Chapter 9

Public Finances

The state of Meghalaya, along with all the other states in the NER, has been given special category[33] status by the central government.[34] Special category status is accorded to a state with certain characteristics that necessitate stronger than normal hand-holding by the central government. The predominant characteristics relate to geographic terrain, specifically hilly or mountainous tracts.

9.1 GSDP OF MEGHALAYA: IN PERSPECTIVE

The Gross State Domestic Product (GSDP) is likely to underestimate income in Meghalaya, which is characterised by subsistence agriculture and a significant dependence of people on community forests for meeting various needs. However, in the absence of any firm estimates of the value that does not get captured in the GSDP, this often serves as a useful, albeit limited, comparative.

The real GSDP of Meghalaya grew at a trend rate of 5.93 per cent per annum between 1999–2000 and 2007–08 (at 1999–2000 prices). The population of Meghalaya during the same period grew at a trend rate of 1.39 per cent per annum. Real per capita GSDP of Meghalaya thus grew at 4.48 per cent per annum during that period. Of the eight north-eastern states, Meghalaya is the third largest, but has the third smallest population in that group. Thus, Meghalaya covers almost 8.6 per cent of the north-east, but houses only about 4.8 per cent of its population. Low population density accords certain natural advantages from (potentially) larger availability of terrestrial resources, but several disadvantages from the point of view of ensuring reach of public services to a sparse population. For example, Meghalaya reports a lower literacy rate and a higher poverty ratio than that of the NER as a whole.

Table 9.1 presents comparable estimates of trend growth rates of population and income for Meghalaya with that for the whole of the north-east (NER), and the north-east region excluding Assam and Meghalaya (henceforth, NEREAM). Of particular interest is the comparison between Meghalaya and NEREAM. It turns out that between the years 1999–2000 and 2005–06, for all the broad components of GSDP, Meghalaya reported a lower

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[33] Special category states in the country are all the north-eastern states, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand.

[34] The National Development Council (NDC) determines whether a state should be accorded special category status. The special category status affects the manner or structure in which plan funds are made available to states. Planned federal transfers to special category states are structured as 90 per cent grant and 10 per cent loans. In comparison, plan transfers to non-special (or general) category states are structured as 30 per cent grant and 70 per cent loans.

trend growth rate than that for NEREAM.[35] Thus, trend growth rate of aggregate GSDP for Meghalaya and NEREAM stood, respectively, at 5.99 and 7.35 (*Table 9.1*) per cent per annum.

Table 9.1: Trend Growth Rate between 1999–2000 and 2005–6[36]

(Per cent)

State/Region	GSDP for Groups of Sectors			Total GSDP	Population Growth	Per Capita GSDP
	Agriculture and Allied Activities	Industry	Services			
1	2	3	4	5	6	7
Meghalaya	4.60	7.95	5.68	5.99	1.49	4.44
NER	2.79	9.96	5.96	5.81	1.89	3.85
NEREAM	5.52	12.50	6.33	7.35	2.44	4.79

Source: Central Statistical Organisation (CSO)
Notes: Figures for GSDP and its components at constant 1999–2000 prices

However, the population of Meghalaya grew at a significantly lower rate than that of the NEREAM. As a result, the difference in the trend rate of growth of per capita GSDP for Meghalaya (4.44 per cent) and NEREAM (4.79 per cent) is significantly lower than the difference between the rates for Meghalaya and the NER. But despite relatively slower growth in recent years, per capita GSDP for Meghalaya is more than 80 per cent higher than that for NEREAM.[37] Meghalaya thus has a significant head start (as compared to NEREAM) in its effort to catch up with the average all India per capita GDP. Despite the head start however, this gap remains daunting.

A distinctive feature of the growth pattern between 1999–2000 and 2005–06 in almost all north-eastern states has been a gradual revival in the fortunes of the industrial sector (*Table 9.2*). As a corollary, there has been some decline in the share of agriculture and allied sectors, as also in the service sectors. Of the three broad categories, agriculture and allied sectors continue to be the slowest growing group. Its share in Meghalaya is significantly lower than its corresponding share in NEREAM.

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[35]Total GSDP is classified into three broad groups. In practice, there are two ways commonly utilised to construct the three groups. In one scheme these are (i) primary, (ii) secondary, and (iii) tertiary sectors. In the other scheme these are (i) agriculture and allied activities, (ii) industry, and (iii) services. Primary sector constitutes (a) Agriculture, (b) Forestry and Logging, (c) Fishing), and (d) Mining and Quarrying sectors. Agriculture and Allied Activities constitute Primary sector excluding Mining and Quarrying. Secondary sector constitutes (a) Manufacturing (both Registered and Unregistered), (b) Construction, and (c) Electricity, Gas, and Water Supply. Industry constitutes Mining and Quarrying, and Secondary sector. The composition of Tertiary sector is identical to that of Services and includes the following: (a) Transport, Storage, and Communication, (b) Trade, Hotels, and Restaurants, (c) Banking and Insurance, (d) Real Estate and Ownership of Dwellings, (e) Public Administration, and (f) Other Services.
[36]Comparable and consistent data for all relevant states is available up to 2005–06 only. However, data for Meghalaya is also available for 2006–07 and 2007–08.
[37]In 2005–06, at current prices, the per capita GSDP of Meghalaya and NEREAM stood at, respectively, Rs 25,707 and Rs 13,601.

Table 9.2: Structure of GSDP in 1999–2000 and 2006–07

(Percentage Share at Constant 1999–2000 prices)

State(s)	Agriculture and Allied Sectors		Industry		Services	
	1999–2000	2006–07	1999–2000	2006–07	1999–2000	2006–07
1	2	3	4	5	6	7
Meghalaya	22.93	20.09	23.31 (38)	27.86 (32)	53.76	52.05
NER	32.35	25.26	18.38 (24)	22.35 (16)	49.27	52.38
NEREAM	27.94	24.78	17.41 (4)	23.97 (3)	54.64	51.25

Source: Same as in *Table 9.1*

Notes: Figures for GSDP and its components are at constant 1999–2000 prices. Figures in parentheses indicate the per cent share of mining and quarrying sectors out of the total for Industry.

In 1999–2000, the mining and quarrying sector contributed almost two-fifths of industry GSDP in Meghalaya (*Table 9.2*), but the share has gradually declined to about one-third in 2005–06. However, for NEREAM, mining and quarrying barely constituted 4 per cent of industrial GSDP in 1999–2000. By 2005–06 its contribution had further depleted to about 2 per cent only. The mining and quarrying sector could constitute a key concern for the economy of Meghalaya, which needs to be addressed fast on account of the fragile ecosystem and perceptible environmental degradation of the state. Efforts must therefore be redoubled to evolve a far-sighted policy for sustainable harvesting of mineral resources. Further, it is likely that there are abundant opportunities in moving up the value chain in mineral refining and processing within the state. This would also help shore up incomes (and employment) and promote more sustainable upstream (backward linkage) mining activity.

9.2 INVESTMENT FOR ACCELERATING GROWTH

Improving the standard of living of the people would require sustained increases in per capita income levels. Given the current levels of income, this will require a significant acceleration in growth rate. If by 2030 the people of Meghalaya are to achieve living standards comparable to the rest of India, their per capita GSDP would need to grow at an average rate of 11.5 per cent.

Following the *North Eastern Region: Vision 2020*, an illustrative scheme for accelerating the growth process is shown in *Table 9.3a.* To be realistic about the feasible path of acceleration, it is necessary to split the time frame into the plan periods. It is also assumed that the growth momentum achieved by 2020 is sustained up to the terminal year of projection in 2030.

Table 9.3a: Projected Trajectory of Growth of Meghalaya (at 2009–10 prices)

Plan Period	Years	Required GSDP CAGR (%)	Projected GSDP (Rs crore)	Projected Population CAGR (%)	Derived Per Capita GSDP (End Year)	Implied Per Capita GSDP Growth (%)
11th	2010–11 to 2011–12	7.85	54,950	1.19	48,039	6.66
12th	2012–13 to 2016–17	9.45	83,154	1.15	71,265	8.30
13th	2017–18 to 2021–22	10.25	1,34,713	1.09	1,09,955	9.16
14th	2022–23 to 2026–27	10.25	2,19,433	1.04	1,70,100	9.21
15th	2027–28 to 2029–30	10.25	1,93,294	0.67	2,23,453	9.58
Average Annual Growth Rate (%)		9.92		1.04		8.88

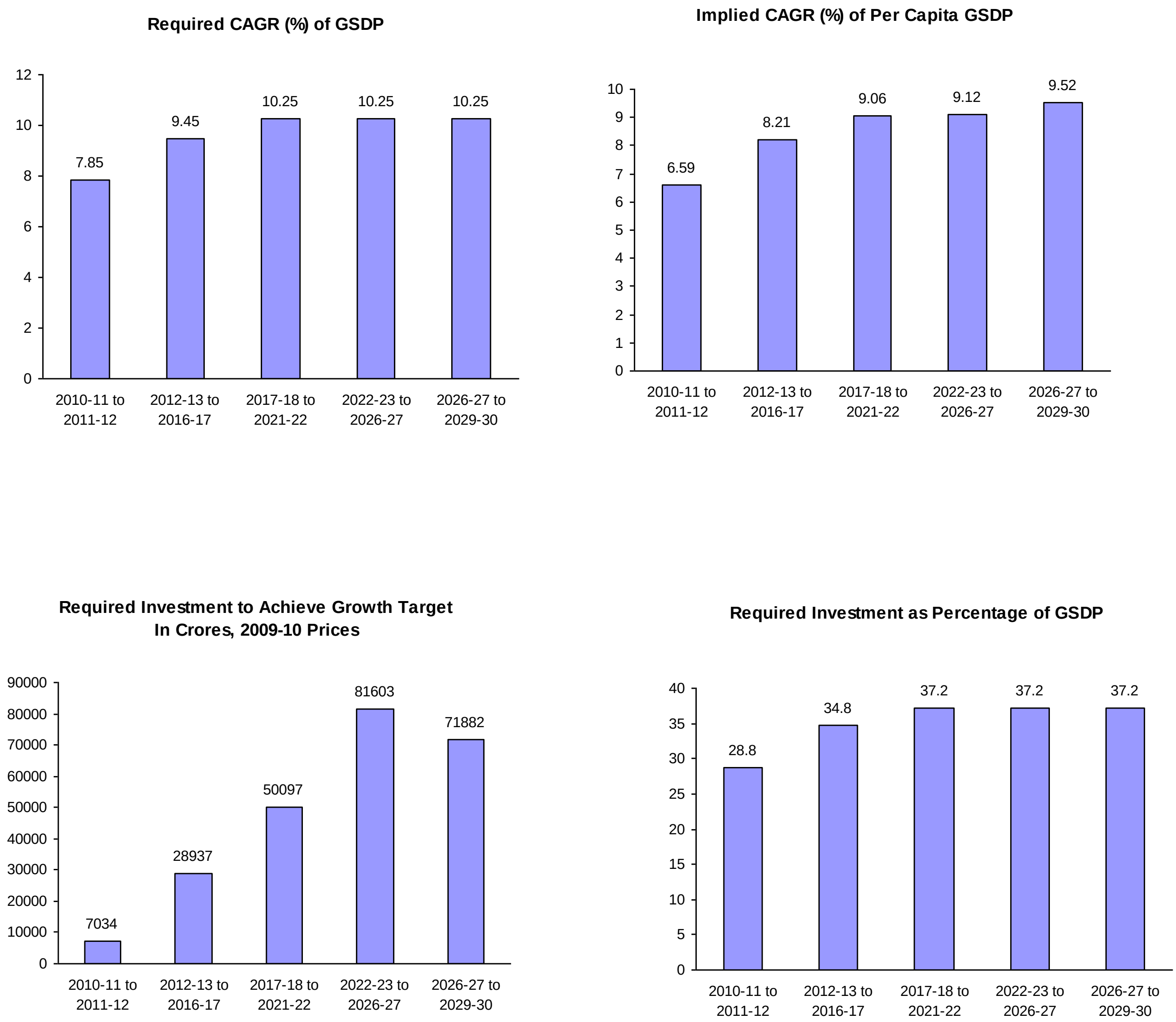
Source: Authors' own computation

Table 9.3b: Projected Investment Requirement (at 2009–10 prices)

Plan Period	Years	Investment Required (Rs crore)		Investment Required (Per cent of GSDP)	
		Assumption I ICOR constant at 4.0	Assumption II ICOR declines from 4.0 to 3.6	ICOR I	ICOR II
11th	2010–11 to 2011–12	7,034	7,014	28.8	28.7
12th	2012–13 to 2016–17	28,937	28,287	34.8	34.0
13th	2017–18 to 2021–22	50,097	47,673	37.2	35.4
14th	2022–23 to 2026–27	81,603	75,507	37.2	34.4
15th	2027–28 to 2029–30	71,882	65,048	37.2	33.7

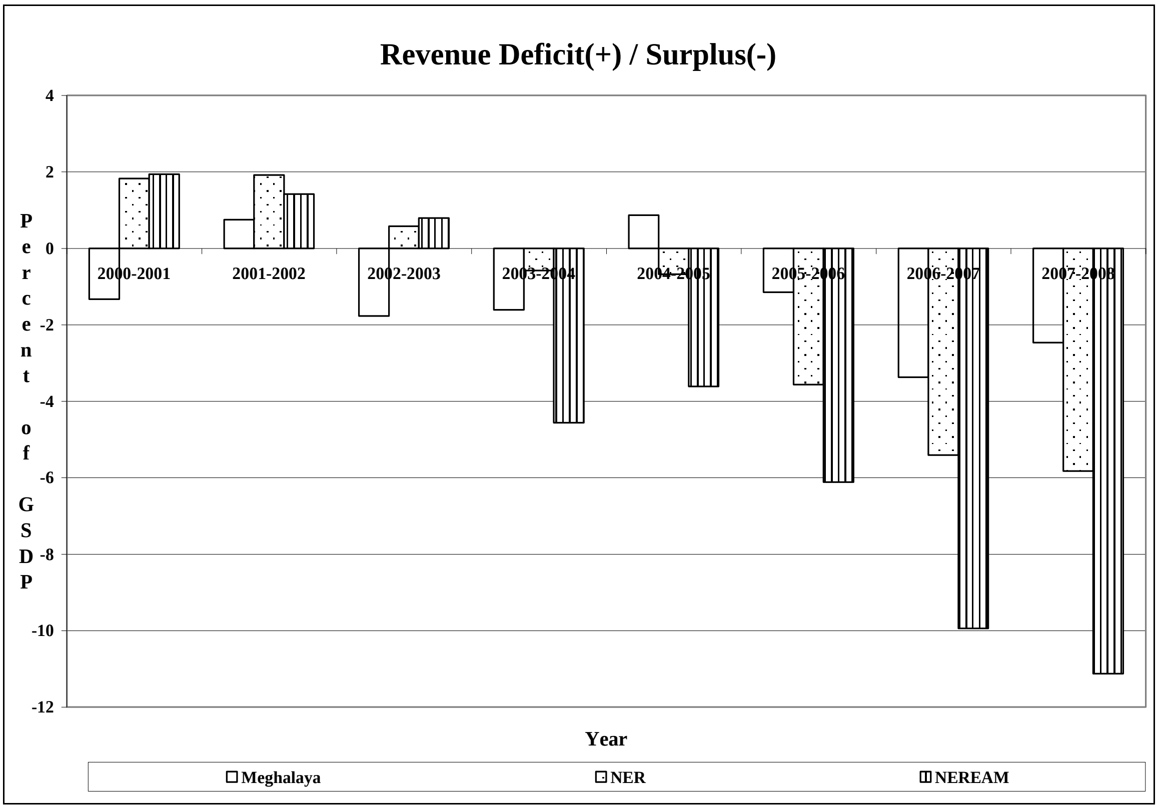
Source: Authors' own computation

Figure 9.1: Projection of Investment Requirements to Achieve Economic Target by 2030



It is evident from *Tables 9.3a* and *9.3b* that Meghalaya requires a massive investment as well as significant increase in productivity if it desires to achieve a standard of living somewhere near that of the rest of India by 2030. Investment requirements may be met from savings and borrowings, both government and private. In the case of the government, capital expenditure is of the nature of investments and may be financed from current revenues (tax and non-tax), but only if there is revenue surplus (zero revenue deficits). In the eight year period, from 2000–01 to 2007–08, Meghalaya was revenue surplus in six years (all but 2001–02 and 2004–05) (Figure 9.2). However, the revenue surplus is barely 2 per cent of GSDP and can at best cover only a small fraction of the additional investment requirements. Even with optimistic assumptions on the ICOR (Column 5, *Table 9.3b*), the (desirable) investment rate averages about 37 per cent of GSDP. Thus other feasible avenues of resources have to be rigorously explored.

Figure 9.2: Revenue Deficits as Percentage of GSDP



A possible source of investment lies in additional government borrowing, which adds to government public debt either through public accounts or other internal and external borrowings. This in turn results in an increase in the fiscal deficit in government accounts. Between 2000–01 and 2007–08, the fiscal deficit for Meghalaya has varied between 1.1 per cent and 6.3 per cent of GSDP (with an average of 3.8 per cent; *see Table 9.4*). In years of revenue surplus, the full measure of fiscal deficits may, arguably, be assumed to finance capital expenditures or new investments. Thus, revenue surplus and budgetary borrowing together allow for (on an average) about 5 per cent of GSDP as new investment or capital expenditure. In fact, capital expenditure as derived from budgets averaged less than 4.5 per cent of GSDP between 2000–01 and 2007–08.

Table 9.4: Revenue and Fiscal Deficits, 1987–88 to 2008–09

(Per cent of GSDP)

	Meghalaya		NER		NEREAM	
Year	**Revenue**	**Fiscal**	**Revenue**	**Fiscal**	**Revenue**	**Fiscal**
1987–88	-10.93	0.06	-1.00	7.47	-3.93	11.56
1988–89	-11.51	1.42	-1.06	6.50	-3.16	12.17
1989–90	-5.52	3.82	-0.50	7.23	-4.24	10.19
1990–91	-4.15	4.05	-3.17	3.92	-14.08	-0.59
1991–92	-3.01	6.10	-3.83	3.70	-7.14	6.23
1992–93	-1.38	7.07	-3.67	2.06	-9.37	1.49
1993–94	-1.19	5.80	-4.24	0.76	-8.44	1.64
1994–95	-4.41	2.12	-0.72	4.11	-6.04	4.72
1995–96	-5.19	2.60	-1.36	4.01	-5.98	5.87
1996–97	-5.16	1.05	-2.81	2.37	-5.47	7.11
1997–98	-0.47	5.06	-1.37	3.51	-1.80	9.18
1998–99	-0.59	5.01	-1.19	2.95	-3.08	5.85
1999–2000	-0.44	5.84	2.17	6.23	1.12	10.09
2000–2001	-1.33	6.30	1.83	5.99	1.94	9.89
2001–2002	0.75	4.93	1.92	5.85	1.42	10.23
2002–2003	-1.77	3.38	0.58	4.24	0.79	8.91
2003–2004	-1.61	3.82	-0.58	3.55	-4.56	4.74
2004–2005	0.86	5.39	-0.68	4.90	-3.62	6.83
2005–2006	-1.15	2.83	-3.56	1.43	-6.12	5.40
2006–2007	-3.37	1.07	-5.41	0.04	-9.94	2.24
2007–2008	-2.47	2.82	-5.83	0.21	-11.13	2.42
2008–2009	-6.26	1.50	-4.62	5.42	-10.32	10.24

Source: Authors' own computation, derived from RBI Study on State Finances, various issues.

Current borrowings, as reflected in the measure of the fiscal deficit, are not the only source of public sector investment. State corporations may make investments from their internal resources or from borrowing that may not be fully reflected in state budgets, unless the budgets and annual accounts of the public sector corporations are fully integrated. It appears that less than 15 per cent of investment needs are being met from public sources. The remainder of investment has to come from the private sector. In many cases, this can be facilitated through public-private partnerships.

9.3 GROWTH OF REVENUE AND EXPENDITURE

The investible resource position of a government is determined by its savings and borrowings programme. In turn, the measures of revenue surplus and fiscal deficit may be loosely construed to correspond with the savings and borrowings programme. However, the deficit indicators are only an ex-post rendition. The active measures constitute revenue and expenditure programmes.

Between 2000–01 and 2007–08, total revenues for Meghalaya show the lowest rate of growth as compared to the NER or NEREAM (*Table 9.5*). Growth rates of total revenues reflect a similar picture even for a longer period between 1987–88 and 2007–08. Further, for the period between 2000–01 and 2007–08, the rate of growth of each category of revenue (tax, non-tax, grants-in-aid, and contributions) in Meghalaya trails the rate of growth of the respective components for NEREAM. However, over a longer period, between 1987–88 and 2007–08, both tax and non-tax revenues in Meghalaya showed a significantly higher rate of growth (compare Columns 2 and 6, *Table 9.5*) than for NEREAM.

Table 9.5: Trend Growth Rates of Revenue and Expenditure

(Per cent)

	Meghalaya		NER		NEREAM	
	1987–8 to 2007–8	2000–1 to 2007–8	1987–8 to 2007–8	2000–1 to 2007–8	1987–8 to 2007–8	2000–1 to 2007–8
1	**2**	**3**	**4**	**5**	**6**	**7**
Receipts						
Total Revenue	11.47	12.13	12.24	15.71	12.05	15.23
Tax	10.82	19.00	11.89	17.78	8.85	21.21
Non-tax	13.86	13.45	11.05	22.41	9.76	20.27
Grants-in-Aid and Contributions	11.48	8.73	12.69	13.44	13.51	13.33
Expenditure						
Total Expenditure	11.92	10.96	12.06	11.83	12.11	11.86
Revenue	12.49	11.09	12.15	10.50	12.12	9.95
Capital	9.19	10.47	11.55	19.34	11.97	19.48

Source: Basic data from Public Finance Information System (Databank), National Institute of Public Finance and Policy.

The tax-GSDP ratio of Meghalaya increased from 7.14 per cent in 2000–01 to 11.61 per cent in 2007–08. Similarly, the tax-GSDP ratio for NEREAM has also increased from 6.54 per cent in 2000–01 to 11.24 per cent in 2007–08. Thus, despite the higher growth rate of GSDP and buoyancy in taxes, the tax-GSDP ratio for NEREAM is lower than for Meghalaya. But it is also apparent that in the last decade or so, NEREAM has been gradually catching up with Meghalaya, which is possibly losing its pre-eminent position in the NER. Alternatively, one may interpret this as an improvement in balanced development of the NER.

Total expenditure in Meghalaya has grown at a lower rate (compare Columns 3 and 7 in *Table 9.5*) than that for NEREAM. This is true for the period between 2000–01 and 2007–08, as well as for the longer period between 1987–88 and 2007–08. The rate of growth of expenditure between 2000–01 and 2007–08 is lower than the rate between 1987–88 and 2007–08 for both Meghalaya and NEREAM. Further, analysis of the broad components of expenditure reveals that between 2000–01 and 2007–08, in Meghalaya the trend rate of growth of revenue expenditure was higher than the rate for capital expenditure (Column 3, *Table 9.5*). In the case of NEREAM, however, over the same period the trend rate of growth of capital expenditure is almost double the rate for revenue expenditure (Column 7, *Table 9.5*). This suggests that perhaps Meghalaya is the only outlier in the entire group of 11 special category states that has not accelerated its capital expenditure.

Between 2000–01 and 2007–08, the rate of growth of revenue expenditure in Meghalaya was slightly higher than that for NEREAM (compare Columns 3 and 7 in *Table 9.5*). In comparison, the rate of growth of capital expenditure in Meghalaya is almost half the rate observed for NEREAM.

Thus, capital expenditure in Meghalaya is critically straining existing infrastructure, with consequent social and economic costs in terms of growth and employment. This feeds back into revenue mobilisation performance as observed with a deceleration in tax revenues for Meghalaya. An urgent redressal of this situation appears to be desirable. The next section therefore details the structure of revenue and expenditure. The discussion is intended to examine any anomalies in the emergent structure that may seriously impede prospects for economic growth.

9.4 STRUCTURE OF REVENUE AND EXPENDITURE

The differences in growth rates of the components of revenue and expenditure have resulted in significantly altering their structure in the last decade. Thus, the share of grants-in-aid and contributions, which constituted more than two-thirds of revenues for Meghalaya in 2000–01, has declined to about 56 per cent in 2007–08 (Columns 2 and 3 in *Table 9.6*). For NEREAM this declined from more than three-fourths to about two-thirds over the same period (Columns 6 and 7, *Table 9.6*). Conversely, for Meghalaya the share of tax revenues (in total revenues) increased from about one-quarter in 2000–01 to more than one-third in 2007–08. The share of non-tax revenues has shown some increase over the period, but remains less than 10 per cent. The overall trend for Meghalaya and NER are however similar, with an increase in the share of tax and non-tax revenues and a decline in the share of grants-in-aid and contributions.

On the expenditure side, in contrast, Meghalaya presented a change in structure that was contrary to that for NEREAM. In Meghalaya, the share of revenue expenditure in total expenditure increased by about 3 percentage points, with an equivalent reduction in the share of capital expenditure. But for NEREAM, the share of revenue expenditure declined by almost 9 percentage points, with a corresponding increase in the share of capital expenditure.

Table 9.6: Structure of Revenue and Expenditure

(Per cent)

State/Region	Meghalaya		NER		NEREAM	
Year	**2000–1**	**2007–8**	**2000–1**	**2007–8**	**2000–1**	**2007–8**
1	**2**	**3**	**4**	**5**	**6**	**7**
Receipts						
Tax	24.99	36.18	34.02	37.51	17.17	22.57
Non-tax	7.63	8.15	7.28	10.72	5.40	8.14
Grants-in-aid and Contributions	67.38	55.67	58.69	51.77	77.43	69.29
Expenditure						
Revenue	82.68	85.19	87.18	80.80	83.75	73.96
Capital	17.32	14.81	12.82	19.20	16.25	26.04

Source: Same as *Table 9.4* and *9.5*

We further investigate the components of tax revenues and expenditures to see if there are similarities or differences in the respective trajectories. Segregating tax revenues into own-tax revenues and share in central taxes shows that between 2000–01 and 2007–08, for Meghalaya, there is some decline in the proportion of own-taxes (*Table 9.7*). NEREAM also presents a similar picture, though less pronounced.[38]

Table 9.7: Structure of Tax Revenue

(Per cent)

State/Region	Meghalaya		NER		NEREAM	
Year	**2000–1**	**2007–8**	**2000–1**	**2007–8**	**2000–1**	**2007–8**
1	**2**	**3**	**4**	**5**	**6**	**7**
Own	41.94	36.13	41.39	36.36	29.40	27.13
Share in Centre	58.06	63.87	58.61	63.64	70.60	72.87

Source: Same as *Table 9.4* and *9.5*

The proportion of revenue from share in central taxes is about 60 per cent for Meghalaya, and almost 70 per cent for NEREAM. Conversely, the proportion of own-tax revenues for Meghalaya is almost 10 per cent more than the corresponding proportion for NEREAM. A few perceptible changes are also observed in the distribution of revenue expenditure or capital expenditure. Almost two-fifths of revenue expenditure is incurred towards what is termed as 'non-developmental' expenditure (and includes fiscal and general services) in NEREAM. The proportion of such expenditure for Meghalaya is not only marginally lower but appears to depict a marginal decline between 2000–01 and 2007–08 (Columns 2 and 3 in *Table 9.8*). For NEREAM the proportion is almost unchanged in the same period (Columns 6 and 7 in *Table 9.8*).

[38] But there does not appear to be a clear trend as a significant fluctuation in proportions is observed for the intervening years.

Almost 60 per cent of developmental revenue expenditure in Meghalaya was incurred on social services in 2000–01. But this proportion has been declining and is close to one-half in 2007–08. Conversely, developmental revenue expenditure on economic services has increased in Meghalaya. The pattern is similar, though less pronounced for NEREAM (Columns 3 and 7 in *Table 9.8*).

In contrast to the revenue expenditure scenario, non-developmental capital expenditure entails only a small proportion that was less than 5 per cent of total capital expenditure in 2000–01. This proportion appears to be rising but remained less than 10 per cent in 2007–08. The remainder (above 90 per cent) is being incurred as developmental capital expenditure. Unlike the pattern emerging for developmental revenue expenditure, the proportion of developmental capital expenditure incurred on social services appears to be rising in Meghalaya. Again, in contrast to the scenario for developmental revenue expenditure, a larger fraction (between 60 to 70 per cent) of developmental capital expenditure goes towards economic services. The pattern is similar but relatively less pronounced for NEREAM.

Table 9.8: Distribution of Expenditure over Broad Services

(Per cent)

State/Region	Meghalaya		NER		NEREAM	
Year	**2000–1**	**2007–8**	**2000–1**	**2007–8**	**2000–1**	**2007–8**
1	**2**	**3**	**4**	**5**	**6**	**7**
Revenue Expenditure						
Non-developmental	37.16	34.52	39.35	38.58	39.37	39.24
Developmental (of which)	62.84	65.48	60.45	61.15	60.34	60.27
Social services	60.45	51.07	64.14	57.71	56.38	53.21
Economic services	39.55	48.93	35.86	42.29	43.62	46.79
Grants-in-aid and Contributions	0.00	0.00	0.20	0.26	0.29	0.49
Capital Expenditure						
Non-developmental	3.64	7.07	3.89	7.45	5.01	9.28
Developmental (of which)	96.36	92.93	96.11	92.55	94.99	90.72
Social services	36.01	41.89	25.52	29.44	32.32	33.63
Economic services	63.99	58.11	74.48	70.56	67.68	66.37

Source: Same as *Table 9.4* and *9.5*

Notes: (a) Non-developmental expenditure covers expenditure on (i) organs of the state, (ii) fiscal services, (iii) interest payments and servicing of debt, (iv) administrative services, (v) pensions and other retirement benefits, and (vi) miscellaneous general services. Grants-in-aid and contributions cover expenditure on (i) assignments to local bodies and panchayati raj institutions, and (ii) aid materials and equipment.

(b) Developmental expenditure covers expenditure on social and economic services. The sum of their proportions is 100 per cent of developmental expenditure.

(c) The sum of expenditures on non-developmental, developmental, and grants-in-aid and contributions is 100 per cent.

As discussed earlier, differences in the growth rates of components of revenue and expenditure have affected their structures. In turn, this has affected the structure of deficits. From the beginning of the last decade, revenue deficits showed a decline, and for the NER states as a whole, revenue deficits were quickly transformed into surplus that has been rising. This reversal of deficits to surplus also has to do with the promulgation of fiscal responsibility and budget management (FRBM) acts, duly incentivised by the recommendations of the Twelfth Finance Commission. Unfortunately, the effort appears more to satisfy accounting prudence than to influence expenditure efficiency and effectiveness that improves outcomes.

Among several causes impacting GSDP of a state and its consequent resource mobilisation capacity, issues in extant governance in the state play a critical role. The present polity of the state of Meghalaya does not present itself as a coherent, synchronised, and harmonious institution. In particular, this impacts not only the direction of public expenditure, but more so its effectiveness. Analogously, it presents difficulties in exercising tax or revenue efforts, with consequent influence on scope, level, and coverage of public services.

9.5 FINANCES OF THE AUTONOMOUS DISTRICT COUNCILS (ADCS)

Information on finances of the ADCs is scanty and difficult to locate. In this section we discuss information on the KHADC and GHADC from two different sources. On the basis of analysis of this information, some observations on the working of these ADCs have been made.

Information on funds received by GHADC has been taken from the Expert Committee Report (2006). *Table 9.9* provides information on the funds received by GHADC over the last 10 years. However, no information on expenditure was available. It is reported that a large part of these funds is used to support salaries of a large number of employees and functionaries (1,213). Excerpts from the Report (see Box 9.1) provide additional insights into ongoing tensions between the state government and GHADC, which adversely impact development programmes.

Box 9.1: *Interactions between the State Government and the GHADC*

Discussions with the councils revealed that no allocation has been received from the Twelfth Finance Commission in 2008 or 2009. Since 2005-06, the Council has not received funds from the Rural Development branch of the District Collector's office, because KHADC had not submitted its accounts, which has consequently affected the other two councils.

Further, the state government has not released the Council's share of forest revenues and major minerals in time. The state government also did not inform the Council how much tax they were collecting in this regard. Earlier, the councils received a 40 per cent share, but this has been reduced to 25 per cent. Discussions revealed that much of the resources were used for salaries, allowances and other administrative expenditure. There were a large number of employees, including traditional functionaries to whom salaries and allowances were paid. It is entirely believable that very little funds are left for development, in the circumstances.

Discussions with the GHADC revealed that there is a routine failure to pay staff salaries in the council. Quite often delays in payment of salaries have resulted in gheraos of the council by distraught family members of the staff and even forcible closing down of the councils. These are hardly conducive to a strong district council, capable of shouldering responsibilities of development. Council representatives therefore made a strong case for the Council to receive money through the mechanism provided in Article 275(i) of the Constitution, directly from the centre.
Source: *Expert Committee Report (2006)*

Table 9.9: Receipts of GHADC (total of ten years)

(Rupees crore)

Funds from the Centre	Funds received on account of the recommendations of the Eleventh and Twelfth Finance Commissions		25.36
	Construction of council buildings through civil works		
	Grants-in-aid for council's own plan schemes from the Rural Development Ministry		
Funds from the State Government	Grants-in-aid for rural road communication		20.09
	Grants-in-aid for forest protection schemes and other development works and plantations		
	Grant for maintenance of enforcement staff		
	Grants-in-aid for survey works and maintenance		
Funds from Council's Own Resources	Forest branch	Share of royalties from major and minor minerals	62.48
		Sale of timber and other forest produce	
	Taxation	Professional taxes	
		Share of motor vehicle tax	
		Taxes on cycles, carts and cars	
	Land revenue and other taxes	Land revenue	
		Revenue from *haats*, fisheries, cattle pounds, and ferry *ghats*	
		Settlement premium	
		House taxes	
		Water taxes and new connection charges	
	Total		**107.93**

Source: Report of the Expert Committee (2006)

Information on actual receipts and expenditure of the KHADC for the period between 2004–05 and 2007–08 has been obtained from its website and presented in *Table 9.10*. In 2005–06, expenditure by KHADC exceeded its receipts by almost one-quarter (*Table 9.10*). However, over the next two years, almost one-fifth of the receipts remained unexpended.

Table 9.10: Receipts and Expenditure of KHADC

(Rupees)

	2007–08	2006–07	2005–06	2004–05
Receipts	185,869,229	167,827,316	126,892,452	177,686,404
Expenditure	148,831,417	135,819,645	156,977,853	163,336,712
Deficit (-) / Surplus (+) (Row 1 – Row 2)	37,037,812	32,007,671	-30,085,401	14,349,692
Row 3 / Row 1 (Per cent)	20	19	-24	8

Source: Authors' own computation, derived from Budget Papers, Khasi Hill Autonomous District Council

District councils have an important role to play in local development, but they lack both the capacity to function as modern development institutions and the trust of the state government and traditional institutions to effectively carry out their statutory functions. There is an urgent need for the district councils to reorient themselves to cope with the demands of development in Meghalaya. The state government, the central Ministry of Panchayati Raj, and the Governor's office have a huge task in facilitating this. Given the massive magnitude of gaps in existing capacity, a sustained effort in this direction is required. We feel a professional agency should be engaged for this task.

9.6 OTHER SOURCES OF PLAN FINANCING: NON-LAPSABLE CENTRAL POOL OF RESOURCES (NLCPR) AND EXTERNALLY AIDED PROJECTS[39]

The Non-Lapsable Central Pool of Resources (NLCPR)

The Non-Lapsable Central Pool of Resources (NLCPR) comprises the accrual of the unspent balances out of the 10 per cent earmarked for the NER in the budgets of various ministries and departments. The broad objective is to promote development of infrastructure in the NER by increasing the flow of budgetary financing for new infrastructure projects and schemes. This applies to both physical and social infrastructure, such as power, roads and bridges, and infrastructure for education, health, water supply, sports facilities, etc. Funds from the Central Pool can be released for state sector and central sector projects, but these funds are not meant to supplement the normal Plan programmes, either of the state governments or the central ministries, departments, and agencies.

[39] A list of externally aided projects is given in Annexure 9.A1, Volume II

Budgetary provisions for the north-eastern states in the central plan of various ministries and departments has steadily increased from Rs 3,211.00 crore in 1998–99 to about Rs 15,526.82 crore in 2008–09. In 2006–07, total expenditure by the central ministries and departments in the NER was Rs 9,723.06 crore, and during 2007–08 it was Rs 1,836.52 crore.

Box 9.2: New Guidelines for Administration of NLCPR Projects

New guidelines for administration of NLCPR were issued on 6 August 2009, aimed at speedy completion of these projects:

- *State governments have to submit annual priority lists along with concept papers by 30 November every year.*
- *Retention of projects by the Ministry is to be completed in a month's time.*
- *State governments have to submit DPRs of retained projects within two months of retention.*
- *Examination of DPRs to be completed and projects to be sanctioned within two months of completion of DPRs.*
- *State governments have to award the work by tendering within three months of sanction of the project.*
- *Funds in the sanctioned projects will be released in three instalments of 40 per cent, 40 per cent, and 20 per cent.*
- *Funds are to be utilised within 12 months of their release.*
- *State governments have to transfer funds to the implementing agency within 15 days of its release.*
- *State governments have to complete the project by the target date (as given in the DPR of the state government) with a six month leeway; otherwise it will receive no more funds from the Ministry, and will have to complete the remaining work with its own resources.*
- *If, during implementation of a project, a state government wants to change the completion schedule, it has to be done at the level of the state Chief Secretary and with specific reasons at least six months before the original date of completion.*

Of the 67 sanctioned projects for Meghalaya, only 18 have been completed so far (as on 30 September 2009). The remaining 49 projects are at various stages of implementation.

Table 9.11: Meghalaya: Projects Sanctioned and Completed

(Rupees crore)

State	Projects Sanctioned		Projects Completed		
	No.	*Cost*	*No.*	*Cost*	*Percentage*
Meghalaya	67	600.84	18	148.27	26.87
Total for all NE States	1,070	8,256.96	499	2,396.71	46.64

Table 9.12: Meghalaya: Release of Funds under NLCPR (as on 30 September 2009**)**

(Rupees crore)

Year	Meghalaya	All NE States
1998–99	3.79	106.34
1999–2000	9.00	409.96
2000–01	31.88	309.25
2001–02	22.39	491.57
2002–03	23.77	550.00
2003–04	49.99	550.00
2004–05	21.71	650.00
2005–06	27.50	679.18
2006–07	38.58	700.00
2007–08	60.39	736.00
2008–09	94.82	727.41
2009–10	24.58	216.35
Total	**408.40**	**6,126.07**