

CHAPTER I
FINANCES OF THE STATE
GOVERNMENT

CHAPTER I: FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account (**Appendix 1.1-Part A**). The Finance Accounts of the Government of Meghalaya are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account. The lay out of the Finance Accounts is depicted in **Appendix 1.1-Part B**.

1.1.1 Summary of Receipts and Disbursements

Table 1.1 summarises the financial position of the State Government for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public accounts receipts/disbursements as emerging from Statement 1 of Finance Accounts and other detailed statements.

Table 1.1 : Summary of Receipts and Disbursements for the year 2006-07

(Rupees in crore)

| 2005-06 | Receipts | 2006-07 | 2005-06 | Disbursements | 2006-07 | | |
|-----------------------------|---|----------------|----------------|--|-----------------|---------------|----------------|
| Section – A: Revenue | | | | | | | |
| | | | | | Non-Plan | Plan | Total |
| 1746.94 | I. Revenue Receipts | 2142.19 | 1674.48 | I. Revenue Expenditure | 1341.04 | 566.46 | 1907.50 |
| 252.67 | Tax revenue | 304.74 | 625.33 | General Services | 677.90 | 25.19 | 703.09 |
| 146.01 | Non-tax revenue | 184.37 | 554.75 | Social Services | 390.19 | 224.11 | 614.30 |
| 350.57 | Share of Union Taxes/Duties | 447.18 | 494.40 | Economic Services | 272.95 | 317.16 | 590.11 |
| 997.69 | Grants-in-aid from Government of India | 1205.90 | ... | ... | ... | ... | ... |
| Section – B: Capital | | | | | | | |
| ... | II. Miscellaneous Capital receipts | ... | 259.33 | II. Capital Outlay | 7.02 | 313.35 | 320.37 |
| 18.52 | III. Recovery of Loans and Advances | 17.11 | 10.63 | III. Loans and Advances disbursed | 3.68 | 2.28 | 5.96 |
| 250.46 | IV. Public Debt Receipts¹ | 246.05 | 63.37 | IV. Repayment of Public Debt | - | - | 86.28 |
| ... | V. Contingency Fund | ... | ... | V. Contingency Fund | ... | ... | ... |
| 1107.80 | VI. Public Account Receipts | 1257.71 | 914.43 | VI. Public Account Disbursements | ... | ... | 1198.09 |
| (-) 43.14 | Opening Balance | 158.34 | 158.34 | Closing Balance | ... | ... | 303.20 |
| 3080.58 | Total | 3821.40 | 3080.58 | Total | | | 3821.40 |

¹ Includes net Ways and Means Advances.

Following are the significant changes during 2006-07 over the previous year:

- Revenue receipts grew by Rs.395 crore over the previous year. The increase was mainly contributed by grants-in-aid from the Government of India (GOI) (Rs.208 crore), State's share of Union taxes and duties (Rs.97 crore) and tax revenue (Rs.52 crore).
- Revenue expenditure and capital expenditure increased by Rs.233 crore and Rs.61 crore respectively over the previous year.
- Recovery of loans and advances during the current year decreased by about Rs.1.50 crore compared to the previous year.
- Public Debt receipts decreased by about Rs.4 crore over previous year mainly due to decrease under Special Securities issued to National Small Savings Fund of the Central Government by Rs.32 crore.
- Public Account receipts increased by Rs.150 crore over previous year.
- Cash balance of the State increased by Rs.145 crore over previous year mainly by way of increase in cash balance investment (Rs.201 crore).

1.1.2 Fiscal Position by Key Indicators

The fiscal position of the State Government as reflected by the key fiscal indicators during the current year as compared to the previous year is given in **Table 1.2**.

Table 1.2

(Rupees in crore)

| 2005-06 | Sl.No. | Major Aggregates | 2006-07 |
|----------------|------------|--|----------------|
| 1,747 | 1. | Revenue Receipts (2+3+4) | 2,142 |
| 253 | 2. | Tax Revenue | 305 |
| 146 | 3. | Non-Tax Revenue | 184 |
| 1,348 | 4. | Other Receipts | 1,653 |
| 19 | 5. | Non-Debt Capital Receipts | 17 |
| 19 | 6. | Of which Recovery of Loans | 17 |
| 1,766 | 7. | Total Receipts (1+5) | 2,159 |
| 1,187 | 8. | Non-Plan Expenditure (9+11+12) | 1,352 |
| 1,183 | 9. | On Revenue Account | 1,341 |
| 191 | 10. | Of which, Interest payments | 203 |
| 1 | 11. | On Capital Account | 7 |
| 3 | 12. | On Loans disbursed | 4 |
| 757 | 13. | Plan Expenditure (14+15+16) | 881 |
| 491 | 14. | On Revenue Account | 566 |
| 258 | 15. | On Capital Account | 313 |
| 8 | 16. | On Loans disbursed | 2 |
| 1,944 | 17. | Total Expenditure (8+13) | 2,233 |
| (-) 178 | 18. | Fiscal Deficit (-) (1+5-17) | (-) 74 |
| (+) 73 | 19. | Revenue Surplus (+)/Deficit(-) {1-(9+14)} | (+) 235 |
| (+) 13 | 20. | Primary Deficit (-)/Surplus (+) {(1+5)-(17-10)} | (+) 129 |

During the current year, revenue receipts increased by 23 per cent (Rs.395 crore) while revenue expenditure increased by 14 per cent (Rs.233 crore) over the previous year, resulting in increase in surplus of Rs.162 crore in revenue account. Given the increase in revenue surplus of Rs.162 crore and the marginal decrease of Rs.2 crore in non-debt capital receipts and the increase of Rs.56 crore on account of increase in capital expenditure (Rs.61 crore) and decrease in loans and advances disbursed (Rs.5 crore) during 2006-07 over the previous year, fiscal deficit decreased by Rs.104 crore during the current year. The decrease in fiscal deficit accompanied by an increase of Rs.12 crore in interest payments during 2006-07 over the previous year, led to a significant improvement in primary surplus by Rs.116 crore.

1.2 Methodology adopted for assessment of Fiscal Position

The trends in the major fiscal aggregates of receipts and expenditure emerging from the Statements of Finance Accounts were analysed wherever necessary over the period from 2001-02 to 2006-07 and observations have been made on their behaviour. In its Restructuring Plan of State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States enact the Fiscal Responsibility (FR) Act and draw their fiscal correction path accordingly for the five year period (2005-06 to 2009-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in its FR Act and in other statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP)² is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage to the GSDP at current prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure, *etc.* with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure, *etc.* are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The trends in growth and composition of GSDP for last six years are presented in **Table 1.3**.

² GSDP is defined as the total income of the State or the market value of goods and services using labour and all other factors of production.

Table 1.3: Trends in Growth of GSDP

| Estimates | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|-----------------------------------|---------|---------|---------|---------|---------|---------|
| GSDP (Rupees in crore) | 4,615 | 4,900 | 5,504 | 5,980 | 6,470 | 7,052 |
| GSDP (Rate of Growth in per cent) | 13.98 | 6.18 | 12.33 | 8.65 | 8.19 | 9.00 |

Source: *New GSDP Series furnished (October 2007) by the Directorate of Economics and Statistics, Government of Meghalaya.*

The key fiscal aggregates for the purpose have been grouped under four major heads: (i) Trends and Composition of Aggregate Receipts, (ii) Application of Resources, (iii) Assets and Liabilities, and (iv) Management of Deficits (**Appendices 1.2 to 1.6**). The overall financial performance of the State Government as a body corporate has been presented by application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. The definitions of some of the selected terms used in assessing the trends and pattern of fiscal aggregates are given in **Appendix 1.1 – Part C**.

1.2.1 The Fiscal Responsibility and Budget Management Act

The State Government has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 to (i) ensure fiscal prudence, stability and efficiency, (ii) achieve fiscal consolidation for facilitating the generation of revenue surplus for enhancing the scope for improvement of investment in the social and economic sectors/infrastructure, (iii) ensure fiscal and debt sustainability through progressive reduction of the fiscal deficit and proper debt management system, and (iv) provide a more transparent and accountable system of budgeting that will ensure an efficient and effective system of governance. The MFRBM Act, 2006 came into force on 6 November 2006. To give effect to the fiscal management principles as laid down in the Act and/or the rules framed thereunder, the Act prescribed the following targets:

- maintain revenue surplus at least at the same level as determined by the TFC for the base year 2003-04;
- reduce fiscal deficit in each of the financial years beginning from 1st day of April 2006, in a manner that will enable the State to achieve fiscal deficit of 3 per cent of GSDP by 2008-09;
- ensure that total outstanding liabilities on the Consolidated Fund are not more than 28 per cent of the GSDP;
- restrict issuing of guarantees except on selective basis where the quality and viability of the scheme to be guaranteed is properly analysed;
- bring out an annual statement that gives a perspective on the State's economy and related fiscal strategy; and,

- bring a special report along with the budget giving details of the number of employees in the Government, Public Sector Undertakings and aided institutions and related salaries.

The Act also provides that above limits may exceed on account of unforeseen circumstances such as natural calamities, internal disturbances and shortfall in the transfer of financial resources from the GOI.

1.2.1.1 Roadmap to Achieve the Fiscal Targets as laid down in FRBM Act/Rules

The State Government has also developed its own Fiscal Correction Path (FCP) detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the MFRBM Act (**Appendix 1.2**).

1.2.1.2 Fiscal Performance

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under Debt Consolidation and Relief Facility (DCRF)³. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and rescheduling will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. In effect, if the revenue deficit is brought to zero, the entire repayment during the period will be written off. As a result of improved fiscal performance in terms of this criterion, Meghalaya Government received a debt waiver of Rs.14.90 crore from the GOI under DCRF during 2006-07.

The State, however, failed to achieve fiscal targets laid down in the FCP as well as in the Budget for the year 2006-07, as the year 2006-07 ended with a revenue surplus of Rs.235 crore against the target of Rs.340 crore. The outstanding fiscal liabilities at 39 *per cent* of the GSDP during the current year also exceeded the target of 28 *per cent* fixed in the MFRBM Act, 2006. But, fiscal deficit did not exceed 3 *per cent* of GSDP during the current year itself though as per the MFRBM Act it was to be achieved by 2008-09.

1.3 Trends and Composition of Aggregate Receipts

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of Union taxes and duties and grants-in-aid from the GOI.

³ In pursuance of the recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States, GOI formulated a scheme "**The States' Debt Consolidation and Relief Facility (DCRF) (2005-06 to 2009-10)**" under which general debt relief is provided by consolidating and rescheduling the Central loans granted to States at substantially reduced rates of interest on enacting the FRBM Act and debt waiver is granted based on fiscal performance, linked to the reduction of revenue deficits of States.

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 the GOI as well as accruals from Public Account. **Table 1.4** shows that the total receipts of the State Government for the year 2006-07 were Rs.3,663 crore. Of these, revenue receipts were Rs.2,142 crore only, constituting 58 *per cent* of the total receipts. The balance came mainly from borrowings and public account receipts.

Table 1.4 – Trends in Growth and Composition of Aggregate Receipts

| (Rupees in crore) | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| Sources of State's Receipts | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| I. Revenue Receipts | 1,123 | 1,289 | 1,399 | 1,546 | 1,747 | 2,142 |
| II. Capital Receipts | 172 | 310 | 337 | 316 | 269 | 263 |
| (a) Recovery of Loans and Advances | 16 | 15 | 18 | 19 | 19 | 17 |
| (b) Public Debt Receipts ⁴ | 156 | 295 | 319 | 297 | 250 | 246 |
| (c) Miscellaneous Capital Receipts | ... | ... | ... | ... | ... | ... |
| III. Contingency Fund Receipts | ... | ... | ... | ... | ... | ... |
| IV. Public Account Receipts | 774 | 935 | 874 | 980 | 1,108 | 1,258 |
| (a) Small Savings, Provident Fund, etc. | 86 | 97 | 120 | 130 | 89 | 91 |
| (b) Reserve Funds | 8 | 9 | 10 | 18 | 20 | 21 |
| (c) Deposits and Advances | 179 | 252 | 154 | 165 | 343 | 342 |
| (d) Suspense and Miscellaneous | 11 | 48 | - 11 | 18 | (-) 18 | 30 |
| (e) Remittances | 490 | 529 | 601 | 649 | 674 | 774 |
| Total Receipts | 2,069 | 2,534 | 2,610 | 2,842 | 3,124 | 3,663 |

Out of the total receipts under Public Account, remittances constituted about 62 *per cent*. While 68 *per cent* (Rs.525 crore) of the remittances have come from Public Works remittances, Cash remittances between treasury and currency chests and Forest remittances constituted 20 *per cent* (Rs.159 crore) and 12 *per cent* (Rs.90 crore) respectively.

1.3.1 Revenue Receipts

Statement 11 of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from the GOI. Overall revenue receipts, their annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in **Table 1.5**.

⁴ Included net (Nil) Ways and Means Advances also.

Table 1.5 – Revenue Receipts-Basic Parameters**(Rupees in crore)**

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|----------------|----------------|----------------|----------------|----------------|------------------|
| Revenue Receipts (RR) (Rupees in crore) | 1,123 | 1,289 | 1,399 | 1,546 | 1,747 | 2,142 |
| Own Taxes (<i>per cent</i>) | 136 (12.11) | 145 (11.25) | 178 (12.72) | 208 (13.46) | 253 (14.48) | 305 (14.24) |
| Non-Tax Revenue (<i>per cent</i>) | 94 (8.37) | 93 (7.22) | 129 (9.22) | 133 (8.60) | 146 (8.36) | 184 (8.59) |
| Central Tax Transfers (<i>per cent</i>) | 165 (14.69) | 176 (13.65) | 225 (16.08) | 269 (17.40) | 350 (20.03) | 447 (20.87) |
| Grants-in-aid (<i>per cent</i>) | 728 (64.83) | 875 (67.88) | 867 (61.98) | 936 (60.54) | 998 (57.13) | 1,206 (56.30) |
| Rate of Growth of RR (<i>per cent</i>) | - 0.80 | 14.78 | 8.53 | 10.51 | 13.00 | 22.61 |
| Rate of Growth of Own Taxes (<i>per cent</i>) | 14.29 | 6.62 | 22.76 | 16.85 | 21.63 | 20.55 |
| RR/GSDP (<i>per cent</i>) | 24.33 | 26.31 | 25.42 | 25.85 | 27.00 | 30.37 |
| Buoyancy Ratio⁵ | | | | | | |
| Revenue Buoyancy Ratio | - 0.057 | 2.394 | 0.692 | 1.215 | 1.587 | 2.514 |
| State's Own Taxes Buoyancy Ratio | 1.022 | 1.072 | 1.846 | 1.949 | 2.640 | 2.285 |
| Revenue Buoyancy Ratio with reference to State's Own Taxes | - 0.056 | 2.233 | 0.375 | 0.624 | 0.601 | 1.100 |
| GSDP Growth (<i>per cent</i>) | 13.98 | 6.18 | 12.33 | 8.65 | 8.19 | 9.00 |

General Trends

The revenue receipts of the State increased from Rs.1,123 crore in 2001-02 to Rs.2,142 crore in 2006-07. There were, however, wide inter-year variations in the growth rates. From a negative 0.80 *per cent* in 2001-02, the growth rate of revenue receipts reached to a level of 22.61 *per cent* in 2006-07. The sharp increase in revenue receipts during 2006-07 over the previous year was mainly on account of increase in Central tax transfers (27.71 *per cent*) followed by non-tax revenue (26.03 *per cent*), grants-in-aid from the GOI (20.84 *per cent*) and tax revenue (20.55 *per cent*). Revenue buoyancy ratio with reference to GSDP has significantly increased from 1.587 in 2005-06 to 2.514 in 2006-07. This buoyancy ratio with reference to the State's own tax revenue has also increased sharply during the current year mainly on account of enhanced Central transfers.

The mobilisation of State's own resources *vis-à-vis* assessments made by the TFC and State Government are given below:

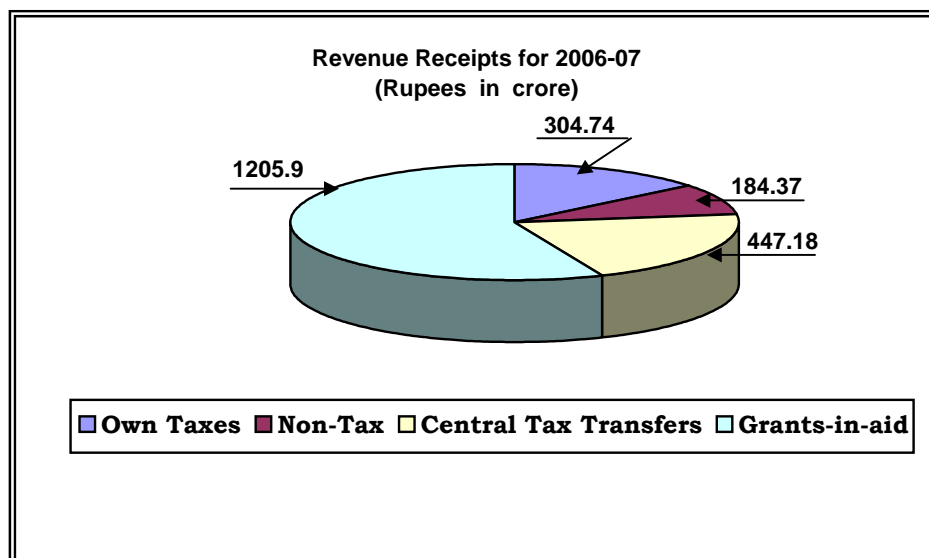
Table 1.6**(Rupees in crore)**

| | Assessments made by TFC | Assessments made by State Government in FCP and Budget-2006-07 | Actuals |
|-----------------|-------------------------|--|---------|
| Tax Revenue | 276 | 268 | 305 |
| Non-Tax Revenue | 180 | 173 | 184 |

⁵ 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 2.514 during 2006-07 implies that revenue receipts tend to increase by 2.514 percentage points if the GSDP increases by one *per cent*.

Tax revenue increased by 10.51 per cent and the non-tax revenue by 2.22 per cent over the assessments made by the TFC. The actual realisation also exceeded the assessments made by the State Government.

Chart 1.1



Tax Revenue

The tax revenue has increased by 20.55 per cent during the current year (Rs.305 crore) over the previous year (Rs.253 crore). The revenue from sales taxes not only contributed major share of tax revenue (71 per cent) but also increased by 25 per cent over the previous year. State excise and taxes on vehicles remained other major contributors in the State's tax revenue. **Table 1.7** below shows the trend of tax revenue during 2001-07:

Table 1.7

(Rupees in crore)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|------------------------------|------------|------------|------------|------------|------------|------------|
| Taxes on Sales, Trade, etc. | 81 | 87 | 110 | 127 | 173 | 216 |
| State Excise | 42 | 45 | 53 | 63 | 59 | 54 |
| Taxes on Vehicles | 5 | 5 | 6 | 7 | 9 | 9 |
| Stamps and Registration Fees | 3 | 3 | 3 | 5 | 6 | 6 |
| Land Revenue | 1 | 0.32 | 0.49 | 0.29 | 0.33 | 6 |
| Other Taxes ⁶ | 4 | 4.68 | 5.51 | 5.71 | 5.67 | 14 |
| Total | 136 | 145 | 178 | 208 | 253 | 305 |

Non-Tax Revenue

The non-tax revenue, which constituted 8.59 per cent of total revenue receipts, has increased by Rs.38 crore recording a growth rate of 26 per cent over previous year. The debt waiver (Rs.14.90 crore) given by the GOI under

⁶ 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.

DCRF booked under the head ‘Miscellaneous General Services’ led to a sharp increase in non-tax revenue of the State. Non-ferrous mining and metallurgical industries (Rs.109.03 crore) and forestry and wild life (Rs.16.66 crore) were the other major contributors to the non-tax revenue.

The TFC applied 12.5 *per cent* annual rate of growth for revenue receipts under General Services and 25 *per cent* for both Social and Economic Services in the forecast period (2005-10) reflecting the need for the States to achieve a greater degree of cost recovery in these services while estimating the State’s own revenues for the period to assess the non-plan revenue deficit position of the State. While the growth of revenue receipts under General Services (107 *per cent*) during 2006-07 over that of previous year far surpassed the projected growth rate, the growth under Social Services (3 *per cent*) and Economic Services (11 *per cent*) was less than the projected rate by 22 and 14 *per cent* respectively. In absolute terms, revenue receipts under General, Social and Economic Services during 2006-07 increased by Rs.18.56 crore, Rs.0.09 crore and Rs.13.03 crore respectively over the previous year. The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government were negligible (0.9 *per cent* for secondary education, 1.21 *per cent* for medical and public health and 0.75 *per cent* for water supply and sanitation).

Central Tax Transfers

The Central Tax transfers increased by Rs.97 crore over the previous year and constituted 21 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs.43 crore), taxes on income other than corporation tax (Rs.17 crore) and customs (Rs.19 crore).

Grants-in-Aid

The Grants-in-aid from the GOI increased from Rs.998 crore in 2005-06 to Rs.1,206 crore in the current year. The increase was mainly under State Plan Schemes (Rs.124 crore), Non-plan grants (Rs.66 crore), Central Plan Schemes (Rs.8 crore) and Special Plan Schemes (Rs.22 crore), partly offset by decrease in Centrally Sponsored Plan Schemes (Rs.8 crore). As per the recommendations of the TFC, the GOI released Rs.359 crore during the current year as grants to cover deficit on non-plan revenue account. Other components of non-plan grants mainly included (i) maintenance of roads and bridges on the recommendation of the TFC (Rs.22 crore), (ii) grants for local bodies (Rs.17 crore), (iii) grants for backward regions (Rs.15 crore), (iv) contribution to calamity relief fund (Rs.13 crore) and (v) grants for State specific purpose (Rs.12 crore).

Details of Grants-in-aid from the GOI are given in **Table 1.8**

Table 1.8 : Grants-in-Aid from the GOI

(Rupees in crore)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|------------|------------------|------------|------------|------------|--------------|
| Grants for State Plan Schemes | 332 | 373 | 462 | 460 | 445 | 569 |
| Non-Plan Grants | 317 | 408 | 329 | 361 | 406 | 472 |
| Grants for Central Plan Schemes | 2 | (⁷) | 1 | 4 | 3 | 11 |
| Grants for Centrally Sponsored Schemes | 67 | 76 | 62 | 87 | 119 | 107 |
| Grants for Special Plan Schemes | 10 | 18 | 13 | 24 | 25 | 47 |
| Total | 728 | 875 | 867 | 936 | 998 | 1,206 |
| Percentage of increase (+)/ decrease (-) over previous year | (-) 4.46 | (+) 20.19 | (-) 0.91 | (+) 7.96 | (+) 6.62 | (+) 20.84 |

1.3.2 Revenue Arrears

Besides, the arrears of tax revenue at the end of March 2007 in respect of some principal heads of revenue were Rs.26.54 crore, which constituted 8.71 *per cent* of tax revenue of the State for the year 2006-07. Of these, Rs.19.67 crore (74.11 *per cent*) were more than five years old. An analysis of revenue arrears revealed that 81 *per cent* of pending arrears related to sales tax followed by other taxes (10 *per cent*). Further, 80 *per cent* of sales tax arrears (Rs.17.29 crore), 88 *per cent* of arrears under other taxes (Rs.2.31 crore) and 23 *per cent* arrears under motor spirits (Rs.0.07 crore) were more than five years old. As the pending revenue arrears constituted about 9 *per cent* of tax revenue of the State during 2006-07, appropriate steps need to be initiated by the State Government for their recovery, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

1.4 Application of Resources

1.4.1 Growth of Expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. States raise resources to perform their sovereign functions, maintain their existing nature of delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations. Total expenditure, its annual growth rate and ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.9**.

⁽⁷⁾ Rs.63.18 lakh

Table 1.9 – Total Expenditure – Basic Parameters

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---------|---------|---------|---------|---------|---------|
| Total Expenditure (TE) ⁸ (Rupees in crore) | 1,360 | 1,466 | 1,619 | 1,878 | 1,944 | 2,233 |
| Rate of Growth (<i>per cent</i>) | -2.44 | 7.79 | 10.44 | 16.00 | 3.51 | 14.87 |
| TE/GSDP Ratio (<i>per cent</i>) | 29.47 | 29.92 | 29.41 | 31.40 | 30.05 | 31.66 |
| Revenue Receipts/TE Ratio (<i>per cent</i>) | 82.57 | 87.93 | 86.41 | 82.32 | 89.87 | 95.92 |
| Buoyancy Ratio of Total Expenditure with reference to: | | | | | | |
| GSDP | - 0.174 | 1.262 | 0.847 | 1.850 | 0.429 | 1.653 |
| Revenue Receipts | -3.068 | 0.527 | 1.223 | 1.522 | 0.270 | 0.658 |

The total expenditure during the current year has increased by Rs.289 crore (14.87 *per cent*) over the previous year. Of the increase in total expenditure, revenue expenditure formed 81 *per cent* (Rs.233 crore) and capital expenditure component was 21 *per cent* (Rs.61 crore), while disbursement of loans and advances decreased by 2 *per cent* (Rs.5 crore). While the share of plan expenditure constituted 39 *per cent* (Rs.881 crore) of the total expenditure, the remaining 61 *per cent* was non-plan expenditure (Rs.1,352 crore). The increase in revenue expenditure was mainly due to increased expenditure under Rural Development (Rs.33.12 crore), Water Supply, Sanitation, Housing and Urban Development (Rs.24.91 crore), Transport (Rs.24.01 crore) and Energy (Rs.22.50 crore). Capital expenditure has increased mainly on account of increased expenditure under Transport (Rs.21.56 crore) and Special Areas Programme (Rs.20.50 crore).

During the current year, 96 *per cent* (Rs.2,142 crore) of total expenditure was met from revenue receipts and the remaining (Rs.91 crore) from borrowed funds. The buoyancy of total expenditure to GSDP stood at 1.7 in 2006-07 indicating tendency to spend more than the increase in income and higher elasticity of total expenditure with respect to GSDP.

1.4.2 Trends in Total Expenditure by Activities

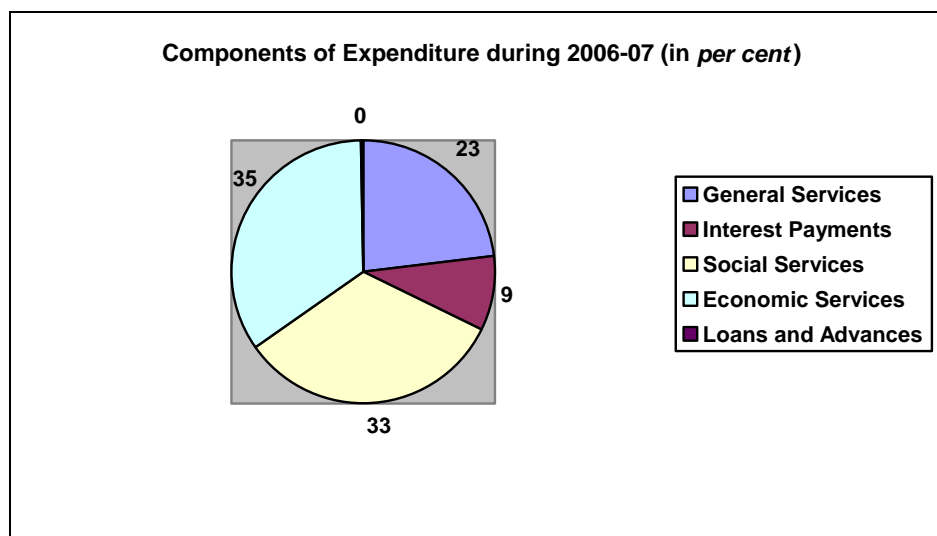
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.10**.

Table 1.10 – Components of Expenditure-Relative Share*(In per cent)*

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|
| General Services | 31.99 | 33.49 | 34.03 | 31.68 | 32.72 | 32.20 |
| <i>Of which Interest Payments</i> | 9.49 | 10.30 | 10.50 | 9.42 | 9.83 | 9.09 |
| Social Services | 36.84 | 33.70 | 34.78 | 35.52 | 34.41 | 33.18 |
| Economic Services | 28.01 | 27.69 | 26.87 | 30.88 | 32.30 | 34.35 |
| Loans and Advances | 3.16 | 5.12 | 4.32 | 1.92 | 0.57 | 0.27 |

⁸ Total expenditure includes revenue expenditure, capital expenditure and loans & advances.

Chart 1.2



The movement of the relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Of the total expenditure during 2006-07, expenditure on general services and interest payments, which is considered as non-developmental, together accounted for 32.2 per cent. On the other hand, expenditure on social and economic services together accounted for 67.53 per cent during 2006-07. The relative share of social services at 33.18 per cent in 2006-07 was less than the level of 2001-02. The relative share of economic services which ranged between 26.87 per cent and 32.3 per cent during the last five year period 2001-06 has marginally increased to 34.35 per cent in 2006-07 while loans and advances revealed wide fluctuations during the period 2001-06 and declined to 0.27 per cent during 2006-07.

1.4.3 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 1.11**.

Table 1.11 – Revenue Expenditure – Basic Parameters

| (Rupees in crore) | | | | | | |
|---|---------|---------|---------|---------|---------|---------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Revenue Expenditure (RE) | 1,157 | 1,205 | 1,314 | 1,596 | 1,674 | 1,907 |
| <i>Of which</i> | | | | | | |
| Non-Plan Revenue Expenditure (NPRE) | 884 | 949 | 1,004 | 1,120 | 1,183 | 1,341 |
| Plan Revenue Expenditure (PRE) | 273 | 256 | 310 | 476 | 491 | 566 |
| Rate of Growth of | | | | | | |
| RE (per cent) | 7.23 | 4.15 | 9.05 | 21.46 | 4.89 | 13.92 |
| NPRE (per cent) | 9.81 | 7.35 | 5.80 | 11.55 | 5.62 | 13.36 |
| PRE (per cent) | - 0.36 | - 6.23 | 21.09 | 53.55 | 3.15 | 15.27 |
| Ratios (per cent) | | | | | | |
| RE/TE (per cent) | 85.07 | 82.20 | 81.16 | 84.98 | 86.11 | 85.40 |
| NPRE/GSDP (per cent) | 19.15 | 19.37 | 18.24 | 18.73 | 18.28 | 19.02 |
| NPRE as per cent of TE | 65.00 | 64.73 | 62.01 | 59.64 | 60.85 | 60.05 |
| NPRE as per cent of RR | 78.72 | 73.62 | 71.77 | 72.45 | 67.72 | 62.60 |
| Buoyancy Ratio of Revenue Expenditure with | | | | | | |
| GSDP | 0.517 | 0.672 | 0.734 | 2.482 | 0.596 | 1.547 |
| Revenue Receipts | - 9.092 | 0.281 | 1.060 | 2.042 | 0.376 | 0.616 |

The revenue expenditure increased by 65 per cent from Rs.1,157 crore in 2001-02 to Rs.1,907 crore in 2006-07. The non-plan revenue expenditure during the same period increased from Rs.884 crore to Rs.1,341 crore, showing an increase of 52 per cent indicating that the share of NPRE in total revenue expenditure declined only marginally from 76 per cent in 2001-02 to 70 per cent in 2006-07. As a result, plan revenue expenditure, which normally covers the maintenance expenditure incurred on services, has only increased by Rs.293 crore during 2001-07 keeping its share in total revenue expenditure between 21 and 30 per cent during the period. The growth of PRE during 2006-07 significantly improved to 15.27 per cent against 3.15 per cent during previous year mainly due to increase in expenditure on rural development by Rs.33.42 crore followed by Rs.8.65 crore under energy sector and Rs.5.68 crore under social welfare and nutrition. Though the rate of growth of NPRE (13.36 per cent) in 2006-07 was less than that of the PRE, this expenditure at Rs.1,341 crore during the year was 11.47 per cent (Rs.138 crore) higher than the normatively assessed level of Rs.1,203 crore by the TFC and 4.6 per cent (Rs.59 crore) higher than the assessments made by the State Government in its FCP and Budget estimate for the year (Table 1.12).

Table 1.12 : Non-Plan Revenue Expenditure: Actual vis-à-vis Normative Assessment by TFC

| Particulars | Assessed by the TFC | Assessments made by State Government in FCP and Budget - 2006-07 | Actual | Difference with reference to {Excess (+)/ Less (-)} | |
|------------------------|---------------------|--|--------------|---|-----------------------------|
| | | | | Assessments made by the TFC | Assessments made in the FCP |
| | | | | Interest Payments | 212 |
| Pension | 97 | 95 | 118 | + 21 | + 23 |
| Other General Services | 249 | Details not available (NA) | 357 | + 108 | NA |
| Social Services | 433 | | 390 | - 43 | |
| Economic Services | 212 | | 273 | + 61 | |
| Total | 1,203 | 1,282 | 1,341 | + 138 | + 59 |

Except for interest payments and expenditure on social services, the actual expenditure incurred on all other components of non-plan revenue expenditure was more than the assessments made by the TFC.

1.4.4 Committed Expenditure

Expenditure on Salaries and Wages

The trends in expenditure on salaries and wages both under plan and non-plan heads are presented in **Table 1.13**.

Table 1.13 : Expenditure on Salaries and Wages

| (Rupees in crore) | | | | | | |
|--|------------------------------|---------|---------|---------|---------|---------|
| Heads | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Expenditure on Salaries and Wages ⁹ | 536 | 576 | 622 | 553 | 602 | 659 |
| <i>Of which</i> | | | | | | |
| <i>Non-Plan Head</i> | <i>Details not available</i> | | | 464 | 502 | 547 |
| <i>Plan Head</i> | | | | 89 | 100 | 112 |
| As percentage of GSDP | 11.61 | 11.76 | 11.30 | 9.25 | 9.30 | 9.34 |
| As percentage of Revenue Receipts | 47.73 | 44.69 | 44.46 | 35.77 | 34.46 | 30.77 |

The expenditure on salaries and wages increased by 9.47 per cent during 2006-07 over the previous year and accounted for 9.34 per cent of State's GDP and 30.77 per cent of the revenue receipts. Though the State was successful in restricting the expenditure on salaries during 2006-07 as assessed in its FCP (Rs.826 crore) and Budget estimate for the year, the total salary bill (Rs.659 crore) at 41.55 per cent relative to revenue expenditure net of interest payment and pension (Rs.1,586) exceeded the norm of 35 per cent prescribed by the TFC.

1.4.5 Pension Payments

The expenditure on pension (including other retirement benefits) showed an increasing trend during the six year period 2001-07 (**Table 1.14**).

Table 1.14 : Expenditure on Pension (including other retirement benefits)

| Heads | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|---------|
| Expenditure on Pension and other Retirement Benefits (Rupees in crore) | 58 | 67 | 76 | 87 | 93 | 118 |
| Rate of Growth | 5.45 | 15.52 | 13.43 | 14.47 | 6.90 | 26.88 |
| As per cent of GSDP | 1.26 | 1.37 | 1.38 | 1.45 | 1.44 | 1.67 |
| As per cent of Revenue Receipts | 5.16 | 5.20 | 5.43 | 5.63 | 5.32 | 5.51 |

⁹ 2001-04: Salaries only on the basis of information furnished by the Finance (Economic Affairs) Department, Government of Meghalaya; 2004-07: Salaries and wages as per information furnished by the Accountant General (Accounts & Entitlement). Salaries exclude grants-in-aid towards salaries.

Pension payments during the current year have increased by Rs.25 crore recording a growth rate of about 27 *per cent* over the previous year mainly on account of increase in the number of pensioners and family pensioners over previous year. A comparative analysis of actual pension payments and the assessment/projections made by the TFC and the State Government (**Table 1.15**) reveals that actual pension payments exceeded the projections made by the TFC and the State Government.

Table 1.15 : Actual Pension Payments *vis-à-vis* Projection

| (Rupees in crore) | | | |
|-------------------|----------------------------|---|--------------------------------|
| | Assessment made by the TFC | Assessment made by the State Government in FCP and Budget – 2006-07 | Actual expenditure on Pensions |
| Pension Payments | 97 | 95 | 118 |

1.4.6 Interest Payments

Interest payments and their ratio to revenue receipts and revenue expenditure during 2001-07 are detailed in **Table 1.16**.

Table 1.16: Interest Payments

| Year | Revenue Receipts | Interest payment | Percentage of interest with reference to | |
|---------|-------------------|------------------|--|---------------------|
| | (Rupees in crore) | | Revenue Receipts | Revenue Expenditure |
| 2001-02 | 1,123 | 129 | 11.49 | 11.15 |
| 2002-03 | 1,289 | 151 | 11.71 | 12.53 |
| 2003-04 | 1,399 | 170 | 12.15 | 12.94 |
| 2004-05 | 1,546 | 177 | 11.45 | 11.09 |
| 2005-06 | 1,747 | 191 | 10.93 | 11.41 |
| 2006-07 | 2,142 | 203 | 9.48 | 10.64 |

Interest payments increased steadily by 57 *per cent* from Rs.129 crore in 2001-02 to Rs.203 crore in 2006-07. The consolidation and reschedulement of the GOI loans, to some extent helped the State Government in restricting the growth of interest payment to 6.28 *per cent* against 7.91 *per cent* during previous year. Interest payments were on market loans (Rs.86 crore), Special Securities issued to National Small Savings Fund of the Central Government (Rs.26 crore), other internal debt (Rs.20 crore), loans and advances received from Central Government (Rs.43 crore) and Small Savings, Provident Fund, *etc.* (Rs.28 crore). Of the total interest payments during the year, over 42 *per cent* (Rs.86 crore) was paid for market borrowings. The rate of growth of interest payments during 2006-07 over the previous year at 6.28 *per cent* was marginally lower than the average growth rate of 7.5 *per cent* assigned by the TFC while projecting the interest payments of Special Category States for the forecast period.

1.4.7 Subsidies

The trends in subsidies given by the State Government are given in **Table 1.17**. Though the subsidies are a drain on State finances, the State Government is extending subsidies to various sectors.

Table 1.17: Subsidies

| Year | Amount (Rupees in crore) | Percentage increase (+)/ decrease (-) over previous year | Percentage of subsidy in total expenditure |
|---------|-----------------------------|--|--|
| 2001-02 | 24 | - 14 | 1.82 |
| 2002-03 | 33 | + 37 | 2.37 |
| 2003-04 | 30 | - 9 | 1.94 |
| 2004-05 | 28 | - 7 | 1.52 |
| 2005-06 | 20 | - 29 | 1.03 |
| 2006-07 | 34 | + 70 | 1.52 |

(Total expenditure excludes Loans and Advances)

Source: 2001-05: Information furnished by the Finance (Economic Affairs) Department, Government of Meghalaya; 2005-07: Finance Accounts – Government of Meghalaya.

During the current year, subsidies constituted 1.52 per cent of the total expenditure. Of this, 71 per cent (Rs.24.15 crore) was paid to the Meghalaya State Electricity Board (MeSEB), which was almost double the projection (Rs.12.50 crore) made in the FCP/Budget for the year 2006-07. The remaining amount of subsidies was paid for fiscal services, viz. under the head Taxes on Vehicles (Rs.3 crore), Fisheries (Rs.2.86 crore), Crop Husbandry¹⁰ (Rs.2.31 crore), Animal Husbandry (Rs.0.80 crore) and Civil Supplies (Rs.1.18 crore). Steep increase by 70 per cent over previous year was mainly due to increase in payment of subsidies to the MeSEB by Rs.14 crore and under Agriculture and Allied Services by Rs.5 crore.

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure being spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. Higher the ratio of these components to total expenditure and GSDP, better is the quality of expenditure. **Table 1.18** gives these ratios during 2001-07.

¹⁰ Manures and fertilisers, commercial crops, agricultural engineering, horticulture and vegetable crops.

Table 1.18 : Indicators of Quality of Expenditure**(Rupees in crore)**

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|-----------------------|--------------|--------------|--------------|--------------|--------------|
| Capital Expenditure | 160 | 186 | 235 | 246 | 259 | 320 |
| Revenue Expenditure | 1,157 | 1,205 | 1,314 | 1,596 | 1,674 | 1,907 |
| <i>Of which</i> | | | | | | |
| Social and Economic Services with | 728 | 721 | 788 | 1,009 | 1,049 | 1,204 |
| (i) Salary & Wage Component | Details not available | | | 342 | 376 | 414 |
| (ii) Non-Salary & Wage Component | | | | 667 | 673 | 790 |
| As per cent of Total Expenditure (excluding loans and advances) | | | | | | |
| Capital Expenditure | 12.15 | 13.37 | 15.17 | 13.36 | 13.40 | 14.37 |
| Revenue Expenditure | 87.85 | 86.63 | 84.83 | 86.64 | 86.60 | 85.63 |
| As per cent of GSDP | | | | | | |
| Capital Expenditure | 3.47 | 3.80 | 4.27 | 4.11 | 4.00 | 4.54 |
| Revenue Expenditure | 25.07 | 24.59 | 23.87 | 26.69 | 25.87 | 27.04 |

Revenue expenditure constituted 85 per cent to 88 per cent of total expenditure during 2001-07 resulting in less expenditure in capital account ranging between 12 per cent and 15 per cent. During 2006-07, capital expenditure was also less than that projected (Rs.401 crore) in the FCP by Rs.81 crore. However, the ratio of capital expenditure to GSDP has increased from 3.47 per cent in 2001-02 to 4.54 per cent in 2006-07. The non-salary component constituted 66 per cent of revenue expenditure under social and economic services during 2006-07 and increased by 17.38 per cent over previous year, against 10.11 per cent on salary component. These trends indicated the improvement in the quality of expenditure and the impetus being given to asset formation.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities, etc. have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. **Table 1.19** summarises the expenditure incurred by the State Government in expanding and strengthening social services in the State during 2001-07.

Table 1.19 : Expenditure on Social Services

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|--------------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|---------------------------------|
| (Rupees in crore) (Per cent in brackets) | | | | | | |
| Education, Sports, Art and Culture | | | | | | |
| Revenue Expenditure | 248.86 | 240.75 | 267.81 | 308.32 | 311.07 | 325.52 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary & Wage Component</i> | <i>Details not available</i> | | | 104.86 (34.01) | 109.85 (35.31) | 123.92 (38.07) |
| (b) <i>Non-Salary & Wage Component</i> | | | | 203.46 (65.99) | 201.22 (64.69) | 201.60 (61.93) |
| Capital Expenditure | 1.22 | 1.55 | 1.26 | 1.83 | 0.70 | 2.02 |
| Health and Family Welfare | | | | | | |
| Revenue Expenditure | 82.07 | 81.86 | 82.56 | 86.39 | 94.03 | 99.11 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary & Wage Component</i> | <i>Details not available</i> | | | 65.88 (76.26) | 78.28 (83.25) | 83.00 (83.75) |
| (b) <i>Non-Salary & Wage Component</i> | | | | 20.51 (23.74) | 15.75 (16.75) | 16.11 (16.25) |
| Capital Expenditure | 10.29 | 11.89 | 14.32 | 14.51 | 17.23 | 18.06 |
| Water Supply, Sanitation, Housing and Urban Development | | | | | | |
| Revenue Expenditure | 66.33 | 67.11 | 69.76 | 83.50 | 82.05 | 106.96 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary & Wage Component</i> | <i>Details not available</i> | | | 26.19 (31.37) | 28.73 (35.02) | 32.71 (30.58) |
| (b) <i>Non-Salary & Wage Component</i> | | | | 57.31 (68.63) | 53.32 (64.98) | 74.25 (69.42) |
| Capital Expenditure | 53.65 | 52.64 | 63.88 | 90.39 | 88.59 | 98.73 |
| Other Social Services | | | | | | |
| Revenue Expenditure | 38.67 | 36.17 | 59.01 | 79.55 | 67.60 | 82.71 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary & Wage Component</i> | <i>Details not available</i> | | | 15.75 (19.80) | 17.12 (25.33) | 18.55 (22.43) |
| (b) <i>Non-Salary & Wage Component</i> | | | | 63.80 (80.20) | 50.48 (74.67) | 64.16 (77.57) |
| Capital Expenditure | ... | 1.94 | 4.37 | 2.44 | 8.00 | 7.99 |
| Total (Social Services) | 501.09 | 493.91 | 562.97 | 666.93 | 669.27 | 741.10 |
| Revenue Expenditure | 435.93 | 425.89 | 479.14 | 557.76 | 554.75 | 614.30 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary & Wage Component</i> | <i>Details not available</i> | | | 212.68 (38.13) | 233.98 (42.18) | 258.18 (42.03) |
| (b) <i>Non-Salary & Wage Component</i> | | | | 345.08 (61.87) | 320.77 (57.82) | 356.12 (57.97) |
| Capital Expenditure | 65.16 (13.00) | 68.02 (13.77) | 83.83 (14.89) | 109.17 (16.37) | 114.52 (17.11) | 126.80 (17.11) |

The allocation to social sector increased from Rs.501 crore in 2001-02 to Rs.741 crore in 2006-07 indicating the Government's commitment for improving social well being of the society. Expenditure on social sector during current year accounted for 33 per cent of total expenditure and 49 per cent of development expenditure¹¹. Expenditure on education, sports, art and culture, health and family welfare and water supply and sanitation, housing and urban development constituted about 88 per cent of the expenditure on social sector.

The trends in revenue and capital expenditure on social services during 2001-07 reveal that the share of capital expenditure remained within the range of 13 to 17.11 per cent which indicated that the revenue expenditure was

¹¹ Development expenditure is defined as the total expenditure made on social and economic services.

dominant. Of the revenue expenditure on social services, the share of salary and wage component has marginally decreased from 42.18 *per cent* in 2005-06 to 42.03 *per cent* in 2006-07 implying more expenditure on non-salary components including on their maintenance. The non-salary and wage expenditure on social services has increased by 3.2 *per cent* during 2004-07 from Rs.345.08 crore in 2004-05 to Rs.356.12 crore in 2006-07. Within the priority sector, non-salary and wage component continues to share dominantly under education, sports, art and culture and water supply, sanitation, housing and urban development and high salary and wage expenditure during 2004-07 (76 *per cent* to about 84 *per cent*) under health and family welfare services.

Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education, health and family welfare should increase only by 5 to 6 *per cent*, while non-salary expenditure under non-plan heads should increase by 30 *per cent* per annum during the award period. The trends in expenditure (taking expenditure under both plan and non-plan heads) reveal that the salary and wage component under education sector increased by 5 *per cent* in 2005-06 and 13 *per cent* in 2006-07 over the respective previous years while non-salary and wage component decreased by 1 *per cent* in 2005-06 and increased by a nominal 0.19 *per cent* in 2006-07. Under health and family welfare sector, while there was significant increase in salary and wage component by 19 *per cent* in 2005-06 over previous year, in 2006-07 the increase was 6 *per cent* under this component. Non-salary and wage component under this sector decreased by 23 *per cent* (Rs.4.76 crore) in 2005-06 and increased marginally by 2 *per cent* (Rs.0.36 crore) in 2006-07 over the previous years. Thus, expenditure pattern under both these sectors needs correction in the ensuing years.

1.5.3 Expenditure on Economic Services

The expenditure on economic services includes all such expenditure that promotes directly or indirectly, productive capacity within the States' economy. Under economic services, the revenue expenditure increased from Rs.292.29 crore in 2001-02 to Rs.590.11 crore in 2006-07, while capital expenditure increased from Rs.88.88 crore to Rs.177.23 crore (Table 1.20).

Table 1.20: Expenditure on Economic Services

(Rupees in crore) (Per cent in brackets)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|------------------------------|---------------|---------------|------------------|------------------|------------------|
| Agriculture and Allied Activities | | | | | | |
| Revenue Expenditure | 124.34 | 116.94 | 121.97 | 139.62 | 163.07 | 176.28 |
| <i>Of which</i> | | | | | | |
| (a) <i>Salary & Wage Component</i> | <i>Details not available</i> | | | 79.34 (56.83) | 85.75 (52.58) | 96.11 (54.52) |
| (b) <i>Non-Salary & Wage Component</i> | | | | 60.28 (43.17) | 77.32 (47.42) | 80.17 (45.48) |
| Capital Expenditure | 4.03 | 5.01 | 3.60 | 10.27 | 4.61 | 4.59 |

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|-------------------------------------|------------------------------|----------------|----------------|---------------------------|-------------------|-------------------|
| Irrigation and Flood Control | | | | | | |
| Revenue Expenditure | 9.03 | 9.01 | 9.53 | 10.82 | 12.65 | 13.76 |
| <i>Of which</i> | | | | | | |
| (a) Salary & Wage Component | <i>Details not available</i> | | | 7.13 (65.90) | 7.84 (61.98) | 8.53 (61.99) |
| (b) Non-Salary & Wage Component | | | | 3.69 (34.10) | 4.81 (38.02) | 5.23 (38.01) |
| Capital Expenditure | 10.54 | 6.61 | 6.17 | 5.19 | 7.58 | 5.61 |
| Energy | | | | | | |
| Revenue Expenditure | 11.50 | 11.36 | 19.23 | 88.85 | 67.97 | 90.47 |
| <i>Of which</i> | | | | | | |
| (a) Salary & Wage Component | <i>Details not available</i> | | | <i>Nil⁽¹²⁾</i> | | |
| (b) Non-Salary & Wage Component | | | | 88.85 | 67.97 | 90.47 |
| Capital Expenditure | ... | ... | ... | ... | ... | ... |
| Transport | | | | | | |
| Revenue Expenditure | 36.14 | 38.43 | 40.22 | 50.06 | 52.54 | 76.55 |
| <i>Of which</i> | | | | | | |
| (a) Salary & Wage Component | <i>Details not available</i> | | | <i>Nil⁽¹²⁾</i> | | |
| (b) Non-Salary & Wage Component | | | | 50.06 | 52.54 | 76.55 |
| Capital Expenditure | 50.15 | 87.40 | 91.85 | 90.18 | 86.03 | 107.59 |
| Other Economic Services | | | | | | |
| Revenue Expenditure | 111.28 | 119.07 | 117.57 | 162.18 | 198.17 | 233.05 |
| <i>Of which</i> | | | | | | |
| (a) Salary & Wage Component | <i>Details not available</i> | | | 43.20 (26.64) | 48.29 (24.37) | 51.32 (22.02) |
| (b) Non-Salary & Wage Component | | | | 118.98 (73.36) | 149.88 (75.63) | 181.73 (77.98) |
| Capital Expenditure | 24.16 | 12.02 | 25.09 | 22.61 | 35.38 | 59.44 |
| Total (Economic Services) | 381.17 | 405.85 | 435.23 | 579.78 | 628.00 | 767.34 |
| Revenue Expenditure | 292.29 | 294.81 | 308.52 | 451.53 | 494.40 | 590.11 |
| <i>Of which</i> | (76.68) | (72.64) | (70.89) | (77.88) | (78.73) | (76.90) |
| (a) Salary & Wage Component | <i>Details not available</i> | | | 129.67 (28.72) | 141.88 (28.70) | 155.96 (26.43) |
| (b) Non-Salary & Wage Component | | | | 321.86 (71.28) | 352.52 (71.30) | 434.15 (73.57) |
| Capital Expenditure | 88.88 | 111.04 | 126.71 | 128.25 | 133.60 | 177.23 |
| | (23.32) | (27.36) | (29.11) | (22.12) | (21.27) | (23.10) |

The expenditure on economic services during 2006-07 (Rs.767 crore) accounted for over 34 per cent of the total revenue and capital expenditure (Rs.2,227 crore) and 51 per cent of the development expenditure (Rs.1,508 crore) during the year. Out of the total expenditure on economic services during the year, 24 per cent was incurred on transport, 23.57 per cent on agriculture and allied services and 11.79 per cent on energy. The salary and wage component in total expenditure on economic services decreased to 20.32 per cent in 2006-07 from 22.37 per cent in 2004-05.

⁽¹²⁾ These sectors being under the respective Statutory Corporations (Energy: Meghalaya State Electricity Board; Transport: Meghalaya Transport Corporation), no provision for salary and wage is made in the State Budget.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from Rs.89 crore in 2001-02 to Rs.177 crore (98.88 *per cent*) in 2006-07. Revenue expenditure also consistently increased from Rs.292 crore in 2001-02 to Rs.590 crore (102 *per cent*) in the current year. An increase of Rs.96 crore (19.43 *per cent*) during 2006-07 over the previous year in revenue expenditure was mainly due to increase in rural development (Rs.33 crore), transport (Rs.24 crore) and energy (Rs.22 crore). Of the revenue expenditure, salary and wage component ranged between 26 and 29 *per cent* of the total revenue expenditure during 2004-07. It increased from Rs.130 crore in 2004-05 to Rs.156 crore (20 *per cent*) during the current year. The non-salary and wage component also increased from Rs.322 crore in 2004-05 to Rs.434 crore (34.78 *per cent*) indicating change in allocative priorities of the State Government.

1.5.4 Financial Assistance to Local Bodies and other Institutions

The quantum of assistance provided by way of grants and loans to local bodies and others during the six-year period 2001-07 is presented in **Table 1.21**.

Table 1.21: Financial Assistance

(Rupees in crore)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|------------|------------|------------|------------|------------|------------|
| University and Educational Institutions | 128 | 130 | 129 | 150 | 151 | 164 |
| Co-operative Societies | 3 | 2 | 2 | 2 | 2 | 5 |
| District Councils | 5 | 0.21 | 6 | 4 | 3 | 1 |
| Municipalities | 2 | 2 | 1 | 2 | 2 | 1 |
| Meghalaya State Electricity Board | 29 | 56 | 50 | 26 | 7 | 35 |
| Other Institutions ¹³ | 27 | 11 | 10 | 5 | 2 | 2 |
| Total | 194 | 201 | 198 | 189 | 167 | 208 |
| Assistance as percentage of Revenue Expenditure | 16.77 | 16.68 | 15.07 | 11.84 | 9.98 | 10.91 |

The financial assistance extended to local bodies and other institutions with inter-year variations increased by 25 *per cent* from Rs.167 crore in 2005-06 to Rs.208 crore in 2006-07. The share of financial assistance in revenue expenditure in the current year also increased from 9.98 *per cent* in 2005-06 to 10.91 *per cent* during the current year. Another important trend emerging from the above table is that share of Electricity Board has sharply increased by five times from Rs.7 crore in 2005-06 to Rs.35 crore in 2006-07 indicating that substantial amount of financial assistance is being given to the Public Sector Undertaking. University and Educational Institutions were the main beneficiaries, who were provided with 79 *per cent* of the total financial assistance during 2006-07. Of Rs.164 crore provided to

¹³ Other Institutions (figures for 2006-07 in brackets): Prevention and control of water pollution (Rs.90.76 lakh), Khadi & Village Industries (Rs.78.54 lakh), Eco-Development Society (Rs.27.02 lakh), Public Sector and other undertakings (Rs.20.03 lakh), Housing Board (Rs.10 lakh), Small Scale Industries (Rs.8 lakh), Forest Development Corporation of Meghalaya (Rs.5 lakh), Indian Red Cross Society (Rs.5 lakh), others (Rs.1.79 lakh).

the University and Educational Institutions, Rs.101 crore was paid to non-Government primary/secondary schools and colleges for non-plan revenue purposes indicating transfer of funds for current consumption.

1.5.5 Non-submission of accounts

In order to identify the institutions which attract audit under Section 14/15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act), Government/Heads of Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose for which assistance was sanctioned and the total expenditure of the institutions. Information for the year 2006-07 called for in May 2007 from 12 departments¹⁴ was awaited as of July 2007.

1.5.6 Abstract of performance of Autonomous Bodies

The audit of accounts of the Meghalaya Khadi and Village Industries Board, Shillong up to 2009-10 was entrusted to the Comptroller and Auditor General of India under Section 19(3) of the DPC Act. The Board had not submitted the accounts for the years 2004-05 to 2006-07.

1.5.7 Misappropriation, losses, defalcation, etc.

State Government reported 85 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs.1.53 crore up to the period March 2007 on which final action was pending. The department-wise break up of pending cases is given in **Appendix 1.7**.

1.6 Assets and Liabilities

In the 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 1.3** gives an abstract of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances. **Appendix 1.6** depicts the time series data on State Government finances for the period 2001-07.

¹⁴ Agriculture, Education, Health & Family Welfare, Community & Rural Development, Industries, Urban Affairs, Information & Public Relation, Border Areas Development, Economics & Statistics, Mining & Geology, Housing and Arts & Culture Departments.

1.6.1 Financial Analysis of Government Investments

1.6.1.1 Incomplete Projects

According to the information available in **Appendix II** of the Finance Accounts for the year 2006-07, as of March 2007, there were 282 ongoing projects under the Public Health Engineering Department. Of these, 43 projects, stipulated for completion on or before 31 March 2007 at an estimated cost of Rs.13.26 crore, remained incomplete with an expenditure of Rs.11.76 crore till 31 March 2007. Out of 43 projects, 27 remained incomplete for less than one year and the remaining 16 projects for over one to three years.

1.6.1.2 Government Investments and Returns

As of 31 March 2007, Government had invested Rs.183.16 crore in Statutory Corporations, Government Companies and Co-operative Societies (**Table 1.22**). The return on this investment was less than one *per cent* during 2001-07 while the Government paid interest at an average rate of 7.62 to 9 *per cent* on its borrowings during the period.

Table 1.22: Return on Investment

| Year | Investment during the year | Investment at the end of the year | Return | Percentage of return | Average rate of interest on Government borrowing | Difference between interest rate and return |
|---------|----------------------------|-----------------------------------|--------|----------------------|--|---|
| | (Rupees in crore) | | | (Per cent) | | |
| 2001-02 | 14.84 | 140.38 | 0.11 | 0.08 | 8.81 | 8.73 |
| 2002-03 | 11.93 | 152.32 | 0.01 | 0.00 | 8.98 | 8.98 |
| 2003-04 | 10.58 | 162.89 | 0.18 | 0.11 | 9.00 | 8.89 |
| 2004-05 | 7.53 | 170.42 | 0.18 | 0.11 | 8.58 | 8.47 |
| 2005-06 | 6.89 | 177.31 | 0.01 | 0.01 | 8.06 | 8.05 |
| 2006-07 | 5.85 | 183.16 ⁽¹⁵⁾ | 0.01 | 0.01 | 7.62 | 7.61 |

As of March 2007, the State Government had invested Rs.40.19 crore in two Statutory Corporations, Rs.102.29 crore in eight Government Companies and Rs.40.68 crore in 1,438 Co-operative Societies. Of the two Statutory Corporations, bulk of the investment (Rs.38.60 crore) was made to the Meghalaya Transport Corporation Limited despite accumulated loss of Rs.50.64 crore sustained by the Corporation up to 2000-01. Out of Rs.102.29 crore invested in Government Companies, Rs.18.92 crore was invested in five loss making Companies, which had accumulated loss of Rs.22.87 crore as detailed in **Table 1.23**. Up-to-date working results of the Co-operative Societies had not been intimated (October 2007).

⁽¹⁵⁾ Figures in Chapter VII are provisional.

Table 1.23: Details of loss making Government Companies

(Rupees in crore)

| Sl. No. | Name of Companies | Amount invested up to March 2007 | Accumulated loss | Period up to ¹⁶ |
|---------|--|----------------------------------|------------------|----------------------------|
| 1. | Meghalaya Government Construction Corporation Limited | 4.77 | 10.48 | 2004-05 |
| 2. | Meghalaya Mineral Development Corporation Limited | 2.27 | 7.47 | 2005-06 |
| 3. | Meghalaya Tourism Development Corporation Limited | 7.75 | 1.71 | 1991-92 |
| 4. | Forest Development Corporation of Meghalaya Limited | 1.56 | 1.74 | 1999-2000 |
| 5. | Meghalaya Handloom and Handicrafts Development Corporation Limited | 2.57 | 1.47 | 2000-01 |
| | | 18.92 | 22.87 | |

1.6.1.3 Loans and Advances by State Government

In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. Total outstanding loans and advances as on 31 March 2007 was Rs.469 crore (**Table 1.24**). Interest received against these loans and advances was meagre, which had decreased from 0.62 *per cent* in 2004-05 to 0.29 *per cent* in 2006-07.

Table 1.24 : Average Interest Received on Loans and Advances by the State Government

(Rupees in crore)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|---------|
| Opening Balance | 332 | 359 | 419 | 471 | 488 | 480 |
| Amount advanced during the year | 43 | 75 | 70 | 36 | 11 | 6 |
| Amount repaid during the year | 16 | 15 | 18 | 19 | 19 | 17 |
| Closing Balance | 359 | 419 | 471 | 488 | 480 | 469 |
| Net Addition | 27 | 60 | 52 | 17 | - 8 | - 11 |
| Interest Received | 0.49 | 0.46 | 0.72 | 2.99 | 1.48 | 1.36 |
| Interest received as <i>per cent</i> to outstanding Loans and Advances | 0.14 | 0.12 | 0.16 | 0.62 | 0.31 | 0.29 |
| Average interest rate paid on borrowings by the State Government (<i>per cent</i>) | 8.81 | 8.98 | 9.00 | 8.58 | 8.06 | 7.62 |
| Difference between interest paid and received (<i>per cent</i>) | 8.67 | 8.86 | 8.84 | 7.96 | 7.75 | 7.33 |

As the interest received as *per cent* to outstanding loans and advances was much lower than the cost at which the State Governments borrows, the TFC assumed a 7 *per cent* return on outstanding loans and advances to be achieved in a graded manner by the terminal year of the forecast period. Decreasing trend in return on outstanding loans and advances given by the State Government, which stands only at 0.29 *per cent* in 2006-07, indicates that the possibility of achieving 7 *per cent* return by the terminal year of the forecast period as assumed by the TFC is remote.

¹⁶ Accounts for the subsequent years are in arrears.

1.6.2 Management of Cash Balances

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

Under the agreement with the RBI, the Government of Meghalaya has to maintain an all time minimum balance of Rs.21 lakh with RBI. If the balance falls below the agreed minimum, the Government can take Ordinary WMA from the RBI up to a maximum of Rs.50.50 crore. In addition, Special WMA not exceeding Rs.9.16 crore are made available against GOI securities held by the State Government. Overdrafts are given by the RBI if the State has a minus balance after availing of the maximum advance. There was, however, improvement in the management of cash balances as the Government did not have to resort to WMA for the current year (2006-07).

WMAs and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2001-07 is detailed in **Table 1.25**.

Table 1.25 : Ways and Means Advances and Overdrafts of the State

(Rupees in crore)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--------------------------------|---------|---------|---------|-----------------|-----------------|---------|
| Ways and Means Advances | | | | | | |
| Availed in the Year | ... | 243.17 | 50.99 | 2.57 | 83.49 | ... |
| Number of days | ... | 96 | 44 | 6 | 7 | ... |
| Outstanding WMAs, if any | ... | ... | ... | ... | ... | ... |
| Interest Paid | ... | 0.23 | 0.24 | ⁽¹⁷⁾ | 0.08 | ... |
| Overdraft | | | | | | |
| Availed in the Year | ... | 0.46 | ... | ... | 8.85 | ... |
| Number of days | ... | 1 | ... | ... | 1 | ... |
| Outstanding Overdraft, if any | ... | ... | ... | ... | ... | ... |
| Interest Paid | ... | ... | ... | ... | ⁽¹⁸⁾ | ... |

1.7 Undischarged Liabilities

According to Meghalaya FRBM Act, 2006, the total liabilities means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the Public Sector Undertakings and Special Purpose Vehicles

⁽¹⁷⁾ Rs.0.15 lakh.

⁽¹⁸⁾ Rs.0.21 lakh.

and other equivalent instruments including guarantees where principal and/or interest are to be serviced out of the State budget.

1.7.1 Fiscal Liabilities - Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public Debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Account. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. However, no law has been passed in the State to lay down any such limit. Other liabilities, which are a part of public account, include deposits under small savings scheme, provident funds and other deposits.

Table 1.26 gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters.

Table 1.26: Fiscal Liabilities – Basic Parameters

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|----------|---------|---------|---------|---------|---------|
| Fiscal Liabilities ⁽¹⁹⁾ (Rupees in crore) | 1,535 | 1,827 | 1,952 | 2,173 | 2,566 | 2,762 |
| Rate of Growth (<i>per cent</i>) | 10.04 | 19.02 | 6.84 | 11.32 | 18.09 | 7.64 |
| Ratio of Fiscal Liabilities to | | | | | | |
| GSDP (<i>per cent</i>) | 33.26 | 37.29 | 35.47 | 36.34 | 39.66 | 39.17 |
| Revenue Receipts (<i>per cent</i>) | 136.69 | 141.74 | 139.53 | 140.56 | 146.88 | 128.94 |
| Own Resources (<i>per cent</i>) | 667.39 | 767.65 | 635.83 | 637.24 | 643.11 | 564.83 |
| Buoyancy of Fiscal Liabilities to | | | | | | |
| GSDP (ratio) | 0.718 | 3.080 | 0.555 | 1.309 | 2.207 | 0.849 |
| Revenue Receipts (ratio) | - 12.623 | 1.287 | 0.802 | 1.077 | 1.391 | 0.338 |
| Own Resources (ratio) | 0.861 | 5.469 | 0.236 | 1.022 | 1.063 | 0.339 |

Fiscal liabilities of Rs.2,762 crore during 2006-07 consist of internal debt, e.g., market loans bearing interest, loans from Life Insurance Corporation of India (LIC) and other institutions, *etc.* (Rs.1,611 crore), loans and advances from Central Government (Rs.345 crore), small savings, provident funds (State Provident Funds and Insurance & Pension Funds: Rs.383 crore) and other non-interest bearing obligations such as deposit of local funds, civil deposits, *etc.* (Rs.423 crore). Overall fiscal liabilities of the State increased from Rs.1,535 crore in 2001-02 to Rs.2,762 crore in 2006-07. The growth rate in 2006-07 was 7.64 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP also increased from 33.26 *per cent* in 2001-02 to 39.17 *per cent* in 2006-07 and thus remained higher than the

⁽¹⁹⁾ Includes Internal Debt, Loans and Advances from Government of India, Small Savings, Provident Funds, *etc.*, Deposits and other non-interest bearing obligations.

limit (28 *per cent*) prescribed in the MFRBM Act, 2006 throughout the entire period 2001-07. These liabilities stood at 1.29 times the revenue receipts and 5.65 times of the State's own resources at the end of 2006-07. The buoyancy of these liabilities with respect to GSDP during the year was 0.849 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.849 *per cent*.

According to **Statement 4** of the Finance Accounts for the year 2006-07, during 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loans. In 2006-07, the Government has appropriated Rs.9.07 crore from revenue and credited to this fund for investment in the GOI Securities.

1.7.2 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower from whom the guarantee has been extended. As per **Statement 6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2001-02 are given in **Table 1.27**.

Table 1.27: Guarantees given by the Government of Meghalaya

| | (Rupees in crore) | | | | | |
|---|-------------------|---------|---------|---------|---------|---------|
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
| Maximum amount guaranteed (year end) | 187.51 | 183.69 | 342.94 | 384.32 | 504.67 | 562.02 |
| Outstanding amount of guarantees (including interest) | 156.96 | 137.37 | 300.33 | 338.18 | 404.38 | 435.80 |
| Percentage of maximum amount guaranteed to total revenue receipts | 16.70 | 14.25 | 24.51 | 24.86 | 28.89 | 26.24 |

Government has guaranteed loans raised by various Corporations and others, which at the end of 2006-07 stood at Rs.435.80 crore (including interest). The outstanding amount of guarantees is in the nature of contingent liabilities, which were over 20 *per cent* of revenue receipts of the State during 2005-06. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

According to **Statement 6** of the Finance Accounts for the year 2006-07, to regulate the unplanned borrowing by the public sector undertakings and apex co-operative institutions against Government guarantees, the State Government decided to levy a guarantee fee at an annual rate of one *per cent* from April 1989. The guarantee fee was to be recovered on the amount guaranteed and outstanding on the 31st March each year for the next financial year. For the subsequent years, the guarantee fee was fixed as 0.5 *per cent* till vacation of the guarantee or liquidation of the loan. As of March 2007, such fee of Rs.12.44 crore was outstanding from a Statutory Corporation, *viz.*, Meghalaya State Electricity Board.

1.8 Debt Sustainability

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

1.8.1 Debt Stabilisation

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variable indicating the progress towards the debt stabilisation are indicated in **Table 1.28**.

Table 1.28: Debt Sustainability – Interest Rate and GSDP Growth (in per cent)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|---------|
| Average Interest Rate | 8.81 | 8.98 | 9.00 | 8.58 | 8.06 | 7.62 |
| GSDP Growth | 13.98 | 6.18 | 12.33 | 8.65 | 8.19 | 9.00 |
| Interest Spread | 5.17 | - 2.80 | 3.33 | 0.07 | 0.13 | 1.38 |
| Opening Outstanding Debt (Rupees in crore) | 1,395 | 1,535 | 1,827 | 1,952 | 2,173 | 2,566 |
| Quantum Spread ²⁰ (Rupees in crore) | 72 | - 43 | 61 | 1 | 3 | 35 |
| Primary Deficit (-)/ Surplus (+) (Rupees in crore) | - 92 | - 11 | - 32 | - 136 | + 13 | + 129 |
| Quantum Spread + Primary Deficit (Rupees in crore) | - 20 | - 54 | 29 | - 135 | 16 | 164 |

Table 1.28 reveals that quantum spread together with primary deficit has been negative during 2001-03 and 2004-05 indicating rising trend in debt-GSDP ratio during the period. However, despite the sum quantum spread *vis-à-vis* primary deficit being positive since 2005-06, the fiscal liabilities to GSDP ratio remained higher in 2005-06 relative to previous year although indicating declining tendency in 2006-07. This was mainly because of the fact that fiscal deficit was highest in 2004-05 during last six

²⁰ Quantum Spread: Interest Spread x Opening Fiscal Liabilities ÷ 100.

years (2001-07) which loaded higher fiscal liabilities in the subsequent year in which rate of growth of GSDP also declined by more than three percentage points as compared to the previous year. If the sum quantum spread *vis-à-vis* primary deficit continued to be positive, it might result in debt stabilisation in ensuing years.

1.8.2 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. **Table 1.29** indicates the resource gap as defined for the period 2001-07:

Table 1.29 : Incremental Revenue Receipts and Revenue Expenditure

| Period | Incremental | | | | (Rupees in crore) |
|---------|-------------------|---------------------|-------------------|-------------------|-------------------|
| | Non-Debt Receipts | Primary Expenditure | Interest Payments | Total Expenditure | Resource Gap |
| 2001-02 | - 6 | - 49 | 15 | - 34 | - 40 |
| 2002-03 | 165 | 84 | 22 | 106 | + 59 |
| 2003-04 | 113 | 134 | 19 | 153 | - 40 |
| 2004-05 | 148 | 252 | 7 | 259 | - 111 |
| 2005-06 | 201 | 52 | 14 | 66 | + 135 |
| 2006-07 | 393 | 277 | 12 | 289 | + 104 |

The persistent negative resource gap indicates the non-sustainability of debt while the positive resource gap strengthens the capacity of the State to sustain the debt. During the period 2001-07, although three out of six years reflects the negative gaps, the last two are the pointers towards the increasing capacity of the State to sustain the debt in the medium to long run.

1.8.3 Net Availability of Borrowed Funds

Debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payment) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e., they are (a) not being used for financing revenue expenditure and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

Table 1.30 gives the position of receipt and repayment of internal debt and other fiscal liabilities of the State as well as the net availability of the borrowed funds over the last six years.

Table 1.30 : Net Availability of Borrowed Funds

(Rupees in crore)

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|---------|---------|---------|---------|---------|
| Internal Debt²¹ | | | | | | |
| Receipts | 110 | 401 | 287 | 188 | 340 | 243 |
| Repayment (Principal + Interest) | 81 | 343 | 183 | 194 | 258 | 188 |
| Net Fund Available | 29 | 58 | 104 | - 6 | 82 | 55 |
| Net Fund Available (<i>per cent</i>) | 26.36 | 14.46 | 36.24 | ... | 24.12 | 22.63 |
| Loans and Advances from GOI | | | | | | |
| Receipts | 46 | 138 | 83 | 112 | 3 | 3 |
| Repayment (Principal + Interest) | 65 | 156 | 170 | 157 | 63 | 73 |
| Net Fund Available | -19 | -18 | - 87 | - 45 | - 60 | - 70 |
| Net Fund Available (<i>per cent</i>) | ... | ... | ... | ... | ... | ... |
| Other obligations²² | | | | | | |
| Receipts | 241 | 329 | 255 | 281 | 410 | 413 |
| Repayment (Principal + Interest) | 239 | 228 | 318 | 186 | 228 | 406 |
| Net Fund Available | 2 | 101 | - 63 | 95 | 182 | 7 |
| Net Fund Available (<i>per cent</i>) | 0.83 | 30.70 | ... | 33.81 | 44.39 | 1.69 |
| Total Liabilities | | | | | | |
| Receipts | 397 | 868 | 625 | 581 | 753 | 659 |
| Repayments (Principal + Interest) | 385 | 727 | 671 | 537 | 549 | 667 |
| Net Fund Available | 12 | 141 | - 46 | 44 | 204 | - 8 |
| Net Fund Available (<i>per cent</i>) | 3.02 | 16.24 | ... | 7.57 | 27.09 | ... |

The net funds available on account of the internal debt, loans and advances from the GOI and other obligations after providing for the interest and repayments varied from minus during 2003-04 and 2006-07 to 27.09 *per cent* during 2005-06. During the current year, the Government repaid Rs.667 crore as principal and interest on internal debt (Rs.188 crore), loans and advances from the GOI (Rs.73 crore) and other obligations (Rs.406 crore), as a result of which payments exceeded the receipts (Rs.659 crore) by Rs.8 crore during the year. In view of substantial cash balances during 2006-07, the focus of the Government seems to be on discharging the past debt obligations both on account of principal and interest payments on loans raised from the market as well as from the GOI.

1.9 Management of Deficits

1.9.1 Trends in Deficits

The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.31**.

²¹ Includes Ways and Means Advances and Overdrafts.

²² Small Savings, Provident Funds, *etc.*, Deposits and other non-interest bearing obligations.

Table 1.31 : Fiscal Imbalances – Basic Parameters

| Parameters | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|--|---------|-------------------|---------|---------|-------------------|---------|
| Revenue Surplus (RS) (+)/ Revenue Deficit (RD) (-) (Rupees in crore) | -34 | + 84 | + 85 | - 50 | + 73 | + 235 |
| Fiscal Deficit (FD) (-) (Rupees in crore) | - 221 | - 162 | - 202 | - 313 | - 178 | - 74 |
| Primary Deficit (PD) (-)/ Surplus (+) (Rupees in crore) | - 92 | - 11 | - 32 | - 136 | + 13 | + 129 |
| RD/GSDP (<i>per cent</i>) | - 0.74 | + 1.71 | + 1.54 | - 0.84 | + 1.13 | + 3.33 |
| FD/GSDP (<i>per cent</i>) | - 4.79 | - 3.31 | - 3.67 | - 5.23 | - 2.75 | - 1.05 |
| PD/GSDP (<i>per cent</i>) | - 1.99 | - 0.22 | - 0.58 | - 2.27 | + 0.20 | + 1.83 |
| RD/FD (<i>per cent</i>) | 15.38 | (²³) | | 15.97 | (²³) | |

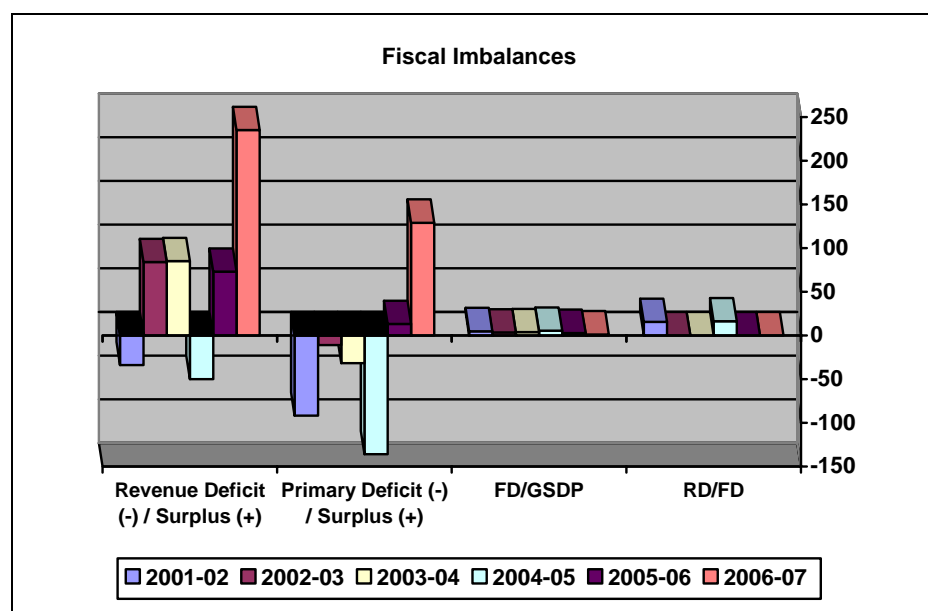
Chart 1.3

Table 1.31 reveals that the revenue account experienced a situation of substantial deficit of Rs.34 crore during 2001-02. Though the State was successful in achieving revenue surplus during 2002-04, the year 2004-05 again experienced a revenue deficit of Rs.50 crore. Since 2005-06, the revenue account turned into surplus which has steeply increased to Rs.235 crore during the current year. The significant improvement during the current year was mainly on account of increase in revenue receipts by Rs.395 crore (22.61 *per cent*) against an increase of Rs.233 crore (13.92 *per cent*) in revenue expenditure over the previous year. The sharp increase in revenue receipts during 2006-07 was mainly on account of increase in Central tax transfers by Rs.97 crore (27.71 *per cent*) and grants-in-aid by Rs.208 crore (20.84 *per cent*).

(²³) There was revenue surplus during the year.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, decreased from its peak of Rs.313 crore in 2004-05 to Rs.74 crore in 2006-07. Despite an increase of Rs.61 crore in capital expenditure and a decrease of Rs.5 crore in loans and advances disbursed during the current year over the previous year, fiscal deficit was reduced significantly by Rs.104 crore on account of the cushion of Rs.235 crore available from the revenue account.

The primary deficit²⁴ which persisted till 2004-05, also took a turnaround and resulted in a primary surplus during 2005-06 and significantly increased during the current year. A sharp decline of Rs.104 crore in fiscal deficit together with a moderate increase of Rs.12 crore in interest payments resulted in a primary surplus of Rs.129 crore during the current year indicating the fact that fiscal deficit was solely on account of payment obligations arising from the past fiscal operations of the Government.

1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit²⁵ and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Out of six year period ending March 2007, the State experienced revenue deficit during 2001-02 and 2004-05 and consequent ratio of RD to FD. Since 2005-06, RD was wiped out and turned into surplus which improved significantly during the current year. This trajectory shows a consistent improvement in the quality of the deficit.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2001-07 reveals (**Table 1.32**) that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure²⁶ requirements in the revenue account, rather left some receipts to meet the expenditure under the capital account. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account resulting in primary deficit during 2001-05. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

²⁴ Primary deficit defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

²⁵ Primary revenue deficit defined as gap between non-interest revenue expenditure of the State and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

²⁶ Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

Table 1.32 : Primary Deficit/Surplus – Bifurcation of Factors

(Rupees in crore)

| Year | Non-debt receipt | Primary Revenue Expenditure | Capital Expenditure | Loans and Advances | Primary Expenditure | Primary Revenue Deficit (-)/ Surplus (+) | Primary Deficit (-)/ Surplus (+) |
|---------|------------------|-----------------------------|---------------------|--------------------|---------------------|--|----------------------------------|
| 1 | 2 | 3 | 4 | 5 | 6 (3 + 4 + 5) | 7 (2 – 3) | 8 (2 -6) |
| 2001-02 | 1,139 | 1,028 | 160 | 43 | 1,231 | + 111 | - 92 |
| 2002-03 | 1,304 | 1,054 | 186 | 75 | 1,315 | + 250 | - 11 |
| 2003-04 | 1,417 | 1,144 | 235 | 70 | 1,449 | + 273 | - 32 |
| 2004-05 | 1,565 | 1,419 | 246 | 36 | 1,701 | + 146 | - 136 |
| 2005-06 | 1,766 | 1,483 | 259 | 11 | 1,753 | + 283 | + 13 |
| 2006-07 | 2,159 | 1,704 | 320 | 6 | 2,030 | + 455 | + 129 |

1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.33** below presents a summarised position of Government finances over 2001-07, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facts.

Table 1.33: Indicators of Fiscal Health (in per cent)

| Fiscal Indicators | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|---------|---------|---------|---------|---------|---------|
| I. Resource Mobilisation | | | | | | |
| Revenue Receipts (RR)/GSDP | 24.33 | 26.31 | 25.42 | 25.85 | 27.00 | 30.37 |
| Revenue Buoyancy Ratio | - 0.057 | 2.394 | 0.692 | 1.215 | 1.587 | 2.514 |
| Own tax/GSDP | 2.95 | 2.96 | 3.23 | 3.48 | 3.91 | 4.33 |
| Own Taxes Buoyancy Ratio | 1.022 | 1.072 | 1.846 | 1.949 | 2.640 | 2.285 |
| II. Expenditure Management | | | | | | |
| Total Expenditure (TE)/GSDP | 29.47 | 29.92 | 29.41 | 31.40 | 30.05 | 31.66 |
| RR/TE | 82.57 | 87.93 | 86.41 | 82.32 | 89.87 | 95.92 |
| Revenue Expenditure (RE)/TE | 85.07 | 82.20 | 81.16 | 84.98 | 86.11 | 85.40 |
| Plan Expenditure ⁽²⁷⁾ /Total Expenditure | 31.69 | 30.15 | 33.66 | 38.18 | 38.53 | 39.36 |
| Capital Expenditure/Total Expenditure ⁽²⁸⁾ | 12.15 | 13.37 | 15.17 | 13.36 | 13.40 | 14.37 |
| Development Expenditure/Total Expenditure | 64.85 | 61.39 | 61.64 | 66.40 | 66.72 | 67.53 |
| Buoyancy of TE with RR | - 3.068 | 0.527 | 1.223 | 1.522 | 0.270 | 0.658 |
| Buoyancy of RE with RR | - 9.092 | 0.281 | 1.060 | 2.042 | 0.376 | 0.616 |

⁽²⁷⁾ Excluding disbursement of Loans.

⁽²⁸⁾ Total expenditure excludes Loans and Advances.

| Fiscal Indicators | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|---|----------|-------------------|-------------------|---------|-------------------|-------------------|
| III. Management of Fiscal Imbalances | | | | | | |
| Revenue Deficit (-)/Surplus (+) (Rupees in crore) | - 34 | + 84 | + 85 | - 50 | + 73 | + 235 |
| Fiscal Deficit (-) (Rupees in crore) | -221 | - 162 | - 202 | - 313 | - 178 | - 74 |
| Primary Deficit (-)/ Surplus (+) (Rupees in crore) | - 92 | - 11 | - 32 | - 136 | + 13 | + 129 |
| Revenue Deficit/Fiscal Deficit | 15.38 | (²⁹) | (²⁹) | 15.97 | (²⁹) | (²⁹) |
| IV. Management of Fiscal Liabilities | | | | | | |
| Fiscal Liabilities (FL)/GSDP | 33.26 | 37.29 | 35.47 | 36.34 | 39.66 | 39.17 |
| FL/RR | 136.69 | 141.74 | 139.53 | 140.56 | 146.88 | 128.94 |
| Buoyancy of FL with RR (ratio) | - 12.623 | 1.287 | 0.802 | 1.077 | 1.391 | 0.338 |
| Buoyancy of FL with Own Receipt (ratio) | 0.861 | 5.469 | 0.236 | 1.022 | 1.063 | 0.339 |
| Interest Spread | 5.17 | - 2.80 | 3.33 | 0.07 | 0.13 | 1.38 |
| Net Funds Available | 3.02 | 16.24 | ... | 7.57 | 27.09 | ... |
| V. Other Fiscal Health Indicators | | | | | | |
| Return on Investment | 0.08 | 0.00 | 0.11 | 0.11 | 0.01 | 0.01 |
| BCR (Rupees in crore) | - 168 | - 123 | - 137 | -142 | - 19 | 77 |
| Financial Assets/Liabilities (ratio) | 1.57 | 1.55 | 1.55 | 1.47 | 1.43 | 1.48 |

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts are comprised not only of the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year was 30.37 *per cent*, an increase of 3.37 percentage points over the previous year. During 2001-07, the ratio of own taxes to GSDP showed continued improvement.

Various ratios concerning expenditure indicate quality of expenditure and sustainability in relation to resources. The revenue expenditure as a percentage to total expenditure remained over 81 *per cent* during 2001-07, indicating its dominant share in the total expenditure of the State leaving very little for capital formation or asset creation. The higher buoyancy ratio of total expenditure as compared to that of revenue expenditure with respect to revenue receipts during 2006-07 indicates the propensity of the State Government to create assets by resorting to capital expenditure. Increasing reliance on revenue receipts to finance the total expenditure, which amounts to 96 *per cent* during 2006-07, indicates decreasing dependence on borrowed funds. This is also reflected by the decreasing ratio of financial liabilities to revenue receipts. Increasing proportion of plan expenditure and capital expenditure also indicates improvement in both developmental and quality of expenditure.

⁽²⁹⁾ There was revenue surplus during the year.

Revenue surplus and significant decline in fiscal deficit during 2006-07 indicates an improvement in fiscal position of the State. The increasing revenue receipts have been able to bring an improvement in the fiscal imbalances of the State which is reflected by the decreasing ratio of fiscal liabilities to revenue receipts as well as positive balance from the current revenues during the current year. Improvement in the fiscal imbalances of the State is also reflected in the increasing assets to liabilities ratio during the current year.

1.11 Conclusion

The fiscal position of the State viewed in terms of key fiscal parameters showed a significant improvement as the State has been able to maintain revenue and primary surpluses and reduce fiscal deficit during 2005-07. A steep increase in Central transfers to State, comprising tax transfers and grants-in-aid, has provided a cushion in revenue account which helped the State Government to increase revenue surplus and also to contain fiscal deficit well within 3 *per cent* of GSDP ahead of two years than stipulated in the MFRBM Act, 2006. Apart from the fact that around 77 *per cent* of States revenue receipts are being contributed by the Central transfers comprising of State's share in Union pool of taxes and duties and grants-in-aid from GOI during 2006-07, the expenditure pattern of the State reveals that the revenue expenditure as a percentage of total expenditure constituted around 85 *per cent* during the period (2001-07) leaving inadequate resources for expansion of services and creation of assets. Within revenue expenditure, NPRES at Rs.1,341 crore in 2006-07 constituted around 70 *per cent* and remained significantly higher than the normatively assessed level of Rs.1,203 crore by TFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPRES which was around 2/3rd during 2006-07. The continued prevalence of fiscal deficit indicates increasing reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 39 *per cent* of the GSDP in 2006-07 and appears to be quite high especially if compared with the limit of 28 *per cent* prescribed in the MFRBM Act, 2006. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might result in erosion of fiscal gains attained so far in medium to long run, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise the additional resources both through the tax and non tax sources in the ensuing years.