

CHAPTER I

Finances of the State Government

Profile of Meghalaya

Meghalaya, a Special Category State¹, is situated in the North-East region of India and is bounded on the north by Goalpara and Nowgong Districts of Assam on the east by Karbi Anglong and North Cachar Hills Districts of Assam and on south and west by Bangladesh. With a geographical area of about 22,429 sq km, Meghalaya provides shelter to 0.23 *per cent* population of the country. According to the Census of India, 2001, the population of the State stands at 23,18,822 (Male: 11,76,087; Female: 11,42,735) and the density of population of the State is 103 per sq km. State's Gross Domestic Product during the year 2009-10 was ₹ 12,502 crore (base year 2004-05). The estimated per capita income of the State stood at ₹ 48,494 during 2009-10.

As per revised Gross State Domestic Product (GSDP)² series (base year 2004-05), there was an increasing trend in the growth rate of GSDP. While the growth of GSDP during 2005-06 was 10.45 *per cent*, this was 14.97 *per cent* during 2009-10. Considering the pre-revised GSDP figures (base year 1999-2000), the average Compound Annual Growth Rate (CAGR) in respect of GSDP for Meghalaya between 2000-01 and 2008-09 was 11.72 *per cent*, which was marginally higher than that of NE average of 11.67 *per cent*. In respect of other parameters, the CAGRs of both revenue receipts and total expenditure between 2000-01 and 2008-09 were lower than those of other NE States. The CAGR of capital expenditure between 2000-01 and 2008-09 was 11.27 *per cent*, which declined to 8.76 *per cent* between 2000-01 and 2009-10 mainly due to decrease in capital expenditure during 2009-10. The State depends mostly on resources transferred by the Central Government as the State's own resources contribute only 21 to 23 *per cent* of the total revenue receipts. The outstanding fiscal liabilities of the State as percentage to GSDP indicated a fluctuating trend during the period 2005-10. It declined from its peak of 35.6 *per cent* in 2005-06 to 30.42 *per cent* in 2009-10.

This chapter provides a broad perspective of the finances of the Government of Meghalaya during the current year and analyses critical changes in the major fiscal aggregates relative to the previous year keeping in view the overall trends during the last five years. The analysis has been made based on State Finance Accounts and the information obtained from State Government. The structure of Government Accounts, lay out of Finance Accounts, methodology adopted for the assessment of fiscal

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

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

position and State Profile are shown in **Appendix 1.1. Appendix 1.2** of the Chapter briefly outlines the fiscal responsibility and Budget Management Act of the Government and Outcome Indicators of the State's Own Fiscal Correction Path while **Appendix 1.3** presents the time series data on key fiscal variables/parameters and fiscal ratios relating to the State Government finances for the period 2005-10.

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 (2009-10) *vis-à-vis* the previous year while **Appendix 1.4** provides details of receipts and disbursements as well as overall fiscal position during the current year.

Table 1.1 : Summary of Current Year's Fiscal Transactions

(Rupees in crore)							
2008-09	Receipts	2009-10	2008-09	Disbursements	2009-10		
Section – A : Revenue							
					Non-Plan	Plan	Total
2810.64	Revenue Receipts	3447.35	2682.78	Revenue Expenditure	2134.97	1047.41	3182.38
369.44	Tax revenue	444.30	937.52	General Services	1052.34	48.65	1100.99
225.31	Non-tax revenue	275.08	804.92	Social Services	629.51	462.87	1092.38
595.23	Share of Union Taxes/Duties	612.38	940.34	Economic Services	453.12	535.89	989.01
1620.66	Grants-in-aid from Government of India	2115.59	...	...	...	...	...
Section – B : Capital							
...	Miscellaneous Capital receipts	...	531.01	Capital Outlay	1.35	479.94	481.29
18.26	Recoveries of Loans and Advances	16.68	50.21	Loans and Advances disbursed	16.13	10.52	26.65
322.55	Public Debt Receipts ³	403.02	168.73	Repayment of Public Debt	...	...	143.03
...	Contingency Fund	...	...	Contingency Fund	...	...	...
2020.33	Public Account Receipts	2416.65	1667.82	Public Account Disbursements	...	...	2511.86
430.41	Opening Balance	501.64	501.64	Closing Balance	...	...	440.13
5602.19	Total	6785.34	5602.19	Total			6785.34

Following are the significant changes during 2009-10 over the previous year:

- **Revenue receipts** grew by 23 per cent (₹ 636.71 crore) over the previous year. The increase was contributed by grants-in-aid of ₹ 494.93 crore from the Government of India (31 per cent), non-tax revenue of ₹ 49.77 crore (22 per cent), tax revenue of ₹ 74.86 crore (20 per cent) and State's share of Union taxes and duties - ₹ 17.15 crore (3 per cent). The revenue receipts at ₹ 3,447.35 crore were also higher

³ Includes net Ways and Means Advances.

by ₹434.95 crore than the assessment made by the State Government in its Fiscal Correction Path (FCP)⁴.

- **Revenue expenditure** increased by ₹499.60 crore (19 per cent) over the previous year. While 27 per cent (₹457.71 crore) of the increase was under non-plan heads, the increase under plan heads was 4 per cent only (₹41.89 crore). Capital expenditure during the year declined by 9 per cent (₹49.72 crore) over previous year mainly because of less expenditure under water supply, sanitation, housing and urban development by ₹78.79 crore (40 per cent). *In respect of both the revenue and capital expenditure during 2009-10, the State Government failed to fulfill its commitment made in the FCP because of excess revenue expenditure by 19 per cent (₹517.28 crore) and shortfall under capital expenditure by 13 per cent (₹69.75 crore) compared to FCP.*
- **Recovery and disbursement of loans and advances** during the current year decreased by ₹1.58 crore and ₹23.56 crore respectively compared to the previous year.
- **Public Debt receipts** increased by ₹80.47 crore over the previous year mainly due to increase in receipts under special securities issued to National Small Savings Fund (₹58.13 crore) and market loan bearing interest (₹14.14 crore). Repayment of Public Debt decreased by ₹25.70 crore over the previous year.
- **Public Account receipts** and disbursements increased by ₹396.32 crore and ₹844.04 crore respectively over the previous year.
- Total inflow during 2009-10 was ₹6,283.70 crore against ₹5,171.78 crore in 2008-09, while total outflow during 2009-10 was ₹6,345.21 crore against ₹5,100.55 crore during the previous year registering increase of 21 per cent and 24 per cent respectively leading to **decline in the cash balances of the State by ₹61.51 crore (12 per cent) over the previous year**. The decrease was mainly due to decrease in cash balance investment during 2009-10 by ₹50.70 crore (9 per cent) and increase in negative balance under deposits with Reserve Bank by ₹9.64 crore (16 per cent).

1.2 Meghalaya Fiscal Responsibility and Budget Management Act, 2006

The performance of the State during 2009-10 in terms of key fiscal targets set for selected parameters laid down in Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006 *vis-à-vis* achievements are given in **Table 1.2**.

⁴ FCP: The State Government developed its own Fiscal Correction Path detailing the structural adjustments required for mobilizing additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the Meghalaya Fiscal Responsibility and Budget Management Act, 2006.

Table 1.2 : Trends in major fiscal parameters vis-à-vis projections for 2009-10

Fiscal Parameters	2009-10			
	Targets as per prescribed in FRBM Act	Projections made in		Actual
		FCP	Medium Term Fiscal Policy Statement	
Revenue Deficit	Eliminate by 2008-09	-	-	-
Revenue Surplus/ Total Revenue Receipts	-	11.52	5.70	7.69
Fiscal Deficit (Rupees in crore)	-	242	-	226
Fiscal Deficit/GSDP (<i>per cent</i>)	3 <i>per cent</i> by 2008-09	3	6.67	1.81
Total Outstanding Liabilities/ GSDP (<i>per cent</i>)	Not more than 28 <i>per cent</i> of GSDP	27.62	34.87	38.05

The above table indicates that though the State was successful in restricting the Fiscal Deficit-GSDP ratio as prescribed in the MFRBM Act, the ratio of Total Outstanding Liabilities-GSDP far surpassed the target fixed in this Act. The State Government has to initiate requisite measures to contain the Total Outstanding Liabilities-GSDP ratio 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 (November 2010) by the Directorate of Economics and Statistics of the State Government, during 2009-10, the advance estimated GSDP for the State of Meghalaya was ₹ 12,502 crore, which was arrived at on the basis of current price taking into account the 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	2005-06	2006-07	2007-08	2008-09	2009-10
Gross State Domestic Product (Rupees in crore)	7,208	8,522	9,625	10,874 ⁵	12,502 ⁶
Growth rate of GSDP	10.45	18.23	12.94	12.98	14.97

Source: GSDP figures (current prices – base year 2004-05) as furnished (November 2010) by the Directorate of Economics & Statistics, Government of Meghalaya.

The GSDP at current prices increased from ₹ 10,874 crore in 2008-09 to ₹ 12,502 crore in 2009-10, representing an increase of 14.97 *per cent*. Considering the pre-revised GSDP figures (base year 1999-2000), the average compound annual growth rate in respect of GSDP for Meghalaya between 2000-01 and 2008-09 was 11.72 *per cent*, which was higher than that of NE average of 11.67 *per cent*.

⁵ Quick Estimates.

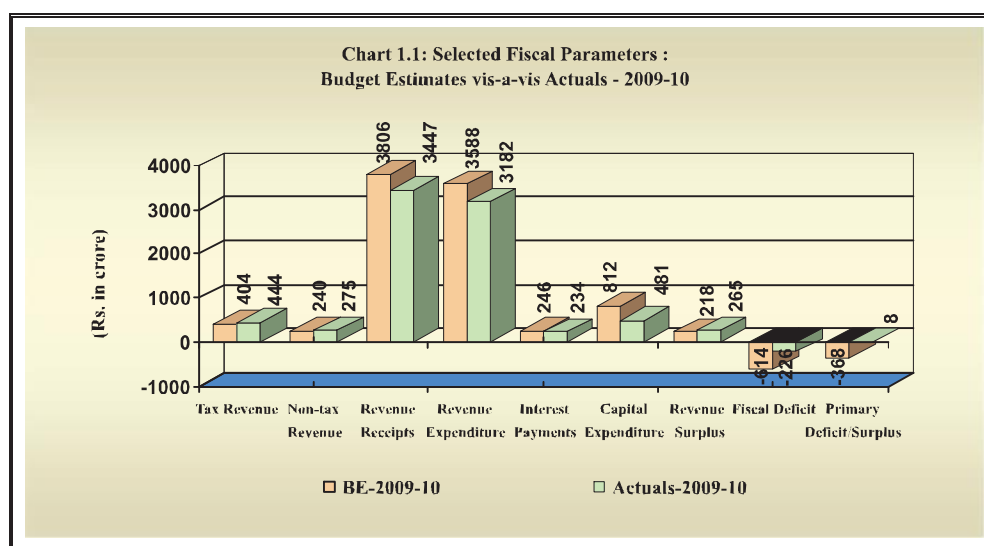
⁶ Advanced Estimates.

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 realization 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 realization 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 2008-09 (actuals) and 2009-10 (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 2009-10 over 2009-10 Budget Estimates and Revised Estimates and actuals of 2008-09

Parameters	(Rupees in crore)					
	2008-09	2009-10			Percentage of Excess (+)/Shortfall (-) with reference to	
		Actual	Budget Estimates (BE)	Revised Estimates (RE)	Actual	Actual of 2008-09	BE/RE
Tax Revenue	370	404	404	444	+ 20.00	+ 9.90
Non-Tax Revenue	225	240	240	275	+ 22.22	+ 14.58
Revenue Receipts	2,811	3,806	3,806	3,447	+ 22.63	- 9.43
Non-debt Capital Receipts	18	19	19	17	- 5.56	- 10.53
Revenue Expenditure	2,683	3,588	3,588	3,182	+ 18.60	- 11.32
Interest Payments	212	246	246	234	+ 10.38	- 4.88
Capital Expenditure	531	812	812	481	- 9.42	- 40.76
Disbursement of Loans & Advances	50	39	39	27	- 46.00	- 30.77
Revenue Surplus	128	218	218	265	+ 107.03	- 21.56
Fiscal Deficit (-)	- 435	- 614	- 614	- 226	- 48.05	- 63.19
Primary Deficit (-) / Surplus (+)	- 223	- 368	- 368	+ 8	-	-



- During 2009-10, both the actual **revenue receipts** and **revenue expenditure** fell short of the budget estimates by 9.43 *per cent* and 11.32 *per cent* respectively.
- The **capital expenditure** *vis-à-vis* budget estimate was less by 40.76 *per cent* (₹ 331 crore). Compared to previous year, the capital expenditure of the State declined by ₹ 50 crore, which was the net result of decrease in social services under capital account by ₹ 81 crore (36 *per cent*), partly offset by increase of ₹ 29 crore (11 *per cent*) under economic services.
- The **revenue surplus** (₹ 265 crore) during the year exceeded by 21.56 *per cent* compared to the assessment made in the budget estimate. Actual fiscal deficit fell short of the assessment made in the budget estimate and revised estimate by 63 *per cent* (₹ 388 crore) mainly due to substantial increase in revenue receipts (₹ 636 crore) and public debt receipts (₹ 80 crore) and decrease in capital expenditure by ₹ 50 crore. Decrease in budget estimated fiscal deficit and interest payment by ₹ 400 crore led to decrease in primary deficit by ₹ 376 crore than the assessment made in the budget and revised estimates. 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 genuine re-estimation of the requirements in the light of the knowledge up-to-date.

1.5 Resources of the State

1.5.1 Resources of the State as per Annual Finance Accounts

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Government of India (GOI). Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources (market loans, borrowings from financial institutions/commercial banks) and loans and advances from GOI as well as accruals from Public Account. **Table 1.1** presents the receipts and disbursements of the State during the current year as recorded in its Annual Finance Accounts while **Chart 1.2 and Table 1.5** depicts the trends in various components of the receipts of the State during 2005-10. **Chart 1.3** depicts the composition of resources of the State during the current year.

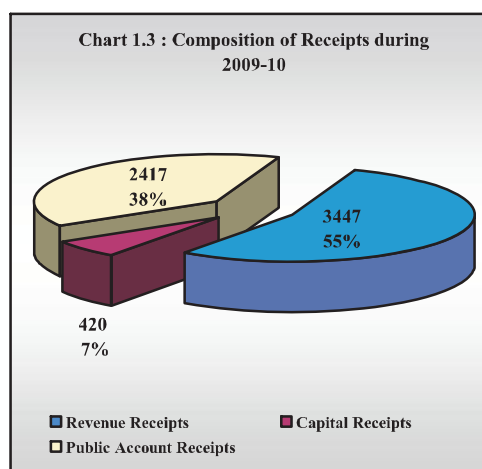
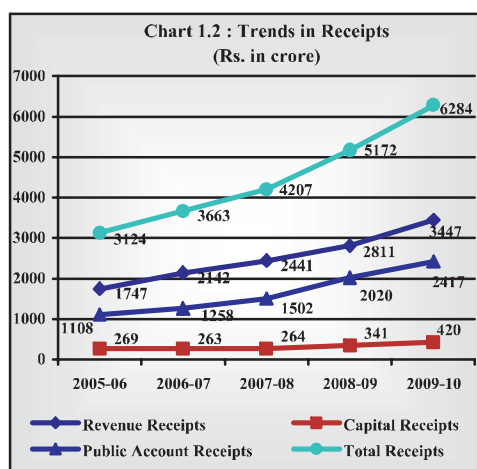


Table 1.5 : Trends in growth and composition of receipts

(Rupees in crore/Rate of growth in per cent)

Sl. No.	Sources of State's Receipts	2005-06	2006-07	2007-08	2008-09	2009-10
I	Revenue Receipts	1,747	2,142	2,441	2,811	3,447
II	Capital Receipts (CR)	269	263	264	341	420
	Miscellaneous Capital Receipts	-	-	-	-	-
	Recovery of Loans and Advances	19	17	17	18	17
	Public Debt Receipts	250	246	247	323	403
	Rate of growth of non-debt capital receipts	0	- 10.52	0	5.88	- 5.56
	Rate of growth of debt capital receipts	- 15.82	- 1.60	0.41	30.77	24.77
	Rate of growth of GSDP	10.45	18.23	12.94	12.98	14.97
	Rate of growth of CR	- 14.87	- 2.23	0.38	29.17	23.17
III	Contingency Fund	-	-	-	-	-
IV	Public Account Receipts	1,108	1,258	1,502	2,020	2,417
	Small Savings, Provident Fund, etc.	89	91	101	106	122
	Reserve Funds	20	21	24	26	27
	Deposits and Advances	343	342	528	814	824
	Suspense and Miscellaneous	- 18	30	- 19	10	- 40
	Remittances	674	774	868	1,064	1,484
	Total Receipts	3,124	3,663	4,207	5,172	6,284

The **total receipts** during the current year has increased by ₹ 1,112 crore (21.50 per cent) over the previous year. Of the increase in total receipts, revenue receipts formed 57 per cent (₹ 636 crore) followed by public account receipts 36 per cent (₹ 397 crore) and capital receipts 7 per cent (₹ 79 crore). Out of the total receipts under public account, remittances constituted 61 per cent. While 75 per cent (₹ 1,117 crore) of the remittances have come from public works remittances, cash remittances between treasuries and currency chests (₹ 185 crore) and forest remittances (₹ 181 crore) together constituted 24.66 per cent.

The **total receipts** of the State for 2009-10 was ₹ 6,284 crore, of which ₹ 3,447 crore (55 per cent) came from revenue receipts and balance (45 per cent) came from borrowings and Public Account. The total receipts of the State increased by 101 per

cent from ₹ 3,124 crore in 2005-06 to ₹ 6,284 crore in 2009-10. The share of revenue receipts in total receipts of the State marginally decreased by one per cent from 56 per cent in 2005-06 to 55 per cent in 2009-10. On the other hand, the capital receipts together with Public Account ranged between 42 per cent and 46 per cent of total receipts during 2005-10.

Revenue receipts increased steadily by 97 per cent from ₹ 1,747 crore in 2005-06 to ₹ 3,447 crore in 2009-10, whereas the debt capital receipts which create future repayment obligation increased by 61 per cent from ₹ 250 crore (8 per cent of total receipts) in 2005-06 to ₹ 403 crore (6 per cent of total receipts) in 2009-10. The Public Account receipts increased steadily from ₹ 1,108 crore (35 per cent of total receipts) in 2005-06 to ₹ 2,417 crore (38 per cent of total receipts) in 2009-10.

The rate of growth of capital receipts decreased from 29.17 per cent in 2008-09 to 23.17 per cent in 2009-10 while the **rate of growth of non-debt capital receipts** decreased from 5.88 per cent in 2008-09 to a negative 5.56 per cent in 2009-10. Compared to 2005-06, the rate of growth of debt capital receipts increased from a negative 15.82 per cent in 2005-06 to 24.77 per cent in 2009-10 while the rate of growth of GSDP increased from 10.45 per cent in 2005-06 to 14.97 per cent in 2009-10 resulting in increase in the rate of growth of debt capital buoyancy from (-) 6.167 in 2005-06 to (-) 2.167 in 2009-10.

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 Agencies⁷ 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 2009-10 for implementation of various schemes is given in **Appendix 1.5**. Scheme-wise position involving substantial amount of Central funds is given in **Table 1.6**.

Table 1.6 : Funds Transferred directly to State Implementing Agencies

(Rupees in crore)		
Programme/Scheme	Implementing Agency in the State	Funds transferred by the GOI
Medicinal Plants	State Medicinal Plants Board, Meghalaya	3.19
National Bamboo Mission	Member Secretary CEO, Shillong	3.39
Aside Assistance to States for Developing Export Infrastructure and Allied Activities	Meghalaya Industrial Development Corporation Ltd.	7.52

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.

Programme/Scheme	Implementing Agency in the State	Funds transferred by the GOI
Central Rural Sanitation Programme	SWSM Meghalaya, Shillong	13.79
National AIDS Control Programme	Meghalaya State AIDS Control Society	1.84
National Rural Health Mission (CSS)	State Health Society, Meghalaya	63.89
	Meghalaya State TB Control Society	1.38
Integrated Watershed Management Programme	Meghalaya State Watershed and Wasteland Development Agency.	3.74
	District Rural Development Agency (DRDA)	1.54
DRDA Administration	DRDAs	3.29
National Rural Employment Guarantee Scheme	DRDAs	209.51
Swarnajayanti Gram Swarozgar Yojana	DRDAs	6.48
Rural Housing IAY	DRDAs	37.83
Sarva Shiksha Abhiyan	SSA State Mission Authority	93.83
Rashtriya Madhyamik Shiksha Abhiyan (RMSA)	Sarva Shiksha Abhiyan State Mission Authority of Meghalaya	1.06
MPs Local Area Development Scheme	Deputy Commissioners	5.00
Accelerated Rural Water Supply Scheme	SWSM Meghalaya, Shillong	57.99
Total		515.27

The GOI directly transferred ₹ 534 crore to State Implementing Agencies during 2009-10. With this transfer, the total availability of State resources increased from ₹ 6,284 crore to ₹ 6,818 crore. Of ₹ 534 crore, ₹ 259 crore (around 49 *per cent*) was transferred to the DRDAs and ₹ 95 crore (18 *per cent*) to State Mission Authority of Sarva Shiksha Abhiyan. Direct transfer from the Union to the State Implementing Agencies runs the risk of poor accountability. Unless uniform accounting practices are diligently followed by all these agencies and there is proper documentation and timely reporting of expenditure, it will be difficult to monitor the end use of these direct transfers.

A test check was conducted on the accounts of two agencies which revealed as follows:

Meghalaya Aids Control Society

The Meghalaya Aids Control Society (MASC) was formed with the objective to halt and reverse the epidemic in the State in the next five years by integrating programmes for prevention, care, support and treatment. Since 1999-2000, funds were directly transferred by the GOI to the MASC. Till 2009-10, ₹ 12.43 crore was directly received by the MASC from the GOI, of which ₹ 1.84 crore was received in 2009-10. Total expenditure incurred up to 2009-10 was ₹ 10.85 crore.

Meghalaya TB Control Society

Revised National TB Control Programme (RNTCP) was being implemented in the State since October 2003 by the State TB Control Society with the objectives to achieve and maintain at least 85 *per cent* cure rate of new sputum smear-positive patients and detection of at least 70 *per cent* of such cases in the population. Total fund received by the Society directly from the GOI till 2009-10 was ₹ 6.82 crore including ₹ 1.38 crore received during 2009-10. Total expenditure incurred in 2009-10 was ₹ 6.68 crore.

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 2005-10 are presented in **Appendix 1.3** and also depicted in **Charts 1.4** and **1.5** respectively. The trends in revenue receipts relative to GSDP are presented in **Table 1.7**.

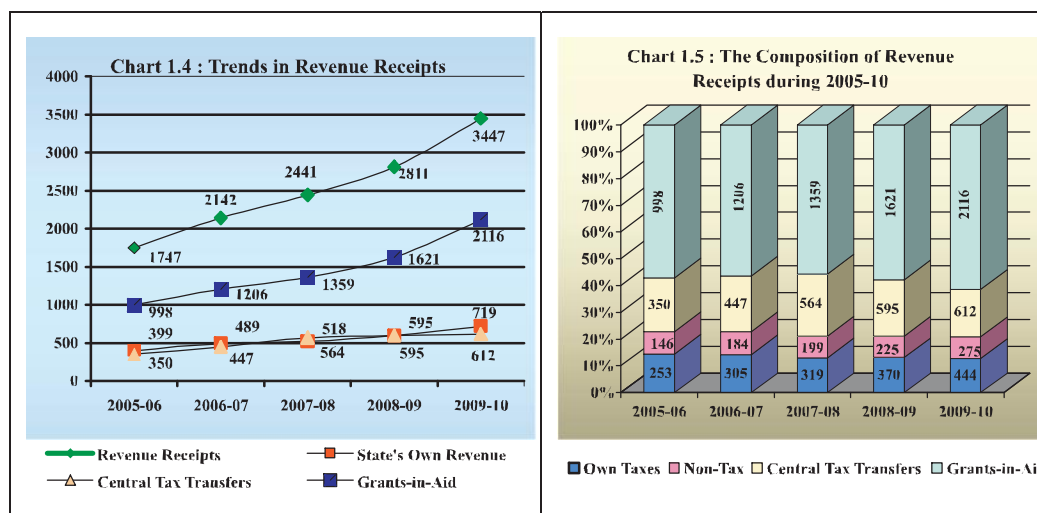


Table 1.7 : Trends in Revenue Receipts relative to GSDP

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Receipts (RR) (Rupees in crore)	1,747	2,142	2,441	2,811	3,447
Rate of Growth of RR (<i>per cent</i>)	13.00	22.61	13.96	15.16	22.63
Rate of Growth of Own Taxes (<i>per cent</i>)	21.63	20.55	4.59	15.99	20.00
RR/GSDP (<i>per cent</i>)	24.24	25.13	25.36	25.85	27.57
Buoyancy Ratio⁸					
Revenue Buoyancy Ratio with reference to GSDP	1.24	1.24	1.08	1.17	1.51
State's Own Taxes Buoyancy Ratio with reference to GSDP	2.07	1.13	0.35	1.23	1.34
State's Own Taxes Buoyancy Ratio with reference to Revenue Receipts	1.66	0.91	0.33	1.05	0.88

1.6.1 General Trends

The **revenue receipts** of the State increased by ₹ 1,700 crore from ₹ 1,747 crore in 2005-06 to ₹ 3,447 crore in 2009-10. There were, however, wide inter-year variations in the growth rates, which increased to 22.63 *per cent* in 2009-10 from 15.16 *per cent* during the preceding year. All the components of revenue receipts have exhibited increases in absolute terms over the period 2005-10. The buoyancy ratios of revenue

⁸ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance revenue buoyancy at 1.51 during 2009-10 implies that revenue receipts tend to increase by 1.51 percentage points, if the GSDP increases by one *per cent*.

receipts and the State's own tax revenue with reference to GSDP have increased primarily due to significant increase in the rates of growth of both revenue receipts and the State's own tax revenue under 'Taxes on Sales, Trade, etc.' in 2009-10 relative to the previous year. Buoyancy ratio of State's own taxes to revenue receipts indicates that the pace of growth of own taxes was faster than the revenue receipts in two (2005-06 and 2008-09) out of five years while it grew at lower pace during the remaining three years including 2009-10.

1.6.2 Central Tax Transfers

The **Central Tax transfers** increased by ₹ 17 crore over the previous year and constituted 18 *per cent* of revenue receipts.

1.6.3 Grants-in-Aid

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

Table 1.8 : Grants-in-Aid from the GOI

Particulars	(Rupees in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Non-Plan Grants	406	472	461	440	377
Grants for State Plan Schemes	445	569	645	958	1395
Grants for Central Plan Schemes	3	11	4	8	26
Grants for Centrally Sponsored Schemes	119	107	179	159	251
Grants for Special Plan Schemes	25	47	70	56	67
Total	998	1,206	1,359	1,621	2,116
Percentage of increase over previous year	6.62	20.84	12.69	19.28	30.54

Grants-in-aid from the GOI have increased by 30.54 *per cent* from ₹ 1,621 crore in 2008-09 to ₹ 2,116 crore in the current year. Within the plan grants, while grants for Central Plan Scheme increased by 225 *per cent* (₹ 18 crore), grants for Centrally Sponsored Plan Scheme, State Plan Scheme and Special Plan Scheme increased by 58 *per cent*, 46 *per cent* and 20 *per cent* respectively. The major increase under State Plan Schemes was in the form of increase in Block Grants (₹ 445 crore) and National Programme of Mid Day Meal in Schools (₹ 62 crore). The Non-Plan grants (₹ 377 crore) constitute 18 *per cent* of the total grants during the year, of which 83 *per cent* (₹ 312 crore) was primarily for meeting the non-plan revenue deficit owing to the recommendations of the TFC. Other components of non-plan grants mainly included (i) modernization of police force (₹ 13 crore), (ii) maintenance of roads and bridges on the recommendation of TFC (₹ 11 crore) and (iii) contribution of calamity relief fund (₹ 10 crore).

1.6.4 State's Own Resources

As the State's share in central taxes and grants-in-aid are determined on the basis of recommendations of the Finance Commission, collection of central tax receipts and central assistance for plan schemes, etc., the State's performance in mobilisation of additional resources should be assessed in terms of its own resources comprising

revenue from its own tax and non-tax sources. **Tables 1.9 and 1.10** below show the trends of tax and non-tax revenue during the years 2005-10 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 2009-10.

Table 1.9 : Tax Revenue

Heads	2005-06	2006-07	2007-08	2008-09	2009-10		
					Budget Estimate	Actuals	Variations Increase (+) Shortfall (-) (per cent)
Taxes on Sales, Trade, etc.	173	216	235	282	289	321	+ 32 (11)
State Excise	59	54	59	70	80	90	+ 10 (13)
Taxes on Vehicles	9	9	11	13	14	14	...
Stamps and Registration Fees	6	6	6	6	8	11	+ 3 (38)
Land Revenue	0.33	6	2	0.50	3	0.26	- 2.74 (91)
Other Taxes ⁹	5.67	14	6	- 1.50	9	8	- 1 (11)
Total	253	305	319	370	403	444	+ 44 (11)

Table 1.10 : Non-Tax Revenue

Heads	2005-06	2006-07	2007-08	2008-09	2009-10		
					Budget Estimate	Actuals	Variations Increase (+) Shortfall (-) (per cent)
Interest receipts, dividends and profits	7	13	15	18	11	23	+ 12 (109)
General Services	17	36	29	46	28	18	- 10 (36)
Social Services	3	3	3	4	15	9	- 6 (4)
Economic Services	119	132	152	157	187	225	
Non-ferrous Mining and Metallurgical Industries	98	109	124	133	155	198	+ 43 (28)
Forestry and Wild life	15	17	16	17	20	20	...
Other Economic Services	6	6	12	7	12	7	- 5 (42)
Total	146	184	199	225	241	275	(+)34

1.6.4.1 Tax Revenue

Tax revenue has increased by 20 per cent during the current year (₹ 444 crore) over the previous year (₹ 370 crore). The revenue from sales tax contributed the major share of tax revenue (72 per cent) and it increased by 14 per cent over the previous year. State excise, and taxes on vehicles and Stamps and Registration Fees were the other major contributors in the State's tax revenue. *The CAGR of tax revenue for Meghalaya between 2000-01 and 2008-09 was 15.26 per cent, which was marginally higher than that of NE States (15.15 per cent).*

➤ 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 2007-08 to

⁹ Other Taxes include taxes on professions, trades, callings and employment, taxes on goods and passengers, taxes and duties on electricity and other taxes and duties on commodities and services.

2009-10 along with the relevant all India average percentage of expenditure on collection to gross collections for 2008-09 are mentioned below.

Table 1.11

(Rupees in crore)

Sl. No.	Head of revenue	Year	Gross collection	Cost of collection	Percentage of expenditure to gross collection	All India average percentage during the preceding year
1.	Taxes/VAT on Sales, Trade, etc.	2007-08	234.89	4.09	1.74	0.82
		2008-09	281.83	4.46	1.58	0.83
		2009-10	321.39	6.80	2.12	0.88
2.	State Excise ¹⁰	2007-08	58.62	4.42	7.54	3.30
		2008-09	69.79	6.21	8.90	3.27
		2009-10	90.29	7.23	8.00	3.66
3.	Taxes on Vehicles	2007-08	11.35	6.57	57.89	2.47
		2008-09	13.21	3.14	23.77	2.58
		2009-10	13.61	3.89	28.58	2.93

As can be seen from the above table, except State Excise, there were increasing trends in cost of collection of revenue under both the other heads. The situation in respect of Taxes on Vehicles was more alarming because of consumption of around 23 per cent to 58 per cent of taxes on vehicles towards collection during 2007-10. Besides, the percentage of expenditure on collection during 2008-10 as compared to the all India average percentage for the year 2008-09 was on the higher side, which is indicative of the fact that the excess expenditure incurred on collection of revenue might impede in the path of improvement towards achieving a healthy fiscal path in the State.

➤ **Impact of implementation of Value Added Tax (VAT) on the State's Own Tax Revenue**

Table 1.12 gives the comparative position of pre-VAT (2001-02 to 2004-05) and post-VAT (2005-06 to 2009-10) tax collection and the growth rate in each year.

Table 1.12

(Rupees in crore)

Pre-VAT			Post-VAT		
Year	Actual collection ¹¹	Percentage of growth	Year	Actual collection	Percentage of growth
2001-02	59.78	81.43	2005-06	159.65	50.12
2002-03	71.67	19.89	2006-07	187.78	17.62
2003-04	83.37	16.32	2007-08	216.89	15.50
2004-05	106.35	27.56	2008-09	271.07	24.98
			2009-10	298.43	10.09
Average growth		36.30			23.66

The average growth rate during 2001-02 to 2004-05 was 36.30 per cent while the average growth rate for 2005-06 to 2009-10 was 23.66 per cent. Though the revenue all along the years from 2001-02 to 2009-10 showed an increasing trend, yet the growth rate of revenue after implementation of VAT showed a declining trend as

¹⁰ Department's figures.

¹¹ Collection under Sales Tax (MST + MFST + PT) and Motor Spirits and Lubricants Acts.

compared to 2005-06. The scenario would have been much better had the tax collection mechanism been more efficient and effective and instances of loss of revenue been avoided/minimised as pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2010 (Revenue Receipts).

1.6.4.2 Non-Tax Revenue

The non-tax revenue (NTR), which constituted 8 per cent of the total revenue receipts, has increased by ₹ 50 crore during 2009-10 recording a growth rate of 22 per cent over the previous year. 82 per cent of non-tax revenue during 2009-10 was received from economic services and within this category, receipts under non-ferrous mining and metallurgical industries alone contributed 88 per cent (₹ 198 crore). This was mainly due to receipts under Geological Survey of India. The trends in interest receipts and dividends and profits also reveal significant improvement (249 per cent) during 2009-10 compared to 2005-06 mainly because of increase in realisation of interest on investment of cash balances by ₹ 15.49 crore. The CAGR of non-tax revenue for Meghalaya between 2000-01 and 2008-09 (12.69 per cent) was much lower than that of NE States (17.53 per cent) and thus, needs improvement.

➤ 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**.

Table 1.13 : Cost Recovery – 2009-10

Particulars	(Rupees in lakh)		
	Non-tax revenue receipts	Non-plan revenue expenditure	Cost Recovery (per cent)
Secondary Education	39	9,237	0.42
Medical & Public Health	56	11,579	0.48
Water Supply & Sanitation	288	9,668	2.98
Roads & Bridges	6	9,781	0.06
Minor Irrigation	17	1,530	1.11

As can be seen from above, while the cost recovery for minor irrigation and water supply & sanitation during 2009-10 were 1.11 per cent and 2.98 per cent respectively, for medical & public health, secondary education and roads & bridges the percentages were 0.48, 0.42 and 0.06 respectively. However, there was an increase under water supply & sanitation during the current year as compared to last year.

1.6.4.3 Own resources vis-à-vis assessments made by the Twelfth Finance Commission

The mobilisation of State's own resources vis-à-vis assessments made by the TFC and State Government in its own Fiscal Correction Path are given below:

Table 1.14

(Rupees in crore)

Year	Assessment made by TFC			Assessment made by State Government in FCP			Actuals		
	Tax Revenue	Non-Tax Revenue	Total	Tax Revenue	Non-Tax Revenue	Total	Tax Revenue	Non-Tax Revenue	Total
2005-06	243	162	405	253	146	399	253	146	399
2006-07	276	180	456	268	173	441	305	184	489
2007-08	312	200	512	332	176	508	319	199	518
2008-09	353	221	574	383	196	579	370	225	595
2009-10	400	244	644	464	216	680	444	275	719

The State has **successfully achieved** the target fixed by TFC in collection of tax revenue during 2005-10. During 2009-10, tax revenue was 11 *per cent* higher than the assessment made by the TFC, but it was lower by 4.31 *per cent* compared to the assessment made by the State Government in the FCP for the year. *The non-tax revenue was 12.70 per cent and 27.31 per cent higher than the assessment made by the TFC and in the FCP respectively during the year.*

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

Test-check of the records of sales tax, state excise, motor vehicles tax, other tax receipts, forest receipts and other non-tax receipts conducted during the year 2009-10 revealed underassessment/short/non-levy/loss of revenue amounting to ₹ 903.26 crore in 169 cases. The total loss of revenue, which was in excess of 26 *per cent* of the State's own resources consisting of tax and non-tax revenue (₹ 719.38 crore) during 2009-10, indicates the presence of loopholes in resource mobilisation thereby adversely affecting the developmental activities of the State. Serious irregularities which resulted in loss of revenue of the State have been discussed in the Report of the Comptroller and Auditor General (CAG) of India for the year ended 31 March 2010 (Revenue Receipts).

1.6.4.5 Revenue Arrears

The arrears of tax revenue at the end of March 2010 in respect of some principal heads of revenue were ₹ 90.70 crore of which, ₹ 10.72 crore (11.82 *per cent*) relating to state excise were more than five years old. As the pending revenue arrears constituted over 20 *per cent* of tax revenue of the State during 2009-10, appropriate steps need to be initiated by the State Government for their recovery, which would in turn provide a cushion to reduce the burden of fiscal liabilities of the State.

1.7 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.

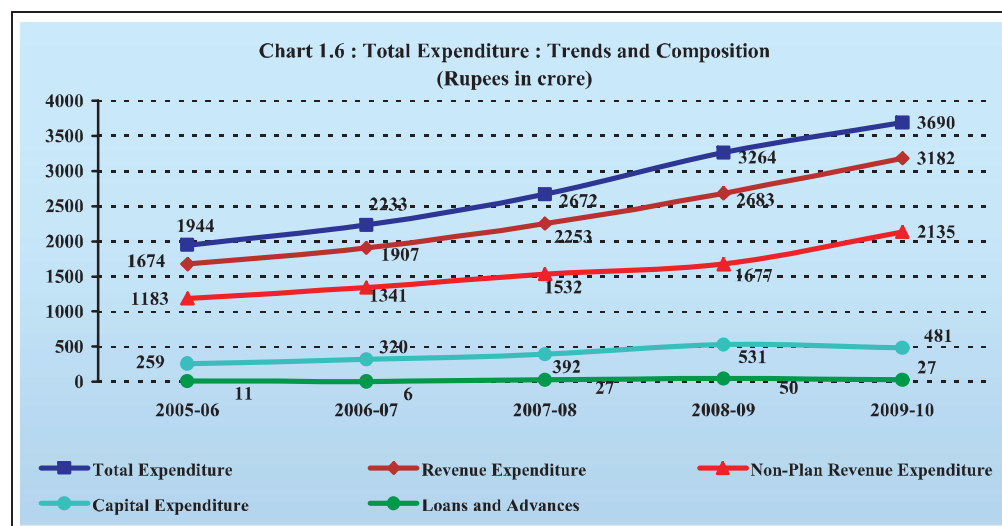
1.7.1 Growth and Composition of Expenditure

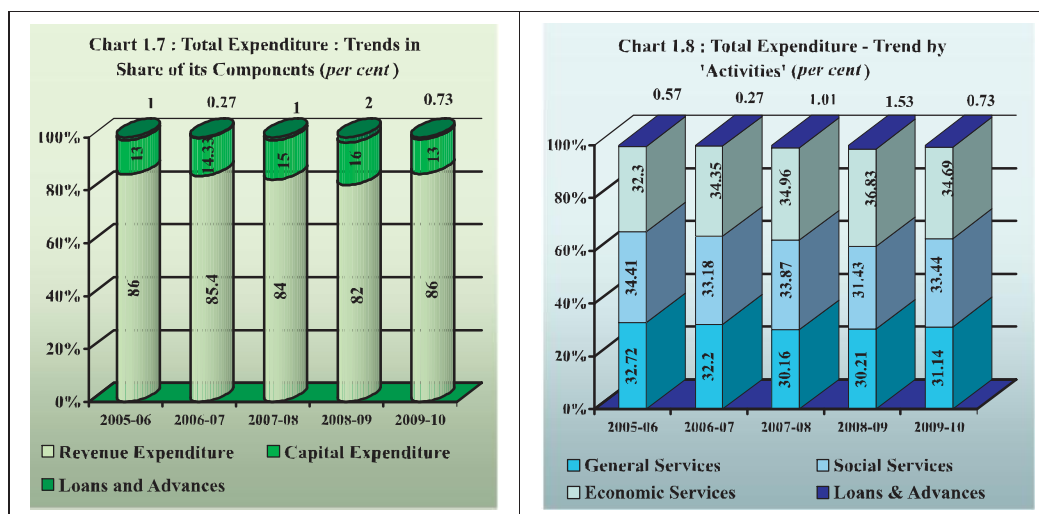
The total expenditure and its compositions during the years 2005-06 to 2009-10 are presented in the **Table 1.15**.

Table 1.15 : Total expenditure and its compositions

Particulars	(Rupees in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Total Expenditure	1,944	2,233	2,672	3,264	3,690
Revenue Expenditure	1,674	1,907	2,253	2,683	3,182
<i>Of which, Non-plan Revenue Expenditure</i>	<i>1,183</i>	<i>1,341</i>	<i>1,532</i>	<i>1,677</i>	<i>2,135</i>
Capital Expenditure	259	320	392	531	481
Loans and Advances	11	6	27	50	27

Chart 1.6 presents the trends in total expenditure over a period of five years (2005-10) 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 ₹ 1,746 crore (89.81 per cent) from ₹ 1,944 crore in 2005-06 to ₹ 3,690 crore. The total expenditure, its annual growth rate, the ratio of expenditure to the State GSDP and to revenue receipts and its buoyancy with respect to GSDP and revenue receipts are indicated in **Table 1.16**.

Table 1.16 : Total Expenditure – Basic Parameters

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Total Expenditure (TE) (Rupees in crore)	1,944	2,233	2,672	3,264	3,690
Rate of growth (per cent)	3.51	14.87	19.66	22.16	13.05
TE/GSDP ratio (per cent)	26.97	26.20	27.76	30.02	29.52
RR/TE ratio (per cent)	89.87	95.92	91.35	86.12	93.41
Buoyancy of Total Expenditure with reference to:					
GSDP (ratio)	0.34	0.82	1.52	1.71	0.87
RR (ratio)	0.27	0.66	1.41	1.46	0.58

The increase of ₹ 426 crore (13.05 per cent) in total expenditure during 2009-10 over previous year was mainly on account of increase of ₹ 499 crore in revenue expenditure offset by decrease in capital expenditure and disbursement of loans and advances by ₹ 50 crore and ₹ 23 crore respectively. While the share of plan expenditure constituted 42 per cent (₹ 1,538 crore) of the total expenditure, the remaining 58 per cent (₹ 2,152 crore) was non-plan expenditure. During the current year, 93 per cent (₹ 3,447 crore) of the total expenditure was met from revenue receipts and the remaining (₹ 243 crore) from capital receipts and borrowed funds. The buoyancy of total expenditure to GSDP stood at 0.87 in 2009-10 due to growth rate of GSDP at much greater pace as compared to that of total expenditure. Similarly, the buoyancy ratio of total expenditure to revenue receipts stood at 0.58 indicating increase in expenditure at a pace much lower than the receipt.

In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments, social and economic services, grants-in-aid and loans and advances. The movement of the relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. Of the total expenditure during 2009-10, expenditure on general services and interest payments, which is considered as non-developmental, together accounted for 31.14 per cent. On the other hand, expenditure on social and economic services together accounted for 68.13 per cent during 2009-10. The relative share of social services declined from 34.41 per cent in 2005-06 to 33.44 per cent in 2009-10. The relative share of economic services, which ranged between 32.30 per cent and 36.83 per cent during the last four year period 2005-09, has decreased to 34.69 per cent in 2009-10, while loans and advances revealed wide fluctuations during the period 2005-09 and stood at 0.73 per cent of total expenditure during 2009-10.

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

(Rupees in crore)					
Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Revenue Expenditure (RE)	1,674	1,907	2,253	2,683	3,182
<i>Of which</i>					
Non-Plan Revenue Expenditure (NPRE)	1,183 (70.67)	1,341 (70.32)	1,532 (68.00)	1,677 (62.50)	2,135 (67.10)
Plan Revenue Expenditure (PRE)	491 (29.33)	566 (29.68)	721 (32.00)	1,006 (37.50)	1,047 (32.90)
Rate of Growth of					
RE (per cent)	4.89	13.92	18.14	19.09	18.60
NPRE (per cent)	5.63	13.36	14.24	9.46	27.31
PRE (per cent)	3.15	15.27	27.39	39.53	4.08
Ratio (per cent)					
RE as percentage of TE	86.11	85.40	84.32	82.20	86.23
NPRE/GSDP (per cent)	16.41	15.74	15.92	15.42	17.08
NPRE as percentage of TE	60.85	60.05	57.34	51.38	57.86
NPRE as percentage of RR	67.72	62.60	62.76	59.66	61.94
Buoyancy Ratio of Revenue Expenditure with					
GSDP	0.47	0.76	1.40	1.47	1.24
Revenue Receipts	0.38	0.62	1.30	1.26	0.82

(Figures in brackets represent percentages to revenue expenditure)

Revenue expenditure constituted 82 per cent to 86 per cent of total expenditure during 2005-10 and increased by 90 per cent from ₹ 1,674 crore in 2005-06 to ₹ 3,182 crore

in 2009-10. The non-plan revenue expenditure (NPRE) during the same period increased from ₹ 1,183 crore to ₹ 2,135 crore, showing an increase of 80 per cent indicating that the share of NPRE in total revenue expenditure declined from 71 per cent in 2005-06 to 67 per cent in 2009-10. As a result, plan revenue expenditure (PRE), which normally covers the maintenance expenditure incurred on services, has increased by ₹ 556 crore during 2005-10 keeping its share in total revenue expenditure between 29 and 33 per cent during the period.

The NPRE constituted a dominant share of more than 67 per cent in the revenue expenditure during 2009-10 and has increased by ₹ 458 crore over the previous year. The growth of NPRE during 2009-10 increased to 27.31 per cent against 9.46 per cent during the previous year mainly due to increased expenditure on Education, Sports, Art and Culture (₹ 63 crore) followed by Agriculture and Allied Activities (₹ 55 crore), Health and Family Welfare (₹ 41 crore) and Rural Development (₹ 36 crore). As a result, PRE, which normally covers the maintenance expenditure incurred on services, has increased by ₹ 41 crore only (4.08 per cent) over previous year.

The NPRE at ₹ 2,135 crore during the year was 38.10 per cent (₹ 589 crore) higher than the normatively assessed level of ₹ 1,546 crore by TFC (Table 1.18).

Table 1.18 : Non-Plan Revenue Expenditure: Actuals vis-à-vis Normative Assessment by TFC

(Rupees in crore)

Sectors	TFC Recommendation					Actuals				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
Interest Payments	197	212	228	244	263	191	203	189	212	234
Pension	88	97	106	117	129	93	118	135	172	208
Other General Services	236	249	266	273	285	319	357	424	519	610
Social Service	399	433	471	512	557	341	390	439	478	630
Economic Service	202	212	223	235	247	239	273	345	296	453
Committed Liabilities			56	61	65	NA				
Total	1122	1203	1350	1442	1546	1183	1341	1532	1677	2135

Except for interest payments and expenditure on social services during 2005-09, the actual expenditure incurred on all other components of NPRE was more than the assessments made by the TFC. The total NPRE during 2009-10 also exceeded the assessment made by the State Government in its FCP (₹ 1,645 crore) by 29.79 per cent (₹ 490 crore).

1.7.1.3 Capital Expenditure

Capital expenditure constituted only 13 per cent to 16 per cent of total expenditure during 2005-10. Compared to 2008-09, capital expenditure during the current year (2009-10) decreased by 9.42 per cent mainly due to less expenditure on Urban Development (by ₹ 38 crore). Consequently, the State Government failed to fulfil its

commitment of incurring expenditure on capital account made in the FCP (₹ 551 crore), which fell short of ₹ 70 crore (12.7 per cent).

1.7.2 Committed Expenditure

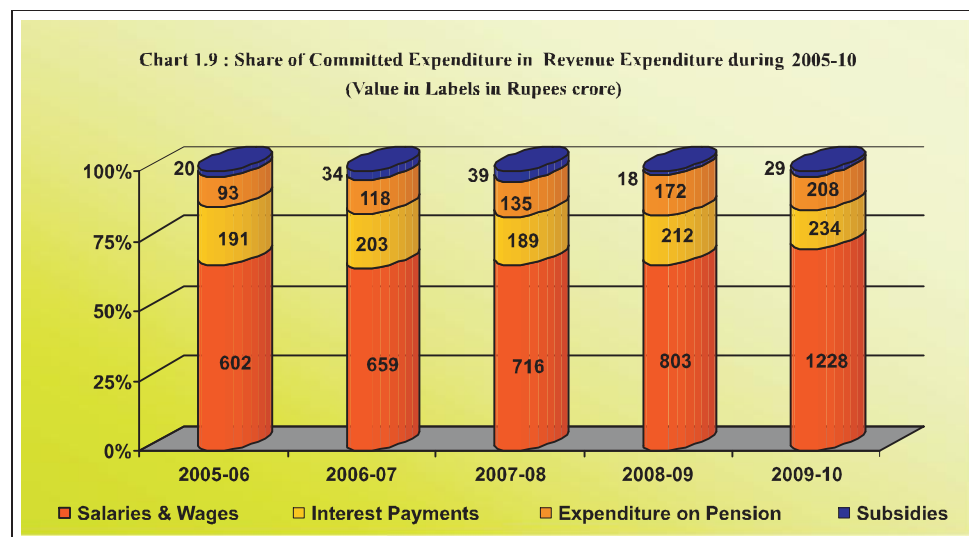
The committed expenditure of the State Government on revenue account mainly consists of interest payments, expenditure on salaries and wages, pensions and subsidies. **Table 1.19** and **Chart 1.9** present the trends in the expenditure on these components during 2005-10.

Table-1.19 : Components of Committed Expenditure

(Rupees in crore)

Components of Committed Expenditure	2005-06	2006-07	2007-08	2008-09	2009-10
Salaries & Wages	602 (34)	659 (31)	716 (29)	803 (29)	1228 (36)
<i>Of which</i>					
Non-Plan Head	502 (29)	547 (26)	596 (24)	651 (23)	1011 (29)
Plan Head	100 (6)	112 (5)	120 (5)	152 (6)	217 (6)
Interest Payments	191 (11)	203 (9)	189 (8)	212 (8)	234 (7)
Expenditure on Pension and other retirement benefits	93 (5)	118 (6)	135 (6)	172 (6)	208 (6)
Subsidies	20 (1)	34 (2)	39 (2)	18 (1)	29 (1)
Other Components of revenue expenditure, i.e., other than committed expenditure	768 (44)	893 (42)	1,174 (48)	1,478 (53)	1483 (43)

(Figures in the parentheses indicate percentage to Revenue Receipts)



1.7.2.1 Salaries and Wages

Salaries and wages during 2009-10 alone accounted for around 36 per cent of the revenue receipts of the State during the year. It increased by around 53 per cent from ₹ 803 crore in 2008-09 to ₹ 1,228 crore in 2009-10, an increase of ₹ 425 crore, mainly due to implementation of recommendations of State's Pay Commission. Expenditure on salaries and wages under non-plan head during 2009-10 increased ₹ 360 crore (55.30 per cent) over the previous year, whereas this expenditure on plan

head increased by ₹ 65 crore (42.76 per cent) over the previous year. Non-plan salary and wage expenditure ranged between 81.07 per cent and 83.39 per cent of total expenditure on salaries and wages during 2005-10. The State could not restrict the expenditure on salaries and wages during 2009-10 as assessed in its FCP (₹ 1,157 crore). This expenditure was 44.81 per cent of the revenue expenditure, net of interest payments and pension, as against TFC norm of 35 per cent.

1.7.2.2 Interest Payments

Interest payments increased by 23 per cent from ₹ 191 crore in 2005-06 to ₹ 234 crore in 2009-10. Compared to previous year, interest payments during 2009-10 increased by 10 per cent. The State was, however, successful in restricting the interest payments during 2009-10 as assessed in its FCP (₹ 233 crore). Interest payments were on market loans (₹ 117 crore), Special Securities issued to National Small Savings Fund of the Central Government (₹ 29 crore), other internal debt (₹ 21 crore), loans and advances received from Central Government (₹ 27 crore) and Small Savings, Provident Fund, etc. (₹ 40 crore). Of the total interest payments during the year, about 50 per cent (₹ 117 crore) were paid on market borrowings. The overall interest payments (₹ 234 crore) was lower than the projections made by the TFC (₹ 263 crore) and FCP (₹ 233 crore) as well as budget estimates (₹ 246 crore) of the year.

1.7.2.3 Pension Payments

The pension payments (including other retirement benefits) indicated an increasing trend during the five year period 2005-10. Pension payments during the current year have increased by ₹ 36 crore, an increase of over 21 per cent over the previous year. The increase in expenditure under pension was mainly due to increase in number of pensioners by 180 (Pensioners: 95; Family pensioners: 79; MLA pensioners: 6) over the previous year. The comparative analysis of actual pension payments and the assessment/projection made by TFC and the State Government shows that actual pension payment exceeded the normative assessment made by TFC by ₹ 79 crore and the assessment made by the State Government in its FCP & Budget for the year 2009-10 by ₹ 76 crore and ₹ 32 crore respectively as shown in (Table 1.20).

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

(Rupees in crore)

Year	Assessment made by the TFC	Assessment made by the State Government in		Actuals	Expenditure in excess of Assessment made in the		
		FCP	Budget		TFC	FCP	Budget
2005-06	88	93	84	93	5 (6)	...	9 (11)
2006-07	97	95	95	118	21 (22)	23 (24)	23 (24)
2007-08	106	113	113	135	29 (27)	22 (19)	22 (19)
2008-09	117	122	126	172	55 (47)	50 (41)	46 (37)
2009-10	129	132	176	208	79 (61)	76 (58)	32 (18)

(Figures in brackets represent percentages)

1.7.2.4 Subsidies

Table 1.19 shows that the expenditure on payment of subsidies increased by 61 per cent from ₹ 18 crore in 2008-09 to ₹ 29 crore during the current year. The increase of ₹ 11 crore is mainly due to increase in payment of subsidies by the departments like Fisheries by (₹ 3.57 crore), and power by (₹ 6.14 crore). The subsidy to power sector (₹ 17.84 crore) during the year 2009-10 was ₹ 5.34 crore (42.72 per cent) higher than the assessment made by the State Government in FCP for the year 2009-10 (₹ 12.50 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.

Financial Assistance to Institutions	2005-06	2006-07	2007-08	2008-09	(Rupees in crore)	
					2009-10	
					Budget Estimate	Actuals
University and Educational Institutions	151	164	243	245	290	291
Co-operative Societies	2	5	2	2	1	1
District Councils	3	1	12	17	1	1
Municipalities	2	1	2	2	2	2
Power sector	7	35	100	209	94	111
Other Institutions ¹²	2	2	9	4	12	35
Total	167	208	368	479	400	441
Assistance as percentage of RE	9.98	10.91	16.33	17.85		13.86

The financial assistance extended to local bodies and other institutions with inter-year variations decreased by 8 per cent from ₹ 479 crore in 2008-09 to ₹ 441 crore in 2009-10. The share of financial assistance in revenue expenditure also decreased from 17.85 per cent in 2008-09 to 13.86 per cent during the current year. The State Government failed to restrict the expenditure on payment of financial assistance within the projection made in its annual budget for the year 2009-10.

University and Educational Institutions were the major recipients as 64 per cent of the total financial assistance during 2009-10 was given to them. The share under this sector increased by 19 per cent i.e. from ₹ 245 crore during 2008-09 to ₹ 291 crore during the current year. Of ₹ 291 crore, ₹ 101 crore was given to Non Government Primary Schools and ₹ 62 crore to Non Government Secondary School.

¹² Other Institutions (figures for 2009-10 in brackets): Medical and Public Health (₹ 16.58 crore), Water Supply and Sanitation (₹ 17 crore), Social Security and Welfare (₹ 0.32 crore), Welfare of Handicapped & Women Welfare (₹ 0.08 crore), Forestry and Wildlife (₹ 0.56 crore) and Village and Small Industries (₹ 0.12 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 Adequacy of Public Expenditure

The expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Governments. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average. **Table 1.22** analyses the fiscal priority and fiscal capacity of the State Government with regard to development expenditure, social sector expenditure and capital expenditure during the current year.

Table 1.22 : Fiscal Priority of the State during 2009-10

Fiscal priority by the State	AE/GSDP	DE ¹³ /AE	SSE/AE	CE/AE	Education/ AE	Health/ AE
All NE States' Average (Ratio)-2005-06	29.92	65.98	32.91	16.21	18.06	4.63
Meghalaya's Ratio-2005-06	26.97	67.13	34.41	13.32	16.05	5.71
All NE States' Average (Ratio)-2009-10	37.18	64.98	34.64	17.55	16.47	5.65
Meghalaya's Ratio-2009-10	29.52	68.43	33.44	13.04	15.34	6.23

AE: Aggregate Expenditure, i.e., Total Expenditure (Revenue, Capital and Loans & advances disbursed). DE: Development Expenditure. SSE: Social Sector Expenditure. CE: Capital Expenditure.

Table 1.22 shows the fiscal priority given by the Meghalaya Government to various expenditure heads in 2005-06 (the first year of the TFC Award Period) and the current year. The ratio of aggregate expenditure to GSDP for Meghalaya in both the years (around 27 and 30 *per cent*) is lower than NE States' average. This means that on an average, other NE states are spending a higher proportion of their GSDP annually. The ratio of development expenditure as a proportion to aggregate expenditure for Meghalaya is higher than NE States' Average which indicates that the state is giving higher priority to this category of expenditure as compared to other NE States.

In social sector expenditure involving the major components, viz. education and health, the Meghalaya Government's expenditure on health as a percentage of AE was higher than the NE States' Average during both the years 2005-06 and 2009-10, whereas the expenditure on education sector as a percentage of AE during these years was lower compared to NE States' Average. *Considering the fact that the literacy rate*

¹³ Development Expenditure includes Revenue Expenditure, Capital Expenditure and Loans and Advances disbursed on Social and Economic Services.

(62.6 per cent) of Meghalaya is below the All India Average Literacy Rate (64.8 per cent) as per Census, 2001 (**Appendix 1.1-Part D**), the State Government may consider to give priority to this sector of social services.

In regard to CE, the ratio is lower in both 2005-06 and 2009-10 than the NE States' Average. The CAGR of this expenditure between 2000-01 and 2008-09 (11.27 per cent) was much lower than that of NE States (19.67 per cent) which further declined to 8.76 per cent between 2000-01 and 2009-10. This indicated that the Government of Meghalaya had been attaching low priority to this sector.

1.8.2 Efficiency of Expenditure Use

In view of the importance of public expenditure on development heads from the point of view of social and economic development, it is important for the State Governments to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods¹⁴. Apart from improving the allocation towards development expenditure¹⁵, particularly in view of the fiscal space being created on account of decline in debt servicing in recent years, 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 1.23** 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 1.24** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

¹⁴ *Core public goods* are which all citizens enjoy in common in the sense that each individual's consumption of such a good leads to no subtractions from any other individual's consumption of that good, e.g. enforcement of law and order, security and protection of our rights; pollution free air and other environmental goods and road infrastructure etc. *Merit goods* are commodities that the public sector provides free or at subsidised rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the government and therefore, wishes to encourage their consumption. Examples of such goods include the provision of free or subsidised food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation, etc.

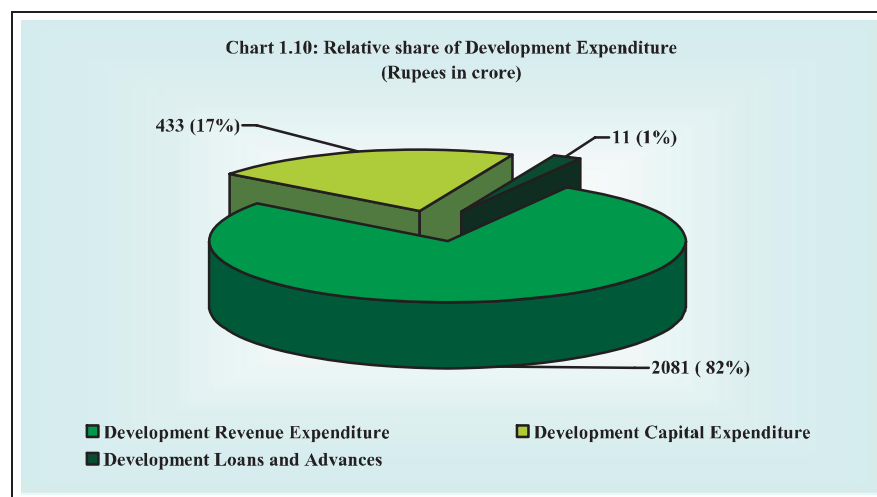
¹⁵ The analysis of expenditure data is disaggregated into development and non-development expenditure. All expenditure relating to Revenue Account, Capital Outlay and Loans and Advances is categorized into social services, economic services and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Table 1.23 : Development Expenditure

Components of Development Expenditure	2005-06	2006-07	2007-08	2008-09	(Rupees in crore)	
					2009-10	
					BE	Actuals
Development Expenditure (a to c)	1,305 (67.13)	1,510 (67.62)	1,859 (69.57)	2,271 (69.58)	3,322 (74.87)	2,525 (68.43)
a. Development Revenue Expenditure	1,049 (53.96)	1,204 (53.92)	1,475 (55.20)	1,745 (53.46)	2,528 (57)	2,081 (56.40)
b. Development Capital Expenditure	248 (12.76)	304 (13.61)	364 (13.62)	483 (14.80)	761 (17.15)	433 (11.73)
c. Development Loans and Advances	8 (0.41)	2 (0.09)	20 (0.75)	43 (1.32)	33 (0.74)	11 (0.30)

(Figures in parentheses indicate percentage to aggregate expenditure)

The development expenditure increased by 11 per cent over previous year. During the current year, though the State Government earmarked 74.87 per cent of the estimated aggregate expenditure for development expenditure, this assessment fell short by 6.44 per cent at the end of the year. The relative share of development expenditure to total expenditure during 2009-10 given in **Chart 1.10** below showed that 82 per cent of the development expenditure was incurred on revenue account and only 17 per cent was utilised for capital expenditure.



Predominant share of revenue expenditure in development expenditure indicated that more emphasis was given on maintenance of the current level of services (including 15 per cent revenue expenditure on salaries and wages under social services and 8.52 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 1.24 : Efficiency of Expenditure Use in Selected Social and Economic Services

(In per cent)

Social/Economic Infrastructure	2008-09		2009-10	
	Ratio of Capital Expenditure to Total Expenditure ¹⁶	In Revenue Expenditure, the share of Salary & Wages	Ratio of Capital Expenditure to Total Expenditure ¹⁶	In Revenue Expenditure, the share of Salary & Wages
Social Services (SS)				
General Education	1.03	33.55	0.42	38.34
Technical Education, Sports, Arts and Culture	1.57	25.30	1.01	32.57
Health and Family Welfare	13.39	79.17	9.37	75.92
Water Supply & Sanitation, Housing and Urban Development	58.92	29.39	41.13	38.40
Other SS	0.66	22.37	0.13	23.71
Total (SS)	21.58	38.52	11.46	43.30
Economic Services (ES)				
Agriculture and Allied Activities	5.83	47.98	5.12	44.38
Irrigation & Flood Control	56.01	40.87	56.04	57.41
Power and Energy	-	-	-	-
Transport	68.52	-	66.76	-
Other ES	8.07	10.43	7.52	15.70
Total (ES)	21.79	20.39	22.76	27.41

Social Services

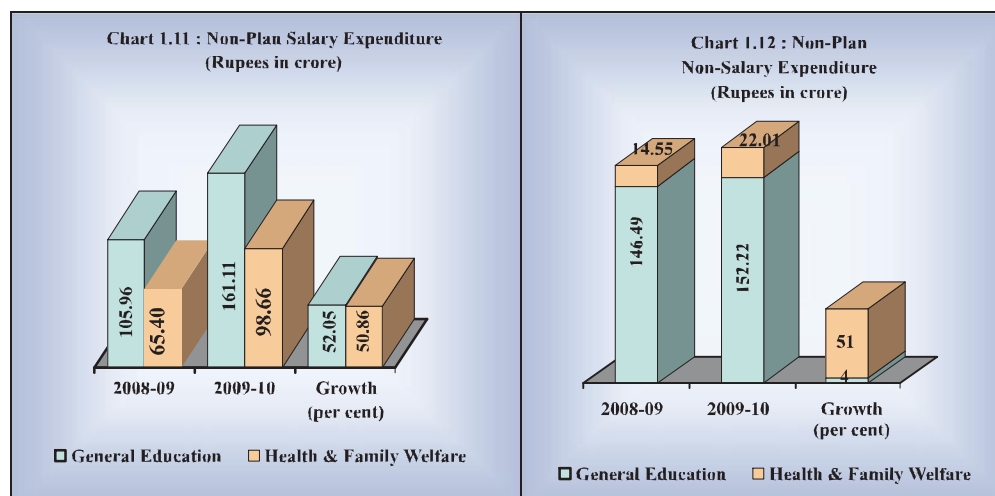
The trends in capital expenditure on social services during 2008-10 reveal that the share of capital expenditure to total expenditure during these years was around 22 and 11 *per cent*, which indicated that the revenue expenditure was dominant. In all the categories of social services there was deterioration in the share of capital expenditure during the year. General Education Sector was the worst sufferer as only 0.42 *per cent* of total expenditure on this sector was incurred on capital account during 2009-10 against 1.03 *per cent* during the preceding year.

Of the revenue expenditure on social services, the share of salary and wage component has increased from 38.52 *per cent* in 2008-09 to 43.30 *per cent* in 2009-10. The non-salary and wage expenditure on social services has increased by 25.15 *per cent* during 2009-10 from ₹ 494.88 crore in 2008-09 to ₹ 619.36 crore in 2009-10. Within the priority sectors, non-salary and wage component continue to have the dominant share under education, sports, art and culture, health and family welfare and water supply, sanitation, housing and urban development. High salary and wage expenditure during 2008-09 (79 *per cent*) and 2009-10 (76 *per cent*) was observed under health and family welfare services.

Recognising the need to improve the quality of education and health services, TFC recommended that the non-plan salary expenditure under education, health and

¹⁶ Total revenue and capital expenditure of the services concerned.

family welfare should increase only by 5 to 6 per cent, while non-salary expenditure under non-plan heads should increase by 30 per cent per annum during the award period. **Charts 1.11** and **1.12** provide non-plan salary and non-salary expenditure under social services incurred during 2008-10.



The expenditure on non-plan salary and wage component under both education and health and family welfare sectors increased by 52.05 per cent and 50.86 per cent respectively over the previous year and far surpassed the recommendation of the TFC. While the increase of 51 per cent in non-salary (non-plan) expenditure under health and family welfare sector was quite satisfactory when compared to the 30 per cent as recommended by the TFC, the increase of mere 4 per cent in this parameter of expenditure under education was much below the recommendation of the TFC. Thus expenditure pattern under both these sectors needs correction in the ensuing years.

Economic Services

The expenditure on economic services during 2009-10 (₹ 1,280 crore) accounted for about 35 per cent of the total expenditure and 51 per cent of the development expenditure during the year. Out of the total expenditure on economic services during the current year, 30 per cent was incurred on agriculture and allied services, 23 per cent on transport and 10 per cent on energy.

The trends in revenue and capital expenditure on economic services indicate that capital expenditure consistently increased from ₹ 134 crore in 2005-06 to ₹ 291 crore (117 per cent) in 2009-10. However, the share of capital expenditure to total expenditure on economic services during 2008-10 almost remained constant at 22-23 per cent which indicated that the revenue expenditure was dominant. Revenue expenditure also consistently increased from ₹ 494 crore in 2005-06 to ₹ 989 crore (100 per cent) in the current year. An increase of ₹ 49 crore (5 per cent) during 2009-10 over the previous year in revenue expenditure was mainly due to the increase under agriculture and allied activities (₹ 114 crore), industry and minerals (₹ 29 crore) and transport (₹ 23 crore), partly offset by decrease under energy (₹ 114 crore) and rural development (₹ 28 crore). Within the revenue expenditure, salary and wage

component constituted 20 per cent and 27 per cent of the total revenue expenditure during 2008-09 and 2009-10 respectively. It increased from ₹ 192 crore in 2008-09 to ₹ 271 crore (41 per cent) during the current year.

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

According to the information furnished by the Directorate of Programme Implementation and Evaluation, there were 12 programmes launched during the year 2009-10 (Appendix-1.6). Some of the programmes where significant shortfall in achievement of targets were noticed are given in Table 1.25 below:

Table 1.25
(Rupees in crore/ Targets, Achievements and Shortfall in numbers)

Flagship Programme	Performance indicator	Budget allocation	Targets	Actual expenditure	Achievement	Shortfall in achievement of targets (per cent)
Indira Awas Yojana (IAY) (New Construction)	Houses constructed	49.31	16440	38.12	9630	6810 (41)
Accelerated Rural Water Supply Programme (ARWSP)	Habitations covered	78.40	400	68.57	218	182 (46)
Total Sanitation Campaign (TSC)	(i) Individual Household Latrines constructed	19.29	85798	12.23	47256	38542 (45)
	(ii) School Toilets		7147		1358	5789 (81)
	(iii) Sanitary Complex		100		18	82 (82)
	(iv) Anganwadi Toilets		1437		162	1275 (89)
	(v) RSM		0		3	-
Accelerated Irrigation Benefit Programme – (AIBP)	Schemes (21 ongoing and 7 new schemes)	27.78	28	27.78	16	12 (43)
	Beneficiaries		1119		683	436 (39)
Rural Electrification (RGGVY)	Electrification	100.98		43.60		
	(i)UEV -		(i)1533		44	1489 (97)
	(ii)DEV -		(ii)369		99	270 (73)
	(iii)EV -		(iii)3513		703	2810 (80)
	(iv)H/H -		(iv)200624		0	200624 (100)
(v)BPL (Rhh)-	(v)114507	21569	92938 (81)			
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	Urban Infrastructure & Governance, Basic Service to the Urban Poor, Urban Infrastructure Development of Small & Medium Towns, Integrated Housing & Slum Development Programmes	61.34	7 projects	32.94	Under progress	

As can be seen from the above table, shortfall in achievement of targets under most of the flagship programmes ranged between 41 per cent and 100 per cent. Against the target for construction of 16,440 houses under Indira Awas Yojana, achievement was only 9630. Under Accelerated Rural Water Supply Programme, 218 habitations were covered against the target of 400. Out of all the above programmes, major shortfall in achievement of targets (73 per cent to even 100 per cent) during 2009-10 was under Rural Electrification.

Review of one of the flagship programmes, viz. Jawaharlal Nehru National Urban Renewal Mission (JNNURM) revealed the followings:

- ✚ **JNNURM** was launched by the GOI with the objectives of development of infrastructure in cities, providing basic services to the urban poor, etc.
- ✚ In respect of three projects viz. storm water drainage master plan for Shillong, Augmentation of water supply in Shillong and purchase of buses for Shillong city, under urban infrastructure and governance, JNNURM released ₹ 58.59 crore during 2008-09 (₹ 51.45 crore) and 2009-10 (₹ 7.14 crore). But, no work was initiated during 2008-09 due to delay in selection of implementing agency by the State Government.
- ❖ For the development of infrastructure in cities, supply orders for purchase of buses were issued in July 2010.
- ❖ During 2009-10, though expenditure of ₹ 49.60 crore was incurred by the implementing agency for storm water drainage master plan for Shillong, stipulated for completion by March 2010, and augmentation of water supply in Shillong by March, 2011, achievements were only 46.81 per cent and 7 per cent respectively till 31 March 2010.
- ✚ For two other projects under Basic Services for Urban poor, JNNURM released ₹ 20.54 crore during 2007-10. Though, ₹ 5.94 crore was released during 2007-08 for construction of housing units - Phase I, scheduled to be completed by August 2009, and Phase II, scheduled to be completed by January 2010, no expenditure was incurred by the Agency during that period. There was delay of six to seven months in initiating the work because of delay in transfer of land belonging to Housing Department to the Urban Affair Department. As of 31 March 2010, total expenditure incurred on this project was ₹ 11.10 crore and the work was in progress. For the project 'Slum Improvement Programme' ₹ 5.32 crore was released during 2009-10, but only tender was floated till March 2010.
- ✚ For Solid Waste Management Project (Tura & Nongpoh) under Urban Infrastructure Development Scheme, ₹ 6.45 crore was released during 2008-10, but only tender was invited till March 2010.
- ✚ Against release of ₹ 5.19 crore during 2007-08 (₹ 0.91 crore) and 2008-09 (₹ 4.28 crore) for construction of dwelling units for urban poor at Tura Unit, expenditure of only ₹ 0.38 crore was incurred during 2009-10. The delay in initiation of the work was reported as due to litigation. For Williamnagar and Nongpoh units, JNNURM released ₹ 6.73 crore during 2009-10. But there was no achievement till March 2010.
- ✚ Thus, due to lack of proper and timely planning by the Department, the objectives for which funds were released by the JNNURM could not be achieved so far besides blocking of ₹ 41.74 crore.

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 2009-10, as of 31 March 2010, there were 446 ongoing projects in the State. The department-wise information pertaining to incomplete projects as on 31 March 2010 even after target date(s) of completion is given in **Table 1.26**.

Table 1.26 : Department-wise Profile of Incomplete Projects

(Rupees in crore)

Department	Number of incomplete projects	Initial estimated cost	Original estimated cost of two projects which were revised		Revised cost of two incomplete Projects	Cost overrun of two projects which were revised	Cumulative actual expenditure as on 31 March 2010
			Number	Amount			
Public Health Engineering	22	60.94	1	1.42	4.36	2.94	41.56
Public Works	29	63.47	1	1.52	2.12	0.60	51.89
Agriculture (Irrigation Wing)	8	17.35	1	2.72	5.96	3.24	11.90
Total	59	141.76	3	5.66	12.44	6.78	105.35

Source: Finance Accounts 2009-10.

As can be seen from the above table, 59 projects stipulated for completion on or before 31 March 2010 at an estimated cost of ₹ 141.76 crore, remained incomplete with an expenditure of ₹ 105.35 crore till March 2010. Out of 59 projects, 47 remained incomplete for two to five years, seven for six to 11 years and one project involving ₹ 4.32 crore remained incomplete for 24 years (year of commencement in respect of four projects not available). The revised cost of three incomplete projects increased by 120 per cent from ₹ 5.66 crore (estimated cost) to ₹ 12.44 crore (total revised cost) resulting in a total cost overrun of ₹ 6.78 crore. The photograph given below would indicate actual state of affairs of one of the incomplete projects targeted for completion by March 2010:



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 of 31 March 2010, the State Government had invested ₹ 286.19 crore in Statutory Corporations, Government Companies and Co-operative Societies (**Table 1.27**). The average return on this investment was less than one *per cent* during 2005-10, while the Government paid interest at an average rate of 6.34 *per cent* on its borrowings during the period.

Table 1.27 : Return on Investment

Investment/Return/Cost of Borrowings	2005-06	2006-07	2007-08	2008-09	2009-10
Investment at the end of the year (Rupees in crore)					
(i) Statutory Corporations	37.08	40.19	40.34	40.79	70.91
(ii) Government Companies	102.05	102.29	102.59	112.92	152.51
(iii) Co-operative Societies	38.19	40.68	43.86	46.72	62.77
Return (Rupees in crore)	0.01	0.01	0.02	0.03	0.04
Return (<i>per cent</i>)	0.01	0.01	0.01	0.01	0.01
Average rate of interest on Government borrowing (<i>per cent</i>)	8.06	7.62	6.40	6.32	6.34
Difference between interest rate and return (<i>per cent</i>)	8.05	7.61	6.39	6.31	6.33

As of March 2010, the State Government had invested ₹ 70.91 crore in two Statutory Corporations, ₹ 152.51 crore in eight Government Companies and ₹ 62.77 crore in 1,442 Co-operative Societies. Of the two Statutory Corporations, bulk of the investment (₹ 68.97 crore) was made to the Meghalaya Transport Corporation Limited during 1986-2010 despite accumulated loss of ₹ 62.61 crore sustained by the Corporation up to 31 March 2009. Out of ₹ 152.51 crore invested in Government Companies, ₹ 63.46 crore was invested in six loss making Companies, which had accumulated loss of ₹ 27.91 crore as detailed in **Table 1.28**. Up-to-date working results of one Government company and all the co-operative societies had not been intimated (September 2010).

Table 1.28 : Details of loss making Government Companies

Name of Companies	(Rupees in crore)			
	Amount invested up to March 2010	Invested up to	Accumulated loss	Period up to ¹⁷
Mawmluh Cherra Cement Ltd.	47.72	2009-10	2.85	2009-10
Meghalaya Tourism Development Corporation Limited	7.96	2001-02	3.12	2009-10
Meghalaya Government Construction Corporation Limited	0.75	2000-01	12.77	2009-10
Meghalaya Handloom and Handicrafts Development Corporation Limited	2.74	2009-10	1.75	2009-10
Meghalaya Mineral Development Corporation Limited	2.32	2001-02	5.27	2009-10
Forest Development Corporation of Meghalaya Limited	1.97	2000-01	2.15	2007-08
Total	63.46		27.91	

¹⁷ Accounts for the subsequent years are in arrears.

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 to many of these institutions/organisations. **Table 1.29** presents the outstanding loans and advances as on 31 March 2010, interest receipts *vis-à-vis* interest payments during the last three years.

Table 1.29 : Average Interest Received on Loans and Advances given by the State Government

Particulars	(Rupees in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Opening Balance	488	480	469	479	511
Amount advanced during the year	11	6	27	50	27
Amount recovered during the year	19	17	17	18	17
Closing Balance	480	469	479	511	521
Net Addition	- 8	- 11	10	32	10
Interest Receipts	1.48	1.36	1.65	2.04	2.59
Interest received as <i>per cent</i> to outstanding Loans and Advances	0.31	0.29	0.35	0.41	0.50
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government	8.06	7.62	6.40	6.32	6.34
Difference between interest payments and receipts (<i>per cent</i>)	7.75	7.33	6.05	5.91	5.84

Loans and advances given by the State Government during 2009-10 decreased by 46 *per cent* over previous year. During 2005-10, recovery of loans and advances was ₹ 88 crore against ₹ 121 crore advanced during the period. The total outstanding loans and advances as on 31 March 2010 was ₹ 521 crore. As the interest received as *per cent* to outstanding loans and advances was much lower than the cost at which the State Governments borrows, the TFC in its restructuring plan of State finances assumed a 7 *per cent* return on outstanding loans and advances to be achieved in a graded manner by the terminal year of the forecast period (2005-10). *The assumption of the TFC, however, remained unfulfilled in Meghalaya because of a nominal return of 0.5 per cent on outstanding loans and advances given by the State Government till the end of the forecast period.*

Out of the outstanding loans of ₹ 521 crore, ₹ 441 crore pertained to power projects. It was noticed that the electricity charges of ₹ 80.31 crore outstanding from the State Government agencies to the Meghalaya State Electricity Board (MeSEB) (renamed as Meghalaya Energy Corporation Ltd.) till March 2008 were liquidated by the Government of Meghalaya in April 2008 through a one time settlement of ₹ 50 crore. Even so, in a matter of 23 months from April 2008 to February 2010, the electricity dues from State Government consumers had again accumulated to ₹ 11.25 crore. This was due to failure of the MeSEB to take action for discontinuance of power supply against errant government consumers as per Section 56 of the Electricity Act, 2003.

1.9.4 Cash Balances and Investment of Cash balances

Table 1.30 depicts the cash balances and investments made by the State Government out of cash balances during the year.

Table 1.30 : Cash Balances and Investment of Cash Balances

Particulars	(Rupees in crore)		
	As on 1 st April 2009	As on 31 March 2010	Increase(+)/ decrease (-)
Cash Balances	501.64	440.12	(-) 61.52
Investments from Cash Balances (a & b)	552.48	501.78	(-) 50.70
a. GOI Treasury Bills	543.73	493.03	(-) 50.70
b. GOI Stock/Securities	8.75	8.75	-
Fund-wise break-up of Investment from Earmarked balances (a & b)	68.53	82.62	(+) 14.09
a. Sinking Fund Investment Account	68.50	82.59	(+) 14.09
b. Other Development and Welfare Fund	0.03	0.03	-
Interest Realised on investment of cash balance	15.78	20.68	4.90

Cash balances of the State Government at the end of the current year decreased from ₹ 501.64 crore in 2008-09 to ₹ 440.12 crore in 2009-10. As on 31 March 2010, the State Government has invested ₹ 493.03 crore in GOI Treasury Bills and ₹ 8.75 crore in GOI stock/securities. During 2009-10, interest of ₹ 20.68 crore was earned on investment of cash balance. Further, the Government invested ₹ 82.62 crore in Sinking Fund and Development and Welfare Fund as of March 2010. During 2009-10, the interest receipts against investment on cash balance was 4.12 *per cent*, whereas the State Government raised three open market loans totalling ₹ 770.54 crore during the year at the interest rates of 7.8, 8.24 and 8.27 *per cent* per annum.

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

Under the agreement with the RBI, the Government of Meghalaya has to maintain an all time minimum balance of ₹ 21 lakh with RBI. If the balance falls below the agreed minimum, the Government can take Ordinary WMA from the RBI up to a maximum of ₹ 50.50 crore. In addition, Special WMA not exceeding ₹ 9.16 crore are made available against GOI securities held by the State Government. Overdrafts are given by the RBI if the State has a minus balance after availing of the maximum advance.

During the years 2006-07 to 2009-10, the Government did not have to resort to ways and means Advances and overdraft indicating comfortable position of cash balances of the State.

1.10 Assets and Liabilities

1.10.1 Growth and composition of Assets and Liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.4** gives an abstract of such liabilities and the assets as on 31 March 2010, compared with the corresponding position on 31 March 2009. While the liabilities in this Appendix consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay and loans and advances given by the State Government and cash balances.

1.10.2 Fiscal Liabilities

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

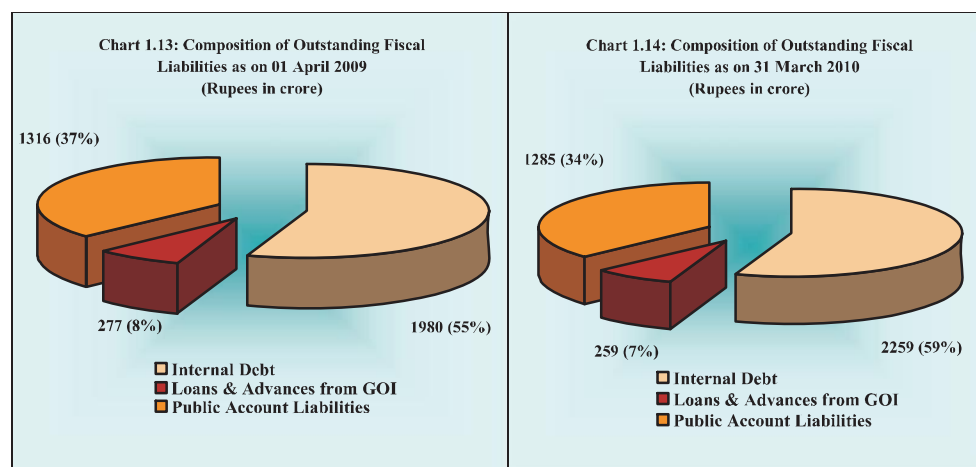


Table 1.31 gives the fiscal liabilities of the State, their rate of growth, the ratio of these liabilities to GSDP to revenue receipts and State's own resources as also the buoyancy of fiscal liabilities with reference to these parameters.

Table 1.31 : Fiscal Liabilities – Basic Parameters

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Fiscal Liabilities ¹⁸ (Rupees in crore)	2,566	2,762	3,141	3,573	3,803
Rate of Growth (<i>per cent</i>)	18.09	7.64	13.72	13.75	6.44
Ratio of Fiscal Liabilities to					
GSDP (<i>per cent</i>)	35.70	32.41	33.63	32.86	30.42
Revenue Receipts (<i>per cent</i>)	146.88	128.94	128.68	127.11	110.33
Own Resources (<i>per cent</i>)	643.11	564.83	606.37	600.50	528.93
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	1.73	0.42	1.06	1.06	0.43
Revenue Receipts (ratio)	1.39	0.34	0.98	0.91	0.28
Own Resources (ratio)	1.06	0.34	2.31	0.93	0.31

Fiscal liabilities of ₹ 3,803 crore during 2009-10 consist of internal debt, e.g., market loans bearing interest, loans from Life Insurance Corporation of India (LIC) and other institutions, *etc.* (₹ 2,259 crore), loans and advances from Central Government (₹ 259 crore), small savings, provident funds (State Provident Funds and Insurance & Pension Funds: ₹ 542 crore) and other non-interest bearing obligations such as deposit of local funds, civil deposits, *etc.* (₹ 743 crore). Overall fiscal liabilities of the State increased from ₹ 2,566 crore in 2005-06 to ₹ 3,803 crore in 2009-10. The growth rate in 2009-10 was 6.44 *per cent* over the previous year. The ratio of fiscal liabilities to GSDP decreased from 32.86 *per cent* in 2008-09 to 30.42 *per cent* in 2009-10. These liabilities stood at 1.10 times the revenue receipts and 5.32 times of the State's own resources at the end of 2009-10. The buoyancy of these liabilities with respect to GSDP during the year was 0.43 indicating that for each one *per cent* increase in GSDP, fiscal liabilities grew by 0.43 *per cent*.

According to **Statement 6** of the Finance Accounts for the year 2009-10, during 1999-2000, the State Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loans. In 2009-10, the Government has appropriated ₹ 14.09 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 2005-06 are given in **Table 1.32**.

¹⁸ Includes Internal Debt, Loans and Advances from Government of India, Small Savings, Provident Funds, *etc.*, Deposits and other non-interest bearing obligations.

Table 1.32 : Guarantees given by the Government of Meghalaya

Particulars	(Rupees in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Maximum amount guaranteed (year end)	504.67	562.02	954.16	1083.19	1033.34
Outstanding amount of guarantees (including interest)	404.38	435.80	750.63	990.25	953.74
Percentage of maximum amount guaranteed to total revenue receipts	28.89	26.24	39.08	38.54	29.97

Government has guaranteed loans raised by various Corporations and others, which at the end of 2009-10 stood at ₹ 953.74 crore (including interest). Bulk of the guaranteed amount (₹ 945.69 crore) was outstanding against the power sector for repayment of principal and payment of interest of REC and market loans. The outstanding amount of guarantees is in the nature of contingent liabilities, which were about 28 *per cent* of revenue receipts of the State during 2009-10. No law under Article 293 of the Constitution had been passed by the State Legislature laying down the maximum limit within which Government may give guarantees on the security of the Consolidated Fund of the State.

As per Meghalaya Fiscal Responsibility and Budget Management Act, 2006 (MFRBM Act, 2006) and Fiscal Policy Strategy (FPS) Statement, the total liabilities on the Consolidated Fund of the State should not be more than 28 *per cent* of the GSDP. **Table 1.33** gives the position of this ratio during 2005-10:

Table 1.33 : Total Liabilities

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Total Liabilities ¹⁹ (Rupees in crore)	2,970	3,198	3,892	4,563	4,757
Ratio of Total Liabilities to GSDP (<i>per cent</i>)	41.20	37.53	40.44	41.96	38.05

It is evident from the above table that the ratio of total liabilities to GSDP not only remained higher than the limit (28 *per cent*) prescribed in the MFRBM Act, 2006 and FPS Statement throughout the entire period 2005-10, but also increased by 3.18 *per cent* over the target fixed in the MTFP Statement.

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

¹⁹ Fiscal liabilities + Outstanding amount of guarantees (including interest).

stabilisation²⁰; sufficiency of non-debt receipts²¹; net availability of borrowed funds²²; burden of interest payments (measured by interest payments to revenue receipts ratio) and maturity profile of State Government securities. **Table 1.34** analyses the debt sustainability of the State according to these indicators for the period of five years beginning from 2005-06.

Table 1.34 : Debt Sustainability: Indicators and Trends

Indicators of Debt Sustainability	(Rupees in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Debt Stabilization (Quantum Spread + Primary Deficit)	65	401	155	- 14	316
Sufficiency of Non-debt Receipts (Resource Gap)	+ 135	+ 104	- 140	- 221	+ 209
Net Availability of Borrowed Funds	204	- 8	190	221	- 4
Burden of Interest Payments (IP/RR Ratio)	0.11	0.09	0.08	0.08	0.07

Table 1.34 reveals that the Debt of the State was stable during 2005-08 since the quantum spread together with primary deficit/surplus remained positive. But it became unstable during 2008-09 as there was substantial amount of primary deficit (₹ 223 crore) which in turn effected the Debt stabilisation. However, the position has been improved during 2009-10 as the negative debt stabilisation in 2008-09 turned positive during the next year indicating a stable debt situation.

The trends in resource gap indicate the oscillation between positive and negative magnitudes, i.e. it remained positive during 2005-07, negative during 2007-09 and again turned into positive during 2009-10 as incremental non-debt receipts during 2009-10 was more than the incremental total expenditure. Persistent negative resource gap indicates the non-sustainability of debt, while the positive resource gap strengthens the capacity of the State to sustain the debt. During 2007-09, there was negative resource gap indicating the non-sustainability of debt. The position was, however, improved during 2009-10 when there was a positive resource gap indicating increasing capacity of the State to sustain the debt in the medium to long run.

Against total debt receipts of ₹ 1,285 crore during the current year, the Government repaid ₹ 1,289 crore as principal and interest on internal debt (₹ 292 crore), loans and advances from the GOI (₹ 45 crore) and small savings, provident funds and other obligations (₹ 952 crore), **as a result of which the State Government utilised ₹ 4 crore of its cash balance for repayment of debt.**

²⁰ A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable, provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate – interest rate) and quantum spread (Debt*rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling.

²¹ Adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure.

²² Defined as the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds.

Table 1.35: Maturity Profile of State Debt

(Rupees in crore)

Maturity Profile ^(a)	Amount	Per cent
0-1 year	142.35	6.31
1-3 years	469.33	20.79
3-5 years	275.20	12.19
5-7 years	592.76	26.26
7 years and above	777.66	34.45
Total	2257.30	100

^(a) As per Finance Accounts.

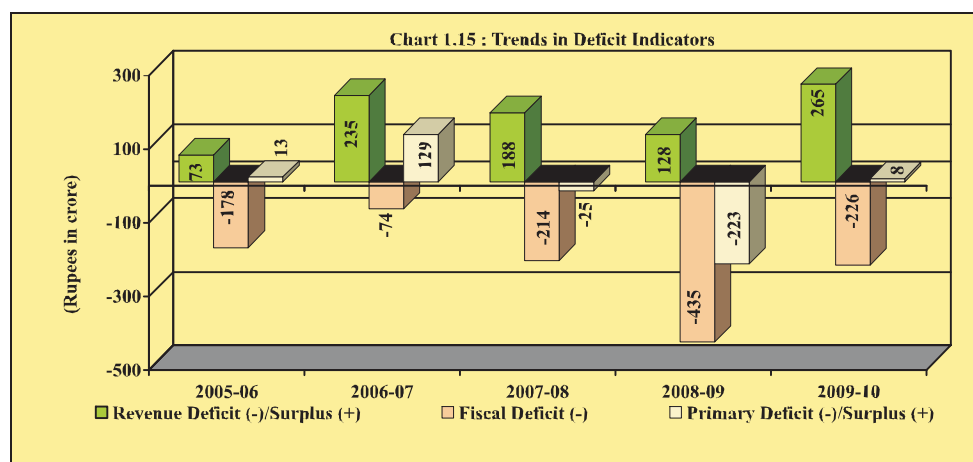
As per data shown in **Table 1.35**, out of the outstanding debt stock of ₹ 2,257.30 crore, 65.55 per cent (₹ 1,479.64 crore) is payable within the next seven years while the remaining 34.45 per cent are to be paid in more than seven years time. A well thought out debt repayment strategy will ensure that no additional borrowings which are maturing in these seven years is undertaken.

1.12 Fiscal Imbalances

Three key fiscal parameters - revenue, fiscal and primary deficits - indicate the extent of overall fiscal imbalances in the Finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to its fiscal health. This section presents trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under FRBM Act/Rules for the financial year 2009-10.

1.12.1 Trends in Deficits

Charts 1.15 and **1.16** present the trends in deficit indicators over the period 2005-10.



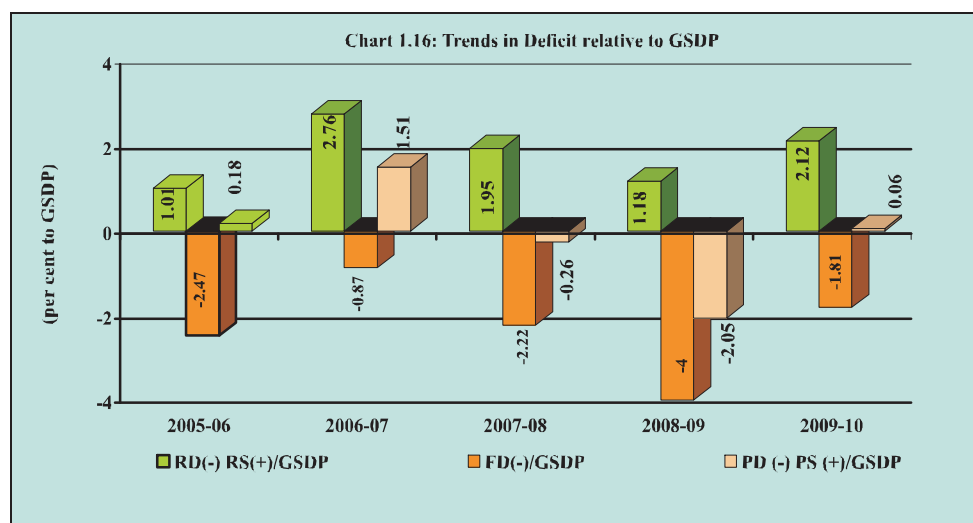


Chart 1.15 reveals that the State had a revenue surplus during the period 2005-10, which increased from ₹ 73 crore in 2005-06 to ₹ 265 crore during the current year. Compared to 2008-09, revenue surplus increased by ₹ 137 crore (107 per cent) mainly on account of increase in revenue receipts by ₹ 636 crore (22.63 per cent) against ₹ 499 crore (18.6 per cent) in revenue expenditure.

The fiscal deficit, which represents the total borrowings of the Government and its total resource gap decreased from ₹ 435 crore in 2008-09 to ₹ 226 crore during 2009-10. The increase in revenue surplus (₹ 137 crore) and decrease in capital expenditure (₹ 50 crore) as well as in loans and advances disbursed (₹ 23 crore) over the previous year led to a decrease in fiscal deficit by ₹ 209 crore during the current year. The State was also successful to restrict the fiscal deficit-GSDP ratio to 1.81 per cent during 2009-10 against 3 per cent earmarked in the MFRBM Act, 2006.

The primary deficit²³ of ₹ 223 crore experienced by the State during 2008-09 took a turnaround in 2009-10 and resulted in a primary surplus of ₹ 8 crore. A sharp decrease of ₹ 209 crore in fiscal deficit and a moderate increase in interest payment (₹ 22 crore) resulted in a primary surplus of ₹ 8 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 1.36**.

²³ Primary deficit, defined as the fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of the fiscal transactions of the States during the course of the year.

Table 1.36 : Components of Fiscal Deficit and its Financing Pattern

(Rupees in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
Decomposition of Fiscal Deficit						
	Fiscal Deficit (-) (1 to 3)	- 178	- 74	- 214	- 435	- 226
1.	Revenue Surplus	73	235	188	128	265
2.	Net Capital Expenditure	259	320	392	531	481
3.	Net Loans and Advances	8	11	- 10	- 32	- 10
Financing Pattern of Fiscal Deficit^(a)						
1.	Market Borrowing	130	164	147	186	192
2.	Loans from GOI	- 16	- 27	- 15	- 54	- 18
3.	Special Securities issued to NSSF	56	22	9	6	61
4.	Loans from Financial Institutions	16	1	7	15	25
5.	Small Savings, PF, etc.	44	36	46	46	67
6.	Reserve Funds	^(b)	3	- 9	^(c)	7
7.	Deposits and Advances	162	- 4	194	233	- 105
8.	Suspense and Miscellaneous	- 9	19	- 37	58	- 40
9.	Remittances	- 4	5	- 1	16	- 25
10.	Increase (-) / Decrease (+) in Cash Balances	- 201	- 145	- 127	- 71	+ 62
11.	Increase or decrease in Ways & Means Advances	0	0	0	0	0
	Overall Deficit (1 to 11) (-)	- 178 (2.47)	- 74 (0.87)	- 214 (2.22)	- 435 (4)	- 226 (1.81)

Figures in brackets indicate *per cent* to GSDP.

^(a) All these figures are net of disbursements/outflows during the year. ^(b) ₹ 0.36 crore only. ^(c) ₹ 0.20 crore only.

There were fiscal deficit during the five year period ending 2009-10, which reached to its peak during 2008-09. During the current year, fiscal deficit declined significantly from ₹ 435 crore in 2008-09 to ₹ 226 crore. During 2009-10, fiscal deficit was mainly met out from market borrowing (₹ 192 crore) and small savings, provident fund, etc. (₹ 67 crore). The net market borrowing increased by 3 *per cent* over the previous year.

1.12.3 Quality of Deficit/Surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) were not having any asset backup. The bifurcation of the primary deficit (**Table 1.37**) 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 1.37 : Primary Deficit/Surplus – Bifurcation of Factors

(Rupees in crore)

Year	Non-debt Receipt	Primary Revenue Expenditure	Capital Expenditure	Loans and Advances	Primary Expenditure	Primary Revenue Surplus	Primary Deficit (-)/ Surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2 -6)
2005-06	1,766	1,483	259	11	1,753	283	+ 13
2006-07	2,159	1,704	320	6	2,030	455	+ 129
2007-08	2,458	2,064	392	27	2,483	394	- 25
2008-09	2,829	2,471	531	50	3,052	358	- 223
2009-10	3,464	2,948	481	27	3,456	516	+8

The bifurcation of the factors resulting into primary deficit or surplus of the State during 2005-10 reveals that throughout this period, the State experienced primary deficit during 2007-09, which was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were sufficient to meet the primary expenditure²⁴ requirements, but was not adequate for capital expenditure and loans and advances. During the current year, there was a primary surplus of ₹ 8 crore which indicates that non-debt receipts of the State were not only sufficient to meet the primary expenditure as well as capital expenditure and loans and advances, but also left some amount for other purpose. However, the extent to which the primary surplus has been on account of decline in capital expenditure during 2009-10 by ₹ 50 crore compared to previous year, which may not be desirable and needs improvement.

1.13 Institutional measures

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

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

²⁴ 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.

and minerals, development of industrial estates, development of hydro-electricity projects, *etc.*

In order to address the shortage of medical staff and enhancing health services, the World Bank has come up with financial support to Meghalaya to establish its first PPP for a new hospital and medical college. A lead transaction advisor, International Finance Corporation (IFC) is extending its global expertise in structuring and implementing PPP transactions to assist the Government on this project. IFC has been engaged by the State Government to offer advice on providing quality healthcare and training at the hospital and medical college²⁵.

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

1.14 Conclusion and Recommendations

The fiscal position of the State viewed in terms of key fiscal parameters – revenue surplus, fiscal deficit, primary deficit – indicated that the State not only maintained revenue surplus during the last five-year period ending 2009-10, but also the revenue surplus reached its peak during the current year. The fiscal deficit of the State has also significantly reduced during 2009-10 compared to previous year and the primary deficit of 2008-09 turned into a primary surplus.

Revenue Receipts

Revenue receipts during 2009-10 grew by 23 *per cent* (₹ 137 crore) over previous year. The tax revenue and non-tax revenue receipts exceeded normative assessment made by TFC by 11 *per cent* and 13 *per cent* respectively. Central transfers comprising State's share of central taxes and grants-in-aid from the Government of India increased by ₹ 512 crore in 2009-10 and contributed around 81 *per cent* of the incremental revenue receipts during the year, indicating central transfers being the key in the increase in revenue receipts of the State. The total loss of revenue due to understatement/short levy/non-levy of taxes, *etc.*, which was in excess of 26 *per cent* of the State's own resources consisting tax and non-tax revenue during 2009-10, indicates the presence of loopholes in resource mobilization. Pending revenue arrears constituted over 20 *per cent* of tax revenue of the State during 2009-10.

The State should make efforts to increase tax compliance, collect revenue arrears reduce tax administration costs and to avoid leakages of revenue.

²⁵ Source: <http://www.igovernment.in>

Revenue and Total Expenditure

The overall revenue expenditure of the State increased by 90 per cent from ₹ 1,674 crore in 2005-06 to ₹ 3,182 crore in 2009-10. The expenditure pattern of the State reveals that though the revenue expenditure as a percentage of total expenditure increased by 4.03 per cent in the current year over previous year, hovered around 86 per cent during the period (2005-10) leaving inadequate resources for expansion of services and creation of assets. Within the revenue expenditure, NPRE at ₹ 2,135 crore in 2009-10 constituted 67 per cent and remained significantly higher than the normatively assessed level of ₹ 1,546 crore by TFC for the year. Further, the salaries and wages, pensions, interest payments and subsidies continued to consume a major share of Revenue Expenditure which was about 53 per cent during 2009-10. The expenditure on non-plan salary and wage component under both education and health and family welfare sectors increased by 52.05 per cent and 50.86 per cent respectively over the previous year and far surpassed the recommendation of the TFC. While the increase of 51 per cent in non-salary (non-plan) expenditure under health and family welfare sector was quite satisfactory when compared to the 30 per cent as recommended by the TFC, the increase of mere 4 per cent in this parameter of expenditure under education was much below the recommendation of the TFC.

Expenditure pattern of the State Government needs correction in the ensuing years. There is also need to give greater fiscal priority to the social sector expenditure and capital expenditure, as the State has a lower expenditure on these categories when compared to the ratio of aggregate expenditure in respect of NE States' Average.

Fiscal Correction Path

During 2009-10, there was significant improvements in all the three major fiscal indicators, viz., revenue surplus, fiscal deficit and primary deficit over previous year. The prevalence of fiscal deficit during 2005-10 indicates continued reliance of the State on borrowed funds, resulting in increasing fiscal liabilities of the State over this period, which stood at 30.42 per cent of the GSDP in 2009-10 and would further increase to 38.05 per cent after incorporating the contingent liabilities in the fold of total liabilities on Consolidated Fund of the State during the year and appears to be quite high especially if compared with the limit of 28 per cent prescribed in the MFRBM Act, 2006.

The average return on investment in Statutory corporations, Government companies and Co-operative societies was less than one per cent during 2005-10, while the Government paid interest at an average rate of 6.32 per cent to 8.06 per cent on its borrowings during the period. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to an unsustainable fiscal situation in medium to long term, unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize additional resources both through the tax and non tax sources in the ensuing years.

The State Government should ensure better value for money in investments, otherwise high cost borrowed funds will continue to be invested in projects with low financial return. Immediate steps need to be taken to restrict the debt-GSDP ratio as per commitment made in the MFRBM Act, 2006 (28 per cent).

Accounting of funds transferred to State Implementing Agencies

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

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