



**GOVERNMENT OF MEGHALAYA
FINANCE DEPARTMENT**

MEMORANDUM SUBMITTED

**TO THE
TWELFTH FINANCE COMMISSION**

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CHAPTER - I

Introduction

1.01 Twenty one months after its initial creation as an autonomous State under Assam, Meghalaya, "the abode of clouds", became the 21st full-fledged State of the Indian Union on the 21st January, 1972. The State was carved out of the erstwhile composite State of Assam to satisfy the democratic and constitutional aspirations of its people comprising predominantly of the Khasi, Jaintia and Garo tribes. Located on the southern fringe of the North-Eastern part of the country with a population of 10,11,699 at the time of its creation, Meghalaya is one of the smallest States in the country. At the turn of the century in 2001, the State recorded an increase in its population to the extent of 23,06,069 marking a growth of 128% with a density of 103 per Square Km as against 45 per Square Km in 1972.

1.02 The State has a geographical area of 22,429 Sq. Kms which represents about 0.70% of the total area of the country. It shares an international boundary of 423 Kms with Bangladesh in the South and West and is bounded by Assam in the Northern and Eastern side. Meghalaya is a land-locked territory comprising mostly of hills and tablelands with the hills sloping gently towards Assam on the North but rather steeply and abruptly towards Bangladesh on the South. The land surface is also

characterised by small patches of valleys, fresh streams, rivers and deep gorges. While this distinctive topographical feature does offer ample scope for generation of hydropower, it also poses severe limitations on the scope for development of alternatively cheaper modes of transport other than the expensive road transport.

1.03 Meghalaya is directly influenced by the South-West Monsoon. Cherrapunjee, the wettest place on earth, is a gift of these rain bearing monsoon winds. The average annual rainfall of the State is 6000 mm. Nature in its generous abundance has bestowed on Meghalaya a unique array of vegetation ranging from tropical to sub-tropical to temperate. The forest cover accounts for 69.8% or 15,597 Sq Kms of the total area of the State.

1.04 The State is richly endowed with natural resources. The total known coal reserve is estimated at 560 million tonnes. Limestone reserves are estimated at 12,000 million tonnes and Industrial clay about 71 million tonnes. By and large, the soil in the State is acidic in nature but poor in phosphorous content. Due to heavy rainfall, the soil in the border areas tend to be sandy.

1.05 The population of the State recorded at 10,11,699 at the time of its creation in 1972 grew to 13,35,819 in 1981, 17,74,778 in 1991 and 23,06,069 in 2001 indicating a decadal growth of 32.04, 32.88 and 29.94 respectively over the 30 year period. About 82% of its population lives

in the rural areas. The State's population is predominantly tribal which constitutes 90.46% of the total population. The number of inhabited villages recorded at 4593 in 1971 census increased to 5780 in 1998. The total cropped area in the State is 2,66,816 hectares with a net sown area of 2,21,830 hectares. Despite heavy deposits with the commercial Banks in the State amounting to 1990.02 crores in 2001-02, the credit available during the same period worked out to only 358.63 crores with a C.D. ratio of 18.02 as against the All-India average of 57.05. The State is therefore contributing appreciably to the capital formation of the country at the expense of local investments. There is a general reluctance on the part of the commercial Banks to invest in the State leading to paucity in investments in an area where it is most needed.

1.06 As stated earlier, roads constitute the only means of communication and transport in the State. The road length at the time of creation of Meghalaya was 3,090 kms with a density of 13.74 kms per 100 square kms. The road length has since increased to 7598 kms in 2001-02 leading to an increased density of 33.88 kms per 100 square kms. Correspondingly, the State has seen a record increase in the number of registered vehicles. Beginning with 3831 registered vehicles at the time of its creation, the number of registered vehicles recorded by the end of 2002-03 touched 73,382. The ratio accordingly works out to 1 (one) vehicle for every 32 persons in the State in

2002 as against 1:264 in 1972. The Meghalaya Transport Corporation is the only transport public sector undertaking in the State. Since the Corporation does not enjoy any monopoly over the State routes, it has not been able to withstand competition from the private sector. The Corporation which recorded the average number of passengers carried daily at 486 only in 2001-02 with a fleet of 87 buses has been running at substantial losses over the years.

1.07 The topography of the State with rivers cascading into ravines presents an ideal scope for generation of hydro electric power. The tapped power potential, however, is only 185.2 MW or 6% of the available potential of 3000 MW. With the industrialisation process taking place particularly in the Byrnihat area within Ri-Bhoi District, Meghalaya has recently become a power-deficit State. The Central Electricity Authority have issued the techno-economic clearance for the new Myntdu-Leshka Hydro Electric Power Project, Stage-I (2 x 42 MW) in September, 1999 at an estimated cost of Rs. 363.08 crores. The target time of completion of the project is 3 (three) years and works have already commenced. Out of the 5484 villages in the State, 3077 villages or 56.1% of the total number of villages have been covered under the Rural Electrification Programme.

1.08 The enrolment in Primary Schools recorded at 1.48 lakhs in 1972 has gone up to 4.17 lakhs in 2002-03. Similarly,

the intake of 29,397 at the High School level in 1992 has increased to over 1.51 lakhs in 2002-03. The literacy rate recorded at 29.49% in 1971 has registered a corresponding increase to 63.31% in 2001. Unfortunately, the rising index in the State's human development record has not been accompanied by matching employment opportunities resulting in rampant unemployment of educated youths.

1.09 In the public health sector, the State began with just 9 Public Health Centres in 1972. The number of PHCs by the end of 2003 has gone up to 93. The number of Doctors has also gone up from 113 in 1972 to 473 in 2003. There has also been a similar increase in the number of nurses and paramedical personnels over the same period of time.

1.10 The estimates of Net Domestic Product of the State indicates the role performed by each sector of the economy. The contribution of the Primary Sector to the NSDP at current prices is 31.29% in 2002-03 (AE) as against 33.26% in 1994-95. The Secondary Sector contributed between 11.89% and 12.70% at current prices during the period 1993-94 to 2002-03 while the Tertiary Sector contributed between 54.00% and 56.67% during the same period of time.

1.11 The Socio-economic indicators given at **Annexure-A** will indicate the comparative position of the State vis-à-vis the All-India context.

CHAPTER - II

Socio-Economic Scenario Of The State

1.12 The two erstwhile districts of Assam from which Meghalaya was created were economically weak. In view of the adverse cost-benefit ratio, adequate attention was not paid to these areas in the past. Therefore immediately after the attainment of Statehood, the State with liberal assistance from the Government of India had to concentrate on the task of creating the necessary economic and social infrastructure and improving the delivery system to ensure that economic development percolated to the grassroots. However due to its hilly terrain and climatic condition and the enormity of the task the progress has been rather slow.

1.13 Due to lack of infrastructure, industrial development in the State has not evolved to an extent where it could make an impact on the economy. However, despite these limitations the State has been making every effort to promote industrial development in the form of incentives and concessions, establishment of the Export Promotion Industrial Park at Byrnihat and organization of awareness programmes by the District Industries Centres etc. Due to the limited scope for promoting significant industrial development, the employment avenues in the secondary sector is limited. This coupled with the absence of an economically viable agricultural system have been putting

a severe strain on government, rendering it as the only major source of employment for the educated youth.

1.14 The change envisaged by the economic reform and liberalization initiated in the country during the early nineties, with an emphasis on promotion of private investment and fiscal reform, would have made the role of the government redundant to a certain extent. However, the impact of the economic reforms can be adequately felt only if a certain level of economic development has been achieved. Meghalaya, which attained statehood 25 years after independence is yet to be equipped with the necessary infra-structural facilities to enable it to provide adequate basic services and social and economic opportunities to its people. Being economically backward, the state does not attract outside investment and most of the state's entrepreneurs are first generation entrepreneurs without adequate capital to make any major investment in the state. As such, government expenditure in a state like Meghalaya still play an important role in creating employment opportunities and constitute a major component of the aggregate demand of the state. Obviously, therefore, a reduction of government expenditure at this stage could be catastrophic to the economy. Government expenditures therefore cannot be viewed exclusively from an economic point of view as human welfare and social well being are the ultimate goals of the government.

1.15 Thus in the context of the state-wise socio-economic index the State of Meghalaya is still a backward State. We therefore request the Finance Commission to take holistic view in this regard and to recommend an award that broadly address the horizontal inequity of the State of Meghalaya, relative to other States of the Country.

CHAPTER - III

Basic Approach Towards Devolution Of Financial Resources From The Centre To The States

- 2.1 India is a vast country comprising of states and union territories with extreme diversity in size, population, ethnic-composition, histories, cultures natural endowment, level of administration, social and economic infrastructures, industrial development etc. Consequently, development indices differ between the States and regions in the country. In order to safeguard regional diversity without impinging upon the unity and integrity of the country, the framers of the Constitution decided to set up a federal polity with fiscal federation as one of its elements.
- 2.2 The necessity of having a fiscal federation is basically to address the economic regional/state-wise or horizontal imbalances that existed in the country through the recommendations of a Statutory Body or the Finance Commission . In consonance with the above philosophy, the Constitution of India has clearly demarcated the administrative and fiscal functions between the Centre and the States. While the Center has been vested with the responsibility on issues/subjects which are of national importance such as defense, foreign affairs, trade, etc. the States have been assigned the responsibilities of looking into issues which affect the lives and day to day

activities of the people such as health care, basic amenities and sanitation, law and order, education et al. However, in spite of these heavy obligations, the States have been given a limited leverage as far as resource-raising potential is concerned vis-à-vis the Centre.

2.3 The idea behind providing a higher fiscal power to the Central Government is to enable Central Government, based on an objective analysis of the resource requirement and resource potential of each State, to discharge its fatherly responsibilities efficiently and equitably, catering to the need and requirement of each State, especially the weaker and less developed ones, to help them to develop and become at par with the more developed States. Thus, devolution of resources from the Center to the States is meant to bridge the critical gaps in development and to correct the horizontal and vertical imbalances that existed between the States and between the Center and the States respectively, in terms of responsibilities and fiscal wherewithal. Provisions under Chapter I, Part XII and Art 275 of the Constitution provide for the principles under which devolution of the net proceeds of Central taxes shareable with the States and grant in aid of the revenue account are to be made respectively against the backdrop of the recommendations of the Finance Commission.

2.4 While the guiding principles behind the adoption of a fiscal federation are quite noble and just, the

recommendations of successive Finance Commissions have, however, not adequately addressed the vertical and horizontal imbalances inherent in federal polity due to excessive reliance on normative and uniform parameters without aligning the same with local ones in determining devolution to the States. Thus while the developed States with their wider resource-base have been able to forge ahead, the weaker States continue to lag far behind despite their best efforts. This has widened the gap between the affluent and developed States and the poor and less developed States in the country. It may also be mentioned here that while fiscal federalism is one of the fundamental elements of the Indian Federation, the factors determining the creation of federal units are primarily socio-political. **Thus small States like Meghalaya were created mainly on the basis of the constitutional and political aspirations of the people and not on the basis of any financial solvency.** Besides financial limitations, its geographical location, inhospitable topography and climatic condition have resulted in the State being classified as a Special Category State. However, in actual practice the support in terms of devolution and other forms of transfers have not been adequate to resolve the critical needs of the State.

- 2.5 The physical features of the State of Meghalaya with its difficult and inhospitable hilly terrain, isolated and terminal location, unfavorable climatic conditions etc., have retarded the progress of economic development.

Further, the absence of adequate infrastructure, difficult terrain, adverse climatic condition, dependence on other States for supply of essential goods, scattered and sparsely populated villages and reliance on road transport as the only mode of transportation have resulted in inflationary pressure of the State being much higher than those in the plain areas. Consequently, the maintenance cost of infra-structural assets like roads, buildings, etc. and unit cost of providing basic amenities and other social and economic services to the people of the State, especially those living in the rural areas are comparatively high.

2.6 Besides high maintenance and other administrative costs which have adversely affected the revenue account, the State has also to bear other contingent expenses especially those relating to insurgency, other related criminal activities, increasing interest payments, subsidy etc. Earlier Finance Commissions did not appear to have taken these factors into account while analyzing the State's requirement and, in the process, recommended devolutions which, we feel, were not commensurate with the needs of the State. The table below will reflect the recommendations made by the 11th Finance Commission against the projected requirements of the State: -

Heads	Eleventh Finance Commission		Twelfth Finance Commission
	Projected requirement of the State (in crores)	Recommendation/ award (in crores)	Projected Requirement of the State (in crores)
1(a) Upgradation of standard of Administration } (b) Special Problems.	778.08	57.39	779.54
2. Local Bodies	162.49	28.30	215.32

2.7 The State of Meghalaya therefore urges the Finance Commission to give due importance to Special Category States' backwardness and underdevelopment by providing them with adequate resources. Such resources are meant not only to cover their revenue gap and help them develop and come at par with other more developed States, but also to help them tide over their financial crisis, especially in the post-reform period where economic compulsion is forcing them to pull up their socks and restructure their fiscal set-up. The adoption of uniform and normative parameters while analyzing and determining the resource requirement and potential of the States have in fact not only denied the Special Category States the opportunities to develop and come at par with other States but also worsen their fiscal and structural imbalance and handicap the very purpose for which central devolutions in a fiscal polity are primarily intended in the first place.

2.8 Therefore in a vast country like India consisting of States

with varying degrees of development, we urge the Finance Commission to ensure reduction of regional and state-wise imbalances through a just and equitable distribution of Central Resources especially to the Special category States.

The Government of Meghalaya therefore urges upon the 12th Finance Commission to consider enhancing the existing States' shares of the net proceeds of all shareable Central Taxes from 29% to 33%.

2.9 Para 7 of the terms of reference of the 12th Finance Commission requires that the Commission adopt the population figures of 1971 census as one of the factors for determining the devolution of taxes and grant-in-aid. This will not only be a gross injustice to the States but also an unrealistic basis for planning and funding. When the final figures of the 2001 census are already available, it would really be a retrograde step to adopt the 1971 population figures. The growth of Meghalaya population has been at a rate much higher than the national average. The decennial growths of population of Meghalaya i.e. 1961 census are shown below: -

Census	Population	Percentage decadal variation
1961	769380	27.03
1971	1011699	31.50
1981	1335819	32.04
1991	1774778	29.94
2001	2306069	29.94

(In millions)

Census	Meghalaya	North Eastern Region	All India	Percentage of State Population against NER	Percentage of State's Population against all India
1971	1.01	18.99	548.16	5.31	0.18
2001	2.306	39.035	1027.015	5.90	0.22

Therefore adoption of the 1971 population figures as a factor for determination of devolution of taxes and grant in aid would result in great injustice to the State.

The State therefore submits that the 12th Finance Commission may consider providing additional grant in aid to compensate for the loss of revenue, which might accrue to the State if the 1971 figures are adopted as required in the terms of reference.

CHAPTER - IV

Financial Restructuring

- 3.1 Generally the composition of Government expenditures and the different sources of revenue receipts for financing them constitute the fiscal structure of any Government-Central or State Government. Financial health of these units, whether favourable or otherwise, are reflected by various budget indicators such as the **fiscal deficit, revenue surplus, revenue deficit, primary surplus, primary deficit etc.** which either have a positive or negative bearing on the performance of the economy and the overall macro-economic stability. Fiscal Restructuring implies the process of identifying the fiscal problems and factors responsible for them besides measures to be adopted to correct these imbalances
- 3.2 Since the second half of the nineties, most of the States have been experiencing fiscal stress with rising fiscal deficit. Significant rise in fiscal deficit has been mainly on account of rising revenue deficit, which made up almost half of the fiscal deficit. The severity in fiscal strains of the Centre and the States and their impact on the economy have been such that in one of its terms of reference, the 11th Finance Commission was asked **“to review the State of finances of the Union and the States and to suggest ways and means by which the governments, collectively and severally, may**

bring about a restructuring of the public finances so as to restore budgetary balance and maintain macro economic stability “. This condition, which emphasized the need for fiscal restructuring, has also been incorporated in the terms of reference of the 12th Finance Commission. In order to further supplement the States’ efforts at fiscal restructuring and to make them effective, the Central Government had also asked the 11th Finance Commission to review the finances of the State and design or recommend a mechanism by which the States should be encouraged to reform their fiscal structure on the basis of a monitor-able fiscal reform programme.

- 3.3 In pursuance of the recommendation of the 11th Finance Commission made in this regard, the Central Government of India has set up an ‘Incentive Fund’ on the basis of which 15% of the Grant in aid of the revenue of the State is held back, and releases from the Fund requires that the States initiate some form of fiscal reform. The objective of this Fund is basically to encourage the States to implement monitor-able fiscal reforms. Disbursement from the incentive fund is made on a single monitor-able fiscal objective – 2% annual reduction in revenue deficit (for Special Category States) and its complete elimination by 2004-2005. The attention given by the Central Government to fiscal consolidation/restructuring indicates the gravity of the problem.

3.4 As a Special category State, 80% of our resources flow from the Central Government. However, the Non Plan deficit has always been the bane of the State's fiscal health since the early nineties when the Central Government withdrew the system of liberally financing the Non Plan Gap of the State Government. The problem has been further aggravated by other adverse social and financial developments in the State like the rise in security-related expenditure, the effect of the 1997 Pay – Commission, limited devolutions after the Ninth Finance and other Commissions, the ban on timber trade, rising interest payments etc. which directly affected the State's Non Plan revenue. The increase in the level of Non-Plan expenditure has also affected the limited corpus meant for maintenance of assets created from the Plan assistance. This is well substantiated by the fact that almost all schemes taken up during the Seventies require complete renovation.

3.5 The rising Non Plan Gap has eroded the Plan provisions of the State and affected the Development expenditure. Realizing the problems posed by the rising Non-Plan expenditure in as far as management of the finances of the State is concerned, the State Government has been making every effort to contain avoidable expenditure through austerity measures and resource augmentation by way of tax reforms, imposition of user-charges on certain services provided by the Government, disinvestments of certain Puss etc.

3.6 Similarly, the scope for compressing public expenditure in a State where it forms a major component of the aggregate demand would completely dislocate the economy of the State and subsequently its fiscal position. In the light of the above facts, fiscal consolidation has to be made in a very objective and holistic manner. Be that as it may, the State Government formulated a Medium Term Fiscal Reform Programme (MTFRP) with an emphasis on such issues as downsizing and right sizing of the Government, abolition of redundant posts, restructuring of PSUs wherever feasible and divestment in the case of others where economic viability is beyond redemption, reducing subsidies, etc. on the expenditure side. On the revenue side, emphasis is laid inter- alia on rationalization of the tax rates and charging of user-charges from services provided by the Government.

Against the above facts, the State of Meghalaya urges the 12th Finance Commission to do justice to the State by objectively analyzing the state of its finances and its potential to generate resources and recommend a favourable award for the State which besides meeting its fiscal need also leaves room for the State to maneuver its finances in such a way as to provide effectiveness and improve the tempo of its fiscal reforms and also enable it to completely wipe out the Non-Plan revenue gap.

Further, the State urges the 12th Finance Commission to provide additional Non-Plan assistance for maintenance of assets created under Plan assistance to ensure that assets created with scarce plan resources do not become infructuous. We urge that such additional Non-Plan assistance be pegged at the level of not less than 20% of the Non-Plan revenue gap grant as may be recommended by the Commission.

CHAPTER - V

State's Resource And Requirement

4.1 Meghalaya is a land-locked State and the relative backwardness of its economy had put severe constraints on the capacity of the State to generate resources. Thus the revenue receipt of the State in the form of Tax and Non-tax revenue is quite meager and inadequate to meet its minimum requirements. This limited resource-generation capacity of the State has been further affected by the ban on felling and export of timber by the Supreme Court. However in spite of the above limitations, the State has made every effort to improve its revenue generation through broadening of the tax net, rationalizing the tax system, better tax administration etc. The status of revenue collection (both tax and non-tax) of the State as shown below will indicate the position: -

Head	Year	Revenue collected (in cores)
1. Taxation	2000 – 01	(Actual) 64.71
	2001 – 02	(Actual) 80.89
	2002 – 03	(Actual) 87.20
	2003 – 04	61.97*
2. State Excise	2000 - 01	(Actual) 41.09
	2001 – 02	(Actual) 41.69
	2002 – 03	(Actual) 44.95
	2003 – 04	36.01*

3. Mining & Geology	2000 – 01	(Actual)	50.22
	2001 – 02	(Actual)	63.36
	2002 – 03	(Actual)	56.11
	2003 – 04		51.75*

* Provisional figures upto Dec. 2003

4.2 The State is committed to the introduction of Value Added Tax (VAT) as and when all other states particularly the North Eastern States implement the same. Implementation of VAT is expected to substantially increase the tax base of the state. However, the system of VAT is more remunerative in a highly industrial economy where process of value-addition is high and works efficiently and effectively in an economy where most of the sectors are organized and the tax administrative machinery is highly computerized. In an under-developed and industrially backward State like Meghalaya where the economy is still un-organized and computerized tax administration are not yet in place, forecast of the positive impact of VAT on the State revenue with any degree of certainty is not possible.

4.3 Limited ability to generate resources and ever increasing expenditure has compounded the fiscal problems of the State of Meghalaya. The items of committed expenditures which are beyond the control of fiscal management are: the increasing salary bill in view of the implementation of the 3rd Pay Commission, rising debt-servicing, Court order

to regularize 6000 casual employees, the directives of the Supreme Court to implement social up-liftmen schemes such as Mid-Day Meal Scheme for school children, the Integrated Child Development Scheme to provide supplemental nutrition to pregnant and nursing mothers and mal-nourished children and the likely implementation of the Supreme Court's order with regard to recommendations of the First National Judicial Pay Commission (FNJPC). All of these have contributed to the expanding committed expenditures of the State.

- 4.4 These expenditures have been adversely affecting the Revenue Receipt-Expenditure ratio of the State resulting in negative Bars (average) that subsequently affect the resources for developmental and Plan capital expenditures.

Keeping in view the above factors, the State urges the 12th Finance Commission to take an objective view of the financial capacity of the State and accept the realistic projection for the tax and non-tax revenue reflected by the State.

The State also urges the 12th Finance Commission to include within the ambit of its recommendations the additional expenditure to be incurred on account of the likely outgo consequent upon the recommendations to be made by the new pay commission which is due to be constituted within

the period of the award of the Commission, the additional outgo due to the likely implementation of the recommendations of the FNJPC and all such committed expenditures already mentioned heretofore and especially to recommend an award Rs7.00 crores approximately which takes into account the need to provide adequate information technology enable logistics in the State to facilitate a smooth, effective and efficient implementation of VAT and also all of the above mentioned inescapable items of expenditure to avoid dislocation of the State finances arising out of over-assessment of receipts and under-assessment of expenditure.

CHAPTER - VI

Debt - Relief

- 4.5 Earlier finance commissions had realized the negative impact of increasing debt stock on the finances of the states and had therefore formulated debt-relief schemes. The schemes basically involved consolidation and rescheduling of loans and, in certain cases, smaller fractions were completely waived.
- 4.6 **Para 9 of the terms of reference of the Eleventh Finance Commission required that the commission make an assessment of the debt position of the states as on 31st March 1999 and suggest corrective measures as may be deemed appropriate. However, no debt relief scheme has been extended to the state of Meghalaya although all the required formalities have been fulfilled.**
- 4.7 In the meantime, the Govt. of India has implemented the 'Debt Swap Scheme' to replace the old high cost debt of small saving loans by low interest rates through market borrowings. The trend in the composition of the borrowing is indicative of the increasing reliance of the State in market borrowings. These loans availed are invested in the social and economic sectors which do not yield any direct financial return to enable the State to

recover the investment which has resulted in substantial debt accumulation.

4.8 The State Govt. therefore urges the Twelfth Finance Commission to take a sympathetic view of the debt position of the State and to recommend debt relief by writing off an admissible portion of the outstanding loans of the State as done by earlier finance commissions to ease the interest and debt burden of the state to stabilize its fiscal structural imbalances arising out of increasing interest payments.

CHAPTER - VII

Financing of Calamity Relief

- 5.1 The Ninth Finance Commission had introduced a scheme of Calamity Relief Fund (CRF) to enable the States to manage and provide relief to the people affected by natural calamities. According to the terms and conditions of the scheme, annual contributions to the CRF were to be made by the Centre and the concerned State in the ratio of 75.25.
- 5.2 The Tenth and the Eleventh Finance Commissions have extended the implementation of the scheme with some modifications to provide for greater autonomy, accountability and responsibility to the States in the management of relief measures.
- 5.3 In its present dispensation, the scheme appeared to be working effectively. However, in a resource-scarce State like Meghalaya where generation of additional revenue is quite limited and fraught with adverse consequences, the amount devolved from the Centre in this regard is, at times, not sufficient to meet the actual requirements.

It is therefore urged upon the 12th Finance Commission to review the scheme especially in the context of the Special Category States and recommend modifications which are consistent with

the need of these States. It is also submitted that the size of the CRF be fixed at a higher rate by raising the ratio of the sharing pattern from the existing rate to that of 90:10, if not 100% grant.

CHAPTER - VIII
Autonomous District Councils And Their
Finances

- 6.1 The founding fathers of the Constitution recognized the dynamic and vibrant traditional and customary institutions of the hill areas of the then composite State of Assam. As such, they framed the Sixth Schedule for setting up of Autonomous District Councils to enable the tribal people of the North Eastern region to grow according to their own traditions, cultural institutions and genius.
- 6.2 The Sixth Schedule thus provided a mechanism for the hill people of the region to legislate, adjudicate, and regulate the traditional, social, cultural and economic development of their society in a manner which would be conducive to such traditions, customs, practices and conventions, whilst accelerating the pace of their socio-economic development.
- 6.3 The District Council has been empowered to make laws with respect to: -
- (a) the allotment, occupation or use, or the setting apart, of land, for the purposes of agriculture or grazing or for residential or other non-agricultural purposes or for any other purposes

- likely to promote the interests of the inhabitants of any village or town;
- (b) the management of any forest not being a reserved forest;
 - (c) the use of any canal or water-course for the purpose of agriculture;
 - (d) the regulation of the practice of jhum or other forms of shifting cultivation;
 - (e) the establishment of village or town committees or councils and their powers;
 - (f) any other matter relating to village or town administration, including village or town administration, including village town police and public health and sanitation;
 - (g) the appointment or succession of chiefs or headman;
 - (h) the inheritance of property;
 - (i) marriage and divorce; and
 - (j) social customs.

6.4 The State of Meghalaya has three Autonomous District Councils, namely the Jaintia Hills Autonomous District Council, the Khasi Hills Autonomous District Council and the Garo Hills Autonomous District Council. The term of the District Councils is for five years from the date of their constitution. Accordingly, elections to these District Councils are conducted every five years on the expiry of their term. At present there are 30 (thirty) members in each of the three District Councils. 29 members are

elected on the basis of adult suffrage and 1 (one) member is nominated by the Governor. Elections to these 3(three) District Councils have recently been held involving an expenditure of Rs. 3.5 crores which is entirely borne by them.

6.5 The District Council for an autonomous District in respect of areas within the District may constitute village councils or courts for the trial of suits and cases between the parties all of whom belong to the Scheduled Tribes within such areas, other than suits and cases to which the provisions of sub-para (I) of Para 5 of the Sixth Schedule apply, to the exclusion of any court in the State and may appoint suitable persons to be members of such village councils or presiding officers of such courts for the administration of the laws made by the District Council. The District Council has also been empowered to constitute courts to exercise the powers of a court of appeal in respect of all suits and cases triable by village councils or subordinate courts of the District Council.

6.6 Every village in Meghalaya is administered by a Village Durbar with the assistance of a Village Council or Village Committee, headed by a Headman/Chairperson and members selected by the inhabitants of the village, from time to time. Such Village Durbar or Council or Committee constitutes the traditional grass-root level local authority with such powers and functions as may be devolved to them by Rules and Regulations made by the

concerned Autonomous District Council and approved by the Governor of Meghalaya.

6.7 The District Council for an autonomous District is empowered to make rules for the regulation and control of money-lending or trading within the District by persons other than members of the Scheduled Tribes. The regulations may prescribe: -

- (a) that no one except the holder of a license issued in that behalf should carry on the business of money-lending;
- (b) the maximum rate of interest which may be charged or be recovered by a money-lender;
- (c) for the maintenance of accounts of money-lenders and inspection of such accounts by officers appointed in that behalf by the District Council;
- (d) that no person who is not a member of the Scheduled Tribes resident in that District should carry on wholesale or retail business in any commodity except under a license from the District Council.

For the purposes aforesaid, each District Council has a huge establishment consisting of :-

- (a) The Legislative Wing consisting of elected members of the District Council;

- (b) The Executive Wing consisting of the Chief Executive Member and Members of his Executive Committee; and
- (c) The Judicial Wing consisting of the District Council Judge with powers including those of a Sessions Judge and the Subordinate Judiciary.

6.8 The State of Meghalaya, except the areas comprised within Shillong Municipality, is deemed to be a tribal area for the following purposes: -

- (a) establishment of village or town committees or councils;
- (b) any other matter relating to village or town administration, including village or town police and public health and sanitation;
- (c) establishment, construction, management or regulation of markets, cattle-pounds, ferries, roads, road transport and waterways;
- (d) administration of justice;
- (e) levy and collection of taxes on land, buildings, etc.;
- (f) levy and collection of taxes on professions, etc.;
- (g) levy and collection of taxes on animals, vehicles and boats;
- (h) levy and collection for maintenance of roads, etc; and
- (i) regulation of trade by non-tribals.

Each District Council has a Council Fund which is regularly audited by the Comptroller and Auditor General of India.

Para 8 of the Sixth Schedule specifies that the District Council fund shall have the following sources of revenue:

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- (a) taxes on professions, trades, callings and employment;
- (b) taxes on animals, vehicles and boats;
- (c) taxes on the entry of goods into a market and sale therein, and tolls on passengers and goods carried on ferries; and
- (d) taxes for the maintenance of schools, dispensaries or roads.

6.9 In addition, the State Government also provides each District Council with 60% share on royalty upon minor forest produce and minor minerals and 25% share on royalty on coal. However, the Supreme Court's orders against felling and trading in timber, depleted levels of minor minerals and minor forest produce have resulted in shrinkage of the resource base of the District Councils.

6.10 Hence, the Autonomous District Councils have been largely dependent on 'Plan' grants sanctioned by the Government of India under Art. 275 (I) of the Constitution of India, as well as 'Non-Plan' grants sanctioned by the State Government to supplement their resource needs for carrying out their activities and for

implementation of various developmental schemes such as construction of village roads and footpaths, construction of small bridges, playgrounds, market places, ring wells, water tanks, offices, court buildings and M.D.C. hostels, improvement of markets etc. However, these Non-Plan grants-in-aid have been limited due to the State's own resource constraints and have proven inadequate to meet the actual requirements of the Councils.

6.11 Besides these, the District Councils have taken up the implementation of Schemes/Projects for Upgradation of Standard of Administration and strengthening of infrastructure, schemes under the Award of the Eleventh Finance Commission such as development of markets, traditional institutions, fisheries, agriculture, civil works, development of forests, computerization and strengthening of staff etc.

6.12 The District Councils have a very crucial role to play in preserving the distinct identity, culture and tradition of the tribal population. However, owing to weak resource base, these District Councils are not able to carry out their activities and obligations, and unless assisted they would not be in a position to fulfill their Constitutional mandate.

The State Government urges the Commission to recommend Grant-in-Aid to the State, keeping in

view the ground realities aforesaid to enable it to assist the three District Councils, giving due consideration to their socio-cultural obligations and limited capacity for resource mobilization.

CHAPTER - IX

Municipalities And Their Finances

- 7.1 There are altogether 6 (six) Municipal Boards in the State of Meghalaya, viz. the Shillong Municipal Board at the State Capital in Shillong; and the others at the District Headquarters of Jaintia Hills, Jowai; West Garo Hills, Tura; East Garo Hills, Williamnagar; South Garo Hills, Baghmara and sub-divisional Headquarter, Resubelpara. Besides these, there are also 4 (four) Town Committees at Nongstoin, Nongpoh, Mairang and Khliehriat. While Nongstoin and Nongpoh are District Headquarters, Mairang and Khliehriat are sub-divisional Headquarters. The establishment of these Municipalities and Town Committees are indicative of the rapid urbanization of the State.
- 7.2 As per the provisions of the Municipal Act, Municipalities may levy tax and generate revenue for the upkeep of the civic services, the revenue being generated both through tax and non-tax levies. The major source of revenue under the tax head is property holding tax, while entry toll, rentals from municipal markets, trading license fees and parking fees are the major non-tax levies. The State Government have also supported the Urban Local Bodies in executing remunerative schemes through grants for construction of parking lots/roads and market complex.

This has been done with a view to increase their future non-tax revenue.

- 7.3 It may be mentioned that the Central Government Departments do not pay any holding tax and only a small amount of service charge is paid to the urban local bodies. This matter has been discussed and recommendations made at various fora to include Central Government properties under the tax net.
- 7.4 To curb expenditure and to minimize the gap between revenue and expenditure, the Municipalities have taken steps to regulate overhead expenditures through a ban on recruitment of employees, except where absolutely necessary. However, in spite of this effort, there is still a huge gap between revenue and expenditure with the result that revenue of the Municipalities have fallen far short of actual requirements for installation and maintenance of civic services like water supply, sanitation, street lighting and waste disposal. This is due to the fact that Municipalities in the hill areas are required to provide service at a relatively higher cost due to the rugged topography, extreme climatic conditions such as heavy rainfall where the roads and footpaths need frequent maintenance and repairs.
- 7.5 The problem has been compounded by the guidelines of the Eleventh Finance Commission, which has made release of grants to the State for Municipalities subject to

holding of elections to these bodies. In spite of the best efforts of the State Government to conduct elections to the Municipalities, the process could not be completed due to legal hurdles. Election to the Municipalities in Garo Hills Autonomous District will be held shortly. Consequently, release of funds under the Eleventh Finance Commission Award had to be kept on hold. Recently, however, due to representations by the State Government to the Centre on the ground that the State is exempted from the purview of the 74th Constitutional Amendment vide Art. 243 ZC, funds under the Eleventh Finance Commission Award have been allowed for utilization by the Municipalities.

The Twelfth Finance Commission while making its awards to local bodies may consider this point and may not impose such conditions as done by the Eleventh Finance Commission so that provision of basic civic services and amenities is not adversely affected.

- 7.6 The State Government reiterates its submissions to the 12th Finance Commission that the revenue generated by the Municipalities are falling far short of the requirement and in spite of grants from the State Government, the gaps are increasing with the result that implementation of new schemes and upgradation of the existing services have suffered.

In the circumstances, the Twelfth Finance Commission may consider providing adequate funds

to the local bodies for implementation of new schemes besides maintenance and upgradation of existing services.

The Twelfth Finance Commission may also consider bringing Central Government properties under the tax net by suitable Constitutional Amendments.

The State Government further submits that a one-time grant, in addition to the projected requirements, may be made to the State Government to enable it to assist the Municipalities to improve their financial position and enable them to provide and improve the basic civic services and amenities.

ANNEXURE - A

SOCIO ECONOMIC INDICATORS: INDIA, MEGHALAYA

	Items	Unit	Reference Period	All India	Meghalaya
1	Area	000 Sq.Kms	2001	3287	22
2	Population				
	Males	Lakhs Nos	2001	5213	12
	Female	"	"	4957	11
	Total	"	"	10270	23
3	Agriculture				
	Area under Principal Crops	000 Hectares	2001-02		
	(a) Rice	"	"	44622	108
	(b) Wheat	"	"	25922	3
	(c) Potato	"	"	1218	18
	(d) Total foodgrains			1211911	134
	Production of Principal Crops				
	(a) Rice	000 Tonnes	2001-02	93085	189
	(b) Wheat	"	"	71814	5
	(c) Potato	"	"	24082	159
	(d) Total foodgrains	"	"	212033	224
4	Livestock & Poultry				
	(a) Cattle	000 Nos	1992	204584	637
	(b) Buffaloes	"	"	84206	34
	(c) Sheep	"	"	50783	23
	(d) Goats	"	"	115279	196
	(e) Horses and Ponies	"	"	817	2
	(f) Other Livestock	"	"	15191	
5	Production of Milk	000 Tonnes	2001-02		
	(a) Cow milk	"	"	30454(1998-99)	64.08
	(b) Buffalo milk	"	"	40414 (1998-99)	1.74
	(c) Goat milk	"	"	3235(1998-99)	
	Total			75181(1998-99)	65.82
6	Forest				
	(a) Total Forest Area	000 Hectares	2000-01	768436(2000) Sq.Kms.	949.56
7	Mining				
	Production of				
	(a) Coal	000 Tonnes	2000-01	313696	4065
	(b) Limestone	"	"	127202	500
8	Electricity				
	(a) Installed Capacity	MW	2000-01	97884 ('000 KW)1999-00	185.20
	(b) Generation	MKWH	"	448166(CRORE KWH)(1999-00)	675.59
	(c) Consumption	"	"	312841.2(GWH)(1999-00)	677.06
9	Co-operation				

	Items	Unit	Reference Period	All India	Meghalaya
	(a) No. of Societies	Nos	2001-02	520272(19997-98)	1000
	(b) Membership	"	"	211800 ('000 Nos.)(1997-98)	164841
10	Education	Literacy			
	(a) Persons	P.C	2001	65	63.31
	(b) Males	"	"	76	66.14
	(c) Females	"	"	54	60.41
	(d) No. of Educational Institutions	Nos	1998-99	983860(2000-01)	61.61
	(e) Enrollment in Educational Institutions			1836(Lakhs No) (1996-97)	611093
	(f) Nos. of Teachers in Educational Institutions	"	"	5971('000 Nos)(1996-97)	22299
12	Health & Family Welfare				
	(a) Hospitals	Nos	1998-99	17952(2001)	10
	(b) Dispensaries	"	"	22306	38
	(c) Doctors	"	"	582771(31.3.02)	389
13	Transport & Communication				
	(a) Total No of Registered Vehicles	Nos	2002-03	48392925 (1999-00)	73382
14	Roads				
	a) Total	Kms	2001-02	2525989 (1999)	7598
	b) Surfaced	"	"	1448629(1999)	3523
	c) Unsurfaced	"	"	1077360(1999)	4075
15	a)Net Domestic Product by Economic Activity at factor cost (at current prices)	Rs. In lakhs	2001-02	18769.55(Q)	366658(Adv)
	b) Net Domestic Product By economic activity at factor cost at constant (1993-94) prices	"	2001-02	11235.43 (Q)	223065(Adv)

Note:'Q' Quick Estimates ;'Adv' - Advance Estimates
Source (1) State Directorates, Meghalaya
(2) Statistical Abstract India, 2002

SUMMARY

1. The State And Its Finances

- Meghalaya attaining full-fledged statehood in the year 1972 was created mainly on the basis of constitutional and political aspiration of the people, and not on the basis of any financial solvency.
- The pace of economic development in the state is basically retarded due to its hilly terrain, isolated location, unfavourable climatic condition, tribal dominance, lack of infrastructure, etc.,
- Since the scope for outside investment is very much limited due to economical backwardness, government expenditure in the state constitute a major component of the aggregate demand and, therefore, reduction in expenditure at this stage would adversely affect the economy.
- The increased expenditure of the state is mainly due to high maintenance and administrative costs arising out of the topographical conditions.
- Further, approved annual plans of the state increasingly rely on market borrowings and investment in the social and economic sectors which do not yield any direct financial return to enable the State to recover the investment. This has resulted in substantial debt accumulation, thereby, increasing the expenditure on capital account.

- The award of earlier Finance Commissions did not adequately cover our committed expenditure on insurgency and insurgency related criminal activities, increasing interest payment, subsidy, etc., Thus, the recommendations of the Eleventh Finance Commission were much lower than our projected actual requirements.
 - **The Government of Meghalaya, therefore, urges upon the 12th Finance Commission to consider –**
 - ◆ **Enhancing the existing States' share of the net proceeds of all shareable Central Taxes from 29% to 33%.**
 - ◆ **Recommending debt relief by writing off some portion of the outstanding loans of the State as done by Finance Commissions earlier than the Eleventh Finance Commission, to ease the interest and debt burden of the state.**
2. Since the 2001 census population figures are available, it would be unjust to adopt the 1971 census population figures for determining the devolution of taxes and grants-in-aid.
- The State, therefore, submits that the 12th Finance Commission may consider providing additional grant in aid to compensate for the loss of revenue, which might accrue to the State if the 1971 figures are adopted as required in the terms of reference.**
3. A serious imbalance is reflected in the financial structure of the state where the non-plan revenue expenditure exceeds the non-plan revenue receipt, leading to a non-

plan revenue gap/negative BCR. This erodes the plan provisions of the State and affects development expenditure.

- ◆ The State has, therefore, made every effort to compress avoidable expenditure through measures such as:
 - Disinvestments of PSUs
 - Imposition of user charges on certain services
 - Formulation of the Medium Term Fiscal Reforms Programme (MTFRP) with an emphasis on downsizing of the Government.
 - Abolition of redundant posts
 - Restructuring of PSUs, wherever feasible.
- ◆ **Against the above facts, the State of Meghalaya urges the 12th Finance Commission to recommend an award of Rs. 14080.20 as Revenue Gap Grant, so as to enable the State to overcome the Non-Plan revenue gap.**
- ◆ **The state also urges the Commission to provide additional Non-Plan assistance of not less than 20% of the Non-Plan revenue grant as may be recommended by the Commission for maintenance of assets.**

4. The revenue receipt of the State in the form of Tax and Non-tax revenue is meager and inadequate to meet its minimum requirements.

- In-spite of limitations, the State has made every effort to improve its revenue generation through broadening of the tax net, rationalizing the tax system, better tax

administration and commitment to introduce Value Added Tax (TAX) as and when all other North Eastern states implement the same.

- **Keeping in view the above factors, the State urges the 12th Finance Commission to accept the realistic projection for the tax and non-tax revenue reflected by the State and to recommend an award of Rs. 7.00 crores, approximately for computerization of tax mechanism in the State to facilitate a smooth, effective and efficient switch over to VAT system of taxation.**

5. Autonomous District Councils And Their Finances

- Autonomous District Councils set up under the sixth schedule seek to enable the tribal people of the North Eastern Region to legislate, adjudicate, and regulate the traditional, social, cultural development of their society.
- The District Councils have adequate legislative and financial powers to raise revenue through taxes in order to fulfill their constitutional obligations and responsibilities under Para. 8 of the Sixth Schedule.
- However, the narrow tax base of the state has made the Autonomous District Councils dependent on 'Plan' and 'Non-Plan' grants sanctioned by the State Government to supplement their resources.
- **The State Government, therefore, urges the Commission to recommend Grant-in-Aid to the State to enable it to assist the three District**

Councils, giving due consideration to their socio cultural obligations and limited capacity for resource mobilization.

6. Municipalities And Their Finances

- Rapid urbanization in the State has necessitated the State Government to establish altogether 6 municipal boards and 4 Town Committees for providing civic services to the people.
- The Municipalities are empowered to levy tax and generate revenue through tax and non-tax levies.
- Due to the inadequate revenue generation, maintenance of basic civic services suffer.
- The problem has been compounded by the guidelines of the Eleventh Finance Commission, which has made release of grants to the State for Municipalities subject to holding of elections to these bodies. The State is, however, exempted from the purview of the 74th Constitutional Amendment in terms of Art. 243 ZC. Funds under the Eleventh Finance Commission award recently been allowed for utilization by the non-elected Municipal Bodies.
- **The Twelfth Finance Commission is urged that while making its awards to local bodies, it may not impose conditions imposed by the Eleventh Finance Commission so that provision of basic civic services and amenities is not adversely affected.**

- The State Government reiterates its submissions to the 12th Finance Commission that the revenue generated by the Municipalities falls far short of the requirement and in spite of grants from the State Government the gaps are increasing with the result that implementation of new schemes and upgradation of the existing services has suffered.
- **The Twelfth Finance Commission may, therefore, consider providing adequate fund to the local bodies for installation, maintenance and upgradation of existing services. It is also urged that Central Government properties may be brought under the tax net by suitable constitutional amendments.**
- **The State Government also submits that a one-time grant, in addition to the projected requirements, may be made to the State Government to enable it to assist the Municipalities to improve their financial position and enable them to provide and improve the basic civic services and amenities.**