CHAPTER-I

FINANCES OF THE STATE GOVERNMENT

CHAPTER I
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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 (GSDP) [2] during the year 2011-12 was ₹ 15,895.15 crore (base year 2004-05). The estimated per capita income[3] of the State stood at ₹ 53,627 during 2011-12.

As per GSDP series (base year 2004-05), there was a fluctuating trend in the growth rate of GSDP. While the growth of GSDP during 2007-08 was 12.86 *per cent,* and reached its peak in 2008-09 (19.34 *per cent*), it declined to 12.85 *per cent* in 2011-12. The average Compound Annual Growth Rate (CAGR) in respect of GSDP for Meghalaya between 2004-05 and 2011-12 was 13.48 *per cent.* The CAGR of capital expenditure between 2002-03 and 2010-11 was 15.14 *per cent*, which increased to 18.47 *per cent* between 2002-03 and 2011-12. The State depends mostly on resources transferred by the Central Government as the State's own resources during 2007-12 contribute only around 20 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 2007-12. It declined from its peak of 32.26 *per cent* in 2007-08 to 32.02 *per cent* in 2011-12.

This chapter provides a broad perspective of the finances of the Government of Meghalaya (GOM) during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure 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.** The time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2007-12 are presented **Appendix 1.2**.

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[1] The Fifth Finance Commission accorded (1969) special status to three states (undivided Assam, Jammu & Kashmir and Nagaland) on the basis of harsh terrain, backwardness and social problems prevailing in these states. Thereafter number of such states has increased to 11 (due to division of Assam and creation/addition of new states) including Meghalaya. The special privileges in financial assistance from GOI are given to these States.

[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.

[3] Calculated as per calculation made by the Directorate of Economics & Statistics, Government of Meghalaya, i.e., GSDP ÷ Population

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 (2011-12) *vis-à-vis* the previous year. **Appendix 1.3** 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)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
Section – A : Revenue							
					Non-Plan	**Plan**	**Total**
4260.48	**Revenue Receipts**	**4654.47**	**4012.74**	**Revenue Expenditure**	**2876.03**	**1958.78**	**4834.81**
571.45	Tax revenue	697.54	1316.80	General Services	1425.28	61.91	1487.19
301.53	Non-tax revenue	368.24	1376.03	Social Services	931.66	810.81	1742.47
896.27	Share of Union Taxes/Duties	1044.19	1319.91	Economic Services	519.09	1086.06	1605.15
2491.23	Grants-in-aid from Government of India	2544.50	…	…	…	…	…
Section – B : Capital							
…	**Miscellaneous Capital receipts**	…	**574.73**	**Capital Outlay**	3.77	851.47	**855.24**
27.25	**Recoveries of Loans and Advances**	**22.71**	**41.65**	**Loans and Advances disbursed**	19.44	32.94	**52.38**
356.39	**Public Debt Receipts[4]**	**467.91**	**141.08**	**Repayment of Public Debt**	…	…	**202.64**
99.00	**Contingency Fund**	…	**99.00[5]**	**Contingency Fund**	…	…	…
2765.86	**Public Account Receipts**	**4091.31**	**2729.20**	**Public Account Disbursements**	…	…	**3270.77**
440.13	**Opening Balance**	**350.71**	**350.71**	**Closing Balance**	…	…	**371.27**
7949.11	**Total**	**9587.11**	**7949.11**	**Total**			**9587.11**

Following are the significant changes during 2011-12 over the previous year:

- **Revenue receipts** increased by 9.25 *per cent* (₹ 393.99 crore) over the previous year. The increase was contributed by State's share of Union taxes and duties of ₹ 147.92 crore, tax revenue of ₹ 126.09 crore, non-tax revenue of ₹ 66.71 crore and grants-in-aid of ₹ 53.27 crore from the Government of India (GOI).

- **Revenue expenditure** increased by 20.49 *per cent* (₹ 822.07 crore) over the previous year. While ₹ 491.71 crore increased under plan heads, the increase under non-plan heads was ₹ 330.36 crore. Capital expenditure during the year significantly increased by 48.81 *per cent* (₹ 280.51 crore) over the previous year.

- Compared to previous year, the **capital expenditure** of the State increased by ₹ 280.51 crore, which was the net result of increase under social services (₹ 155.66 crore), economic services (₹ 109.05 crore) and general services (₹ 15.80 crore).

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

- **Recovery of loans and advances** during the current year decreased by ₹ 4.54 crore and **disbursement of loans and advances increased** ₹ 10.73 crore compared to the previous year.

- **Public Debt receipts** increased by ₹ 111.52 crore over the previous year mainly due to increase in receipts under market loan bearing interest (₹ 120 crore). Repayment of Public Debt also increased by ₹ 61.56 crore over the previous year.

- **Public Account receipts** and **disbursements** increased by ₹ 1325.45 crore and ₹ 541.57 crore respectively over the previous year.

1.2 Meghalaya Fiscal Responsibility and Budget Management Act

In accordance with the recommendations of the Twelfth Finance Commission (XII FC), the GOM has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006. According to the recommendations of the XIII FC, "*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 and 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 2011-12 to 2014-15 [amended Clause (a)];

(b) reduce fiscal deficit to 3 *per cent* of GSDP or less during 2011-12 to 2014-15 [amended Clause (b)];

(c) ensure outstanding debt of the State will be aligned as recommended by Thirteenth Finance Commission 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 [amended Clause (c)];

(d) restrict issuing of guarantees except on selective basis where the quality and viability of the scheme to be guaranteed is properly analysed [Clause 4(1)(d) of MFRBM Act, 2006];

(e) bring out an annual statement that gives a perspective on the State's economy and related fiscal strategy [Clause 4(1)(e) of MFRBM Act, 2006]; and,

(f) bring out a special report along with the budget giving details of the number of employees in the Government, Public Sector Undertakings and aided institutions and related salaries, not later than two years from the date on which the Meghalaya Fiscal Responsibility Rules, 2006 came into force [Clause 4(1)(f) of MFRBM Act, 2006].

(g) 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 [newly inserted Clause].

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

As prescribed in the Act, the State Government had incorporated the following disclosure statements for the year 2011-12:

- Macro Economic Framework Statement
- Medium Term Fiscal Policy (MTFP) Statement prescribing fiscal targets and assumptions for achieving them. The targets for the year 2011-12 were as under:
  - Revenue surplus as a percentage of total revenue receipts: 11.17
  - Debt as a percentage of GSDP: 24.79
  - Fiscal deficit as a percentage of GSDP: 2.52
- Fiscal Policy Strategy Statement of the State for the ensuing year relating to taxation, expenditure, borrowings, *etc.*

The performance of the State during 2011-12 in terms of key fiscal targets set for selected parameters laid down in MFRBM Act, 2006 *vis-à-vis* achievements are given in **Table 1.2**.

Table 1.2 : Trends in major fiscal parameters *vis-à-vis* projections for 2011-12

Fiscal parameters	2011-12		
	Targets as prescribed in FRBM Act	Projections made in Medium Term Fiscal Policy Statement	Actual
Revenue Surplus (+)/ Deficit (-)	Maintain Revenue Surplus during 2011-15		- 180.34
Revenue Surplus/Total Revenue Receipts	-	11.17	Revenue Deficit
Fiscal Deficit (₹ in crore)	-	418.81	1065.25
Fiscal Deficit/GSDP (*per cent*)	3 *per cent* or less	2.52	6.70
Total Outstanding Liabilities/GSDP (*per cent*)	32.7 *per cent*	24.79	32.02

The above table indicates that the State was not successful in restricting all the above fiscal parameters as prescribed in the MFRBM Act as well as projections made in the Medium Term Fiscal Policy Statement. The State Government has to initiate requisite measures to contain these fiscal parameters within the permissible limit.

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 (July 2012) by the Directorate of Economics and Statistics, GOM, during 2011-12, the advance estimated GSDP for the State of Meghalaya was ₹ 15,895.15 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 1.3 : Trends in Gross State Domestic Product

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Gross State Domestic Product (₹ in crore)	9734.73	11617.04	12709.11	14085.70	15895.15
Growth rate of GSDP	12.86	19.34	9.40	10.83	12.85

Source: GSDP figures (current prices – base year 2004-05) as furnished (July 2012) by the Directorate of Economics & Statistics, GOM.

The GSDP at current prices increased from ₹ 14085.70 crore in 2010-11 to ₹ 15895.15 crore in 2011-12, representing an increase of 12.85 *per cent.* The increase in the growth of GSDP during 2010-11 over that of previous year was mainly due to increase of 16.38 *per cent* under services like public administration, banking, hotels, *etc.* followed by 9.32 *per cent* under industrial sector. The GSDP during 2011-12 also exceeded the projection (₹ 13,729 crore) made by the XIII FC by 15.78 *per cent*. Incidentally, the growth of GSDP during 2011-12 exceeded the projection of the XIII FC. The average compound annual growth rate in respect of GSDP for Meghalaya between 2004-05 and 2011-12 was 13.48 *per cent.*

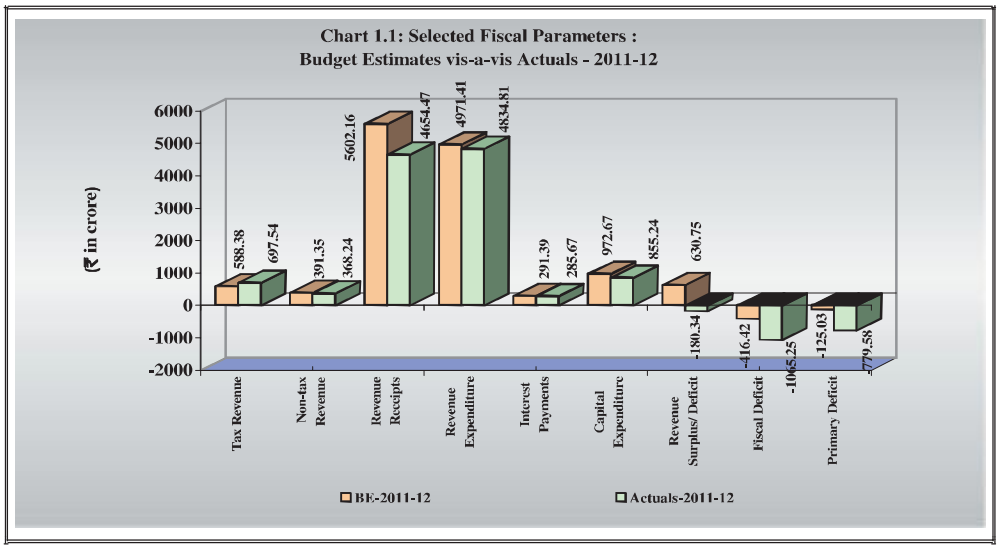
1.4 Budget Analysis

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 1.4** presents the consolidated picture of State finances during 2010-11 (actuals) and 2011-12 (budget estimates, revised estimates and actuals) and **Chart 1.1** presents the budget estimates and actuals for some important fiscal parameters.

Table 1.4 : Variation in major items – actuals of 2011-12 over 2010-11 Budget Estimates and Revised Estimates and actuals of 2011-12

(₹ in crore)

Parameters	2010-11	2011-12			Percentage of Excess (+)/ Shortfall (-) with reference to	
	Actual	Budget Estimates (BE)	Revised Estimates (RE)	Actual	Actual of 2010-11	BE/RE
Tax Revenue	571.45	588.38	588.38	697.54	+ 22.06	+ 18.55
Non-Tax Revenue	301.53	391.35	391.35	368.24	+ 22.12	- 5.91
Revenue Receipts	4260.48	5602.16	5602.16	4654.47	+ 9.25	- 16.92
Non-debt Capital Receipts	27.25	22.00	22.00	22.71	- 16.66	+ 3.23
Revenue Expenditure	4012.74	4971.41[6]	4971.41	4834.81	+ 20.49	- 2.75
Interest Payments	256.93	291.39	291.39	285.67	+ 11.19	- 1.96
Capital Expenditure	574.73	972.67	972.67	855.24	+ 48.81	- 12.07
Disbursement of Loans & Advances	41.65	96.50	96.50	52.38	+ 25.76	- 45.72
Revenue Surplus (+)/ Deficit (-)	+ 247.74	+ 630.75	+ 630.75	- 180.34	-	-
Fiscal Deficit (-)	- 341.39	- 416.42	- 416.42	- 1065.25	+ 212.03	+ 155.81
Primary Deficit (-) / Surplus (+)	- 84.46	- 125.03	- 125.03	- 779.58	+ 823.02	+ 523.51



- During 2011-12, both the actual **revenue receipts** and **revenue expenditure** fell short of the budget estimates by 16.92 *per cent* and 2.75 *per cent* respectively.

- The **capital expenditure** *vis-à-vis* budget estimate was less by 12.07 *per cent* (₹ 117.43 crore).

- The year 2011-12 ended with a revenue deficit of ₹ 180.34 crore against assessment for revenue surplus of ₹ 630.75 crore made in the budget estimate for the year. Actual fiscal deficit and primary deficit during 2011-12 also far surpassed the assessment made in the budget estimate and revised estimate by 155.81 *per cent*

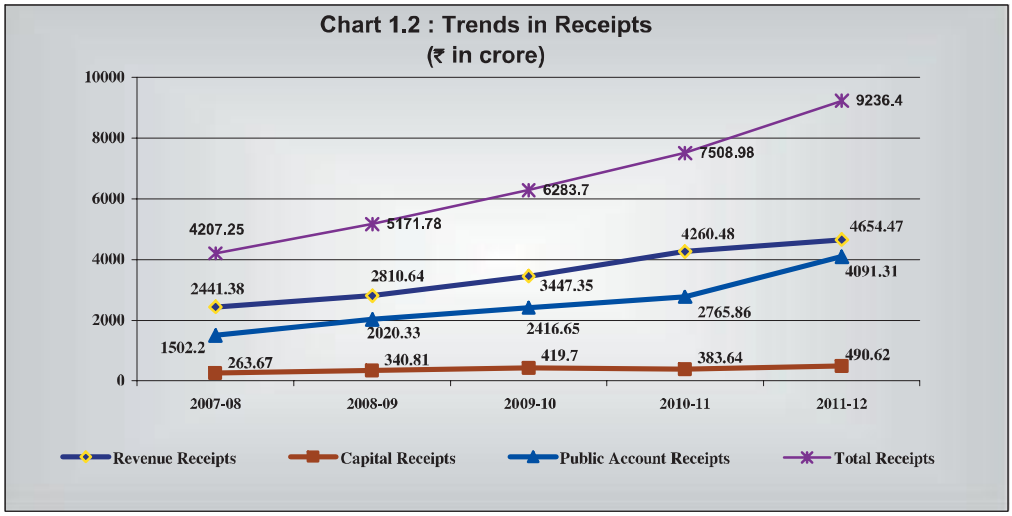
[6] Net estimates

(₹ 648.83 crore) and 523.51 *per cent* (₹ 654.55 crore) respectively mainly due to revenue deficit experienced during the year and substantial increase in capital expenditure. Substantial increase in fiscal deficit by ₹ 648.83 crore together with marginal decrease in interest payments by ₹ 5.72 crore compared to the budget estimates led to increase in primary deficit by 523.51 *per cent* (₹ 654.55 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. **Chart 1.2 and Table 1.5** depicts the trends in various components of the receipts of the State during 2007-12. **Chart 1.3** depicts the composition of resources of the State during the current year.



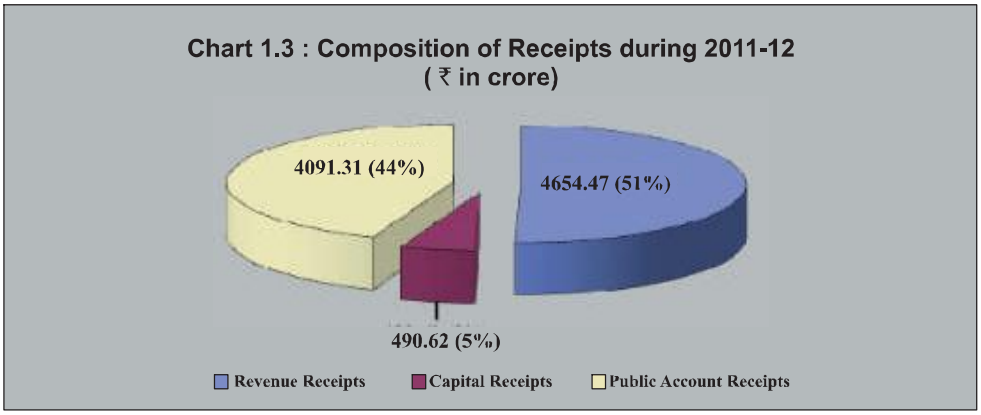


Table 1.5 : Trends in growth and composition of receipts

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

Sl. No.	Sources of State's Receipts	2007-08	2008-09	2009-10	2010-11	2011-12
I	**Revenue Receipts**	**2441.38**	**2810.64**	**3447.35**	**4260.48**	**4654.47**
II	**Capital Receipts (CR)**	**263.67**	**340.81**	**419.70**	**383.64**	**490.62**
	Miscellaneous Capital Receipts	-	-	-	-	**-**
	Recovery of Loans and Advances	16.49	18.26	16.68	27.25	**22.71**
	Public Debt Receipts	247.18	322.55	403.02	356.39	**467.91**
	Rate of growth of non-debt capital receipts	**- 3.62**	**10.73**	**- 8.65**	**63.37**	**- 16.66**
	Rate of growth of debt capital receipts	**0.46**	**30.49**	**24.95**	**- 11.57**	**31.29**
	Rate of growth of GSDP	**12.86**	**19.34**	**9.40**	**10.83**	**12.85**
	Rate of growth of CR	**0.19**	**29.26**	**23.15**	**- 8.59**	**27.89**
III	**Contingency Fund**	**-**	**-**	**-**	**99.00**	**-**
IV	**Public Account Receipts**	**1502.20**	**2020.33**	**2416.65**	**2765.86**	**4091.31**
	Small Savings, Provident Fund, *etc.*	101.46	106.55	121.56	155.74	**181.49**
	Reserve Funds	23.66	25.85	27.26	24.17	**39.90**
	Deposits and Advances	528.03	814.35	823.65	878.80	**1687.12**
	Suspense and Miscellaneous	- 18.67	9.69	- 39.89	- 40.85	**- 13.89**
	Remittances	867.72	1063.89	1484.07	1748.00	**2196.69**
	Total Receipts	**4207.25**	**5171.78**	**6283.70**	**7508.98**	**9236.40**

The **total receipts** during the current year has increased by ₹ 1727.42 crore (23 *per cent*) over the previous year. Of the increase in total receipts, public account receipts formed 76.73 *per cent* (₹ 1325.45 crore) followed by revenue receipts by 22.81 *per cent* (₹ 393.99 crore). Out of the total receipts under public account, remittances constituted 53.69 *per cent.* While 41.72 *per cent* (₹ 1706.98 crore) of the remittances have come from public works remittances, forest remittances (₹ 272.96 crore) and cash remittances between treasuries and currency chests (₹ 215.15 crore), together constituted 11.93 *per cent.*

The **total receipts** of the State for 2011-12 was ₹ 9236.40 crore, of which ₹ 4654.47 crore (50.39 *per cent*) came from revenue receipts and balance (49.61 *per cent*) came from recoveries of loans and advances, borrowings and Public Account. The total receipts of the State increased by 119.54 *per cent* from ₹ 4207.25 crore in 2007-08 to

₹ 9236.40 crore in 2011-12. The share of revenue receipts in total receipts of the State decreased by 7.64 *per cent* from 58.03 *per cent* in 2007-08 to 50.39 *per cent* in 2011-12. On the other hand, the capital receipts together with Public Account ranged between 41.94 *per cent* and 49.61 *per cent* of total receipts during 2007-12.

Revenue receipts increased steadily by 90.65 *per cent* from ₹ 2441.38 crore in 2007-08 to ₹ 4654.47 crore in 2011-12, whereas the debt capital receipts which create future repayment obligation increased by 89.3 *per cent* from ₹ 247.18 crore (5.88 *per cent* of total receipts) in 2007-08 to ₹ 467.91 crore (5.07 *per cent* of total receipts) in 2011-12. The Public Account receipts increased steadily from ₹ 1502.20 crore (35.71 *per cent* of total receipts) in 2007-08 to ₹ 4091.31 crore (44.3 *per cent* of total receipts) in 2011-12.

Capital receipts increased by around 86 *per cent* from ₹ 263.67 crore in 2007-08 to ₹ 490.62 crore in 2011-12. During the current year, the capital receipts accounted for 5.31 *per cent* of total receipts. The rate of growth of capital receipts increased from a negative 8.59 *per cent* in 2010-11 to a positive 27.89 *per cent* in 2011-12. The rate of growth of debt capital receipts, which is the main component of capital receipts, increased from a 0.46 *per cent* in 2007-08 to 31.29 *per cent* in 2011-12.

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 2011-12 for implementation of various schemes is given in **Appendix 1.4**. Scheme-wise position involving ₹ 5 crore or more are given in **Table 1.6.**

Table 1.6 : Funds Transferred directly to State Implementing Agencies

(₹ in crore)

Sl. No	Programme/ Scheme	Implementing Agency in the State	Funds transferred by GOI
1.	Central Rural Sanitation Programme	State Water and Sanitation Mission, Meghalaya	11.16
2.	DRDA Administration	DRDAs, West Garo Hills, West Khasi Hills, South Garo Hills, Ri Bhoi, Jaintia Hills, East Garo Hills, East Khasi Hills	6.67
3.	Economic Census	Deputy Commissioners, East Khasi Hills, West Garo Hills	15.50
4.	Electronic Governance	Meghalaya Information Technology Society	5.23

[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 GOI
5.	Grant in Aid to NGOs for STs Including Coaching & Allied	R K Mission, R. K. Mission Ashrama Shillong , Meghalaya	6.43
6.	Integrated Watershed Management Programme	SLNA Meghalaya(Shillong)	9.83
7.	Mahatma Gandhi National Rural Employment Guarantee Act	DRDAs, West Garo Hills, West Khasi Hills, South Garo Hills, Ri Bhoi, Jaintia Hills, East Garo Hills, East Khasi Hills	284.98
8.	National AIDS Control Programme including STD Control	Meghalaya AIDS Control Society	5.86
9.	National Rural Drinking Water Program	SWSM Meghalaya, Shillong	95.89
10.	National Rural Health Mission	State Health Society, Meghalaya	70.12
11.	Pradhan Mantri Gram Sadak Yojana	State Rural Road Development Agency	38.00[8]
12.	Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	Sarva Shiksha Abhiyan State Mission Authority of Meghalaya	10.61
13.	Rural Housing –IAY	DRDAs, West Garo Hills, West Khasi Hills, South Garo Hills, Ri Bhoi, Jaintia Hills, East Garo Hills, East Khasi Hills	55.13
14.	Sarva Shiksha Abhiyan(SSA)	Sarva Shiksha Abhiyan State Mission Authority of Meghalaya	144.11
15.	Scheme for setting up of 6000 model schools at block	State Education Mission Authority of Meghalaya	15.03
16.	Support to Extension Programme for Extension	Meghalaya Small Farmers Agri-Business Consortium Agency	2.89
Total			**777.44**

Source: Central Plan Scheme Monitoring System of CGA website.

The Government of India directly transferred ₹ 814.90 crore (approximately) to various State Implementing Agencies during 2011-12. Of ₹ 814.90 crore, ₹ 144.11 crore (about 18 *per cent*) was transferred to SSA State Education Mission Authority. ₹ 55.13 crore was transferred to DRDA (6.77 *per cent*) for utilisation in Rural Housing IAY Scheme. 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 for three programmes, *viz.*, Pradhan Mantri Gram Sadak Yojana, Sarva Shiksha Abhiyan 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

[8] World Bank Assisted Projects (₹ 37 crore); Assistance to District Rural Development Agencies/Other Executing Agencies, *etc.* (₹ 1 crore)

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

According to the information furnished (December 2012) by the Chief Engineer (Standard) cum Empowered Officer, SRRDA, GOI released ₹ 37 crore during 2011-12. Of this, expenditure of ₹ 23.12 crore was incurred during 2011-12 leaving an unspent balance of ₹ 13.88 crore. However, information regarding submission of utilisation certificate to GOI, though called for in October 2012, had not been furnished.

➢ ***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 in October 2002 by the SSA State Education Mission Authority (SEMA). Table below shows the position of funds received *vis-à-vis* releases under SSA programme during 2011-12:

Table 1.7

(₹ in crore)

Opening balance	Fund released and received by Implementing Agencies			Miscella-neous receipts	Total fund available	Expen-diture	Unspent balance (*per cent*)
	GOI	State	Total				
65.10	144.11	18.30	162.41	22.19	249.70	197.79	51.91(21)

Source: Information furnished by the State Project Director, SSA State Education Mission Authority.

From the above table it is noticed that the SEMA could not utilise 21 *per cent* of the funds available during 2011-12. Utilisation certificates for the fund utilised has not yet been furnished. The State Project Director (SPD), SSA SEMA stated (August 2012) that the utilisation certificate would be furnished after completion of statutory audit.

➢ ***National Rural Drinking Water Programme***

National Rural Drinking Water Programme (NRDWP) was launched by GOI in September 2009. The main objective of the programme is to provide adequate safe drinking water in rural habitations.

According to the information furnished (November 2012) by the Chief Engineer (CE), PHE, Meghalaya (responsible for implementation of the programme in the State), during 2011-12, GOI released ₹ 93.11 crore as programme funds (excluding release of ₹ 2.78 crore for support organisation) to the State Implementing Agency of NRDWP, Meghalaya. Out of the total fund of ₹ 116.37 crore (including opening balance: ₹ 23.10 crore and Interest earned: ₹ 0.16 crore) available with the implementing agency during 2011-12, expenditure of ₹ 83.19 crore was incurred during the year leaving an unspent balance of ₹ 33.18 crore as of 31 March 2012. The CE, PHE stated (November 2012) that utilisation certificate had been furnished to GOI.

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 2007-12 are presented in **Appendix 1.2** and also depicted in **Charts 1.4** and **1.5** respectively. The trends in revenue receipts relative to GSDP are presented in **Table 1.8.**

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

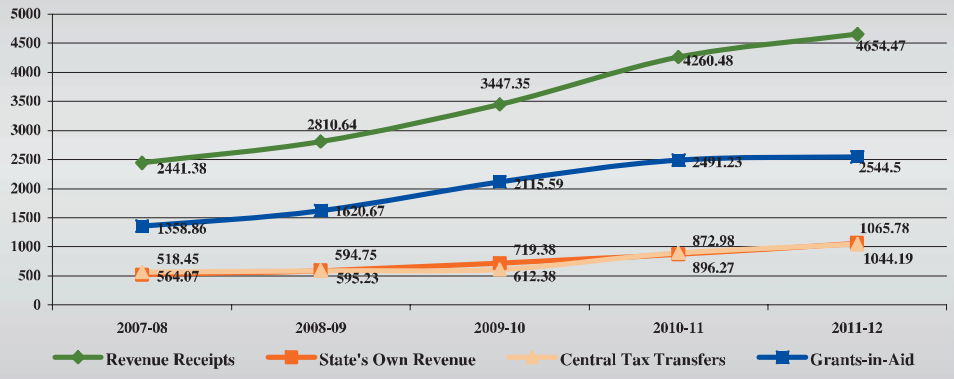


Chart 1.5 : The Composition of Revenue Receipts during 2007-12
(₹ in crore)

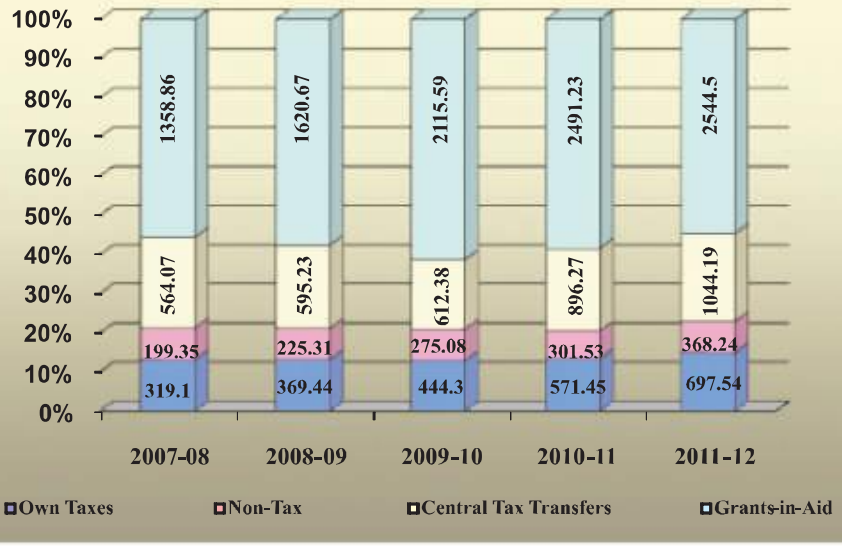


Table 1.8 : Trends in Revenue Receipts relative to GSDP

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts (RR) (₹ in crore)	**2441.38**	**2810.64**	**3447.35**	**4260.48**	**4654.47**
Rate of Growth of RR (*per cent*)	13.97	15.13	22.65	23.59	9.25
Rate of Growth of Own Taxes (*per cent*)	4.71	15.99	20.26	28.62	22.06
RR/GSDP (*per cent*)	25.08	24.19	27.13	30.25	29.28
Buoyancy Ratio[9]					
Revenue Buoyancy Ratio with reference to GSDP	1.09	0.78	2.41	2.18	0.72
State's Own Taxes Buoyancy Ratio with reference to GSDP	0.37	0.83	2.16	2.64	1.72
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	0.34	1.06	0.89	1.21	2.38

1.6.1 General Trends

The **revenue receipts** of the State increased by ₹ 2213.09 crore from ₹ 2441.38 crore in 2007-08 to ₹ 4654.47 crore in 2011-12. There were, however, wide inter-year variations in the growth rates, which decreased to 9.25 *per cent* in 2011-12 from 23.59 *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 decreased primarily due to significant decrease in the rates of growth of revenue receipts and the rate of growth own tax revenue in 2011-12 relative to the previous year against the increase in the rate of growth of GSDP. 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 three years (2008-09, 2010-11 and 2011-12) and was fastest during the current year i.e., 2011-12.

1.6.2 Central Tax Transfers

The **Central Tax transfers** increased significantly by 16.5 *per cent* (₹ 147.92 crore) over the previous year and constituted 22.43 *per cent* of revenue receipts. The increase was mainly due to transfer of additional amount of ₹ 60.67 crore as corporation tax during 2011-12 (₹ 410.94 crore) compared to previous year (₹ 350.27 crore). The central tax transfers also contributed around 37.54 *per cent* of the incremental revenue receipts (₹ 393.99 crore) during the year.

[9] 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 0.72 during 2011-12 implies that revenue receipts tend to increase by 0.72 percentage points, if the GSDP increases by one *per cent*.

1.6.3 Grants-in-Aid

Details of Grants-in-aid from the GOI are given in **Table 1.9.**

Table 1.9 : Grants-in-Aid from the GOI

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Non-Plan Grants	461.02	439.92	377.12	664.07	527.07
Grants for State Plan Schemes	645.42	957.88	1394.56	1427.57	1702.64
Grants for Central Plan Schemes	3.69	8.18	26.24	12.58	16.29
Grants for Centrally Sponsored Plan Schemes	178.75	158.99	251.01	315.15	242.27
Grants for Special Plan Schemes	69.98	55.70	66.66	71.86	56.23
Total	**1358.86**	**1620.67**	**2115.59**	**2491.23**	**2544.50**
Percentage of increase over previous year	***12.68***	***19.27***	***30.54***	***17.76***	***2.14***

Grants-in-aid from the GOI have marginally increased by 2.14 *per cent* (₹ 53.27 crore) from ₹ 2491.23 crore in 2010-11 to ₹ 2544.50 crore in the current year and contributed 13.52 *per cent* of the incremental revenue receipts during the year. Within the plan grants, while grants for State Plan Schemes increased by 19.27 *per cent* (₹ 275.07 crore), grants for Centrally Sponsored Plan Schemes and Special Plan Schemes decreased by 23.13 *per cent* (₹ 72.88 crore) and 21.75 *per cent* (₹ 15.63 crore) respectively. The major increase under State Plan Schemes was in the form of grants of ₹ 600 crore released as 'Special Central Assistance for the Schemes/Projects'. Compared to previous years, receipts of grants for Centrally Sponsored Plan Schemes declined significantly mainly due to release of less grants under National Programme of Mid Day Meal in Schools (₹ 101.24 crore).

The Non-Plan grants (₹ 527.07 crore) constitute 20.71 *per cent* of the total grants during the year, of which 60.52 *per cent* (₹ 319 crore) was primarily for meeting the non-plan revenue deficit. Other components of non-plan grants mainly included grants for (i) State specific needs (₹ 56.25 crore), (ii) local bodies (₹ 38.69 crore), (iii) maintenance of roads and bridges (₹ 23 crore) and (iv) maintenance of forests (₹ 21.01 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 1.10 and 1.11** below show the trends of tax and non-tax revenue during the years 2007-12 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 2011-12.

Table 1.10 : Tax Revenue

(₹ in crore)

Heads	2007-08	2008-09	2009-10	2010-11	2011-12		
					Budget Estimate	Actuals	Variations Increase (+) Shortfall (-) (*per cent*)
Taxes on Sales, Trade, *etc.*	234.89	281.83	321.40	409.88	418.20	512.50	+ 94.30 (22.55)
State Excise	58.62	69.79	90.29	104.50	124.42	131.50	+ 7.08 (5.69)
Taxes on Vehicles	11.35	13.21	13.61	19.19	18.59	31.12	+ 12.53 (67.40)
Stamps and Registration Fees	5.99	5.54	11.02	10.76	12.29	9.08	- 3.21 (26.12)
Land Revenue	2.12	0.50	0.26	17.11	3.23	2.40	- 0.83 (25.70)
Other Taxes[10]	6.13	- 1.43	7.72	10.01	11.65	10.94	- 0.71 (6.09)
Total	**319.10**	**369.44**	**444.30**	**571.45**	**588.38**	**697.54**	**+ 109.16 (18.55)**

Table 1.11 : Non-Tax Revenue

(₹ in crore)

Heads	2007-08	2008-09	2009-10	2010-11	2011-12		
					Budget Estimate	Actuals	Variations Increase (+) Shortfall (-) (*per cent*)
Interest receipts, dividends and profits	**15.39**	**17.85**	**23.32**	**24.75**	**23.70**	**27.21**	**+ 3.51(14.81)**
General Services	**28.67**	**46.48**	**17.53**	**24.15**	**33.20**	**35.57**	**+ 2.37 (7.14)**
Social Services	**2.84**	**3.85**	**8.84**	**5.77**	**18.93**	**7.36**	**- 11.57 (61.12)**
Economic Services	**152.45**	**157.13**	**225.39**	**246.86**	**315.52**	**298.10**	**- 17.42 (5.52)**
Non-ferrous Mining and Metallurgical Industries	123.66	132.73	198.21	215.58	276.42	262.58	-13.84 (5.01)
Forestry and Wild life	15.60	17.36	20.03	22.05	25.05	26.03	+ 0.98 (3.91)
Other Economic Services	13.19	7.04	7.15	9.23	14.05	9.49	- 4.56 (32.46)
Total	**199.35**	**225.31**	**275.08**	**301.53**	**391.35**	**368.24**	**- 23.11 (5.91)**

1.6.4.1 Tax Revenue

Tax revenue has increased by around 22 *per cent* during the current year (₹ 697.54 crore) over the previous year (₹ 571.45 crore). The revenue from sales tax contributed the major share of tax revenue (73.47 *per cent*) and it increased by 25.03 *per cent* over the previous year. State excise and Taxes on Vehicles were the other major contributors in the State's tax revenue. *The tax-GSDP ratio (4.39 per cent) during 2011-12 was also marginally higher than the projection (4.08 per cent) made by the XIII FC.* The CAGR of tax revenue between 2002-03 and 2010-11 was 18.71 *per cent*, which has marginally increased to 19.08 *per cent* between 2002-03 and 2011-12.

[10] 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.

➢ *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 2009-10 to 2011-12 along with the relevant all India average percentage of expenditure on collection to gross collections are mentioned below.

Table 1.12

(₹ 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 on Sales, Trade, *etc.*	2009-10	321.39	6.80	2.12	*0.88*
		2010-11	409.89	8.71	2.12	*0.96*
		2011-12	512.50	10.33	2.02	*0.75*
2.	State Excise[11]	2009-10	90.29	7.23	8.01	*3.66*
		2010-11	104.50	9.95	9.52	*3.64*
		2011-12	131.50	10.80	8.21	*3.05*
3.	Taxes on Vehicles	2009-10	13.61	3.89	28.58	*2.93*
		2010-11	19.19	4.86	25.33	*3.07*
		2011-12	31.12	5.15	16.55	*3.71*

As can be seen from the above table, the cost of collection of Taxes on Sales, Trade, *etc.*, State Excise and Taxes on Vehicles increased during 2011-12 compared to previous year. The percentage of expenditure on collection during 2011-12 as compared to the all India average percentage of preceding year was also 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 around 8 *per cent* of the total revenue receipts, has increased by ₹ 66.71 crore during 2011-12 recording a growth rate of 22.12 *per cent* over the previous year. Around 81 *per cent* (₹ 298.10 crore) of non-tax revenue during 2011-12 was received from economic services and within this category, receipts under non-ferrous mining and metallurgical industries alone contributed 88.08 *per cent* (₹ 262.58 crore). This was mainly due to receipts of additional amount of ₹ 41.85 crore under Mineral concession fees, rents and royalties during the current year over that of previous year. The CAGR of non-tax revenue for Meghalaya between 2002-03 and 2010-11 (15.87 *per cent*) has also marginally increased to 16.55 *per cent* between 2002-03 and 2011-12.

➢ *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 1.13.**

[11] Department's figures.

Table 1.13 : Cost Recovery – 2011-12

(₹ in lakh)

Particulars	Non-tax revenue receipts	Non-plan revenue expenditure	Cost Recovery (*per cent*)
Secondary Education	29.26	14466.20	0.20
Medical & Public Health	135.08	13151.99	1.03
Water Supply & Sanitation	374.11	10777.12	3.47
Roads & Bridges	12.72	11736.99	0.11
Minor Irrigation	23.89	1925.41	1.24

As can be seen from above, while the cost recovery for water supply and sanitation during 2011-12 was 3.47 *per cent*, for minor irrigation, medical and public health, secondary education and roads and bridges the percentages were 1.24, 1.03, 0.20 and 0.11 respectively. However, there was increase in the cost recovery under water supply and sanitation, medical and public health and minor irrigation and decrease under secondary education and roads and bridges during the current year as compared to previous 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 XII FC (2007-10)/XIII FC (2010-12) and State Government in its own Fiscal Correction Path (2007-10)/Budget Estimate (BE) (2010-12) are given below:

Table 1.14

(₹ in crore)

Year	Assessment made by XII FC/ XIII FC			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
2007-08	311.87	199.54	511.41	331.93	176.23	508.16	319.10	199.35	518.45
2008-09	353.04	220.57	573.61	383.27	195.96	579.23	369.44	225.31	594.75
2009-10	399.64	243.55	643.19	464.00	216.12	680.12	444.30	275.08	719.38
2010-11	490.09	283.78	773.87	461.81	261.22	723.03	571.45	301.53	872.98
2011-12	560.00	298.57	858.57	588.38	391.35	979.73	697.54	368.24	1065.78

The State has **successfully achieved** the target fixed by XII FC/XIII FC in collection of tax revenue during 2007-12. During 2011-12, tax revenue was 24.56 *per cent* higher than the assessment made by the XIII FC and 18.55 *per cent* higher than the assessment made in the budget estimate for the year. The non-tax revenue was 23.33 *per cent* higher than the assessment made by the XIII FC. However, the State could not achieve the target for collection of non-tax revenue during 2011-12 as projected in the budget estimate for the year, as the actual collection fell short of 5.91 *per cent* compared to the budget estimate.

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

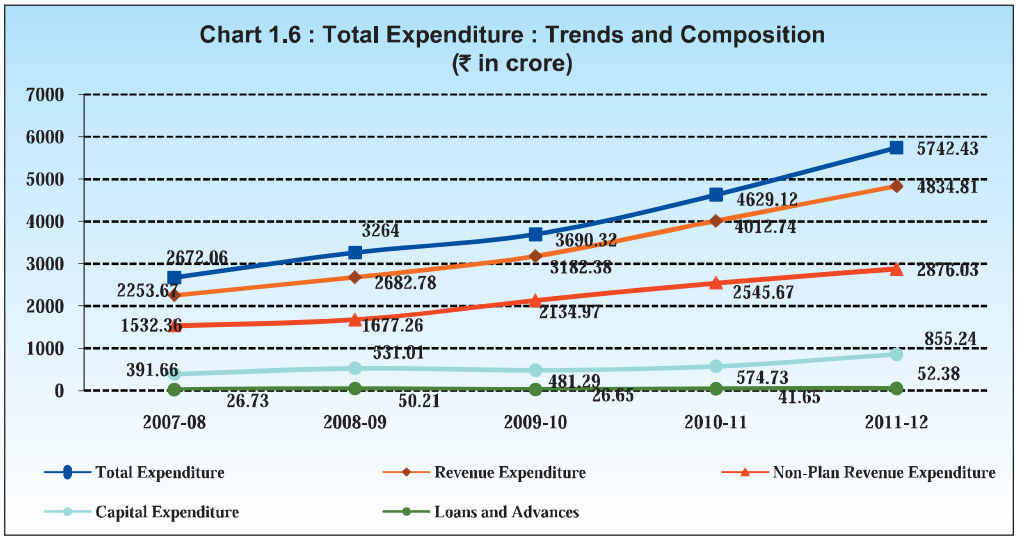
The total expenditure and its compositions during the years 2007-08 to 2011-12 are presented in the **Table 1.15**.

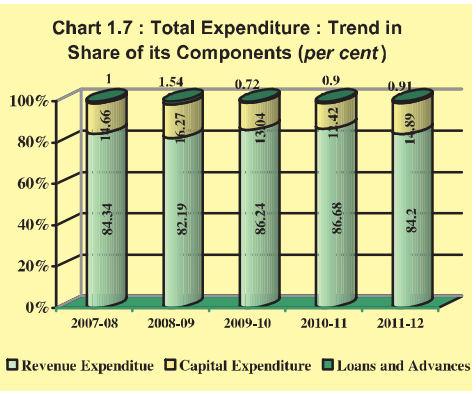
Table 1.15 : Total expenditure and its compositions

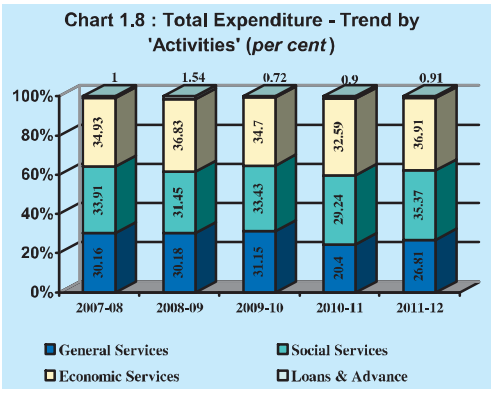
(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure	**2672.06**	**3264.00**	**3690.32**	**4629.12**	**5742.43**
Revenue Expenditure	2253.67	2682.78	3182.38	4012.74	4834.81
Of which, Non-plan Revenue Expenditure	*1532.36*	*1677.26*	*2134.97*	*2545.67*	*2876.03*
Capital Expenditure	391.66	531.01	481.29	574.73	855.24
Loans and Advances	26.73	50.21	26.65	41.65	52.38

Chart 1.6 presents the trends in total expenditure over a period of five years (2007-12) 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 ₹ 3070.37 crore (114.91 *per cent*) from ₹ 2672.06 crore in 2007-08 to ₹ 5742.43 crore in 2011-12. 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 1.16**.

Table 1.16 : Total Expenditure – Basic Parameters

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Total Expenditure (TE) (₹ in crore)	2672.06	3264.00	3690.32	4629.12	5742.43
Rate of growth (*per cent*)	19.64	22.15	13.06	25.44	24.05
TE/GSDP ratio (*per cent*)	27.45	28.10	29.04	32.86	36.13
RR/TE ratio (*per cent*)	91.37	86.11	93.42	92.04	81.05
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	1.53	1.15	1.39	2.35	1.87
RR (ratio)	1.41	1.46	0.58	1.08	2.60

The increase of ₹ 1113.31 crore (24.05 *per cent*) in total expenditure during 2011-12 over previous year was mainly on account of increase of ₹ 822.07 crore in revenue expenditure followed by increase in capital expenditure and disbursement of loans and advances by ₹ 280.51 crore and ₹ 10.73 crore respectively. While the share of plan expenditure constituted 49.51 *per cent* (₹ 2843.19 crore) of the total expenditure, the remaining 50.49 *per cent* (₹ 2899.24 crore) was non-plan expenditure. During the current year, 81.05 *per cent* (₹ 4654.47 crore) of the total expenditure was met from revenue receipts. The buoyancy of total expenditure to GSDP stood at 1.87 in 2011-12 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 2.6 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 2011-12, expenditure on general services and interest payments, which is considered as non-developmental,

together accounted for 26.81 *per cent*. On the other hand, expenditure on social and economic services together accounted for 72.28 *per cent* during 2011-12. The relative share of social services increased from 32.59 *per cent* in 2010-11 to 35.37 *per cent* in 2011-12. The relative share of economic services, which ranged between 34.7 *per cent* and 37.27 *per cent* during the last four year period 2007-11, has decreased to 36.91 *per cent* in 2011-12 compared to 37.27 *per cent* during the preceding year. Loans and advances revealed wide fluctuations during the period 2007-12 and stood at 0.91 *per cent* of total expenditure during 2011-12.

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 1.17.**

Table 1.17 : Revenue Expenditure – Basic Parameters

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Expenditure (RE)	2253.67	2682.78	3182.38	4012.74	4834.81
Of which					
Non-Plan Revenue Expenditure (NPRE)	1532.36 (67.99)	1677.26 (62.52)	2134.97 (67.09)	2545.67 (63.44)	2876.03 (59.49)
Plan Revenue Expenditure (PRE)	721.30 (32.01)	1005.52 (37.48)	1047.41 (32.91)	1467.07 (36.56)	1958.78 (40.51)
Rate of Growth of					
RE (*per cent*)	18.15	19.04	18.62	26.09	20.49
NPRE (*per cent*)	14.27	9.46	27.29	19.24	12.98
PRE (*per cent*)	27.33	39.40	4.17	40.01	33.52
Ratio (*per cent*)					
RE as percentage of TE	84.34	82.19	86.24	86.68	84.19
NPRE/GSDP (*per cent*)	15.74	14.44	16.80	18.07	18.09
NPRE as percentage of TE	57.35	51.39	57.85	54.99	50.08
NPRE as percentage of RR	62.77	59.68	61.93	59.75	61.79
Buoyancy Ratio of Revenue Expenditure with					
GSDP	1.41	0.98	1.98	2.41	1.59
Revenue Receipts	1.30	1.26	0.82	1.11	2.22

(Figures in brackets represent percentages to revenue expenditure)

Revenue expenditure constituted around 82 *per cent* to 87 *per cent* of total expenditure during 2007-12 and increased by 114.53 *per cent* from ₹ 2253.67 crore in 2007-08 to ₹ 4834.81 crore in 2011-12. The non-plan revenue expenditure (NPRE) during the same period increased from ₹ 1532.36 crore to ₹ 2876.03 crore. However, as a percentage of total revenue expenditure, NPRE declined from 67.99 *per cent* in 2007-08 to 59.49 *per cent* in 2011-12. As a result, plan revenue expenditure (PRE), which normally covers the maintenance expenditure incurred on services, increased

its share in total revenue expenditure from 32.01 *per cent* during 2007-08 to 40.51 *per cent* during 2011-12.

The NPRE constituted a dominant share of 59.49 *per cent* in the revenue expenditure during 2011-12 and has increased by ₹ 330.36 crore over the previous year. The growth of NPRE during 2011-12 decreased to 12.98 *per cent* against 19.24 *per cent* during the previous year. The increase in NPRE during 2011-12 was mainly due to increase in expenditure under general education (₹ 64.91 crore) followed by transport (₹ 33.99 crore), welfare of scheduled castes, scheduled tribes and other backward classes (₹ 13.98 crore) and industry and minerals (₹ 13.92 crore). PRE, which normally covers the maintenance expenditure incurred on services, has also increased by ₹ 491.71 crore over previous year. However, the growth of PRE during 2011-12 (33.52 *per cent*) declined from 40.01 *per cent* during the preceding year mainly due to decline in the growth of expenditure under agriculture and allied activities (- 16.97 *per cent* in 2011-12 against 83.92 *per cent* in 2010-11) and health and family welfare (7.12 *per cent* during 2011-12 against 55.55 *per cent* during 2010-11).

The NPRE at ₹ 2876.03 crore during 2011-12 was 33.55 *per cent* (₹ 722.48 crore) higher than the normatively assessed level of ₹ 2153.55 crore by XIII FC (**Table 1.18).**

Table 1.18 : Non-Plan Revenue Expenditure during 2011-12: Actuals *vis-à-vis* Normative Assessment by XIII FC

(₹ in crore)

Sectors	XIII FC Recommendations	Actuals
Salary	976.12	1324.62
Interest Payments	295.55	285.67
Pension	226.22	375.79
Other General Services	177.07	182.16
Social Services	320.09	469.11
Economic Services	158.50	238.68
Total	**2153.55**	**2876.03**

Except for interest payments during 2011-12, the actual expenditure incurred on all other components of NPRE was more than the assessments made by the XIII FC. The total NPRE during 2011-12 also exceeded the projection made by the State Government in its Budget (₹ 2597.47 crore) by 10.72 *per cent* (₹ 278.56 crore).

According to the recommendation of the XIII FC, "*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 2011-12, the revenue receipts of Meghalaya, excluding Plan assistance (₹ 2017.43 crore), was ₹ 2637.04 crore. Against this, the NPRE during the year was ₹ 2876.03 crore. Obviously, plan assistance was diverted for non-plan heads and thus, the State could not adhere to the recommendation of the XIII FC.

1.7.1.3 Components of Revenue Expenditure

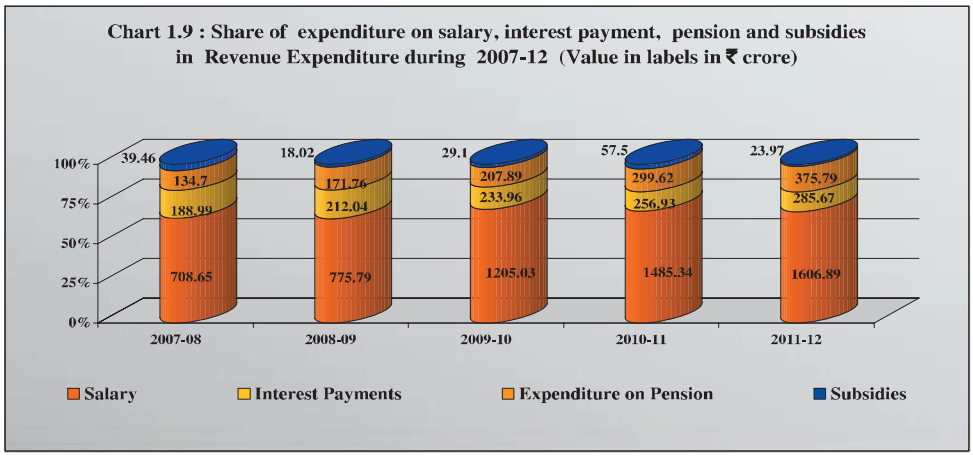
The expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.19** and **Chart 1.9** present the trends in the expenditure on these components during 2007-12.

Table-1.19 : Components of Revenue Expenditure

(₹ in lakh)

Components of Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Salary	708.65 (29.03)	775.79 (27.6)	1205.03 (34.95)	1485.34 (34.86)	1606.89 (34.52)
Of which					
Non-Plan Head	*590.54 (24.19)*	*640.48 (22.79)*	*999.36 (28.99)*	*1231.40 (28.90)*	*1324.62 (28.46)*
Plan Head	*118.11 (4.84)*	*135.31 (4.81)*	*205.67 (5.97)*	*253.94 (5.96)*	*282.27 (6.06)*
Interest Payments	188.99 (7.74)	212.04 (7.54)	233.96 (6.79)	256.93 (6.03)	285.67 (6.14)
Expenditure on Pension and other retirement benefits	134.70 (5.52)	171.76 (6.11)	207.89 (6.03)	299.62 (7.03)	375.79 (8.07)
Subsidies	39.46 (1.62)	18.02 (0.64)	29.10 (0.84)	57.50 (1.35)	23.97 (0.51)
Other Components of revenue expenditure, i.e, other than salary, interest payments, pension and subsidies	1181.87 (48.41)	1505.17 (53.55)	1506.40 (43.70)	1913.35 (44.91)	2542.49 (54.62)

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



1.7.1.4 Salary

Salary alone during 2011-12 accounted for around 35 *per cent* of the revenue receipts of the State during the year. It increased by 8.18 *per cent* from ₹ 1485.34 crore in 2010-11 to ₹ 1606.89 crore in 2011-12. Increase in the expenditure on salary was contrary to the commitment made by the State Government in its 'Fiscal Policy Strategy Statement' for the year 2011-12 that *effort would be made to reduce expenditure on salaries through an objective analysis of the relevance of existing posts and abolition of posts identified as redundant.* Expenditure on salary under

non-plan head during 2011-12 increased by ₹ 93.22 crore (7.57 *per cent*) over the previous year, whereas this expenditure under plan head increased by ₹ 28.33 crore (11.16 *per cent*) over the previous year. *The non-plan revenue expenditure on salary component during 2011-12 was also significantly higher by around 36 per cent (₹348.50 crore) than the assessment made by the XIII FC for the State (₹976.12 crore).*

1.7.1.5 Interest Payments

Interest payments increased by 51.16 *per cent* from ₹ 188.99 crore in 2007-08 to ₹ 285.67 crore in 2011-12. Compared to previous year, interest payments during 2011-12 increased by 11.19 *per cent.* Interest payments were mainly on market loans (₹ 141.72 crore), State Provident Funds (₹ 52.46 crore), Special Securities issued to National Small Savings Fund of the Central Government (₹ 43 crore), loans and advances received from Central Government (₹ 24.03 crore) and other internal debts (₹ 23.85 crore). Of the total interest payments during the year, around 50 *per cent* (₹ 141.72 crore) were paid on market borrowings. *The overall interest payments (₹ 285.67 crore) was, however, lower than the projections made by the XIII FC (₹ 295.55 crore) as well as budget estimates (₹ 291.39 crore) of the year.*

1.7.1.6 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the five year period 2007-12. Pension payments during the current year have increased by ₹ 76.17 crore, an increase of over 25 *per cent* over the previous year. The comparative analysis of actual pension payments and the assessment/projection made by XIII FC and the State Government shows that actual pension payment exceeded the assessment made by XIII FC by ₹ 149.57 crore and the projection made by the State Government in its Budget for the year 2011-12 by ₹ 139.89 crore as shown in (**Table 1.20**).

Table 1.20 : Actual Pension Payments *vis-à-vis* Projection

(₹ in crore)

Year	Assessment made by XII FC/XIII FC	Assessment made by the State Government in		Actuals	Expenditure in excess of Assessment made in the		
		FCP	Budget		XII FC/XIII FC	FCP	Budget
2007-08	106.45	113.40	113.38	134.70	28.25 (26.54)	21.30 (18.78)	21.32 (18.80)
2008-09	117.10	122.47	125.57	171.76	54.66 (46.68)	49.29 (40.25)	46.19 (36.78)
2009-10	128.81	132.27	176.00	207.89	79.08 (61.39)	75.62 (57.17)	31.89 (18.12)
2010-11	205.66	(NA)	201.65	299.62	93.96 (45.69)	(NA)	97.97 (48.58)
2011-12	226.22	(NA)	235.90	375.79	149.57 (66.12)	(NA)	139.89 (59.30)

(*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 XIII FC, the migration to the NPS needs to be completed at the earliest. The NPS for the employees of the GOM had been adopted since 1st April 2010.

1.7.1.7 Subsidies

Table 1.19 shows that the expenditure on payment of subsidies decreased by 58.31 *per cent* from ₹ 57.50 crore in 2010-11 to ₹ 23.97 crore during 2011-12. The decrease of ₹ 33.53 crore is mainly due to payment of less subsidy under fisheries by ₹ 36.30 crore during the current year over previous year.

1.7.2 Capital Expenditure

Capital expenditure during the current year (2011-12) significantly increased by ₹ 280.51 crore over previous year mainly due to increased expenditure on housing and urban development (₹ 96.02 crore), transport (₹ 95.77 crore) and water supply and sanitation (₹ 53.95 crore). The capital expenditure during 2011-12 constituted 14.89 *per cent* of total expenditure during the year against 12.42 *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 (₹ 972.67 crore).

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 1.21**.

Table 1.21 : Financial Assistance to Local Bodies, *etc.*

(₹ in crore)

Financial Assistance to Institutions	2007-08	2008-09	2009-10	2010-11	2011-12	
					Budget Estimate	Actuals
University and Educational Institutions	243.31	244.61	291.70	379.02	622.42	590.54
Co-operative Societies	1.80	1.92	0.64	0.65	19.63	3.18
District Councils	11.85	16.93	1.05	10.92	16.06	2.86
Municipalities	1.92	2.29	1.97	3.00	2.85	2.89
Power sector	100.26	209.51	110.65	114.52	447.26	179.10
Other Institutions[12]	8.87	3.87	34.66	33.20	73.08	48.14
Total	**368.01**	**479.13**	**440.67**	**541.31**	**1181.30**	**826.71**
Assistance as percentage of RE	16.33	17.86	13.85	13.49	21.34	17.10

[12] **Other Institutions (figures for 2011-12 in brackets)**: National Rural Health Mission (₹ 15 crore), Emergency Management Research Institute (₹ 10 crore), Hospitals and Dispensaries run by Voluntary organisations for patients suffering from TB, Cancer and other fell diseases (₹ 3.86 crore), Forest Development Corporation of Meghalaya (₹ 1.18 crore), Meghalaya Tourism Development Corporation (₹ 1.15 crore), Mawmluh Cherra Cements Ltd. (₹ 3 crore), Financial Institution (₹ 4.24 crore), State Board for Prevention and Control of Water Pollution/Meghalaya State Pollution Control Board (₹ 3.10 crore), Small & Marginal Farmers (₹ 2.10 crore), Khadi Industries (₹ 2.66 crore) and Voluntary organisation, Housing Board, Meghalaya State Medical Plant Board, *etc.* (₹ 1.85 crore).

The financial assistance extended to the above local bodies and other institutions with inter-year variations increased by 52.72 *per cent* from ₹ 541.31 crore in 2010-11 to ₹ 826.71 crore in 2011-12. The share of financial assistance in revenue expenditure increased from 13.49 *per cent* in 2010-11 to 17.1 *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 2011-12.

University and Educational Institutions were the major recipients as around 72 *per cent* of the total financial assistance during 2011-12 was given to them. The assistance under this sector increased by 55.81 *per cent,* i.e. from ₹ 379.02 crore during 2010-11 to ₹ 590.54 crore during the current year. Of ₹ 590.54 crore, ₹ 364.99 crore was given to Non-Government Primary Schools and ₹ 152.85 crore to Non-Government Secondary Schools. Out of ₹ 48.14 crore given to other institutions, major share (₹ 15 crore) was paid to National Rural Health Mission followed by Emergency Management Research Institute and Non-Government Organisation (₹ 10 crore).

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).

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 1.22** 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 1.23** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

[13] As defined in Appendix 1.1

[14] As defined in Appendix 1.1.

Table 1.22 : Development Expenditure

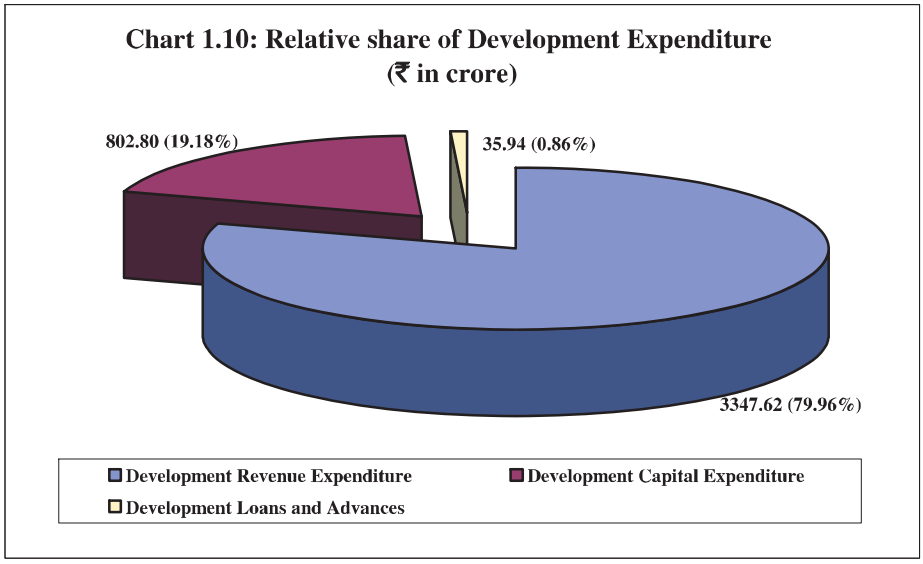
(₹ in crore)

Components of Development Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12	
					BE (Net)	Actuals
Development Expenditure (a to c)	**1858.91 (69.57)**	**2271.96 (69.61)**	**2524.80 (68.42)**	**3260.49 (70.43)**	**4567.35 (75.81)**	**4186.36 (72.90)**
a. Development Revenue Expenditure	1475.39 (55.22)	1745.26 (53.47)	2081.39 (56.40)	2695.94 (58.24)	3590.23 (59.59)	3347.62 (58.30)
b. Development Capital Expenditure	363.97 (13.62)	483.44 (14.81)	432.89 (11.73)	538.09 (11.62)	896.60 (14.88)	802.80 (13.98)
c. Development Loans and Advances	19.55 (0.73)	43.26 (1.33)	10.52 (0.29)	26.46 (0.57)	80.52 (1.34)	35.94 (0.62)

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

The development expenditure increased by 28.4 *per cent* over previous year. During the current year, though the State Government earmarked 75.81 *per cent* of the estimated aggregate expenditure for development expenditure, this assessment fell short by 2.91 *per cent* at the end of the year, as only 72.9 *per cent* of the aggregate expenditure during 2011-12 was incurred for development purposes. The relative share of development expenditure during 2011-12 given in **Chart 1.10** below showed that 79.96 *per cent* of the development expenditure was incurred on revenue account and only 19.18 *per cent* was utilised for capital expenditure.

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



Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services (including 13.23 *per cent* of revenue expenditure on salary under social services and 6.92 *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 1.23 : Efficiency of Expenditure Use in Selected Social and Economic Services

(In *per cent*)

Social/Economic Infrastructure	2010-11		2011-12	
	Ratio of Capital Expenditure to Total Expenditure[15]	In Revenue Expenditure, the share of Salary	Ratio of Capital Expenditure to Total Expenditure[15]	In Revenue Expenditure, the share of Salary
Social Services (SS)	**8.80**	**43.52**	**14.20**	**36.71**
General Education	1.15	38.38	0.25	30.97
Technical Education, Sports, Arts and Culture	1.32	32.46	1.32	20.04
Health and Family Welfare	6.77	71.11	11.31	73.74
Water Supply & Sanitation, Housing and Urban Development	37.84	44.31	57.15	40.37
Other SS	3.15	23.40	0.28	18.45
Economic Services (ES)	**23.50**	**23.88**	**24.27**	**20.85**
Agriculture and Allied Activities	3.63	33.13	5.33	38.92
Irrigation & Flood Control	69.85	52.05	53.84	27.82
Energy	-	-	-	-
Transport	73.46	-	73.67	-
Other ES	11.06	21.32	8.81	15.99

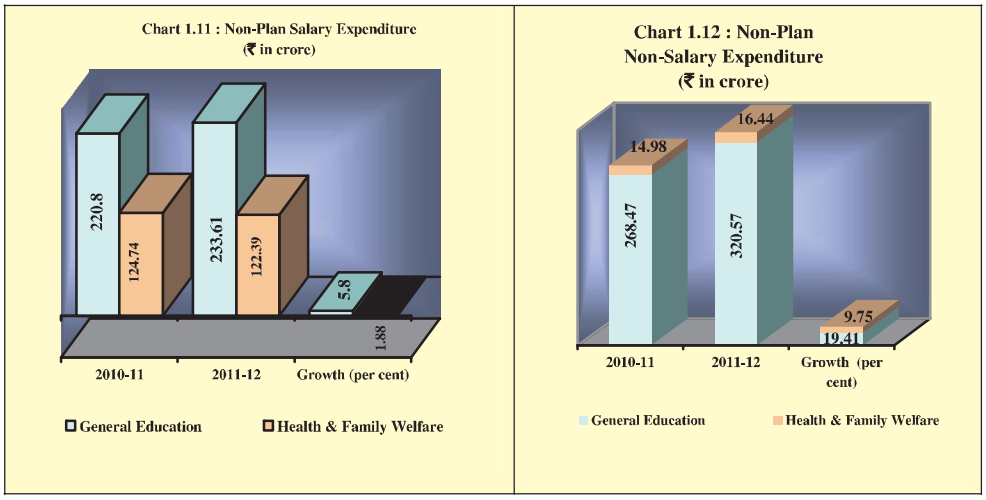
Social Services

The trends presented in **Table 1.23** reveal that development capital expenditure as a percentage of total expenditure constitute only 14.2 *per cent* in 2011-12, which indicated that the revenue expenditure was dominant. While there was significant improvement in the share of capital expenditure during 2011-12 under Health and Family Welfare and Water Supply and Sanitation, Housing and Urban Development, there was deterioration in the share of capital expenditure during the year under General Education compared to 2010-11.

Of the revenue expenditure on social services, the share of salary component has declined from 43.52 *per cent* in 2010-11 to 36.71 *per cent* in 2011-12. The non-salary and wage expenditure on social services has increased by 42.53 *per cent* during 2010-11 from ₹ 773.72 crore in 2010-11 to ₹ 1102.76 crore in 2011-12. 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 2010-11 (71.11 *per cent*) and 2011-12 (73.34 *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 (general education and health and family welfare) incurred during 2010-12.

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



The expenditure on non-plan salary and wage component during 2011-12 under general education sector marginally increased by 5.8 *per cent*, under health and family welfare sector it declined by 1.88 *per cent*. A mitigating factor was the increase in non-salary (non-plan) expenditure under both general education and health and family welfare sectors by 19.41 *per cent* and 9.75 *per cent* respectively during 2011-12 over previous year. However, increase in the salary component of revenue expenditure under health and family welfare during 2011-12 (73.74 *per cent*) over that of previous year (71.11 *per cent*) was a matter of concern. Thus, expenditure pattern under this sector needs correction in the ensuing years.

Economic Services

The expenditure on economic services (including loans and advances) during 2011-12 (₹ 2155.49 crore) accounted for 37.54 *per cent* of the total expenditure[16] and 51.49 *per cent* of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 24.61 *per cent* was incurred on agriculture and allied activities, 20.87 *per cent* on transport and 14.5 *per cent* on rural development.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from ₹ 211.49 crore in 2007-08 to ₹ 514.40 crore (143.23 *per cent*) in 2011-12. The share of capital expenditure on economic services to total of revenue and capital expenditure on economic services marginally increased to 24.27 *per cent* during 2011-12 from 23.5 *per cent* in 2010-11. Revenue expenditure consistently increased from ₹ 721.84 crore in 2007-08 to ₹ 1605.15 crore (122.37 *per cent*) in the current year. An increase of ₹ 225.24 crore (21.61 *per cent*) under economic services of revenue expenditure during 2011-12 over the previous year was mainly due to the increase under general economic services (₹ 118.34 crore), rural development (₹ 70.49 crore), energy (₹ 52.26 crore) and transport (₹ 33.29 crore), partly offset by decrease under agriculture and allied activities (₹ 50.23 crore).

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

Salary component within the revenue expenditure on economic services as a percentage of the total expenditure on economic sector reduced from 23.88 *per cent in 2010-11 to* 20.85 *per cent* 2011-12 despite it increase from ₹ 315.13 crore in 2010-11 to ₹ 334.62 crore (6.18 *per cent*) during the current year.

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

According to the information furnished (July 2012) by the Directorate of Programme Implementation and Evaluation, GOM (**Appendix 1.5**), in 18 cases under different programmes, the physical targets fixed by the departments concerned for the year 2011-12 were not achieved. Details of significant shortfall in achievement of targets are given in **Table 1.24** below:

Table 1.24

(₹ in crore)

Sl. No.	Programme/ Scheme	Financial Outlays and Expenditure		Physical Achievement/Outcome of the Programme		
		Outlay	Expendi-ture	Performance Indicator	Targets	Achievement/ Outcome (Percentage of shortfall)
1.	Sarva Shiksha Abhiyan (SSA)	168.83	197.83	Number of activities	8,45,741	7,12,080 (16)
2.	Mid Day Meal Programme Foodgrains distributed	6.50	6.29	Foodgrain in MT	11,856.00	8,779.88 (26)
3.	Special Nutrition Programme (SNP) in ICDS Areas	66.08	65.85	Number of beneficiaries	6,48,973	5,25,805 (19)
4.	Total Sanitation Campaign (TSC)	96.37	86.41	Number of habitations	3,01,833	2,18,198 (28)
5.	Pradhan Mantri Gram Sadak Yojana (PMGSY)	197.86	197.86	Length of road - Phase V (in Km)	183.6	98.01 (47)
6.	Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)	347.84	234.61	Number of villages	1,866	1,172 (37)

Source: Information furnished (July 2012) by the Directorate of Programme Implementation and Evaluation, GOM.

As can be seen from the above table, shortfall in achievement of targets under the above schemes ranged between 16 *per cent* and 47 *per cent*. Out of all the above programmes, major shortfall in achievement of targets (47 *per cent*) during 2011-12 was under Pradhan Mantri Gram Sadak Yojana.

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 2011-12, as of 31 March 2012, there were 107 ongoing projects in the State. Of these, 14 projects were targeted for completion on or before 31 March 2012, 60 projects were stipulated for completion after March 2012 and the target dates for the remaining 33 projects are not available.

An expenditure of ₹ 26.43 crore (till March 2012) was incurred on the 14 projects (total estimated cost of ₹ 40.03 crore) those were targeted for completion on or before 31 March 2012 but remained incomplete. Out of these 14 projects, four projects remained incomplete for one to three years. The revised cost of one incomplete project increased by 25.22 *per cent* from ₹ 1.71 crore (estimated cost) to ₹ 2.15 crore (revised cost) resulting in a total cost overrun of ₹ 0.44 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 2011-12, as of 31 March 2012, the State Government had invested ₹ 337.07 crore in two Statutory Corporations (₹ 71.11 crore), eight Government Companies (₹ 188.51 crore) and 1,449 Co-operative Banks and Societies (₹ 77.45 crore). Details are given in **Table 1.25.**

Table 1.25 : Return on Investment

Investment/Return/Cost of Borrowings	2007-08	2008-09	2009-10	2010-11	2011-12
Investment at the end of the year (₹ in crore)					
(i) Statutory Corporations	40.34	40.79	70.91	71.11	71.11
(ii) Government Companies	102.59	112.92	152.51	177.51	188.51
(iii) Co-operative Societies	43.86	46.72	62.77	67.17	77.45
Total	**186.79**	**200.43**	**286.19**	**315.79**	**337.07**
Return (₹ in crore)	0.02	0.03	0.04	0.03	0.08
Return (*per cent*)	0.01	0.01	0.01	0.01	0.02
Average rate of interest on Government borrowing *(per cent)*	6.40	6.32	6.34	6.51	6.22
Difference between interest rate and return (*per cent*)	6.39	6.31	6.33	6.50	6.20

On the investments made, Government earned a return of merely ₹ 0.08 crore in 2011-12 which is more than that of 2010-11 by ₹ 0.05 crore. The return on investment was very low at less than one *per cent* during 2007-12 while the average rate of interest paid during the period ranged between 6.22 *per cent* and 6.51 *per cent.*

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. Out of ₹ 188.51 crore invested in Government Companies, ₹ 188.46 crore was invested in seven ailing Companies, which had accumulated loss of ₹ 98.71 crore. Similarly, out of ₹ 77.45 crore invested in co-operative banks/societies, ₹ 19.68 crore was invested in 1,091 loss making co-operative banks/societies. Working results of one Government company and 304 co-operative banks/societies had not been intimated (August 2012).

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 1.26** presents the outstanding loans and advances as on 31 March 2012, interest receipts *vis-à-vis* interest payments during the last five years**.**

Table 1.26 : Average Interest Received on Loans and Advances given by the State Government

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Opening Balance	468.72	478.96	510.91	520.88	535.28
Amount advanced during the year	26.73	50.21	26.65	41.65	52.38
Amount recovered during the year	16.49	18.26	16.68	27.25	22.71
Closing Balance	478.96	510.91	520.88	535.28	564.95
Net Addition	10.24	31.95	9.97	14.40	29.67
Interest Receipts	1.65	2.04	2.59	4.62	4.83
Interest received as *per cent* to outstanding Loans and Advances	0.35	0.41	0.50	0.87	0.88
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	6.40	6.32	6.34	6.51	6.22
Difference between interest payments and receipts (*per cent*)	6.05	5.91	5.84	5.64	5.34

Loans and advances given by the State Government during 2011-12 increased by around 25.76 *per cent* over previous year. During 2007-12, recovery of loans and advances was ₹ 101.39 crore against ₹ 197.62 crore advanced during the period. The total outstanding loans and advances as on 31 March 2012 was ₹ 564.95 crore. *As the current level of recovery on loans advanced by the states is extremely poor, the XIII FC 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 XIII FC 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 ₹ 4.83 crore on loans and advances by GOM during 2011-12 constituted around 0.93 *per cent* only of the outstanding loans and advances at the end of 2009-10 (₹ 520.88 crore) and thus, much below the interest rate of 7 *per cent* as applied by XIII FC.

1.9.4 Cash Balances and Investment of Cash balances

Table 1.27 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.27 : Cash Balances and Investment of Cash Balances

(₹ in crore)

Particulars	As on 1st April 2011	As on 31 March 2012	Increase(+)/ decrease (-)
Cash Balances[17]	**350.71**	**371.27**	**+ 20.56**
Investments from Cash Balances (a & b)	**844.20**	**301.22**	**- 542.98**
a. GOI Treasury Bills	835.45	292.47	- 542.98
b. GOI Stock/Securities	8.75	8.75	…
Fund-wise break-up of Investment from Earmarked balances (a & b)	**98.25**	**115.81**	**+ 17.56**
a. Sinking Fund Investment Account	98.22	115.78	+ 17.56
b. Other Development and Welfare Fund	0.03	0.03	-
Interest realised on investment of cash balances	**20.09**	**22.30**	**+ 2.21**

Cash balances of the State Government at the end of the current year increased from ₹ 350.71 crore in 2010-11 to ₹ 371.27 crore in 2011-12. As on 31 March 2012, the State Government has invested ₹ 292.47 crore in GOI Treasury Bills and ₹ 8.75 crore in GOI stock/securities. During 2011-12, interest of ₹ 22.30 crore was earned on investment of cash balances. Further, the Government invested ₹ 115.81 crore in Sinking Fund and Development and Welfare Fund as of March 2012.

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 2007-08 to 2011-12, 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

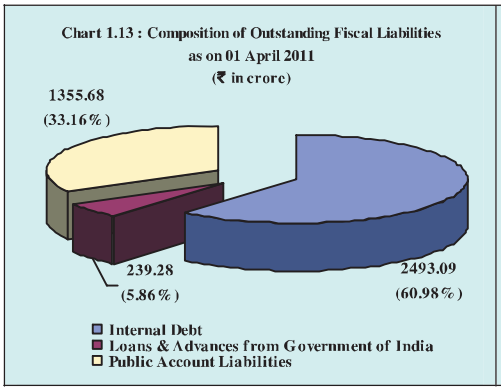
In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.3** gives an abstract of such liabilities and the assets as on 31 March 2012, compared with the corresponding position on 31 March 2011. While the liabilities in this Appendix consist mainly of

[17] Excluding investment of earmarked funds.

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 1.2.** 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.**



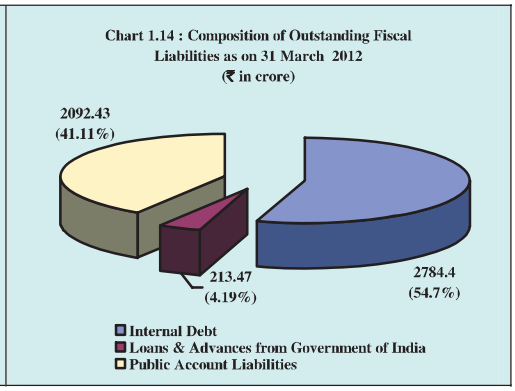


Table 1.28 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP to revenue receipts and State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.28 : Fiscal Liabilities – Basic Parameters

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Liabilities[18] (₹ in crore)	3140.71	3572.95	3802.62	4088.28	5090.30
Rate of Growth (*per cent*)	13.73	13.76	6.43	7.51	24.51
Ratio of Fiscal Liabilities to					
GSDP (*per cent*)	32.26	30.76	29.92	29.02	32.02
Revenue Receipts (*per cent*)	128.64	127.12	110.31	95.96	109.36
Own Resources (*per cent*)	605.79	600.75	528.60	468.31	477.61
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	1.07	0.71	0.68	0.69	1.91
Revenue Receipts (ratio)	0.98	0.91	0.28	0.32	2.65
Own Resources (ratio)	2.29	0.93	0.31	0.35	1.11

Fiscal liabilities of ₹ 5090.30 crore during 2011-12 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.* (₹ 2784.40 crore), loans and advances from Central Government (₹ 213.47 crore), small savings, provident funds, *etc.* (₹ 731.39 crore) and other liabilities, e.g., Reserve Funds and

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

Deposits (₹ 1361.04 crore). Overall fiscal liabilities of the State increased from ₹ 3140.71 crore in 2007-08 to ₹ 5090.30 crore in 2011-12. The growth rate in 2011-12 was 24.51 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP increased from 29.02 *per cent* in 2010-11 to 32.02 *per cent* in 2011-12. These liabilities stood at 1.09 times of the revenue receipts and 4.78 times of the State's own resources at the end of 2011-12. The buoyancy of these liabilities with respect to GSDP during the year was 1.91 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 1.91 *per cent.*

As per the recommendations of the XIII FC, fiscal consolidation path embodies the steady reduction in augmented debt stock of the states to less than 25 per cent of GDP by 2014-15. The State Government, in its Fiscal Policy Strategy (FPS) Statement of 2011-12, also committed to put in place a better debt management mechanism which would attempt to limit the outstanding debt-GSDP ratio as per limit recommended by the XIII FC. Further, as per the Medium Term Fiscal Policy (MTFP) Statement for the year 2011-12, the estimated Debt-GSDP ratio was 24.79 *per cent.* As can be seen from the **Table 1.28** above, the fiscal liabilities to GSDP ratio during 2011-12 increased to 32.02 *per cent* in 2011-12 against *29.02 per cent* during the previous year. Thus, neither the projection made in the MTFP Statement was fulfilled, nor there was any indication to fulfill the commitment made in the FPS Statement.

During 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loans. In 2011-12, the Government has appropriated ₹ 17.56 crore from revenue and credited to this fund for investment in the Government of India Securities.

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 2007-08 are given in **Table 1.29**.

Table 1.29 : Guarantees given by GOM

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Maximum amount guaranteed	954.16	1083.19	1033.34	948.79	1002.85
Outstanding amount of guarantees (including interest)	750.63	990.25	953.74	1110.77	1293.20
Percentage of maximum amount guaranteed to total revenue receipts	39.08	38.54	29.97	22.27	21.55

Government has guaranteed loans raised by various Corporations and others, which at the end of 2011-12 stood at ₹ 1293.20 crore (including interest). Bulk of the guaranteed amount (₹ 1292.20 crore) was outstanding against the power sector for repayment of principal and payment of interest on loans from Rural Electrification Corporation (₹ 475.03 crore), Housing and Urban Development Corporation

(₹ 151.92 crore), short term loans, bonds, *etc.* (₹ 525.61 crore) and Federal Bank and IOB (₹ 139.64 crore). The outstanding amount of guarantees is in the nature of contingent liabilities, which was about 22 *per cent* of revenue receipts of the State during 2011-12. *In order to provide for sudden discharge of the states' obligations on guarantees, the XII FC recommended that state should set up guarantee redemption funds. However, the Guarantee Redemption Fund was constituted by GOM only in June 2011.*

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[19]; sufficiency of non-debt receipts[20]; net availability of borrowed funds[21]; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.30** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2007-08.

Table 1.30 : Debt Sustainability: Indicators and Trends

(₹ in crore)

Indicators of Debt Sustainability	2007-08	2008-09	2009-10	2010-11	2011-12
Debt Stabilisation (Quantum Spread + Primary Deficit)	153.20	185.86	117.00	79.81	- 508.53
Sufficiency of Non-debt Receipts (Resource Gap)	- 140.29	- 220.91	+ 208.81	- 115.10	- 723.86
Net Availability of Borrowed Funds	190.12	220.20	- 4.29	28.73	716.35
Burden of Interest Payments (IP/RR) (*per cent*)	7.74	7.54	6.79	6.03	6.14

Table 1.30 reveals that during 2007-08 to 2010-11, the quantum spread together with primary deficit remained positive, but this turned negative in the current year. The debt-GSDP ratio (**Appendix 1.2**) was at its lowest in 2010-11 (29.02 *per cent)*, increased to 32.02 *per cent* during 2011-12 and *was much higher than the projection (24.79 per cent) made by the State Government in its MTFP Statement for 2011-12.*

[19] As defined in Appendix 1.1.

[20] As defined in Appendix 1.1.

[21] As defined in Appendix 1.1.

The trends in resource gap indicate the oscillation between positive and negative magnitudes. The resource gap has been negative in four out of five year period indicating that the incremental non-debt receipts were not sufficient to meet the incremental primary expenditure and interest burden. The situation has been worsened during 2011-12 when the resource gap has been increased to a negative ₹ 723.86 crore. These trends indicate that State needs to make sustainable efforts to mobilize more resources to meet the incremental liabilities arising on account of additional primary expenditure and interest payment during the year.

The trends in debt redemption ratio has fluctuated widely during 2007-11 and decreased to 67.6 *per cent* during 2011-12 against 97.79 *per cent* during the previous year (**Appendix 1.2).** During the current year, Government repaid ₹ 1494.80 crore as principal and interest on internal debt (₹ 366.52 crore), loans and advances from Central Government (₹ 69.32 crore) and other liabilities[22] (₹ 1058.96 crore), as a result of which the borrowed funds of ₹ 716.35 crore were available at the end of the year. However, 6.53 *per cent* (₹ 50.07 crore) of the net funds available from internal debt and other obligations (₹ 766.42 crore) was used to meet the repayment obligation of the loans and advances from the Central Government. The maturity profile of the State debt is given in **Table 1.31**.

Table 1.31 : Maturity Profile of State Debt

(₹ in crore)

Maturity Profile[(a)]	Amount	*Per cent*
0-1 year	177.03	5.57
Over 1 year to 3 years	318.05	10.00
Over 3 years to 5 years	481.97	15.16
Over 5 years to 7 years	621.70	19.55
Over 7 years and above	1580.72	49.72
Total	**3179.47**	**100**

[(a)] As per Finance Accounts.

The maturity profile of the State's debt during the current year indicates that out of the outstanding debt stock of ₹ 3179.47 crore, over 50 *per cent* (₹ 1598.75 crore) is payable within the next seven years while the remaining 50 *per cent* are to be paid in more than seven years time. Since there was no fiscal surplus during the last five years (2007-12), 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

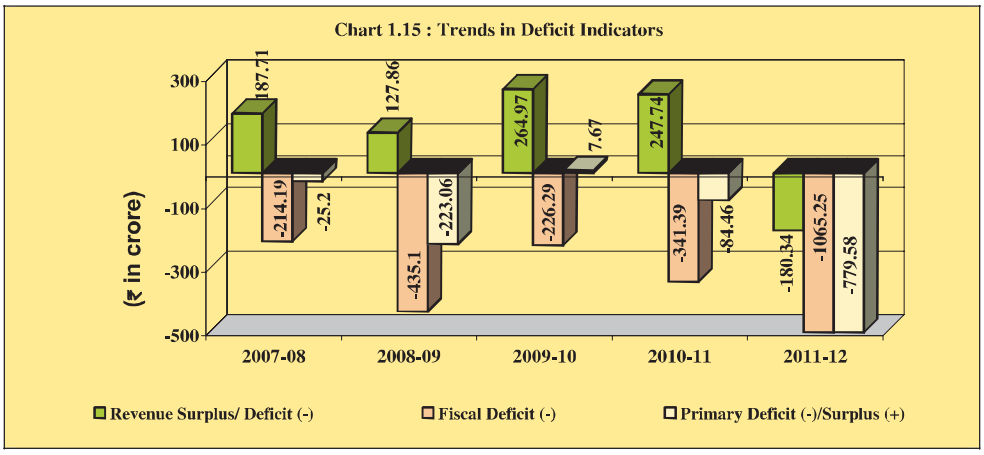
Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit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

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

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 2011-12.

1.12.1 Trends in Deficits

Charts 1.15 and **1.16** present the trends in deficit indicators over the period 2007-12.



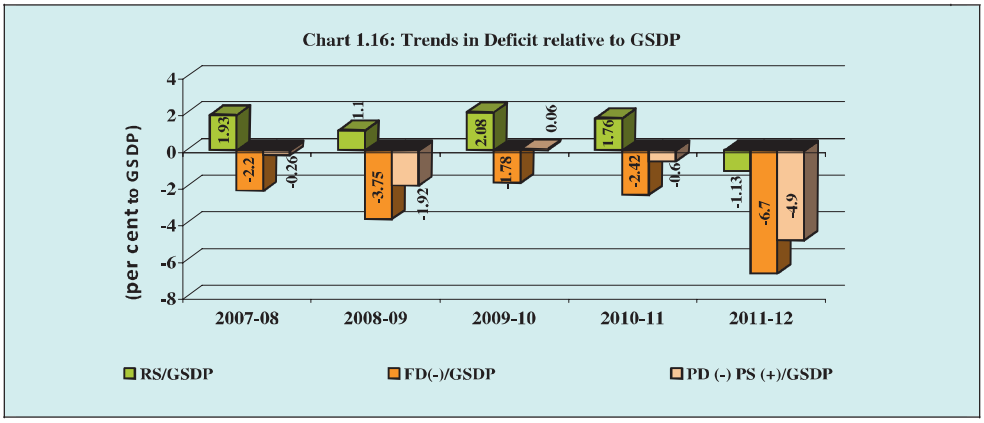


Chart 1.15 reveals that the State has become a revenue deficit State from its status of revenue surplus as the revenue surplus which was ₹ 247.74 crore during 2010-11 turned to revenue deficit of ₹ 180.34 crore due to disproportionate growth of revenue expenditure (20.49 *per cent*) *vis-à-vis* revenue receipts (9.25 *per cent*). Despite achieving growth rate of about 22 *per cent* under State Own resources during the current year, the main reason for lower growth rate of revenue receipt was due to mere 2 *per cent* growth rate in receipt under grants-in-aid from GOI, which constituted more than 50 *per cent* of revenue receipts of the State. The commitment made by the State Government in MFRBM Act, 2006 (as amended) *to maintain revenue surplus during 2011-12 to 2014-15 as recommended by the XIII FC*, thus, remained unfulfilled during 2011-12.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap, increased from ₹ 341.39 crore in 2010-11 to an exorbitant amount of ₹ 1065.25 crore during 2011-12. The revenue deficit during the current year against revenue surplus during the previous year compounded with increase in capital expenditure (₹ 280.51 crore) as well as in loans and advances disbursed (₹ 10.73 crore) over the previous year led to an increase in fiscal deficit by ₹ 723.86 crore during the current year.

As per the recommendations of the XIII FC, *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.* GOM also agreed in the MFRBM Act, 2006 (as amended) to reduce fiscal deficit to 3 *per cent* of GSDP or less during 2011-15 of the award period of the XIII FC. The fiscal deficit-GSDP ratio was at 6.7 *per cent* during 2011-12. Thus, GOM failed to restrict this ratio as per recommendation of the XIII FC and its own commitment in the MFRBM Act, 2006 (as amended).

The primary deficit during 2011-12 also increased significantly by ₹ 695.12 crore over previous year. A sharp increase of ₹ 723.86 crore in fiscal deficit and a moderate increase in interest payment (₹ 28.74 crore) resulted in a primary deficit of ₹ 779.58 crore during the current year.

1.12.2 Components of Fiscal Deficit and its Financing Pattern

The financing pattern of the fiscal deficit has undergone a compositional shift as reflected in the **Table 1.32.**

Table 1.32 : Components of Fiscal Deficit and its Financing Pattern

(₹ in crore)

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Decomposition of Fiscal Deficit (1 + 2 + 3)						
	Fiscal Deficit	**214.19**	**435.10**	**226.29**	**341.39**	**1065.25**
1.	Revenue Surplus (-)/ Deficit (+)	- 187.71	- 127.86	- 264.97	- 247.74	+ 180.34
2.	Net Capital Expenditure	391.66	531.01	481.29	574.73	855.24
3.	Net Loans and Advances	10.24	31.95	9.97	14.40	29.67
Financing Pattern of Fiscal Deficit[(a)]						
1.	Market Borrowing	147.49	186.32	191.66	120.00	208.55
2.	Loans from GOI	- 14.70	- 53.38	- 18.33	- 19.05	- 26.04
3.	Special Securities issued to NSSF	8.82	5.80	61.43	89.82	47.14
4.	Loans from Financial Institutions	6.50	15.08	25.23	24.54	35.62
5.	Small Savings, PF, *etc.*	45.83	45.58	67.65	84.30	105.08
6.	Reserve Funds	- 9.35	0.20	7.02	- 4.14	14.30
7.	Deposits and Advances	194.51	232.62	- 105.14	- 10.12	617.37
8.	Suspense and Miscellaneous	- 36.65	58.54	- 39.71	- 28.89	- 18.42
9.	Remittances	- 1.05	15.57	- 25.03	- 4.49	102.21
10.	Increase (-) / Decrease (+) in Cash Balances	- 127.21	- 71.23	+ 61.51	+ 89.42	- 20.56
	Percentage to GSDP	**2.20**	**3.75**	**1.78**	**2.42**	**6.70**

[(a)] All these figures are net of disbursements/outflows during the year.

There were fiscal deficit during the five year period ending 2011-12, which peaked to ₹ 1065.25 crore during 2011-12 against ₹ 341.29 crore during previous year. During 2011-12, fiscal deficit was primarily financed through market borrowing, special securities issued to National Small Savings Fund (NSSF) of the Central Government, deposits and advances and small savings, provident fund, *etc.*

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 1.33)** 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 1.33 : 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)
2007-08	2457.87	2064.68	391.66	26.73	2483.07	393.19	- 25.20
2008-09	2828.90	2470.74	531.01	50.21	3051.96	358.16	- 223.06
2009-10	3464.03	2948.42	481.29	26.65	3456.36	515.61	+ 7.67
2010-11	4287.73	3755.81	574.73	41.65	4372.19	531.92	- 84.46
2011-12	4677.18	4549.14	855.24	52.38	5456.76	128.04	- 779.58

The bifurcation of the factors resulting into primary deficit or surplus of the State during 2007-12 reveals that in four (2007-09 and 2010-12) out of five years, the State experienced primary deficit, 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[23] requirements, but was not adequate for capital expenditure and loans and advances except during the year 2009-10. The extent of the primary deficit during 2011-12 has been mainly on account of (i) increase in capital expenditure by ₹ 280.51 crore compared to previous year, which may be desirable to improve the productive capacity of the State's economy and (ii) decrease in primary revenue surplus by ₹ 403.88 crore during current year which need to be addressed.

[23] 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.

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 MFRBM 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 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 2012) from the Finance Department, GOM, had not been furnished (October 2012). As such, the position of PPP projects in the State could not be ascertained by Audit.

A PPP partnership 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

Revenue Receipts

Revenue receipts during 2010-11 grew by 9.25 *per cent* (₹ 393.99 crore) over previous year. The tax revenue and non-tax revenue receipts exceeded normative assessment made by XIII FC by 24.56 *per cent* and 23.33 *per cent* respectively. But State's own resources (tax and non-tax revenue) contributed 48.94 *per cent* of the incremental revenue receipts during 2011-12 (₹ 393.99 crore). Whereas Central transfers comprising State's share of central taxes and grants-in-aid from the Government of India increased by ₹ 201.19 crore in 2011-12 and contributed 51.06 *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 percentage of expenditure on collection of taxes was much higher than the all India average percentage of preceding year.

The State Government should explore the possibilities to mobilise additional resources both through tax and non-tax sources by expanding the tax base and rationalizing the user ch