CHAPTER I
Finances of the State Government

The annual accounts of the State Government consist of Finance Accounts and Appropriation Accounts. The Finance Accounts of the Government of Meghalaya are laid out in nineteen statements, the structure and lay out of which are depicted in **Appendix 1.1**.

This chapter provides a broad perspective of the finances of the State Government during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. **Appendix 1.2-Part A** of the chapter briefly outlines the methodology adopted for the assessment of the fiscal position of the State and **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2004-09.

1.1 Summary of Current Year's Fiscal Transactions

Table 1.1 presents the summary of the State Government's fiscal transactions during the current year (2008-09) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 : Summary of Current Year's Fiscal Transactions

(Rupees in crore)

2007-08	Receipts	2008-09	2007-08	Disbursements	2008-09		
Section – A : Revenue							
					Non-Plan	**Plan**	**Total**
2441.38	**Revenue Receipts**	**2810.64**	**2253.67**	**Revenue Expenditure**	**1677.26**	**1005.52**	**2682.78**
319.10	Tax revenue	369.44	778.27	General Services	902.87	34.65	937.52
199.35	Non-tax revenue	225.31	753.56	Social Services	478.20	326.72	804.92
564.07	Share of Union Taxes/Duties	595.23	721.84	Economic Services	296.19	644.15	940.34
1358.86	Grants-in-aid from Government of India	1620.66	…	…	…	…	…
Section – B : Capital							
…	**Miscellaneous Capital receipts**	**…**	**391.66**	**Capital Outlay**	**0.28**	**530.73**	**531.01**
16.49	**Recoveries of Loans and Advances**	**18.26**	**26.73**	**Loans and Advances disbursed**	**6.95**	**43.26**	**50.21**
247.18	**Public Debt Receipts**[1]	**322.55**	**99.08**	**Repayment of Public Debt**	**…**	**…**	**168.73**
…	**Contingency Fund**	**…**	**…**	**Contingency Fund**	**…**	**…**	**…**
1502.20	**Public Account Receipts**	**2020.33**	**1308.90**	**Public Account Disbursements**	**…**	**…**	**1667.82**
303.20	**Opening Balance**	**430.41**	**430.41**	**Closing Balance**	**…**	**…**	**501.64**
4510.45	**Total**	**5602.19**	**4510.45**	**Total**			**5602.19**

[1] Includes net Ways and Means Advances.

Following are the significant changes during 2008-09 over the previous year:

- Revenue receipts grew by 15 *per cent* (Rs. 369.26 crore) over the previous year. The increase was contributed by grants-in-aid from the Government of India (GOI) (Rs. 261.80 crore), tax revenue (Rs. 50.34 crore), State's share of Union taxes and duties (Rs. 31.16 crore) and non-tax revenue (Rs. 25.96 crore).

- Revenue expenditure and capital expenditure increased by Rs. 429.11 crore (19 *per cent*) and Rs. 139.35 crore (36 *per cent*) respectively over the previous year.

- Recovery and disbursement of loans and advances during the current year increased by Rs. 1.77 crore and Rs. 23.48 crore respectively compared to the previous year.

- Public Debt receipts and repayments increased by Rs. 75.37 crore and Rs. 69.65 crore respectively over the previous year mainly due to increase in receipts and repayments of market loans by Rs. 64.71 crore and Rs. 24.88 crore respectively.

- Public Account receipts and disbursements increased by Rs. 518.13 crore and Rs. 358.92 crore respectively over the previous year.

- Cash balance of the State increased by Rs. 71.23 crore over the previous year mainly by way of increase in cash balance investment (Rs. 62.31 crore).

Several reasons may account for the deviation of the actual realisation from the budget estimates. It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage, *etc*. Actual realisation of revenue and its disbursement, however, depends on a variety of factors, some internal and others external. **Chart 1.1** presents the budget estimates and actuals for some important fiscal parameters.

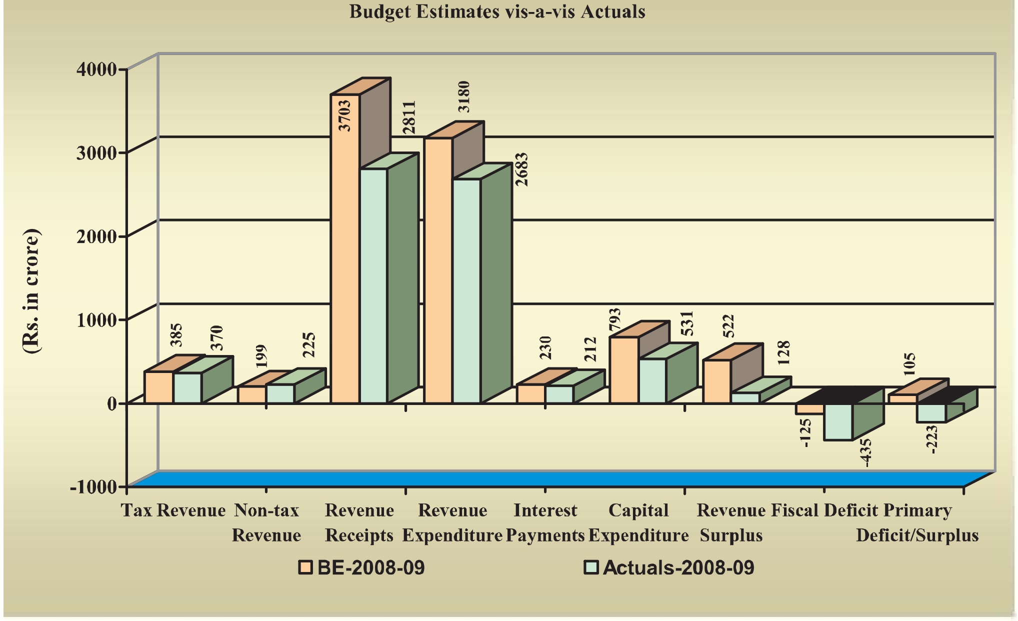


Chart 1.1: Selected Fiscal Parameters : Budget Estimates vis-a-vis Actuals

During the current year, while revenue expenditure increased by 19 *per cent* (Rs. 430 crore), revenue receipts increased by 15 *per cent* (Rs. 370 crore) over the previous year, resulting in decrease in surplus by Rs. 60 crore in revenue account. The decrease in revenue surplus (Rs. 60 crore) along with an increase of Rs. 162 crore on account of increase in capital expenditure (Rs. 139 crore) as well as in loans and advances disbursed (Rs. 23 crore) during 2008-09 led to an increase of Rs. 221 crore in fiscal deficit during the current year.

The revenue surplus (Rs. 128 crore) and capital expenditure (Rs. 531 crore) during the year were lower by 75.48 *per cent* and 33.04 *per cent* respectively compared to the assessment made by the State Government in the Budget. On the other hand, fiscal deficit exceeded the budget provision by 248 *per cent* (Rs. 310 crore) and the estimated primary surplus (Rs. 105 crore) turned into primary deficit (Rs. 223 crore). The wide variations between the budget provisions and the actuals indicated that the budgeting was unrealistic and lacked credibility.

1.2 Resources of the State

1.2.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2** depicts the trends in various components of the receipts of the State during 2004-09. **Chart 1.3** depicts the composition of resources of the State during the current year.

Chart 1.2 : Trends in Receipts (Rs. in crore)

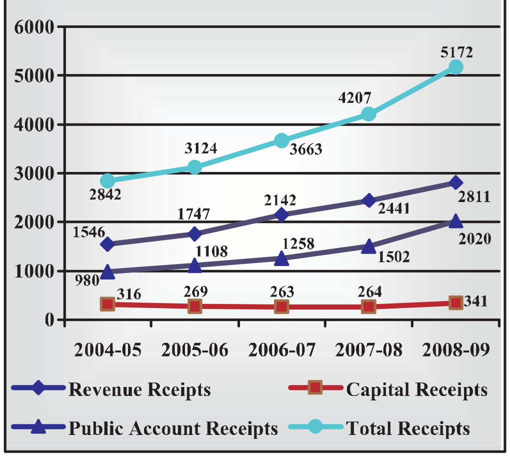
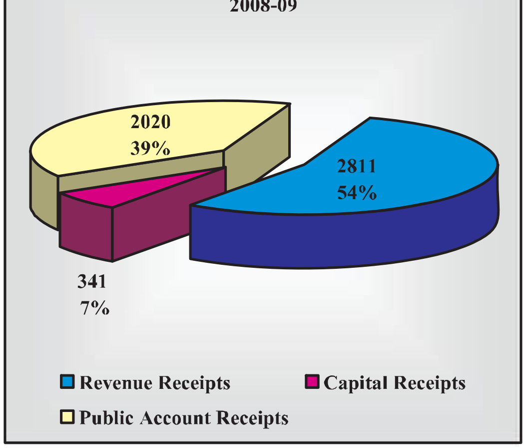


Chart 1.3 : Composition of Receipts during 2008-09



The total receipts during the current year has increased by Rs. 965 crore (22.94 *per cent*) over the previous year. Of the increase in total receipts, public account receipts formed 54 *per cent* (Rs. 518 crore) followed by revenue receipts 38 *per cent* (Rs. 370 crore) and capital receipts 8 *per cent* (Rs. 77 crore). Out of the total receipts under public account, remittances constituted 53 *per cent.* While 76 *per cent* (Rs. 805 crore) of the remittances have come from public works remittances, cash remittances between treasuries and currency chests (Rs. 132 crore) and forest remittances (Rs. 125 crore) together constituted 24 *per cent.*

1.2.2 Funds Transferred to State Implementing Agencies outside the State Budget

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[2] for the implementation of various schemes/ programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. An illustrative position of Central funds transferred to the State Implementing Agencies during 2008-09 for implementation of various schemes is given in **Appendix 1.5**. Scheme-wise position involving substantial amount of Central funds is given in **Table 1.2.**

Table 1.2 : Funds Transferred directly to State Implementing Agencies

(Rupees in crore)

Programme/Scheme	Implementing Agency in the State	Funds transferred by the GOI
National Bamboo Mission	Member Secretary CEO, Shillong	3.55
Aside Assistance to States for Developing Export Infrastructure and Allied Activities	Meghalaya Industrial Development Corporation Ltd.	9.17
Central Rural Sanitation Programme	District Water & Sanitation Mission, , Drinking Water & Sanitation Committee, Ri-Bhoi, DC cum Chairman	5.85
National AIDS Control Programme	Meghalaya State AIDS Control Society	2.44
National Rural Health Mission (CSP)	State Health Society, Meghalaya State Blindness Control Society & Bansara Eye Care Centre	28.25
Not available	Meghalaya Leprosy Eradication Society Meghalaya State TB Control Society	5.29
Electronic Governance	Meghalaya IT Society	4.41
District Rural Development Agency (DRDA) Administration	DRDAs	2.38
National Rural Employment Guarantee Scheme	DRDAs	78.16
Pradhan Mantri Gram Sadak Yojana	SGO	20.05
Rural Housing IAY	DRDAs	21.38
Swaranjayanti Gram Swarozgar Yojana	DRDAs	2.70
Sarva Shiksha Abhiyan	SSA State Mission Authority	94.40

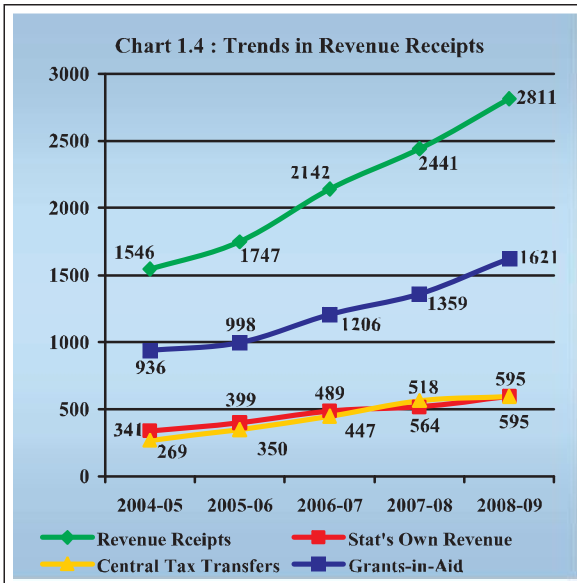
[2] State Implementing Agency includes any organisation/institution including non-Governmental Organisation which is authorised by the State Government to receive the funds from the Government of India for implementing specific programmes in the State, e.g., State Implementing Society for SSA and State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

Programme/Scheme	Implementing Agency in the State	Funds transferred by the GOI
MPs Local Area Development Scheme	Deputy Commissioners	6.00
National Afforestation Programme	West Garo Hills FDA/Jaintia Hills SF/West Khasi Hills/South Garo SF/Ri-Bhoi FDA	4.69
Assistance to Institute of Hotel Managements, Food Crafts Institutes, *etc.*	Secretary, FCI Society, Tura/ IHM Society	2.98
Grant in aid to NGOs and for coaching students for competitive Examinations	RK Mission Ashram, Cherrapunjee & Laitumkhrah	5.52
Total		**297.22**

The GOI directly transferred Rs. 313.79 crore to State Implementing Agencies during 2008-09. With this transfer, the total availability of State resources increased from Rs. 5,171.78 crore to Rs. 5,485.57 crore. Of Rs. 313.79 crore, Rs. 104.62 crore (33 *per cent*) was transferred to the DRDAs and Rs. 94.40 crore (30.08 *per cent*) to State Mission Authority of Sarva Siksha Abhiyan. Direct transfer from the Union to the State Implementing Agencies runs the risk of poor accountability. Unless uniform accounting practices are diligently followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

1.3 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2004-09 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively. The trends in revenue receipts relative to GSDP are presented in **Table 1.3.**



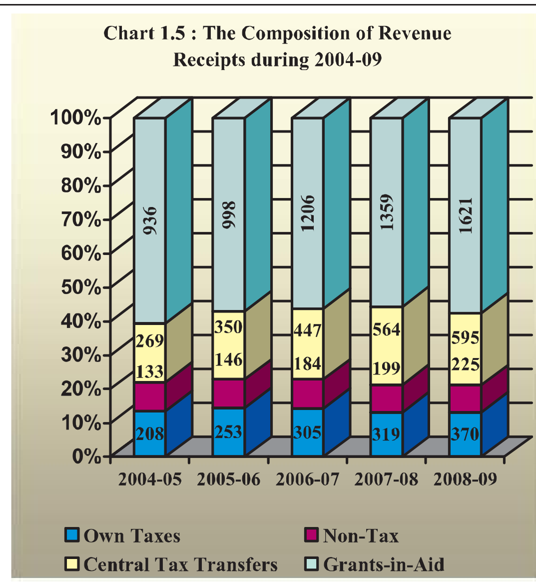


Table 1.3: Trends in Revenue Receipts relative to GSDP

	2004-05	2005-06	2006-07	2007-08	2008-09
Revenue Receipts (RR) (Rupees in crore)	**1,546**	**1,747**	**2,142**	**2,441**	**2,811**
Rate of Growth of RR (*per cent*)	10.51	13.00	22.61	13.96	15.16
Rate of Growth of Own Taxes (*per cent*)	16.85	21.63	20.55	4.59	15.99
RR/GSDP (*per cent*)	26.63	27.11	29.22	28.81	29.25
Buoyancy Ratio[3]					
Revenue Buoyancy Ratio with reference to GSDP	1.06	1.18	1.65	0.90	1.13
State's Own Taxes Buoyancy Ratio with reference to GSDP	1.70	1.96	1.50	0.29	1.19
Revenue Buoyancy Ratio with reference to State's Own Taxes	0.62	0.60	1.10	3.04	0.95

1.3.1 General Trends

The revenue receipts of the State increased by Rs. 1,265 crore from Rs. 1,546 crore in 2004-05 to Rs. 2,811 crore in 2008-09. There were, however, wide inter-year variations in the growth rates, which increased to 15.16 *per cent* in 2008-09 from 13.96 *per cent* during the preceding year. Although all the components of revenue receipts have exhibited increases in absolute terms over the period 2004-09, the share of State's own taxes and non tax revenue indicated relative stability, while the share of grants-in-aid has reduced from 61 *per cent* in 2004-05 to 58 *per cent* in 2008-09 as against an increase in the share of central tax transfers from 17 *per cent* to 21 *per cent* during the period. The buoyancy ratios of revenue receipts and the State's own tax revenue with reference to GSDP have increased primarily due to significant increase in the rates of growth of both revenue receipts and the State's own tax revenue under 'Taxes on Sales, Trade, *etc.*' in 2008-09 relative to the previous year.

1.3.2 Central Tax Transfers

The Central Tax transfers increased by Rs. 31 crore over the previous year and constituted 21 *per cent* of revenue receipts.

1.3.3 Grants-in-Aid

Details of Grants-in-aid from the GOI are given in **Table 1.4.**

Table 1.4 : Grants-in-Aid from the GOI

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Non-Plan Grants	361	406	472	461	440
Grants for State Plan Schemes	460	445	569	645	958
Grants for Central Plan Schemes	4	3	11	4	8
Grants for Centrally Sponsored Schemes	87	119	107	179	159
Grants for Special Plan Schemes	24	25	47	70	56
Total	**936**	**998**	**1,206**	**1,359**	**1,621**
Percentage of increase over previous year	7.96	6.62	20.84	12.69	19.28

Grants-in-aid from the GOI have increased by 19.28 *per cent* from Rs. 1,359 crore in 2007-08 to Rs. 1,621 crore in the current year. Within the plan grants, while grants

[3] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 1.13 during 2008-09 implies that revenue receipts tend to increase by 1.13 percentage points, if the GSDP increases by one *per cent*.

for Special Plan Schemes and Centrally Sponsored Plan Schemes decreased by 20 *per cent* and 11 *per cent* respectively, grants for Central Plan Schemes and State Plan Schemes increased by 100 *per cent* (Rs. 4 crore) and 49 *per cent* (Rs. 313 crore). The major increase under State Plan Schemes was in the form of increase in Block Grants (Rs. 268 crore). The Non-Plan grants (Rs. 440 crore) to the State constitute 27 *per cent* of the total grants during the year, of which, 81 *per cent* (Rs. 356 crore) was primarily for meeting the non-plan revenue deficit owing to the recommendations of the Twelfth Finance Commission (TFC). Other components of non-plan grants mainly included (i) grants for local bodies (Rs. 25 crore), (ii) maintenance of forests (Rs. 12 crore), (iii) maintenance of roads and bridges on the recommendation of the TFC (Rs. 11 crore) and (iv) contribution to calamity relief fund (Rs. 9 crore).

1.3.4 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes, *etc*., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. **Tables 1.5 and 1.6** below show the trends of tax and non-tax revenue during 2004-09:

Table 1.5 : Tax Revenue

(Rupees in crore)

Heads	2004-05	2005-06	2006-07	2007-08	2008-09	
					Budget Estimate	Actuals
Taxes on Sales, Trade, *etc.*	127	173	216	235	285	282
State Excise	63	59	54	59	72	70
Taxes on Vehicles	7	9	9	11	12	13
Stamps and Registration Fees	5	6	6	6	9	6
Land Revenue	0.29	0.33	6	2	0.39	0.50
Other Taxes[4]	5.71	5.67	14	6	6.61	(-) 1.50
Total	**208**	**253**	**305**	**319**	**385**	**370**

Table 1.6 : Non-Tax Revenue

(Rupees in crore)

Heads	2004-05	2005-06	2006-07	2007-08	2008-09	
					Budget Estimate	Actuals
Interest receipts, dividends and profits	8	7	13	15	8	18
General Services	12	17	36	29	23	46
Social Services	2	3	3	3	4	4
Economic Services	111	119	132	152	164	157
Total	**133**	**146**	**184**	**199**	**199**	**225**

1.3.4.1 Tax Revenue

Tax revenue has increased by 16 *per cent* during the current year (Rs. 370 crore) over the previous year (Rs. 319 crore). However, the actual collection of tax revenue during the year fell short by about 4 *per cent* of the budget estimate for the year

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

mainly due to shortfall under stamps and registration fees by over 33 *per cent*. The revenue from sales tax contributed the major share of tax revenue (76 *per cent*) and it increased by 20 *per cent* over the previous year. State excise and taxes on vehicles were the other major contributors in the State's tax revenue.

➢ *Impact of implementation of Value Added Tax (VAT) on the State's Own Tax Revenue*

Table 1.7 gives the comparative position of pre-VAT (2001-02 to 2004-05) and post-VAT (2005-06 to 2008-09) tax collection and the growth rate in each year.

Table 1.7

(Rupees in crore)

Pre-VAT			Post-VAT		
Year	**Actual collection[5]**	**Percentage of growth**	**Year**	**Actual collection[6]**	**Percentage of growth**
2001-02	59.78	81.43	2005-06	159.65	50.12
2002-03	71.67	19.89	2006-07	187.78	17.62
2003-04	83.37	16.32	2007-08	216.89	15.50
2004-05	106.35	27.56	2008-09	271.07	24.98
Average growth		**36.30**			**27.05**

Thus, the average growth rate during 2001-02 to 2004-05 was 36.30 *per cent* while the average growth rate for 2005-06 to 2008-09 was 27.05 *per cent.* Though the revenue all along the years from 2001-02 to 2008-09 showed an increasing trend, yet the growth rate of revenue after implementation of VAT showed a negative trend except in 2008-09. The scenario would have been much better had the tax collection mechanism been more efficient and effective and instances of loss of revenue been avoided/minimised as pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2009 (Revenue Receipts).

Transition from Sales Tax regime to Value Added Tax System and audit of Sales Tax Department

The Department failed to detect and register 606 dealers who sold taxable goods of Rs. 27.44 crore, which resulted in evasion of tax of Rs. 2.06 crore and penalty of Rs. 3.91 crore was also leviable. 11,816 dealers did not submit monthly tax returns between May 2005 and March 2009, but the assessing officer failed to levy penalty of Rs. 372.21 crore. Seven dealers sold goods valued at Rs. 203.07 crore and collected tax of Rs. 25.84 crore instead of Rs. 10.71 crore, but excess tax of Rs. 15.13 crore collected was not forfeited and penalty of Rs. 30.26 crore was not levied. The Department also failed to detect excess claim of input tax credit of Rs. 30.40 crore by 69 dealers due to non-scrutiny of the returns. Three bottling plants sold 26,84,292 cases of liquor, but tax of Rs. 34.20 crore was not levied. Further, State government suffered loss of revenue of Rs. 4.15 crore due to delay in the implementation of VAT on liquor. Due to the implementation of defective tax remission scheme for new industries, the State Government had to make payment of Rs. 7.98 crore from its Exchequer. The Department failed to prefer claim of compensation from the Union Government due to the implementation of VAT which led to loss of revenue of Rs. 247.39 crore. Inter State sale of Rs. 69.88 crore not supported by declaration form was irregularly exempted resulting in non-levy of tax of Rs. 8.39 crore and interest of Rs. 6.92 crore.

[5] Collection under Sales Tax (MST + MFST + PT) and Motor Spirits and Lubricants Acts.

[6] Collection under Sales Tax (MST + MFST + PT) up to 30 April 2009 and collection of arrears thereafter, VAT and Motor Spirits and Lubricants Acts.

1.3.4.2 Non-Tax Revenue

The non-tax revenue (NTR), which constituted 8 *per cent* of the total revenue receipts, has increased by Rs. 26 crore during 2008-09 recording a growth rate of 13 *per cent* over the previous year. 70 *per cent* of non-tax revenue during 2008-09 was received from economic services and within this category, receipts under non-ferrous mining and metallurgical industries alone contributed 85 *per cent* (Rs. 133 crore). This was due to increase in receipts under mineral concession fees, rents and royalties. The trends in interest receipts and dividends and profits reveal significant improvement during 2008-09 compared to 2004-05 mainly because of increase in realisation of interest on investment of cash balances. The non-tax revenue of the Government during 2008-09 is also inclusive of Rs. 14.90 crore received as debt waiver from the GOI under DCRF, which constituted over 32 *per cent* of revenue receipts under general services and was booked under the head 'Miscellaneous General Services'.

➢ ***Cost recovery in supply of merit goods and services***

The current levels of cost recovery (non-tax revenue receipts as a percentage of non-plan revenue expenditure) in supply of merit goods and services by Government were negligible, as depicted in **Table 1.8**:

Table 1.8: Cost Recovery – 2008-09

(Rupees in lakh)

	Non-tax revenue receipts	Non-plan revenue expenditure	Cost Recovery *(per cent)*
Secondary Education	42	7,155	0.59
Medical & Public Health	74	7,734	0.96
Water Supply & Sanitation	104	6,568	1.58
Roads & Bridges	7	7,294	0.09
Minor Irrigation	39	1,000	3.90

As can be seen from above, while the cost recovery for minor irrigation and water supply & sanitation during 2008-09 were 3.9 *per cent* and 1.58 *per cent* respectively, for medical & public health, secondary education and roads & bridges the percentages were 0.96, 0.59 and 0.09 respectively. However, there were increases under minor irrigation, water supply & sanitation and secondary education during the current year when compared to 2004-05[7].

1.3.4.3 Own resources vis-à-vis assessments made by the Twelfth Finance Commission

The mobilisation of State's own resources *vis-à-vis* assessments made by the Twelfth Finance Commission (TFC) and State Government in its own Fiscal Correction Path (FCP) are given below:

[7] Minor irrigation: 0.53 *per cent*; Water supply & sanitation: 1.21 *per cent*; Medical & public health: 1.2 *per cent*; Secondary education: 0.5 *per cent*; Roads & bridges: 0.1 *per cent*.

Table 1.9

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in FCP	Actuals
Tax Revenue	353	383	370
Non-Tax Revenue	221	196	225

Tax revenue was 4.82 *per cent* higher as compared to the assessment made by the TFC, but it was lower by 3.39 *per cent* compared to the assessment made by the State Government in the FCP. The non-tax revenue was only marginally higher (1.81 *per cent*) than the assessment made by the TFC but it was more by 14.8 *per cent* as compared to the assessment made in the FCP for 2008-09.

1.3.4.4 Loss of Revenue due to Evasion of Taxes, Write off/Waivers and Refunds

Test-check (2008-09) of records of sales tax, state excise, motor vehicle tax, other tax receipts, forest receipts and other non-tax receipts revealed underassessment/short levy/non-levy/loss of revenue of Rs. 649.99 crore. The total loss of revenue, which was in excess of 9 *per cent* of the State's own resources consisting of tax and non-tax revenue (Rs. 594.75 crore) during 2008-09, indicates the presence of loopholes in resource mobilisation thereby adversely affecting the developmental activities of the State. Serious irregularities which resulted in loss of revenue of the State have been discussed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2009 (Revenue Receipts), brief position of which is given below:

Receipts under State Excise

There was a loss of Rs. 30.32 crore due to misclassification of IMFL. Failure of the excise officials to inspect licensed premises at regular intervals and not setting up excise check gate led to loss of Rs. 2.98 crore. Excise duty of Rs. 33.10 crore was not paid by three bottling plants which indented spirits for manufacture of IMFL.

Taxes on Motor Vehicles

Government revenue of Rs. 3.71 crore was deposited into Government account after a lapse of 19 months resulting in loss of interest of Rs. 44.29 lakh. Fine of Rs. 271.80 crore on 358,992 commercial trucks for carrying excess load beyond maximum permissible limit was not levied. Delay in deployment of enforcement staff in a private weighbridge as stipulated in the agreement led to loss of revenue of Rs. 20.83 lakh.

Forest Receipts

Export of limestone without transit pass fee resulted in non realisation of revenue of Rs. 46.85 lakh. Forest royalty of Rs. 1.11 crore collected by the Meghalaya Government Construction Corporation from contractors remained undeposited. Illicit felling and removal of 510.769 cum of timber from reserve forests led to loss of revenue of Rs. 23.72 lakh.

Receipts on Mines and Minerals

Lack of co-ordination between two departments led to non-realisation of revenue Rs. 68.30 lakh. Delay in implementation of revised rate of royalty led to loss of revenue of Rs. 20.38 crore. Failure of the Mines and Minerals Department to prevent unauthorised export of coal and lime stone led to the loss of revenue of Rs. 13.73 crore. There was short realisation of royalty and cess on lime stone of Rs. 6.18 crore.

1.3.4.5 Revenue Arrears

The arrears of tax revenue at the end of March 2009 in respect of some principal heads of revenue were Rs. 89.82 crore of which, Rs. 7.69 crore (8.56 *per cent*) relating to state excise were more than five years old. As the pending revenue arrears constituted over 24 *per cent* of tax revenue of the State during 2008-09, appropriate steps need to be initiated by the State Government for their recovery, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

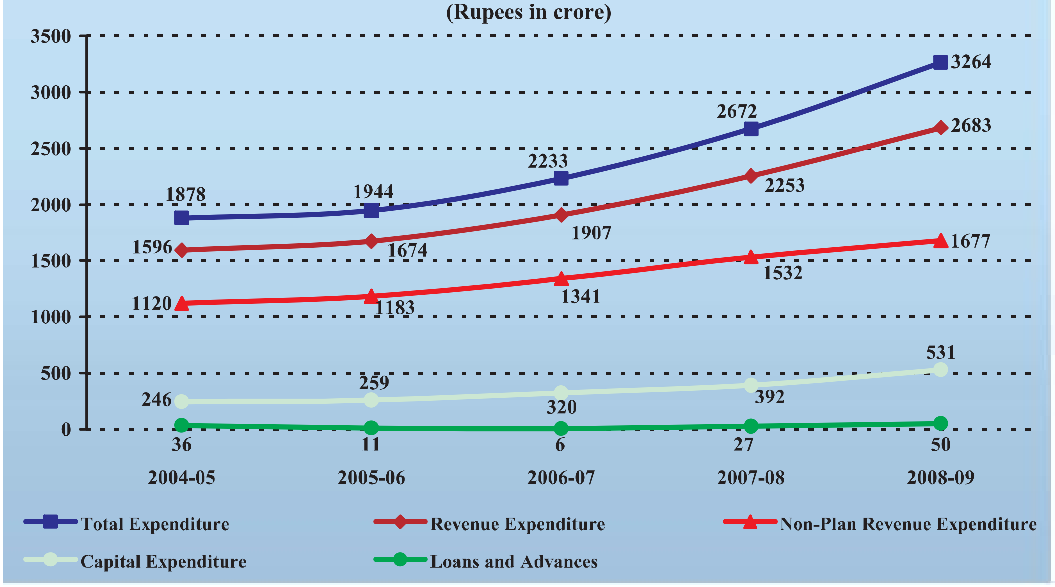
1.4 Application of Resources

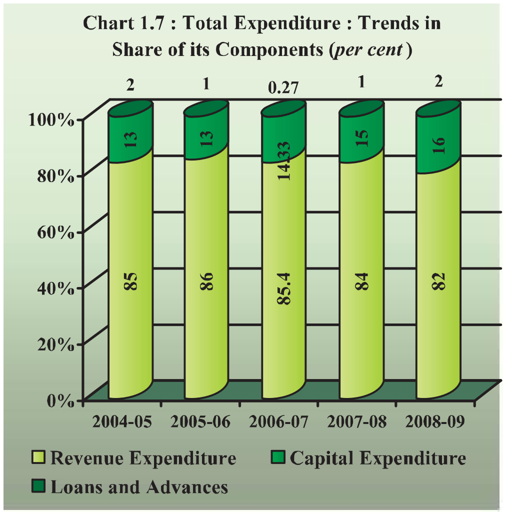
Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit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

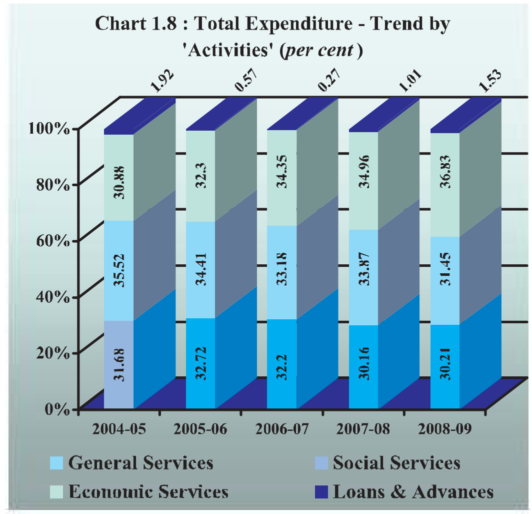
1.4.1 Growth and Composition of Expenditure

Chart 1.6 presents the trends in total expenditure over a period of five years (2004-09) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**

Chart 1.6 : Total Expenditure : Trends and Composition
(Rupees in crore)







1.4.1.1 Trends in Total Expenditure

The total expenditure during the current year has increased by Rs. 592 crore (22.16 *per cent*) over the previous year. Of the increase in total expenditure, revenue expenditure formed 73 *per cent* (Rs. 430 crore), capital expenditure component was 23 *per cent* (Rs. 139 crore) and disbursement of loans and advances 4 *per cent* (Rs. 23 crore). While the share of plan expenditure constituted 48 *per cent* (Rs. 1,580 crore) of the total expenditure, the remaining 52 *per cent* was non-plan expenditure (Rs. 1,684 crore). During the current year, 86 *per cent* (Rs. 2,811 crore) of total expenditure was met from revenue receipts and the remaining (Rs. 453 crore) from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 1.65 in 2008-09 indicating a tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The movement of the relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Of the total expenditure during 2008-09, expenditure on general services and interest payments, which is considered as non-developmental, together accounted for 30.21 *per cent.* On the other hand, expenditure on social and economic services together accounted for 68.26 *per cent* during 2008-09. The relative share of social services declined from 35.52 *per cent* in 2004-05 to 31.43 *per cent* in 2008-09. The relative share of economic services, which ranged between 30.88 *per cent* and 34.96 *per cent* during the last four year period 2004-08, has marginally increased to 36.83 *per cent* in 2008-09, while loans and advances revealed wide fluctuations during the period 2004-08 and stood at 1.53 *per cent* during 2008-09.

1.4.1.2 Incidence of Revenue Expenditure

Revenue expenditure constituted 82 *per cent* to 86 *per cent* of total expenditure during 2004-09 and increased by 68 *per cent* from Rs. 1,596 crore in 2004-05 to Rs. 2,683 crore in 2008-09. The non-plan revenue expenditure (NPRE) during the same period increased from Rs. 1,120 crore to Rs. 1,677 crore, showing an increase of 50 *per cent* indicating that the share of NPRE in total revenue expenditure declined from 70 *per cent* in 2004-05 to 63 *per cent* in 2008-09. As a result, plan revenue expenditure (PRE), which normally covers the maintenance expenditure incurred on services, has increased by Rs. 530 crore during 2004-09 keeping its share in total revenue expenditure between 29 and 37 *per cent* during the period. The growth of PRE during 2008-09 significantly improved to 39.53 *per cent* against 27.39 *per cent* during the previous year mainly due to increased expenditure on providing assistance to the Electricity Boards (Rs. 102.89 crore) followed by Rs. 63.01 crore on hydel generation and Rs. 51.28 crore on other rural development programmes. Though the rate of growth of NPRE (9.46 *per cent*) in 2008-09 was less than that of the PRE, this expenditure at Rs. 1,677 crore during the year was 16.3 *per cent* (Rs. 235 crore) higher than the normatively assessed level of Rs. 1,442 crore by the TFC and 7.09 *per cent* (Rs. 111 crore) higher than the assessments made by the State Government in its FCP (**Table 1.10**).

Table 1.10 : Non-Plan Revenue Expenditure: Actuals *vis-à-vis* Normative Assessment by TFC

(Rupees in crore)

<table>
<tr><th rowspan="2">Particulars</th><th rowspan="2">Assessed by the TFC</th><th colspan="2">Assessments made by the State Government in</th><th rowspan="2">Actuals</th><th colspan="3">Difference with reference to {Excess (+) / Less (-)}</th></tr>
<tr><th>FCP</th><th>Budget 2008-09</th><th>TFC</th><th>FCP</th><th>Budget</th></tr>
<tr><td>Interest Payments</td><td>244</td><td>229</td><td>230</td><td>212</td><td>(-) 32</td><td>(-) 17</td><td>(-) 18</td></tr>
<tr><td>Pension</td><td>117</td><td>122</td><td>126</td><td>172</td><td>(+) 55</td><td>(+) 50</td><td>(+) 46</td></tr>
<tr><td>Other General Services</td><td>273</td><td rowspan="3">1,215</td><td>501</td><td>519</td><td>(+) 246</td><td rowspan="3">(+) 78</td><td>(+) 18</td></tr>
<tr><td>Social Services</td><td>512</td><td>475</td><td>478</td><td>(-) 34</td><td>(+) 3</td></tr>
<tr><td>Economic Services</td><td>235</td><td>293</td><td>296</td><td>(+) 61</td><td>(+) 3</td></tr>
<tr><td>Committed liabilities</td><td>61</td><td colspan="6">NA</td></tr>
<tr><td>Total</td><td>1,442</td><td>1,566</td><td>1,625</td><td>1,677</td><td>(+) 235</td><td>(+) 111</td><td>(+) 52</td></tr>
</table>

Except for interest payments and expenditure on social services, the actual expenditure incurred on all other components of non-plan revenue expenditure was more than the assessments made by the TFC. The expenditure also exceeded the assessments made in the Budget 2008-09 on all the components except for interest payments.

1.4.1.3 Capital Expenditure

Capital expenditure constituted only 13 *per cent* to 16 *per cent* of total expenditure during 2004-09 and increased by 116 *per cent* from Rs. 246 crore in 2004-05 to

Rs. 531 crore in 2008-09. Compared to 2007-08, capital expenditure during the current year (2008-09) increased by 35.46 *per cent* mainly due to expenditure on 'Jawaharlal Nehru National Urban Renewal Mission (JNNURM)' (Rs. 51.45 crore) and increased expenditure under rural water supply schemes (Rs. 26.13 crore), transport (Rs. 24.97 crore) and other minor irrigation works costing Rs. 1 crore and less (Rs. 14.77 crore). Though there was an increase in capital expenditure during the current year compared to the previous year, the State Government failed to fulfill its commitment of incurring expenditure on capital account made in the FCP (Rs. 541 crore).

Further, JNNURM was launched by the GOI with the objective of development of infrastructure services in cities, providing basic services to the urban poor, *etc.* The duration of the Mission would be seven years beginning from 2005-06. During 2008-09, Government released Rs. 51.45 crore (Central share: Rs. 49.04 crore; State share: Rs. 2.41 crore) to the Meghalaya Urban Development Authority for execution of two projects under the scheme. Though, as per the Directorate of Programme Implementation and Evaluation, during 2008-09, Rs. 31.83 crore was actually spent on implementation of the scheme, Rs. 51.45 crore was shown in the Finance Accounts for the year 2008-09 as capital expenditure. As the actual expenditure on capital formation was Rs. 31.83 crore only, the capital expenditure was overstated by Rs. 19.62 crore.

1.4.2 Committed Expenditure

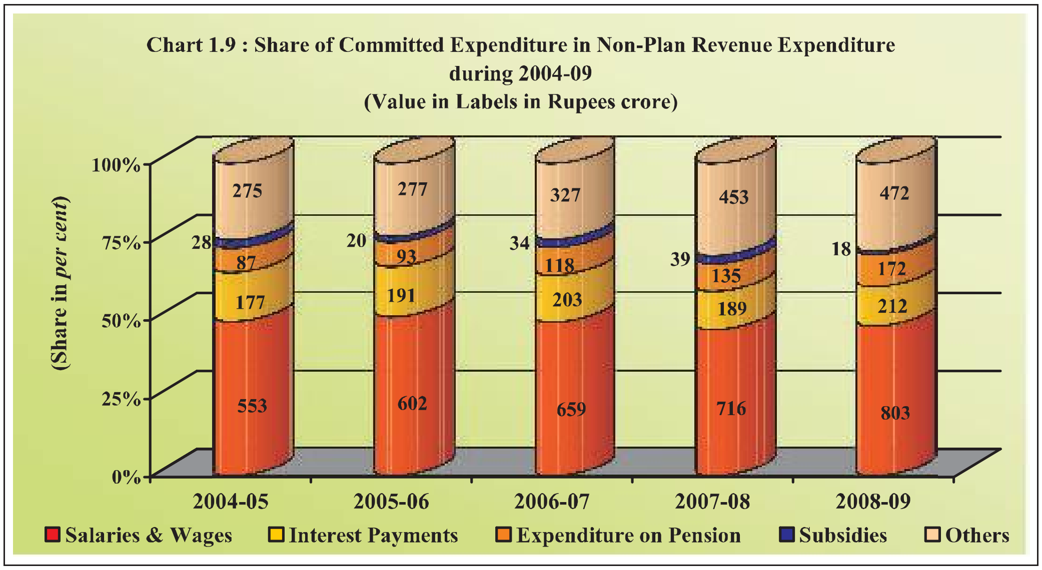
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.11** and **Chart 1.9** present the trends in the expenditure on these components during 2004-09.

Table-1.11 : Components of Committed Expenditure

(Rupees in crore)

Components of Committed Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09
Salaries & Wages	553 (36)	602 (34)	659 (31)	716 (29)	803 (29)
Of which					
Non-Plan Head	*464 (30)*	*502 (29)*	*547 (26)*	*596 (24)*	*651 (23)*
Plan Head	*89 (6)*	*100 (5)*	*112 (5)*	*120 (5)*	*152 (6)*
Interest Payments	177 (11)	191 (11)	203 (9)	189 (8)	212 (8)
Expenditure on Pension and other retirement benefits	87 (6)	93 (5)	118 (6)	135 (6)	172 (6)
Subsidies	28 (2)	20 (1)	34 (2)	39 (2)	18 (0.64)
Other Components	275 (18)	277 (16)	327 (15)	453 (19)	472 (17)

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



1.4.2.1 Salaries and Wages

The expenditure on salaries and wages increased by 12.15 *per cent* during 2008-09 over the previous year and accounted for 8.36 *per cent* of GSDP and 28.57 *per cent* of the revenue receipts. The State was successful in restricting the expenditure on salaries during 2008-09 as assessed in its FCP (Rs. 1,052 crore) for the year and also *within the norm of 35 per cent prescribed by the TFC for the total salary bill relative to revenue expenditure net of interest payment and pension.*

1.4.2.2 Interest Payments

Interest payments increased by 20 *per cent* from Rs. 177 crore in 2004-05 to Rs. 212 crore in 2008-09. Compared to previous year, interest payments during 2008-09 increased by 12.17 *per cent* as against a decrease of 6.9 *per cent* during 2007-08. The State was, however, successful in restricting the interest payments during 2008-09 as assessed in its FCP (Rs. 229 crore). Interest payments were on market loans (Rs. 105 crore), Special Securities issued to National Small Savings Fund of the Central Government (Rs. 28 crore), other internal debt (Rs. 20 crore), loans and advances received from Central Government (Rs. 24 crore) and Small Savings, Provident Fund, *etc.* (Rs.35 crore). Of the total interest payments during the year, about 50 *per cent* (Rs. 105 crore) were paid on market borrowings. *The overall interest payments (Rs. 212 crore) was lower than the projections made by the TFC (Rs. 244 crore) and FCP (Rs. 229 crore) as well as budget estimates (Rs. 230 crore) of the year.*

1.4.2.3 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the five year period 2004-09. Pension payments during the current year have increased by Rs. 37 crore recording a growth rate of over 27.41 *per cent* over the previous year mainly on account of increase in the number of pensioners, family pensioners and Member of Legislative Assembly pensioners over the previous year by 201, 223 and one respectively. *A comparative analysis of actual pension payments* *and the assessment/projections made by the TFC and the State Government (**Table 1.12**) reveals that actual pension payments exceeded the projections made by the TFC and the State Government in its FCP and Budget by 47 per cent, 41 per cent and 37 per cent respectively.*

Table 1.12 : Actual Pension Payments *vis-à-vis* Projection

(Rupees in crore)

	Assessment made by the TFC	Assessment made by the State Government in		Actuals	Expenditure in excess of assessment made in the		
		FCP	Budget 2008-09		TFC	FCP	Budget
Pension Payments	117	122	126	172	55 (47)	50 (41)	46 (37)

(*Figures in brackets represent percentages*)

1.4.2.4 Subsidies

Table 1.11 shows a declining trend in payment of subsidies which constituted only 0.64 *per cent* of revenue receipts during 2008-09 against 2 *per cent* during 2004-05. During the current year, expenditure on payment of subsidies decreased by 54 *per cent* from Rs. 39 crore in 2007-08 to Rs. 18 crore mainly due to decrease in payment of subsidy to the Electricity Board by over 64 *per cent*. However, during 2008-09, 65 *per cent* (Rs. 11.70 crore) of the total subsidy was paid to the Electricity Board which was within the projection (Rs. 12.50 crore) made in the FCP for the year 2008-09. Of the remaining amount of subsidies, Rs. 5.69 crore was paid under the head Taxes on Vehicles (Rs. 2.83 crore), Civil Supplies (Rs. 1.47 crore) and Animal Husbandry (Rs. 1.39 crore) and Rs. 0.61 crore for Dairy Development, Fisheries and Crop Husbandry.

1.4.3 Financial Assistance by State Government to local bodies and other institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.13**.

Table 1.13 : Financial Assistance to Local Bodies, *etc.*

(Rupees in crore)

Financial Assistance to Institutions	2004-05	2005-06	2006-07	2007-08	2008-09	
					Budget Estimate	Actuals
University and Educational Institutions	150	151	164	243	337	245
Co-operative Societies	2	2	5	2	3	2
District Councils	4	3	1	12	26	17
Municipalities	2	2	1	2	3	2
Power sector	26	7	35	100	295	209
Other Institutions[8]	5	2	2	9	3	4
Total	**189**	**167**	**208**	**368**	**667**	**479**
Assistance as percentage of RE	11.84	9.98	10.91	16.33	-	17.85

[8] Other Institutions (figures for 2008-09 in brackets): Prevention and control of water pollution (Rs.145 lakh), Public Sector and other undertakings (Rs.59.94 lakh), Womens Welfare (Rs.2.40 lakh), Housing Board (Rs.10 lakh), Small Scale Industries (Rs.13.49 lakh), Indian Red Cross Society (Rs.4.50 lakh), NRHM (Rs.140 lakh), others (Rs.11.76 lakh).

The financial assistance extended to local bodies and other institutions with inter-year variations increased by 30 *per cent* from Rs. 368 crore in 2007-08 to Rs. 479 crore in 2008-09. The share of financial assistance in revenue expenditure also increased from 16.33 *per cent* in 2007-08 to 17.85 *per cent* during the current year. However, the State Government was successful to restrict the expenditure on payment of financial assistance within the projection made in its annual budget for the year 2008-09.

Another important trend emerging from the above table is that the share under power sector has sharply increased by over two times from Rs. 100 crore in 2007-08 to Rs. 209 crore in 2008-09. Of Rs. 209 crore, Rs. 180 crore (86 *per cent*) was given to the State Electricity Board for Accelerated Power Development Reforms Programme (Rs. 44 crore), hydel generation (Rs. 93 crore) and power projects (Rs. 43 crore) indicating that substantial amount of financial assistance is being given to the Public Sector Undertaking. University and Educational Institutions were the major recipients as 51 *per cent* of the total financial assistance during 2008-09 was given to them. The increase under educational institutions was due to release of more grants (Rs. 7 crore) to non-Government primary/secondary schools and colleges, which increased from Rs. 232 crore in 2007-08 to Rs. 239 crore during the current year of which Rs. 141 crore was given for non-plan purposes.

1.5 Quality of Expenditure

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

1.5.1 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Enhancing human development levels requires the States to step up their expenditure on key social services like, education and health, *etc*. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or on account of the low fiscal capacity of the State Government or due to both working together. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average. **Table 1.14** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.14 : Fiscal Priority and Fiscal capacity of the State in 2005-06 and 2008-09

Fiscal Priority by the State	AE/GSDP	DE/AE	SSE/AE	CE/AE
All States/National Average* (Ratio) 2005-06	**19.50**	**61.44**	**30.41**	**14.13**
Meghalaya's Average (Ratio) 2005-06	33.89[9]	67.28	34.41	13.32
All States/National Average* (Ratio) 2008-09	**19.16**	**65.68**	**33.90**	**16.87**
Meghalaya Average (Ratio)* 2008-09	33.96	69.58	31.43	16.27
Fiscal Capacity of the State	**DE#**	**SSE**	**CE**	
All States Average per capita expenditure 2005-06	**3,010**	**1,490**	**692**	
Meghalaya's per capita expenditure (Amount in Rupees) in 2005-06	5,450	2,788	1,079	
Adjusted per capita expenditure (Amount in Rupees) in 2005-06**	**NR**	**NR**	**1,144**	
All States' Average per capita expenditure 2008-09	**5,030**	**2,520**	**1,254**	
Meghalaya's per capita expenditure (Amount in Rupees) in 2008-09	9,084	4,104	2,124	
Adjusted per capita expenditure (Amount in Rupees) in 2008-09**	**NR**	**4,426**	**2,203**	

* As per cent to GSDP
** Calculated as per the methodology explained in the **Appendix 1.2 – Part A**.
AE: Aggregate Expenditure DE: Development Expenditure SSE: Social Sector Expenditure
CE: Capital Expenditure.
Population of Meghalaya: 0.24 crore in 2005-06 and 0.25 crore in 2008-09.
Development expenditure includes Development Revenue Expenditure, Development Capital expenditure and Loans and Advances disbursed.
Source : (1) For GSDP, the information was collected from the State's Directorate of Economics and Statistics (2) Population figures were taken from Projection 2001-2026 of the Registrar General & Census Commissioner, India Website: http://www.censusindia.gov.in) Population=Average of Projected population for 2005 and 2006.
NR = No adjustment required since the state is giving adequate fiscal priority.

Table 1.14 shows the fiscal priority given by the Meghalaya Government to various expenditure heads in 2005-06 (the first year of the Twelfth Finance Commission Award Period) and the current year, i.e., 2008-09. The ratio of aggregate expenditure to GSDP for Meghalaya in both the years under consideration (around 34 *per cent*) is higher than all States'/National Average (over 19 *per cent*). This means that on an average, other states are spending a lower proportion of their GSDP annually. Similarly, the ratio of development expenditure as a proportion of aggregate expenditure for Meghalaya is also higher than all States'/National Average. This indicates that the State is giving higher priority to this category of expenditure compared to other States. In case of social sector expenditure, though the State was having a higher expenditure than all States'/National Average during 2005-06, the position has deteriorated during 2008-09 because of a lower expenditure than all States'/National Average. In both the years, the ratio of capital expenditure as a proportion of aggregate expenditure is lower than all States'/National Average. Therefore, there is need to give greater fiscal priority to these categories of expenditure.

(9) GSDP figures (current prices) as furnished (October 2006) by the Directorate of Economics & Statistics, Government of Meghalaya.

So far as per capita expenditure of the State is concerned, this is higher than the national average in respect of DE, SSE and CE in both the years under consideration mainly because Meghalaya has a relatively low population base.

1.5.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods[10]. Apart from improving the allocation towards development expenditure[11], particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.15** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years, **Table 1.16** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.15: Development Expenditure

(Rupees in crore)

Components of Development Expenditure	2004-05	2005-06	2006-07	2007-08	2008-09	
					BE	Actuals
Development Expenditure (a to c)	**1,274 (67.84)**	**1,305 (67.13)**	**1,510 (67.62)**	**1,859 (69.57)**	**2,903 (75.56)**	**2,271 (69.58)**
a. Development Revenue Expenditure	1,009 (53.73)	1,049 (53.96)	1,204 (53.92)	1,475 (55.20)	2,281 (59.37)	1,745 (53.46)
b. Development Capital Expenditure	238 (12.67)	248 (12.76)	304 (13.61)	364 (13.62)	575 (14.97)	483 (14.80)
c. Development Loans and Advances	27 (1.44)	8 (0.41)	2 (0.09)	20 (0.75)	47 (1.22)	43 (1.32)

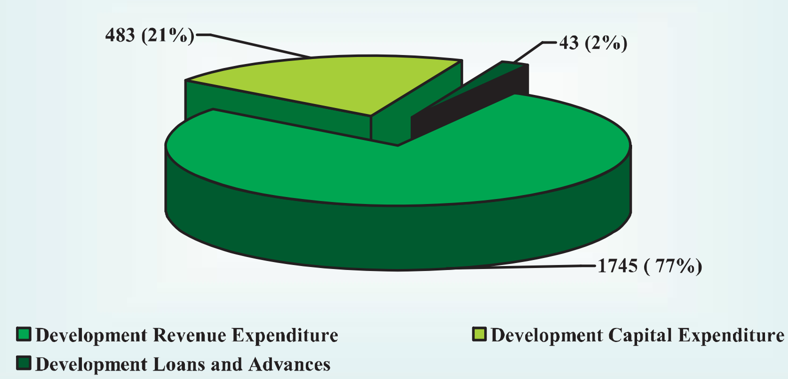
(*Figures in parentheses indicate percentage to aggregate expenditure*)

[10] *Core public goods* are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation, *etc*.

[11] The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

The share of development expenditure to aggregate expenditure exhibited relative stability during the period 2004-07 and showed increasing tendency only during the last two years (2007-09). During the current year, though the State Government earmarked 75.56 *per cent* of the estimated aggregate expenditure for development expenditure, this assessment fell short by 5.98 *per cent* at the end of the year. The relative share of development expenditure to total expenditure during 2008-09 given in **Chart 1.10** below showed that 77 *per cent* of the development expenditure was incurred on revenue account and only 21 *per cent* was utilised for capital expenditure.

Chart 1.10: Relative share of Development Expenditure
(Rupees in crore)



Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services (including 38.52 *per cent* revenue expenditure on salaries and wages under social services and 20.39 *per cent* on economic services) which did not result in any addition to State's infrastructure and service network. Thus, expenditure pattern under this sector needs correction in the ensuing year.

Table 1.16: Efficiency of Expenditure Use in Selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2007-08		2008-09	
	Ratio of Capital Expenditure to Total Expenditure[12]	In Revenue Expenditure, the share of Salary & Wages	Ratio of Capital Expenditure to Total Expenditure[12]	In Revenue Expenditure, the share of Salary & Wages
Social Services (SS)				
General Education	1.25	31.83	1.03	33.55
Technical Education, Sports, Arts & Culture	2.50		1.57	25.30
Health and Family Welfare	24.19	82.07	13.39	79.17
Water Supply & Sanitation, Housing and Urban Development	45.55	27.79	58.92	29.39
Other SS	0.59	23.82	0.66	22.37
Total (SS)	**16.83**	**37.75**	**21.58**	**38.52**

[12] Total revenue and capital expenditure of the services concerned.

Social/Economic Infrastructure	2007-08		2008-09	
	Ratio of Capital Expenditure to Total Expenditure[12]	In Revenue Expenditure, the share of Salary & Wages	Ratio of Capital Expenditure to Total Expenditure[12]	In Revenue Expenditure, the share of Salary & Wages
Economic Services (ES)				
Agriculture and Allied Activities	5.81	43.29	5.83	47.98
Irrigation & Flood Control	23.88	49.04	56.01	40.87
Power and Energy	-	-	-	-
Transport	63.45	-	68.52	-
Other ES	11.77	13.60	8.07	10.43
Total (ES)	**22.66**	**21.97**	**21.79**	**20.39**

Social Services

The trends in capital expenditure on social services during 2007-09 reveal that the share of capital expenditure to total expenditure during these years was around 17 and 22 *per cent*, which indicated that the revenue expenditure was dominant. While there was some improvement in the share of capital expenditure to total expenditure under water supply & sanitation, housing and urban development during the current year, in respect of other categories of social services, there was deterioration in this category of expenditure. Health & Family Welfare Sector was the worst sufferer as only 13.39 *per cent* of total expenditure on this sector was incurred on capital account during 2008-09 against 24.19 *per cent* during the preceding year.

Of the revenue expenditure on social services, the share of salary and wage component has increased from 37.75 *per cent* in 2007-08 to 38.52 *per cent* in 2008-09 implying less expenditure on non-salary components including on their maintenance. The non-salary and wage expenditure on social services has increased marginally by 5.49 *per cent* during 2008-09 from Rs. 469.11 crore in 2007-08 to Rs. 494.88 crore in 2008-09. Within the priority sectors, non-salary and wage component continue to have the dominant share under education, sports, art and culture and water supply, sanitation, housing and urban development. High salary and wage expenditure during 2007-08 (82 *per cent*) and 2008-09 (79 *per cent*) was observed under health and family welfare services.

Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education, health and family welfare should increase only by 5 to 6 per cent, while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. **Charts 1.11** and **1.12** provide non-plan salary and non-salary expenditure under social services incurred during 2007-09.

Chart 1.11 : Non-Plan Salary Expenditure
(Rupees in crore)

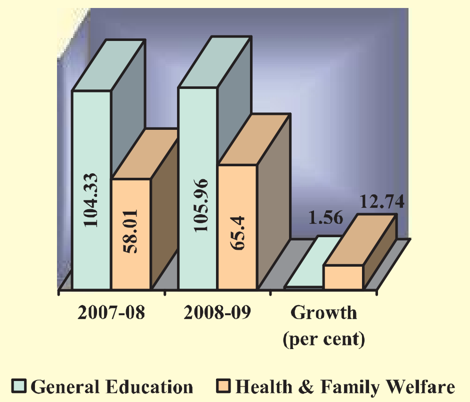
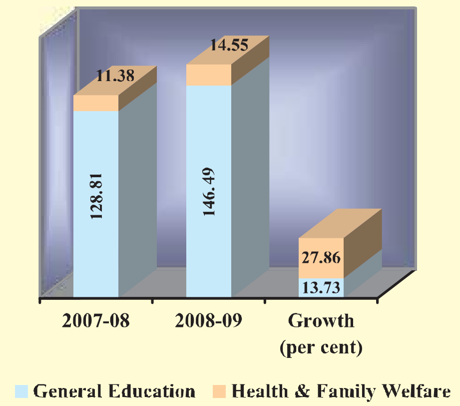


Chart 1.12 : Non-Plan Non-Salary Expenditure
(Rupees in crore)



While the expenditure on non-plan salary and wage component under education sector (1.56 per cent) is well within the recommendation of the TFC, under health and family welfare sector the increase of 12.74 per cent far surpassed the recommendations of the TFC. The increase in non-salary (non-plan) expenditure under these two sectors is not encouraging inasmuch as 13.73 per cent and 27.86 per cent increase under education and health and family welfare sectors respectively are below the recommendations of the TFC. Thus, expenditure pattern under both these sectors needs correction in the ensuing years.

Economic Services

The expenditure on economic services during 2008-09 (Rs. 1,202 crore) accounted for about 37 *per cent* of the total expenditure and 53 *per cent* of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 22 *per cent* was incurred on agriculture and allied services, 20 *per cent* on transport and 20 *per cent* on energy.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from Rs. 129 crore in 2004-05 to Rs. 262 crore (103 *per cent*) in 2008-09. However, the share of capital expenditure to total expenditure on economic services during 2007-09 almost remained constant at 22-23 *per cent* which indicated that the revenue expenditure was dominant. Revenue expenditure also consistently increased from Rs. 451 crore in 2004-05 to Rs. 940 crore (108 *per cent*) in the current year. An increase of Rs. 218 crore (30 *per cent*) during 2008-09 over the previous year in revenue expenditure was mainly due to the increase in energy (Rs. 98 crore), rural development (Rs. 64 crore) and agriculture and allied activities (Rs. 33 crore). Within the revenue expenditure, salary and wage component constituted 22 and 20 *per cent* of the total revenue expenditure during 2007-08 and 2008-09 respectively. It increased from Rs. 159 crore in 2007-08 to Rs. 192 crore (20.75 *per cent*) during the current year. The non-salary and wage component also increased from Rs. 563 crore in 2007-08 to Rs. 749 crore (33 *per cent*) indicating change in allocative priorities of the State Government.

1.5.3 Effectiveness of the Expenditure, i.e. Outlay-Outcome Relationship

According to the information furnished by the Directorate of Programme Implementation and Evaluation (**Appendix 1.6**), in 13 out of 25 cases under 13 programmes, the physical targets fixed by the departments concerned for the year 2008-09 were not achieved. Details of significant shortfall in achievement of targets are given in **Table 1.17** below:

Table 1.17

(Rupees in crore/ Targets, Achievements and Shortfall in numbers)

Flagship Programme	Performance indicator	Budget allocation	Targets	Actual expendi-ture	Achieve-ment	Shortfall in achieve-ment of targets (*per cent*)
Indira Awas Yojana-Rural Housing	Houses constructed	8.80	10,235	6.32	5,590	4,645 (45)
Rural Water Supply Programme (State Sector)	Habitations covered	45.00	581	51.05	319	262 (45)
Accelerated Irrigation Benefit Programme	Number of schemes recommended/ approved	23.05	31 ongoing & 44 new schemes	23.04	3	72 (96)
RGGVY-Rural Electrification	Villages electrified	104.78	174	16.28	90	84 (48)
National Rural Health Mission	Training of ASHA	NA	6,180	NA	3,279	2,901 (47)
Jawaharlal Nehru National Urban Renewal Mission	Urban infrastructure, Development of small & medium towns, *etc*.	58.05	7 projects	31.83	3 projects under progress/4 projects to start	-
National Rural Employment Guarantee Act	Employment generated	21.61	150 person days	9.23	86.28 person days	63.72 (42)
Accelerated Rural Water Supply Programme	Habitations covered	57.79	1,300	74.51	791	509 (39)
Total Sanitation Campaign	(i) Household Latrines		22,000		30,004	-
	(ii) School toilets	10.75	1,000	6.44	549	451 (45)
	(iii) Sanitary Complex		35		20	15 (43)
	(iv) Balwadi Toilets		50		37	13 (26)

As can be seen from the above table, shortfall in achievement of targets under most of the flagship programmes ranged between 26 *per cent* and 96 *per cent*. Against the target for construction of 10,235 houses under Indira Awas Yojana, achievement was only 5,590. Under Accelerated Rural Water Supply Programme, 791 habitations were covered against the target of 1,300. Out of all the above programmes, major shortfall in achievement of targets during 2008-09 was under Accelerated Irrigation Benefit Programme.

Two performance reviews on implementation of 'Minor Irrigation Projects' and 'Non Lapsable Central Pool of Resources' included in the Report of Comptroller and Auditor General of India for the year ended 31 March 2009 (Civil and Commercial) highlights the following aspects:

Minor Irrigation Projects

The overall impact of implementation of the minor irrigation projects was far from satisfactory because of significant shortfall in achievement of target for creation of irrigation potential. Large number of minor irrigation projects was not completed on time. Even the completed projects had not been fully utilised. Some of the completed projects became defunct due to various reasons like flash floods, drying up of source of water and heavy silting, *etc.* Consequently, the irrigation coverage of 29,313.84 hectare (ha) as of March 2009, as claimed by the Department, is in fact was only 22,849.03 ha, which was only 10.48 *per cent* of the ultimate irrigation potential (2.18 lakh ha) in the State. Works under the projects were executed in an unplanned manner resulting in unproductive expenditure and wastage of resources. Apart from non-adherence to financial rules, the Department failed to monitor the schemes during execution. The objective of generating additional irrigation potential to increase the production of cultivable lands, thus, remained largely unachieved.

Non Lapsable Central Pool of Resources (NLCPR)

Implementation of NLCPR schemes in the State has brought about some improvement in creation of infrastructure in various sectors. Programme objective of ensuring speedy development of infrastructure in the State by increasing the flow of financing for specific viable infrastructure projects in various sectors and reduce the critical gaps in the basic minimum services, such as roads and bridges, water supply, education and power, was, however, constrained as these gaps were not identified prior to implementation of schemes. There were cases of diversion of funds released by the Ministry of Development of North Eastern Region, undue favour to the contractors, excess expenditure in deviation from the sanctioned detailed project reports, unauthorised revision of the structure of the work and misrepresentation of facts. Evaluation was never attempted to gauge the extent of development of infrastructure and reducing the gaps in basic minimum services.

1.6 Financial Analysis of Government Expenditure and Investments

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

1.6.1 Incomplete projects

According to information available in **Appendix II** of the Finance Accounts for the year 2008-09, as of March 2009, there were 346 ongoing projects in the State. The department-wise information pertaining to incomplete projects as on 31 March 2009 as per the said **Appendix** and as per the records of the Irrigation Wing of the Agriculture Department of the State is given in **Table 1.18:**

Table 1.18: Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of Incomplete Projects	Initial estimated cost	Revised cost of Projects	Cumulative actual expenditure as on 31 March 2009
Public Health Engineering	01	4.13	-	3.93
Agriculture (Irrigation Wing)	10	9.90	-	7.01
Law	01	5.83	9.35	8.20
Public Works	01	1.45	-	0.93
General Administration	02	6.97	-	0.36
Education	05	15.15	-	6.12
Health & Family Welfare	01	2.31	5.07	5.07
Total	**21**	**45.74**	**14.42**	**31.62**

As can be seen from the above table, 21 projects stipulated for completion on or before 31 March 2009 at an estimated cost of Rs. 45.74 crore, remained incomplete with an expenditure of Rs. 31.62 crore till March 2009. Out of 21 projects, 18 projects remained incomplete for less than one year to eight years and the remaining three projects for two to 13 years. Out of 10 minor irrigation projects due for completion by 2008-09 for coverage of 858.91 ha of cultivable land, works on one project had not even started and nine projects were still under execution as of March 2009. The reasons for non-completion of six projects[13] were attributed to delay in procurement of pipes, commencement of work, obtaining forest clearance, approval of tender, bad weather and delay on the part of the contractor. Reasons for delay in completion of four irrigation projects[14] and 11 projects under other departments had not been furnished. Effective steps need to be taken to complete the incomplete projects without further delay to avoid cost overrun due to time overrun.

1.6.2 Investment and returns

As of 31 March 2009, Government had invested Rs. 200.43 crore in Statutory Corporations, Government Companies and Co-operative Societies **(Table 1.19)**. The average return on this investment was less than one *per cent* during 2004-09, while the Government paid interest at an average rate of 6.32 *per cent* to 8.58 *per cent* on its borrowings during the period.

Table-1.19: Return on Investment

Investment/Return/Cost of Borrowings	2004-05	2005-06	2006-07	2007-08	2008-09
Investment at the end of the year (Rupees in crore)	170.42	177.31	183.16	186.79	200.43
Return (Rupees in crore)	0.18	0.01	0.01	0.02	0.03
Return (*per cent*)	0.11	0.01	0.01	0.01	0.01
Average rate of interest on Government borrowing *(per cent)*	8.58	8.06	7.62	6.40	6.32
Difference between interest rate and return (*per cent*)	8.47	8.05	7.61	6.39	6.31

[13] Ichamati, Dardara & Champarani, Shilliang Myndong, Madan Sophaw, Korbangla and Mynrud Moopasor FIPs.

[14] Pynthor Lyngkha Droin, Chibra Agal, Umraliang and Wahkrem Ksiar FIPs.

As of March 2009, the State Government had invested Rs. 40.79 crore in two Statutory Corporations, Rs. 112.92 crore in eight Government Companies and Rs. 46.72 crore in 1,443 Co-operative Societies. Of the two Statutory Corporations, bulk of the investment (Rs. 38.85 crore) was made to the Meghalaya Transport Corporation Limited during 1986-2009 despite accumulated loss of Rs. 62.61 crore sustained by the Corporation up to 2004-05. Out of Rs. 112.92 crore invested in Government Companies, Rs. 87.70 crore was invested in six loss making Companies, which had accumulated loss of Rs. 27.64 crore as detailed in **Table 1.20**. Up-to-date working results of one Government company and all the Co-operative Societies had not been intimated (August 2009).

Table 1.20: Details of loss making Government Companies

(Rupees in crore)

Name of Companies	Amount invested up to March 2009	Invested up to	Accumu-lated loss	Period up to[15]
Meghalaya Industrial Development Corporation	68.15	2005-06	0.35	2001-02
Meghalaya Tourism Development Corporation Limited	7.75	2001-02	2.11	1992-93
Meghalaya Government Construction Corporation Limited	4.77	2000-01	10.77	2006-07
Meghalaya Handloom and Handicrafts Development Corporation Limited	3.20	2008-09	1.58	2001-02
Meghalaya Mineral Development Corporation Limited	2.27	2001-02	11.09	2007-08
Forest Development Corporation of Meghalaya Limited	1.56	2000-01	1.74	1999-00
	87.70		**27.64**	

1.6.3 Loans and advances by State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances to many of these institutions/ organisations. **Table 1.21** presents the outstanding loans and advances as on 31 March 2009, interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.21: Average Interest Received on Loans and Advances given by the State Government

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Opening Balance	471	488	480	469	479
Amount advanced during the year	36	11	6	27	50
Amount recovered during the year	19	19	17	17	18
Closing Balance	488	480	469	479	511
Net Addition	17	- 8	- 11	10	32
Interest Receipts	2.99	1.48	1.36	1.65	2.04
Interest received as *per cent* to outstanding Loans and Advances	0.62	0.31	0.29	0.35	0.41
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	8.58	8.06	7.62	6.40	6.32
Difference between interest payments and receipts (*per cent*)	7.96	7.75	7.33	6.05	5.91

15 Accounts for the subsequent years are in arrears.

Loans and advances given by the State Government during 2008-09 increased by 85 *per cent* over previous year. During 2004-09, recovery of loans and advances was Rs. 90 crore against payment of Rs. 130 crore. The total outstanding loans and advances as on 31 March 2009 was Rs. 511 crore. As the interest received as *per cent* to outstanding loans and advances was much lower than the cost at which the State Governments borrows, the TFC in its restructuring plan of State finances assumed a 7 *per cent* return on outstanding loans and advances to be achieved in a graded manner by the terminal year of the forecast period (2005-10). *Return on outstanding loans and advances given by the State Government, which stands only at 0.41 per cent in 2008-09 against 0.62 per cent in 2004-05, indicates that the possibility of achieving 7 per cent return within the next one year of the forecast period is remote.*

1.6.4 Cash Balances and Investment of Cash balances

Table 1.22 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table-1.22: Cash Balances and Investment of Cash balances

(Rupees in crore)

Particulars	As on 1st April 2008	As on 31st March 2009	Increase
Cash Balances	**430.41**	**501.64**	**71.23**
Investments from Cash Balances (a & b)	**490.17**	**552.48**	**62.31**
a. GOI Treasury Bills	481.42	543.73	62.31
b. GOI Stock/Securities	8.75	8.75	-
Fund-wise break-up of Investment from Earmarked balances (a & b)	**55.01**	**68.53**	**13.52**
a. Sinking Fund Investment Account	54.98	68.50	13.52
b. Other Development and Welfare Fund	0.03	0.03	-
Interest Realised on investment of cash balance	**13.72**	**15.78**	**2.06**

The cash balance of the State increased by Rs. 71.23 crore, from Rs. 430.41 crore at the end of March 2008 to Rs. 501.64 crore at the end of March 2009. The increase was mainly due to the increase in cash balance investment (Rs. 62.31 crore). Interest realised on investment of cash balances has also increased by Rs. 2.06 crore during 2008-09 over that of previous year. By investment of Rs. 481.42 crore on GOI Treasury Bills as on 1st April 2008, the State Government realised Rs.15.78 crore as interest during 2008-09, which was only 3.28 *per cent* of the amount invested. However, this has to be viewed in the backdrop that the State Government raised open market loan of Rs. 103.54 crore during 2008-09 at the minimum rate of interest of 7.59 *per cent* per annum. Thus, there is a need for more prudent cash manangement by the State Government which would not result in borrowing of funds from open market to meet its expenses while having surplus cash balance.

It is generally desirable that the State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) – Ordinary and Special – from Reserve Bank of India (RBI) has been put in place. The operating limit for Ordinary WMA is reckoned as the three year average of revenue receipts and the operative limit for Special WMA is fixed by RBI from time to time depending on the holding of Government securities.

Under the agreement with the RBI, the Government of Meghalaya has to maintain an all time minimum balance of Rs. 21 lakh with RBI. If the balance falls below the agreed minimum, the Government can take Ordinary WMA from the RBI up to a maximum of Rs. 50.50 crore. In addition, Special WMA not exceeding Rs. 9.16 crore are made available against GOI securities held by the State Government. Overdrafts are given by the RBI if the State has a minus balance after availing of the maximum advance.

WMAs and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2004-09 is detailed in **Table 1.23**.

Table 1.23 : Ways and Means Advances and Overdrafts of the State

(Rupees in crore)

	2004-05	2005-06	2006-09
Ways and Means Advances			
Availed in the Year	2.57	83.49	…
Number of days	6	7	…
Outstanding WMAs, if any	…	…	…
Interest Paid	*	0.08	…
Overdraft			
Availed in the Year	…	8.85	…
Number of days	…	1	…
Outstanding Overdraft, if any	…	…	…
Interest Paid	…	*	…

* Interest paid on ways and means advances during 2004-05 and interest paid on overdraft during 2005-06 were Rs. 0.15 lakh and Rs. 0.21 lakh respectively.

As can be seen from the above table, the Government did not have to resort to WMA during the current year (2008-09) as well as during the previous two years (2006-08), indicating comfortable position of cash balances of the State. The cash balances of the State Government increased from Rs. 430 crore to Rs. 502 crore in 2008-09 over the previous year mainly due to increase under cash balance investment by Rs. 62 crore.

The efficiency of handling the cash balances by the State can also be assessed by monitoring the trends in monthly daily average of cash balances held by the State to meet its normal banking transactions. **Table 1.24** presents the trends in monthly average daily cash balances and the investments in Auction Treasury Bills for the last three years (2006-09).

Table 1.24 : Trends in Monthly Average Daily Cash Balances and the Investments in Auction Treasury Bills

(Rupees in crore)

Month	Monthly Average Daily Cash Balances			Investment in 14 days Treasury Bills			Investment in Auction Treasury Bills
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09	2006-09
April	2.70	- 4.43	36.75	446.70	653.39	898.14	-
May	104.03	208.92	191.33	656.26	598.91	839.31	-
June	159.49	150.25	204.75	459.81	594.53	676.07	-
July	103.32	125.16	195.34	447.69	545.62	541.64	-
August	78.64	114.57	102.51	542.95	722.97	640.28	-
September	160.69	136.58	216.06	449.67	492.10	569.51	-
October	77.16	124.36	169.45	411.77	558.76	343.61	-
November	70.09	123.98	65.24	443.13	506.16	570.14	-
December	194.15	213.52	183.76	441.77	294.38	713.44	-
January	38.38	70.04	276.19	481.68	485.81	487.63	-
February	86.07	69.20	107.73	466.51	710.60	537.53	-
March	375.06	302.47	317.73	829.36	988.54	1168.97	-

The State Government had maintained a minimum cash balance of Rs. 21 lakh as per agreement with the Reserve Bank of India during the last three years, except during April 2007 when there was a debit monthly average daily cash balance of Rs. 4.43 crore.

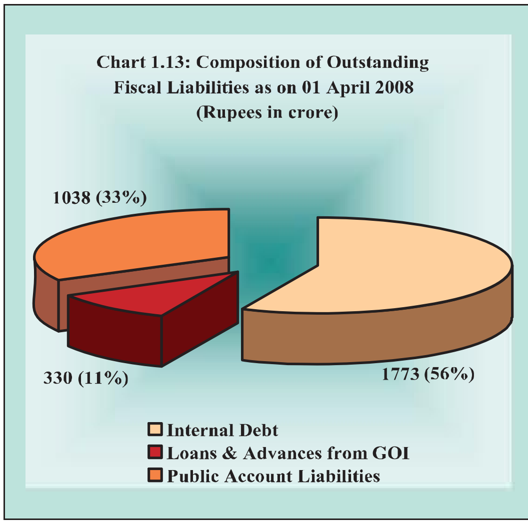
1.7 Assets and Liabilities

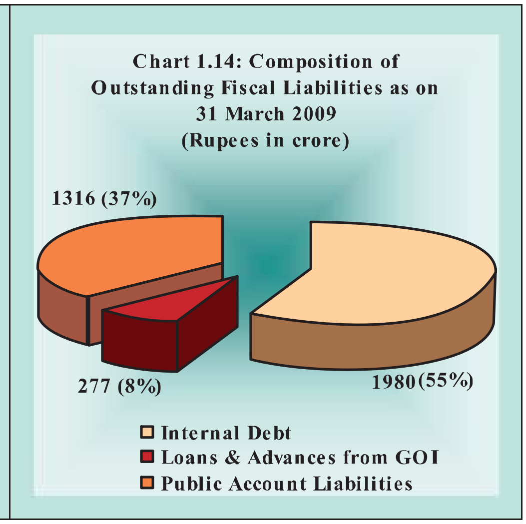
1.7.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2009, compared with the corresponding position on 31 March 2008. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.7.2 Fiscal Liabilities

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





Fiscal liabilities of Rs. 3,573 crore during 2008-09 consist of internal debt, e.g., market loans bearing interest, loans from Life Insurance Corporation of India (LIC) and other institutions, *etc*. (Rs. 1,980 crore), loans and advances from Central Government (Rs. 277 crore), small savings, provident funds (State Provident Funds and Insurance & Pension Funds: Rs. 475 crore) and other non-interest bearing obligations such as deposit of local funds, civil deposits, *etc*. (Rs. 841 crore). Overall fiscal liabilities of the State increased from Rs. 2,173 crore in 2004-05 to Rs. 3,573 crore in 2008-09. The growth rate in 2008-09 was 13.75 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP also increased from 37.08 *per cent* in 2007-08 to 37.18 *per cent* in 2008-09. These liabilities stood at 1.27 times the revenue receipts and 6.01 times of the State's own resources at the end of 2008-09. The buoyancy of these liabilities with respect to GSDP during the year was 1.02 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.02 *per cent*.

According to **Statement 4** of the Finance Accounts for the year 2008-09, during 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loans. In 2008-09, the Government has appropriated Rs. 13.54 crore from revenue and credited to this fund for investment in the GOI Securities.

1.7.3 Status of Guarantees – Contingent liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per **Statement 6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2004-05 are given in **Table 1.25**.

Table 1.25: Guarantees given by the Government of Meghalaya

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
Maximum amount guaranteed (year end)	384.32	504.67	562.02	954.16	1,083.19
Outstanding amount of guarantees (including interest)	338.18	404.38	435.80	750.63	990.25
Percentage of maximum amount guaranteed to total revenue receipts	24.86	28.89	26.24	39.08	38.54

Government has guaranteed loans raised by various Corporations and others, which at the end of 2008-09 stood at Rs. 990.25 crore (including interest). Bulk of the guaranteed amount (Rs. 944.25 crore) was outstanding against the Meghalaya State Electricity Board against guarantees given for repayment of principal and payment of interest of REC and market loans. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 39 *per cent* of revenue receipts of the State during 2008-09. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

As per Meghalaya Fiscal Responsibility and Budget Management Act, 2006 (MFRBM Act, 2006) and Fiscal Policy Strategy (FPS) Statement, the total liabilities on the Consolidated Fund of the State should not be more than 28 *per cent* of the GSDP. The Medium Term Fiscal Policy (MTFP) Statement, however, fixed the target of total outstanding liabilities to GSDP in 2008-09 as 36.41 *per cent*. **Table 1.26** gives the position of this ratio during 2004-09:

Table 1.26 : Total Liabilities

	2004-05	2005-06	2006-07	2007-08	2008-09
Total Liabilities[16] (Rupees in crore)	2,511	2,970	3,198	3,892	4,563
Ratio of Total Liabilities to GSDP (*per cent*)	43.26	46.08	43.63	45.94	47.48

It is evident from the above table that the ratio of total liabilities to GSDP not only remained higher than the limit (28 *per cent*) prescribed in the MFRBM Act, 2006 and FPS Statement throughout the entire period 2004-09, but also increased by 11.07 *per cent* over the target fixed in the MTFP Statement.

1.8 Debt Sustainability

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability[17] of the State. This section assesses the sustainability of debt of the State Government in terms of debt

[16] Fiscal liabilities + Outstanding amount of guarantees (including interest).

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

stabilisation[18]; sufficiency of non-debt receipts[19]; net availability of borrowed funds[20]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.27** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2004-05.

Table 1.27: Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	2004-05	2005-06	2006-07	2007-08	2008-09
Debt Stabilization (Quantum Spread + Primary Deficit) (Rupees in crore)	- 109	77	286	229	01
Sufficiency of Non-debt Receipts (Resource Gap)	- 111	+ 135	+ 104	- 140	- 221
Net Availability of Borrowed Funds	44	204	- 8	190	221
Burden of Interest Payments (IP/RR Ratio)	0.11	0.11	0.09	0.08	0.08

Table 1.27 reveals that quantum spread together with primary deficit/surplus has been negative in 2004-05 but turned positive thereafter and continued till 2008-09. Viewed along with ratio of fiscal deficit to GSDP which also indicated a fluctuating trend during the period 2004-09, indicates oscillating debt-GSDP ratios during the period. The sum of quantum spread and primary deficit at Rs. 1 crore during 2008-09 against Rs. 229 crore during the previous year is an alarming situation to the State Government for taking an immediate remedial measure to improve the fiscal imbalances for improving the debt sustainability position in medium to long run.

The trends in resource gap indicate the oscillation between positive and negative magnitudes, i.e., it remained positive during 2005-07 but negative in 2004-05 and 2007-09 as incremental non-debt receipts in these three years were much below the incremental total expenditure. The negative resource gap in the current year was mainly due to the steep increase in non-interest revenue expenditure (Rs. 407 crore). This requires closer attention to check the resource gap.

The debt redemption ratio has fluctuated widely during the period 2004-09 which remained more than unity in 2006-07 while it varied between 72 and 92 *per cent* in remaining years. During the current year, the Government repaid Rs. 997 crore as

[18] A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable, provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

[19] Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

[20] Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

principal and interest on internal debt (Rs. 262 crore), loans and advances from the GOI (Rs. 84 crore) and other obligations (Rs. 651 crore), as a result of which the borrowed funds of Rs. 221 crore were available for development purposes. Under loans and advances from GOI, the net funds available continued to be negative during the entire period of five years. Over 26 *per cent* (Rs. 78 crore) of the net funds available from internal debt (Rs. 55 crore) and other obligations (Rs. 244 crore) was used to meet the repayment obligation of the loans and advances from the GOI.

Table 1.28: Maturity Profile of State Debt

(Rupees in crore)

Maturity Profile[a]	Amount	*Per cent*
0-1 year	85.11	3.77
1-3 years	155.25	6.88
3-5 years	133.50	5.91
5-7 years	105.33	4.67
7 years and above	308.22	13.65
Information awaited from State Government	1,469.89	65.12
Total	**2,257.30**	**100**

[a] As per Finance Accounts.

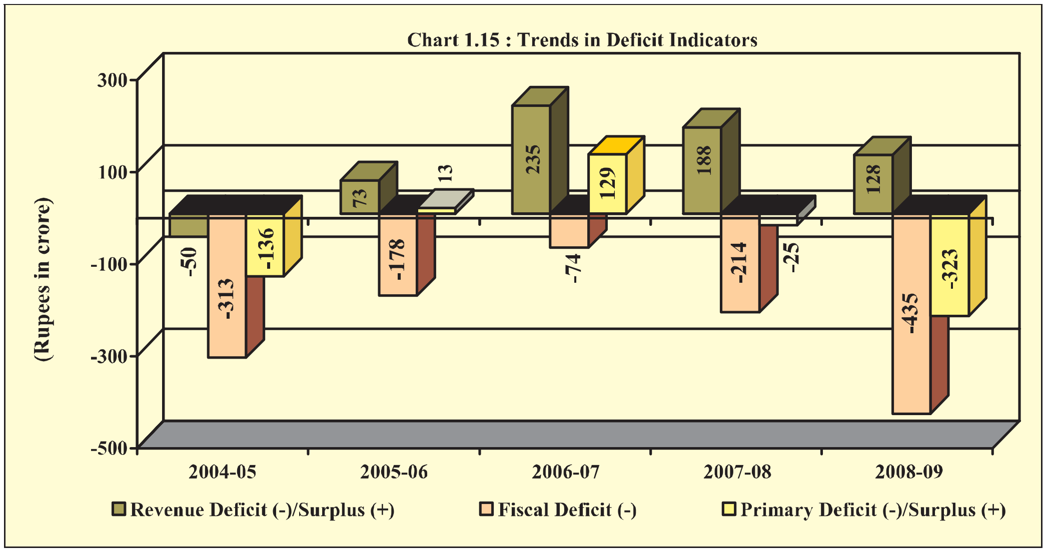
As per data shown in **Table 1.28**, the maturity profile of the debt stock of Rs. 1,469.89 crore (65.12 *per cent*) is not clearly defined. Out of the remaining debt stock of Rs. 787.41 crore (34.88 *per cent*), 60.86 *per cent* (Rs. 479.19 crore) is payable within the next seven years while the remaining 39.14 *per cent* are to be paid in more than seven years time. A well thought out debt repayment strategy will ensure that no additional borrowings which are maturing in these seven years is undertaken. Non-availability of the maturity profile about the maximum of the debt burden (over 65 *per cent*) was indicative of the fact that the State is not serious about its debt situation.

1.9 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2008-09.

1.9.1 Trends in Deficits

Charts 1.15 and **1.16** present the trends in deficit indicators over the period 2004-09.



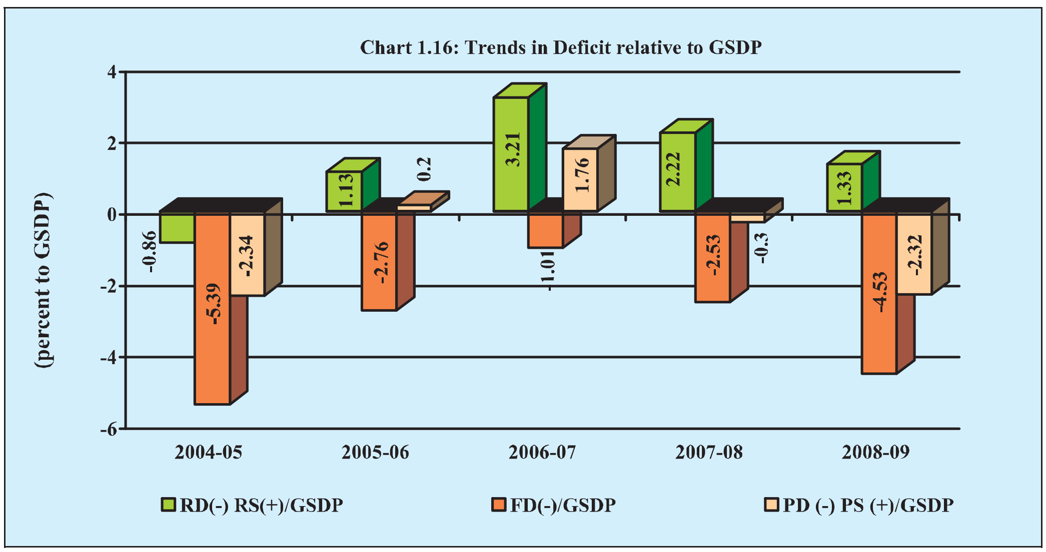


Chart 1.15 reveals that the revenue account experienced a situation of substantial deficit of Rs. 50 crore during 2004-05. Since 2005-06, the revenue account turned into surplus which has steeply increased to Rs. 235 crore during 2006-07 but declined to Rs. 128 crore during 2008-09. The significant deterioration during the current year was mainly on account of increase in revenue expenditure by Rs. 430 crore (19.09 *per cent*) against an increase of Rs. 370 crore (15.16 *per cent*) in revenue receipts over the previous year. Despite the fact that State's own resources contributed around 21 *per cent* (Rs. 77 crore) in the incremental revenue receipts (Rs. 370 crore) during 2008-09 against 10 *per cent* (Rs. 29 crore) during 2007-08, the decline in revenue surplus in the current year was primarily on account of sluggish growth rate of 15.24 *per cent* (Rs. 293 crore) in central transfers as compared to 16.33 *per cent* (Rs. 270 crore) during 2007-08.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap also increased from the lowest level of Rs. 74 crore in 2006-07 during the period 2004-09 to Rs. 435 crore in 2008-09. The decrease in revenue surplus (Rs. 60 crore) along with an increase of Rs. 162 crore on account of increase in capital expenditure (Rs. 139 crore) as well as in loans and advances disbursed (Rs. 23 crore) during 2008-09 led to an increase of Rs. 221 crore in fiscal deficit during the current year. *Contrary to the commitment for achieving fiscal deficit of 3 per cent of GSDP by 2008-09 made by the State Government in the MFRBM Act, the fiscal deficit increased to 4.53 per cent of GSDP during 2008-09 compared to 2.53 per cent during previous year.*

The primary surplus which continued during 2005-07 and reached the level of Rs. 129 crore during 2006-07, also took a turnaround in 2007-08 and resulted in a primary deficit[21] of Rs. 25 crore during 2007-08, which increased to Rs. 223 crore in 2008-09. A sharp increase of Rs. 221 crore in fiscal deficit and a moderate increase in interest payments (Rs. 23 crore) resulted in a primary deficit of Rs. 223 crore during the current year.

1.9.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.29.**

Table 1.29 : Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Decomposition of Fiscal Deficit						
	Fiscal Deficit (-) (1 to 3)	**- 313**	**- 178**	**- 74**	**- 214**	**- 435**
1.	Revenue Deficit (-)/ Surplus (+)	- 50	+ 73	+ 235	+ 188	+ 128
2.	Net Capital Expenditure	246	259	320	392	531
3.	Net Loans and Advances	- 17	8	11	- 10	- 32
Financing Pattern of Fiscal Deficit[(a)]						
1.	Market Borrowing	124	130	164	147	186
2.	Loans from GOI	2	- 16	- 27	- 15	- 54
3	Special Securities Issued to NSSF	0	56	22	9	6
4	Loans from Financial Institutions	- 21	16	1	7	15
5	Small Savings, PF. *etc.*	91	44	36	46	46
6.	Reserve Funds	6	(b)	3	- 9	(c)
7.	Deposits and Advances	18	162	- 4	194	233
8.	Suspense and Miscellaneous	37	- 9	19	- 37	58
9.	Remittances	1	- 4	5	- 1	16
10.	Increase (-)/Decrease (+) in Cash Balances	+ 55	- 201	- 145	- 127	- 71
11.	Increase or decrease in Ways & Means Advances	0	0	0	0	0
	Overall Deficit (1 to 11) (-)	**- 313 (5.39)**	**- 178 (2.76)**	**- 74 (1.01)**	**- 214 (2.53)**	**- 435 (4.53)**

Figures in brackets indicate the *per cent* to GSDP.
(a) All these figures are net of disbursements/outflows during the year. (b) Rs. 0.36 crore only. (c) Rs. 0.20 crore only.

[21] Primary deficit, defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

There were fiscal deficit during the five year period ending 2008-09, which reached to its peak during 2008-09. During the current year, fiscal deficit increased by over 103 *per cent* (Rs. 214 crore) over previous year mainly due to decrease in revenue surplus by Rs. 60 crore and increase in capital expenditure by Rs. 139 crore. The fiscal deficit of Rs. 435 crore during 2008-09 was mainly met out from market borrowing (Rs 186 crore) and deposits and advances (Rs. 233 crore). The net market borrowing increased by 27 *per cent* over the previous year, thus increasing the interest burden in future. Though increase in capital expenditure indicated that the borrowed funds were being utilised for productive uses, the solution to the Government debt problem lies on the method of application of borrowed funds, i.e., whether they are absolutely being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

1.9.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit **(Table 1.30)** would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.30 : Primary Deficit/Surplus – Bifurcation of Factors

(Rupees in crore)

Year	Non-debt Receipt	Primary Revenue Expendi - ture	Capital Expendi - ture	Loans and Advances	Primary Expendi - ture	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+ 4+5)	7 (2-3)	8 (2 -6)
2004-05	1,565	1,419	246	36	1,701	146	- 136
2005-06	1,766	1,483	259	11	1,753	283	+ 13
2006-07	2,159	1,704	320	6	2,030	455	+ 129
2007-08	2,458	2,064	392	27	2,483	394	- 25
2008-09	2,829	2,471	531	50	3,052	358	- 223

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2004-09 reveals that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure[22] requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt

[22] Primary expenditure of the State, defined as the total expenditure net of the interest payments, indicates the expenditure incurred on the transactions undertaken during the year.

receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2004-05 and 2007-09. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which to some extent may be desirable to improve the productive capacity of the State's economy.

1.9.4 State's Own Revenue and Deficit Correction

It is worthwhile to observe the extent to which the deficit correction is achieved by the State on account of improvement in its own resources which is an indicator of the durability of the correction in deficit indicators. **Table 1.31** presents the change in revenue receipts of the State and the correction of the deficit during the last three years ending March 2009.

Table 1.31 : Change in revenue Receipts and Correction of Deficit

(*Per cent* of GSDP)

Parameters	**2006-07**	**2007-08**	**2008-09**	
			BE*	**Actual**
Revenue Receipts (a to d)	**29.22**	**28.81**	**44.21**	**29.25**
a. State's Own Tax Revenue	4.16	3.76	4.60	3.85
b. State's Own Non- tax Revenue	2.51	2.35	2.37	2.34
c. State's Share in Central Taxes and Duties	6.10	6.66	7.93	6.19
d. Grants-in-Aid	16.45	16.04	29.31	16.87
Revenue Expenditure	**26.02**	**26.59**	**37.97**	**27.92**
Revenue Surplus	**3.21**	**2.22**	**6.23**	**1.33**
Fiscal Deficit (-)	**- 1.0**	**- 2.53**	**- 1.49**	**- 4.53**

**Figures worked out taking into account the GSDP as per revised estimate (Rs. 8,375 crore).*

Meghalaya adopted FRBM Act in November 2006 (details in **Appendix 1.2-Part B**). The State had also developed its own Fiscal Correction Path (FCP) detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the MFRBM Act. As prescribed in this Act, the State Government had incorporated Macro Economic Statement, MTFP Statement and Fiscal Policy Strategy Statement in the Budget for the year 2008-09.

Table 1.31 shows that the percentage of revenue receipts relative to GSDP had marginally increased from 28.81 *per cent* in 2007-08 to 29.25 *per cent* in 2008-09, but lower than projection made in the budget estimate for the year. The State, however, failed to achieve the fiscal targets laid down in the FCP as well as in the Budget for the year 2008-09, as the year 2008-09 ended with a revenue surplus of Rs. 128 crore against Rs. 324 crore and Rs. 523 crore targeted in the FCP and Budget respectively. As per the MTFP Statement, during 2008-09, the State Government had expected to achieve 14.11 *per cent* of total revenue receipts as revenue surplus. Actual revenue surplus at Rs. 128 crore during 2008-09 was only 4.55 *per cent* of the total revenue receipts of the year.

The fiscal deficit relative to GSDP at 4.53 *per cent* far surpassed the target set in MTFP Statement for 2008-09 (1.56 *per* cent) and also the ceiling of 3 *per cent* to be achieved by 2008-09 as per the MFRBM Act.

1.10 Conclusion and Recommendations

Fiscal Correction Path

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit and primary deficit has shown deterioration in 2008-09 relative to the previous year. Not only did the revenue surplus decline by Rs. 60 crore in 2008-09 but fiscal and primary deficits have increased by over two times and about nine times compared to the previous year. Moreover, the fiscal performance of the State vis-à-vis targets set in FCP as well as MFRBM Act and Budget indicate a dismal picture during the year. Central transfers comprising state's share of central taxes and grants-in-aid from the Government of India increased by Rs. 293 crore in 2008-09 and contributed around 79 per cent of the incremental revenue receipts during the year, indicating central transfers being the key in the increase in revenue receipts of the State. The total loss of revenue due to underassessment/short levy/non-levy of taxes, etc., which was in excess of 9 per cent of the State's own resources consisting of tax and non-tax revenue during 2008-09, indicates the presence of loopholes in resource mobilisation. Pending revenue arrears constituted over 24 per cent of tax revenue of the State during 2008-09.

The State should, therefore, make effort to increase tax compliance, collect revenue arrears and prune unproductive expenditure so that deficits are contained to the levels envisaged in the MFRBM Act, 2006. Efforts should also be made to return to the state of primary surplus and increase revenue surplus.

Expenditure Pattern

The expenditure pattern of the State reveals that the revenue expenditure as a percentage of total expenditure, though declined by 2.12 per cent in the current year, hovered around 85 per cent during the period (2004-09) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, NPRE at Rs. 1,677 crore in 2008-09 constituted 63 per cent and remained significantly higher than the normatively assessed level of Rs. 1,442 crore by TFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPRE which was about 72 per cent during 2008-09. While the expenditure on non-plan salary and wage component under education sector (1.56 per cent) is well within the recommendation of the TFC, under health and family welfare sector the increase of 12.74 per cent far surpassed the recommendations of the TFC. The increase in non-salary (non-plan) expenditure under these two sectors is not encouraging inasmuch as 13.73 per cent and 27.86 per cent increase under education and health and family welfare sectors respectively are below the recommendations of the TFC.

Expenditure pattern under both the above sectors needs correction in the ensuing years. There is also need to give greater fiscal priority to the social sector expenditure and capital expenditure, as the State has a lower expenditure on these categories when compared to the ratio of aggregate expenditure to GSDP in respect of all States'/National Average.

Prevalence of Fiscal Deficit

The prevalence of fiscal deficit indicates continued reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 37.18 per cent of the GSDP in 2008-09 and would further increase to 47.48 per cent after incorporating the contingent liabilities in the fold of total liabilities on Consolidated Fund of the State during the year and appears to be quite high especially if compared with the limit of 28 per cent prescribed in the MFRBM Act, 2006. The average return on investment in Statutory corporations, Government companies and Co-operative societies was less than one per cent during 2004-09, while the Government paid interest at an average rate of 6.32 per cent to 8.58 per cent on its borrowings during the period. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize additional resources both through the tax and non tax sources in the ensuing years.

The State Government should ensure better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Immediate steps need to be taken to restrict the debt-GSDP ratio as per commitment made in the MFRBM Act, 2006 (28 per cent).

Accounting of funds transferred to State Implementing Agencies

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies for implementation of various schemes/programmes in social and economic sectors.

Direct transfer from the Union to the State Implementing Agencies runs the risk of poor accountability. As such, a system should be put in place to ensure proper accounting of these funds and the updated information should be validated by the State Government as well as the Accountant General (A&E).