

# **CHAPTER-I**

## **FINANCES OF THE STATE GOVERNMENT**



## CHAPTER I

### Finances of the State Government

#### Profile of Meghalaya

Meghalaya, a Special Category State, is situated in the North-Eastern region of India and is bound in the north and east by Assam and in the south and west by Bangladesh. As indicated in **Appendix 1.1 (Part-D)**, the State's population increased from 23,18,822 in 2001 to 29,66,889 in 2011 recording a decadal growth of 27.95 *per cent*. The percentage of population below the poverty line of the State (11.90 *per cent*) was 10.00 *per cent* less than the all India average (21.90 *per cent*). The State's Gross Domestic Product (GSDP) in 2016-17 at current prices was ₹ 29,567 crore. The State's literacy rate increased from 62.56 *per cent* (2001) to 74.40 *per cent* (as per 2011 census). General data relating to the State is given in **Appendix 1.1 (Part-D)**.

#### Gross State Domestic Product

Gross State Domestic Product (GSDP) is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy as it indicates the standard of living of the State's population. The trends in the annual growth of India's GDP *vis-à-vis* State's GSDP at current prices are indicated below:

**Table 1.1 : Trends in Gross State Domestic Product**

| Particulars                               | 2012-13   | 2013-14     | 2014-15     | 2015-16     | 2016-17             |
|---|-----------|-------------|-------------|-------------|---------------------|
| India's GDP (₹ in crore)                  | 99,44,013 | 1,12,33,522 | 1,24,45,128 | 1,36,82,035 | 1,51,83,709         |
| Growth rate of GDP ( <i>per cent</i> )    | 13.82     | 12.97       | 10.79       | 9.94        | 10.98               |
| Gross State Domestic Product (₹ in crore) | 21,872    | 22,938      | 23,235      | 25,767      | 29,567 <sup>#</sup> |
| Growth rate of GSDP ( <i>per cent</i> )   | 9.81      | 4.87        | 1.29        | 10.90       | 14.75               |

*Source: For GSDP, the information as available on Ministry of Statistics and Program Implementation website as on 01 August 2017 (based on new base year 2011-12).*

<sup>#</sup> *GSDP figures for 2016-17 as per the Directorate of Economics and Statistics, Government of Meghalaya.*

As per GSDP series, there was a fluctuating trend in the growth rate of GSDP. The GSDP increased from ₹ 25,767 crore in 2015-16 to ₹ 29,567 crore in 2016-17, representing an increase of 14.75 *per cent*. The GSDP during 2016-17 also fell short of the assessment (₹ 30,012 crore) made by the Fourteenth Finance Commission (14<sup>th</sup> FC) by 1.48 *per cent*. The growth of GSDP during 2016-17 at 14.75 *per cent* exceeded the assessment of the 14<sup>th</sup> FC (12.22 *per cent*). The average compound annual growth rate in respect of GSDP for Meghalaya between 2007-08 and 2016-17 was 13.14 *per cent* which is less than the all India average (14.20 *per cent*).

## 1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Meghalaya (GoM) during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure and form of Government Accounts, layout of Finance Accounts, methodology adopted for the assessment of fiscal position and State Profile are shown in **Appendix 1.1 (Parts A, B, C & D)**. The time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2012-17 are presented in **Appendix 1.2**.

### 1.1.1 Summary of Current Year's Fiscal Transactions

**Table 1.2** presents the summary of the State Government's fiscal transactions while **Appendix 1.3** provides details of receipts and disbursements as well as the overall fiscal position during the current year (2016-17) *vis-à-vis* the previous year (2015-16).

**Table 1.2: Summary of Current Year's Fiscal Transactions**

(₹ in crore)

| Receipts                                   |                 |                 | Disbursements                                   |                 |                |                |                 |
|--|-----------------|-----------------|---|-----------------|----------------|----------------|-----------------|
|  | 2015-16         | 2016-17         |   | 2015-16         | 2016-17        |                |                 |
| <b>Section – A : Revenue</b>               |                 |                 |   |                 |                |                |                 |
|  |                 |                 |   |                 | Non-Plan       | Plan           | Total           |
| <b>Revenue Receipts</b>                    | <b>7043.13</b>  | <b>8938.95</b>  | <b>Revenue Expenditure</b>                      | <b>6347.73</b>  | <b>4641.22</b> | <b>3695.32</b> | <b>8336.54</b>  |
| Tax revenue                                | 1056.82         | 1186.01         | General Services                                | 2255.52         | 2466.89        | 13.27          | 2480.16         |
| Non-tax revenue                            | 228.60          | 685.24          | Social Services                                 | 2395.17         | 1398.57        | 1700.56        | 3099.13         |
| Share of Union Taxes/Duties                | 3276.46         | 3911.05         | Economic Services                               | 1697.04         | 775.76         | 1981.49        | 2757.25         |
| Grants-in-aid from Government of India     | 2481.25         | 3156.65         |   |                 |                |                |                 |
| <b>Section – B : Capital</b>               |                 |                 |   |                 |                |                |                 |
| <b>Miscellaneous Capital receipts</b>      | <b>NIL</b>      | <b>NIL</b>      | <b>Capital Expenditure</b>                      | <b>1110.89</b>  | 51.61          | 1238.19        | <b>1289.80</b>  |
| <b>Recoveries of Loans and Advances</b>    | <b>19.08</b>    | <b>18.81</b>    | <b>Loans and Advances disbursed</b>             | <b>158.35</b>   | 22.41          | 8.42           | <b>30.83</b>    |
| <b>Public Debt Receipts<sup>1</sup></b>    | <b>836.93</b>   | <b>1210.43</b>  | <b>Repayment of Public Debt<sup>1</sup></b>     | <b>337.34</b>   | NIL            | NIL            | <b>414.41</b>   |
| <b>Contingency Fund</b>                    | <b>NIL</b>      | <b>100.00</b>   | <b>Contingency Fund</b>                         | <b>NIL</b>      | NIL            | NIL            | <b>100.00</b>   |
| <b>Public Account Receipts<sup>2</sup></b> | <b>3527.16</b>  | <b>4636.76</b>  | <b>Public Account Disbursements<sup>3</sup></b> | <b>3681.63</b>  | NIL            | NIL            | <b>3589.59</b>  |
| <b>Opening Balance</b>                     | <b>405.55</b>   | <b>195.91</b>   | <b>Closing Balance</b>                          | <b>195.91</b>   | NIL            | NIL            | <b>1339.69</b>  |
| <b>Total</b>                               | <b>11831.85</b> | <b>15100.86</b> | <b>Total</b>                                    | <b>11831.85</b> |                |                | <b>15100.86</b> |

Source: Finance Accounts 2016-17

Following are the significant changes during 2016-17 over the previous year:

<sup>1</sup> Includes net Ways and Means Advances.

<sup>2</sup> Gross receipts

<sup>3</sup> Gross Disbursements

- Revenue receipts increased by 26.92 *per cent* (₹ 1895.82 crore) over the previous year. The increase was due to increase in State's share of Union taxes and duties (₹ 634.59 crore), tax revenue (₹ 129.19 crore), non-tax revenue (₹ 456.64 crore) and Grants-in-aid from Government of India (₹ 675.40 crore).
- Revenue expenditure increased by 31.33 *per cent* (₹ 1988.81 crore) over the previous year. There was significant increase under both non-plan heads (₹ 333.58 crore) and plan heads (₹ 1655.23 crore) compared to the previous year.
- Compared to previous year, the capital outlay of the State increased by 16.11 *per cent* (₹ 178.91 crore), which was the net result of increase under economic services (₹ 23.48 crore) and social services (₹ 169.67 crore) and decrease in general services (₹ 14.24 crore).
- Recovery of loans and advances during the current year marginally decreased by ₹ 0.27 crore while disbursement of loans and advances decreased significantly by ₹ 127.52 crore (-80.53 *per cent*) compared to the previous year.
- Public debt receipts and repayments increased by ₹ 373.50 crore and ₹ 77.07 crore respectively over the previous year.
- Public account receipts increased by ₹ 1109.59 crore and public account disbursement decreased by ₹ 92.04 crore over the previous year.
- Cash balance increased significantly by ₹ 1143.77 crore over the previous year.

### 1.1.2 Review of fiscal situation

In accordance with the recommendations of the Twelfth Finance Commission (12<sup>th</sup> FC), the GoM has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006. In accordance with the recommendations of the 14<sup>th</sup> FC, the MFRBM Act was amended by the State Government and came into force from 29 September 2015. The amended MFRBM Act (**Appendix 1.1- Part E**) laid down the following fiscal targets.

- (a) ensure revenue surplus during the award period 2015-16 to 2019-20;
- (b) (i) maintain fiscal deficit to an annual limit of 3 *per cent* of GSDP during the award period 2015-16 to 2019-20;  
(ii) Provide for flexible limit of 0.25 *per cent* over and above the 3 *per cent* of GSDP for any given fiscal year to which its fiscal deficit is to be fixed if its debt-GSDP ratio is less than or equal to 25 *per cent* of the preceding year.
- (c) Government shall notify a Medium Term Fiscal Plan (MTFP) with three years rolling targets, giving details of all significant items of receipts and expenditure along with underlying assumptions made for projection purpose.

The MTFP, as prescribed in the MFRBM Act, 2006 (as amended), was notified by the State Government in June 2014 to provide details of all significant items on receipts and expenditure along with projection for the next three years *viz.*, 2015-16 to 2017-18.

The performance of the State during 2016-17 in terms of key fiscal targets set for selected parameters laid down in the MFRBM Act, 2006 and projections made in the MTFP Statement /Medium Term Fiscal Plan (MTF Plan) *vis-à-vis* achievements are given in **Table 1.3**.

**Table 1.3: Trends in Major Fiscal Parameters *vis-à-vis* Projections for 2016-17**

| Fiscal parameters  | 2016-17                                   |                                   |                               |        |
|--|---|-----------------------------------|-------------------------------|--------|
|  | 14 <sup>th</sup> FC targets for the State | Targets as prescribed in MTF Plan | Projections in MTFP Statement | Actual |
| Revenue Surplus (+)/ Deficit (-) (₹ in crore)              | Maintain revenue surplus                  | 1405.66                           | 386.90                        | 602.41 |
| Revenue Surplus/Total Revenue Receipts ( <i>per cent</i> ) | -*  | -*                                | 4.31                          | 6.74   |
| Fiscal Deficit/GSDP ( <i>per cent</i> )                    | 3.25                                      | 3.00                              | 3.63                          | 2.37   |
| Total Outstanding Liabilities/GSDP ( <i>per cent</i> )     | 27.34                                     | 24.57                             | 26.18                         | 30.38  |

Source: 14<sup>th</sup> FC Report, MTF Plan, MTFP Statement and Finance Accounts

\*Not prescribed

During 2016-17, the State did not achieve the target for revenue surplus as prescribed in MTF Plan. The actual revenue surplus to total revenue receipts (as *per cent*) was 6.74 against projection of 4.31 made in MTFP Statement. The Fiscal Deficit-GSDP ratio was within the limit fixed in MTFP Statement/MTF Plan as well as that prescribed by 14<sup>th</sup> FC. Total Outstanding Liabilities-GSDP ratio exceeded the limit fixed by the 14<sup>th</sup> FC and MTFP Statement/MTF Plan.

### 1.1.3 Budget Estimates and Actual

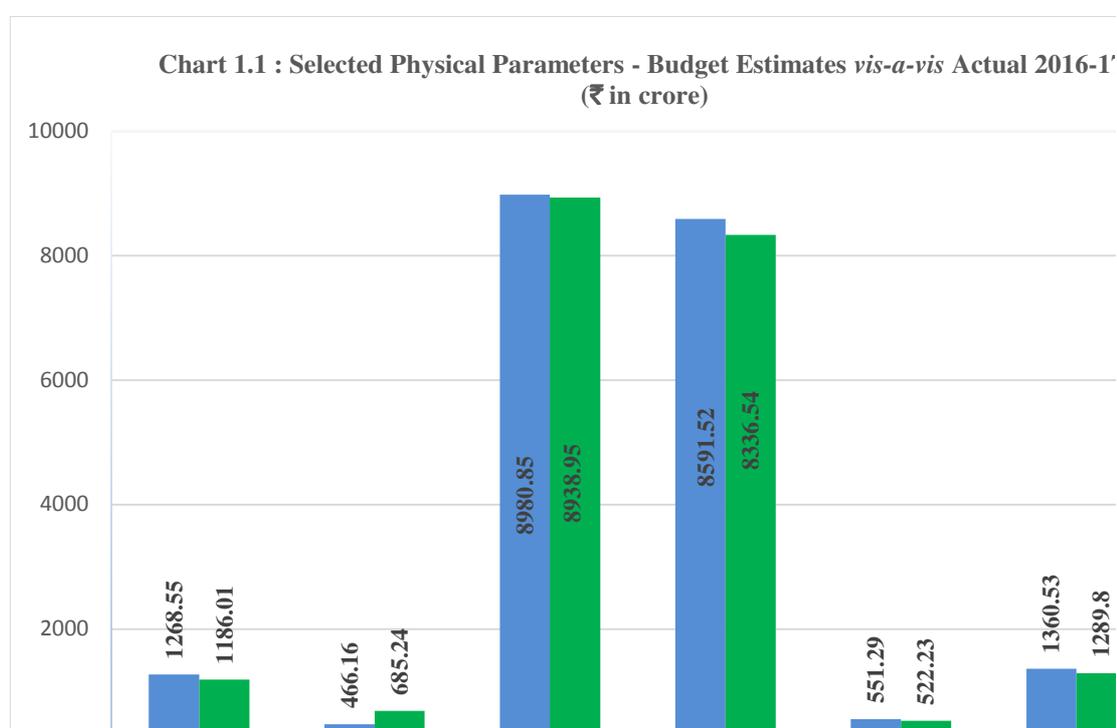
The budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviation from the Budget Estimates are indicative of non-attainment and non-optimisation of the desired fiscal objectives due to a variety of causes, some within the control of the Government and some beyond the control of the Government. **Table 1.4** presents the consolidated picture of finances of the State during 2015-16 (actual) and 2016-17 (budget estimates, revised estimates and actual) and **Chart 1.1** presents the budget estimates and actual for some important fiscal parameters.

**Table 1.4 : Variation in major items – Actual of 2016-17 over 2015-16, Actual of 2016-17 vis-à-vis Budget Estimates and Revised Estimates**

(₹ in crore)

| Parameters                       | 2015-16 | 2016-17               |                        |         | Percentage of Excess (+)/ Shortfall (-) during 2016-17 with reference to |        |
|----------------------------------|---------|-----------------------|------------------------|---------|--|--------|
|                                  | Actual  | Budget Estimates (BE) | Revised Estimates (RE) | Actual  | Actual of 2015-16  | BE/RE  |
| Tax Revenue                      | 1056.82 | 1268.55               | 1268.55                | 1186.01 | 12.22  | -6.51  |
| Non-Tax Revenue                  | 228.60  | 466.16                | 466.16                 | 685.24  | 199.76   | 47.00  |
| Revenue Receipts                 | 7043.13 | 8980.85               | 8980.85                | 8938.95 | 26.92  | -0.47  |
| Non-debt Capital Receipts        | 19.08   | 32.60                 | 32.60                  | 18.81   | -1.42  | -42.30 |
| Revenue Expenditure              | 6347.73 | 8591.52               | 8591.52                | 8336.54 | 31.33  | -2.97  |
| Interest Payments                | 465.88  | 551.29                | 551.29                 | 522.23  | 12.10  | -5.27  |
| Capital Outlay                   | 1110.89 | 1360.53               | 1360.53                | 1289.80 | 16.11  | -5.20  |
| Disbursement of Loans & Advances | 158.35  | 48.72                 | 48.72                  | 30.83   | -80.53   | -36.72 |
| Revenue Surplus (+)/Deficit (-)  | 695.40  | 386.90                | 386.90                 | 602.41  | -13.37   | 55.70  |
| Fiscal Deficit (-)               | -554.76 | -1089.75              | -1089.75               | -699.41 | 26.07  | 35.82  |
| Primary Deficit (-)/ Surplus (+) | -88.88  | -538.46               | -538.46                | -177.18 | 99.35  | 67.10  |

Source: Budget Estimates and Finance Accounts



- During 2016-17, actual revenue receipts fell marginally short of the budget estimates and revised estimates by 0.47 per cent.

- The revenue expenditure of the State Government during 2016-17 was less than the budget estimate by 2.97 *per cent* (₹ 254.98 crore).
- The capital outlay *vis-à-vis* budget estimate was less by 5.20 *per cent* (₹ 70.73 crore).
- The year 2016-17 ended with a revenue surplus of ₹ 602.41 crore against assessment for revenue surplus of ₹ 386.90 crore made in the budget estimate and revised estimate for the year. There was excess in revenue surplus compared to the budget estimate during 2016-17 by ₹ 215.51 crore and shortfall in capital expenditure by ₹ 70.73 crore. As a result, actual fiscal deficit and primary deficit during 2016-17 was lower than the assessment made in the budget estimate by 35.82 *per cent* (₹ 390.34 crore) and 67.10 *per cent* (₹ 361.28 crore) respectively. The wide variation between the budget estimates and the actual indicated that the budgeting was unrealistic and lacked credibility.
- The fiscal deficit *vis-à-vis* budget estimate was short by 35.82 *per cent* (₹ 390.34 crore).

#### 1.1.4 Gender Budgeting

Gender budget of a State discloses the expenditure proposed to be incurred within the overall budget on schemes which are designed to benefit women fully or partly. The budget documents for the year 2016-17 presented to the State Legislature did not include any separate volume on gender budget. The information as to whether gender budgeting was introduced in Meghalaya, though called for (August 2017) from the Finance Department, had not been furnished.

## 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 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. Besides the funds available in the public accounts after disbursement are also utilised by the Government to finance its deficit. **Chart 1.2** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.3** depicts the trends in various components of the receipts of the State during 2012-17 and **Chart 1.4** depicts the composition of resources of the State during the current year.

Chart 1.2

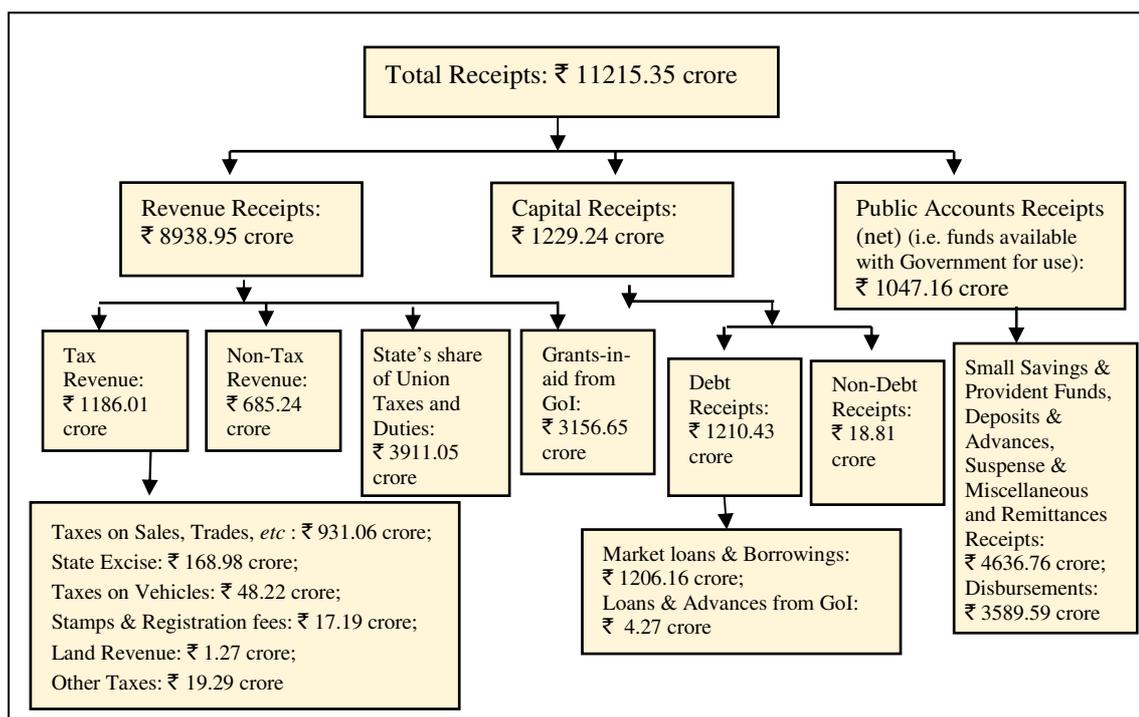
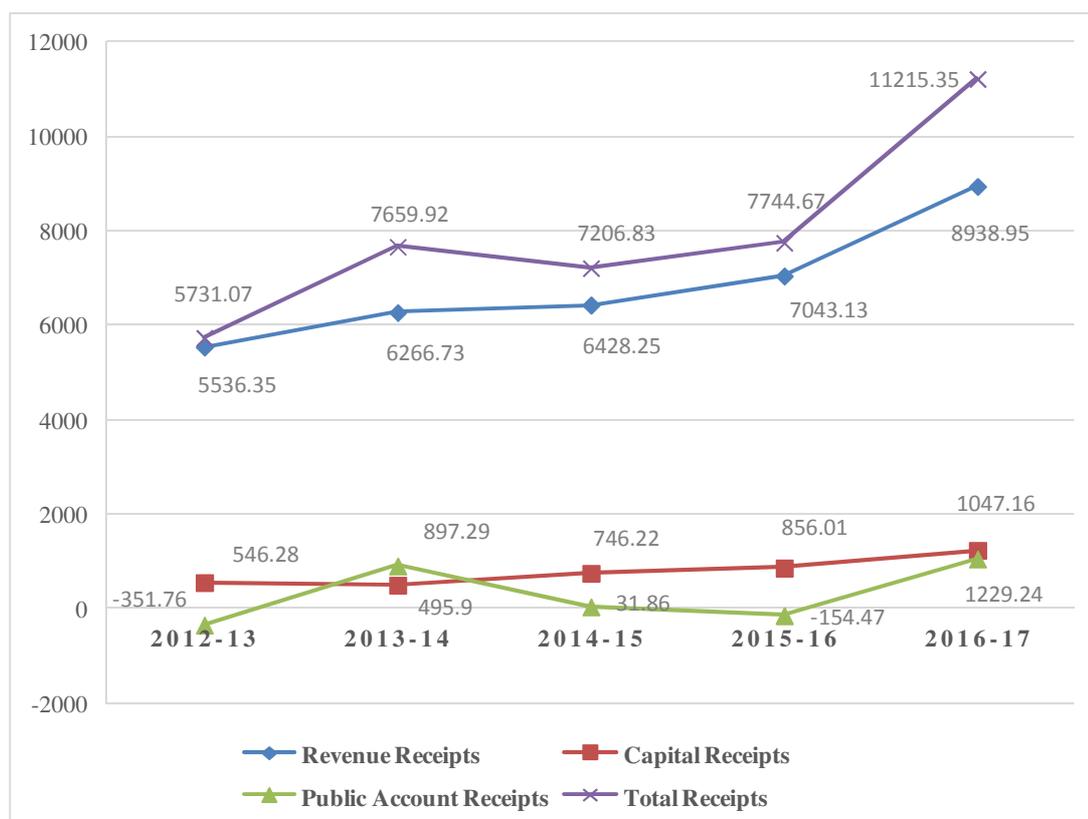


Chart 1.3 Trends in Receipts (₹ in crore)



The total receipts during the current year increased by ₹ 3470.68 crore (44.81 per cent) over the previous year. This was mainly due to increase in revenue, capital and public account receipts during 2016-17 when compared to the previous year.

The total receipts of the State for 2016-17 was ₹ 11215.35 crore, of which ₹ 8938.95 crore (79.70 per cent) came from revenue receipts and ₹ 1229.24 crore (10.96 per cent) came from recoveries of loans and advances and borrowings. The total receipts of the State increased by 95.69 per cent from ₹ 5731.07 crore in 2012-13 to ₹ 11215.35 crore in 2016-17.

The debt capital receipts which create future repayment obligation increased by 131.34 per cent from ₹ 523.23 crore (8.60 per cent of total receipts) in 2012-13 to ₹ 1210.43 crore (10.79 per cent of total receipts) in 2016-17. The net public account receipts fluctuated widely during the period 2012-17, with a receipt of ₹ 1047.16 crore during 2016-17. During the current year, the capital receipts (recoveries of loans and advances plus public debt receipts) accounted for 10.96 per cent of total receipts.

### 1.2.2 Funds Transferred to State Implementing Agencies outside the State Budget

As per GoI decision, all assistance to CSS and Additional Central Assistance (ACA) under various schemes would be released directly to the State Government and not to the State Implementing Agencies<sup>4</sup> and hence, these funds would be routed through the State budget from the year 2015-16 onwards. But as per records of the Public Financial Management System (PFMS) portal of Controller General of Accounts, it was seen that an approximate amount of ₹ 58.75 crore under 15 schemes (Appendix 1.5) was released directly to State Implementing Agencies during 2016-17, which were not routed through the budget of the State Government. The scheme-wise position, where more than ₹ 5 crore were transferred are given in Table 1.5 below:

**Table 1.5: Funds Transferred Directly to State Implementing Agencies**

(₹ in crore)

| Sl. No. | Programme/Scheme                                       | Implementing Agency in the State                           | Funds transferred by the GoI |
|---------|--|--|------------------------------|
| 1.      | Pradhan Mantri Koushal Vikas Yojana                    | Meghalaya State Council for Training in Vocational Trades  | 17.01                        |
| 2.      | North Eastern Council                                  | North Eastern Region Community Resource Management Society | 17.23                        |
| 3.      | Off-Grid Distributed and Decentralised Renewable Power | Meghalaya Non-Conventional Rural Energy Development Agency | 8.34                         |

Source: Public Financial Management System of CGA website.

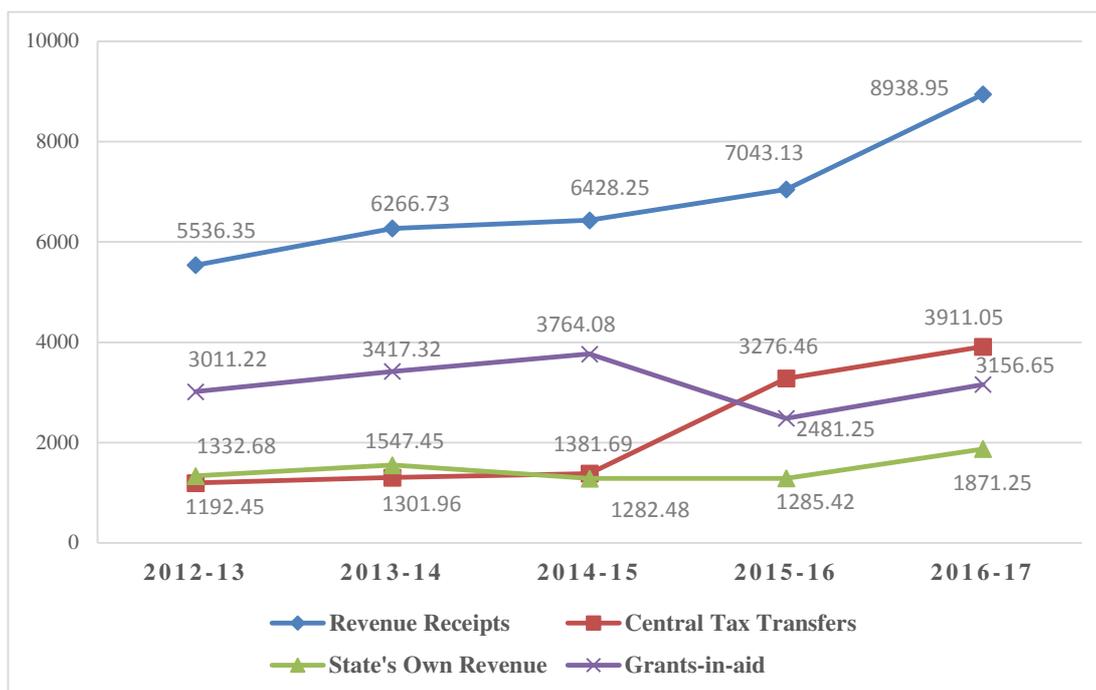
With the release of these funds directly to the Implementing Agencies in the State, the resources of the State during the year 2016-17 stood at ₹ 14,863.70 crore (including the net receipts of ₹ 14,804.95 crore in the State) as on 31 March, 2017.

<sup>4</sup> 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.

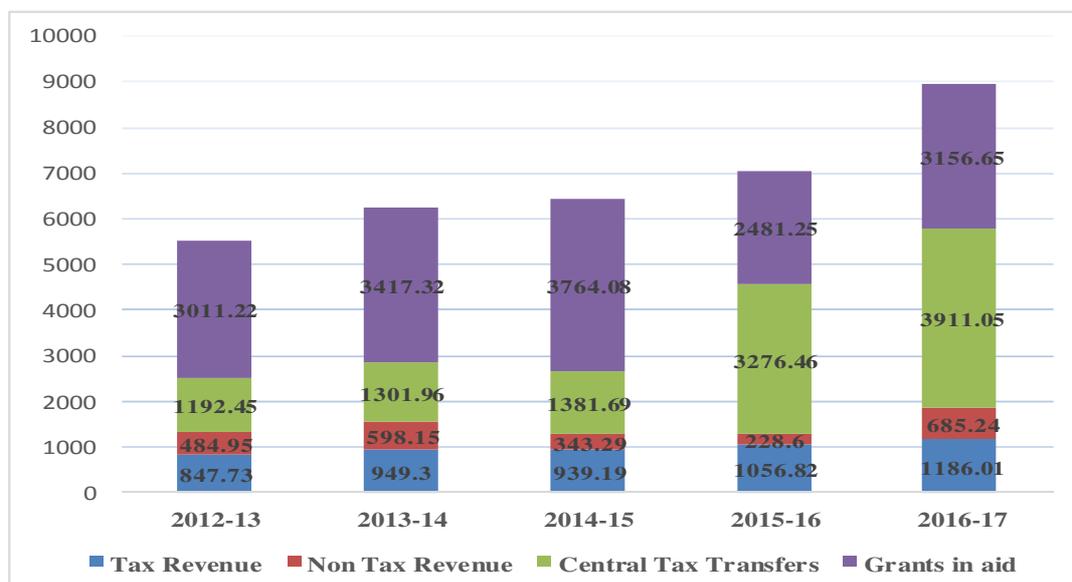
### 1.3 Revenue Receipts

**Statement 14** 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 2012-17 are presented in **Appendix 1.2** and also depicted in **Charts 1.4** and **1.5** respectively. The trends in revenue receipts relative to GSDP are presented in **Table 1.6**.

**Chart 1.4: Trends in Revenue Receipts (₹ in crore)**



**Chart 1.5: Composition of Revenue Receipts (₹ in crore)**



**Table 1.6 : Trends in Revenue Receipts relative to GSDP**

| Particulars   | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---------|---------|---------|---------|---------|
| Revenue Receipts (RR) (₹ in crore)                                  | 5536.35 | 6266.73 | 6428.25 | 7043.13 | 8938.95 |
| Rate of Growth of RR ( <i>per cent</i> )                            | 18.95   | 13.19   | 2.58    | 9.57    | 26.92   |
| Rate of Growth of Own Taxes ( <i>per cent</i> )                     | 21.53   | 11.98   | -1.06   | 12.52   | 12.22   |
| RR/GSDP ( <i>per cent</i> )   | 25.31   | 27.32   | 27.67   | 27.33   | 30.23   |
| <b>Buoyancy Ratio<sup>5</sup></b>                                   |         |         |         |         |         |
| Revenue Buoyancy Ratio with reference to GSDP                       | 1.93    | 2.71    | 2.00    | 0.88    | 1.83    |
| State's Own Taxes Buoyancy Ratio with reference to GSDP             | 2.19    | 2.46    | -0.82   | 1.15    | 0.83    |
| State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts | 1.14    | 0.91    | -0.41   | 1.31    | 0.45    |

Source: Finance Accounts

### 1.3.1 General trends

The revenue receipts of the State increased by ₹ 3402.60 crore from ₹ 5536.35 crore in 2012-13 to ₹ 8938.95 crore in 2016-17. There were however, wide inter-year variations in the growth rates. The rate of growth of revenue receipts was 26.92 *per cent* in 2016-17 compared to growth rate of 9.57 *per cent* during the preceding year. The buoyancy ratio of revenue receipts in 2016-17 with reference to GSDP has increased primarily due to significant increase in the rate of growth of revenue receipts compared to previous year. The buoyancy ratio of the State's own tax revenue with reference to GSDP has also decreased significantly because the rate of growth of own tax revenue in 2016-17 relative to the previous year was less. Buoyancy ratio of State's own taxes with reference to revenue receipts was 0.45 during the year 2016-17 against buoyancy ratio of 1.31 in 2015-16.

### 1.3.2 State's Own Resources

The State's share in central taxes and Grants-in-aid is 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 resources should therefore, be assessed in terms of its own resources comprising own tax and non-tax sources.

The State's actual tax and non-tax receipts for the year 2016-17 *vis-à-vis* assessments made by the 14<sup>th</sup> FC and the State Government in Budget Estimates (BE) are given below:

<sup>5</sup> 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 1.83 during 2016-17 implies that revenue receipts tend to increase by 1.83 percentage points, if the GSDP increases by one *per cent*.

**Table 1.7: State actual tax and non-tax receipts for the year 2016-17****(₹ in crore)**

|                 | 14 <sup>th</sup> FC projections | Budget Estimates | Actual  |
|-----------------|---------------------------------|------------------|---------|
| Tax revenue     | 1689                            | 1268.55          | 1186.01 |
| Non tax revenue | 714                             | 466.16           | 685.24  |

Source: 14<sup>th</sup> FC Report, Budget Estimates and Finance Accounts

During the year, tax revenue was 29.78 per cent lower than the assessment made by the 14<sup>th</sup> FC and 6.51 per cent lower than the projection made in the budget estimate. The non-tax revenue was 4.03 per cent lower than the target of 14<sup>th</sup> FC and 47.00 per cent higher than the assessment made in the budget estimate for the year. State's own resources (tax and non-tax revenue) during 2016-17 (₹ 1871.25 crore) were 45.57 per cent more than those of previous year (₹ 1285.42 crore) but constituted only 20.93 per cent of the revenue receipts of the year. A quarterly review report of the trend in receipts and expenditure of the State for the quarter ending December 2016 was conducted as per the requirement of Section 9(1) of the MFRBM Act, 2006. The Report indicated that the increase in State's own non-tax revenue receipts over the budgeted amount was basically due to realisation of more revenue from royalty on coal in view of the National Green Tribunal order that allowed transportation of extracted coal.

### 1.3.2.1 Tax Revenue

**Table 1.8: Tax Revenue****(₹ in crore)**

| Heads                        | 2012-13       | 2013-14       | 2014-15       | 2015-16        | 2016-17        | Variations*          |
|------------------------------|---------------|---------------|---------------|----------------|----------------|----------------------|
| Taxes on Sales, Trade, etc.  | 631.12        | 723.65        | 726.20        | 811.79         | 931.06         | 119.27(14.69)        |
| State Excise                 | 153.01        | 162.66        | 151.14        | 170.04         | 168.98         | -1.06(-0.62)         |
| Taxes on Vehicles            | 35.82         | 36.72         | 39.38         | 42.01          | 48.22          | 6.21(14.78)          |
| Stamps and Registration Fees | 10.32         | 9.78          | 9.90          | 12.74          | 17.19          | 4.45(34.93)          |
| Land Revenue                 | 6.27          | 3.47          | 0.08          | 3.18           | 1.27           | -1.91(-60.06)        |
| Other Taxes <sup>6</sup>     | 11.19         | 13.02         | 12.49         | 17.06          | 19.29          | 2.23(13.07)          |
| <b>Total</b>                 | <b>847.73</b> | <b>949.30</b> | <b>939.19</b> | <b>1056.82</b> | <b>1186.01</b> | <b>129.19(12.22)</b> |

Source: Finance Accounts

\*Variations over previous year and percentage of Increase (+)/decrease (-) given in bracket.

**Tax revenue** had increased by 12.22 per cent during the current year (₹ 1186.01 crore) over the previous year (₹ 1056.82 crore). The revenue from sales tax contributed the major share of tax revenue (78.50 per cent) and it increased by 14.69 per cent over the previous year. Revenue from taxes on Vehicles and Stamps and Registration Fees, Land Revenue and State Excise were the other contributors to the State's tax revenue. **The Tax-GSDP ratio (4.01 per cent) during 2016-17 was less than the projection (5.63 per cent) made by the 14<sup>th</sup> FC.**

<sup>6</sup> Other Taxes include taxes on professions, trades, callings and employment, taxes on goods and passengers, taxes and duties on electricity and other taxes and duties on commodities and services.

**1.3.2.2 Non-Tax Revenue**
**Table 1.9: Non-Tax Revenue**

(₹ in crore)

| Sl. No.               | Heads   | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2016-17       | *Variations           |
|-----------------------|---|---------------|---------------|---------------|---------------|---------------|-----------------------|
| 1.                    | Interest receipts                               | 25.38         | 33.57         | 37.73         | 39.34         | 46.25         | 6.91(17.56)           |
| 2.                    | Dividends and Profits                           | 0.08          | 0.13          | 0.13          | 0.07          | 0.11          | 0.04(57.14)           |
| 3.                    | General Services                                | 52.83         | 29.29         | 18.00         | 30.99         | 41.57         | 10.58(34.14)          |
| 4.                    | Social Services                                 | 7.44          | 9.46          | 8.92          | 10.39         | 14.93         | 4.54(43.70)           |
| 5.                    | Economic Services                               | 399.22        | 525.70        | 278.51        | 147.81        | 582.38        | 434.57(294.01)        |
| 5.1                   | Non-ferrous Mining and Metallurgical Industries | 357.97        | 455.75        | 195.10        | 60.75         | 469.52        | 408.77(672.87)        |
| 5.2                   | Forestry and Wildlife                           | 30.87         | 60.12         | 71.99         | 72.08         | 103.99        | 31.91(44.27)          |
| 5.3                   | Other Economic Services                         | 10.38         | 9.83          | 11.42         | 14.98         | 8.87          | -6.11(-40.79)         |
| <b>Total (1 to 5)</b> |   | <b>484.95</b> | <b>598.15</b> | <b>343.29</b> | <b>228.60</b> | <b>685.24</b> | <b>456.64(199.76)</b> |

Source: Finance Accounts

\*Variations over previous year and percentage of increase (+)/decrease (-) given in bracket.

The **Non-Tax Revenue (NTR)**, which constituted only 7.67 per cent of the total revenue receipts, had increased by ₹ 456.64 crore during 2016-17 recording a growth rate of 200 per cent over the previous year. Over 84 per cent (₹ 582.38 crore) of NTR during 2016-17 was received from economic services. Within this category, receipts under non-ferrous mining and Metallurgical Industries alone contributed 80.62 per cent (₹ 469.52 crore).

**1.3.3 Grants-in-Aid**

 The details of Grants-in-aid from GoI are given in **Table 1.10**.

**Table 1.10: Grants-in-Aid from GoI**

(₹ in crore)

| Particulars                                      | 2012-13        | 2013-14        | 2014-15        | 2015-16        | 2016-17        |
|--|----------------|----------------|----------------|----------------|----------------|
| Non-Plan Grants                                  | 895.72         | 921.41         | 803.71         | 673.86         | 640.47         |
| Grants for State Plan Schemes                    | 1747.75        | 2046.28        | 2580.17        | 1240.15        | 2263.52        |
| Grants for Central Plan Schemes                  | 14.50          | 31.65          | 8.89           | 270.44         | 19.33          |
| Grants for Centrally Sponsored Plan Schemes      | 268.20         | 348.40         | 293.44         | 196.36         | 138.19         |
| Grants for Special Plan Schemes                  | 85.05          | 69.58          | 77.87          | 100.44         | 95.14          |
| <b>Total</b>                                     | <b>3011.22</b> | <b>3417.32</b> | <b>3764.08</b> | <b>2481.25</b> | <b>3156.65</b> |
| <i>Percentage of increase over previous year</i> | 18.34          | 13.49          | 10.15          | -34.08         | 27.22          |

Source: Finance Accounts

**Grants-in-aid** from GoI had increased by 27.22 per cent (₹ 675.40 crore) from ₹ 2481.25 crore in 2015-16 to ₹ 3156.65 crore in the current year. Within the plan grants, while grants for Special Plan Schemes decreased by 5.28 per cent (₹ 5.30 crore), grants for Central Plan Schemes decreased by 92.85 per cent (₹ 251.11 crore) and Centrally Sponsored Plan Schemes decreased by 29.62 per cent (₹ 58.17 crore).

Grants for State Plan Schemes increased during 2016-17 by 82.52 per cent from ₹ 1240.15 crore in 2015-16 to ₹ 2263.52 crore in 2016-17. In spite of high growth of 82.52 per cent in 2016-17 it was less than the level of ₹ 2580.17 crore in 2014-15. In other words, compared to ₹ 2580.17 crore in 2014-15, it declined by 51.94 per cent in 2015-16.

The non-plan grants (₹ 640.47 crore) constituted 20.29 per cent of the total grants during the year and decreased by 4.96 per cent (₹ 33.39 crore) over the previous year. Of the non-plan grants, 83.53 per cent (₹ 535.00 crore) was for meeting the non-plan revenue deficit. Other components of non-plan grants mainly included grants for 'State Disaster Response Fund' (₹ 22.50 crore), 'SRE Schemes' (₹16.54 crore), 'Civil Defence' (₹ 4.48 crore), 'Election Expenditure' (₹ 14.00 crore) and Revision of pay scales of University and Colleges (₹ 45.57 crore).

### 1.3.4 Analysis of Receipts and Expenditure under Fourteenth Finance Commission (14<sup>th</sup> FC)

The Fourteenth Finance Commission (14<sup>th</sup> FC) was constituted by the President of India under Article 280 of the Constitution on 2<sup>nd</sup> January 2013.

During 2012-17, 14<sup>th</sup> FC awarded the following grants-in-aid to Government of Meghalaya as shown in the **Table 1.11** below:

**Table 1.11: Details of Grants-in-aid received from GoI for 2012-17**

(₹ in crore)

| Particulars  | 2012-13        | 2013-14        | 2014-15        | 2015-16        | 2016-17        |
|--|----------------|----------------|----------------|----------------|----------------|
| (A) Total Non-Plan Grants  | 895.72         | 921.41         | 803.71         | 673.86         | 640.47         |
| <i>Of which, Finance Commission's grants (Non-plan)</i>  | 835.29         | 859.47         | 734.71         | 618.00         | 535.00         |
| <i>Grants for meeting Non-Plan Revenue Deficit of the State</i>  | 819.00         | 708.93         | 571.00         | 618.00         | 535.00         |
| (B) All other Grants-in-aid (Plan) received from GoI ( <i>viz.</i> , Grants for State Plan + Central Plan + Centrally Sponsored Plan + Special Plan Schemes) | 2115.50        | 2495.91        | 2960.37        | 1807.39        | 2516.18        |
| <b>Grand Total (A+B)</b>   | <b>3011.22</b> | <b>3417.32</b> | <b>3764.08</b> | <b>2481.25</b> | <b>3156.65</b> |

Source: Finance Accounts

During 2012-17, of the non-plan grants, ₹ 819.00 crore (91.43 per cent), ₹ 708.93 crore (76.94 per cent), ₹ 571.00 crore (71.05 per cent), ₹ 618.00 crore (91.71 per cent) and ₹ 535.00 crore (83.53 per cent) respectively was for meeting the non-plan revenue deficits of the State Government.

Government of Meghalaya, however, had not constituted the State Finance Commission, thus depriving the Municipalities and Urban Local Bodies their due share of the net proceeds of revenue from the GoM as well as the GoI.

### 1.3.5 Impact on State Budget

With the addition of FC's grants-in-aid, the Total Revenue Receipts of the State increased to that extent and as a result Revenue Surplus and Fiscal Deficit increased proportionately.

**Table 1.12: Effect on Revenue Surplus and Fiscal Deficit**

| (₹ in crore)                        |         |         |         |         |         |
|-------------------------------------|---------|---------|---------|---------|---------|
| Particulars                         | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
| Revenue Receipts <sup>a</sup>       | 5536.35 | 6266.73 | 6428.25 | 7043.13 | 8938.95 |
| Revenue Expenditure <sup>b</sup>    | 4999.54 | 5551.59 | 6251.86 | 6347.73 | 8336.54 |
| Total Revenue Receipts <sup>c</sup> | 5559.60 | 6287.21 | 6448.01 | 7062.21 | 8957.76 |
| Total Expenditure <sup>d</sup>      | 5954.90 | 6669.39 | 7426.46 | 7616.97 | 9657.17 |
| Revenue Surplus (+)                 | 536.81  | 715.14  | 176.39  | 695.40  | 602.41  |
| Fiscal Deficit(-)                   | -395.30 | 382.18  | -978.45 | -554.76 | -699.41 |

Source: Finance Accounts

<sup>a</sup> Revenue Receipts includes Tax Revenue, Non-Tax Revenue, State's Share of Union Taxes and Duties and Grants-in-aid from GoI.

<sup>b</sup> Revenue Expenditure includes expenditure on Social Services, Economic Services and General Services (including interest paid).

<sup>c</sup> Total Revenue Receipts includes Tax Revenue, Non-Tax Revenue, State's Share of Union Taxes and Duties and Grants-in-aid from GoI and Recoveries of Loans & Advances.

<sup>d</sup> Total Expenditure includes (Revenue Expenditure, Capital Expenditure and Disbursement of Loans & Advances).

### 1.3.6 Central Tax Transfers

The **Central Tax transfers** increased by ₹ 634.59 crore (19.37 per cent) over the previous year and constituted 43.75 per cent of revenue receipts. The increase was mainly due to transfer of additional amount under 'Taxes on Income other than Corporation Tax' (₹ 145.13 crore), 'Corporation Tax' (₹ 217.68 crore), 'Union Excise Duties' (₹ 187.58 crore), 'Service Tax' (₹ 65.49 crore) and 'Customs' (₹ 17.52 crore) during 2016-17 compared to previous year.

**The Central tax transfers were the main source of revenue receipts for the State of Meghalaya. The State share of Central taxes and Grants-in-aid from GoI contributed 69.09 per cent (₹ 1309.99 crore) of the incremental revenue receipts (₹ 1895.82 crore) during 2016-17.**

## 1.4 Capital Receipts

The trends in Growth and Composition of Capital Receipts are given in **Table 1.13** below:

**Table 1.13: Trends in Growth and Composition of Capital Receipts**

(₹ in crore)

| Sources of State's Receipts                 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---------|---------|---------|---------|---------|
| Capital Receipts (CR)                       | 546.48  | 495.90  | 746.72  | 856.01  | 1229.24 |
| Recovery of Loans and Advances              | 23.25   | 20.48   | 19.76   | 19.08   | 18.81   |
| Public Debt Receipts                        | 523.23  | 475.42  | 726.96  | 836.93  | 1210.43 |
| Rate of growth of debt capital receipts     | 11.82   | - 9.14  | 52.91   | 15.13   | 44.63   |
| Rate of growth of non-debt capital receipts | 2.38    | 11.91   | - 3.52  | -3.44   | -1.42   |
| Rate of growth of CR ( <i>per cent</i> )    | 11.39   | - 9.26  | 50.58   | 14.64   | 43.60   |

Source: Finance Accounts

**Capital Receipts** increased by 124.94 *per cent* from ₹ 546.48 crore in 2012-13 to ₹ 1229.24 crore in 2016-17. The rate of growth of capital receipts also increased from 14.64 *per cent* in 2015-16 to 43.60 *per cent* in 2016-17. The rate of growth of debt capital receipts, which is the main component of capital receipts, increased significantly from 15.13 *per cent* in 2015-16 to 44.63 *per cent* in 2016-17. The debt receipts from internal sources (market loans, borrowings from financial institutions, *etc.*) increased by ₹ 371.46 crore and loans and advances from GoI increased by ₹ 2.04 crore during 2016-17 over previous year. Market loans constituted the major share of debt capital receipts during the current year which increased from ₹ 680.00 crore in 2015-16 to ₹ 1001.00 crore during 2016-17. Non-debt capital receipts in the form of recoveries of loans and advances marginally decreased by ₹ 0.27 crore during 2016-17 over previous year.

## 1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances *etc.* which do not form part of the Consolidated Fund, are kept in the public account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here the Government acts as a banker. The balance after disbursements is the fund available with the government for use. The Composition of Public Account Receipts is given in **Table 1.14**.

**Table 1.14: Composition of Public Account Receipts (Net)**

(₹ in crore)

| Resources under various heads                    | 2012-13         | 2013-14       | 2014-15      | 2015-16        | 2016-17        |
|--|-----------------|---------------|--------------|----------------|----------------|
| <b>Public Account Receipts (Net)<sup>7</sup></b> | <b>- 351.76</b> | <b>897.29</b> | <b>31.86</b> | <b>-154.47</b> | <b>1047.16</b> |
| (a) Small Savings, Provident Fund, etc.          | 109.07          | 127.17        | 133.28       | 131.74         | 141.17         |
| (b) Reserve Fund                                 | - 7.44          | 18.08         | - 13.70      | 6.74           | 2.07           |
| (c) Deposits and Advances                        | - 582.04        | 825.60        | - 161.66     | -234.84        | 889.57         |
| (d) Suspense and Miscellaneous                   | 110.67          | - 76.71       | 82.28        | -55.40         | 13.09          |
| (e) Remittances                                  | 17.98           | 3.15          | - 8.34       | -2.71          | 1.26           |

Source: Finance Accounts

Public Account Receipts increased from negative ₹ 154.47 crore during 2015-16 to ₹ 1047.16 crore during the current year. Increase in receipts under public account during 2016-17 was mainly due to substantial increase under ‘Deposits and Advances’ from a negative ₹ 234.84 crore during 2015-16 to ₹ 889.57 crore during 2016-17.

## 1.6 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 the expenditure directed towards development and social sectors.

### 1.6.1 Growth and Composition of expenditure

The total expenditure and its composition during the years 2012-13 to 2016-17 are presented in the **Table 1.15**.

**Table 1.15: Total Expenditure and its Composition**

(₹ in crore)

| Particulars                                   | 2012-13        | 2013-14        | 2014-15        | 2015-16        | 2016-17        |
|---|----------------|----------------|----------------|----------------|----------------|
| <b>Total expenditure</b>                      | <b>5954.90</b> | <b>6669.39</b> | <b>7426.46</b> | <b>7616.97</b> | <b>9657.17</b> |
| Revenue expenditure                           | 4999.54        | 5551.59        | 6251.86        | 6347.73        | 8336.54        |
| <i>Of which, Non-plan Revenue expenditure</i> | <i>3280.13</i> | <i>3702.82</i> | <i>4071.37</i> | <i>4307.64</i> | <i>4641.22</i> |
| Capital Outlay                                | 928.34         | 1075.47        | 1118.49        | 1110.89        | 1289.80        |
| Loans and Advances                            | 27.02          | 42.33          | 56.11          | 158.35         | 30.83          |

Source: Finance Accounts

**Charts 1.6, 1.7 and 1.8** present the trends in total expenditure over a period of five years (2012-17) and its composition both in terms of ‘economic classification’ and ‘expenditure by activities’:

<sup>7</sup> Public account receipts minus Disbursements. Details in Appendix 1.3.

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

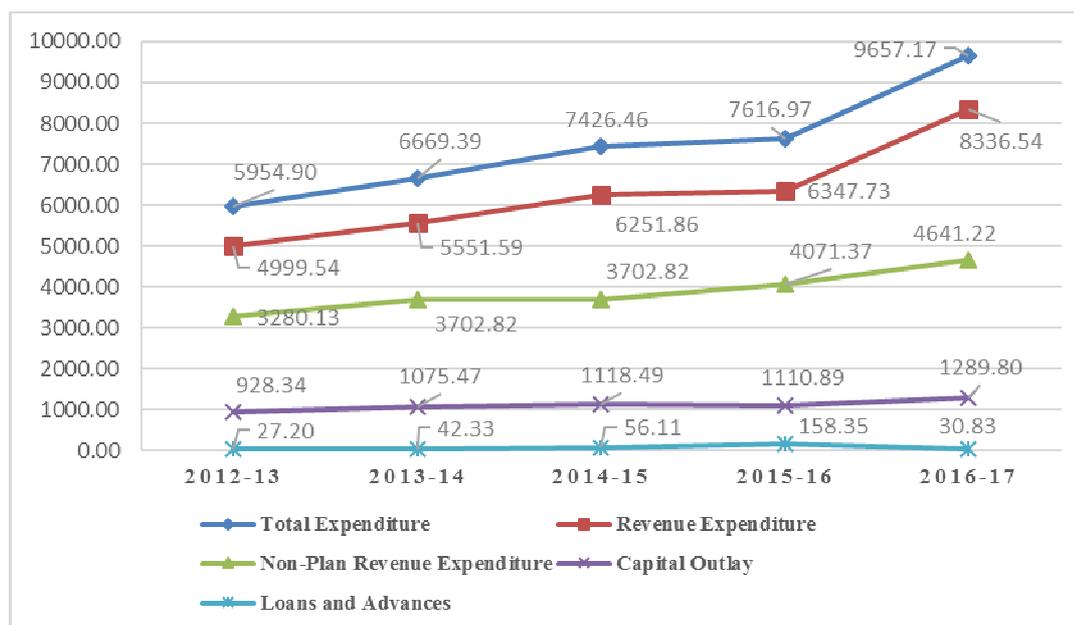


Chart 1.7: Total Expenditure: Trend in Share of its Components (per cent)

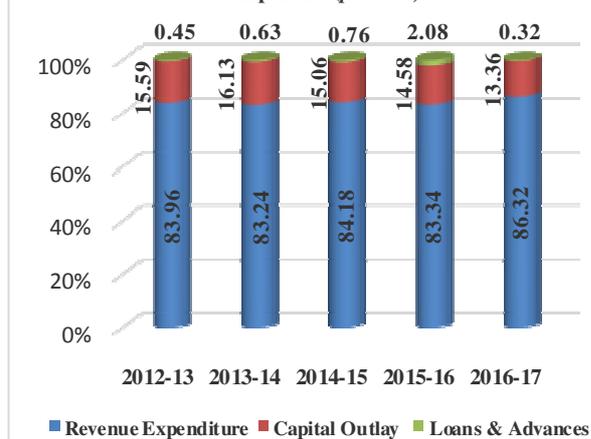
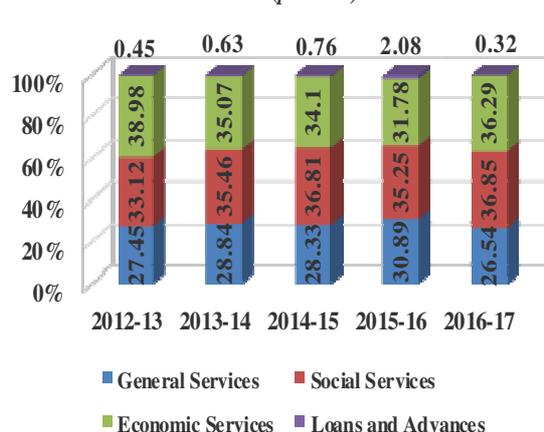


Chart 1.8: Total Expenditure - Trend by 'Activities' (per cent)



### 1.6.1.1 Trends in Total Expenditure

The total expenditure of the State increased by ₹ 3702.27 crore (62.17 per cent) from ₹ 5954.90 crore in 2012-13 to ₹ 9657.17 crore in 2016-17. The total expenditure, its annual growth rate, the ratio of expenditure to the GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.16**.

**Table 1.16: Total Expenditure – Basic Parameters**

| Particulars   | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---------|---------|---------|---------|---------|
| <b>Total expenditure (TE)</b><br>(₹ in crore)           | 5954.90 | 6669.39 | 7426.46 | 7616.97 | 9657.17 |
| Rate of growth ( <i>per cent</i> )                      | 3.70    | 12.00   | 11.35   | 2.57    | 26.78   |
| TE/GSDP ratio ( <i>per cent</i> )                       | 27.23   | 29.08   | 31.96   | 29.56   | 32.66   |
| RR/TE ratio ( <i>per cent</i> )                         | 92.97   | 93.96   | 86.56   | 92.47   | 92.56   |
| <b>Buoyancy of Total expenditure with reference to:</b> |         |         |         |         |         |
| GSDP (ratio)  | 0.38    | 2.46    | 8.80    | 0.24    | 1.82    |
| RR (ratio)  | 0.20    | 0.91    | 4.40    | 0.27    | 0.99    |

Source: Finance Accounts

The increase of ₹ 2040.20 crore (26.78 *per cent*) in total expenditure during 2016-17 over the previous year was on account of increase of ₹ 1988.81 crore in revenue expenditure and ₹ 178.91 crore in Capital Expenditure offset by ₹ 127.52 crore in disbursement of loans and advances. The share of plan expenditure constituted 51.17 *per cent* (₹ 4941.95 crore) of the total expenditure and the remaining 48.83 *per cent* (₹ 4715.22 crore) was non-plan expenditure.

During the current year, 92.56 *per cent* (₹ 8938.95 crore) of the total expenditure was met from revenue receipts.

The buoyancy of total expenditure to GSDP stood at 1.82 in 2016-17 due to growth rate of total expenditure (26.78 *per cent*) at faster pace as compared to that of GSDP growth rate (14.75 *per cent*).

In terms of the activities, total expenditure is composed of expenditure on general services including interest payments, social and economic services, Grants-in-aid and loans and advances. Of the total expenditure during 2016-17, expenditure on general services including interest payments, which is considered as non-developmental, together accounted for 25.54 *per cent*.

On the other hand, expenditure on social and economic services (excluding loans and advances) together accounted for 73.14 *per cent* during 2016-17. The relative share of social services expenditure to total expenditure increased from 35.25 *per cent* in 2015-16 to 36.85 *per cent* in 2016-17. The relative share of economic services expenditure to total expenditure increased from 31.78 *per cent* during 2015-16 to 36.29 *per cent* during 2016-17. Loans and advances revealed wide fluctuations during the period 2012-17 and stood at 0.32 *per cent* of total expenditure during 2016-17.

#### **1.6.1.2 Incidence of Revenue Expenditure**

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.17**.

**Table 1.17: Revenue Expenditure – Basic Parameters**

(₹ in crore)

| Particulars                                       | 2012-13            | 2013-14            | 2014-15            | 2015-16            | 2016-17            |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Revenue expenditure (RE)                          | 4999.54            | 5551.59            | 6251.86            | 6347.73            | 8336.54            |
| <i>Of which</i>                                   |                    |                    |                    |                    |                    |
| <i>Non-Plan Revenue Expenditure (NPRE)</i>        | 3280.13<br>(65.61) | 3702.82<br>(66.70) | 4071.37<br>(65.12) | 4307.64<br>(67.86) | 4641.22<br>(55.67) |
| <i>Plan Revenue Expenditure (PRE)</i>             | 1719.41<br>(34.39) | 1848.77<br>(33.30) | 2180.49<br>(34.88) | 2040.09<br>(32.14) | 3695.32<br>(44.33) |
| <b>Rate of Growth of</b>                          |                    |                    |                    |                    |                    |
| RE ( <i>per cent</i> )                            | 3.41               | 11.04              | 12.61              | 1.53               | 31.33              |
| NPRE ( <i>per cent</i> )                          | 14.05              | 12.89              | 9.95               | 5.80               | 7.74               |
| PRE ( <i>per cent</i> )                           | - 12.22            | 7.52               | 17.94              | -6.44              | 81.14              |
| <b>Ratio (<i>per cent</i>)</b>                    |                    |                    |                    |                    |                    |
| RE as percentage of TE                            | 83.96              | 83.24              | 84.18              | 83.34              | 86.32              |
| NPRE/GSDP ( <i>per cent</i> )                     | 15.00              | 16.14              | 17.52              | 16.72              | 15.70              |
| NPRE as percentage of TE                          | 55.08              | 55.52              | 54.82              | 56.55              | 48.06              |
| NPRE as percentage of RR                          | 59.25              | 59.09              | 63.34              | 61.16              | 51.92              |
| <b>Buoyancy Ratio of Revenue expenditure with</b> |                    |                    |                    |                    |                    |
| GSDP  | 0.35               | 2.27               | 9.78               | 0.14               | 2.12               |
| Revenue Receipts                                  | 0.18               | 0.84               | 4.89               | 0.16               | 1.16               |

Source: Finance Accounts

Revenue expenditure constituted 83.24 per cent to 86.32 per cent of total expenditure during 2012-17 and increased by ₹ 3337.00 crore (66.75 per cent) from ₹ 4999.54 crore in 2012-13 to ₹ 8336.54 crore in 2016-17. The non-plan revenue expenditure (NPRE) during the same period increased by ₹ 1361.07 crore (41.49 per cent) from ₹ 3280.13 crore to ₹ 4641.20 crore. Plan revenue expenditure (PRE), which normally covers the maintenance expenditure incurred on services, stood at 44.33 per cent of revenue expenditure during 2016-17.

The NPRE constituted a dominant share of 55.67 per cent in the revenue expenditure during 2016-17 and has increased by ₹ 333.58 crore (7.74 per cent) over the previous year. The growth of NPRE during 2016-17 however, increased to 7.74 per cent against 5.80 per cent during the previous year. In absolute terms, the increase in NPRE during 2016-17 was mainly due to increase in expenditure under General Services (₹ 228.38 crore), Social Services (₹ 51.21 crore) and Economic Services (₹ 55.97 crore). On the other hand, PRE increased by ₹ 1655.23 crore over the previous year mainly due to increase in expenditure under Social Services (₹ 652.72 crore) and Economic Services (₹ 1006.25 crore) and decrease in expenditure under General Services (₹ 3.74 crore). The increase of PRE during 2016-17 was 81.14 per cent (₹ 1655.23 crore).

### 1.6.1.3 Components of Revenue Expenditure

The expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.18** presents the trends in the expenditure on these components during 2012-17.

**Table 1.18: Components of Revenue expenditure**

(₹ in crore)

| Components of expenditure   | 2012-13            | 2013-14            | 2014-15            | 2015-16            | 2016-17            |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Salaries and Wages  | 1619.97<br>(29.26) | 1820.13<br>(29.04) | 2037.65<br>(31.70) | 2181.80<br>(30.98) | 2305.16<br>(25.79) |
| <i>Non-Plan Head</i>  | 1477.70<br>(26.69) | 1674.86<br>(26.72) | 1853.31<br>(28.83) | 1981.54<br>(28.13) | 2084.63<br>(23.32) |
| <i>Plan Head</i>  | 142.27<br>(2.57)   | 145.27<br>(2.32)   | 184.34<br>(2.87)   | 200.26<br>(2.84)   | 220.53<br>(2.47)   |
| Interest Payments   | 313.82<br>(5.67)   | 371.50<br>(5.93)   | 405.10<br>(6.30)   | 465.88<br>(6.61)   | 522.23<br>(5.84)   |
| Expenditure on Pension and other retirement benefits  | 388.26<br>(7.01)   | 450.87<br>(7.19)   | 514.94<br>(8.01)   | 589.44<br>(8.37)   | 647.85<br>(7.25)   |
| Subsidies   | 80.39<br>(1.45)    | 72.44<br>(1.16)    | 123.60<br>(1.92)   | 89.21<br>(1.27)    | 46.14<br>(0.52)    |
| Other Components of revenue expenditure, i.e, other than salaries and wages, interest payments, pension and subsidies | 2597.10<br>(46.91) | 2836.65<br>(45.27) | 3170.57<br>(49.32) | 3021.40<br>(42.90) | 4878.04<br>(54.57) |

Source: Finance Accounts

(Figures in the parentheses indicate percentage to revenue receipts)

#### 1.6.1.4 Salaries and Wages

Salaries and wages during 2016-17 accounted for 25.79 per cent of the revenue receipts of the State during the year. It also increased by 5.65 per cent from ₹ 2181.80 crore in 2015-16 to ₹ 2305.16 crore in 2016-17. Expenditure on salaries and wages under non-plan head during 2016-17 significantly increased by ₹ 103.09 crore (5.20 per cent) over the previous year and expenditure under plan head increased by ₹ 20.27 crore (10.12 per cent) over the previous year. Further, the State Government, in its Fiscal Policy Strategy (FPS) Statement for the year 2016-17, committed to reduce expenditure on salaries and wages, in an attempt to contain non-plan expenditure. Increase in expenditure on salaries and wages by 5.65 per cent during 2016-17 indicated that the State Government was not successful in fulfilling its commitment.

#### 1.6.1.5 Interest Payments

Interest payments were on market loans (₹ 305.63 crore), State Provident Funds (₹ 105.58 crore), Special Securities issued to National Small Savings Fund of the Central Government (₹ 73.96 crore), loans and advances received from Central Government (₹ 16.34 crore) and other internal debts including other obligations (₹ 20.72 crore). Compared to the previous year, interest payments during 2016-17 increased by 12.10 per cent (₹ 56.35 crore).

Of the total interest payments during the year, 58.52 *per cent* (₹ 305.63 crore) were paid on market borrowings. The overall interest payments (₹ 522.23 crore) was however, much higher than the projections made by the 14<sup>th</sup> FC (₹ 436.00 crore) but lower than the budget estimates (₹ 551.29 crore) for the year.

#### 1.6.1.6 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the five year period 2012-17. Pension payments during the current year had increased by ₹ 58.41 crore, an increase of 9.91 *per cent* over the previous year. The comparative analysis of actual pension payments (₹ 647.85 crore) and the projection made by the 14<sup>th</sup> FC (₹ 484.00 crore) and State Government showed that actual pension payment (₹ 647.85 crore) exceeded the projection made by the State Government in its Budget (₹ 490.98 crore) for the year 2016-17.

GoI introduced a defined, contribution based New Pension System (NPS) with effect from 01 April 2004 to cover all new entrants to Government service. According to the recommendations of the 14<sup>th</sup> FC, the migration to the NPS needs to be completed immediately in order to reduce their future burden. The NPS for the employees of the GoM had been adopted since 1<sup>st</sup> April 2010.

#### 1.6.1.7 Subsidies

Table 1.18 shows that the expenditure on payment of subsidies decreased by 48.28 *per cent* from ₹ 89.21 crore in 2015-16 to ₹ 46.14 crore during 2016-17. The decrease of ₹ 43.07 crore was due to decrease in payment of subsidy under Power by ₹ 7.68 crore, Animal Husbandry and Veterinary by ₹ 39.94 crore, Food and Civil Supplies by ₹ 6.35 crore and increase in Agriculture (₹ 5.01 crore), Fisheries (₹ 5.00 crore), Transport (₹ 0.59 crore) and Tourism (₹ 0.30 crore) during the current year over previous year.

### 1.6.2 Capital Outlay

Capital outlay during the current year (2016-17) increased by ₹ 178.91 crore over previous year (**Appendix 1.2**). As compared to the total expenditure, the capital outlay showed a fluctuating trend over the period 2012-13 to 2016-17 and ranged between 13.34 *per cent* and 16.13 *per cent*. Though there was an increase in capital outlay during the current year compared to the previous year, the State Government did not fulfil its commitment made in the budget as it fell short by 5.20 *per cent* (₹ 70.73 crore) of the budget estimate (₹ 1360.53 crore) for the year. It is further evident from **Appendix 1.2** that **Central Tax Transfer on account of recommendations of 14<sup>th</sup> FC had increased three fold from ₹ 1381.69 crore (2014-15) to ₹ 3911.05 crore (2016-17). The Capital Outlay of the State, however, had gone down to 13.36 *per cent* (2016-17) from 15.06 *per cent* (2014-15).** The entire enhanced revenue receipts had been consumed under revenue expenditure and no capital asset had been created correspondingly.

### 1.6.3 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 1.19**.

**Table 1.19: Financial Assistance to Local Bodies and others**

(₹ in crore)

| Financial Assistance to Institutions                        | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2016-17         |                |
|---|---------------|---------------|---------------|---------------|-----------------|----------------|
|   |               |               |               |               | Budget Estimate | Actual         |
| University and Educational Institutions                     | 507.84        | 586.86        | 560.46        | 697.54        | 888.22          | 918.37         |
| Co-operative Societies                                      | 2.77          | 2.60          | 1.78          | 2.06          | 2.08            | 1.99           |
| District Councils   | 2.60          | 5.98          | 1.60          | 0.36          | 262.58          | 262.58         |
| Municipalities, Meghalaya Urban Development Authority, etc. | 10.30         | 20.19         | 5.40          | 4.70          | 11.42           | 11.42          |
| Power Sector  | 174.22        | 160.09        | 203.19        | 102.44        | 205.11          | 133.44         |
| Other Institutions <sup>8</sup>                             | 44.33         | 71.65         | 68.07         | 53.19         | 359.34          | 293.62         |
| <b>Total</b>  | <b>742.06</b> | <b>847.37</b> | <b>840.50</b> | <b>860.29</b> | <b>1728.75</b>  | <b>1621.42</b> |
| Assistance as percentage of RE                              | 14.84         | 15.26         | 13.44         | 13.55         |                 | 19.45          |

Source: Finance Accounts

The financial assistance extended to the local bodies and other institutions with inter-year variations increased by 88.51 *per cent* from ₹ 860.29 crore in 2015-16 to ₹ 1621.42 crore in 2016-17. The share of financial assistance in revenue expenditure also increased from 13.55 *per cent* in 2015-16 to 19.45 *per cent* during the current year. The State Government was successful in restricting the expenditure on payment of financial assistance within the projection (₹ 1728.75 crore) made in its annual budget for the year 2016-17.

University and Educational Institutions were the major recipients followed by District Councils. The financial assistance to District Councils increased substantially from ₹ 2.60 crore during 2012-13 to ₹ 262.58 crore during 2016-17. Around 57 *per cent* of the total financial assistance during 2016-17 was given to University and Educational Institutions. The assistance under this sector increased by 31.66 *per cent*, i.e. from ₹ 697.54 crore during 2015-16 to ₹ 918.37 crore during the current year. Of ₹ 918.37 crore, ₹ 607.57 crore was given to Non-Government Primary Schools and ₹ 296.25 crore to Non-Government Secondary Schools & Colleges. Out of ₹ 293.62 crore given to other institutions, major share (₹ 164.46 crore) was paid to the National Aids Control, Horticulture (₹ 33.70 crore), Anganwadi Centre (ICDS) (₹ 25.47 crore), Old Age Pension (₹ 20.75 crore), National Rural Health Mission (₹ 14.28 crore), etc.

<sup>8</sup> **Other Institutions (figures for 2016-17 in brackets):** Emergency Management Research Institute & NGOs (₹ 8.10 crore), National Rural Health Mission (₹ 14.28 crore), Anganwadi Centre (ICDS) (₹ 25.47 crore) Meghalaya State Housing Board (₹ 3.16 crore), Indian Red Cross Society, Shillong (₹ 0.12 crore), Junior Red Cross (₹ 0.24 crore), Voluntary Organisations (₹ 0.64 crore), Public Sector Undertakings and other Undertakings (₹ 8.32 crore), State Control Animal Diseases (₹ 0.77 crore), State Sports Council (₹ 3.73 crore), National Aids Control (₹ 164.46 crore), Horticulture (₹ 33.41 crore), Old-age Pension (₹ 20.75 crore), Meghalaya Transport Corporation (₹ 7.50 crore), Physically Handicapped (₹ 0.20 crore), Rubber Plantation (₹ 0.75 crore), ASIDE (₹ 1.60 crore), Warehousing (₹ 0.12 crore).

## 1.7 Local Bodies

There are no Panchayati Raj Institutions (PRIs) in Meghalaya. Instead there are three Autonomous District Councils (ADCs) in Meghalaya viz. Khasi Hills, Garo Hills & Jaintia Hills ADCs. The Community and Rural Development Department (C&RD) governs the rural population in areas which are not covered by ADCs. Moreover, there are six Urban Local Bodies (ULBs), viz. (i) Shillong Municipal Board, (ii) Tura Municipal Board, (iii) Jowai Municipal Board, (iv) Williamnagar Municipal Board, (v) Baghmara Municipal Board and (vi) Resubelpara Municipal Board. The main function of these Municipal Boards is to provide civic amenities, e.g., water supply, street lighting, drainage and sanitation.

### 1.7.1 Accounts and Audit

As per the Meghalaya Municipal Act, 1973, the accounts of these ULBs are to be submitted within four months after the close of the financial year. Except Shillong Municipal Board, the other five ULBs had not maintained their annual accounts as per prescribed format. The audit of accounts of these ULBs is conducted under Section 20(1) of Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971. Audit findings arising out of conduct of such audit are conveyed to the State Government in the form of an Annual Technical Inspection Report (ATIR).

### 1.7.2 Devolution of funds to Urban Local Bodies

As per the information furnished (September 2017) by the Director, Urban Affairs, Meghalaya, the devolution of funds by the State Government to urban local bodies(ULBs) during 2012-13 to 2016-17 is as indicated in **Table 1.20**:

**Table 1.20: Devolution of Funds to ULBs**

(₹ in crore)

|  | 2012-13      | 2013-14     | 2014-15     | 2015-16     | 2016-17     |
|--|--------------|-------------|-------------|-------------|-------------|
| <b>Amount sanctioned</b>                       |              |             |             |             |             |
| Grants-in-aid (Non-Plan)                       |              |             |             |             |             |
| (i) General purpose                            | 3.06         | 3.37        | 3.37        | 3.41        | NA          |
| (ii) Special purpose                           | 0            | 0.45        | 0.44        | NA          | NA          |
| Grants-in-aid (Plan)                           | 0.56         | 0.65        | 0.60        | NA          | NA          |
| 13 <sup>th</sup> FC/ 14 <sup>th</sup> FC Award | 15.24        | 0.51        | 1.81        | NA          | 4.19        |
| <b>Total</b>                                   | <b>18.86</b> | <b>4.98</b> | <b>6.22</b> | <b>3.41</b> | <b>4.19</b> |
| <b>Expenditure</b>                             |              |             |             |             |             |
| Grants-in-aid (Non-Plan)                       |              |             |             |             |             |
| (i) General purpose                            | 2.96         | 3.29        | 3.37        | 3.33        | NA          |
| (ii) Special purpose                           | 0            | 0.45        | 0.44        | NA          | NA          |
| Grants-in-aid (Plan)                           | 0.34         | 0.41        | 0.15        | NA          | NA          |
| 13 <sup>th</sup> FC/14 <sup>th</sup> FC Award  | 15.24        | 0.51        | 1.81        | NA          | NA          |
| <b>Total</b>                                   | <b>18.54</b> | <b>4.66</b> | <b>5.77</b> | <b>3.33</b> |             |

Source: Finance Accounts

Against ₹ 37.66 crore sanctioned by the State Government during 2012-17, information regarding expenditure of ₹ 32.30 crore only (till 2015-16) had been furnished by the Director, Urban Affairs, Meghalaya. As regards expenditure of Grants-in-aid (Plan and Non Plan) and 14<sup>th</sup> FC Award during 2016-17, though ₹ 4.19 crore was sanctioned under 14<sup>th</sup> FC Award in 2016-17, the Director, Urban Affairs Department stated that no funds were released to the Boards till September 2017.

## 1.8 Quality of Expenditure

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

### 1.8.1 Adequacy of Public Expenditure

In view of the importance of public expenditure for social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods<sup>9</sup>. Apart from improving the allocation towards development expenditure<sup>9</sup>, 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. **Table 1.21** 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 and provides the details of capital outlay and the components of revenue expenditure incurred on the selected social and economic services.

**Table 1.21: Fiscal Priority of the State in 2013-14 and 2016-17**

|   | AE/GSDP | SSE/AE | ESE/AE | DE/AE | CE/AE | Education/AE | Health/AE |
|---|---------|--------|--------|-------|-------|--------------|-----------|
| Special Category States Average (Ratio) 2013-14 | 24.80   | 34.30  | 30.70  | 61.10 | 15.10 | 18.10        | 5.30      |
| Meghalaya (Ratio) 2013-14                       | 29.08   | 35.46  | 35.46  | 70.92 | 16.13 | 17.00        | 6.74      |
| Special Category States Average (Ratio) 2016-17 | 27.40   | 34.20  | 30.00  | 61.50 | 13.60 | 16.60        | 5.40      |
| Meghalaya (Ratio) 2016-17                       | 32.66   | 36.85  | 36.43  | 73.28 | 13.36 | 16.76        | 7.11      |

AE: Aggregate expenditure (total expenditure), GSDP: Gross State Domestic Product, SSE: Social Sector expenditure, ESE: Economic Sector Expenditure, DE: Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans & Advances disbursed, CE: Capital expenditure

<sup>9</sup> As defined in Appendix 1.1:Part C under List of Term used in Chapter I.

**Table 1.21** analyses the fiscal priority of the State Government with regard to Development expenditure, social sector expenditure and capital expenditure during 2016-17, taking 2013-14 as the base year.

Government of Meghalaya contributed a higher portion of its GSDP by way of aggregate expenditure both in 2013-14 and 2016-17 *vis-a-vis* Special Category States. The developmental expenditure-aggregate expenditure, Social Sector expenditure-aggregate expenditure, economic sector expenditure-aggregate expenditure and expenditure on health-aggregate expenditure ratios were higher in 2013-14 and 2016-17. The ratio of capital expenditure-aggregate expenditure was however, higher in 2013-14 but lower in 2016-17 and expenditure on education-aggregate expenditure was lower in 2013-14 and higher in 2016-17 *vis-a-vis* Special Category States. The trends in the efficiency of expenditure in selected Social and Economic Services are depicted in **Table 1.22** below:

**Table 1.22: Efficiency of Expenditure Use in Selected Social and Economic Services**

(In per cent)

| Social/Economic Infrastructure                           | 2015-16   |   | 2016-17   |   |
|--|---|---|---|---|
|  | Ratio of capital expenditure to Total expenditure <sup>10</sup> | In revenue expenditure, the share of Salaries and Wages | Ratio of capital expenditure to Total Expenditure <sup>10</sup> | In revenue expenditure, the share of Salaries and Wages |
| <b>Social Services (SS)</b>                              | <b>10.79</b>  | <b>35.33</b>  | <b>12.91</b>  | <b>28.72</b>  |
| General Education  | 0.23  | 32.38   | 0.70  | 26.81   |
| Technical Education, Sports, Arts and Culture            | 1.61  | 16.53   | 0.28  | 16.94   |
| Health and Family Welfare                                | 15.23   | 56.08   | 12.04   | 50.57   |
| Water Supply & Sanitation, Housing and Urban Development | 39.27   | 33.30   | 54.23   | 37.41   |
| Other SS   | 0.98  | 21.88   | 8.69  | 11.10   |
| <b>Economic Services (ES)</b>                            | <b>29.90</b>  | <b>26.40</b>  | <b>21.33</b>  | <b>16.12</b>  |
| Agriculture and Allied Activities                        | 1.18  | 45.98   | 1.65  | 45.99   |
| Irrigation & Flood Control                               | 8.40  | 67.84   | 51.99   | 60.74   |
| Energy   | 7.35  | 0.00  | 0.00  | 0.00  |
| Transport  | 81.56   | 1.97  | 75.28   | 1.76  |
| Other ES   | 5.34  | 17.83   | 6.40  | 8.48  |

Source: Finance Accounts

<sup>10</sup> Total revenue and capital expenditure of the services concerned.

### Social Services

The trends presented in **Table 1.22** reveal that development capital expenditure as a percentage of total expenditure constituted only 12.91 *per cent* in 2016-17, which indicated that the revenue expenditure was dominant. Compared to 2015-16, there was improvement in the share of capital expenditure during 2016-17 under all the infrastructure of social services except technical education, sports, arts and culture and Health and Family Welfare.

Of the revenue expenditure on social services, the share of salaries and wages component decreased from 35.33 *per cent* in 2015-16 to 28.72 *per cent* in 2016-17. Within the priority sectors, salaries and wages component continue to have the dominant share under health and family welfare. Around 51 *per cent* of revenue expenditure under this service during 2016-17 were incurred on salaries and wages.

### Economic Services

The share of capital expenditure on economic services to total of revenue and capital expenditure on economic services decreased to 21.33 *per cent* during 2016-17 from 29.90 *per cent* in 2015-16. Salaries and wages component within the revenue expenditure on economic services as a percentage of the total expenditure on economic sector also decreased from 26.40 *per cent* in 2015-16 to 16.12 *per cent* during 2016-17. During 2016-17, share of expenditure on salaries and wages under irrigation and flood control was 60.74 *per cent* of revenue expenditure.

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

According to the information furnished (September 2017) by the Directorate of Programme Implementation & Evaluation, GoM, the position of implementation of flagship programmes/schemes till 2016-17 is given in **Appendix 1.6**. Details of significant shortfall in achievement of targets are given in **Table 1.23** below:

**Table 1.23: Shortfall of Achievement of Targets**

| Sl. No. | Programme/ Scheme                                | Financial Outlays and Expenditure (₹ in crore) |  | Physical Achievement/Outcome of the Programme up to March 2017 |                     |                  |  |
|---------|--|--|--|--|---------------------|------------------|--|
|         |  | Funds available up to 31 March 2017            | Actual expenditure up to 31 March 2017 | Performance Indicator  | Unit of measurement | Physical Targets | Achievement/ Outcome (Shortfall in per cent) |
| 1.      | Prime Minister's Awas Yojana                     | 66.00  | 86.07                                  | Houses constructed   | Nos.                | 17,030           | 2,953 (83.66)                                |
| 2.      | National Rural Livelihoods Mission (NRLM)        | 0.00   | 2.39                                   | Self Help Groups   | Nos.                | 2032             | 1787 (12.06)                                 |
| 3.      | Accelerated Irrigation Benefit Programme (AIBP)  | 60.00  | 44.70                                  | Schemes on Soil & Water Conservation                           | In Ha               | 4382             | 3262 (25.56)                                 |
| 4.      | Integrated Watershed Management Programme (IWMP) | 79.41  | 7.09                                   | Water Resources  | In Ha               | 40,000           | 7400 (81.50)                                 |
| 5.      | Special Nutrition Programme (SNP)                | 140.18   | 31.48                                  | AWCs/Mini AWCs   | Nos.                | 6,48,973         | 5,68,425 (12.41)                             |
| 6.      | Pradhan Mantri Gram Sadak Yojana (PMGSY)         | 235.26   | 178.93                                 | Phase II-Phase VIII  | Km                  | 400              | 175 (56.25)                                  |

Source: Directorate of Programme Implementation & Evaluation, GoM

As can be seen from the table, shortfall in achievement of targets under the above programmes/schemes ranged between 12.06 *per cent* and 83.66 *per cent*, the maximum being under Prime Minister Awas Yojana (PMAY) (83.66 *per cent*) followed by Integrated Watershed Management Programme (IWMP) (81.50 *per cent*).

## 1.9 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.

### 1.9.1 Incomplete Projects

According to the information available in Appendix IX and Statement 16 of the Finance Accounts for the year 2016-17, as on 31 March 2017, there were 70 ongoing projects in the State. The department-wise information pertaining to incomplete projects as on 31 March 2017 even after passage of target date(s) of completion is given in **Table 1.24**.

**Table 1.24 : Department-wise Profile of Incomplete Projects**

(₹ in crore)

| Department                     | Number of incomplete projects | Initial estimated cost | Original estimated cost of projects which were revised |              | Revised cost of five incomplete projects | Cost overrun | Cumulative expenditure on incomplete projects (as on March 2017) |
|--------------------------------|-------------------------------|------------------------|--|--------------|--|--------------|--|
|                                |                               |                        | Number   | Amount       |  |              |  |
| Public Works (Roads & Bridges) | 48                            | 716.84                 | 2  | 36.03        | 58.82                                    | 22.79        | 581.10   |
| Public Health Engineering      | 10                            | 140.79                 | 1  | 17.43        | 27.45                                    | 10.02        | 105.29   |
| Health & Family Welfare        | 12                            | 54.91                  | 2  | 3.55         | 4.53                                     | 0.98         | 47.90  |
| <b>Total</b>                   | <b>70</b>                     | <b>912.54</b>          | <b>5</b>   | <b>57.01</b> | <b>90.80</b>                             | <b>33.79</b> | <b>734.29</b>  |

Source: Finance Accounts

As can be seen from the above table, 70 projects stipulated for completion on or before March 2017 at an estimated cost of ₹ 912.54 crore, remained incomplete after incurring an expenditure of ₹ 734.29 crore. Out of 70 incomplete projects, five projects (two projects in respect of Public Works Department (Roads & Bridges), two projects in respect of Health & Family Welfare Department and one project in respect of Public Health Engineering Department) had been revised during 2016-17. The cost of one project under PHE Department, *viz.* 'Greater Rymbai Water Supply Scheme' was revised by 57.49 *per cent* from ₹ 17.43 crore to ₹ 27.45 crore. However, the

actual expenditure on the project till March 2017 was ₹ 19.62 crore *i.e.* 28.52 per cent (₹ 7.83 crore) lesser than the revised cost. Effective steps need to be taken to complete these projects without further delay to avoid cost overrun due to time overrun.

### 1.9.2 Financial Results of Irrigation Works

The State Government had not declared any irrigation project as commercial/productive. Hence, the financial results in respect of irrigation projects have not been worked out.

### 1.9.3 Investment and Returns

As per Statements 8 and 19 of Finance Accounts for the year 2016-17, as on 31 March 2017, the State Government had invested ₹ 2471.63 crore in two Statutory Corporations (₹ 91.26 crore), nine Government Companies (₹ 2274.58 crore) and 1444 Co-operative Banks and Societies (₹ 105.79 crore). Details are given in **Table 1.25**.

**Table 1.25: Return on Investment**

| Investment/Return/Cost of Borrowings                                 | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2016-17        |
|--|---------------|---------------|---------------|---------------|----------------|
| Investment at the end of the year (₹ in crore)                       |               |               |               |               |                |
| (i) Statutory Corporations   | 71.11         | 83.41         | 83.41         | 91.29         | 91.26          |
| (ii) Government Companies  | 228.68        | 254.36        | 273.90        | 273.90        | 2274.58        |
| (iii) Co-operative Societies   | 83.72         | 92.01         | 97.68         | 101.74        | 105.79         |
| <b>Total</b>   | <b>383.51</b> | <b>429.78</b> | <b>454.99</b> | <b>466.93</b> | <b>2471.63</b> |
| Return (₹ in crore)  | 0.08          | 0.13          | 0.13          | 0.07          | 0.11           |
| Return ( <i>per cent</i> )   | 0.02          | 0.03          | 0.03          | 0.02          | 0.02           |
| Average rate of interest on Government borrowing ( <i>per cent</i> ) | 6.24          | 6.61          | 6.22          | 6.70          | 6.47           |
| Difference between interest rate and return ( <i>per cent</i> )      | 6.22          | 6.58          | 6.19          | 6.68          | 6.45           |

Of the two Statutory Corporations, bulk of the investment (₹ 89.13 crore) was made in the Meghalaya Transport Corporation Limited during 1986-2017 which had accumulated loss of ₹ 99.62 crore till 2013-14. Out of ₹ 2274.58 crore invested in Government Companies, ₹ 2004.41 crore was invested in Meghalaya Energy Corporation Limited during 2012-13 to 2015-16, which had accumulated loss of ₹ 99.58 crore, ₹ 162.79 crore was invested in Mawmluh Cherra Cements Limited during 1958-2015, which had accumulated loss of ₹ 122.65 crore up to 2015-16. Out of ₹ 2274.58 crore invested in Government Companies, ₹ 2274.53 crore was invested in eight loss making Companies, which had accumulated loss of ₹ 287.76 crore, as detailed in **Table 1.26** below:

Table 1.26: Details of loss making Government Companies

(₹ in crore)

| Sl. No. | Name of Companies   | Amount invested up to March 2017 | Invested up to | Accumulated loss | Period up to <sup>11</sup> |
|---------|---|----------------------------------|----------------|------------------|----------------------------|
| 1.      | Mawmluh-Cherra Cements Limited (MCCL)                                       | 162.79                           | 2014-15        | 122.65           | 2015-16                    |
| 2.      | Meghalaya Energy Corporation Limited (MeECL)                                | 2004.41                          | 2015-16        | 99.58            | 2014-15                    |
| 3.      | Meghalaya Industrial Development Corporation (MIDC)                         | 91.59                            | 2014-15        | 36.15            | 2013-14                    |
| 4.      | Meghalaya Mineral Development Corporation Limited (MMDC)                    | 2.32                             | 2001-02        | 6.98             | 2015-16                    |
| 5.      | Forest Development Corporation of Meghalaya Limited (FDCML)                 | 1.97                             | 2001-02        | 5.46             | 2010-11                    |
| 6.      | Meghalaya Government Construction Corporation Limited (MGCCCL)              | 0.75                             | 2000-01        | 7.00             | 2014-15                    |
| 7.      | Meghalaya Tourism Development Corporation Limited (MTDCL)                   | 7.96                             | 1999-02        | 7.82             | 2010-11                    |
| 8.      | Meghalaya Handloom and Handicraft Development Corporation Limited (MHHDCCL) | 2.74                             | 2009-10        | 2.12             | 2004-05                    |
|         | <b>Total</b>  | <b>2274.53</b>                   |                | <b>287.76</b>    |                            |

Further, out of ₹ 105.79 crore invested in co-operative banks/societies, ₹ 25.09 crore was invested in 1,091 loss making co-operative banks/societies, which had accumulated losses of ₹ 7.48 crore up to 31 March 2010. Working results of 126 co-operative banks/societies had not been intimated (October 2017).

**The average return on investment in statutory corporations, Government companies and co-operative Banks/Societies was less than one per cent during 2012-17. However, Government paid interest on its borrowings at an average rate of interest of 6.22 per cent to 6.70 per cent during 2012-17.**

### 1.9.3.1 Reconciliation with Finance Accounts

The figures in respect of equity, loans and guarantees outstanding as per records of State Public Sector Undertakings (SPSUs) should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned SPSUs and the Finance Department should carry out reconciliation of

<sup>11</sup> Working results for the subsequent years are in arrears.

differences. The position in this regard as at 31 March 2017 is stated in **Table 1.27** below:

**Table 1.27: Equity, Loans, Guarantees outstanding as per Finance Accounts vis-a-vis records of SPSUs**

| (₹ in crore)              |                                |                                |            |
|---------------------------|--------------------------------|--------------------------------|------------|
| Outstanding in respect of | Amount as per Finance Accounts | Amount as per records of SPSUs | Difference |
| Equity                    | 2365.80 <sup>12</sup>          | 2411.16                        | 45.36      |
| Loans                     | Not available <sup>13</sup>    | 290.33                         | --         |
| Guarantees                | 943.01 <sup>14</sup>           | 944.10                         | 1.09       |

Audit observed that the difference in equity occurred in respect of 7 SPSUs<sup>15</sup> and some of differences were pending reconciliation since 2012-13. The Principal Secretary, Finance Department, Government of Meghalaya as well as the management of the SPSUs concerned were apprised after every three months about the differences from time to time and stressed upon the need for early reconciliation. However, no significant progress was noticed in this regard. The matter was also regularly taken up with the Chief Secretary, Government of Meghalaya after every three months to take necessary steps. The Government and the SPSUs concerned should take concrete steps to reconcile the differences in a time-bound manner.

#### 1.9.4 Loans and Advances by the State Government

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances for other purposes, e.g., loans for power projects, loans to Government servants, loans for tourism, etc. **Table 1.28** presents the outstanding loans and advances, interest receipts vis-à-vis interest payments during the last five years.

**Table 1.28: Average Interest Received on Loans and Advances given by the State Government**

| (₹ in crore)                     |               |               |               |               |               |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Particulars                      | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2016-17       |
| <b>Opening Balance</b>           | <b>564.95</b> | <b>568.72</b> | <b>590.57</b> | <b>626.92</b> | <b>766.19</b> |
| Amount advanced during the year  | 27.02         | 42.33         | 56.11         | 158.35        | 30.83         |
| Amount recovered during the year | 23.25         | 20.48         | 19.76         | 19.08         | 18.81         |
| <b>Closing Balance</b>           | <b>568.72</b> | <b>590.57</b> | <b>626.92</b> | <b>766.19</b> | <b>778.21</b> |
| Net Addition                     | 3.77          | 21.85         | 36.35         | 139.27        | 12.02         |

<sup>12</sup> Includes ₹ 2.14 crore in Meghalaya State Warehousing Corporation (MSWC), ₹ 89.13 crore in Meghalaya Transport Corporation (MTC), ₹ 91.59 crore in MIDC, ₹ 162.79 crore in MCCL, ₹ 2.32 crore in MMDCL, ₹ 2004.41 crore in MeECL ₹ 1.97 crore in FDCML, ₹ 0.75 crore in MGCCCL, ₹ 7.96 crore in MTDCCL and ₹ 2.74 crore in MH&HDCL.

<sup>13</sup> State Government's loans to State PSUs are extended through the Government Departments. These Government Departments reallocate the loan funds to different PSUs. Hence, the PSU-wise figures of State Government loans are not available in the Finance Accounts.

<sup>14</sup> Guarantee commitment given by the State Government against loans were ₹ 943.01 crore (Principal: ₹ 935.72 crore and interest: ₹ 7.29 crore) for MeECL. Guarantee commitment given by the State Government against loans were ₹ 943.01 crore for MeECL.

<sup>15</sup> Forest Development Corporation Limited, Meghalaya Industrial Development Corporation, Meghalaya Energy Corporation Limited, Meghalaya Handloom & Handicraft Development Corporation Limited, Meghalaya Basin Management Agency, Meghalaya Transport Corporation and Meghalaya Infrastructure Development & Finance Corporation Limited.

| Particulars  | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|--|---------|---------|---------|---------|---------|
| Interest Receipts  | 6.46    | 6.76    | 8.28    | 7.69    | 8.27    |
| Interest received as <i>per cent</i> to outstanding Loans and Advances                         | 1.14    | 1.17    | 1.36    | 1.10    | 1.06    |
| Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government | 6.24    | 6.61    | 6.22    | 6.70    | 6.47    |
| Difference between interest payments and receipts ( <i>per cent</i> )                          | 5.10    | 5.44    | 4.86    | 5.60    | 5.41    |

Loans and advances given by the State Government during 2016-17 decreased by 80.53 *per cent* over the previous year. The total outstanding loans and advances as on 31 March 2017 was ₹ 778.21 crore. Out of the loans of ₹ 30.83 crore advanced during 2016-17, ₹ 8.42 crore was given for power projects and ₹ 17.39 crore was given to Government servants and ₹ 5.02 crore to others. Interest receipt of ₹ 8.27 crore on loans and advances by GoM during 2016-17 constituted 1.06 *per cent* only of the outstanding loans and advances given by the State Government, whereas the Government was paying interest at an average rate of 6.47 *per cent* for the outstanding liabilities.

### 1.9.5 Cash Balances and Investment of Cash Balances

Table 1.29 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.29 : Cash Balances and Investment of Cash Balances

(₹ in crore)

| Particulars  | Opening balance on 01 April 2016 | Closing balance on 31 March 2017 |
|--|----------------------------------|----------------------------------|
| <b>(a) General Cash Balance-</b>   |                                  |                                  |
| Cash in Treasuries   | 40.81                            | 24.70                            |
| Deposits with Reserve Bank   | -112.79                          | -54.53                           |
|  | <b>-71.98</b>                    | <b>-29.83</b>                    |
| Investments held in Cash Balance investment account                      | 267.65                           | 1369.24                          |
| <b>Total (a)</b>   | <b>195.67</b>                    | <b>1339.41</b>                   |
| <b>(b) Other Cash Balances and Investments</b>                           |                                  |                                  |
| Cash with departmental officers of Forest and Public Works Department    | 0.21                             | 0.25                             |
| Permanent advances for contingent expenditure with departmental officers | 0.03                             | 0.03                             |
| Investment of earmarked funds  | 211.10                           | 256.59                           |
| - <i>Sinking Fund Investment Account</i>                                 | 211.07                           | 244.82                           |
| - <i>Other Development and Welfare Fund</i>                              | 0.03                             | 11.77                            |
| <b>Total (b)</b>   | <b>211.34</b>                    | <b>256.87</b>                    |
| <b>Grand Total (a) + (b)</b>   | <b>407.01</b>                    | <b>1596.28</b>                   |

Cash balances (excluding investment of earmarked funds) of the State Government at the end of the current year increased from ₹ 195.91 crore in 2015-16 to ₹ 1339.69 crore in 2016-17. As on 31 March 2017, the Government invested ₹ 256.59 crore in Sinking Fund and other Development and Welfare Fund. During 2016-17, interest of ₹ 37.98 crore was earned on investment of cash balances against ₹ 31.48 crore earned during the preceding year.

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. Under an agreement with the RBI, the State Government was to maintain a minimum cash balance of ₹ 21 lakh with the Bank.

During the five-year period ending 2016-17, the Government did not have to resort to WMA and overdraft, except during 2013-14 (₹ 157.09 crore), indicating comfortable position of cash balances of the State in four out of five years.

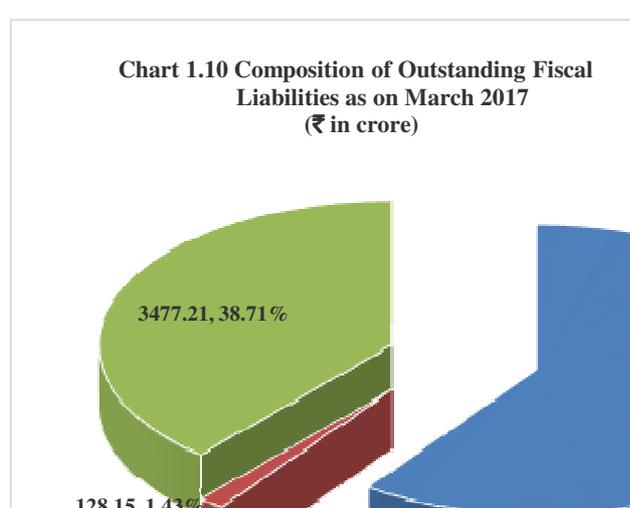
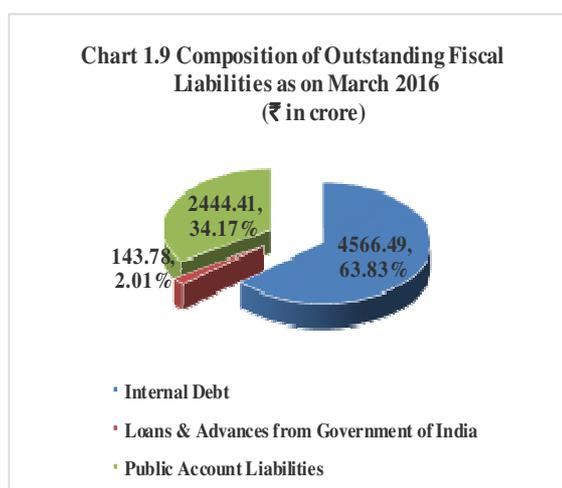
## **1.10 Assets and Liabilities**

### **1.10.1 Growth and composition of Assets and Liabilities**

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture 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 2017, compared with the corresponding position on 31 March 2016. While the liabilities consist mainly of internal borrowings, loans and advances from 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.

### **1.10.2 Fiscal Liabilities**

The trends in outstanding fiscal liabilities/debt of the State are presented in **Appendix 1.2**. However, the composition of fiscal liabilities during the current year *vis-à-vis* the composition of fiscal liabilities during the current year *vis-à-vis* the previous year are presented in **Charts 1.9** and **1.10**.



**Table 1.30** gives the fiscal liabilities/debt of the State, their rate of growth, the ratio of these liabilities to GSDP, revenue receipts and State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

**Table 1.30: Fiscal Liabilities – Basic Parameters**

| Particulars                                   | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---------|---------|---------|---------|---------|
| Fiscal Liabilities <sup>16</sup> (₹ in crore) | 4964.58 | 6269.23 | 6751.46 | 7154.68 | 8983.50 |
| Rate of Growth ( <i>per cent</i> )            | -2.47   | 26.28   | 7.69    | 5.97    | 25.56   |
| <b>Ratio of Fiscal Liabilities to</b>         |         |         |         |         |         |
| GSDP ( <i>per cent</i> )                      | 22.70   | 27.33   | 29.06   | 27.77   | 30.38   |
| Revenue Receipts ( <i>per cent</i> )          | 89.67   | 100.04  | 105.03  | 101.58  | 100.50  |
| Own Resources ( <i>per cent</i> )             | 372.53  | 405.13  | 526.44  | 556.60  | 480.08  |
| <b>Buoyancy of Fiscal Liabilities to</b>      |         |         |         |         |         |
| GSDP (ratio)                                  | -0.25   | 5.40    | 5.96    | 0.55    | 1.73    |
| Revenue Receipts (ratio)                      | -0.13   | 1.99    | 2.98    | 0.62    | 0.95    |
| Own Resources (ratio)                         | -0.10   | 1.63    | -0.45   | 25.96   | 56.09   |

Fiscal liabilities of ₹ 8983.50 crore as on 31 March 2017 consist of internal debt, *e.g.*, market loans, loans from financial institutions, Special Securities issued to National Small Savings Fund, *etc.* (₹ 5378.14 crore), loans and advances from Central Government (₹ 128.15 crore), small savings, provident funds, *etc.* (₹ 1373.81 crore) and other liabilities, *e.g.*, Reserve Funds and Deposits (₹ 2103.40 crore).

Fiscal liabilities of the State increased from ₹ 4964.58 crore as on 31 March 2013 to ₹ 8983.50 crore as on 31 March 2017. Compared to previous year, the fiscal liabilities at the end of 2016-17 increased by 25.56 *per cent* (₹ 1828.82 crore) mainly due to increase in internal debt in the form of market loans by ₹ 718.33 crore (20.75 *per cent*).

<sup>16</sup> Includes Internal debt, Loans and Advances from Government of India, Small Savings, Provident Funds, *etc.*, Reserve Funds and Deposits.

The ratio of fiscal liabilities to GSDP increased from 27.77 *per cent* in 2015-16 to 30.38 *per cent* in 2016-17. These liabilities were a little above the revenue receipts and over four times of the State's own resources at the end of 2016-17. The buoyancy of these liabilities with respect to GSDP during the year was 1.73 indicating that for each one *per cent* increase in GSDP, fiscal liabilities increased by 1.73 *per cent*.

The State Government in its MTFP Statement projected the total Outstanding Liabilities-GSDP ratio for the year 2016-17 as 26.18 *per cent*. As can be seen from the **Table 1.30** above, the Fiscal Liabilities-GSDP ratio of the State (30.38 *per cent*) was higher than the limit fixed in the MTF Plan.

### 1.10.3 Transactions under Reserve Funds

Reserves and Reserve Funds are created for specific and well defined purposes under the Sector 'J' in the accounts of the State Government (public account). These funds are fed by contributions or grants from the Consolidated Fund of India or State. The contributions are treated as expenditure under the Consolidated Fund. The expenditure relating to the fund is initially accounted under the Consolidated Fund itself for which the vote of the legislature is obtained. At the end of the year, at the time of closure of accounts, the expenditure relating to the fund is transferred to public account under the concept of gross budgeting through an operation of deduct entry in accounts. The funds may be further classified as 'Funds carrying interest' and 'Funds not carrying interest'.

The total accumulated balance as on 31 March 2017 was ₹ 292.86 crore (active funds: ₹ 290.82 crore; inactive funds: ₹ 2.04 crore) in ten reserve funds. However, only three funds were active and seven funds were inactive for more than 20 years. Investment out of these funds was ₹ 256.60 crore, which was 87.62 *per cent* of the accumulated balance. Action needs to be taken to close the inoperative reserve funds and remit the balances into the Consolidated Fund of the State.

During 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loans. During 2016-17, the Government had appropriated ₹ 33.76 crore from revenue and credited to this fund for investment in the Government of India Securities.

### 1.10.4 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 Finance Accounts of the State, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2012-13 are given in **Table 1.31**.

**Table 1.31: Guarantees given by GoM**

(₹ in crore)

| Particulars   | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---------|---------|---------|---------|---------|
| Maximum amount guaranteed                             | 947.02  | 1188.64 | 1054.43 | 868.09  | 860.04  |
| Outstanding amount of guarantees (including interest) | 1285.19 | 1610.55 | 1173.81 | 1042.19 | 983.11  |

|   |       |       |       |       |      |
|---|-------|-------|-------|-------|------|
| Percentage of maximum amount guaranteed to total revenue receipts | 17.11 | 18.97 | 16.40 | 12.33 | 9.62 |
|---|-------|-------|-------|-------|------|

Government had guaranteed loans raised by various Corporations and others, which at the end of 2016-17 stood at ₹ 983.11 crore (including interest). Bulk of the guaranteed amount (₹ 943.01 crore) was outstanding against the power sector for repayment of principal and payment of interest on loans from Rural Electrification Corporation (₹ 252.65 crore), and short term loans, bonds, etc. (₹ 690.36 crore). The outstanding amount of guarantees is in the nature of contingent liabilities, which was 11 *per cent* of revenue receipts of the State during 2016-17. In order to provide for sudden discharge of the States' obligations on guarantees, the 13<sup>th</sup> FC recommended that State should set up guarantee redemption funds. As per the Fiscal Policy Strategy Statement for the year 2016-17, to service contingent liabilities arising out of the invocation of State Government Guarantees, the Government had constituted the Meghalaya Guarantee Redemption Fund to be managed by the Reserve Bank of India.

As on 31 March 2017, commission/fee amounting to ₹ 24.84 crore for the guarantees given by the State Government was receivable.

The figure in respect of guarantees outstanding in respect of SPSUs as per their records (₹ 325.00 crore) differs with that shown in the Finance Accounts (₹ 943.01 crore). However, the discrepancies had not been reconciled as discussed in paragraph 1.9.3.1 above.

## 1.11 Debt Management

### 1.11.1 Debt Sustainability

Debt sustainability is defined as the ability of the State to service its debt in future. 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.

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt/GSDP ratio, burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. The rate of growth of GSDP ranged between 1.29 *per cent* and 14.75 *per cent* during 2012-13 to 2016-17 whereas average interest rate on outstanding debt ranged between 6.22 *per cent* and 6.70 *per cent* during 2012-13 to 2016-17. GSDP growth rate is much more than the average interest paid by the State Government on public debt. **Table 1.32** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2012-13.

**Table 1.32: Debt Sustainability: Indicators and Trends**

(₹ in crore)

| Indicators of Debt Sustainability                 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 |
|---|---------|---------|---------|---------|---------|
| Outstanding debt (year-end)                       | 4964.58 | 6269.23 | 6751.46 | 7154.68 | 8983.50 |
| Rate of Growth of Outstanding debt                | -2.47   | 26.28   | 7.69    | 5.97    | 25.56   |
| Gross State Domestic Product(GSDP)                | 21872   | 22938   | 23235   | 25767   | 29567   |
| Rate of Growth of GSDP                            | 9.81    | 4.87    | 1.29    | 10.90   | 14.75   |
| Debt/GSDP( <i>in per cent</i> )                   | 22.70   | 27.33   | 29.06   | 27.77   | 30.38   |
| Tax Revenue                                       | 847.73  | 949.30  | 939.19  | 1056.82 | 1186.81 |
| Debt Repayment/Tax Revenue ( <i>in per cent</i> ) | 242.66  | 173.75  | 236.46  | 209.55  | 181.00  |
| Average interest rate of Outstanding debt         | 6.24    | 6.61    | 6.22    | 6.70    | 6.47    |
| Interest Paid/Revenue Receipts(IP/RR)             | 5.67    | 5.93    | 6.30    | 6.61    | 5.84    |
| Debt Repayment/Debt Receipts                      | 1.27    | 0.64    | 0.97    | 1.03    | 0.62    |
| Total Debt Receipts                               | 1617.62 | 2582.57 | 2297.91 | 2151.92 | 3454.69 |
| Total Debt Payments                               | 2057.14 | 1649.42 | 2220.78 | 2214.57 | 2148.10 |
| Net Debt available to the State                   | -439.52 | 933.15  | 77.13   | -62.65  | 1306.59 |

**Table 1.32** reveals that the Debt-GSDP ratio ranged between 22.70 *per cent* and 30.38 *per cent* during 2012-13 to 2016-17. Whereas Debt-Repayment as a percentage of Tax Revenue ranged between 173.75 *per cent* and 242.66 *per cent* during 2012-17. At 30.38 *per cent*, the Debt<sup>17</sup>-GSDP ratio during 2016-17 (**Appendix 1.2**) was well above the target of outstanding debt to GSDP (27.34 *per cent*) set forth by 14<sup>th</sup> FC for the State and also above the assessment made by the State Government in the MTFP Statement (26.18 *per cent*). The trends in net Debt available to the State indicate the oscillation between positive and negative magnitudes. The net Debt available to the State has been negative in two out of five-year period ending 2016-17 indicating that the incremental revenue receipts were not sufficient to meet the incremental primary expenditure and interest burden. Compared to 2015-16, the situation had been improved during 2016-17, when the net Debt available to the State had turned positive at ₹ 1306.59 crore against negative ₹ 62.65 crore during 2015-16. These trends indicate that the State had made sustainable efforts to mobilise more resources to meet the incremental liabilities arising on account of additional primary expenditure and interest payment during the year.

<sup>17</sup> Internal debt, Loans & Advances from GoI and Other Liabilities (Small Savings, Provident Funds, Reserve Funds, Deposits)

The trends in debt redemption ratio fluctuated widely during 2012-17 and decreased to 62.18 *per cent* during 2016-17 against 102.91 *per cent* during the previous year (**Appendix 1.2**). During the current year, against receipts of ₹ 3454.69 crore, Government repaid ₹ 2148.10 crore as principal and interest on internal debt (₹ 794.81 crore), loans and advances from Central Government (₹ 36.25 crore) and other liabilities<sup>18</sup> (₹ 1317.04 crore), as a result of which borrowed fund at ₹ 1306.59 crore was available at the end of the year.

### 1.11.2 Debt Profile

As per Annexure to Statement 17 of the Finance Accounts for the year 2016-17, the maturity profile of the State debt is as indicated in **Table 1.33**.

**Table 1.33: Maturity Profile of State Debt**

(₹ in crore)

| Debt maturity             | Maturity Profile        | Amount         |                           |                | Per cent   |
|---------------------------|-------------------------|----------------|---------------------------|----------------|------------|
|                           |                         | Internal Debt  | Loans & Advances from GoI | Total          |            |
| During 2017-18            | 0-1 year                | 309.40         | 20.34                     | 329.74         | 5.92       |
| Between 2018-19 & 2019-20 | Over 1 year to 2 years  | 769.41         | 40.85                     | 810.26         | 14.54      |
| Between 2020-21 & 2021-22 | Over 2 years to 5 years | 712.78         | 41.04                     | 753.82         | 13.53      |
| Between 2022-23 & 2023-24 | Over 5 years to 7 years | 913.43         | 40.94                     | 954.37         | 17.13      |
| 2024-25 onwards           | Over 7 years and above  | 2654.10        | 70.02                     | 2724.12        | 48.88      |
| <b>Total</b>              |                         | <b>5359.12</b> | <b>213.19</b>             | <b>5572.31</b> | <b>100</b> |

The maturity profile of outstanding stock of public debt as on 31 March 2017 indicates that out of the outstanding public debt of ₹ 5572.31 crore, 51.11 *per cent* (₹ 2848.19 crore) is payable within the next seven years. The remaining 48.89 *per cent* was in the maturity bracket of seven years and above. Of the total outstanding public debt, internal debt consisting of market borrowings, loans from LIC, GIC, NABARD, *etc.* constituted 96.17 *per cent* (₹ 5359.12 crore).

Repayment of debt of more than 50 *per cent* within seven years indicates an alarming position and State may be heading towards debt stress. Therefore debt repayment and further borrowings in future should be planned in such a way that there is no bunching of repayments in any particular year as that will cause undue stress on the budget.

### 1.12 Fiscal Imbalances

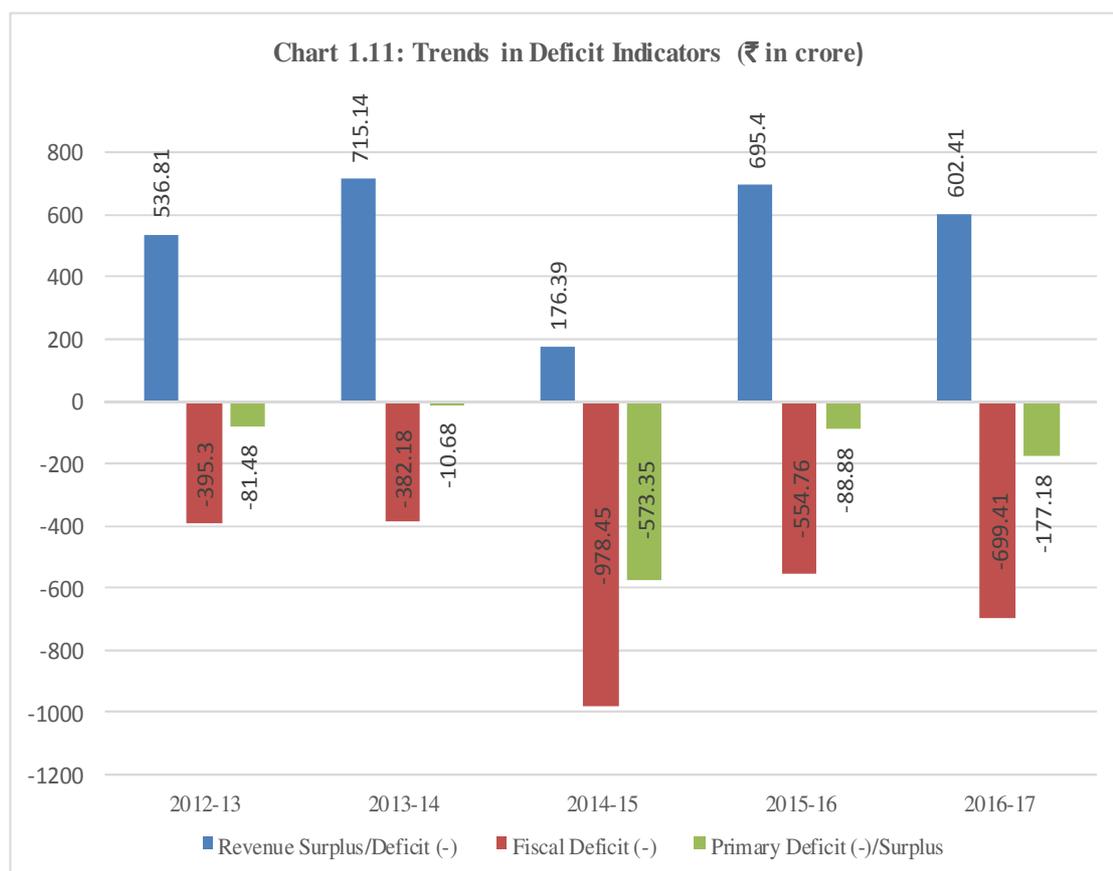
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represent the gap between its receipts and expenditure. The nature of deficit 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

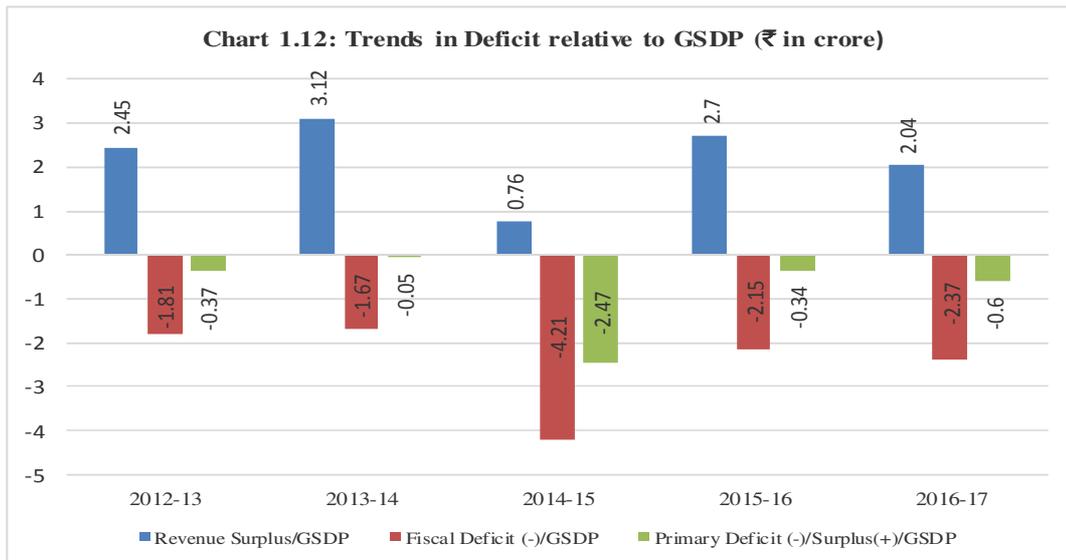
<sup>18</sup> Small Savings, Provident Funds, Reserve Funds, Deposits, *etc.*

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 2016-17.

### 1.12.1 Trends in Deficits

Charts 1.11 and 1.12 present the trends in deficit indicators over the period 2012-17.





**Chart 1.11** reveals that the State was able to attain a revenue surplus of ₹ 602.41 crore during 2016-17, which was -13.37 per cent (₹ 92.99 crore) less than the revenue surplus of previous year (₹ 695.40 crore). The fall in revenue surplus by ₹ 92.99 crore during 2016-17 from previous year was the effect of increase of revenue receipts (₹ 1895.82 crore) as well as corresponding increase in revenue expenditure (₹ 1988.81 crore). The State Government was successful in fulfilling the commitment made in the MFRBM Act, (as amended) to maintain revenue surplus during 2016-17, as recommended by the 14<sup>th</sup> FC.

The fiscal deficit, which represents the total borrowings of the Government and total net debt available to the State significantly increased from ₹ 554.76 crore in 2015-16 to ₹ 699.41 crore in 2016-17. This was mainly due to the fact that the increase in revenue expenditure was more compared to increase in revenue and non-debt capital receipts during the current year relative to the previous year. During the current year, the revenue and non-debt capital receipts increased by 26.84 per cent against 9.53 per cent during the previous year, while the increase in revenue expenditure was 31.33 per cent against 1.53 per cent during previous year.

As per the recommendations of the 14<sup>th</sup> FC, fiscal deficit of all States should be anchored to an annual limit of 3.25 per cent of GSDP. GoM also agreed in the MFRBM Act (as amended) to reduce fiscal deficit to 3 per cent of GSDP or less during 2016-20 of the award period of the 14<sup>th</sup> FC. The fiscal deficit-GSDP ratio was at 2.37 per cent during 2016-17 and thus, GoM succeeded to restrict this ratio as per recommendation of the 14<sup>th</sup> FC (3.25) and its own commitment in the amended MFRBM Act.

The primary deficit during 2016-17 substantially increased by ₹ 88.30 crore over previous year due to decrease in fiscal deficit (₹ 144.65 crore) and increase in interest payment (₹ 56.35 crore). The primary deficit stood at ₹ 177.18 crore during the current year.

### 1.12.2 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 1.34**.

**Table 1.34 : Components of Fiscal Deficit and its Financing Pattern**

(₹ in crore)

| Sl. No.  | Particulars                                     | 2012-13       | 2013-14       | 2014-15       | 2015-16       | 2016-17       |
|--|---|---------------|---------------|---------------|---------------|---------------|
| <b>Decomposition of Fiscal Deficit (1 + 2 + 3)</b>       |   |               |               |               |               |               |
| <b>Fiscal Deficit</b>                                    |   | <b>395.30</b> | <b>382.18</b> | <b>978.45</b> | <b>554.76</b> | <b>699.41</b> |
| 1.   | Revenue Surplus (+)/<br>Deficit (-)             | 536.81        | 715.14        | 176.39        | 695.40        | 602.41        |
| 2.   | Net Capital Outlay                              | 928.34        | 1075.47       | 1118.49       | 1110.89       | 1289.80       |
| 3.   | Net Loans and Advances                          | 3.77          | 21.85         | 36.35         | 139.27        | 12.02         |
| <b>Financing Pattern of Fiscal Deficit<sup>(a)</sup></b> |   |               |               |               |               |               |
| 1.   | Market Borrowing                                | 298.00        | 286.55        | 442.92        | 459.69        | 718.33        |
| 2.   | Loans from GoI                                  | - 17.77       | - 19.26       | -15.05        | - 17.61       | - 15.64       |
| 3.   | Special Securities issued to<br>NSSF            | 70.73         | 69.02         | 84.12         | 59.76         | - 42.38       |
| 4.   | Loans from Financial<br>Institutions            | 3.76          | - 2.51        | 12.31         | - 2.25        | 135.71        |
| 5.   | Small Savings, PF, etc.                         | 109.07        | 127.17        | 133.28        | 131.74        | 141.17        |
| 6.   | Reserve Funds                                   | - 7.44        | 18.08         | - 13.70       | 6.74          | 2.07          |
| 7.   | Deposits and Advances                           | - 582.04      | 825.60        | - 161.66      | - 234.85      | 889.56        |
| 8.   | Suspense and<br>Miscellaneous                   | 110.67        | - 76.71       | 82.28         | - 55.40       | 13.09         |
| 9.   | Remittances                                     | 17.98         | 3.15          | - 8.34        | - 2.70        | 1.26          |
| 10.  | Increase (+) / Decrease (-)<br>in Cash Balances | - 392.34      | 848.91        | - 422.29      | - 209.64      | - 1143.76     |
| <b>Fiscal Deficit</b>                                    |   | <b>395.30</b> | <b>382.18</b> | <b>978.45</b> | <b>554.76</b> | <b>699.41</b> |
| <b>Fiscal Deficit (percentage to<br/>GSDP)</b>           |   | <b>1.81</b>   | <b>1.67</b>   | <b>4.07</b>   | <b>2.03</b>   | <b>2.37</b>   |

<sup>(a)</sup> All these figures are net of disbursements/outflows during the year.

There were fiscal deficits during the five year period ending 2016-17, which peaked at ₹ 978.45 crore during 2014-15. A redeeming feature of the fiscal deficit is that the State Government borrows fund from market *etc.* to finance Capital Expenditure. The fiscal deficit increased to ₹ 978.45 crore during 2014-15. However, it significantly decreased to ₹ 699.41 crore during 2016-17.

During 2016-17, fiscal deficit of ₹ 699.41 crore was financed from net market borrowings (₹ 718.33 crore), which was sufficient to finance the fiscal deficit alone. The revenue surplus lowered the fiscal deficit in 2016-17 despite the increase in capital expenditure. The increase of 52.26 *per cent* (₹ 258.64 crore) in net market borrowings during current year over previous year for financing the deficit increased the interest burden for the year 2016-17.

It is evident from the above that Government raised excess market loans than was required for financing its deficit. During 2016-17, fiscal deficit was over financed through market borrowing and other heads of public account leading to an increase in cash balances from ₹ 195.91 crore in 2015-16 to ₹ 1339.68 crore in 2016-17.

### 1.12.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital outlay as well as 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 1.35**) 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 1.35: Primary Deficit/Surplus – Bifurcation of Factors**

(₹ in crore)

| Year    | Non-debt Receipt | Primary Revenue Expenditure | Capital Outlay | Loans and Advances | Primary Expenditure <sup>19</sup> | Primary Revenue Surplus | Primary Deficit (-)/ Surplus (+) |
|---------|------------------|-----------------------------|----------------|--------------------|-----------------------------------|-------------------------|----------------------------------|
| 1       | 2                | 3                           | 4              | 5                  | 6 (3+4+5)                         | 7 (2-3)                 | 8 (2 -6)                         |
| 2012-13 | 5559.60          | 4685.72                     | 928.34         | 27.02              | 5641.08                           | 873.88                  | - 81.48                          |
| 2013-14 | 6287.21          | 5180.09                     | 1075.47        | 42.33              | 6297.89                           | 1107.12                 | - 10.68                          |
| 2014-15 | 6448.01          | 5846.76                     | 1118.49        | 56.11              | 7021.36                           | 601.25                  | - 573.35                         |
| 2015-16 | 7062.21          | 5881.85                     | 1110.89        | 158.35             | 7151.09                           | 1180.36                 | - 88.88                          |
| 2016-17 | 8957.76          | 7814.31                     | 1289.80        | 30.83              | 9134.94                           | 1143.45                 | -177.18                          |

The bifurcation of the factors resulting into primary deficit or surplus of the State during 2012-17 revealed that-

- Non-debt receipts increased by 61.12 *per cent* from ₹ 5559.60 crore in 2012-13 to ₹ 8957.76 crore in 2016-17.
- Total primary expenditure increased by ₹ 3493.86 crore (61.94 *per cent*) during 2016-17 compared to 2012-13 due to increase in primary revenue expenditure to the extent of ₹ 3128.59 crore (66.77 *per cent*) during the period 2012-13 to 2016-17.

<sup>19</sup> Primary expenditure of the State, defined as the total expenditure net of the interest payments, indicates the expenditure incurred on transactions undertaken during the year.

- The primary revenue surplus decreased to ₹ 1143.45 crore in 2016-17 from ₹ 1180.36 crore during 2015-16.
- In all the five years (2012-17), the State experienced primary deficit. During the period, the non-debt receipts of the State were sufficient to meet the primary revenue expenditure<sup>20</sup> and loans and advances, but was not adequate for expenditure on capital outlay. The extent of the primary deficit during 2016-17 has been mainly on account of increase in capital expenditure by ₹ 178.91 crore and decrease in loans and advances by ₹ 127.52 crore compared to the previous year.

### **1.13 Institutional Measures**

Towards strengthening fiscal disciplines, the Government of Meghalaya had taken certain institutional measures like legislation in respect of guarantees and fiscal responsibilities in the form of enactment of the MFRBM Act in 2006. Since then the Government had been undertaking measures like introduction of VAT.

As a measure to improve fiscal transparency, Government of India outlined several initiatives to assist the State Governments in their developmental and social roles. The Public Private Partnership (PPP) is such an initiative that enables implementation of Government programmes/schemes in partnership with the private sector. The potential benefits derived from PPP are cost effectiveness of the project, higher productivity, accelerated delivery, enhanced social service and recovery of user charges. It also allows the State Government to use limited budgetary resources on high priority schemes where private sector is not willing to enter.

In view of the above, several State Governments across India are entering into PPP agreements in the areas of infrastructure projects, survey and exploitation of mines and minerals, development of industrial estates, development of hydro-electricity projects, *etc.*

Information regarding framing of policy on PPP and particulars of PPP projects under execution in the State was called for (July 2017) from the Finance Department, GoM. As per the information furnished (October 2017) by the Finance Department, GoM, there is no PPP project in the State.

### **1.14 Significant Findings**

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit. During 2016-17, though the State continued to maintain the status of revenue surplus, this surplus decreased to ₹ 602.41 crore against ₹ 695.40 crore during 2015-16. The revenue surplus was utilised to partially finance the capital expenditure of ₹ 1289.80 crore during the year. The fiscal deficit as well as primary deficit of the State had increased significantly during 2016-17 compared to previous year.

#### ***Revenue Receipts***

<sup>20</sup> Primary revenue expenditure represents revenue expenditure less interest payments.

Revenue receipts during 2016-17 grew by 26.92 per cent (₹ 1895.82 crore) over previous year. The tax revenue receipts fell short of normative assessment made by 14<sup>th</sup> FC by 29.78 per cent and the non-tax revenue was 4.03 per cent lower than the target of 14<sup>th</sup> FC. State's own resources (tax and non-tax revenue) during 2016-17 (₹ 1871.25 crore) were 45.57 per cent more than those of previous year (₹ 1285.42 crore) and constituted only 20.93 per cent of the revenue receipts of the year. The Central transfers comprising State's share of central taxes and Grants-in-aid from Government of India increased by ₹ 1309.99 crore in 2016-17 and contributed 69.10 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.

### ***Revenue and Total Expenditure***

Compared to the previous year, the revenue expenditure during 2016-17 increased by 31.33 per cent. The expenditure pattern of the State revealed that though the revenue expenditure as a percentage of total expenditure increased from 83.34 per cent in 2015-16 to 86.32 per cent in the current year, it hovered around 86 per cent during the period (2012-17) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, NPPE at ₹ 4641.22 crore in 2016-17 constituted 55.67 per cent. Further, expenditure on salaries and wages, pensions, interest payments and subsidies continued to consume a large share of revenue expenditure which was 42.24 per cent (₹ 3521.38 crore) during 2016-17. Capital outlay during 2016-17 (₹ 1289.80 crore) increased by ₹ 178.91 crore (16.11 per cent) over previous year. It decreased to 13.36 per cent of total expenditure during 2016-17 against 14.58 per cent during the preceding year and also fell short by 5.20 per cent (₹ 70.73 crore) of the projection (₹ 1360.53 crore) made by the State Government in its budget estimate for the year.

*In view of this, it is recommended that the State needs to give more priority to capital expenditure and ensure that it does not decrease over the years.*

### ***Fiscal Correction Path***

The revenue surplus decreased to ₹ 602.41 crore during 2016-17 compared to the revenue surplus of ₹ 695.40 crore during 2015-16. The fiscal deficit increased from ₹ 554.76 crore in 2015-16 to ₹ 699.41 crore during the current year. Primary deficit also increased significantly by ₹ 88.30 crore from ₹ 88.88 crore in 2015-16 to ₹ 177.18 crore in 2016-17. The fiscal deficit-GSDP ratio stood at 2.37 per cent during 2016-17 within the ceiling of 3 per cent or less prescribed in the MFRBM Act, 2006 (as amended) and also the recommendation of the 14<sup>th</sup> FC to maintain this ratio at 3.25 per cent of GSDP. **The prevalence of fiscal deficit during 2012-17 indicated continued reliance of the State on borrowed funds resulting in increasing fiscal liabilities or debt of the State over the period 2012-17.** Fiscal liabilities or debt increased by 25.56 per cent during 2016-17 as compared to previous year. The fiscal liabilities or debt during 2016-17 stood at 30.38 per cent of the GSDP during the current year against 27.77 per cent during 2015-16 and exceeded the limit of total

outstanding Debt-GSDP ratio projected in MTFP Statement (26.18 *per cent*) for the year.

The average return on investment in Statutory corporations, Government companies and Co-operative banks/societies was less than one *per cent* during 2012-17. However, the State Government paid interest at an average rate of 6.22 *per cent* to 6.70 *per cent* on its borrowings during the period. Interest received as *per cent* to outstanding Loans and Advances given by the State Government was also inadequate, which ranged between 1.06 *per cent* and 1.36 *per cent* during 2012-17 and stood at 1.06 *per cent* during 2016-17.

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 mobilise additional resources both through the tax and non-tax sources in the ensuing years.

*Therefore, it is recommended that the State Government may review the working of the units which were incurring losses and take appropriate action to avoid further financial burden on the Government.*