Evaluation of State Finances with Respect to Meghalaya

A study for the Fourteenth Finance Commission

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EXECUTIVE SUMMARY

1. In India the federal fiscal setup provides for special treatment of certain states which are termed as special category states. Fiscal transfers from Union government contribute a significant part of revenues of these special category states which include all the eight states in the north eastern region (NER) and 10 other states. Further, states in the NER have access to another layer of funding from North Eastern Council and under non-lapsable central pool of resources (NLCPR). Being a special category state, Meghalaya has been receiving special funding from the Union government. In 2011-12 out of the total revenue receipts of Rs. 4261 crore, the state's own revenue was 21 percent, with the share of central taxes and grants at 21 percent and 58 percent respectively.

2. Meghalaya continues to have a post-devolution non-plan revenue deficit (NPRD) and successive Finance Commissions have awarded NPRD grants to fill this gap. The NPRD grant awarded to the state has steadily increased from Rs. 1572 crore during the Eleventh Finance Commission to Rs. 2811 crores by the Thirteenth Finance Commission. Despite this increase, the state has been diverting plan grants to meet the increasing non-plan revenue expenditure. In 2011-12 the gap between the non-plan revenue expenditure and revenue receipts (minus plan grants) was to the tune of Rs. 238 crore.

3. The interpretation of indicators of fiscal imbalances in case of Meghalaya has to be considered in the context of special funding from the Union government which is available to the state because of its special category status. The ratio of revenue surplus to gross state domestic product (GSDP) has varied between a low of one percent in 2005-06 to a high of 2.7 percent in 2006-07. Since 2009-10, the surplus in revenue account has continued to fall from 2.1 percent in 2009-10 to 1.7 percent in 2010-11. In 2011-12 the revenue account turned negative for the first time since 2005-06 marking a clear deterioration in the revenue account of the state. The same situation prevails with fiscal deficit, which has deteriorated in the last three years. During 2009-10 to 2011-12, the fiscal situation has deteriorated significantly as the ratio of fiscal deficit to GSDP increased from 1.8 percent in 2009-10 to 6.5 percent in 2011-12.

4. The own revenue to GSDP ratio which was 5.1 percent in 2001-02 increased to 6.5 percent in 2011-12, a 1.4 percentage point increase during the 11 years. During this period, while the own tax revenue-GSDP ratio has increased marginally by 1.2 percentage point, own non-tax revenue-GSDP ratio has remained stagnant at around 2 percent. The low own revenue to GSDP ratio and the slow growth of the ratio is a matter of concern as it points to state's failure to fully exploit and mobilise own revenues.

5. Within own revenues, the share of own tax revenue has increased from 12.1 percent in 2001-02 to 15 percent in 2011-12, while contribution of non-tax revenue has come down from 8.4 percent to 7.9 percent in the same period. Own tax revenue to GSDP ratio has improved in the 11 year under study. In 2001-02, own tax to GSDP ratio of the state was three percent which has improved and stand at 4.2 percent in 2011-12. The principal source of own tax receipt of

Meghalaya is tax on sales and trades. This source contributed an average of three-fourth of the own tax revenues during 2001-02 to 2011-12. State excise is another important contributor to the state's own tax revenues. Together these two sources contributed between 92 percent to 95 percent of the own tax revenues of the state. An important point in own revenue collection is volatility in growth of state's own taxes and non-tax as seen from the variation in the year on year growth rate of own sources of revenues. This affects the revenue collection of the state government.

6. There has been very little effort by the state government to improve the tax GSDP ratio and very little attention is being given to the huge loss of revenue to the state on account of underassessment/short/non-levy/ and evasion of taxes which have been pointed out in successive audit reports of the state government. Going by the audit reports, the state government can augment its meagre own revenues manifold by plugging the loopholes and leakages taking place through a systematic tax evasion and fraud committed year upon year without adequate remedial action. The same is also true for non-tax revenue sources.

7. Nearly two third of non-tax revenue of the state originates from royalty from minerals. The share of this source has strengthened over the last two years reaching 71.5 percent of total non-tax revenues in 2010-11. Contribution from forestry, which is second in terms of contribution to the state's non-tax revenues, has marginally come down from 8.3 percent in 2001-02 to 7.1 percent in 2011-12.

8. For a state with very limited own revenue generating capacity, it is expected that the state government should levy appropriate and rational user charges on social and economic services rendered by it to ensure maximum recovery without affecting the rendering of such services to the common man. Yet user charges are so low that very negligible amount is being recovered from these services. In social services the recovery rate has remained below one percent of revenue expenditure. Similarly recovery from economic services (excluding royalty) at 2.2 percent in 2011-12 has actually dropped when compared to recovery rate in earlier periods. The absence of timely revision of user charges leading to widening gap between receipts and expenditure on public services, shows a clear lack of initiative on the part of the state government to recover even a minimum of the cost involved in extending these services.

9. Another issue which is a cause of concern is the low level of returns from government investments on statutory corporations, government companies and cooperatives. During the period 2001-02 to 2011-12 as against the cumulative investment of Rs. 146 crore on government corporations, companies and cooperatives, the cumulative returns in the form of dividends and profits from these entities was only Rs. 70 lakh.

10. On the expenditure side, the expenditure to GSDP ratio increased from 30.4 percent in 2001-02 to 34.9 percent in 2011-12. However, much of the increase in expenditures went towards meeting expenditure under revenue accounts as reflected in the high revenue expenditure to GSDP ratio. The high revenue expenditures have crowded out capital investment as capital expenditure to

GSDP ratio has increased only marginally from 4.5 percent in 2001-02 to 5.5 percent in 2011-12, a one percentage point increase in 11 years.

11. The state government has also not been very proactive in effective and productive expenditure management as can be seen from high revenue expenditure at around 80 to 85 percent leaving very little for capital expenditure which increases the productive capacity of the state. The proliferation in expenditure on salaries and pensions on account of implementation of the fourth pay commission from 2009-10 has put additional strain on the state's financial position and adversely affected the allocation of resources on non-salary component of social and economic services. There is dearth of measures to improve the technical and allocative efficiency in expenditure. While the state government has implemented measures such as contributory pension scheme for state government employees in 2010, more needs to be done to reduce the expenditure on salaries and wages of the state government, curtail wasteful and non-essential expenditure, reform of public sector enterprises and time bound implementation of public investment projects.

12. Acting on the recommendations of the Twelfth and Thirteenth Finance Commissions, the state government enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act in 2006 and subsequently amended the Act in 2011. In terms of the fiscal targets laid out in the Act, the state government has achieved partial success in meeting the targets. It has been able to maintain surplus in revenue account from 2005-06 to 2010-11. However, in 2011-12 the surplus in revenue account has been replaced by a deficit of Rs. 180 crore. The gross fiscal deficit as percentage of GSDP which was 0.86 percent in 2006-07 had steadily deteriorated to 3.75 percent in 2008-09, exceeding the target of three percent of GSDP by 2008-09. In the following two years the fiscal deficit came down to below three percent of GSDP only to increase sharply to 6.5 percent in 2011-12 which is way above the target of the amended MFRBM.

13. Capital outlay dominated as the major component of gross fiscal deficit touching 430 percent in 2006-07 before decreasing to 80 percent of gross fiscal deficit in 2011-12. Net lending by state government as a component of gross fiscal deficit has progressively come down since 2008-09 and stood at just under three percent in 2011-12. By 2011-12, the revenue surplus enjoyed by the state continuously from 2005-06 to 2010-11 had disappeared and revenue deficit accounted for 17 percent of the gross fiscal deficit in that year. This marks deterioration in the state finances as the government borrowings is now being used to fund the deficit in revenue account of the state. The funding pattern of gross fiscal deficit shows that borrowing from markets and small savings and provident funds are the two main sources of funding. Among financial institutions, National Bank for Rural Development is the main source of financing of the gross fiscal deficit.

14. The ratio of outstanding liabilities to GSDP of the state was 32.1 percent in 2006-07 and subsequently came down to 28.8 percent in 2010-11 but has again risen to 30.0 percent in 2009-10. In 2010-11 outstanding liabilities were 28.8 percent as against the target of 33.1 percent under MFRBM while in 2010-11 it was 31.6 percent as against the target of 32.7. In the case of targets under Medium Term

Fiscal Policy (MTFP) Statement, the state government has failed to restrict the fiscal parameters as prescribed in the respective MTFP except for 2009-10 when it managed to achieve all the three fiscal targets set out in the MTFP.

15. There has been a continuous increase in contingencies liabilities of the state on account of guarantees provided to borrowings of state public sector units (SPSUs). Total outstanding amount of guarantees given by the government stood at Rs. 337 crore in 2004-05. By 2011-12, the guarantees given by the government had climbed to Rs. 1293 crore, an increase of about 284 percent in seven years. Major portion of the guarantees went to the power sector whose share was more than 95 percent during 2004-05 to 2011-12. Given the poor financial position of SPSUs and the limited revenue generating capacity of the state, these guarantees pose a serious risk to the finances of the state government in an event of default by the borrowing SPSUs.

16. All the three autonomous district councils are in poor financial health and have limited own revenue sources. Grants and share of royalty are the two most important sources of revenues the councils. However, there is delay and also ambiguity in the sharing of royalty on minerals between state government and the councils and also on grants received from Union government. The state government has enacted the Meghalaya Finance Commission, Act in 2012 under which a Commission is to be constituted with the objective to review and recommend the distribution of financial resources between state and the local bodies to enable these bodies to perform the functions assigned to them and also to improve the finances of these bodies. However, even after more than a year of the enactment of the Act, the state government is yet to constitute the Commission.

17. At present there are 14 working state public sectors undertakings (SPSUs) in Meghalaya and all of them are in poor financial health. The total investment in these enterprises as of 2011-12 was Rs. 1565.3 crore, of which state government's share stood at 40.6 percent. The state power utilities were the highest recipients of government support with 95 percent of total subsidies and grants provided to SPSUs in 2011-12 going to this sector. Power sector also accounts for majority of guarantees provided by the state government. While the state government continues to invest in SPSUs, majority of these enterprises have failed to provide returns on their investment. In 2011-12, only two units posted combined net profits of Rs. 1.24 crore, while the loss incurred by the other 12 enterprises was Rs. 87 crore.

Chapter 1: Introduction

1.1 Scope and Organisation of the Study

The present study forms part of the study entitled 'Evaluation of State Finances' commissioned by the Fourteenth Finance Commission covering all the states of the country. This study examines the state of public finances of Meghalaya covering a period from 2001-02 to 2011-12. We have covered most of the 14 evaluation issues listed in the Terms of Reference (TOR) of the study[1].

Our analysis of the state finances of Meghalaya is organised into the seven chapters starting with the present chapter which outlines the chapter plan and also provides an overview of the demographic and socio economic characteristics of Meghalaya. In chapter 2 we present an outline of the state finances and also examine the special status that the state enjoys in the context of central assistance. Chapter 3 to 7 covers the 14 TOR of the study, with each of the chapter covering one or more of related issues. Chapter 3 examines the trends and issues in own tax and non-tax revenues (TOR 1 and 2) while chapter 4 which examines the trends, structure and issues related to expenditures (TOR 3). Chapter 5 covers issues related to fiscal imbalances, state debt and liabilities. The implementation of the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act and achievements of targets under the MFRBM Act is also discussed in this chapter (TOR 4 to 6). Chapter 6 delves into the structure of rural local government in the state and examines issues related to finances of local governments (TOR 7). In chapter 7, we discuss the financial status of State Public Sector Undertakings with special emphasis on the public enterprises in the power sector (8 and 10). TOR 11 on contingent liabilities is covered in chapter 4 while the analysis of state subsidy (TOR 11) is included in chapter 7.

Our main source of data is the Finance Accounts of the government of Meghalaya published by the Comptroller and Auditor General of India (CAG). We have also used information from the Audit Reports of the state government. Other sources of information include publications of concerned departments of the state government as well as publications of central government agencies.

1.2 Demographic Features and Socio Economics Characteristics

1. Demographic Features: Meghalaya, meaning 'The Abode of Clouds' is one of the eight states which together constitute the Northern Eastern Region (NER) of India. It is bounded by Bangladesh on the south and southwest and Assam on the north and east[2]. Like most other states in the NER, Meghalaya was curved out of the erstwhile composite state of Assam and attained statehood on the 21st of January 1972.

[1]The TOR mentions 14 points of evaluation which are listed in Appendix 1

[2] The state shares a 443 long international boundary with Bangladesh. .

Since attaining statehood, the administrative units of the state have been reorganised many times. At present, the state is divided into 11 administrative districts, eight sub-divisions and 39 community and rural development blocks. Four of the new districts were created in 2013. The state is predominantly inhabited by tribals who account for 86.1 per cent of the population. It is also one of the least densely populated states in India with the density of population at 132 against the all India of 382[3].

Meghalaya is a small hill state with an area of 22429 sq. kms and a population of about 29.7 lakh which constitutes 0.25 percent of the population of India. The decadal population growth during 2001-2011 was 27.95 percent which is the third highest growth of population among states in the country. As per 2011 census, there has been a marginal fall in rural population since 2001. Rural population in 2011 stood at 79.9 per cent while in 2001 it was 80.4 percent. There are 6851 villages in the state with most of the villages having small population. Almost three forth (74.1 percent) of the rural population reside in villages with population of less than 500 while the same percentage for all India is 18.3. There are 22 towns and cities in the state consisting of census town (12), town Area committee (three), Municipality (six) and Cantonment board (one). Of these Shillong is the only urban centre with a population of more than one lakh (1.32 lakh in 2011). While rural population has declined in the state, the level of urbanisation is still low with urban population increasing marginally from 19.58 in 2001 to 20.06 percent of total population in 2011.

Literacy rate in Meghalaya has seen an improvement as it climbed from 62.56 percent in 2001 to 74.43 percent in 2011. Of that, male literacy stands at 75.59 percent while female literacy rate at 71.88 percent. The comparative percentage for male and female literacy rates in 2001 was 71.18 percent and 50.43 percent respectively. In terms of health indicators, crude birth rate, death rate and Infant mortality rate (IMR) are higher than all India average. For instance, the IMR which was 56 in 2001 had improved to 49 in 2011 but was still higher than the all India average of 42 (table 1.1).

Meghalaya's economy is basically agricultural with majority of its population depending entirely on this sector for their livelihood. The importance of the agriculture sector in the state economy can be seen when we examine the percentage of the working population engaged in this sector. In 2011, the percentage of working population engaged in agriculture as cultivators and agriculture labourers was 41.7 per cent and 16.7 percent respectively. In 2001 the percentage of workers engaged as cultivators and agriculture labourers was 48.1 percent and 17.7 percent respectively (table 1.1). Thus, although there has been a decline in proportion of workers engaged in agriculture sector, it still continues to employ majority of workers in the state.

[3] There are only eight state with density of population below Meghalaya

Table 1.1: Demographic and Socio Economic Features of Meghalaya

	2011	2001
A. Demographic		
i. Population	2966889	2318822
ii. Decadal growth	27.95 (17.7)	29.94 (21.54)
iii. Sex ratio	989 (943)	972 (933)
iv. Literacy rate	74.43 (72.99)	62.56 (64.83)
v. Female literacy rate	71.88 (64.64)	59.61 (53.67)
vi. ST population	86.1(8.6)	85.9 (8.2)
vii. Workers in agriculture	58.4 (54.6)	65.8 (58.2)
viii. Density of population	132 (382)	103 (325)
ix. Rural population	79.9 (68.6)	80.4 (72.18)
B. Health Indicators	**2012**	**2001**
i. Birth rate	24.1 (21.6)	28.3 (25.4)
ii. Death Rate	7.6 (7.0)	9.0(8.4)
iii. IMR	49 (42)	56(66)
iv. IMR rural	50(46)	57 (72)
C. Income	**2011-12**	**2002-03**
i. GSDP (constant 2004-05 prices)	1141404	572014
ii. per capita (constant 2004-05 prices)	43251	24166

Figures in the brackets are for all India

Sources: Census, 2001 &2011; SRS 2002 and 2012 and government of Meghalaya

2. Social Structure: The *Khasi*, *Jaintia*, *Bhoi* and *War*, collectively known as the *Hynniew Trep* people predominantly inhabit the districts of eastern Meghalaya. These people are known to be one of the earliest ethnic groups of settlers in the Indian sub-continent belonging to Monkhmer of the Proto Australoid race. The western part of Meghalaya constituting the districts of Garo Hills is predominantly inhabited by the Garos belonging to the Mongoloid race of Bodo group. The Garos are also known as *Achiks*. In addition to these main communities, there are other smaller tribal communities like the *Mikirs, Lalung, Viate, Vaiphe, Hmars, Rabhas, Hajongs* and *Boro* who are found scattered in different regions of the state. All the three major tribes of the state namely the Khasi (which include the Bhoi and War), Jaintia and Garo are matrilineal societies were inheritance and clan membership follows the female lineage through the youngest daughter. Table 1.1 below presents socio demographic characteristics of the state and the changes in these over the last decade.

3. The Economy: The economy of the state is relative small compared to other states in the country. According to estimates of the state government, gross state domestic product (GSDP) in 2011-12 at current prices was Rs. 16434 crore while GSDP at constant (2004-05) prices was Rs. 11141 crore. From 2002-03 to 2011-12 the state GSDP (at constant 2004-05 prices) grew at an average annual growth rate (AAGR) of 7.9 percent. During this period, secondary sector recorded the highest growth with an AAGR of 13.3 percent, followed by tertiary sector at 8.5 percent and primary sector at 3.3 percent (table 1.1).

The sectoral composition of GSDP at constant (2004-05) prices indicates that while tertiary sector continues to be the largest contributor to income with its share increasing from 51.3 percent in 2002-03 to 53.4 percent in 2011-12, it is the secondary that has gained most in this period as its share has risen significantly from 16 percent to 23.3 percent during this same period. Within secondary sector the output of manufacturing (registered) has risen significantly since 2004-05 and this is reflected in the high AAGR recorded by this sector as seen in table 1.2. The share of the primary sector, on the other hand, has come down from 32.7 percent in 2002-03 to 23.3 percent in 2011-12 while share of tertiary has increased marginally from 51.3 percent to 53.4 during the same period (table 1.2).

Table 1.2: Sectoral Composition of & Growth Rate GSDP at Constant (2004-05) Prices during 2002-03 to 2011-12

(percent)

Sector	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AAGR
Agriculture & Allied	24.0	23.3	23.3	22.6	21.3	20.2	18.6	17.8	16.7	16.1	2.9
Mining & Quarrying	8.6	10.0	9.3	8.7	8.5	9.3	7.0	6.9	7.5	7.2	4.3
A. Primary sector	32.7	33.3	32.6	31.3	29.8	29.4	25.6	24.8	24.2	23.3	3.3
Manufacturing	2.5	2.6	2.7	4.4	6.5	6.9	5.8	6.5	6.7	6.7	22.6
(i)Registered	1.2	1.3	1.6	3.3	5.3	5.7	4.8	5.5	5.7	5.8	30.6
(ii) Unregistered	1.2	1.2	1.1	1.1	1.1	1.2	1.0	1.1	1.0	0.9	5.0
Construction	11.0	10.9	11.2	10.7	10.2	10.0	15.0	14.2	13.1	14.5	11.9
Electricity, Gas and Water	2.5	2.6	2.8	2.5	2.4	2.8	2.3	2.3	2.2	2.1	5.4
B. Secondary Sector	16.0	16.0	16.8	17.6	19.1	19.6	23.1	23.0	22.0	23.3	13.3
Transport, Storage & Communication	6.3	6.2	6.8	7.0	7.4	7.7	7.4	7.8	8.1	8.2	11.3
Trade, Hotels and restaurants	9.3	9.9	9.6	10.2	10.3	10.9	9.9	10.2	10.4	10.5	9.0
Banking & Insurance	2.8	2.7	2.7	2.9	3.0	3.1	3.1	3.4	4.1	4.3	13.4
Real estate, Ownership of	12.3	11.8	11.3	10.7	10.2	10.0	9.1	8.7	8.2	7.7	2.4
Public Administration	13.2	13.0	13.4	13.2	12.8	11.6	14.2	13.4	13.4	12.1	7.6
Other services	7.4	7.0	6.8	7.0	7.3	7.6	7.6	8.7	9.7	10.6	12.6
C. Tertiary Sector	51.3	50.7	50.6	51.0	51.1	51.0	51.3	52.2	53.8	53.4	8.5
Total of GSDP	100	100	100	100	100	100	100	100	100	100	7.9

Average Annual Growth Rate (AAGR) has estimated using semi log trend equation

Source: Directorate of Economics and Statistics, Government of Meghalaya

4. Poverty: The Planning Commission has periodically estimated poverty lines and poverty ratios for each of the years for which large sample surveys on Household Consumer Expenditure have been conducted by the National Sample Survey Office (NSSO). In 2009, the Tendulkar Committee computed poverty lines and poverty ratios for 2004-05 for the whole country. Subsequently, Planning Commission revised the poverty estimates based on data from large sample surveys of 2009-10 (NSS 66th round) and 2011-12 (NSS 68th round). These estimates of poverty for Meghalaya are presented in table 1.3.

According to these estimates, in the last 8 years poverty in the state has declined by 4.3 percentage points. In 2004-05 16.1 percentage of the state's population was below poverty which declined to 11.87 percent in 2011-12. In this period, urban poverty has fallen sharply by 15.44 percentage points from 24.7 percent in 2004-05 to 9.26 in 2011-12. Rural poverty has also declined to 12.53 percentage in 2011-12 compared to 14 percent in 2004-05. The percentage of state's population below poverty line in 2011-12 was well below that of the country estimated at 25.7 percent in rural areas, 13.7 percent in urban areas and 21.9 percent for country as a whole.

Table 1.3: Percentage of Population Below Poverty Line for Meghalaya

	Rural	Urban	Combined
2004-05	**14.0**	**24.7**	**16.1**
	(503.32)	**(745.73)**	
2009-10	**15.3**	**24.1**	**17.1**
	(686.9)	**(989.8)**	
2011-12	**12.53**	**9.26**	**11.87**
	(888)	**(1154)**	

Figures in the brackets are the poverty lines for the Meghalaya in monthly per capita (Rs.)

Source: Press Note on Poverty Estimates, Planning Commission, Government of India

Chapter 2: Overview of State Finances

2.1 Special Arrangements for Central Transfer to North Eastern States

Fiscal transfers from the Union government to states are an important source of finance particularly for a resource-poor state like Meghalaya. The state falls under the special category status which entitles it to special funding arrangement from the centre. The flow of assistance from the Union government to Meghalaya and other states in India comprises of devolution of central taxes and plan and non-plan transfers. Non-plan transfers comprise of non-plan revenue grants and other grants from Finance Commission. Plan transfers, on the other hand, comprise of Planning Commission grants for state plan and schematic and discretional transfers from central ministries for specific projects and schemes implemented by the state. Grants are also disbursed to the state governments in the nature of pass-through grants that are to be passed on to the local governments. In recent years the Union government has been transferring a large quantum of funds directly to implementing agencies at state and district levels for implementing central schemes bypassing the state treasury route.

In India the federal fiscal setup provides for special treatment of certain states which are termed as special category states. Fiscal transfers from Union government contributes a significant part of revenues of these special category states which include all the eight states in the north eastern region (NER) namely Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Sikkim and also the states of Uttarakhand, Himachal Pradesh and Jammu and Kashmir. These north eastern states have some common characteristics such as hilly and difficult landscape, socio-economic backwardness, low level of infrastructural development and industrialization and high tribal population. Although these states have weak revenue base and are therefore heavily dependent on fiscal transfers from the centre, yet their expenditures are higher than general category states with comparable per capita GSDPs[4].

Devolution of central taxes to state and the inter se distribution of these taxes among states are decided as per criteria decided by respective Finance Commissions and the north eastern states do not enjoy any special treatment in this account. However, these states have been recipient of higher per capita grants from successive Finance Commissions[5]. Revenue deficit grants recommended by Finance Commission are on the basis of gaps between the projected non-plan expenditure and the sum of the projected own tax and non-tax revenue of states and the share in central taxes. Such grants are often referred to as gap filling grants as they are provided to offset fiscal disabilities of the states arising from lower revenue capacity and higher unit cost of providing public services. Till the Twelfth Finance Commission all the special category

[4]Rao, M.G (2003): 'Incentivizing Fiscal Transfers in the Indian Federation', *Publius: The Journal of Federalism,* 33(4). 43-62

[5]Kannan, R., Pillai, S.M, Kausaliya, R. & Chander, J. (2004); 'Finance Commission Awards and Fiscal Stability in States' , EPW, 39 (5), 477-49

states were having post devolution non-plan revenue deficit and receiving deficit grants. The Thirteenth Finance Commission has projected that three of the special category states, namely Assam, Sikkim and Uttarakhand, will be graduating to a post-devolution non-plan revenue surplus position by end of 2015. Rangarajan and Srivastava[6] have pointed out that the continuous non-plan revenue grants to special category states is partly due to the large and generous development assistance that these states have been receiving from the centre as part of the plan assistance coupled with the poor revenue generating capacity of these states.

Besides non-plan revenue grants, Finance Commission also recommends other types of grants as mandated by the Constitution of India and by the Terms of Reference of respective Commissions. The scope of grants has changed over time and in the Thirteenth Finance Commission other grants awarded to the states include grants for maintenance of roads and bridges, buildings, forests, heritage conservation, financial assistance for local bodies and for state specific needs.

In the case of plan assistance, special category states have been provided with liberal funding. For instance, special category states receive 30 per cent of the total normal central assistance although these states account for around five percent of the country's population. In the case of the externally aided projects, external assistance is transferred as additional central assistance to these states on a 90:10 grant and loan basis, while in case of general category states the external assistance for projects is transferred to states on the same terms and conditions on which it was received from the external agencies with the service cost and exchange fluctuations passed on to the general states[7]. In 1998 Union government announced the policy of earmarking 10 per cent of plan budget of all central ministries and department for the development of NER. In the same year the non-lapsable central pool of resources (NLCPR) was created in which the unspent balance of the mandatory 10 percent budget allocation of central ministries and departments was diverted to a public account titled central resources pool for development of NER. This fund was created for financing of schemes for social and economic welfare of the states in the NER. The fund is under the Ministry of Development of North Eastern Region (DoNER). Besides the above, states in the NER also avail funding from the North Eastern Council (NEC)[8]under special plan scheme.

The special funding arrangements for states in NER have resulted in them receiving highest per capita level of central assistance among states in India. Estimates by DoNER put the total plan investment by the centre to states in NER

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[6]Rangarajan and Srivastava (2008): Reforming India's Fiscal Transfer System: Resolving Vertical and Horizontal Imbalances, EPW, 43(23), 47-60

[7]This new arrangement for general states is applicable for all new external funded projects from April 2005

[8]NEC was constituted in 1971 by an Act of Parliament**.** It functions under DONER as a nodal agency for the economic and social development of the NER.

at Rs. 80,000 crore in the Tenth Plan period with a per capita central investment in 2006-07 at Rs. 2241 compared to Rs. 570 for the general category states[9].

2.2 Overview of Fiscal Status of Meghalaya

An overview of the fiscal status of the Meghalaya is given in table 2.1. The high revenue to GSDP ratio which the state enjoys is mainly due to high central transfers to the state. The revenue to GSDP ratio during 2001-02 was 25.1 percent and it increased to 28.3 percent in 2011-12. In between this period, the revenue-GSDP ratio declined to a low of 23.6 percent in 2004-05 which was mainly due to decline in the central transfers as can be seen from the central transfer to GSDP ratio which was at a lowest of 18.4 percent in the same year. The increase in the revenue-GSDP ratio after 2004-05 climbing to a high of 29.2 percent in 2010-11 corresponds with an increase in the central transfers-GSDP ratio in the same period.

The own revenue to GSDP ratio which was 5.1 percent in 2001-02 has increased to 6.5 percent in 2011-12, a 1.4 percentage point increase during the 11 year period. During this period, while the own tax revenue-GSDP ratio has increased marginally by 1.2 percentage point, the own non-tax revenue-GSDP ratio has remained stagnant at around two percent (table 2.1). The low own revenue to GSDP ratio and the slow growth of the ratio is a matter of concern as it points to state's failure to fully exploit and mobilise own revenues.

On the expenditure side, the expenditure to GSDP ratio increased from 30.4 percent in 2001-02 to 34.9 percent in 2011-12. However, much of the total expenditure went towards meeting expenditure under revenue accounts as reflected in the high revenue expenditure to GSDP ratio. As a ratio to GSDP, total expenditure has been showing a declining trend during 2001-02 to 2006-07 as it fell from 30.4 percent to 25.9 percent. This fall was largely on account of the decline in the revenue expenditure reflected in the correspondingly revenue expenditure to GSDP ratio which fell from 25.8 percent in 2001-02 to 22.1 percent in 2006-07. The rise in the total revenue to GSDP ratio in the subsequent years reaching 34.9 percent in 2011-12 can be attributed to the increase in revenue expenditure of the state as reflected by the rise in the revenue expenditure to GSDP ratio from 2006-07 onwards recording a high of 29.4 percent in 2011-12. The high revenue expenditures have crowded out capital expenditures as capital expenditure to GSDP ratio has increased only marginally from 4.5 percent in 2001-02 to 5.5 percent in 2011-12.

[9]GOI (2008); Eleventh Five Year Plan (Inclusive Growth), Planning Commission, Government of India, Volume I.

Table 2.1: Fiscal Position of Meghalaya (2001-02 to 2011-12)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Amount in Rs. crore											
Total revenue of which	1123	1289	1399	1546	1747	2142	2441	2811	3447	4260	4654
A. Own revenue	230	238	307	341	399	489	518	595	719	873	1066
(i) Own tax revenue	136	145	178	208	253	305	319	369	444	571	698
(ii) Own Non-tax revenue	94	93	129	133	146	184	199	225	275	302	368
B. Central transfers	893	1051	1092	1205	1348	1653	1923	2216	2728	3388	3589
Total Expenditure of which	1360	1462	1619	1878	1944	2234	2672	3264	3690	4629	5742
(i) Revenue expenditure	1157	1205	1314	1596	1674	1907	2254	2683	3182	4013	4835
(ii) Capital expenditure	203	258	305	281	270	326	418	581	508	616	908
Revenue deficit	34	-84	-85	50	-72	-235	-188	-128	-265	-248	180
Primary deficit	92	10	32	136	-12	-129	25	223	-8	84	780
Fiscal deficit	221	161	202	313	179	75	214	435	226	341	1065
as percentage of GSDP											
Total revenue of which	25.1	27.1	26.5	23.6	24.0	24.8	25.1	24.2	27.1	29.2	28.3
A. Own revenue	5.1	5.0	5.8	5.2	5.5	5.7	5.3	5.1	5.7	6.0	6.5
(i) Own tax revenue	3.0	3.0	3.4	3.2	3.5	3.5	3.3	3.2	3.5	3.9	4.2
(ii) Own non-tax revenue	2.1	1.9	2.4	2.0	2.0	2.1	2.0	1.9	2.2	2.1	2.2
B. Central transfers	19.9	22.1	20.7	18.4	18.6	19.2	19.8	19.1	21.5	23.2	21.8
Expenditure of which	30.4	30.7	30.7	28.6	26.8	25.9	27.4	28.1	29.0	31.7	34.9
A. Revenue expenditure	25.8	25.3	24.9	24.3	23.0	22.1	23.2	23.1	25.0	27.5	29.4
B. Capital expenditure	4.5	5.4	5.8	4.3	3.7	3.8	4.3	5.0	4.0	4.2	5.5
Revenue deficit	0.7	-1.8	-1.6	0.8	-1.0	-2.7	-1.9	-1.1	-2.1	-1.7	1.1
Primary deficit	2.1	0.2	0.6	2.1	-0.2	-1.5	0.3	1.9	-0.1	0.6	4.7
Fiscal deficit	4.9	3.4	3.8	4.8	2.5	0.9	2.2	3.7	1.8	2.3	6.5

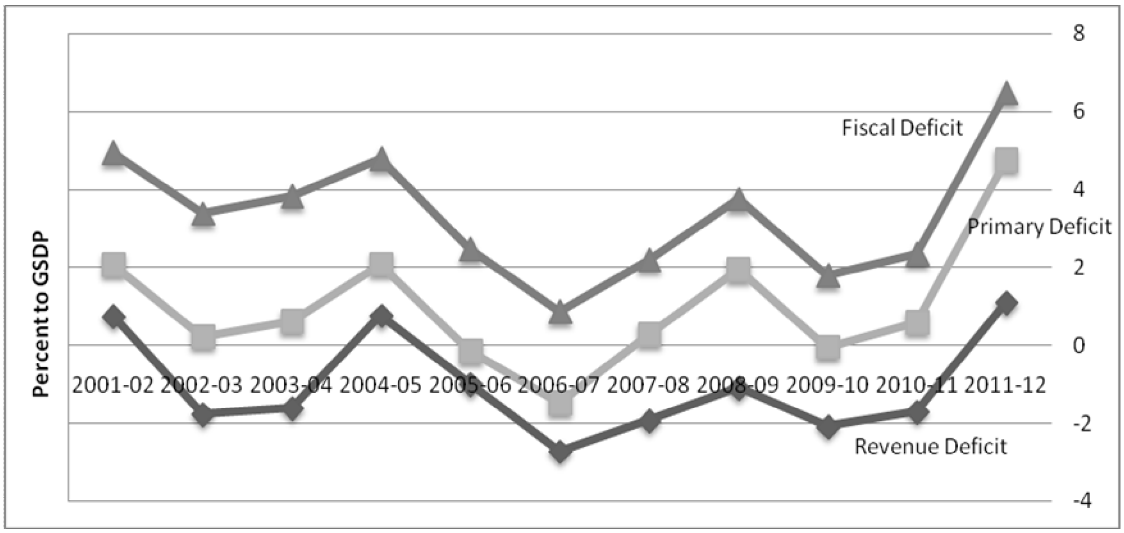
***** Negative sign (-) indicates surplus

Source: Finance Accounts (various years), Government of Meghalaya

The interpretation of indicator of fiscal imbalances for a special category states is different from general category states as these states receive 90 percent of their plan assistance as grants. This special arrangement of fiscal transfers partly explains the revenue surplus enjoyed by the state as shown in table 2.1. The ratio of revenue surplus to GSDP has varied between a low of one percent in 2005-06 to a high of 2.7 percent in 2006-07. Since 2009-10, the surplus in revenue account has continued to fall from 2.1 percent in 2009-10 to 1.7 percent in 2010-11. In 2011-12 the revenue account has become negative for the first time since 2005-06 marking a clear deterioration in the revenue accounts of the state.

As far as the ratio of fiscal deficit to GSDP is concerned, there was an improvement in the fiscal deficit as the ratio felled from 4.9 percent in 2001-02 to just under just under one percent in 2006-07. However, in subsequent years there has been a sharp deterioration in the deficit particularly during the last three years. During 2009-10 to 2011-12, the fiscal situation has deteriorated significantly as the fiscal deficit to GSDP ratio increased from 1.8 percent to 6.5 percent which is an increase of 5.3 percentage points in the three year period (also see chart 2.1).

Chart 2.1: Trends in State's Fiscal Imbalances



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The fact that the state is largely dependent on central transfers is evident from table 2.2, which shows central transfers contributing between 77.2 (2005-06) to 81.6 percent (2002-03) of the total revenue receipts of the state. Share of central transfers in the total revenue receipts which was 79.5 percent in 2001-02 has come down to 77.1 percent in 2011-12 while contribution of own revenue has marginally increased from 20.5 percent in 2001-02 to almost 23 percent in the same period. This increased contribution of own revenue to total revenue receipts does not change much the dependency of the state on central transfers. However, it does mark an improvement in the tax revenue efforts of the state. Within own revenues, the share of own tax revenue has increased from 12.1 percent in 2001-02 to 15 percent in 2011-12 while that of non-tax revenue has come down from 8.4 percent to 7.9 percent on the same period (table 2.2).

Table 2.2: Composition of Revenue Receipts of Meghalaya (2001-02 to 2011-12)

(percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Own Revenue of which	20.5	18.4	21.9	22.1	22.8	22.8	21.2	21.2	20.9	20.5	22.9
(i) Own Tax Revenue	12.1	11.2	12.7	13.4	14.5	14.2	13.1	13.1	12.9	13.4	15.0
ii) Own Non-Tax Revenue	8.4	7.2	9.2	8.6	8.4	8.6	8.2	8.0	8.0	7.1	7.9
B. Central Transfers	79.5	81.6	78.1	77.9	77.2	77.2	78.8	78.8	79.1	79.5	77.1

Source: same as in table 2.1

2.3 Central Transfers to Meghalaya

(i) Plan Transfers: Plan transfers to Meghalaya consist of gross budgetary support in the form of block grants which is unconditional support to state plan. At present, block grant in the form of Normal Central Assistance (NCA) is distributed as per Gadgil/Mookherjee formula according to which 30 percent of the funds available are provided to special category states on the basis of plan projects formulated by them and the distribution of the remaining 70 percent to general category states as formula-based. This NCA was provided on the basis of 90 percent grants and the remaining as loans. In 2005-06, central plan loans to states have been discontinued on the recommendation of the Twelfth Finance Commission. Since then, central assistance for plans consists of only grants and states are required to raise balance resources from the market.

One of the major components of plan grants for state plan is block grant which comprise of NCA, grants under additional central assistance (ACA) for specific programmes and other discretionary grants which include special plan assistance grants and special central assistance grants. Assistance through these channels is discretionary in nature and for specific purpose. The state also avails external assistance in the form of ACA and assistance under NLCPR. All these components are included under block grants. Meghalaya also receives grants from Tribal Affairs Ministry, Government of India under first proviso to article 275(1) of the Constitution for projects for tribal development[10]. Besides grants for state plan, the other plan transfers to the state comprise of grants under central plan schemes (CPS), centrally sponsored schemes (CSS) and schemes through the NEC. CPS and NEC schemes are 100 per cent funded by the centre.

The composition of central transfers comprising share of central taxes, plan and non-plan grants is provided in table 2.3. During 2001-02 to 2011-12, the percentage share of plan grants and central taxes has increased in the overall central transfers to the state, while percentage share of non-plan grants has come down. Plan grants

[10]Meghalaya being a predominantly tribal state is not eligible for assistance under the Tribal Sub Plan from the Ministry

which contributed 46 percent of total central transfers in 2001-02 went up to 56.2 percent of total central transfers in 2011-12. Likewise, share of central taxes in total central transfers saw an increased from 18.5 percent in 2001-02 to 29.1 percent in 2011-12. On the other hand, share of non-plan grants in total central transfers has come down from 35.5 percent in the beginning of the period to 14.7 percent in 2011-12 (table 2.3)

Table 2.3: Composition of Central Transfers (2001-02 to 2011-12)

(percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Share of Central Taxes	18.5	16.8	20.6	22.3	26.0	27.1	29.3	26.9	22.4	26.5	29.1
B. Non-Plan Grants	35.5	38.8	30.2	29.9	30.1	28.6	24.0	19.9	13.8	19.6	14.7
C. Plan grants Grants	46.0	44.5	49.2	47.7	43.9	44.4	46.7	53.3	63.7	53.9	56.2
(i) State Plan Schemes	37.2	35.5	42.3	38.2	33.0	34.4	33.6	43.2	51.1	42.1	47.4
(ii)Central Plan Schemes	0.2	0.1	0.1	0.3	0.2	0.7	0.2	0.4	1.0	0.4	0.5
(iii)Centrally Sponsored Scheme	7.6	7.2	5.7	7.2	8.8	6.5	9.3	7.2	9.2	9.3	6.8
(iv)NEC/ Special Plan scheme	1.1	1.7	1.2	2.0	1.9	2.8	3.6	2.5	2.4	2.1	1.6

Source: same as in table 2.1

In recent years, a large portion of central grants is being directly transferred to the implementing agencies. As these transfers are not routed through the state treasury, the state annual financial accounts do not capture the flow of these funds. However from 2009-10 the audit report of the state government has been reporting on these direct transfers to the state. The transfer of funds through this route for implementing of central schemes has increased the availability of funds to the state. In 2008-09 funds routed through this channel was Rs. 288 crore which went up to Rs. 815 crore in 2011-12, resulting in a significant increase in the total plan transfers to the state. Direct plan transfers as percentage of total plan transfers has increased from 20 percent in 2008-09 to of 29 percent in 2011-12 making it the most important source of plan transfers after transfers under state plan (table 2.4).

Table 2.4: Total Plan Transfers to Meghalaya (2008-09 to 2010-11)

(Amount in Rs. crore)

	2008-09	2009-10	2010-11	2011-12
A. State Plan Schemes	958	1395	1428	1703
B. Central Plan Schemes, Centrally Sponsored Scheme & NEC/ Special Plan scheme	223	344	400	315
C. Transfers through State Treasury (A+B)	1181	1738	1827	2017
D. Direct Transfer	288 (19.6)	534 (23.5)	798 (30.4)	815 (28.8)
E. Total Plan Transfers (A+B+C)	1469	2272	2625	2832

Figures in brackets are percentage of total plan transfers

Source: same as in table 2.1

(ii) Non-plan transfers: The share of Meghalaya in the central tax devolved to states was 0.342 percent in the Eleventh Finance Commission which increased to 0.408 percent by the Thirteenth Finance Commission. Meghalaya has had a post-devolution non-plan revenue deficit and successive Finance Commissions have awarded non-plan revenue grants to fill this gap. In table 2.5 the pre-devolution revenue status shows the non-plan revenue account before share in central taxes is allotted to the state and post-devolution revenue status shows the account after the devolution of such taxes and duties. The non-plan revenue deficit grants awarded to the state has steadily increased from Rs. 1572 crore during the Tenth Finance Commission to Rs. 2811 crore by the Thirteenth Finance Commission. Award by respective Finance Commissions under other grants has also increased during this period.

Table 2.5: Transfers from the Finance Commission to Meghalaya (1995-2015)

(Amount in Rs. crore)

Category	11th FC	12th FC	13th FC
Share in Union taxes & duties	1287 (0.342)	2277 (0.371)	5919 (0.408)
Pre-devolution NPRD	-2859	-4073	-8730
Post-devolution non-plan revenue deficit	-1572	-1797	-2811
NPRD grants	1572	1797	2811
Post devolution of NPRD grants	0	0	0
Other grants	102	294	1113
Total	2961	4368	9842

Figures in brackets represent percentage of state's share in union taxes and duties

Source: Respective Finance Commission Reports

2.4 Diversion of Plan Assistance for Meeting Non-Plan Expenditure

In Meghalaya plan assistance is being diverted for non-plan needs. Although special category states are allowed to divert 20 per cent of NCA to meet non-plan expenditure, this practice ends up in the state having less resources at its disposal for development purposes. The Thirteenth Planning Commission has recommended the stopping of diversion of plan assistance for non-plan purpose by adequate provision for committed liabilities. However, this practice still continues as the state is not able to meet the non-plan revenue expenditure from other source of revenue receipts excluding plan assistance. This is evident in table 2.6 which shows the gap between revenue receipts (excluding plan grants) and the non-plan revenue expenditure. Except for 2006-07 and 2007-08 where we find that revenue receipts (excluding plan grants) exceeding non-plan revenue expenditure, for the other years the gap is being met by diversion of plan grants.

Table 2.6: Revenue Receipts & Non-Plan Revenue Expenditure (2001-02 to 2011-12)

(Amount in Rs. crore)

		2001-02	2002-03	2003-04	200-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	Revenue Receipts	1123	1289	1399	1546	1747	2142	2441	2811	3447	4261	4655
2	Plan Grants	411	467	538	575	592	733	898	1181	1739	1827	2017
3	Revenue Receipts (minus plan grants)	712	822	861	971	1155	1409	1543	1630	1708	2434	2638
4	NPRE*	884	949	1004	1120	1183	1341	1532	1677	2135	2546	2876
5	Gap (3-4)	-172	-127	-143	-149	-28	68	11	-47	-427	-112	-238

NPRE: non-plan revenue expenditure

Source: same as in table 2.1

Chapter 3: Trends and Issues in Own Tax and Non-Tax Revenues

3.1 Trends and Issues in Own Tax Revenue

The state of Meghalaya has weak revenue base and revenue mobilized through own taxes is very low. In 2001-02, own tax to GSDP ratio of the state was three percent which went up to 4.2 percent in 2011-12. The two main state taxes are tax on sales and trade and excise tax. Other minor sources of own tax revenues are taxes on vehicles, stamps and registration, professional tax, land revenue, taxes on goods and passengers, entertainment and betting taxes. As found in other states, the principal source of own tax receipt of Meghalaya is the tax on sales and trades. The individual components under this source are tax on motor spirits and lubricants, Central Sales taxes (CST) and Value Added Tax (VAT). The contribution of this source of tax in own tax revenues has been increasing over the years rising from 59.5 percent in 2001-02 to a high of 76.3 in 2008-09 before dropping down to 73.5 percent in 2011-12 (table 3.1).

State excise is another important contributor to the state's own tax revenues with the main collection from this source coming from tax on foreign liquor and spirits. In 2001-02 this source contributed 30.7 percent of the own tax revenue. Since 2004-05 there has been a sharp decline in the percentage share of this source in the state's own tax revenue. In 2011-12 revenue mobilised from this source has come down to 18.9 percent in 2011-12, a fall of almost 12 percentage points compared to 2001-02. Table 3.1 clearly shows that the percentage share of tax on sales and trade has been continuously increasing whereas the share of excise and all other taxes have declined remarkably in the same period.

Tax on sales & trade and excise tax together contribute between 92 to 95 percent of the own tax revenues. Tax on vehicles and tax on stamp and registration are the other two own taxes with respective average contribution of 3.2 percent and 1.8 percent during 2001-02 to 2011-12. Other taxes such professional tax, land revenue, tax on goods and passengers and tax on entertainment and betting tax contribute very less to own tax revenues (below one percent). As evident from table 3.1, tax on commodities and services comprising of tax on sales and trade, excise tax, tax on vehicles and electricity tax account for bulk of collection of state's own tax revenues. Taxes on other bases such as property and capital transaction (stamps and registration, land revenue) and taxes on income (profession tax) contribute only marginally to the state's own tax revenues.

Table 3.1: Trends in Composition of State's Own Tax Revenue

(percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Tax on Professions...	0.7	0.6	0.5	0.5	0.4	3.1	0.5	-1.8	0.5	0.5	0.5
2. Land Revenue	0.5	0.2	0.3	0.1	0.1	1.8	0.7	0.1	0.1	3.0	0.3
3. Stamps & Registration	2.6	2.0	1.9	2.2	2.2	2.1	1.9	1.5	2.5	1.9	1.3
4. State Excise	30.7	31.0	29.7	30.2	23.4	17.7	18.4	18.9	20.3	18.3	18.9
5. Taxes on sales, trades	59.5	60.2	62.0	60.7	68.6	70.8	73.6	76.3	72.3	71.7	73.5
6. Tax on Vehicles	3.5	3.2	3.1	3.6	3.5	3.1	3.6	3.6	3.1	3.4	4.5
7. Tax on Goods & passengers	1.2	1.1	1.1	1.3	1.1	0.9	1.1	0.9	0.8	0.8	0.6
8.Tax and Duties on Electricity	0.01	0.01	0.02	0.01	0.02	0.01	0.01	0.01	0.01	0.05	0.12
8. Entertainment Tax	0.6	0.8	0.7	1.0	0.5	0.4	0.3	0.2	0.3	0.1	0.0
9. Betting Tax	0.6	0.6	0.0	0.1	0.1	0.0	0.1	0.2	0.2	0.3	0.1
10. Others taxes and duties	0.3	0.1	0.6	0.4	0.1	0.0	0.0	0.1	0.0	0.0	0.1

Source: same as in table 2.1

The year on year growth rate and the average annual growth rates (AAGR) for state own taxes are given in table 3.2. The two main taxes namely taxes on sales & trades and state excise have grown at an AAGR of 20.5 percent and 10.5 percent respectively during 2001-02 to 2011-12, while revenue mobilised under entertainment tax and also under other taxes and duties has actually declined as indicated by negative annual growth during the same period. There is a considerable volatility in growth of state's own taxes as seen from the variation in the year on year growth rate of all taxes. Except in case of tax on sales & trades, all other taxes have recorded an absolute decrease in revenue collection over previous year as seen by the negative year on year growth rate recorded in certain years. For instance, in case of state excise the year on year growth rate was negative in 2005-06 and 2006-07, while professional tax recorded negative year on year growth during three consecutive years from 2007-08 to 2009-10. Similarly, the wide variation in year on year growth rate of betting tax, land revenue, entertainment tax reflects the uncertainty in revenue collection from these sources of tax revenue.

Table 3.2: Growth Performance of Own Tax Revenue

(percent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AAGR*
1. Tax on Professions...	3.4	5.4	5.2	9.8	750.0	-84.7	-543.2	-131.8	48.5	18.0	14.0**
2. Land Revenue	-52.2	53.1	-40.8	13.8	1590.9	-62.0	-76.4	-48.0	6481	-86.0	23.6
3. Stamps & Registration	-15.5	14.2	35.3	20.0	18.6	-7.7	-7.5	98.9	-2.4	-15.6	13.6
4. State Excise	7.8	17.5	18.8	-5.6	-8.8	8.6	19.1	29.4	15.7	25.8	10.4
5. Taxes on sales, trades	7.8	26.3	14.6	37.4	24.5	8.8	20.0	14.0	27.5	25.0	20.5
6. Tax on Vehicles	-2.1	19.5	35.0	17.2	7.0	21.5	16.4	3.0	41.0	62.2	19.1
7. Tax on goods &	1.2	23.9	31.7	3.8	1.1	28.3	-7.5	5.7	24.9	0.5	10.8
8.Tax and Duties on Electricity	100.0	50.0	0.0	33.3	-25.0	0.0	0.0	66.7	420.0	234.6	36.0
8. Entertainment	39.5	0.8	63.6	-36.4	-4.8	-30.8	-13.3	70.8	-76.4	17.2	-10.9
9. Betting Tax	17.1	-97.8	450.0	27.3	-92.9	1900.0	195.0	47.5	118.4	-55.3	18.5
10. Others taxes and	-59.0	600.0	-33.0	-68.0	-95.8	0.0	2800.0	-98.2	2400.0	584.6	-15.0
Own tax revenue	6.5	22.7	16.9	21.6	20.6	4.7	15.8	20.3	28.6	22.1	17.6

* AAGR has estimated using semi log trend equation; **Exponential growth rate

Source: same as in table 2.1

A comparison of own tax revenue to GSDP ratio of Meghalaya with non-special category states, special category states and all India shows that over all the tax effort of the state is considerable low when compared to other states in the country. According to RBI[11] in 2010-11 the average own tax revenue to GSDP ratio for general category states, special category states and all India average was 7.2, 5.5 and 6.0 percent respectively. In case of Meghalaya the ratio was 4.1. While the tax effort of Meghalaya cannot be compared to the non-special category states, even among special category states the tax collection effort of Meghalaya is much lower when compared to that of the other special category states. The own tax to GSDP ratio of special category states like Uttarakhand (5.8), Himachal Pradesh (6.7), Jammu and Kashmir (6.4) and Assam (5.7) was much better than for Meghalaya. This indicates the possibility of raising tax resource in the state by increasing the own tax to GSDP ratio at least to level of the above special category states if not up to the level achieved by general category states.

[11]State Finances: A study of Budgets of 2012-13, Reserve Bank of India

3.2 Measurement of State Tax Buoyancy

Tax buoyancy is a measure of the efficiency and responsiveness of revenue mobilisation with respect to a change or growth of the income of the country or in this case the state of Meghalaya. The tax buoyancy for a particular period of time may be estimated by fitting regression equation of tax revenue on GSDP by ordinary least square (OLS) method. In fact, it involves time series analysis but since the period of study is not so long (11 years), OLS has been used in this study to estimate tax buoyancy. If 'Y' is GSDP and 'X' is the tax revenue, the functional form may be specified as follows:

$$\text{Log}(Y) = a + b\,\text{Log}(X) + e;$$

where, 'a' is the intercept term, 'b' is interpreted as 'buoyancy' and 'e' is the intercept form.

In this study buoyancy has been estimated for the total tax revenue, total central transfers, sales tax revenue, excise tax revenue and non-tax revenue for the state of Meghalaya (table 3.3). There are only few taxes whose buoyancy is higher than one. They are excise tax, tax on betting and tax on goods and passengers. But buoyancy for tax on betting has been found not to be statistically significant and also the model fitting is found not to be good. Therefore, tax on betting is not reliable. The buoyancy has been found to be the highest for excise tax. Unlike other states the buoyancy of sales tax has not been found to be so high. Interestingly, the buoyancy for non-tax revenue is higher than tax revenue. Another important point to be noted is the higher buoyancy of total central transfer than the buoyancy of state's own tax revenue. This shows how much the state is dependent on central assistance.

Table 3.3: Buoyancy of Different Tax Revenues

Types of Fund	Buoyancy	R square	Adjusted R square	F values
States' Own Tax Revenue	.837 (24.337*)	.985	. 983	592.293*
Sales Tax	.728 (30.140*)	.990	.989	908.440*
Excise Tax	1.170 (6.810*)	.837	.819	46.375*
Non Tax	.977 (20.614*)	.979	.977	424.926*
Land Revenue	.150 (1.507 n.s.)	.201	.113	2.271 n.s.
Revenue on Stamps and Registration	.934 (7.507*)	.862	.847	56.355*
Tax on Vehicle	.748 (13.535*)	.862	.847	183.184*
Tax on goods and Passenger	1.155 (10.462*)	.924	.916	109.459*
Entertainment Tax	.516 (-2.628**)	.434	.371	6.904**
Tax on Betting	.116 (1.478 n.s.)	.195	.106	2.185 n.s.
Other Taxes and Duties	.069 (-.916 n.s.)	.085	-.016	.838 n.s.)
Total Central Transfer	.926 (19.581*)	.977	.975	383.425*

*stands for 1 percent level of significance and ** stands for 5 percent level of significance.
Values in the parenthesis represent 't' values
n.s. stands for those values which are not statistically significant.

3.3 Measures to Improve Tax-GSDP Ratio

There has been very little effort by the state government to improve the tax GSDP ratio to generate financial resources from own tax sources. Box 3.I lists out the measures introduced by the state government between 2008-09 to 2013-14 to augment and generate additional financial resources mainly by increasing the tax rates and duties on VAT, Excise duty, Professional tax, Passenger and Goods tax and other measures.

Box 3.I: Measures to Augment State's Own Tax Revenue

(2008-09 to 2013-14)

Year	Tax measures
2013 -14	i. No new measures announced as government is considering the recommendations of the second interim report of the Task Force on Additional Resource Mobilization. Some of the recommendations of the Task Force for revenue growth are under the Meghalaya Value Added Tax Act, Meghalaya Tax on Luxuries (Hotel & Lodgings Houses) Act, Meghalaya Motor Vehicles Taxation act and the Meghalaya Amusement & betting Tax act and also other recommendations for prevention of evasion of taxes and recovery of outstanding dues.
2012 -13	i. Increased in VAT on certain commodities such as tobacco and allied products and liquor. ii. Increased in Excise duty on liquor/beer iii. Increased in the amount of tax for various income level ranging from iv. Rs. 200 for gross income between Rs. 50000 to Rs. 75000 to tax of Rs. 2500 to income above 500000 under Meghalaya Professions, Trades, Callings And Employment Taxation (Amendment) Act, 2012
2011-12	i. Raising of VAT rate for certain commodities like tobacco and allied products excluding unmanufactured tobacco from 12.5 percent to 13.5 percent ii. Tax on beedis and tobacco used in the manufacturing of beedis @ 5 percent
2010 -11	i. Amendment under Meghalaya Tax on Luxuries (Hotels Lodging Houses) (Amendment) Act, 2011 to raise additional resources from hotels and guesthouses from tax as per different room tariffs ranging from 5 percent for room tariff of Rs 200 to 20 percent for room tariff of Rs. 2500 and above

	ii. Increased in the rate of VAT on 142 items from 4 percent to 5 percent iii. Introduction of Meghalaya Cement Cess Act 2010 at the rate of Rs. 20 per metric ton iv. Revision of the rate of Value Added Tax from 12.5 percent to 13.5 percent v. Introduction of hologram in the sale of liquor in the State to check leakage of revenue vi. Rationalization of rate of tax on works contracts
2009-10	i. The Task Force on Additional Resource Mobilization submitted a report recommending measures to mobilise additional resources which includes cess on coal and limestone, revision in the rates of license fees and other excise levies, increase in the rate of tax under the Passengers and Goods Taxation Act and rationalization of the rate of tax on works contract.
2008-09	i. Increase in the rates of tax for passenger fare from ten paise to fifteen paise per rupee value of fare through amendment in the Meghalaya Passengers and Goods Taxation (Amendment) Act, 2008

Sources: State Budgets & RBI State Finances: A Study of Budgets

3.4 Trends and Issues in Non-Tax Revenues

The main sources of non-tax revenues are collection from Non-ferrous Mining and Metallurgical Industries and also from Forestry and Wildlife. Other sources are from Interest, and Public Works. Collection from Non-ferrous Mining and Metallurgical Industries is mainly is in the form of royalty from minerals like coal and limestone while in the case of forestry and wildlife revenue collection is mainly through sale of timber and other forest products. The composition of the non-tax revenue for the period 2001-02 to 2011-12 is provided in table 3.4. As in the case of own tax revenue, there is dominance of single source of non-tax revenue as nearly two third of non-tax revenue originated from royalty from minerals. The share of this source has strengthened in the last three years climbing from 58.9 percent in 2008-09 to 71.3 percent of the total non-tax revenue collection in 2010-11, the expansion being primarily due to revision of royalty rates. Contribution from forestry, which is second in terms of contribution to the state's non-tax revenues, has marginally come down from 8.3 percent in 2001-02 to 7.1 percent in 2011-12. Collection from other sources under economics services has varied between one percent to two percent of total non-tax revenue collection (table 3.4).

Collection from general services is another important source of non-tax revenue with an average contribution of 12.8 percent during 2001-02 to 2011-12. Under general services, the contribution of state lotteries which was 6.7 percent in 2002-03 has come down to nil in 2010-11 and 2011-12 (table 3.5).Collection from social service, which includes education, health and water supply, is very low with this source contributing only around two percent of the non-tax revenue through the period. This reflects the very low recovery rate from these social services.

Contribution of interest is mainly from investment of cash balances of the government which is mainly invested on short term investments in government of India Treasury. This source contributed between four to eight percent of total non-tax revenues. The contribution from dividends and profits on investment by the state government on corporation, companies and cooperatives is almost negligible as can be seen from table 3.4. This low returns is despite crores of money having been invested by the state government on these entities.

Table 3.4: Trends in Composition of Non-Tax Revenue

(percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Interest	5.6	5.0	4.4	5.8	4.6	7.2	7.7	7.9	8.5	8.2	7.4
2. Dividends and profits	0.12	0.01	0.14	0.13	0.01	0.01	0.01	0.01	0.01	0.01	0.02
3. General services	11.2	16.3	12.8	9.5	11.9	19.5	14.4	20.6	6.4	8.0	9.7
i. Public Works	4.4	3.9	2.8	3.8	3.0	2.8	2.1	3.0	2.6	4.2	4.6
ii. State Lotteries	0.0	6.7	6.2	3.8	0.6	1.3	2.0	3.8	0.0	0.0	0.0
iii. Others	6.8	5.7	3.7	1.9	8.3	15.4	10.3	14.7	3.8	3.8	5.0
4. Social services	1.8	2.1	1.6	1.6	2.2	1.8	1.4	1.7	3.2	1.9	2.0
i. Education, Sports, Art & Culture	0.7	0.8	0.6	0.3	0.4	0.5	0.3	0.4	0.3	0.3	0.2
ii. Medical, Public Health & Family	0.4	0.6	0.5	0.5	0.5	0.6	0.3	0.3	0.2	0.2	0.4
iii. Water Supply & Sanitation	0.3	0.2	0.2	0.4	0.3	0.3	0.3	0.5	1.0	1.0	1.0
iv. Others	0.4	0.4	0.3	0.4	1.0	0.6	0.6	0.5	1.7	0.3	0.4
5. Economics services	81.3	76.6	81.1	83.0	81.4	71.5	76.5	69.7	81.9	81.9	81.0
i. Crop Husbandry	1.8	1.5	1.2	1.3	1.4	1.2	1.2	1.4	1.0	1.4	1.2
ii. Animal Husbandry	1.1	1.2	1.0	0.9	0.9	0.8	0.7	0.6	0.6	0.6	0.5
iii. Forestry & Wildlife	8.3	9.2	9.1	11.0	10.5	9.0	7.8	7.7	7.3	7.3	7.1
iv. Non-ferrous Mining & Metallurgical	67.6	60.5	66.8	67.6	66.8	59.1	62.0	58.9	72.1	71.5	71.3
(v) Others	2.5	4.2	3.0	2.2	1.8	1.3	4.7	1.1	1.0	1.1	0.9

Source: same as in table 2.1

As shown in table 3.5 there is a wide variation in the year on year growth rate of all sources of non-tax revenues which in turn affects the non-tax revenue collection. In case of royalty on minerals the year on year growth rate fluctuated between -11.7 percent in 2001-02 to 53.6 percent in 2002-03. In terms of AAGR for the period 2001-02 to 2011-12, the highest growth rate was recorded in the case of interest at 21.7 percent followed by social services at around 17 percent. Collection under economic services, which is the largest contributor to the non-tax revenues, grew at an AAGR of 14.6 percent, while royalty from minerals which is the single largest contributor within this category grew at an AAGR of 15.6 percent in the same period.

Table 3.5: Growth Trends in Non-Tax Revenues

(percent)

	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	AAGR
1. Interest	-11.4	20.6	37.9	-13.9	100.3	15.1	15.9	30.6	6.2	9.7	21.7
2. Dividends and profits	-90.9	1700.0	0.0	-94.4	0.0	100.0	50.0	33.3	-25.0	166.7	-4.1
3. General services	43.4	9.5	-23.5	37.3	106.9	-20.2	62.1	-62.3	37.8	47.3	10.8
i. Public Works	-12.7	0.8	39.3	-15.1	18.0	-17.0	58.0	4.8	81.1	33.9	14.1
ii. State Lotteries	-	30.3	-37.8	-82.2	174.2	60.2	120.5	-99.9	-85.7	-100	2.1*
iii. Others	-16.9	-8.9	-47.4	378.3	133.6	-27.7	61.2	-68.2	8.8	62.2	16.1
4. Social services	14.9	5.7	4.9	47.7	2.8	-12.6	35.6	129.6	-34.7	27.6	17.0
i. Education, Sports, Art & Culture	22.6	5.3	-43.8	22.2	65.5	-41.8	75.5	-17.2	29.9	-21.0	3.3
ii. Medical, Public Health & Family	34.1	12.7	-1.6	14.8	57.1	-49.1	32.1	-24.3	23.2	95.7	6.3
iii. Water Supply & Sanitation	-11.5	26.1	89.7	-7.3	-3.9	4.1	103.9	176.9	5.6	23.0	33.5
iv. Others	0.0	-15.4	60.6	164.2	-27.1	21.6	-8.1	306.1	-77.5	42.3	19.9
5. Economics services	-7.1	47.2	5.9	7.2	11.0	15.7	3.1	43.4	9.5	20.8	14.6
i. Crop Husbandry	-18.1	12.1	12.1	13.1	11.1	7.7	35.3	-13.0	46.8	11.4	11.9
ii. Animal Husbandry	4.8	12.8	-0.8	8.2	18.2	-5.8	-6.8	12.4	9.1	4.8	5.0
iii. Forestry & Wildlife	9.5	37.5	24.2	4.7	8.9	-6.4	11.3	15.4	10.1	18.0	11.3
iv. Non-ferrous Mining & Metallurgical	-11.7	53.6	4.7	8.1	11.8	13.4	7.3	49.3	8.8	21.8	15.6
(v) Others	65.0	-2.0	-24.0	-10.0	-9.9	295.8	-73.8	14.7	22.4	-8.4	0.8
Total No-tax revenue	-1.4	39.0	3.5	9.4	26.3	8.1	13.0	22.1	9.6	22.1	14.8

* AAGR has estimated using semi log trend equation

Source: same as in table 2.1

The state government provides many types of social services which range from a water supply to schools and health facilities. There are also different types of economic services provided by department such as horticulture and animal husbandry services to promote livelihood. While the state departments do not operate these services on a profit model, the respective departments do charge some amount for the services rendered. For a state with very limited own revenue generating capacity, it is expected that the departments would levy appropriate and rationale user charges policy to ensure maximum recovery without affecting the rendering of such services to the common man. Yet it is seen that the user charges in the state are very low as a result very negligible amount is being recovered from these services. There is no attempt to adopt a pricing policy that would ensure maximum recovery from those sections of users that have the ability to pay. For example, the horticulture department of the state government sells fruits samplings every summer at a very low price. While such a policy may be appropriate for the poor farmers, the department can always adopt a dual pricing policy and charge a higher price from other users who have the ability to pay. This is just one example where we see a need to rationalize and revise the pricing of services offered by the state government. In the current situation, the pricing policy is such that very less is recovered from these services rendered by the respective departments of the state government.

In table 3.6 we have shown the recovery rate from government services which has been calculated as ratio of revenue receipts to revenue expenditure. Under general service services, we have excluded interest payments and pension from the revenue expenditure, while in economic services we have shown the recovery with and without royalty from minerals. As can be seen from the table, recovery is very low across all the three services particularly in case of social services where the recovery is below one percent of current expenditure and rate has not improved over the last 11 years. Similarly in case of general services, the recovery rate is not only low but has stagnated at around four percent. In the case of economic services, there is a gradual decline in the recovery rate over the years. The recovery from economic services excluding royalty from minerals dropped from 4.4 percent in 2001-02 to 2.2 percent in 2011-12 (table 3.6). So not only is the recovery rate very low, it is actually declining instead of improving over the years.

The low recoveries from these services reflect the low pricing policy followed by the different departments of the state government for services rendered by them. The fall in the recovery rates also shows the widening gap between the receipts and expenditure on these services and the absence of timely revision of the users charges such as fees, prices and rents on government extended services. The extremely low recovery shows a clear lack of initiative on the part of the state government to recover even a minimum of the cost involved in extending these services.

Another issue which is a cause of concern is the low level of returns from government investments on statutory corporations, government companies and cooperatives. During the period 2001-02 to 2011-12 as against the cumulative investment of Rs. 146 crore by the government on active government corporations, companies and various cooperatives, the cumulative returns in the form of dividends and profits from these entities in the same period was only 70 lakhs. During 2002-03, 2005-06 and 2006-07 the total dividends and profits from the government investment was only within a lakh. The returns on investment were as low as 0.08 percent in 2002-03 with the highest at only 2.4 percent achieved in 2004-05 (table 3.7).

Table 3.6: Recoveries from Government Services

	Non-tax revenue receipts (Amount in Rs. lakh)				Revenue expenditure (Amount in Rs. lakh)			Non-tax revenue receipt as percentage of expenditure			
	General services	Social Service	Economics Services	Economics Service*	General services	Social Service	Economics Services	General services	Social Service	Economics Services	Economics Service*
2001/02	1054	168	7650	1294	42871	43593	29230	4.36	0.39	26.17	4.43
2002/03	1511	193	7107	1496	48385	42585	29481	5.69	0.45	24.11	5.07
2003/04	1654	204	10458	1840	52603	47914	30852	5.92	0.43	33.90	5.96
2004/05	1265	214	11077	2051	58705	55776	45153	3.92	0.38	24.53	4.54
2005/06	1737	316	11879	2123	62533	55475	49440	5.09	0.57	24.03	4.29
2006/07	3593	325	13182	2279	70308	61430	59011	9.39	0.53	22.34	3.86
2007/08	2867	284	15245	2879	77827	75355	72184	6.31	0.38	21.12	3.99
2008/09	4648	385	15713	2440	93752	80492	94034	8.39	0.48	16.71	2.59
2009/10	1753	884	22539	2718	110099	109238	98901	2.66	0.81	22.79	2.75
2010/11	2415	577	24686	3128	131680	137603	131991	3.18	0.42	18.70	2.37
2011/12	3557	736	29810	3552	148719	174247	160515	4.31	0.42	18.57	2.21

Source: same as in table 2.1

Table 3.7: Recoveries from Government Investments

(Amount in Rs. lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Dividends & Profits	11	1	18	18	1	1	2	3	4	3	8
2. Investments	1484	1193	1058	753	690	585	338	1364	2009	2960	2128
3. Returns on investments(1/2*100) (as percentage)	0.74	0.08	1.70	2.39	0.14	0.17	0.59	0.22	0.20	0.10	0.38

Source: same as in table 2.1

3.5 Measures to Improve Tax Productivity

As pointed earlier, there is scope for additional revenue tax generation as the own revenue to GSDP ratio is still very low. Before we examine the measures needed to increase the tax revenue capacities of the state, we need to pay attention to an issue which has been highlighted by the Comptroller and General (CAG) in successive audit reports on state government finances. This relates to the huge loss of tax revenues to the state on account of underassessment/short/non-levy/ and evasion of tax which have been pointed in successive audit reports of the state government. Going by the audit reports, the state government can augment its meagre own revenues manifold by plugging the loopholes and leakages that is taking place through a systematic tax evasion and fraud committed year upon year without adequate remedial action being taken to address the same. There is also very little effort made to recover the taxes due to the state. In the following paragraphs, we highlight the ongoing practices of tax evasion and tax fraud for some of the main sources of own tax revenue of the state highlighted by the CAG from time to time.

1. Taxes on Sales, Trades/VAT: The collection of tax, interest and penalty in the state for taxes on sales, trades, etc, is governed by Central Sales Act and Rules and their subsequent amendments, the Meghalaya Sales Tax and Meghalaya Finance (Sales Tax) Act and the Meghalaya VAT Act and Rules and subsequent amendments. The MVAT Bill was passed by the State Assembly in March 2003 and got the Presidential assent in February 2005. The loss of revenue from this source is as follows:

i.	Irregular exemptions, concessions and remissions under the Meghalaya Industrial Policy and the schemes framed there under a) Non-fulfilment of export obligation by industrial units set up in Export Promotion Industrial Park despite enjoying the tax concession b) Inconsistencies between the Industrial Policy 1997 and the Meghalaya Industries (Tax Remission) Scheme, 2006 leading to irregular concession being allowed c) Industrial units availing irregular incentives though they failed to employ local tribal people as per prescribed norms d) Manufacturing units did not appoint any local tribal in the Board of Directors but were allowed by the Single Window Agency to avail tax incentives.
ii.	Tax exemption benefit irregularly extended to goods taxable under Purchase Tax Act
iii.	Tax remission claimed beyond the eligible period
iv.	Exemption and concession granted to manufacturing units on the strength of invalid declarations

v.	Short realization of penalty and non-levy of penalty for belated submission of returns
vi.	Failure to detect non-submission of returns and non-realisation of penalty
vii	Failure to detect excess claim of input tax credit and to scrutinise returns effectively
viii	Concealment of turnover by dealers and incorrect deduction of turnover
ix	Non-levy of tax and penalty on misuse of 'C' form- purchased goods at concessional rate for use in manufacture of cement but utilised for other purposes resulting in non-levy of tax
x	Evasion of tax by furnishing false returns and by utilising fake declaration forms
xi	Short levy of tax due to misclassification of goods
xii	Non-detection of fraudulent representation of fact resulting in evasion of tax
xiii	Delay in assessment, failure to levy tax on closing stock, irregular grant of authorization certificate
xiv	Irregular grant of exemption under the CST Act and underassessment of tax due to incorrect application of rate
xv	Irregular cancellation of the registration certificate
xvi	Non-registration of dealers
xvii	Non-forfeiture of tax
xviii	Incorrect application of rate of tax
xix	Non-deduction of tax at source
xx	Non-levy of interest

2. State Excise: The collection of taxes, levy and penalty under state excise is governed by the Assam Excise Act and Rules, Assam Distillery Rules and Assam Bonded Warehouse Rules adopted by the state government and their subsequent amendments. The loss of revenue from this source is on account of:

i	Non- realization of licence fees and irregular adjustment of license fee
ii	Non-renewal of licenses
iii	Non-realization of import pass fee
iv	Non-renewal of brand names
v	Non-realization of outstanding dues

vi	Non-payment of excise duty
vii	Irregular grant of exemption
viii	Non-realization of establishment charges
ix	Misclassification of IMFL(Indian made foreign Liquor) as general brand instead of deluxe brand
x	Non-disposal of confiscated liquor
xi	Non realisation of share of licence fee from country spirit vends
xii	Abysmally low detection of excise default cases

3. Receipts from Transport: Revenue collected from this source is governed by the Motor Vehicle Act and the Assam Motor Vehicles Taxation (AMVT) Act adopted by the state government and subsequent amendments. The revenue leakage is from the following:

i	Non-realization of fees/duties and irregular exemption
ii	Non-levy of penalty and fine on trucks carrying excess load of coal
iii	Short levy of fine and short-realization of composite fee
iv	Non levy of fine for non-renewal of permits
v	Non realization of road tax
vi	Unauthorized retention of revenue
vii	Delay in deployment of enforcement staff in private weighbridge
viii	Non-renewal of certificate of registration of private vehicles
ix	Non realisation of inspection/fitness fee
x	Weighbridge not settled with the highest bidder
xi	Failure of the Enforcement Wing to detect plying of vehicles without pollution under control certificates leading to non-levy and realisation of fees and fines
xii	Evasion of tax by owners of unregistered motor vehicles and irregular exemption

4. Lottery, Amusement and Betting: Revenue leakage under this source is from the following account:

i	Arbitrary action of the Government to withdraw the safeguard/deterrent clause and failure to incorporate a penal clause in the amended agreement for online draws with the distributor leading to undue financial aid and non-realization of revenue
ii	Failure of the Government to obtain legal opinion prior to execution of the paper lottery agreement resulting in loss of revenue
iii	Irregular reduction of rate of weekly draws
iv	Short realisation of guaranteed dues and non-forfeiture of undisbursed prize money from online lottery distributor
v	Failure of the Government to initiate appropriate action leading to non-realisation of amusement tax from registered proprietors of cinema halls
vi	Injudicious reduction of tax in some cases of registered proprietors of cinema halls
vii	Non-enforcement of revised rate of entertainment
viii	tax
ix	Failure to register operators of cable television entertainment
x	Incorrect realisation of advance tax at lower rate
xi	Failure of the department to renew licences of bookmakers leading to non-realisation of renewal fee

5. Other Taxes and Duties: Besides the above, the other sources of revenue leakages pointed out by the CAG in successive audit reports are:

i	Short and non- realization of stamp duty
ii	Noncompliance of the provisions of the Indian Stamp Act 1899 and the rules made there under
iii	Irregular grant of exemption from payment of stamp duty
iv	Non-levy of professional tax

3.6 Measures to Raise Additional Resources from Non-Tax Revenue

The state government has announced and introduced some measures to mobilise additional revenue from non-tax sources and also to plug loopholes and leakages in revenue. The proposal and measures announced by the government in recent years include (i) integrated check gates on important routes to check leakage of royalty payment on minerals (ii) registration fees in a few select veterinary hospitals and services (iii) limited water user charges on water available for irrigation (iv) reforms of public sector enterprises by disinvestment, winding up or restructuring to reduce budgetary support (v) introduction of fees on producers and dealers in charcoal and levying of export transit pass fees on consignments of charcoal that leave the state.

As i the case of own tax revenue, there are several issues related to revenue leakage particularly with regard to the two largest contributors to non-tax revenues namely royalty on minerals and forestry. The discussion of the losses and leakages of non-tax revenue is based on findings of audit report of the CAG.

1. Collection from minerals: The state is endowed with rich minerals resources such as coal and limestone which is in private ownership because of the particular land ownership system followed in the state under the Sixth Schedule of the Constitution. The state government collects royalty and cess on coal and limestone at the rate of Rs. 165 and Rs. 55 per metric ton for coal and Rs. 45 and Rs. 20 on limestone, the new rates having come into effect from January of 2009. Later in September of the same year the royalty on coal was revised to Rs. 290 per metric ton and the cess was withdrawn. In August 2009 the royalty on limestone was enhanced to Rs. 63 per metric ton. The loss of revenue to the state from this source is on account of the following factors:

i	Short and non-realisation of royalty, cess, interest and penalty
ii	Evasion of royalty and delay in implementation of revised rate of royalty
iii	Failure to prevent unauthorized export of coal and limestone leading to non-realisation of export fee
iv	Concealment of quantity of coal/limestone produced leading to underpayment of royalty
v	Unauthorised extraction of minerals without payment of royalty and cess
vi	Non-levy of penalty on excess load of coal
vii	Delay in the part of the state government departments to notify the revised rate of royalty on minerals issued by central government

2. Forest Receipts: All forest related activities including revenue collection are regulated by the Meghalaya Forest Regulation (Application and Amendment) Act, 1973, the Assam Settlement of Forest Coupes and Mahals, the Tender System Rules, 1967 (as adopted), the Meghalaya Forest (Ejectment of Unauthorised Person) Rules, the Meghalaya Tree (Preservation) Act, 1976 and the Meghalaya Removal of Timber Regulation Act, 1981 and various Rules made there under. The loss of revenue to the state from this source is on account of the following factors:

i	Short/non-realization of fees and non-levy of penalty
ii	Non-deposit of forest royalty
iii	Unauthorised lifting of timber and forest produce
iv	Illicit felling and removal of timber and non-disposal of seized timber
v	Failure to deduct collection charges from the royalty paid to the district councils
vi	Loss of revenue due to non-settlement of mahal at the risk of the mahaldar
vii	Short realisation of royalty due to application of incorrect rate
viii	Existence of large number of illegal sawmills

The Principal Account General (PAG) (Audit), Meghalaya undertakes periodic inspection of the various departments of the state government to check for the correctness of assessment, levy and collection of tax and non-tax receipts and other verification of accounts. According to the Audit Report of government of Meghalaya for 2012[12], the revenue losses arising from both tax and no-tax sources on specific cases accepted by the state government during 2007-08 to 2010-12 are given in Box 3.II. Also given is the amount recovered against the accepted cases. For instance in the case of tax on sales and trade against revenue losses of Rs. 1133.33 crore during 2007-08 to 2011-12, only Rs. 167.42 has been recovered so far which is just 15 percent of the total revenue loss. Similarly, the revenue loss on state excise and tax on motor vehicle is Rs. 70.04 crore and Rs. 528.05 crore against which only Rs. 55 lakh has been recovered against state excise. Revenue loss on forest and mining receipts was to the tune of Rs. 152 crore against which only Rs. 5.57 crore has been recovered.

[12] Report of the Comptroller and Auditor General of India for the year end of March 2012, Government of Meghalaya

Box: 3.II: Revenue losses during 2007-08 to 2011-12

	Revenue Losses	Recovery
1	Taxes on Sales, Trades, etc: Rs. 1133.33 crore	Rs. 167 crore has been recovered from central government on account of VAT compensation. Recovery of other accepted cases is nil.
2	State Excise: Rs. 70.04 crore	only 0.55 crore has been recovered
3	Motor Vehicles Receipts: Rs. 528.05 crore	Nil
4	Stamp Duty and Registration Fees Rs. 0.84 crore	Nil
5	Forest Receipts: Rs. 98.99 crore	Nil
6	Mining Receipts: Rs. 53.11 crore	Rs. 5.57 crore

Source: Audit Report of Government of Meghalaya 2012

The amounts mentioned the above are only for those cases detected by the audits during their inspections. The actual scale of the tax evasion and fraud and the resulting revenue loss to the state would actually be several times the amount put out in these reports. As a state with very limited revenue sources this loss of revenues which has been going on for years and the failure of the state government to address this issue deserve attention and closer scrutiny. It points to the potential of augmenting the state's revenue by plugging this large scale tax evasion. Any measures to augment the tax and non-tax revenue of the state must address the lacunae raised in the audit reports.

3.7 Suggestions to Increase Revenue Productivity

Some of the measures that need to be taken to increase the revenue productivity of the state are as follows:

1. Coordination among the departments to bring unregistered dealers/suppliers under MVAT and ensure tax compliance. Ensure compliance of the rules and regulations governing the revenue collection from various sources.

2. Monitor the turnover of VAT assesses as 55 percent of the current assesses fall within one lakh and 29 percent within 5 lakhs (as in 2011), both these are threshold level as only those with turnover above Rs. 5 lakh are liable to pay the tax at prescribed rate.

3. Bring down the cost of collection of taxes as it is presently way above the all India average.

4. Strengthening of internal wings of departments involved in revenue collection so that the loopholes and defects causing loss of revenues can be identified and stopped. Improve the recovery of unpaid taxes, fees and penalties

5. Re-examine the scheme of exemption and concession to industrial units under the Meghalaya Industrial Policy as industries have been found to be floating the formulated norms relating to export obligations, employment of locals and also claiming of irregular tax exemptions/concessions and remission

6. Under the Meghalaya Professions, Trades, Callings and Employments Act, every person in employment in any government, local body, company, firm and other association of persons is liable to pay professional tax. However, the Act has not been widely implemented in the state and even employees of state government entities such as corporations and boards are not paying the tax. The provisions of the act have to be implemented in all the sectors in the state, salaried and self-employed, to widen the tax base so as to realize the full potential of the tax as in the case of Maharashtra and Tripura. Deduction of professional tax at source for non-salaried category of service providers must be initiated.

7. Timely revision of royalties and export fees on forest produce and minor minerals. There has been a long overdue in the revision of these rates in the state.

8. Strengthen information sharing and cross verification system among different agencies/department to ensure tax compliance/evasion of payment of royalty and fee. This is particularly important in respect of export of coal and limestone where there is a huge discrepancy in the data of state government departments and that of custom department of the central government

9. Establishment of check post at all strategic location to ensure that there is no illegal exports of minerals and forest produce with payment of the required royalty and fee

10. Strengthen the revenue collection departments of the state government in terms of manpower and the use of modern technology to prevent revenue loss and leakage.

11. Adoption of policy of rational user charges for different services extended by the government to ensure maximum recovery without affecting the rendering of such services to the common man.

Chapter 4: Trends, Structure and Emerging issues in Expenditure

4.1 Trends in State Expenditure

Expenditure to GSDP ratio increased from 30.4 percent in 2001-02 to 34.9 percent in 2011-12. However, much of the total expenditure went towards meeting expenditure under revenue accounts as reflected in the high revenue expenditure to GSDP ratio. The high revenue expenditures have crowded out capital investment as the ratio of capital expenditure to GSDP increased only marginally from 4.5 percent in 2001-02 to 5.5 percent in 2011-12- a one percentage point increase in 11 years. As a percentage of GSDP, revenue expenditure fluctuated between 22 percent in 2006-07 to 29 percent in 20011-12, while the ratio of capital expenditure to GSDP was only between 4 to 6 percent in the same period (table 2.1). Table 4.1 shows the change in share of different categories of expenditure to total expenditure and also the growth rate of different component of expenditure during 2001-02 to 2011-12. Total expenditure grew at annual rate of 15.4 percent with the year on year growth rate varying between a low of 3.6 percent in 2005-06 to a high of 25.4 percent in 2009-10 (table 4.1).

The predominant share of revenue expenditure in the total expenditure is clearly evident as share of revenue expenditure was above 80 percent through the 2001-02 to 2011-12. The share of capital expenditure in the total expenditure was the highest at 18.6 percent in 2004-05 while the lowest was 13.3 percent in 2010-11. During the 11 years of study, revenue expenditure expanded at an annual rate of 15.6 percent while capital expenditure grew at 14 percent. In terms of year on year growth of revenue and capital expenditure, we see the latter registering negative annual growth in 2004-05, 2005-06 and 2009-10.

The share of development expenditure in the total expenditure show an increasing trend with its share rising from 67.8 percent in 2001-02 to a high of 72.9 percent in 2011-12. In the same period, non-development expenditure has decreased by almost five percentage points from 32.2 percent in 2001-02 to 27.1 percent in 2011-12. Development expenditure expanded at an average annual rate of 16.2 percent while non-development expenditure grew at 13.5 percent annually during 2001-02 to 2011-12.

In case of plan and non-plan expenditure, plan expenditure which accounted for just one-third of total expenditure in 2001-02 has climbed up to almost 50 percent in 2011-12, a significant increase of almost 16 percentage points in the last 11 years. While there has been a fall in the share of non-development and non-plan expenditure to total expenditure which is a healthy development for the state indicating a more productive employment of public resources, the low share of capital expenditure and its slow growth is a worrying phenomenon implying limited availability of resources for investment in building capital assets and the productive capacity of the state's economy.

Table 4.1: Change in Structure and Growth in Public Expenditure

(percent)

	Change in composition as percentage of total expenditure										
	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
Revenue	85.1	82.4	81.2	85.0	86.1	85.4	84.3	82.2	86.2	86.7	84.2
Capital	14.9	17.6	18.8	15.0	13.9	14.6	15.7	17.8	13.8	13.3	15.8
Develop -ment	67.8	66.5	65.8	68.1	67.1	67.7	69.6	69.6	68.4	70.4	72.9
Non-developme	32.2	33.5	34.2	31.9	32.9	32.3	30.4	30.4	31.6	29.6	27.1
Non-plan	66.3	66.1	63.2	60.4	61.1	60.5	57.8	51.6	58.3	55.3	50.4
Plan	33.7	34.1	36.8	39.6	38.9	39.5	42.2	48.4	41.7	44.7	49.6

	Growth in expenditure (year on year and AAGR)										
	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	AAGR
Revenue	4.1	9.1	21.5	4.9	13.9	18.1	19.0	18.6	26.1	20.5	15.6
Capital	27.2	18.3	-7.7	-4.1	20.9	28.2	38.9	-12.6	21.3	47.2	14.0
Develop -ment	5.4	9.6	20.1	2.0	15.8	23.0	22.2	11.1	29.1	28.4	16.2
Non-developme	12.1	12.9	8.1	6.9	12.9	12.6	22.0	17.5	17.4	13.7	13.5
Non-plan	7.3	5.8	10.9	4.7	13.8	14.2	9.1	27.8	19.0	13.1	12.6
Plan	8.7	19.6	24.7	1.8	16.5	27.9	40.0	-2.6	34.5	37.6	19.5
Total Expenditur	7.6	10.7	16.0	3.5	14.9	19.6	22.2	13.1	25.4	24.0	15.3

* AAGR has estimated using semi log trend equation

Source: same as in table 2.1

4.2 Revenue and Capital Expenditure

Much of the total expenditure of the state goes towards meeting current expenditure as share of revenue expenditure varied between 81 percent to 87 percent of total expenditure during 2001-02 to 2011-12. Within revenue expenditure, the trend is of a decline in the share of general services which is mainly due to fall in expenditure on interest payment and also under other services. However, during the same period the pension liability has increased from five percent in 2001-02 to almost eight percent in 2011-12. Expenditure under economic services has also climbed upwards from 25.3 percent in 2001-02 to 33.2 percent in 2011-12, an increase of almost 8 percentage points in the 11 year period. Under economics services, the two sectors of rural development and energy has seen an increase in their share of expenditure and also activities clubbed together under 'others'. The share of social sector in the total expenditure has marginally some down from 37.7 percent in 2001-02 to 36 percent in 2011-12. Share of salaries which was as high as 46.3 percent of revenue expenditure in 2001-02 had shown a declining trend coming down to 28.9 percent in 2008-09 before again rising upward to reach 33.2 percent of total revenue expenditure in 2011-12 (table 4.2).

Table 4.2: Change in Composition of Revenue Expenditure

(percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1.General Services of which	37.1	40.2	40.0	36.8	37.3	36.9	34.5	34.9	34.6	32.8	30.8
i. Interest Payments	11.1	12.6	12.9	11.1	11.4	10.6	8.4	7.9	7.4	6.4	5.9
ii. Pensions	5.0	5.6	5.8	5.4	5.6	6.2	6.0	6.4	6.5	7.5	7.8
iii. Other services	20.9	22.0	21.3	20.2	20.4	20.0	20.2	20.6	20.7	18.9	17.1
2. Social Services	37.7	35.4	36.5	34.9	33.1	32.2	33.4	30.0	34.3	34.3	36.0
i. Education	21.5	20.0	20.4	19.3	18.6	17.1	18.8	16.2	17.7	18.9	21.1
ii. Health	7.1	6.8	6.3	5.4	5.6	5.2	5.0	4.9	6.6	6.9	5.9
iii. Water Supply/ Sanitation	3.6	3.7	3.5	3.3	3.2	3.4	2.9	2.9	3.3	2.6	2.3
iv. Others	5.5	4.8	6.3	6.9	5.7	6.5	6.7	6.1	6.8	5.9	6.7
3. Economic Services	25.3	24.5	23.5	28.3	29.5	30.9	32.0	35.1	31.1	32.9	33.2
i. Agriculture & Allied Activities	10.7	9.7	9.3	8.7	9.7	9.2	9.6	9.3	11.4	13.8	10.4
ii. Rural Development	4.6	5.1	4.4	4.1	5.9	6.9	5.9	7.3	5.3	6.0	6.5
iii. Energy	1.0	0.9	1.5	5.6	4.2	4.7	6.1	8.8	3.9	2.8	3.4
iv. Transport & Communication	3.1	3.2	3.1	3.1	3.1	4.0	3.5	2.8	3.1	2.1	2.4
v. Others	5.8	5.6	5.3	6.7	6.6	6.0	6.9	6.8	7.4	8.1	10.5
Salaries*	46.3	47.8	47.3	34.6	35.0	33.8	31.4	28.9	37.9	37.0	33.2
Subsidies*	2.1	2.7	2.3	1.8	1.0	1.8	1.8	0.7	0.9	1.4	0.5

*under general, social and economic services

Source: same as in table 2.1

The annual growth of revenue expenditure shows a sharp jump in 2004-05 due to the significant increase in expenditure under energy and also in 2009-10 and 2010-11 due to increase expenditure under pensions and salaries on account of implementation of the Fourth Pay Commission by the state government. In 2009-10 the year on year growth of salaries was 55 percent up from 9.5 percent in the previous year while that of pensions was 44 percent in 2010-11 as compared to 21 percent annual growth in 2009-10. As far as the AAGR of components of revenue expenditure is concerned, economics services recorded the fastest growth with an AAGR of 20 percent, followed by social services at 15 percent. Within the main components, three sectors comprising highest AAGR during 2001-02 to 2011-12 are of energy (32 percent), rural development (20 percent) and pension (20 percent).

Table 4.3: Growth in Revenue Expenditure

(percent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AAGR
1. General Services of which	12.9	8.7	11.6	6.5	12.4	10.7	20.5	17.4	19.6	12.9	13.2
i. Interest Payments	17.7	12.3	4.2	7.8	6.4	-7.0	12.2	10.3	9.8	11.2	7.0
ii. Pensions	15.1	14.4	13.5	7.2	26.1	14.6	27.5	21.0	44.1	25.4	20.0
iii. Other services	9.7	5.2	15.6	5.6	12.1	18.9	21.8	19.0	15.3	8.6	13.9
2. Social Services	-2.3	12.5	16.4	-0.5	10.7	22.7	6.8	35.7	26.0	26.6	14.7
i. Education	-3.3	11.2	15.1	0.9	4.6	29.9	2.6	30.0	34.5	34.8	14.5
ii. Health	-0.3	0.9	4.6	8.8	5.4	14.1	15.9	59.4	32.6	3.2	14.5
iii. Water Supply / Sanitation	9.1	2.4	13.9	2.0	22.1	0.5	17.1	34.7	2.0	5.9	11.3
iv. Others	-8.6	41.9	33.7	-13.1	29.3	22.3	7.5	32.4	8.8	37.0	17.6
3. Economic Services	0.9	4.7	46.4	9.5	19.4	22.3	30.3	5.2	33.5	21.6	19.8
i. Agriculture & Allied Activities	-5.9	4.3	14.5	16.8	8.1	22.9	15.4	45.7	51.7	-9.1	17.7
ii. Rural Development	14.0	-5.8	14.1	50.6	33.6	0.4	48.8	-14.4	43.8	29.2	20.0
iii. Energy	-1.1	69.0	362.3	-21.2	29.3	52.2	71.5	-48.1	-7.2	45.9	32.3
iv. Transport & Communication	6.3	4.7	24.5	5.0	45.7	3.7	-5.8	30.8	-12.9	39.1	12.5
v. Others	0.4	3.8	54.2	2.6	4.4	35.3	17.3	29.1	38.3	54.9	21.6
Salaries*	7.5	8.0	-11.1	6.1	9.7	10.1	9.5	55.3	23.3	8.2	11.7
Revenue Expenditure	4.1	9.1	21.5	4.9	13.9	18.1	19.0	18.6	26.1	20.5	15.6

*under general, social and economic services

Source: same as in table 2.1

Capital expenditure is examined is terms of its two components namely capital outlays and loan and advances. As seen in table 4.1, share of capital expenditure varied from 13 percent to 19 percent of total expenditure. Within capital expenditure, share of capital outlays which was 78.8 percent in 2001-02, increased to 94.2 percent in 2011-12. The share of economic services in the total expenditure has been increasing over the years and it rose from 43.8 percent at the start of the period reaching a high of 65.8 percent in 2010-11 before dropping to 56.7 percent in 2011-12. Capital outlay on transport and communications has the highest share of the total capital expenditure and the share of this sector has been increasing over the last 11 years. Water supply and sanitation are other two important sectors as far as share of the total capital expenditure is concerned but their share has been declining over the years (table 4.4).

Table 4.4: Change in Structure of Capital Expenditure

(percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Capital Outlay	**78.8**	**71.3**	**77.1**	**87.2**	**96.1**	**98.2**	**93.6**	**91.4**	**94.8**	**93.2**	**94.2**
1.General Services	**2.9**	**2.7**	**8.1**	**2.9**	**4.2**	**5.0**	**6.6**	**8.2**	**9.5**	**5.9**	5.8
2.Social Services of which	**32.1**	**26.1**	**27.5**	**38.8**	**42.4**	**38.9**	**36.4**	**38.1**	**27.8**	**21.5**	31.8
i. Health & Family Welfare	**5.1**	**4.6**	**4.7**	**5.2**	**6.4**	**5.5**	**8.6**	**3.5**	**4.3**	**3.3**	**4.0**
ii. Water Supply & Sanitation	**25.7**	**19.2**	**19.6**	**25.8**	**28.8**	**28.3**	**25.7**	**23.6**	**19.0**	**14.3**	**15.6**
3. Economic Services of which	**43.8**	**42.6**	**41.5**	**45.6**	**49.5**	**54.3**	**50.5**	**45.1**	**57.4**	**65.8**	**56.7**
i. Special Area Programmes	**4.5**	**2.6**	**4.5**	**5.2**	**9.7**	**14.3**	**12.2**	**6.4**	**5.2**	**6.4**	**6.4**
ii. Irrigation & Flood Control	**5.2**	**2.5**	**2.0**	**1.8**	**2.8**	**1.7**	**1.5**	**5.5**	**6.8**	**13.4**	**9.1**
iii. Transport & Communication	**24.7**	**33.5**	**30.1**	**32.0**	**31.9**	**33.0**	**32.9**	**28.0**	**38.7**	**38.2**	**36.5**
B. Loans &Advances	**21.2**	**28.7**	**22.9**	**12.8**	**3.9**	**1.8**	**6.4**	**8.6**	**5.2**	**6.8**	**5.8**

Source: same as in table 2.1

There has been a sharp decline in the percentage share of the loans and advances component of capital expenditure which has fallen from a high of 28.7 percent in 2002-03 to only 5.8 percent in 2011-12 (table 4.4). In table 4.5, we discussed the trends in the components of loans and advances given by the state government to different sectors. Power sector under economic services is the main recipient of state government's loans and advances followed by loans and advances to government servants. In 2011-12, 68.6 percent of state government's loans and advances went to economic sector while share of government employees was at 31.4 percent.

Table 4.5: Trends in Composition of Capital Expenditure on Loans and Advances

(percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1.Social Services	0.1	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2. Economic services of which:	69.6	76.6	72.5	73.9	72.3	38.3	73.1	86.2	39.5	63.5	68.6
i. Power	67.8	75.0	71.8	71.3	65.3	21.3	52.2	85.9	28.2	55.5	54.8
ii. Cooperation	1.8	1.3	0.7	2.6	7.0	16.9	2.3	0.2	0.0	0.0	0.0
iii. Others	-	-	-	-	-	-	18.7	-	11.3	8.0	13.8
3. Government employees	30.3	23.4	26.8	26.1	27.7	61.7	26.9	13.8	60.5	36.5	31.4

Figures are as percentage of total loans and advances
Source: same as in table 2.1

The growth trends of various components of capital expenditure for period of 2001-02 to 2011-12 are given table 4.6 and its shows that capital investment in irrigation and flood grew the fastest at an AAGR of 30.1 percent followed by general services and special area programmes at 24.5 percent and 20.9 percent respectively. In the same period, the AARG of loans and advances recorded a negative annual growth of two percent. We also see a wide fluctuation in the year on year growth rate of all the components of capital expenditure as seen in table 4.6.

Table 4.6: Growth Profile of Capital Expenditure

(percent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	AAGR
A. Capital Outlay	16.4	26.5	4.4	5.6	23.5	22.3	35.6	-9.4	19.4	48.8	16.7
1. General Services	20.5	254.2	-67.2	38.2	45.8	69.5	71.8	1.8	-24.3	43.1	24.5
2. Social Services of which	4.4	23.2	30.2	4.9	10.7	20.3	45.3	-36.1	-6.2	117.3	12.9
i. Health & Family	15.5	20.4	1.3	18.7	4.8	99.8	-43.8	6.6	-6.9	81.3	10.6
ii. Water Supply & Sanitation	-3.9	19.7	21.5	7.0	18.5	16.7	27.2	-29.7	-8.7	61.3	9.8
3. Economic Services of which	24.9	14.1	1.2	4.2	32.7	19.3	23.9	11.3	39.1	26.9	18.1
i. Special Area Programmes	-26.9	106.4	5.4	79.8	78.4	9.3	-27.3	-29.4	51.5	47.4	20.9
ii. Irrigation & Flood Control	-37.3	-6.7	-15.9	46.1	-26.0	8.2	423.9	9.3	137.6	-0.3	30.1
iii. Transport & Communication	74.3	5.1	-1.8	-4.6	25.0	28.1	18.1	20.6	20.0	40.6	17.1
B. Loans &Advances	74.1	-6.8	-48.5	-70.4	-43.9	348.5	87.8	-46.9	56.2	25.7	-2.4
Capital Expenditure	28.6	16.9	-7.7	-4.1	20.9	28.2	38.9	-12.6	21.3	47.2	13.9

Source: same as in table 2.1

4.3 Development and Non-Development Expenditure

The composition of expenditure into components of development and non-development is provided in table 4.7 and 4.8. Development expenditure under revenue component far outweighs expenditure under capital component as the former takes up anywhere between 73.9 percent (2004-05) to 82.7 percent (2010-11) of total development expenditure. Revenue expenditure is mainly on social and economic services with the proportion of expenditure on social services generally higher than on economics services. The other component of development expenditure is capital outlays which is expenditure in capital assets. The share of this component reached its highest percentage of 21.3 in 2008-09 before sliding down to 19 percent in 2011-12. The third component of development expenditure given in table 4.7 is the loans and advances provided by the government to its employees as housing loans. Since 2005-06, the share of this component of development expenditure has remained under two percent of total development expenditure.

The trends in the composition of non-development expenditure are depicted in table 4.8. Bulk of the non-development expenditure varying from 98.1 percent (2004-05) to 94.5 percent (2009-10) goes to meeting revenue expenditure consisting of administrative services, interest payment and servicing of debt, pensions besides other accounts. In the last 11 years, expenditure under interest payment has come down significantly from 30.2 percent in 2001-02 to 18.4 percent in 2011-12 while the component of pensions has increased from 13.3 percent to 24.2 percent in the same period. In case of administrative services, the expenditure has decreased from 45.6 percent to 43.5 percent in between 2001-02 to 2011-12. There is very negligible expenditure under other components of non-development expenditure such as capital expenditure on general services and on loans (other than home loans) to government employees (table 4.8).

Table 4.7: Composition of Development Expenditure

(percent)

	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
Development (A+B)											
A. Direct (1+2)											
1.. Revenue Expenditure	79.0	74.1	73.9	78.9	80.4	79.7	79.4	76.8	82.4	82.7	80.0
i. Social Services	47.3	43.8	45.0	43.6	42.5	40.6	40.5	35.4	43.3	42.2	41.6
ii. Economic Services	31.7	30.3	29.0	35.3	37.9	39.0	38.8	41.4	39.2	40.5	38.3
2. Capital Outlay	16.7	18.4	19.8	18.6	19.0	20.1	19.6	21.3	17.1	16.5	19.2
i. Social Services	7.1	7.0	7.9	8.5	8.8	8.4	8.2	9.7	5.6	4.1	6.9
ii. Economic Services	9.6	11.4	11.9	10.0	10.2	11.7	11.4	11.5	11.5	12.4	12.3
B. Indirect (3)											
3. Housing loans to government employees	4.3	7.5	6.3	2.6	0.6	0.2	1.1	1.9	0.4	0.8	0.9

Source: same as in table 2.1

Table 4.8: Composition of Non-Development Expenditure

(percent)

	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
Non-development (1+2+3)											
1. Revenue Expenditure	98.0	98.7	95.0	98.1	97.8	97.4	95.7	94.5	94.5	96.2	95.61
i. Organs of State	4.8	5.4	7.0	7.9	7.7	7.3	8.1	7.9	4.6	4.9	4.9
ii. Fiscal services	3.9	3.4	3.5	4.8	3.5	3.0	3.4	7.6	3.3	3.3	4.7
iii. Interest Payments & servicing of debt	30.2	31.8	31.7	30.8	31.2	29.4	24.7	22.7	21.3	19.9	18.4
iv. Administrative Services	45.6	44.4	39.0	40.1	40.7	41.3	43.0	38.9	47.5	46.2	43.5
v. Pensions	13.3	13.7	13.8	14.5	14.6	16.3	16.6	17.3	17.8	21.9	24.2
vi. others	0.0	0.1	0.1	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.1
2.. Capital Expenditure on general services	1.3	0.8	4.5	1.4	1.8	2.3	3.4	4.8	4.2	2.7	3.4
3. Loans to government employees (other than housing)	0.7	0.5	0.5	0.5	0.4	0.4	0.9	0.7	1.4	1.1	1.0

Source: same as in table 2.1

4.4 Plan and Non-Plan Expenditure

A seen in table 4.1, the percentage of non-plan expenditure to total expenditure has come down significantly by almost 16 percentage points from 66.3 percent in 2001-02 to 50.4 percent in 2011-12. Given this decline, the change in the composition of plan and non-plan expenditure under revenue and capital accounts is examined in table 4.8 and 4.9.

The non-plan revenue expenditure under general, social and economic services is given in table 4.8. It shows that the total non-plan revenue expenditure has decreased from 76.4 percent in 2001-02 to 59.5 percent in 2011-12, a significant fall of almost 16 percentage points in between the period 2001-02 to 2011-12. This fall in non-plan revenue expenditure is mainly due to the fall in non-plan revenue expenditure on social and economics services (table 4.8). However, in case of general services, non-plan revenue expenditure has remained stable at 96 to 97 percent during 2001-02 to 2011-12. The fall of the non-plan revenue expenditure does indicate partial success of the government in its fiscal consolidation programme as far as containing the non-plan revenue component of expenditures is concerned.

Table 4.9: Composition of Plan and Non-Plan Revenue Expenditure

	General services		Social services		Economic services		Total	
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2001-02	96.7	3.3	68.7	31.3	58.1	41.9	76.4	23.6
2002-03	96.6	3.0	71.1	29.0	60.8	39.2	78.8	21.2
2003-04	96.3	3.7	65.5	34.5	59.5	41.5	76.4	23.6
2004-05	96.2	3.8	60.4	39.6	48.4	31.6	70.2	29.8
2005-06	96.4	3.6	61.4	38.6	48.4	61.6	70.6	29.4
2006-07	96.4	3.6	63.5	36.5	46.3	53.8	70.3	29.7
2007-08	96.1	3.8	58.4	41.7	47.8	52.2	68.0	32.0
2008-09	96.3	3.7	59.4	41.6	31.5	69.5	62.5	37.5
2019-10	95.6	4.4	57.6	42.4	45.8	54.2	67.1	32.9
2010-11	95.5	4.5	60.5	39.5	34.6	65.5	63.4	36.6
2011-12	95.8	4.2	53.5	46.5	32.3	67.7	59.5	39.5

Source: same as in table 2.1

Plan and non-plan capital expenditure is examined in terms of the two components of capital outlay and loan and advances. Housing loans are treated as plan advances while all other loans and advances as non-plan expenditure. In the case of capital outlay, non-plan component is very negligible in economic and social services. However, the non-plan component of capital outlay under general services was quite high in 2001-02, 2004-05 and 2006-07 compared to other years. For loans and advances, the plan expenditure component varied between a low of 38.3 percent in 2006-07 to a high of 86.2 percent in 2008-09.

Table 4.10: Composition in Plan and Non-Plan Capital Expenditure

	A. Capital Outlay						B. Loans & Advances		Total (A+B)	
	General services		Social services		Economic services					
	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan
2001-02	76.7	23.3	95.4	4.6	99.8	0.2	69.7	30.3	91.3	8.7
2002-03	95.7	4.3	100.0	0.0	100.0	0.0	76.6	23.4	93.2	6.8
2003-04	100.0	0.0	100.0	0.0	100.0	0.0	73.2	26.8	93.9	6.1
2004-05	69.8	30.2	97.8	2.2	100.0	0.0	73.9	26.1	94.9	5.1
2005-06	92.7	7.3	99.3	0.7	100.0	0.0	72.3	27.7	98.3	1.7
2006-07	78.3	21.7	97.3	2.7	100.0	0.0	38.3	61.7	96.7	3.3
2007-08	84.6	15.4	100.0	0.0	100.0	0.0	73.1	26.9	97.3	2.7
2008-09	100.0	0.0	99.9	0.1	100.0	0.0	86.2	13.8	98.8	1.2
2019-10	99.3	0.7	99.3	0.7	100.0	0.0	39.5	60.5	96.6	3.4
2010-11	100.0	0.0	100.0	0.0	100.0	0.0	63.5	36.5	97.5	2.5
2011-12	97.0	3.0	99.9	0.1	99.6	0.4	68.6	31.4	97.8	2.2

Source: same as in table 2.1

4.5 Measures to Enhance Allocative and Technical Efficiency in Expenditures

The state government has not been proactive in expenditure management as can be seen from a dearth of measures to improve the technical and allocative efficiency in expenditure. The high revenue expenditure at around 80 percent and above leaves very little for investment on productive capacity of the state. The proliferation in expenditure on salaries and pensions on account of implementation of the state fourth pay commission from 2009-10 has put additional strain on the state financial position and also adversely affected the allocation of resources on non-salary component of social and economic services such as the provisions of equipment, materials and training.

Some of the recent measures announced by the government towards improving efficiency of public spending are listed in Box 4.1. There is however little evidence to show the implementation and effectiveness of these measures in achieving their goals.

Box: 4.I: Measures For Improving Efficiency of Public Expenditure

i	Identification of redundant posts and control in creation of new posts to reduce expenditure on wages and salaries of the government including the introduction of new contributory pension scheme for state government employees from 2010
ii	Reduction of implicit subsidies offered to the different sectors of the economy
iii	Setting up of committee on project management to identify long pending projects, to oversee shelf of projects, inventory control, etc

iv	Management of expenditure according to its receipts potential
v	Containment of non-plan expenditure
vi	Reforms of Public Sector enterprises by disinvestment, winding up or restructuring to reduce budgetary support
vii	Implement power sector reforms by setting up Tariff Regulatory Commission, unbundling of power sector and recovery of dues
viii	Encourage the PPP mode of funding public projects in health, education and infrastructure sectors

Sources: State Budgets & RBI State Finances: A Study of Budgets

4.6 Suggestions for Improving Efficiency in Public Spending

In order to understand the problems and challenges in public spending in the state, we reviewed the CAG Audit Reports of Meghalaya for the period 1997-98 to 2010-12. Some of the issues raised in these reports pertaining to the utilization of public funds are summarised below:

i	Undue delay in release and in some case non-release of central fund by the state Finance department to concerned departments/implementing agencies
ii	Failure to utilize available central funds by concerned departments
iii	Failure to release state share of central schemes
iv	Underutilization of funds, incorrect reporting of utilization of funds and also the diversion and irregularities in utilization of funds
v	Inadequate budget provision in annual budget in anticipation of actual flow of central fund
vi	Irregular expenditure schemes of government against norms
vii	Non-completion and delay of completion of schemes
viii	Absence of monitoring and supervision mechanism to monitor implementation of schemes
ix	Poor quality of work
x	Poor record keeping and doubtful implementation of schemes due to improper maintenance of records
xi	Inadequate reporting of programme achievements and progress
xii	Partial implementation of schemes guidelines and prescribed norms not being followed

On the basis of the analysis of expenditure undertaken in this chapter and also based on review of other publications, the suggestions for improving public spending are given below.

1. Reduction in revenue expenditure by curtailing wasteful and non-essential administrative expenditure on all services so that funds can be used towards capital expenditure. The revenue component of development expenditure has to be brought down so that the financial resources can be employed in the social and economic services

2. Rationalisation of state government employees to reduce the expenditure on salaries and wages of the state government as most of state departments are overstaffed.

3. Except for two of the public sector enterprises, all the other units and cooperatives have been incurring heavy losses with huge debt liabilities. Some of these units are fit cases for closing down as they have failed to become viable despite the budgetary support extended to them for years. Revenue expenditure on power sector in the state has been growing over the years while the recovery from this sector has been very low. Reform of this sector is the need of the hours to reduce the dependency of the state electricity boards/companies on budgetary supports.

4. There is huge delay and cost overruns in execution of public projects such as the Greater Shillong Water Supply Schemes and the Mynthu-LeshkaHydro Electricity Projects. This put huge stain on the financial resources of the state government. Time bound execution of public investment projects needs to be accorded top priority and accountability has to be fixed for lapses in the utilization of public funds

5.There is a need for a proper monitoring and supervision mechanism of all public projects. Capacity of the state government employees needs to be enhanced to enable them to implement public projects and schemes in the state.

6. Lastly, as pointed out in preceding paragraphs, audits undertaken by CAG have pointed out to several factors responsible for the dismal performance in the implementation of projects and schemes in the state. These include improper implementation of schemes, irregular fund flow to implementing agencies, misuse and misappropriation of funds, non-completion and delay of completion of schemes and poor quality of work. These issues have to be addressed and rectified.

Chapter 5: Fiscal Imbalances, State Liabilities and MFRBM Act

5.1 Trends in Deficit Indicators

The interpretation of indicators of fiscal imbalances in case of Meghalaya has to be considered in the context of special funding from the Union government which is available to the state because of its special category status. As highlighted earlier, the revenue surplus enjoyed by special category states is due to the special fiscal transfer arrangement wherein these states receive higher per capita grants compared to other states. The state has been enjoying a period of surplus in its revenue account since 2005-06 to 2010-11. The gap between the revenue receipts and expenditure was the highest in 2009-10 at Rs. 265 crore before receding in the following year to Rs. 248 crore. In 2011-12, the revenue surplus had disappeared and replaced by a deficit of Rs 180 crore. This change in revenue account of the state is reflected in the ratio of revenue account to GSDP which changed to a -1.1 percent in 2011-12 indicating deterioration in the revenue account of the state (table 5.1). The decline in the revenue surplus starting from 2009-10 is due primarily to the increase in revenue expenditure on account of the sharp hike in salary and pensions accounts as discussed in preceding chapter.

The primary deficit which is gross fiscal deficit less interest payment measures the net addition to the government's borrowing excluding the cost of interest payment on past borrowings. Meghalaya has had a primary surplus in 2005-06, 2006-07 and 2009-10. In other years the primary deficit has fluctuated between a high low of Rs. 10 crore in 2002-03 to a high of Rs. 779 in 2011-12, with the primary deficit worsening in the last two years indicated by sharp rise in the primary deficit as percentage of GSDP from 0.6 percent in 2010-11 to 4.7 percent in 2011-12 (TABLE 5.1).

The deterioration in the fiscal deficit of the state in the last few years is evident as it touched a record high of Rs. 1065 crore in 2011-12 from Rs. 226 crore in 2009-10. As a percentage of GSDP, fiscal deficit which was 4.9 percent in 2001-02 fell to a record low of 0.9 percent in 2006-07, a year in which the revenue surplus was of 2.7 of GSDP. In the succeeding years the fiscal deficit has deteriorated steadily and worsened in the last three years reaching a record high of 6.5 percent of GSDP in 2011-12 (table 5.1).

Table 5.1: Trends in State's Deficit Indicators

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
In rupees crore											
Revenue deficit	34	-84	-85	50	-72	-235	-188	-128	-265	-248	180
Interest payment	129	151	170	177	191	203	189	212	234	257	286
Primary deficit	92	10	32	136	-12	-129	25	223	-8	84	780
Fiscal deficit	221	161	202	313	179	75	214	435	226	341	1065
As percentage of GSDP											
Revenue deficit as per cent of GSDP	0.8	-1.8	-1.6	0.8	-1.0	-2.7	-1.9	-1.1	-2.1	-1.7	1.1
Interest payment as percent of GSDP	0.03	0.03	0.03	0.03	0.03	0.02	0.02	0.02	0.02	0.02	0.02
Primary deficit as percent of GSDP	2.1	0.2	0.6	2.1	-0.2	-1.5	0.3	1.9	-0.1	0.6	4.7
Fiscal deficit as percent of GSDP	4.9	3.4	3.8	4.8	2.5	0.9	2.2	3.8	1.8	2.3	6.5
Primary deficit as percent of fiscal deficit	41.6	6.2	15.8	43.5	-6.7	-170.7	11.7	51.3	-3.5	24.6	73.1

Negative sign (-) indicates surplus

Source: same as in table 2.1

The decomposition of gross fiscal deficit shows that the surplus in the revenue account financed the gross fiscal deficit for eight of the 11 years under study except in 2001-02, 2004-005 and 2011-12 when there was deficit in revenue account. Capital outlay dominated as the major component of gross fiscal deficit and it accounted for 72 percent of gross fiscal deficit in 2001-02 which reached to 430 percent in 2006-07 before decreasing to reach 80 percent of gross fiscal deficit in 2011-12. Net lending by state government as a component of gross fiscal deficit has progressively come down since 2008-09 and stood at just under three percent in 2011-12. By 2011-12, the revenue surplus enjoyed by the state continuously from 2005-06 to 2010-11 had completely disappeared and revenue deficit accounted for 17 percent of the gross fiscal deficit in that year. This therefore marks a deterioration in the state finances as the government borrowings is now being used to fund the deficit in revenue account of the state (table 5.2).

The funding pattern of gross fiscal deficit shows that borrowing from markets and small savings and provident funds are the two main sources of funding. The contribution of National Small Saving Fund (NSSF) investment in state government special securities was very high in 2005-07 and in 2009-11. Among financial institutions, National Bank for Rural Development (NABARD) is the main source of financing of the gross fiscal deficit. Other sources of financing of the gross fiscal deficit are from advances and also from the cash balances. The share of the various sources of finance of the gross fiscal deficit during the 2001-02 to 2011-2012 is given in table 5.2.

Table 5.2: Decomposition and Financing of Gross Fiscal Deficit

(in percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Decomposition of fiscal deficit											
1.Revenue surplus (-)/Deficit(+)	15	-52	-42	16	-40	-315	-88	-29	-117	-73	17
2. Capital outlay	72	115	117	78	145	430	183	122	213	168	80
3. Net Loans & Advances	12	37	26	6	-4	-15	5	7	4	4	3
Financing pattern of fiscal deficit											
1. Market Borrowings	39	54	74	40	73	220	69	43	85	35	20
2. Loans from GOI	12	19	-16	1	-9	-37	-7	-12	-8	-6	-2
3. Special Securities issued to NSSF	0	0	0	0	31	30	4	1	27	26	4
4.Loans from financial institutions	4	34	26	-7	9	1	3	3	11	7	3
i. Compensation & other bonds	0	0	7	0	0	-2	-1	0	-1	0	0
ii. Loans from NABARD	8	5	7	-12	8	24	11	7	20	12	5
iii. Loans from NCDC	1	1	1	0	0	-2	0	0	0	0	0
iv. Loans from HUDCO/other institutions	-4	28	11	5	2	-19	-7	-3	-8	-4	-1
5. Provident funds,etc	26	40	40	29	25	49	21	10	30	25	10
6. Reserve Funds	0	2	-1	2	0	4	-4	0	3	-1	1
7. Deposit & Advances	-17	32	-61	6	90	-5	91	53	-46	-3	58
8. Suspense & Miscellaneous	-23	22	-18	12	-5	25	-17	13	-18	-8	-2
9. Remittances	11	-51	-1	0	-2	7	0	4	-11	-1	10
10. Increase(-)/Decrease(+) in cash	48	-52	57	18	-113	-194	-59	-16	27	26	-2

Negative (-) indicates surplus

Source: same as in table 2.1

5.2 Outstanding Liabilities of State Government

Following the recommendation of the Working Group on Compilation of State Government Liabilities[13], the outstanding liabilities of the state in our study include internal loans, loans and advances from central government, small savings and provident funds and other public account such as reserve funds, deposits and contingency fund. The ratio of state outstanding liabilities to GSDP is given in table 5.3. The table shows the ratio of outstanding liabilities to GSDP of the state varied between 40.7 percent in 2002-003 to 28.8 percent 2010-11. There was a drop of four percentage points in the ratio from 32.3 percent in 2007-08 to 28.8 percent in 2010-11 which was a positive development in as far as the reducing the state debt

[13] Report of the Working Group on Compilation of State Government Liabilities, 2005

burden is concerned. In the 2011-12, ratio of outstanding liabilities to GSDP has again climbed up by three percentage points over the previous year at 31.6 percent in 2011-12. This marked the deterioration in the fiscal balance of the state as the increase in borrowings is for meeting the revenue deficit as has been pointed out in preceding paragraphs.

The share of internal debt has been steadily rising from 37 percent in 2001-02 to 58 percent in 2010-11 before falling to 52 percent in 2011-12. The two main components of internet debt are market loans and NSSF, the latter being the states' share in small savings, which was earlier included under loan from the Union government but since 1999-2000 is included as internal debt and shown as special securities issued to the Union government. The share of markets loans (state development loans) has been on the increase while loans from Union government has steeply declined due of NSSF, the debt relief schemes in the form of debt swap schemes (2002-05) and Debt Consolidation and Relief (2005-06) and also due to decision of the Twelfth Finance Commission replacing loans from Union government by market borrowings. In 1999-2000 the Government constituted a 'Consolidated Sinking Fund' for redemption and amortisation of open market loan and the government has regularly appropriated sum of money which is credited to the Fund for investment in the central government securities.

Amongst the financial institutions, outstanding loans from NABARD have remained constant at three to five percent of total outstanding liabilities in the last three to four years. The share of high cost debt instruments in the form of small savings and Provident Funds which reached a high of 23 percent in 2004-05 has come down significantly since then and now is at around 14- 15 percent. The share of deposits which is a public account item was 19 percent in 2001-02 It has subsequently increased to 25 percent of the total outstanding liabilities by 2011-12.

Table 5.3: Composition of Outstanding Liabilities of State Government

(percent)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Public Debt(1+2)	62	63	66	63	69	70	66	62	65	64	56
1. Internal Debt	37	42	46	46	55	57	55	54	58	58	52
i. Market Loan	30	28	35	37	37	40	40	40	42	41	37
ii. Compensation/ other bonds	0	0	1	1	1	0.4	0.3	0.3	0.2	0.2	0.1
iii. NSSF	0	0	0	0	10	10	9	8	9	10	9
iv. Loans from LIC	0.17	0.12	0.10	0.08	0.06	0.04	0.03	0.02	0.01	0.01	0.01
v. Loans from GIC	0.10	0.07	0.07	0.05	0.04	0.04	0.03	0.02	0.02	0.01	0.01
vi. Loans from NABARD	3	3	3	1	2	2	3	3	4	5	5
vii. Loans from HUDCO	4	5	6	6	6	5	4	3	2	2	1
viii. Others#	0.5*	5.4^	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.0
2. Loans &advances from the Centre	25	22	20	17	14	12	10	8	7	6	4
B. Provident Funds, etc.	17	17	21	23	13	14	13	13	14	15	14
C. Reserve Funds	0.8	0.7	0.6	2.0	0.4	0.8	0.4	0.4	0.5	0.4	0.6
D. Deposits	19	18	11	11	16	14	19	23	19	17	26
E. Contingency Fund	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	2.4	2.0
Outstanding Liabilities (A to E) (Rs. crore)	1541	1937	1958	2205	2563	2768	3147	3579	3809	4193	5195
A percentage of GSDP	34.4	40.7	37.1	33.6	35.3	32.1	32.3	30.8	30.0	28.8	31.6

*loans from Pearlesss, Culcutta (0.1) & from # NCDC; WMA from RBI (5 %)

Source: same as in table 2.1

5.3 Restructuring of State's Debt

In this section, we examine the implementation of the two debt restructuring schemes introduced by government of India to alleviate the interest and debt burden of states. These two schemes are the Debt Swap Scheme (DSS) introduced in 2002-03 and the Debt Consolidation and Relief Facility (DCRF) implemented during the Twelfth Finance Commission award period (2005-10).

The DSS was in operation from 2002-03 to2004-05 to capitalise on the prevailing low cost interest regime by replacing the high cost debt of states with lower cost borrowings and proceeds from small savings. The scheme envisages states pre-paying that portion of their outstanding debt to the Centre, on which the interest rate is 13 percent and more, contracted during the mid-1990s when general interest rates were high. Accordingly, these loans were swapped with additional market borrowings of the states (allocated under the DSS in addition to the normal borrowing allocations) and the net small savings proceeds (up to specified limits) at the prevailing interest rates, over a period of three years ending in 2004-05.

For Meghalaya, the outstanding high cost loan as on 31.3.2002 was 143 crore which was 9.4 percent of total outstanding debt. The total debt swapped under the schemes during the period 2002-03 to 2004-05 consisting of debt raised through additional open market operation (AOMB) and from small savings loans (SSL) was 94 crore and 41 crore respectively (table 5.4). While this scheme has helped the state to reduce its state of high interest loans, it is however debt neutral as it only involves replacing one type of debt by another.

Table 5.4: Amount Adjusted under DSS for Meghalaya (2002-05)

(Amount in crore)

Outstanding high cost loan as on 31.3.2002	Outstanding high cost loans/ Outstanding debt on end march 2002	Debt swapped (2002-05)		
		AOMB	SSL	Total
143	9.4percent	94	41	135

The Twelfth Finance Commission has recommended a twofold strategy for fiscal consolidation and elimination of revenue deficit of the States, namely (i) Central Loans to States contracted till March, 31, 2004 and outstanding on March 31, 2005 may be consolidated and rescheduled for a fresh term of 20 years (resulting in repayment in 20 equal instalments) and an interest of 7.5 percent be charged on them (ii) The general debt relief to states to be effective from the year they enact Fiscal Responsibility and Budget Management legislation which shall contain some core elements as recommended by the Commission.

The Twelfth Finance Commission also framed an incentive scheme of debt waiver based on fiscal performance linked to the reduction of revenue deficits and control of fiscal deficit of the States. According to the scheme, the quantum of write off of repayment of government of India loans after consolidation and rescheduling will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period from the base level of revenue deficit compiled by commission. In effect, if the revenue deficit is brought down to zero, the entire repayments during the award period of Twelfth Finance Commission will be written off. Government of India have accepted the recommendations of commission and accordingly framed guidelines on availing of States' Debt Consolidation and Relief Facility (2005-06 to 2009-2010). The scope of the DCRF excluded two categories of loans, viz., loans in the form of the NSSF's investment in state government special securities and central loans given to state governments for centrally-sponsored schemes/ central plan schemes through central ministries/departments other than the Ministry of Finance, government of India.

For Meghalaya, the amount of debt consolidation under the above scheme was Rs. 298.07 crore effective from 2006-07, while the total debt relief and interest relief on account of consolidation was 44.07 crore and 41.71 crore respectively (table 5.5). According to RBI the implementation of the schemes resulted in significant reduction in the average interest rate paid on outstanding debt of states since 2004-05[14].

Table 5.5: Debt Relief and Interest Relief on Account Of Consolidation (After Adjustment of Recoveries)

2006-07		2007-08		2008-09		2009-10		2006-10	
Debt Relief	Interest Relief	Debt Relief	Interest Relief	Debt Relief	Interest Relief	Debt Relief	Interest Relief	Total Debt Relief	Total Interest Relief
14.90	11.91	14.90	11.04	0.00	10.02	14.90	8.74	44.70	41.71

Source: Indian Public Finance Statistics (various years), Government of India

The Thirteenth Finance Commission reviewed the operation of the States' DCRF and accordingly worked out a fiscal consolidation roadmap for each state, requiring states to eliminate revenue deficit and achieve fiscal deficit of three percent of their respective GSDP by 2014-15. For Meghalaya, the revenue deficit, fiscal deficit and outstanding debt to GSDP targets worked out by the Commission for the period 2011-12 to 2014-15 are given i table 5.6.

Table 5.6: Revenue Deficit, Fiscal Deficit and Outstanding Debt targets for 2011-15

(As percentage of GSDP)

Period	Revenue deficit	Fiscal Deficit	Outstanding Debt
2010-11	-	3.0	33.1
2011-12	0.0	3.0	32.7
2012-13	0.0	3.0	32.3
2013-14	0.0	3.0	32.0
2014-15	0.0	3.0	31.7

Source: Thirteenth Finance Commission

[14]Reserve Bank of India (2013): State Finances: A Study Of Budgets of 2012-13

5.4 Implementation and Achievements under MRBM Act, Medium Term Fiscal Policy and Fiscal Correction Path

Acting on the recommendation of the Twelfth Finance Commission, the state government enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006. The broad objective of the Act is to bring about fiscal discipline by (i) adopting a rational and judicious expenditure policies that focus on economic and social development of the state and the efficient and effective use of public funds (ii)undertaking appropriate measures to generate revenue surplus, pursuing a tax policy that follows the principles of economic efficiency, social equity and compliance cost and implementing a non-tax policies that generates additional revenues through cost recovery measures while also emphasising on equity aspects (iii) maintain government debt at a sustainable manner through reduction of the fiscal deficit in phased manner and prudent management of guarantees and outside liabilities (iv) reforms of state public sector units (v) provide a more transparent and accountable system of budgeting that will ensure an efficient and effective system of governance. In October of 2011, the government of Meghalaya in accordance with the recommendations of the Thirteenth Finance Commission amended the MFRBM Act of 2006.

Both the MFRBM Act of 2006 and the amendment Act of 2011 established broad framework for conducting fiscal policy by setting out both procedural (budget process aiming to enhance transparency, accountability and fiscal management) and numerical rule (targets for fiscal parameters such as fiscal balances, debt, revenue, and expenditure). The numerical fiscal targets contained in the Act of 2006 are as given in Box 5.1.

As per the MFRBM Act of 2006, the state government is to provide along with the budget the following statement of fiscal policy, namely (i) Macroeconomic Framework Statement- which will present an overview of the state economy (ii) Medium Term Fiscal Policy Statement- which will describe the fiscal management objectives of the government with three year' rolling targets for prescribed fiscal targets (iii) Fiscal Policy Strategy Statement- which will contain the fiscal policies with regard to taxation, expenditure and borrowings policies of the government for ensuring year. The Act also contains provision for setting up of an agency independent of the state government to undertake periodic review of compliance of the provisions of the Act.

Box 5.1: Numerical and Fiscal Targets of MFRBM Act

Numerical Targets		
	MFRBM Act of 2006	**MFRBM (Amendment) Act of 2011**
i	reduce revenue deficit as percentage of GSDP from 2006-07 so as to eliminate it by 2008-09	maintain revenue surplus during the award period 2011-2012 to 2014-15
ii	reduce fiscal deficit from 2006 to achieve fiscal deficit of 3 percent of GSDP by 2008-09	reduce fiscal deficit to 3 percent of GSDP or less during 2011-12 to 2014-15
iii	ensure that the total outstanding liabilities on the consolidated fund are not more than 28 percent of the GSDP	ensure outstanding debt of the state as percentage of GSDP shall progressively be reduced from 32.7 percent during 2011-12 to 31.7 percent during 2014-15
Fiscal Targets		
	MFRBM Act of 2006	**MFRBM (Amendment) Act of 2011**
i	restrict issuing of guarantees except on selective basis where the quality and viability of the scheme to be guaranteed is properly analysed	Government shall notify a medium term fiscal plan with three years rolling targets, giving details of all significant items of receipts-expenditure along with underlying assumptions made for projection
ii	bring out an annual statement that gives a perspective on the State's economy and related fiscal strategy	
iii	bringing a special report along with the budget giving details of the number of employees in the Government, Public sector Undertakings and aided institutions and related salaries	

Sources: MFRBM Act, 2006 and 2011

In terms of the fiscal targets laid out in the MFRBM Act of 2006 and also the amended Act, the state has achieved partial success in meeting the given targets. The state was able to achieve surplus in revenue account from 2006-07 (Rs. 234 crore) to 2008-09 (Rs. 128 crore) and this surplus was maintained till 2010-11 (Rs. 248 crore). In 2011-12, the revenue surplus had disappeared and replaced by a revenue deficit (Rs. 180 crore). Thus the goal of maintaining revenue surplus was not met in 2011-12.

The fiscal deficit as percentage of GSDP in the state which was 0.9 percent in 2006-07 had steadily deteriorated to 2.2 percent in 2007-08 and by 2008-09 to 3.8 percent, exceeding the target of 3.0 percent of GSDP by 2008-09. In 2009-10 and 2010-11, the fiscal deficit came down to 1.78 and 2.34 percent of GSDP respectively. However, in 2011-12, the fiscal deficit increased sharply to 6.5 percent of GSDP which was way above the target of reducing deficit to 3.0 percent or less as stated in amended MFRBM.

In the case of total outstanding liabilities of the state which includes liabilities under consolidated fund and public accounts, the outstanding liabilities as a percentage of GSDP was 32.1 percent in 2006-07 and subsequently came down to 28.8 percent in 2010-11 but has again risen to 30.0 in 2009-10. During the Thirteenth Finance Commission award period, the outstanding liabilities were 28.8 percent as against the target of 33.1 percent in 2010-11 and 31.6 percent as against the target of 32.7 in 2011-12.

The state government has also incorporated the Macro Economic Statement giving an overview of the State economy, the Medium Term Fiscal Policy (MTFP) Statement prescribing fiscal targets and assumptions for achieving them since 2007-08 and the Fiscal Strategy Policy Statement for the ensuing year relating to taxation, expenditure, borrowings, etc. The main targets and achievements under the MTFP for various years are given in table 5.7.

Table 5.7: Fiscal Targets and Achievements under Medium Term Fiscal Policy

Fiscal Targets & Actual	2007-08		2008-09		2009-10		2010-11		2011-12	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
Revenue surplus as percentage of total revenue receipts	15.72	7.69	14.11	4.55	5.7	7.69	7.5	5.81	11.17	-3.87
Total outstanding liabilities as percentage of GSDP	32.92	32.3	36.41	30.8	34.87	30.0	29.03	28.8	24.79	31.6
Fiscal deficit as percentage of GSDP	1.22	2.2	1.56	3.75	6.67	1.78	3.03	2.34	2.52	6.48

Source: Government of Meghalaya

From the above table we can see that except for 2009-10 when the state government managed to achieve all the three fiscal targets set out in the MTFP, in subsequent years the state has failed to restrict the fiscal parameters as prescribed in the respective MTFPs. The target of revenue surplus as percentage of total revenue receipts was met only in 2009-10, while in 2011-12 the state experienced revenue deficit of 3.87 percent. The fiscal deficit as percentage of GSDP has actually deteriorated and in 2011-12 it was 6.5 percent against the target of 2.52 percent of GSDP. Similarly, the achievement of the state in maintaining the total outstanding liabilities as percentage of GSDP below the target prescribed in respective MTPF from 2007-08 to 2010-11 was breached in 2011-12 and that too by a huge margin.

Besides the above statements, the state government has also come out with a fiscal correction path (FCP) for 2005-06 to 2009-10 detailing the structural adjustments required to achieve the revenue and expenditure targets set out in the MFRBM Act. Table 5.8 shows the targets for some of the key fiscal parameters prescribed in the state's FCP and the actuals against the targets. We shall consider the period 2005-06 to 2009-10 as the FCP provides the actual for the year 2004-05. From the table given below we see that the state government has failed to achieve fiscal targets laid down in the FCP with regard to own revenue receipt throughout the period 2006-07 to 2009-10. The state government was also not able to meet the targets of total revenue receipt from 2006-07 to 2008-09.

As far as meeting the targets of revenue expenditure set out in the FCP, the state government was more successful in containing plan revenue expenditure than the non-plan revenue expenditure. Revenue expenditure of the state government was within FCC targets during 2005-06 to 2007-08 but went on to exceed the limits in 2008-09 & 2009-10. Between the two components of revenue expenditure namely plan and non-plan components, the actual expenditure on the latter was above the target prescribed in the FCC throughout the period of 2005-06 to 2009-10, while actual expenditure on the former was within the target during 2005-06 to 2007-08 but exceeded in 2008-09 & 2009-10. The state government was more successful in containing the gross fiscal deficit within the targets except in 2008-09 (table 5.8).

Table 5.8: Outcome Indicators of the State's Own Fiscal Correction Path and Achievements (2004-05 to 2009-10)

		2004-05 (Actuals)	2005-06 (Pre-actuals)	2006-07 (Budget Estimate)	2007-08 (Estimates)	2008-09 (Estimates)	2009-10 (Estimates)
Own Tax +Non-tax Revenue	FCC	341	399	442	508	579	680
	Actual	341	399	489	518	595	719
Revenue Receipts	FCC	1546	1721	2458	2737	2862	3012
	Actual	1546	1747	2142	2441	2811	3447
Total Revenue Expenditure	FCC	1596	1674	2118	2428	2538	2665
	Actual	1596	1674	1907	2254	2683	3182
Revenue Expenditure (Plan)	FCC	477	493	835	930	972	1021
	Actual	476	492	566	721	1006	1047
Revenue Expenditure (Non-plan)	FCC	1120	1181	1282	1498	1566	1645
	Actual	1120	1183	1341	1532	1677	2135
Revenue Surplus(-) /Deficit (+)	FCC	50	-46	-340	-309	-324	-347
	Actual	50	-72	-235	-188	-128	-265
Gross Fiscal Deficit	FCC	313	205	85	254	252	242
	Actual	313	179	75	214	435	226

5.5 Contingent Liabilities of State government

Contingencies liabilities arises from the guarantees provided by the state government on borrowings of state public sector enterprises and special purpose vehicles in the eventuality of default by these entities either on principal amount borrowed or interest payment on such amount or both. These guarantees pose a risk to state finances if the borrowing entities fail to generate adequate resources to service the debts. While contingent liabilities do not formpart of the states' debt obligations, but in the event of default by borrowing entities, the states are required to meet the debt service obligations of these defaulting entities.

In table 5.9 we have shown the guarantees given by the government of Meghalaya to state public sector entities for the period 2004-05 to 2011-12 for which information is available. In 2004-05, the total outstanding amount of guarantees given by the government stood at Rs. 337 crore (principal and interest). By 2011-12, the guarantees given by the government had climbed to Rs. 1293 crore in 2011-12, an increase of about 284 percent in the course of seven years. The rapid growth in guarantees is mainly on account of borrowings by the state owned power utility. Major portion of the guarantees went to the power sector whose share was more than 95 percent throughout the period under consideration. Other entities provided with guarantees include Meghalaya State Housing Board (MSHB), Meghalaya Minerals Development Corporation Limited (MMDCL), Cooperatives sector (Coop) and Meghalaya Government Construction Corporation Limited (MGCCL). In 2004-05 the outstanding amount of guarantees was 21.8 percent of total revenues of the state which climbed up to 35.2 percent in 2008-09. In 2011-12, the percentage of guarantees stood at 27.8 percent. The Government of Meghalaya has constituted the Guarantee Redemption Fund of Government of Meghalaya vide notification No F&A. 68/2011/24 dated 21/06/2011. However the ceiling limitof the guarantee has not been prescribed.

Table 5.9 Guarantees Provided by Government of Meghalaya (2004-05 to 2011-12)

Year	Power	MGCCL	Coop	MMDCL	MSHB	others	Maximum Amount guaranteed (Rs. Crore)
Percentage share of Maximum Amount guaranteed (percent)							
2011-12	99.9	0.1	0.0	0.0	0.0	0.0	1003
2010-11	99.1	0.1	0.4	0.0	0.0	0.4	949
2009-10	98.8	0.1	0.7	0.5	0.0	0.0	1033
2008-09	94.2	0.1	2.0	0.5	3.1	0.1	1083
2007-08	93.9	0.1	1.8	0.0	3.5	0.7	954
2006-07	92.1	0.2	1.4	0.4	6.0	0.0	562
2005-06	89.7	0.2	1.7	0.5	6.6	1.4	505
2004-05	97.0	0.3	2.2	0.6	0.0	0.0	384
Outstanding Guarantee in percentage							
2011-12	99.9	0.1	0.0	0.0	0.0	0.0	1293
2010-11	99.2	0.1	0.4	0.0	0.0	0.4	1111
2009-10	99.2	0.1	0.5	0.2	0.0	0.0	954
2008-09	95.5	0.1	2.4	0.5	1.6	0.0	989
2007-08	94.2	0.1	0.7	1.5	2.1	1.3	751
2006-07	85.7	0.2	2.2	2.2	9.6	0.0	436
2005-06	82.3	0.2	2.2	1.9	11.1	2.1	404
2004-05	95.6	0.3	2.6	1.5	0.0	0.0	337

5.6 Issues for Consideration

the fiscal situation in the state has worsened in the last three years (2009-10 to 2011-12) as evident from the gradual contraction in the revenue surplus finally giving way to deficit in revenue account in 2011-12 along with deteriorated of the gross fiscal deficit to reached a record high of 6.5 percent in 2011-12. Further, state's outstanding liabilities have also seen an increase as evident in increase in the ratio of outstanding liabilities to GSDP which has climbed up from 28.8 percent in 2010-11 to 31.6 percent in 2011-12. This marked the deterioration in the fiscal balance of the state as the increase in borrowings is for financing of expanding revenue deficit. In terms of the fiscal targets laid out in the MFRBM Act, the government has achieved partial success in meeting the given targets. It has been able to maintain surplus in revenue account from 2006- 2010-11. However, by 2011-12 the surplus has been replaced by revenue deficit of Rs. 180 crores. The fiscal deficit as percentage of GSDP in the state which was 0.86 percent in 2006-07 had steadily deteriorated to 3.75 percent in 2008-09, exceeding the target of 3 percent of GSDP by 2008-09. In the following two years the fiscal deficit came down to below 3 percent of GSDP only to increase sharply to 6.5 percent in 2011-12 which is way above the target of reducing deficit to 3 percent or less as stated in amended MFRBM.

There are other provisions of the MFRBM which have not been implemented such as the requirements that the Finance Minister reviews the expenditure in relation to budget estimates every quarter and place the outcome of the reviews before the Legislature and also the framing of an independent agency for the periodical review by an independent agency on the compliance of the provisions of the Act and for placing before the legislature the outcome of the review. The state government is also yet to come up with a special report which gives the details of number of employees in the Government, Public sector Undertakings and aided institutions and related salaries. Given the high salary component in the revenue expenditure and also the low returns from state from public services and public sector undertakings, the publication of such a report will throw much needed light on the extent of over employment and low productive of its employees.

Another issue of concern is the increase in contingencies liabilities of the state government due to increase in guarantees provided by the state government on borrowings of state public sector enterprises particularly by the state owned power utilities. The rapid growth in guarantees is mainly on account of borrowings by the state owned power utility. Major portion of the guarantees went to the power sector whose share was more than 95 percent during 2004-05 to 2011-12. These guarantees pose a risk to state finances if the borrowing entities fail to generate adequate resources to service the debts.

Chapter 6: Local Bodies Finances

6.1. Autonomous District Councils in Meghalaya

Meghalaya has had a local government system in the form of autonomous district councils (ADCs) since the Constitution came into force. However, the ADCs constituted under the Sixth Schedule of the Constitution differ greatly from the three tier panchayat system that exists in other parts of the country following the enactment of the 73rd Amendment Act in 1992. The constitution of the ADCs has its origin in the policy followed by the British towards the tribal areas of the region under which the tribes inhabiting the hills area of the then province of Assam were kept isolated from the rest of the country and outside the purview of laws enacted by the provincial legislature. These areas were placed under direct administration of the Governor who wielded wide powers to make necessary regulations for maintaining peace and good government in these areas[15]. In 1946, the Constitution Assembly constituted a committee under the Chairmanship of the then Premier of Assam, Gopinath Bardoloi to report to the Assembly on the tribal areas of Assam. The committee recognized the uniqueness of the institution like the village council of the tribes and the central role it plays in grassroots governance. It also recognised the need to safeguard and promote the rights and interests of the tribals while at the same time prepare them to assimilate with the national mainstream. To achieve these objectives, the committee proposed for granting a mechanism of local self-government for tribal areas in the form of ADCs which was accepted and incorporated in the 6th Schedule[16] .

When the Constitution came into force, the United Khasi Jaintia Hills District and the Garo Hills District were part of the tribal areas of Assam being mentioned in Part A of the table appended to paragraph 20 of the Sixth Schedule of the Constitution as originally enacted. In 1964, based on the recommendation of the Jarman Commission, a new autonomous district called the Jowai Autonomous District Council was created by excluding the Jowai Sub-division from the United Khasi Jaintia Hills District. In 1969, an autonomous state of Meghalaya within the state of Assam was formed under the Assam Reorganization (Meghalaya) Act, 1969, comprising the United Khasi Jaintia Hills District and the Garo Hills District. On 21st of January, 1972 the State was carved out of Assam and made a full-fledged state {under the North Eastern Areas (Reorganisation) Act, 1971} comprising territories under the autonomous state of Meghalaya and that under the cantonment and municipality of Shillong. In 1973, the Governor, under powers as per paragraph 1 (3) (ff) of the Sixth Schedule, changed the names of the United Khasi-Jaintia Hills and Jowia Hills District to Khasi Hill District and Jaintia Hills District.

[15] Hansaria, V (2010). Sixth Schedule to the Constitution, Universal Publishing Co. New Delhi

[16] Constituent Assembly Debates, 1949; Stuligross, D. 1999: “Autonomous Councils in Northeast: Theory and Practice”, *Alternatives,* 24, pp. 497- 526

Thus, in Meghalaya we have three ADCs namely (i) Khasi Hills Autonomous District Council (KHADC) (ii) Jaintia Hills Autonomous District Council (JHADC) and (iii) Garo Hills Autonomous District Council (GHADC) for the three tribal areas in the State as specified in part II of the table appended to paragraph 20 of the Sixth Schedule as amended. Meghalaya is the only state in the NER and also in the country where the entire area of the state (other than the Shillong Municipality and Cantonment) falls within one of the three autonomous district councils. The jurisdiction of the three councils covers all the 11 districts of the state.

Box 6.1: Jurisdiction of Autonomous District Councils in the State

ADC	District Covered	Total Population	Area
KHADC	1. East Khasi Hills 2. West Khasi Hills 3. South WestKhasi Hills 4. RiBhoi	1468040 (49.6 %)	10443 sq. km (46.6 %)
JHADC	1. Jaintia Hills 2. East Jaintia Hills	392852 (13.2 %)	3819 sq. km (17%)
GHADC	1. East Garo Hills 2. West Garo Hills 3. South Garo Hills 4. South West Garo Hills 5. North Garo Hills	1103115 (37.2 %)	8167 sq. km (36.4 %)

*Figures within brackets represent percentage share of state's total population and area.

6.2 Powers and Function of ADCs

The ADCs of Meghalaya are vested with all the three organs of government namely the legislature, executive and judiciary. The powers and function of the ADCs are laid down in 21 provisions, referred to as paragraphs, in the Sixth Schedule [Articles 244(2) and 275(1)] of the Constitution. For Meghalaya the Sixth schedule provides for constitution of three ADCs with each Council consisting of a maximum of 30 numbers of whom one is nominated by the Governor. The members of the ACDs are elected on the basis of adult suffrage and hold office for a term of five years, while the nominated members hold office at the pleasure of the Governor. The powers and functions of the autonomous councils are wide ranging and include legislative, judicial, executive and financial powers, which are elaborated below.

1. Legislative Powers: Paragraph 3 of the Sixth Schedule empowers the ADCs to enact laws in the following matters with the approval of Governor:

1. Allotment, occupation, use or setting apart of all lands other than reserve forests;
2. Management of forest other than reserve forest
3. Establishment and Management of village and town
4. Regulation of the practice of Jhum

5. Use of canal water or water course for purpose of agriculture
6. Other matters related to village and town administration
7. The appointment and succession of Chiefs and Headmen
8. Inheritance of property
9. Marriage and divorce
10. Social customs

2. Judicial Powers: Under paragraph 4, the ADCs are empowered to constitute village councils or courts for trails of suits and cases of the scheduled tribe communities. The council or any court constituted on its behalf can exercise the powers of a Court of Appeal in respect of all suits and cases of tribals tried by the village council courts so constituted. No other courts except the High Court of that province and the Supreme Court of India have jurisdiction over such suits and cases.

3. Executive Powers: As per paragraph 6 of the Schedule, the ADCs can establish, construct and manage primary schools, dispensaries, markets, roads, road transport and waterways, and fisheries. Further, the Governor may also entrust the council functions relating to development of agriculture, animal husbandry; community projects; co-operative societies; social welfare; village planning; fisheries; plantations; and any other matter to which the executive power of the state extends. Paragraph 10 also empowers the councils to regulate money lending and trading through the issuing of licenses.

4. Financial Powers: As provided in paragraph 8, the ADCs can levy and collect taxes on land revenue, lands and buildings, professionals, employments, animals, vehicles, boats, trades, callings and employments, entry of goods into markets for sale therein, and tolls on passengers and goods carried and ferries. The councils can also levy taxes for maintenance of school, dispensaries or roads. Paragraph 9 gives the council the right of to receive a share of the royalties accrued each year from licenses or leases for the purpose of prospecting for or the extraction of minerals granted by the Government of the State in respect of any areas within the jurisdiction of the district council.

Further, under paragraph 7 the ADCs have to maintain a District Fund in which all funds received by the council is to be credited, and further that the accounts of the council be audited by the Comptroller and Auditor General. Under paragraph 13, the statement of the estimated receipt and expenditure pertaining to the autonomous council, which are to be credited to or is to be made from the consolidated fund of the state in respect of every financial year, has to be placed before the district council for discussion.

6.3 Sources of Finance for the ADCs

The sources of income for the ADCs can be broadly categorized as tax and non-tax receipts along with grants from state government and government of India. Revenues from taxes consist mainly of professional tax which is collected by the

ADCs and motor tax which is collected by the state government and shared with the councils at a fixed ratio. Non-tax revenue consists of wide range of receipts including those collected by the ADCs and receipts such as royalty on minerals and forest products that are collected by the state government and shared with the ADCs.Share of royalties collected by the state government is one of the major sources of revenue for the ADCs. However, unlike in councils in Mizoram and Tripura where the state government has to transfer to the council its share of the royalties within a period of one year, there is no such arrangement in case of Meghalaya resulting in delay in the transfer of royalties from the state government to the ADCs.

The three ADCs also receive grant-in aid from the central and state governments. However, all grants from the Union government to the ADCs are routed through the state government. The nature of grants received is in the form of plan assistance from Ministry of Tribal Affairs, Government of India under Article 275(1) which is sanctioned for implementing development schemes and construction of council's buildings and receipts from the non-lapsable central plan resources (NLCPR) from Ministry of Development of North-eastern Region. Non-plan grants consist of assistance from the state government under rural communication, strengthening enforcement machinery for regulating trading by non-tribal and awards of Finance Commissions. The Eleventh and Twelfth Finance Commissions had allocated Rs. 25.61 crore and Rs. 50 crores respectively as grants to rural local government in the state. The Thirteenth Finance Commission has increased this grant to Rs. 313 crores. The Finance Accounts of the state government provides information on the flow of resources from the state government to the ADCs in the form of grants. This is shown in table 6.1 where the grants provided to the ADCs under different schemes are shown from 2011-12 to 2006-07. Besides information on grants received from state government, since 2009-10, the Finance Accounts of the state government has also been providing some details on ADCs' share in lieu of royalties collected by the state government from major minerals, which are as follows: Rs. 6141 lakh in 2010-11, Rs. 4604 lakh in 2009-10 and Rs. 3727 lakh in 2008-09. However, there is no information on the amount of motor vehicle tax shared with the councils.

Table 6.1 shows grants received by the ADCs from the state during 2006-07 to 2011-12 under different categories. These are under (i) Special Problems recommended by Finance Commission under Tribal Administration State Plan/Tribal Sub Plan) (ii) State Plan Normal (General/Tribal Sub Plan)(iii)Welfare of Scheduled Castes, Schedule Tribes and other backward classes(iv)Financial assistance for Rural Road Communication, Inspection Bungalows, repairs etc. councils for financing their own plan schemes (v)Financial Assistance for Special purpose grants-in-aid for entertainment of Enforcement Staff under Scheme for Regulation of Trading by non-Tribal (vi) Financial Assistance for construction of district council building Forest and Wild Life(vii) Forest Protection Scheme; Provision of Deputed Staff in District Council; Social and Farm Forestry

Table 6.1: Grants Received by the ADCs during 2006-07 to 2011-12

(Amount in Lakhs)

Year	Scheme	Plan	Non-Plan	Total
2011 -12	Special Problems recommended by Finance Commission under Tribal Administration State Plan/Tribal Sub Plan)	-	3564	3564
	State Plan Normal (General/Tribal Sub Plan)	105	165	270
	Total	105	3729	3834
2010-11	Sp Special Problems recommended by Finance Commission under Tribal Administration State Plan/Tribal Sub Plan)	450	615	1065
2009 -10	Special Problems recommended by Finance Commission under Tribal Administration State Plan/Tribal Sub Plan))	-	1586	1586
2008-09	Welfare of Scheduled Castes, Schedule Tribes and other backward classes -Financial assistance to District councils for financing their own plan schemes	-	50	50
	Financial Assistance for Rural Road Communication, Inspection Bungalows, repairs etc.	-	23	23
	Financial Assistance for Special purpose-Grants-in-aid for entertainment of Enforcement Staff under Scheme for Regulation of Trading by non-Tribal	-	62	62
	Special Problems recommended by the Finance Commission in Tribal Administration (State Plan/Tribal Sub Plan)	225	700	925
	Development of Rural Market under NLCPR Schemes	633	-	-
	Total	858	835	1693
2007-08	Welfare of Scheduled Castes, Schedule Tribes and other backward classes-Financial assistance to District councils for financing their own plan schemes	490	-	490
	FinancialAssistanceforRuralRoadCommunicationInspectionBungalows, repairs etc.,	-	21	21
	Financial Assistance for construction of district council building	60		60
	Financial Assistance for Special purpose-Grants-in-aid for entertainment of Enforcement Staff under Scheme for Regulation of Trading by non-Tribal	-	103	103
	Special Problems recommended by the Finance Commission in Tribal Administration (State Plan/Tribal Sub Plan)	-	500	500
	Total	550	624	1174
2006 -07	Forest and Wild Life- Strengthening of Staff in District Council; Forest Protection Scheme; Provision of Deputed Staff in District Council; Social and Farm Forestry	32	-	32

Source: same as in table 2.1

A more detail information on the sources of finance of the ADCs is provided in the budget documents of the councils which are presented in table 6.2 to table 6.4. There are three major sources of finance for the councils, namely:

(i) Tax and non-tax revenue sources collected by the councils such as taxon Profession, Trade, Calling & Employment; toll and taxes on vehicles, sale of timbers and forest products, collection of markets, trade license fees and fines collected from non-tribals operating in council's territory, land revenue mostly in form of mortgages, rent, valuation and survey fees etc, and also other minor sources such as sale of stamp and registration, court fees and miscellaneous receipts.

(ii) Taxes and royalty collected by the state government and shared with the councils. Under this category we have two important sources of revenue namely the motor vehicle tax and royalty on major and minor minerals such as coal and limestone. Royalty on major and minor minerals (except for coal) and tax on motor vehicles are shared between the councils and the state government at the ratio of 60:40, except for coal where the shared percentage is 25:75.

(iii) The third source of revenue for the councils are the grants from the state government under rural communication, strengthening enforcement machinery for regulating trading by non-tribals. Grants from central government under Finance Commission Award, NLCPR and from Ministry of Tribal Affairs are transferred to the councils through the District Council Affairs department of the state government.

Grants and share of royalty are the two most important sources of revenues for KHADC and GHADC with each contributing about one third of the revenue receipt of the councils. For KHADC, tax on professions and trades is another important source of income as many of the government offices and commercial centres are located in Shillong which is the state capital and falling under the jurisdiction of the council. Since the districts under the jurisdiction of JHADC is rich in coal deposit, share of royalty from minerals is the single most important source of revenue contributing an average of 80 percent of the revenue receipt of the council (see tables below).

Table 6.2: Revenue Receipts of KHADC (2001-02 to 2011-12)

(percent)

Revenues	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	Average (2001-12)
1.Taxes on Profession, trades, etc	18.9	15.5	15.2	11.9	18.7	15.8	17.0	25.0	12.4	17.1	18.2	16.9
2.Revenue from toll Gate	4.5	6.6	9.9	0.7	2.1	1.2	0.6	0.6	0.2	0.2	0.1	2.4
3. Trades	2.3	2.0	1.9	1.8	3.5	4.5	4.7	4.1	2.3	2.2	3.2	3.0
4.Forest	3.1	1.2	5.5	2.3	6.7	6.9	6.0	7.5	2.2	2.1	2.5	4.2
5.Land Revenue	0.9	0.4	0.3	0.4	1.3	0.1	0.2	0.1	0.4	0.4	0.4	0.4
6.Administration of Justice	0.3	0.2	0.3	0.3	0.5	0.5	0.5	0.9	0.4	0.6	0.6	0.5
7.Markets	0.4	0.2	0.4	0.1	0.3	0.3	0.1	0.4	0.1	0.1	0.1	0.2
8.Stationary & Printing	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.2	0.05	0.02	0.02	0.1
9.Civil Works & development	0.2	0.2	0.2	0.4	0.9	0.2	0.3	0.9	0.2	0.1	0.2	0.3
10.Miscellaneous Receipts	1.5	1.0	1.6	0.9	1.7	1.2	2.0	2.4	1.6	1.3	1.2	1.5
11.Royalty from minerals	33.7	15.7	15.5	39.8	46.6	35.5	36.4	26.8	42.1	44.8	23.2	32.7
12. Share of motor vehicle tax	9.7	0.7	2.1	2.4	3.9	2.9	2.7	15.2	1.2	0.0	1.5	3.8
13. Grants-in-aid And Contributions	24.7	56.1	47.0	38.9	13.6	30.8	29.4	15.9	36.6	31.2	48.7	33.9
Total	100	100	100	100	100	100	100	100	100	100	100	16.9
Total Revenue (in lakhs of Rupees)	989.7	1224.3	1372.6	1776.9	1268.9	1678.3	1858.7	1420.1	3357.6	3465.5	3932.4	-

Source: KHADC Budget Documents, various years

Table 6.3: Revenue Receipts of Revenue of GHADC (2002-03 to 2009-10)

(percent)

Revenues	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Average (2002-10)
1.Land Revenue	11.7	8.5	8.9	11.6	8.5	7.7	9.1	10.1	8.5
2.Taxes on Profession, trades, etc	5.7	7.8	4.4	5.0	4.4	7.2	4.2	6.0	5.0
3. Forest	4.7	1.8	1.3	1.6	2.1	1.1	1.0	1.3	1.7
4. Taxation	2.3	2.0	2.0	2.6	4.1	1.6	1.0	1.6	1.9
5. Water Tax	0.6	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.2
6. Rural Administration	0.2	0.2	0.1	0.3	0.2	0.2	0.2	0.2	0.2
7. Administration Of Justice	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
8. Loans	0.1	0.1	0.4	0.6	0.3	0.0	10.8	22.0	3.8
9. Miscellaneous Receipts	0.4	0.3	0.0	0.0	0.2	0.0	0.2	0.1	0.1
10. Share of royalty on Minerals	31.9	25.9	33.8	62.7	40.0	32.7	38.3	28.2	32.6
11. Share on motor vehicle Tax	4.8	1.6	1.7	2.5	1.7	1.9	6.4	2.0	2.5
12.Transfers And Grants	37.7	51.7	46.9	12.7	38.2	47.3	28.5	28.2	32.4
Total	100	100	100	100	100	100	100	100	100
Total Revenue (in lakhs of Rupees)	951.2	1210.0	1670.2	1133.6	1730.5	1802.2	2889.3	2458.7	-

Source: GHADC Budget Documents, various years

Table 6.4: Revenue Receipts of Revenue of JHADC (2001-02 to 2008-09)

(percent)

Revenues	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Average (2001-09)
1.Toll And Taxes on Motor Vehicles	4.0	4.8	3.1	3.9	3.3	2.2	3.4	2.4	3.4
2.Taxes on Profession, Trade, etc	2.4	2.5	1.7	1.8	1.6	1.6	2.3	2.7	2.1
3.Forest	1.7	0.2	2.7	5.2	0.5	0.7	0.9	1.0	1.6
4.Markets	0.8	0.8	1.5	1.3	1.0	0.7	0.9	1.1	1.0
5. Trades	0.8	0.3	0.7	0.3	0.9	0.7	1.4	0.9	0.8
6.Interest On Investments & Department P/L Accounts	0.7	0.4	1.1	0.4	0.3	0.8	7.0	0.4	1.4
7.Land Revenue and Land Settlement	0.5	0.3	0.4	0.7	0.6	0.5	0.5	1.0	0.6
8.Fisheries	0.2	0.1	0.3	0.1	0.1	0.1	0.1	0.1	0.1
9.Administration of Justice	0.1	0.1	0.0	0.1	0.1	0.1	0.2	0.3	0.1
10.Stamp And Registration	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
11.Miscellaneous Receipts	0.3	0.2	0.2	0.4	0.6	1.4	0.9	1.1	0.6
12.Royalty from Minerals	77.6	82.0	72.3	70.7	88.1	85.1	74.1	85.0	79.4
13.Share of Motor Vehicle Tax	0.9	1.6	0.3	0.4	0.6	0.5	0.8	0.0	0.6
14. Government Grant-In-Aid	10.0	6.6	15.7	14.5	2.3	5.6	7.6	3.8	8.3
Total	100	100	100	100	100	100	100	100	100
Total Revenue (in lakhs of Rupees)	1329.2	1325.8	1666.4	1611.4	2912.8	3212.4	2484.5	2977.0	

Source: JHADC Budget Documents, various years

6.4 Some Issues for Consideration on Finances of ADCs

All the three ADCs are in poor financial health with the GHADC not able to pay the salary of the employees for months together in 2010-11. In October of 2010, a commission of enquiry was constituted to look into the issue of financial instability and also financial irregularities in the GHADC. Since then the Commission has submitted its report to the state government but the details of which are yet not available to the public. Some of the important points regarding the finances of the ADCs are as follows:

(i) There is delay and also ambiguity in the sharing of royalty on minerals and the tax on motor vehicles between state government and the ADCs. As seen from tables 6.2 to 6.4, there is sharp inter year fluctuation in the revenues transferred by the state government to the councils under the two head. In 2009-10 and 2010-11, Rs. 14.1 and 15.5 crore was transferred to KHADC under share of royalty on minerals. This amount shrank to just a little over Rs. nine crore in 2011-12. The same situation prevails in share of tax on motor vehicles. In 2008-09, KHADC received 2.2 crore from the state government as its share of the tax. In 2009-10 the amount received by the council went down to 40.9 lakh. In the following year, no amount was received under this head from the state government. This is also the situation in the other councils with regard to transfers of the councils' share of royalty on minerals and motor vehicle tax. Unlike ADCs in Mizoram and Tripura where the state government has to transfer to the council its share of the royalty within a period of one year, there is no such arrangement in case of Meghalaya resulting in delay in the transfer of royalties from the state government to the councils.

(ii) ADCs have pointed out that grants provided by the Ministry of Tribal Affairs, Government of India under Article 275(1) for financing of own plan schemes of the councils have not been fully released by state government and there should be clear bifurcation of fund allotted to the councils and state government under this scheme.

(iii) ADCs have not fully implementing the Meghalaya Professions, Trades, Callings and Employments Act, as even employees of state government entities such as corporations and boards and most service providers are not paying the tax.

(iv) As the ADCs in the state have a very limited mandate in promoting development activities, much of the expenditure of the councils is on non-development purposes with the revenue expenditure component on salaries and administrative expenses constituting the bulk of councils' expenditure.

(v) The State government has enacted the Meghalaya Finance Commission, Act in 2012 under which the Meghalaya Finance Commission is to be constituted with the objective to review and recommend the distribution of financial resources between state and the local bodies to enable these bodies to perform the functions assigned to them and also to improve the financial position of these bodies. However, even after more than a year of the enactment of the Meghalaya Finance Commission, Act, the state government is yet to constitute the Commission.

Chapter 7: Financial Status of State Public Sector Undertakings and State Subsidies

7.1 State Public Sector Undertakings in Meghalaya

The state public undertakings (SPSUs) in Meghalaya are in very bad financial state as they continue to draw up limited financial resources of the state government without yielding meaningful returns. The SPSUs are a fiscal burden and liability to the state government. The amount invested in these enterprises represent a huge loss in opportunity for productive use of scare financial resources in other more pressing economic and social activities like infrastructure, health and education. A study of the SPSUs in Meghalaya undertaken by the Planning Commission[17] in 2002 have shown poor performance of these units in the past which continues to date. As per the study, the total investment in these enterprises stood at 473.95 crore in 1999-00 with a high debt equity of 4.6, the state government being the major investor in these enterprises both in terms of equity and debt. The state government is a dominant equity holder in these enterprises owning 98 to 99 percent of the total equity. Its share in the total debt has also increased during the period from 31 percent in 1990-91 to 47 percent in 1999-00. The accumulated losses were 348.06 percent in 1999-00, with only one SPSU consistency earning profits and five continuously incurring losses during the 1990s.

At present there are 14 working state public undertakings (SPSUs) in Meghalaya and all of them are in poor financial health. The 14 SPSUs in the state include 12 government companies and two statutory corporations. Four of the enterprises are in power sector, two in agriculture and three in promotional activities. There is also one SPSU operating in manufacturing, mining, financial services, construction, and in transportation. The four enterprises in the power sector incorporated in the 2010 are a result of the restructuring of Meghalaya State Electricity Board (MeSEB) into the Meghalaya Energy Corporation Limited (MeECL) and the three subsidiaries namely Meghalaya Power Generation Corporation Limited (MePGCL), Meghalaya Power Distribution Corporation Limited (MePDCL), Meghalaya Power Distribution Corporation Limited (MePDCL) and Meghalaya Transmission Corporation Limited (MePTCL).

[17]Study Group on Reforms in State Public Sector Undertakings , Planning Commission, Government of India, Final Report 2002

Box 7.1: SPSUs in Meghalaya

State government companies			**Year of Incorporation**
Power Sector-4	1	Meghalaya Energy Corporation Limited (MeECL)	2009
	2	Meghalaya Power Generation Corporation Limited (MePGCL)	2009
	3	Meghalaya Power Distribution Corporation Limited (MePDCL)	2009
	4	Meghalaya Transmission Corporation Limited (MePTCL)	2009
Agriculture & Forest-2	5	Forest Development Corporation of Meghalaya Limited (FDCML)	1975
	6	Meghalaya Bamboo Chips Limited (MBCL)	1979
Promotional-2	11	Meghalaya Tourism Development Limited (MTDCL)	1977
	12	Meghalaya Handloom & Handicrafts Development Corporation Limited	1979
Manufacturing-1	9	Mawmluh Cherra Cement Limited (MCCL)	1974
Mining-1	10	Meghalaya Mineral Development Corporation Limited (MMDCL)	1981
Financial services-1	7	Meghalaya Industrial Development Corporation Limited (MIDCL)	1971
Construction-1	8	Meghalaya Government Construction Corporation Limited (MGCCL)	1979
Statutory corporations			
Transportation - 1	13	Meghalaya Transport Corporation (MTC)	1976
Promotional-1	14	Meghalaya State Warehousing Corporation (MSWC)	1973

7.2 Financial Status of SPSUs

These SPSUs are a major drain on the state exchequer as they continue to draw investment from the state in the form of equities and loans with almost negligible contribution by way of dividends and interest income to the state exchequer. The total investment in the 14 enterprises as on 2012 was to the tuned of Rs. 1565.3 crore in terms of paid up capital of Rs. 489.7 crore (31 percent) and long term loans of Rs. 1080.1 crore (69 percent). The debt equity ratio in 2012 stood at 2.2. Government's share in the total investment in these SPSUs in terms of equity and long term loans is 40.6 percent. While the state government continues to invest in the SPSUs, majority of these enterprises continue to post losses. In 2011-12, only two of the working SPSUs posted combined net profits of Rs. 1.24 crore, while the loss incurred by the other 12 enterprises was Rs. 87 crore.

Due to very limited information on the SPSUs, the following analysis of the enterprises is based on information obtained from CAG audit reports. In many cases data on turnover and profit/loss of the SPSUs is not updated but pertain to the latest year for which the accounts have been finalised. The total investment in the 14 working SPSUs stood at Rs. 1565 crore, 80 percent of which is on the four state power utilities, 19 percent on MCCL, MIDCL and MTC and just about one percent in the remaining seven working SPSUs. State government investment in terms of paid up capital and long term loans at Rs. 637 crore represent 41 percent of the total investment in the 14 SPSUs. 97 percent of state government investment is on four enterprises namely MeECL and subsidiaries, MCCL, MIDCL and MTC. The share of state government investment in these enterprises is shown in table 7.1.

The combined turnover in 2012 was just a little over Rs. 463 crore of which power sector utilities, MCCL and MTC contributed 90, five and two percent respectively. The share of remaining enterprises to the total turnover was a paltry amount of 14.034 crore. The state enterprises suffered a combined net loss of about Rs. 86 crore with the power utilities being prominent loss units followed by MCCL and MTC. Only MGCCL and MIDCL posted profits which were of very small amount of 90 lakh and 40 lakh respectively (table 7.1).

The state power utilities were the highest recipients of government support with 95 percent of total subsidies and grants provided to SPSUs in 2011-12 going to MeECL followed by MTC which received 2.6 percent of total grants and subsidies. In terms of employment, the power utilities staff strength of 3312 represents 72 percent of the employees engaged in the SPSUs. Other SPSUs with large workforce are MCCL and MTC.

7.3 Change in Profile of SPSUs During 2001-02 to 201-12

The change that has taken place in the SPSUs in the last ten years is shown in table 7.2. There were 13 units in 2001-02 out of which two units, namely Meghalaya Watches Limited and Meghalaya Electronics Development Corporation, have closed down since then. In 2009, four companies were created in the power sector by unbundling the existing state electricity board (MeSEB) bring the existing number of working government enterprises to 14. The capital investment in these enterprises increased from Rs. 588.42 crore to Rs. 1565.3 crore. In 2001-02 the share of state government in total investment in SPSUs stood 60.1 percent which decreased to 40.7 percent in 20011-12. The equity participation of the state government in these enterprises has increased from Rs. 128 crore in 2001-02 to Rs. 475 in 2011-12 while the loan component of the state government's investment has come down from Rs. 249 crore to Rs. 162 crore during the same period mainly due to conversion of tern loan to equity.

Table 7.1: Financial Profile of SPSUs in Meghalaya in 2012

(Amount in Rs. crore)

Sector	Investment (as on March 2012)		No. of Employees (2012)	Turn-over	Accumulated profit (+) / loss(-)#	Net profit (+) / loss(-)	Subsidies & grants received during 2011-12	Period of accounts finalised
	Total	State government*						
MeECL & subsidiaries	1244.6	367.7 (30)	3312	415.7	-5.6 (-449.0)^	-5.6 (-56.4)^	232.6	2009-10
CML	1.9	1.7(90)	67	0.5	-3.5	-0.5	0.5	2002-03
MBCL	3.1	0(0)	15	0.01	-11.5	-0.7	-	2009-10
MTDCL	7.9	7.9 (100)	133	1.7	-4.4	-0.9	-	1996-97
MHHDCL	3.8	3.6 (95)	9	0.03	-2.1	-0.2	-	2004-05
MCCL	125.5	86.2 (68)	523	24.1	-48.1	-18.7	-	2011-12
MMDCL	2.3	2.3 (100)	17	4.3	-6.3	-0.4	4.6	2010-11
MIDCL	91.1	91.1(100)	111	4.9	-24.6	0.4	-	2006-07
MGCCL	0.8	0.8 (100)	105	2.6	-12.1	0.9	0.5	2009-10
MTC	80.9	73.9 (92)	307	8.9	-83.3	-3.6	6.5	2009-10
MSWC	3.4	2.1 (62)	10	0.3	-0.2	-0.04	1.5	2010-11
Total	1565.3	637.3 (41)	4609	463.04	-650.7	-85.74	246.2	

*Figures in brackets represent percentage share of state government investment in the total investment for each enterprise
^Figures in brackets represent the loss incurred by Meghalaya State Electricity Board as it was still in operation during 2009-10.
#As per year for which accounts were finalised
Source: Audit Report of Government of Meghalaya, CAG, 2012

The total turnover of these enterprises stood at Rs. 463 crore in 2011-12, up from Rs. 139 crore in 2001-02. Turnover of SPSUs as percentage of SGDP is not only very small but has come down from 3.1 percent in 2001-02 to 2.8 percent in 2011-12. Losses suffered by the SPSUs have increased over the years as can be seen in table 7.2. In 2001-02, the net loss of the 13 units was 30 crore while in 2011-12 this figure was 86 crore, resulting in the accumulated loss almost doubling from 354 crore to Rs. 651 crore in this period. The only positive development in the 11 years period under consideration has been the decrease in the number of employees in these government enterprises. This has come down due to the state government policy of offering voluntary retirement scheme to employees and the closing down of some loss making units. The number of employees in SPSUs which stood at 6168 in 2001-02 has come down to 4909.

Table 7.2: Profile of SPSUs 2001-02 & 2011-12

(Amount in Rs. crore)

	2002	2012
1. No. of units	13	14
2. Total Investment	588.42	1565.3
3. State government investment	377.17	637.3
i. State government equity	127.94	475.6
ii. State government loan	249.23	161.7
4. Capital employed	447.05	2151.9
5. Turnover	138.92	463.1
6. Turnover as percentage to GSDP	3.1	2.8
7. Net loss	29.97	85.7
8. Accumulated loss	354.38	650.7
9. Loss making units	11	12
10. No. of employees	6168	4609

Sources: same as in table 7.1

Apart from direct investment in these enterprises, the state government has also been extending guarantees to these enterprises particularly to state power sector over the years. In table 5.9 (section 5.5) we presented the amount of guarantees given to SPSUs during 2004-05 to 2011-12. In 2004-05, the total outstanding amount of guarantees given by the government stood at Rs. 337 crore which in 2010-11 had risen Rs. 1293 crore, implying an increase of about 284 percent in seven years. The rapid growth in guarantees is mainly on account of borrowings by the state owned power utilities. Major portion of the guarantees went to the power sector whose share was more than 95 percent throughout the period under consideration.

7.4 Budgetary Support to SPSUs in Meghalaya

Despite the continued losses posted by these state enterprises over the years, the state government support to the government enterprises has increased in quantum in terms of contribution to paid-up capital, loans and subsidy and grants extended to these units. In 2001-02 the total budgetary support to the 13 SPSUs was to the tuned of Rs. 65.97 crore comprising of 19.5 percent contribution to equity, 58 percent to loan and another 23percent as subsidy and grants. By 2011-12 the composition of state budgetary support has undergone a substantial change with the loan component of the support coming down to 18 accompanied by substantial increase in grants and subsidy. The decreased in the loan component is a trend observed since 2005-06. On the other hand, the subsidy and grants component, mostly going to the power sector utilities, has increased substantially accounting for 77.5 and 66.6 percent of total budgetary support in in 2010-11 and 2011-12 respectively.

Table 7.3: Budgetary Support to SPSUs in Meghalaya

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
					Amount in Rs. crore						
Equity	12.87	2.41	11.15	5.90	20.78	12.95	10.38	18.20	16.45	15.99	27.00
Loans	38.05	48.49	48.73	25.56	8.52	9.66	8.43	11.04	-	23.44	31.63
Grants/ Subsidy	15.05	13.7	13.7	14.24	18.17	27.75	37.14	19.18	9.05	136.03	117.04
Total Budgetary Support	65.97	64.6	73.58	45.7	47.47	50.36	55.95	48.42	25.5	175.46	175.67
					As percentage of Total Budgetary Support						
Equity	19.5	3.7	15.2	12.9	43.8	25.7	18.6	37.6	64.5	9.1	15.4
Loans	57.7	75.1	66.2	55.9	17.9	19.2	15.1	22.8	0.0	13.4	18.0
Grants/ Subsidy	22.8	21.2	18.6	31.2	38.3	55.1	66.4	39.6	35.5	77.5	66.6

Sources: Audit Report of Government of Meghalaya (various issues), CAG,

From 2001-02 to 2011-12 an amount of Rs. 829 crore has gone out from the state government in supporting SPSUs of which 50.8 percent was in the form of subsidy and grants, 30.6 percent in terms of long term loans and another 18.6 percent in terms of equity invested these enterprises. In this 11 year period, the accumulated loss has increased by 296 crore with only one to two units posting profits, albeit very small amount, pointing to a deplorable financial condition of the state enterprises and fiscal burden and liability that these enterprises represent to the state government. For a state with meagre own resources, the amount invested in these enterprises represent a huge loss in opportunity of productive use of scare financial resources in other more pressing economic and social activities like infrastructure, health and education where the investment would have benefited by a much larger section of the society.

7.5 State Subsidies to Public Sector Enterprises

In this section we further analyse the subsidies given by the state government to SPSUs in relation to the total subsidy provided to other sectors for the period 2005-06 to 2011-12 for which information is available. As can be seen for the table below (table 7.4), a large chunk of the subsidies goes to the power sector followed by the transport department. In 2005-06 of the Rs. 16.01 crore of state subsidies, Rs. 10.8 crore or 67.5 percent of the total subsidy went to the power sector. In 2011-12 the amount of state subsidy to power sector has increased to 22.92 crore which represented 58 percent of total subsidy. Throughout the period under consideration, power sector continued to appropriate the largest share of the subsidy except in 2010-11 when state fishery department was the biggest gainer as 37.19 crore constituting 64.7 percent of the total subsidy of Rs. 57.49 crore went to it resulting the power sector receiving the lowest share of the state subsidy (22.8 percent) compared to other years. Other departments receiving state subsidy are the Transport department, Food and Civil Supplies and Consumers Affairs, Animal husbandry and Veterinaryand Agriculture department.

Table 7.4: Comparative Expenditure on State Subsidies

(pecent)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Animal husbandry and Veterinarydepartment	6.4	2.3	4.9	10.5	2.4	0.9	5.0
2. Agriculture department	0.6	6.7	1.5	0.0	6.9	2.1	8.5
3. Fisheries department	0.9	8.3	0.3	0.7	12.7	64.7	3.9
4. Food and Civil Supplies and Consumers Affairs	7.1	3.4	3.7	8.2	5.1	2.6	7.2
5. Power (Electricity) department	67.5	70.4	81.9	64.9	61.3	22.8	58.0
6. Transport department	17.5	8.7	7.7	15.7	11.6	6.1	17.5
Total Subsidy (Rs, in Lakh)	1601	3430	4005	1802	2909	5749	2292

The continuing investment of state government in some of the sick SPSUs operating in the non-core sectors that have failed to provide any returns on investment points to the failure of the state government to initiate measures to privatize or wind up these units. Further, the government has also failed to improve the financial viability of state enterprises operating in core sectors like power which has resulted in a situation wherein state government has to invest huge amount of resources to continue operation of these units.

7.6 Power Sector Utilities in Meghalaya

Meghalaya which was once a power surplus state is presently experiencing acute shortage of power with the gap between availability and demand for power widening every year. Although the state has a vast hydro power potential estimated at 3000 MW, the installed capacity of the hydro-electric projects operating in 2012 was only 186.7 MW[18] against a peak hour demand of 650 MW. Thus while the demand for electricity is growing and is expected to reach 1300 MW by end of 12th Five Year Plan, the state has failed to augment its power generation capacity. The state has had to restore to restriction in the sale of energy particularly during the lean period in order to manage this widening gap between the availability and demand for energy.

The exclusive reliance on hydro power projects has affected generation of power during periods when monsoon has failed and also during lean season. This has made the state more dependent on purchase of high cost power from central power utilities. The situation today is such that share of power purchased from outside the state constitute more than 80 percent of the total sale of power. The dependent on purchase of power at higher rates has put a lot of financial strain on the state power utility so much so that in 2013 one of the central power utility had temporary stopped supply of power to the state over unpaid dues[19]. As the state power utilities are themselves in very bad financial position, the state government has had to regularly step in to clear the mounting dues of companies supplying power to the state.

1. Operational performance: Prior to 2010 the former state owned Meghalaya State Electricity Board (MeSEB) was the sole entity responsible for generation, transmission and distribution of electricity in the state. Under the Meghalaya Power Sector Reforms Transfer Scheme 2010, the state government has restructured and unbundled MeSEB into four corporations, namely, MePGCL, MePTCL, MePDCL and a holding company MeECL. However, till date apart from MeECL which is the holding company, the three other utilities are yet to commence commercial operation. The change in operational performance of the power utilities in the state in the last seven years (2004-05 to 2011-12) is shown in table 7.5.

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[18] An additional 127.5 MW is to be added to the capacity from two hydro power projects which are currently being executed. Thus while

[19] As reported in Shillong Times in 2013

Table 7.5: **Operational Performance of power sector utilities in Meghalaya**

	2001-02	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Change (%)
Installed Capacity-Hydro (MW)	186.7	185.2	185.2	185.2	185.2	186.7	186.7	186.7	186.7	0.8
Net own generation (MKwh)	598	635.4	514.4	389.1	663.1	552.8	534.8	526.2	752.9	25.9
Power purchased (MKwh)	165	758.0	871.7	929.3	924.2	968.9	947.3	983.0	1088.0	559.4
Total Energy (MKwh)	763	1393.4	1386.1	1318.4	1587.2	1521.8	1482.1	1509.2	1840.9	141.3
T&D Loss (MKwh)	155	361.9	495.8	485.6	529.1	477.2	503.2	475.0	529.0	241.3
T&D Loss as percentage of Total energy (MKwh)	20.31	26.0	35.8	36.8	33.3	31.4	34.0	31.5	28.7	-
Total Energy sale (MKwh)	608	1031.4	890.3	832.8	1058.1	1044.6	978.9	1034.2	1311.9	115.8
Power purchase as percentage of sale of power	27.14	73.5	97.9	111.6	87.3	92.8	96.8	95.1	82.9	205.5

Source: Annual Report on the Working of State Power Utilities & Electricity Departments (various issues), Planning Commission& State Audit Reports of government of Meghalaya (various issues), CAG and MeECL

There has been a marginal change in the installed capacity in 2008-09 with the commissioning of a small hydro project of 1.5 MW leading to an increase in installed capacity from 185.2MW to 186.7 MW. The installed capacity is expected to further increase to 314.2 MW once the new power projects, namely, the Myntdu-Leshka hydro power project (42 X 3= 126 MW)and Lakroh small hydro project (1.5 MW), are fully commissioned. Power generation in the state is exclusively hydro based and increase in demand for power has to be met from own generation and purchase of power from outside agencies. In the last 11 years (2001-02 to 2011-12) net own generation has increased by 25.9 percent while purchased of power from outside agencies has steadily climbed from 165 MKwh in 2001-02 (27.14 percent of total power sold) to 1088 MKwh in 2011-12 which is 83 percent of total energy sold in that year. Purchased of energy from outside agencies has jumped by 559.4 percent in the last 11 years mainly due to increased demand for power driven to a large extent by power intensive industries that have come up in the state due to the incentives offered in terms of power subsidy as part of the Industrial policy. This can be seen from table 7.6 where the sale of power to industry has shot up from 30.92 percent in 2001-20 to 50 percent in 2011-12 (table 7.5).

The power situation in the state is made worse due to the worsened transmission and distribution (T&D) losses which increased from 20.31 percent of total available energy in 2001-02 to almost 29 percent in 2011-12. The difference between total energy available and total energy sold points to the high T&D losses which was high as 36.7 percent in 2006-07. The T&D losses are due to both technical and commercial reasons. According to MeECL the following factors are responsible for the losses:

i	Long and overloaded transmission, sub-transmission and distribution lines
ii	Un-metered connections, where actual consumption is more than the assessment being done or where flat rate billing does not cover actual consumption
iii	Defective meters, where billing is not being done on the basis of actual consumption
iv	Theft/pilferage of energy

Table 7.6 Other Information on Working of Power Utilities in Meghalaya

(percent)

	2001-02	2007-08	2008-09	2009-10	2010-11	2011-12
Consumer Category wise sale of power						
i. Domestic	22.7	19.72	21.64	23.23	21.84	19.09
ii. Commercial	7.9	3.74	4.19	5.34	5.19	4.62
iii. Agriculture	0.05	0.06	0.05	0.06	0.7	0.7
iv. Industry	30.92	47.98	50.45	47.88	47.93	49.73
v. Outside the State/UT	13.65	15.58	9.46	8.22	10.32	14.06
vi. Others	24.67	12.93	14.21	15.28	14.64	12.45

Sources: same as in table 7.5

7.7 Financial Performance of State Power Sector Utilities

Financial performance of state power utilities is discussed against certain parameters which are provided in table 7.7 and table 7.8. Unit cost of electricity of the state at 265 paise per kWh sold in 2001-02 was among the lowest in the country. In the last 11 years, the cost of supply has increased to 451.39 in 2009-10 implying an simple annual growth of 8.8 percent (4.9 percent in case of all India average). The cost of power supply has further increased to 475.24 paise per kWh in 2011-12 as per Annual Plan Projection. There has been a steep increase in the component of power purchase in the total cost of supply of power. The cost of purchase as a proportion of the average unit cost increased from 12.5 percent in 2001-02 to 50.39 percent in 2009-10. Further, the share of Operation and Maintenance (O&M) Works, Establishment and Administration charges and interest payment in the total cost of power supply is fairly high in case of Meghalaya when compared to the all India average for the years under consideration (table 7.6).

There have been many revisions of the power tariff in the state resulting in steady increase in average tariff. In 2001-02, the average tariff per unit at 183.32 per/kWh in 2001-02 was below the all India average of 239.9paisa per/kWh. By 2009-10, the average tariff at 419.74 paisa per/kWh has overtaken that of all India average of 333.44 paisa per/kWh. The annual growth of average tariff per unit sold during this period was 16.12 percent. This increase in average tariff has had a positive effect on the ratio of average revenue realised to the average cost of supply as can be seen in table 7.7.

Table 7.7: Comparison of Financial Performance of Power Utilities in Meghalaya Against All India

	2001-02 Actual	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 RE	2011-12 AP
1. Unit cost of Power (Paise/kWh)						
Meghalaya	265.0	366.87	359.39	451.39	515.43	475.24
India	349.9	404.42	459.58	476.04	483.87	487.15
i. Share of O & M in total cost(%)						
Meghalaya	10.8	6.03	6.18	5.86	5.28	4.54
India	2.6	2.89	1.63	1.63	1.62	1.57
ii. Share of Establishment & Admin in total						
Meghalaya	42.6	23.89	27.68	27.53	29.57	28.5
India	12.59	10.96	12.25	11.42	11.74	11.37
iii. Share of Interest In total cost (%)						
Meghalaya	23.8	10.15	8.83	10.34	7.23	11.12
India	10.87	5.66	5.89	6.39	7.4	7.88
iv.Share of Power purchase In total cost (%)						
Meghalaya	12.5	56.61	53.55	50.39	52.68	47.83
India	52.89	69.38	69.69	70.28	69.91	69.23
2. No. of Employees(per MkWh of electricity						
Meghalaya	6.37	3.48	3.5	3.72	3.39	2.72
India	2.60	0.51	0.47	0.45	0.42	0.4
3. No. of employees per thousand consumers						
Meghalaya	23.04	1.4	1.43	1.41	1.35	1.32
India	7.78	0.51	0.47	0.45	0.42	0.4
4 Average Tariff for sale of						
Meghalaya	183.32	297.9	371.02	419.74	385.46	411.38
India	239.9	306.46	325.76	333.44	357.44	379.56
5.Sales Revenue as a Ratio of cost						
Meghalaya	68.78	81.20	103.24	92.99	74.78	86.56
India	68.59	73.74	69.02	67.98	73.85	77.91

AP: Annual Plan; RRE: Revised Estimate

Sources**:** Annual Report on the Working of State Power Utilities & Electricity Departments (various issues), Planning Commission

Table 7.8: Financial Performance of State Power Utilities* in Meghalaya

(Amount in Rs. crore)

	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10
A1. Revenue from sale of power	254.3	233.17	318.15	392.51	415.74
A2. Subsidy / Sub-vention from government	10.8	24.15	32.8	11.7	12.31
A3. Other income	49.86	30.69	32.39	39.78	58.5
A. Total Income	314.96	288.01	383.34	443.99	486.55
B1. Revenue Expenditure	330.63	337.2	315.23	344.7	372.03
B2. Depreciation	12.72	12.62	12.9	14.12	25.94
B3. Interest on loans	28.81	24.62	31.77	39.24	68.73
B. Total expenditure	372.16	372.16	372.16	372.16	372.16
C. Total income –Total expenditure (A-B)	-57.2	-86.43	23.44	45.93	49.02
D. Adjustment over previous years	15.67	-7.54	-21.96	-36.1	-105.44
E Surplus/deficit with subsidy (C-D)	-41.53	-93.97	1.48	9.83	-56.42
F. Surplus/deficit without subsidy (E-A2)	-52.33	-118.12	-31.32	-1.87	-68.73

*Figures are for MeSEB

Source: Audit Reports of government of Meghalaya, Various years

In table 7.8 we present the financial results of 2005-06 to 2010-11 of the erstwhile electricity board (MeSEB) in the state which was in existence before restructuring of the board. During the last five years, the board has been running large deficit except in 2007-08 and 2008-09 when it managed to post surplus (with subsidy) of Rs. 1.48 crore and 9.83 crore respectively. In the other years the board posted huge deficit. In 2009-10, the latest years for which information is available, the losses posted by the board was Rs. 68.73 crore (without subsidy) and Rs, 56.42 crore (with subsidy). The rapid rise in demand of energy and the failure of the state government to augment the power generation has increased the reliance of the state on high cost power purchased from outside the state. This along with large administrative cost, high T&D losses and mounting revenue arrears have worsened the financial condition of the state power sector utility.

7.8 Power Sector Reforms and other Issues for Consideration

The reform process in power sector in India was initiated since 1991. The objective in launching of the reforms was to promote competition and mobilize private sector resources for power generating capacity addition. A major landmark in the reform of power sector in the country is the enactment of the Electricity Act in 2003 which repealed all existing electricity laws. A major provision of the said Act is the restructuring and unbundling of existing state electricity boards (SEBs) into separate entities of generation, transmission and distribution. Other important provision related to pricing of energy which has been handed over to regulatory commissions. In case of Meghalaya, MeSEB was in existence till as late as 2010 and it was only in that year that the state government restructured and unbundled the state electricity board into four corporations, namely, MePGCL, MePTCL, MePDC and a holding company MeECL. However, till date apart from MeECL the three other utilities are yet to fully commence commercial operation.

The Meghalaya State Electricity Regulatory Commission was notified by the state government in March of 2004 and became functional in June of 2006. The Commission is fully functional and has been issuing tariff orders. Besides, the Commission has also constituted the Meghalaya State Electricity Advisory Committee to serve as an advisory body in matters relating to consumer issues and also relating to supply and distribution of electricity in the state. Other steps such as setting up of Consumer Redressal Forum have also been constituted by the Commission. Other measures adopted by the government as part of power sector reforms is the setting of the Guarantee Redemption Fund in 2011 to redeem guarantees provided by the state government particularly in case of borrowings by the power sector which is guaranteed by the state government.

State public sector undertakings in Meghalaya are in very bad financial state as they continue to draw up limited financial resources of the state government without yielding meaningful returns. While the state government continues to invest in the SPSUs, majority of these enterprises continue to post losses. In 2011-12, only two of the working SPSUs posted combined net profits of Rs. 1.24 crore, while the losses incurred by the other 12 enterprises was Rs. 87 crore. The continuing investment of state government in some of the sick SPSUs operating in the non-core sectors points to the failure of the state government to initiate measures of privatization or winding up these units. Further, the government has also failed to improve the financial viability of state enterprises operating in core sector like power which has resulted in a situation where in state government has to invest huge amount of resources to continue operation of these units.

Meghalaya which was once a power surplus state is presently experiencing acute shortage of power with the gap between availability and demand for power widening every year. The situation today is such that share of power purchased from outside the state constitute more than 80 percent of the total sale of power During the last five years, the board has been running large deficit In 2009-10, the latest years for which information is available, the losses posted by the board was Rs. 68.73 crore (without subsidy) and Rs, 56.42 crore (with subsidy). As the state power utilities are themselves in very bad financial position, the state government has had to regularly step in to clear the mounting dues of companies supplying power to the state. The rapid rise in demand of energy and the failure of the state government to augment the power generation has increased the reliance of the state on high cost power purchased from outside the state. This along with large administrative cost, high T&D losses and mounting revenue arrears have worsened the financial condition of the state power sector utility.

Annexure 1

Table A1: Sectoral Composition of GSDP at Constant (2004-05) Prices

(Rupees in Lakh)

Sector	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Agriculture & Allied	137542	142950	152507	159973	162098	160612	167274	171050	174249	183627
Mining & Quarrying	49231	61437	61282	61725	65136	73759	63436	66597	77664	82361
Primary Sector	186773	204387	213789	221698	227234	234371	230710	237647	251913	265988
Manufacturing	14101	15689	17942	31372	49217	54974	52408	62724	69922	76381
Manufacturing - Registered	6966	8201	10470	23699	40708	45393	43007	52458	59749	65765
Manufacturing - Unregistered	7134	7488	7472	7673	8509	9581	9401	10266	10173	10616
Construction	62990	66654	73677	75761	77999	79372	134843	136101	136179	165709
Electricity, Gas and Water supply	14548	15665	18566	17788	18372	22136	20283	22028	22863	24274
Secondary Sector	91639	98008	110185	124921	145588	156482	207534	220853	228964	266364
Transport, Storage & Communication	35921	38104	44444	49602	56675	61330	66862	75049	83966	93372
Trade, Hotels and restaurants	53448	60867	63273	72042	78649	87203	89320	97470	108402	119771
Banking & Insurance	16072	16812	17585	20487	22931	24996	27740	32537	42472	49548
Real estate, Ownership of dwellings and Business services	70197	72184	74251	76061	77894	79782	81693	83690	85356	87397
Public Administration	75447	79994	87594	93089	97841	92062	127512	128451	139478	137611
Other services	42516	43042	44808	49885	55751	60773	68734	83425	100757	121354
Tertiary Sector	293601	311003	331955	361166	389741	406146	461861	500622	560431	609053
State Domestic Product	572014	613398	655929	707785	762563	796999	900105	959122	1041308	1141405
per capita income	24166	25590	27026	28793	30650	31652	35326	37204	39912	43251

Annexure 2

Table A2: Revenue Receipts of Meghalaya (2001-02 to 2011-12)

(Rupees in lakh)

	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
Total Revenues	112338	128893	139884	154612	174693	214219	244139	281064	344734	426048	465447
A. Own Revenue of which	23007	23764	30665	34122	39862	48912	51844	59465	71937	87298	106578
(i) Own tax Revenue	13598	14486	17769	20773	25262	30475	31908	36934	44429	57145	69754
(ii) Own Non-Tax Revenue	9409	9278	12896	13349	14600	18437	19936	22531	27508	30153	36824
Central Transfers of which	89331	105129	109219	120490	134831	165307	192295	221599	272797	338750	358869
Share In Central Taxes	16482	17612	22508	26904	35061	44717	56409	59533	61238	89627	104419
Non-Plan Grants	31717	40774	32933	36082	40603	47247	46102	43992	37712	66407	52707
Plan Grants	41132	46743	53778	57504	59167	73343	89784	118074	173847	182716	201743
State Plan Schemes	33205	37315	46150	46043	44536	56900	64542	95787	139456	142757	170264
Central Plan Schemes	167	63	133	367	271	1117	369	818	2624	1258	1629
Centrally Sponsored Schemes	6753	7581	6182	8710	11861	10666	17875	15899	25101	31515	24226
NEC / Special Plan Scheme	1007	1784	1313	2384	2499	4660	6998	5570	6666	7186	5624

Annexure 3

Table A3: Own Tax Revenue of Meghalaya (2001-02 to 2011-12)

(Rupees in lakh)

	2001 -02	2002 -03	2003 -04	2004-05	2005-06	2006-07	2007-08	2008-09	2009 -10	2010 -11	2011 -12
Taxes on Professions, Trades, Calling and Employment	89	92	97	102	112	952	146	-647	206	306	361
Land Revenue	67	32	49	29	33	558	212	50	26	1711	240
Stamps and Registration Fees	349	295	337	456	547	649	599	554	1102	1076	908
State Excise	4169	4495	5280	6270	5916	5396	5862	6979	9029	10450	13150
Sales tax	8089	8720	11014	12618	17337	21582	23489	28183	32139	40988	51250
Taxes on Vehicles	472	462	552	745	873	934	1135	1321	1361	1919	3112
Taxes on Goods and passengers	161	163	202	266	276	279	358	331	350	437	439
Taxes and Duties on Electricity	1	2	3	3	4	3	3	3	5	26	87
Entertainment Tax	86	120	121	198	126	120	83	72	123	29	34
Betting Tax	76	89	2	11	14	1	20	59	87	190	85
Other Taxes and Duties	39	16	112	75	24	1	1	29	0.52	13	89
Total	13598	14486	17769	20773	25262	30475	31908	36934	44428.52	57145	69755

Annexure 4

Table A4: Own Non-Tax Revenue of Meghalaya (2001-02 to 2011-12)

(Rupees in lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Interest	526	466	562	775	667	1336	1538	1782	2328	2472	2713
2. Dividends and profits	11	1	18	18	1	1	2	3	4	3	8
3. General services	1054	1511	1654	1265	1737	3593	2867	4648	1753	2415	3557
i. Public Works	416	363	366	510	433	511	424	670	702	1271	1702
ii. State Lotteries	0	618	805	501	89	244	391	862	0.49	0.07	0
iii. Others	638	530	483	254	1215	2838	2052	3308	1051	1144	1855
4. Social services	168	193	204	214	316	325	284	385	884	577	736
i. Education, Sports, Art & Culture	62	76	80	45	55	91	53	93	77	100	79
ii. Medical, Public Health & Family Welfare	41	55	62	61	70	110	56	74	56	69	135
iii. Water Supply & Sanitation	26	23	29	55	51	49	51	104	288	304	374
iv. Others	39	39	33	53	140	102	124	114	463	104	148
5. Economics services	7650	7107	10458	11077	11879	13182	15245	15713	22539	24686	29810
i. Crop Husbandry	171	140	157	176	199	221	238	322	280	411	458
ii. Animal Husbandry	104	109	123	122	132	156	147	137	154	168	176
iii. Forestry & Wildlife	782	856	1177	1462	1530	1666	1560	1736	2003	2205	2603
iv. Non-ferrous Mining & Metallurgical	6356	5611	8618	9026	9756	10903	12366	13273	19821	21558	26258
(v) Others	237	391	383	291	262	236	934	245	281	344	315
Total Non-Tax Revenues	9409	9278	12896	13349	14600	18437	19936	22531	27508	30153	36824

Annexure 5

Table A5: Revenue Expenditure of Meghalaya (2001-02 to 2011-12)

(Rupees in lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. General Services of which	42871	48385	52603	58705	62533	70308	77827	93752	110099	131680	148719
i. Interest Payments	12856	15134	17003	17723	19100	20313	18898	21204	23396	25693	28567
ii. Pensions	5820	6697	7659	8693	9322	11751	13470	17176	20789	29962	37579
iii. Other services	24195	26554	27941	32289	34111	38244	45459	55372	65914	76025	82573
2. Social Services	43593	42589	47914	55776	55475	61430	75355	80492	109238	137603	174247
i. Education	24886	24075	26780	30832	31107	32552	42282	43364	56364	75813	102233
ii. Health	8207	8186	8256	8639	9402	9911	11308	13108	20888	27693	28581
iii. Water Supply/ Sanitation	4125	4499	4608	5250	5354	6536	6568	7689	10356	10561	11185
iv. Others	6375	5829	8270	11055	9612	12431	15197	16331	21630	23536	32248
3. Economic Services	29230	29481	30852	45153	49440	59011	72184	94034	98901	131991	160515
i. Agriculture & Allied Activities	12434	11695	12197	13961	16307	17628	21673	25000	36423	55243	50220
ii. Rural Development	5335	6084	5732	6538	9843	13155	13205	19650	16821	24181	31231
iii. Energy	1150	1137	1922	8885	6997	9047	13771	23616	12264	11386	16612
iv. Transport & Communication	3614	3843	4022	5006	5254	7655	7938	7479	9781	8516	11845
v. Others	6697	6722	6979	10763	11039	11526	15597	18289	23612	32665	50607
Total	115694	120455	131369	159634	167448	190749	225366	268278	318238	401274	483481
*Salaries	53600	57600	62200	55300	58664	64379	70865	77579	120503	148534	160689
*Subsidies	2400	3300	3000	2800	1621	3430	3946	1802	2910	5750	2397

*under general, social and economic services

Annexure 6

Table A6: Capital Expenditure of Meghalaya (2001-02 to 2011-12)

(Rupees in lakh)

Year	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
A. Capital Outlay	**15984**	**18305**	**23530**	**24554**	**25933**	**32037**	**39166**	**53102**	**48129**	**57474**	**85523**
1.General Services	**580**	**399**	**2476**	**811**	**1121**	**1634**	**2769**	**4756**	**4840**	**3665**	**5244**
2. Social Services	**6516**	**6802**	**8383**	**10917**	**11452**	**12680**	**15248**	**22151**	**14145**	**13274**	**28840**
i. Education, Sports, Art & Culture	122	155	126	182	70	202	569	469	258	892	343
ii. Health & Family Welfare	1029	1189	1432	1451	1723	1806	3608	2027	2160	2010	3644
iii. Water Supply& Sanitation	5208	5004	5989	7274	7786	9229	10769	13701	9635	8796	14191
iv. Housing	111	93	394	457	260	638	203	670	673	439	613
v. Social Welfare & Nutrition	-	194	437	244	799	799	51	69	20	586	70
3. Economic Services	**8888**	**11104**	**12671**	**12826**	**13360**	**17723**	**21149**	**26195**	**29144**	**40535**	**51439**
i. Agriculture & Allied Activities	403	501	359	1027	461	459	1336	1549	1967	2082	2830
ii. Rural Development	22	14	311	268	43	6	42	27	32	120	31
iii. Special Areas Programmes	914	668	1379	1454	2614	4664	5097	3708	2619	3969	5850
iv. Irrigation & Flood Control	1054	661	617	519	758	561	607	3180	3475	8256	8233
v. Industry & Minerals	1464	520	810	520	841	1268	283	1445	1411	2538	1248
vi. Transport & Communication	5015	8740	9185	9018	8603	10758	13783	16280	19640	23570	33147
vii. General Economic Services	15		10	20	40	7		6			100
B. Disbursement of loans and expenditure	**4300**	**7488**	**6980**	**3593**	**1062**	**596**	**2673**	**5021**	**2666**	**4165**	**5237**
Total	**20284**	**25793**	**30510**	**28147**	**26995**	**32633**	**41839**	**58123**	**50795**	**61639**	**90760**

Annexure 7

Table A7: Capital Expenditure on Loans and Advances

(Rupees in lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. Social Services	3	-	50	-	-	-	-	-	-	-	-
2. Economic services of which:	2993	5734	5062	2655	768	228	1955	4326	1052	2646	3594
i. Power	2917	5619	5015	2563	694	127	1394	4314	752	2311	2871
ii. Cooperation	76	96	47	92	74	101	61	12	-	-	-
iii. Others	-	-	-	-	-	-	500	-	300	335	724
3. Government employees	1304	1754	1868	938	294	368	718	695	1614	1519	1643
Total	4300	7488	6980	3593	1062	596	2673	5021	2666	4165	5237

Annexure 8

Table A8: Development Expenditure of Meghalaya (2001-02 to 2011-12)

(Rupees in lakh)

	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
A. Direct 1+2											
1.. Revenue Expenditure	72823	72070	78766	100929	104915	120441	147539	174526	208139	269594	334762
i. Social Services	43593	42589	47914	55776	55475	61430	75355	80492	109238	137603	174247
ii. Economic Services	29230	29481	30852	45153	49440	59011	72184	94034	98901	131991	160515
2. Capital Outlay	15404	17906	21054	23743	24812	30403	36396	48346	43289	53809	80279
iii. Social Services	6516	6802	8383	10917	11452	12680	15248	22151	14145	13274	28840
iv. Economic Services	8888	11104	12671	12826	13360	17723	21148	26195	29144	40535	51439
B. Indirect (3)											
3. Housing Loans to govt. employees	3997	7245	6706	3280	779	326	1962	4333	1053	2646	3646
Development (A+B)	92224	97221	106526	127952	130506	151170	185897	227205	252481	326049	418687

Annexure 9

Table A9: Non-Development Expenditure of Meghalaya (2001-02 to 2011-12)

(Rupees in lakh)

	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12
1. Revenue Expenditure	42871	48385	52603	58705	62533	70308	77827	93752	110099	131680	148719
i. Organs of State	2117	2652	3881	4727	4953	5289	6548	7849	5305	6671	7608
ii. Fiscal services	1711	1661	1945	2847	2267	2175	2752	7579	3796	4484	7238
iii. Interest Payments & servicing of debt	13235	15598	17550	18423	19925	21219	20068	22556	24805	27256	28567
iv. Administrative Services	19967	21752	21568	23984	26035	29836	34947	38547	55338	63229	67640
v. Pensions	5820	6697	7623	8693	9322	11751	13470	17176	20789	29962	37579
vi. others	21	25	35	31	31	38	42	45	66	78	87
2.. Capital Expenditure on general services	580	399	2476	811	1121	1634	2769	4756	4840	3665	5244
3. Loans to govt.Employees (other than housing)	303	243	274	313	283	270	711	688	1613	1518	1591
Non-development (1+2+3)	43754	49027	55353	59829	63937	72212	81307	99196	116552	136863	155554

Annexure 10

Table A10: Plan and Non-Plan Revenue Expenditure

(Rupees in lakh)

	General Services		Social Services		Economic Services		Total	
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2001-02	41459	1412	29952	13641	16972	12258	88383.00	27311.00
2002-03	46728	1657	30260	12329	17927	11554	94915.00	25540.00
2003-04	50640	1963	31384	16530	18371	12481	100395.00	30974.00
2004-05	56467	2238	33683	22093	21859	23294	112009.00	47625.00
2005-06	60278	2255	34074	21401	23945	25495	118297.00	49151.00
2006-07	67789	2519	39019	22411	27295	31716	134103.00	56646.00
2007-08	74791	3036	43970	31385	34476	37708	153237.00	72129.00
2008-09	90287	3465	47820	32672	29619	64415	167726.00	100552.00
2019-10	105233	4866	62951	46287	45312	53589	213496.00	104742.00
2010-11	125734	5946	83224	54379	45609	86382	254567.00	146707.00
2011-12	142528	6191	93165	81082	51910	108605	287603.00	195878.00

Annexure 11

Table A11: Plan and Non-Plan Capital Expenditure

(Rupees in lakh)

	A. Capital Outlay						B. Loans & Advances		Total	
	General Services		Social Services		Economic services				(A+B)	
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2001-02	135	445	299	6217	18	8870	1304	2996	1756	18528
2002-03	30	669	0.005	6802	-	11104	1754	5734	1784.005	24309
2003-04	-	2476	-	8383	-	12671	1868	5112	1868	28642
2004-05	245	566	245	10672	-	12826	938	2655	1428	26719
2005-06	81	1039	79	11373	-	13360	294	768	454	26540
2006-07	354	1280	348	12332	-	17723	368	228	1070	31563
2007-08	427	2342	-	15248	-	21149	718	1955	1145	40694
2008-09	-	4756	28	22123	-	26195	695	4326	723	57400
2019-10	36	4804	99	14046	-	29144	1614	1052	1749	49046
2010-11	-	3665	-	13274	-	40535	1519	2645	1519	60119
2011-12	156	5088	27	28813	195	51244	1643	3594	2021	88739

Annexure 12

Table A12: Financing of Fiscal Deficit

(Rupees in lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Fiscal Deficit (1+2+3)	22085	16113	20183	31321	17898	7452	21419	43510	22629	34139	106525
1. Revenue Surplus(-)/Deficit(+)	3355	-8438	-8513	5021	5021	-23469	-18771	-12787	-26497	-24774	18034
2.Net Capital Expenditure	15984	18606	23530	24553	25933	32037	39166	53101	48129	57473	85524
3. Net Loans & Advances	-2746	-5945	-5167	-1747	789	1115	-1024	-3195	997	1440	2967
Financing Pattern of Fiscal Deficit											
1. Market Borrowings	8548	8692	14929	12457	13077	16436	14749	18632	19166	12000	20855
2. Loans from GOI	2565	3077	-3312	216	-1583	-2755	-1470	-5338	1833	-1905	-2604
3. Special Securities issued to NSSF					5570	2224	882	580	6143	8982	4714
4. Total loans from financial institutions	958	3424	3947	874	1506	74	652	1508	2523	2454	3562
i. Loans from LIC	-30	-30	-30	-28	-28	-28	-26	-25	-13	-12	-11
ii. Loans from GIC	9	-18	-14	-10	-7	-13	-10	-9	-9	-9	-9
iii. Compensation & other bonds			140		-140	-140	-140	-140	-140	-140	-140
iv. Loans from NABARD	1762	2798	1413	-657	1381	1798	2292	3225	4496	4106	5425
v. Loans from NCDC	178	299	146	-38	-63	-127	35	-176	-7	-143	-118
vi. Loans from HUDCO	-961	375	2292	1607	363	-1416	-1499	-1367	-1804	-1348	-1585
5. Small Savings, PF, etc	5741	6509	8148	9075	4430	3631	4583	4558	6765	8430	10508
6. Reserve Funds	8	242	-184	641	36	309	-935	20	702	-414	1430
7. Deposit & Advances	-3736	5231	-12278	1780	16160	-369	19451	23262	-10514	-1011	61737
8. Suspense & Miscellaneous	-5111	3155	-3622	3655	-876	1864	-3665	5854	-3971	-2889	-1842
9. Remittances	2498	-8163	-268	136	-413	526	-106	28999	-2503	-449	10221
10. Increase(-)/Decrease(+) in cash Balances	10632	-8441	11573	5476	-20148	-14485	-12721	-7124	6151	-8942	-2056

Annexure 13

Table: A13: Outstanding Liabilities of State Government

(Rupees in lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
A. Public Debt (1+2)	96177	123720	130213	140761	179561	195539	210348	225730	251727	273259	299788
1. Internal Debt	57321	81788	91594	101925	142309	161041	177321	198041	225871	249308	278441
i. Market Loan- SDLs	46421	55113	70043	82500	95577	112013	126762	145393	164560	176560	197415
ii. Compensation & other bonds	-	-	1399	1399	1399	1259	1119	979	839	700	560
iii. NSSF	-	-	-	-	25662	27887	28768	29349	35492	44474	49188
iv. WMA from RBI	-	10319	-	-	-	-	-	-	-	-	-
v. Loans from LIC	258	229	200	172	144	117	90	65	52	41	30
vi. Loans from GIC	161	145	129	119	112	100	90	81	71	62	54
vii. Loans from NABARD	4064	4914	6317	2660	4041	5835	8128	11352	15847	19953	25378
viii. Loans from NCDC	552	749	895	857	793	666	700	525	517	373	256
ix. Loans from HUDCO	5723	10319	12611	14218	14581	13164	11664	10297	8493	7145	5560
x. Loans from Peerless Calcutta	142	-	-	-	-	-	-	-	-	-	-
2. Loans & Advances from the Centre	38856	41932	38619	38836	37252	34498	33027	27689	25856	23951	21347
B. Provident Funds Etc.	26596	33104	41252	50327	34664	38295	42878	47436	54201	62631	73139
C. Reserve Funds	1206	1448	1264	4506	1080	2250	1315	1335	2036	1622	3051
D. Deposit & Advances	29563	34793	22507	24284	40444	40078	59531	82796	72296	71315	133052
E. Contingency Fund	600	600	600	600	600	600	600	600	600	10500	10500
Total	154142	193665	195836	220478	256349	276762	314672	357897	380860	419327	519530

Annexure 14

Table A14: Guarantees Given By State Government

Maximum amount guaranteed							
	Power	MGCCL	Coop	MNDCL	MSHB	Others	Total (Rs. In lakh)
	(in percentage)						
2011-12	100185	100	-	-	-	-	100285
2010-11	94049	100	365	-	-	365	94879
2009-10	102049	100	693	492	-	-	103334
2008-09	102049	100	2208	517	3345	100	108319
2007-08	89581	100	1700	-	3345	690	95416
2006-07	51761	100	763	233	3345	-	56202
2005-06	45261	100	838	233	3345	690	50467
2004-05	37261	100	838	233	-	-	38432
Outstanding amount guaranteed							
	Power	MGCCL	Coop	MNDCL	MSHB	Other	Total (Rs. In lakh)
	(n percentage)						
2011-12	129220	100	-	-	-	-	129320
2010-11	110146	100	415	-	-	515	111176
2009-10	94569	100	521	184	-	-	95374
2008-09	94425	100	2329	517	1554	1	98926
2007-08	70733	100	553	1157	1554	966	75063
2006-07	37364	100	962	961	4193	-	43580
2005-06	33299	100	900	775	4500	864	40438
2004-05	32223	100	882	513	-	-	33718

Annexure 15

Table A15: Revenue Receipts of KHADC

(Rupees in lakh)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1.Taxes on Profession, trades, etc	187.1	189.8	208.6	211.5	237.3	265.2	316.0	355.0	416.3	592.6	715.7
2.Revenue from toll Gate	44.5	80.8	135.9	12.4	26.6	20.1	11.2	8.5	6.7	10.4	3.9
3. Trades	19.8	24.5	26.1	32.0	44.4	75.5	87.4	58.2	77.2	69.3	125.8
4.Forest	30.7	14.7	75.5	40.9	85.0	115.8	111.5	106.5	73.9	72.8	98.3
5.Land Revenue	8.9	4.9	4.1	7.1	16.5	1.7	5.6	1.4	13.4	13.9	15.7
6.Administration of Justice	3.0	2.4	4.1	5.3	6.3	8.4	9.3	12.8	13.4	20.8	23.6
7.Markets	4.0	3.7	5.5	1.8	3.8	5.0	1.9	5.7	3.4	5.5	7.1
8.Stationary & Printing	1.0	1.2	1.4	1.8	2.5	0.0	0.0	2.8	10.1	1.4	0.8
9.Civil Works & development	2.0	2.4	2.7	7.1	11.4	3.4	5.6	12.8	6.7	3.5	7.9
10.Miscellaneous Receipts	14.8	12.2	22.0	16.0	21.6	21.8	37.2	34.1	53.7	45.1	47.2
11.Royalty from minerals	333.5	192.2	212.8	707.2	591.3	595.8	676.6	380.6	1413.5	1549.1	912.3
12. Share of motor vehicle tax	96.0	8.6	28.8	42.6	49.5	48.7	50.2	215.9	40.3	0.0	59.0
13. Grants-in-aid And Contributions	244.5	686.8	645.1	691.2	172.6	516.9	546.5	225.8	1228.9	1081.2	1915.1
Total	989.7	1224.3	1372.6	1776.9	1268.9	1678.3	1858.7	1420.1	3357.6	3465.5	3932.4

Annexure 16

Table A16: Revenue Receipts of GHADC

(Rupees in lakh)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
1.Land Revenue	111.3	101.6	148.6	131.5	147.1	138.8	262.9	248.3
2.Taxes on Profession, trades, etc	54.2	94.4	73.5	56.7	76.1	129.8	121.4	147.5
3. Forest	44.7	20.6	23.4	18.1	36.3	19.8	28.9	32.0
4. Taxation	21.9	24.2	33.4	29.5	71.0	28.8	28.9	44.3
5. Water Tax	4.8	2.4	5.0	3.4	3.5	5.4	5.8	2.5
6. Rural Administration	1.9	2.4	3.3	3.4	3.5	3.6	5.8	4.9
7. Administration Of Justice	0.0	1.2	0.0	1.1	0.0	0.0	0.0	0.0
8. Loans	1.0	1.2	6.7	6.8	5.2	0.0	312.0	540.9
9. Miscellaneous Receipts	3.8	3.6	0.0	0.0	3.5	0.0	5.8	2.5
10. Share of royalty on Minerals	303.4	313.4	564.5	710.8	692.2	589.3	1109.5	693.4
11. Share on motor vehicle Tax	45.7	19.4	28.4	28.3	31.1	34.2	184.9	49.2
12.Transfers And Grants	358.6	625.6	783.3	144.0	661.1	852.4	823.5	693.4
Total	951.2	1210	1670.2	1133.6	1730.5	1802.2	2889.3	2458.7

Annexure 17

Table A17: Revenue Receipts of JHADC

(Rupees in lakh)

	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09
1.Toll And Taxes on Motor Vehicles	53.2	63.6	51.7	62.8	96.1	70.7	84.5	71.4
2.Taxes on Profession, Trade, etc	31.9	33.1	28.3	29.0	46.6	51.4	54.7	83.4
3.Forest	22.6	2.7	45.0	83.8	14.6	22.5	22.4	29.8
4.Markets	10.6	10.6	25.0	20.9	29.1	22.5	22.4	32.7
5. Trades	10.6	4.0	10.0	4.8	23.3	22.5	34.8	26.8
6.Interest On Investments & Department P/L Accounts	9.3	5.3	18.3	6.4	8.7	25.7	173.9	11.9
7.Land Revenue and Land Settlement	5.3	4.0	6.7	11.3	17.5	16.1	9.9	29.8
8.Fisheries	2.7	1.3	5.0	1.6	2.9	3.2	2.5	3.0
9.Administration of Justice	1.3	1.3	0.0	1.6	2.9	3.2	5.0	8.9
10.Stamp And Registration	1.3	1.3	1.7	3.2	2.9	3.2	2.5	3.0
11.Miscellaneous Receipts	4.0	2.7	3.3	6.4	17.5	45.0	22.4	32.7
12.Royalty from Minerals	1031.5	1087.2	1204.8	1139.3	2566.2	2730.5	1841.0	2530.5
13.Share of Motor Vehicle Tax	12.0	21.2	5.0	6.4	17.5	16.1	19.9	0.0
14. Government Grant-In-Aid	132.9	87.5	261.6	233.7	67.0	179.9	188.8	113.1
Total	1329.2	1325.8	1666.4	1611.4	2912.8	3212.4	2484.5	2977

Annexure 18

Table A18: Comparative Expenditure on subsidies

(Amount in lakh)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. A.H and Vety Department	103	80	197	189	71	52	114
2. Agriculture Department	9	231	59	0.7	200	122	195
3. Fisheries Department	15	286	12	12	369	3719	89
4. Food and Civil Supplies and Consumers Affairs	114	118	147	147	147	147	165
5. Power (Electricity) Department	1080	2415	3280	1170	1784	1312	1329
6. Transport Department	280	300	310	283	338	351	400
Total	1601	3430	4005	1802	2909	5749	2292

Appendix 1

TOR1:

i. Estimation of revenue (tax) capacities of the state
ii. Measures to improve the tax-GSDP ratio in the last five years
iii. Suggestion to improve the revenue productivity of the tax system

TOR 2:

i. Analysis of state's own non-tax revenues
ii. Suggestions to enhance revenues from (a) user charges (b) profits from departmental enterprises (c) dividends from non-departmental commercial enterprises

TOR 3:

i. Expenditure pattern and trends of major components of expenditure under (a) Non-Plan and Plan (b) Revenue and Capital
ii. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years.
iii. Suggestions for improving efficiency in public spending

TOR 4:

i. Revenue deficit
ii. Fiscal deficit
iii. Primary deficit
iv. Balance of Current Revenues for Plan financing

TOR 5.

i. Composition and trends of state's liabilities
ii. Uses of borrowings- capital expenditure or otherwise

TOR 6.

i. Implementation of MFRBM Act and commitment towards targets
ii. Analysis of MTFP of various departments and aggregate

TOR 7.

i. Transfers to urban bodies
ii. Transfers and rural local bodies
iii. Major decentralisation initiatives
iv. Reforms undertaken under JNNURM conditionalities

TOR 8.

i. State PSE Finances
ii. Impact of State PSE Finances on state's fiscal condition
iii. Reforms of state PSE

TOR 9.

i. Public Expenditure and Financial Management (PEFM) Reforms

TOR 10.

i. Power sector finances
ii. Impact of State PSE Finances on state's fiscal condition
iii. Power Sector Reforms

TOR 11.

i. Analysis of contingent liabilities of the state

TOR 12.

i. State subsidy- targeting and evaluation