.9	22.5	34.8	15.2	9.8
	Target	NA	NA	NA	NA	NA	63.1	58.2	55.2	52.5	50.1	NA	NA	NA

N.B.: '+' indicates deficit and '-' indicates surplus

1 Average of revenue surpluses from 2001-02 to 2003-04 in Arunachal is INR 961.3 million as per A Study on Finances of Arunachal Pradesh, 14th Finance Commission, GOI.

2 '-' indicates reduction

5.3. Conclusion

The above discussion shows that the state of Arunachal Pradesh was able to achieve the targets of FRBM Act. However, the state is highly dependent on the central transfer and its own share is very limited. The Comptroller and Auditor General of India report on state finance for the year ended 31 March, 2017 stated that the share of state's own resources in the revenue receipt was 11% only. In the year 2016-17 the state has fiscal surplus, but during this year the state government could not achieve its budgeted target of capital expenditure. The capital expenditure in this year even decreased over the previous year (Government of India, 2018). Thus, although the fiscal targets were achieved, it may not be good for long term health of the state. However, the state's fiscal liabilities which were about seven times the state's own resources at the end of 2012-13 reduced to about four times of the state's own resources at the end of 2016-17.

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CHAPTER -VI

IMPACT OF POWER SECTOR REFORMS ON FISCAL HEALTH OF THE STATE GOVERNMENT

6.1. Introduction:

Power is a very important infrastructure for 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 agricultural, industrial and commercial activities which are important for economic growth. Power is also important to raise 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.

In this background, this chapter discusses the various reforms introduced in power sector in Arunachal Pradesh and analyses the performance of power sector in the State. It also analyses the impact of power sector reforms on the fiscal health of the State and suggests remedial measures.

6.2. Power Sector Reforms in Arunachal Pradesh

In Arunachal Pradesh, power sector is still 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). Arunachal Pradesh Department of Power (APDOP) is a deemed licensee in terms of section 14 of the Electricity Act, 2003. Being an integrated utility, it is responsible for transmission and distribution of electricity in the State of Arunachal Pradesh and also trading functions of electricity. In addition to Department of Power, a

separate department namely, Department of Hydro Power Development, has been set up 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.

The entire power requirement of Arunachal Pradesh Department of Power (APDOP) is met through purchase of power from the Department of Hydro Power Development (DHPD) and electricity traders/other sources. It also receives free power (12 per cent State quota) from the Central sector Power generations (like Ranganadi HEP and Pare HEP under NEEPCO). It also has its own small diesel generating units. The generation of power in the State sector is far less than the requirement. Therefore, the large proportion of the State's power requirement is met through purchase of power from power trading companies. Though the State has huge potential to generate hydropower, yet it has not been able to invest to tap its potential due to huge financial losses of power sector. As a result, the generation capacity under the State sector has been growing a nail pace.

The State is a late starter of power sector reforms. In order to improve the performance of power sector, the State government initiated some reforms. The status of power sector reforms in Arunachal Pradesh is presented in the table 1. It clearly shows that power sector reform in the State is still modest even after more than 25 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. The State introduced prepaid meter connection on optional basis in 2016. These steps are important but are not likely to produce significant unless accompanied by reforms in other complementary areas.

Table 6.1: Power Sector Reform Status in Arunachal Pradesh

Provision	Status
Constitution of State Electricity Regulatory Commission (SERC)	Constituted through a notification No. PWRS/W-1075/2004 dated 7th May 2010. The Commission has started functioning w.e.f. 2 nd 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	Yes

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 is still following the traditional method of bill collection. The system of online payment of bill may be introduced to improve revenue collection and encourage timely payment of bill.

Thus, it is observed that power sector reforms are 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.

6.3. Performance Power Sector in Arunachal Pradesh

Power sector in Arunachal Pradesh is under the control of Arunachal Pradesh Department of Power. It carries out the power business throughout the State. It undertakes the activities of transmission and distribution of power to consumers and collects the revenue. It has its own diesel power generation units and purchases power

from the power generation companies. In addition to it, the Department of Hydro Power Development, has been set up 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.

The State government, in order to tap its hydropower potentials, has signed MoUs with various power developers. 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.

The total installed generation capacity in the State sector is low. Hence, the State has to rely on capacity allocations in the central sector generating stations and import/purchase of power. The installed generation capacity under the State is presented in the table 6.2. It shows that the capacity has grown at slowly 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 6.2: Total Installed Capacity of the State

Year	Hydro (MW)	Diesel (MW)	Total (MW)
2006-07	33.84	25.00	58.84
2007-08	34.09	25.00	59.09
2008-09	56.52	25.00	81.52
2009-10	57.40	25.00	82.40
2010-11	57.66	15.98	73.64
2011-12	59.34	19.57	78.91
2012-13	61.31	19.57	80.88
2013-14	61.91	19.57	81.48
2014-15	62.61	19.57	82.18
2015-16	64.66	19.57	84.23
2016-17	70.26	19.57	89.83

Source: Arunachal Pradesh Department of Power, GoAP

For instance, in 2006-07 the total installed generation capacity of the State was 5.84 MW (Hydro 33.84 MW and Diesel 25 MW). It rose marginally to 81.52 MW in 2008-09. It was mainly on account of increase in capacity under Hydro power from 33.84 MW in 2006-07 to 56.52 MW in 2008-09. The capacity under diesel power has remained constant during the same period. But the total installed capacity of the State fell to 73.64 MW in 2010-11. The decline was mainly on account of sharp fall in capacity under diesel power. Thereafter, the total installed capacity increased steadily and reached 89.83 MW in 2016-17. The increase in capacity was contributed by Hydro power which increased from 57.66 MW in 2010-11 to 70.26 MW in 2016-17. During this period, generation capacity from diesel power stagnated at 19.57 MW. Thus, we find that though the installed generation capacity in the State has been 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 57.51 per cent in 2006-07 to 78.21 per cent in 2016-17. 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. The slow growth in generation capacity is due to the fact that there are certain power stations with nil generation (APSERC, 2015).

6.4. Energy Availability and Consumption of Power

Energy availability in the State is given in the table 6.3. Data on energy availability indicates that the energy generation under State sector has been low. Hence the State is heavily dependent on purchase of power from electricity traders and power import from outside the State. It shows that around 90 per cent of energy availability is imported from outside the State. For instance, in 2006-07 total energy availability in the State was 507.98 MU, out of which only 54.57 MU (10.74 per cent) was generated in the State sector and the rest 453.41 MU (89.26 per cent) was imported from outside. This is mainly due to low 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 6.3: Energy Availability in Arunachal Pradesh

Year	State's Net Generation (in MU)	% Share	Energy purchased (in MU)	% Share	Total Energy Availability in (MU)
2006-07	54.57	10.74	453.41	89.26	507.98
2007-08	55.32	8.83	571.07	91.17	626.39
2008-09	53.32	9.19	526.61	90.81	579.93
2009-10	55.77	NA	NA	NA	NA
2010-11	59.72	12.96	400.94	87.04	460.66
2011-12	58.17	10.73	483.81	89.27	541.98
2012-13	50.46	10.15	446.76	89.85	497.22
2013-14	53.72	10.09	478.75	89.91	532.47
2014-15	52.38	10.08	467.03	89.92	519.41
2015-16	58.94	8.96	599.23	91.04	658.17
2016-17	62.74	8.48	676.93	91.52	739.67

Source: Arunachal Pradesh Department of Power, GoAP

The total energy availability in the State increased significantly to 626.39 MU in 2007-08. This was mainly on account of jump in import of power to 571.07 MU from. There was a marginal increase in State's generation. In 2008-09 total energy availability fell sharply to 579.93 MU. This was due to substantial fall in power import to 526.61 MU in 2008-09. The energy generation in the State sector also fell to 53.32 MU. In 2010-11 total energy availability in the State declined to 460.66 MU. It was mainly due to substantial fall in power purchase. However, the energy availability increased to 541.98 MU in 2011-12. The increase in energy availability was mainly contributed by import of power from outside as the State's generation remained

stagnant. The total energy availability in the State fell to 497.22 MU in 2012-13. It increased to 532.47 MU in 2013-14 but it declined again to 519.41 in 2014-15. Thereafter, it again increased to 658.71 MU in 2015-16. It further increased to 739.67 MU in 2016-17. The increase in energy availability during 2014-15 and 2016-17 period was contributed both by increase in State's generation and increase in power purchase. However, the share of State's net generation to total energy availability has declined from 10.08 per cent in 2014-15 to 8.48 per cent in 2016-17 which indicates increasing dependence of the State on power import to meet the requirement.

The data on consumption/sale of power show that the domestic consumers account for the largest share followed by industrial and commercial consumers. For instance, in 2016-17 domestic consumers accounted for 40 per cent of the total sale/consumption followed by industrial consumers (28.6 per cent) and commercial consumers (12 per cent). The State is exporting substantial portion of power to outside the State (table 6. 4 (a & b)). In the year 2010-11, for instance, 25.48 MU of power was exported outside. The small consumption of power within the State may be mainly due to inadequate T&D infrastructure within the State, low and scattered population, low industrial and commercial activities.

Table 6.4 (a): Consumption/Sales of Power in Arunachal Pradesh (in MU/MKWH)

Sl. No.	Category	2010-11	2011-12	2012-13	2013-14
1	Domestic consumers	62.67	67.72	69.69	85.37
2	Commercial consumers	15.49	19.29	21.1	25.39
3	Industrial Consumers	56.11	94.84	96.31	48.40
4	Public Lighting	6.45	6.79	6.69	5.78
5	Public water work	3.54	3.78	3.98	4.03
6	Public centre work	0.06	0.04	0.04	0.03
7	Kutir Jyoti	3.85	5.96	5.16	5.87
8	Bulk mixed consumers	13.89	14.22	13.41	14.91
9	Any other (outside State)	25.48	32.03	29.45	43.35
	Total	187.54	244.67	246.83	233.13

Source: Arunachal Pradesh Department of Power and Tariff Order, SERC, Itanagar

Table 6.4 (b): Consumption/Sales of Power in Arunachal Pradesh (in MU/MKWH)

Sl. No.	Category	2014-15	2015-16	2016-17
1	Domestic consumers	134.29	138.59	147.95
2	Commercial consumers	33.64	39	44.47
3	Industrial Consumers	79.2	97.03	106.34
4	Public Lighting and water supply consumers	11.18	11.89	10.93
5	Agricultural consumers	0.00	0.02	0.03
6	Bulk mixed consumers	63.62	60.14	60.86
7	Temporary	0.11	0.23	0.22
	Total	322.04	346.89	370.83

Source: Arunachal Pradesh Department of Power and Tariff Order, SERC, Itanagar

The consumption/sale of power has increased over the years from 187.54 MU in 2010-11 to 246.83 in 2012-13. It fell to 233.13 MU in 2013-14. But it again rose substantially to 322.04 MU in 2014-15. It further rose and reached a level of 370.83 MU in 2016-17. During the period 2010-11 to 2016-17, the consumption//sale of power in the State has grown at 16.28 per cent per annum on an average which is very appreciable. The growth in power consumption was mainly contributed by high growth in domestic consumption which is mainly due to extension of electricity coverage. It was also contributed by growth in industrial and commercial consumptions. This shows that there is a growing demand for power in the State. Hence, there is a need to undertake investment in power generation to reduce dependence on power import.

6.5. 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. 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. However, it has shown

declining trend from 2014-15 due to continuous insistence and suggestions of SERC to APDOP. This is clear from table 6.5.

Table 6.5: Transmission and Distribution (T&D) Losses in Arunachal Pradesh

Year	T&D Loss (%)	AT & C Losses (%)
2010-11	62.10	69.27
2011-12	59.13	68.13
2012-13	60.4	66.27
2013-14	60.86	59.30
2014-15	53.29	62.43
2015-16	52.82	57.74
2016-17	53.64	39.98

Source: Arunachal Pradesh Department of Power, GoAP

The high T&D losses in the State can be attributed to lack of proper distribution network, power pilferage, tempering of meters, low level of metering both at feeder as well as at the consumer level and inadequate billing, 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.

The T&D losses in the State were 62.10 per cent in 2006-07 which came down to 59.13 per cent in 2011-12. But it again rose to 60.4 per cent in 2012-13 and 60.86 per cent in 2013-14. Thereafter, It has shown declining tendency and came down to 52.82 per cent in 2015-16 and rose marginally to 53.64 per cent in 206-17. The declining trend in T & D losses is a healthy trend and it should be reduced further to improve the health of power sector. The high T&D losses indicate that the Department of Power has been losing major chunk of its revenue which has affected its finances severely. This has resulted in huge revenue gap. For instance, in 2014-15 total revenue requirement of the APDOP was 398.68 crore and its total income was only 141.75 crore. The revenue gap was 256.93 crore (Tariff Orders, 2016-17, APSERC). It indicates poor performance of the Arunachal Pradesh Department of Power (APDOP) and is imposing burden on State Exchequer.

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. Hence, there is a need to take measures to reduce T&D losses as well as improve the performance and transparency 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. 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 and 44 per cent in 2016-17. This is a significant step taken by the APSERC to improve the performance of APDOP and reduce T & D Losses.

6.6. 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 be 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 in 2013-14 and Rs. 10.08 per kWh in 2016-17 by the APSERC. 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 nonpayment of bills. The tariff rates for different

categories of consumers in various years and percentage increase in tariff rates are given (annexure I).

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,33KV and 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 2016-17 the percentage increase in tariff rate was the highest for industrial consumers with 3-phase 132KV and bulk mixed consumers with 132KV connections followed by industrial consumers and bulk mixed consumers with 33KV connections, industrial and bulk mixed consumers with 11KV connections. During the same period, increase in tariff was the lowest for agriculture consumers with 3-phase 11KV connections followed by agriculture consumers 3-phase 33KV and domestic consumer (KJP & BPL) (Annexure I).

6.7. Impact of Power Sector Reforms on Fiscal Health of the State

The impact of power reforms on the fiscal health of the State has evaluated by analyzing the gap between cost (expenditure) and revenue of the power sector. The gap indicates the extent of fiscal burden on the State. High gap indicates poor financial performance of the power sector which imposes more burdens on State finances. With the introduction of reforms the gap between expenditure and revenue of the power sector is expected to decline and over the years power sector is expected to contribute positive net revenue to the State exchequer.

To assess the impact of power sector reforms on the fiscal health of the State two measures were used: (i) the gap between revenue and expenditure of the APDOP and (ii) the ratio of revenue to expenditure of the APDOP. The revenue and expenditure of the APDOP are given in the tables 6 and 7. The revenue of sale of power initially declined from 90.82 crore in 2010-11 to 80.53 crore in 2011-12. However, the revenue improved to 84.81 crore in 2012-13. It improved further and reached Rs. 129.88 crore in 2014-15. In 2015-16 the revenue fell to Rs. 117.35 crore.

Table 6.6: Revenue from Sale of Power (Rs. in Crore)

Year	Revenue from sale of Power within State	Revenue from sale of Power Outside State	Total Revenue
2010-11	53.80	37.02	90.82
2011-12	67.02	13.51	80.53
2012-13	73.52	11.29	84.81
2013-14	85.77	7.31	93.08
2014-15	119.15	10.73	129.88
2015-16	99.12	18.23	117.35
2016-17	230.95	16.19	247.14

Source: Arunachal Pradesh Department of Power, GoAP

However, it improved sharply to Rs. 247.14 crore in 2016-17. The average annual growth in revenue during the period under consideration was 28.69 per cent. The increase in revenue was mainly on account of improvement in revenue from sale of power, fall in T&D losses, improvement in collection efficiency and hike in tariff rates. The sale of power has increased from 187.54 MU in 2010-11 to 370.83 MU in 2016-17. The T & D losses fell from 62.10 per cent in 2010-11 to 53.64 per cent in 2016-17.

Table 6.7: Expenditure of the Department of Power (Rs. in Crore)

Year	Generation Cost	Purchase of Power	Repair & maintenance	Employee cost	Adm. & general exp.	Total Expenditure
2010-11	NA	106.5	20.49	105.21	9.89	242.09
2011-12	NA	172.62	25.87	127.18	4.02	329.69
2012-13	NA	191.38	31.76	138.54	6.46	368.14
2013-14	NA	180.23	26.50	156.42	6.83	369.98
2014-15	NA	182.44	28.50	175.41	7.52	393.87
2015-16	NA	217	20.19	211.37	7.25	455.81
2016-17	NA	277.42	20.00	232.49	8.91	538.82

Source: Arunachal Pradesh Department of Power, GoAP

The expenditure of the Power Department of the State consists of generation cost, power purchase cost, repair and maintenance cost, employee cost, administrative and general expenses. The total expenditure of the department has continuously increased from Rs. 242.09 crore in 2010-11 to Rs. Rs. 538.82 crore in 2016-17. The average annual growth of expenditure during this period was 20.42 per cent which is quite high. The high growth in expenditure was mainly due to high growth in power purchase cost (26.75 per cent per annum), employee cost (20.16 per cent per annum).

The composition of expenditure of the department is given in the table 6.8.

Table 6.8: Composition of Expenditure Department of Power (in Percentage)

Year	Generati on Cost	Purchase of Power	Repair & maintenance	Employee costs	Admi. & General Exp.	Total
2010-11	NA	43.99	8.46	43.46	4.09	100.00
2011-12	NA	52.36	7.85	38.58	1.22	100.00
2012-13	NA	51.99	8.63	37.63	1.75	100.00
2013-14	NA	48.71	7.16	42.28	1.85	100.00
2014-15	NA	46.32	7.24	44.53	1.91	100.00
2015-16	NA	47.61	4.43	46.37	1.59	100.00
2016-17	NA	51.49	3.71	43.15	1.65	100.00

Source: Arunachal Pradesh Department of Power, GoAP

The table shows that power purchase continued to account for the largest share in total expenditure followed by employee cost. The share of power purchase cost has increased from 43.99 per cent in 2010-11 to 51.49 per cent in 2016-17. The high share of power purchase cost can be attributed to increase in purchase of power from 400.94 MU in 2010-11 to 676.93 MU in 2016-17 which is mainly due to slow growth of State's net generation. The share of employee cost after declining initially from 43.46 per cent of total expenditure in 2010-11 to 37.63 per cent in 2012-13, rose to 46.37 per

cent in 2015-16. After that it declined marginally to 43.15 per cent. This shows that the power department is over staffed which are consuming a large chunk of its revenue. As a result it has not been able to undertake capital investment in power generation which really disturbing and unhealthy trend.

The financial position of the department is reflected by the gap between revenue and expenditure as well as the ratio of revenue to expenditure. The table 6.9 presents the revenue, expenditure, surplus/deficit and ratio of revenue to expenditure of the department.

Table 6.9: Profit/Loss of the Department of Power, Government of Arunachal Pradesh

(Rs. in Crore)

Year	Total Revenue	Total Expenditure	Surplus (+)/ Deficit (-)	Revenue as % of Expenditure
2010-11	90.82	242.09	-151.27	37.51
2011-12	80.53	329.69	-249.16	24.43
2012-13	84.81	368.14	-283.33	23.04
2013-14	93.08	369.98	-276.9	25.16
2014-15	129.88	393.87	-263.99	32.98
2015-16	117.35	455.81	-338.46	25.75
2016-17	247.14	538.82	-291.68	45.87

Source: Arunachal Pradesh Department of Power, GoAP

It is found that in all the years under the review, expenditure has exceeded the revenue. Therefore, the gap between revenue and expenditure of the department has always been negative. The department has suffered from deficit in all the years during the period under consideration which indicates its poor financial performance. The efficiency of expenditure has also been very inferior as reflected by the negligible capital expenditure and growing share of revenue expenditure. The volume of deficit in absolute amount has increased from Rs. 151.27 crore in 2010-11 to 338.46 crore in 2015-16. In 2016-17, it declined sharply to 291.68 crore. The decline in the volume of deficit was mainly due to substantial improvement in revenue from Rs. 117.35 crore in 2015-16 to 247.14 crore 2016-17 while the expenditure rose by Rs. 83.01 crore. The decline in volume of deficit in 2016-17 indicates sign of improvement. However, the volume of deficit is still quite large and needs to be reduced further.

The absolute volume of deficit does not give a clear picture of the fiscal health of the department. Therefore, the ratio of revenue to expenditure shows the percentage

of total expenditure financed by its own revenue. The increase in ratio is an indicator of improvement in the fiscal health of the department. The ratio of revenue to expenditure has shown fluctuations during the period under review which was due to fluctuation in revenue collection. After declining initially from 37.51 per cent in 2010-11 to 23.04 per cent in 2012-13, it improved to 32.98 per cent in 2014-15. But it fell sharply to 25.75 per cent in 2015-16. However, it improved sharply to 45.87 per cent in 2016-17. The improvement in the ratio in the recent year is very encouraging and it must be sustained to improve the fiscal health of the department and reduce the burden on State exchequer.

Key Findings:

- In Arunachal Pradesh power business is still the monopoly of Arunachal Pradesh Department of Power (APDOP). The distribution of power is still under the control of the department. The department sales power and collect tariff and non-tariff revenue from consumers.
- The performance of the APDOP is found to be inefficient as indicated by high level of T & D losses. Though the losses have declined during the period under review, such losses are still very high (53.64 per cent in 2016-17). 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.
- Installed generation capacity in the State sector is low and is found to increase slowly over the years. The generation of power State sector has grown at 1.4 per cent per annum during 2006-07 to 2016-17. The State's generation is highly insufficient to meet energy requirement. Therefore, the State has been importing huge amount of power from outside (91 per cent of energy availability in 2016-17).
- However, the consumption and sales of power has increased from 187.54 MU in 2010-11 to 370.83 MU in 2016-17 with average annual growth of 16.28 per cent. The domestic consumers accounts for the largest share (40 per cent) in consumption followed by industrial consumers (28.6 per cent) in 2016-17.
- Power tariff rates are found to be similar to other States like Assam. The rates are prescribed by the APSERC. The rates have been increased by only 15 to 34 per cent for different categories. Among the different category of consumers, tariff rates are found to follow the principle of ability to pay. The rates are the

highest for temporary consumers followed by commercial consumers (non-industrial) and industrial consumers and 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 corporatisation and unbundling of APDOP, privatisation of distribution, franchising and computerisation of billing, 100 per cent temper proof metering etc.
- The revenue and expenditure of the department of power shows that the impact of reforms has been far from expectation. Though the gap between revenue and expenditure (deficit) of the power department has increased from Rs. 151.27 crore in 2010-11 to Rs. 338.46 crore in 2015-16. The deficit declined to Rs. 291.68 crore which is higher than the initial level. However, the ratio of revenue to expenditure of the power department has improved from 37.51 per cent in 2010-11 to 45.87 per cent in 2016-17. **Thus, there has been some sign of improvement in fiscal health of the department. But the trend needs to be sustained for reducing the burden on State finances.**

6.7. Suggestions

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

- ❖ The power sector reforms in the State is yet to take place in a big way. The State should follow the steps of other States in introducing the reforms. As per the provision of the Electricity Act 2003, the functions are transmission and distribution functions are to be separated and entrusted to reorganised independent bodies. Hence, the State government must take steps to complete restructuring of the power sector in Arunachal Pradesh.
- ❖ Arunachal Pradesh Department of Power (APDOP) which enjoys the monopoly of power business has shown poor financial performance as indicated by the growing volume of deficit in its budget. The poor financial performance has been putting burden on the State finances. Hence, it should be restructured and corporatized to introduce professionalism and improve managerial efficiency.

- ❖ Distribution of power in the State may be privatised in some areas and sector. This will introduce competition in distribution of power between public and private sectors and it will 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 (53.64 per cent in 2016-17 against the national average of 24 per cent and 25 per cent in Assam). The T & D losses are responsible for huge loss of revenue. For example, in 2016-17 total energy availability was 739.67 MU of which 396.46 MU (i.e. 53.64 per cent) were lost. As a result estimated revenue of Rs. 261.66 crore was lost. Hence, T & D losses should be reduced in a phased manner to enhance revenue collection. This can be accomplished through investment in transmission and distribution, proper maintenance of transformers and other equipment, proper load management, connection with correct automated meters, replace defective meters with automated meters, computerised billing, reducing power pilferage etc.
- ❖ The department should conduct energy audit regularly and assess losses accurately in the distribution system (APSERC, 2014). Energy audit helps to identify high loss areas and accordingly remedial measures can be taken to check it.
- ❖ There are certain hydropower stations with nil generation (APSERC, 2015). The department shall examine such stations carry out improvements required to generate power. This will help to reduce dependence on power import and reduce power purchase cost.
- ❖ Power theft is a major problem in the State. It is one of the reasons for high T & D losses. 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.
- ❖ The Department of Power should focus on ways to increase revenue generation and reduce unproductive expenditure. To enhance revenue collection the department should improve technical efficiency, introduce proper billing, all metered supply, correct meter reading, and checking power pilferage and improve collection efficiency. At the same time, it should adopt measures to reduce expenditure. This can be done by cutting the unproductive expenditures.

For example, the employee cost accounts for more than 40 per cent of total expenditure which indicates that the department is overstaffed. There is a scope to reduce the employment cost and repair and maintenance cost. To reduce power purchase cost, the department should invest in its own power plants.

- ❖ ■ The tariff rates in Arunachal Pradesh are found to be similar to that of Assam. But the average cost of power supply is higher in Arunachal Pradesh. It is Rs. 10.08 per kWh in the State as compared to about Rs. 5 per kWh in Assam. Hence, there is an urgent need to reduce cost and learn lessons from Assam Power Development Corporation Limited (APDCL).

The above suggestions may be incorporated to improve the financial health of the State power sector. The improvement in financial performance of power sector is important to reduce the burden on the State finances.

**Annexure I: Tariff Rates for Different Categories of Consumer in various Financial Year
(in Rs. Per kWh)**

Sl. No.	Category	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	% increase during 2009-10 to 2016-17
1	Non Commercial Consumer (Domestic)									
	L T AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	3.45	3.60	3.80	4.00	4.00	4.00	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	4.00	4.00	4.00	15.94
	H T AC 50 Hz, 3-Phase, 11 KV nominal Voltage	2.95	3.10	3.25	3.40	3.40	3.40	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	3.25	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	2.65	2.65	2.65	15.22
2	Commercial Consumers (Non-industrial)									
	L T AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	4.10	4.30	4.50	4.75	5.00	5.00	5.00	5.00	21.95
	AC 50 Hz, 1-Phase, 400 Volt nominal Voltage	4.10	4.30	4.50	4.75	5.00	5.00	5.00	5.00	21.95
	H T AC 50 Hz, 3-Phase, 11 KV nominal Voltage	3.45	3.60	3.80	4.00	4.20	4.20	4.20	4.20	21.74
	AC 50 Hz, 3-Phase, 33 KV nominal Voltage	3.30	3.45	3.60	3.80	4.00	4.00	4.00	4.00	21.21
3	Public Lighting and Water Supply Consumers									
	L T AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	4.20	4.40	4.60	4.85	5.10	5.10	5.10	5.10	21.43
	AC 50 Hz, 1-Phase, 400 Volt nominal Voltage	4.20	4.40	4.60	4.85	5.10	5.10	5.10	5.10	21.43
	H T AC 50 Hz, 3-Phase, 11 KV nominal Voltage	3.45	3.60	3.80	4.00	4.20	4.20	4.20	4.20	21.74
	AC 50 Hz, 3-Phase, 33 KV nominal Voltage	3.30	3.45	3.60	3.80	4.00	4.00	4.00	4.00	21.21
4	Agricultural Consumers									
	L T AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	2.65	2.80	2.95	3.10	3.10	3.10	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	3.10	3.10	3.10	16.98

	H T	AC 50 Hz, 3-Phase, 11 KV nominal Voltage	2.40	2.50	2.60	2.75	2.75	2.7 5	2.75	2.75	14.5 8
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	2.30	2.40	2.50	2.65	2.65	2.6 5	2.65	2.65	15.2 2
5	Industrial Consumers										
	L T	AC 50 Hz, 1-Phase, 230 Volt nominal Voltage	3.45	3.60	3.80	4.00	4.20	4.2 0	4.20	4.30	24.6 4
		AC 50 Hz, 1-Phase, 400 Volt nominal Voltage	3.45	3.60	3.80	4.00	4.20	4.2 0	4.20	4.30	24.6 4
	H T	AC 50 Hz, 3-Phase, 11 KV nominal Voltage	2.95	3.10	3.25	3.40	3.75	3.7 5	3.75	3.85	30.5 1
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	2.65	2.80	2.95	3.10	3.40	3.4 0	3.40	3.50	32.0 8
		AC 50 Hz, 3-Phase, 132 KV nominal Voltage and above	2.50	2.65	2.80	2.95	3.25	3.2 5	3.25	3.35	34.0 0
6	Bulk Mixed Consumers										
		AC 50 Hz, 3-Phase, 11 KV nominal Voltage	2.95	3.10	3.25	3.40	3.75	3.7 5	3.75	3.75	27.1 2
		AC 50 Hz, 3-Phase, 33 KV nominal Voltage	2.65	2.80	2.95	3.10	3.40	3.4 0	3.40	3.40	28.3 0
		AC 50 Hz, 3-Phase, 132 KV nominal Voltage and above	2.50	2.65	2.80	2.95	3.25	3.2 5	3.25	3.25	30.0 0
7	Temporary Consumers										
		Metered Supply Rs./kWh	5.25	5.50	5.75	6.05	6.35	6.3 5	6.35	6.50	23.8 1
		Unmetered supply Rs./kWh	5.80	6.10	6.40	NA	NA	NA	NA	NA	NA

Source: Arunachal Pradesh Department of Power, GoAP & APERC

CHAPTER – VII

RESOURCE TRANSFER TO RURAL LOCAL BODIES

7.1. Introduction

Local bodies both rural and urban plays crucial role in ensuring participatory democracy. Compared to the Rural Local Bodies the Urban Local Body is relatively new (RLBs and ULBs hereafter). RLB in Arunachal Pradesh has been the catalyst of rural development since 1969, when it was first elected. The RLBs then were regulated by the NEFA (North East Frontier Agency) Panchayati Regulation 1967, emerged out of the Ering Committee recommendations of 1964. Later, 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 which was reserved by the then Governor for presidential assent. The ordinance was later 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 – the state being 100 percent ST state - other suggestions were incorporated in the Bill. As such the Government of India passed Constitution (83rd Amendment) Act in 2000 which exempted the reservation of SCs and was later notified on 30th April, 2001.

Similarly the 74th Amendment Act of 1992 ensures smooth transition of urban management to local bodies so that efficient participatory development initiatives are possible. However, it was only after year 2013 that the state of Arunachal Pradesh had ULB although the Arunachal Pradesh Municipal Act, 2007 was notified as early as the year 2008. The experiment for ULBs was meant for the two towns of Itanagar and Pasighat, considered to be the most populated amongst other. Nonetheless, the objective so long is to institute ULBs in a phased manner for the next most populous towns, which even after 5 years are yet to materialise.

Due to states own revenue constraints there is absence of states own developmental initiatives. It largely delves upon Centrally Sponsored Schemes (CSS) and other flagship programmes sponsored by the Central government. This applies to both RLBs and ULBs,

without any exception. This understandably is due to limited avenues of own revenue generation at the backdrop of poor and rural nature of the economy rendering it with acute revenue paucity.

7.2. Resource Transfer to RLBs

The state is hilly, landlocked, less developed in addition to being a late starter of development initiatives and mostly the state executes 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 agency - the Department of Rural Development - for development initiatives. Four major flagship programmes of Ministry of Rural Development, Government of India are executed by the nodal department. They are:

1. MGNREGA⁶
2. IAY or PMAY-G⁷
3. IWMP or PMKSY⁸
4. PMGSY⁹

7.3. MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act)

The scheme was launched in the state during the financial year 2006-07. Keeping in view the 34.67¹⁰ percent of rural gentry who are below poverty line, the programme is quite promising.

As on November 2018 about 2.25 Lakh job card was issued of which about 2.13 Lakh were active. The scheme covered about 4.59 Lakh workers out of which 2.38 Lakh were active. Being a full fledged ST (Scheduled Tribe) state majority of the workers constituted the indigenous ST rural populace accounting about 88.17 percent of the workers and with only 0.07 percent of SC.

⁶ Mahatma Gandhi National Rural Employment Guarantee Act

⁷ Indira Awas Yojana which was restructures as Pradhan Mantri Awas Yojana – Gramin since FY 2016-17

⁸ Integrated Watershed Management Programme restructured as Pradhan Mantri Krishi Sinchayee Yojana since FY 2015-16

⁹ Pradhan Mantri Gram Sadak Yojana

¹⁰ Data based on 2011-12 MRP Consumption extracted from RBI Handbook of Statistic on Indian Economy 2018

By the third quarter of the Financial Year 2017-18¹¹ i.e. as on November 2018 about 21.37 Lakh person days of works was already generated.

Table 7.1: Fund Breakup (Rs. Lakh)

Years	Total Central Release	Total Availability	Utilisation (in %)	Total Exp.	Wages	Material and skilled Wages	Materials (in %)	Total Admin Expenses	Admin Exp. (%)
2014-15	2704.16	6768.28	51.85	3509.44	1953.97	1124.74	36.53	430.72	12.27
2015-16	4003.96	10034.62	66.01	6623.52	3941.44	2242.27	36.26	739.81	6.64
2016-17	13091.06	16264.48	93.1	15142.47	9210.03	5200.36	36.09	732.08	4.83
2017-18	20679.65	28455.57	79.28	22560.46	13548.68	8201.03	37.71	810.74	3.59
2018-19	8862.79	11321.85	56.76	6426.12	4142.02	2034.38	32.94	249.71	3.89

Source: MoRD, GoI, MGNREA web portal

The total availability of Central fund was Rs. 6768.28 Lakh during 2014-15 which increased to Rs. 10034.62 Lakh in the subsequent year. It increased by more than one and a half times to Rs. 16264.48 Lakh during 2016-17 and by 1.7 times to Rs. 28455.57 Lakh during 2017-2018. During the FY 2018-19 by the beginning of November it was about Rs. 11321.85 Lakh. While the availability of fund was promising, the release of central release was poor. The percentage utilisation of fund measured in by fund released to total availability was only 51.85 percent during 2014-15, it increased to 66 percent in the subsequent year and to 93.10 percent during 2016-2017. Thereafter, by 2017-18 the percentage utilisation declined to 79.28 percent and still lower to 56.76 percent by the end of the third quarter of 2018-19.

¹¹ If not otherwise specified, year(s) means Financial Years means accounting year beginning 1st of April of a year to March 31st of the subsequent year.

Table 7.2: MGNREGA- Financial and Physical Targets, Achievements and Fulfillments

Years	Financial			Physical.		
	Target (Rs. Lakh)	Achievement (Rs. Lakh)	Target Fulfilled (%)	Target (Rs. Lakh)	Achievement (Rs. Lakh)	Target Fulfilled (%)
2006-07	1234.64	1107.06	89.67	13.42	12.07	89.94
2007-08	1213.48	404.34	33.32	13.19	3.28	24.87
2008-09	5109.72	3189.21	62.41	42	38	90.48
2009-10	5914.16	2707.07	45.77	50.12	20.58	41.06
2010-11	8345.34	49958.56	598.64	58.77	31.94	54.35
2011-12	14499.20	6891.04	47.53	73.6	35.71	48.52
2012-13	16210.17	7957.52	49.09	78.31	66.61	85.06
2013-14	19426.50	12255.79	63.09	86.34	47.64	55.18
2014-15	20031.12	3319.52	16.57	77.64	19.38	24.96
2015-16	24172.10	6473.96	26.78	88.95	50.45	56.72
2016-17	14350.00	15043.83	104.84	50	85.34	170.68
2017-18	14750.00	22429.90	152.07	50	42.8	85.60

Source: Compiled from data provided by GoAP

A longer run analysis of the MGNREGA gives better operational insight of the scheme. The Financial Target increased from a mere Rs. 1234.64 Lakh in 2006-07 to Rs. 14750 Lakh by 2017-18 with a Compounded Annual Growth Rate (CAGR hereafter) of about 10 percent. Financial Achievement, defined as expenditure actually made, also increased from about Rs. 1107.06 Lakh in 2006-07 to about Rs. 22429.90 Lakh during 2017-18. The CAGR of Financial Achievement was as low as 6 percent and was erratic and fluctuating. In other words, while the Financial Targets increased in a compounding manner since 2006-07 till 2015-16 which declined thereafter, the Financial Achievements, except for the years 2010-11 and 2011-12, was always lower than the targets. On the average, with exception to 2010-11 and 2011-12, Financial Achievements did gradually increased till 2013-14 but declined during 2015-16. Recently the Financial Achievements are on increase, but there has been a stiff decline in the Financial Target itself aftermath 2015-16.

In terms of the Physical Target set and Achieved, the picture is rather erratic and unsatisfactory. The CAGR of Physical Target increased by about 30 percent since 2006-07 till 2017-18 while the Physical Achievements had a CAGR of about 32 percent for the same period. On the average the CAGR gives a good picture but the picture itself has been influenced by the

stiff decline in the Targets after 2015-16. Due to this decline in the Physical Targets the Achievement have outgrown targets particularly after 2014-15 till the later part of 2016-17, after which the Physical Achievements itself have stiffly declined. Thus, except for 2006, the years 2007-08 to 2009-10, for the 2011-12 to 2013-14 and 2014-15 to 2016-17 Physical Achievements has always been lower than the Financial Achievements and by the last part of the year 2017-18 it again dipped lower than the Financial Achievements.

7.4. IAY(Indira Awas Yojana)/PMAY-G (Pradhan Mantri Awas Yojana – Gramin)

Rural housing in the name and style of IAY (Indira Awas Yojana) has been operational in the state since 1996. The programme has been restructured since the financial 2016-17 and has been renamed as the PMAY – G (Pradhan Mantri Awas Yojana – Gramin).

From Table 7.3 it is learnt that the financial target during 2002-03 was mere Rs. 789.75 Lakh which increased gradually to Rs. 871.25 and Rs. 985.62 Lakh respectively during the subsequent two years to reach the figure of Rs. 1212.63 Lakh in 2005-06. The amount remained more or less constant to the preceding target during 2007-08 but almost doubled to Rs. 2264.05 during 2007-08 and by twice to Rs. 4414.06 during 2008-09. Since 2009-10, the financial targets have been fluctuating. The highest target was set during the year 2013-14 at Rs. 6210.46 Lakh, after which it fluctuated again and by 2017-18 the target outlay was reduced to Rs. 2187 Lakh only

With respect to financial achievement, it was Rs. 360.20 Lakh during 2002-03, which about the half of the set target. It however was above the target by the subsequent year i.e. 2004-05 till the latter half of 2004-05 with Rs. 1041.35 and 1246.30 Lakh respectively. Thereafter, the financial achievements kept pace with the set financial targets, except for the years 2005-06 and 2006-07 as well as 2009-10 and 2012-13.

Table 7.3: IAY/PMAY – G-Financial and Physical Targets, Achievements and Fulfillments

Year	Financial			Physical.		
	Target (Rs. Lakh)	Achievements (Rs. Lakh)	Target Fulfilled (%)	Target (DUs)	Achievements (DUs)	Target Fulfilled (%)
2002-03	789.75	360.20	45.61	..	..	..
2003-04	871.25	1041.35	119.52	..	..	..
2004-05	985.62	1246.30	126.45	..	..	..
2005-06	1212.63	962.00	79.33	..	..	..
2006-07	1265.91	1023.40	80.84	..	..	..
2007-08	2264.05	2496.34	110.26	..	..	..
2008-09	4414.06	4414.06	100.00	..	..	..
2009-10	3385.97	3385.97	100.00	..	..	..
2010-11	4400.71	3841.18	87.29	..	..	..
2011-12	4174.83	4174.83	100.00	7548	7548	100
2012-13	3852.37	3852.37	100.00	8339	8339	100
2013-14	6210.46	6210.46	100.00	6870	6870	100
2014-15	1530.00	1530.00	100.00	2017	2017	100
2015-16	1027.50	1027.50	100.00	1357	1357	100
2016-17	11744.20	4049.71	34.48	9034	1388	15.36
2017-18	2187	..	..	..	..	..

Source: Compiled from data provided by GoAP

DUs = Dwelling Units

Thus, the CAGR with respect to financial target was about 78.43 percent for entire period ranging from 2003-2017. Contrast to it the financial achievements had a CAGR of only 38 percent, which is just above the half of the targeted outlay. While the financial achievements are keeping up pace with the financial targets lately, the compounded impact over the years have led to realisation of low CAGR for financial achievements. Nonetheless, since 2015-16 onwards the physical achievements are picking up pace and are higher than the set targets.

In case of the physical targets and achievements no records were provided for the time span ranging from 2002-03 to 2010-11 and for the latest financial year 2017-18. As such, the CAGR were computed based on the figures provided for the years 2011-12 till 2016-17. The CAGR was identical for both the physical targets and achievements at about 362.19 percent. Further, with regard to year 2016-17 the figures relating to financial and physical targets and

achievements have been quite low and this may have been due to causal lapses and lags caused due to restructuring of the programme itself.

7.5. IWSMP (Integrated Water Shed Programme)/PMKSY(Pradhan Mantri Krishi Sichayee Yojana)

The IWMP was started since 2009-10 aiming at integrated management, conservation and development of a particular watershed to sustainably maintain ecology and development initiatives. The programme was restructures by merging it with other components as PMKSY (Pradhan Mantri Krishi Sichayee Yojana) in the financial year 2015-16 and was notified subsequently. Hence, the data pertains to both the IWSMP and PMKSY accordingly as explained in the aforementioned timeline.

It can be seen from the Table 4 that the financial outlay or the target increased from a mere Rs. 548.32 Lakh in 2009-10 by about 3.87 times to Rs. 2131.10 Lakh in the subsequent year. It declined drastically by almost 4.91 times to Rs. 434.55 Lakh during 2011-12 and continually increased till 2014-15 to about Rs. 5248.35 Lakh. The financial target dipped to Rs. 3228.97 Lakh during 2015-16 after restructuring of the scheme from IWSMP to PMKSY. Financial outlay target has, however, picked up aftermath restructuring and was of Rs. 5171.22 and Rs. 5356.99 Lakh for the year 2016-17 and 2017-18 respectively.

Table 7.4: IWSMP/PMKSY-Financial and Physical Targets, Achievements and Fulfilment

Year	Financial		Target Fulfilled (%)	Physical.		Target Fulfilled (%)
	Target (Rs. Lakh)	Achievements (Rs. Lakh)		Target (Rs. Lakh)	Achievements (Rs. Lakh)	
2009-10	548.32	548.32	100.00	..	..	..
2010-11	2131.10	1311.07	61.52	..	..	..
2011-12	434.55	355.81	81.88	2897.00	2372	81.88
2012-13	1122.00	989.00	88.15	7480.00	6593	88.14
2013-14	12924.72	8105.57	62.71	86165.00	54037	62.71
2014-15	5248.35	3995.70	76.13	34989.00	26638	76.13
2015-16	3228.97	661.13	20.47	21526.00	4408	20.48
2016-17	5171.22	1803.88	34.88	34475.00	12026	34.88
2017-18	5356.99	4308.79	80.43	35713.00	28725	80.43

Source: Compiled from data provided by GoAP

In case of the financial achievements, for the initial year of 2009-10 it was identical to the targeted outlay of Rs. 548.32 Lakh. With exception to the years 2011-12 and 2012-13 when the achievements were almost fulfilled and was identical to the outlay targeted, for the rest of the years, it was well below the outlay targeted. Nonetheless, for most of the years, the financial achievements are promising as except 2015-16, the year of restructuring the programme of IWSMP into PMKSY when the target achieved was as low as 20.47 percent.

With respect to the physical target and achievements, information pertaining two financial years, namely the 2009-10 and 2011-12 was not available. However, with the limited data that was available, the analysis shows that physical achievements fell short over physical target for entire time period ranging from 2012-13 till 2017-18. A cyclical or fluctuating trend of both physical target and achievements can be seen, where the physical achievements while relatively lower than the physical targets are following the almost the same path as it. Target fulfilled seems promising as it was little higher than 80 percent for almost all the financial years, except for the three subsequent financial years beginning 2013-14 till 2015-16.

Thus, for the entire period since 2009-10 till 2017-18 the CAGR for financial target was around 14 percent while the achievements had a CAGR of about 16 percent. Similarly, the physical target grew with a CAGR of 12 percent while the CAGR of physical achievement grew marginally higher at around 13 percent. With respect to higher CAGR of financial achievements than the target, the result largely has been influenced by the extreme values and particularly by the recent increase in achievements. The same has been result of CAGR of physical targets and achievements, even if marginal.

7.6. PMGSY (Pradhan Mantri Gram Sadak Yojana)

Launched in December 2000, PMGSY is a centrally sponsored programme aims to provide connectivity, by way of an all-weather road with necessary culverts and cross-drainage structure, which is operable throughout the year. The criteria has been for eligibility is the unconnected habitations in rural areas of country with a population of 500 persons and above in plain areas. The eligibility criterion has been, of course, relaxed for some states including Arunachal Pradesh to 250 persons and above. In addition to it, a special dispensation is extended

to Arunachal Pradesh through Cluster approach for all International border districts of the State. A cluster is clubbing of population with the path distance of 10 kilometres.

The initial amount during 2006-07 was Rs. 172.04 Lakh which dropped to Rs. 102.03 Lakh during 2007-08. It increased to Rs. 104.49 in the following year 2008-09 which thereafter increased more than twice the preceding year's outlay to Rs. 282.51 Lakh during 2009-10. During 2010-11 it increased by more than a time to Rs. 351.16 Lakh but declined to Rs. 231.98 Lakh in 2011-12. It increased to more than double of what was in 2011-12 by 2012-13 to Rs. 453.18 Lakh and dipped stiffly in the subsequent year, 2013-14, to Rs. 15.66 Lakh. For the year 2014-15 and 2015-16 it was more than Rs. 360.95 and Rs. 373.24 Lakh respectively. The total outlay declined to Rs. 205.92 Lakh in 2016-17 but increased by about three times to Rs. 694.21 Lakh during 2017-18. Thus, it can be observed that the total outlay or the pattern of investments has a fluctuating trend.

Table 7.5: PMGSY- Fund and Asset Status

Years	Central Share (Rs. Lakh)	State Share	Total Outlay	Targets (in Kms)	Asset Created	Achievement	Outlay to Asset Ratio
2006-07	172.04	..	172.04	..	113.98	..	1.51
2007-08	102.03	..	102.03	..	180.05	..	0.57
2008-09	104.49	..	104.49	..	163.01	..	0.64
2009-10	282.51	..	282.51	..	622.55	..	0.45
2010-11	351.16	..	351.16	..	574.04	..	0.61
2011-12	231.98	..	231.98	..	442.94	..	0.52
2012-13	453.18	..	453.18	..	490.89	..	0.92
2013-14	15.66	..	15.66	..	612.47	..	0.03
2014-15	360.95	..	360.95	..	529.6	..	0.68
2015-16	373.24	31.05	473.56	511	512.66	100.32	0.92
2016-17	205.92	33.57	414.38	650	1355.01	208.46	0.31
2017-18	694.21	77.77	805.43	1000	1112.15	111.22	0.72

Source: Compiled from data provided by GoAP

No information with regard to states share of outlay was provided for the entire time span from 2006-07 till 2014-15. Neither was any reference made with regard to either the programme was under PMGSY or PMGSY – II as such. The programme was supposed to be a hundred percent central intervention. It is only under the PMGSY – II, the provision of states share arises. Hence, it may be inferred that the data starting from the financial year 2015-16 up to 2017-18

encapsulates in it even the funds provisioned under the PMGSY – II. It may also be noted that prior to the financial year 2015-16, no information regarding the targets, financial or physical, was communicated to State Government by the Central Government or for that matter the concerned Parent Ministry.

The State's share of the outlay was Rs. 31.05 Lakh during 2015-16 which remained almost the same at about Rs. 33.57 Lakh in 2016-17 and increased by a 2.31 times to Rs. 77.77 Lakh in 2017-18. Thus the consolidated outlay for the three subsequent years starting 2015-16 till 2017-18 was Rs. 473.56, Rs. 414.38 and Rs. 805.43 Lakh respectively.

Similarly, for the same three consecutive years beginning from 2015-16 till 2017 the physical target was set. The physical target was defined as the assets to be created in kilometres. The physical target set for the year 2015-16 was about 511 kilometres. It was 650 and 1000 kilometres for the subsequent years of 2016-17 and 2017-18 respectively. In terms of the achievements, defined as the actual assets created relative to the targeted assets in kilometre, the performance far outweighs the set targets. Against the set target of 511 kilometres for the year 2015-16 the actual assets created was about 512.66 kilometres which exceeded the target by 100.32 percent. Similarly during the year 2016-17 the set target in kilometres was about 650 kilometres against which about 1355.01 kilometres of assets were created. Thus, the achievement was about 208.46 percent. For the latest year 2017-18 while the target was about 1000 kilometres, the actual asset created was about 1112.15 kilometres with an achievement of about 111.12 percent.

Thus the total asset grew created grew from about 113.98 kilometres in 2006-07 to about 1112.15 kilometres by 2017-18 with a cumulative asset of about 6709.35 kilometres. The CAGR was therefore about 13 percent for the entire span of twelve years beginning 2006-07 to 2017-18. This was at the backdrop total financial outlay with CAGR of 26 percent for the same time span. The general trend of the asset creation follows that of the total outlay, except for the years 2012-13 to 2014-15 and 2016-17 during which the total outlay was high against poor and diametrically opposed trend of asset creation, reflecting gross inefficiency. The CAGR for the central outlay assisted grew for the same time span by 28 percent. As for the period after which the state share of outlay was available i.e. for the three years 2015-16 up to 2017-18 the CAGR was as high as

63 percent. This high value of CAGR for state share is realised due to the sudden increase in the state share by 2.31 times in 2017-18 of the preceding year. With respect to the financial achievements, it remained 100 percent throughout the time span of 12 years from 2006-07 till 2017-18.

Thus, the outlay to asset ratio, defined as total outlay by asset created, was as high as 1.51 during 2006-07 and dipped to 0.57 during the subsequent year 2007-08. It was as lowest during 2013-14 at 0.03 followed by 0.31 during 2016-17 and 0.45 during 2009-10. During other years the outlay to asset it revolved about a little above the value of 0.50 to 0.60, except for the years 2012-13 and 2016-17 when it was 0.92 and during 2017-18 when it was 0.72.

Grants in Aid, FC (Finance Commission) Grants, Salaries and Wages

In addition to the usual programmes the State government also makes certain other grants in the nature of Aids. In addition the FC (Finance Commission) also makes certain transfers to the RLBs. The FC grants herein refer to the both 13th and 14th FC grants that were released to the RLBs for various purposes.

Table 7.6: Grants in Aids to RLBs (Rs. Lakh)

Year	District	Block	Village
2010-11	..	..	..
2011-12	..	..	..
2012-13	..	..	..
2013-14	1700	..	..
2014-15	..	..	..
2015-16	..	..	..
2016-17	..	..	..
2017-18	1500	3500	..

Source: Compiled from data provided by GoAP

As is observable from Table 7.6 that the resource transfers by way of grants in aids by the state government has been very limited. Further, grants were largely made to the District Panchayat or the agency responsible at the district level RLBs. Grants in aids were granted to district level RLBs on two occasions, namely; during 2013-14 and 2017-18 to the extent of Rs. 1700 and 1500 Lakh respectively. Nothing was transferred or granted as aids to the block and village level RLBs, except the one time grant to Block level RLBs recently during 2017-18 to the tune of about Rs. 3500 Lakh. Thus, the consolidated total grant in aid made by the state government was to the tune of Rs. 6700 Lakh for the period 2010-11 to 2017-18.

As can be seen from Table 7.7, there was more regular flow of FC grants as well as for various levels of RLBs. than the states governments grant in aids. FC grants amounting to tune of Rs. 1700 and Rs. 8852 Lakh was made available during 2015-16 and 2016-17 respectively for the District level RLBs. In case of the Block level RLBs, the FC grant of Rs. 504 and Rs. 645 Lakh was made during the period 2010-11 and 2011-12. No grants were made by the FC during 2012-13 and in 2015-16 and 2016-17 to the block level RLBs. During 2013-14 FC grant to Block level RLBs was to the tune of Rs. 46.994 Lakh while in the subsequent period i.e. 2014-15 amount of Rs. 180 Lakh was granted. The highest amount to block level RLBs was released during 2017-18 when a FC grant of Rs. 4749.97 Lakh was released to the block level RLBs.

Table 7.7: Salaries, Wages and Miscellaneous Grants (Rs. Lakh)

Year	District		Block		Village	
	Salaries & Wages	Grants	Salaries & Wages	Grants	Salaries & Wages	Grants
2010-11	769.26	..	..	504	..	1764.00
2011-12	834.26	..	..	645	..	2259.60
2012-13	900.26	..	..	..	..	..
2013-14	942.26	..	..	46.994	..	164.48
2014-15	2046.00	..	..	180	..	630.17
2015-16	2145.00	1700	..	..	..	NA
2016-17	2184.72	8852	..	..	..	7471.56
2017-18	2182.84	..	..	4749.97	..	..

Source: Compiled from data provided by GoAP

In case of the village level RLBs, FC grants were not released for the years 2012-13, 2015-16 and the latest year of 2017-18. However, comparatively a major share of the FC grants was transferred to the Village level RLBs. The FC grant released for the period 2010-11 and 2011-12 was Rs. 1764 and 2259.60 Lakh respectively. For the year 2013-14 and 2014-15 the FC grants to village level RLBs amounted to Rs. 164.48 and Rs. 630.17 Lakh respectively. The last FC grant released to village level RLBs was during 2016-17 which amounted to Rs. 7471.56 Lakh.

In addition to the grants the RLBs also incur expenditure by way of Salaries and Wages. This component of is obvious to increase but gradually with increasing administrative expansion and correlated complexities. Thus the salary and wage component transferred to the RLBs

increased gradually from a mere Rs. 769.26 Lakh in 2010-11 to Rs. 942.26 Lakh in 2013-14 after which it increased steeply during 2014-15. Since then it is increasing but gradually till 2017-18. The component salaries and wages increased with a CAGR of 41 percent for the entire span of eight years. Data on Salaries and Wages pertaining to the Block and Village level were not available, may be the same has been amalgamated as aggregate.

7.7. Observations

The execution and performance of MGNREGA posits certain lapses. *One*, there is lack of awareness by the public regarding the procedure to place demand for work. *Two*, beneficiaries also are unaware about the right or legal claim attached to the scheme. While the administrative expenditures are met out of fund allotted to the schemes, there is gross inefficiency and lack of proactive dissemination of information to create awareness about the issue. The very basic and fundamentals of success necessitate to even out the information asymmetry, but this has been grossly undermined by design and by those in the helm of affairs.

The MGNREGA is a demand based scheme. But often, the supply side has been made as the constraint by the politico-bureaucratic class by insulating even the few who claims their right. There are cases of poor maintenance of records, especially of the muster roll and materials issued and stock register maintained. Cases of misappropriation through inflated figures of material cost and through ghost workers have emerged time and again.

There are also the case of the issued job cards not in the custody of RLBs workers and officials due to mala fide nexus. While job cards are issued, in many cases, the card itself is not in the custody of the worker against whom it has been issued. This leaves a grey area for mala fide practices leading to siphoning of resources by the nexus leaving astray the actual beneficiary. Such cases are rather common in places where the DBT (Direct Benefit Transfer) are not in place and often due to ignorance of the beneficiary who are at the mercy of those in the nexus.

Then there is gross lack of intent by nodal agencies to converge the scheme with other activities which may compound the output. Instead of inter-sectoral convergence and flexibility

diligence is adhered religiously to continue with the same old unskilled mud and earth works. This has piled up duplicity of works and assets thereby squandering of scarce resources. Instead of officials putting up plans of work and dictating the supply side, the scheme should be followed in its spirit and the set pattern should be reversed.¹²

With respect to the purported claim of success for IAY/PMAY-G, the case seems doubtful. In fact, there is no approved pre-defined specified architectural designing. While the structure and design vary even within a limited spatial-location depending upon the tribes and communities under consideration, it is not impossible to design and approve an architectural layout. The planners and architecture professionals of the state should work out in detail outlays or designs based on micro assessment so as to keep in tandem with the locality and custom of the grass root beneficiaries.

The lack of such design has but led to difficulties in taking stock of success that the scheme claims to. Accounting the actual work undertaken is, therefore, not only problematic but provides grey areas, thereby, scopes for mala fide practices. Also, the lack of such pre-defined design and outlay has reduced the scheme to the only scheme for distribution of the CGI (Corrugated Galvanised Iron) roofing sheets. Usually, the provided roofing materials are forty pieces in number without any consideration of the thickness (in mm), total surface area (in square feet) and quality whatsoever.

Even the selection of the beneficiary is contentious to the extent of duplicity and deprivation by the ones yielding in the hierarchy of power structure built on politico-bureaucratic nexus. At times the nexus operates to benefits of their own class and fraternity through some ghost beneficiary.

The purported success is also doubtful, which emerged post restructuring of the IAY scheme as PMAY-G, and can be ascertained from the observation of low financial achievements of Rs. 4049.71 against the very high financial outlay target in its initial year 2016-17 at Rs. 11744.20 Lakh and the subsequent stiff fall of the financial target itself to 2187 Lakh in 2018-19, thereof.

¹² Few issues related to the Scheme is reflected in Appendix

In case of the OWSMP/PMKSY, while few projects were undertaken by the state nothing can be ascertained of its outcome. Similar is the case of the PMGSY. Nonetheless, it can be truly be ascertained that the quality and better guidelines can be expected to bring about a better execution and outcomes.

To sum up, the Third Party Monitoring Agencies undertaking the social or account audits too are, therefore, contentious and questionable. Rather than verifying facts and in accordance with the given guidelines, only data mining and analysis of provided data have been undertaken and fed so far up till now. Unless a proper mechanism or agency conforming to regulating and monitoring process is not configured independent of the system, the poor rural gentry are far from being emancipated and will continue to dwell in abject poverty.

As mandated to this study an exercise has been undertaken to work out the total financial implication upon the RLBs. The total outlay is the consolidated aggregate of outlay of various years under consideration under particular head as specified. Actual expenditure in similar fashion is also the consolidated aggregate of actual expenditures made during various years as represented in the above analysis.

Table 7.8 : Total Actual Outlay and Expenditures (Rs. Lakh)

Particulars	Total Outlay	Actual Expenditure	Per Capita Total Outlay	Per Capita Actual Expenditure
MGNREGA	14750.00	22429.90	0.01	0.02
IAY_PMay-G	50316.31	39615.67	0.05	0.04
IWSMP_PMKSY	36166.22	22079.27	0.03	0.02
PMGSY	3489.76	3489.76	0.00	0.00
Grants in AIDS by State Government	6700.00	6700.00	0.01	0.01
Salaries and Other Transfers to PRIs	30420.37	30420.37	0.03	0.03
Total	141842.66	124734.97	0.13	0.12

Source: Compiled from data provided by GoAP

Thus under MGNREGA from the year 2006-07 till 2017-18, in the span of twelve years a consolidated amount of Rs. 14750.00 Lakh was put out as total outlay, while it the expenditure actually incurred was Rs. 22429.90 Lakh. It was Rs. 50316.31 Lakh and Rs. 39615.67 for the scheme IAY/PMAY – G, from the year 2002-03 to 2017-18 i.e. during a span of sixteen years. In case of the IWSMP/PMKSY, the consolidated total outlay and actual expenditure incurred beginning from 2009-10 to 2017-18 was about Rs. 36166.22 and Rs. 22079.27 respectively.

Grants in aids made by the State government in between 2010-11 and 2017-18 were to the tune of Rs. 6700 for both total outlay as well as the actual expenditure. Salaries and wages for the period of eight years starting from 2010-11 to 2017-18 were to the tune of 30420.37 for both total outlay and actual expenditure respectively.

As can be seen from Table 8, in case of the scheme PMGSY, the Per Capita Total Outlay as well as Per Capita Actual Expenditure (PCTO and PCAE hereafter respectively) was even less than a thousand rupee. The PCTO and PCAE were Rs. 1000 and Rs. 3000 respectively for grants in aid made by the state government and the salaries and wages components.

In case of the MGNREGA while the PCTO was Rs. 1000, the PCAE turned out to be higher at Rs. 2000. The case was contrary in case of IAY/PMAY – G and for IWSMP/PMKSY where the PCTO turned out higher than the PCAE incurred. The PCTO for IAY/PMAY – G was Rs. 5000 while the PCAE turned out to be lower at Rs. 4000 only. In case of the IWSMP/PMKSY the PCTO was Rs. 3000 while the PCAE was only Rs. 2000.

The consolidated aggregate PCTO was about Rs. 13000, while the consolidated aggregate PCAE was Rs. 12000 only. Thus, it can be inferred that both the per capita allocation as well as the per capita actual expenditure incurred are relatively low. In fact, at the backdrop of the hilly and mountainous nature of the state, numerous bottlenecks either administrative, communication and transportation and low level of social infrastructure renders the state dependent on every front. The bottlenecks peculiar to the state and its heavy dependency on others have renders cost escalation but also high transaction costs. These bottlenecks and constraints need immediate redress for which not only the Per Capita Outlay has to be enhanced substantially but also the rate at which the resources are utilised. Inefficiency in the expending the outlaid amount requires to be accelerated such that the Per Capita Actual Expenditure becomes fructuous.

7.8. Resource Transfer to ULBs (Urban Local Bodies)

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. The ULBs came into existence on experimental basis for the two most populated towns, namely, Itanagar and Pasighat. The two respective ULBs comprised of 31 and 12 wards respectively. More of such ULBs are supposed to be extended in future to another 10 more populated towns in a phased manner which seems but a distant reality as of now.

7.9. AMRUT (Atal Mission for Rejuvenation and Urban Transformation)/JNNURM (Jawaharlal Nehru National Urban Renewal Mission)

Except for the JNNURM (Jawaharlal Nehru National Urban Renewal Mission), now renamed and restructured as AMRUT (Atal Mission for Rejuvenation and Urban Transformation). These schemes were earlier dealt directly by the Department of Urban Development (UD hereafter) under the state government which was later brought under the ULBs, specifically in the two towns where it came into existence after 2013. The ongoing programmes undertaken by the ULBs are specifically

1. Urban Infrastructure and Governance (UIG hereafter)
2. Basic Services to Urban Poor (BSUP hereafter)

Table 7.9: Ongoing Projects-AMRUT/JNNURM

Components	Title	(Rs. Lakh)	Share		Status	
		Total Cost	Central	State	Financial	Physical
UIG (Urban Infrastructure and Governance)	E-Governance under NMMP for Mission City, Itanagar)	1461.52	328.84	846.15	80.4	80%
BSUP (Basic Services to Urban Poor)	752 DUs Housing Project at Karsingsa	4515.25	4059.22	456.03	100	80%

Source: Compiled from data provided by GoAP

DUs = Dwelling Units

As data pertaining, specifically aftermath the financial year 2017-18, includes also the merged and restructured schemes i.e. schemes under AMRUT, it has been excluded due to compatibility issue. Further, data pertaining to ULB of Pasighat town was not provided in spite of requisition, whatsoever. Hence, the analysis pertains to that of the ULB related to Itanagar

Township only. Also, no scheme of UIDSSMT was undergoing within the capital town of Itanagar during the time of compiling and writing this report.

In case of the UIG, there was an ongoing scheme under National Mission Mode Project for ULBs for e-governance of the ULBs. The total cost of the project was of the amount **Rs. 1461.52 Lakh**, of which the Central share was Rs. 328.84 Lakh and the respective corresponding share of the State was Rs. 846.15 Lakh. As such, the financial achievement of about 80.40 percent was achieved with incurred cost of Rs. 1174.99 Lakh; with an unspent amount of Rs. 286.53 Lakh. The physical achievement was about 80 percent of the set target, falling short of the provided timeline year of 2017. Similarly, under the BSUP component, a 752 Dwelling Unit Housing Project at Karsingsa is still ongoing. The total cost of the project is Rs. 4515.25 Lakh. The Central and States share of the total project cost tantamount to Rs. 4059.22 and Rs. 456.03 Lakh respectively. While the financial achievement has been 100 percent, the physical achievement is only 80 percent and has fallen short drastically despite all resources been expended.

7.10. Various Ongoing Social Infrastructure Projects

In addition to the AMRUT/JNNURM the other ongoing projects includes those in the social infrastructure sectors. These were the projects funded out of the Non Lapsable Central Pool of Resources under the scheme North East Special Infrastructure Development Scheme (NLCPR and NESID hereafter respectively) for the construction of the foot over bridges in the twin capital towns at various locations.

Table 7.10: Ongoing Social Infrastructure Projects (Various)

	Project cost	Fund Share		Progress (%)	
		Centre	State	Financial	Physical
Foot Over Bridges at various locations of State Capital under NLCPR (NESID)	909.92	610.30 (67.07)	90.99 (10)	77.07	70
Ongoing Projects under Rajiv Awas Yojana (RAY)	4431.20	3098.32 (69.92)	558.30 (12.60)	82.52	80
Projects under SIDF (DoNER)					
	Project cost	Fund Received		Financial	Physical
Multi-Storied Parking at Ganga, Itanagar	1471.68	735.84		50	..
Multi-Storied Parking at Civil Secretariat, Itanagar	1471.68	735.84		50	..
Ongoing Major Projects under Special Plan Allocation (SPA)					
	Project cost	Fund Released		Financial	Physical
Outdoor Stadium at Yupia	5948.80	5948.80		68	65
Flat for Senior Government Officials (Phase -I)	7000	6985		99.79	60
Apartments for MLA	13582	13582		79.60	60

Source: Compiled from data provided by GoAP

*Project Cost, Fund Share, Fund Received, and Fund Released in Rs. Lakh, Progress - Financial or Physical – are in percentage.

**Figures in the parenthesis are percentage of the Project Cost

There were two ongoing projects pertaining to multi storied parking lot under Social Infrastructure Development Fund (SIDF hereafter) funded by the Ministry of Development of North East Region (DoNER). Under the Special Plan Allocation (SPA) there were three ongoing projects. In addition to the above, there was also the ongoing project under the Rajiv Awas Yojana (RAY). The details of the projects on various social infrastructures are given in Table 10.

As such, the project cost of foot over bridges to be installed at various locations of the twin capital town is Rs. 909.92 Lakh. Of the total project cost nearly 67 percent amounting to Rs. 610.30 Lakh of central share was already released. As against it, the state share amounting to Rs. 90.99 Lakh which is about 10 percent of the total project cost too has been released. The physical achievement is relatively sluggish at 70 percent as against the financial achievement which is 77.07 percent.

In case of the RAY, the total project cost estimate is about Rs. 4431.20 Lakh. Against the total project cost the central and state share released so far is about Rs. 3098.32 Lakh and Rs. 558.30 Lakh respectively. In other words, the central and state share accounted for about 69.92 and 12.60 percent respectively. So far the achievements are concerned; both financial and physical achievements were almost in tandem to each other at 82.52 and 80 percent respectively.

With respect to the SIDF projects, funded by the Ministry of DoNER, the two projects were of equal amount to the tune of Rs. 1471.68 Lakh each. The ongoing projects included two multi storied parking lot; one for the Arunachal Pradesh Civil Secretariat and the other at a public location at Ganga. The amount released by the ministry of DoNER which was received amounted to Rs. 735.84 Lakh for each project respectively. In other words, while 50 percent of the financial achievement was achieved, mysteriously no concomitant physical achievement is visible at all.

The ongoing projects under SPA included three projects, namely; the outdoor stadium at Yupia, the first phase of construction of flat for senior government officials, and accommodation apartments for the Members of Legislative Assembly (MLA). In case of the outdoor stadium at Yupia, the amount released was to the full extent of the total project cost of Rs. 5948.80 Lakh. There is a very poor show in terms of the achievements, either financial or physical, which is as low as 65 and 60 percent for financial and physical achievements respectively. The case is even worst with regard to the construction of flats for senior government officials and apartments for the MLA. In case of the former, the amount of project cost is Rs. 7000 Lakh of which Rs. 6985 Lakh has already been put on book as being utilised. As such, it recorded about 99.79 percent of financial achievement contrary to which the physical achievement recorded only 60 percent. In case of the latter i.e. the construction of apartments for MLA, the fund released was to the full extent of the project cost of Rs. 13582 Lakh. However, the financial progress recorded about 79.60 while the physical achievement was too sluggish to be recorded as only 60 percent. In the absence of utilisation certification, it is difficult to ascertain the prudence of expense meted out of the released amounts of the respective projects.

7.11. National Urban Livelihood Mission (NLUM)

One of the dynamic schemes capable of generating livelihood and of immense import and signification is the National Urban Livelihood Mission (NULM hereafter). As data relating to two specific towns of Pasighat and Itanagar, wherein ULBs exists, the analysis below is of aggregate nature for the state in entirety. A preliminary and cursory look into the ground reality of its operation is provided in the Table 7.11 below. As can be seen there are primarily four operational components under NULM and are as follows:

1. Employment, Skills, Training & Placement (EST&P hereafter)
2. Support to Urban Street Vendors (SUSV hereafter)
3. Social Mobilization & Institutional Development (SM&ID hereafter)
4. Self Employment Programme (SEP hereafter)

In case of the component EST&P, the beneficiary targeted during 2015-16 was as high as 2000 individuals, as against which only 1275 were actual beneficiary. Of the actual beneficiary about 961 were certified after attaining the required training and skills and only 95 could find placement for employment. The targeted beneficiary was reduced to 1500 in the subsequent year i.e.2016-17, but as many as 1461 beneficiary actually turned up. The number of certified beneficiary after getting the required training and skills to increased to about 1024 individuals, out of which about 350 got the job placements. The targeted beneficiary still came down in the subsequent year 2017-18 to 1000 but the actual turn up exceeded the target by 23 individuals i.e. 1023 actual beneficiary. Out of the total beneficiary about 766 were certified and about 164 found placement for employment. For the year 2018-19 the set beneficiary target is still 1000. Contrary to the targeted beneficiary which is decreasing over time, the turn up of actual beneficiary is encouraging and positive. The actual turn up was about 63.75 percent during the year 2015-16 which increased to 97.40 percent during 2016-17 and then to 102.30 percent during 2017-18.

Table 7.11: Status and Outcomes of National Urban Livelihood Mission

		2015-16	2016-17	2017-18	2018-19
1	EST&P				
	Target	2000	1500	1000	1000
	Skilled Trained	1275 (63.75)	1461 (97.40)	1023 (102.30)	
	Certified	961 (75.37)	1024 (70.09)	766 (74.88)	
	Placed	95 (7.45)	350 (23.96)	164 (16.03)	
2	SUSV				
	No of Vendors Identified	158	1661	2721	13
	No of ID Issued	21 (13.29)	1154 (69.48)	2721 (100)	13 (100)
	No of Town Surveyed	2	15	11	1
3	SM&ID				
	SHGs Formed	505	39	11	7
	ALF Formed	7	4	1	2
	CLC Formed	2			
	Revolving Fund Disbursement			17	16
4	SEP				
	Individual Loan Application Forwarded to Banks for Approval	7	7	47	15
	SHGs Application Forwarded to Banks for Approval	2	2	2	5

Source: Compiled from GoAP data

ALF = Area Level Federation, CLC =

The certified beneficiary as a percentage of the actual beneficiary was 75.37 percent during 2015-16 which dropped down to 70.09 percent in 2016-17 but again pulled up during 2017-18 to about 74.88 percent. The placement of beneficiary as percent of actual beneficiary although low is gradually pulling up. It was about 7.45 percent for the year 2015-16, about 23.96 and 16.03 percent for the two subsequent periods 2016-17 and 2017-18 respectively.

In case of the SUSV the numbers of vendors identified were 158 during 2015-16, about 1661 during 2016-17 about 2721 during 2017-18 and for the current proceeding year so far 13 have already been identified. For the first two years i.e. 2015-16 and 2016-17, Identity card was issued to only 21 and 1154 beneficiary against 158 and 1661 identified beneficiary accounting to

only 13.29 and 69.48 percent respectively. For the rest of the years thereafter the identified beneficiary are issued identity card instantaneously. With regard to the towns surveyed, it was only the two towns in the year 2015-16 which was later extended to 15 towns in 2016-17. The no of towns surveyed was about 11 during 2017-18 and in the current proceeding year 2018-19 one town has already been surveyed.

In relation to SM&ID, during the year 2015-16 about 505 Self Help Groups (SHGs hereafter) were formed. It gradually declined thereafter to 39 in 2016-17 and further to 11 during 2017-18. During the period proceeding i.e. 2018-19 already 7 SHGs has already been formed. For the corresponding years 2015-16 and 2016-17, the Area Level Federation (ALF hereafter) formed was about 7 and 4 respectively. During 2017-18 only one ALF was formed but it increased in the current year 2018-19 as two ALF are already formed. The progression is poor with respect to the City Livelihood Centres (CLC hereafter) as only 2 CLCs were formed so far that too during the year 2015-16. Although poor in pace, the revolving funds disbursed to the SHGs and such social institutions as a part of SM&ID programme has picked lately since 2017-18 onwards. Revolving funds were disbursed to 17 such groups during 2017-18 and to about 16 during the year 2018-19.

The SEP is lately gaining importance. Initially during 2015-16 and 2016-17 only 7 applications were received and forwarded to the banks for approval and grant of loans. However, during the year 2017-18 about 47 applications were forwarded for approval by the bank. In the current year 2018-19 already 15 such application has already been processed and forwarded to the banks for approval of the projects. With regard to processing and forwarding of the application for bankers' approval for the SHGs, about 2 applications each were forwarded for the respective years beginning 2015-16 till 2017-18. For the current financial year 2018-19 already 5 applications pertaining to SHGs for ban approval has already been forwarded.

Corresponding to the above activities under the NULM, the resource share of both centre and state are given in the following Table 7. 12

Table 7.12: Resource Share and Outlay
(Rs. Lakh)

Year	Central Share	State Share	Total Outlay
2015-16	193.87 (100)	00.00	193.87 (100)
2016-17	146.26 (100)	00.00	146.26 (100)
2017-18	143.29 (79.13)	37.79 (20.87)	181.08 (100)
2018-19	245.23 (85.03)	43.17 (14.97)	288.40 (100)
Overall Total	728.65 (90)	80.96 (10)	809.61 (100)

Source: Compiled from GoAP data

*Figures in the parenthesis represents are percent of Total Outlay

It can be observed from the Table 12 above that the total outlay for the two financial years of 2015-16 and 2016-17 is to the tune of Rs. 193.87 and Rs. 146.26 Lakh. It may be noted that for the aforementioned financial years the total outlay comprised only of central share. For the two subsequent financial years of years of 2017-18 and 2018-19 the total outlay is Rs. 181.08 and Rs. 288.40 Lakh respectively. As against Rs. 181.08 Lakh, the central and state's share to the total outlay amounted to 143.29 and 37.79 Lakh respectively. This accounted for 79.13 and 20.87 percent of total outlay as respective central and state share for the year 2017-18. For the year 2018-19, against the total outlay of Rs. 288.40 Lakh, the central share is Rs. 245.23 Lakh while state share is Rs. 43.17 Lakh. This accounted for about 85.03 percent of the total outlay as central share and rest of 14.97 percent as the states share. In spite of discrepancies in the respective shares, the overall total shares for the respective agencies even out at 90 and 10 percent respectively for the overall period of analysis.

The NULM is gaining importance and positive response from beneficiary in spite of dwindling endeavour by the executing agencies. It therefore requires reorientation and revamping with greater intensity.

7.12. Observations

The ongoing incomplete projects, in spite of the near about or full exhaustion of allotted resources or outlay for the purpose is setting a bad precedent with regard to the performance of the ULBs. This is true for all the ongoing projects, especially related to constructions, be it under AMRUT/JNNURM, or under the various schemes of Social Infrastructure creation like NESID, SIDF funded out of various resource bases like NLCPR, SPA or agencies like DoNER. Such may be the causal outcome of poor execution and supervisions or may be either due to undertrained, untrained or unqualified professionals estimating the projects costs or due to unethical leakages; either one or all can be true without any consideration to its contrary whatsoever.

The fluctuation in the relative share of Non-Tax Revenue including Users Charges is due to the significant rise in the revenue elements either due to Central transfers, FC grants or due to the States grants in aid. In fact, the State makes significant contribution to the revenue base of the ULBs through grants in aid, which is without any consideration to the required warranted rate. It may, therefore, have implications in terms of furtherance of the same perpetually unless certain norms are not regulated.

Also, being revenue constrained state at the backdrop of absence of capital expenditure yields ULBs with low level and availability of urban amenities. Given the circumstances, the exponential growth of revenue through Non-Tax Revenue including Users Charges only highlights increasing burden that is shifted to the general public for the limited and given amounts of public goods provisioned. This is not in the general interest of public and may cause larger non compliance in future.

Schemes under livelihood mission for urban areas are gaining importance and positive response in spite of dwindling endeavour of the nodal agencies. This diminution is understandably because of not so vibrant and sluggish outcomes of the efforts. Nonetheless the efforts are rewarding of late. Livelihood context requires in depth understanding of the complex web of all the capitals involved. The agency in concern needs effort to edify itself the interlinked vortex of the pentagon and the input-output matrix. Unless such an exercise of reorientation and

revamping is undertaken, the success of livelihood mission will still yield slothful outcomes despite increasing popularity.

Akin to the exercise undertaken for the RLBs, attempt has been undertaken to work out the total financial implication upon the ULBs. The total outlay is the consolidated aggregate of outlay of various years under consideration under particular project head as specified. Actual expenditure in similar fashion is also the consolidated aggregate of actual expenditures made during various years as represented in the above analysis. Also, attempt have been made to work out the financial implication at two levels, one for the NULM separately and as aggregate for the ULB pertaining to the capital town of the state. This is justifiable, as the implication under NULM do require independent understanding. This does not, however, discard the inclusion of the financial implication of the NULM to that of the ULB pertaining to the capital towns of the state. This is partly for the reason that most of the beneficiary are from the capital town itself, and partly because such inclusion will be more representative in the complete absence of the data pertaining to the ULB representing Pasighat. Of course, the total population under consideration will be minimum, given the population representing the ULB of Pasighat.

Further, for the simplicity of the analysis we have considered the minimum members required for creation of SHGs to represent one such institution. As such, a SHG represents 10 members uniformly across board for our analytical purpose. As two or more SHGs merges to form an ALF, hence to do away the risk of double counting we only consider the lower limits of SHGs membership and the total individuals under EST&P scheme. This is without any consideration to other members included the SHGs, ALFs, CLC, and individual beneficiary under SEP schemes.

As can be seen from the Table 7.13 the total beneficiary under NULM, particularly under ES&TP, SUSV and SM&ID, for the year 2015-16 were about 6346 individuals. This was against the total outlay or expenditure of Rs. 193.87 Lakh. As such the Per Capita Outlay (PCO hereafter) or expenses for the year was about Rs. 0.03 Lakh i.e. only Rs. 3000 (three thousand). For the year 2016-17 the total beneficiary was about 3005 individuals as against the total outlay of Rs. 146.26 Lakh. As the total number of beneficiary was reduced to nearly half of what was during the previous financial year without corresponding or equivalent reduction in the total

outlay, the PCO increased marginally to Rs. 0.05 Lakh i.e. to rupees five thousand. The PCO remained at the same level of Rs. 0.05 Lakh during the subsequent year 2017-18, in spite of marginal increment in the beneficiary.

Table 7.13: Per Capita Outlay under NULM

		2015-16	2016-17	2017-18	2018-19	Consolidated Total
1	EST&P (Employment Through Skills Training & Placement)	1275.00	1461.00	1023.00	0.00	3759.00
2	SUSV (Support to Urban Street Vendors)	21.00	1154.00	2721.00	13.00	3909.00
3	SM&ID (Social Mobilization & Institutional Development)*	5050.00	390.00	110.00	70.00	5620.00
4	Total Beneficiary	6346.00	3005.00	3854.00	83.00	13288.00
5	Total Outlay**	193.87	146.26	181.08	288.40	809.61
6	PCO***	0.03	0.05	0.05	3.47	0.06

Source: Compiled from data provided by GoAP

*Beneficiary under SM&ID was arrived at by multiplying the respective numbers of SHGs with the required minimum membership i.e. by a multiplier of 10.

** Total Outlay is in Rs. Lakh

***PCO = Per Capita Outlay

For the year 2018-19, the total beneficiary accounted to about 83 individuals against the total outlay of Rs. 288.40 Lakh. Hence, the PCO amounted to Rs. 3.47 Lakh. However, as the year is on progress, it is expected to decline drastically to somewhere around few thousand by the end of financial year. The consolidated PCO for the entire span of the time period under consideration is just Rs. 0.06Lakh or six thousand rupees only.

Table 7.14: Consolidated Per Capita Expenditure

Components	Total Cost
AMRUT/JNNURM	5976.77
NESID (NLCPR) <i>plus</i> RAY	5341.12
SIDF (DoNER)	2943.36
SPA	33583.80
NULM	809.61
Total Financial Implication	48654.66
Total Populace Covered by ULB of State Capital	101671.00
PCE	0.48

Source: Compiled from data provided by GoAP

For the entire time period beginning from the latter half of year 2013; when the ULBs came into being, up till the current proceeding financial year i.e. 2018-2019, the Per capita Expenditure (hereafter PCE) has been worked out. For the entire period covering a time span of five years and six months (as on November 2018), the consolidated PCE is Rs. 0.48 Lakh only. In other words for the entire span of time covering nearly six years the cumulative total financial implication by the ULBs has been mere forty eight thousand rupees only.

7.13. Conclusion

Keeping in mind the low level of social infrastructures and amenities, more resources needs to dedicate and in a fructuous manner. While it is understandable that there are enormous bottlenecks consequent upon hilly geo-spatial nature of the state, higher transaction cost due to low social overheads, cost overrun as resultant of longer monsoon and shorter working days, but such usual causes should not become a regular contingent for unqualified incidental potholes of in-equations. As such, there is dire need of best practices and setting accountability, irrespective of all the levels in hierarchy of power pyramid whatsoever. Nonetheless, keeping the state drench of resources may lead further to already messed up state of affairs. Hence safety nets along with supervision and additional allocation can only help this late starter land to reach the threshold sill so that it churns by itself sustainably the growth and development paddles.

Appendices

Appendix A

Status of Issues in number of Gram Panchayats of Respective Districts

Sl. No	Issues	East Siang	Lohit	Upper Siang	West Kameng
1	Job Card not in Owner custody	5	20	7	5
2	Job Card were kept by BDO Office	5	20	13	5
3	Job Card Not Updated	5	5	4	5
4	Ghost Workers Found		15	2	
5	No Citizens Information Board Found	5	NRA	14	5
6	Work Commencement prior to Administrative Approval and Sanction	5	NRA	2	1
7	Delayed Wage Payment	5	NI	15	3

Source: SAU

CHAPTER – VIII

SPSUs (STATE PUBLIC SECTOR UNDERTAKINGS) IN ARUNACHAL PRADESH

1.1.Introduction:

The State Public Sector Undertakings (SPSUs hereafter) comprises of the state owned companies which were 7 (seven) in numbers before the year 2013. Of the total SPSUs of the state, the process of liquidation for the SPSUs began during 2013, namely; Parsuram Cement Limited (PCL) and Arunachal Horticulture Processing Industries Limited (AHPIL). However, the process is yet to be completed. Thus, the last two corporations, given in the Table 8.1 below are already not operational. The remaining of the 5 (five) SPSUs are still operational but are not listed companies.

Table 8.1: State Public Sector Undertakings

Sl. No	Corporations	Operational
1	APIDFC Ltd. (Arunachal Pradesh Industrial Development Finance Corporation)	Yes
2	APHWC Ltd. (Arunachal Police Housing and Welfare Corporation Limited)	Yes
3	APFC Ltd. (Arunachal Pradesh Forest Corporation Limited)	Yes
4	APMD&TC Ltd. (Arunachal Pradesh Mineral Development and Trading Corporation Limited)	Yes
5	HPDCAP Ltd. (Hydro Power Development Corporation of Arunachal Pradesh Limited)	Yes
6	PC Ltd. (Parsuram Cement Limited)	No
7	AHPI Ltd. (Arunachal Horticulture Processing Industries Limited)	No

Source: Directorate of Industries, Govt. Of Arunachal Pradesh

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 Rs. 6 (Six) Crore divided into 6 (six) Lakh equity of Rs. 100/- (hundred) each which is fully paid up by the government of Arunachal Pradesh.

Since the inception of APIDFC it advanced loans through various refinance schemes of SIDBI and IDBI. Usually the advances were up to tune of 90% (ninety per cent) of the total outlay of respective 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 some of operational areas were bifurcated to create the APTC (Arunachal Pradesh Trading Corporation). In addition to it, the low rate of recovery of advances and defaults resulted into mounting Non Performing Assets (NPAs). The undue political and administrative meddling of autonomy and in assessment of project feasibility at the expense of faulty projects and finance designs led the APIDFC into unfeasible region of business operation. The undue political interference in the administrative matters without any consideration to long run consequence further deteriorated the financial health of the APIDFC. This is obvious from the fact that a onetime settlement of the outstanding dues was offered by the corporation late in 1990s and early 2000s. In spite of offered window for onetime settlement of advanced loans recovery of was less than 10% (ten percent).

The non-viability and unfeasible operational cost led to introduction of the VRS (Voluntary Retirement Scheme) during the year 2007. The VRS was, however, not followed by liquidation of the company; instead it was kind of rationalising overstaffed company employees. Nevertheless, the operational costs are still increasing by multitude, making it a soak pit of scarce resources. Even at the worst of its health, unlike other corporation, it is akin to any other regular bureaucratic branch with poor professional and personnel orientation including lack of austerity.

The only survival of the company is through the refinancing of National Schedule Tribe Finance and Development Corporations (NSTF&DC) scheme related to establishment of the rural micro industries. Even in this case, the company could not receive any fund since 1993-94 up to 2013-2014.

The details of the financial ratios as computed from the audited annual report are given in the Table 8.2. It can be seen that the Return on Investment (RoI), has been negative throughout the period of our analysis i.e. 2010-11 to 2016-17. It was about -24.63 percent during 2010-11, which decreased to -25.399 and -31.761 percent during the two subsequent financial periods 2011-12 and 2012-13. Thereafter, it dwindled back to about -20.866 percent in 2013-14 which again dipped down to -22.299 percent during 2014-15. The RoI diminished drastically by more than four times to -89.881 percent in 2015-16, thereafter, by more than one and a half times to -148.30 percent during 2016-17.

Thus, the resultant ratio reveals that the company is generating increasingly negative returns on investments which are compounding over time. The suggestion to the company is to identify the return generating units and to write off and liquidate the non functional units. With respect to the worth and assets three ratios has been worked out. They are Debt Equity Ratio, Ratio of Capital & Long Term Funds to Fixed Assets, Fixed Asset Ratio (DER, RCLFA and FAR hereafter).

Table 8.2: APIDFC Ltd. (Arunachal Pradesh Industrial Development Finance Corporation Limited)

Sl. No	Particulars	Years						
		2010 -11	2011 - 12	2012 -13	2013-14	2014-15	2015-16	2016-17
1	Return on Investment	-24.63%	-25.399%	-31.761%	-20.866%	-22.299%	-89.881%	-148.30%
2	Debt Equity Ratio	1.663	1.819	1.979	2.008	2.026	2.475	3.105
3	Ratio of Capital & Long term Funds to Fixed Asset	4.985	4.886	5.575	6.393	6.096	5.169	4.350
4	Fixed Asset Ratio	0.303	0.250	0.183	0.181	0.160	0.131	0.109
5	Current Ratio	5.134	3.975	2.780	4.149	4.254	2.714	0.179
6	Liquidity Ratio	5.070	3.937	2.752	4.119	4.198	2.626	0.168
7	Stock to Working Capital Ratio	0.010	0.020	0.016	0.009	0.017	0.051	0.013
8	Working Capital Turnover Ratio	1.011	1.554	1.820	1.209	1.746	4.493	1.748

Source: Computed from Annual Audited Report

The DER increased over time. The DER was 1.663 during 2010-11 which increased marginally to 1.819 and 1.979 for the period 2011-12 and 2012-13 respectively. For the subsequent financial years beginning 2013-14 up to 2015-16, the DER increased marginally from 2.008 till it reached 3.105 in 2016-17. The increasing DER over time is largely due to the unsecured loans given by the state government and accrued interest thereon. At the backdrop of the limited cash generating activities of the company, the cumulated outstanding debts and interest incurred, the continually increasing DER is highly indicative that the razor's edge has been breached and any further infusion of credit is highly discouraged and is not advisable.

The RCLFA too have gradually increased from 4.985 during 2010-11 to 6.393 in 2013-14 and decreased marginally to 6.096 during 2014-15. RCLFA dwindled to about 5.169 in 2015-16 and further to 4.350 during 2016-17. The RCLFA which gives insight into the company's long term expenses in acquiring of fixed assets. Usually the accepted ideal norm of RCLFA is under 1.5, but the relatively higher values, even when dwindling of late, is contrary to the accepted norm. In fact, the higher values of RCLFA reveal that the funds that should have been used for long term purposes are withered for short term purposes and to the extent of more than what is actually required. This is reassured by the relatively low Fixed Asset Ratio (FAR hereafter). The FAR which represents the ratio of fixed asset to net worth and should be ideally around one. If the FAR is above unity, it may represent a constricted short term position, while too low a value than unity, as yielded above in Table 8.2, it reassures that the funds meant for long term positions are used for meeting short term requisites.

On the other hand, with regard to the operational and liquidity feasibility, three ratios, namely; Current Ratio, Liquidity Ratio and Stock to Working Capital Ratio (CR, LR, and SWCR hereafter) have been worked out.

As such, the CR which is the ratio of current assets to current liabilities should be ideally about two, such that, current assets are twice the current liabilities. The CR was initially very high at 5.134 i.e. during 2010-11. It gradually diminished to about 3.975 during 2011-12 and to 2.780 in 2012-13. Thereafter, by 2013-14 it increased as much as twice to 4.149 which remained almost constant around it. Recently it is decreasing and is about 0.179 during 2016-17. The relatively high CR since 2010-11 till 2015-16 is, in fact, only due to carrying over of the dead

and obsolete assets which are still valued high on books. Such assets should be written off the book so as to give the real position of CR rather than highlighting inflated figures.

One related constituent of CR is the LR. It represents the liquid current assets other than existing stocks and pre-paid expenses. These are required for current transactions and are indicative that company's, especially the financial companies, health are good. The company has an LR almost akin in values to that of CR implying that the company does not have many stocks in their current assets portfolio for required transactions and it is contrary to the fact set norms. As such, the lack of stock is also reflected in the SWCR which gives account of stock in the form of finished, semi-finished and raw materials. The calculated ratio for the company is very throughout the period under consideration is too insignificant, highlighting that the company's activities are beyond minimal.

Thus, the Working Capital Turnover (WCT hereafter) expresses the effectiveness of capital utilisation. It refers the number of times a unit invested in working capital produces sales. The WCT ratio increased from 1.011 in 2010-11 to 1.554 in 2011-12 and gradually to 1.820 during 2012-13. It marginally declined to 1.209 during 2013-14 but increased to 1.746 by 2014-15. During 2015-16, the WCT was as high as 4.493 which declined thereafter to 1.748 in 2016-17. While the gradual increase of the WCT ratio is welcoming, the volatile fluctuation is beyond comprehension of prudent business norms and investment, which is not encouraging. Notwithstanding above, the improvements in WCT ratio can be achieved only when the company is eager to utilize the working capital in generating activities that gives a relatively more of net sale.

The APIDFC is in a crossroad and paradoxical situation. On the one hand, the very existence of the company is moot largely due to low level of RoI, high DER discouraging further credit infusion backed up by low recovery rates, lack of financial prudence as highlighted by high RCLFA, including selection of projects that were too ambitious with ambiguous operational expertise and faulty choices either due to lack of expertise or undue interventions. On the other hand, there is the necessary requirement of such institutions for catering the upcoming enterprising generation far dynamic than the inferior klepto predecessors. The company requires more of austerity, professional autonomy, and constant monitoring and supervision by an independent statutory agency, and of all a constant supervision, vigil, and monitoring over the

investments it makes to other entities. It requires a reoriented revamping, not mere swank jugglery.

1.2. HPDCAP Ltd. (Hydro Power Development Corporation of Arunachal Police Limited)

The HPDCAP was incorporated on the 8th day of December 2006 with an authorised share capital of 5 (five) Crore, which has been paid to the full extent by the government of Arunachal Pradesh. The company is unlisted and was created keeping in mind the hydro potential of the state. In addition to the hydro electricity, the general domains of the company are electricity, gas and water. Thus, company aims to develop and provide reliable power and related services and products by integrating multiple sources. Usually, the company undertakes potential and feasibility studies and tries to establish hydro power plants through joint ventures, else it sublets or handovers potential projects to states nodal agency; the power department. In this regard, as information required to derive the SWCR and WCT ratio; particularly stocks, sales, working and net working capital, were not available the same has not been arrived at. The details of the ratios calculated are given in the Table 8.3 below

Table 8.3: HPDCAP Ltd. (Hydro Power Development Corporation of Arunachal Police Limited)

Sl. No	Particulars	Years									
		2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1	RoI	-1.116%	-6.031%	-0.615%	1.635%	2.149%	1.259%	0.070%	6.84%	-1.725%	3.736%
2	Debt Equity Ratio	-	-	-	0.664	0.601	0.593	0.683	0.553	0.562	0.541
3	Ratio of Capital & Long term Funds to Fixed Asset	1.434	32.318	30.537	2.981	1.617	1.624	1.545	1.617	1.458	1.358
4	Fixed Asset Ratio	-	0.031	0.033	0.999	1.550	1.515	1.590	1.382	1.566	1.604
5	Current Ratio	100.623	18.508	109.648	18.795	6.788	3.851	18.621	20.114	13.931	8.993
6	Liquidity Ratio	100.623	18.508	109.648	18.795	6.788	3.851	18.621	20.114	13.931	8.993

Source: Computed from Annual Audited Report

It can be seen from Table 8.3 that the RoI was negative for the first three years after the company was operational in the 2006. The RoI was -1.116 percent during 2007-08 and this decreased further low to -6.031 percent in 2008-09 and to about -0.615 percent during 2008-09. By the year 2010-11 the RoI became positive at 1.635 percent and was doubled during the subsequent year 2011-12 at 2.149 percent. During 2012-13 it decreased to about 1.259 percent and further below to 0.070 percent during 2013-14. The highest RoI was recorded during the year 2014-15 at 6.84 percent. During the subsequent year 2015-16 the RoI was negative at -1.725 percent but lately by 2016-17 onwards it is growing positively at 3.736 percent.

The overall state of affairs in terms of the RoI with respect to the HPDCAP, except for few initial years is quite satisfactory. The relatively higher RoI is largely due to huge upfront paid (considered as returns) at the backdrop of low base of share capital in relation thereby positing to yield good returns. As such, the paid up capital including fixed assets has to be geared up to make the company sustainable in the long run. Also the performance of the Company can be improved through its operation in the value chain, particularly in generation, to add value to the firm in long run.

With respect to the DER, it is absent as in initial three years of gestation it has no record of borrowing. During 2010-11 was 0.664 which remained to around 0.60 during the successive two years of 2011-12 and 2012-13, it increased to about 0.683 during 2013-14 and dipped down to 0.553 during 2014-15. Since then it is around a little more or little less than that value for the remaining years of our consideration. The DER in the context of this company seems sound and prudent, as it rarely borrows for the operational purposes.

With regard to RCLFA, the initial year of 2007-08 shows a prudent value of 1.434, but the subsequent years of 2008-09 and 2009-10 has a ratio beyond comprehension of any business logic at about 32.318 and 30.537 respectively. The RCLFA, of course, glided down to about 2.981 during 2010-11, which is still high and above the ideal cut off of 1.5. Since 2011-12, the RCLFA is on continual decline towards the ideal benchmark which is welcoming. It was 1.617 in 2011-12, declined to 1.617 in 2012-13, and further to 1.545 by 2013-14. For the last two financial years considered herein i.e. 2015-16 and 2016-17, the RCLFA is well below the ideal

value of 1.5, that is, 1.458 and 1.358 respectively. The RCLFA reveals prudence of operation as well as is indicative of the financial health orientation by the company which is encouraging.

The FAR, which should be ideally be about 1 and not more, has been growing over the period of time under consideration. Particularly, it was well below the ideal bench mark in the two initial years 2008-09 and 2009-10 at 0.031 and 0.033 respectively. The breakeven year was during 2010-11 when the FAR was about 0.999. Aftermath 2010-11, the FAR increased gradually and was on the average more than 1.5 i.e. well above the ideal benchmark. The initial lower FAR indicates that the long term funds were used to fund short term positions. It is understandable that the company did not borrow during the initial years, hence, the working capital was managed out of the long term funds. Consequently, the current liabilities were lowered to get the ideal value of FAR of 0.999 by 2010-11. Nonetheless, the increasing FAR, especially aftermath 2010-11, implies a gradual tightening of the short term position or working capital. The company, therefore, needs to spread out the options of working capital and provision the same.

CR should have been ideally around the value of 2 (two) such that the assets at hand are twice as liability. It proves prudence of solvency. But the high CR, as much as 100.623 during 2007-08 and 109.648 during 2009-10 is beyond any prudence of corporation instances. Even after the breakeven of FAR i.e. by 2010-11, the CR is still high and by multiple of the times of the set benchmark norm of 2. This is indicative that the company is holding greater amount of its assets in the form of current assets rather than meeting the solvency and sustainability for the long run. Following the CR is the LR; the latter is of course part of the former, except for the liquid assets other than stock and pre-paid expenses. The exact correspondence and equation of the CR and LR is indicative that the current and other liquid assets are lying idle without any revenue or interest generation. It is, therefore, highly advisable that the amount of current and liquid assets be transformed into return earning deposits and corpus for better financial health of the company in the long run.

1.3.APFC Ltd. (Arunachal Pradesh Forest Corporation Limited)

The APFC Ltd. (Arunachal Pradesh Forest Corporation Limited) was incorporated 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 company being futuristic also diversified the business operation by investing in tea, coffee and rubber plantation in Tirap and Changlang districts of the state. 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 does not have its own infrastructures for coffee processing, the output is sold in raw to 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. In fact, the basic operation of the company was timber, veneer and Plywood that generated the 90 percent of revenue earnings. It was profitable to the extent of paying Rs.1.04 Crore as dividend and Rs.61.00 Crore as lease rent to the Government of Arunachal Pradesh before the year 1996.

The long run implication of the overnight ban led to financial crunch rendering the company unsustainable. 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; which was borrowed as loans from the commercial bank (Axis Bank); secured and guaranteed by the Govt. of Arunachal Pradesh. *Per se* the decision of the Board of Directors and 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). In spite of having revenue generating assets and the list of ambitious projects (part of which are operational), the role of company has been relegated as keeper of the few existing assets. Nonetheless, it is still operational and the details of the ratios worked out from the annual audited reports are given in the table 8.4.

Table 8.4: APFC Ltd. (Arunachal Pradesh Forest Corporation Limited)

Sl. No	Particulars	Years				
		2010 -11	2011 - 12	2012 -13	2013-14	2014-15
1	RoI	-3.146%	-3.784%	-3.573%	-8.02%	-9.14%
2	Debt Equity Ratio	0.469	0.402	0.418	0.392	0.410
3	Ratio of Capital & Long term Funds to Fixed Asset	4.092	3.447	2.467	2.696	1.601
4	Fixed Asset Ratio	0.460	0.674	0.724	0.510	0.505
5	Current Ratio	331.645	21.530	4.230	3.074	1.886
6	Liquidity Ratio	330.232	21.279	4.173	3.060	1.850
7	Stock to Working Capital Ratio	0.009	0.012	0.018	0.007	0.041
8	Working Capital Turnover Ratio	0.017	0.076	0.097	0.086	0.040

Source: Computed from Annual Audited Report

As can be from the table the RoI for the company has been negative throughout the time span from 2010-11 to 2014-15. It was continually a little above -3 percent since the year 2010-11, till 2012-13. The negative returns compounded to around -8.02 percent by 2013-14 and further to -9.14 percent by 2014-15. Thus, the return on the investments made by the company seems unviable and this is pronounced in a more compounding manner particularly after 2013-14.

With regard to the DER the company is geared lowly and in spite of having assets in terms of plantations for various produces it is significantly low. With this backdrop of available assets, credit infusion can be done to improve the health of the company. However, the increased debt is desirable to the extent that the management is promisingly professional to judiciously use the additional funds in the creation and quality improvement and management of the assets rather as mere working capital for non austere conspicuousness.

The RCLFA which should be about 1.5 is gradually coming down which is a welcome sign. It was as high as 4.092 in 2010-11 declined to 3.447 in 2011-12. It further declined to 2.467 by 2012-13 and to 2.696 during 2013-14. Lately, the figure has come down to manageable limit of 1.601 during 2014-15. The latest RCLFA band should be managed if not exactly about at 1.5, any breach over the existing ratio of 1.60 would be conspicuous. In other words, it would imply that rather than acquiring fixed assets, the long-term capitals are being used for short-term purposes to an extent larger than necessary.

The FAR or the ratio of fixed assets to net worth of the company supplements the claims that short term orientation is more predominant than the long run objectives of the company. The FAR should ideally be around the value of unity and not more or not too low. In the former case, it implies a relatively tight short term liquidity problem, whereas, in the case of latter it implies that the short term positions are managed out of the long term capitals. From the analysis and ratios derived, it can be seen that the FAR is too low implying that long term capitals are used to fund short term positions indicating that working capital is managed out from the long term funds. This is not viable and will not be sustainable for any business activity. Ideally, the very purpose of downsizing capacity seems defeated.

In case of the CR which expresses the ratio of current assets to current liabilities, it should be twice unity (or for that matter FAR). The very high CR of 331.645 during 2010-11 is exceptional aberration from normal business understanding. Nonetheless, the CR is declined considerably to 21.279 during 2011-12 and further to 4.173 during 2012-13. It declined further to 3.074 by the subsequent year i.e. 2013-14 and by 2014-15 was within the manageable limit of 1.886. The LR which is the part of the CR, except the pre-paid expenses, to follow and had the same exact value as that of the CR. It implies that the liquidity maintained by the company is simply met for current liabilities without any exception to other transactions whatsoever.

The SWCR ratio derived are near about insignificant. Such low ratios are indicative that the company's stock are playing insignificant role in generating operational income. As such, it can be inferred that the working capital of the company comprises mostly of cash or near cash or cash equivalent.

WCT expresses the number of times a unit of investment in working capital produces sale. The ratio for years under consideration i.e. since 2010-11 to 2014-15 is too low and insignificant. It is understandably due to the low sales generated per unit of investment. The company seems more dependent on interest and rental income to meet its expenses rather than generating revenues. The company therefore has to improve WCT ratio by utilizing the working capital judiciously in activities generating more sales.

1.4. APHWC Ltd. (Arunachal Police Housing and Welfare Corporation Limited)

The APHWC Ltd. (Arunachal Police Housing Welfare Corporation Limited) was incorporated on the 9th day of November 2005 and started its operational business only after April 2006. The authorised share capital of the company is Rs. 5 (five) Crore divided into 5 (five) Lakh equity shares with face value of Rs. 100/- each. The government of Arunachal Pradesh is the sole or 100 percent shareholder of the company through its constituent organ agencies the 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. Usually the APHWC carries out construction related to housing, which it sublets to another party and does not enter into any direct construction. Also, it undertakes various welfare activities at quoted rates par nominal. The details of the ratio derived are given below in the Table 8.5

It can be seen that the RoI for the company is not only positive but relatively high too. It was about 30.150 percent during 2008-09 which increased to a relatively higher value to about 41.830 percent during 2009-10. But lately by 2010-11 the RoI has declined significantly to about 27.046 percent. Thus, the RoI while positive is fluctuating but is significantly higher compared to any other SPSUs of the state.

Table 8.5: APHWC Ltd. (Arunachal Police Housing Welfare Corporation Limited)

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

Source: Computed from Annual Audited Report

The relatively higher RoI is also due to the low base of share capital. It may be mentioned here that despite the authorized share capital of 5 Crore, the paid up capital is only to the tune of 2 (two) Lakh 10 (ten) Thousand with an equity share of only 2,100 paid by the state government.

Thus, the paid up capital of the company has to be raised by multiple of times and to the full extent of the authorized capital. With respect to the DER, it could not be derived as the company did not borrow from other sources for the period under consideration.

RCLFA is gradually increasing in a compounding manner which is not a good sign. It has increased from 2.511 in 2008-09 to about 3.185 during 2009-10 and further to 4.227 in 2010-11. Ideally it has to be less than 1.5 but a value greater than it yields that the short term transactions are met out of the long term capital and in quantum more than required which is increasing in compounding manner over the years. Instead of increasing RCLFA, it would be prudent if the company reduces it through purchase of fixed assets or invest as the long term capital for firm's sustainability.

The FAR or 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, unless of course, the long term funds are used to meet short term positions as working capital. Such swapping of capital is not viable for the company in the long run. The ratio calculated for the company is too low which at the backdrop of zero borrowing indicates that the short term requirements are being managed through long term funds. To do away with it, the FAR has to be improved through cutting down the current liabilities.

In regard to both CR and LR the ratios calculated corresponding values for each year are equal. It implies that the CR as well LR identical implying that the company does have stocks in their current assets. However, except for the year 2008-09 when the CR was 2.701, it is declining which is not encouraging. It is 1.371 and 1.103 for 2009-10 and 2010-11 respectively, implying that the current liabilities are increasingly increasing and are relatively higher than current assets. As stated above, the company does not have any stocks in their current assets, increasing current liabilities beyond grasp. The WCT ratio of the company is too declining over the period of time. It was 0.866 in 2008-09 which dropped down to 0.521 in 2009-10 and further to 0.372 during 2010-11. Such dwindling of the WCT ratio is unwelcoming and discouraging as it expresses dwindling proceeds out of a unit of investment as working capital. To improve the WCT ratio, the company has to utilise their working capital in such areas wherein it generates more sales or proceeds out of every unit of investments or should either dedicate the resources available to such other avenues which may generate returns, rather than keeping it idle.

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