

CHAPTER I : FINANCES OF THE STATE GOVERNMENT

In Summary

Large revenue and fiscal deficits year after year indicated continued macro imbalances in the State. In Meghalaya, though the revenue surplus increased by Rs.1 crore during 2003-04 over previous year, fiscal deficit increased by Rs.40 crore.

Revenue of the State consists mainly of its own tax and non-tax revenue, Central tax transfers and grants-in-aid from Government of India. Overall revenue receipts increased from Rs.944 crore in 1999-2000 to Rs.1,399 crore in 2003-04 at a trend rate of 10.58 *per cent*. There were, however, significant inter-year variations in the growth rates. During the current year the revenue receipts grew by 8.53 *per cent*. During 2003-04, State's own resources constituted only 22 *per cent* of the total revenue receipts. While Central tax transfers had increased by 27.84 *per cent*, the grants-in-aid from Government of India decreased by 0.91 *per cent* over the last year.

Total expenditure of the State increased from Rs.1,162 crore in 1999-2000 to Rs.1,619 crore in 2003-04 at a trend rate of 9.42 *per cent*. The rate of growth of expenditure in 2003-04 was 10.44 *per cent* which was higher than the trend rate (9.42 *per cent*) for five years.

Expenditure on General Services and interest payments, which are considered non-developmental, together accounted for over 34 *per cent* of total expenditure during 2003-04. Interest payments increased steadily by 77 *per cent* from Rs.96 crore in 1999-2000 to Rs.170 crore in 2003-04. Debt burden (fiscal liabilities) of the State at the end of 2003-04 was Rs.1,952 crore, up by about 7 *per cent* over the previous year. Though the average rate of interest paid on the borrowings of the State during 1999-2004 remained less than the average rate of growth of GSDP, the interest spread had declined considerably.

The balance from current revenues of the State has continued to be negative, thereby reducing availability of funds for additional infrastructure support and other revenue generating investment.

1.1 Introduction

The Finance Accounts of the Government of Meghalaya are laid out in nineteen statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State Government. The lay out of the Finance Accounts is depicted in Box 1.1.

Box 1.1

Lay out of Finance Accounts

Statement No. 1 presents the summary of transactions of the State Government - receipts and expenditure, revenue and capital, public debt receipts and disbursements, etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2 contains the summarised statement of capital outlay showing progressive expenditure to the end of current year.

Statement No.3 - Financial results of irrigation works. However, the Government of Meghalaya has not declared any irrigation project as commercial/productive.

Statement No. 4 indicates the summary of debt position of the State, which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5 gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6 gives the summary of guarantees given by the Government in respect of loans, etc. raised by the statutory corporations, Government companies, local bodies and other institutions.

Statement No. 7 gives the summary of cash balances and investments made out of such balances.

Statement No. 8 depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2004.

Statement No. 9 shows the revenue and expenditure under different heads for the current year as a percentage of total revenue/expenditure.

Statement No. 10 indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11 gives the detailed account of revenue receipts by minor heads.

Statement No. 12 provides accounts of revenue expenditure by minor heads under non-plan, State plan and Centrally sponsored schemes separately and capital expenditure major head-wise.

Statement No. 13 depicts the detailed capital expenditure incurred

Statement No. 14 shows the details of investment of the State Government in statutory corporations, Government companies, other joint stock companies, co-operative banks and societies, etc. up to the end of the current year.

Statement No. 15 depicts the capital and other expenditure (other than revenue account) to the end of the current year and the principal sources from which the funds were provided for that expenditure.

Statement No. 16 gives the detailed account of receipts, disbursements and balances under heads of account relating to Debt, Contingency Fund and Public Account.

Statement No. 17 presents the detailed account of debt and other interest bearing obligations of the Government.

Statement No. 18 provides the detailed account of loans and advances given by the Government of Meghalaya, the amount of loans repaid during the year, the balances at the end of the year and the amount of interest received during the year.

Statement No. 19 gives the details of balances of earmarked funds.

1.2 Trend of Finances with reference to previous year

The trend of finances of the State Government during the current year compared to the previous year were as under:

Table 1.1

(Rupees in crore)

2002-03	Sl.No.	Major Aggregates	2003-04
1289	1.	Revenue Receipts (2+3+4)	1399
145	2.	Tax Revenue	178
93	3.	Non-Tax Revenue	129
1051	4.	Other Receipts	1092
15	5.	Non-Debt Capital Receipts	18
15	6.	Of which Recovery of Loans	18
1304	7.	Total Receipts (1+5)	1417
967	8.	Non-Plan Expenditure (9+11+12)	1037
949	9.	On Revenue Account	1004
151	10.	Of which, Interest payments	170
(a)	11.	On Capital Account	Nil
18	12.	On Loans disbursed	33
499	13.	Plan Expenditure (14+15+16)	582
256	14.	On Revenue Account	310
186	15.	On Capital Account	235
57	16.	On Loans disbursed	37

1466	17.	Total Expenditure (8+13)	1619
-162	18.	Fiscal Deficit (17-1-5)	-202
84	19.	Revenue Surplus (9+14-1)	85
-11	20.	Primary Deficit (18-10)	-32

(Negative figures indicate deficit)

(a) Rs.0.30 crore.

1.3 Summary of Receipts and Disbursements for the year

Table 1.2 summarises the financial position of the State Government of Meghalaya for the year 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and public account receipts and disbursements made during the year as emerging from Statement 1 of Finance Accounts and other detailed statements.

Table 1.2 : Summary of Receipts and Disbursements for the year 2003-04

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
Section – A: Revenue							
					Non-Plan	Plan	Total
1288.93	I. Revenue Receipts	1398.83	1204.55	I. Revenue Expenditure	1003.96	309.73	1313.69
144.87	Tax revenue ^(a)	177.68	483.85	General Services	506.40	19.63	526.03
92.78	Non-tax revenue	128.95	425.89	Social Services	313.85	165.29	479.14
176.11	Share of Union Taxes/Duties	225.08	294.81	Economic Services	183.71	124.81	308.52
875.17	Grants-in-aid from Government of India	867.12	...	...	...	...	...
Section – B: Capital							
...	II. Miscellaneous Capital receipts	...	186.06	II. Capital Outlay	...	235.30	235.30
15.43	III. Recovery of Loans and Advances	18.12	74.88	III. Loans and Advances disbursed	-	-	69.80
295.33	IV. Public Debt Receipts^(b)	319.21	123.11	IV. Repayment of Public Debt	-	-	151.07
...	V. Contingency Fund	...	...	V. Contingency Fund	...	...	...
934.68	VI. Public Account Receipts	874.47	861.37	VI. Public Account Disbursements	...	...	956.50
43.06	Opening Balance	127.46	127.46	Closing Balance	...	...	11.73
2577.43	Total	2738.09	2577.43	Total			2738.09

(a) Excluding share of net proceeds of taxes and duties assigned to State.

(b) Includes net Ways and Means advances also.

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and from the statements of the Finance Accounts for the year 2003-04 and wherever necessary, show these in the light of time series data and periodic comparisons. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

The reporting parameters are depicted in Box 1.2.

Box 1.2
Reporting Parameters

Fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal and external debt, and revenue and fiscal deficits have been presented as percentage to the Gross State Domestic Product (GSDP) at current prices. The New GSDP series as base as furnished (August 2004) by the Directorate of Economics and Statistics of the State Government have been used.

For most series a trend growth during 1999-2004 has been indicated. The ratios with respect of GSDP have also been depicted. Some of the terms used here are explained in Appendix I.

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund and (iii) Public Account as defined in Box 1.3.

Box 1.3 – State Government Funds and the Public Account

Consolidated Fund	Contingency Fund	Public Account
All revenues received by the State Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans shall form one consolidated fund titled 'The Consolidated Fund of State' established under	Contingency Fund of the State established under Article 267(2) of the Constitution is in nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by Legislature. Approval of the Legislature for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained, whereupon the advances from	Besides the normal receipts and expenditure of Government which relate to the Consolidated Fund, certain other transactions enter Government Accounts, in respect of which Government acts more as a banker. Transactions relating to provident funds, small savings, other deposits, <i>etc.</i> are a few examples. The public moneys thus received are kept in the Public Account set up under

Article 266(1) of the Constitution of India.	the Contingency Fund are recouped to the Fund.	Article 266(2) of the Constitution and the related disbursement are made from it.
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1.5 State finances by key indicators

1.5.1 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources, *viz.*, market loans, borrowings from financial institutions/commercial banks, *etc.* and loans and advances from Government of India as well as accruals from Public Account.

Table 1.3 shows that the total receipts of the State Government for the year 2003-04 were Rs.2,610 crore. Of these, the revenue receipts of the State Government were Rs.1,399 crore only, constituting 54 *per cent* of the total receipts. The balance of receipts came from borrowings and public account receipts.

Table 1.3 - Resources of Meghalaya

(Rupees in crore)		
I.	Revenue Receipts	1,399
II.	Capital Receipts	337
	(a) Miscellaneous Receipts	...
	(b) Recovery of Loans and Advances	18
	(c) Public Debt Receipts*	319
III.	Contingency Fund Receipts	...
IV.	Public Account Receipts	874
	(a) Small Savings, Provident Fund, <i>etc.</i>	120
	(b) Reserve Fund	10
	(c) Deposits and Advances	154
	(d) Suspense and Miscellaneous	-11
	(e) Remittances	601
	Total Receipts	2,610

(Details in Appendix IV)

* Included net (Nil) Ways and Means Advances also.

1.5.2 Revenue Receipts

Statement 11 of the Finance Accounts details the Revenue Receipts of the Government. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the State's GSDP and its buoyancy is indicated in Table 1.4.

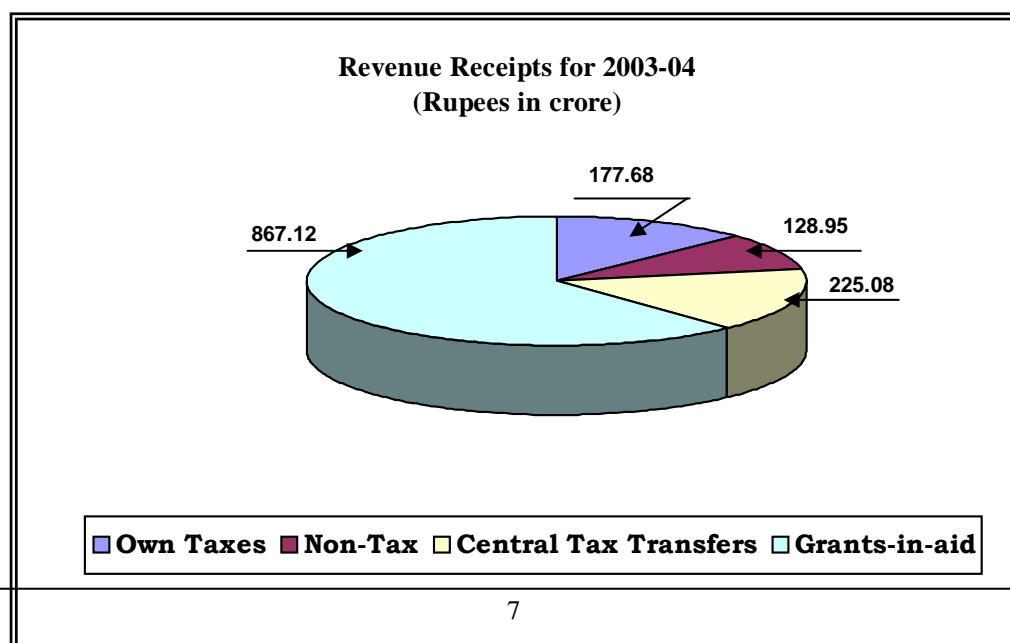
Table 1.4 – Revenue Receipts-Basic Parameters
(Values in Rupees crore and others in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Receipts	944	1132	1123	1289	1399	1177
Own Taxes	10.91	10.51	12.11	11.25	12.72	11.50
Non-Tax Revenue	8.90	7.69	8.37	7.22	9.22	8.28
Central Tax Transfers	36.23	14.49	14.69	13.65	16.08	19.03
Grants-in-aid	43.96	67.31	64.83	67.88	61.98	61.19
Rate of Growth	13.33	19.92	-0.80	14.78	8.53	10.58
Revenue Receipt/GSDP	28.68	30.36	27.13	29.15	28.51	28.73
Revenue Buoyancy	1.116	1.496	(a)	2.170	0.778	0.990
GSDP	3291	3729	4140	4422	4907	4098
GSDP Growth	11.94	13.31	11.02	6.81	10.97	10.68

(a) Rate of growth of revenue receipt was negative.

The revenue receipts of the State increased from Rs.944 crore in 1999-2000 to Rs.1,399 crore in 2003-04 at a trend rate of 10.58 per cent. There were, however, significant inter-year variations in the growth rates. The revenue receipts to GSDP ratio after reaching a peak of 30.36 per cent in 2000-01, declined to 28.51 per cent in 2003-04, with the five years average ratio being 28.73 per cent. There was sharp decline in revenue buoyancy to 0.778 during 2003-04 due to a moderate growth in GSDP and decline in the growth of revenue receipts compared to preceding year. Over a five-year period, however, there was a one to one correspondence between rate of growth of GSDP and revenue receipts.

While 78 per cent of the revenue receipts during 2003-04 have come from central tax transfers and grants-in-aid from Government of India, State's own sources of revenue comprising tax and non-tax sources together contributed around 22 per cent only. Sales Tax was the major contributor (62 per cent) of State own tax revenue followed by State Excise (30 per cent). Of non-tax revenue sources, receipts from non-ferrous Mining and Metallurgical Industries (67 per cent) was the principal contributor.



The current levels of cost recovery (revenue receipts as a percentage of revenue expenditure) in supply of merit goods and services by Government are 0.78 *per cent* for secondary education, 0.85 *per cent* for medical and public health and 0.62 *per cent* for water supply and sanitation.

The source of total receipts under different heads during 1999-2004 is indicated in Table 1.5.

Table 1.5 – Sources of Receipts: Trends

(Rupees in crore)

Year	Revenue Receipts	Capital Receipts			Total Receipts
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account	
1999-2000	944	9	168	659	1780
2000-01	1132	13	141	869	2155
2001-02	1123	16	156	774	2069
2002-03	1289	15	295	935	2534
2003-04	1399	18	319	874	2610

1.6 Application of resources

1.6.1 Trend of growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The total expenditure of the State increased from Rs.1,162 crore in 1999-2000 to Rs.1,619 crore in 2003-04 at a trend rate of 9.42 *per cent* per annum. The rate of growth (average) of total expenditure was less than that of revenue receipts during this period. After reaching its peak of 19.97 *per cent* during 2000-01, it declined to a negative 2.44 *per cent* during 2001-02, but increased to a positive 10.44 *per cent* during 2003-04.

Total expenditure of the State, its trend and annual growth, ratio of expenditure to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table 1.6 below:

Table 1.6 – Total Expenditure – Basic Parameters

(Values in Rupees crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Total Expenditure (TE) ^(a)	1162	1394	1360	1466	1619	1400
Rate of Growth	17.85	19.97	-2.44	7.79	10.44	9.42

TE/GSDP Ratio	35.31	37.38	32.85	33.15	32.99	34.17
Revenue Receipts/ TE Ratio	81.24	81.21	82.57	87.93	86.41	83.87
Buoyancy of Total Expenditure with						
GSDP	1.495	1.500	(b)	1.144	0.952	0.882
Revenue Receipts	1.340	1.003	(c)	0.527	1.223	0.891

- (a) Total expenditure includes revenue expenditure, capital expenditure and loans & advances.
- (b) Rate of growth of revenue receipts was negative.
- (c) Rate of growth of both revenue receipt and total expenditure was negative.

Though in monetary terms, total expenditure in 2003-04 had increased by Rs.153 crore over previous year, its ratio as a percentage to GSDP had declined. Average buoyancy of the total expenditure with GSDP during 1999-2004 was 0.882 indicating that for every one-percentage point increase in GSDP, expenditure increased by 0.882 *per cent*. With regard to revenue receipts, the average buoyancy of total expenditure was less than one indicating relatively faster increase in revenue receipts compared to total expenditure.

In terms of activities, total expenditure could be considered as being composed of expenditure on general services, interest payments, social and economic services, grants-in-aid and other contributions to institutions and loans and advances. The relative share of these components in total expenditure is indicated in Table 1.7.

Table 1.7 – Components of Expenditure-Relative Share

(in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
General Services	21.60	21.16	22.50	23.19	23.53	22.40
Interest Payments	8.26	8.18	9.49	10.30	10.50	9.35
Social Services	35.28	35.08	36.84	33.70	34.78	35.13
Economic Services	28.92	29.20	28.01	27.69	26.87	28.14
Loans and Advances	5.94	6.38	3.16	5.12	4.32	4.98

The movement of the relative share of these components of expenditure indicated that all components of expenditure had inter-year variations. But expenditure on General Services and interest payments, which are considered as non-developmental, together accounted for 34.03 *per cent* in 2003-04 against 29.86 *per cent* in 1999-2000. On the other hand, development expenditure, i.e., on Social and Economic Services together accounted for 61.65 *per cent* in 2003-04 as against 64.20 *per cent* in 1999-2000. This indicated a decline in developmental expenditure.

1.6.2 Incidence of Revenue expenditure

In the total expenditure, revenue expenditure had the predominant share. Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. The overall revenue expenditure, its rate of growth, ratio of revenue expenditure to GSDP and revenue receipts and its buoyancy are indicated in Table 1.8.

Table 1.8 – Revenue Expenditure – Basic Parameters

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Expenditure (RE) (Rupees in crore)	928	1079	1157	1205	1314	1137
Rate of Growth (<i>per cent</i>)	13.73	16.27	7.23	4.15	9.05	9.69
RE/GSDP	28.20	28.94	27.95	27.25	26.78	27.74
RE as percentage of TE	79.86	77.40	85.07	82.20	81.16	81.17
RE as percentage of RR	98.31	95.32	103.03	93.48	93.92	96.53
Buoyancy of Revenue Expenditure with (<i>per cent</i>)						
GSDP	1.150	1.223	0.656	0.609	0.825	0.907
Revenue Receipts	1.030	0.817	(a)	0.281	1.060	0.916

(a) Rate of growth of revenue receipt was negative.

Overall revenue expenditure of the State increased at a trend rate of 9.69 *per cent*. Rate of growth of revenue expenditure after reaching a peak of 16.27 *per cent* in 2000-01 declined to 9.05 *per cent* in 2003-04. As a result revenue expenditure-GSDP ratio declined from 28.94 *per cent* in 2000-01 to 26.78 *per cent* in 2003-04. On an average 81 *per cent* of the total expenditure was on current consumption.

(i) High salary expenditure

Salaries including grants-in-aid towards salaries accounted for 54 *per cent* of the revenue receipts and 58 *per cent* of the revenue expenditure of the State during 2003-04. The expenditure on salaries increased by 45 *per cent* from Rs.523 crore in 1999-2000 to Rs.759 crore in 2003-04 as indicated in the Table 1.9:

Table 1.9

(Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure ^(a)	523	567	657	702	759
As a percentage of GSDP	15.89	15.21	15.87	15.88	15.47
As a percentage of Revenue Receipts	55.40	50.09	58.50	54.46	54.25
As a percentage of Revenue	56.36	52.55	56.78	58.26	57.76

Expenditure					
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(a) As furnished (August 2004) by the Finance (Economic Affairs) Department, Government of Meghalaya.

(ii) Huge expenditure on payment of pension and other retirement benefits

Payments on pension and other retirement benefits have increased by 90 *per cent* from Rs.40 crore in 1999-2000 to Rs.76 crore in 2003-04. Year-wise break-up of expenditure incurred on pension payments during the years 1999-2000 to 2003-04 was as under:

Table 1.10

(Rupees in crore)

Year	Expenditure	Percentage to total revenue expenditure
1999-2000	40	4.31
2000-01	55	5.10
2001-02	58	5.01
2002-03	67	5.56
2003-04	76	5.78

With the increase in number of retirees, the pension liabilities are likely to increase further in future. Information regarding constitution of any fund to meet the fast rising pension liabilities of the retired State employees, though called for (June 2004) from the Finance Department, had not been received (November 2004).

(iii) Interest payments

Expenditure of the State on payment of interest during 1999-2004 and its percentage to revenue receipts and expenditure are indicated in Table 1.11 below:

Table 1.11

Year	Interest payment (Rupees in crore)	Percentage of interest with reference to	
		Revenue Receipts	Revenue Expenditure
1999-2000	96	10.16	10.34
2000-01	114	10.07	10.57
2001-02	129	11.49	11.15
2002-03	151	11.71	12.53
2003-04	170	12.15	12.94

Interest payments increased steadily by 77 *per cent* from Rs.96 crore in 1999-2000 to Rs.170 crore in 2003-04. The interest payment was on Internal Debt (Rs.97 crore), loans received from Central Government (Rs.53 crore) and Small Savings, Provident Fund, *etc.* (Rs.20 crore).

(iv) Subsidies by the Government

Though the finances of the State are under strain, the State Government has been paying subsidies to various sectors. According to the Finance (Economic Affairs) Department, Government of Meghalaya, during the last five years, State Government paid the subsidies as under:

Table 1.12

(Rupees in crore)

Sl. No	Sector	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Power	9	10	11	11	11
2.	Housing	4	9	8	11	7
3.	Others	8	9	5	11	12
Total		21	28	24	33	30
Percentage of increase(+)/decrease(-) over previous year		(a)	+ 33	-14	+ 37	-9
Percentage of subsidy in total expenditure		1.92	2.15	1.82	2.37	1.94

(Total expenditure excludes Loans and Advances)

(a) Figures for previous year not available.

During the current year subsidies constituted around 2 per cent of the total expenditure, out of which 37 per cent was paid to the power sector.

1.7 Expenditure by Allocative priorities

The expenditure of the State in the nature of plan expenditure, capital expenditure and development expenditure reflects its quality. Higher the ratio of these components to total expenditure, better is the quality of expenditure. Table 1.13 gives these ratios during 1999-2004, as follows:

Table 1.13 – Quality of Expenditure (per cent to total expenditure)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Total Expenditure (Rupees in crore)	1093	1305	1317	1391	1549	1331
Plan Expenditure	34.22	38.31	32.73	31.78	35.18	34.44
Capital Expenditure	15.10	17.32	12.15	13.37	15.17	14.61
Development Expenditure	68.25	68.66	66.97	64.70	64.43	66.45

(Total Expenditure does not include Loans and Advances)

All the three components of quality of expenditure indicated inter-year variations. In the year 2003-04, the Plan as well as Capital expenditure increased slightly when compared to 1999-2000, but the steep decline in developmental expenditure (expenditure on Economic and Social Services) compared to 1999-2000 is disturbing.

Activity-wise expenditure during 1999-2004 further revealed that the average trend growth of its various components had significant variations. Interest payments was the fastest growing component with an average annual growth of 18.67 *per cent*. Loans and advances also grew much faster compared to both GSDP and revenue receipts. Activity-wise trend growth, ratio to GSDP, relative share of the various activities, shift in their relative share and buoyancy with GSDP and revenue receipt are indicated in Table 1.14 below:

Table 1.14 – Activity-wise Expenditure – Basic Parameters (in *per cent*)

	ROG	GSDP Share	Relative Share	Share Shift	Buoyancy with	
					GSDP	Revenue Receipt
General Services	11.27	7.68	22.40	1.69	1.055	1.066
Interest Payments	18.67	3.22	9.34	8.45	1.748	1.765
Social Services	8.83	11.99	35.13	-0.55	0.826	0.834
Economic Services	5.85	9.59	28.14	-3.27	0.548	0.553
Loans and Advances	13.64	1.69	4.99	3.85	1.277	1.289

Out of the developmental expenditure of Rs.998 crore during the year, Social Services (revenue and capital) accounted for 56.41 *per cent* (Rs.563 crore). Expenditure on general education, health and family welfare and water supply and sanitation constituted 79 *per cent* of the expenditure on social sector.

Table 1.15 – Social Sector Expenditure

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Education	196	221	229	223	242
Health and Family Welfare	75	80	92	94	97
Water Supply and Sanitation	74	91	93	95	106
Total	345	392	414	412	445
As a percentage of expenditure on Social Sector	84.15	80.16	82.63	83.40	79.04

Similarly, the expenditure on Economic Services during 2003-04 (Rs.435 crore) accounted for 43.59 *per cent* of the development expenditure, of which, agriculture and allied services, rural development and transport accounted for 73 *per cent*.

Table 1.16 – Economic Sector Expenditure

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Agriculture and Allied Activities	101	116	128	122	126
Rural Development	41	53	54	61	60
Transport	112	128	86	126	132
Total	254	297	268	309	318
As a percentage of expenditure of Economic Sector	75.60	72.79	70.34	76.11	73.10

1.7.1 Financial Assistance to Local Bodies and other Institutions

(i) Extent of assistance

The quantum of assistance (Rs.947 crore) provided by way of grants (Rs.745 crore) and loans (Rs.202 crore) to different local bodies, *etc.* during the five-year period ending 2003-04 was as follows:

Table 1.17

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
University and Educational Institutions	107	122	128	130	129
Co-operative Societies	3	2	3	2	2
District Councils	5	5	5	0.21	6
Municipalities	1	4	2	2	1
Meghalaya State Electricity Board	13	49	29	56	50
Other Institutions	15	28	27	11	10
Total	144	210	194	201	198
Percentage of increase (+)/ decrease (-) over previous year	+ 25.22	+ 45.83	- 7.62	+ 3.61	- 1.49
Assistance as a percentage of revenue expenditure	15.52	19.46	16.77	16.68	15.07

The total assistance during 2003-04 had grown by 37.5 *per cent* over 1999-2000, but decreased by 1.49 *per cent* compared to previous year

mainly as a result of decreased assistance to energy sector. The assistance to local bodies, *etc.* as a percentage of total revenue expenditure had also decreased from 19.46 *per cent* in 2000-01 to 15.07 *per cent* in 2003-04.

(ii) Delay in submission of accounts

In order to identify the institutions which attract audit under Section 14/15 of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971 (Act, 1971), Government/Heads of Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose for which assistance was sanctioned and the total expenditure of the institutions. Information for the year 2003-04 called for in April 2004 from 11 departments^(a) was awaited as of October 2004.

The audit of accounts of the Meghalaya Khadi and Village Industries Board, Shillong up to 2004-05 was entrusted to the Comptroller and Auditor General of India under Section 19(3) of the Act, 1971. The Board had not submitted the accounts for the years 2000-01 to 2002-03.

1.7.2 Misappropriation, losses, etc.

Cases of misappropriation, losses, *etc.* of Government money reported to Audit up to the end of March 2004 on which final action was pending at the end of September 2004 were as under:

Table 1.18

	Number	Amount (Rupees in lakh)
Cases reported up to the end of March 2003	84	153.31
Cases reported during 2003-04	2	1.28
Total	86	154.59

The year-wise/department-wise break-up of the cases is given in Appendix II.

1.8 Assets and liabilities

1.8.1 Financial position

^(a) Sericulture and Weaving, Education, Animal Husbandry & Veterinary, Community & Rural Development, Co-operation, Industries, Urban Affairs, Border Areas Development, Economics & Statistics, Information & Public Relation and Mining & Geology Departments.

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings, *etc.*, owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. Appendix III gives an abstract of such liabilities and the assets as on 31 March 2004 compared with the corresponding position on 31 March 2003. While the liabilities in this statement consist mainly of internal borrowings, loans and advances from the Government of India, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances. Appendix III shows that while the liabilities grew by 7.05 *per cent*, the assets increased by 7.54 *per cent*, mainly as a result of 40.40 *per cent* increase in investment of earmarked funds over previous year. Appendix IV, V and VI depict the Abstract of Receipts and Disbursements for the year 2003-04, Sources and Application of Funds and Time series data on State Government Finances for the period 1999-2004 respectively.

1.8.2 Investments and returns

As on 31 March 2004, Government had invested Rs.162.89 crore in its Statutory Corporations, Government companies and Co-operative Societies. Government's return on this investment was less than one *per cent* in the last five years. With an average interest rate of 9.05 *per cent* being paid by Government on its borrowings, the average annual subsidy amounted to 8.89 *per cent* and the implicit subsidy during the period 1999-2004 was Rs.6.26 crore.

Table 1.19 : Return on Investment

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Investment during the year (Rupees in crore)	5.50	27.18	14.84	11.93	10.58	14.01
Investment at the end of the year (Rupees in crore)	98.36	125.54	140.38	152.32	162.89 ^(a)	135.90
Returns (Rupees in crore)	0.60	0.0055	0.11	0.0051	0.18	0.18
Percentage of returns	0.61	0.004	0.08	0.003	0.11	0.16
Average interest rate paid by Government (<i>per cent</i>)	9.43	9.05	8.81	8.98	9.00	9.05
Difference between interest rates and	8.82	9.046	8.73	8.977	8.89	8.89

^(a) Figures in Chapter VI are provisional.

return (<i>per cent</i>)						
Implicit subsidy (Rupees in crore)	0.49	2.46	1.30	1.07	0.94	1.25

1.8.3 Loans and advances by State Government

In addition to investments in Co-operatives, Corporations and Companies, Government has also been providing support in terms of loans and advances to many of these parastatals. Total outstanding balance of such loans and advances as on 31 March 2004 was Rs.471 crore. Interest received on the same varied from 0.12 *per cent* to 0.19 *per cent* during 1999-2004 (Table 1.20). Total implicit subsidy during 1999-2004 on such loans was Rs.31 crore.

Table 1.20 – Average interest received on Loans and Advances advanced by the State Government

(Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	196	256	332	359	419
Amount Advanced during the year	69	89	43	75	70
Amount repaid during the year	9	13	16	15	18
Closing Balance	256	332	359	419	471
Net Addition	60	76	27	60	52
Interest Received	0.42	0.55	0.49	0.46	0.72
Interest received as <i>per cent</i> to Loans advanced	0.19	0.19	0.14	0.12	0.16
Average interest paid by the State (<i>per cent</i>)	9.43	9.05	8.81	8.98	9.05
Difference between interest paid and received (<i>per cent</i>)	9.24	8.86	8.67	8.86	8.89
Implicit Subsidy	6	8	4	7	6

1.8.4 Management of cash balances

It is desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) and overdraft from Reserve Bank of India has been put in place. The State has shown improvement in management of cash balances as WMA facilities were used for 44 days during 2003-04 as

against 96 days in previous year. As regards overdraft, the State Government has not used this facility during 2003-04.

1.8.5 Undischarged liabilities

(i) Fiscal liabilities - public debt and guarantees

Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature. However, no such law has been passed by the State. Table 1.21 below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources and the buoyancy of these liabilities with respect to these parameters.

Table 1.21 – Fiscal Liabilities – Basic Parameters
(Value in Rupees crore and others in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Fiscal Liabilities ^(a)	1124	1395	1535	1827	1952	1567
Rate of Growth	23.25	24.11	10.04	19.02	6.84	16.54
Ratio of Fiscal Liabilities to						
GSDP	34.15	37.41	37.08	41.32	39.78	38.23
Revenue Receipt	119.07	123.23	136.69	141.74	139.53	131.40
Own Resources	601.07	677.18	667.39	767.65	635.83	665.41
Buoyancy of Fiscal Liabilities to						
GSDP	1.947	1.812	0.911	2.793	0.624	1.549
Revenue Receipt	1.744	1.211	(b)	1.287	0.802	1.564
Own Resources	0.692	2.373	0.861	5.469	0.236	0.922

(b) Revenue receipts had a negative growth.

Overall fiscal liabilities of the State increased from Rs.1,124 crore in 1999-2000 to Rs.1,952 crore in 2003-04 on an average rate of 16.54 *per cent* during 1999-2004. These liabilities as ratio to GSDP increased from 34.15 *per cent* in 1999-2000 to 39.78 *per cent* in 2003-04 and stood at 1.4 times of revenue receipts and 6.36 times of its own resources comprising own tax and non-tax revenue.

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

In addition to these liabilities, Government have guaranteed loans raised by various Corporations and others which at the end of 2003-04 stood at Rs.300 crore (including interest). The guarantees are in the nature of contingent liabilities. Currently the fiscal liabilities together with the contingent liabilities exceeded 1.6 times the revenue receipts of the State. Buoyancy of the direct fiscal liabilities with respect to GSDP and revenue receipts averaged greater than one *per cent* indicating that for each one *per cent* increase in GSDP and revenue receipts, fiscal liabilities were growing at the rate of 1.55 and 1.56 *per cent*.

Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP. In case of Meghalaya, average interest rate on fiscal liabilities at 9.05 *per cent* during 1999-2004 was lower than the rate of growth of GSDP by 1.63 *per cent* as indicated in table 1.22. Except 2002-03, average interest spread was positive during 1999-2004. Moderate interest rates and a fairly buoyant nominal GSDP growth had sustained this positive spread. The spread had declined from a peak of 4.26 *per cent* in 2000-01 to a nominal 1.97 *per cent* in 2003-04. Persistence of this phenomenon in later years may endanger debt sustainability.

Table 1.22 – Debt Sustainability – Interest Rate and GSDP Growth (in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Weighted Interest Rate	9.43	9.05	8.81	8.98	9.00	9.05
GSDP Growth	11.94	13.31	11.02	6.81	10.97	10.68
Interest spread	2.51	4.26	2.21	-2.17	1.97	1.63

Another important indicator of the debt sustainability is the net availability of the borrowed funds after repayment of principal and payment of interest. Table 1.23 below gives the position of receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years. The net funds available from the total receipts on account of internal debt, loans and advances from Government of India and other debt receipts (including Public Account) varied between 3.02 and 32.44 *per cent* during 1999-2003 but no amount was available during 2003-04. Instead, 36.24 *per cent* of the net available funds from internal debt was totally used up to meet the overwhelming repayment obligation of the loans and advances from the Government of India. Considering that the fiscal liabilities have been increasing year after year, availability of borrowed funds would be reduced further.

Table 1.23 – Net Availability of Borrowed Funds (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Internal Debt^(a)						
Receipt	117	110	110	401	287	205
Repayment (Principal + Interest)	62	65	81	343	183	147
Net Fund Available	55	45	29	58	104	58
Net Fund Available (<i>per cent</i>)	47.01	40.91	26.36	14.46	36.24	28.29
Loans and Advances from Government of India						
Receipt	51	31	46	138	83	70
Repayment (Principal + Interest)	55	62	65	156	170	102
Net Fund Available	-4	-31	-19	-18	-87	-32
Net Fund Available (<i>per cent</i>)	...	...	...	...	...	...
Other obligations^(b)						
Receipt	193	343	241	329	255	272
Repayment (Principal + Interest)	127	200	239	228	318	222
Total Liabilities						
Receipt	361	484	397	868	625	547
Payments	244	327	385	727	671	471
Net receipts	117	157	12	141	-46	76
Net Fund Available (<i>per cent</i>)	32.41	32.44	3.02	16.24	...	13.89

1.9 Management of deficits

Fiscal imbalances

The deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to its fiscal health. The State had a revenue surplus of Rs.85 crore during 2003-04 but the fiscal deficit, which represents the total borrowings of the Government and the total resource gap, increased from Rs.162 crore in 2002-03 to Rs.202 crore in 2003-04. As proportion to GSDP, fiscal deficit of the State varied significantly during 1999-2004. It reached 4.12 *per cent* of GSDP in the current year from 3.66 *per cent* in 2002-03. Some of the parameters of the State's fiscal imbalances are indicated in Table 1.24 below:

Table 1.24 – Fiscal Imbalances – Basic Parameters
(Values in Rupees crore and Ratios in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Surplus (RS) (+)/ Revenue Deficit (RD) (-)	+ 16	+ 53	-34	+ 84	+ 85	+ 41

^(a) Included Ways and Means Advances and Overdrafts.

^(b) Small Savings, Provident Funds, *etc.*, Deposits and other non-interest bearing obligations.

Fiscal Deficit (FD)	-209	-249	-221	-162	-202	-209
Primary Deficit (PD)	-113	-135	-92	-11	-32	-77
RD/GSDP	RS		-0.82	RS	RS	RS
FD/GSDP	-6.35	-6.68	-5.34	-3.66	-4.12	-5.09
PD/GSDP	-3.43	-3.62	-2.22	-0.25	-0.65	-1.87
RD/FD	RS		-15.38	RS		RS

(Negative figures indicate deficit)

1.10 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 1.25 below presents a summarised position of Government finances over 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications, highlight areas of concern and capture its important facets.

Table 1.25 – Indicators of Fiscal Health (in per cent)

Fiscal Indicators	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
I. Resource Mobilisation						
Revenue Receipt (RR)/GSDP	28.68	30.36	27.13	29.15	28.51	28.73
Revenue Buoyancy	1.116	1.496	(a)	2.170	0.778	0.990
Own tax/GSDP	3.130	3.191	3.285	3.279	3.627	3.324
II. Expenditure Management						
Total Expenditure (TE)/GSDP	35.31	37.38	32.85	33.15	32.99	34.17
RR/TE	81.24	81.21	82.57	87.93	86.41	83.87
Revenue Expenditure (RE)/TE	79.86	77.40	85.07	82.20	81.16	81.17
Plan Expenditure/TE	34.22	38.31	32.73	31.78	35.18	34.44
Capital Expenditure/TE	15.10	17.32	12.15	13.37	15.17	14.61
Development Expenditure/TE	68.25	68.66	66.97	64.70	64.43	66.45
Buoyancy of TE with RR	1.340	1.003	(b)	0.527	1.223	0.891
Buoyancy of RE with RR	1.030	0.817	(a)	0.281	1.060	0.916
III. Management of Fiscal Imbalances (Negative figures indicate deficit)						
Revenue Deficit (Rupees in crore)	16	53	-34	84	85	41
Fiscal Deficit (Rupees in crore)	-209	-249	-221	-162	-202	-209
Primary Deficit (Rupees in crore)	-113	-135	-92	-11	-32	-77
Revenue Deficit/Fiscal Deficit	Revenue Surplus (RS)		-15.38	RS		RS
IV. Management of Fiscal Liabilities						
Fiscal Liabilities (FL)/GSDP	34.15	37.41	37.08	41.32	39.78	38.23

FL/RR	119.07	123.23	136.69	141.74	139.53	131.40
Buoyancy of FL with RR	1.744	1.211	(a)	1.287	0.802	1.564
Buoyancy of FL with Own Resources	0.692	2.373	0.861	5.469	0.236	0.922
Interest spread	2.51	4.26	2.21	-2.17	1.97	1.63
Net Funds Available	32.41	32.44	3.02	16.24	...	13.89
V. Other Fiscal Health Indicators						
Return on Investment	0.61	0.004	0.08	0.003	0.11	0.16
BCR (Rupees in crore)	-167	-115	-171	-128	-143	-145
Financial Assets/Liabilities (Ratio)	1.78	1.65	1.57	1.55	1.55	1.62

(a) Revenue Receipts had a negative growth.

(b) Rate of growth of both revenue receipt and total expenditure was negative.

The ratio of revenue receipt and State's own taxes to GSDP indicates the adequacy of resources. The buoyancy of revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts indicate the sum total of the State's access for which there is no direct service provision obligations, recovery of users' charges for the social and economic services provided by it and its entitlement from the Central pool of resources. Ratios of revenue receipt to GSDP showed an erratic trend during 1999-2004. But the revenue buoyancy steeply declined in 2003-04. A low revenue buoyancy and low own tax-GSDP ratio indicates that State was not optimally exploring its resource base.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilisation. Revenue expenditure of the State is on the increasing trend over the five-year period 1999-2004 and comprises 81 *per cent* of total expenditure in 2003-04 leaving very little for capital formation or asset creation. The development expenditure to total expenditure was on a declining trend and its ratio has fallen significantly from a level of 68.66 *per cent* in 2000-01 to 64.43 *per cent* in 2003-04. All these indicate inadequate expansion of State's developmental activities.

Increasing revenue and fiscal deficit indicate growing imbalances in the financial position of the State. Similarly, increase in the ratio of revenue deficit and fiscal deficit indicates that the application of borrowed funds has largely been towards meeting current consumption. The State had a revenue surplus over the years (except 2001-02). But its fiscal deficit increased substantially and averaged Rs.209 crore during 1999-2004. Though the average interest paid by the State on its borrowings during 1999-2004 remained less than the rate of growth of its GSDP, the interest spread has declined considerably and persistence of this phenomenon may endanger debt sustainability. There has also been a negative balance during 2003-04 in the net availability of funds from its borrowings due to

increased liability for debt servicing. The State's low return on investment indicates an implicit subsidy and use of high cost borrowing for investments, which yield very little. The ratio of the State's total financial assets to liabilities, though remained static during 2002-2004, compared to 1999-2000 it declined by 0.23 *per cent* indicating that a part of liabilities are without an asset back up. The balance from current revenue (BCR) continued to be negative. The BCR plays a critical role in determining the plan size and a negative BCR adversely affects the same and reduces availability of fund for additional infrastructure support and other revenue generating investment.

1.11 Impact of Government policies

Appendix VII depicts the progress achieved during 2003-04 as compared to 2002-03 in various sectors according to information furnished by Directors, Chief Engineer, *etc.* of various departments of the State Government.

The above matters were referred to Government in November 2004; reply had not been received (January 2005).