

## 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 the 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 2007-08 covering revenue receipts and expenditure, capital receipts and expenditure and public account 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 2007-08**

(Rupees in crore)							
2006-07	Receipts	2007-08	2006-07	Disbursements	2007-08		
<b>Section – A: Revenue</b>							
					<b>Non-Plan</b>	<b>Plan</b>	<b>Total</b>
<b>2142.19</b>	<b>I. Revenue Receipts</b>	<b>2441.38</b>	<b>1907.50</b>	<b>I. Revenue Expenditure</b>	<b>1532.37</b>	<b>721.30</b>	<b>2253.67</b>
304.74	Tax revenue	319.10	703.09	General Services	747.91	30.36	778.27
184.37	Non-tax revenue	199.35	614.30	Social Services	439.70	313.86	753.56
447.18	Share of Union Taxes/Duties	564.07	590.11	Economic Services	344.76	377.08	721.84
1205.90	Grants-in-aid from Government of India	1358.86	...	...	...	...	...
<b>Section – B: Capital</b>							
...	<b>II. Miscellaneous Capital receipts</b>	...	<b>320.37</b>	<b>II. Capital Outlay</b>	<b>4.27</b>	<b>387.39</b>	<b>391.66</b>
17.11	<b>III. Recovery of Loans and Advances</b>	<b>16.49</b>	<b>5.96</b>	<b>III. Loans and Advances disbursed</b>	<b>7.18</b>	<b>19.55</b>	<b>26.73</b>
246.05	<b>IV. Public Debt Receipts<sup>1</sup></b>	<b>247.18</b>	<b>86.28</b>	<b>IV. Repayment of Public Debt</b>	...	...	<b>99.08</b>
...	<b>V. Contingency Fund</b>	...	...	<b>V. Contingency Fund</b>	...	...	...
1257.71	<b>VI. Public Account Receipts</b>	<b>1502.20</b>	<b>1198.09</b>	<b>VI. Public Account Disbursements</b>	...	...	<b>1308.90</b>
158.34	<b>Opening Balance</b>	<b>303.20</b>	<b>303.20</b>	<b>Closing Balance</b>	...	...	<b>430.41</b>
<b>3821.40</b>	<b>Total</b>	<b>4510.45</b>	<b>3821.40</b>	<b>Total</b>			<b>4510.45</b>

Following are the significant changes during 2007-08 over the previous year:

- Revenue receipts grew by around 14 *per cent* (Rs. 299.19 crore) over the previous year. The increase was contributed by grants-in-aid from the Government of India (GOI) (Rs. 152.96 crore), State's share of Union taxes and duties (Rs. 116.89 crore), non-tax revenue (Rs. 14.98 crore) and tax revenue (Rs. 14.36 crore).

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

- Revenue expenditure and capital expenditure increased by Rs. 346.17 crore (over 18 per cent) and Rs. 71.29 crore (over 22 per cent) respectively over the previous year.
- Recovery and disbursement of loans and advances during the current year decreased by Rs. 0.62 crore and increased by Rs. 20.77 crore respectively compared to the previous year.
- Public Debt receipts and repayments increased by Rs. 1.13 crore and Rs. 12.80 crore respectively over the previous year mainly due to increase in receipts of loans from the National Bank for Agriculture and Rural Development by Rs. 8.01 crore and increase in repayment of market loans by Rs. 20.70 crore.
- Public Account receipts and disbursements increased by Rs. 244.49 crore and Rs. 110.81 crore respectively over the previous year.
- Cash balance of the State increased by Rs. 127.21 crore over the previous year mainly by way of increase in cash balance investment (Rs. 114.17 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)

2006-07	Sl.No.	Major Aggregates	2007-08
<b>2,142</b>	<b>1.</b>	<b>Revenue Receipts (2+3+4)</b>	<b>2,441</b>
305	2.	Tax Revenue	319
184	3.	Non-Tax Revenue	199
1,653	4.	Other Receipts	1,923
<b>17</b>	<b>5.</b>	<b>Non-Debt Capital Receipts</b>	<b>17</b>
17	6.	Of which Recovery of Loans	17
<b>2,159</b>	<b>7.</b>	<b>Total Receipts (1+5)</b>	<b>2,458</b>
<b>1,352</b>	<b>8.</b>	<b>Non-Plan Expenditure (9+11+12)</b>	<b>1,543</b>
1,341	9.	On Revenue Account	1,532
203	10.	Of which, Interest payments	189
7	11.	On Capital Account	4
4	12.	On Loans disbursed	7
<b>881</b>	<b>13.</b>	<b>Plan Expenditure (14+15+16)</b>	<b>1,129</b>
566	14.	On Revenue Account	721
313	15.	On Capital Account	388
2	16.	On Loans disbursed	20
<b>2,233</b>	<b>17.</b>	<b>Total Expenditure (8+13)</b>	<b>2,672</b>
(+) 235	<b>18.</b>	<b>Revenue Surplus (+)/Deficit(-) {1-(9+14)}</b>	(+) 188
(-) 74	<b>19.</b>	<b>Fiscal Deficit (-) (1+5-17)</b>	(-) 214
(+) 129	<b>20.</b>	<b>Primary Deficit (-)/Surplus (+) {(1+5)-(17-10)}</b>	(-) 25

During the current year, while revenue expenditure increased by 18 per cent (Rs. 346 crore), revenue receipts increased by 14 per cent (Rs. 299 crore) over the previous year, resulting in decrease in surplus by Rs. 47 crore in revenue account. The decrease in revenue surplus (Rs. 47 crore) along with an increase of Rs. 93 crore on account of increase in capital expenditure (Rs. 72

crore) as well as in loans and advances disbursed (Rs. 21 crore) during 2007-08 led to an increase of Rs. 140 crore in fiscal deficit during the current year. The increase in fiscal deficit accompanied by a decrease of Rs. 14 crore in interest payments during 2007-08 over the previous year resulted in sharp fall in primary surplus enjoyed by the State during the last two years, which turned into a primary deficit of Rs. 25 crore during 2007-08.

## 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 2002-03 to 2007-08 and observations have been made on their behaviour. In its Restructuring Plan of the State finances, the Twelfth Finance Commission (TFC) recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, the 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 the 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)<sup>2</sup> 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 the GSDP. GSDP series are being changed by the Directorate of Economics and Statistics, Government of Meghalaya every year, which resulted in the change in the ratios depicted in the previous Audit Reports. The trends in growth and composition of GSDP for the last six years are presented in **Table 1.3**.

**Table 1.3: Trends in Growth of GSDP**

Estimates	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
GSDP (Rupees in crore)	4,763	5,280	5,805	6,319	6,959	7,605
GSDP (Rate of Growth in per cent)	6.36	10.85	9.94	8.85	10.13	9.28

Source: New GSDP Series furnished (September 2008) by the Directorate of Economics and Statistics, Government of Meghalaya.

<sup>2</sup> 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.

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 effect 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 1<sup>st</sup> 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 out 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, not later than two years from 2 November 2006, i.e., the date on which the Meghalaya Fiscal Responsibility Rules, 2006 came into force.

The Act also provides that the 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 Fiscal Policy Statements***

As prescribed in the Act, the State Government had incorporated the following statements in the Budget for the year 2007-08:

- Macro Economic Statement giving an overview of the State economy.
- Medium Term Fiscal Policy (MTFP) Statement prescribing fiscal targets and assumptions for achieving them. The targets for the year 2007-08 were as under:
  - Revenue surplus as a percentage of total revenue receipts: 15.72
  - Total outstanding liabilities as a percentage of GSDP: 32.92
  - Fiscal deficit as a percentage of GSDP: 1.22
- Fiscal Policy Strategy Statement of the State for the ensuing year relating to taxation, expenditure, borrowings, *etc.*

### ***1.2.1.2 Periodical Review of Fiscal Situation***

As per clause 9(1) of the MFRBM Act, 2006, the Finance Minister is to review the expenditure in relation to budget estimates every quarter and place the outcome of the reviews before the Legislature. Clause 9(6) of the Act further provides for framing an independent agency for the periodical review of the compliance of the provisions of the Act and for placing before the Legislature the outcome of the review. These provisions of the Act have, however, not yet been implemented.

### ***1.2.1.3 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 mobilizing additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the MFRBM Act (**Appendix 1.2**).

### ***1.2.1.4 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)<sup>3</sup>. 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 the revenue deficit is reduced in each

<sup>3</sup> 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 deficit of States.

successive year during the award period. As a result of improved fiscal performance in terms of this criterion, the Meghalaya Government received a debt waiver of Rs.14.90 crore from the GOI under DCRF during 2007-08.

The State, however, failed to achieve the fiscal targets laid down in the FCP as well as in the Budget for the year 2007-08, as the year 2007-08 ended with a revenue surplus of Rs. 188 crore against Rs. 309 crore and Rs. 510 crore targeted in the FCP and Budget respectively. As per the MTFP Statement, during 2007-08, the State Government had expected to achieve 15.72 per cent of total revenue receipts as revenue surplus. Actual revenue surplus at Rs. 188 crore during 2007-08 was only 7.7 per cent of the total revenue receipts of the year.

The total outstanding liabilities on Consolidated Fund of the State at 51 per cent of the GSDP during the current year far exceeded the target of 28 per cent and 32.92 per cent fixed in the MFRBM Act, 2006 and MTFP Statement respectively. The fiscal deficit relative to GSDP at 2.81 per cent was more than the target set in MTFP Statement for 2007-08 but it was within the ceiling of 3 per cent of GSDP to be achieved by 2008-09 as per the MFRBM Act.

### 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. 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 2007-08 were Rs. 4,207 crore. Of these, revenue receipts were Rs. 2,441 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	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I. Revenue Receipts</b>	<b>1,289</b>	<b>1,399</b>	<b>1,546</b>	<b>1,747</b>	<b>2,142</b>	<b>2,441</b>
<b>II. Capital Receipts</b>	<b>310</b>	<b>337</b>	<b>316</b>	<b>269</b>	<b>263</b>	<b>264</b>
(a) Recovery of Loans and Advances	15	18	19	19	17	17
(b) Public Debt Receipts <sup>4</sup>	295	319	297	250	246	247
(c) Miscellaneous Capital Receipts	...	...	...	...	...	...
<b>III. Contingency Fund Receipts</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>
<b>IV. Public Account Receipts</b>	<b>935</b>	<b>874</b>	<b>980</b>	<b>1,108</b>	<b>1,258</b>	<b>1,502</b>
(a) Small Savings, Provident Fund, etc.	97	120	130	89	91	101
(b) Reserve Funds	9	10	18	20	21	24
(c) Deposits and Advances	252	154	165	343	342	528
(d) Suspense and Miscellaneous	48	- 11	18	- 18	30	- 19
(e) Remittances	529	601	649	674	774	868
<b>Total Receipts</b>	<b>2,534</b>	<b>2,610</b>	<b>2,842</b>	<b>3,124</b>	<b>3,663</b>	<b>4,207</b>

<sup>4</sup> Included net (Nil) Ways and Means Advances also.

Out of the total receipts under Public Account, remittances constituted about 58 *per cent*. While 69 *per cent* (Rs. 603 crore) of the remittances have come from Public Works remittances, Cash remittances between treasury and currency chests and Forest remittances constituted 19 *per cent* (Rs. 168 crore) and 11 *per cent* (Rs. 96 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**.

**Table 1.5 – Revenue Receipts-Basic Parameters**

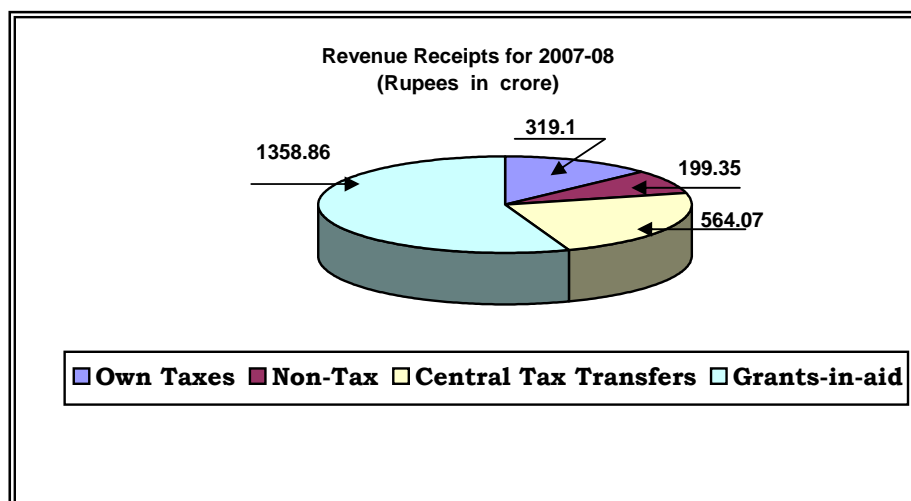
	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Revenue Receipts (RR) (Rupees in crore)</b>	<b>1,289</b>	<b>1,399</b>	<b>1,546</b>	<b>1,747</b>	<b>2,142</b>	<b>2,441</b>
Own Taxes ( <i>per cent</i> )	145 (11.25)	178 (12.72)	208 (13.46)	253 (14.48)	305 (14.24)	319 (13.07)
Non-Tax Revenue ( <i>per cent</i> )	93 (7.22)	129 (9.22)	133 (8.60)	146 (8.36)	184 (8.59)	199 (8.15)
Central Tax Transfers ( <i>per cent</i> )	176 (13.65)	225 (16.08)	269 (17.40)	350 (20.03)	447 (20.87)	564 (23.11)
Grants-in-aid ( <i>per cent</i> )	875 (67.88)	867 (61.98)	936 (60.54)	998 (57.13)	1,206 (56.30)	1,359 (55.67)
<b>Rate of Growth of RR (<i>per cent</i>)</b>	<b>14.78</b>	<b>8.53</b>	<b>10.51</b>	<b>13.00</b>	<b>22.61</b>	<b>13.96</b>
<b>Rate of Growth of Own Taxes (<i>per cent</i>)</b>	<b>6.62</b>	<b>22.76</b>	<b>16.85</b>	<b>21.63</b>	<b>20.55</b>	<b>4.59</b>
<b>RR/GSDP (<i>per cent</i>)</b>	<b>27.06</b>	<b>26.50</b>	<b>26.63</b>	<b>27.65</b>	<b>30.78</b>	<b>32.10</b>
<b>Buoyancy Ratio<sup>5</sup></b>						
Revenue Buoyancy Ratio	2.32	0.79	1.06	1.47	2.23	1.50
State's Own Taxes Buoyancy Ratio	1.04	2.10	1.70	2.44	2.03	0.49
Revenue Buoyancy Ratio with reference to State's Own Taxes	2.23	0.38	0.62	0.60	1.10	3.04
GSDP Growth ( <i>per cent</i> )	6.36	10.85	9.94	8.85	10.13	9.28

### General Trends

The revenue receipts of the State increased by Rs. 1,152 crore from Rs. 1,289 crore in 2002-03 to Rs. 2,441 crore in 2007-08. There were, however, wide inter-year variations in the growth rates, which declined to 13.96 *per cent* in 2007-08 from 22.61 *per cent* during the preceding year. Although all the components of revenue receipts have exhibited increases in absolute terms over the period 2002-08, the share of State's own taxes and non tax revenue indicated relative stability while the share of grants-in-aid has reduced from 68 *per cent* to 57 *per cent* as against an increase in the share of central tax transfers from 14 *per cent* to 23 *per cent* during the period. The buoyancy ratios of revenue receipts and the State's own tax revenue with reference to GSDP have significantly declined primarily due to the steep decline in the rates of growth of both revenue receipts and the State's own tax revenue in 2007-08 relative to the previous year.

<sup>5</sup> Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 1.5 during 2007-08 implies that revenue receipts tend to increase by 1.5 percentage points if the GSDP increases by one *per cent*.

**Chart 1.1**



**Tax Revenue**

Tax revenue has increased by 4.59 per cent during the current year (Rs. 319 crore) over the previous year (Rs. 305 crore). The revenue from sales tax contributed the major share of tax revenue (74 per cent) and it increased by about 9 per cent over the previous year. State excise and taxes on vehicles were the other major contributors in the State's tax revenue. **Table 1.6** below shows the trend of tax revenue during 2002-08:

**Table 1.6 : Tax Revenue**

Heads	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Taxes on Sales, Trade, etc.	87	110	127	173	216	235
State Excise	45	53	63	59	54	59
Taxes on Vehicles	5	6	7	9	9	11
Stamps and Registration Fees	3	3	5	6	6	6
Land Revenue	0.32	0.49	0.29	0.33	6	2
Other Taxes <sup>6</sup>	4.68	5.51	5.71	5.67	14	6
<b>Total</b>	<b>145</b>	<b>178</b>	<b>208</b>	<b>253</b>	<b>305</b>	<b>319</b>

**Non-Tax Revenue**

**Table 1.7** below shows the trend of non-tax revenue during 2002-08:

**Table 1.7 : Non-Tax Revenue**

Heads	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Interest receipts, dividends and profits	5	6	8	7	13	15
General Services	15	16	12	17	36	29
Social Services	2	2	2	3	3	3
Economic Services	71	105	111	119	132	152
<b>Total</b>	<b>93</b>	<b>129</b>	<b>133</b>	<b>146</b>	<b>184</b>	<b>199</b>

The non-tax revenue, which constituted 8.15 per cent of the total revenue receipts, has increased by Rs. 15 crore during 2007-08 recording a growth rate of 8 per cent over the previous year. 76 per cent of non-tax revenue during

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



2007-08 was received from economic services and within this category, receipts under non-ferrous mining and metallurgical industries alone contributed 82 *per cent* (Rs. 124 crore). This was due to increase in receipts under mineral concession fees, rents and royalties. The trends in interest receipts and dividends and profits reveal significant improvement during 2007-08 compared to 2002-03 mainly because of increase in realisation of interest on investment of cash balances. The non-tax revenue of the Government during 2006-08 is also inclusive of Rs. 14.90 crore received as debt waiver from the GOI under DCRF, which was booked under the head 'Miscellaneous General Services'.

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 (0.62 *per cent* for secondary education, 0.54 *per cent* for medical and public health and 0.78 *per cent* for water supply and sanitation).

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

Table 1.8

(Rupees in crore)

	Assessment made by TFC	Assessment made by State Government in		Actuals
		FCP	Budget-2007-08	
Tax Revenue	312	332	332	319
Non-Tax Revenue	200	176	180	199

Tax revenue was 2.24 *per cent* higher as compared to the assessment made by the TFC, but it was lower by 3.92 *per cent* compared to the assessment made by the State Government in the FCP and Budget. The non-tax revenue was only marginally less than the assessment made by the TFC but it was more by 13.07 *per cent* and 10.56 *per cent* respectively as compared to the assessment made in the FCP and budget estimates for 2007-08.

### **Central Tax Transfers**

The Central Tax transfers increased by Rs. 117 crore over the previous year and constituted 23 *per cent* of revenue receipts. The increase was mainly under corporation tax (Rs. 39 crore), taxes on income other than corporation tax (Rs. 35 crore) and customs (Rs. 19 crore).

### **Grants-in-Aid**

Grants-in-aid from the GOI have increased by 12.69 *per cent* from Rs. 1,206 crore in 2006-07 to Rs. 1,359 crore in the current year. Within the plan grants, while grants for Central Plan Schemes decreased by 64 *per cent*, grants for Centrally Sponsored Schemes, Special Plan Schemes and State Plan Schemes increased by 67 *per cent* (Rs. 72 crore) and 49 *per cent* (Rs. 23 crore) and 13 *per cent* (Rs. 76 crore) respectively. The major increase under State Plan Schemes was in the form of increase in Block Grants (Rs. 60 crore). The Non-Plan grants (Rs. 461 crore) to the State constitute 34 *per cent* of the total grants during the year, of which, 85 *per cent* (Rs. 393 crore) was primarily for

meeting the non-plan revenue deficit owing to the recommendations of the TFC. 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 strengthening of State Police Organisation (Rs. 11 crore) and (iii) contribution to calamity relief fund (Rs. 9 crore). Details of Grants-in-aid from the GOI are given in **Table 1.9**.

**Table 1.9 : Grants-in-Aid from the GOI**

(Rupees in crore)						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Grants for State Plan Schemes	373	462	460	445	569	645
Non-Plan Grants	408	329	361	406	472	461
Grants for Central Plan Schemes	*	1	4	3	11	4
Grants for Centrally Sponsored Schemes	76	62	87	119	107	179
Grants for Special Plan Schemes	18	13	24	25	47	70
<b>Total</b>	<b>875</b>	<b>867</b>	<b>936</b>	<b>998</b>	<b>1,206</b>	<b>1,359</b>
Percentage of increase (+)/ decrease (-) over previous year	(+) 20.19	(-) 0.91	(+) 7.96	(+) 6.62	(+) 20.84	(+) 12.69

\* Rs. 63.18 lakh.

### 1.3.2 Revenue Arrears

The arrears of tax revenue at the end of March 2008 in respect of some principal heads of revenue were Rs. 52.52 crore of which, Rs. 24.82 crore (47.26 per cent) were more than five years old. An analysis of revenue arrears revealed that around 44 per cent of pending arrears related to sales tax followed by other taxes consisting of electricity duty, purchase tax, amusement tax, etc. (31 per cent). Further, 75 per cent of sales tax arrears (Rs. 17.12 crore), 47 per cent of arrears under other taxes (Rs. 7.66 crore) and 100 per cent arrears under land revenue (Rs. 0.04 crore) were more than five years old. As the pending revenue arrears constituted over 16 per cent of tax revenue of the State during 2007-08, 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 GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.10**.

**Table 1.10 : Total Expenditure – Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Expenditure (TE) <sup>7</sup> (Rupees in crore)	1,466	1,619	1,878	1,944	2,233	2,672
Rate of Growth ( <i>per cent</i> )	7.79	10.44	16.00	3.51	14.87	19.66
TE/GSDP Ratio ( <i>per cent</i> )	30.78	30.66	32.35	30.76	32.09	35.13
Revenue Receipts/TE Ratio ( <i>per cent</i> )	87.93	86.41	82.32	89.87	95.92	91.35
<b>Buoyancy Ratio of Total Expenditure with reference to:</b>						
GSDP	1.22	0.96	1.61	0.40	1.47	2.12
Revenue Receipts	0.53	1.22	1.52	0.27	0.66	1.41

The total expenditure during the current year has increased by Rs. 439 crore (19.66 *per cent*) over the previous year. Of the increase in total expenditure, revenue expenditure formed 79 *per cent* (Rs. 346 crore), capital expenditure component was 16 *per cent* (Rs. 72 crore), and disbursement of loans and advances 5 *per cent* (Rs. 21 crore). While the share of plan expenditure constituted 42 *per cent* (Rs. 1,129 crore) of the total expenditure, the remaining 58 *per cent* was non-plan expenditure (Rs. 1,543 crore). The increase in revenue expenditure was mainly due to increased expenditure under Education, Sports, Art and Culture (Rs. 97.31 crore), Energy (Rs. 47.24 crore), Agriculture & Allied Activities (Rs. 40.45 crore) and Water Supply, Sanitation, Housing and Urban Development (Rs. 24.75 crore). Capital expenditure has increased mainly on account of increased expenditure under Transport (Rs. 30.24 crore), Health and Family Welfare (Rs. 18.02 crore) and Water Supply and Sanitation (Rs. 15.39 crore).

During the current year, 91 *per cent* (Rs. 2,441 crore) of total expenditure was met from revenue receipts and the remaining (Rs. 231 crore) from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 2.12 in 2007-08 indicating a 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**

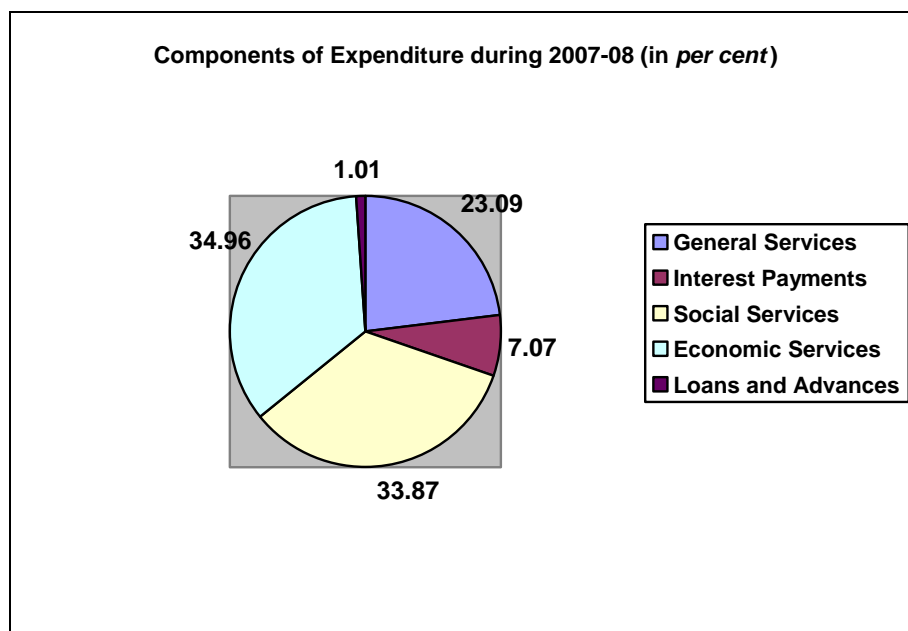
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Relative share of these components in total expenditure is indicated in **Table 1.11**.

**Table 1.11 : Components of Expenditure-Relative Share**

	<b>(In per cent)</b>					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Services	33.49	34.03	31.68	32.72	32.20	30.16
<i>Of which Interest Payments</i>	10.30	10.50	9.42	9.83	9.09	7.07
Social Services	33.70	34.78	35.52	34.41	33.18	33.87
Economic Services	27.69	26.87	30.88	32.30	34.35	34.96
Loans and Advances	5.12	4.32	1.92	0.57	0.27	1.01

<sup>7</sup> 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 2007-08, expenditure on general services and interest payments, which is considered as non-developmental, together accounted for 30.16 per cent. On the other hand, expenditure on social and economic services together accounted for 68.83 per cent during 2007-08. The relative share of social services exhibited relative stability during the period 2002-08. The relative share of economic services which ranged between 26.87 per cent and 34.35 per cent during the last five year period 2002-07 has marginally increased to 34.96 per cent in 2007-08, while loans and advances revealed wide fluctuations during the period 2002-07 and stood at 1.01 per cent during 2007-08.

### 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 1.12**.

**Table 1.12 : Revenue Expenditure – Basic Parameters**

(Rupees in crore)						
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Expenditure (RE)	1,205	1,314	1,596	1,674	1,907	2,253
<i>Of which</i>						
<i>Non-Plan Revenue Expenditure (NPRE)</i>	949 (78.76)	1,004 (76.41)	1,120 (70.18)	1,183 (70.67)	1,341 (70.32)	1,532 (68.00)
<i>Plan Revenue Expenditure (PRE)</i>	256 (21.24)	310 (23.59)	476 (29.82)	491 (29.33)	566 (29.68)	721 (32.00)
<b>Rate of Growth of</b>						
RE ( <i>per cent</i> )	4.15	9.05	21.46	4.89	13.92	18.14
NPRE ( <i>per cent</i> )	7.35	5.80	11.55	5.63	13.36	14.24
PRE ( <i>per cent</i> )	- 6.23	21.09	53.55	3.15	15.27	27.39
<b>Ratios (<i>per cent</i>)</b>						
RE/TE ( <i>per cent</i> )	82.20	81.16	84.98	86.11	85.40	84.32
NPRE/GSDP ( <i>per cent</i> )	19.92	19.02	19.29	18.72	19.27	20.14
NPRE as <i>per cent</i> of TE	64.73	62.01	59.64	60.85	60.05	57.34
NPRE as <i>per cent</i> of RR	73.62	71.77	72.45	67.72	62.60	62.76
<b>Buoyancy Ratio of Revenue Expenditure with</b>						
GSDP	0.65	0.83	2.16	0.55	1.37	1.95
Revenue Receipts	0.28	1.06	2.04	0.38	0.62	1.30

(Figures in brackets represent percentages to revenue expenditure)

The revenue expenditure increased by 87 *per cent* from Rs. 1,205 crore in 2002-03 to Rs. 2,253 crore in 2007-08. The non-plan revenue expenditure during the same period increased from Rs. 949 crore to Rs. 1,532 crore, showing an increase of 61 *per cent* indicating that the share of NPRE in total revenue expenditure declined from 79 *per cent* in 2002-03 to 68 *per cent* in 2007-08. As a result, plan revenue expenditure, which normally covers the maintenance expenditure incurred on services, has increased by Rs. 465 crore during 2002-08 keeping its share in total revenue expenditure between 21 and 32 *per cent* during the period. The growth of PRE during 2007-08 significantly improved to 27.39 *per cent* against 15.27 *per cent* during the previous year mainly due to increase in expenditure on education, sports, art and culture by Rs. 68.20 crore followed by Rs. 36.37 crore under agriculture and allied activities and Rs. 14.93 crore under special areas programme. Though the rate of growth of NPRE (14.24 *per cent*) in 2007-08 was less than that of the PRE, this expenditure at Rs. 1,532 crore during the year was 13.48 *per cent* (Rs. 182 crore) higher than the normatively assessed level of Rs. 1,350 crore by the TFC and 2.27 *per cent* (Rs. 34 crore) and 9.43 *per cent* (Rs. 132 crore) higher than the assessments made by the State Government in its FCP and Budget estimate for the year respectively (**Table 1.13**).

**Table 1.13 : Non-Plan Revenue Expenditure: Actuals vis-à-vis Normative Assessment by TFC**

(Rupees in crore)

Particulars	Assessed by the TFC	Assessments made by the State Government in		Actuals	Difference with reference to {Excess (+) / Less (-)}		
		FCP	Budget - 2007-08		Column (2)	Column (3)	Column (4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Interest Payments	227	220	225	189	(-) 38	(-) 31	(-) 36
Pension	107	113	113	135	(+) 28	(+) 22	(+) 22
Other General Services	266	Not available	393	424	(+) 158	...	(+) 31
Social Services	471		408	439	(-) 32	...	(+) 31
Economic Services	223		261	345	(+) 122	...	(+) 84
Committed liabilities	56		NA				
<b>Total</b>	<b>1,350</b>	<b>1,498</b>	<b>1,400</b>	<b>1,532</b>	<b>(+) 182</b>	<b>(+) 34</b>	<b>(+) 132</b>

Except for interest payments and expenditure on social services, the actual expenditure incurred on all other components of non-plan revenue expenditure was more than the assessments made by the TFC. The expenditure also exceeded the assessments made in the Budget 2007-08 on all the components except for interest payments.

#### 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 1.14**.

**Table 1.14 : Expenditure on Salaries and Wages**

(Rupees in crore)

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Salaries and Wages <sup>8</sup>	576	622	553	602	659	716
<i>Of which</i>						
<i>Non-Plan Head</i>	<i>Details not available</i>		464	502	547	596
<i>Plan Head</i>			89	100	112	120
As percentage of GSDP	12.09	11.78	9.53	9.53	9.47	9.41
As percentage of Revenue Receipts	44.69	44.46	35.77	34.46	30.77	29.33

The expenditure on salaries and wages increased by 8.65 per cent during 2007-08 over the previous year and accounted for 9.41 per cent of GSDP and 29.33 per cent of the revenue receipts. Though the State was successful in restricting the expenditure on salaries during 2007-08 as assessed in its FCP (Rs. 956 crore) for the year, the total salary bill (Rs. 716 crore) at 37.12 per cent relative to revenue expenditure net of interest payment and pension (Rs. 1,929) marginally exceeded the norm of 35 per cent prescribed by the TFC.

<sup>8</sup> 2002-04: Salaries only on the basis of information furnished by the Finance (Economic Affairs) Department, Government of Meghalaya; 2004-08: Salaries and wages as per information furnished by the Accountant General (Accounts & Entitlement). Salaries exclude grants-in-aid towards salaries.

### 1.4.5 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the six year period 2002-08 (**Table 1.15**).

**Table 1.15 : Expenditure on Pensions (including other retirement benefits)**

Heads	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Expenditure on Pension and other Retirement Benefits (Rupees in crore)	67	76	87	93	118	135
Rate of Growth	15.52	13.43	14.47	6.90	26.88	14.41
As per cent of GSDP	1.41	1.44	1.50	1.47	1.70	1.78
As per cent of Revenue Receipts	5.20	5.43	5.63	5.32	5.51	5.53

Pension payments during the current year have increased by Rs. 17 crore recording a growth rate of over 14 per cent over the previous year mainly on account of increase in the number of pensioners and family pensioners over the previous year by 251 and 111 respectively. A comparative analysis of actual pension payments and the assessment/projections made by the TFC and the State Government (**Table 1.16**) reveals that actual pension payments exceeded the projections made by the TFC and the State Government by 27.36 per cent and 19.47 per cent respectively.

**Table 1.16 : 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 2007-08	Actual expenditure on Pensions	Expenditure in excess of assessment made in the	
				TFC	FCP & Budget
Pension Payments	106	113	135	29 (27.36)	22 (19.47)

(Figures in brackets represent percentages)

### 1.4.6 Interest Payments

Interest payments and their ratio to revenue receipts and revenue expenditure during 2002-08 are detailed in **Table 1.17**.

**Table 1.17: Interest Payments**

Year	Revenue Receipts	Interest payment	Percentage of interest with reference to	
	(Rupees in crore)		Revenue Receipts	Revenue Expenditure
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
2007-08	2,441	189	7.74	8.39

Interest payments increased by 25 per cent from Rs. 151 crore in 2002-03 to Rs. 189 crore in 2007-08. There was, however, a decline in interest payments during 2007-08 compared to the previous year. The consolidation

and rescheduling of the GOI loans, to some extent helped the State Government in restricting the interest payments, which led to a negative growth of 6.9 *per cent* against a positive growth of 6.28 *per cent* during the previous year. Interest payments were on market loans (Rs. 96 crore), Special Securities issued to National Small Savings Fund of the Central Government (Rs. 28 crore), other internal debt (Rs. 19 crore), loans and advances received from Central Government (Rs.11 crore) and Small Savings, Provident Fund, etc. (Rs.35 crore). Of the total interest payments during the year, about 51 *per cent* (Rs. 96 crore) were paid on market borrowings. The overall interest payments (Rs. 189 crore) was lower than the projections made by the TFC (Rs. 227 crore) and FCP (Rs. 220 crore) as well as budget estimates (Rs. 225 crore) of the year.

#### 1.4.7 Subsidies

The trends in subsidies given by the State Government are given in **Table 1.18**.

**Table 1.18: Subsidies**

Year	Amount (Rupees in crore)	Percentage increase (+)/ decrease (-) over previous year	Percentage of subsidy in total expenditure
2002-03	33	(+) 37	2.25
2003-04	30	(-) 9	1.85
2004-05	28	(-) 7	1.49
2005-06	20	(-) 29	1.03
2006-07	34	(+) 70	1.52
2007-08	39	(+) 15	1.46

Source: 2002-05: Information furnished by the Finance (Economic Affairs) Department, Government of Meghalaya; 2005-08: Finance Accounts – Government of Meghalaya.

During the current year, subsidies constituted 1.46 *per cent* of the total expenditure. Of this, 83 *per cent* (Rs. 32.80 crore) was paid to the Meghalaya State Electricity Board (MeSEB), which was about three times the projection (Rs. 12.50 crore) made in the FCP for the year 2007-08. The remaining amount of subsidies was paid under the head Taxes on Vehicles (Rs.3.10 crore), Civil Supplies (Rs. 1.47 crore), Animal Husbandry (Rs. 1.13 crore), Crop Husbandry<sup>9</sup> (Rs. 0.59 crore), Dairy Development (Rs. 0.25 crore) and Fisheries (Rs. 0.12 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

<sup>9</sup> Manures and fertilisers, commercial crops, agricultural engineering, horticulture and vegetable crops.



these components to total expenditure and GSDP, better is the quality of expenditure. **Table 1.19** gives these ratios during 2002-08.

**Table 1.19 : Indicators of Quality of Expenditure**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Capital Expenditure</b>	<b>186</b>	<b>235</b>	<b>246</b>	<b>259</b>	<b>320</b>	<b>392</b>
<b>Revenue Expenditure</b>	<b>1,205</b>	<b>1,314</b>	<b>1,596</b>	<b>1,674</b>	<b>1,907</b>	<b>2,253</b>
<i>Of which</i>						
Social and Economic Services with	721	788	1,009	1,049	1,204	1,475
(i) Salary & Wage Component	<i>Details not available</i>		342	376	414	443
(ii) Non-Salary & Wage Component			667	673	790	1,032
<b>As per cent of Total Expenditure (excluding loans and advances)</b>						
Capital Expenditure	13.37	15.17	13.36	13.40	14.37	14.82
Revenue Expenditure	86.63	84.83	86.64	86.60	85.63	85.18
<b>As per cent of GSDP</b>						
Capital Expenditure	3.91	4.45	4.24	4.10	4.60	5.15
Revenue Expenditure	25.30	24.89	27.49	26.49	27.40	29.63

Revenue expenditure constituted around 85 per cent to 87 per cent of total expenditure during 2002-08 resulting in less expenditure on capital account ranging between 13 per cent and 15 per cent. During 2007-08, capital expenditure was also less than that projected (Rs. 530 crore) in the FCP by Rs. 138 crore. However, the ratio of capital expenditure to GSDP has increased from 3.91 per cent in 2002-03 to 5.15 per cent in 2007-08. The non-salary component constituted 70 per cent of revenue expenditure under social and economic services during 2007-08 and increased by 30.63 per cent over previous year, against 7 per cent on salary component. These trends indicate 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 1.20** summarises the expenditure incurred by the State Government in expanding and strengthening social services in the State during 2002-08.

**Table 1.20 : Expenditure on Social Services**

	(Rupees in crore) (Per cent in brackets)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Education, Sports, Art and Culture</b>						
<b>Revenue Expenditure</b>	<b>240.75</b>	<b>267.81</b>	<b>308.32</b>	<b>311.07</b>	<b>325.52</b>	<b>422.83</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	Details not available		104.86 (34.01)	109.85 (35.31)	123.92 (38.07)	134.57 (31.83)
(b) <i>Non-Salary &amp; Wage Component</i>			203.46 (65.99)	201.22 (64.69)	201.60 (61.93)	288.26 (68.17)
<b>Capital Expenditure</b>	<b>1.55</b>	<b>1.26</b>	<b>1.83</b>	<b>0.70</b>	<b>2.02</b>	<b>5.69</b>
<b>Health and Family Welfare</b>						
<b>Revenue Expenditure</b>	<b>81.86</b>	<b>82.56</b>	<b>86.39</b>	<b>94.03</b>	<b>99.11</b>	<b>113.08</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	Details not available		65.88 (76.26)	78.28 (83.25)	83.00 (83.75)	92.81 (82.07)
(b) <i>Non-Salary &amp; Wage Component</i>			20.51 (23.74)	15.75 (16.75)	16.11 (16.25)	20.27 (17.93)
<b>Capital Expenditure</b>	<b>11.89</b>	<b>14.32</b>	<b>14.51</b>	<b>17.23</b>	<b>18.06</b>	<b>36.08</b>
<b>Water Supply, Sanitation, Housing and Urban Development</b>						
<b>Revenue Expenditure</b>	<b>67.11</b>	<b>69.76</b>	<b>83.50</b>	<b>82.05</b>	<b>106.96</b>	<b>131.71</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	Details not available		26.19 (31.37)	28.73 (35.02)	32.71 (30.58)	36.60 (27.79)
(b) <i>Non-Salary &amp; Wage Component</i>			57.31 (68.63)	53.32 (64.98)	74.25 (69.42)	95.11 (72.21)
<b>Capital Expenditure</b>	<b>52.64</b>	<b>63.88</b>	<b>90.39</b>	<b>88.59</b>	<b>98.73</b>	<b>110.20</b>
<b>Other Social Services</b>						
<b>Revenue Expenditure</b>	<b>36.17</b>	<b>59.01</b>	<b>79.55</b>	<b>67.60</b>	<b>82.71</b>	<b>85.94</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	Details not available		15.75 (19.80)	17.12 (25.33)	18.55 (22.43)	20.47 (23.82)
(b) <i>Non-Salary &amp; Wage Component</i>			63.80 (80.20)	50.48 (74.67)	64.16 (77.57)	65.47 (76.18)
<b>Capital Expenditure</b>	<b>1.94</b>	<b>4.37</b>	<b>2.44</b>	<b>8.00</b>	<b>7.99</b>	<b>0.51</b>
<b>Total (Social Services)</b>	<b>493.91</b>	<b>562.97</b>	<b>666.93</b>	<b>669.27</b>	<b>741.10</b>	<b>906.04</b>
<b>Revenue Expenditure</b>	<b>425.89</b>	<b>479.14</b>	<b>557.76</b>	<b>554.75</b>	<b>614.30</b>	<b>753.56</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	Details not available		212.68 (38.13)	233.98 (42.18)	258.18 (42.03)	284.45 (37.75)
(b) <i>Non-Salary &amp; Wage Component</i>			345.08 (61.87)	320.77 (57.82)	356.12 (57.97)	469.11 (62.25)
<b>Capital Expenditure</b>	<b>68.02</b> (13.77)	<b>83.83</b> (14.89)	<b>109.17</b> (16.37)	<b>114.52</b> (17.11)	<b>126.80</b> (17.11)	<b>152.48</b> (16.83)

The allocation to social sector increased from Rs. 494 crore in 2002-03 to Rs. 906 crore in 2007-08 indicating the Government's commitment for improving social well being of the society. Expenditure on social sector during the current year accounted for over 34 per cent of the total expenditure (revenue plus capital expenditure) (Rs. 2,645 crore) and 49 per cent of development expenditure<sup>10</sup> (Rs. 1,839 crore). Expenditure on education, sports, art and culture, health and family welfare and water supply and sanitation, housing and urban development constituted over 90 per cent of the expenditure on social sector.

The trends in revenue and capital expenditure on social services during 2002-08 reveal that the share of capital expenditure remained within the range

<sup>10</sup> Development expenditure is defined as the total expenditure incurred on social and economic services.

of 13 to 17 *per cent* which indicated that the revenue expenditure was dominant. Of the revenue expenditure on social services, the share of salary and wage component has decreased from its peak of 42.18 *per cent* in 2005-06 to 37.75 *per cent* in 2007-08 implying more expenditure on non-salary components including on their maintenance. The non-salary and wage expenditure on social services has increased by 35.94 *per cent* during 2004-08 from Rs. 345.08 crore in 2004-05 to Rs. 469.11 crore in 2007-08. Within the priority sectors, 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 2004-08 (76 *per cent* to 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. However, the expenditure on non-plan salary and wage component under education sector increased by 4.89 *per cent* which is very close to 5 *per cent* and under health and family welfare sector the increase of 12.51 *per cent* far surpassed the recommendations of the TFC. The increase in non-salary (non-plan) expenditure under these two sectors is also not encouraging inasmuch as 22.38 *per cent* and 18.17 *per cent* increase under education and health and family welfare sectors respectively are below the recommendations of the TFC. Thus, expenditure pattern under both these sectors needs correction in the ensuing years.

### 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. **Table 1.21** presents the trends in expenditure incurred on economic services during the period from 2002-03 to 2007-08.

**Table 1.21: Expenditure on Economic Services**

	(Rupees in crore) (Per cent in brackets)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Agriculture and Allied Activities</b>						
<b>Revenue Expenditure</b>	<b>116.94</b>	<b>121.97</b>	<b>139.62</b>	<b>163.07</b>	<b>176.28</b>	<b>216.73</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	<i>Details not available</i>		79.34 (56.83)	85.75 (52.58)	96.11 (54.52)	93.83 (43.29)
(b) <i>Non-Salary &amp; Wage Component</i>			60.28 (43.17)	77.32 (47.42)	80.17 (45.48)	122.90 (56.71)
<b>Capital Expenditure</b>	<b>5.01</b>	<b>3.60</b>	<b>10.27</b>	<b>4.61</b>	<b>4.59</b>	<b>13.36</b>
<b>Irrigation and Flood Control</b>						
<b>Revenue Expenditure</b>	<b>9.01</b>	<b>9.53</b>	<b>10.82</b>	<b>12.65</b>	<b>13.76</b>	<b>19.35</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	<i>Details not available</i>		7.13 (65.90)	7.84 (61.98)	8.53 (61.99)	9.49 (49.04)
(b) <i>Non-Salary &amp; Wage Component</i>			3.69 (34.10)	4.81 (38.02)	5.23 (38.01)	9.86 (50.96)
<b>Capital Expenditure</b>	<b>6.61</b>	<b>6.17</b>	<b>5.19</b>	<b>7.58</b>	<b>5.61</b>	<b>6.07</b>

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Energy</b>						
<b>Revenue Expenditure</b>	<b>11.36</b>	<b>19.23</b>	<b>88.85</b>	<b>67.97</b>	<b>90.47</b>	<b>137.71</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	<i>Details not available</i>		<i>Nil</i> <sup>11</sup>			
(b) <i>Non-Salary &amp; Wage Component</i>			88.85	67.97	90.47	137.71
<b>Capital Expenditure</b>	...	...	...	...	...	...
<b>Transport</b>						
<b>Revenue Expenditure</b>	<b>38.43</b>	<b>40.22</b>	<b>50.06</b>	<b>52.54</b>	<b>76.55</b>	<b>79.38</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	<i>Details not available</i>		<i>Nil</i> <sup>12</sup>			
(b) <i>Non-Salary &amp; Wage Component</i>			50.06	52.54	76.55	79.38
<b>Capital Expenditure</b>	<b>87.40</b>	<b>91.85</b>	<b>90.18</b>	<b>86.03</b>	<b>107.59</b>	<b>137.83</b>
<b>Other Economic Services</b>						
<b>Revenue Expenditure</b>	<b>119.07</b>	<b>117.57</b>	<b>162.18</b>	<b>198.17</b>	<b>233.05</b>	<b>268.67</b>
<i>Of which</i>						
(a) <i>Salary &amp; Wage Component</i>	<i>Details not available</i>		43.20	48.29	51.32	55.26
(b) <i>Non-Salary &amp; Wage Component</i>			(26.64)	(24.37)	(22.02)	(20.57)
			118.98	149.88	181.73	213.41
			(73.36)	(75.63)	(77.98)	(79.43)
<b>Capital Expenditure</b>	<b>12.02</b>	<b>25.09</b>	<b>22.61</b>	<b>35.38</b>	<b>59.44</b>	<b>54.23</b>
<b>Total (Economic Services)</b>	<b>405.85</b>	<b>435.23</b>	<b>579.78</b>	<b>628.00</b>	<b>767.34</b>	<b>933.33</b>
<b>Revenue Expenditure</b>	<b>294.81</b>	<b>308.52</b>	<b>451.53</b>	<b>494.40</b>	<b>590.11</b>	<b>721.84</b>
<i>Of which</i>	<b>(72.64)</b>	<b>(70.89)</b>	<b>(77.88)</b>	<b>(78.73)</b>	<b>(76.90)</b>	<b>(77.34)</b>
(a) <i>Salary &amp; Wage Component</i>	<i>Details not available</i>		129.67	141.88	155.96	158.58
(b) <i>Non-Salary &amp; Wage Component</i>			(28.72)	(28.70)	(26.43)	(21.97)
			321.86	352.52	434.15	563.26
			(71.28)	(71.30)	(73.57)	(78.03)
<b>Capital Expenditure</b>	<b>111.04</b>	<b>126.71</b>	<b>128.25</b>	<b>133.60</b>	<b>177.23</b>	<b>211.49</b>
	<b>(27.36)</b>	<b>(29.11)</b>	<b>(22.12)</b>	<b>(21.27)</b>	<b>(23.10)</b>	<b>(22.66)</b>

The expenditure on economic services during 2007-08 (Rs. 933 crore) accounted for over 35 per cent of the total expenditure (revenue plus capital expenditure) and 51 per cent of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 25 per cent was incurred on agriculture and allied services, 23 per cent on transport and 15 per cent on energy.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from Rs. 111 crore in 2002-03 to Rs. 211 crore (90 per cent) in 2007-08. Revenue expenditure also consistently increased from Rs. 295 crore in 2002-03 to Rs. 722 crore (145 per cent) in the current year. An increase of Rs. 132 crore (22 per cent) during 2007-08 over the previous year in revenue expenditure was mainly due to the increase in energy (Rs. 47 crore), agriculture and allied activities (Rs. 40 crore), special areas programme (Rs. 15 crore) and general economic services (Rs. 14 crore). Within the revenue expenditure, salary and wage component ranged between 22 and 29 per cent of the total revenue expenditure during

<sup>11</sup> Though there was budget provision, no expenditure was incurred.

<sup>12</sup> There was no provision in the budget for salary and wages.

2004-08. It increased from Rs. 130 crore in 2004-05 to Rs. 159 crore (22.31 *per cent*) during the current year. The non-salary and wage component also increased from Rs. 322 crore in 2004-05 to Rs. 563 crore (74.84 *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 2002-08 is presented in **Table 1.22**.

**Table 1.22: Financial Assistance**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
University and Educational Institutions	130	129	150	151	164	243
Co-operative Societies	2	2	2	2	5	2
District Councils	*	6	4	3	1	12
Municipalities	2	1	2	2	1	2
Power sector	56	50	26	7	35	100
Other Institutions <sup>13</sup>	11	10	5	2	2	9
<b>Total</b>	<b>201</b>	<b>198</b>	<b>189</b>	<b>167</b>	<b>208</b>	<b>368</b>
Assistance as percentage of Revenue Expenditure	16.68	15.07	11.84	9.98	10.91	16.33

\* Financial assistance to District Councils during 2002-03 was Rs. 0.21 crore only.

The financial assistance extended to local bodies and other institutions with inter-year variations increased by 77 *per cent* from Rs. 208 crore in 2006-07 to Rs. 368 crore in 2007-08. The share of financial assistance in revenue expenditure also increased from 10.91 *per cent* in 2006-07 to 16.33 *per cent* during the current year. Another important trend emerging from the above table is that the share under power sector has sharply increased by about three times from Rs. 35 crore in 2006-07 to Rs. 100 crore in 2007-08. Of Rs. 100 crore, Rs. 98 crore (98 *per cent*) was given to the State Electricity Board for Accelerated Power Development Reforms Programme (Rs. 50 crore), hydel generation (Rs. 39 crore) and transmission line (Rs. 9 crore) indicating that substantial amount of financial assistance is being given to the Public Sector Undertaking. The remaining amount of Rs. 2 crore was given to the Meghalaya Electricity Regulatory Commission. University and Educational Institutions were the major recipients as 66 *per cent* of the total financial assistance during 2007-08 was given to them. The sharp increase under educational institutions was due to release of more grants (Rs. 70 crore) to non-Government primary/secondary schools and colleges, which increased from Rs. 162 crore in 2006-07 to Rs. 232 crore during the current year of which Rs. 122 crore was given for non-plan purposes.

<sup>13</sup> Other Institutions (figures for 2007-08 in brackets): Prevention and control of water pollution (Rs.129 lakh), Khadi & Village Industries (Rs.124.95 lakh), Eco-Development Society (Rs.43 lakh), Public Sector and other undertakings (Rs.544.43 lakh), Womens Welfare (Rs.15.26 lakh), Housing Board (Rs.6 lakh), Small Scale Industries (Rs.9.16 lakh), Forest Development Corporation of Meghalaya (Rs.10 lakh), Indian Red Cross Society (Rs.5 lakh), others (Rs.1.79 lakh).

### **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 2007-08 called for in April 2008 from 14 departments<sup>14</sup> was awaited as of July 2008.

### **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. There was a delay of six months in the submission of the accounts for the year 2006-07. The accounts for the year 2007-08 were, however, submitted on time.

### **1.5.7 Misappropriation, losses, defalcation, etc.**

The State Government reported 85 cases of misappropriation, defalcation, etc. involving Government money amounting to Rs. 1.53 crore up to the period March 2008 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 2008, compared with the corresponding position on 31 March 2007. 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 2002-08.

### **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 2007-08, as of March 2008, there were 323 ongoing

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<sup>14</sup> Agriculture, Education, Health & Family Welfare, Community & Rural Development, Urban Affairs, Social Welfare, Animal Husbandry & Veterinary, Soil Conservation, Fisheries, Printing & Stationery, Forest, Mining & Geology, Housing and Arts & Culture Departments.

irrigation (19) and water supply (304) projects in the State. Of these, seven irrigation and 37 water supply projects, stipulated for completion on or before 31 March 2008 at an estimated cost of Rs. 12.52 crore, remained incomplete with an expenditure of Rs. 12.77 crore (irrigation: Rs. 0.97 crore; water supply: Rs. 11.80 crore) till 31 March 2008. Out of 44 projects, 37 remained incomplete for less than one year and the remaining seven projects for over one to three years.

### 1.6.1.2 Government Investments and Returns

As of 31 March 2008, Government had invested Rs. 186.79 crore in Statutory Corporations, Government Companies and Co-operative Societies (**Table 1.23**). The return on this investment was less than one *per cent* during 2002-08 while the Government paid interest at an average rate of 7.62 to 9 *per cent* on its borrowings during the period.

**Table 1.23: 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)		
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	0.01	0.01	7.62	7.61
2007-08	3.63	186.79	0.02	0.01	6.40	6.39

(Figures in Chapter VII for the year 2007-08 are provisional.)

As of March 2008, the State Government had invested Rs. 40.34 crore in two Statutory Corporations, Rs. 102.59 crore in eight Government Companies and Rs. 43.86 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 during 1986-2007 despite accumulated loss of Rs. 50.64 crore sustained by the Corporation up to 2000-01. Out of Rs. 102.59 crore invested in Government Companies, Rs. 19.22 crore was invested in five loss making Companies, which had accumulated loss of Rs. 26.27 crore as detailed in **Table 1.24**. Up-to-date working results of the Co-operative Societies had not been intimated (September 2008).

**Table 1.24: Details of loss making Government Companies**

Name of Companies	Amount invested up to March 2008	Invested up to	Accumulated loss	Period up to <sup>15</sup>
Meghalaya Government Construction Corporation Limited	4.77	2000-01	11.26	2005-06
Meghalaya Mineral Development Corporation Limited	2.27	2001-02	9.17	2006-07
Meghalaya Tourism Development Corporation Limited	7.75	2001-02	2.11	1992-93
Forest Development Corporation of Meghalaya Limited	1.56	2000-01	2.15	1999-00
Meghalaya Handloom and Handicrafts Development Corporation Limited	2.87	2007-08	1.58	2001-02
	<b>19.22</b>		<b>26.27</b>	

<sup>15</sup> Accounts for the subsequent years are in arrears.

### 1.6.1.3 Loans and Advances by State Government

In addition to the investments in Co-operatives, Corporations and Companies, Government has also been providing loans and advances to many of these institutions/organisations. The total outstanding loans and advances as on 31 March 2008 was Rs. 479 crore (**Table 1.25**). Interest received against these loans and advances was meagre, which had decreased from 0.62 *per cent* in 2004-05 to 0.35 *per cent* in 2007-08.

**Table 1.25 : Average Interest Received on Loans and Advances by the State Government**

	(Rupees in crore)					
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	359	419	471	488	480	469
Amount advanced during the year	75	70	36	11	6	27
Amount recovered during the year	15	18	19	19	17	17
Closing Balance	419	471	488	480	469	479
Net Addition	60	52	17	- 8	- 11	10
Interest Received	0.46	0.72	2.99	1.48	1.36	1.65
Interest received as <i>per cent</i> to outstanding Loans and Advances	0.12	0.16	0.62	0.31	0.29	0.35
Average interest rate paid on borrowings by the State Government ( <i>per cent</i> )	8.98	9.00	8.58	8.06	7.62	6.40
Difference between interest paid and received ( <i>per cent</i> )	8.86	8.84	7.96	7.75	7.33	6.05

As the interest received as *per cent* to outstanding loans and advances was much lower than the cost at which the State Governments borrows, the TFC in its restructuring plan of State finances assumed a 7 *per cent* return on outstanding loans and advances to be achieved in a graded manner by the terminal year of the forecast period. Decreasing trend in return on outstanding loans and advances given by the State Government, which stands only at 0.35 *per cent* in 2007-08, 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.

### 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.

WMAs and Overdrafts availed, the number of occasions it was availed and interest paid by the State during 2002-08 is detailed in **Table 1.26**.

**Table 1.26 : Ways and Means Advances and Overdrafts of the State**  
(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Ways and Means Advances</b>						
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	*	0.08	...	...
<b>Overdraft</b>						
Availed in the Year	0.46	...	...	8.85	...	...
Number of days	1	...	...	1	...	...
Outstanding Overdraft, if any	...	...	...	...	...	...
Interest Paid	...	...	...	*	...	...

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

As can be seen from the above table, the Government did not have to resort to WMA during the current year (2007-08) as well as during the previous year, indicating comfortable position of cash balances of the State. The cash balances of the State Government increased from Rs. 303 crore to Rs. 430 crore in 2007-08 over the previous year mainly due to increase under cash balance investment by Rs. 114 crore.

## **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 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 1.27** 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 1.27: Fiscal Liabilities – Basic Parameters**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities <sup>16</sup> (Rupees in crore)	1,827	1,952	2,173	2,566	2,762	3,141
Rate of Growth ( <i>per cent</i> )	19.02	6.84	11.32	18.09	7.64	13.72
<b>Ratio of Fiscal Liabilities to</b>						
GSDP ( <i>per cent</i> )	38.36	36.97	37.43	40.61	39.69	41.30
Revenue Receipts ( <i>per cent</i> )	141.74	139.53	140.56	146.88	128.94	128.68
Own Resources ( <i>per cent</i> )	767.65	635.83	637.24	643.11	564.83	606.37
<b>Buoyancy of Fiscal Liabilities to</b>						
GSDP (ratio)	2.99	0.63	1.14	2.04	0.75	1.48
Revenue Receipts (ratio)	1.29	0.80	1.08	1.39	0.34	0.98
Own Resources (ratio)	5.47	0.24	1.02	1.06	0.34	2.31

Fiscal liabilities of Rs. 3,141 crore during 2007-08 consist of internal debt, e.g., market loans bearing interest, loans from Life Insurance Corporation of India (LIC) and other institutions, *etc.* (Rs. 1,773 crore), loans and advances from Central Government (Rs. 330 crore), small savings, provident funds (State Provident Funds and Insurance & Pension Funds: Rs. 429 crore) and other non-interest bearing obligations such as deposit of local funds, civil deposits, *etc.* (Rs. 609 crore). Overall fiscal liabilities of the State increased from Rs. 1,827 crore in 2002-03 to Rs. 3,141 crore in 2007-08. The growth rate in 2007-08 was 13.72 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP also increased from 38.36 *per cent* in 2002-03 to 41.30 *per cent* in 2007-08. These liabilities stood at 1.29 times the revenue receipts and 6.06 times of the State's own resources at the end of 2007-08. The buoyancy of these liabilities with respect to GSDP during the year was 1.48 indicating that for each one per cent increase in GSDP, fiscal liabilities grew by 1.48 *per cent*.

According to **Statement 4** of the Finance Accounts for the year 2007-08, during 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loans. In 2007-08, the Government has appropriated Rs. 11.71 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 for whom the guarantee has been extended. As per **Statement 6** of the Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2002-03 are given in **Table 1.28**.

<sup>16</sup> Includes Internal Debt, Loans and Advances from Government of India, Small Savings, Provident Funds, *etc.*, Deposits and other non-interest bearing obligations.

**Table 1.28: Guarantees given by the Government of Meghalaya  
(Rupees in crore)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Maximum amount guaranteed (year end)	183.69	342.94	384.32	504.67	562.02	954.16
Outstanding amount of guarantees (including interest)	137.37	300.33	338.18	404.38	435.80	750.63
Percentage of maximum amount guaranteed to total revenue receipts	14.25	24.51	24.86	28.89	26.24	39.08

Government has guaranteed loans raised by various Corporations and others, which at the end of 2007-08 stood at Rs. 750.63 crore (including interest). The outstanding amount of guarantees is in the nature of contingent liabilities, which were over 39 per cent of revenue receipts of the State during 2007-08. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

As per MFRBM Act, 2006 and Fiscal Policy Strategy (FPS) Statement, the total liabilities on the Consolidated Fund of the State should not be more than 28 *per cent* of the GSDP. The MTFP Statement, however, fixed the target of total outstanding liabilities to GSDP in 2007-08 as 32.92 *per cent*. **Table 1.29** gives the position of this ratio during 2002-08:

**Table 1.29 : Total Liabilities**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Total Liabilities <sup>17</sup> (Rupees in crore)	1,964	2,252	2,511	2,970	3,198	3,892
Ratio of Total Liabilities to GSDP ( <i>per cent</i> )	41.23	42.65	43.26	47.00	45.95	51.18

It is evident from the above table that the ratio of total liabilities to GSDP not only remained higher than the limit (28 *per cent*) prescribed in the MFRBM Act, 2006 and FPS Statement throughout the entire period 2002-08, but also increased by 18.26 *per cent* over the target fixed in the MTFP Statement.

## 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

<sup>17</sup> Fiscal liabilities + Outstanding amount of guarantees (including interest).

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 variables indicating the progress towards the debt stabilisation are indicated in **Table 1.30**.

**Table 1.30: Debt Sustainability – Interest Rate and GSDP Growth (in per cent)**

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate	8.98	9.00	8.58	8.06	7.62	6.40
GSDP Growth	6.36	10.85	9.94	8.85	10.13	9.28
Interest Spread	- 2.62	1.85	1.36	0.79	2.51	2.88
Opening Outstanding Debt (Rupees in crore)	1,535	1,827	1,952	2,173	2,566	2,762
Quantum Spread <sup>18</sup> (Rupees in crore)	- 40	34	27	17	64	80
Primary Deficit (-)/ Surplus (+) (Rupees in crore)	- 11	- 32	- 136	+ 13	+ 129	- 25
Quantum Spread + Primary Deficit (Rupees in crore)	- 51	2	- 109	30	193	55

**Table 1.30** reveals that quantum spread together with primary deficit/surplus has been negative in 2002-03 and 2004-05 but turned positive thereafter and continued till 2007-08. Viewed along with ratio of fiscal deficit to GSDP which also indicated a fluctuating trend during the period 2002-08, indicates oscillating debt-GSDP ratios during the period. These trends indicate that the State needs to improve the fiscal imbalances for improving the debt sustainability position in medium to long run.

### 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. The persistent negative resource gap indicates the non-sustainability of debt while

<sup>18</sup> Quantum Spread: Interest Spread x Opening Fiscal Liabilities ÷ 100.

the continued positive resource gap strengthens the capacity of the State to sustain the debt. **Table 1.31** indicates the resource gap as defined for the period 2002-08:

**Table 1.31 : Incremental Revenue Receipts and Revenue Expenditure**

(Rupees in crore)

Period	Incremental				Resource Gap
	Non-Debt Receipts	Primary Expenditure	Interest Payments	Total Expenditure	
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
2007-08	299	453	- 14	439	- 140

The trends in resource gap indicate the oscillation between positive and negative magnitudes, i.e., it remained positive during 2002-03 and 2005-07 but negative in 2003-05 and 2007-08 as incremental non-debt receipts in these three years were much below the incremental total expenditure. These oscillations in resource gaps corresponds exactly to the trends in fiscal deficit during the period 2002-08. The negative resource gap in the current year was mainly due to the steep increase in non-interest revenue expenditure (Rs. 360 crore) on the one hand and a sharp fall of Rs. 94 crore in incremental revenue receipts in 2007-08 relative to the previous year. Contrary to the proposal of raising additional resources by the Government in its Fiscal Policy Strategy Statement, the growth rate of the State's own resources (tax and non-tax revenue) decreased to 5.93 *per cent* in 2007-08 from 22.56 *per cent* in 2006-07. This requires closer attention to check the resource gap.

### 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 1.32** 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 1.32: Net Availability of Borrowed Funds**

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>Internal Debt<sup>19</sup></b>						
Receipts	401	287	188	340	243	244
Repayment (Principal + Interest)	343	183	194	258	188	225
Net Fund Available	58	104	- 6	82	55	19
Net Fund Available ( <i>per cent</i> )	14.46	36.24	...	24.12	22.63	7.79
<b>Loans and Advances from GOI</b>						
Receipts	138	83	112	3	3	3
Repayment (Principal + Interest)	156	170	157	63	73	28
Net Fund Available	-18	- 87	- 45	- 60	- 70	- 25
Net Fund Available ( <i>per cent</i> )	...	...	...	...	...	...
<b>Other obligations<sup>20</sup></b>						
Receipts	329	255	281	410	413	611
Repayment (Principal + Interest)	228	318	186	228	406	415
Net Fund Available	101	- 63	95	182	7	196
Net Fund Available ( <i>per cent</i> )	30.70	...	33.81	44.39	1.69	32.08
<b>Total Liabilities</b>						
Receipts	868	625	581	753	659	858
Repayments (Principal + Interest)	727	671	537	549	667	668
Net Fund Available	141	- 46	44	204	- 8	190
Net Fund Available ( <i>per cent</i> )	16.24	...	7.57	27.09	...	22.14

The debt redemption ratio has fluctuated widely during the period 2002-08 which remained more than unity in 2003-04 and 2006-07 while it varied between 72 and 92 *per cent* in remaining years. It was observed that debt repayments were more than the debt receipts only in those years when receipts in public account either declined or remained stable and as and when receipts indicated sharp increases in public account, this ratio turned out to be positive. During the current year, the Government repaid Rs. 668 crore as principal and interest on internal debt (Rs. 225 crore), loans and advances from the GOI (Rs. 28 crore) and other obligations (Rs. 415 crore), as a result of which the borrowed funds of Rs. 190 crore were available for development purposes. Under loans and advances from GOI, the net funds available continued to be negative during the entire period of six years. Nearly 12 *per cent* (Rs. 25 crore) of the net funds available from internal debt (Rs. 19 crore) and other obligations (Rs. 196 crore) was used to meet the repayment obligation of the loans and advances from the GOI.

## 1.9 Management of Deficits

### 1.9.1 Trends in Deficits

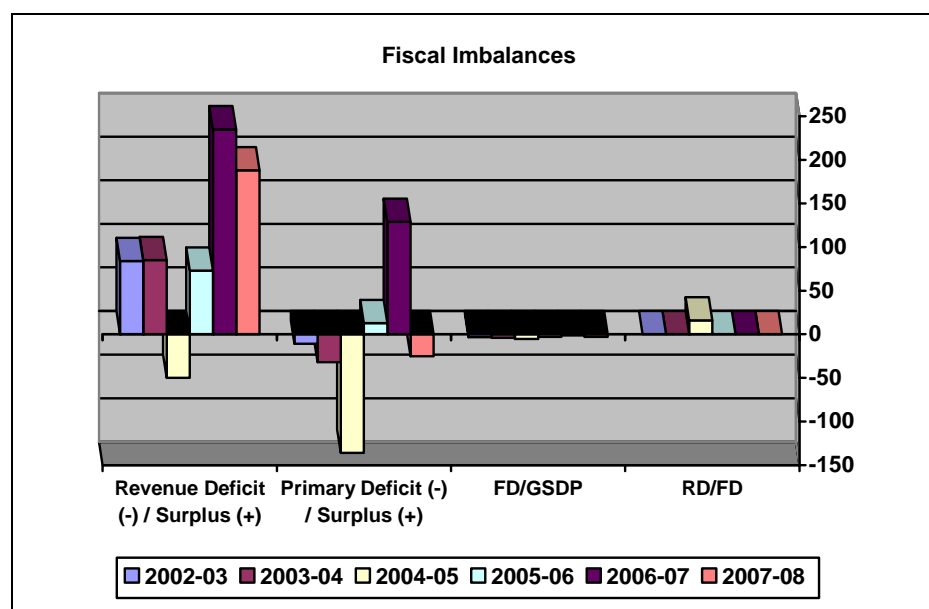
Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in **Table 1.33**.

<sup>19</sup> Includes Ways and Means Advances and Overdrafts.

<sup>20</sup> Small Savings, Provident Funds, *etc.*, Deposits and other non-interest bearing obligations.

**Table 1.33 : Fiscal Imbalances – Basic Parameters**

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Surplus (RS) (+)/ Revenue Deficit (RD) (-) (Rupees in crore)	+ 84	+ 85	- 50	+ 73	+ 235	+ 188
Fiscal Deficit (FD) (-) (Rupees in crore)	- 162	- 202	- 313	- 178	- 74	- 214
Primary Deficit (PD) (-)/ Surplus (+) (Rupees in crore)	- 11	- 32	- 136	+ 13	+ 129	- 25
RD (-) RS(+)/GSDP ( <i>per cent</i> )	+ 1.76	+ 1.61	- 0.86	+ 1.16	+ 3.38	+ 2.47
FD/GSDP ( <i>per cent</i> )	- 3.40	- 3.83	- 5.39	- 2.82	- 1.06	- 2.81
PD (-) PS (+)/GSDP ( <i>per cent</i> )	- 0.23	- 0.61	- 2.34	+ 0.21	+ 1.85	- 0.33
RD/FD ( <i>per cent</i> )	Revenue Surplus		15.97	Revenue Surplus		

**Chart 1.3**

**Table 1.33** reveals that the revenue account experienced a situation of substantial deficit of Rs. 50 crore during 2004-05 despite surplus during the preceding two years. Since 2005-06, the revenue account turned into surplus which has steeply increased to Rs. 235 crore during 2006-07 but declined to Rs. 188 crore during 2007-08. The significant deterioration during the current year was mainly on account of increase in revenue expenditure by Rs. 346 crore (18.14 *per cent*) against an increase of Rs. 299 crore (13.96 *per cent*) in revenue receipts over the previous year. Despite the fact that central transfers contributed around 90 *per cent* (Rs. 270 crore) in the incremental revenue receipts (Rs. 299 crore) during 2007-08, the lower growth rate in revenue receipts was primarily on account of sluggish growth rate of 5.93 *per cent* (Rs. 29 crore) in the State's own resources as compared to 22.56 *per cent* (Rs. 90 crore) in the previous year resulting in decline in revenue surplus in the current year.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap also increased from the lowest level of Rs. 74 crore

in 2006-07 during the period 2002-08 to Rs. 214 crore in 2007-08. The decrease in revenue surplus (Rs. 47 crore) along with an increase of Rs. 93 crore on account of increase in capital expenditure (Rs. 72 crore) as well as in loans and advances disbursed (Rs. 21 crore) during 2007-08 led to an increase of Rs. 140 crore in fiscal deficit during the current year.

The primary surplus which continued during 2005-07 and reached the level of Rs. 129 crore during 2006-07, also took a turnaround and resulted in a primary deficit<sup>21</sup> of Rs. 25 crore during 2007-08. A sharp increase of Rs. 140 crore in fiscal deficit together with a moderate decrease of Rs. 14 crore in interest payments resulted in a primary deficit of Rs. 214 crore during the current year.

### 1.9.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Out of six year period ending March 2008, the State experienced revenue deficit only during 2004-05 and consequent ratio of RD to FD. Since 2005-06, RD was wiped out and turned into surplus which improved significantly during 2006-07 although it declined to Rs. 188 crore during the current year.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-08 reveals (**Table 1.34**) that throughout this period, the primary deficit was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure<sup>22</sup> 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 2002-05 and 2007-08. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which to some extent may be desirable to improve the productive capacity of the State's economy.

**Table 1.34 : Primary Deficit/Surplus – Bifurcation of Factors**

(Rupees in crore)							
Year	Non-debt Receipt (NDR)	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	NDR vis-à-vis Primary Revenue Expenditure	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3 + 4 + 5)	7 (2 - 3)	8 (2 - 6)
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
2007-08	2,458	2,064	392	27	2,483	394	- 25

<sup>21</sup> 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.

<sup>22</sup> 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.



## 1.10 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. **Table 1.35** below presents a summarised position of Government finances over 2002-08, 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 1.35 : Indicators of Fiscal Health (in per cent)**

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
<b>I. Resource Mobilisation</b>						
Revenue Receipts (RR)/GSDP	27.06	26.50	26.63	27.65	30.78	32.10
Revenue Buoyancy Ratio	2.32	0.79	1.06	1.47	2.23	1.50
Own tax/GSDP	3.04	3.37	3.58	4.00	4.38	4.19
Own Taxes Buoyancy Ratio	1.04	2.10	1.70	2.44	2.03	0.49
<b>II. Expenditure Management</b>						
Total Expenditure (TE)/GSDP	30.78	30.66	32.35	30.76	32.09	35.13
RR/TE	87.93	86.41	82.32	89.87	95.92	91.35
Revenue Expenditure (RE)/TE	82.20	81.16	84.98	86.11	85.40	84.32
Plan Expenditure <sup>23</sup> /Total Expenditure	30.15	33.66	38.18	38.53	39.36	41.50
Capital Expenditure/Total Expenditure <sup>24</sup>	13.37	15.17	13.36	13.40	14.37	14.82
Development Expenditure/Total Expenditure	61.39	61.64	66.40	66.72	67.53	68.82
Buoyancy of TE with RR	0.53	1.22	1.52	0.27	0.66	1.41
Buoyancy of RE with RR	0.28	1.06	2.04	0.38	0.62	1.30
<b>III. Management of Fiscal Imbalances</b>						
Revenue Deficit (-)/Surplus (+) (Rupees in crore)	+ 84	+ 85	- 50	+ 73	+ 235	+ 188
Fiscal Deficit (-) (Rupees in crore)	- 162	- 202	- 313	- 178	- 74	- 214
Primary Deficit (-)/ Surplus (+) (Rupees in crore)	- 11	- 32	- 136	+ 13	+ 129	- 25
Revenue Deficit/Fiscal Deficit	Revenue Surplus		15.97	Revenue Surplus		
<b>IV. Management of Fiscal Liabilities</b>						
Fiscal Liabilities (FL)/GSDP	38.36	36.97	37.43	40.61	39.69	41.30
FL/RR	141.74	139.53	140.56	146.88	128.94	128.68
Buoyancy of FL with RR (ratio)	1.29	0.80	1.08	1.39	0.34	0.98
Buoyancy of FL with Own Receipt (ratio)	5.47	0.24	1.02	1.06	0.34	2.31
Interest Spread	- 2.62	1.85	1.36	0.79	2.51	2.88
Net Funds Available	16.24	...	7.57	27.09	...	22.14
<b>V. Other Fiscal Health Indicators</b>						
Return on Investment	0.00	0.11	0.11	0.01	0.01	0.01
BCR (Rupees in crore)	- 123	- 137	-142	- 19	77	23
Financial Assets/Liabilities (ratio)	1.55	1.55	1.47	1.43	1.48	1.48

<sup>23</sup> Excluding disbursement of Loans.

<sup>24</sup> Total expenditure excludes Loans and Advances.

The trends in ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy and accessibility of resources to the State. 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 32.1 *per cent*, an increase of 1.32 percentage points over the previous year. Though the ratio of own taxes to GSDP showed continued improvement during 2002-07, it declined to 4.19 *per cent* during 2007-08. The ratio at 4.19 *per cent* in 2007-08 is not only far below the national average, but was even below the budget estimate of 4.36 *per cent* for the year, indicating that tax efforts need to be stepped up in the State.

Various ratios concerning expenditure indicate the quality of expenditure and its sustainability in relation to resources. The revenue expenditure as a percentage to total expenditure remained over 81 *per cent* during 2002-08, 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 2007-08 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 amounted to 91 *per cent* during 2007-08, 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 in the total expenditure also indicates an improvement in both developmental and quality of expenditure.

A decline in revenue surplus, significant increase in fiscal deficit and steep decline in BCR during 2007-08 indicates deterioration in fiscal position of the State relative to the previous year. However, the continued emergence of revenue surplus and containing fiscal deficit within the ceiling of 3 *per cent* and maintaining positive BCR are favourable trends, which need to be sustained to maintain the robust fiscal health of the State in medium to long term.

### **1.11 Conclusion**

The fiscal position of the State viewed in terms of key fiscal parameters—revenue surplus, fiscal deficit and primary deficit—has shown deterioration in 2007-08 relative to the previous year. Not only did the revenue surplus decline by Rs. 47 crore in 2007-08 but fiscal deficit has increased by about three times and primary surplus turned into deficit compared to the previous year. Moreover, the fiscal performance of the State *vis-à-vis* targets set in FCP as well as MFRBM Act and Budget indicate a dismal picture during the year. Despite the fact that central transfers increased by Rs. 270 crore in 2007-08 and contributed around 90 *per cent* of the incremental revenue receipts during the year, the lower growth rate in revenue receipts in 2007-08 was primarily on account of sluggish growth rate of 5.93 *per cent* (Rs 29 crore) in the State's own resources as compared to 22.56 *per cent* (Rs. 90 crore) in the previous year resulting in decline in revenue surplus in the current year. The expenditure

pattern of the State reveals that the revenue expenditure as a percentage of total expenditure, although marginally declined during the current year, hovered around 84 *per cent* during the period (2002-08) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, NPRE at Rs. 1,532 crore in 2007-08 constituted 68 *per cent* and remained significantly higher than the normatively assessed level of Rs. 1,350 crore by TFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of NPRE which was over 70 *per cent* during 2007-08. The prevalence of fiscal deficit indicates continued reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 41.3 *per cent* of the GSDP in 2007-08 and would further increase to 51 *per cent* after incorporating the contingent liabilities in the fold of total liabilities on Consolidated Fund of the State during the year and appears to be quite high especially if compared with the limit of 28 *per cent* prescribed in the MFRBM Act, 2006. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize additional resources both through the tax and non tax sources in the ensuing years.