# CHAPTER I
# Finances of the State Government

## Profile of Meghalaya

Meghalaya, a Special Category State[1], is situated in the North-East region of India and is bounded on the north by Goalpara, Kamrup and Nowgong Districts of Assam, on the east by Karbi Anglong and North Cachar Hills Districts of Assam and on the south and west by Bangladesh. With a geographical area of about 22,429 sq km, Meghalaya provides shelter to 0.24 *per cent* population of the country. According to the Census of India, 2011 (provisional data), the population of the State stands at 29,64,007 (Male: 14,92,668; Female: 14,71,339) and the density of population of the State is 132 persons per sq km. State's Gross Domestic Product during the year 2010-11 was ₹ 15,078 crore (base year 2004-05). The estimated per capita income of the State stood at ₹ 50,869 during 2010-11.

As per Gross State Domestic Product (GSDP)[2] series (base year 2004-05), there was a fluctuating trend in the growth rate of GSDP. While the growth of GSDP during 2006-07 was 18.72 *per cent,* and reached its peak in 2008-09 (19.33 *per cent*), it declined to 14.09 *per cent* in 2010-11. The average Compound Annual Growth Rate (CAGR) in respect of GSDP for Meghalaya between 2004-05 and 2010-11 was 14.88 *per cent.* The CAGR of capital expenditure between 2001-02 and 2009-10 was 14.77 *per cent*, which increased to 15.28 *per cent* between 2001-02 and 2010-11. The State depends mostly on resources transferred by the Central Government as the State's own resources during 2006-11 contribute only around 21 to 23 *per cent* of the total revenue receipts. The outstanding fiscal liabilities of the State as percentage to GSDP indicated a fluctuating trend during the period 2006-11. It declined from its peak of 32.27 *per cent* in 2007-08 to 27.11 *per cent* in 2010-11.

This chapter provides a broad perspective of the finances of the Government of Meghalaya during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure of Government Accounts, lay out of Finance Accounts, methodology adopted for the assessment of fiscal position and State Profile are shown in **Appendix 1.1. Appendix 1.2** of the Chapter briefly outlines the Fiscal Responsibility and Budget Management Act of the Government while **Appendix 1.3** presents the time series data on key fiscal

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[1] The Fifth Finance Commission accorded (1969) special status to three states on the basis of harsh terrain, backwardness and social problems prevailing in these states. Thereafter number of such states has increased to 11 including Meghalaya. The special privileges given to Meghalaya include financial assistance from GOI in the ratio of 90 *per cent* grant and 10 *per cent* loan unlike non-special category states which get Central aid in the ratio of 70 *per cent* grant and 30 *per cent* loan.

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

variables/parameters and fiscal ratios relating to the State Government finances for the period 2006-11.

## 1.1 Summary of Current Year's Fiscal Transactions

**Table 1.1** presents the summary of the State Government's fiscal transactions during the current year (2010-11) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

**Table 1.1 : Summary of Current Year's Fiscal Transactions**

**(₹ in crore)**

| 2009-10 | Receipts | 2010-11 | 2009-10 | Disbursements | 2010-11 | | |
|---|---|---|---|---|---|---|---|
| **Section – A : Revenue** | | | | | | | |
| | | | | | **Non-Plan** | **Plan** | **Total** |
| **3447.35** | **Revenue Receipts** | **4260.48** | **3182.38** | **Revenue Expenditure** | **2545.67** | **1467.07** | **4012.74** |
| 444.30 | Tax revenue | 571.45 | 1100.99 | General Services | 1257.34 | 59.46 | 1316.80 |
| 275.08 | Non-tax revenue | 301.53 | 1092.38 | Social Services | 832.24 | 543.79 | 1376.03 |
| 612.38 | Share of Union Taxes/Duties | 896.27 | 989.01 | Economic Services | 456.09 | 863.82 | 1319.91 |
| 2115.59 | Grants-in-aid from Government of India | 2491.23 | … | … | … | … | … |
| **Section – B : Capital** | | | | | | | |
| … | **Miscellaneous Capital receipts** | … | **481.29** | **Capital Outlay** | … | **574.73** | **574.73** |
| **16.68** | **Recoveries of Loans and Advances** | **27.25** | **26.65** | **Loans and Advances disbursed** | **15.19** | **26.46** | **41.65** |
| **403.02** | **Public Debt Receipts**[3] | **356.39** | **143.03** | **Repayment of Public Debt** | … | … | **141.08** |
| … | **Contingency Fund** | **99.00** | … | **Contingency Fund** | … | … | **99.00**[4] |
| **2416.65** | **Public Account Receipts** | **2765.86** | **2511.86** | **Public Account Disbursements** | … | … | **2729.20** |
| **501.64** | **Opening Balance** | **440.13** | **440.13** | **Closing Balance** | … | … | **350.71** |
| **6785.34** | **Total** | **7949.11** | **6785.34** | **Total** | | | **7949.11** |

Following are the significant changes during 2010-11 over the previous year:

- **Revenue receipts** increased by 23.59 *per cent* (₹ 813.13 crore) over the previous year. The increase was contributed by grants-in-aid of ₹ 375.64 crore from the Government of India (GOI), State's share of Union taxes and duties - ₹ 283.89 crore, tax revenue of ₹ 127.15 crore and non-tax revenue of ₹ 26.45 crore.

- **Revenue expenditure** increased by 26.09 *per cent* (₹ 830.36 crore) over the previous year. While ₹ 419.66 crore of the increase was under plan heads, the increase under non-plan heads was ₹ 410.70 crore. However, capital expenditure during the year increased by only 19.41 *per cent* (₹ 93.44 crore) over the previous year.

[3] Includes net Ways and Means Advances.
[4] Appropriation from the Consolidated Fund

- **Recovery and disbursement of loans and advances** during the current year increased by ₹ 10.57 crore and ₹ 15 crore respectively compared to the previous year.

- **Public Debt receipts** decreased by ₹ 46.63 crore over the previous year mainly due to decrease in receipts under market loan bearing interest (₹ 83.54 crore). Repayment of Public Debt marginally decreased by ₹ 1.95 crore over the previous year.

- **Public Account receipts** and disbursements increased by ₹ 349.21 crore and ₹ 217.34 crore respectively over the previous year.

- Total inflow during 2010-11 was ₹ 7,949.11 crore against ₹ 6,785.34 crore in 2009-10, while total outflow during 2010-11 was ₹ 7,598.40 crore against ₹ 6,345.21 crore during the previous year registering increase of 17.15 *per cent* and 19.28 *per cent* respectively leading to **decline in the cash balances of the State by ₹ 89.42 crore (20.32 *per cent*) over the previous year**. The decrease was mainly due to increase in negative balance under deposits with Reserve Bank by ₹ 437.68 crore (623.21 *per cent*).

## 1.2 Meghalaya Fiscal Responsibility and Budget Management Act

In accordance of the Twelfth Finance Commission (TwFC), the Government of Meghalaya has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 (**Appendix 1.2**). The State Government has also developed its own Fiscal Correction Path for the period from 2005-06 to 2009-10 detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the MFRBM Act. According to the recommendations of the Thirteenth Finance Commission (ThFC), *the states should amend/enact FRBM Acts to build in the fiscal reform path worked out. State-specific grants recommended for a state should be released upon compliance*. However, the MFRBM Act has been amended by the State Government only in October 2011, which came into force from 10 October 2011. The amended MFRBM Act substituted clauses (a), (b) and (c) of Section 4 of the MFRBM Act, 2006 and inserted a new clause (g) under Section 4 as follows:

(a) Maintain revenue surplus during the award period of 2011-12 to 2014-15 as recommended by the ThFC {Clause (a) Section 4};

(b) Reduce fiscal deficit to 3 *per cent* of GSDP or less during 2011-12 to 2014-15 of the award period of the ThFC {Clause (b) Section 4};

(c) Ensure that outstanding debt of the State will be aligned as recommended by the ThFC and such outstanding debt expressed as percentage of GSDP shall progressively be reduced from 32.7 *per cent* during 2011-12 to 31.7 *per cent* during 2014-15 {Clause (c) Section 4};

(d) Government shall notify a Medium Term Fiscal Plan with three years rolling targets, giving details of all significant items of receipts-expenditure along with underlying assumptions made for projection purpose {Clause (g) Section 4}.

## 1.3 Growth and Composition of GSDP

Gross State Domestic Product, a major fiscal indicator is considered to be a key factor for assessing the performance of the State's economy. It is prepared based on income generating approach that measures gross income generated by factors of production physically located within the geographical boundaries of the State and also represents the volume of goods and services produced within the State. As per New GSDP series furnished (September 2011) by the Directorate of Economics and Statistics, Government of Meghalaya (GOM), during 2010-11, the advance estimated GSDP for the State of Meghalaya was ₹ 15,078 crore, which was arrived at on the basis of current price taking into account 2004-05 as base year. The table below shows the trend of growth of GSDP for the last five years.

**Table 1.2 : Trends in Gross State Domestic Product**

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Gross State Domestic Product (₹ in crore) | 8,625 | 9,735 | 11,617 | 13,216 | 15,078 |
| Growth rate of GSDP | 18.72 | 12.87 | 19.33 | 13.76 | 14.09 |

*Source: GSDP figures (current prices – base year 2004-05) as furnished (September 2011) by the Directorate of Economics & Statistics, Government of Meghalaya.*

The GSDP at current prices increased from ₹ 13,216 crore in 2009-10 to ₹ 15,078 crore in 2010-11, representing an increase of 14.09 *per cent*. The increase in the growth of GSDP during 2010-11 over that of previous year was mainly due to increase of 16.05 *per cent* under industrial sector followed by 11.10 *per cent* under agriculture and allied activities. The growth of GSDP during 2010-11 also exceeded the projection made by the ThFC (11.42 *per cent*). The average compound annual growth rate in respect of GSDP for Meghalaya between 2004-05 and 2010-11 was 14.88 *per cent*.

## 1.4 Budget Analysis

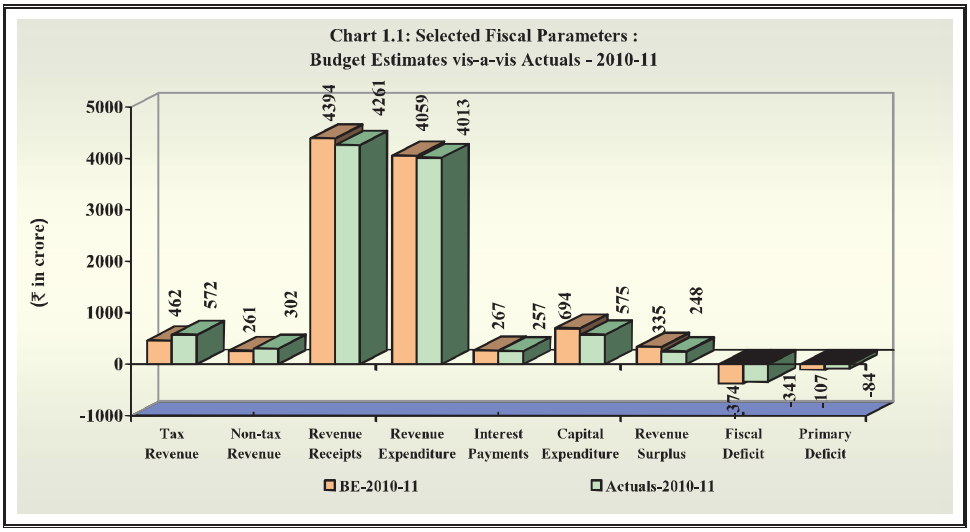
The budget papers presented by State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimation of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Several reasons may account for the deviation of the actual realisation from the budget estimates. It may be because of unanticipated and unforeseen events or under or over estimation of expenditure or revenue at the budget stage, *etc.* Actual realisation of revenue and its disbursement, however, depends on a variety of factors, some internal and others external. **Table 1.3** presents the consolidated picture of State finances during 2009-10 (actuals) and 2010-11 (budget estimates, revised estimates

and actuals) and **Chart 1.1** presents the budget estimates and actuals for some important fiscal parameters.

**Table 1.3 : Variation in major items – actuals of 2010-11 over 2009-10 Budget Estimates and Revised Estimates and actuals of 2010-11**

**(₹ in crore)**

| Parameters | 2009-10 | 2010-11 | | | Percentage of Excess (+)/Shortfall (-) with reference to | |
|---|---|---|---|---|---|---|
| | Actual | Budget Estimates (BE)[5] | Revised Estimates (RE)[5] | Actual | Actual of 2009-10 | BE/RE |
| Tax Revenue | 444 | 462 | 462 | 572 | + 28.83 | + 23.81 |
| Non-Tax Revenue | 275 | 261 | 261 | 302 | + 9.82 | + 15.71 |
| Revenue Receipts | 3,447 | 4,394 | 4,394 | 4,261[6] | + 23.61 | - 3.03 |
| Non-debt Capital Receipts | 17 | 20 | 20 | 27 | + 58.82 | + 35.00 |
| Revenue Expenditure | 3,182 | 4059 | 4059 | 4,013 | + 26.12 | - 1.13 |
| Interest Payments | 234 | 267 | 267 | 257 | + 9.83 | - 3.75 |
| Capital Expenditure | 481 | 694 | 694 | 575 | + 19.54 | - 17.15 |
| Disbursement of Loans & Advances | 27 | 35 | 35 | 41 | + 51.85 | + 17.14 |
| Revenue Surplus | 265 | 335 | 335 | 248 | - 6.42 | - 25.97 |
| Fiscal Deficit (-) | - 226 | - 374 | - 374 | - 341 | + 50.88 | - 8.82 |
| Primary Deficit (-) / Surplus (+) | + 8 | - 107 | - 107 | - 84 | - | - 21.50 |




- During 2009-10, both the actual **revenue receipts** and **revenue expenditure** fell short of the budget estimates by 3.03 *per cent* and 1.13 *per cent* respectively.

- The **capital expenditure** *vis-à-vis* budget estimate was less by 17.15 *per cent* (₹ 119 crore). Compared to previous year, the capital expenditure of the State increased by ₹ 94 crore, which was the net result of increase of ₹ 114 crore (39.09 *per cent*) under economic services, offset by decrease in general services by ₹ 12 crore (24.28 *per* cent) and social services under capital account by ₹ 8 crore (6.16 *per cent*),

[5] Net estimates

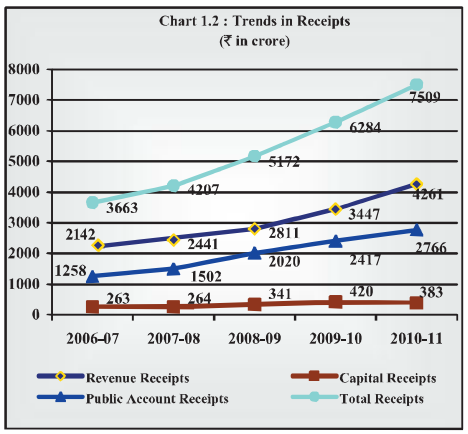
[6] ₹ 4260.48 crore has been rounded to ₹ 4,261 crore to arrive at the rounded figure of Revenue Surplus as ₹ 248 crore (₹ 247.74 crore). Accordingly, Tax Revenue of ₹ 571.45 crore has been rounded as ₹ 572 crore.

- The **revenue surplus** (₹ 248 crore) during the year declined by 25.97 *per cent* compared to the assessment made in the budget estimate. Actual fiscal deficit fell short of the assessment made in the budget estimate and revised estimate by 8.82 *per cent* (₹ 33 crore) mainly due to substantial increase in revenue receipts (₹ 814 crore) and a marginal increase in capital expenditure (₹ 94 crore) compared to previous year. Decrease in fiscal deficit by ₹ 33 crore together with decrease in interest payments by ₹ 10 crore compared to the budget estimates led to decrease in primary deficit by 21.50 *per cent* (₹ 23 crore) than the assessment made in the budget estimate. The wide variation between the budget estimates and the actuals indicated that the budgeting was unrealistic and lacked credibility. Repetition of the budget estimated figures of all parameters in the revised estimate was contrary to paragraph 50 of the Budget Manual which provides that the revised estimate should be a genuine re-estimation of the requirements in the light of updated knowledge.

## 1.5 Resources of the State

### *1.5.1 Resources of the State as per Annual Finance Accounts*

**Revenue and capital** are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2 and Table 1.4** depicts the trends in various components of the receipts of the State during 2006-11. **Chart 1.3** depicts the composition of resources of the State during the current year.



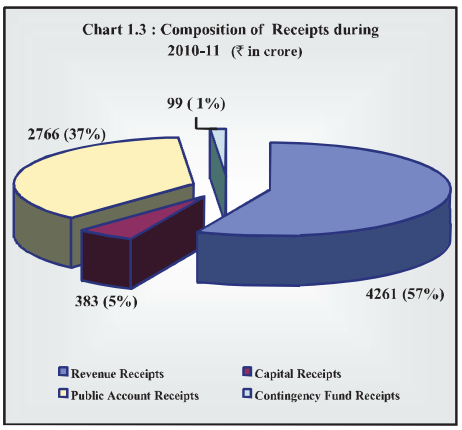



**Table 1.4 : Trends in growth and composition of receipts**

**(₹ in crore/Rate of growth in *per cent*)**

| Sl. No. | Sources of State's Receipts | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| I | **Revenue Receipts** | **2,142** | **2,441** | **2,811** | **3,447** | **4,261** |
| II | **Capital Receipts (CR)** | **263** | **264** | **341** | **420** | **383** |
| | Miscellaneous Capital Receipts | - | - | - | - | - |
| | Recovery of Loans and Advances | 17 | 17 | 18 | 17 | 27 |
| | Public Debt Receipts | 246 | 247 | 323 | 403 | 356 |
| | Rate of growth of non-debt capital receipts | - 10.52 | 0 | 5.88 | - 5.56 | 58.82 |
| | Rate of growth of debt capital receipts | - 1.60 | 0.41 | 30.77 | 24.77 | - 11.66 |
| | Rate of growth of GSDP | 18.72 | 12.87 | 19.33 | 13.76 | 14.09 |
| | **Rate of growth of CR** | **- 2.23** | **0.38** | **29.17** | **23.17** | **- 8.81** |
| III | **Contingency Fund** | - | - | - | - | **99** |
| IV | **Public Account Receipts** | **1,258** | **1,502** | **2,020** | **2,417** | **2,766** |
| | Small Savings, Provident Fund, *etc.* | 91 | 101 | 106 | 122 | 156 |
| | Reserve Funds | 21 | 24 | 26 | 27 | 24 |
| | Deposits and Advances | 342 | 528 | 814 | 824 | 879 |
| | Suspense and Miscellaneous | 30 | - 19 | 10 | - 40 | - 41 |
| | Remittances | 774 | 868 | 1,064 | 1,484 | 1,748 |
| | **Total Receipts** | **3,663** | **4,207** | **5,172** | **6,284** | **7,509** |

The **total receipts** during the current year has increased by ₹ 1,225 crore (19 *per cent*) over the previous year. Of the increase in total receipts, revenue receipts formed 66 *per cent* (₹ 814 crore) followed by public account receipts 29 *per cent* (₹ 349 crore). Out of the total receipts under public account, remittances constituted 18 *per cent.* While 75 *per cent* (₹ 1,312 crore) of the remittances have come from public works remittances, cash remittances between treasuries and currency chests (₹ 11 crore) and forest remittances (₹ 242 crore) together constituted 25 *per cent.*

The **total receipts** of the State for 2010-11 was ₹ 7,509 crore, of which ₹ 4,261 crore (57 *per cent*) came from revenue receipts and balance (43 *per cent*) came from borrowings and Public Account (42 *per cent*) and contingency fund receipts (one *per cent*). The total receipts of the State increased by 105 *per cent* from ₹ 3,663 crore in 2006-07 to ₹ 7,509 crore in 2010-11. The share of revenue receipts in total receipts of the State marginally decreased by one *per cent* from 58 *per cent* in 2006-07 to 57 *per cent* in 2010-11. On the other hand, the capital receipts together with Public Account ranged between 42 *per cent* and 46 *per cent* of total receipts during 2006-11.

**Revenue receipts** increased steadily by 99 *per cent* from ₹ 2,142 crore in 2006-07 to ₹ 4,261 crore in 2010-11, whereas the debt capital receipts which create future repayment obligation increased by 45 *per cent* from ₹ 246 crore (7 *per cent* of total receipts) in 2006-07 to ₹ 356 crore (5 *per cent* of total receipts) in 2010-11. The Public Account receipts increased steadily from ₹ 1,258 crore (34 *per cent* of total receipts) in 2006-07 to 2,766 crore (37 *per cent* of total receipts) in 2010-11.

**The rate of growth of capital receipts** decreased from 23.17 *per cent* in 2009-10 to a negative 8.81 *per cent* in 2010-11 while the **rate of growth of non-debt capital receipts** increased from a negative 5.56 *per cent* in 2009-10 to 58.82 *per cent* in

2010-11. Compared to 2006-07, the rate of growth of debt capital receipts decreased from a negative 1.6 *per cent* in 2006-07 to a negative 11.36 *per cent* in 2010-11 while the rate of growth of GSDP decreased from 18.72 *per cent* in 2006-07 to 14.09 *per cent* in 2010-11.

### *1.5.2 Funds Transferred to State Implementing Agencies outside the State Budget*

The Central Government has been transferring a sizeable quantum of funds directly to the State Implementing Agencies[7] for the implementation of various schemes/ programmes in social and economic sectors recognised as critical. As these funds are not routed through the State Budget/State Treasury System, Annual Finance Accounts do not capture the flow of these funds and to that extent, State's receipts and expenditure as well as other fiscal variables/parameters derived from them are underestimated. An illustrative position of Central funds transferred to the State Implementing Agencies during 2010-11 for implementation of various schemes is given in **Appendix 1.5**. Scheme-wise position involving substantial amount of Central funds is given in **Table 1.5.**

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

**(₹ in crore)**

| Sl. No | Programme/ Scheme | Implementing Agency in the State | Funds trans-ferred by the GOI |
|---|---|---|---|
| 1. | Adult Education and Skill Development Scheme | Meghalaya Literacy Mission Authority | 3.62 |
| 2. | Central Rural Sanitation Programme | State Water and Sanitation Mission, Meghalaya | 31.05 |
| 3. | Crime and Criminal Tracking Network and System | Meghalaya Police Information Technology Society | 10.20 |
| 4. | District Rural Development Agency (DRDA) Administration | DRDAs, East Garo Hills, East Khasi Hills, Jaintia Hills, Ri-Bhoi, South Garo Hills, West Garo Hills and West Khasi Hills | 4.75 |
| 5. | Grant in Aid to NGOs for STs Including Coaching & Allied | R K Mission Ashrama Shillong , Meghalaya | 6.19 |
| 6. | Health Insurance for Unorganised Sector Workers | State Health Society, Meghalaya | 1.24 |
| 7. | Integrated Watershed Management Programme | SLNA Meghalaya, Shillong | 9.88 |
| | | DRDAs, East Khasi Hills, Jaintia Hills, East Garo Hills, West Garo Hills and West Khasi Hills | 4.08 |
| 8. | Mahatma Gandhi National Rural Employment Guarantee Act | DRDAs, South Garo Hills, West Garo Hills, Jaintia Hills, Ri-Bhoi, East Garo Hills, West Khasi Hills and East Khasi Hills | 208.70 |
| 9. | MPs Local Area Development Scheme | Deputy Commissioner, West Garo Hills | 4.00 |
| | | Deputy Commissioner, East Khasi Hills | 2.00 |
| 10. | National Afforestation Programme | State Forest Development Agency Meghalaya | 4.40 |
| 11. | National AIDS Control Programme including STD Control | Meghalaya AIDS Control Society | 3.13 |
| 12. | National Project for Cattle and Buffalo Breeding | State Implementing Agency Meghalaya | 2.00 |

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

| Sl. No | Programme/ Scheme | Implementing Agency in the State | Funds trans-ferred by the GOI |
|---|---|---|---|
| 13. | National Rural Drinking Water Programme | SWSM Meghalaya, Shillong | 84.88 |
| 14. | National Rural Health Mission Centrally | Meghalaya State TB Control Society | 1.55 |
| | | State Health Society, Meghalaya | 42.16 |
| 15. | North Eastern Council | North Eastern Region Community Resource Management Society | 29.53 |
| | | Meghalaya Board of School Education | 1.00 |
| 16. | Off Grid DRPS | Meghalaya Non Conventional & Rural Energy Development Agency | 6.19 |
| 17. | Pradhan Mantri Gram Sadak Yojana | State Rural Road Development Agency | 64.55 |
| 18. | Product/Infrastructure Development for Destinations | Meghalaya Tourism Development Corporation ltd. | 17.70 |
| 19. | Rural Housing –IAY | DRDAs, West Garo Hills, East Garo Hills, South Garo Hills, West Khasi Hills, Ri-Bhoi. East Khasi Hills and Jaintia Hills | 47.40 |
| 20. | Sarva Shiksha Abhiyan(SSA) | Sarva Shiksha Abhiyan State Mission Authority of Meghalaya | 185.41 |
| 21. | Support to Extension Programme for Extension | Meghalaya Small Farmers Agri-Business Consortium Agency | 2.21 |
| 22. | Swaranjayanti Gram Swarozgar Yojana | DRDAs, Jaintia Hills, Ri-Bhoi, West Khasi Hills, South Garo Hills, East Garo Hills and East Khasi Hills | 6.78 |
| 23. | Upgradation of Govt ITIs through PPP | IMC Society of ITI Rynjah | 2.50 |
| **Total** | | | **787.10** |

*Source: Central Plan Scheme Monitoring System of CGA website.*

The GOI directly transferred ₹ 798 crore to State Implementing Agencies during 2010-11. With this transfer, the total availability of State resources increased from ₹ 7,509 crore to ₹ 8,307 crore. Of ₹ 798 crore, ₹ 272 crore (around 34 *per cent*) was transferred to the District Rural Development Agencies and ₹ 185 crore (23 *per cent*) to State Mission Authority of Sarva Shiksha Abhiyan. Direct transfer from the Union to the State Implementing Agencies runs the risk of poor accountability. Unless uniform accounting practices are diligently followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

An analysis on how these funds are being transferred and utilised for the purposes for which they are sanctioned is carried out based on the data/information obtained from four units, *viz.*, Pradhan Mantri Gram Sadak Yojana, Sarva Shiksha Abhiyan, Mahatma Gandhi National Rural Employment Act and National Rural Drinking Water Programme, which revealed the following:

### ➢ *Pradhan Mantri Gram Sadak Yojana*

Pradhan Mantri Gram Sadak Yojana (PMGSY) was launched by the Government of India (GOI) in December 2000 with the objective of connecting every habitation that had a population of 1,000 or more through good all weather roads within three years, i.e., by 2003 and habitations with 500 people or more, by the end of Tenth Plan (2007). The PMGSY is executed in the State by the District Project Implementation

Unit (DPIUs) headed by an Executive Engineer under the supervision of State Rural Road Development Agency (SRRDA) headed by the Empowered Officer.

During 2010-11, GOI transferred ₹ 64.55 crore to the Chief Engineer cum Empowered Officer, SRRDA, who in turn released the entire amount to various Project Implementing Units (PIUs)/DPIUs. Out of ₹ 64.55 crore, ₹ 42 crore was utilised, leaving unspent balance of ₹ 22.55 crore. However, utilisation certificates for ₹ 42 crore were not furnished to the GOI. The Empowered Officer stated (May 2011) that the utilisation certificate for the year 2010-11 would be furnished within four months of closing of the financial year.

### ➢ *Sarva Shiksha Abhiyan*

Sarva Shiksha Abhiyan (SSA) was launched by GOI in January 2001 to provide useful and relevant elementary education to all children in the age group 6-14 years. The SSA was being implemented in Meghalaya by the SSA State Mission Authority constituted in March 2002. Table below shows the position of funds received *vis-à-vis* releases under SSA programme during 2010-11:

**Table 1.6**

**(₹ in crore)**

| Opening balance | Fund released | | | Fund received | | | Miscella-neous receipts | Total fund available | Expen-diture | Unspent balance (*per cent*) |
|---|---|---|---|---|---|---|---|---|---|---|
| | GOI | State | Total | GOI | State | Total | | | | |
| 45.68 | 185.41 | 3.60 | 189.01 | 185.41 | 3.60 | 189.01 | 1.33 | 236.02 | 200.41 | 35.61 (15) |

Funds released by GOI and State Government for implementation of SSA were to be utilised during the respective years. But the SMA could not utilise 15 *per cent* of funds available during 2010-11. Information regarding submission of utilisation certificate for the fund received during 2010-11 had not been furnished.

### ➢ *Mahatma Gandhi National Rural Employment Guarantee Act*

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), initially named as National Rural Employment Act, was launched by GOI in 2005 and was being implemented in Meghalaya since July 2006. The primary objective of MGNREGA was to provide 100 days guaranteed wage employment in a financial year to every household who is willing to work.

During 2010-11, GOI released ₹ 53.72 crore to the District Rural Development Agency (DRDA), East Khasi Hills District for implementation of MGNREGA. In addition, ₹ 2.17 crore released by GOI during 2009-10 was received by the DRDA during 2010-11. Against the total available funds of ₹ 55.89 crore, expenditure of ₹ 60.59 crore was incurred by the DRDA. The excess expenditure of ₹ 4.70 crore was met from the State share (₹ 4.45 crore), refund amount by BDOs (₹ 0.16 crore) and fund transferred from SGRY account (₹ 0.09 crore). Utilisation certificate for the funds released by GOI was not submitted. The Project Director of the DRDA stated

(May 2011) that due to non-completion of audit report by the Chartered Accountant utilisation certificate had not been submitted so far.

### ➢ *National Rural Drinking Water Programme*

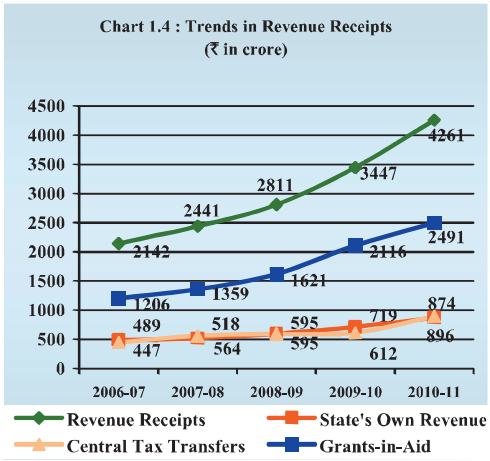
The Accelerated Rural Water Supply Programme (ARWSP) was renamed as National Rural Drinking Water Programme (NRDWP) in April 2009. The main objectives of the programme were to provide adequate safe drinking water to all households.

During 2010-11, GOI released ₹ 84.88 crore to the State Implementing Agency, *viz.* Chief Engineer (CE), Public Health Engineering (PHE), Meghalaya for implementation of the programme. It was noticed that out of the total fund received by the implementing agency, ₹ 70.47 crore (including unutilised fund from previous year: ₹ 0.18 crore ) was spent for implemention of various components under the programme leaving an unspent balance of ₹ 14.59 crore.

The CE, PHE stated (September 2011) that no particular date was fixed by GOI for submission of utilisation certificates. However, utilisation certificate for ₹ 39.85 crore has since been submitted to GOI till August 2011.

## 1.6 Revenue Receipts

**Statement 11** of the Finance Accounts details the revenue receipts of the Government. The revenue receipts consist of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. The trends and composition of revenue receipts over the period 2006-11 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively. The trends in revenue receipts relative to GSDP are presented in **Table 1.7.**



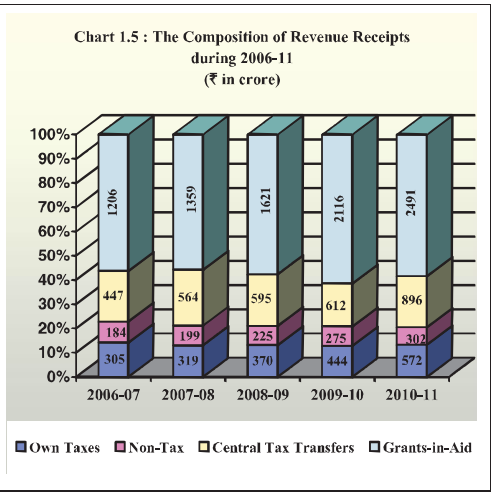



**Table 1.7 : Trends in Revenue Receipts relative to GSDP**

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| **Revenue Receipts (RR) (₹ in crore)** | **2,142** | **2,441** | **2,811** | **3,447** | **4,261** |
| Rate of Growth of RR (*per cent*) | 22.61 | 13.96 | 15.16 | 22.63 | 23.61 |
| Rate of Growth of Own Taxes (*per cent*) | 20.55 | 4.59 | 15.99 | 20.00 | 28.83 |
| RR/GSDP (*per cent*) | 24.83 | 25.07 | 24.20 | 26.08 | 28.26 |
| **Buoyancy Ratio**[8] | | | | | |
| Revenue Buoyancy Ratio with reference to GSDP | 1.21 | 1.08 | 0.78 | 1.64 | 1.68 |
| State's Own Taxes Buoyancy Ratio with reference to GSDP | 1.10 | 0.36 | 0.83 | 1.45 | 2.05 |
| State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts | 0.91 | 0.33 | 1.05 | 0.88 | 1.22 |

### *1.6.1 General Trends*

The **revenue receipts** of the State increased by ₹ 2,119 crore from ₹ 2,142 crore in 2006-07 to ₹ 4,261 crore in 2010-11. There were, however, wide inter-year variations in the growth rates, which increased to 23.61 *per cent* in 2010-11 from 22.63 *per cent* during the preceding year. All the components of revenue receipts have exhibited increases in absolute terms over the period 2006-11. The buoyancy ratios of revenue receipts and the State's own tax revenue with reference to GSDP have increased primarily due to significant increase in the rates of growth of both revenue receipts and the State's own tax revenue under Taxes on Vehicles (36 *per cent*), Taxes on Sales, Trade, *etc.* (28 *per cent*) in 2010-11 relative to the previous year. Buoyancy ratio of State's own taxes to revenue receipts indicates that the pace of growth of own taxes was faster than the revenue receipts in two (2008-09 and 2010-11) out of five years while it grew at lower pace during the remaining three years.

### *1.6.2 Central Tax Transfers*

The **Central Tax transfers** increased significantly by 46 *per cent* (₹ 284 crore) over the previous year and constituted 21 *per cent* of revenue receipts. The increase was mainly due to transfer of additional amount of ₹ 98 crore as corporation tax during 2010-11 (₹ 350 crore) compared to previous year (₹ 252 crore). The central tax transfers also contributed around 35 *per cent* of the incremental revenue receipts (₹ 814 crore) during the year.

### *1.6.3 Grants-in-Aid*

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

[8] 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 1.67 during 2010-11 implies that revenue receipts tend to increase by 1.67 percentage points, if the GSDP increases by one *per cent*.

**Table 1.8 : Grants-in-Aid from the GOI**

(₹ in crore)

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Non-Plan Grants | 472 | 461 | 440 | 377 | 664 |
| Grants for State Plan Schemes | 569 | 645 | 958 | 1395 | 1,427 |
| Grants for Central Plan Schemes | 11 | 4 | 8 | 26 | 13 |
| Grants for Centrally Sponsored Schemes | 107 | 179 | 159 | 251 | 315 |
| Grants for Special Plan Schemes | 47 | 70 | 56 | 67 | 72 |
| **Total** | **1,206** | **1,359** | **1,621** | **2,116** | **2,491** |
| Percentage of increase over previous year | 20.84 | 12.69 | 19.28 | 30.54 | 17.72 |

**Grants-in-aid** from the GOI have increased by 17.72 *per cent* (₹ 375 crore) from ₹ 2,116 crore in 2009-10 to ₹ 2,491 crore in the current year and contributed 46 *per cent* of the incremental revenue receipts during the year. Within the plan grants, while grants for Centrally Sponsored Plan Schemes increased by 25 *per cent* (₹ 64 crore), grants for Special Plan Scheme and State Plan Scheme increased by 7 *per cent* and 2 *per cent* respectively. The major increase under Centrally Sponsored State Plan Schemes was in the form of increased grants for National Programme of Mid Day Meal in Schools (₹ 74 crore) and Post Matric Scholarships (₹ 19 crore). Receipts of grants for Central Plan Schemes during 2010-11, however, declined by 50 *per cent* compared to previous year mainly due to non-release of any grants for development of rural tourism project, setting up of new polytechnic and census for identification of below poverty line households.

The Non-Plan grants (₹ 664 crore) constitute 27 *per cent* of the total grants during the year, of which 59 *per cent* (₹ 393 crore) was primarily for meeting the non-plan revenue deficit. Other components of non-plan grants mainly included grants for (i) Value Added Tax (VAT) related expenditure (₹ 169 crore), (ii) maintenance of forests (₹ 21 crore), (iii) urban local bodies (₹ 20 crore) and (iv) local bodies (₹ 15 crore).

### *1.6.4 State's Own Resources*

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes, *etc*., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising revenue from its own tax and non-tax sources. **Tables 1.9 and 1.10** below show the trends of tax and non-tax revenue during the years 2006-11 as well as the variation between the budget estimates of revenue receipts and the actual receipts under the principal heads of tax and non-tax revenue for the year 2010-11.

**Table 1.9 : Tax Revenue**

(₹ in crore)

| Heads | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | | |
|---|---|---|---|---|---|---|---|
| | | | | | Budget Estimate | Actu-als | Variations Increase (+) Shortfall (-) (*per cent*) |
| Taxes on Sales, Trade, *etc.* | 216 | 235 | 282 | 321 | 324 | 410 | + 86 (27) |
| State Excise | 54 | 59 | 70 | 90 | 100 | 105 | + 5.00 (5) |
| Taxes on Vehicles | 09 | 11 | 13 | 14 | 16 | 19 | + 03 (19) |
| Stamps and Registration Fees | 06 | 06 | 06 | 11 | 09 | 11 | + 02 (22) |
| Land Revenue | 06 | 02 | 0.50 | 0.26 | 03 | 17 | + 14 (467) |
| Other Taxes[9] | 14 | 06 | - 1.50 | 08 | 10 | 10 | … |
| **Total** | **305** | **319** | **370** | **444** | **462** | **572** | **+ 110 (24)** |

**Table 1.10 : Non-Tax Revenue**

(₹ in crore)

| Heads | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | | |
|---|---|---|---|---|---|---|---|
| | | | | | Budget Estimate | Actu-als | Variations Increase (+) Shortfall (-) (*per cent*) |
| **Interest receipts, dividends and profits** | **13** | **15** | **18** | **23** | **12** | **25** | **+ 13 (108)** |
| **General Services** | **36** | **29** | **46** | **18** | **31** | **24** | **- 07 (29)** |
| **Social Services** | **3** | **3** | **4** | **9** | **17** | **06** | **- 11 (65)** |
| **Economic Services** | **132** | **152** | **157** | **225** | **201** | **247** | **+ 46 (23)** |
| Non-ferrous Mining and Metallurgical Industries | 109 | 124 | 133 | 198 | 165 | 216 | + 51 (31) |
| Forestry and Wild life | 17 | 16 | 17 | 20 | 23 | 22 | - 01 (04) |
| Other Economic Services | 6 | 12 | 7 | 7 | 13 | 09 | - 04 (31) |
| **Total** | **184** | **199** | **225** | **275** | **261** | **302** | **+ 41 (16)** |

### *1.6.4.1 Tax Revenue*

Tax revenue has increased by around 29 *per cent* during the current year (₹ 572 crore) over the previous year (₹ 444 crore). The revenue from sales tax contributed the major share of tax revenue (72 *per cent*) and it increased by 28 *per cent* over the previous year. State excise, Taxes on Vehicles and Stamps and Registration Fees were the other major contributors in the State's tax revenue. Though there was an increase in the tax revenue during 2010-11 over previous year, *the tax-GSDP ratio (3.79 per cent) during 2010-11 was marginally lower than the projection (3.98 per cent) made by the ThFC*. The CAGR of tax revenue between 2001-02 and 2009-10 was 15.95 *per cent*, which has marginally increased to 17.29 *per cent* between 2001-02 and 2010-11.

### ➢ *Cost of Collection*

The gross collection of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2008-09 to

[9] 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.

2010-11 along with the relevant all India average percentage of expenditure on collection to gross collections are mentioned below.

**Table 1.11**

**(₹ in crore)**

| Sl. No. | Head of revenue | Year | Gross collection | Cost of collection | Percentage of expenditure to gross collection | All India average percentage during the preceding year |
|---|---|---|---|---|---|---|
| 1. | Taxes/VAT on Sales, Trade, *etc.* | 2008-09 | 281.83 | 4.46 | 1.58 | 0.83 |
| | | 2009-10 | 321.39 | 6.80 | 2.12 | 0.88 |
| | | 2010-11 | 409.89 | 8.71 | 2.12 | 0.96 |
| 2. | State Excise[10] | 2008-09 | 69.79 | 6.21 | 8.90 | 3.27 |
| | | 2009-10 | 90.29 | 7.23 | 8.19 | 3.66 |
| | | 2010-11 | 104.50 | 9.95 | 9.52 | 3.64 |
| 3. | Taxes on Vehicles | 2008-09 | 13.21 | 3.14 | 23.77 | 2.58 |
| | | 2009-10 | 13.61 | 3.89 | 28.58 | 2.93 |
| | | 2010-11 | 19.19 | 4.86 | 25.33 | 3.07 |

As can be seen from the above table, while the cost of collection of Taxes/VAT on Sales, Trade, *etc.* remained static during 2009-11, in respect of State Excise the cost of collection increased marginally from 8.19 *per cent* in 2009-10 to 9.52 *per cent.* Though the situation in respect of Taxes on Vehicles was quite satisfactory during 2010-11 when compared to the previous year, cost of collection of around 24 *per cent* to 29 *per cent* during 2008-11 was a cause of concern. Besides, the percentage of expenditure on collection during 2009-11 as compared to the all India average percentage was on the higher side, which is indicative of the fact that the excess expenditure incurred on collection of revenue might impede the path of improvement towards achieving a healthy fiscal path in the State.

### *1.6.4.2 Non-Tax Revenue*

The non-tax revenue (NTR), which constituted 7 *per cent* of the total revenue receipts, has increased by ₹ 27 crore during 2010-11 recording a growth rate of 10 *per cent* over the previous year. 82 *per cent* (₹ 247 crore) of non-tax revenue during 2010-11 was received from economic services and within this category, receipts under non-ferrous mining and metallurgical industries alone contributed 87 *per cent* (₹ 216 crore). This was mainly due to receipts of additional amount of ₹ 99 crore under Mineral concession fees, rents and royalties during the current year over that of previous year. The trends in interest receipts and dividends and profits also reveal significant improvement (85 *per cent*) during 2010-11 compared to 2006-07 mainly because of increase in realisation of interest on investment of cash balances by ₹ 8.09 crore. The CAGR of non-tax revenue for Meghalaya between 2001-02 and 2009-10 (14.35 *per cent*) has, however, marginally declined to 13.81 *per cent* between 2001-02 and 2010-11.

[10] Department's figures.

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

The current levels of cost recovery (non-tax revenue receipts as a percentage of non-plan revenue expenditure) in supply of merit goods and services by Government were negligible, as depicted in **Table 1.12.**

**Table 1.12 : Cost Recovery – 2010-11**

**(₹ in lakh)**

| Particulars | Non-tax revenue receipts | Non-plan revenue expenditure | Cost Recovery (*per cent*) |
|---|---|---|---|
| Secondary Education | 62.62 | 13185.81 | 0.47 |
| Medical & Public Health | 68.87 | 13295.41 | 0.52 |
| Water Supply & Sanitation | 304.31 | 10177.52 | 2.99 |
| Roads & Bridges | 10.11 | 8337.54 | 0.12 |
| Minor Irrigation | 13.22 | 1869.37 | 0.71 |

As can be seen from above, while the cost recovery for water supply and sanitation during 2010-11 was 2.99 *per cent*, for minor irrigation, medical and public health, secondary education and roads and bridges the percentages were 0.71, 0.52, 0.47 and 0.12 respectively. However, there was increase in the cost recovery under all the above heads during the current year as compared to last year.

### *1.6.4.3 Own resources vis-à-vis assessments made by the Twelfth/Thirteenth Finance Commissions*

The mobilisation of State's own resources *vis-à-vis* assessments made by the TwFC (2006-10)/ThFC (2010-11) and State Government in its own Fiscal Correction Path (2006-10)/Budget Estimate (BE) (2010-11) are given below:

**Table 1.13**

**(₹ in crore)**

| Year | Assessment made by TwFC/ ThFC | | | Assessment made by State Government in Fiscal Correction Path (FCP)/BE | | | Actuals | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tax Revenue | Non-Tax Revenue | Total | Tax Revenue | Non-Tax Revenue | Total | Tax Revenue | Non-Tax Revenue | Total |
| 2006-07 | 276 | 180 | 456 | 268 | 173 | 441 | 305 | 184 | 489 |
| 2007-08 | 312 | 200 | 512 | 332 | 176 | 508 | 319 | 199 | 518 |
| 2008-09 | 353 | 221 | 574 | 383 | 196 | 579 | 370 | 225 | 595 |
| 2009-10 | 400 | 244 | 644 | 464 | 216 | 680 | 444 | 275 | 719 |
| 2010-11 | 490 | 284 | 774 | 462 | 261 | 723 | 572 | 302 | 874 |

The State has **successfully achieved** the target fixed by TwFC/ThFC in collection of tax revenue during 2006-11. During 2010-11, tax revenue was 16.73 *per cent* higher than the assessment made by the ThFC and 23.81 *per cent* higher than the assessment made in the budget estimate for the year. The non-tax revenue was 6.34 *per cent* and 15.71 *per cent* higher than the assessment made by the ThFC and in the budget estimate respectively during the year.

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

Test-check of the records of sales tax, state excise, motor vehicles tax, other tax receipts, forest receipts and other non-tax receipts conducted during the year 2010-11 revealed underassessment/short/non-levy/loss of revenue amounting to ₹ 557.24 crore in 240 cases. The total loss of revenue, which was around 64 *per cent* of the State's own resources consisting of tax and non-tax revenue (₹ 872.98 crore) during 2010-11, indicates the presence of loopholes in resource mobilisation thereby adversely affecting the developmental activities of the State. Serious irregularities which resulted in loss of revenue of the State have been discussed in the Report of the Comptroller and Auditor General of India (CAG) for the year ended 31 March 2011 (Revenue Receipts).

#### 1.6.4.5 Revenue Arrears

The arrears of tax revenue at the end of March 2011 in respect of three heads of revenue were ₹ 11.44 crore (Taxes on Sales, Trade, *etc.*: ₹ 9.68 crore; Taxes on Motor Vehicles: ₹ 1.15 crore; State Excise: ₹ 0.61 crore) of which, ₹ 2.45 crore (21.38 *per cent*) relating to Taxes on Sales, Trade, *etc.* were more than three years old. Appropriate steps need to be initiated by the State Government for recovery of arrear revenue, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

## 1.7 Application of Resources

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

### 1.7.1 Growth and Composition of Expenditure

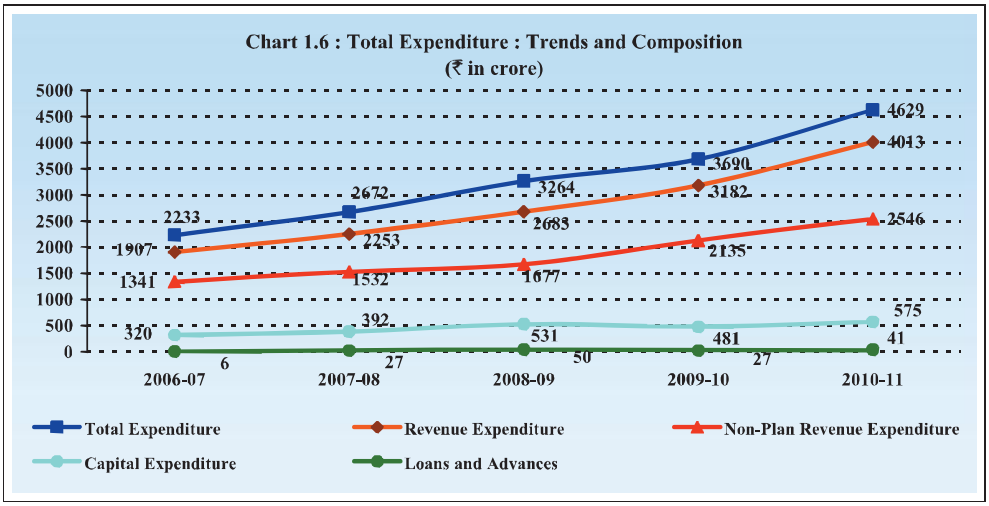
The total expenditure and its compositions during the years 2006-07 to 2010-11 are presented in the **Table 1.14**.

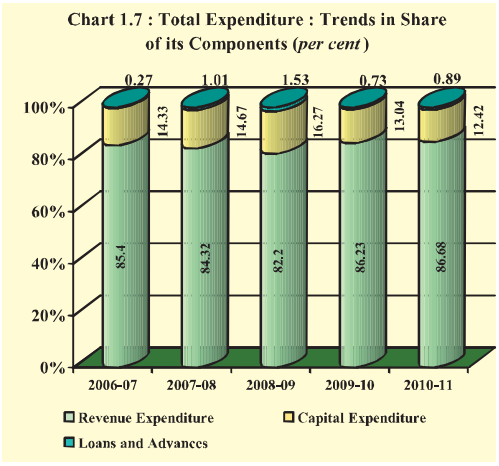
**Table 1.14 : Total expenditure and its compositions**

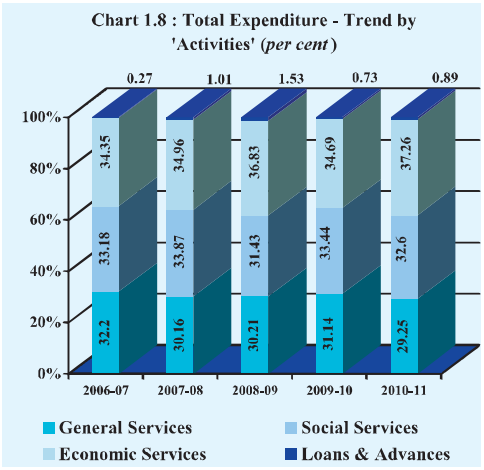
(₹ in crore)

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| **Total Expenditure** | **2,233** | **2,672** | **3,264** | **3,690** | **4,629** |
| Revenue Expenditure | 1,907 | 2,253 | 2,683 | 3,182 | 4,013 |
| *Of which, Non-plan Revenue Expenditure* | *1,341* | *1,532* | *1,677* | *2,135* | *2,546* |
| Capital Expenditure | 320 | 392 | 531 | 481 | 575 |
| Loans and Advances | 6 | 27 | 50 | 27 | 41 |

**Chart 1.6** presents the trends in total expenditure over a period of five years (2006-11) and its composition both in terms of 'economic classification' and 'expenditure by activities' is depicted respectively in **Charts 1.7 and 1.8.**




### *1.7.1.1 Trends in Total Expenditure*

The total expenditure of the State increased by ₹ 2,396 crore (107.3 *per cent*) from ₹ 2,233 crore in 2006-07 to ₹ 4,629 crore. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.15**.

**Table 1.15 : Total Expenditure – Basic Parameters**

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| **Total Expenditure (TE) (₹ in crore)** | 2,233 | 2,672 | 3,264 | 3,690 | 4,629 |
| Rate of growth (*per cent*) | 14.87 | 19.66 | 22.16 | 13.05 | 25.45 |
| TE/GSDP ratio (*per cent*) | 25.89 | 27.45 | 28.10 | 27.92 | 30.70 |
| RR/TE ratio (*per cent*) | 95.92 | 91.35 | 86.12 | 93.41 | 92.05 |
| **Buoyancy of Total Expenditure with reference to:** | | | | | |
| GSDP (ratio) | 0.79 | 1.53 | 1.15 | 0.95 | 1.81 |
| RR (ratio) | 0.66 | 1.41 | 1.46 | 0.58 | 1.08 |

The increase of ₹ 939 crore (25.45 *per cent*) in total expenditure during 2010-11 over previous year was mainly on account of increase of ₹ 831 crore in revenue expenditure followed by increase in capital expenditure and disbursement of loans and advances by ₹ 94 crore and ₹ 14 crore respectively. While the share of plan expenditure constituted 45 *per cent* (₹ 2,069 crore) of the total expenditure, the remaining 55 *per cent* (₹ 2,560 crore) was non-plan expenditure. During the current year, 92 *per cent* (₹ 4,261 crore) of the total expenditure was met from revenue receipts and the remaining (₹ 368 crore) from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 1.81 in 2010-11 due to growth rate of total expenditure at much greater pace as compared to that of GSDP. Similarly, the buoyancy ratio of total expenditure to revenue receipts stood at 1.08 indicating increase in expenditure at a pace much higher than the receipt.

In terms of the activities, total expenditure is composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. Of the total expenditure during 2010-11, expenditure on general services and interest payments, which is considered as non-developmental, together accounted for 29.25 *per cent.* On the other hand, expenditure on social and economic services together accounted for 70.43 *per cent* during 2010-11. The relative share of social services declined from 33.44 *per cent* in 2009-10 to 32.60 *per cent* in 2010-11. The relative share of economic services, which ranged between 34.35 *per cent* and 36.83 *per cent* during the last four year period 2006-10, has increased to 37.27 *per cent* in 2010-11. Loans and advances revealed wide fluctuations during the period 2006-11 and stood at 0.89 *per cent* of total expenditure during 2010-11.

### *1.7.1.2 Incidence of Revenue Expenditure*

Revenue expenditure had the predominant share in the total expenditure. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and to revenue receipts and its buoyancy are indicated in **Table 1.16.**

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

(₹ in crore)

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Revenue Expenditure (RE) | 1,907 | 2,253 | 2,683 | 3,182 | 4,013 |
| *Of which* | | | | | |
| *Non-Plan Revenue Expenditure (NPRE)* | 1,341 (70.32) | 1,532 (68.00) | 1,677 (62.50) | 2,135 (67.10) | 2,546 (63.44) |
| *Plan Revenue Expenditure (PRE)* | 566 (29.68) | 721 (32.00) | 1,006 (37.50) | 1,047 (32.90) | 1,467 (36.56) |
| **Rate of Growth of** | | | | | |
| RE (*per cent*) | 13.92 | 18.14 | 19.09 | 18.60 | 26.12 |
| NPRE (*per cent*) | 13.36 | 14.24 | 9.46 | 27.31 | 19.25 |
| PRE (*per cent*) | 15.27 | 27.39 | 39.53 | 4.08 | 40.11 |
| **Ratio (*per cent*)** | | | | | |
| RE as percentage of TE | 85.40 | 84.32 | 82.20 | 86.23 | 86.67 |
| NPRE/GSDP (*per cent*) | 15.55 | 15.74 | 14.44 | 16.15 | 16.89 |
| NPRE as percentage of TE | 60.05 | 57.34 | 51.38 | 57.86 | 54.99 |
| NPRE as percentage of RR | 62.60 | 62.76 | 59.66 | 61.94 | 59.75 |
| **Buoyancy Ratio of Revenue Expenditure with** | | | | | |
| GSDP | 0.74 | 1.41 | 0.99 | 1.35 | 1.85 |
| Revenue Receipts | 0.62 | 1.30 | 1.26 | 0.82 | 1.11 |

(Figures in brackets represent percentages to revenue expenditure)

Revenue expenditure constituted 82 *per cent* to 87 *per cent* of total expenditure during 2006-11 and increased by 110.44 *per cent* from ₹ 1,907 crore in 2006-07 to ₹ 4,013 crore in 2010-11. The non-plan revenue expenditure (NPRE) during the same period increased from ₹ 1,341 crore to ₹ 2,546 crore. However, as a percentage of total revenue expenditure, NPRE declined from 70.32 *per cent* in 2006-07 to 63.44 *per cent* in 2010-11. As a result, plan revenue expenditure (PRE), which normally covers the maintenance expenditure incurred on services, increased its share in total revenue expenditure from 29.68 *per cent* during 2006-07 to 36.56 *per cent* during 2010-11.

The NPRE constituted a dominant share of more than 63.44 *per cent* in the revenue expenditure during 2010-11 and has increased by ₹ 411 crore over the previous year. The growth of NPRE during 2010-11 decreased to 19.25 *per cent* against 27.31 *per cent* during the previous year mainly due to decreased expenditure on Rural Development (₹ 23.35 crore) followed by Transport (₹ 14.43 crore). PRE, which normally covers the maintenance expenditure incurred on services, has also increased by ₹ 420 crore over previous year. The significant growth of PRE during 2010-11 (40.11 *per cent*) against 4.08 *per cent* during the previous year was mainly due to increased expenditure on agriculture and allied activities by ₹ 168.84 crore followed by ₹ 96.95 crore on rural development and ₹ 60.31 crore on general economic services.

The NPRE at ₹ 2,546 crore during 2010-11 was 27.36 *per cent* (₹ 547 crore) higher than the normatively assessed level of ₹ 1,999 crore by ThFC (**Table 1.17).**

**Table 1.17 : Non-Plan Revenue Expenditure during 2010-11: Actuals *vis-à-vis* Normative Assessment by ThFC**

**(₹ in crore)**

| Sectors | ThFC Recommendations | Actuals |
|---|---|---|
| Salary | 921 | 1,242[11] |
| Interest Payments | 265 | 257 |
| Pension | 206 | 300 |
| Other General Services | 163 | 176 |
| Social Services | 296 | 385 |
| Economic Services | 148 | 186 |
| **Total** | **1,999** | **2,546** |

Except for interest payments during 2010-11, the actual expenditure incurred on all other components of NPRE was more than the assessments made by the ThFC. The total NPRE during 2010-11 also exceeded the projection made by the State Government in its Budget (₹ 2,202 crore) by 15.62 *per cent* (₹ 344 crore).

According to the recommendation of the ThFC, "*the practice of diversion of plan assistance to meet non-plan needs of special category states should be discontinued to leave these states with adequate plan expenditure*". During 2010-11, the revenue receipts of Meghalaya, excluding Plan assistance (₹ 1,827 crore), was ₹ 2,433 crore. Against this, the NPRE during the year was ₹ 2,546 crore. Obviously, plan assistance was diverted for non-plan heads and thus, the State could not adhere to the recommendation of the ThFC.

### *1.7.1.3 Capital Expenditure*

Capital expenditure during the current year (2010-11) increased by ₹ 94 crore over previous year mainly due to increased expenditure on Irrigation and Flood Control (by ₹ 48 crore) and Transport (by ₹ 39 crore). However, the capital expenditure during 2010-11 constituted only 12.42 *per cent* of total expenditure during the year against 13.04 *per cent* during the preceding year. Though there was an increase in capital expenditure during the current year compared to the previous year, the State Government failed to fulfill its commitment made in the budget estimate for incurring capital expenditure during the year (₹ 694 crore).

## *1.7.2 Committed Expenditure*

The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.18** and **Chart 1.9** present the trends in the expenditure on these components during 2006-11.

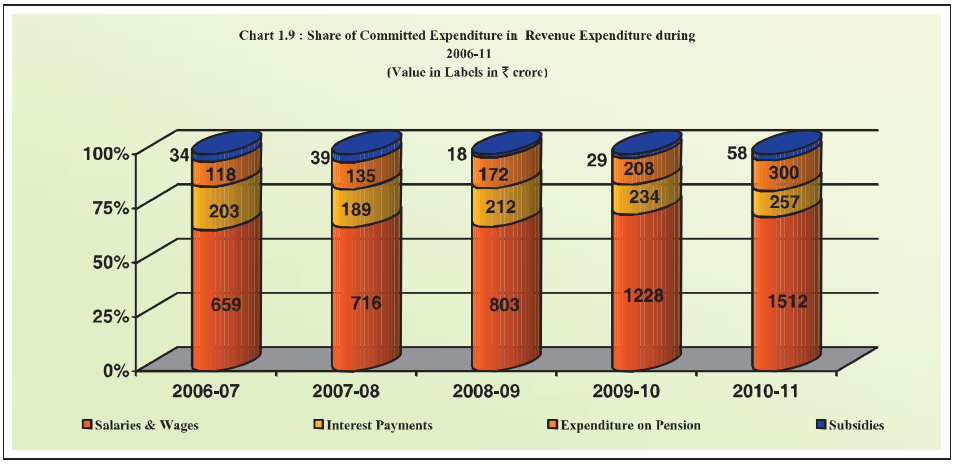
[11] Including wages: ₹ 10.93 crore.

**Table-1.18 : Components of Committed Expenditure**

(₹ in lakh)

| Components of Committed Expenditure | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Salaries & Wages | 659 (31) | 716 (29) | 803 (29) | 1,228 (36) | 1,512 (35) |
| *Of which* | | | | | |
| *Non-Plan Head* | *547 (26)* | *596 (24)* | *651 (23)* | *1,011 (30)* | *1,242 (29)* |
| *Plan Head* | *112 (5)* | *120 (5)* | *152 (6)* | *217(6)* | *270 (6)* |
| Interest Payments | 203 (9) | 189 (8) | 212 (8) | 234 (7) | 257 (6) |
| Expenditure on Pension and other retirement benefits | 118 (6) | 135 (6) | 172 (6) | 208 (6) | 300 (7) |
| Subsidies | 34 (2) | 39 (2) | 18 (1) | 29 (1) | 58 (1) |
| Other Components of revenue expenditure, i.e, other than committed expenditure | 893 (42) | 1,174 (48) | 1,478 (53) | 1,483 (43) | 1,886 (44) |

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




### *1.7.2.1 Salaries and Wages*

Salaries and wages during 2010-11 alone accounted for around 35 *per cent* of the revenue receipts of the State during the year. It increased by 23.13 *per cent* from ₹ 1,228 crore in 2009-10 to ₹ 1,512 crore in 2010-11 and also exceeded the estimated amount indicated in the Budget Speech - 2010-11 (₹ 1,160 crore) by 30.34 *per cent*. Expenditure on salaries and wages under non-plan head during 2010-11 increased by ₹ 231 crore (22.84 *per cent*) over the previous year, whereas this expenditure on plan head increased by ₹ 53 crore (24.42 *per cent*) over the previous year. *The expenditure on non-plan salary and wage component during 2010-11 was also significantly higher by around 35 per cent than the assessment made by the ThFC for the State (₹921 crore).*

### *1.7.2.2 Interest Payments*

Interest payments increased by 26.6 *per cent* from ₹ 203 crore in 2006-07 to ₹ 257 crore in 2010-11. Compared to previous year, interest payments during 2010-11 increased by 9.83 *per cent.* Interest payments were on market loans (₹ 129 crore), Provident Funds (₹ 45 crore), Special Securities issued to National Small Savings

Fund of the Central Government (₹ 35 crore), other internal debts (₹ 22 crore), loans and advances received from Central Government (₹ 26 crore). Of the total interest payments during the year, 50 *per cent* (₹ 129 crore) were paid on market borrowings. *The overall interest payments (₹ 257 crore) was lower than the projections made by the ThFC (₹ 265 crore) as well as budget estimates (₹ 267 crore) of the year.*

### *1.7.2.3 Pension Payments*

The pension payments (including other retirement benefits) indicated an increasing trend during the five year period 2006-11. Pension payments during the current year have increased by ₹ 92 crore, an increase of over 44.23 *per cent* over the previous year. The comparative analysis of actual pension payments and the assessment/projection made by ThFC and the State Government shows that actual pension payment exceeded the assessment made by ThFC by ₹ 94 crore and the projection made by the State Government in its Budget for the year 2010-11 by ₹ 98 crore as shown in (**Table 1.19**).

**Table 1.19 : Actual Pension Payments *vis-à-vis* Projection**

**(₹ in crore)**

| Year | Assessment made by theTwFC/ ThFC | Assessment made by the State Government in | | Actuals | Expenditure in excess of Assessment made in the | | |
|---|---|---|---|---|---|---|---|
| | | FCP | Budget | | TwFC/ThFC | FCP | Budget |
| 2006-07 | 97 | 95 | 95 | 118 | 21 (22) | 23 (24) | 23 (24) |
| 2007-08 | 106 | 113 | 113 | 135 | 29 (27) | 22 (19) | 22 (19) |
| 2008-09 | 117 | 122 | 126 | 172 | 55 (47) | 50 (41) | 46 (37) |
| 2009-10 | 129 | 132 | 176 | 208 | 79 (61) | 76 (58) | 32 (18) |
| 2010-11 | 206 | (NA) | 202 | 300 | 94 (46) | (NA) | 98 (49) |

(*Figures in brackets represent percentages*). NA: Not available.

GOI introduced a defined, contribution based New Pension System (NPS) with effect from 01 April 2004 to cover all new entrants to government service. According to the recommendations of the ThFC, the migration to the NPS needs to be completed at the earliest. Information regarding Government's action on the matter, though called for from the Finance Department, Government of Meghalaya in August 2011 had not been furnished (October 2011).

### *1.7.2.4 Subsidies*

**Table 1.18** shows that the expenditure on payment of subsidies increased by 100 *per cent* from ₹ 29 crore in 2009-10 to ₹ 58 crore during the current year. The increase of ₹ 29 crore is mainly due to increase in payment of subsidies by the departments like Fisheries by ₹ 33.50 crore, offset by ₹ 4.72 crore due to payment of less subsidy by Power Department compared to previous year.

### *1.7.3 Financial Assistance by State Government to local bodies and other institutions*

The quantum of assistance provided by way of grants and loans to local bodies and others during the current year relative to the previous years is presented in **Table 1.20**.

**Table 1.20 : Financial Assistance to Local Bodies, *etc.***

**(₹ in crore)**

| Financial Assistance to Institutions | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | |
|---|---|---|---|---|---|---|
| | | | | | Budget Estimate | Actuals |
| University and Educational Institutions | 164 | 243 | 245 | 291 | 423 | 379 |
| Co-operative Societies | 5 | 2 | 2 | 1 | 1 | 1 |
| District Councils | 1 | 12 | 17 | 1 | 12 | 11 |
| Municipalities | 1 | 2 | 2 | 2 | 2 | 3 |
| Power sector | 35 | 100 | 209 | 111 | 295 | 114 |
| Other Institutions[12] | 2 | 9 | 4 | 35 | 33 | 33 |
| **Total** | **208** | **368** | **479** | **441** | **766** | **541** |
| Assistance as percentage of RE | 10.91 | 16.33 | 17.85 | 13.86 | | 13.48 |

The financial assistance extended to local bodies and other institutions with inter-year variations increased by 22.68 *per cent* from ₹ 441 crore in 2009-10 to ₹ 541 crore in 2010-11. The share of financial assistance in revenue expenditure marginally decreased from 13.86 *per cent* in 2009-10 to 13.48 *per cent* during the current year. However, the State Government was successful to restrict the expenditure on payment of financial assistance within the projection made in its annual budget for the year 2010-11.

University and Educational Institutions were the major recipients as around 70 *per cent* of the total financial assistance during 2010-11 was given to them. The share under this sector increased by 30.24 *per cent,* i.e. from ₹ 291crore during 2009-10 to ₹ 379 crore during the current year. Of ₹ 379 crore, ₹ 201 crore was given to Non-Government Primary Schools and ₹ 129 crore to Non-Government Secondary Schools.

## 1.8 Quality of Expenditure

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

[12] **Other Institutions (figures for 2010-11 in brackets)**: National Rural Health Mission (₹ 13.44 crore), Emergency Management Research Institute and Non Government Organisations (₹ 18.60 crore), Forest Development Corporation of Meghalaya (₹ 0.40 crore), Meghalaya State Medical Plant Board (₹ 0.31 crore), Artisans, organisations, trained and technically qualified persons in small scale industries for self employment (₹ 0.12 crore)

### *1.8.1 Efficiency of Expenditure Use*

In view of the importance of public expenditure for social and economic development, it is important for the State Governments to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public and merit goods[13]. Apart from improving the allocation towards development expenditure[14], the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure (and/or GSDP) and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure (and/or GSDP), the better would be the quality of expenditure. While **Table 1.21** presents the trends in development expenditure relative to the aggregate expenditure of the State during the current year *vis-à-vis* budgeted and the previous years, **Table 1.22** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

**Table 1.21 : Development Expenditure**

(₹ in crore)

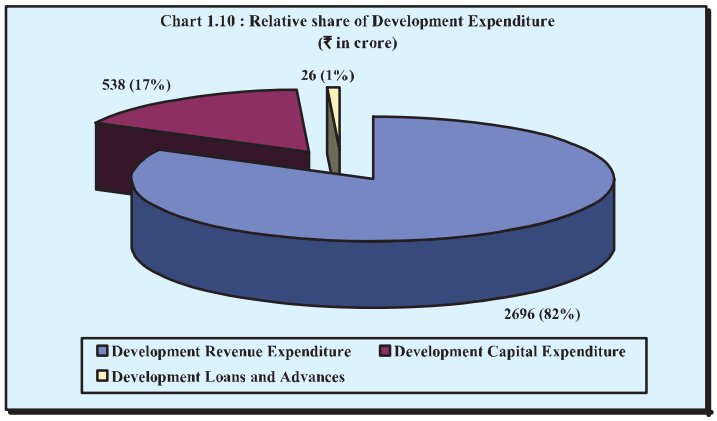
| Components of Development Expenditure | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | |
|---|---|---|---|---|---|---|
| | | | | | BE (Net) | Actuals |
| **Development Expenditure (a to c)** | **1,510 (67.62)** | **1,859 (69.57)** | **2,271 (69.58)** | **2,525 (68.43)** | **3,562 (79.39)** | **3,260 (70.43)** |
| a. Development Revenue Expenditure | 1,204 (53.92) | 1,475 (55.20) | 1,745 (53.46) | 2,081 (56.40) | 2,900 (60.57) | 2,696 (58.24) |
| b. Development Capital Expenditure | 304 (13.61) | 364 (13.62) | 483 (14.80) | 433 (11.73) | 634 (13.24) | 538 (11.62) |
| c. Development Loans and Advances | 2 (0.09) | 20 (0.75) | 43 (1.32) | 11 (0.30) | 28 (0.58 | 26 (0 56) |

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

The development expenditure increased by 29.11 *per cent* over previous year. During the current year, though the State Government earmarked 79.39 *per cent* of the estimated aggregate expenditure for development expenditure, this assessment fell short by 8.98 *per cent* at the end of the year. The relative share of development expenditure during 2010-11 given in **Chart 1.10** below showed that 82 *per cent* of the development expenditure was incurred on revenue account and only 17 *per cent* was utilised for capital expenditure.

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

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




Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services (including 15 *per cent* of revenue expenditure on salaries and wages under social services and 8.26 *per cent* on economic services) which did not result in any addition to State's infrastructure and service network. Thus, expenditure pattern under this sector needs correction in the ensuing year.

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

(In *per cent*)

| Social/Economic Infrastructure | 2009-10 | | 2010-11 | |
|---|---|---|---|---|
| | Ratio of Capital Expenditure to Total Expenditure[15] | In Revenue Expenditure, the share of Salary & Wages | Ratio of Capital Expenditure to Total Expenditure[15] | In Revenue Expenditure, the share of Salary & Wages |
| **Social Services (SS)** | **11.46** | **43.30** | **8.80** | **43.77** |
| General Education | 0.42 | 38.34 | 1.15 | 38.48 |
| Technical Education, Sports, Arts and Culture | 1.01 | 32.57 | 1.32 | 33.17 |
| Health and Family Welfare | 9.37 | 75.92 | 6.77 | 71.19 |
| Water Supply & Sanitation, Housing and Urban Development | 41.13 | 38.40 | 37.84 | 45.37 |
| Other SS | 0.13 | 23.71 | 3.15 | 23.73 |
| **Economic Services (ES)** | **22.76** | **27.41** | **23.50** | **25.29** |
| Agriculture and Allied Activities | 5.12 | 44.38 | 3.63 | 36.03 |
| Irrigation & Flood Control | 56.04 | 57.41 | 69.85 | 53.20 |
| Energy | - | - | - | - |
| Transport | 66.76 | - | 73.46 | - |
| Other ES | 7.52 | 15.70 | 11.06 | 15.83 |

### *Social Services*

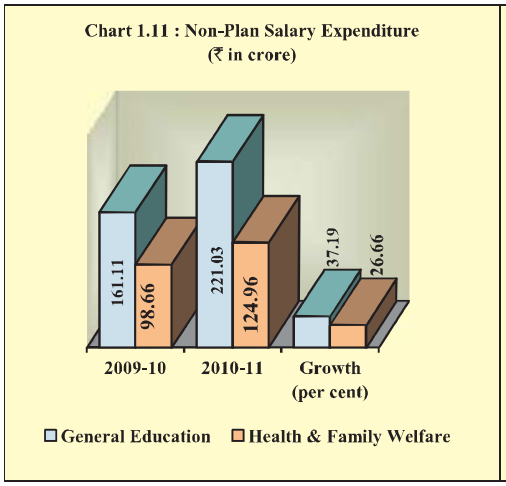
The trends presented in **Table 1.22** reveal that development capital expenditure as a percentage of total expenditure declined from 11.46 *per cent* in 2009-10 to 8.8 *per cent* in 2010-11, which indicated that the revenue expenditure was dominant. While

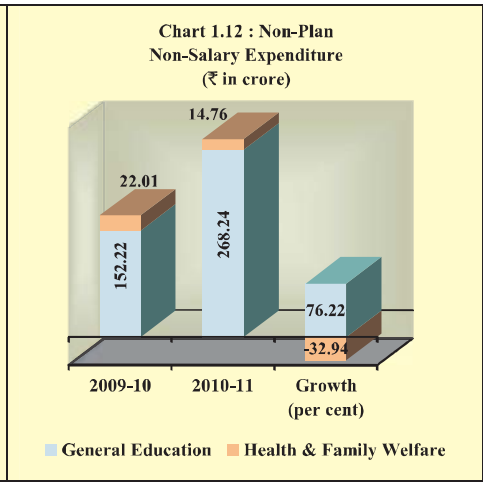
[15] Total revenue and capital expenditure of the services concerned.

there was marginal improvement in the share of capital expenditure during 2010-11 under General Education, Technical Education, Sports, Arts and Culture, under Health and Family Welfare, Water Supply and Sanitation, Housing and Urban Development, there was significant deterioration in the share of capital expenditure during the year. Compared to 2009-10, Water Supply and Sanitation, Housing and Urban Development sector was the worst sufferer, as only 37.84 *per cent* of total expenditure on this sector was incurred on capital account during 2010-11 against 41.13 *per cent* during the preceding year.

Of the revenue expenditure on social services, the share of salary and wage component has marginally increased from 43.30 *per cent* in 2009-10 to 43.77 *per cent* in 2010-11. The non-salary and wage expenditure on social services has increased by 24.92 *per cent* during 2010-11 from ₹ 619.36 crore in 2009-10 to ₹ 773.72 crore in 2010-11. Within the priority sectors, non-salary and wage component continue to have the dominant share under education, sports, art and culture and water supply, sanitation, housing and urban development. High salary and wage expenditure during 2009-10 (76 *per cent*) and 2010-11 (71 *per cent*) was observed under health and family welfare services.

**Charts 1.11** and **1.12** provide non-plan salary and non-salary expenditure under social services incurred during 2009-11.




*The expenditure on non-plan salary and wage component during 2010-11 under both education and health and family welfare sectors increased by 37.19 per cent and 26.66 per cent respectively over the previous year. The decrease of 32.94 per cent in non-salary (non-plan) expenditure under health and family welfare was a matter of concern.* Thus, expenditure pattern under this sector needs correction in the ensuing years because of sufferings of 21.79 *per cent* (6,45,967) persons of the State from various diseases and increase in the air and water borne diseases by 9.34 *per cent* and 9.55 *per cent* respectively during 2010 over previous year, as discussed in paragraph 1.1 of the Report of the CAG of India for the year ended 31 March 2011 (Civil and Commercial).

### *Economic Services*

The expenditure on economic services (including loans and advances) during 2010-11 (₹ 1,751 crore) accounted for about 38 *per cent* of the total expenditure[16] and 54 *per cent* of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 32.71 *per cent* was incurred on agriculture and allied activities, 9.37 *per cent* on industry and minerals and 7.93 *per cent* on energy.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from ₹ 177 crore in 2006-07 to ₹ 405 crore (129 *per cent*) in 2010-11. However, the share of capital expenditure on economic services to total of revenue and capital expenditure on economic services during 2009-11 almost remained constant (between 22.73 and 23.48 *per cent*) which indicated that the revenue expenditure was dominant. Revenue expenditure also consistently increased from ₹ 590 crore in 2006-07 to ₹ 1,320 crore (124 *per cent*) in the current year. An increase of ₹ 331 crore (33.47 *per cent*) during 2010-11 over the previous year in revenue expenditure was mainly due to the increase under agriculture and allied activities (₹ 188.20 crore), rural development (₹ 73.59 crore), general economic services (₹ 70.70 crore) and industry and minerals (₹ 19.70 crore), partly offset by decrease under transport (₹ 12.66 crore), energy (₹ 8.78 crore) and special areas programmed (₹ 8.35 crore). Within the revenue expenditure on economic services, salary and wage component constituted 27 *per cent* and 25 *per cent* of the total revenue expenditure during 2009-10 and 2010-11 respectively. It increased from ₹ 271 crore in 2009-10 to ₹ 334 crore (23.25 *per cent*) during the current year.

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

Some of the Centrally Sponsored/Central Sector Schemes where significant shortfall in achievement was noticed is given in **Table 1.23** below:

**Table 1.23**

**(₹ in crore/ Targets, Achievements and Shortfall in numbers)**

| Sl. No. | Centrally Sponsored/ Central Sector Schemes | Performance indicator | Unit of measure-ment | Budget allocation/ Expenditure | Targets | Achieve-ments | Shortfall in achieve-ment of targets (*per cent*) |
|---|---|---|---|---|---|---|---|
| 1. | Rural Roads (PMGSY) | Length of Road Constructed | Km. | 274.93/ 42.11 | 645.29 | 422.636 | 222.65 (35) |
| 2. | Rural Water Supply Programme | Habitations covered | Nos. | 60.00/ 59.99 | 260 | 178 | 82 (32) |
| 3. | Accelerated Rural Water Supply Programme | Habitations covered | Nos. | 93.33/ 70.29 | 500 | 202 | 298 (60) |
| 4. | Total Sanitation Campaign | (i) Individual Household Latrines constructed | Nos. | 37.88/ 23.72 | 115305 | 65417 | 49888 (43) |
| | | (ii) School Toilets | Nos. | | 7261 | 2833 | 4428 (61) |
| | | (iii) Sanitary Complex | Nos. | | 222 | 55 | 167 (75) |
| | | (iv) Angwd Toilets | Nos. | | 1546 | 710 | 836 (54) |

[16] Revenue expenditure + Capital expenditure + Disbursement of Loans and Advances

| Sl. No. | Centrally Sponsored/ Central Sector Schemes | Performance indicator | Unit of measure-ment | Budget allocation/ Expenditure | Targets | Achieve-ments | Shortfall in achieve-ment of targets (*per cent*) |
|---|---|---|---|---|---|---|---|
| 5. | Accelerated Irrigation Benefit Programme | Schemes (53 ongoing and Nil new schemes)<br><br>Beneficiaries | Nos. | 75.00/ 75.00 | 53<br><br>3141 | 41<br><br>2415 | 12 (23)<br><br>726 (23) |
| 6. | Rural Electrification (RGGVY) | Electrification<br>(i)UEV -<br>(ii)DEV -<br>(iii)EV -<br>(iv)H/H -<br>(v)BPL (Rhh)- | Nos. | 248.60/ 122.62 | <br>(i) 1502<br>(ii) 364<br>(iii) 3239<br>(iv) -<br>(v) 109696 | <br>49<br>102<br>1112<br>-<br>33754 | <br>1453 (97)<br>262 (72)<br>2127 (66)<br><br>75942 (69) |
| 7. | Sarva Shiksha Abhiyan | Teaching & Learning equipment<br>New Primary Schools<br>New Upper Primary Schools | Centre/ School<br>School | 236.02/ 200.41 | <br>574<br>302 | <br>20<br>53 | <br>554 (97)<br>249 (82) |
| 8. | Horticulture Mission for North East & Himalayan States | Production of planting materials | HA | 34.96/ 18.75 | 273.21 | 217.09 | 56.12 (21) |
| 9. | Mid Day Meal | Foodgrains | Metric Tonnes | 67.01/ 63.03 | 11049.85 | 6739.95 | 4309.10 (39) |
| 10. | National Rural Health Mission (NRHM) | 1. Janani Suraksha Yojana<br>(i) Home Deliveries<br>2. Maternal Health Training<br>(i) EmOC Training<br>(ii) MTP Training<br>(iii) RTI/STI Training | Nos. | 101.54/ 18.70 | <br>16374<br><br>6<br>45<br>41 | <br>3250<br><br>3<br>26<br>29 | <br>13214 (80)<br><br>3 (50)<br>19 (42)<br>12 (29) |

*Source: Information furnished (July 2011) by the Directorate of Programme Implementation and Evaluation, Government of Meghalaya.*

As can be seen from the above table, shortfall in achievement of targets under most of the schemes ranged between 21 *per cent* and 97 *per cent*. Against the target for coverage of 500 habitations under Accelerated Rural Water Supply Programme, achievement was only 202. Under Total Sanitation Programme, 55 sanitary complex were completed against the target of 222. Out of all the above programmes, major shortfall in achievement of targets (66 *per cent* to even 97 *per cent*) during 2010-11 was under Rural Electrification.

## 1.9 Financial Analysis of Government Expenditure and Investments

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

### *1.9.1 Incomplete projects*

According to the information available in Appendix X of the Finance Accounts for the year 2010-11, as of 31 March 2011, there were 263 ongoing projects in the State. The department-wise information pertaining to incomplete projects as on 31 March 2011 even after target date(s) of completion is given in **Table 1.24**.

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

(₹ in crore)

| Department | Number of incomplete projects | Initial estimated cost | Original estimated cost of projects which were revised | | Revised cost of incomplete projects which were revised | Cost overrun of projects which were revised | Cumulative actual expenditure as on 31 March 2011 |
|---|---|---|---|---|---|---|---|
| | | | Number | Amount | | | |
| Public Health Engineering | 24 | 53.39 | ... | ... | ... | ... | 34.17 |
| Public Works | 28 | 42.48 | 03 | 8.21 | 9.68 | 1.47 | 31.28 |
| Urban Affairs | 01 | 16.40 | ... | ... | ... | ... | 8.20 |
| **Total** | **53** | **112.27** | **03** | **8.21** | **9.68** | **1.47** | **73.65** |

*Source: Finance Accounts 2009-10.*

As can be seen from the above table, 53 projects stipulated for completion on or before 31 March 2011 at an estimated cost of ₹ 112.27 crore, remained incomplete with an expenditure of ₹ 73.65 crore till March 2011. Of these, 13 projects remained incomplete for one to six years. The revised cost of three incomplete projects increased by 17.9 *per cent* from ₹ 8.21 crore (estimated cost) to ₹ 9.68 crore (total revised cost) resulting in a total cost overrun of ₹ 1.47 crore.

Effective steps need to be taken to complete the incomplete projects without further delay to avoid cost overrun due to time overrun.

### *1.9.2 Investment and returns*

As per Statement 14 of Finance Accounts for the year 2010-11, as of 31 March 2011, the State Government had invested ₹ 315.79 crore in two Statutory Corporations (₹ 71.11 crore), eight Government Companies (₹ 177.51 crore) and 1,442 Co-operative Banks and Societies (₹ 67.17 crore). The average return on this investment was less than one *per cent* during 2006-11, while the Government paid interest at an average rate of 6.32 *per cent* to 7.62 *per cent* on its borrowings during the period. Details are given in **Table 1.25.**

**Table 1.25 : Return on Investment**

| Investment/Return/Cost of Borrowings | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Investment at the end of the year (₹ in crore) | | | | | |
| (i) Statutory Corporations | 40.19 | 40.34 | 40.79 | 70.91 | 71.11 |
| (ii) Government Companies | 102.29 | 102.59 | 112.92 | 152.51 | 177.51 |
| (iii) Co-operative Societies | 40.68 | 43.86 | 46.72 | 62.77 | 67.17 |
| **Total** | **183.16** | **186.79** | **200.43** | **286.19** | **315.79** |
| Return (₹ in crore) | 0.01 | 0.02 | 0.03 | 0.04 | 0.03 |
| Return (*per cent*) | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Average rate of interest on Government borrowing *(per cent)* | 7.62 | 6.40 | 6.32 | 6.34 | 6.51 |
| Difference between interest rate and return (*per cent*) | 7.61 | 6.39 | 6.31 | 6.33 | 6.50 |

Of the two Statutory Corporations, bulk of the investment (₹ 68.97 crore) was made to the Meghalaya Transport Corporation Limited during 1986-2010 despite accumulated loss of ₹ 62.61 crore sustained by the Corporation up to 31 March 2009[17]. Out of ₹ 177.51 crore invested in Government Companies, ₹ 88.46 crore was invested in six loss making Companies, which had accumulated loss of ₹ 27.91 crore as detailed in **Table 1.26**. Similarly, out of ₹ 67.17 crore invested in co-operative bank, societies, ₹ 31.26 crore was invested in 1,091 loss making co-operative banks/societies, as detailed in **Table 1.27**. Working results of one Government company and 357 co-operative banks/societies had not been intimated (August 2011).

**Table 1.26 : Details of loss making Government Companies**

**(₹ in crore)**

| Sl. No. | Name of Companies | Amount invested | Invested up to | Accumu-lated loss | Period up to[18] |
|---|---|---|---|---|---|
| 1. | Mawmluh Cherra Cement Ltd. | 72.72 | 2010-11 | 2.85 | 2009-10 |
| 2. | Meghalaya Tourism Development Corporation Ltd. | 7.96 | 2001-02 | 3.12 | 2009-10 |
| 3. | Meghalaya Government Construction Corporation Ltd. | 0.75 | 2000-01 | 12.77 | 2009-10 |
| 4. | Meghalaya Handloom and Handicrafts Development Corporation Ltd. | 2.74 | 2009-10 | 1.75 | 2009-10 |
| 5. | Meghalaya Mineral Development Corporation Ltd. | 2.32 | 2001-02 | 5.27 | 2009-10 |
| 6. | Forest Development Corporation of Meghalaya Ltd. | 1.97 | 2001-02 | 2.15 | 2007-08 |
| | **Total** | **88.46** | | **27.91** | |

**Table 1.27 : Details of loss making Government Co-operatives Societies**

**(₹ in crore)**

| Sl. No. | Name of Companies | Number of Societies | Amount invested | Invested up to | Accumu-lated loss | Period up to[19] |
|---|---|---|---|---|---|---|
| 1. | Credit Co-operatives | 477 | 4.79 | 2009-10 | 2.71 | 2009-10 |
| 2. | Housing Co-operatives | 16 | 2.61 | 2010-11 | 0.03 | 2009-10 |
| 3. | Labour Co-operatives | 01 | 0.02 | 1998-99 | 0.01 | 2009-10 |
| 4. | Processing Co-operatives | 5 | 0.35 | 2008-09 | 2.33 | 2009-10 |
| 5. | Dairy Co-operatives | 66 | 0.91 | 2010-11 | 2.19 | 2009-10 |
| 6. | Co-operative Spinning Mills | 148 | 0.92 | 2006-07 | 0.03 | 2009-10 |
| 7. | Consumers' Co-operatives | 377 | 18.61 | 2009-10 | 0.01 | 2009-10 |
| 8. | Meghalaya Co-operative Apex Bank Ltd. | 01 | 3.05 | 2010-11 | 0.17 | 2009-10 |
| | **Total** | **1091** | **31.26** | | **7.48** | |

### *1.9.3 Loans and advances by State Government*

In addition to investments in co-operative societies, corporations and companies, Government has also been providing loans and advances for other purposes, e.g., loans for power projects, loans to Government servants, loans for tourism, *etc.* **Table 1.28** presents the outstanding loans and advances as on 31 March 2011, interest receipts *vis-à-vis* interest payments during the last three years.

[17] Position after March 2009 had not been intimated.
[18] Working results for the subsequent years had not been intimated.
[19] Working results for the subsequent years had not been intimated.

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

**(₹ in crore)**

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Opening Balance | 480 | 469 | 479 | 511 | 521 |
| Amount advanced during the year | 6 | 27 | 50 | 27 | 41 |
| Amount recovered during the year | 17 | 17 | 18 | 17 | 27 |
| Closing Balance | 469 | 479 | 511 | 521 | 535 |
| Net Addition | - 11 | 10 | 32 | 10 | 14 |
| Interest Receipts | 1.36 | 1.65 | 2.04 | 2.59 | 4.62 |
| Interest received as *per cent* to outstanding Loans and Advances | 0.29 | 0.35 | 0.41 | 0.50 | 0.88 |
| Interest payments as *per cent* to outstanding fiscal liabilities of the State Government | 7.62 | 6.40 | 6.32 | 6.34 | 6.51 |
| Difference between interest payments and receipts (*per cent*) | 7.33 | 6.05 | 5.91 | 5.84 | 5.63 |

Loans and advances given by the State Government during 2010-11 increased by around 52 *per cent* over previous year. During 2006-11, recovery of loans and advances was ₹ 96 crore against ₹ 151 crore advanced during the period. The total outstanding loans and advances as on 31 March 2011 was ₹ 535 crore. *As the current level of recovery on loans advanced by the states is extremely poor, the ThFC projected the interest receipts of states on a normative basis without linking it to the current level. Outstanding loans and advances at the end of 2009-10 have been projected by ThFC as constant over the projection period and applied an interest rate of 7 per cent to these outstanding loans and taken as the interest receipt in each of the years*. Interest receipt of ₹ 4.62 crore on loans and advances by Government of Meghalaya during 2010-11 constituted around 0.89 *per cent* only of the outstanding loans and advances at the end of 2009-10 (₹ 521 crore) and thus, much below the interest rate of 7 *per cent* as applied by ThFC.

### *1.9.4 Cash Balances and Investment of Cash balances*

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

**Table 1.29 : Cash Balances and Investment of Cash Balances**

**(₹ in crore)**

| Particulars | As on 1st April 2010 | As on 31 March 2011 | Increase(+)/ decrease (-) |
|---|---|---|---|
| **Cash Balances**[20] | **440.13** | **350.71** | **- 89.42** |
| **Investments from Cash Balances (a & b)** | **501.78** | **844.20** | **+ 342.42** |
| a. GOI Treasury Bills | 493.03 | 835.45 | + 342.42 |
| b. GOI Stock/Securities | 8.75 | 8.75 | |
| **Fund-wise break-up of Investment from Earmarked balances (a & b)** | **82.62** | **98.25** | **+ 15.63** |
| a. Sinking Fund Investment Account | 82.59 | 98.22 | + 15.63 |
| b. Other Development and Welfare Fund | 0.03 | 0.03 | … |
| **Interest realised on investment of cash balances** | **20.68** | **20.09** | **- 0.59** |

[20] Excluding investment of earmarked funds.

Cash balances of the State Government at the end of the current year decreased from ₹ 440.13 crore in 2009-10 to ₹ 350.71 crore in 2010-11. As on 31 March 2011, the State Government has invested ₹ 835.45 crore in GOI Treasury Bills and ₹ 8.75 crore in GOI stock/securities. During 2010-11, interest of ₹ 20.09 crore was earned on investment of cash balances. Further, the Government invested ₹ 98.25 crore in Sinking Fund and Development and Welfare Fund as of March 2011.

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.

During the years 2006-07 to 2010-11, the Government did not have to resort to ways and means Advances and overdraft indicating comfortable position of cash balances of the State.

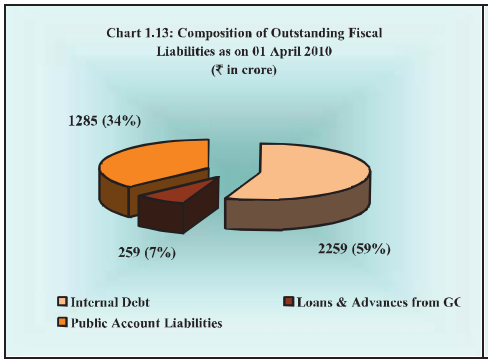
## 1.10 Assets and Liabilities

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

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2011, compared with the corresponding position on 31 March 2010. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

### *1.10.2 Fiscal Liabilities*

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



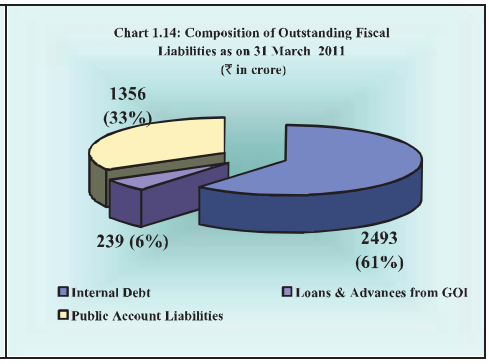



**Table 1.30** gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP to revenue receipts and State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

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

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Fiscal Liabilities[21] (₹ in crore) | 2,762 | 3,141 | 3,573 | 3,803 | 4,088 |
| Rate of Growth (*per cent*) | 7.64 | 13.72 | 13.75 | 6.44 | 7.49 |
| **Ratio of Fiscal Liabilities to** | | | | | |
| GSDP (*per cent*) | 32.02 | 32.27 | 30.76 | 28.76 | 27.11 |
| Revenue Receipts (*per cent*) | 128.94 | 128.68 | 127.11 | 110.33 | 95.94 |
| Own Resources (*per cent*) | 564.83 | 606.37 | 600.50 | 528.93 | 468.27 |
| **Buoyancy of Fiscal Liabilities to** | | | | | |
| GSDP (ratio) | 0.41 | 1.07 | 0.71 | 0.47 | 0.53 |
| Revenue Receipts (ratio) | 0.34 | 0.98 | 0.91 | 0.28 | 0.32 |
| Own Resources (ratio) | 0.34 | 2.31 | 0.93 | 0.31 | 0.35 |

Fiscal liabilities of ₹ 4,088 crore during 2010-11 consist of internal debt, e.g., market loans bearing interest, loans from financial institutions, Special Securities issued to National Small Savings Fund of the Central Government, *etc.* (₹ 2,493 crore), loans and advances from Central Government (₹ 239 crore), small savings, provident funds (State Provident Funds and Insurance & Pension Funds: ₹ 626 crore) and other liabilities, e.g., Reserve Funds and Deposits (₹ 730 crore). Overall fiscal liabilities of the State increased from ₹ 2,762 crore in 2006-07 to ₹ 4,088 crore in 2010-11. The growth rate in 2010-11 was 7.49 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP decreased from 28.76 *per cent* in 2009-10 to 27.11 *per cent* in 2010-11. These liabilities stood at almost equal to the revenue receipts and 4.68 times of the State's own resources at the end of 2010-11. The buoyancy of these liabilities with respect to GSDP during the year was 0.53 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.53 *per cent*.

*As per the recommendations of the ThFC, fiscal consolidation path embodies the steady reduction in augmented debt stock or the states to less than 25 per cent of GDP by 2014-15. Further, the State Government in its Fiscal Policy Strategy Statement, committed to follow a debt strategy that would strive to bring the Debt-GSDP ratio to 25 per cent as recommended by the ThFC.* As can be seen from the **Table 1.30** above, the fiscal liabilities to GSDP ratio during 2010-11 decreased by 1.65 *per cent* from 28.76 *per cent* in 2009-10 to 27.11 *per cent* in 2010-11.

During 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loans. In 2010-11, the Government has appropriated ₹ 15.63 crore from revenue and credited to this fund for investment in the Government of India Securities.

[21] Includes Internal Debt, Loans and Advances from Government of India, Small Savings, Provident Funds, *etc.*, Reserve Funds and Deposits.

### *1.10.3 Status of Guarantees – Contingent liabilities*

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee has been extended. As per Finance Accounts, the maximum amount for which guarantees were given by the State and outstanding guarantees at the end of the year since 2006-07 are given in **Table 1.31**.

**Table 1.31 : Guarantees given by the Government of Meghalaya**

**(₹ in crore)**

| Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Maximum amount guaranteed | 562.02 | 954.16 | 1083.19 | 1033.34 | 948.79 |
| Outstanding amount of guarantees (including interest) | 435.80 | 750.63 | 990.25 | 953.74 | 1110.77 |
| Percentage of maximum amount guaranteed to total revenue receipts | 26.24 | 39.08 | 38.54 | 29.97 | 22.27 |

Government has guaranteed loans raised by various Corporations and others, which at the end of 2010-11 stood at ₹ 1110.77 crore (including interest). Bulk of the guaranteed amount (₹ 1101.46 crore) was outstanding against the power sector for repayment of principal and payment of interest on loans from Rural Electrification Corporation, Housing and Urban Development Corporation, short term loans and bonds, *etc.* The outstanding amount of guarantees is in the nature of contingent liabilities, which was above 27 *per cent* of revenue receipts of the State during 2010-11.

## 1.11 Debt Sustainability

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

Apart from the magnitude of debt of State Government, it is important to analyse various indicators that determine the debt sustainability of the State. This section assesses the sustainability of debt of the State Government in terms of debt stabilisation[22]; sufficiency of non-debt receipts[23]; net availability of borrowed funds[24]; burden of interest payments (measured by interest payments to revenue receipts ratio)

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

[23] 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.

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

and maturity profile of State Government securities. **Table 1.32** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2006-07.

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

(₹ in crore)

| Indicators of Debt Sustainability | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|
| Debt Stabilisation (Quantum Spread + Primary Deficit) | 414 | 154 | 186 | 273 | 202 |
| Sufficiency of Non-debt Receipts (Resource Gap) | + 104 | - 140 | - 221 | + 209 | - 117 |
| Net Availability of Borrowed Funds | - 8 | 190 | 221 | - 4 | 29 |
| Burden of Interest Payments (IP/RR Ratio) | 0.09 | 0.08 | 0.08 | 0.07 | 0.06 |

**Table 1.32** reveals that the quantum spread together with primary deficit has been positive for the last five years (2006-11) resulting in decline in Debt/GSDP ratio from 0.32 in 2006-07 to 0.27 in 2010-11. These trends indicate the tendency towards debt stabilisation which would eventually improve the debt sustainability of the State.

The trends in resource gap indicate the oscillation between positive and negative magnitudes. The resource gap has been negative in three out of five year period indicating that the incremental non-debt receipts were not sufficient to meet the incremental primary expenditure and interest burden. Thus, the State needs to step up its resource mobilisation as well as prune unproductive expenditure to maintain debt stability.

The debt redemption ratio has fluctuated widely during 2006-11 which remained more than unity in 2006-07 and 2009-10, while varied between 78 and 98 *per cent* in the remaining years. During the current year, Government repaid ₹ 1,273 crore as principal and interest on internal debt (₹ 306 crore), loans and advances from Central Government (₹ 46 crore) and other liabilities[25] (₹ 921 crore), as a result of which the borrowed funds of ₹ 29 crore were available at the end of the year. However, about 61 *per cent* (₹ 45 crore) of the net funds available from internal debt (₹ 48 crore) and other obligations (₹ 25 crore) was used to meet the repayment obligation of the loans and advances from the Central Government.

It was observed that burden of interest payments (interest payments/revenue receipts) marginally decreased from 0.07 *per cent* in 2009-10 to 0.06 *per cent* in 2010-11.

The maturity profile of the State debt is given in **Table 1.33**.

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

(₹ in crore)

| Maturity Profile[(a)] | Amount | *Per cent* |
|---|---|---|
| 0-1 year | 141.74 | 4.93 |
| 1-3 years | 479.99 | 16.71 |
| 3-5 years | 471.94 | 16.43 |
| 5-7 years | 618.66 | 21.54 |
| 7 years and above | 1160.22 | 40.39 |
| **Total** | **2872.55** | **100** |

[(a)] As per Finance Accounts.

[25] Small Savings, Provident Funds, Reserve Funds, Deposits, *etc.*

The maturity profile of the State's debt during the current year indicates that around 16.71 *per cent* is payable in 1-3 years time, 16.43 *per cent.*

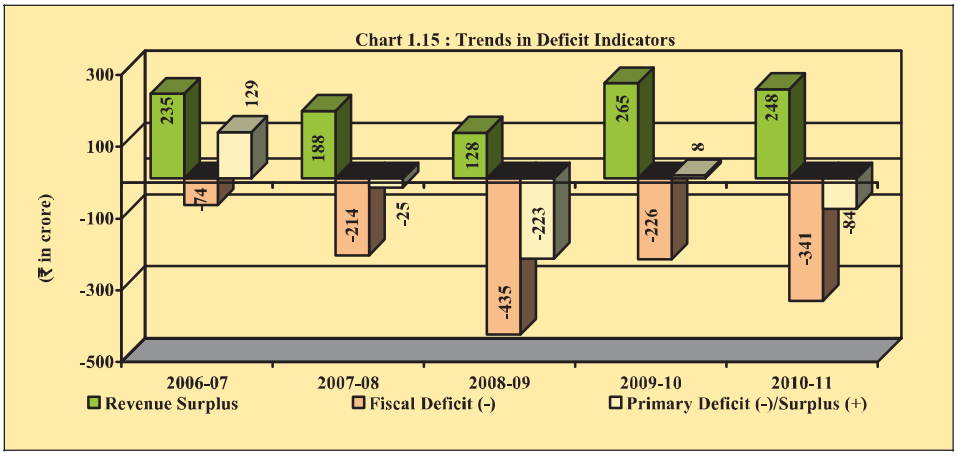
The maturity profile of the State's debt during the current year indicates that out of the outstanding debt stock of ₹ 2872.55 crore, around 60 *per cent* (₹ 1712.33 crore) is payable within the next seven years while the remaining 40 *per cent* are to be paid in more than seven years time. Since there was no fiscal surplus during the last five years (2006-11), the Government will have to borrow further to discharge the expenditure obligations unless there is adequate fiscal surplus. Ideally, further borrowings in future should be made in such a way that there is no bunching of repayments in any particular year as that will cause undue stress on the budget.

## 1.12 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2010-11.

### *1.12.1 Trends in Deficits*

**Charts 1.15** and **1.16** present the trends in deficit indicators over the period 2006-11.



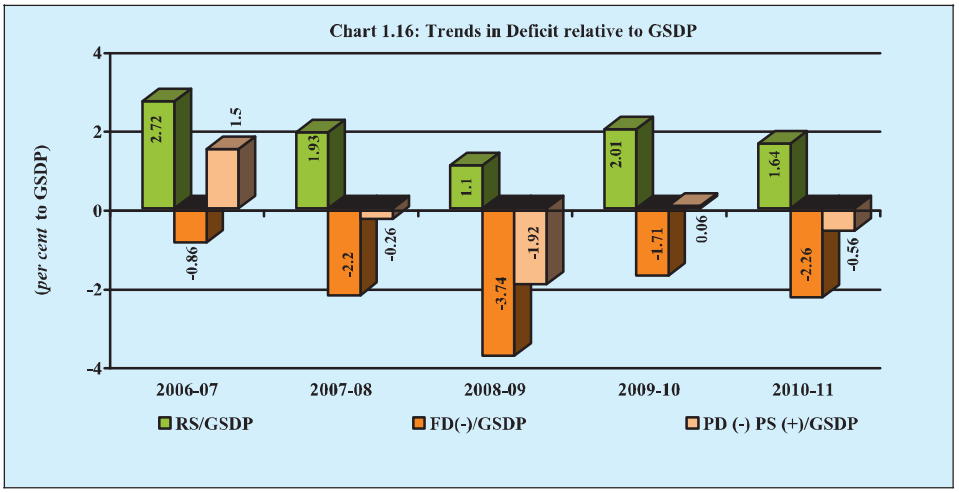



**Chart 1.15** reveals that the State had a revenue surplus during the period 2006-11, which after inter-year variations, increased from ₹ 235 crore in 2006-07 to ₹ 248 crore during the current year. Compared to 2009-10, revenue surplus declined by ₹ 17 crore (6.42 *per cent*) mainly on account of increase in revenue expenditure by ₹ 831 crore (26.12 *per cent*) against ₹ 813 crore (23.59 *per cent*) in revenue receipts.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap increased from ₹ 226 crore in 2009-10 to ₹ 341 crore during 2010-11. The decrease in revenue surplus (₹ 17 crore) and increase in capital expenditure (₹ 94 crore) as well as in loans and advances disbursed (₹ 15 crore) over the previous year led to a increase in fiscal deficit by ₹ 115 crore during the current year.

As per the recommendations of the ThFC, *all special category states with base fiscal deficit of less than 3 per cent of GSDP in 2007-08 could incur a fiscal deficit of 3 per cent in 2011-12 and maintain it thereafter.* Though Government of Meghalaya was successful to restrict the fiscal deficit-GSDP ratio to 2.26 *per cent* during 2010-11 against 3 *per cent* earmarked by the ThFC, increase of this ratio during 2010-11 by 0.55 *per cent* over previous year is an alarming situation for the fiscal health of the State.

The primary surplus of ₹ 8 crore which was experienced by the State during 2009-10 after witnessing primary deficit[26] for the two consecutive years (2007-09), took a turnaround in 2010-11 and resulted in a primary deficit of ₹ 84 crore. A sharp increase of ₹ 115 crore in fiscal deficit and a moderate increase in interest payment (₹ 23 crore) resulted in a primary deficit of ₹ 84 crore during the current year.

[26] 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.

### 1.12.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.34.**

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

**(₹ in crore)**

| Sl. No. | Particulars | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 |
|---|---|---|---|---|---|---|
| **Decomposition of Fiscal Deficit** | | | | | | |
| | **Fiscal Deficit (-) (1 – 2 - 3)** | **- 74** | **- 214** | **- 435** | **- 226** | **- 341** |
| 1. | Revenue Surplus | 235 | 188 | 128 | 265 | 248 |
| 2. | Net Capital Expenditure | 320 | 392 | 531 | 481 | 575 |
| 3. | Net Loans and Advances | - 11 | 10 | 32 | 10 | 14 |
| **Financing Pattern of Fiscal Deficit[a]** | | | | | | |
| 1. | Market Borrowing | 164 | 147 | 186 | 192 | 120 |
| 2. | Loans from GOI | - 27 | - 15 | - 54 | - 18 | - 19 |
| 3. | Special Securities issued to NSSF | 22 | 9 | 6 | 61 | 90 |
| 4. | Loans from Financial Institutions | 1 | 7 | 15 | 25 | 24 |
| 5. | Small Savings, PF, *etc.* | 36 | 46 | 46 | 67 | 84 |
| 6. | Reserve Funds | 3 | - 9 | [b] | 7 | - 4 |
| 7. | Deposits and Advances | - 4 | 194 | 233 | - 105 | - 10 |
| 8. | Suspense and Miscellaneous | 19 | - 37 | 58 | - 40 | - 29 |
| 9. | Remittances | 5 | - 1 | 16 | - 25 | - 4 |
| 10. | Increase (-) / Decrease (+) in Cash Balances | - 145 | - 127 | - 71 | + 62 | + 89 |
| 11. | Increase or decrease in Ways & Means Advances | 0 | 0 | 0 | 0 | 0 |
| | **Overall Deficit (-)** | **- 74 (0.86)** | **- 214 (2.20)** | **- 435 (3.74)** | **- 226 (1.71)** | **- 341 (2.26)** |

Figures in brackets indicate *per cent* to GSDP.

[a] All these figures are net of disbursements/outflows during the year. [b] ₹ 0.20 crore only.

There were fiscal deficit during the five year period ending 2010-11, which reached to ₹ 341 crore during 2010-11 against ₹ 226 crore during previous year. During 2010-11, fiscal deficit was mainly met out from market borrowing (₹ 120 crore), special securities issued to National Small Savings Fund (NSSF) of the Central Government (₹ 90 crore) and small savings, provident fund, *etc.* (₹ 84 crore). While the net market borrowing declined by 37.5 *per cent* during 2010-11 over previous year, the special securities issued to NSSF and small savings, provident fund, *etc.* increased by 47.54 *per cent* and 25.37 *per cent* respectively over the previous year.

### 1.12.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of

the primary deficit **(Table 1.35)** would indicate the extent to which the deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

**Table 1.35 : Primary Deficit/Surplus – Bifurcation of Factors**

**(₹ in crore)**

| Year | Non-debt Receipt | Primary Revenue Expendi-ture | Capital Expendi-ture | Loans and Advances | Primary Expendi-ture | Primary Revenue Surplus | Primary Deficit (-)/ Surplus (+) |
|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 (3+4+5) | 7 (2-3) | 8 (2 -6) |
| 2006-07 | 2,159 | 1,704 | 320 | 6 | 2,030 | 455 | + 129 |
| 2007-08 | 2,458 | 2,064 | 392 | 27 | 2,483 | 394 | - 25 |
| 2008-09 | 2,829 | 2,471 | 531 | 50 | 3,052 | 358 | - 223 |
| 2009-10 | 3,464 | 2,948 | 481 | 27 | 3,456 | 516 | +8 |
| 2010-11 | 4,288 | 3,756 | 575 | 41 | 4,372 | 532 | - 84 |

The bifurcation of the factors resulting into primary deficit or surplus of the State during 2006-11 reveals that in three (2007-09 and 2010-11) out of five years the State experienced primary deficit during 2007-09, which 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 sufficient to meet the primary expenditure[27] requirements, but was not adequate for capital expenditure and loans and advances. But the surplus non-debt receipts were not enough to meet the expenditure requirements under capital account and loans and advances during 2007-09 and 2010-11 resulting in primary deficit. However, the extent to which the primary deficit has been mainly on account of increase in capital expenditure during 2010-11 by ₹ 94 crore compared to previous year, which may be desirable to improve the productive capacity of the State's economy.

## 1.13 Institutional measures

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

As a measure to improve fiscal transparency, the Government of India outlined several initiatives to assist the State Governments in their developmental and social roles. The Public Private Partnership (PPP) is such an initiation that enables implementation of Government programmes/schemes in partnership with the private sector. The potential benefits derived from PPP are cost effectiveness of the project, higher productivity, accelerated delivery, enhanced social service and recovery of user

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

charges. It also allows the State Government to use limited budgetary resources on high priority schemes where private sector is not willing to enter.

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

Information regarding framing of any policy on PPP and particulars of PPP projects under execution in the State, though called for (July 2011) from the Finance Department, Government of Meghalaya, had not been furnished (September 2011). As such, the position of PPP projects in the State could not be ascertained by Audit.

A PPP involves several risks, e.g., feasibility/organisational risk, condition precedent risks, financing risk, construction risk, operation and maintenance risk, demand risk, *etc.* and a balanced sharing of these risks between the public and private sector partners is essential for its enduring success. Since the PPP projects go through several stages such as finalisation of the contracts, financial closure, construction, maintenance and operation, *etc.*, appropriate precautionary measures need to be taken by the State Government to safeguard the interest of the State keeping in view the risk factors in particular.

## 1.14 Conclusion and Recommendations

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit – indicated that though the State successfully maintained revenue surplus during the last five-year period ending 2010-11, compared to previous year, it declined during 2010-11. The fiscal deficit of the State has also significantly increased during 2010-11 compared to previous year and the primary surplus of 2010-11 turned into a primary deficit.

### *Revenue Receipts*

Revenue receipts during 2010-11 grew by 23.61 *per cent* (₹ 814 crore) over previous year. The tax revenue and non-tax revenue receipts exceeded normative assessment made by ThFC by 16.73 *per cent* and 6.34 *per cent* respectively. Central transfers comprising State's share of central taxes and grants-in-aid from the Government of India increased by ₹ 659 crore in 2010-11 and contributed around 81 *per cent* of the incremental revenue receipts during the year, indicating central transfers being the key in the increase in revenue receipts of the State. The total loss of revenue due to understatement/short levy/non-levy of taxes, *etc.*, which was in excess of 31 *per cent* of the State's own resources consisting tax and non-tax revenue during 2010-11, indicates the presence of loopholes in resource mobilisation. The percentage of expenditure on collection of taxes/VAT was much higher than the all India average percentage.

***The State Government should mobilise additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user charges. The State should make efforts to increase tax compliance, reduce tax administration costs and to avoid leakages of revenue.***

### *Revenue and Total Expenditure*

The overall revenue expenditure of the State increased by 110.44 *per cent* from ₹ 1,907 crore in 2006-07 to ₹ 4,013 crore in 2010-11. The expenditure pattern of the State reveals that though the revenue expenditure as a percentage of total expenditure increased by 0.44 *per cent* in the current year over previous year, hovered around 85 *per cent* during the period (2006-11) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, NPRE at ₹ 2,546 crore in 2010-11 constituted 63.44 *per cent* and remained significantly higher than the normatively assessed level of ₹ 1,999 crore by ThFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of revenue expenditure which was about 53 *per cent* during 2010-11. During 2010-11, though the development expenditure (₹ 3.260 crore) increased by ₹ 735 crore (29 *per cent*), it was much below the budget estimate (₹ 3,562 crore) for 2010-11. The relative share of revenue development expenditure was 83 *per cent* of the total development expenditure, while this share in respect of capital development expenditure was only 16 *per cent.* Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services.

***Expenditure pattern of the State Government needs correction in the ensuing years. The State should initiate action to restrict the components of non-plan revenue expenditure. Though expenditure incurred under capital heads had been increasing over the years, yet the expenditure pattern under this sector also needs correction. From the point of view of improving developmental expenditure, it is pertinent for Government of Meghalaya to take appropriate expenditure measures and lay emphasis on provision of development capital expenditure.***

### *Fiscal Correction Path*

During 2010-11, there was deterioration in all the three major fiscal indicators, *viz.*, revenue surplus, fiscal deficit and primary deficit over previous year. The prevalence of fiscal deficit during 2006-11 indicates continued reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 27.11 *per cent* of the GSDP in 2010-11.

The average return on investment in Statutory corporations, Government companies and Co-operative societies was less than one *per cent* during 2006-11, while the Government paid interest at an average rate of 6.32 *per cent* to 7.62 *per cent* on its borrowings during the period. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost

recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilise additional resources both through the tax and non tax sources in the ensuing years.

***The State should make efforts to increase revenue surplus and return to primary surplus as was the case during 2009-10. The State Government should ensure better value for money in investments by identifying the companies/corporations which are endowed with low financial but high socio-economic returns and justify the use of high cost borrowed funds for non-revenue generating investments through a clear and transparent guideline. Recourse to borrowed funds in future should be carefully assessed and managed so that the recommendations of the ThFC to bring Fiscal Liabilities-GSDP ratio to 25 per cent could be achieved in four years.***

### *Accounting of funds transferred to State Implementing Agencies*

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

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