

# **STATE FINANCES OF MEGHALAYA**

**Outcome Evaluation of State Finance in the Context of  
Recommendations of the Finance Commission: Determination of a  
Sustainable Debt Roadmap for 2020-2025**



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## **Executive Summary**

### **Background**

The state governments play an instrumental role in delivering several functions assigned under the Constitution. As there are often insufficient non-debt receipts, states resort to various borrowings to deliver on these functions. If not utilised efficiently and effectively, and if it crosses a certain limit, the debt liabilities could adversely affect the macroeconomic stability as well as fiscal stability of the states. Therefore, maintaining fiscal discipline becomes obligatory from the perspective of sustainable economic growth while ensuring adequate funding of economic and social services. However, states suffer from various deficiencies such as low revenue mobilisation, limited resource base, unhealthy expenditure patterns, budgetary deficits and other structural deficiencies. With the enactment of fiscal consolidation initiatives such as Fiscal Responsibility and Budget Management (FRBM) Acts at the state level, and debt relief measures by the Central government, the states experienced improvement in fiscal position. Fourteenth Finance Commission set the targets for fiscal deficit and state liabilities among other deficit indicators to ensure sustainable debt position for the states.

Meghalaya is a special category status state in the North-Eastern Region of India with low own revenue mobilisation, limited resources, increasing fiscal stress, and mounting outstanding liabilities. The state has witnessed rise in revenue expenditure, but capital expenditure bears the brunt of fiscal consolidation initiatives. With the enactment of Goods and Services Tax (GST), the state has experienced some initial troubles because of lack of digital literacy and public awareness in the state.

It is against this backdrop that the present study assesses the issue of debt sustainability for the state of Meghalaya. The objectives of the study are: (a) to assess of fiscal position of the state, (b) to identify causes and necessary policy initiatives to subdue the fiscal stress of Meghalaya,

(c) to identify the best policies and practices for better fiscal management of the state. Our analysis shows that there rise in fiscal stress but it is under control, there is progressive decline in interest payments indicator, there are markedly increasing outstanding liabilities, and there is time-trend stationarity of state's debt as well as revenue and expenditure, indicating sustainable behaviour in the long-run.

### **Results of Analysis**

The ratio of central transfers as percent of GSDP has increased from 19.2 percent in 2006-07 to 24.9 percent in 2016-17. After the Fourteenth Finance Commission recommendations, the share of central transfers has increased from 23.2 percent in 2010-11 to 24.9 percent in 2016-17. However, central transfers in terms of gross tax revenue has decreased from 0.45 percent in 2010-11 to 0.41 percent in 2016-17.

The implementation of GST will bring better and easier tax administration, increase the tax base, and improve revenue efficiency. Uniformity in tax rates and processes will enable an increase in shareable pool of resources, resulting in larger central transfers and increase in development expenditure. This outcome of additional revenue will ensure debt sustainability for the state in the long-run. However, the immediate effect of GST implementation in the state resulted in low return filing, low participation rate, and slowdown in revenue collection due to lack of digital literacy and awareness.

On the revenue receipts side, the own tax revenue as percentage of GSDP has decreased from 22.8 percent in 2006-07 to 20.9 percent in 2016-17. In terms of revenue raised by the state, the non-tax revenue performance has remained dismal during the time-period. The test of Buoyancy for various revenue heads show less than unity coefficient for non-tax revenue of the state. For the year 2016-17, the non-tax revenue of the state was 36.5 percent of total state revenue in comparison to 37.6 percent in the year 2006-07. In own tax revenue of the state,



Taxes on sales and trades, has year on year growth of 14.7 percent while year on year growth of own tax revenue has been 12.7 percent. For the year 2016-17, share of net proceeds of divisible Union taxes and duties was 55.3 percent of the total central transfers whereas the remaining 44.7 percent was grants-in-aid for the state.

On the expenditure side, revenue expenditure has remained approximately around 85 percent while capital expenditure has remained around 15 percent. For the year 2016-17, the year on year growth of total capital expenditure was negative of 13.6 percent whereas that of revenue expenditure was 12.8 percent. Development expenditure of the state has increased from 67.7 percent in 2006-07 to 73.4 percent in 2015-16. However, for the year 2016-17, the non-development expenditure overshoot development expenditure.

Our analysis indicates that the total outstanding liabilities of the state has increased over the time period from 2006-07 to 2016-17. Particularly in the year 2016-17, the year on year growth of outstanding liabilities was 25.5 percent which was the highest ever during the time-period. In terms of ratio of total outstanding liabilities to GSDP, it has decreased from 32 percent in 2006-07 to 30.4 percent in 2016-17. However, 2012-13 onwards, there is an increasing trend in the total outstanding liabilities of the state.

The state has enjoyed revenue surplus during the time period of this study except in for the year 2011-12. Fiscal deficit as percent of GSDP has increased from 0.87 percent in 2006-07 to 2.37 percent in 2016-17. However, fiscal deficit is currently under control from the perspectives of Fourteenth Finance Commission recommendations as well as MFRBM Act. During this time-period, Primary deficit as percent of GSDP has changed from the surplus of 1.5 percent in 2006-07 to 0.62 percent in 2016-17.

Our analysis on the State Public Sector Undertakings (SPSUs) shows signs of concerns for the state. Out of 15 SPSUs in the state, only one SPSU is indicating accumulated account of profit

at the end of year 2016-17. This distress is aggravated by the power sector SPSUs in the state. The power sector SPSUs bear the accumulated loss of 1836 crores, which is 6.5 percent of GSDP. However, six SPSUs including one power sector SPSU have shown account of profit in the year 2016-17 which comes as the only positive indicator from SPSUs. This dismal performance of SPSUs brings medium term fiscal risks for the state of Meghalaya.

The indicator-based analysis of the debt sustainability of the state shows some stress in the recent years. The rate of growth of outstanding liabilities is higher than the rate of growth of GSDP, which is undesirable. However, in outstanding liabilities in terms of revenue receipts has decreased from 1.29 percent in 2006-07 to 1.0 percent in 2016-17. In the similar vein, the interest payments as percent of GSDP has increased while interest payments as percent of revenue receipts has decreased in the recent years. The state is experiencing primary balance deficit as percent of GSDP throughout the time-period, increasing from 0.34 percent in 2015-16 to 0.62 percent in 2016-17. Revenue receipts as percent of GSDP has increased from 24.8 percent in 2006-07 to 31.4 percent in 2016-17. The study also applied statistical technique of unit root test to examine the debt sustainability of the state. The Augmented Dickey Fuller test is applied to test the stationarity properties of state's debt, revenue, and expenditure in level as well as first difference. The confirmation of stationarity properties of all the three variables indicate the property of mean reversion after temporary shocks.

### **Policy Recommendations**

Mining receipts are the major head of non-tax revenue generation for the state. Considering the significant drop in the mining receipts, the state government should focus on building alternative avenues of non-tax revenues such as sale of lotteries, and other general services. Leasing of other minor minerals sources should be considered seriously by the state to ensure alternate sources of non-tax revenue through royalties.

There is immediate need to address the emerging issues of livelihoods loss in the region, which has come due to ban on mining, such as displacements and social unrest. The state government should bring impetus to community development initiatives in such regions by collaborating with national as well as international bodies such as The World Bank.

There is considerable potential of increasing revenue and livelihoods through tourism, particularly medical tourism and eco-tourism, in the state. The state should take serious efforts to ensure the development of tourism and hospitality sector by bringing a comprehensive policy and supporting infrastructure.

The state should focus on boosting the primary sector based economic activities since majority of state population depends directly or indirectly in activities like farming, fisheries, and other allied activities.

There is a very small share of revenue from the sale of state lotteries in the state. The state government should strengthen, and expand the sale of lotteries to increase the non-tax revenue.

With the increase in share of central transfers as per Fourteenth Finance Commission recommendations, the state gets greater fiscal autonomy in terms of expenditure management and enhanced fiscal space. The state government should bring policy convergence and improve partnerships among various stakeholders, particularly in the livelihood generation missions such as MGNREGS and NRLM (National Rural Livelihood Mission) to ensure effective implementation, and to avoid expenditure overruns.

Capital expenditure has remained around 5 percent of the GSDP throughout the time period. The state should set priorities in policies to increase the share of capital expenditure and outlay, particularly on such social services projects wherein community welfare exceeds economic costs.

A significant share of revenue expenditure is taken away by salaries and pensions. The state government should explore the possibility of public-private partnerships and outsourcing as the alternative modes of functioning.

Review, consolidate and update the recent reform in tax administration of GST in the state. The state should strengthen the enforcement machinery to ensure that the tax reform become effective and efficient, and thus contribute to additional revenue. The state should also engage in building awareness and improving digital literacy to increase return filings and avoid exploitations.

The prevalence of community land holdings as the land tenure system of the state is casting many problems such as low land revenues, absence of land records or cadastral maps, and complex ownerships laws. The state should take necessary actions to ensure comprehensive documentations, and registrations to curb illegal practices and disputes, and improve the traditional governance system.

The loans and advances guarantee extended to the state government should be based on adequate cost-benefit analysis, and after a proper performance evaluation to avoid the additional fiscal burden.

There are three types of financial stakes in SPSUs in the form of guarantees for the repayment of the loans with interest taken by the SPSUs, provides grants, subsidies and financial assistance through loans. The distress status of SPSUs, particularly the power sector, brings the medium-term debt sustainability risks since there is increasing fiscal liabilities, and there is mounting fiscal liabilities. The state should conduct a comprehensive performance evaluation examination of these SPSUs, and take appropriate actions to curb the aggravating incurring loss.

The state of Meghalaya has transitioned in the last few decades from power surplus to power deficit state. The primary reason being increased demand for power. This had an adverse impact on the economy of the state by piling up of debt. The state has high potential in alternative energy sources such as hydro and other renewable energy. Attempts and investments to achieve the potential will lead to socio-economic benefits to the state.

The state is experiencing frictions on some instances with the three Autonomous District Councils constituted under the Sixth Schedule of the Constitution to protect and promote the unique customs and traditions in their respective areas. The CAG reports have shed lights on several issues such as misappropriation of funds, financial reporting, and irregularity in maintenance of records. The state of Meghalaya needs to bring a comprehensive policy review and necessary restructuring for these three councils to bring better partnerships for development and preservation of tribal traditions.

The state government should strengthen the internal control mechanisms to mitigate leakages and misappropriations of funds. The state should ensure proper financial reporting by recipients of any grants through timely submission of utilization certificates.

The state needs to focus on fiscal consolidation path by taking several measures such as expenditure rationalisation, cutting down on unnecessary administrative costs and levying additional user charges.

# **1. Introduction**

## **1.1 Scope of the Study**

The present study commissioned by the Fifteenth Finance Commission examines the state of public finances of Meghalaya as part of ‘Outcome Evaluation of State Finance in the Context of Recommendations of the Finance Commission: Determination of a Sustainable Debt Roadmap.’ This study examines the state of public finances of Meghalaya covering the time period from 2006-07 to 2016-17 through evaluation methods explained in the following section.

The study focuses on the state of Meghalaya and analyses the overall state’s finances over the ten-year period from 2006-7 to 2016-17. The study investigates whether Meghalaya’s fiscal situation has improved or deteriorated over the years. We explore the state’s fiscal situation by analysing its fiscal imbalances, revenue, and expenditure performance. We begin with Descriptive Analysis of the state finances of Meghalaya. The study employs trend analysis, ratio analysis, growth rates and period averages to examine the trends in fiscal performance. The fiscal imbalance is most popularly measured by fiscal deficit in India. It is generally defined as the total expenditure of the government minus all non-borrowed receipts. Most states in India rely on market borrowings, loans from the Centre, special securities issued to National Small Savings Fund (NSSF), small savings, loans from financial institutions, reserve funds, loans from RBI, and other deposits and advances to finance the fiscal deficit. Another important area of study should be revenue deficit. Prudent fiscal management requires revenue deficit to be zero as the government should not be borrowing funds to finance its current or revenue expenditure. These indicate the dependence of the government on borrowings. Therefore, it becomes pertinent to examine whether the level of debt is sustainable. This study applied statistical techniques wherever required. The empirical procedures will be described in the

relevant chapters that present the analysis. More precisely, the study incorporates assessment of fiscal position of Meghalaya. The changing trends in composition of revenue receipts, central transfers, plan transfers have been examined. The study looks into Meghalaya's own tax revenues, and its growth performance, and Tax Buoyancy of the different tax revenues. Similarly, light is shed upon non-tax revenue and its growth performance, changes in public expenditure, revenue expenditure and capital expenditure, changes in their structure and trends. The study then analysed the present status of State PSUs creating their financial profile and health along with the total budgeted subsidy for the various SPSUs. The final section deals with the analysis of the conditions of the state finances using various methods such as unit root test and Indicator-based analysis to create recommendations for a sustainable debt roadmap for the state.

The study is based on secondary data as obtained from the website of Comptroller and Auditor General of India; the various publications of Reserve Bank of India; official and budget documents of the Meghalaya government. As required, the data was supplemented with additional information from publications of various departments of the state and central government and, wherever necessary, by interviewing and consulting additional sources in state and central government.

## **1.2 Demographic Features and Socio-Economics Characteristics**

Meghalaya became an autonomous state on 2nd April 1970 and a full-fledged State on 21st January 1972 by being carved out of Assam. Meghalaya extends for about 300 kilometres in length and about 100 kilometres in breadth and lies between 24.58' N to 26.07'N latitudes and 89.48'E to 92.51' E longitudes. It is bounded on the north by Goalpara, Kamrup and Nowgong districts, on the east by Karbi Anglong, and North Cachar Hills districts, all of Assam, and on the south and west by Bangladesh.

Since attaining statehood, the administrative units of the state have been reorganised many times. Currently, Meghalaya has 11 districts and 46 blocks. The state is predominantly inhabited by tribal 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. The tables 1.1 and 1.2 below show the geographic and Demographic, Health and Income Stats of Meghalaya respectively.

Meghalaya has had a local government system in the form of autonomous district councils (ADCs) since the Constitution came into force. Meghalaya has 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). 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. The powers and functions of the autonomous councils are wide ranging and include legislative, judicial, executive and financial powers, 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. All the three ADCs are in poor financial health. 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 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.



### **1.3 Local Bodies and ADCs**

Meghalaya comes under the sixth schedule of the constitution which has provisions for the administration in the tribal areas through autonomous councils and regions. Meghalaya has three distinct autonomous areas represented by three autonomous district councils (ADCs). Table 1.3 gives the analysis of various expenditure heads of the autonomous district council of Meghalaya for the year 2017-18. The total expenditure for the Jaintia Hills ADC for 2017-18 was around 129 crores, of which 15 crores was administration cost, 46 crores was on civil works and 17 crores was on political services. The expenditure is low for the judicial services and for agriculture and allied activities. The state is experiencing frictions on some instances with the three Autonomous District Councils constituted under the Sixth Schedule of the Constitution to protect and promote the unique customs and traditions in their respective areas. The CAG reports have shed lights on several issues such as misappropriation of funds, financial reporting, and irregularity in maintenance of records. The state of Meghalaya needs to bring a comprehensive policy review and necessary restructuring for these three councils.

There are six municipality boards in the state of Meghalaya; Shillong Municipal Board, Tura Municipal Board, Jowai Municipal Board, Williamnagar Municipal Board, Baghmara Municipal Board, and Resubelpara Municipal Board. Tura Municipal Board is the biggest and Resubelpara Municipal Board is the smallest board in terms of area covered in the state. Table 1.4 gives the analysis of various expenditure heads of the municipalities of Meghalaya from the year 2010-11 to 2024-2025. The large share of expenditure is directed towards the salaries and wages for employees and for the maintenance expenditure. The expenditure is low for capital expenditure heads such as community assets and welfare expenditures.

Table 1.5 provides the state of accounts and state of employees for the Panchayati Raj Institutions (PRIs) under the three ADCs. As it is evident from the table, there is no latest data

for accounts are available for Garo Hills ADC and only till 2010-11 for Jaintia Hills ADC. For the Garo Hills ADC and Khasi Hills ADC, the audits have remained incomplete for a long time. The status of employee status is however updated for Khasi and Jaintia Hills ADCs only.

Table 1.1: Geographic Stats of Meghalaya

Particulars	Description
Area	22,429 Square Kilo metre
Capital	Shillong
Language	Khasi, Pnar, Garo & English
Density	132 Per Square Kilo metre
Literacy	75.48 %

Source: Census 2011, Government of Meghalaya

Table 1.2: Demographic, Health and Income Status of Meghalaya

<b>A. Demographic</b>	<b>2011</b>	<b>2001</b>
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>B. Health Indicators</b>	<b>2011</b>	<b>2001</b>
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)
<b>C. Income</b>	<b>2017-18</b>	<b>2011-12</b>
i. GSDP (constant 2011-12 prices. In crores)	24202(13010843)	19918(8736329)
ii. per capita GSDP (constant 2011-12 prices. In Rs)	70910(98867)	66304(71609)

Figures in the brackets are for all India

Sources: Census 2001 & 2011, Reserve Bank of India (RBI), Central Statistical Organization (CSO), Government of Meghalaya

Table 1.3: Functions / Services transferred to PRIs and Expenditures thereon (In lakhs)

<b>Name of function</b>	<b>Total Expenditure on the function</b>
(1) General Administration	1518.13
(2) Finance & Accounts	1173.42
(3) Land Revenue & Land Reforms	706.16
(4) Land Record & Land Settlement	378.33
(5) Taxation	297.82
(6) Forest	1209.61
(7) Political	298.66
(8) Civil works	4510.12
(9) Education	1495.17
(10) Art & Culture	88.85
(11) Market, Agriculture, Soil & Fishery	411.72
(12) Statistics & Information	96.35
(13) Stationery & Printing	87.24
(14) Planning	133.85
Total (Executive)	12405.43
(15) Legislative (Total)	317.23
(16) Judiciary (Total).	170.34
<b>Grand Total</b>	<b>12893.00</b>
N.B: The above information is provided as per functions that have been invested to Jaintia Hills Autonomous District Council under the Sixth Schedule to the Constitution of India	
****Data only of JHADC	

Source: Department of Finance (Economic Affairs), Meghalaya

Table 1.4: Expenditure of Municipalities in Meghalaya

<b>EXPENDITURE OF MUNICIPALITIES</b>																
								(Rs. In Lakhs)		Projections						
	Item	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
1	Establishment															
	a) Salaries & wages for employees	543.00	961.02	1096.00	1232.99	1429.12	1359.04	1390.06	1500.94	1657.37	1698.55	1751.38	1802.07	1857.06	1917.49	1970.13
	b) Pension etc. for employees						5.82	5.86	5.92	6.44	7.08	7.78	8.55	9.4	10.34	11.37
	c) Any other (Pl. specify)			6.15	33.50	6.25	6.50	24.74	21.16	166.38	183.02	201.32	221.45	243.59	267.94	294.73
2	Maintenance															
	(i) Water Supply									20.00	23.00	26.45	30.42	34.98	40.23	40.32
	(ii) Buildings/Community Assets	9.24	4.94	11.96	10.4	9.77	16.39	1.19	1.22	28.37	31.75	35.40	39.51	44.36	49.76	52.83
	(iii) Roads									30.00	33.00	36.45	40.42	44.98	50.23	50.32
	(iv) Other means of Communication									15.00	17.25	19.84	22.81	26.24	30.17	30.24
	(v) Street Lighting				51.60					56.00						
	(vi) Sanitation (incl. Strom Water Drainage and Solid Waste Management)	32.28			1218.00					80.00	81.20	93.38	107.39	123.50	142.02	142.82
	(vii) Any other maintenance Expenditure (Pl. specify)	254.00	260.00	264.00	178.00	189.00	196.00	198.00	200.00	225.00	233.00	241.45	252.42	260.98	268.23	270.23
3	Capital Expenditure															
	(i) Water Supply															
	(ii) Buildings/Community Assets	0.82	0.51	0.67	0.65	0.71	1.03	1.05	1.15	1.50	1.95	2.00	2.15	2.20	2.20	2.30
	(iii) Roads	1.50	0.64	0.68	0.95	0.97	1.50	1.75	1.85	2.15	2.50	2.60	2.65	2.65	2.30	2.25
	(iv) Other means of Communication															
	(v) Any other maintenance Expenditure	826.35	846.60	851.60	921.75	1002.80	372.90	114.20	102.30	802.40	902.50	1002.60	1202.70	1402.80	1502.90	1602.90

4	Welfare Expenditure for citizens															
	a) Education															
	b) Pensions															
	c) Health															
	d) Any other welfare expenditure for citizens	0.92	0.92	0.75	0.80	0.85	0.75	0.65	0.55	0.75	0.90	0.75	0.55	0.85	0.75	0.92
5	Any other (pl. specify)			37.00	27.00	20.00	40.00	30.00	32.00	35.00	37.00	40.00	42.00	44.00	46.00	48.00
	Total	1668.11	2074.63	2268.81	3675.64	2659.47	1999.93	1767.50	1867.09	3126.36	3252.70	3461.40	3775.09	4097.59	4330.56	4519.36

Source: Department of Finance (Economic Affairs), Meghalaya

Table 1.5: Status of accounts for ADCs

<b>Status of Accounts of PRIs</b>				
<b>Sl. No.</b>	<b>Items / Point</b>	<b>KHADC</b>	<b>JHADC</b>	<b>GHADC</b>
1	Authority who maintains the accounts of Jaintia Hills Autonomous District Council	Secretary Executive Committee KHADC	Finance Accounts Department, JHADC	Secretary Executive Committee GHADC
2	Whether revised formats revised by CAG adopted for accounting purpose	Yes	Yes	N/A
3	Latest year up to which accounts maintained	2012-13	2010-11	N/A
4	Details of Audit Accounting Authority	AG(Audit) Meghalaya	AG(Audit) Meghalaya	AG(Audit) Meghalaya
5	Latest year up to which audit completed	2012-13	Up to December 2015.	N/A
<b>Status of Employees census</b>				
<b>Sl. No.</b>	<b>Items / Point</b>	<b>KHADC</b>	<b>JHADC</b>	<b>GHADC</b>
1	Is Professional Tax levied	Yes	Yes	N/A
2	Does the PRIs/ADCs collect professional tax? If not, which agency does	Yes	Professional Tax collected by JHADC	N/A
3	List of Professional Tax payers available, up to which date the list has been updated	2016-17	Last updated to 2017-18	N/A
4	Are employers required to register themselves for payment of professional tax	Yes	Yes	N/A
5	Billing & Collection mechanism in place	Tax are paid through Treasury either by Cheque or Bank Draft and MRB (accounts of KHADC)	Challans, Demand Drafts, Cheques, pay Bills & Receipt Books	N/A
6	Details of Professional Tax collected	The rates of Tax, Profession, Calling etc. is under Meghalaya Profession, Trades, Calling & Employment Taxation Acts and Rules	Govt. Employees, School Teachers (Govt & Govt. aided Schools), JHADC Employees, Employees of Public Sector Undertakings, Bank Employees, Contractors, Shopkeepers and other types of callings, trades and employment	N/A

Source: Department of Finance (Economic Affairs), Meghalaya

## 2. Overview of State Finances

### 2.1 Overview of Fiscal Status

The state of Meghalaya is resource-scarce state and thus lion's share of state's finances comes from fiscal transfers of the Central government. The state comes under the special category status which entitles the state to additional special funding arrangements. The flow of central transfers comprises of plan and non-plan transfers. The recommendation of the Fourteenth Finance Commission increased the share of divisible pool of taxes from 32percent to 42percent which led to reduction in the conditional transfers to the state (divisible pool of taxes comprise all the taxes net of cess, surcharge and cost of tax collections). Table 2.1 illustrates an overview of the fiscal status of Meghalaya. On the revenue side, there is consistent rise in revenue collection recorded by the state. Revenue in 2016-17 was more than four-fold in comparison to that of 2006-07. However, the revenue to GSDP ratio declined for the years 2011-12 and 2014-15 due to decline in share of central transfers in total revenue. In terms of revenue to GSDP ratio, it has increased from 24.83 during 2006-07 to 31.42 during 2016-17. The high revenue to GSDP ratio has major contribution from the central transfers to the state. The revenue to GSDP ratio of central transfers was 19.16 during 2006-07 to 24.85 during 2016-17, with exceptional declines during 2011-12 and 2014-15. The share of own tax revenue to GSDP ratio remained around 4 percent whereas the own non-tax revenue remained around 2 percent with the exceptions during 2015-16 and 2016-17. In between the period, the revenue-GSDP ratio has increased to maximum of 29.12 during 2011-12 and declined to 24.20 during 2008-09. The own tax revenue-GSDP ratio has declined considerably in 2014-15 to 5.06 from the maximum of 7.06 in 2013-14. The revenue to GSDP ratio has remained steady during the last decade which raises doubts about the state efficiency in exploiting and mobilising its own revenues. Figure 2.1 shows the trend of own tax revenue, non-tax revenue, and central transfers



of the state for the years 2006-07 to 2016-17. The rise in revenue is primarily due to the high share of central transfers to the state.

On the expenditure side, the expenditure to GSDP ratio has increased from 25.9 percent during 2006-07 to 34.0 percent during 2016-17 (Table 2.1). The revenue accounts hold the major share of the expenditure to GSDP ratio while the capital accounts remained at 4 percent during this period. In terms of revenue expenditure to GSDP ratio, it has increased from 22.1 percent during 2006-07 to 29.3 percent during 2016-17. However, it shows the declining trend from 2012-13 to 2015-16 where it has come down from 28.1 percent in 2011-12 to 25.3 percent in 2015-16. The capital expenditure to GSDP ratio has increased from 3.8 percent during 2006-07 to 4.6 percent during 2016-17. The capital expenditure to GSDP ratio shows similar trends as that of revenue expenditure as it started to decline from 2012-13 to 2015-16.

The indicators of fiscal imbalances show mixed trends during this period. There remained a revenue surplus for the state throughout the period with an exception of 2011-12. The state had primary deficit except for 2006-07 and 2009-10. The fiscal deficit account increased consistently till 2011-12 and then showed mixed trends. The state had enjoyed the revenue surplus regime in most of the financial years during the period because of its special category status, availing the additional arrangements of fiscal transfers from the centre as grants. In terms of GSDP ratio, revenue account has decreased from the surplus of 2.72 percent during 2006-07 to 2.12 percent during 2016-17. The fiscal deficit has considerably increased from 0.87 percent during 2006-07 to 2.37 percent during 2016-17. The fiscal deficit reached the maximum level of 3.86 percent during 2014-15. The fiscal deficit has remained the concern for the state as it has shown signs of steady increase over the period. During the period, the indicators of fiscal imbalances show sharp increasing in the deficit level in 2011-12 and 2014-15 (see figure 2.2). The fiscal situation has begun to deteriorate in the preceding year as fiscal deficit has shoot up by 25 percent and primary deficit has almost doubled in the same period.

The composition of revenue receipts for the state of Meghalaya is given in table 2.2. The state is classified under special category status and thus central transfers constitute as the important source of revenue. The large share of central transfers in the overall revenue of the state makes it evident. The central transfers as the percentage of total revenue has increased from 77.2 during 2006-07 to 79.1 during 2016-17. Between this period, the share in total revenue crossed 80 percent mark during 2014-15 and 2015-16. In terms of own revenue as the percentage of total revenue accounts, the own tax revenue has decreased from 14.2 percent during 2006-07 to 13.3 percent during 2016-17 whereas the own non-tax revenue has decreased from 8.6 percent during 2006-07 to 7.7 percent during 2016-17. The own revenue as percent of total revenue has shown an increasing trend from 2011-12 to 2013-14. This increase in state's own revenue was because of increase in non-tax revenue of the state. During the period, revenue through mining receipts, and wildlife and forestry has increased substantially.

## **2.2 Share of Central transfers**

The constituents of central transfers comprising of central taxes, plan and non-plan grants is given in Table 2.3. The share of central taxes has increased significantly from 27.1 percent during 2006-07 to 55.3 percent during 2016-17. The share of central taxes has seen unprecedented rise from 2015-16, with an increase of around 30 percent from the preceding years. The share of non-plan grants has decreased from 28.6 percent during 2006-07 to 15.2 percent during 2016-17. In the share of Plan grants schemes, state plan schemes have the dominant share, which has, however, decreased from 34.4 percent of total central transfers during 2006-07 to 32.0 percent during 2016-17. The centrally sponsored schemes also share a significant part of the total central transfers, which has also decreased, from 6.5 percent during 2006-07 to 2.0 percent during 2016-17. The share of special plan schemes has come down from 2.8 percent during 2006-07 to 1.3 percent during 2016-17. In terms of total plan transfers to the state, Table 2.4 details the decomposition during the time period from 2008-09 to 2016-17.

The state plan schemes grew consistently from 958 crores in 2008-09 to 2264 crores in 2016-17. In the year 2015-16, state plan schemes dropped from 2580 crores in 2014-15 to 1240 crores in 2015-16. Central plan scheme was 223 crores in 2008-09 and grew steadily up to Rs. 1086 crores in the year 2013-14, but declined substantially thereafter to Rs. 252 crores in 2016-17. In terms of total plan transfers to the state of Meghalaya, the amount increased from Rs.1469 crores in 2008-09 and grew steadily to Rs. 5920 crores in the year 2014-15 but declined substantially to Rs. 3614 crores in 2015-16. Figure 2.3 shows the composition of central transfers in the state in percentage for the period from 2006-07 to 2016-17. The share of central taxes has grown significantly over the years whereas the share of plan as well as non-plan grants dropped, where plan grants have dropped more steeply.

Table 2.5 constituents of revenue receipts, plan grants and non-plan revenue expenditures and the table subsequently indicates the gap between revenue receipts (excluding plan grants) and the non-plan revenue expenditure. The gap for 2013-14 and 2014-15 was significant and negative, which is the indicator of the fact that there have been diversions from the plan grants. For the period 2015-16, the revenue receipts (excluding plan grants) was prodigious in comparison with non-plan revenue expenditures. However, from 2016-17, the division between the Plan and Non-Plan expenditure is dissolved.

### **2.3 Tourism and its growth potential in Meghalaya**

Tourism industry can stimulate state economy due to its multi-sectoral and labour-intensive aspects. Tourism provides avenues for direct and indirect employment, improved income levels and overall economic growth. Also, there can be positive impact on community empowerment, cultural enrichment and environment conservation through sustainable tourism. Figure 2.4 shows the number of Indian and foreign tourists visiting the state of Meghalaya for the time period 1999-2014. Since 2011, there is consistent rise in the number of tourists visit for Indian

as well as foreign tourists. The state government of Meghalaya has launched Tourism Policy 2011 as part of identifying the key areas of development for tourism industry in Meghalaya. Due to large forest cover, beautiful landscape and diverse wildlife, there is huge potential in the Eco-tourism for the state. There is one national park (Balpakram), one biosphere reserve (Nokrek) and wildlife sanctuary (Siju) in the Garo Hills region and another wildlife sanctuary (Nongkhylllem) in the Khasi Hills region. There is need to bring convergence among state tourism department, forest department and community institutions such as in Sacred Groves to explore the untapped potential in Eco-tourism. The unique cultural context, and diverse fair and festivals gives opportunities in cultural tourism. This can be done by bringing good governance model in terms of organising, advertising and connecting the themes in a well-defined and professional manner. For example, the Cherry blossom festival has received much of tourist attention and has become one main festival of the state. Shillong is known as the 'Rock Capital of India' for the sheer love and taste in music. Tourism can be developed in this regard by collaborating with the department of art and culture to organise music festivals. Apart from these avenues, the state tourism can explore the untapped potential in sports tourism such as paragliding, trekking and golf; health and wellness tourism for natural spa, rejuvenating treatments and yoga centres; and heritage tourism which has been the oldest form of tourism in India.

In view of limited opportunities of any other form of private investment picking up immediately in the state, due to several constraints, including huge infrastructural investment and other types of capital investment, tourism seems to be the only sector with huge potential. The sector can not only raise employment (both directly and indirectly) and income through tourism multiplier, but if planned in a proper manner by the government can be a crucial source of government revenue.

## **2.4 Impact of the Recommendations of Fourteenth Finance Commission**

The recommendations of the Fourteenth Finance Commission have been implemented from April 2015 for the subsequent five years. From the recommendations of Fourteenth Finance Commission as well as Union Budget 2015-16, the states have come under greater fiscal autonomy in terms of expenditure management and enhanced fiscal space due to increased tax devolution (Chakraborty, 2015). The Fourteenth Finance Commission came out with many new and innovative recommendations, such as removing the distinction between the Plan and Non-Plan expenditures, and also in the principles governing the grants-in-aid to the states. The Commission further recommended that tax devolution should be the principle route of resource transfers instead of grants-in-aid to the states, and therefore raised the tax devolution from 32 percent to 42 percent of the divisible pool. One of the preliminary evidences on the possible impact of such recommendations of the Commission was, an expected increase in central transfers as well as social sector expenditures (Choudhury et al., 2018). Table 2.6 illustrates the changing quantum of central transfers as percentage of Gross Tax Revenue (GTR) as well as GSDP during the period of Thirteenth and Fourteenth Finance Commission. Central transfer to the state has steadily increased the during the time period from 2010-11 to 2016-17. As percentage of GTR, central transfer has decreased by 8.9 percent during the time period of Thirteenth Finance Commission, while central transfer has increased by 3.9 percent during the time period from 2015-16 to 2016-17 of Fourteenth Finance Commission. However, the share has decreased from 0.45 percent in 2010-11 to 0.41 percent in 2016-17. As percentage of GSDP, the central transfers to the state has decreased by 4.9 percent during the time period of Thirteenth Finance Commission while central transfer has increased by 10.7 percent during the time period from 2015-16 to 2016-17 of Fourteenth Finance Commission. During this time period from 2010-11 to 2016-17, the share has increased from 23.23 percent in 2010-11 to 24.85 percent in 2016-17. Figure 2.5 highlights the comparative change in central transfers as

percentage of gross tax revenue, and GSDP. The positive impact of recommendations of Fourteenth Finance Commission is clearly indicated in terms of GSDP. However, in terms of gross tax revenue of the government, the central transfers to the state of Meghalaya has reduced from the 2010-11 levels. Central transfers as percentage of gross tax revenue has increased in the last two years, from the level of 2014-15.

## **2.5 Impact of Goods and Services Tax**

Goods and Services Tax (GST) had the nationwide rollout along with the state of Meghalaya from 1<sup>st</sup> July 2017. This new indirect tax regime has brought about comprehensive changes in the way tax on the supply of goods and services is collected and administered. However, the roll out faced some issues related to inefficient implementation. Revenue collection through GST was negatively hit in the state because of low filing of returns. One of the main reasons was lack adequate of digital literacy, making it difficult to file returns and make payments, particularly for the small tax payers. Consequently, some of these small tax payers took assistance from the tax professionals who took advantage of the situation and charged a very high fee for the services. This had resulted in low filing of returns, consequently affecting the revenue collection. As a result of this, the finance department of the state, set up facilitation centres in all the districts having the offices of the Superintendent of Taxes and organised various awareness programmes across the state. These centres helped and assisted the tax payers in different processes like registration, amendment of registration, cancellation of registration, submission of returns and payment of tax. It may be noted that the low percentage of return filing in the origin states also affect the revenue of the State as Integrated Goods and Services Tax (IGST) Settlement amount reduces when there is non-filing of returns by the suppliers in the State of origin. Table 2.7 show the comparative return filings of North Eastern States for selected months between July 2017 and March 2018. Following the initial technical glitches such as frequent crashes and issues in invoice matching in the Goods and Services Tax

Network (GSTN) system, also negatively affected the revenue collection of the state. Another factor in the revenue loss was due to the absence of the E-waybill. However, it is expected that with improved familiarity of tax payers with the processes and simplification of the return format, improved GSTN portal, and widening of tax net under GST will increase the revenue collection of the state.

**Table 2.1: Fiscal Position of Meghalaya (2006-07 to 2016-17)**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total revenue of which	2142	2441	2811	3447	4260	4654	5536	6267	6428	7044	8939
A. Own revenue	489	518	595	719	873	1066	1332	1547	1282	1286	1871
(i) Own tax revenue	305	319	369	444	571	698	847	949	939	1057	1186
(ii) Own Non-tax	184	199	225	275	302	368	485	598	343	229	685
B. Central transfers	1653	1923	2216	2728	3388	3589	4204	4719	5146	5758	7068
Total Expenditure	2234	2672	3264	3690	4629	5742	5955	6670	7427	7617	9658
of which											
(i) Revenue	1907	2254	2683	3182	4013	4835	5000	5552	6252	6348	8337
(ii) Capital	326	418	581	508	616	908	955	1118	1175	1269	1321
Revenue deficit	-235	-188	-128	-265	-248	180	-537	-715	-176	-695	-602
Primary deficit	-129	25	223	-8	84	780	81	11	573	89	177
Fiscal deficit	75	214	435	226	341	1065	395	382	978	555	699
<b>As percentage of GSDP</b>											
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total revenue of which											
A. Own revenue	5.67	5.32	5.12	5.66	5.99	5.35	6.09	6.74	5.52	4.95	6.58
(i) Own tax revenue	3.54	3.28	3.18	3.49	3.92	3.50	3.87	4.14	4.04	4.07	4.17
(ii) Own non-tax	2.13	2.04	1.94	2.16	2.07	1.85	2.22	2.61	1.48	0.88	2.41
B. Central transfers	19.17	19.75	19.08	21.47	23.23	18.02	19.22	20.57	22.15	22.17	24.85
Expenditure of which											
A. Revenue	22.11	23.15	23.10	25.04	27.52	24.27	22.86	24.20	26.91	24.45	29.31
B. Capital	3.78	4.29	5.00	4.00	4.22	4.56	4.37	4.87	5.06	4.89	4.64
Revenue deficit	-2.72	-1.93	-1.10	-2.09	-1.70	0.90	-2.46	-3.12	-0.76	-2.68	-2.04
Primary deficit	-1.50	0.26	1.92	-0.06	0.58	3.92	0.37	0.05	2.47	0.34	0.62
Fiscal deficit	0.87	2.20	3.74	1.78	2.34	5.35	1.81	1.67	4.21	2.14	2.37

Source: RBI annual publication and State Annual Reports CAG.



**Table 2.2: Composition of Revenue Receipts of Meghalaya (2006-07 to 2016-17) percent**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
A. Own Revenue	22.8	21.2	21.2	20.9	20.5	22.9	24.1	24.7	19.9	18.3	20.9
of which											
(i) Own Tax Revenue	14.2	13.1	13.1	12.9	13.4	15	15.3	15.1	14.6	15.0	13.3
ii) Own Non-Tax Revenue	8.6	8.2	8	8	7.1	7.9	8.8	9.5	5.3	3.3	7.7
B. Central Transfers	77.2	78.8	78.8	79.1	79.5	77.1	75.9	75.3	80.1	81.7	79.1

Source: RBI annual publication and State Annual Reports CAG

**Table 2.3: Composition of Central Transfers (2006-07 to 2016-17)**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
A. Share of Central Taxes	27.1	29.3	26.9	22.4	26.5	29.1	28.4	27.6	26.9	56.9	55.3
B. Non-Plan Grants	28.6	24	19.9	13.8	19.6	14.7	21.3	21.9	19.1	16.0	15.2
C. Plan grants Grants	44.4	46.7	53.3	63.7	53.9	56.2	50.3	66.4	57.5	31.4	35.6
(i) State Plan Schemes	34.4	33.6	43.2	51.1	42.1	47.4	41.6	43.4	50.1	21.5	32.0
(ii)Central Plan Schemes	0.7	0.2	0.4	1	0.4	0.5	0.4	0.7	0.2	4.7	0.3
(iii)Centrally Sponsored Scheme	6.5	9.3	7.2	9.2	9.3	6.8	6.4	7.6	5.7	3.4	2.0
(iv)NEC/ Special Plan scheme	2.8	3.6	2.5	2.4	2.1	1.6	2.0	14.7	1.5	1.7	1.3

Source: RBI annual publication and State Annual Reports CAG

**Table 2.4: Total Plan Transfers to Meghalaya (2008-09 to 2016-17)**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
A. State Plan Schemes	958	1395	1428	1703	1748	2046	2580	1240	2264
B. Central Plan Schemes	223	344	400	315	368	1086	380	567	252
C. Transfers through State Treasury (A+B)	1181	1738	1827	2017	2116	3132	2960	1807	2516
E. Total Plan Transfers	1469	2272	2625	2832	4232	6264	5920	3614	5032

Source: RBI annual publication and State Annual Reports CAG

**Table 2.5: Revenue Receipts & Non-Plan Revenue Expenditure (2006-07 to 2016-17)**

(In Crore)	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts	2142	2441	2811	3447	4261	4655	5536	6267	6428	7044	8939
Plan Grants	733	898	1181	1739	1827	2017	2116	3132	2960	1807	2516
Revenue Receipts (minus plan grants)	1409	1543	1630	1708	2434	2638	3420	3135	3468	5237	6423
NPRES*	1341	1532	1677	2135	2546	2876	3280	3703	4071	4308	#
Gap (3-4)	68	11	-47	-427	-112	-238	139.9	-568	-603	929.4	#

Source: RBI annual publication and State Annual Reports CAG

# from financial year 2016-17, division between plan and non-plan expenditure was foregone with

**Table 2.6: Impact of Recommendations of Finance Commissions on the State**

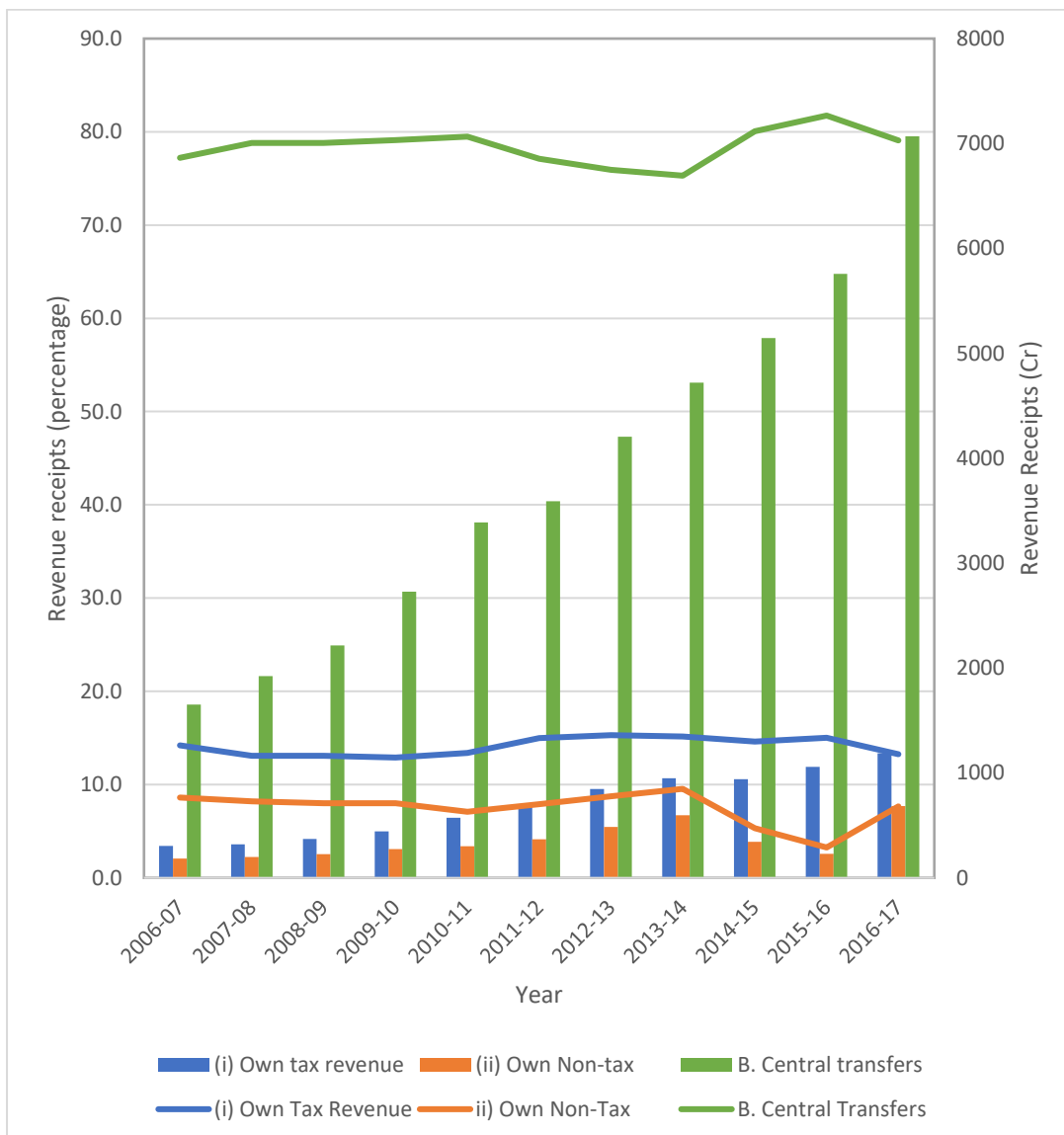
	Gross Tax Revenue (GTR)#	Central Transfer (CT)#	CT as % GTR	CT as % GSDP
2010-11	746651	3388	0.4538	23.23
2011-12	889118	3589	0.4037	18.02
2012-13	1036461	4204	0.4056	19.22
2013-14	1138996	4719	0.4143	20.57
2014-15	1245136	5146	0.4133	22.15
2015-16	1455891	5758	0.3955	22.17
2016-17	1715968	7068	0.4119	24.85

Source: RBI annual publication and State Annual Reports CAG

**Table 2.7: Return Filings After GST**

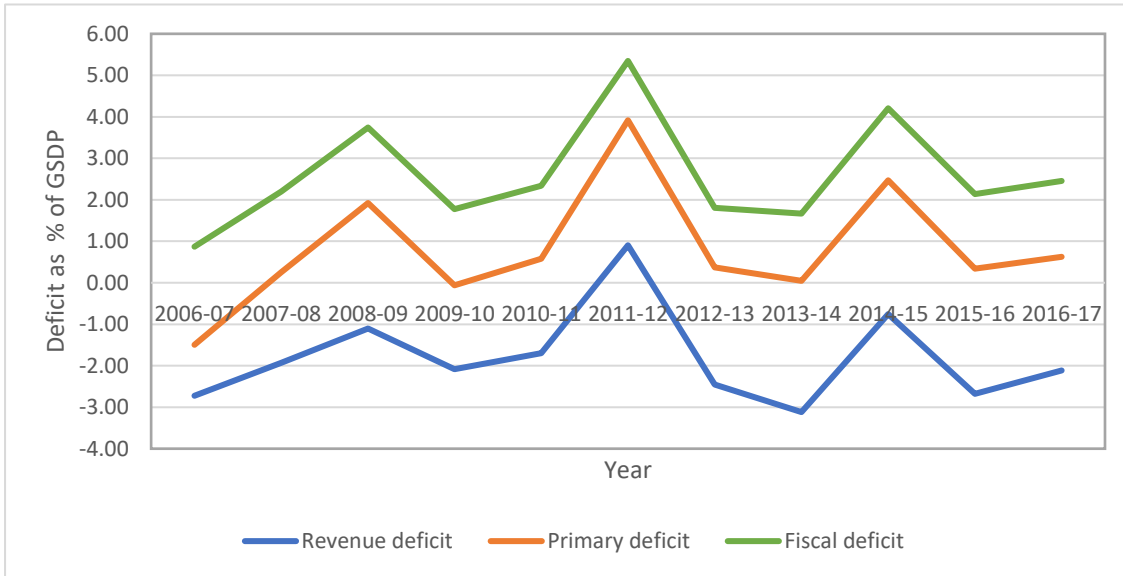
State	Jul-17	Sep-17	Dec-17	Mar-18
Meghalaya	81.38%	73.49%	61.97%	10.41%
Assam	83.24%	74.21%	63.13%	6.59%
Manipur	76.34%	64.39%	53.16%	5.55%
Mizoram	80.54%	70.41%	62.31%	9.16%
Nagaland	77.11%	65.17%	53.14%	6.44%
Tripura	89.01%	81.33%	70.16%	8.24%

Source: RBI annual publication and State Annual Reports CAG



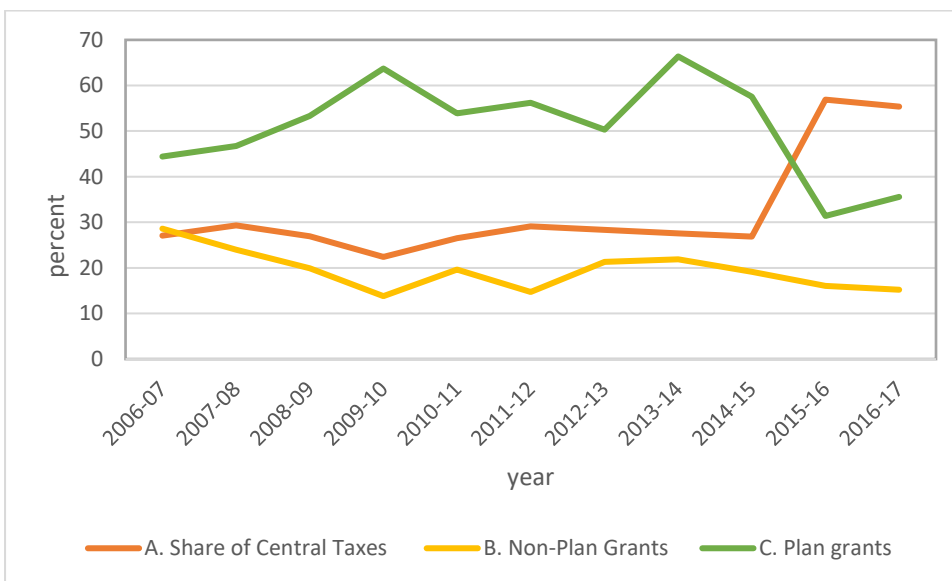
**Figure 2.1: Revenue Receipts of the State**

Source: RBI annual publication and State Annual Reports CAG



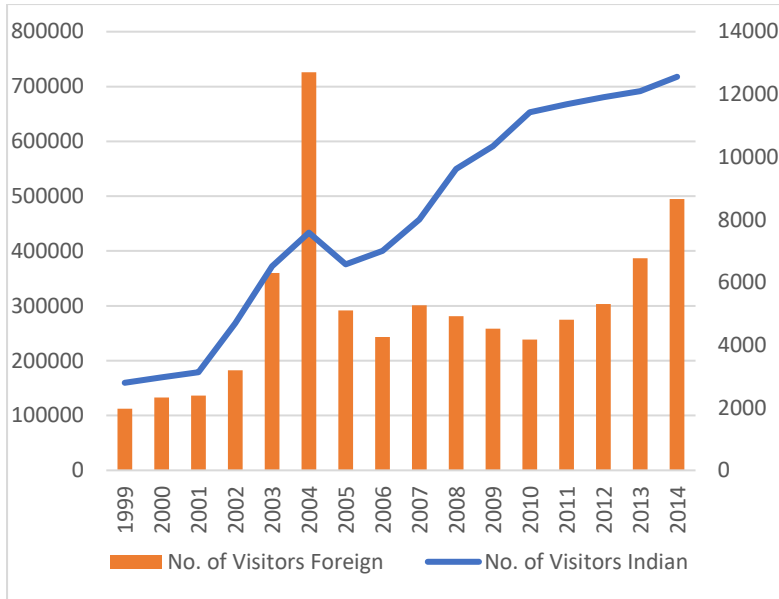
**Figure 2.2: Fiscal Parameters of the State**

Source: RBI annual publication and State Annual Reports CAG



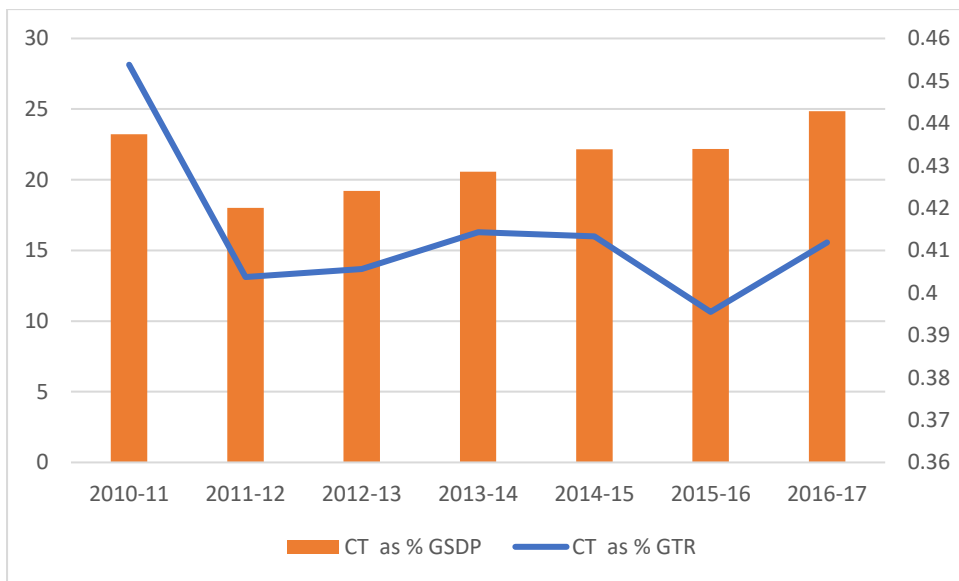
**Figure 2.3: Central Transfers of the State**

Source: RBI annual publication and State Annual Reports CAG



**Figure 2.4: Total Tourists Visiting Meghalaya;**

Source: Statistical Abstract Meghalaya, 2016



**Figure 2.5: Central Transfers as percent of GTR and GSDP**

Source: RBI annual publication and State Annual Reports CAG

### **3. Analysis of State Revenue**

#### **3.1 Trends and Issues in Own Tax Revenue**

The revenue receipts of the state comprise of tax and non-tax revenue raised by the state government, grants-in-aid received from the central government, and assigned share of net proceeds of divisible Union taxes and duties. The state of Meghalaya has weak revenue base and therefore state revenue contributes less than a quarter of total revenue receipts. Figure 3.1 shows the total revenue raised by the state during the time period 2006-07 to 2016-17. The revenue steadily increased during the time period except for the years 2014-15 and 2015-16. This was because of significant drop in the non-tax revenue of the state. The imposed ban by the National Green Tribunal (NGT) on coal mining has adversely affected the non-tax revenue of the state. Mining receipts, the major non-tax revenue head has dropped by almost 57 percent in 2014-15. There was a drop of 62 percent between the budget estimates and actual figures in the year 2014-15, which in turn has markedly increased the state fiscal deficit. Figure 3.2 shows total revenue received from the central government during the period 2006-07 to 2016-17. The central transfers have steadily increased over the years with significant jump in the share of net proceeds of divisible Union taxes and duties. Table 3.1 depicts the details of various revenue receipts with the corresponding figures for the time period 2006-07 to 2016-17. The percentage of revenue raised by the state government remained around 21 percent in the first half of the given time period, hit the peak in 2013-14 at 24.69 percent, and declined in 2014-15 and 2015-16. The table indicates that this decline in state revenue receipts was because of decline in non-tax revenue receipts of the state. Along with the decline in non-tax revenue due to ban imposition on coal mining, the state also experienced drop in few other revenue heads such as public works, police, and other administrative services. The revenue receipts from the central government has consistently and substantially risen during the corresponding period. Figure 3.3 shows the changing share in the composition of state revenue and central transfers. The

impact of recommendations from the Fourteenth Finance Commission can be comprehensively observed through the change in the composition of central transfers to the state. In the year 2015-16 and 2016-17, the proportion of grants-in-aid has diminished from the average of approximately 73 percent to 44 percent, whereas the share of net proceeds of divisible Union taxes and duties to the state has risen from approximately 27 percent to 56 percent.

The State's own-tax revenue comprises of land revenue, motor vehicles tax, taxes on sales and trades, state excise, betting tax, and other minor sources. Table 3.2 depicts the details of major heads of revenue receipts raised in the state with the corresponding figures for the time period 2006-07 to 2016-17. Figure 3.4 shows major revenue heads of own-tax revenue of the state. Taxes on sales and trades, and state excise are the two major source of state own-tax revenue receipts. The share of taxes on sales and trades has consistently increased from 70.8 percent in 2006-07 to 79.3 percent in 2016-17 whereas state excise has increased from 17.7 percent in 2006-17 to 20.3 percent in 2009-10 and then continuously decreased to 14.4 percent in 2016-17. The fall in state excise in recent years is due to the ban on sale of liquor based on new compliances which resulted in shutting down of many liquor shops, and in some cases, failure in renewal of licenses. The share of motor vehicles tax has increased from 3.1 percent in 2006-07 to 4.1 percent in 2016-17. The share of land revenue has decreased remarkably from 1.8 percent in 2006-07 to 0.1 percent in 2016-17. The reasons for such low land revenues are complex land ownership laws, absence of land records, and relevant documentations (Nongkynrih, 2014).

The growth performance of state own tax revenue and its major heads is given in table 3.3. The two major sources of state own tax revenue, taxes on sales and trades, and state excise have grown over the time period. The state excise has shown negative results for the year 2014-15 and 2016-17. This fall in state excise was because of ban on liquor shops in the state, and also due to NGT ban on coal mining. The growth rate for land revenue is showing negative results

during the time period. The growth performance of state own tax revenue has been mostly in negative for the year 2014-15. The fall in revenue can be significantly observed in state excise, land revenues, and taxes on electricity and duties. The NGT ban on coal mining has an indirect adverse effect on the overall state revenue of Meghalaya. The year on year growth performance of taxes on sales and trades, and motor vehicle tax have remained positive throughout the time period whereas all the major sources of state own tax revenue show negative trends for certain years during the time period.

The comparative assessment of tax revenue, own tax revenue, and grants-in-aid received from the central government to the state with other special category status states during this time period shows relatively low revenue mobilisation. The share of tax revenue for Meghalaya among all the special category status states has remained around 4.5 percent, of which own tax revenue around 3 percent, and grants-in-aid received from the central government to the state remained around above 5 percent. The own tax revenue of the state is considerably low in comparison with the other special category status states, and thus state needs to look for improving tax resources and tax base.

### **3.2 State Tax Buoyancy**

Many economies, through time, have attempted to bring economic growth by increasing public expenditure, on the assumption that rising income would raise revenues to keep the fiscal sustainability. However, many times such attempts have not been able to mobilise revenues by taxation as public expenditure increases, leading to borrowings. Such borrowings, internal and external, put the fiscal sustainability at risk. Therefore, it becomes important to measure whether the economic growth will raise enough revenue or not, by ensuring the fiscal sustainability in the long run. Tax buoyancy is a measure of responsiveness of revenue mobilisation, or how tax revenues change with respect to output. Tax Buoyancy is important



for policy formulation as it illustrates the role of revenue policies in keeping the fiscal sustainability in the long run. Tax buoyancy of one imply that one additional percent of GSDP would increase the tax revenue by one percent as well. Any value above one, imply that tax revenue increases more than GSDP, reducing fiscal deficit. For financial sustainability, tax buoyancy of value greater than one is the desirable feature. Tax buoyancy for any time period can be estimated by applying Ordinary Least Square (OLS) method. OLS method is used in this study to estimate tax buoyancy for the state of Meghalaya over the 2006-2016 time period. The equation for estimating the tax buoyancy may be represented as,

$$\ln(Rev) = \beta \cdot \ln(GSDP) + \varepsilon \quad (3.1)$$

Where, *Rev* is the tax revenue and *GSDP* is the GSDP of the state of Meghalaya for a given year, and  $\beta$  represents the tax buoyancy.

Table 3.4 depicts the calculated tax buoyancy for state's own tax revenue, state non-tax revenue, total revenue, taxes on sales and trades, state excise, land revenue, stamp duty, motor vehicle tax, and central government receipts. Tax buoyancy of one imply that Tax-GSDP ratio remain unchanged over the time period. The coefficients for all the revenue heads are positive and statistically significant except for land revenue. Tax buoyancy is lower than unity for state non-tax revenue and stamp duty. The buoyancy for taxes on sales and trades, and motor vehicle are very high. Buoyancy for state own tax revenue, state excise, and central government receipts are above unity. Buoyancy of central government receipts is higher than that of total revenue of the state.

### **3.3 Trends and Issues in Non-Tax Revenues**

The non-tax revenue of the state has dropped in a significant manner during the period of 2014-15 and 2015-16, resulting in lower revenue collection by the state government. Figure 3.5 shows the composition of non-tax revenue for the state. The major source of non-tax revenue

for the state is from mining receipts and from forestry and wildlife. The other important sources of non-tax revenue are interest receipts, crop husbandry, animal husbandry, and public works. The detailed composition of the state non-tax revenue is given in table 3.5 for the time period 2006-07 to 2016-17. Mining receipts is the biggest source of non-tax revenue for the state, which is revenue generated from the royalty of minerals. The share of mining receipts has gone up from 59.1 percent in 2006-07 to 72.1 percent in the year 2009-10, due to revision in the royalty rates. However, the share of mining receipts sharply dropped to 56.8 percent in 2014-15 and 26.6 percent in 2015-16, primarily due to imposition of ban on mining in the state. Forestry and wildlife, is another major source of non-tax revenue source for the state, as its share has strengthened from 9 percent in 2006-07 to 15.2 percent in 2016-17. However, during the time period 2007-08 to 2012-13, revenue through forestry and wildlife has consistently declined up to 6.4 percent. Revenue from interest receipts is another significant source of non-tax revenue generation for the state. The revenue collection through interest receipts in 2006-07 was 7.2 percent, which came down to 5.2 percent in 2012-13 and remained at 6.7 percent in 2016-17. Significant source of non-tax revenue comes from miscellaneous general services, which had share of 16.7 percent in 2006-07 but dropped down to 4.6 percent in 2016-17. The revenue collection from public works have come down from 2.8 percent in 2006-07 to 1.5 percent in 2016-17 while the revenue collection from medical and public health have come down from 0.6 percent in 2006-07 to 0.2 percent in 2016-17. The NGT ban on coal mining, and the Supreme Court ban on sale of liquor are the prime reasons for such shortfalls in the state revenue.

The growth performance of non-tax revenue of the state and its major heads is outlined in table 3.6. The growth rate for all the revenue heads has remained positive over the time period from 2006-07 to 2016-17, except for animal husbandry (for composition of non-tax revenue, see figure 3.5). The state provides many types of social services such as education, sports, art and

culture, water supply and sanitation, and medical and public health. There is wide range of economic services which is provided by the state such as animal and crop husbandry services, non-ferrous mining and metallurgical services, and forestry and wildlife services through various state departments, with the objective of promoting livelihood. The state is also engaged in a range of general services such as public works, state lotteries, and others. The growth rate of general services has remained considerably low, in comparison to economic services and social services. The low growth rate for general services can be attributed to the strong negative performance trend in the years 2007-08, 2009-10, 2013-14 and 2014-15. Forestry and wildlife has the maximum growth rate over the time period of 2007 to 2016-17. The growth rate for mining receipts is also high at 14.6 percent, with considerably very low growth performance during 2014-15 and 2015-16. Interest receipts is showing positive trend over the time period except for the year 2012-13. Public works has negative growth performance in the years 2007-08, 2013-14 and 2014-15. The growth rate of crop husbandry, and medical and public health have remained comparatively lower. Table 3.6 illustrates the wide variation in year on year growth rate for various revenue heads which has consequently affected the non-tax revenue collection of the state.

### **3.4 Enhancing revenue productivity of tax system**

The tax buoyancy analysis which is a measure of responsiveness of revenue mobilisation highlights that revenue productivity for the non-tax revenue and stamp duty is poor for the state. In addition, the land revenue in the state is showing ambiguous trend. The state needs to focus on improving the non-tax revenue avenues. One of the reasons for the drag in non-tax revenue is the poor performance of SPSUs. Another prime reason has been the imposed ban on mining, which has substantially reduced the state revenue. The state needs to take necessary steps to improve the performance of SPSUs and adopt necessary disinvestment policies to reduce the economic loss. The state should take necessary steps to put a case for resuming

mining taking care of the ecological and social damages. The state should take necessary steps for bringing land reforms as the land revenue and land records are in poor condition. Further, there are revenue shortfalls in the state after the implementation of the new tax reform, Goods and service tax (GST) due to several reasons. The state should strengthen the enforcement machinery to ensure that the tax reform becomes effective and efficient, and thus contribute to additional revenue. There is a very small share of revenue from the sale of state lotteries in the state. The state government should strengthen, and expand the sale of lotteries to increase the non-tax revenue.

In addition to the above, tax compliance and tax evasion has to be immediately controlled to improve the buoyancy of taxes in the state. Time period between the announcement of tax policies and their implementation has to be reduced. In its absence many loopholes are devised for tax evasion. Focus of tax reforms should not only be on equity but equal importance has to be given on increasing revenue through taxes. Another important area that needs immediate attention is to gear up the tax machinery for tax collection. In fact, the services to be provided by the state and the subsidies provided by the state government has to be linked up with the taxes that can be collected by the state machinery. It is therefore essential that the state has to emphasise more in working out the tax elasticity and tax buoyancy so that tax revenue can be an important source of government spending. Significant dependence only on one source of revenue, for instance revenue from coal mining activities as in Meghalaya has proved to be a big disaster for state revenue. In other words taxes which are influenced more by external factors over which the government cannot have much control should not be the major source of the state's revenue. Penalty for tax evasion can give a signal to tax evaders and improve the productivity of the state revenue. Automation of tax collection and emphasis on cashless and digital transaction may prevent such evasions to a large extent as well and improve the productivity of the state's revenue.

## Summary

Meghalaya has weak revenue base as it contributes less than a quarter of total revenue receipts. The revenue surplus is due to the central transfers have steadily increased over the years with significant jump in the share of net proceeds of divisible Union taxes and duties. Tax buoyancy is a measure of responsiveness of revenue mobilisation, and important for policy formulation as it illustrates the role of revenue policies in keeping the fiscal sustainability in the long run. Coefficients for all the revenue heads are positive and statistically significant except for land revenue. The reason is complex ownership laws along with local customary laws and traditional community ownership. Buoyancy for state own tax revenue, state excise, and central government receipts are above unity. Buoyancy of central government receipts is higher than that of total revenue of the state. Tax buoyancy is lower than unity for state non-tax revenue and stamp duty. Mining Receipts contributing royalty form a major part of non-tax revenue for Meghalaya. Imposition of NGT ban on coal mining led to large drop in mining receipts and share of mining receipts in non-tax revenue sharply dropped to 56.8 percent in 2014-15 and 26.6 percent in 2015-16. The state also experienced drop in few other revenue heads such as public works, police, and other administrative services. The decline in state revenue receipts was caused by decline in non-tax revenue receipts of the state.

**Table 3.1: Trends in Revenue Receipts**

Particulars	Crores										
	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Revenue Receipts	2142.2	2441.4	2810.6	3447.3	4260.5	4654.5	5532.3	6266.7	6428.3	7043.1	8939.0
<b>Revenue Raised by State Government</b>											
Tax Revenue	304.8	319.1	369.3	444.3	571.5	697.5	847.7	949.3	939.2	1056.8	1186.0
Non-Tax Revenue	184.4	199.4	225.3	275.1	301.5	368.2	484.9	598.2	343.3	228.6	685.2
Total	489.1	518.4	594.7	719.4	873.0	1065.8	1332.7	1547.4	1282.5	1285.4	1871.3
<b>Receipts from the Central Government</b>											
Share of net proceeds of divisible Union taxes and duties	447.2	564.1	595.3	612.4	896.3	1044.2	1192.5	1302.0	1381.7	3276.5	3911.1
Grants-in-aid	1205.9	1358.9	1620.7	2115.6	2491.2	2544.5	3011.2	3417.3	3764.1	2481.3	3156.7
Total	1653.1	1923.0	2216.0	2728.0	3387.5	3588.7	4203.7	4719.3	5145.8	5757.7	7067.7
State Revenue in Percentage	22.8	21.2	21.2	20.9	20.5	22.9	24.1	24.7	20.0	18.3	20.9

Source: RBI annual publication and State Annual Reports CAG

**Table 3.2: State's Own Tax Revenue (percent)**

<b>Head of Revenue</b>	<b>2006 -07</b>	<b>2007 -08</b>	<b>2008 -09</b>	<b>2009 -10</b>	<b>2010 -11</b>	<b>2011 -12</b>	<b>2012 -13</b>	<b>2013 -14</b>	<b>2014 -15</b>	<b>2015 -16</b>	<b>2016 -17</b>
Taxes on sales, trades	70.8	73.6	76.3	72.3	71.7	73.5	74.4	76.2	77.3	76.6	79.3
State Excise	17.7	18.4	18.9	20.3	18.3	18.9	18.0	17.1	16.1	16.3	14.4
Motor Vehicles Tax	3.1	3.6	3.6	3.1	3.4	4.5	4.2	3.9	4.2	4.0	4.1
Stamp Duty	2.1	1.9	1.5	2.5	1.9	1.3	1.2	1.0	1.1	1.2	1.5
Land Revenue	1.8	0.7	0.1	0.1	3.0	0.3	0.7	0.4	0.0	0.3	0.1
Tax and Duties on Electricity	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.1	0.3	0.2
Other taxes and duties	4.5	1.8	-0.4	1.7	1.6	1.5	1.2	1.2	1.3	1.3	0.5

*Source: RBI annual publication and State Annual Reports CAG*

**Table 3.3: Growth Performance of Own Tax Revenue (percent)**

<b>Head of Revenue</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Own tax Revenue	4.7	15.8	20.3	28.6	22.1	21.5	12.0	-1.1	12.5	12.7
Taxes on sales, trades	8.8	20.0	14.0	27.5	25.0	23.1	14.7	0.3	11.8	14.7
State Excise	8.6	19.1	29.4	15.7	25.8	16.3	6.3	-7.1	12.5	-0.6
Motor Vehicles Tax	21.5	16.4	3.0	41.0	62.2	15.1	2.5	7.4	6.6	14.8
Stamp Duty	-7.7	-7.5	98.9	-2.4	-15.6	13.2	-4.9	1.0	28.7	34.9
Land Revenue	-62.0	-76.4	-48.0	6481.0	-86.0	530.0	250.0	-92.0	218.0	27.0
Tax and Duties on Electricity	0.0	0.1	66.7	420.0	234.6	6.9	104.3	-57.9	315.0	-29.5
Other taxes and duties	0.1	2800.0	-98.2	2400.0	584.6	11.1	20.0	4.2	449.6	23.4

Source: RBI annual publication and State Annual Reports CAG



**Table 3.4: Buoyancy of Different Tax Revenues**

<b>Particulars</b>	<b>Buoyancy</b>	<b>R square</b>	<b>Adjusted R square</b>
State's Own Tax Revenue	1.189*** (26.48)	0.987	0.99
State's Non-Tax Revenue	0.811*** (3.56)	0.585	0.539
Total Revenue	1.101*** (18.11)	0.973	0.97
Taxes on sales and trades	1.249*** (29.34)	0.989	0.988
State Excise	1.036*** (18.46)	0.974	0.971
Land Revenue	-0.293 (-0.24)	0.006	-0.104
Stamp Duty	0.643*** (3.98)	0.637	0.597
Motor Vehicle Tax	1.437*** (29.97)	0.99	0.989
Central Government Receipts	1.105*** (15.74)	0.965	0.961

Source: Estimated by Authors

**Table 3.5: Trends in Composition of Non-Tax Revenue**

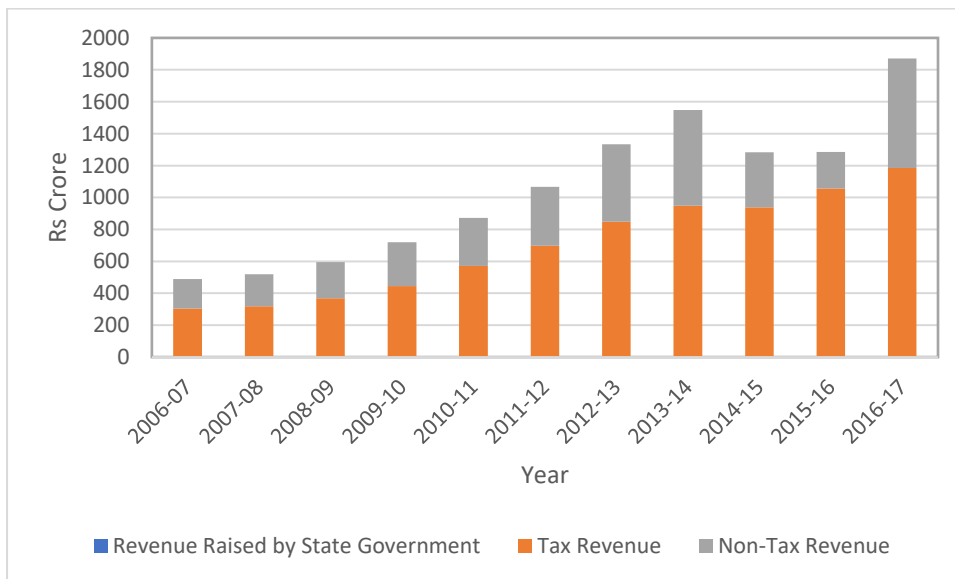
<b>Head of Revenue</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Mining Receipts	59.1	62.0	58.9	72.1	71.5	71.3	73.8	76.2	56.8	26.6	68.5
Forestry and Wildlife	9.0	7.8	7.7	7.3	7.3	7.1	6.4	10.0	21.0	31.5	15.2
Interest Receipts	7.2	7.7	7.9	8.5	8.2	7.4	5.2	5.6	11.0	17.2	6.7
Public Works	2.8	2.1	3.0	2.6	4.2	4.6	9.0	2.0	1.8	3.7	1.5
Medical and Public Health	0.6	0.3	0.3	0.2	0.2	0.4	0.3	0.3	0.8	0.7	0.2
Crop Husbandry	1.2	1.2	1.4	1.0	1.4	1.2	1.0	0.8	1.5	1.4	0.5
Animal Husbandry	0.8	0.7	0.6	0.6	0.6	0.5	0.4	0.3	0.6	0.9	0.2
Miscellaneous											
General Services	16.7	12.3	17.6	3.8	3.8	5.1	1.9	2.9	3.4	9.9	4.6
Other Receipts	2.6	5.9	2.6	3.9	2.8	2.4	2.0	1.8	3.0	8.2	2.5

Source: RBI annual publication and State Annual Reports CAG

**Table 3.6: Growth Performance in Non-Tax Revenue**

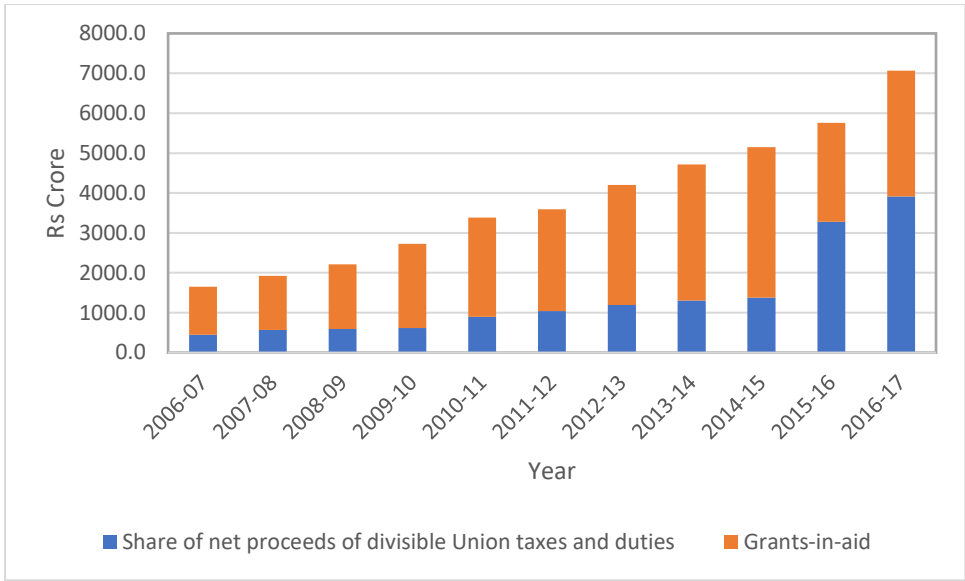
Head of Revenue	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Mining Receipts	11.8	13.4	7.3	49.3	8.8	21.8	36.3	27.3	-57.2	-68.9	672.8
Forestry and Wildlife	8.9	-6.4	11.3	15.4	10.1	18.0	17.5	94.2	20.0	0.0	44.4
Interest Receipts	100.3	15.1	15.9	30.6	6.2	9.7	-6.3	32.3	12.2	4.2	17.7
Public Works	18.0	-17.0	58.0	4.8	81.1	33.9	155.5	-71.9	-48.6	33.8	21.5
Medical and Public Health	57.1	-49.1	32.1	-24.3	23.2	95.7	0.0	42.9	35.0	-44.4	6.7
Crop Husbandry	11.1	7.7	35.3	-13.0	46.8	11.4	8.0	-1.4	8.2	-40.0	8.8
Animal Husbandry	18.2	-5.8	-6.8	12.4	9.1	4.8	5.6	-5.3	11.1	-2.0	-18.9
General Services	106.9	-20.2	62.1	-62.3	37.8	47.3	48.3	-44.5	-38.6	72.2	34.1
Social services	2.8	-12.6	35.6	129.6	-34.7	27.6	0.0	28.4	-6.3	16.7	43.7
Economics services	11.0	15.7	3.1	43.4	9.5	20.8	33.9	31.7	-47.0	-46.9	294.0

Source: RBI annual publication and State Annual Reports CAG



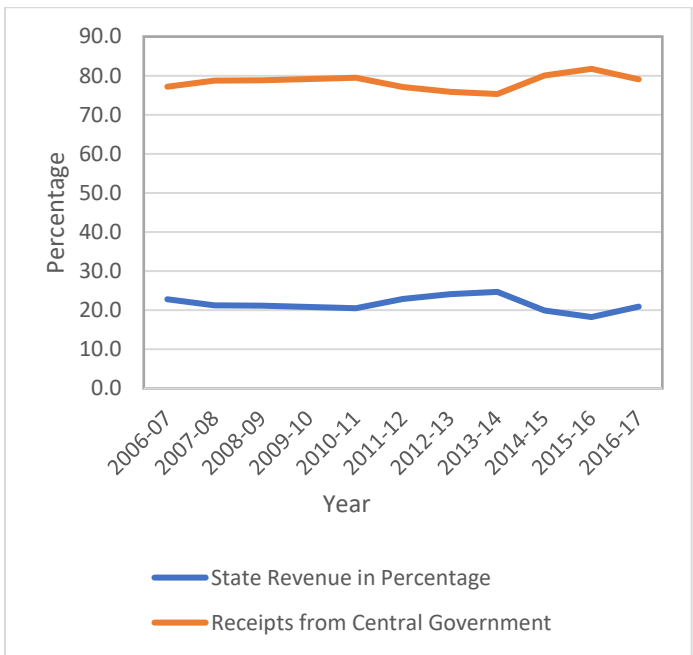
**Figure 3.1: Revenue Raised by the State**

Source: RBI annual publication and State Annual Reports CAG



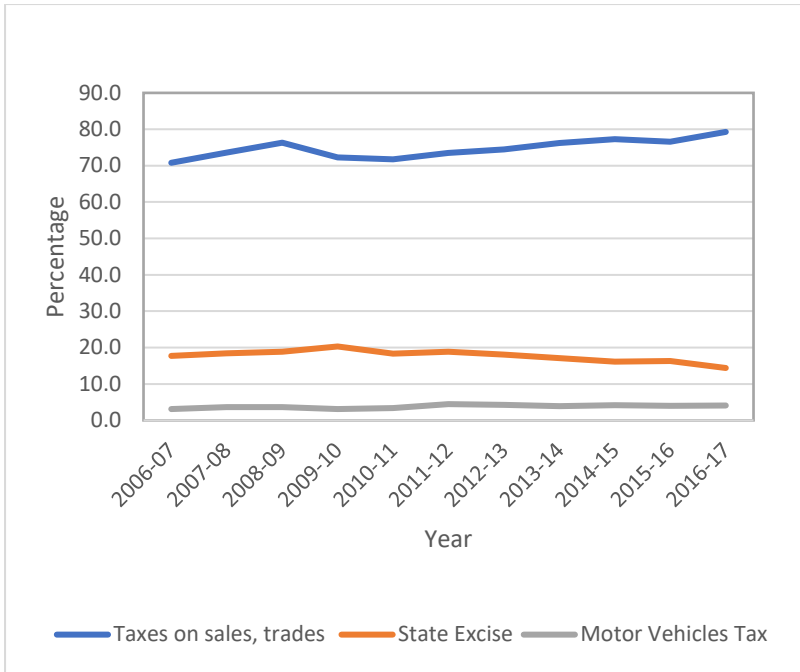
**Figure 3.2: Revenue through Central Government**

Source: RBI annual publication and State Annual Reports CAG



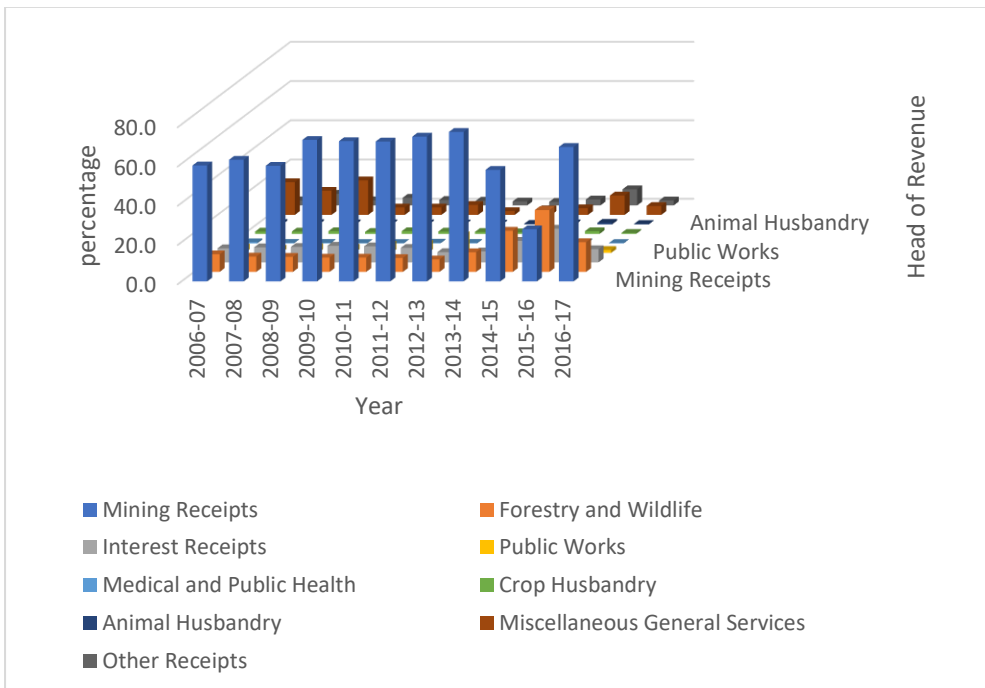
**Figure 3.3: Composition of Revenue Receipts**

Source: RBI annual publication and State Annual Reports CAG



**Figure 3.4: Major Revenue Heads of Own-tax Revenue**

Source: RBI annual publication and State Annual Reports CAG



**Figure 3.5: Composition of Non-tax Revenue**

Source: RBI annual publication and State Annual Reports CAG

## 4. Analysis of State Expenditures

### 4.1 Trends in State Expenditure

The expenditure to GSDP ratio varied from 25.9 percent in 2006-07 to 34 percent in 2016-17. However, much of the total expenditure was devoted towards meeting revenue expenditure of the state. The revenue expenditure is divided into three major heads comprising of general services, social services and Economic services. The general services include interest payments, pensions and others, social services include education, health, and water supply and sanitation, economic services include agriculture and allied activities, rural development, energy, transportation and communication. Revenue expenditure is recurring in nature and includes expenditure on administrative expenses. Revenue expenditure do not create any assets and is incurred in the ordinary conduct and administration. Meghalaya has about 85 percent of its expenditure as revenue expenditure (see table 2.1) over years from 2006-07 to 2010-11, which is similar to trend displayed by other states (Suhag and Tiwari, 2018).

The high revenue expenditures have crowded out capital investment as the ratio of capital expenditure to GSDP increased only marginally from 3.8 percent in 2006-07 to 4.6 percent in 2016-17. Higher capital expenditure leads to creation of assets which adds to capital stock of economy and increases overall productivity of the economy. The highest percentage for capital expenditure to GSDP was 5.3 percent in the year 2011. As a percentage of GSDP, revenue expenditure varied between 22 percent in 2006-07 to 30 percent in 2016-17, while the ratio of capital expenditure to GSDP was only between 3.5 to 6 percent in the same period (Table 2.1). Table 4.1 details the changing share of different categories of expenditure to total expenditure and also the growth rate of different component of expenditure during 2006-07 to 2016-17. Total expenditure grew at annual rate of 16.3 percent with the year on year growth rate varying between a low of 3.7 percent in 2012-13 to a high of 25.4 percent in 2010-11. Figure 4.1 shows

the varying expenditures of the state for the time period 2006-07 to 2016-17. Non-development expenditure share of the total expenditure of the state fell down from 32.3 percent in 2011-12 to 26.5 in 2014-15 thereby increasing significantly to 42.1 percent in 2016-17. Capital expenditure has retained a low share in total expenditure of the state. Figure 4.2 shows the growth rate of all the expenditure heads of the state. The trends indicate that there has been a steep drop in the development expenditure and capital expenditure of the state in the year 2015-16. The share of capital expenditure has still remained low for the year 2016-17.

The predominant share of revenue expenditure in the total expenditure is clearly evident as share of revenue expenditure was above 80 percent throughout the period from 2006-07 to 2016-17. The share of capital expenditure in the total expenditure was the highest at 17.6 percent in 2008-09 while the lowest was 13.3 percent in 2010-11. During this time period, revenue expenditure expanded at an annual rate of 16.2 percent while capital expenditure grew at 17.9 percent. In terms of year on year growth of revenue and capital expenditure, we see the latter registering negative annual growth in 2009-10 and 2016-17. A long term of low capital expenditure can lead to decrease in productive capital stock of the state leading to reduced growth rate.

The share of development expenditure in the total expenditure show an increasing trend with its share rising from 67.7 percent in 2006-07 to a highest of 73.4 percent in 2015-16 and then decreasing to 57.9 percent in 2016-17. In the same period, non-development expenditure has decreased by almost five percentage points from 32.3 percent in 2006-07 to 26.6 percent in 2015-16 then rising to 42.1 percent in 2016-17. Development expenditure expanded at an average annual rate of 11.9 percent while non-development expenditure grew at 13.6 percent annually during 2006-07 to 2016-17. Developmental expenditure refers to the expenditure of the government which helps in economic development by increasing production and real income of the country. Non-Development expenditures are those expenditure of the

government which does not directly help in economic development of the country. Cost of tax collection, cost of audit, internal law and order, police etc. are treated as non-developmental expenditure. Pension to retired govt. employees, non-developmental assistance to states are also included in non-development category. It is not possible to fix the targets and achieve it under non-developmental expenditure whereas developmental expenditure has definite objective to complete during plan period. The adherence to FRBM act will lead to reduction in non-development expenditure due to interest payments. Other components such as pensions are expected to rise due to implementation of Meghalaya Fifth pay commission.

In case of plan and non-plan expenditure, plan expenditure which accounted for about 40 percent of expenditure in 2006-07 has climbed up to almost 55 percent in 2016-17, a significant increase of almost 15 percent 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. Figure 4.3 gives the expenditure trend for the revenue and capital expenditure of the state. The share of capital expenditure in comparison to revenue expenditure has remained very less.

## **4.2 Revenue Expenditure**

Much of the total expenditure of the state goes towards meeting current expenditure as share of revenue expenditure varied between 82.1 percent and 86.7 percent of total expenditure during 2006-07 to 2016-17. 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, pension liability has increased from 6.2 percent in 2006-07 to

8.2 percent in 2014-15 and declined to about 5.7 percent in 2016-17. Expenditure under economic services has climbed upwards from 30.9 percent in 2006-07 to 37.1 percent in 2016-17, an increase of almost 7 percentage points in the 11-year period. Under economic services, the rural development sector saw an increase whereas energy has seen a decrease. In the share of expenditure and activities clubbed together under 'others' have also seen an increase. The share of social sector in the total expenditure reached highest level of 37.9 percent in 2014-15 from 32.2 percent in 2006-07, then it fluctuated to 34.4 percent in 2016-17 (see table 4.2). The revenue expenditure on health services has increased from 5.2 percent to 7.4 percent from 2006-07 to 2016-17 whereas Water supply saw a decline from 3.4 percent in 2006-07 to 0.2 percent in 2016-17 (Table 4.2).

The annual growth of revenue expenditure shows a sharp jump in 2009-10 and 2010-11 due to increase in 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. Figure 4.4 show the time trend of general services as the revenue expenditure component for the time period 2006-07 to 2016-17. Interest payments have grown substantially in the last two years whereas expenditures on pensions is showing a negative trend. Figure 4.5 shows the time trend of social services as the revenue expenditure component for the time period 2006-07 to 2016-17. The overall growth rate of social services of the state is positive but the state expenditure on education has dropped during the time period. Figure 4.6 shows the time trend of economic services as the revenue expenditure component for the time period 2006-07 to 2016-17. There is negative growth rate on the economic services of the state during the time period.



### **4.3 Capital Expenditure**

Capital expenditure is examined in terms of its two components namely capital outlays and loan and advances. From table 4.1, it is evident that the share of capital expenditure varied from 14.6 percent to 17.8 percent of total expenditure during the time period. Within capital expenditure, share of capital outlays varied between minimum of 91.4 percent in 2008-09 and maximum of 98.3 percent in 2015-16. The share of economic services in the total expenditure changed from 54.3 percent in 2007-08 to maximum of 67.4 percent in 2012-13, declining further to 51.7 percent in 2016-17. Capital outlay on transport and communications has the highest share of the total capital expenditure and the share of this sector has been around 40 percent 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 declined from 28.3 percent in 2006-07 to 12.2 percent in 2013-14. The share of water supply and sanitation increased in subsequent years by 20 percent in 2016-17.

The percentage share of loans and advances component of capital expenditure has been consistent at around 5 percent. The percentage share of the loans and advances component of capital expenditure has varied between 1.7 percent and 6.8 percent during the period (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. Loans and advances to government servants and power sector under economic services are the main recipient of state government's loans and advances. In 2016-17, 59.4 percent of state government's loans and advances went to economic sector while share of government employees was at 40 percent.

The growth trends of various components of capital expenditure for period of 2006-07 to 2016-17 are given table 4.6. We also see a wide fluctuation in the year on year growth rate of all the components of capital expenditure.

#### **4.4 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 revenue expenditure ranges between 78.5 percent in 2013-14 to 81.7 percent in 2016-17 of total development expenditure. Revenue expenditure is mainly on social and economic services with the proportion of expenditure on social services and economic services being close to each other. The other component of development expenditure is capital outlays which is expenditure in capital assets. The share of this component reached its highest level of 21.3 percent 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 97.4 percent (2006-07) to 93.7 percent (2016-17) has been for meeting the revenue expenditure consisting of administrative services, interest payment and servicing of debt, pensions besides other accounts. It is committed expenditure which limits expenditure on development activities. In the last 11 years, expenditure under interest payment has come down from 29.4 percent in 2006-07 to 22.7 percent in 2016-17 while the component of pensions has increased from 16.3 percent to 19 percent in the same period. In case of administrative services, the expenditure has fluctuated but hovered around 40 percent. 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).

#### **4.5 Plan and Non-Plan Expenditure**

Table 4.1 reveals that the non-plan expenditure to total expenditure has come down significantly since 2006-07 by almost 16 percent from 60.5 percent in 2006-07 and 45.9 percent in 2016-17. 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 Table 4.9.

The non-plan revenue expenditure under general, social and economic services is given in table 4.9. It shows that the total non-plan revenue expenditure has decreased from 70.3 percent in 2006-07 to 53.14 percent in 2016-17, a significant fall of almost 16 percentage points in between the period 2006-07 to 2016-17. 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 2006-07 to 2016-17. 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.

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 2006-07 and 2007-08 compared to other years. For loans and advances, the plan expenditure component varied between a low of 0 percent in 2012-13 to a high of 86.2 percent in 2008-09.

#### **Summary**

The expenditure to GSDP ratio has increased from 25.9 percent in 2006-07 to 34 percent in 2016-17 depicting an increase in expense vis-à-vis growth. The growth in revenue expenditure

is higher compared to growth in capital expenditure. Higher capital expenditure leads to creation of assets and increase in overall productivity of the economy. However, within revenue expenditure the share of general services has decreased due to fall in expenditure on interest payment and also under other services. The pension liability has increased from 6.2 percent in 2006-07 to 8.2 percent in 2014-15 and declined to about 5.7 percent in 2016-17. Under economic services, the rural development sector saw an increase whereas energy has seen a decrease. The rise in rural sector expenditure points towards greater focus of government on rural development. 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 4.1: Change in Structure and Growth in Public Expenditure**

<b>Change in composition as percentage of total expenditure</b>											
	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Revenue	85.4	84.3	82.2	86.2	86.7	84.2	84	83.2	84.2	82.4	85.9
Capital	14.6	15.7	17.8	13.8	13.3	15.8	16	16.8	15.8	17.6	14.1
Development	67.7	69.6	69.6	68.4	70.4	72.9	72.3	70.9	73.5	73.4	57.9
Non-development	32.3	30.4	30.4	31.6	29.6	27.1	27.7	29.1	26.5	26.6	42.1
Non-plan	60.5	58.1	52.2	58.3	55.4	50.6	55.6	55.9	55.2	44.3	45.9
Plan	39.5	41.9	47.8	41.7	44.6	49.4	44.4	44.1	44.8	55.7	54.1
<b>Growth in expenditure (Year on Year)</b>											
	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Revenue	18.1	19	18.6	26.1	20.5	3.4	11	12.6	21.9	12.8	16.2
Capital	28.2	38.9	-12.6	21.3	47.2	5.3	17	5.1	38.9	-13.6	17.9
Development	23	22.2	11.1	29.1	28.4	2.9	9.8	24.3	8.2	-44.2	11.9
Non-Development	12.6	22	17.5	17.4	13.7	5.9	17.7	9.4	8.9	11.8	13.6
Non-plan	13.9	9.3	27.2	18.9	13.4	14.4	12.4	10	0.3	11.8	13.2
Plan	26.1	38.4	-0.5	34	37.2	-6.3	11.1	12.8	55.8	4.8	21
Total Expenditure	19.6	22.2	13.1	25.4	24	3.7	12	11.4	24.6	8.1	16.3

*Source: RBI annual publication and State Annual Reports CAG*

**Table 4.2: Change in Composition of Revenue Expenditure**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1. General Services	36.9	34.5	34.9	34.6	32.8	30.8	31.5	33.1	32.3	28.8	28.3
of which											
i. Interest Payments	10.6	8.4	7.9	7.4	6.4	5.9	6.3	6.7	6.5	6.2	6.4
ii. Pensions	6.2	6	6.4	6.5	7.5	7.8	7.8	8.1	8.2	5.9	5.7
iii. Other services	20	20.2	20.6	20.7	18.9	17.1	17.4	18.3	17.6	16.8	16.2
2. Social Services	32.2	33.4	30	34.3	34.3	36	35	35.6	37.9	31.9	34.7
i. Education	17.1	18.8	16.2	17.7	18.9	21.1	19.2	20	20.7	18.6	18.4
ii. Health	5.2	5	4.9	6.6	6.9	5.9	6.7	6.4	7.7	6.4	7.4
iii. Water Supply/	3.4	2.9	2.9	3.3	2.6	2.3	3.2	2.9	2.7	0.2	0.2
iv. Others	6.5	6.7	6.1	6.8	5.9	6.7	5.9	6.4	6.8	6.7	8.6
3. Economic Services	30.9	32	35.1	31.1	32.9	33.2	33.6	31.3	29.8	39.2	37.1
i. Agriculture & Allied Activities	9.2	9.6	9.3	11.4	13.8	10.4	10.1	10.7	9.4	12.3	10.7
ii. Rural Development	6.9	5.9	7.3	5.3	6	6.4	6.7	6.3	9.1	8	10.6
iii. Energy	4.7	6.1	8.8	3.9	2.8	3.5	3.5	2.8	2.7	1.7	1.9
iv. Transport & Communication	4	3.5	2.8	3.1	2.1	2.4	3.5	2.6	1.9	2	1.9
v. Others	6	6.9	6.8	7.4	8.1	10.5	9.7	8.9	6.6	15.3	11.9

Source: RBI annual publication and State Annual Reports CAG

**Table 4.3: Growth in Revenue Expenditure**

	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17
1. General Services	10.7	20.5	17.4	19.6	12.9	5.8	16.8	10	8.7	10.6
of which										
i. Interest Payments	-7	12.2	10.3	9.8	11.2	9.9	18.4	9	16.3	17
ii. Pensions	14.6	27.5	21	44.1	25.4	3.3	16.1	14.2	-13.3	10
iii. Other services	18.9	21.8	19	15.3	8.6	5.6	16.6	8.4	16.2	8.4
2. Social Services	22.7	6.8	35.7	26	26.6	0.3	12.9	20.1	2.6	22.5
i. Education	29.9	2.6	30	34.5	34.8	-6	15.3	17	9.5	11.6
ii. Health	14.1	15.9	59.4	32.6	3.2	16.7	6	36.7	0.2	31.3
iii. Water Supply/	0.5	17.1	34.7	2	5.9	43.1	-1	5.6	-90.6	6.2
iv. Others	22.3	7.5	32.4	8.8	37	-9.1	20.4	19.6	21.1	45.1
3. Economic Services	22.3	30.3	5.2	33.5	21.6	4.5	3.7	6.9	60.8	6.4
i. Agriculture & Allied Activities	22.9	15.4	45.7	51.7	-9.1	0.8	17.2	-0.5	58.7	-1.6
ii. Rural Development	0.4	48.8	-14.4	43.8	28.2	7.9	4.7	62.1	7.6	48.4
iii. Energy	52.2	71.5	-48.1	-7.2	47.8	5.4	-11.9	7	-22.7	27.4
iv. Transport & Communication	3.7	-5.8	30.8	-12.9	39.1	47	-15.9	-17	22.7	10
v. Others	35.3	17.3	29.1	38.3	54.9	-4.1	1.6	-16.3	182.2	-11.9
Salaries*	10.1	9.5	55.3	23.3	8.2	-	-	-	-	-
Revenue Expenditure	18.1	19	18.6	26.1	20.5	3.4	11	12.6	21.9	12.8

Source: RBI annual publication and State Annual Reports CAG

**Table 4.4: Change in Structure of Capital Expenditure**

	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17
A. Capital Outlay	98.2	93.6	91.4	94.8	93.2	94.2	97.2	96.2	95.2	98.3	96.5
1.General Services	5	6.6	8.2	9.5	5.9	5.8	6.3	7.6	7	5.8	10.1
2.Social Services	38.9	36.4	38.1	27.8	21.5	31.8	23.5	35	30.9	40.9	31.8
of which											
i. Health & Family Welfare	5.5	8.6	3.5	4.3	3.3	4	6.6	8.6	7.5	6	6
ii. Water Supply & Sanitation	28.3	25.7	23.6	19	14.3	15.6	13.4	12.2	16.2	20.1	19.3
3. Economic Services	54.3	50.5	45.1	57.4	65.8	56.7	67.4	53.6	57.3	51.7	54.6
of which											
i. Special Area Programs	14.3	12.2	6.4	5.2	6.4	6.4	8	3.7	4.3	4.3	7.6
ii. Irrigation & Flood Control	1.7	1.5	5.5	6.8	13.4	9.1	8.8	0.5	3.6	0.7	6.6
iii. Transport & Communication	33	32.9	28	38.7	38.2	36.5	44.5	44.7	42.6	36	37.3
B. Loans &Advances	1.8	6.4	8.6	5.2	6.8	5.8	2.8	3.8	4.8	1.7	3.5

Source: RBI annual publication and State Annual Reports CAG



**Table 4.5: Trends in Composition of Capital Expenditure on Loans and Advances (In Percent)**

	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17
1.Social Services	0	0	0	0	0	1	7.1	0.2	0.1	1	0.6
2. Economic services	38.3	73.1	86.2	39.5	63.5	68.6	42.1	61.7	69.5	36.3	59.4
of which:											
i. Power	21.3	52.2	85.9	28.2	55.5	54.8	42.1	61.7	69.5	34.4	24.5
ii. Cooperation	16.9	2.3	0.2	-	-	-	-	-	-	-	-
iii. Others	-	18.7	-	11.3	8	13.8	-	-	-	1.9	34.9
3. Government employees	61.7	26.9	13.8	60.5	36.5	30.4	50.8	38.2	30.4	62.7	40

Source: RBI annual publication and State Annual Reports CAG

**Table 4.6: Growth Profile of Capital Expenditure**

	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17
A. Capital Outlay	22.3	35.6	-9.4	19.4	48.8	8.5	15.8	4	43.4	-15.2
1. General Services	69.5	71.8	1.8	-24.3	43.1	15.5	40	-2.9	14.2	51.6
2. Social Services	20.3	45.3	-36.1	-6.2	117.3	-22.2	74.4	-7.1	83.5	-32.7
of which										
i. Health & Family	99.8	-43.8	6.6	-6.9	81.3	73	52.3	-8.5	12.3	-15
ii. Water Supply & Sanitation	16.7	27.2	-29.7	-8.7	61.3	-10.1	6.5	40.3	71.8	-16.8
3. Economic Services	19.3	23.9	11.3	39.1	26.9	25.1	-6.8	12.2	25.3	-90.9
of which										
i. Special Area Programs	9.3	-27.3	-29.4	51.5	47.4	31	-46.2	22.5	39.6	52.4
ii. Irrigation & Flood Control	8.2	423.9	9.3	137.6	-0.3	2.6	-92.8	588.4	-73.7	736.6
iii. Transport & Communication	28.1	18.1	20.6	20	40.6	28.2	17.6	0.1	17.4	-10.6
B. Loans & Advances	348.5	87.8	-46.9	56.2	25.7	-48.4	56.7	32.6	-50.3	74.6
Capital Expenditure	28.2	38.9	-12.6	21.3	47.2	5.3	17	5.1	38.9	-13.6

Source: RBI annual publication and State Annual Reports CAG

**Table 4.7: Composition of Development Expenditure**

	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12	2012- 13	2013- 14	2014- 15	2015- 16	2016- 17
Development (A+B)											
A. Direct (1+2)											
1.. Revenue Expenditure	79.7	79.4	76.8	82.4	82.7	80	79.5	78.5	79.7	78.1	91.7
i. Social Services	40.6	40.5	35.4	43.3	42.2	41.6	40.6	41.7	44.7	35	44.3
ii. Economic Services	39	38.8	41.4	39.2	40.5	38.3	39	36.8	35.1	43.1`	47.4
2. Capital Outlay	20.1	19.6	21.3	17.1	16.5	19.2	20.1	20.9	19.5	21.7	7.8
i. Social Services	8.4	8.2	9.7	5.6	4.1	6.9	5.2	8.3	6.8	9.6	6.7
ii. Economic Services	11.7	11.4	11.5	11.5	12.4	12.3	14.9	12.7	12.7	12.1	11.5
B. Indirect (3)											
3. Housing loans to government employees	0.2	1.1	1.9	0.4	0.8	0.9	0.3	0.6	0.7	0.1	0.4

Source: RBI annual publication and State Annual Reports CAG

**Table 4.8: Composition of Non-Development Expenditure**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	-07	-08	-09	-10	-11	-12	-13	-14	-15	-16	-17
Non-development (1+2+3)											
1. Revenue Expenditure	97.4	95.7	94.5	94.5	96.2	95.6	95.5	94.8	95.3	95.2	93.7
i. Organs of State	7.4	8.1	8.1	4.7	5	5.1	6.2	7.1	5.3	6.3	5.7
ii. Fiscal services	3	3.4	7.6	3.3	3.3	3.5	3.2	3.2	3	3.1	2.8
iii. Interest Payments & servicing of debt	29.4	24.7	22.7	21.3	19.9	19.5	20.3	20.3	20.2	21.8	22.7
iv. Administrative Services	41.2	43	38.7	47.4	46.1	43.3	42.2	40.9	42.5	44.2	43
v. Pensions	16.3	16.6	17.3	17.8	21.9	24.2	23.6	23.2	24.3	19.3	19
vi. others	0.1	0.1	0	0.1	0.1	0.1	0.1	0	0	0.5	0.5
2.. Capital Expenditure on general services	2.3	3.4	4.8	4.2	2.7	3.4	3.7	4.4	3.9	4.1	5.5
3. Loans to government employees (other than housing)	0.4	0.9	0.7	1.4	1.1	1	0.8	0.8	0.8	0.8	0.8

Source: RBI annual publication and State Annual Reports CAG

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

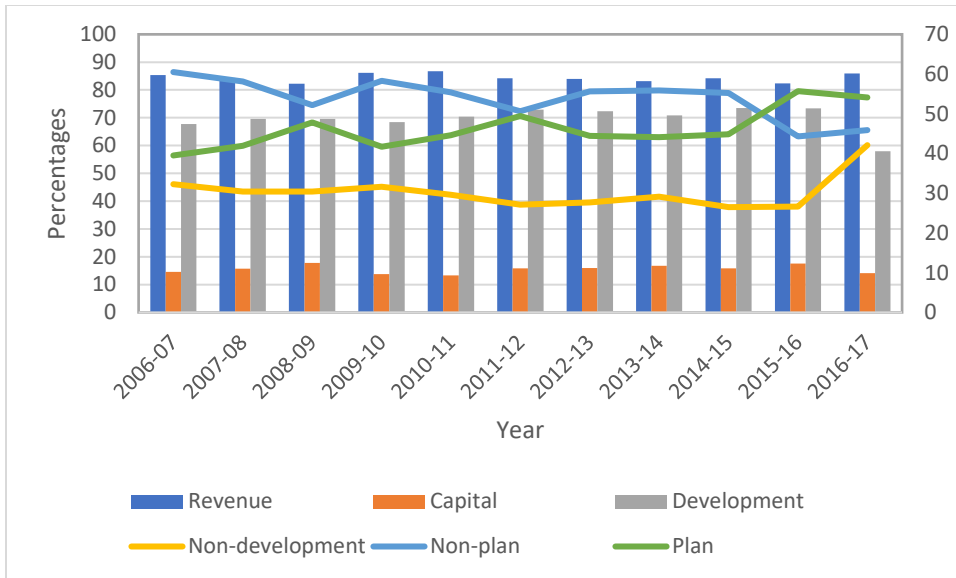
	General services		Social services		Economic services		Total	
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2006-07	96.42	3.58	63.52	36.48	46.25	53.75	70.3	29.7
2007-08	96.11	3.89	58.35	41.65	47.76	52.24	68	32
2008-09	96.3	3.7	59.61	40.39	31.5	68.5	62.58	37.42
2019-10	95.58	4.42	57.63	42.37	45.82	54.18	67.09	32.91
2010-11	95.48	4.52	60.06	39.94	34.55	65.45	63.3	36.7
2011-12	95.84	4.16	53.47	46.53	32.34	67.66	59.49	40.51
2012-13	98.97	1.03	62	38	38.07	61.93	65.61	34.39
2013-14	99.1	0.9	59.32	40.68	40.82	59.18	66.7	33.3
2014-15	98.72	1.28	52.98	47.02	44.08	55.92	65.12	34.88
2015-16	98.49	1.51	48.68	51.32	24.59	75.41	53.59	46.41
2016-17	98.93	1.07	46.07	53.93	24.8	75.2	53.14	46.86

Source: RBI annual publication and State Annual Reports CAG

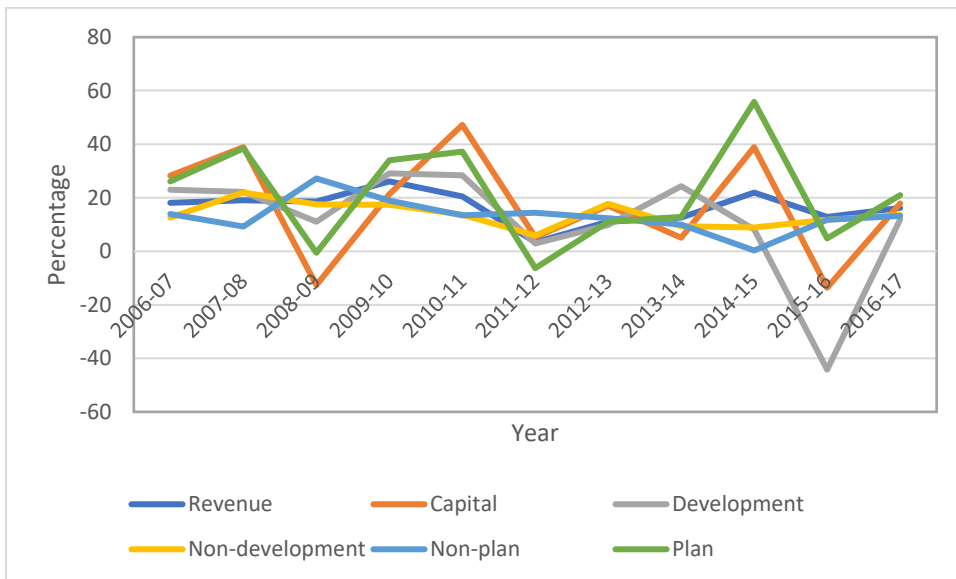
**Table 4.10: Composition in Plan and Non-Plan Capital Expenditure**

	A. Capital Outlay						B. Loans & Advances		Total (A+B)	
	General services		Social services		Economic services		Non-Plan	Plan	Non-Plan	Plan
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan				
2006-07	21.7	78.3	3.4	96.6	0	100	61.7	38.3	2.4	97.6
2007-08	15.4	84.6	0	100	0	100	26.9	73.1	1.1	98.9
2008-09	0	100	0.1	99.9	0	100	13.8	86.2	0.1	99.9
2019-10	0	100	0.7	99.3	0	100	60.5	39.5	0.2	99.8
2010-11	0	100	0	100	0	100	36.5	63.5	0	100
2011-12	3	97	0.1	99.9	0.4	99.6	29	71	0.4	99.6
2012-13	4.6	95.4	1.6	98.4	1.3	98.7	100	0	1.6	98.4
2013-14	0	100	0	100	0	100	100	0	0	100
2014-15	0	100	0	100	0	100	70.7	29.3	0	100
2015-16	0	100	0	100	0	100	63.7	36.3	0	100
2016-17	0	100	0	100	0	100	75.5	24.5	0	100

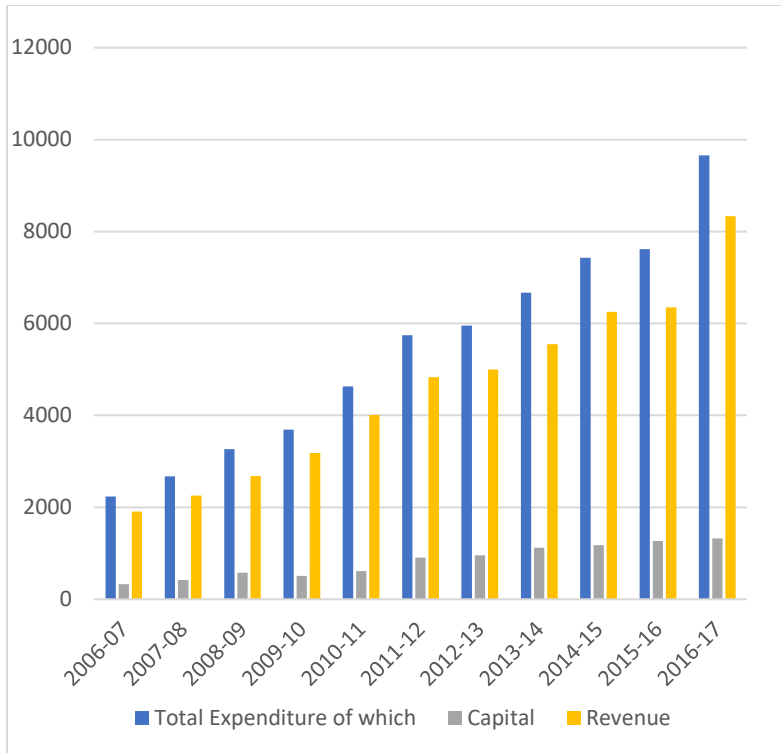
Source: RBI annual publication and State Annual Reports CAG



**Figure 4.1: Change in Expenditure Composition**  
 Source: RBI annual publication and State Annual Reports CAG

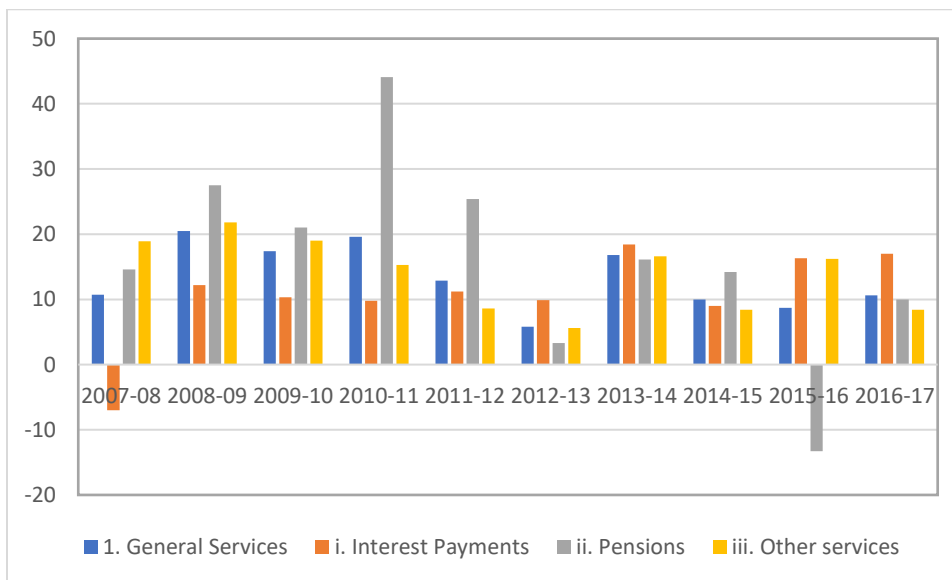


**Figure 4.2: Growth Rate of State Expenditures**  
 Source: RBI annual publication and State Annual Reports CAG



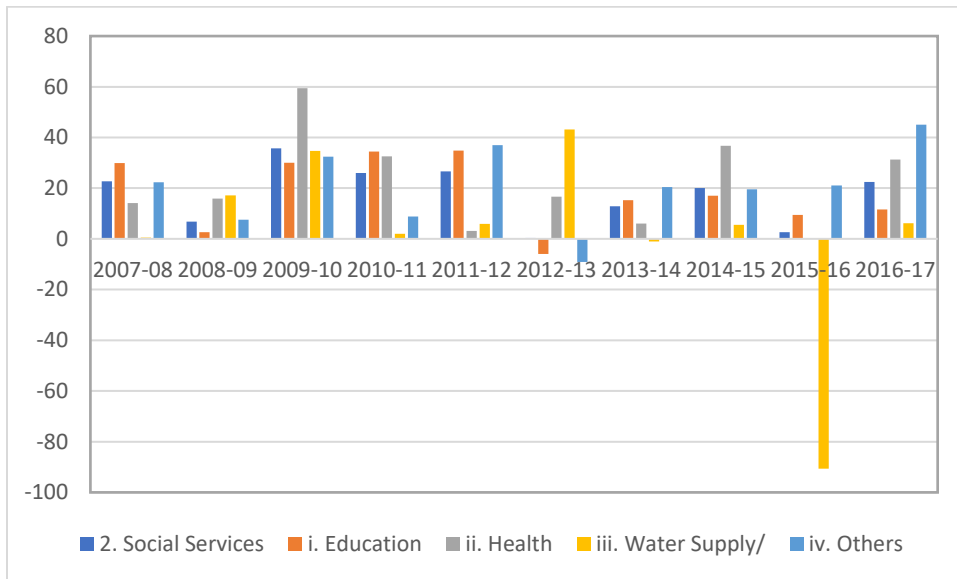
**Figure 4.3: Expenditure Details**

Source: RBI annual publication and State Annual Reports CAG



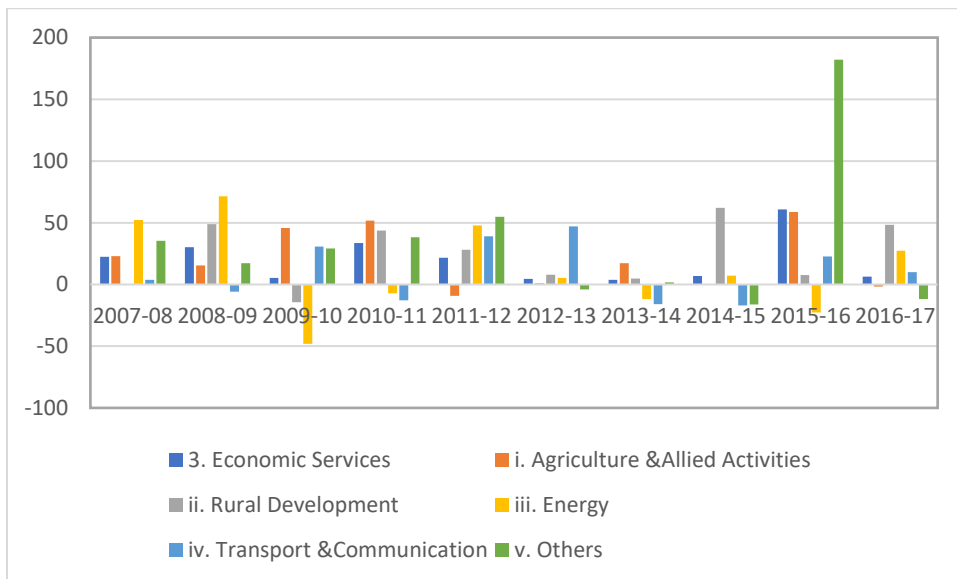
**Figure 4.4: Growth in Revenue Expenditure of General Services**

Source: RBI annual publication and State Annual Reports CAG



**Figure 4.5: Growth in Revenue Expenditure of Social Services**

Source: RBI annual publication and State Annual Reports CAG



**Figure 4.6: Growth in Revenue Expenditure of Economic Services**

Source: RBI annual publication and State Annual Reports CAG



## **5. Analysis of State Subsidies and Public Sector Undertakings**

### **5.1 State Subsidies**

The state of Meghalaya engages in many types of subsidies for fulfilling a range of objectives under different policy frameworks. In pursuance of Meghalaya Industrial & Investment Promotion Policy 2012, the state targets to provide fiscal incentives to many sectors such as super speciality Healthcare with Diagnostic Centre, vocational training centre, and tourism projects. These subsidies are categorised under two levels: micro and small category; and medium, large and mega-large category. Various kinds of subsidies are provided under these industries-based subsidies such as subsidy on cost incurred on quality control measures, state capital investment subsidy, and price preferences. In agriculture department, under the Agriculture Engineering (Mechanical) Scheme, farm machinery is brought within the reach of small and marginal farmers at 60 percent subsidy rates. Due to the current trend of labour shortage because of urban migration, this scheme become very important for improving the economic conditions of the small and marginal farmers of the state. To bring employment and to encourage local entrepreneurs, the state government under the Meghalaya Tourism Development and Investment Promotion Scheme 2012 provides subsidies of 30 percent to resorts and homestays.

Table 5.1 details the annual cost of budgeted subsidy to various departments which is directly or indirectly borne by the state government for the time period from 2010-11 to 2017-18. Total subsidy as percentage of GSDP has increased from 0.33 percent in 2010-11 to 0.38 percent in 2017-18. During this time period, the subsidy was as low as 0.20 percent in 2011-12 and as high as 0.76 percent in 2014-15. The total subsidy stood at Rs. 102 crores in 2017-18 against Rs. 65 crores in 2010-11. Power Department, Fisheries Department, and Food and Civil Supplies Department has the major share of total state subsidy in the initial years of the time

period. Subsidies to Public Works Department has been cut down to half from 66 lakhs in 2010-11 to 31 lakhs in 2017-18. The total subsidy to Power Department has increased from Rs 12.3 crores in 2010-11 to 20.5 crores in 2016-17. However, the subsidies to Fisheries Department has been cut from Rs. 35.2 crores in 2010-11 to Rs. 7.3 crores in 2015-16. The subsidies to Animal Health and Veterinary Department has also been substantially cut from Rs. 2.2 crores in 2010-11 to Rs 0.04 crores in 2017-18. On the other hand, the subsidies to Agriculture Department has increased substantially from Rs.19.2 crores in 2010-11 to Rs. 33 crores in 2017-18. Food and Civil Supplies Department received an unprecedented allocation in subsidy, which increased from Rs 1.5 crores in 2010-11 to Rs. 75.2 crores in 2017-18. Another department with huge increase in subsidies is Cooperative Department, for which the subsidies have increased from 0.97 crores in 2010-11 to 1.17 crores in 2017-18.

## **5.2 State Public Sector Undertakings in Meghalaya**

The State Public Sector Undertakings (SPSUs) play an important role in the economy of the state. SPSUs consist of State Government Companies as well as Statutory Corporations. The state government of Meghalaya has three types of financial stakes in these SPSUs. The first is through guarantees which the state government provides for the repayment of the loans with interest taken by the SPSUs, second by providing grants and subsidies to the SPSUs, and third by providing financial assistance through loans. Table 5.2 details the total state government PSUs in the state of Meghalaya as on March 2017. There are total 15 government SPSUs in Meghalaya, of which 14 are working SPSUs and one SPSU is non-working. The total investments in the working government SPSUs is Rs. 6378 crores, of which long-term loans comprise of Rs. 2020 crores and capital investment of Rs 4358 crores. None of these working government SPSUs are listed on the stock exchange. Table 5.3 lists all the government SPSUs in the state of Meghalaya. The power sector includes four SPSUs in as working government SPSUs, Meghalaya Energy Corporation Limited (MeECL), Meghalaya Power Generation

Corporation Limited (MePGCL), Meghalaya Power Distribution Corporation Limited (MePDCL), and Meghalaya Transmission Corporation Limited (MePTCL). In addition to this, agriculture and forestry sector includes two SPSUs, mining sector one, infrastructure sector two, construction sector one, and there is one SPSUs in financial sector. Table 5.4 provides the financial profile of all the 15 government SPSUs in the state for the last two preceding years 2015-16 and 2016-17 with the accumulated profit or loss at the end of March 2017. It can be clearly observed that all the SPSUs are experiencing accumulated loss at the end 2016-17 except Forest Development Corporation Meghalaya Limited. The heavy financial distress in the power sector is evident, particularly for MePDCL. The accumulated loss of MePDCL at the end of 2016-17 was Rs.1492 crores, along with accumulated loss of Rs. 200 crores for MePGCL and Rs.137 crores for MeECL. MePTCL has comparatively lower accumulated loss of Rs. 6 crores at the end of year 2016-17. The financial status of the last two preceding years give some positive indications for some of the SPSUs in terms of transiting into accumulated profit at the end of 2016-17. Meghalaya Mineral Development Corporation Limited (MMDCL) is showing positive signs for last year 2016-17, however, the SPSU bears the accumulated loss of Rs. 7 crores. Meghalaya State Warehousing Corporation Limited (MSWCL), Meghalaya Government Corporation Limited (MGCCL), and Forest Development Corporation Meghalaya Limited (FDCML) are the only three SPSUs which are showing profits for the last two preceding years consistently.

### **5.3 Power Sector SPSUs**

As indicated in the table 5.4, the accumulated loss of SPSUs in the state in the power sector is very high. The distress is particularly aggravated through Meghalaya Power Distribution Corporation Limited and Meghalaya Power Generation Corporation Limited. Table 5.5 gives the financial profile of all the four SPSUs in the power sector for the year 2016-17. Meghalaya Energy Corporation Limited has received the maximum investments in the year followed by

Meghalaya Power Generation Corporation Limited and Meghalaya Power Distribution Corporation Limited. In terms of Return on Equity (RoE), Meghalaya Power Generation Corporation Limited has the most negative RoE whereas Meghalaya Power Transmission Corporation Limited is the only power sector SPSU which is showing positive RoE for the year 2016-17. Meghalaya Power Distribution Corporation Limited has the maximum turnover for the year 2016-17 followed by Meghalaya Power Generation Corporation Limited. The combined power sector SPSUs bear the accumulated loss of Rs.1836 crores, which is 6.5 percent of GSDP. The only positive indicator in the power sector is the financial performance of Meghalaya Power Transmission Corporation Limited for the year 2016-17, where the SPSU makes profit of around Rs.8 crores.

#### **5.4 Potential for hydro-power vis-à-vis demand for power**

The state of Meghalaya is facing acute power shortage along with poor financial position of power sector SPSUs. This is accompanied by rising gap in the supply and demand of power. The severity of the problem can be understood from the fact that the state buys 80 percent of the total power from outside at high price, though the state was a surplus power state till a few years back. With the rapid increase in demand for power, there is increasing dependence on high cost power. Consequently, the state is facing large administrative cost, mounting arrears and additional fiscal strain from state power utilities. Apart from the exclusive reliance on purchase of power at higher rates, the dependence on hydro power projects has also increased substantially. However, there are adverse effects on hydro power generation during weak monsoon and lean seasons, putting further fiscal strain on state power utility on buying the high cost power. In fact, fiscal strain was so high that in 2013, one of the state power utilities had to stop power supply because of unpaid dues. In terms of installed capacity of hydroelectricity, it had marginally increased from 185.2 MW to 186.7 MW in the year 2008-09. The installed capacity is expected to further increase to 312 MW with the commissioning of Myntdu-Leshka

hydro power project which is Run-of-river hydroelectricity (ROR) of 2 x 70 MW. At present, there are six hydroelectricity schemes are under survey and investigation stage: Myntdu-Leshka Stage II Hydro Electrical Project; Nongkohlait Hydro Electrical Project; Umngot Hydro Electrical Project; Mawblei Hydro Electrical Project; Selim Hydro Electrical Project; Umngi Stage I Hydro Electrical Project. The state government has assessed that there is possible hydro power potential of 400 MW from the small hydro power sources alone. However, there is need to harness the hydropower potential up to 300 MW at the earliest as the unrestricted peak demand for power has increased to 396 MW in 2016-17 from 220 MW in 2004-05.

In terms of incurred accumulated financial loss to the power sector SPSUs in the state, Meghalaya Power Distribution Corporation Limited (MePDCL) has incurred accumulated loss of 1492 crores, Meghalaya Energy Corporation Limited (MeECL) has accumulated loss of 137.48 crores, Meghalaya Power Transmission Corporation Limited (MePGCL) has accumulated loss of 200.16 crores, and (MePTCL) has 6.35 crores accumulated loss at the end of year 2016-17. Moreover, there are huge outstanding to the state power department and power shortages. For example, there is outstanding of 550 crores to be paid to NEEPCO leading to fiscal strains as well as power shedding. With the commissioning of hydro-electric plants in the state will not only solve the power-starvation but also contribute to development in the region and will relieve the fiscal strain for the government from buying power at higher cost.

#### **5.5. Improve performance/ restructuring of state PSUs**

One of the major drags in the state fiscal sustainability position is due to the poor performance of the state PSUs, power sector PSUs in particular. One of the main issues with the SPSUs is in its timely finalisation of accounts. According to CAG audit report, total of 46 accounts for 16 SPSUs are in arrears. This may lead to financial misappropriation as well as weaken the

assessment of state fiscal position. Therefore, one way to improve the performance of SPSUs is by clearing the backlog accounts in time bound manner and by fixing responsibility on concerned management. This can be done by setting up targets for each SPSUs and actively monitoring the performance.

There are three types of financial stakes in SPSUs in the form of guarantees for the repayment of the loans with interest taken by the SPSUs, provides grants, subsidies and financial assistance through loans. The distress status of SPSUs, particularly the power sector, brings the medium-term debt sustainability risks since there is increasing fiscal liabilities, and there is mounting fiscal deficits. The state should conduct a comprehensive performance evaluation of these SPSUs, and take appropriate actions to curb the aggravating and consistent losses being incurred. The losses of working SPSUs have increased consistently since 2012-13 onwards and for some of the SPSUs, the losses were so high that it eroded the paid-up capital. Against this background of increasing trend for accumulated losses for the SPSUs, there should be disinvestment through strategic sale to bring private investments and professional management. For the non-working and SPSUs with unviable losses, there should be winding up as they are neither serving the purpose nor contributing to the GSDP.

### **Summary**

A range of subsidies are provided by Meghalaya government under different policy frameworks. Various sectors include healthcare with Diagnostic Centre, vocational training centers, and tourism projects. Meghalaya government has three types of financial stakes in these SPSUs. It provides guarantees for the repayment of the loans with interest taken by the SPSUs, provides grants, subsidies and financial assistance through loans. All the SPSUs are experiencing accumulated loss at the end 2016-17 except Forest Development Corporation Meghalaya Limited. Power sector SPSUs are distressed having high accumulated loss through

Meghalaya Power Distribution Corporation Limited and Meghalaya Power Generation Corporation Limited. The combined power sector SPSUs bear the accumulated loss of Rs.1836 crores, which is 6.5 percent of GSDP.

**Table 5.1: Total Budgeted Subsidy (in lakhs)**

Sl No	Name of Department	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1	Public Works Department: Subsidies to MGCC	65.6	65.6	60.6	60.6	60.6	60.6	0.0	30.6
2	Food & Civil Supplies Department	147.4	147.4	147.4	147.4	1087.6	5584.7	6349.9	7519.8
3	Tourism Department: Meghalaya Tourism Dev. & Investment Promotion Scheme	0.0	0.0	0.0	100.0	50.0	50.0	100.0	100.0
4	Soil & Water Conservation Department: Afforestation & Cash/Horticultural crop	44.9	26.3	33.5	48.9	75.4	71.5	58.6	68.7
5	Power Department Direct Subsidy	1231.7	1328.5	1036.5	1456.8	1795.0	1453.0	2050.1	0.0
6	Power Department Direct Subsidy (for Power purchase)	0.0	0.0	0.0	0.0	9000.0	0.0	0.0	0.0
7	Power Department total Subsidy	1231.7	1328.5	1036.5	1456.8	10795.0	1453.0	2050.1	0.0
8	Commerce & Industries Department: Package Scheme of Incentives	644.0	521.0	911.0	550.0	1202.8	38.9	0.0	1500.0
9	Transport Department (Assistance to Meghalaya Transport Corporation)	351.0	400.0	402.0	665.5	595.0	691.1	750.0	580.0
10	Fisheries Department	3519.7	810.0	5297.1	4586.8	2104.5	733.1	0.0	0.0
11	Agriculture Department	191.9	317.6	262.7	241.7	236.3	185.3	333.2	329.6
12	Animal Health & Veterinary Department	217.1	196.3	211.3	190.8	14.6	0.0	4.0	4.0
13	Cooperation Department	97.7	335.2	344.0	332.7	243.7	249.8	236.0	116.6
	<b>Total Subsidy</b>	<b>6511.19</b>	<b>4147.83</b>	<b>8706.13</b>	<b>8381.07</b>	<b>16465.31</b>	<b>9118.00</b>	<b>9881.77</b>	<b>10249.25</b>
	As Percent of GSDP	0.33	0.20	0.42	0.42	0.76	0.39	0.40	0.38

*Department of Finance (Economic Affairs), Meghalaya*



**Table 5.2: Total Investments in Government SPSUs**

Total Government SPSUs	Working SPSUs	Capital	Long-Term Loans	Total Investments
15	14	4,358	2,020	6,378

*Source: Department of Finance (Economic Affairs), Meghalaya*

**Table 5.3: Profile of Government SPSUs**

Sector	SPSUs
Power Sector	Meghalaya Energy Corporation Limited (MeECL)
	Meghalaya Power Generation Corporation Limited (MePGCL)
	Meghalaya Power Distribution Corporation Limited (MePDCL)
	Meghalaya Transmission Corporation Limited (MePTCL)
Agriculture and Forestry	Forest Development Corporation Meghalaya Limited (FDCML)
	Meghalaya State Warehousing Corporation Limited (MSWCL)
Promotional	Meghalaya Handloom & Handicrafts Development Corporation Limited (MHHDCCL)
	Meghalaya Tourism Development Limited (MTDCL)
Manufacturing	Mawmluh Cherra Cement Limited (MCCL)
Mining	Meghalaya Mineral Development Corporation Limited (MMDCL)
Financial Services	Meghalaya Industrial Corporation Limited (MIDCL)
Construction	Meghalaya Government Corporation Limited (MGCCCL)
Infrastructure	Meghalaya Basin Management Agency Limited (MBMAL)
	Meghalaya Infrastructure Development and Finance Corporation (MIDFC)

*Source: Department of Finance (Economic Affairs), Meghalaya*

**Table 5.4: Financial Profile of SPSUs (In Lakhs)**

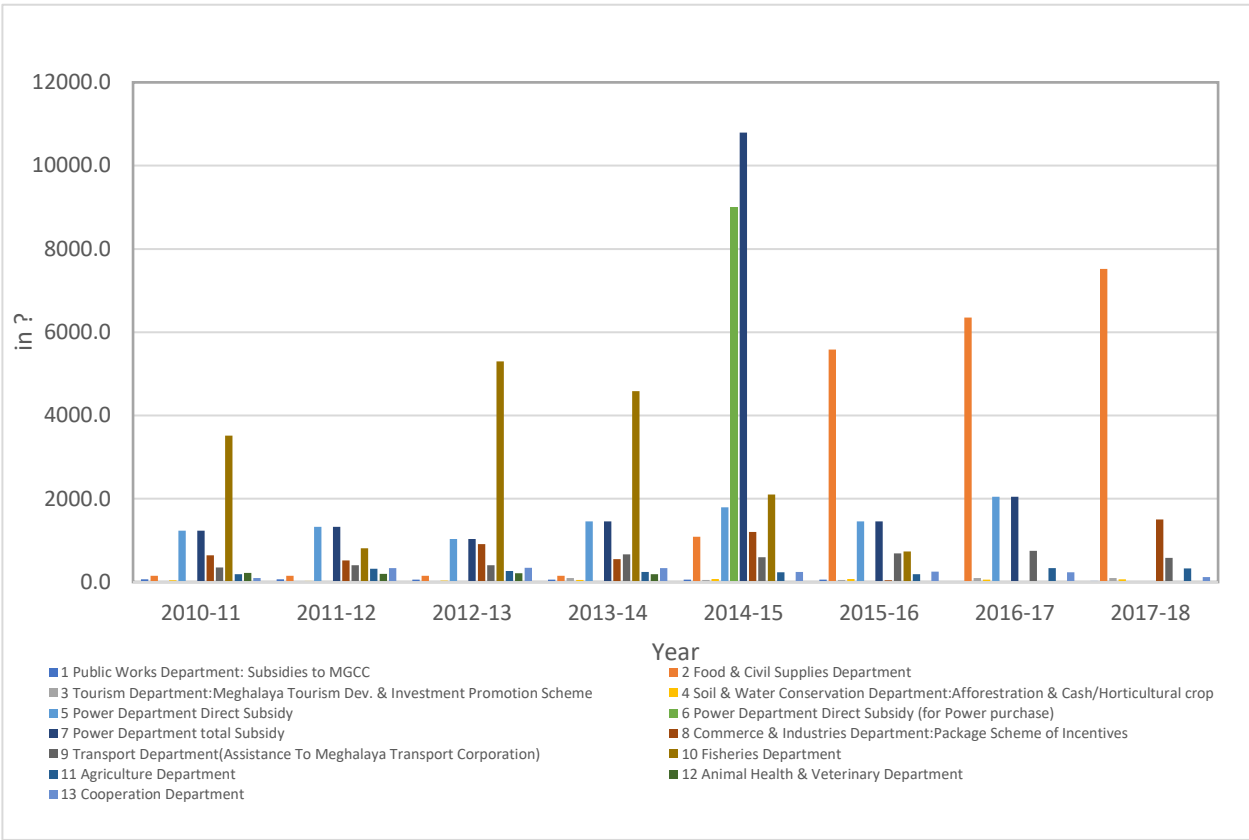
Sector	2015-16			2016-17			Accumulated Profit/Loss
	Income	Expenditure	Profit/Loss Account	Income	Expenditure	Profit/Loss Account	
MMDCL	167.5	176.7	(-) 9.2	288.4	258.4	(+) 30.1	(-) 667.9
MSWCL	71.5	69	(+) 2.6	98.1	76.7	(+) 21.3	(-) 26.8
MGCCCL	78.3	77	(+) 0.6	73.6	73.1	(+) 0.5	(-) 8.7
FDCML	424.2	271.8	(+) 152.3	337.9	291.9	(+) 45.9	(+) 0.24
MeECL	256.6	2529.4	(-) 2272.8	1194	2263	(-) 1469	(-) 13748
MePGCL	212.4	289.7	(-) 7730.8	27091	29079	(-) 1988	(-) 20016
MePTCL	9968	10456	(-) 487.5	12236	11421	(+) 815	(-) 635
MePDCL	76302	95655	(-) 19352	73050	107370	(-) 34320	(-) 149204
MCCL	28.49	2497	(-) 2469	19.6	66	(-) 46.7	(-) 169.1
MHHDC	76.4	89.9	(-) 13.6	12.6	29.5	(-) 17	(-)479.1
MTDC	1626.3	1638.9	(-) 12.7	1720	1815	(-) 95.1	(-) 1032.5
MTCL	1163	1605	(-) 442.8	1075	1519	(-) 444	(-) 11087
MIDC	672	731	(-) 58.5	697	730	(-) 32.7	(-) 4631
MBMA	1001	1001	0	1124	1124	0	(-) 0.1
MIDFC	0.8	2.38	(-) 1.58	0.44	4	(-) 3.6	(-) 11.8

Source: Department of Finance (Economic Affairs), Meghalaya

**Table 5.5: Power Sector of the State**

<b>No.</b>	<b>SPSU Power Sector</b>	<b>Investment</b>	<b>Turnover</b>	<b>Equity</b>	<b>Return</b>	<b>Return on Equity (percent)</b>
1	Meghalaya Energy Corporation Limited	1,961.64	0	1,862.07	-14.73	-0.79
2	Meghalaya Power Generation Corporation Limited	1,772.89	191.1	621.50	-29.4	-4.73
3	Meghalaya Power Transmission Corporation Limited	406.29	83.07	369.12	7.17	1.94
4	Meghalaya Power Distribution Corporation Limited	1,017.40	722.17	-160.22	-197.96	Not workable

*Source: CAG Report on Social, Economic, General and Economic (PSUs) Sectors 2018 for the year 2016-17*



**Figure 5.1: Total Budgeted Subsidy**  
 Source: Department of Finance (Economic Affairs), Meghalaya

## **6. Analysis of Fiscal Imbalances and Debt Sustainability**

### **6.1 Trends in Deficit Indicators**

The state of Meghalaya come under special category status and thus entitled to receive additional central fiscal transfer arrangements in terms of higher per capita grants in comparison to other non-special category states. Therefore, the state is in a comfortable position of revenue surplus for almost all the years over the time period from 2006-07 to 2016-17 except in the year 2011-12. Thus, the interpretations of fiscal indicators should be considered in this context of special funding from the Central government and fiscal imbalances need to be considered accordingly. In this study, three key fiscal parameters – revenue deficit, fiscal deficit, and primary deficits - are used to understand the overall fiscal imbalances in the state finances. The deficit indicators will indicate the nature of state fiscal management. Revenue deficit is the difference between the actual and projected revenue of the state. Fiscal deficit is the difference between the total expenditure and total revenue receipts of the state. Fiscal deficit indicates the total borrowing that will be required by the state whereas revenue deficit indicates the shortage in revenue generation. The primary deficit is the difference of gross fiscal deficit and interest payments, and it measures the net addition to the state government borrowings excluding the cost of interest payments.

Table 6.1 details all the three fiscal deficit indicators of the state for the time period from 2006-07 to 2016-17 in absolute terms and as percentage of GSDP. The state enjoys revenue surplus over the time period, which grew from Rs. 235 crores in 2006-07 to Rs.602 crores in 2016-17. Revenue surplus took the biggest dip in the year 2014-15 when it fell from Rs.715 crores in 2013-14 to Rs.176 crores in 2014-15. The data in terms of percentage of GSDP comes out to be slightly different for different sources. Therefore, to maintain consistency in data, we have selected the Reserve Bank of India data throughout. As percentage of GSDP, revenue surplus has come down from 2.72 percent in 2006-07 to 2.12 percent in 2016-17. The period of 2011-

12 is the only year when the state experiences revenue deficit of 0.90 percent. However, the state has experienced growing fiscal deficit consistently for all the years over the time period from 2006-07 to 2016-17. The fiscal deficit for the year 2006-07 was 75 crores, which grew to 699 crores in 2016-17. In terms of percentage of GSDP, fiscal deficit of the state grew from 0.87 percent in 2006-07 to 2.37 percent in 2016-17. During the time period, fiscal deficit grew to a maximum of 5.35 percent in the year, 2011-12. Primary deficit of the state reveals a mix trend over the time period. From the surplus of Rs129 crores in 2006-07, primary deficit grew to Rs.223 crores in 2008-09. In 2009-10, the state again had surplus of Rs.8 crores but reached the maximum deficit in Rs.780 crores in 2011-12. In terms of percentage of GSDP, primary deficit reached the maximum of 3.92 percent in 2011-12 but has remained considerably low in the last two years of 2015-16 and 2016-17, being 0.34 percent and 0.62 percent respectively.

Figure 6.1 shows the state deficit indicators for the time period 2006-07 to 2016-17. Though there has been revenue surplus in the state for the time period, there is steady increase in the fiscal deficit till 2011-12 and then in the year 2014-15. Figure 6.2 shows the fiscal liabilities of the state for the time period from 2006-07 to 2016-17. Liabilities as percent of GSDP has steadily decreased till 2012-13 and then took an upward swing for the years 2013-14 and 2014-15. Currently, the liabilities are 31 percent of GSDP in the year 2016-17.

As per the recommendations of the Fourteenth Finance Commission, fiscal deficit of states should be kept below 3.25 percent of GSDP. Further, as per the recommendations MFRBM Act (as amended), the state government of Meghalaya agreed to keep the fiscal deficit target below 3 percent of GSDP during the time period 2016-20. Table 6.1 clearly reveals that the state government has succeeded in keeping up of its commitment towards MFRBM Act (as amended) as well as recommendations of the Fourteenth Finance Commission in the year 2016-17 by keeping the fiscal deficit well below 3 percent.

## 6.2 Debt Sustainability

Debt sustainability is defined as the ability of the State to service its debt in future without requiring debt relief or accumulating arrears. It also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. Therefore, one of the key indicators of debt sustainability is fiscal deficit of the state, wherein the fiscal deficit level should align with the increase in capacity to service the debt.

The standard test for sustainability of debt is to examine the time-trend stationarity of processes generating the fiscal variables. There should not be a unit root within the existing time series. A unit root would imply that the current fiscal stance is unsustainable, because if the policy were extended into the indefinite future it would violate future budget constraints. (Uctum et al., 2006). The Augmented Dickey Fuller (ADF) test tests whether a time series variable is non-stationary and possesses a unit root. The null hypothesis is generally defined as the presence of a unit root and the alternative hypothesis is either stationarity, trend stationarity or explosive root depending on the test used. Bystrov and Mackiewicz (2016) apply ADF test to find that ADF test with trend rejects the null of unit root in favour of trend-stationary process in the case of Sweden. Figure 6.3 shows the trend of variables for examining the state debt sustainability. The variables for debt sustainability are state debt, state revenue, and state expenditure taken in the logarithmic form. Table 6.3 shows our results for ADF test for examining the debt sustainability of the state. In case of Meghalaya, we find trend-stationarity of Debt and Government Revenue at 99 percent and 90 percent significance level respectively. They signify that level of debts and Government Revenue have shown a constant rising trend. The government expenditure on the other hand does not exhibit stationarity signifying an unsustainable behaviour. A time stationary series is unaffected by shocks and their individual

effects decay and eventually disappear in a long time whereas a non-stationary series experiencing shocks have permanent effect on the series. (Lyocsa et al., 2011).

The Meghalaya state government in accordance with the recommendations of the Twelfth Finance Commission, enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006. In accordance with the recommendations of the Fourteenth Finance Commission, the MFRBM Act was amended by the State Government which came into force from 29 September 2015 and targets of revenue surplus, total outstanding liabilities and fiscal deficit were set for the year 2016-17. The revenue surplus as percentage of total revenue receipts was 2.12 as compared to the set target of 4.31 percent. The ratio of total liabilities as percentage of GSDP has consistently decreased from 32 percent in 2006-07 to 22.7 percent in 2012-13. However, in the recent years, the state liabilities as percent of GSDP is showing increasing trend, from 22.7 percent in 2012-13 to 30.4 percent in 2016-17. The state missed the target in terms of keeping the state liabilities as percent of GSDP under 26.18 percent for the year 2016-17. The fiscal deficit was kept under control to a level of 2.37 percent against the set target of 3.63 percent. The Rate of growth of outstanding liabilities (D), which should be lower than rate of growth of GSDP (G) shows ups and downs over the years. The situation was mostly desirable till 2012-13 but deteriorated since 2013 barring the year 2015-16. Primary balance and Primary revenue balance over the years are negative indicating a deficit, though the value is within the prescribed limits. The revenue receipts increasing as a percentage of GSDP indicate an improving economy situation, Meghalaya witnessed increase in revenue receipts as percentage of GSDP from 2006 till 2011 followed by a sudden decline in 2011-12 and recovery in the later years. The revenue receipts as percentage of GSDP have since reached the highest level of 31.42 percent in 2016-17. The outstanding liabilities to Revenue Receipts ratio(D/RR) show a declining trend from 2006-07 to 2010-11, thereby showing mixed trends and reaching to the value of 1.00 in 2016-17. Table 6.4 shows the details of the fiscal liabilities



of the state for the time period 2006-07 to 2016-17. In terms of buoyancy of fiscal liabilities, the buoyancy to GSDP has increased substantially from 0.41 in the year 2006-07 to 1.73 in 2016-17. The buoyancy reached the maximum of 5.4 in the year 2013-14. In terms of revenue receipts, the buoyancy has increased from 0.34 in the year 2006-07 to 0.95 in 2016-17. However, the buoyancy has remained below one throughout the time period. The Interest payments (IP) as percent to GSDP (G) declined till 2012-13 and has since increased signifying a slowing economy and higher interest burden. The Interest payments (IP) as a percent of revenue receipts (RR) have shown a progressive decline over the year from a value of 9.48percent in 2006-07 to 5.84 percent in 2016-17. The figure shows greater ability for interest payments. Overall the indicators suggest that since 2006-07, the state has shown improvement in terms ability to pay interests and debts with a slight deviation in the years 2011-13.

### **6.3 Fiscal deficit projections**

The fiscal imbalance is most popularly measured by fiscal deficit in India. It is generally defined as the total expenditure of the government minus all non-borrowed receipts. In terms of growth rate in revenue receipts and revenue expenditure of the state, it is projected in table 6.5. For the year 2019-20, the projected value for state's total revenue expenditure has declined by 13.29 percent from the previous year value. This may lead to underestimation in the projections for the fiscal deficits of the state. We have adopted the state's own revenue receipts, capital receipts and capital expenditure projections from the Department of Finance (Economic Affairs), Meghalaya. Three possible scenarios have been taken for the projections of the transfers from the centre. These three possible scenarios are with annual growth rates of 3 percent, 5 percent and 7 percent in the central transfers over 2019-2020 value. The central transfers in these scenarios are given in table 6.6. From table 6.5 and table 6.6, the projected fiscal deficit in absolute terms are thus given in table 6.7. In the scenario I (3 percent growth rate), there is fiscal deficit for the entire time period except 2020-21. In scenario II (5 percent

growth rate), there is fiscal deficit for the three years only and there is surplus for 2020-21 and 2021-22. In scenario III (7 percent growth rate), there is fiscal deficit for 2019-20 and 2024-25. Fiscal deficit as percentage of GSDP as given in table 6.8, the fiscal deficit can go up to 7.35 percent in 2024-25 in scenario I, 4.45 percent in scenario II and 1.25 percent in scenario III. Therefore, the central transfers from the centre should have annual growth rate of more than 5 percent to meet the fiscal targets of the state under the business as usual assumption for the remaining heads of the deficit indicator.

#### **6.4 Fiscal consolidation path for 2020-25**

Fiscal consolidation is important particularly for small states with limited sources of revenue for the improvement of their fiscal health. In Meghalaya, Fiscal Responsibility and Budget Management Act (2006) set the target of fiscal deficit of less than 3 percent and debt to GSDP within at 20 percent. Though the target of debt to GSDP ratio has been brought down considerably, standing at 31.76 percent in 2017-18, fiscal deficit has recorded a consistent rise and the target of 3 percent could not be achieved by the state. The state which witnessed a revenue surplus in 2010-11, mostly due to central assistance, started recording growing fiscal deficit from 2012-13 onwards, which has been only mounting over the years. Fiscal deficit was as high as 3.85 percent in 2017-18, to 3.32 percent in 2018-19 and 3.65 percent in 2019-20.

The fiscal health of the state has always been a matter of grave concern. However, the situation has worsened since 2014-15 after the banning on coal mining by NGT resulting in huge loss to the state exchequer by way of loss of revenue from mining. Though the fiscal policy of the state mentions about the necessity of tax augmentation and expenditure rationalisation, nothing much has been done in this connection. In view of the fiscal deficit exceeding the targeted figure of 3 percent in 2016-17, the target for fiscal deficit for 2017-18 and 2018-19 was set at 2.90 and 2.76 respectively. The state not only failed to achieve those targets but the deficit has far exceeded the deficits of the previous years. What is really worrying for the health of the

state's finance is the mounting amount of revenue expenditure and a declining quantum of capital expenditure. This has been aggravated by the implementation of the fifth pay commission for the state government's employees. Added to this is a lot of redundant posts created by the state government. Abolition of all such posts will surely ease the unnecessary fiscal strain on the state exchequer.

The measures adopted by the government for fiscal consolidation are extremely modest and implementation leaves a lot to be desired. The tax under the Meghalaya Value added Tax Act on cigarettes is attempted to be raised from 20 percent to 27 percent. An increase of tax rate on High Speed Diesel and other internal combustion oil but excluding petrol increased from 12.5 percent to 13.5 percent. Since 95 percent of the state's own tax receipts come from taxes on sales and trade and excise, it implies that the tax base in term those items which has a high demand in the state can be explored for imposition of taxes.

The state levies almost negligible user charges, when in fact it can be a substantial source of the state's income. Environmental user charges can be levied for the heavy traffic that congests the narrow roads of the big and small towns of the state. User Charges can also be levied for waste treatment. Efforts have also to be made to impose user's charges on social and economic services.

Another area of concern which constraints all efforts of fiscal consolidation is the rampant tax evasion and leakage over and above the very weak tax base. CAG reports point out that in 2013-14 the state lost Rs 600 crore only due to leakage and evasion. Even the sale tax compliance is very weak due to poor tax administration. Fiscal consolidation in the absence of strict compliance and tax administration is very difficult to achieve.

Negligible private investment limits the ability of the state to garner income through taxes of the private sector. Therefore, private investment is of utmost importance, for the economic growth of the state, generating employment and also resource mobilisation through taxation.

The public sector undertakings in the state too have all become terminally ill. Very little efforts are made to improve their efficiency and performance. Fiscal consolidation requires immediate and serious policy with effective implementation to make the state PSUs healthy.

The various CAG Report also reveal some very disturbing instances of huge misappropriation and fraud in the use of government funds. Even if cases are registered action in this regard has hardly been taken. CAG report further mentions that there has been a massive re-appropriation of funds without any valid reasons. Fiscal consolidation is also adversely affected when there is cluttering of expenditure towards the end of the financial year instead of spreading expenditure out evenly throughout the year. Such expenditure only results in wastage and may even be spent where it may be of least importance. Prudent and strict financial governance therefore is another need of the hour for fiscal consolidation of the state. Delay in submission of Utilisation Certificates by several years is only another instance of lack of financial prudence practiced in the state.

Expenditure rationalisation has to be the only means of financial consolidation in view of the weak tax buoyancy and limited ability for increasing resources through tax mobilisation.

### **Summary**

In case of Meghalaya, we find trend-stationarity of Debt and Government Revenue at 99 percent and 90 percent significance level respectively. They signify that level of debts and Government Revenue have shown a constant rising trend. The government expenditure on the other hand does not exhibit stationarity signifying an unsustainable behaviour. The expenditures are rising at uncontrolled levels and certain austerity measures are required, particularly in revenue expenditures. Though the state is in a comfortable position of revenue surplus, in accordance with the recommendations of the Fourteenth Finance Commission, revenue surplus as percentage of total revenue receipts was 2.12 as compared to the set target of 4.31 percent. The fiscal deficit was kept under control to a level of 2.37 percent against the

set target of 3.63 percent. Therefore, the fiscal consolidation path for the state should adopt several measures such as increasing the private investments, focus on expenditure rationalisation, cutting down on unnecessary administrative cost, levying environment user charges and putting a strong emphasis on deficit indicators.

**Table 6.1: Trends in Deficit Indicators**

In crores

	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Revenue deficit	-235.00	-188.00	-128.00	-265.00	-248.00	180.00	-537.00	-715.00	-176.00	-695.00	-602.00
Primary deficit	-129.00	25.00	223.00	-8.00	84.00	780.00	81.00	11.00	573.00	89.00	177.00
Fiscal deficit	75.00	214.00	435.00	226.00	341.00	1065.00	395.00	382.00	978.00	555.00	699.00

	<b>As percent of GSDP</b>										
	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Revenue deficit	-2.72	-1.93	-1.10	-2.09	-1.70	0.90	-2.46	-3.12	-0.76	-2.68	-2.12
Primary deficit	-1.50	0.26	1.92	-0.06	0.58	3.92	0.37	0.05	2.47	0.34	0.62
Fiscal deficit	0.87	2.20	3.74	1.78	2.34	5.35	1.81	1.67	4.21	2.14	2.37

*Source: RBI annual publication and State Annual Reports CAG*

**Table 6.2: Indicator based Analysis**

S No.	Indicators	Representation	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
1	Rate of growth of outstanding liabilities (D) should be lower than rate of growth of GSDP (G)	$D - G < 0$	-10.96	0.85	-5.58	-2.97	-7.23	-12.07	-12.28	21.40	6.40	-5.79	16.02
2	Primary balance (PB) should be in surplus	$PB / GSDP > 0$	1.50	-0.26	-1.92	0.06	-0.58	-3.92	-0.37	-0.05	-2.47	-0.34	-0.62
3	Primary revenue balance (PRB) should be in surplus	$PRB / GSDP > 0$	-0.86	-2.20	-3.74	-1.78	-2.34	-5.35	-1.80	-1.67	-4.21	-2.13	-2.46
4	Revenue Receipts (RR) as a percent to GSDP (G)	$RR / GSDP \uparrow\uparrow$	24.83	25.07	24.20	27.12	29.21	23.37	25.31	27.32	27.67	27.13	31.42
5	Outstanding liabilities (D) to revenue receipts ratio	$D / RR \downarrow\downarrow$	1.29	1.29	1.27	1.10	0.96	1.09	0.90	1.00	1.05	1.02	1.00
6	Interest Burden defined by interest payments (IP) as percent to GSDP (G)	$IP / G \downarrow\downarrow$	2.35	1.94	1.82	1.84	1.76	1.44	1.43	1.62	1.74	1.79	1.84
7	Interest payments (IP) as a percent of revenue receipts (RR)	$IP / RR \downarrow\downarrow$	9.48	7.74	7.54	6.79	6.03	6.15	5.65	5.94	6.30	6.60	5.84

Source: Estimated by Authors

**Table 6.3: Results of Unit Root Test**

<b>Variables (Levels)</b>	<b>t Statistics</b>
States' Debt (log B)	-5.282***
Government Revenue (log R)	-3.402*
Government Expenditure (log E)	-2.662
<b>Variables (Differences)</b>	
States' Debt (D log B)	-9.069***
Government Revenue (D log R)	-3.865**
Government Expenditure (D log E)	-3.303*

*Source: Estimated by Authors*



**Table 6.4: Fiscal Liabilities**

<b>Particulars</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Fiscal Liabilities (` in crore)	2762	3141	3573	3803	4088	5090.28	4965	6269.23	6751.46	7154.68	8983.5
Rate of Growth (per cent)	7.64	13.72	13.8	6.44	7.49	24.51	-2.47	26.28	7.69	5.97	25.56
<b>Ratio of Fiscal Liabilities to</b>											
GSDP (per cent)	32.02	32.27	30.8	28.76	27.1	25.56	22.7	27.33	28.06	26.2	30.38
Revenue Receipts (per cent)	128.94	128.7	127	110.3	95.9	109.36	89.67	100.04	105.03	101.58	100.5
Own Resources (per cent)	564.83	606.4	601	528.9	468	477.61	372.5	405.13	526.44	556.6	480.08
<b>Buoyancy of Fiscal Liabilities to</b>											
GSDP (ratio)	0.41	1.07	0.71	0.47	0.53	1.91	-0.25	5.4	1.57	0.44	1.73
Revenue Receipts (ratio)	0.34	0.98	0.91	0.28	0.32	2.65	-0.13	1.99	2.98	0.62	0.95
Own Resources (ratio)	0.34	2.31	0.93	0.31	0.35	1.11	-0.1	1.63	-0.45	25.96	56.09

Source: RBI annual publication and State Annual Reports CAG

**Table 6.5: Forecast for Revenue Expenditure and Own Revenue Receipts**

	2020-21	2021-22	2022-23	2023-24	2024-25
Total Revenue Expenditure	11390.74	12448.80	13623.90	14931.03	16387.41
Growth Rate (%)	9.14	9.29	9.44	9.59	9.75
Own Revenue Receipts	2296.65	2478.00	2675.22	2889.83	3123.46
Growth Rate (%)	7.83	7.90	7.96	8.02	8.08

Source: Department of Finance (Economic Affairs), Meghalaya

**Table 6.6: Forecast for Central Transfers**

	2020-21	2021-22	2022-23	2023-24	2024-25	Total central transfers
Scenario I	10903.08	11230.17	11567.08	11914.09	12271.51	57885.94
Scenario II	11114.79	11448.24	11791.68	12145.43	12509.8	59009.93
Scenario III	11766.37	12590.01	13471.31	14414.3	15423.31	67665.30

Source: Estimated by Authors

**Table 6.7: Forecast for Fiscal Deficit in Absolute Terms**

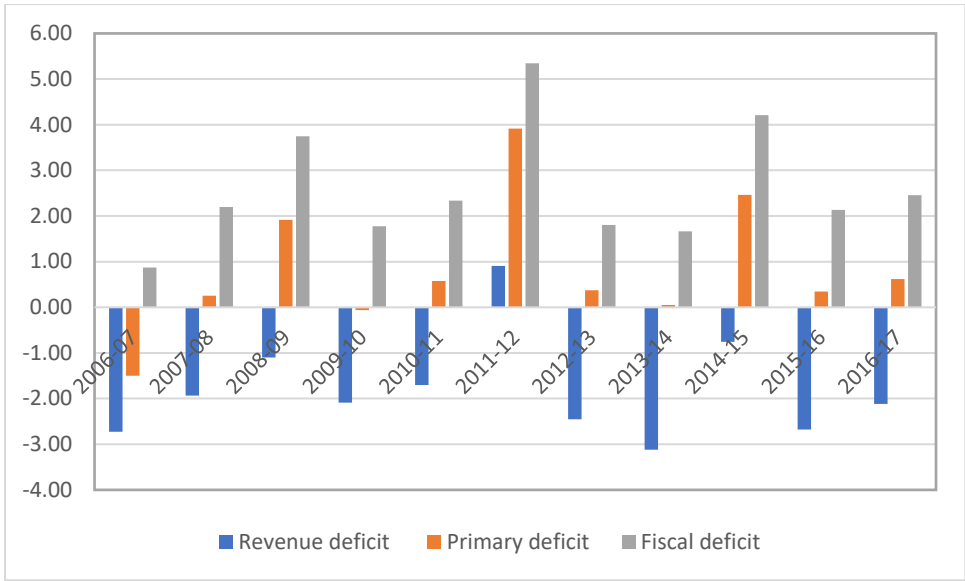
	2020-21	2021-22	2022-23	2023-24	2024-25
Scenario I	-514.03	167.731	952.54	1854.48	2889.7
Scenario II	-734.83	-291.53	236.06	860.911	1597.94
Scenario III	-955.63	-759.62	-508.22	-191.08	203.91
GSDP Current	38787.56	41666.45	44759.02	48081.13	51649.81

Source: Estimated by Authors

**Table 6.8: Forecast for Fiscal Deficit as Percentage of GSDP**

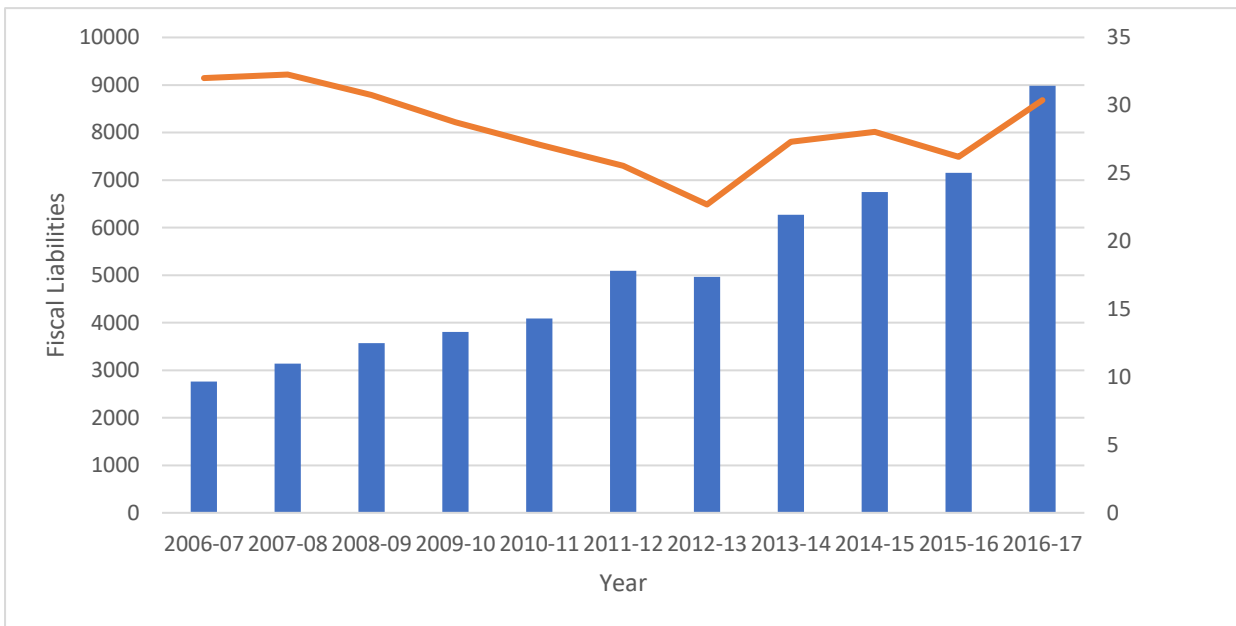
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Scenario I	-1.325	0.402	2.128	3.856	5.594	7.347
Scenario II	-1.894	-0.699	0.527	1.790	3.093	4.441
Scenario III	-2.463	-1.823	-1.135	-0.397	0.394	1.245

Source: Estimated by Authors



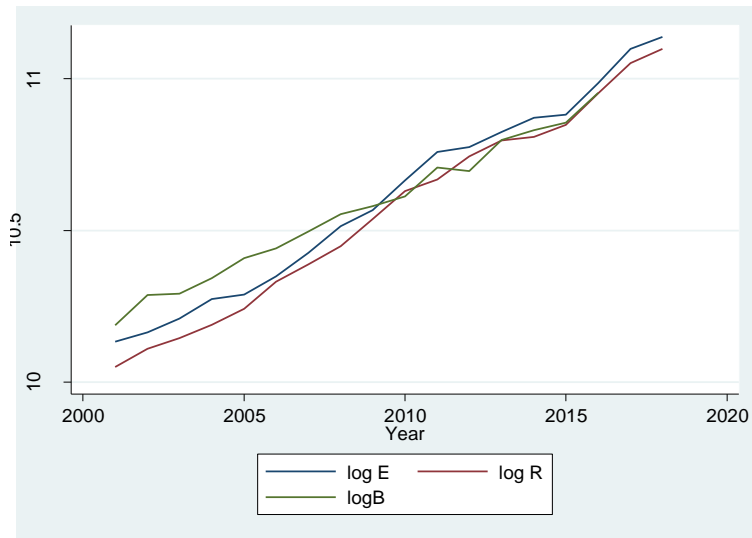
**Figure 6.1: State Deficit Indicators**

Source: RBI annual publication and State Annual Reports CAG



**Figure 6.2: Fiscal Liabilities of the State**

Source: RBI annual publication and State Annual Reports CAG



**Figure 6.3: Trends of Variables for Debt Sustainability**

*Source: Estimated by Authors*

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## Annexures

**Table A1: Revenue Receipts of Meghalaya (2006-07 to 2016-17) (In Crore)**

	2006 -7	2007 -8	2008 -9	2009 -10	2010 -11	2011 -12	2012 -13	2013 -14	2014 -15	2015 -16	2016 -17
Total revenue	2142	2441	2811	3447	4260	4654	5536	6267	6428	7044	8939
of which											
A. Own revenue	489	518	595	719	873	1066	1332	1547	1282	1286	1871
(i) Own tax revenue	305	319	369	444	571	698	847	949	939	1057	1186
(ii) Own Non-tax	184	199	225	275	302	368	485	598	343	229	685
B. Central transfers	1653	1923	2216	2728	3388	3589	4204	4719	5146	5758	7068
A. Share of Central Taxes	447	564	595	612	896	1044	1192	1302	1382	3276	3911
B. Non-Plan Grants	472	461	440	377	664	527	896	921	804	674	640
C. Plan grants	733	898	1181	1738	1827	2017	2116	3132	2960	1807	2516
Grants											
(i) State Plan Schemes	569	645	958	1395	1428	1703	1748	2046	2580	1240	2264
(ii) Central Plan Schemes	11	4	8	26	13	16	15	32	9	271	19
(iii) Centrally Sponsored Scheme	107	179	159	251	315	242	268	358	293	196	138
(iv) NEC/ Special Plan scheme	47	70	56	67	72	56	85	696	78	100	95

**A2: Composition of Non-Tax Revenue (In Crore)**

<b>Head of Revenue</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>
Mining Receipts	109	124	133	198	216	263	358	456	195	61	470
Forestry and Wildlife	16.7	15.6	17.3	20	22	26	31	60	72	72	104
Interest Receipts	13.4	15.4	17.8	23.3	24.7	27.1	25	34	38	40	46
Public Works	5.1	4.2	6.7	7	12.7	17	43.4	12.2	6.3	8.4	10.2
Medical and Public Health	1.1	0.6	0.7	0.6	0.7	1.4	1.4	2	2.7	1.5	1.6
Other Receipts	39.1	39.6	49.8	26.2	25.3	33.8	26.2	33.9	29.3	45.7	53.4
<b>Total</b>	<b>184.4</b>	<b>199.4</b>	<b>225.3</b>	<b>275.1</b>	<b>301.4</b>	<b>368.3</b>	<b>485</b>	<b>598.1</b>	<b>343.3</b>	<b>228.6</b>	<b>685.2</b>

**Table A3: Revenue Expenditure of Meghalaya (2006-07 to 2016-17) (In lakh)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	2016**
	-7	-8	-9	-10	-11	-12	-13	-14	-15	-16	-17
1. General Services	70308	77827	93752	110099	131680	148719	157380	183837	202165	219788	243024
of which											
i. Interest Payments	20313	18898	21204	23396	25693	28567	31382	37150	40510	47105	55129
ii. Pensions	11751	13470	17176	20789	29962	37579	38826	45087	51494	44632	49098
iii. Other services	38244	45459	55372	65914	76025	82573	87172	101600	110161	128051	138797
2. Social Services	61430	75355	80492	109238	137603	174247	174793	197377	237024	243223	297948
i. Education	32552	42282	43364	56364	75813	102233	96114	110867	129724	142093	158506
ii. Health	9911	11308	13108	20888	27693	28581	33368	35368	48339	48418	63565
iii. Water Supply/ Sanitation	6536	6568	7689	10356	10561	11185	16008	15847	16740	1581	1679
iv. Others	12431	15197	16331	21630	23536	32248	29303	35295	42221	51131	74198
3. Economic Services	59011	72184	94034	98901	131991	160515	167781	173945	185997	299137	318423
i. Agriculture & Allied Activities	17628	21673	25000	36423	55243	50220	50637	59354	59049	93711	92240
ii. Rural Development	13155	13205	19650	16821	24181	31010	33455	35038	56813	61114	90671
iii. Energy	9047	13771	23616	12264	11386	16833	17741	15628	16717	12923	16470
iv. Transport & Communication	7655	7938	7479	9781	8516	11845	17415	14639	12147	14903	16393
v. Others	11526	15597	18289	23612	32665	50607	48533	49286	41271	116486	102649
Total	190749	225366	268278	318238	401274	483481	499953	555159	625186	762148	859395



**Table A4: Capital Expenditure of Meghalaya (2006-07 to 2016-17) (In lakh)**

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	-7	-8	-9	-10	-11	-12	-13	-14	-15	-16	-17
<b>A. Capital Outlay</b>	32037	39166	53102	48129	57474	85523	92834	107547	111849	160364	136053
1.General Services	1634	2769	4756	4840	3665	5244	6059	8482	8238	9408	14264
2. Social Services	12680	15248	22151	14145	13274	28840	22428	39111	36334	66678	44858
i. Education, Sports, Art & Culture	202	569	469	258	892	343	342	2526	431	5023	830
ii. Health & Family Welfare	1806	3608	2027	2160	2010	3644	6303	9602	8786	9864	8388
iii. Water Supply & Sanitation	9229	10769	13701	9635	8796	14191	12761	13589	19061	32744	27238
iv. Housing	638	203	670	673	439	613	979	1858	700	2759	2513
v. Social Welfare & Nutrition	799	51	69	20	586	70	-	378	1626	803	1012
3. Economic Services	17723	21149	26195	29144	40535	51439	64346	59954	67277	84278	76943
i. Agriculture & Allied Activities	459	1336	1549	1967	2082	2830	1071	1634	1036	2959	2214
ii. Rural Development	6	42	27	32	120	31	11	20	10	40	24
iii. Special Areas Programs	4664	5097	3708	2619	3969	5850	7665	4126	5056	7056	10756
iv. Irrigation & Flood Control	561	607	3180	3475	8256	8233	8446	612	4213	1108	9270
v. Industry & Minerals	1268	283	1445	1411	2538	1248	4647	3339	6871	3715	652
vi. Transport & Communication	10758	13783	16280	19640	23570	33147	42496	49955	49987	58689	52497
vii. General Economic Services	7		6			100	10	269	105	711	1301
<b>B. Disbursement of loans and expenditure</b>	596	2673	5021	2666	4165	5237	2702	4233	5611	2790	4872
<b>Total</b>	<b>32633</b>	<b>41839</b>	<b>58123</b>	<b>50795</b>	<b>61639</b>	<b>90760</b>	<b>95536</b>	<b>111780</b>	<b>117460</b>	<b>163154</b>	<b>140925</b>

**Table A5: Capital Expenditure on Loans and Advances (In Lakh)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	-7	-8	-9	-10	-11	-12	-13	-14	-15	-16	-17
1. Social Services						52	192	7	4	28	28
2. Economic services	228	1955	4326	1052	2646	3594	1138	2610	3902	1013	2895
of which:											
i. Power	127	1394	4314	752	2311	2871	1138	2610	3902	960	1195
ii. Cooperation	101	61	12								
iii. Others		500		300	335	723				53	1700
3. Government employees	368	718	695	1614	1519	1591	1371	1616	1705	1749	1949
Total	596	2673	5021	2666	4165	5237	2701	4233	5611	2790	4872

**Table A6: Development Expenditure of Meghalaya (2006-07 to 2016-17) (In Lakh)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	-7	-8	-9	-10	-11	-12	-13	-14	-15	-16	-17
A. Direct 1+2											
1.. Revenue Expenditure	120441	147539	174526	208139	269594	334762	342574	371322	480247	483945	299137
i. Social Services	61430	75355	80492	109238	137603	174247	174793	197377	237024	243223	297948
ii. Economic Services	59011	72184	94034	98901	131991	160515	167781	173945	185997	299137	318423
2. Capital Outlay	30403	36396	48346	43289	53809	80279	86775	99065	103611	150956	52555
iii. Social Services	12680	15248	22151	14145	13274	28840	22428	39111	36334	66678	44858
iv. Economic Services	17723	21148	26195	29144	40535	51439	64346	59954	67277	84278	76931
B. Indirect (3)											
3. Housing Loans to govt. employees	326	1962	4333	1053	2647	3646	1331	2617	3906	1041	2923
Development (A+B)	151170	185897	227205	252481	326050	418687	430680	473004	587764	635942	354615

**Table A7: Non-Development Expenditure of Meghalaya (2006-07 to 2016-17) (In lakh)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	-7	-8	-9	-10	-11	-12	-13	-14	-15	-16	-17
1. Revenue Expenditure	70309	77827	93752	110099	131680	148720	157379	183836	202165	219788	242024
i. Organs of State	5361	6548	7990	5452	6859	7889	10266	13722	11186	14488	14741
ii. Fiscal services	2175	2752	7579	3796	4484	5483	5306	6266	6264	7229	7306
iii. Interest Payments & servicing of debt	21219	20068	22556	24805	27255	30323	33425	39318	42924	50243	58505
iv. Administrative Services	29764	34947	38406	55191	63042	67359	69470	79351	90202	101965	111012
v. Pensions	11752	13470	17176	20789	29962	37579	38826	45087	51494	44632	49098
vi. others	38	42	45	66	78	87	86	92	95	1231	1362
2.. Capital Expenditure on general services	1634	2769	4756	4840	3665	5244	6059	8482	8238	9408	14264
3. Loans to Government employees (other than housing)	270	711	688	1613	1518	1591	1371	1616	1705	1749	1949
Non-development (1+2+3)	72213	81307	99196	116552	136863	155555	164809	193934	212108	230945	258237

**Table A8: Plan and Non-Plan Revenue Expenditure (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	27311
2002-03	46728	1657	30260	12329	17927	11554	94915	25540
2003-04	50640	1963	31384	16530	18371	12481	100395	30974
2004-05	56467	2238	33683	22093	21859	23294	112009	47625
2005-06	60278	2255	34074	21401	23945	25495	118297	49151
2006-07	67790	2518	39019	22411	27295	31716	134104	56645
2007-08	74798	3029	43970	31386	34476	37708	153244	72123
2008-09	90286	3465	47978	32513	29620	64415	167884	100393
2009-10	105234	4865	62953	46285	45312	53589	213499	104739
2010-11	125734	5946	82646	54955	45609	86381	253989	147282
2011-12	142528	6191	93168	81078	51910	108606	287606	195875
2012-13	155764	1615	108380	66413	63869	103912	328013	171940
2013-14	182175	1661	117092	80285	71013	102933	370280	184879
2014-15	199582	2583	125571	111453	81984	104013	407137	218049
2015-16	216462	3326	118390	124833	73550	225587	408402	353746
2016-17	240424	2601	137266	160682	78953	239470	456643	402753

**Table A9: Plan and Non-Plan Capital Expenditure (In lakh)**

	A. Capital Outlay						B. Loans & Advances		Total	
	General Services		Social Services		Economic services		Non-Plan	Plan	(A+B)	
	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	1784.01	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	429	12250		17723	368	228	1151	31481
2007-08	427	2342		15248		21149	718	1955	1145	40694
2008-09		4756	28	22123		26193	695	4326	723	57398
2009-10		4840	99	14046		29144	1614	1052	1713	49082
2010-11		3665		13274		40535	1519	2646	1519	60120
2011-12	156	5088	27	28813	193	51247	1343	3294	1719	88442
2012-13	279	5781	363	22065	847	63499	2702		4191	91345
2013-14		8482		39111		59954	4233		4233	107547
2014-15		8238		36334		67277	3966	1645	3966	113494
2015-16		9408	23	66655		84278	1777	1013	1800	161354
2016-17		14264		44858		76931	3677	1195	3677	137248

Sources: RBI annual publication and State Annual Reports CAG; Department of Finance (Economic Affairs), Meghalaya

### **A10: Meghalaya Fiscal Responsibility and Budget Management Act (MFRBM Act)**

*In accordance with the recommendations of the Twelfth Finance Commission, the Government of Meghalaya has enacted the Meghalaya Fiscal Responsibility and Budget Management (MFRBM) Act, 2006. In accordance with the recommendations of the XIV FC, the MFRBM Act has been amended by the State Government in September 2015 (came into force from 29 September 2015) which substituted clauses (a), (b) and (c) and inserted a new clause (g) under Section 4 of the MFRBM Act, 2006 as follows:*

- (a) ensure revenue surplus during the award period 2015-16 to 2019-20;*
- (b) (i) maintain fiscal deficit to an annual limit of 3 per cent of GSDP during the award period 2015-16 to 2019-20;*
  - (ii) Provide for flexible limit of 0.25 per cent over and above the 3 per cent of GSDP for any given fiscal year to which its fiscal deficit is to be fixed if its debt-GSDP ratio is less than or equal to 25 per cent of the preceding year.*
- (c) Government shall notify a Medium-Term Fiscal Plan (MTFP) with three years rolling targets, giving details of all significant items of receipts and expenditure along with underlying assumptions made for projection purpose (newly inserted Clause).*
- (d) restrict issuing of guarantees except on selective basis where the quality and viability of the scheme to be guaranteed is properly analyzed [Clause 4(1)(d) of MFRBM Act, 2006];*
- (e) bring out an annual statement that gives a perspective on the State's economy and related fiscal strategy [Clause 4(1)(e) of MFRBM Act, 2006]; and,*
- (f) bring out a special report along with the budget giving details of the number of employees in the Government, Public Sector Undertakings and aided institutions and related salaries, not later than two years from the date on which the Meghalaya Fiscal Responsibility Rules, 2006 came into force [Clause 4(1)(f) of MFRBM Act, 2006].*
- (g) Maintain a ceiling on the sanction of new capital works to three times of the annual budget provision. (h) Government shall notify a Medium-Term Fiscal Plan with three years rolling targets, giving details of all significant items of receipts-expenditure along with underlying assumptions made for projection purpose [newly inserted Clause].*

*The Act also provides that the above limits may exceed on account of unforeseen circumstances such as natural calamities, internal disturbances and shortfall in the transfer of financial resources from the Government of India. As prescribed in the Act, the State Government had incorporated the following disclosure statements for the year 2016-17:*

- Macro Economic Framework Statement*
- Medium Term Fiscal Policy (MTFP) Statement prescribing fiscal targets and assumptions for achieving them.*

*The targets for the year 2016-17 were as under: - Revenue surplus as percentage of total revenue receipts:*

*4.31 - Total Outstanding Liabilities as percentage of GSDP: 26.18 –*

*Fiscal deficit as percentage of GSDP: 3.63*

- Fiscal Policy Strategy Statement*