RESTRUCTURING THE PUBLIC FINANCES OF TRIPURA

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AUGUST 2004

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	Tripura	India
Area (in sq km)	10,492	3,28,7263
Net sown area as % of total area	26.69	46.15
Net Irrigated Area as % of Net sown area	18.36	40.53
Population: 2001 Census (million)	3.19	1027.02
Sex ratio (females per 1000 males): 2001	950	933
Infant Mortality Rate per 1000: 2001	39	71
Literacy : 2001 Census	73.66	65.38
Male	81.47	75.85
Female	65.41	54.16
Per capita Net State Domestic Product at current prices: 2000-2001 (P) (in Rs)	Rs.14348	Rs. 16487
Growth rate 93-00	7.3%	6.6%
Food grain production in metric tonnes:2001-02		183.2
Rice	587,830	77,700,000
Wheat	2,300	68,900,000
Per capita electricity consumption (in kWh):1999-00	95.5	354.75
Road density (road length per '000 sq.km of area) : 1997	1405	749

EXECUTIVE SUMMARY

Fiscal restructuring in Tripura is an imperative if the growth potential of the state is to be realised. No External Assistance Programme for growth promoting investment in infrastructure will be possible unless Tripura puts its fiscal house in order. Even the most concessional funding has a loan component however small, and will be feasible to implement only when the repayment prospects of the borrowing government are a reasonable certainty.

The debt stock of Tripura, has risen by 13 percentage points of GSDP since 1998-99, to a closing value in 2003-04 of 50 percent (by the revised estimates), and is budgeted to rise further to 52 percent in 2004-05. The interest bill in 2003-04 amounted to 4.5 percent of GSDP. This growth in the interest bill gave rise for the first time since 1980-81 to revenue deficits in 1999-00 and 2000-01, and again in 2002-03. This in turn made for failure to cross the fiscal hurdle set by the single monitorable indicator for securing the fiscal incentive prescribed by the EFC, in two of the last four years.

An alternative configuration of the criterion for the Special Category states is suggested, under which Tripura would have qualified for the fiscal incentive in 2000-01 and all subsequent years. However, even this criterion is threatened, if the worsening of fiscal indicators in the last five years continues into the future. A fiscal reform programme is therefore called for urgently, aligned with a fiscal responsibility bill. The new fiscal reform programme proposed here is quite distinct from the MTFRP already in place.

The fiscal reform proposed in this report starts with the coming into operation of the Fiscal Responsibility Bill on 1 April 2005, and ends on 31 March 2010. A complete draft for the Fiscal Responsibility Bill is in Appendix 2. The targeted indicators are debt/GSDP and the revenue deficit normalised by revenue receipts (RD/RR). The revenue indicator is specified in accordance with convention as a deficit, although in Tripura the starting point, by the budget estimates for 2004-05, is a revenue surplus (a negative deficit). The Bill targets reduction of debt/GSDP to 40 percent by the close of 2009-10. Annual path limits on RD/RR are specified in the form of two options, reduction by 5, or alternatively 2, percentage points per year. The choice between these options has to rest with the state government.

Simulated outcomes are presented of the permissible increase in non-interest revenue expenditure, and in capital expenditure, under both options, so as to enable the choice. These simulations assume that Central transfers (in aggregate) will grow at 11.32 percent per year, and that this growth will be stable from year to year. There was actually an absolute fall in Central transfers in 2002-03, by (-)0.8 percent. This kind of volatility is extremely destructive of fiscal discipline in Special Category States like Tripura, which are dependent on the Centre to the extent of 85 percent of total revenue. Tripura can made a strong case for additional statutory transfers on the basis of a carbon trading scheme across states, but the principal requirement is year-to-year stability, aggregating across statutory and non-statutory transfers.

The Bill incorporates legislative ceilings on guarantees. The practice of extending budgetary cover for PSU losses through incremental contributions to share capital from the capital account of the state budget, which is reflected in the explosive growth of capital expenditure over 99-04, has been explicitly banned in the Fiscal Responsibility Bill. All cover for PSU losses will henceforth have to be included in revenue expenditure, and will therefore be subject to the controls on the revenue imbalance worked into the bill.

The report examines the debt swap scheme of the Centre, in which Tripura has been a participant, which was designed to lower the interest bill of participating states, by retiring high cost debt against proceeds from additional market borrowings and loans against small savings. Only two of the parameters governing the interest gain from the debt swap scheme can be characterised as policy parameters, and both are under the control of GOI. The gain from the scheme, under the policy parameters as presently defined, is estimated at Rs. 3.6 crore, amounting to 1.25 percent of the interest bill. Even with a widening of the scheme to include all small savings, the gain from the debt swap scheme could amount at best to around two percent of the interest bill. That is because debt to GOI constitutes only about one-quarter of the total debt stock.

There are two other interest reduction possibilities. The stock of market borrowing issued earlier at high interest rates could be swapped against fresh market borrowings at the reduced market rates presently prevailing, but this will require approval from GOI and RBI. The gain in coupon rates, which could amount to 3 percentage points at most, could yield a maximum saving of Rs 17.5 crore in the interest bill. Other internal liabilities owed to institutional creditors like NABARD and HUDCO, could also perhaps be negotiated down. The overall quantum of such debt amounted to only 13.22 percent of total debt at end-March 2003, or Rs. 411 crore in absolute terms. An average rate reduction of more than 1 percent may be difficult to negotiate. A one percent reduction would yield an interest bill saving of Rs. 4.12 crore. In aggregate, a reduction of Rs 21.6 crore might be possible.

These very marginal, and hypothetical gains from debt restructuring, are not assumed in the simulated outcomes of the FRB. The two alternative interest rates assumed for that projection exercise are 10 percent and 9 percent, corresponding to the mean interest rates in the revised estimates for 2003-04, and the budget estimates for 2004-05, respectively.

The report examines own revenue performance, and suggests ways by which the impressive gains recorded in recent years can be sustained into the future. An on-line link of the Churaibari checkpost with the commercial taxes department will enable cross-checking of information declared at the checkpost against sales tax collections from dealers in a systematic way. The project will cost Rs. 20 crore, and should enable a 30 percent increase in sales tax collections, which at present levels is an incremental revenue of Rs 40 crore a year. There are also potential gains to the exchequer, conservatively estimated at Rs. 30-50 crore annually, from eliminating sales tax concessions and other incentives for new industry. Tripura incentives are at par with those in neighbouring states, and therefore carry no incremental punch. Since there is a Central incentive package for investment in the northeastern region, there is no justification whatever for state-level add-ons. The gains to the exchequer from removing these exemptions could be used to support enterprises with better infrastructure, so offering a more positive approach to offsetting the many locational disadvantages of setting up industry in the state. Finally, and most compellingly, subsidies will have to be phased out everywhere with the impending move to a VAT regime.

Containment of non-interest expenditure at the rate required by the FRB, in the simulated outcomes, calls for an immediate reduction of growth in staff size to zero, rather than for an absolute reduction in staff size. With natural attrition through retirement of 3 percent per year, zero staff size growth permits a gross staff addition of 3 percent annually. If Tripura could make a commitment of this kind, that by itself would go a long way towards restoring the fiscal health of the state. In addition, the report investigates possibilities of reduction of staff size, using a cross-departmental norm, applied not to all 50 departments, but only to 41 judged amenable to such a norm. After factoring in departmental data on retirees projected upto 2004-05, the total redundancy among A and B category staff is estimated at 10 percent of existing staff. Among staff in the C and D categories, including casual labour (aggregating across those hired with and without Finance Department concurrence), the redundancy works out at 15 percent. The redundant staff so identified could, in part, be usefully redeployed in departments facing staff shortages. The power sector faces a shortage of meter readers, and the commercial taxes department also has an acute need for additional staff.

Power sector reforms are the other critical area of concern. If the existing power department loss of Rs 93.50 crore in 2002-03 were to be covered fully by revenue, which yielded only 59.68 crore that year, the required realised tariffs would require to be hiked by a factor of 2.57. Since there was already a 35 percent upward revision of power tariffs on 1 July 2003, a further hike in power tariffs does not appear feasible. Reform will have to focus on reduction of T&D losses below the present level of 40.6 percent; reduction of the gap between realised and nominal tariffs by reducing theft and unmetered consumption; and reduction of operating expenditure. Manpower redundancy in the power department amounts to only 14 percent of staff in the C, D and casual categories, by the ad hoc yardstick used in this report. The shortage of meter readers experienced by the power department could be met by redeployment of surplus staff identified in other departments of the government of Tripura, or in the power department itself.

Finally, the report examines nineteen non-departmental PSUs. The accumulated losses of these PSUs aggregated to 302 crore by 2002-03. Each PSU is examined individually, and reform measures suggested including, but not confined to, manpower reduction.

RESTRUCTURING THE PUBLIC FINANCES OF TRIPURA

CHAPTER I: INTRODUCTION

This report in seven chapters addresses the terms of reference of this study on the public finances of the State of Tripura (Appendix 1).

Fiscal restructuring is a means to an e nd. The final objective of any such exercise has to be enhancement of economic growth and human development. Tripura is blessed with abundance of natural resources, and well-placed for export to East Asian markets in horticulture, floriculture, sericulture, food processing, herbal medicines, rubber and bamboo. However, foreign direct investment will not enter the state unless there is adequate physical infrastructure. An External Assistance Programme for funding of infrastructure in the state is called for urgently, and should yield rich dividends, but for that to be possible, the state has to demonstrate the ability to put its fiscal house in order.

In terms of social infrastructure to attract foreign direct investment, the state has considerably strengths, with literacy at 73.66 percent as against an all-India average of 65.38, and infant mortality at 39 per thousand, as against the all-India average of 71. But even these strengths can be eaten into, if the state is unable to fund education and health services beyond payment of salaries, which will increasingly be the case unless fiscal correction is immediately begun.

There are three constituents to the public finances of any state:

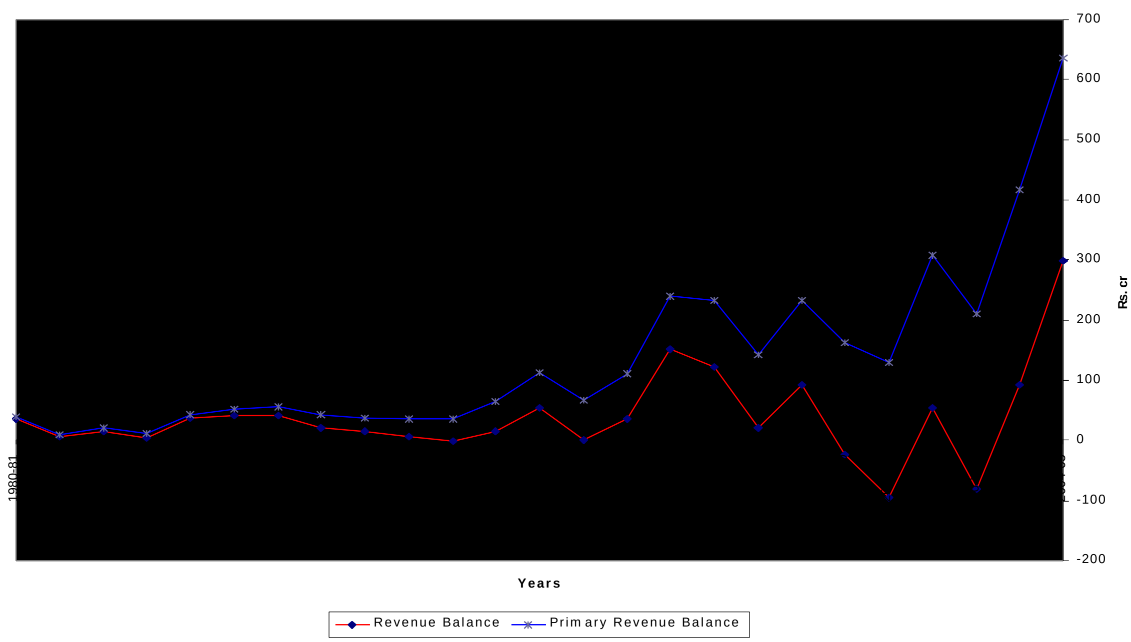
1. Revenue, of which revenue received from the Central government is exogenously determined, outside the control of the state government. For Tripura, this is as high as 85 percent of total revenue.
2. Interest expenditure, a result of debt accumulated from past fiscal imbalances, and thereby fully committed, with no scope for discretionary compression. The interest bill in 2003-04 was as high as 4.5 percent of the gross state domestic

product (GSDP). As the report shows, the scope for reduction of the interest bill through swaps is limited.

3. Non-interest expenditure, some components of which (other than wages and salaries and pensions) are amenable to unilateral compression by the state.

Chapter II begins with the fiscal hurdle faced by Tripura in the last few years, which is that of satisfying the single monitorable indicator for securing the fiscal incentive prescribed by the EFC. The last year of the EFC award period is 2004-05. The chapter suggests an alternative configuration of the criterion for the Special Category States, under which Tripura would have qualified for the fiscal incentive in all years. However, even this criterion is threatened, if the worsening of fiscal indicators in the last five years continues into the future.

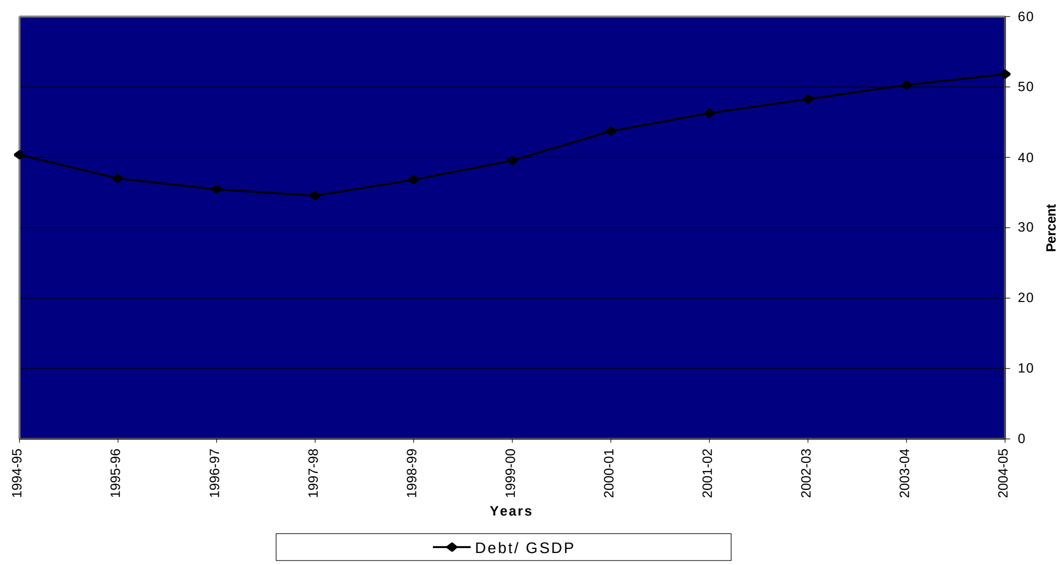
Figure I.1: Revenue Balance and Primary Revenue Balance in Tripura



As figure I.1 shows, the revenue balance of Tripura turned sharply adverse in 1999-00 and 2000-01, after having stayed positive since 1980-81. A revenue surplus was restored in 2001-02, only to turn into a deficit again in 2002-03. By the revised estimates for 2003-04, there was a revenue surplus, and this is budgeted to improve further in 2004-05. He primary revenue balance, on the other hand, has been consistently positive over the entire period of two decades, and has grown steadily from Rs 39 crore in 1980-81 to Rs 416 crore in 2003-04 (revised estimates). The increase in the vertical difference between the two is on account of interest payments. The interest bill has grown especially steeply since 1998-99, from Rs 141 crore that year to Rs 324 crore in 2003-04 (revised estimates).

The absolute increase in interest payments in turn reflects the recent rise in the debt stock. Figure I.2 shows that the debt stock has risen by 13 percentage points of GSDP since 1998-99, to a closing value in 2003-04 of 50 percent (by the revised estimates), and is budgeted to rise further to 52 percent in 2004-05. A debt/GSDP this high is simply untenable for any state, let alone a state like Tripura which is dependent on transfers from the Central government to the extent of 85 percent of total revenues.

Figure I.2: Debt/ GSDP in Tripura



The interest bill in 2003-04 was 4.5 percent of GSDP, by the revised estimates. Own revenue that year at 345 crore, barely covered the interest bill, of 324 crore. It is clear that the debt stock is in danger of growing beyond what the state can sustain from its own revenues. That is a perilous situation for any state to be in.

A fiscal reform programme is therefore called for urgently, aligned with a fiscal responsibility bill. The focus has to be on targets that the state can feasibly commit itself to. The manner in which these targets are to be met will be explored in subsequent chapters. A draft Bill is appended (Appendix 2). The Bill targets reduction of debt/GSDP to 40 percent in the year 2009-10. The choice of target for debt/GSDP is justified. Annual path targets for improving the revenue surplus are specified in the form of two options. The choice between these options has to rest with the state government. Simulations of the expenditure compression required under the two options are presented so as to enable the choice.

Two critical assumptions underline the projection exercises in chapter II. The first concerns budgetary revenues from the power sector, which presently accrue to the state budget, since electricity in Tripura is supplied departmentally, not through a separate corporate entity. Although corporatisation of the power sector is contemplated, it is sufficiently uncertain in its timing that, for the purposes of the fiscal projections in this report, it is assumed that power tariffs will continue to accrue to the state budget as non-tax revenue. Since power sector losses will also thereby be removed from routine cover through the budget, the actual fiscal situation in the event of corporatisation will actually be better than that projected. Discretionary cover for power sector losses are capped by the limits prescribed in the Fiscal Responsibility Bill.

The second critical assumption concerns the possible introduction of a VAT in the state. There are so many uncertainties here that it is impossible to factor in possible losses in own revenue and Central cover for those losses. However, the recommendation in the report that tax subsidies for new investment be phased out draws sustenance from the impending move to a VAT regime under which such subsidies will have to be phased out in any case.

Given the dominance of Central transfers in the state budget it is that which critically underpins the revenue position of the state. There has been considerable year-to-year volatility in growth rates of (aggregate) Central transfers, which actually fell in absolute terms in 2002-03 by (-) 0.8 percent, thus precipitating the sharp decline in the overall revenue balance, by 7.2 percent of revenue receipts in 2002-03. The complete turnaround in the revenue balance in 2003-04 once again was helped by the positive growth in central transfers by 21.9 percent. This kind of volatility is extremely destructive of fiscal discipline in the Special Category States. There has also been a decline in the annual growth rate of central transfers, from 14 percent over 1994-99 to 11 percent over 1999-04.

Notwithstanding the dependence of the state on Central transfers, clearly there remains a critical need to do whatever is possible to improve own revenues. Chapter III examines own revenue performance of the state, by its components. The chapter makes detailed suggestions for how the impressive gains recorded in recent years can be sustained into the future, and justifies the 16 percent annual increase in overall own revenue projected for the fiscal reform programme. Clearly, the larger issue of improving the financial health of the power sector is of critical fiscal interest to the state, whether or not the power sector is corporatised. That too is examined in this chapter, in a separate section.

Chapter IV looks at the debt swap scheme of the Government of India (GOI), in which Tripura has been a participant. The debt swap scheme was designed to lower the interest bill of participating states, by retiring high cost debt against proceeds from additional market borrowings and loans against small savings. As the chapter shows, only two of the parameters governing the interest gain from the debt swap scheme can be characterised as policy parameters, and both are under the control of GOI. The chapter shows that the gain from the scheme, under the policy parameters as presently defined, are very limited. Tripura could make a plea to the Centre for a change in these parameters, as a Special Category State. But even so, our calculations show that the gain from the debt swap scheme could amount at best to around two percent of the interest bill. The chapter examines other possible avenues for reduction in the interest bill. But since the interest bill accounts for only 15 percent of revenue expenditure, there is room for fiscal restructuring efforts focused on non-interest expenditure, which falls entirely within the control of the state.

Chapter V examines a possible avenue of reduction of non-interest expenditure, through reduction of staff size, based on an estimate of staff required in each department with a cross-departmental measure of scale. Two points need to be stressed upfront on the staff size issue. First, there is an acute need for additional staff in some departments, the commercial taxes department being one example. Even the power sector, which is a departmental enterprise, faces a shortage of meter readers. The redundant staff identified through the exercise in chapter V could, in part, be usefully redeployed in departments facing such staff shortages. Secondly, the need for containment of growth in revenue expenditure calls for an immediate reduction of growth in staff size to zero, rather than for an absolute reduction in staff size. With natural attrition rates through retirement of 3 percent per year, zero staff size growth permits a gross addition of 3 percent annually. If Tripura could make a commitment of this kind, that by itself would go a long way towards restoring the fiscal health of the state.

Chapter VI examines nineteen non-departmental PSUs, in terms of the scope for manpower streamlining. This is perhaps the most critical area calling for reform. Although many of the PSUs have a perfectly valid rationale for their existence, and continue to perform important functions, they have succumbed over the years to job-creating pressures. PSU accumulated losses, aggregating to 302 crore by 2002-03, have obtained budgetary cover over the years through the unfortunate practice of incremental contributions to share capital from the capital account. This practice has therefore been explicitly banned in the Fiscal Responsibility Bill designed here. The chapter makes a number of suggestions for restructuring including, but not confined to, manpower reduction.

Conclusions and numbered recommendations following from Chapters I-VI are drawn together in Chapter VII.

CHAPTER II: FISCAL RESTRUCTURING

II.1 SECURING THE FISCAL INCENTIVE

The immediate fiscal hurdle faced by Tripura in the last few years has been that of satisfying the single monitorable indicator for securing the fiscal incentive prescribed by the EFC. Special Category States like Tripura are required to reduce RD/RR with reference to the preceding year by a minimum of two percentage points (or, equivalently, an increase of two percentage points in the revenue surplus). [1] From table II.1, which shows the revenue balance (positive for surplus, negative for deficit), it is clear that Tripura did not qualify in 2000-01, the first year of the EFC award period, did qualify in 2001-02, but failed again in 2002-03. In 2003-04, by the revised estimates, the revenue balance improved by much more than the 2 percentage point threshold. Clearly, the revenue balance in the state shows a great deal of year-to-year instability. A major contributor to this has been the volatility in revenue transfers from the Centre.

Table II.1

Ratio of Revenue Balance to Revenue Receipts

	Revenue balance/ revenue receipts	First difference of revenue balance/RR
1994-95	4.79	4.84
1995-96	16.08	11.29
1996-97	11.84	-4.24
1997-98	2.01	-9.83
1998-99	7.31	5.30
1999-00	-1.57	-8.88
2000-01	-5.86	-4.29
2001-02	2.92	8.78
2002-03	-4.29	-7.21
2003-04 RE	4.04	8.33
2004-05 BE	11.91	7.87

Source: RBI State Finance (various issues), supplemented by state sources for recent years.
Note: (-) denotes revenue deficit.

[1] `State's Fiscal Reforms Facility 2000-01 to 2004-05' issued by the Department of Expenditure, Ministry of Finance (3 September 2003).

Tripura is one of the Special Category States of India, which depend heavily on fiscal transfers from the Centre. Central assistance for State Plans is distributed in a grant-loan ratio of 90:10 as against the ratio of 30:70 for other states. Thus revenue receipts from the Centre, summing across shared taxes and grants, are the dominant source of revenue receipts, accounting for 85 percent of total revenues (table II.2).

Table II.2

Structure of Revenue in Tripura

	1990-91	**1995-96**	**2000-01**	**2001-02**	**2002-03**	**2003-04 RE**
Own Tax Revenue	*5.25*	*5.12*	*7.67*	*8.49*	*9.75*	*9.81*
Own Non Tax Revenue	*3.69*	*4.11*	*5.77*	*5.23*	*5.25*	*5.23*
Own revenue	**8.94**	**9.23**	**13.44**	**13.72**	**15.00**	**15.04**
Shared Taxes	*31.52*	*24.36*	*14.42*	*12.46*	*13.27*	*13.95*
Grants from the Centre	*59.54*	*66.41*	*72.14*	*73.83*	*71.73*	*70.99*
Total Transfers	**91.06**	**90.77**	**86.56**	**86.29**	**85.00**	**84.95**
Total Revenue Receipts	**100**	**100**	**100**	**100**	**100**	**100**

Source: Ibid.

The next chapter goes in greater detail into the structure of own revenue. Non tax revenue accounts for 35 percent of total own revenue, because power is still a departmental enterprise in Tripura. The process of corporatisation of the power utility is now on, and although expected to be completed by the end of fiscal year 2004-05, faces enough uncertainties surrounding securitisation of the outstanding dues of the power department, that it is unpredictable in its timing. Once the process is completed, the state budget will undergo a complete change in structure, with own revenues losing the non-tax collections from power, and a corresponding reduction in the salary and other expenditures of the power department. The projections performed here assume that the power sector remains a departmental enterprise, because of uncertainties over the process and timing of the switch. Thus, power sector revenues are assumed to accrue to the budget. This does not invalidate the projections, since power sector expenditures will also at the same time remain within the budget. Power sector losses amounted to 93.5 crore by actuals for 2002-03. Thus, the fiscal situation after corporatisation of the power sector will actually improve relative to the projections done here, except of course to the extent the state government chooses to cover power sector losses. These discretionary decisions in the future are capped by the Fiscal Responsibility Bill.

Given the overwhelming dependence of the state on transfers from the Centre, and in particular non-statutory grants, the ability to qualify by the single monitorable indicator in any year is largely dictated on the revenue side by factors exogenous to the state. This is clearly brought out by a comparison of the overall revenue balance in the last two years (table II.1) with the growth rate of central transfers (table II.3). The decline in the revenue balance by 7.2 percent of revenue receipts in 2002-03, was clearly related to the absolute decline in central transfers that year by (-) 0.8 percent. The complete turnaround in the revenue balance in 2003-04 once again was helped by the positive growth in central transfers by 21.9 percent. Earlier years in the table also exhibit year-to-year volatility in the growth rate of central transfers. This instability in central transfers is extremely destructive of fiscal discipline in the Special Category States.

Table II.3 also shows annual growth rates in (nominal) own revenue since 1998-99, which have been very impressive. On the expenditure side, there is evidence of efforts to control non-interest revenue expenditure on the revenue account in the last three years, which was evident from the primary revenue balance chart in the introductory chapter. Interest is not the dominant component of revenue expenditure (table II.4). Non-interest expenditure accounts for as much 85 percent of revenue expenditure. This gives the state a fair degree of latitude for revenue expenditure compression. It is in the capital account that expenditures have not been kept in check. State PSUs are running heavy losses, and budgetary cover for these losses takes the form of incremental contributions to the share capital of the PSU through the capital account of the budget. This will specifically be addressed in the design of the Fiscal Responsibility Bill.

Table II.3

Annual Growth Rate of Non-Interest Expenditure and Own Revenue

(%)

	Own revenue	Central Transfers	Expenditure	
			Non-interest revenue	Non interest Total
1994-95	11.6	15.8	9.6	13.1
1995-96	24.6	26.6	10.8	13.8
1996-97	16.9	9.1	14.2	17.9
1997-98	5.3	5.1	18.0	11.3
1998-99	21.0	16.8	10.0	7.6
1999-00	38.0	10.6	23.3	23.9
2000-01	23.7	12.5	18.2	20.3
2001-02	16.4	13.6	3.4	11.9
2002-03	10.1	-0.8	7.1	2.1
2003-04 RE	22.3	21.9	12.4	22.2
2004-05 BE	31.9	5.8	0.2	6.3

Source: Ibid

Table II.4

Distribution of Non-Interest Revenue Expenditure

	Interest payments (Rs. Crore)	Non interest revenue expenditure (Rs. crore)	Share of interest payments in revenue expenditure (%)
1994-95	75.8	630.0	10.74
1995-96	88.7	697.9	11.28
1996-97	110.2	797.0	12.15
1997-98	120.0	940.4	11.32
1998-99	140.6	1035.0	11.96
1999-00	185.2	1275.9	12.68
2000-01	226.0	1508.0	13.03
2001-02	253.2	1559.7	13.97
2002-03	290.7	1670.0	14.83
2003-04 RE	323.6	1877.2	14.70

Source: Ibid.

It is recommended here that if a Special Category State carries a positive primary revenue balance, implying an excess of revenue receipts over non-interest expenditure, that in itself should be sufficient for securing the fiscal incentive,

regardless of the change with respect to the preceding year. On this criterion, Tripura would have qualified for the incentive in all years (table II.5). Clearly, even this criterion is threatened if the primary revenue balance declines, as did indeed happen in Tripura in 1999-00 and 2000-01, and again in 2002-03. Not all of these can be blamed on volatility in central transfers. Thus, the need for medium-term fiscal correction remains an urgent imperative.

Table II.5

Ratio of Primary Revenue Balance to Revenue Receipts

	Primary revenue balance (PRB)/ revenue receipts (RR)
1994-95	15.0
1995-96	25.5
1996-97	22.5
1997-98	13.1
1998-99	18.4
1999-00	11.3
2000-01	7.9
2001-02	16.5
2002-03	11.2
2003-04 (RE)	18.1

Source: Ibid.

In the next section, the fiscal reform programme is targeted to achieve the fiscal incentive **within the terms of the present criteria for the Special Category States.**

II.2 A FISCAL REFORM PROGRAMME

The Medium-Term Fiscal Reform Programme (MTFRP) as agreed to between the Government of Tripura and the Government of India, on 25 March 2003, covering the period 2000-05, the award period of the EFC, carries quantified targets for five indicators normalised with respect to the GSDP of the state. Although this is perfectly justifiable as a general procedure, for Special Category States like Tripura, fiscal imbalance indicators should more correctly be assessed with respect to revenue receipts, because of their heavy dependence on revenue receipts from the Centre. GSDP carries an explanatory or causal link only with respect to own revenues endogenously generated within the state.

It is recommended here therefore that the fiscal imbalance flow indicators be specified with respect to revenue receipts. This will also be aligned with the monitorable indicator currently in use for the EFC award period. A further advantage is that the GSDP estimates for recent years are provisional, subject to revision, and possibly systematically overstated. The only exception, which has to remain normalised with respect to the carrying capacity of the state economy as measured by the GSDP, is the debt stock.

As table II.1 showed, there was a sharp fiscal worsening in Tripura starting in 1999-00, when a revenue deficit appeared for the first time. Table II.6 shows values of the principal fiscal indicators for the six years going upto 2003-04 (RE). The debt/GSDP ratio rose from 37 percent in 1998-99 to 50 percent in 2003-04, a phenomenal increase by 13 percentage points over a six-year span. A further increase is projected to 51.8 percent in 2004-05, by the budget estimates for the year (not shown in table II.6). The most critical requirement for Tripura is to reverse this headlong increase in the debt/GSDP ratio.

Table II.6 also has five-yearly moving averages of annual growth rates of revenue receipts, both own, and received from the Centre, and expenditure broken down by relevant components, going upto 1999-04. Although the decline in the annual growth rate of central transfers, from 14 percent over 1994-99 to 11 percent over 1999-04 has clearly been a contributory factor to the fiscal deterioration, there was also a rise in total expenditure, from a 13 percent annual increase over 1994-99, to 16.5 percent over 1996-01. Subsequently, there was a visible containment of expenditure growth, but a worsening once again to 16 percent over 1999-04.

Table II.6

Performance Parameters on which to Base Fiscal Restructuring of Public Finances of Tripura

	Values					
	2003-04 RE	**2002-03**	**2001-02**	**2000-01**	**1999-00**	**1998-99**
RD/GSDP (%)	-1.28	1.25	-0.95	1.88	0.50	-2.43
RD/RR	-4.04	4.29	-2.92	5.86	1.57	-7.31
PRD/RR	-18.15	-11.20	-16.48	-7.94	-11.30	-18.39
Interest rate	10.39	10.96	11.35	12.57	13.20	12.34
Debt/GSDP	50.26	48.31	46.26	43.70	39.57	36.78
	Compound Annual Growth Rates (%)					
	1999-04	**1998-03**	**1997-02**	**1996-01**	**1995-00**	**1994-99**
Nominal GSDP	13.68	14.34	15.78	17.33	19.29	16.50
Total revenue receipts	12.58	11.68	12.66	11.81	14.18	14.56
Own revenue receipts	21.76	21.51	20.43	20.54	20.72	15.69
Central transfers	11.32	10.37	11.67	10.76	13.41	14.44
Revenue expenditure	13.36	13.08	14.85	17.13	15.66	12.83
Non-interest rev. exp.	12.64	12.17	14.37	16.66	15.16	12.48
Total expenditure	16.03	13.59	15.16	16.48	15.22	12.96
Capital expenditure	27.67	15.95	16.30	13.57	12.94	13.74

Notes: (-) value for RD or PRD indicate surpluses. Starting from 2000-01, GSDP is projected at an annual rate of increase of 12.35 percent, in place of the provisional figures, as agreed to by the Finance Department, Government of Tripura.

The expenditure increase in recent years was on account of growth of capital expenditure, which accelerated from 13.7 percent per year over 1994-99 to 27.67 percent per year over 1999-04, owing to a very high figure for capital expenditure in 2003-04. [2] This unfortunately does not necessarily augur well for the future growth of the state, since capital disbursements have largely gone as equity and debt contributions towards loss-making non-departmental state PSUs. This practice is explicitly banned in the design of the fiscal responsibility bill. All cover for PSU losses will henceforth have to be included in revenue expenditure, and will therefore be subject to the controls on the revenue imbalance worked into the bill.

The heartening feature of the fiscal situation is the improvement in own revenue receipts, from 15.7 percent annual growth over 1994-99, to 21.8 percent annual growth

[2] The revised figures for 2003-04 show some internal inconsistencies. The (net) capital e xpenditure figure of 714.6 crore, from the Annual Financial Statement 2004-05 issued by the Finance Department, implies a fiscal deficit of 622.3 crore, as against a net borrowing figure of 525.3. If the capital expenditure were adjusted to this figure, it would still have grown at 24 percent annually over the period 1990-04.

over 1999-04. This very commendable feature provides a basis on which to build a fiscal correction programme in the state. The other commendable feature is that growth in non-interest revenue expenditure has been held down to 12.6 percent per year over 1999-04, only a touch higher than the 12.5 percent recorded over 1994-99.

A fiscal reform programme cannot be specified independently of a fiscal responsibility bill, since the two must be in complete alignment. A draft Fiscal Responsibility Bill is appended to this report in Appendix 2. The Bill can only come into effect at the earliest on 1 April 2005, which also makes the beginning of the award period of the Twelfth Finance Commission.

The Fiscal Responsibility Bill as designed has the following features (Appendix 2):

Targeted Indicators are RD/RR and Debt/GSDP. The revenue indicator is specified in accordance with convention as a deficit, although in Tripura the starting point is a surplus (table II.1). No explicit targets are specified for the fiscal deficit, since that is implicit in the debt/GSDP target. Fiscal deficits threaten the public finances of a state because of what they add to the debt stock of the state. It is best therefore to target the debt stock normalised by GDP directly, rather than the overall fiscal deficit, which is more in the nature of an intermediate instrument. The revenue deficit on the other hand, does need to be targeted directly, since it is a measure of the extent to which public borrowing is financing current expenditure rather than (potentially) growth-promoting capital expenditure. The revenue deficit is normalised by revenue receipts (RD/RR), so as to align it with the monitorable indicator presently in use during the EFC award period.

Annual Paths are specified for RD/RR. These are inflexible. However, flexibility is built in by providing for cumulative adherence to the targets in two successive years. The choice between the two alternative paths suggested (RD/ RR $\downarrow$2%; $\downarrow$5%) has to rest with the state government, but the simulations results in table II.7 will enable the choice.

Compliance with Annual Path Limits. The Legislature is empowered to respond to failure to comply with annual path limits over two successive years by not passing the demands for grants for the next financial year.

Final Targets are specified only for debt/GSDP. However, in the simulated outcomes shown in table II.7, the annual path to the eventual target is linearly pro-rated. The eventual debt target is set at 40 percent of GSDP. The justification for choosing this particular target is that own tax revenue by the end of the projection period is projected to increase to 4.3 percent of GSDP. This will just about cover interest at 10 percent on debt/GSDP of 40 percent. It is own tax revenue rather than own revenue which is of relevance, since by the end of the projection period, it is likely that own non-tax revenue from power will not accrue to the state budget.

Caps on outstanding guarantees on long-term debt are specified at the absolute level attained at the start of the fiscal correction period on 1 April 2005. The absolute size of guarantees cannot exceed this, which is to say that no fresh guarantees can be granted by the state government, except for the purpose of replacing high-cost debt in such a way that there is no net increase in outstanding guarantees after the debt-swap.

Fiscal Conduct: (1) No assistance to loss making PSUs may be given through non-plan loans or contributions to share capital from the capital account. All disbursements to loss-making PSUs have to be included in revenue expenditure.

(2) Within a period of six months before elections to the Tripura Legislative Assembly, no abnormal expenditure increase or remission in State revenues, or other measures which may result in credit operations based on future revenues, other than the normal open market operations and other borrowings of the State government through the Reserve Bank of India, are permissible.

(3) No liabilities may remain unpaid for more than three months after the due date, and no fresh liabilities may be incurred in the event that there are such unredeemed liabilities.

II.3 SIMULATIONS OF FISCAL BILL OUTCOMES

Table II.7 shows simulations of fiscal correction outcomes covering the period of the Bill, beginning with fiscal year 2005-06, and ending with fiscal year 2009-10. The starting point for the revenue balance and debt indicators is the budget estimate for 2004-05. In line with the two revenue imbalance paths proposed in the Bill, the table lays out two sets of outcomes, in terms of annual growth rates of capital, and non-interest revenue expenditure. The basic underlying assumption is a nominal GSDP growth rate of 12.35 percent, the same as that adopted in the present MTFRP. Other assumptions are listed in the notes to the table. Own revenue is projected with a buoyancy of 1.29, implying an annual increase of own revenue by 16 percent per year. The justification is that the own revenue growth rate has never fallen below this since 1995 (table II.6). The retention of power sector revenues and expenditures within the budget was mentioned in the first section of this chapter, and justified.

The interest rate is held at 10 percent, a little below the actual average of 10.39 percent in 2003-04 (RE). As will be seen in chapter IV, the interest reduction from the debt swap scheme currency in place is a negligible 1.25 percent of the total interest bill. An alternative simulation is tried with an interest rate of 9 percent, since the budget estimates for 2004-05 project interest at 9.2 percent on the closing debt stock of 2003-04.

Central transfers are projected to increase at 11.32 percent per year, which was the annual rate of increase over 1999-04. Tripura can made a strong case for additional statutory transfers on the basis of a carbon trading scheme across states. Tripura has a geographical area of 10,490 sq. km of which 6292 sq. km (59 percent) is forested. There is a strong care for including forest area as an additional criterion for fiscal devolution along with population, area and other indices presently in use.

The permissible rates of annual increase of capital and non-i nterest revenue expenditure over the period 2005-10 under the assumptions stated above, are presented in table II.7. Depending on whether the RD/RR reduction path is more or less stringent, the permissible increase for non-interest revenue expenditure is correspondingly less or more. The table shows that non-interest revenue expenditure is not especially sensitive to the interest rate on the debt stock. This is because the interest bill itself is such a small component of total expenditure (table II.4). But it is highly sensitive to whether the revenue correction is more or less stringent. With a reduction in RD/RR of only 2 percent annually, the permissible annual increase in non-interest revenue expenditure ranges between 9-10 percent per year. This is only a few percentage points below the average annual rate of increase over 1999-04 of 12.64 percent, and is therefore feasible. With this option, capital expenditure can grow at 8.5 percent annually, which is reasonable. With a reduction in RD/RR of 5 percent annually, on the other hand, non-interest revenue expenditure growth is confined to the 3-4 percent range, which looks infeasible. Given that non-interest revenue expenditure has to cover wages and salaries, pensions and all developmental expenditure including cover for PSU losses, and grants to local bodies, this level of compression may not be attainable.

Table II.7

Possible Outcomes for Fiscal Correction Ending 2009-10 Targeting 40% Debt/GSDP

(own revenue buoyancy=1.29)

	RD/RR	
	Path: ¯ 2% / year	**Path: ¯ 5% / year**
Assumptions		
Nominal GSDP	12.35%/yr	
Own revenue	16.00%/yr	
Central transfers	11.32%/yr	
Terminal values (2009-10)		
RD/GSDP	-6.74%	-11.35%
RD/RR	-21.91%	-36.91%
Annual Growth rate		
Capital expenditure	8.52%	17.85%
Assumptions		
Interest rate	10%/yr	
Annual Growth rate		
Non-interest revenue expenditure	9.41%	3.90%
Assumptions		
Interest rate	9%/yr	
Annual Growth rate		
Non-interest revenue expenditure	9.82%	4.39%

Notes: (-) values for RD/RR indicate a revenue surplus. The design in terms of indicators, paths and targets is in line with the Fiscal Responsibility Bill.

Own (nominal) revenue is assumed to exhibit the buoyancy of 1.29 achieved over the five-year period 1997-02 rather than the buoyancy of 1.50 over 1998-03. Coupled with the nominal GSDP growth rate projected, this gives an annual own revenue increase of 16.00 percent. Together with the projected growth rate of central transfers at 11.32 percent (the compound growth rate over 1999-04), total revenue increases at an annual rate of 12.23 percent, thus yielding a projected buoyancy for total revenue of 0.99. The interest rates on debt are projected at the two alternative values shown.

II.4 LOCAL BODIES

The fund provision by the state government for panchayats is Rs 200 per capita based on the 1991 Census rural population (100 for the gram panchayat, 60 for the middle tier, and 40 for zilla parishads). The area under Tribal Area Autonomous District Councils get Rs 250 per capita, of which 160 goes to the villages, and 90 to Block Advisory Committees. The Second State Finance Commission has recommended a doubling of the provision for panchayats to Rs 400. If this is implemented, this too will have to be accommodated within the non-interest revenue expenditure as projected under the FRB. In general, it is a good idea to decentralise expenditure so as to conform to the configuration of local needs. But this has necessarily to be accompanied by curtailment of expenditures at state-level, and assignment of state government staff to panchayats, on a deputation basis if need be, but without special deputation allowances, so that panchayat-level hiring does not add further to staff size (see chapter V).

The dominant funding requirement for urban local bodies is for infrastructure like sanitation drains, piped water supply, street lighting and roads. The permissible annual growth rate of capital expenditure, of 8.5 percent, should permit considerable funding of urban capital requirements, since none of it will be pre-empted as before by equity contributions to loss-making non-departmental PSUs.

II.5 SUMMARY AND RECOMMENDATIONS

This chapter arrives at the following nine recommenda tions:

1. A SUGGESTED ALTERNATIVE CONFIGURATION OF THE FISCAL INCENTIVE: The Eleventh Finance Commission fiscal incentive has been configured for the Special Category States (wef 3 Sept 2003) to require a reduction of two points in the revenue deficit as a percentage of total revenue receipts (RD/RR) with reference to the preceding year, or equivalently an increase of two percentage points in the revenue surplus. Tripura did not qualify by this criterion in 2000-01 nor in 2002-03, but did in 2001-02 and again in 2003-04. Clearly, the revenue imbalance in the state shows a great deal of revenue instability. A major contributor to this has been the volatility in revenue transfers from the Centre. It is recommended here instead that if a Special Category State carries a positive primary revenue balance, implying an excess of revenue receipts over non-interest expenditure, that in itself should be sufficient for securing the fiscal incentive, **regardless of the change with respect to the preceding year.** On this criterion, Tripura would have qualified in all years, instead of just two years (2001-02 and 2003-04), by the present criterion. Clearly even the alternative suggested criterion is threatened if the primary revenue surplus declines, as it did in 1999-00 and 2000-01, and again in 2002-03.

2. CENTRAL TRANSFERS: Central transfers (in aggregate) actually fell in absolute terms in 2002-03 by (-) 0.8 percent. Earlier years in the table also exhibit year-to-year volatility in the growth rate of central transfers. This is extremely destructive of fiscal discipline in the Special Category States. There has also been a decline in the annual growth rate of central transfers, from 14 percent over 1994-99 to 11 percent over 1999-04. These factors beyond the control of the state have contributed towards the worsening fiscal situation in the state. Tripura can make a strong case for raising the share of Tripura in statutory transfers, on the basis of a carbon trading scheme across states, whereby Tripura is compensated for carrying more area under forest cover vis-à-vis the mainland states. But there is an even stronger need for stabilising non-statutory flows from the Planning Commission, so that there is not the kind of volatility suffered by the state in recent years.

3. FISCAL FACTORS WITHIN THE CONTROL OF THE STATE: Total expenditure grew by 13 percent annually over 1994-99, but at 16.5 percent annually over 1996-01. Subsequently, there was a visible containment of expenditure growth, but a worsening once again to 16 percent over 1999-04. Capital expenditure in particular grew at 27.67 percent per year over 1999-04, up from 13.7 percent per year over 1994-99.[3] This

[3] Owing to a very high figure for capital expenditure in 2003-04, by the revised figures for 2003-04, which however show some internal inconsistencies. The (net) capital expenditure figure of 714.6 crore, from the Annual Financial Statement 2004-05 issued by the Finance Department, summed with revenue

unfortunately does not necessarily augur well for the future growth of the state. State PSUs are running heavy losses, and budgetary cover for these losses takes the form of incremental contributions to the share capital of the PSU through the capital account of the budget. This practice is explicitly banned in the design of the fiscal responsibility bill. All cover for PSU losses will henceforth have to be included in revenue expenditure, and will therefore be subject to the controls on the revenue imbalance worked into the bill. The heartening feature of the fiscal situation is the improvement in own revenue receipts, from 15.7 percent annual growth over 1994-99, to 21.8 percent annual growth over 1999-04. This very commendable feature provides a basis on which to build a fiscal correction programme in the state. The other commendable feature is that non-interest revenue expenditure growth, at 12.6 percent over 1999-04, no higher than over 1994-99.

4. SPECIFYING THE TARGETS FOR FISCAL REFORM: It is recommended here therefore that the imbalance flow indicators be specified with respect to revenue receipts, so as to be aligned with the monitorable indicator currently in use for the EFC award period. This is also more appropriate for Special Category States like Tripura, which are heavily dependent on revenue receipts from the Centre, since GSDP carries an explanatory or causal link only with respect to own revenues endogenously generated within the state. A further advantage is that the GSDP estimates for recent years are provisional, subject to revision, and possibly systematically overstated. The only exception, which has to remain normalised with respect to the carrying capacity of the state economy as measured by the GSDP, is the debt stock.

5. THE FISCAL RESPONSIBILITY BILL: Fiscal reform begins with the Fiscal Responsibility Bill, starting 1 April, 2005 and ending on 31 March, 2010. The two targeted indicators are RD/RR and Debt/GSDP. The revenue indicator is specified in accordance with convention as a deficit, although in Tripura the starting point is a surplus (as budgeted for 2004-05). There are annual path limits on RD/RR, with two options, for the state government to choose between, and a terminal target for debt/GSDP. The Bill

expenditure from the same source, implies a fiscal deficit of 622.3 crore, as against a net borrowing figure of 525.3. If the capital expenditure were adjusted to this figure, it would still have grown at 24 percent over the period 1990-04.

targets reduction of debt/GSDP to 40 percent. The justification for choosing this particular target is that own tax revenue by the end of the projection period is projected to increase to 4.3 percent of GSDP, which will just about cover interest at 10 percent on debt/GSDP of 40 percent. It is own tax revenue rather than total own revenue which is of relevance, since by the end of the projection period, it is likely that own non-tax revenue from power will not accrue to the state budget. Depending on which of the two paths is chosen for reduction of RD/RR (RD/RR $\downarrow$2%; $\downarrow$5%), the relative room for increase of non-interest revenue expenditure and capital expenditure gets determined accordingly. Simulated outcomes for the alternative revenue deficit reduction targets are presented, in order to enable the choice. No explicit targets are specified for the fiscal deficit, since that is implicit in the debt/GSDP target. Fiscal deficits threaten the public finances of a state because of what they add to the debt stock of the state. It is best therefore to target the debt stock normalised by GDP directly, rather than the overall fiscal deficit, which is more in the nature of an intermediate instrument.

6. DESIGN FEATURES OF THE FRB (2005-2010): In addition to quantified targets, the Bill has the following features:

- i. Outstanding guarantees are capped at the absolute level attained at the start of the FDR on 1 April 2005.
- ii. The annual path limits on RD/RR, once opted for, are inflexible. However, flexibility is built in by providing for cumulative adherence to the targets in two successive years.
- iii. The Legislature is empowered to respond to failure to comply with annual path limits over two successive years by not passing the demands for grants for the next financial year.
- iv. There are no annual path limits on progress towards the debt/GSDP final target. This provides flexibility on the capital account. However, the simulated outcomes are based on a linear pro-rating of progress towards the eventual debt/GSDP target.
- v. No state budgetary assistance to loss making PSUs may be given through non-plan loans or contributions to share capital from the capital account.

All budgetary cover for PSU losses has to be included in revenue expenditure.

7. ASSUMPTIONS UNDERLYING SIMULATIONS OF REFORM OUTCOMES: The basic underlying assumption is a nominal GSDP growth rate of 12.35 percent, the same as that adopted in the present MTFRP. Own revenue is projected with a buoyancy of 1.29, implying an annual increase of 16 percent, a level below which the annual growth rate has never fallen since 1995. Central transfers are projected to increase at 11.32 percent per year, which was the annual rate of increase over 1999-04. The interest rate is held at 10 percent, a little below the actual average of 10.39 percent in 2003-04 (RE), with an alternative of 9 percent. Since the budget estimates for 2004-05 project interest at 9.2 percent on the closing debt stock of 2003-04. Power sector revenues and expenditures are retained in the budget because of uncertainties over the corporatisation process.

8. SIMULATIONS OF REFORM OUTCOMES: Reduction of RD/RR by 5 percent/year requires containment of non-interest revenue expenditure growth at 3-4 percent annually. If the alternative of RD/RR reduction of 2 percent/year is chosen, non-interest revenue expenditure can increase in the 9-10 percent range per year. This is only a little below the average annual rate of increase over 1999-04 of 12.64 percent, and is therefore more feasible than a sudden compression to 3-4 percent growth per year. There will be a correspondingly lower capital expenditure growth rate of 8.5 percent per year. The simulations show very little sensitivity of non-interest revenue expenditure growth to the interest rate on the debt stock, because the interest bill itself is such a small component of total expenditure (table II.4). Correspondingly, the fiscal release possible from debt swap schemes is limited (see chapter IV).

9. LOCAL BODIES: The Second State Finance Commission has recommended a doubling of the provision for panchayats to Rs 400. If this is implemented, this too will have to be accommodated within the non-interest revenue expenditure as projected under the FRB. In general, it is a good idea to decentralise expenditure so as to conform to the configuration of local needs. But this has necessarily to be accompanied by curtailment of expenditures previously funded at state-level, and assignment of state government staff to panchayats, on a deputation basis if need be, but without special deputation allowances, so that panchayat-level hiring does not add further to staff size (see chapter V).

CHAPTER III: OWN REVENUE

III.1 STRUCTURE OF OWN REVENUE RECEIPTS

Own revenue in Tripura has risen sharply at high rates since 1998-99, as shown in chapter II (table II.4). What is at issue is whether these rates can be sustained upto 2009-10, enough to justify the 16 percent annual increase in overall own revenue underlying the fiscal reform programme.

Table III.1 shows the structure of own revenue. The share of own non-tax revenue has fallen since 1980-81, but is still at around 35 percent of own revenue. The reason for the high share of non-tax in total own revenue is that electricity in Tripura is supplied departmentally, not through a separate corporate entity. The power tariff collections therefore accrue directly to the state budget, and account for 60 percent of total non-tax revenues. Within own tax revenue, which accounts for 65 percent of total own revenue, sales tax is the dominant contributor, amounting to 45 percent of total own revenue. The steady rise in the share of sales tax, from 30 percent in 1990-91, is a pointer to the further potential here. Taxes on income and capital transactions account for 8 percent together, and have remained essentially stagnant since the eighties.

Panchayats are estimated in the year 2002-03 (table III.2) to have raised a total of 95 lakh out of total own revenue of Rs 282 crore in 2002-03, through non-tax revenues from fees and rentals on panchayat properties (panchayats have a fairly well-rooted presence in the state, going back three decades before the 73rd Constitutional Amendment). This works out to a per capita collection of Rs 3.6, which is an impressive increase over the 6 paise per capita collection in 1990-91. Urban local bodies are estimated to have raised own revenues of 2.26 crore in 2002-03, up from 1.90 crore in 1999-2000. Here again, the per capita figure of Rs. 41.6 in 2002-03 is very impressive. Maintenance of these per capita levels should be possible with effective utilisation of the EFC provision for administrative upgradation of local government.

Table III.1

Structure of Own Revenue of Tripura

	1981-82	1985-86	1990-91	1995-96	2000-01	2001-02	2002-03	2003-04 RE
I. State's Own Tax Revenue	**39.69**	**45.61**	**58.72**	**55.47**	**57.06**	**61.88**	**65.00**	**65.22**
Taxes on income	2.89	5.00	7.85	5.72	5.20	4.58	4.47	5.80
Taxes on property & capital transactions	5.79	6.07	6.57	4.58	3.53	4.20	3.23	3.48
Taxes on commodities & services	31.01	34.55	44.30	45.17	48.33	53.10	57.30	55.94
Of which								
Sales tax	*22.63*	*27.05*	*30.11*	*33.46*	*36.84*	*41.30*	*45.01*	*42.61*
State excise	*2.89*	*3.89*	*10.45*	*11.90*	*8.99*	*8.60*	*10.00*	*9.08*
Taxes on vehicles	*2.97*	*2.71*	*2.10*	*2.25*	*1.94*	*2.06*	*1.87*	*2.32*
II. State's own non Tax Revenue	**60.31**	**54.39**	**41.28**	**44.53**	**42.94**	**38.12**	**35.00**	**34.78**
Total Own Revenue (I+II)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: RBI State Finance (various issues)
Note: 1980-81 was an atypical year, with a spike in own non-tax revenue.

The next section III.2 presents buoyancy estimates for own tax and own non-tax revenues separately. Section III.3 examines the scope for further augmentation of own tax revenue collections of the state. Non-tax revenue from the power sector is examined in section III.4 of the chapter.

Conclusions are summarised in section III.5

Table III.2

Own Revenue of Local Bodies

Years	Own revenue (Rs. lakh)	Population (lakh)	Per capita (Rs.)
Rural			
1990-91	1.42	23.35	0.06
1997-98	6.03	25.50	0.24
2002-03	95.00	26.48	3.59
Urban			
1990-91	38.09	4.22	9.03
1997-98	121.03	5.03	24.06
2002-03	226.00	5.43	41.62

Source: Revenue figures for 1990-91 and 1997-98 from the Report of the Eleventh Finance Commission ; for 2002-03 from state government sources. Population figures from the Census, 1991 and 2001. Revised estimates for 2003-04 were not available.

III.2 OWN REVENUE BUOYANCY ESTIMATES: 1980-81 TO 2000-01

Buoyancy of revenue is a measure of the percent change in revenue to a one percentage change in GSDP, and is the coefficient β in the following estimated equation:

$$\mathbf{L\ (r_t)} = \mu + b\ \mathbf{L\ (g_t) + u_t}$$

where $L\ (r_t)$ = log of (nominal) revenue in year t
$L\ (g_t)$ = log of (nominal) GSDP in year t
$\propto$ = intercept
β = buoyancy estimate
u_t = error term in year t.

The econometric estimation of buoyancy is particularly sensi tive to the GSDP estimates used. In chapter II, the projections of fiscal reform outcomes performed took the reported GSDP figure only until 1999-00, and projected for 2000-01 and subsequent years at a nominal increase of 12.35 percent per annum. For the buoyancy calculations here, the GSDP figures are as officially reported by the state **, but for this reason, the calculations do not go beyond 2000-01.**

Table III.3

Revenue Buoyancy Estimates

	1980-81 to 1992-93		1993-94 to 2000-01	
	Coefficient	**t-value**	**Coefficient**	**t-value**
Total revenue	**1.27**	**16.85**	**0.78**	**14.31**
Own tax revenue	**1.41**	**39.05**	**1.06**	**27.34**
Taxes on income				
Agriculture tax	0.61	1.16	0.88	1.20
Profession tax	1.81	31.06	0.80	4.77
Taxes on property & capital transactions				
Land revenue	0.64	1.85	1.08	2.04
Stamps & registration fees	1.17	27.29	0.67	17.54
Taxes on commodities & services				
Sales tax	1.38	28.56	1.19	19.68
State excise	2.26	20.13	0.97	14.42
Taxes on vehicles	0.90	18.76	1.14	5.42
Own non-tax revenue	**0.23**	**1.06**	**1.08**	**5.93**

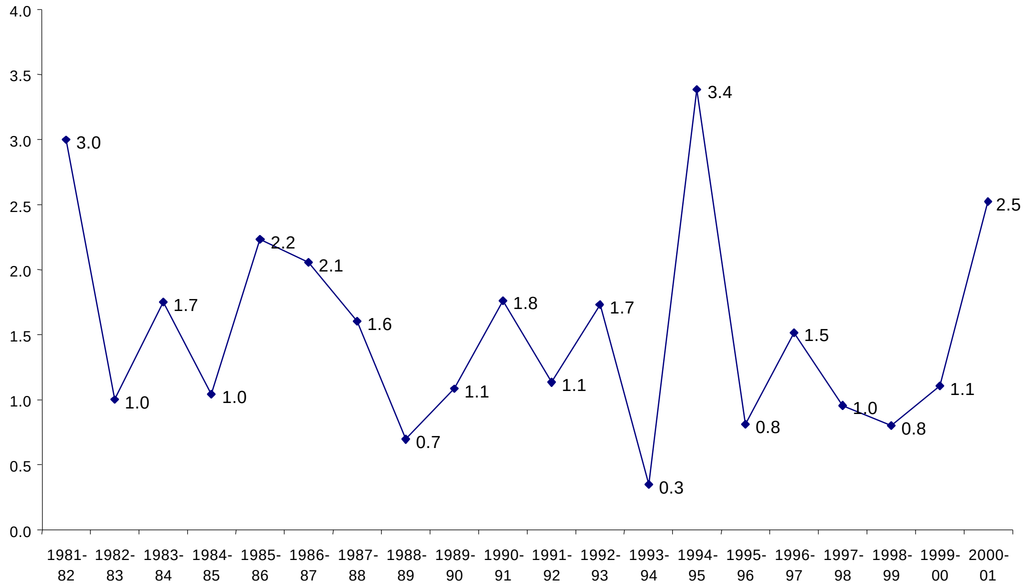
Source: Ibid.

From the buoyancy estimates, the following stylisations of the revenue picture in Tripura emerge.

1. Buoyancy of own revenue in both periods is above the buoyancy in total revenues. This was already evident earlier from the relative growth rates of own revenues and of transfers from the Centre.
2. With three exceptions (land revenue, agricultural income tax and taxes on vehicles), buoyancies are much lower in 1993-01, than over 1980-93. However, the annual rate of increase in own tax revenue is only slightly lower in the second period, 19 percent, as against 20 percent in the earlier period. It is the nominal rate of growth of GSDP, 16.8 percent in the second period versus 12.9 percent in the earlier period, which accounts for the sharply reduced buoyancy.
3. Non-tax revenue, an important source of revenue, is so volatile prior to 1992-93, that its coefficient is not statistically significant. Thus, the emergence of non-tax revenue as a stable and buoyant source of revenue is a phenomenon of the nineties.
4. Sales tax has the highest buoyancy in the post 1993-94 period. In conjunction with its major contribution to revenue, this is clearly the avenue along which to seek further revenue additionality.

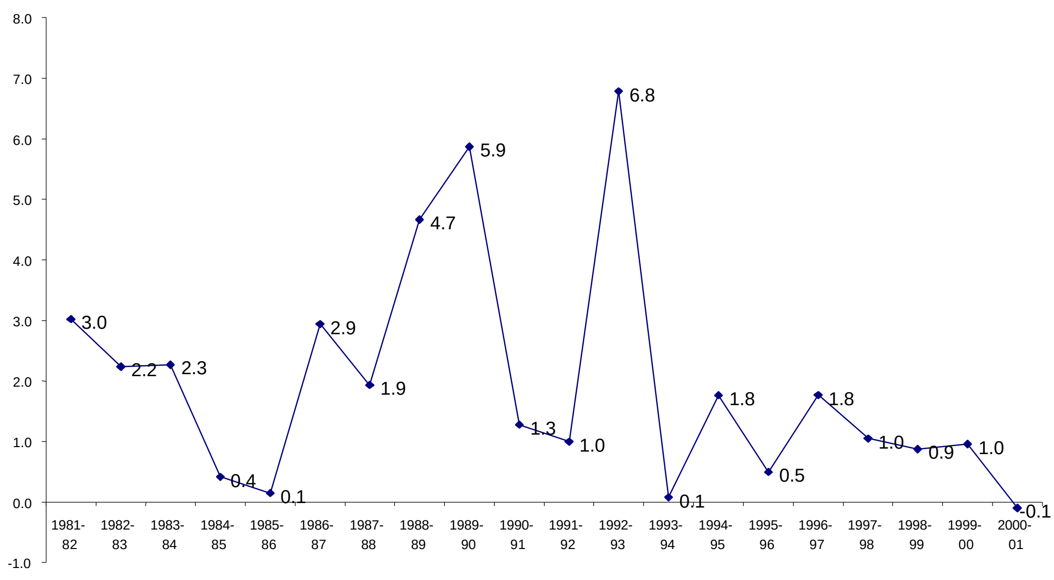
Buoyancy can also be obtained for each year of a period, by simple division of the (nominal) revenue growth rate by the (nominal) GSDP growth rate. These are in general useful supplements to the revenue buoyancy estimates for a whole period. The purpose is to identify years in which there have been upward shifts (or spikes), and to discover the policy and/or administrative changes underlying these revenue gains. Two charts present the year-to-year response of revenue to GSDP of sales tax and state excise. Of the two, sales tax is the most important, from the perspective of its share in total own revenue (45 percent) and its rank in (average) buoyancy (table III.3).

Figure III.1 Buoyancy of Sales Tax



The chart shows greater sales tax volatility in the nineties, but this is more an outcome of the extreme volatility in nominal GSDP growth rates, than of volatility in annual rates of increase of sales tax. There is a steady annual increase in sales tax, largely independent of the underlying GSDP performance, which suggests steady progress over the years in improving tax design and administration.

Figure III.2 Buoyancy of State Excise



State excise has settled down to greater stability in recent years, at around a buoyancy of one, but with a dip in 2000-01.

III.3 OWN TAX REVENUE

The MTFRP commitment targets an own tax/GSDP ratio of 3.27 percent by 2004-05. The actual achievement by 2003-04 was 3.11 percent (with projected figures for GSDP).[4] A comparison with other Special Category States is possible for 2000-01, using the reported GSDP figures for all states including Tripura, from RBI State Finances, a standard processed source. Tripura had an own tax/GSDP of 2.38 percent in 2000-01, as against an average of 4.3 percent across the Special Category States.

Of greater relevance than cross-state comparisons is the trend over time within any state. Tripura has seen a rapid increase in own tax revenue that, by the evidence of the buoyancy estimates, has grown at annual rates exceeding the growth rate of nominal GSDP. Table III.4 shows the percent increase in own tax revenue in recent years.

Table III.4

Growth Rates of Own Tax Collection

	Sales tax		Excise duty		Total own tax	
Year	Rs crore	Growth (%)	Rs crore	Growth (%)	Rs crore	Growth (%)
1998-99	47.70	12.49	16.99	13.60	84.15	17.53
1999-00	57.78	21.14	20.10	18.29	101.70	20.86
2000-01	81.08	40.33	19.78	-1.59	125.58	23.48
2001-02	105.80	30.47	22.03	11.34	158.50	26.21
2002-03	126.97	20.01	28.21	28.06	183.36	15.68
2003-04 RE	147.00	15.77	31.30	10.98	225.00	54.11

This impressive improvement in recent years has resulted from the following measures, all of which were among the process commitments made under the MTFRP:

1. A uniform floor rate for sales tax.

[4] No reported figure was available for 2003-04; the reported series stops at 2001-02. GSDP was estimated at 7240 crore for 2003-04, projected from a starting point of actuals in 1999-00, at 12.35 percent per year.

2. Upward revision of profession tax.
3. Revision and rationalisation of state excise.
4. Motor vehicle registration fee enhancement.
5. Upward revision of stamp duty and registration fees.

There is a policy change of 1 April 2002 that gave an upward boost to own tax collections, but with an equivalent tax subsidy paid out by the industries department. This made no net gain for the exchequer, but it did show higher tax collections. The policy change required that new enterprises eligible for a sales tax holiday should pay the sales tax in the first place, and obtain reimbursement from the industries department. The amounts involved however are not large. With a changeover to a VAT, subsidies of this kind will have to be phased out in any case.

The scope for further improvement in own tax revenues could be explored along the following lines:

1. **Reducing sales tax evasion through better information on entry of goods:** Sales tax needs to be given priority of focus, as the most significant source of tax revenue and the most buoyant of all revenue sources in Tripura. Tripura is a net importer of goods, which enter by road into Tripura through the Churaibari check-post. Only 5 percent of vehicles are physically unloaded and checked, and there is a small contribution to the exchequer from penalties on false declarations on consignments passing through. The more serious shortcoming is that information as declared at the checkpost is not cross-checked against sales tax collections from importing dealers in a systematic way. There is a need for a foolproof on-line system, so that entry records can be cross-checked against final sales tax collections. A request has been made to the Twelfth Finance Commission for central financing of an on-line link of the commercial taxes department with the Churaibari checkpost. The cost of the project is estimated at Rs 20 crore. The department estimates that this will enable a 30 percent increase in sales tax collections, which at present levels is an incremental revenue of Rs 40 crore a year. Thus, the project is financially a very viable one. The sales tax

department is unable to document goods entering the state by rail. There is need for better co-operation from the Railways in this respect.

2. **Scope for reducing sales tax evasion through better utilisation of entry records:** An example of undercollection of sales tax resulting from failure to put in place a usable information base on goods entering by road and rail is provided by brick manufacturing in Tripura. Taxation of brick manufacturing which is fuelled with imported coal, has switched to a very good presumptive system based on usage of coal, based on purchase records. However, there is prima facie evidence of tax evasion in brick kilns. Each brick kiln owner is provided 525 MT of coal for the manufacture of bricks. The accepted norm in Tripura is 35 MT of coal for burning of one lakh bricks, enabling the manufacture of 15 lakh bricks with 525 MT of coal. At an average sale price of around Rs 2500 per thousand bricks, 15 lakh bricks yield a turnover of Rs 37.50 lakh. The payable sales tax per kiln owner at 12 percent on Rs. 37.50 lakh is Rs 4.50 lakh. Actual receipts are at Rs 2.10 lakh, less than 50 percent of the potential revenue. The sales tax collections are based on records of actual coal usage as supplied by the manufacturer. But these are not at present cross-checked against entry records of coal entering the state by road and rail.

3. **Removal of tax and other subsidies to encourage private investment:** There are a number of incentives in place, to encourage private industry to enter the state. These are:

   At state-level:

   i. A 30 percent capital investment subsidy on fixed capital, subject to a ceiling of Rs. 30 lakh, with additional subsidy of 5% for the thrust sector and export-oriented units.

   ii. Reimbursement of sales tax for a period of 5 years, subject to a specified ceiling. Even higher incentives are offered for resource based industries. The sales tax due is paid to the Commercial Taxes Department, but reimbursed by the Industries Department.

   iii. A price preference of 10 percent on purchases by the state government.

iv. Reimbursement of interest on term loans at 4 percent for 5 years, subject to a ceiling of Rs. 30,000 per unit.

v. Reimbursement of standard certification charges upto Rs. 50,000 per unit (upto 2 lakh for IT industries).

vi. Special incentives for IT industries of 50 percent concession on floor space rentals.

At Central level:

vii. Central transport subsidy at 90 percent of transport cost for raw materials/finished goods between Siliguri and factory site and 50 percent for finished goods movement within the region.

viii. Full reimbursement of Central Excise Duty.

ix. Interest subsidy at 3 percent on working capital loans.

x. Complete exemption from income tax.

The cost of the state subsidies is quantified at between 30-50 lakh per year. This seems an implausibly low estimate.

However, this is a policy arena where interstate co-operation is called for. Table III.4 shows the rates of capital incentive and interest subsidy, duration of sales tax exemptions, and other dimensions of the incentive package in Tripura vis-à-vis Meghalaya, Assam and West Bengal. It can be seen that Tripura incentives are not more generous than those in neighbouring states. Assam and West Bengal offer many other subsidies specific to certain sectors, or specific to certain targeted objectives, like conversion to piped gas supply (see notes to the table).

Thus it is clearly advantageous to the state to attempt a unilateral cessation of subsidies while awaiting a cross-state agreement. Studies on other states show that incentives of this kind, involving outright expenditures (as in the case of (i)), or tax expenditure (as in the case of (ii)), do not bring commensurate benefits to any individual state. Subsidies will have to be phased out in all states in any case, with the impending move to a VAT regime.

Any private industry locating in Tripura will be attracted by its abundant resource base (natural gas, horticulture, tea, rubber, bamboo, tourism potential). Fiscal incentives only encourage possibly commercially unviable enterprises into making an ill-judged entry into Tripura. It would be far better if these exemptions were lifted, and the proceeds used to support enterprises with better infrastructure, so offering a more positive approach to offsetting the many locational disadvantages of setting up industry in the state. The natural resource advantages of Tripura are immense, but needs state provision of infrastructure to become realised advantages. Rubber production is presently at 14,000 tones annually. Tripura rubber is of high quality. Rubber-based units can be set up to cater to demand in the northeast as well as in Bangladesh. There are 21 species of bamboo, with export prospects to Bangladesh again. Other products with export prospects include pineapple, jackfruit, orange and litchi, which could be processed and possibly air-freighted to destinations well beyond Bangladesh.

The only possible justifiable fiscal incentive is that for the IT sector. Here, Tripura does have a locational disadvantage, and may therefore need to offer incentives to match those of the more established states, until an inter-state agreement is reached.

As against the above factors supportive of buoyant own tax collection prospects in Tripura, there are two factors which could act to limit own tax revenue growth.

1. **Insufficient staff:** The department suffers from an acute shortage of staff, at the C category level particularly. There are 10 unfilled vacancies at the level of Inspector of Taxes (a C-level post).
2. **Reduction of smuggling into Bangladesh:** Tax revenues in Tripura have surprisingly benefited from payment of sales tax on goods such as milk powder and pharmaceuticals legitimately purchased in Tripura, and smuggled across the border to Bangladesh. With the fencing of the border, and the crackdown on smuggling, it is expected that own tax collections in Tripura will decline.

Table III.5

Subsidies and Other Incentives for Private Investment Offered by Tripura and Other

S. No.	Item of incentive	Tripura	Assam	Meghalaya
1.	Capital investment subsidy (on fixed capital)	30% (+ in certain categories). Ceiling: Rs. 30 lakh.	30% (+ in certain categories) Ceiling: Rs. 10 lakh.	25% - 30% (+ for EOUs/Pioneer units Ceiling: Rs. 5 – 20 lakh
2	Interest subsidy	4% on capital loans Ceiling: Rs. 30,000 per unit per year.	5% on working capital loans (+ in certain categories) Ceiling: Rs. 3 lakh for 3 years	4% on term loans Ceiling: SSI: Rs. 10,000 Others: Rs. 20,000
3.	Sales tax exemption	5 years	7 years Ceiling: 150% of fixed capital for SSI; 100% for others.	SSI: 9 years Others: 7 years Reimbursement of CST o machinery
4.	Price preference	10%	Cottage industries: 15% SSI units: 10% Others: 5%	10%
5.	Power subsidy	None	20-50% slabbed, with ceilings	30-50% slabbed, with ceilings
6.	Wage subsidy	None	Slabbed ,with ceilings	30% of wage bills for 3 years with ceiling. Subsidy on training cost o employees .

Source: Government of Tripura.
Notes: In addition, all states offer exemption from deposit of earnest money, and contributions towards standard certification charg equipment. There are three other types of incentives in Meghalaya, Assam and West Bengal, though not in Tripura. These are e subsidies on preparation of project reports and/or on pollution control equipment, technical know-how, and conversion to piped g mega projects.

The staff requirement should be easily possible to meet from the redundancy in other departments (Chapter V). The computerisation of the Churaibari checkpost, and phase out of tax incentives, should more than offset the second adverse factor.

III.4 OWN NON-TAX REVENUE

Of total own non-tax revenue of Rs 98.72 crore in 2002-03, power sector revenues accounted for 59.68 crore, 60.5 percent of the total. The next highest single source of own non-tax revenue is social services, including education and health, which together yield 13 crore. In what follows, power tariffs are the principal area of focus, therefore. Power tariff revenues will matter for the state budget even after the corporatisation of power supply.

Power tariffs have been sharply revised upwards as shown below, the latest with effect from 1 July 2003.

21% w.e.f. 1.4.99
24% w.e.f. 1.8.01
35% w.e.f. 1.7.03

The relative standing of Tripura after the latest tariff hike, with respect to other Special Category States, is shown in table III.6, in respect of the maximum tariff for each category of consumer. Tripura is behind only Assam in the domestic and irrigation categories, and behind Assam and Arunachal Pradesh in industry, commercial and bulk tariff rates.

Table III.7 shows the realised tariffs in 2002-03, as a percent of the maximum tariffs then in force, prior to the revision of 1 July 2003. These percentages are at 61 percent for the major category (domestic), and even lower for commercial consumers, at 56 percent.

Table III.6

Comparison Of Maximum Power Tariff Across Special Category States

Max Rate (Rs/Kwh)	Consumer Category					
	Domestic	**Industry**	**Commercial**	**Water Works**	**Irrigation**	**Bulk**
> 4	Assam	Arunachal P	Arunachal P Assam	Assam		Arunachal P Assam
3-4	Tripura (3) Nagaland	Tripura (3.4) Assam Meghalaya	Tripura (3.7) Meghalaya Mizoram Nagaland	Arunachal P Meghalaya	Assam	Tripura (3.4) Meghalaya
2-3	Arunachal P Manipur Meghalaya Mizoram	Manipur Mizoram Nagaland	Manipur	Manipur Mizoram Nagaland		Manipur Mizoram Nagaland
< 2				Tripura (1.6)	Tripura (1.2) Manipur Meghalaya Mizoram Nagaland	

Source: Department of Power, Government of Tripura.
Notes: Tripura tariffs are those in place after revision on 1 July 2003. The tariff rates for other states pertain to the dates of last revision, going back to the year 2000 in some cases; these may possibly have been revised subsequently. The tariff rates for a few consumer categories like public lighting, tea gardens etc. are not reported because of their insignificant contribution to revenues.

Table III.7

Average Power Tariff Revenue Realisation Per Unit in Tripura (2002-03)

	Consumer Category					
	Domestic	**Industry**	**Commercial**	**Water works**	**Irrigation**	**Bulk**
Revenue realised (Rs. Crore) (% total revenue)	18.72 (31.37)	8.80 (14.75)	6.12 (10.26)	7.64 (12.80)	7.15 (11.98)	2.35 (3.94)
Realised tariff Rs / Kwh	1.34	1.83	1.95	1.46	1.05	1.94
Realised/max. tariff (%)	60.91	73.20	55.71	100.00	87.50	77.60

Source: Ibid.
Notes: The maximum tariffs are not those reported in table III.6, which came into effect only on 1 July 2003. The realised/max. tariff actually exceeded 100 percent for water works, on account of arrears. The percentage shares do not sum to 100 because of excluded consumer categories (public lighting, and plantations).

What should power tariffs be in Tripura if the existing loss of Rs 93.50 crore in 2002-03 were to be covered fully by revenue, which yielded only 59.68 crore that year? Table III.8 shows the required realised tariffs in each category, pro-rating the revenue requirement equally across all categories. These call more than a doubling of realised rates, by a factor of 2.57 to be precise. Domestic consumption is required to go up from 1.34 to 3.44 Rs/Kwh, commercial and bulk supply to Rs. 5/Kwh. Table III.8 also shows what the maximum tariff will have to be, if the ratio of realisation to maximum remains at the same levels as shown in table III.7, and the further increase required beyond that introduced in July 2003.

This exercise takes the losses of the power department as given. It is clear that the required increase in nominal tariffs is simply untenable. Clearly, the fiscal restructuring of the power sector requires action other than a further tariff hike. There are three possible ways by which losses can be reduced.

Table III.8

Tariff Rates Required for Full Coverage of Losses (2002-03)

	Consumer Category					
	Domestic	**Industry**	**Commercial**	**Water works**	**Irrigation**	**Bulk**
Required realised tariff Rs/Kwh	3.44	4.70	5.01	3.75	2.70	4.98
Required max. tariff* Rs/Kwh	5.65	6.42	8.98	3.75	3.08	6.42
New max. tariff w.e.f. 1 July 2003	3.00	3.40	3.70	1.60	1.20	3.40
Required minus new max. tariff	2.65	3.02	5.28	2.15	1.88	3.02

Notes: * At percent realised/maximum tariff estimated in table III.7.

i. Reduction of the T&D losses below the very high level of 40.63 percent recorded in 2002-03. The gap between energy availability and energy sold has to be reduced below the present level of 274 Mkwh.

ii. Reduction of the gap between realised and nominal tariffs by reducing theft and unmetered consumption.

iii. Reduction of operating expenditure. The manpower in the power department is examined, along with other departments of the government, in Chapter V.

Other potential sources of non-tax revenue are principally royalty from natural gas, and introduction of on-line lotteries, following the success of other states in running lotteries. A new Natural Gas Project of 280 mw is on the anvil in Tripura, but funding closure is awaited. Tripura's peak consumption of electricity is only 150 mw, so that the new project will need to be connected to the national grid [5].

III.5 SUMMARY AND RECOMMENDATIONS

This chapter arrives at the following eight recommendations:

1. ASSUMED OWN REVENUE PROJECTIONS: The principal issue addressed is that of whether own tax revenue can increase at the annual (nominal) rate of 16 percent assumed for the two-phase fiscal reform programme of chapter II, going upto 2009-10. The chapter concludes that such an increase is feasible, on the basis of past trends, provided certain supportive policy measures are taken.

2. REVENUE BUOYANCIES IN THE EIGHTIES AND NINETIES: The econometric estimation of buoyancy is particularly sensitive to the GSDP estimates used. For the buoyancy calculations here, the GSDP figures are as officially reported by the state **, but for this reason, the calculations do not go beyond 2000-01.** Although all estimated own revenue buoyancies are lower over 1993-01 than over 1980-93, the annual rate of increase in own tax revenue is only slightly lower in the second period, 19 percent, as against 20 percent in the earlier period. It is the nominal rate of growth of GSDP, 16.8 percent in the second period versus 12.9 percent in the earlier period, which accounts for the sharply reduced buoyancy. Non-tax revenue was so volatile over 1980-93, that its coefficient is not statistically significant for that period. Non-tax revenue has emerged as a stable and buoyant source of revenue only in the nineties.

[5] From the Meetings with Commissioner, Power.

3. **OWN NON-TAX REVENUE:** Own non-tax revenue accounts for 35 percent of total own revenue, because electricity in Tripura is supplied departmentally, not through a separate corporate entity. The power tariff collections therefore accrue directly to the state budget as non-tax revenues. Corporatisation of the power department is contemplated but is unpredictable in its timing. For this reason, the projections of own revenue assume that power tariffs will continue to accrue to the state budget as non-tax revenue. If the existing power department loss of Rs 93.50 crore in 2002-03 were to be covered fully by revenue, which yielded only 59.68 crore that year, the required realised tariffs would require to be hiked by a factor of 2.57. Since there was already a 35 percent upward revision of power tariffs on 1 July 2003, a further hike in power tariffs is not feasible. Policy therefore has to focus on the following three ways by which to reduce losses:

i. Reduction of the T&D losses below the very high level of 40.63 percent recorded in 2002-03. The gap between energy availability and energy sold has to be reduced below the present level of 274 Mkwh

ii. Reduction of the gap between realised and nominal tariffs by reducing theft and unmetered consumption.

iii. Reduction of operating expenditure. The manpower in the power department is examined, along with other departments of the government, in Chapter V.

4. **OWN TAX REVENUE:** Taxes accounts for 65 percent of total own revenue, with sales tax accounting by itself for 45 percent. Own tax revenues have grown especially rapidly since 1998-99. The lowest growth of 15.7 percent was recorded in 2002-03, the highest of 54.1 percent in 2003-04. This was a result of the following policy measures, all of which were among the process commitments made under the MTFRP:

i. A uniform floor rate for sales tax.

ii. Upward revision of profession tax.

iii. Revision and rationalisation of state excise.

iv. Motor vehicle registration fee enhancement.

v. Upward revision of stamp duty and registration fees.

5. FOCUS ON SALES TAX: Sales tax has increased steadily in its share from 30 percent in 1990-91, a pointer to its further potential. Sales tax needs to be given priority of focus, as the most significant source of tax revenue and the most buoyant of all revenue sources in Tripura.There is prima facie evidence of undercollection of sales tax resulting from failure to put in place a usable information base on goods entering by road and rail. Tripura is a net importer of goods, which enter by road into Tripura through the Churaibari check-post. Only 5 percent of vehicles are physically unloaded and checked. The more serious shortcoming is that information as declared at the checkpost is not cross-checked against sales tax collections from importing dealers in a systematic way. An on-line link of the commercial taxes department with the Churaibari checkpost will cost Rs 20 crore, and is estimated to enable a 30 percent increase in sales tax collections, which at present levels is an incremental revenue of Rs 40 crore a year. Thus, the project is financially a very viable one.

6. REMOVAL OF TAX SUBSIDIES FOR PRIVATE INVESTMENT: Sales tax reimbursement for a holiday of five years, subject to sector-specific ceilings, is one of a large package of incentives to encourage private investment. Tripura incentives are not more generous than those in neighbouring states, and therefore clearly carry no incremental punch. This is a policy arena where inter-state co-operation is called for, but it is recommended here that Tripura could benefit from a unilateral cessation of subsidies while awaiting a cross-state agreement. The impending move to a VAT will in any case be incompatible with these kinds of tax concessions. The gains to the exchequer from removing these exemptions could be used to support enterprises with better infrastructure, so offering a more positive approach to offsetting the many locational disadvantages of setting up industry in the state. The natural resource advantages of Tripura are immense, but needs state provision of infrastructure to become realised advantages.

7. FACTORS WHICH COULD RETARD OWN TAX INCREASES: The commercial taxes department suffers from an acute shortage of staff, at the C category level particularly. There are 10 unfilled vacancies at the level of Inspector of Taxes (a C-level post). The staff requirement could be easily met from the redundancy in other departments. Also, tax revenues in Tripura have surprisingly benefited from payment of sales tax on goods such as milk powder and pharmaceuticals legitimately purchased in Tripura, and smuggled across the border to Bangladesh. The fencing of the border, and the crackdown on smuggling, are expected to have a negative impact on own tax collections in Tripura.

8. **LOCAL TAXES:** Panchayats are estimated in the year 2002-03 to have raised a total of 95 lakh in non-tax revenues from fees and rentals on panchayat properties, out of a total own revenue collection of 282 crore. This is a phenomenal increase, up from 6 lakh in 1997-98, and 1.4 lakh in 1990-91, as recorded in the Report of the Eleventh Finance Commission. In per capita terms, this represents an increase from 6 paise per capita in 1990-91, to 24 paise per capita in 1997-98, to Rs. 3.59 per capita in 2002-03. Urban local bodies are estimated to have raised own revenues of 2.26 crore in 2002-03, also considerably up relative to the nineties. In per capita terms, the collections were Rs. 9 in 1990-91, Rs 24 in 1997-98, and Rs. 41.62 in 2002-03. The maintenance of these levels of per capita collection should be possible without any further expansion in the local fiscal domain. Exactly as in the case of state-level taxes, improvements in administration should help in the maintenance of present per capita levels of collection, and this should in turn be possible with effective utilisation of the EFC funding provision for administrative upgradation of local government.

CHAPTER IV: RESTRUCTURING THE INTEREST BILL

IV.1 THE DEBT SWAP SCHEME OF GOI

Although it is of paramount importance for Tripura to reduce its interest bill through every possible means, interest accounts for only 15 percent of revenue expenditure (table IV.3). So the scope for substantial pruning of revenue expenditure through reducing the interest bill is limited.

Under the debt swap scheme for States presently on offer from the Government of India, loans from the Centre bearing coupon rates in excess of 13 percent can be swapped against small savings proceeds and open market borrowings (OMB), as shown below. A debt swap scheme cannot reduce the stock of debt. It can merely change the composition such that the overall interest burden is reduced.

$$\textbf{Debt Swap}_t = k_t * x_{t-1} + f_T * (\text{OMB}) \quad \text{--------------------} \quad \textbf{(1)}$$

where k_t is the fraction swappable from small saving loans in year 't' [6].

$k_1 = 0.2$ in 2002-03 (t=1)
$k_2 = 0.3$ in 2003-04 (t=2)
$k_3 = 0.4$ in 2004-05 (t=3)

x_{t-1} = incremental small savings collections of the State in the year ' t-1'.

f_T = share of Tripura's entitlement to aggregate OMB assigned for the debt swap [equal to share of Tripura in aggregate stock of high cost debt across States; defined as debt carrying coupon rates of 13 percent or higher].

The debt swap scheme is confined to high cost debt, so defined.

The chapter is divided into four sections. Section IV.2 sets out the parameters governing interest savings from the debt swap scheme. Section IV.3 shows the gains

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[6] It is assumed that the calculations are done with respect to x_{t-1}, which is known, rather than with respect to x_t, which can only be an estimate in time 't'.

attained by Tripura through the scheme. Section IV.4 examines other possibilities of interest rate reduction (presently incomplete for lack of data). Section IV.5 concludes the chapter.

IV.2 PARAMETERS GOVERNING INTEREST SAVINGS THROUGH THE DEBT SWAP

$$IP_s / IP = [c_g] * [D_s/D_{ps}] * [D_{ps}/L_{ss}] * [L_{ss}/L_g] * [L_g/ D] * [D / IP] \text{ ------------ } (2)$$

where IP_s = interest savings from debt swap as proportion of total interest bill

c_g = gain in effective coupon rate

D_s = debt swapped

D_{ps} = potential swappable debt

L_{ss} = small savings loans from GOI

L_g = total loans from GOI

D = total stock of debt

IP = total interest bill

In this equation of interest savings from debt swap, the parameters that are given for any State are $[L_{ss}/L_g]$, $[L_g/ D]$ and $[D/IP]$. Policy levers are $[D_s/D_{ps}]$ and $[D_{ps}/L_{ss}]$. If parameter $[D_s/D_{ps}]$ can be altered by relaxing the constraints attached to the $k_t * x_{t-1}$ component of debt swap from k<1 to k=1 and also through increasing the OMB entitlement, interest savings can increase. The interest savings can also increase, if the parameter $[D_{ps}/L_{ss}]$ can be altered by widening the swap band of coupon rates from ≥ 13 percent to ≥ 6 percent.

IV.3 DEBT SWAP SCHEME: EMPIRICAL ANALYSIS OF TRIPURA

IV.3.A Potential Swappable Debt in Tripura

Potential Swappable Debt (D_{ps}) denotes instruments bearing coupon rates in excess of 13 percent. Table IV.1 lists small savings loans by coupon rates; but it does not list other loans taken from Centre (MPF, State Plan or NEC, details of which are given in Annexure 1).

Table IV.1

Distribution of Small Savings Loans at Various Coupon Rate

Coupon rate (%)	Maturity period	Outstanding loan 31.03.02 (lakhs)	Total	% of L_{ss} at various rates	% of D_{ps} at each coupon rate
Non swappable					
6.25	25	11.70	43.10	0.17	
6.25	25	31.40			
7.25	25	28.50	28.50	0.11	
7.75	25	40.25	47.15	0.19	
7.75	25	6.90			
8.75	25	84.35	99.75	0.40	
8.75	25	15.40			
9.75	25	107.60	167.60	0.68	
9.75	25	60.00			
10.25	25	72.40	115.40	0.47	
10.25	25	43.00			
12.00	25	157.00	1572.90	6.34	
12.00	25	338.80			
12.00	25	701.40			
12.00	25	375.70			
		<13 %	**2074.40**	**8.37**	
Swappable (D_{ps})					
13.00	25	2529.150	4903.40	19.77	
13.00	25	1914.50			
13.00	25	459.75			21.58
13.50	25	660.75	1115.15	4.50	
13.50	25	454.40			4.91
14.00	25	2109.00	2109.00	8.50	9.28
14.50	25	647.20	14553.70	58.69	
14.50	25	1241.00			
14.50	25	1449.90			
14.50	25	216.60			
14.50	24	1732.00			
14.50	26	4330.00			
14.50	25	4392.00			
14.50	25	545.00			64.05
15.00	25	42.50	42.50	0.17	0.19
		>13 %	**22723.75**	**100**	**100**
Non swappable + swappable (L_{ss})			**24798.15**		

Source: Budget Division, Department of Finance, Tripura.

From the share of loans at various coupon rate in total swappable and non-swappable loans (L_{ss}) given in the penultimate column of table IV.1, only 8.37 percent of loans fall in the under 13 percent coupon rate category. Loans at 14.5 percent or more constitute 58.86 percent of the total small savings loans. Within the class of swappable debt, the outstanding loans ≥ 14.5 percent of coupon rate constitute 64.05 percent of D_{ps} (last column of table IV.1).

From the rate progression, clearly interest liability on outstanding loans at ≥ 14.5 percent coupon rate would be higher still. The cumulative D_{ps} at various swappable coupon rates is given in table IV.2.

Table IV.2

Distribution of Cumulative Potential Swappable Debt (D_{ps}) at Various Coupon Rate

Coupon rate	Cumulative Amount
≥ 13	22723.75
≥ 13.5	17820.35
≥ 14	16705.20
≥ 14.5	14596.20
≥ 15	42.50

Source: (Basic Data) Budget Division, Department of Finance, Tripura.
Note: Figures relate to 31.03.02.

The outstanding loans at ≥ 14.5 percent coupon rate should be the first priority in any debt swap (table IV.2). The disaggregation of loans ≥ 14.5 percent coupon rate is shown in table IV.3; which shows nine potential loans for debt swap.

Out of these nine potential loans for debt swap, Tripura has swapped only six outstanding loans at 14.5 percent coupon rate and one at 15 percent coupon rate for debt swap. Some loans were partially unswapped [No. (1) and (6) of table IV.3].

Table IV.3

Disaggregation of Potential Swappable Debt at ³ 14.5 % Coupon Rate

(Rs lakhs)

	Year of loan	Coupon rate (%)	Maturity period	Principal value of swapp-able debt	Outstand-ing loan as on 31.03.02	Repay-ment 2002-03	Net of repayment as on 31.03.03	Amount adjusted under debt swap	Net of debt swap as on 01.04.03
1	2	3	4	5	6	7	8	9	10
Loans Swapped (Totally or Partially) (D_s)									
1	1992-93	14.5	25	809.00	647.20	40.45	606.75	605.70	1.05
2	1993-94	14.5	25	1460.00	1241.00	73.00	1168.00	1168.00	0.00
3	1994-95	14.5	25	1611.00	1449.90	80.55	1369.35	1369.35	0.00
4	1995-96	14.5	25	228.00	216.60	11.40	205.20	205.20	0.00
5	1996-97	14.5	24	1732.00	1732.00	86.60	1645.40	1645.40	0.00
6	1997-98	14.5	26	4330.00	4330.00	0.00	4330.00	269.35	4060.65
7	1993-94	15	25	50.00	42.50	2.50	40.00	40.00	0.00
				10220.00	**9659.20**	**294.50**	**9364.70**	**5303.00**	**4061.70**
Loans Not Swapped									
8	1998-99	14.5	25	4392.00	4392.00	-	4392.00	-	-
9	1999-00	14.5	25	545.00	545.00	-	545.00	-	-
				4937.00	**4937.00**		**4937.00**		
	Grand total	**³ 14.5**		**15157.00**	**14596.20**		**14301.70**		

Source: Budget Division, Department of Finance, Tripura

Table IV.3 shows the six loans that were swapped, partially or totally. Out of Rs 9365 lakhs, Tripura swapped only Rs 5303 lakhs. The ratio of D_s to D_{ps} at coupon rate band of 14.5-15 percent as on 31.03.03 revealed that only 37.08 percent of D_{ps} could be retired (table IV.4).

Table IV.4

Actual to Potential Debt Swap at Various Swap Bands of Coupon Rates

r' Swap band coupon rate	D_{ps} (Rs lakhs as on 31.03.02)	D_s/D_{ps} as on 31.03.02	D_{ps} (Rs lakhs as on 31.03.03)	D_s/D_{ps} as on 31.03.03
13-15	22723.75	23.34	-	-
14.5-15	14596.20	36.33	14301.70	37.08

Source: Derived from Table 4 and 5; (Basic data), Budget Division, Department of Finance, Tripura.

IV.3.B Components of Debt Swapped In

As discussed, debt swap has two components; $k_t * x_{t-1}$, the component of high cost small savings loans and $f_T * (OMB)$, the OMB entitlement **.** OMB constitutes around 60 percent of Internal Debt and around 17-19 percent of total debt in Tripura (table IV.8).

The OMB entitlement through the debt swap was Rs. 3700 lakhs in 2002-03. In the year 2003-04, Tripura received OMB entitlement of Rs 5865 lakhs (table IV.5).

Table IV.5

OMB Component of Debt Swap in Tripura

	Year of raising	**Coupon rate**	**Maturity period (years)**	**Swapped In (in Rs lakhs)**
OMB	2002-03	6.95	10	2000.00
OMB	2002-03	6.75	10	1700.00
Total				**3700.00**
OMB	2003-04	6.35	10	1785.00
OMB	2003-04	6.20	10	2040.00
OMB	2003-04	6.20	10	2040.00
Total				**5865.00**

Source: (Basic data), Budget Division, Department of Finance, Tripura

Table IV.6 shows the details of amount *swapped out* and *swapped in* under debt swap scheme in Tripura in the year 2002-03. The amount of debt *swapped out* in Tripura for the year 2002-03 was Rs 5303 lakhs. The amount of debt *swapped in* Tripura in 2002-03 has two components: an amount of Rs 1603 lakhs released by Government of India against the State's share of Net Small Savings proceeds and an amount of Rs 3700 lakhs as OMB entitlement.

Table IV.6

Debt Swap in Tripura, 2002-03

	Year of raising	Coupon rate	Debt swap (Rs in lakhs)
Swapped Out			
High cost small saving loans	1992-93	14.5	605.70
	1993-94	14.5	1168.00
	1994-95	14.5	1369.35
	1995-96	14.5	205.20
	1996-97	14.5	1645.40
	1997-98	14.5	269.35
	1993-94	15.0	40.00
			5303.00
Swapped In			
OMB	2002-03	6.95	2000.00
OMB	2002-03	6.75	1700.00
Against net small savings proceeds	2002-03		1603.00
			5303.00

Source: (Basic data), Budget Division, Department of Finance, Tripura

IV.3.C Interest Gains from Debt Swap

Tripura gained Rs 363.10 lakhs as *interest savings* from the debt swap (table IV.7). The coupon rate of NSSF is 9.5 percent at present. The effective coupon rate of small savings loans swapped out worked out to be a little over 14.5 percent, and the effective coupon rate of amount swapped in through OMB and net small savings proceeds worked out to be 7.66 percent (table IV.7).

Table IV.7

Interest Savings and Gain in Effective Coupon rate via Debt Swap

	Year of raising	Coupon rate	Debt swapped	IP	Effective coupon rate[a]
			Swapped Out		
Small savings loans	1992-93	14.5	605.70	87.83	
	1993-94	15.0	40.00	6.00	
	1993-94	14.5	1168.00	169.36	
	1994-95	14.5	1369.35	198.56	
	1995-96	14.5	205.20	29.75	
	1996-97	14.5	1645.40	238.58	
	1997-98	14.5	269.35	39.056	
	Total		**5303.00**	**769.14**	**14.50**
			Swapped In		
OMB	2002-03	6.95	2000	139	
OMB	2002-03	6.75	1700	114.75	
Against net small savings	2002-03	**9.50**	1603	152.29	
	Total		**5303**	**406.035**	**7.66**
Interest savings				**363.10**	

Source: (Basic data), Budget Division, Department of Finance, Tripura

Note: [a] (IP_t/D_{t-1})

The ratio of interest savings of Rs 363.10 lakhs amounts to 1.25 percent of the total interest payments[7] of Tripura.

The values of the parameters in equation (2) are as follows [8].

$IP_s =$ [0.1450-0.0766] * [(5303/22723.75)] * {[22723.75/24798.15)]} * [24798.15/73385] * [73385/263930] * [263930/30000]

= [0.0684] * [0.233368] * [0.916349] * [0.337919] * [0.2766] * [9.13]

= .012481 **(1.25 percent)**

---

[7] The total interest payment for the year 2002-03 was Rs 290.70 crore.

[8] Where $[c_g]$ ref: table IV.7;
$[D_s/D_{ps}]$ ref: table IV.4
$[D_{ps}/L_{ss}]$ ref: table IV.1
$[L_{ss}/L_g]$ ref: [(24798.15)/73385] [tables IV.1 and IV.8]
$[L_g/D]$ ref: [table IV.8]
$[D / IP]$ ref: [265318/29070]

Table IV.8

Structure of Debt in Tripura

As on 31 March	Percent to total					Rs crore
	Loans & advances from Central Govt.	Provident Funds etc.	Market borrowing	Internal debt		Total Debt
				Other	Special securities issued to NSSF	
1989	46.85	17.83	20.32	15.01		293.78
1990	50.86	17.58	18.01	13.55		390.87
1991	51.03	19.19	17.25	12.53		482.59
1992	47.14	20.28	17.85	14.73		559.15
1993	45.54	22.21	18.75	13.51		621.09
1994	43.14	24.77	19.41	12.68		686.15
1995	40.97	27.31	19.75	11.98		765.17
1996	38.92	29.08	19.73	12.27		856.26
1997	36.32	34.65	18.15	10.89		1039.77
1998	39.41	31.38	18.47	10.74		1138.98
1999	39.08	31.14	19.28	10.50		1402.73
2000	37.93	31.44	19.24	11.39		1797.84
2001	30.04	32.12	18.94	18.90	7.29	2231.13
2002	27.66	31.43	17.72	23.19	8.04	2653.18
2003	23.44	30.82	18.72	27.03	13.81	3113.22

Source: RBI State Finance (various issues)
Note: Figures for 2002 is taken from 'Debt Stock Table' provided by Budget Division of Department of Finance, Tripura.

Even if the value of k is raised to 1 in equation (1), the interest saving is only of the order of 2 percent. Interestingly, raising k to 1 still confines the debt swapped to coupon rates of 14.5 percent (these account for 59 percent of all small savings loans). Clearly, for the scheme to enable swapping out of all debt at 14.5 percent, let alone all debt presently defined as potentially swappable, the scheme has to permit much larger additional OMB than is presently the case. Unless this is done, no appreciable dent can be made in the interest bill of a state like Tripura.

Interest Savings with k =1,

$$IP_s = [0.1450 - 0.0766]*8753$$

$$= \text{Rs } 598.7052 \text{ lakhs}$$

Interest Savings as % of Total Interest Bill = [598.7052 / 300000]

= 1.996 %

In the analytics of interest savings,

$[IP_s / IP]$ = [0.1450-0.0766] * [8753/24798.15] * [24798.15/24798.15] * [24798.15/73385] * [73385/263930] * [263930/30000]

= [0.0684] * [0.417612] * [0.535297] * [0.631273] * [0.2766] * [9.13]

= **.0206033 (2.06 percent)**

IV.4 OTHER INTEREST REDUCTION POSSIBILITIES

Debt owed to GOI and provident fund liabilities are governed by institutionally set interest rates, as is debt owed to the NSSF. The debt swap scheme on debt owed to GOI has already been examined.

The interest rates on market loans on the other hand are market-driven. The average interest rate on market borrowing was 11.45 percent in 2002-03. If market borrowings taken in earlier years can be swapped against borrowing entitlements at present rates, a 3 percent gain in coupon rates on the total stock of 583 crore could yield a maximum interest bill reduction of 17.48 crore. A market borrowing swap would however require GOI approval.

Other internal liabilities owed to institutional creditors like NABARD and HUDCO carry bilaterally negotiated interest rates. It is possible that there may be scope for reduction in this category. The overall quantum of such debt amounted to only 13.22 percent of total debt at end-March 2003, or Rs. 411 crore in absolute terms. An average rate reduction of more than 1 percent may be difficult to negotiate. A one percent reduction will yield an interest bill gain of 4.12 crore.

In all, a maximum gain of 21.5 crore may be possible in the interest bill on debt in the internal liabilities category.

IV.5 SUMMARY AND RECOMMENDATIONS

1. THE DEBT SWAP SCHEME OF GOI: The debt swap scheme has to be operated on a much wider scale for it to make any appreciable dent in the interest bill for Tripura. Under this scheme, loans from the Centre bearing coupon rates in excess of 13 percent can be swapped against small savings proceeds and open market borrowings within specified limits. The interest saving for Tripura in 2002-03 amounted to only 3.63 crore, 1.25 percent of the total interest bill that year of 290.73 crore. Of the several parameters that go towards determining the interest saving from the scheme, there are only two policy levers, both under the control of the GOI. These have to do with the permissible limits as prescribed by the GOI, with respect to the fraction of small savings and amount of additional OMB which can be swapped in, and the potential swappable debt (presently confined to debt bearing coupon rates of 13 percent or higher). A simulation for Tripura, widening the scope of the scheme to include all small savings, only increased the interest saved to 2 percent. That is because debt to GOI constitutes only about one-quarter of the total debt stock of 3113 crore.

2. OTHER INTEREST REDUCTION POSSIBILITIES: The interest rates on provident fund, are institutionally governed by GOI. If market borrowings taken in earlier years can be swapped against borrowing entitlements at present rates, a 3 percent gain in coupon rates on the total stock of 583 crore could yield a maximum interest bill reduction of 17.48 crore. Other internal liabilities debt owed to creditors like NABARD and HUDCO, excluding debt to the NSSF, carry bilaterally negotiated interest rates. It is possible that there may be scope for reduction through bilateral negotiation. The overall quantum of such debt amounted to only 13.22 percent of total debt at end-March 2003, or Rs. 411 crore in absolute terms. An average rate reduction of more than 1 percent may be difficult to negotiate. A one percent reduction will yield an interest bill gain of 4.12 crore. In all, a maximum gain of 21.5 crore may be possible in the interest bill on debt in the internal liabilities category.

CHAPTER V: RESTRUCTURING OF GOVERNMENT DEPARTMENTS IN TRIPURA

V.1 INTRODUCTION

Public sector restructuring is one of the components of the States' Fiscal Reforms Facility of the Ministry of Finance, GOI, whereby Voluntary Retirement Schemes (VRS) will be funded through a blend of grants and additional OMB [9]. For Special Category States like Tripura, Government of India will finance 80 percent of costs of downsizing, of which 80 percent will be in the form of grants and 20 percent in the form of additional open market borrowing (OMB) [10].

Against the backdrop of this policy initiative, this chapter examines the possible scope of restructuring the Departments in Tripura. Section V.2 presents the data on employees across Departments in Tripura, and section V.3 explains the methodology of downsizing adopted in the study. Section V.4 attempts a separate analysis of labour redundancy in school education which is not amenable to the uniform norms used for other departments. Section V.5 concludes.

Since the 91st Constitutional Amendment has already been operationalised in Tripura, no suggestions are offered in this report on how to regroup departments from the 18 ministries in existence prior to the Amendment. The Amendment specifies a ceiling to the number of Ministries at 15 percent of the size of the Assembly, subject to a minimum of 12. As the size of the Tripura Assembly is 60, it is the floor that applies. Tripura now has 12 Ministries.

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[9] See 'States' Fiscal Reform Facility 2000-01 to 2004-05' issued by the Department of Expenditure, Ministry of Finance, Government of India (3 September 2003). This facility will not be available to those States, which are beneficiaries of any Structural Adjustment Loans from Multilateral/bilateral agencies in that particular year.

[10] For Non-Special Category States, 60 per cent of such costs will be met by the Centre; of which 50 per cent will be in the form of grants and 50 per cent in the form of additional OMB.

V.2 INTERPRETING DATA ON EMPLOYEES IN TRIPURA

The category-wise breakdown of government employees in Tripura does not tally across different Tables in the official document 'Statement of Regular State Government Employees as on 31.03.02', provided by Finance Department, Govt. of Tripura. The basic discrepancy is between the sum of employees across pay scales, which yields a total of 98288, and the sum of employees by categories (A, B, C, D) and departments which yields a total of 98379. Since the departmental redundancies could be worked out only with the latter, all numbers and estimates in this Chapter are based on an aggregate of 98379 (regular) employees. This number pertains to 31 March 2002

In addition to these, there were 16813 casual staff on the rolls in March 2004. [11] The total of regular and casual works out to 115192, but this is a rough aggregate obtained from numbers pertaining to different points in time. Certainly the total as on 31 March 2002 would have approximated to 1.1 lakh, which is 3.4 percent of the 2001 Census population of 31.9 lakh. Comparable figures for India, available only for 1996, [12] are 1.4 percent, and for China (in the early nineties), 2.8 percent. Even after allowing for the size effect, whereby smaller states will have larger percentages, the Tripura government is clearly overstaffed.

In Tripura, the total employees at Group A and B comprise only 6.7 percent of the total; while Group C and D have 71.26 and 22.04 percent of employees respectively (table V.1). This is the second staff problem, with too many in C and D categories, and not enough staff at managerial levels.

[11] This figure does not include employees of Autonomous District Councils.
[12] Figures of this kind are necessarily available only with a considerable time-log, since they require summation of staff of government at all levels.

Table V.1

Distribution of Employees in Government Sector in Tripura

(percent)

Category	No. of Employees
A	2.96
B	3.74
C	71.26
D	22.04
Total	100

Source: (Basic Data), Department of Finance (2003), Tripura .

It is important to analyze the composition of employees across various government departments to decide the extent and composition of public sector downsizing. However, a plethora of observable and unobservable employee characteristics like education attainment and skill levels, work experience, individual productivity etc would be overlooked in the aggregate level of analysis. The probability of adverse selection of employees for redundancy or VRS package is yet another major concern. The employee-intensive Departments in Tripura are listed in table V.2.

Table V.2

Employment in Eight Most Employee-Intensive Departments in Tripura

	Departments	A	B	C	D	Total
1	School Education	89	1669	28062	3722	33542
2	Home (Police)	8	210	15243	1469	16930
3	Health & Family Welfare	864	99	3621	2674	7258
4	Power	208	228	1837	2192	4465
5	Agriculture	216	315	2523	632	3686
6	PWD (Roads & Buildings)	233	162	1139	2093	3627
7	Social Welfare & Social Education	3	15	1709	867	2594
8	Forest	2	20	1465	442	1929
	Total of 8 Departments	1623	2718	55599	14091	74031
	Total Employment	**2910**	**3677**	**70106**	**21686**	**98379**

Source: (Basic data), Department of Finance, Tripura (2003)

Of the total of nearly one lakh employees, three-fourth are concentrated in eight out of a total of 56 Departments (Demands), viz., school education, home (police), health and family welfare, power, agriculture, Public Works Department (roads and buildings), social welfare and the forest Department. All of these are staff-intensive activities where a reduction in overall numbers could possibly result in a drop in the level of service delivery. The number of D-category employees is highest in school education at 3722. However, there is a total of 3181 educational institutions in the State [13]. Even applying a norm of one D-category employee per institution, the maximum redundancy amounts to only 541 employees.

The basic data on employees and expenditure, which is used for the analysis in this Chapter, is given in various tables (table 1-9) in Annexure I. As can be seen from Annexure I, the total number of Demand is 56. Six Demands are merged (D28 with D27, D44 with D43, D46 with D6, D47 with D3, D52 with D16 and D53 with D19) because the manpower data is given in aggregate for these Demands, yielding 50 departments in all.

V.3 METHODOLOGY ADOPTED FOR ASSESSING REDUNDANCY BY DEPARTMENTS

The methodology adopted for estimating labour redundancy across Departments was to compute the per staff non salary expenditure (psn), taking non salary expenditure as a proxy of the scale of activity handled. This is applied only to those Departments which are amenable to a uniform psn norm. Nine departments have been identified as not amenable to a uniform psn norm. In one of these non-amenable Departments, an alternative norm has been attempted. The appropriate norms for the identification of labour redundancy for the remaining eight [14] non-amenable Departments are beyond the scope of present Report.

[13] In 2001-02, there are 2080 primary schools, 432 middle/senior basic schools, 402 high schools, 234 higher secondary schools adding upto 3148 schools. In Tripura, there is one University, 14 general colleges, 1 engineering college, 1 law college, 1 music and art college, 1 Sanskrit college, 1 regional physical college, 1 polytechnic and 3 nursing training institute, 1 regional pharmacy, 4 ITIs and 3 TTCs, adding to 33 institutions. Aggregate number of institutions thus worked out to be 3181.

[14] These departments are Home (Police), Finance (Taxes and Excise), Social Welfare and Social Education, Higher Education, Home (Jail), Revenue, Health and Family Welfare and Agriculture.

The methodology adopted for downsizing the 41 Departments judged amenable to uniform norms is as follows.

Step 1: The first step is to derive the scale of activity handled by each Department, which is proxied by non-salary expenditure [15]. There are no data available for Department-specific salary expenditure for 2001-02, while the data for manpower across Departments and total expenditure are given for the year 2001-02. The Department-wise salary data for 2002-03 is available. The proportion of salary expenditure of each Department in total salary bill for 2002-03 is applied to the total salary bill of 2001-02 to derive an approximate Department-wise salary expenditure for 2001-02.

The non salary expenditure, which is the proxy for the scale of activity across Department, is derived by deducting the salary expenditure from total expenditure and the Departments with negative figures of derived non salary expenditure are not considered for the analysis. Possibly the negative figures are because of our approximation.

Step 2: Assuming a uniform *psn* norm, desirable size of bureaucracy is identified. *psn* is defined as the ratio of non salary expenditure to employee, which is otherwise the per staff non salary expenditure.

$$E_{it}^{d} = \frac{n_{it}}{psn\,\hat{}}$$

where

E^{d}_{it}	:	The desired number of employees.
n_{it}	:	The non salary expenditure and
psn^	:	The uniform norm of per staff non-salary expenditure.

Step 3: Labour redundancy (E^{r}_{it}) is computed by deducting the desirable size of employee (E^{d}_{it}) in each Department from the existing employee (E_{it}).

[15] It is to be noted that nonsalary expenditure is inclusive of salary paid for overtime and also the salary of casual employees.

$$E_{it}^{r} = E_{it} - E_{it}^{d}$$

Step 4: Labour redundancy devoid of retirement across Departments is computed as follows.

$$E_{it}^{e} = E_{it}^{r} - [R_{(t+1)} + R_{(t+2)} + R_{(t+3)}]$$

where

E^{e}_{it} : The labour redundancy devoid of retiring employees

R_{t+1}, R_{t+2}, R_{t+3} : The retiring employees of [t+1], [t+2] and [t+3] period respectively.

The full departmental list in descending order of psn (inclusive and exclusive of retiring employees) is given in tables 4, 5 and 6 of Annexure I.

The psn norm for A+B staff is set at Rs 50 lakh. This is an adhoc norm. Other norms, if judged more suitable, could be applied to the basic data in this table to obtain alternative estimates of redundancy to those obtained here. The result is given in table V.3 which lists only Departments with labour redundancy by this norm. The identified number of redundant labourers devoid of retirees in the 41 Departments amenable to uniform norms turn out to be 681 for A+B category, which is 10.34 percent of the total of 6587 A+B employees across all departments.

The psn norm for C+D staff is set at Rs 5 lakhs. The labour redundancy devoid of retirees is 10976 in C+D category (excluding casual labour), which is 11.96 percent of the total of 91792 C+D employees (table V.4). When casual labour is taken into consideration, the labour redundancy increases to 16337, which is 15.04 percent of the total of 108605 regular and casual C+D employees (table V.5).

TableV.3

Labour Redundancy (Inclusive and Devoid of Retirees-2002-03 to 2004-05) of A+B Category

	Demand No.	Department	Non salary expenditure	A+B staff	psn (1/2)	Desired labour	redundant labour (2-4)	A+B retirees	Redundant labour – retirees (5-6)	Ratio (7/2)
		POSSIBLY AMENABLE WITH REDUNDANT STAFF	1	2	3	4	5	6	7	8
1	29	ANIMAL RESOURCE DEVELOPMENT	663.56	192	3.46	13	179	8	171	88.92
2	26	FISHERIES	356.35	102	3.49	7	95	12	83	81.25
3	15	PWD (Water Resources)	4022.46	186	21.63	80	106	31	75	40.08
4	5	LAW	160.27	74	2.17	3	71	11	60	80.80
5	51	PWD (PHE)	3193.75	132	24.20	64	68	11	57	43.28
6	3	GA (Sectt. Administration)	452.49	72	6.28	9	63	18	45	62.43
7	1	ASSEMBLY SECRETARIAT (Parliamentary Affairs)	134.03	44	3.05	3	41	3	38	87.09
8	42	YOUTH AFFAIRS & SPORTS	265.90	46	5.78	5	41	7	34	73.22
9	17	INF, CULTURAL AFFAIRS & TOURISM (ICAT)	384.36	38	10.11	8	30	7	23	61.35
10	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	47.14	27	1.75	1	26	3	23	85.40
11	12	CO-OPERATION	442.32	21	21.06	9	12	3	9	43.59
12	55	EMPLOYMENT SERVICES & MANPOWER PLG	11.18	11	1.02	0	11	2	9	79.78
13	48	HIGH COURT	171.26	11	15.57	3	8	0	8	68.86
14	9	PLANNING (ECONOMICS & STATISTICS)	25.72	8	3.22	1	7	0	7	93.57
15	38	GA (PRINTING & STATIONERY)	92.14	11	8.38	2	9	2	7	65.06
16	34	PLANNING & CO-ORDINATION	259.40	12	21.62	5	7	0	7	56.77
17	4	ELECTION	15.05	10	1.50	0	10	3	7	66.99
18	49	HOME (FIRE SERVICE)	17.44	5	3.49	0	5	0	5	93.02
19	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	124.83	8	15.60	2	6	1	5	56.29
20	2	GOVERNOR'S SECRETARIAT	60.76	6	10.13	1	5	1	4	63.08
21	7	GA (Administrative Reforms)	24.81	8	3.10	0	8	5	3	31.30
22	32	WELFARE FOR ST (TRP & PGP)	212.21	7	30.32	4	3	1	2	25.08
23	54	LABOUR (FACTORIES & BOILERS)	33.37	2	16.69	1	1	0	1	66.63
24	18	GA (POLITICAL)	43.76	2	21.88	1	1	1	0	6.24
		Total (Possibly Amenable)	11214.89	1035		224	**811**	130	**681**	
		NOT AMENABLE								
25	40	SCHOOL EDUCATION	4866.00	1758	2.77	97	1661	325	1336	75.98
26	39	HIGHER EDUCATION	1959.11	387	5.06	39	348	64	284	73.34
27	16	HEALTH & FAMILY WELFARE	1873.96	963	1.95	37	926	42	884	91.75
28	27	AGRICULTURE + HORTICULTURE	2861.67	531	5.39	57	474	64	410	77.17
29	10	HOME (POLICE + RADIO)	7645.58	235	32.53	153	82	19	63	26.85
30	45	FINANCE (TAXES & EXCISE)	60.41	20	3.02	1	19	4	15	73.96
31	6	REVENUE (DA, LR, SG, WM, Treasury)	1011.85	28	36.14	20	8	4	4	13.44
32	36	HOME (JAIL)	123.29	4	30.82	2	2	0	2	38.36
33	41	SOCIAL WELFARE & SOCIAL EDUCATION	3054.00	18	169.67	61		5		
		Total (Non Amenable)	23455.87	3944		469	3518	527	2996	
		Total (Possibly Amenable +Non Amenable)	34670.76	4979		693	4329	657	3677	
		Grand Total	177531.41	**6587**		3528	4371	836	3677	

Source: (Basic data), Finance Department, Tripura (detail Table in Annexure I, Table 4)

Note: The total of 33 departments, together with the departments which were amenable to norms, but not found to be redundant, add up to the total of 50 demands subjected to the analysis. See text for explanation of terms and procedure.

Table V.4

Labour Redundancy (Devoid of Retirees-2002-03 to 2004-05) of C+D Category

	D No.	Department	Non Sal exp.	C+D employee	CD psn	Desired labour	Redundant labour	C+D retirees	redundant-retirees	ratio
		POSSIBLY AMENABLE WITH REDUNDANT STAFF								
1	30	FOREST	2145.90	1907	1.13	429	1478	164	1314	68.89
2	29	ANIMAL RESOURCE DEVELOPMENT	663.56	1351	0.49	133	1218	73	1145	84.77
3	42	YOUTH AFFAIRS & SPORTS	265.90	1006	0.26	53	953	33	920	91.43
4	49	HOME (FIRE SERVICE)	17.44	923	0.02	3	920	13	907	98.21
5	51	PWD (PHE)	3193.75	1525	2.09	639	886	58	828	54.31
6	5	LAW	160.27	764	0.21	32	732	19	713	93.32
7	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	47.14	728	0.06	9	719	41	678	93.07
8	26	FISHERIES	356.35	692	0.51	71	621	30	591	85.37
9	3	GA (Sectt. Administration)	452.49	670	0.68	90	580	19	561	83.66
10	15	PWD (Water Resources)	4022.46	1437	2.80	804	633	77	556	38.66
11	17	INFO, CULTURAL AFFAIRS & TOURISM (ICAT)	384.36	646	0.59	77	569	25	544	84.23
12	12	CO-OPERATION	442.32	461	0.96	88	373	12	361	78.21
13	38	GA (PRINTING & STATIONERY)	92.14	349	0.26	18	331	22	309	88.42
14	23	RURAL DEVELOPMENT (PANCHAYATI RAJ)	6333.77	1661	3.81	1267	394	89	305	18.38
15	1	ASSEMBLY SECRETARIAT (Parliamentary Affairs)	134.03	265	0.51	27	238	3	235	88.75
16	32	WELFARE FOR SCHEDULED TRIBES (TRP & PGP)	212.21	256	0.83	42	214	6	208	81.08
17	24	INDUSTRIES & COMMERCE	2943.52	833	3.53	589	244	62	182	21.88
18	9	PLANNING (ECONOMICS & STATISTICS)	25.72	168	0.15	5	163	15	148	88.01
19	55	EMPLOYMENT SERVICES & MANPOWER PLG	11.18	127	0.09	2	125	5	120	94.30
20	25	INDUSTRIES & COMMERCE (HH& SERICULTURE)	940.87	321	2.93	188	133	29	104	32.34
21	4	ELECTION	15.05	95	0.16	3	92	5	87	91.57
22	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	124.83	77	1.62	25	52	0	52	67.58
23	2	GOVERNOR'S SECRETARIAT	60.76	54	1.13	12	42	2	40	73.79
24	34	PLANNING & CO-ORDINATION	259.40	77	3.37	52	25	2	23	30.02
25	50	HOME (CIVIL DEFENCE)	3.91	23	0.17	1	22	0	22	96.60
26	7	GA (Administrative Reforms)	24.81	27	0.92	5	22	2	20	74.21
27	54	LABOUR (FACTORIES & BOILERS)	33.37	12	2.78	7	5	0	5	44.38
28	18	GA (POLITICAL)	43.76	11	3.98	9	2	2	0	2.25
		Total (Possibly Amenable)	23410.89	16466		4682	11784	808	**10976**	
		NOT AMENABLE								
29	40	SCHOOL EDUCATION	4866.00	31784	0.15	973	30811	1723	29088	91.52
30	10	HOME (POLICE + RADIO)	7645.58	17345	0.44	1529	15816	340	15476	89.22
31	39	HIGHER EDUCATION	1959.11	1049	1.87	392	657	97	560	53.40
32	16	HEALTH & FAMILY WELFARE	1873.96	6295	0.30	375	5920	334	5586	88.74
33	6	REVENUE (DA, LR, SG, WM, Treasury)	1011.85	3035	0.33	202	2833	160	2673	88.06
34	27	AGRICULTURE + HORTICULTURE	2861.67	3155	0.91	572	2583	173	2410	76.38
35	41	SOCIAL WELFARE & SOCIAL EDUCATION	3054.00	2576	1.19	611	1965	125	1840	71.44
36	36	HOME (JAIL)	123.29	460	0.27	25	435	12	423	92.03
37	45	FINANCE (TAXES & EXCISE)	60.41	167	0.36	12	155	4	151	90.37
		Total (Not Amenable)	23456.11	65866		4691	61175	2968	58207	
		Total (Amenable +Non-Amenable)	46867	82332		9373	72959	3776	69183	
		Grand Total	177531	**91792**		35506	73030	4384	69183	

Source: (Basic Data), Finance Department, Govt. of Tripura (detailed Table in Annexure I, Table 5).
Notes: See notes to table V.3.

Table V.5

Labour Redundancy (Devoid of Retirees-2002-03 to 2004-05) of C+D+Casuals Category

	Demand	Department	Nonsalexp	C+D+ casuals	CDC-psn	desired lbr	redundant lbr	C+D retirees	Redundant-retirees	ratio
		POSSIBLY AMENABLE WITH REDUNDANT STAFF								
1	23	RURAL DEVELOPMENT (PANCHAYATI RAJ)	6333.77	3242	1.95	1267	1975	89	1886	58.18
2	30	FOREST	2145.90	2104	1.02	429	1675	164	1511	71.81
3	15	PWD (Water Resources)	4022.46	2236	1.80	804	1432	77	1355	60.58
4	29	ANIMAL RESOURCE DEVELOPMENT	663.56	1515	0.44	133	1382	73	1309	86.42
5	42	YOUTH AFFAIRS & SPORTS	265.90	1044	0.25	53	991	33	958	91.75
6	49	HOME (FIRE SERVICE)	17.44	923	0.02	3	920	13	907	98.21
7	51	PWD (PHE)	3193.75	1525	2.09	639	886	58	828	54.31
8	26	FISHERIES	356.35	875	0.41	71	804	30	774	88.43
9	13	PWD (ROADS & BUILDINGS)	19627.85	4994	3.93	3926	1068	296	772	15.47
10	5	LAW	160.27	780	0.21	32	748	19	729	93.45
11	17	INFO, CULTURAL AFFAIRS & TOURISM (ICAT)	384.36	828	0.46	77	751	25	726	87.70
12	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	47.14	765	0.06	9	756	41	715	93.41
13	3	GA (Sectt. Administration)	452.49	805	0.56	90	715	19	696	86.40
14	14	POWER	19788.54	4847	4.08	3958	889	200	689	14.22
15	12	CO-OPERATION	442.32	507	0.87	88	419	12	407	80.18
16	24	INDUSTRIES & COMMERCE	2943.52	1028	2.86	589	439	62	377	36.70
17	38	GA (PRINTING & STATIONERY)	92.14	362	0.25	18	344	22	322	88.83
18	32	WELFARE FOR SCHEDULED TRIBES (TRP & PGP)	212.21	293	0.72	42	251	6	245	83.47
19	1	ASSEMBLY SECRETARIAT (Parliamentary Affairs)	134.03	265	0.51	27	238	3	235	88.75
20	35	URBAN DEVELOPMENT	1766.40	535	3.30	353	182	5	177	33.03
21	25	INDUSTRIES & COMMERCE (HH & SERICULTURE)	940.87	387	2.43	188	199	29	170	43.88
22	9	PLANNING (ECONOMICS & STATISTICS)	25.72	172	0.15	5	167	15	152	88.29
23	55	EMPLOYMENT SERVICES & MANPOWER PLG	11.18	132	0.08	2	130	5	125	94.52
24	4	ELECTION	15.05	96	0.16	3	93	5	88	91.66
25	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	124.83	86	1.45	25	61	0	61	70.97
26	2	GOVERNOR'S SECRETARIAT	60.76	64	0.95	12	52	2	50	77.89
27	34	PLANNING & CO-ORDINATION	259.40	77	3.37	52	25	2	23	30.02
28	7	GA (Administrative Reforms)	24.81	30	0.83	5	25	2	23	76.79
29	50	HOME (CIVIL DEFENCE)	3.91	23	0.17	1	22	0	22	
30	54	LABOUR (FACTORIES & BOILERS)	33.37	12	2.78	7	5	0	5	44.38
31	18	GA (POLITICAL)	43.76	13	3.37	9	4	2	2	17.29
		Total(Amenable)	64594	30565		12919	17646	1309	**16337**	
		NON AMENABLE								
32	40	SCHOOL EDUCATION	4866.00	32001	0.15	973	31028	1723	29305	91.57
33	10	HOME (POLICE + RADIO)	7645.58	20345	0.38	1529	18816	340	18476	90.81
34	41	SOCIAL WELFARE & SOCIAL EDUCATION	3054.00	8546	0.36	611	7935	125	7810	91.39
35	39	HIGHER EDUCATION	1959.11	1095	1.79	392	703	97	606	55.36
36	16	HEALTH & FAMILY WELFARE	1873.96	6534	0.29	375	6159	334	5825	89.15
37	6	REVENUE (DA, LR, SG, WM, Treasury)	1011.85	3304	0.31	202	3102	160	2942	89.03
38	27	AGRICULTURE + HORTICULTURE	2861.67	3234	0.88	572	2662	173	2489	76.95
39	36	HOME (JAIL)	123.29	468	0.26	25	443	12	431	92.17
40	45	FINANCE (TAXES & EXCISE)	60.41	168	0.36	12	156	4	152	90.43
		Total (Non Amenable)	23455.87	75695		4691	71003	2968	68036	
		Total (Amenable+Nonamenable)	88050	106260		17610	88650	4277	84373	
		Grand Total	177531	**108605**		35472	88650	4384	84373	

Source: (Basic Data), Finance Department, Govt. of Tripura (detailed Table in Annexure I, Table 6)

Notes: See notes to table V.3.

The Department of Power does not appear in calculations of labour redundancy of A+B category, as the psn for the department is 45.39 (Table 4 of Annexure 1), which falls only marginally below the Rs 50 lakh norm. The psn for C+D (regular) category is 4.91 (table 5 of Annexure I), yielding no redundancy after deduction of retirees. After incorporating casual labour (table V.5), and excluding retirees, the number of redundant staff is 689, which is 14.22 percent of total C+D (regular and casual) employees (4847) in Department of Power.

There is a shortage of meter readers, which is one of the factors cited for low revenue realisation in the power department (chapter III). The staff redundancy identified by application of this in the power or any other department norm could conceivably be deployed (with some training) to meet this shortage.

Though the study has identified redundancy in the 10-15 percent range using psn norms of Rs 50 lakhs and Rs 5 lakhs respectively for A+B and C+D categories, downsizing through lay-offs is always difficult, and may not be necessary. A freeze on recruitment may be one of the possible ways of containing the salary bill within the limits for meeting the targets for the Fiscal Responsibility Bill.

V.4 LABOUR REDUNDANCY IN SCHOOL EDUCATION: APPLYING PTR NORM

The Department of school education is one of the Departments not amenable to uniform norms of labour redundancy. Using the PTR norm (Pupil Teacher Ratio), the labour redundancy is calculated separately. Assuming universalisation of school education, the potential enrolment is taken instead of existing students enrolled. Potential enrolment can be captured through the age specific population in the school going age. The age specific structure of population is given in table V.6 as per Census 1991. As the age specific population of Tripura is not available for Census 2001, the potential enrolment for 2001 is arrived at by application of age-specific percentages from 1991 (table V.7).

Table V.6

Age Specific Population Under 15 years in Tripura: Census 1991

Age group	Male		Female		Total	
All ages	1417930		1339275		2757205	
5-9	196143	7.11	189497	6.87	385640	**13.99**
10-14	170477	6.18	163235	5.92	333712	**12.10**

Source: Directorate of Economics and Statistics (2002): 'Some Basic Statistics of Tripura 2002', Govt. of Tripura.

The potential enrolment of school education is derived as 832576 (table V.7). Applying a PTR norm of 20:1 (as per Vision 2020 [16]) and 40:1 (existing actual national PTR) to this potential enrolment, the requirement of teachers is calculated.

Table V.7

Age Specific Population Under 15 years in Tripura: Census 2001 Pro-rata

Age Group	Population
5-9	446444.4032
10-14	386131.328
5-14	**832575.73**
Total	3191168

Source: (Basic data), Directorate of Economics and Statistics (2002): 'Some Basic Statistics of Tripura 2002', Govt. of Tripura.

Table V.8

Labour Redundancy In School Education: Applying PTR Norm

PTR Norm	20
Desired No. of Teachers	**41629**
PTR Norm	40
Desired No of teachers	**20814**
Regular Employee in A+B+C in school education	29820
Teacher deficit as per norm PTR=20	-11809
Teacher surplus as per PTR=40	**9006**

Source: (Basic data), Directorate of Economics and Statistics (2002): 'Some Basic Statistics of Tripura 2002', Govt. of Tripura

[16] http://www.planningcommission.nic.in/reports/genrep/bkpap2020/iv-bg2020.pdf

The labour redundancy in school education using a PTR norm of 40:1 is 9006 (table V.8). At a PTR norm of 20:1, there is a teacher deficit. If the present national average is used, the labour redundancy in school education turns out to be 30.2 percent of total staff in A+B+C categories.

V.5 SUMMARY AND RECOMMENDATIONS

1. STAFF SIZE: As on 31 March 2002, there were 98379 regular employees of the Government of Tripura. More recent figures are not available. In addition there are 16813 casual employees today. Exact figures on casual employees as of March 2002 are not available, but the total of regular and casual staff in March 2002 is likely to have been of the order of 1.1 lakh, which works out to 3.4 percent of the 2001 census population of the State. Comparable figures for India, available only for 1996, are 1.4 percent, and for China (in the early nineties), 2.8 percent. Even after allowing for the size effect, whereby smaller states will have largest percentages, the Tripura government is clearly overstaffed. Notwithstanding this, the immediate need is for containment of growth in staff size beyond present levels, rather than for an absolute reduction in staff size. With natural attrition rates through retirement of 3 percent per year, zero staff size growth permits a gross addition of 3 percent annually. The second problem is with the configuration of staff. Only 6.7 percent of regular employees are in categories A and B; with 71.26 and 22.04 percent in categories C and D respectively.

2. REDUNDANCY ESTIMATES FOR A VRS: A staff redundancy calculation is performed in this chapter nevertheless. All calculations factor in retirees upto 2004-05, data on which were fortunately available. Non salary expenditure is the measure of scale of activity in 41 out of 50 departments. At a psn norm of Rs 50 lakh for A+B category staff there were 681 redundant, adjusted for 309 retirees upto 2004-05 (10.34 per cent of total A+B staff across all departments, of 6587). At a psn norm of Rs 5 lakh for C+D plus casual categories there were 16337 redundant, adjusted for 1309 retirees (15.04 per cent of total C+D + Casual staff across all departments, of 108605).

Power Department: No redundancy among A+B staff; for C+D plus casual, it is 689 (14.22 per cent of the 4847 in this category). Some of this excess could be internally deployed to meet the shortage of meter readers.

School Education: At a pupil teacher ratio (PTR) of 20:1, there is a deficit of 11809 teachers. At a PTR of 40:1 which is the present national average, there is a surplus of 9006 (30.20 percent of A+B+C category staff). D category staff, at 3722, average out to only a little over one per school (there are 3148 schools).

3. POLICY WITH RESPECT TO REDUNDANT STAFF: Redundant staff could initially be assigned to a common pool and re-allocated to departments as and when a need is expressed for particular skills. A VRS could then be offered to staff in the pool, rather than to all staff across the board.

CHAPTER VI. PUBLIC SECTOR UNDERTAKINGS

VI.1 INTRODUCTION

Public Sector Undertakings (PSUs) of the Government of Tripura run at a loss, with the odd exception or two. The PSUs of the state have enormous accumulated losses, aggregating to a staggering 302 crore by 2002-03 (excluding the power sector, which is a department of the Government of Tripura). The practice of budgetary cover for PSU losses in the form of incremental share capital from the state exchequer, through non-plan disbursements from the capital account, has already been referred to in chapter two. This practice is explicitly banned in the draft of the Fiscal Responsibility Bill suggested here (Appendix 2). This implies that any budgetary cover to loss-making PSUs will henceforth be routed through the revenue account, and be thereby limited by the curbs on the revenue deficit imposed in the Fiscal Responsibility Bill.

It is the burden of this chapter to investigate ways by which the losses of PSUs may be reduced in the first place. Unlike the case of departments of the state government, where curbing the growth of non-interest revenue expenditure imposes only restrictions on staff growth rather than an immediate reduction in staff, loss-making PSUs call for an immediate identification of staff redundancy. The Government of India has on offer a scheme for financing of VRS for state PSUs. In a series of meetings of the State Chief Minister with these PSUs individually, agreement has been reached in principle for introduction of a VRS, without however any quantified estimates of excess manpower. This chapter attempts such a quantification, by relating the manpower requirements to the scale of the enterprise. Clearly, the measure of scale will vary according to the nature of the enterprise.

To this end, the PSUs have been divided into five categories. Category one consists of five PSUs which come under the purview of the Industries Department. All five have entered into memoranda of understanding (MOU) with the department, against which they are rated annually, on a scale of 1 to 5. These are all commercial enterprises, where turnover is a good measure of the scale of the enterprise. Indeed, from the MOUs themselves, the salary/turnover norm is obtainable, specific to the enterprise, as agreed to. However, turnover itself is a variable that can be scaled up with the given manpower of these PSUs, and indeed there is evidence from their performance evaluation, that in some cases actual turnover has exceeded the projected norm. Therefore, along with the assessment of excess manpower, an alternative measure is obtained for each enterprise, of the deficiency in turnover, taking the existing manpower as given.

Category two consists of four other commercial undertakings not falling under the purview of the Industries Department. The Tripura Road Transport Corporation (TRTC) and the Tripura Natural Gas Company Ltd. (TNGC), along with two co-operative commercial ventures, the Tripura Apex Marketing Co-operative Society Ltd. (TAMCS) and the Tripura State Consumers' Co-operative Federation Ltd. (TSCCF) fall in this group. The TNGC is the only commercially viable, profit-making undertaking. The TRTC on the other hand makes huge losses, an outcome of the reduction over time in its fleet, without any corresponding reduction in employees. In this case, the manpower requirement has been assessed with reference to the agreed norms per operating vehicle.

Category three consists of two undertakings that come under the purview of the Forest Department, the Tripura Rehabilitation Plantation Corporation Ltd. (TRPC), and the Tripura Forest Development Plantation Corporation Ltd. (TFDPC). These again cannot be assessed for excess manpower based on turnover alone. The norms used are explained in the relevant section of this chapter.

Category four consists of four lending organisations, of which one, the Tripura Industrial Development Corporation Ltd. (TIDC), falls under the Industries Department. It is grouped here with the lending agencies in the co-operative and other sectors, because of its commonality with those enterprises in measures of scale and functioning. The manpower norms have to be worked out with respect to number of branches and the nature of the function performed.

Category five consists of four social welfare organisations for underprivileged groups. These are typically not characterised by large staff in absolute numbers, and therefore do not stand to gain much from a VRS. They are lending organisations to stated categories of beneficiaries, but without a stipulated branch presence, the manpower requirement is difficult to determine on an objective basis. There is a general consensus that these could be merged into a single organisation. Already, they have a single Managing Director. With a new thrust on group lending, which has already been introduced in rural development schemes, and greater emphasis on recovery, so that available funds can be used for larger numbers of beneficiaries, the functioning of these organisations could be improved.

VI.2 CATEGORY ONE PSUs

Five PSUs under the purview of the Industries Department are listed in table VI.1. There has been a discernible improvement in performance in 2002-03, as a result of MOUs entered into by the Industries Department with each PSU coming under the department, on the basis of which annual ratings are done. The redundant manpower in each PSU is determined with reference to the norms as agreed to in the MOU.

Tripura Handloom and Handicrafts Development Corporation Ltd. (THHDC) is a commercial organisation for the promotion of state fabrics and crafts. It carries an accumulated loss of 17 crore. The salary/turnover norm from the projections agreed to in the MOU, at 52.33 percent, seemed too high. Against an adjusted norm of 25 percent, which corresponds more to the norms for other PSUs in this category, there is excess manpower amounting to 66 percent of existing staff.

Table VI.1

PSUs of Category One

(All figures in Rs. lakh)

	THHDC	TSIC	TTDC	TJML	TAWCS	Total
Year of origin	1974	1965	1980	1979	1980	
Turnover	331.59	1037.13	241.20	597.97	273.00	2480.89
Salary expenditure	242.56	213.63	48.23	794.94	89.84	1389.20
Non-salary expenditure	38.50	20.22	339.33	114.51	29.08	541.64
Total	281.06	233.85	387.56	909.45	118.92	1930.84
Manpower (regular)						
A	1			6	1	8
B	11	13	3	11	3	41
C	134	94	37	271	73	609
D	82	89	41	1112	31	1355
Total	228	196	81	1400	108	2013
Casual workers	121	103	1569		49	1842
Manpower (regular + casual)	349	299	1650	1400	157	3855
Accumulated loss (- denotes profit)	1743.21	1422.94	607.66	7600.17	482.00	11855.98
Average loss (- denotes profit)	60.11	37.45	26.42	316.67	20.96	
Estimated loss in 2002-03	274.47	137.98	179.59	728.02	-154.08	
Salary expenditure/ turnover (%)	73.15	20.60	20.00	132.94	32.91	56.00
Salary / total manpower	0.70	0.71	0.03	0.57	0.57	0.36
Agreement to VRS by PSU	Yes	Yes	Yes	Yes	Yes	
Agreement date	Nov 5 2003	Nov 5 2003	Nov 5 2003	Nov 5 2003	Nov 5 2003	
MOU norm for salaries/ turnover (%)	52.33	26.71	15.00	65.72	29.19	
Adjusted norm	25.00			25.00		
Excess manpower by salary norm	230	none	412	1137	18	1796
Excess/existing manpower (%)	66		25	81	11	47
Normative turnover with existing manpower			321.53		307.79	
Turnover deficit			80.33		34.79	
Deficit/existing turnover (%)			33.31		12.74	

Source: Industries Department, Government of Tripura.

Notes: THHDC - Tripura Handloom and Handicrafts Development Corporation Ltd.
TSIC - Tripura Small Industries Corporation Ltd.
TTDC - Tripura Tea Development Corporation Ltd.
TJML - Tripura Jute Mills Ltd.
TAWCS - Tripura Apex Weavers' Co-operative Society Ltd.

Excess manpower in THHDC AND TJML is by the adjusted norm.

Tripura Small Industries Corporation Ltd. (TSIC) is also a commercial organisation, with roughly half of its turnover of 10 crore accounted for by trading in an assortment of products produced by SSIs, and the other half accounted for by a brick manufacturing unit owned by the PSU. The accumulated loss of 14 crore is again very high. As per the norms agreed to in the MOU, there is no excess manpower in this PSU, but clearly this reflects the recent improvement in turnover. This highlights once again the inverse relationship between manpower redundancy and performance. With better performance, the existing manpower can be usefully deployed. The PSU serves a useful purpose, since SSIs need support in the form of a trading organisation.

Tripura Tea Development Corporation Ltd. (TTDC) runs its own plantations and also trades in tea. Its accumulated loss is 6 crore, and it continued to run a loss of nearly 2 crore even in 2002-03. The excess manpower works out at 25 percent at a salary/turnover norm of 15 percent. Alternatively, the excess manpower could be absorbed by scaling up the turnover of the enterprise by 33 percent. According to the agreement reached on 5 November 2003 between the State Government and TTDC, three additional processing factories are to be set up, in specified locations, for absorbing the tea produced by small growers.

Tripura Jute Mills Ltd. (TJML), with an accumulated loss of 76 crore, is the worst in this category, with a loss of 7 crore even in 2002-03. This is very clearly a PSU in need of a VRS. The excess manpower works out at 81 percent, at an assumed salary/turnover norm of 25 percent.

Tripura Apex Weavers' Co-operative Society Ltd. (TAWCS) trades in fabric and yarn. The accumulated loss amounts to nearly 5 crore, but it made a profit of 1.5 crore in 2002-03. By the salary/turnover norm of 29 percent from the MOU, there is 11 percent excess manpower in this PSU. Alternatively, the excess manpower could be absorbed with an increase in turnover by 13 percent of the present level.

Aggregating across the PSUs in this category, there is an accumulated loss of 118 crore of which TJML alone accounts for 76 crore. Clearly, there is an urgent need for restructuring these enterprises, with TJML coming first in order of priority. The aggregate excess manpower works out to 1796, which works out to 47 percent of the aggregate workforce of 3855. Out of 1796 excess manpower, TJML alone accounts for 1137. There may be a strong case for closure of this enterprise, and disposal of assets to write off the accumulated loss of 76 crore.

VI.3 CATEGORY TWO PSUS

The four PSUs in this category are commercial PSUs not coming under the purview of the Industries Department.

Tripura Road Transport Corporation Ltd. (TRTC) carries an accumulated loss of 126 crore. In 2002-03 alone, it ran up a loss of 14 crore. Clearly, this PSU is urgently in need of restructuring. The PSU is plagued by very low rates of fleet utilisation, at 70 percent for its buses, and 50 percent for trucks. This is the basic cause for its very high excess manpower. As estimated here on the basis of manpower requirement per operating vehicle, excess manpower works out at 468, which is 55 percent of its total manpower. There is agreement in principle for a VRS between the PSU and the Government of Tripura. There is also a written agreement for leasing out of routes to private operators, along the lines of the scheme introduced by the Assam State Transport Corporation, which would be far better than any attempt to increase the fleet of TRTC, so as to provide work for the existing workforce.

Tripura Natural Gas Company Ltd. (TNGC) has no accumulated losses. It is the only profit making PSU, and with a workforce of only 10, is clearly very efficiently run. It provides piped natural gas in Agartala, one of the few cities in India so served.

The Tripura Apex Marketing Co-operative Society Ltd. (TAMCS) is a commercial undertaking within the rubric of the co-operative organisational structure. It trades in liquefied natural gas, LPG, which is its only profit-making division. It also deals in fertiliser, cold storage, raw material for brooms, and supplies retail outlets for which it

Table VI.2

PSUs of Category Two

(All figures in Rs. lakh)

	TRTC	TNGC	TAMCS	TSCCF
Year of origin	1969	1990	1957	
Turnover	390.00	94.72	557.27	878.00
Salary expenditure	888.00	9.93	62.14	114.00
Non-salary expenditure	429.00	12.96		
Total	1317.00	22.89		
Manpower (regular)				
A	5	0	0	0
B	2	5	2	0
C	703	2	42	78
D	80		24	59
Total	790	7	68	137
Casual workers	63	3	11	5
Manpower (regular + casual)	853	10	79	142
Accumulated loss (- denotes profit)	12600.00	-10.09	300.00	1405.84
Average loss (- denotes profit)	370.59	-0.78	6.52	
Estimated loss for year 2002-03 (- denotes profit)	1452.00	-71.83		
Salary expenditure / turnover (%)	227.69	10.48	11.15	12.98
Salary / total manpower	1.04	0.99	0.79	0.80
Agreement to VRS by PSU	Yes	No	No	No
Agreement date	Nov 6 2003			
Size of fleet/ number of stores				11
Buses	93			
Trucks	24			
Operating fleet				
Buses	65			
Trucks	12			
Fleet utilization (%)				
Buses	70			
Trucks	50			
Manpower norm per operating vehicle	5			
Manpower requirement per norm	385		63	44
Excess manpower	468	none	16	98
Excess /Existing manpower (%)	55		20`	69

Source: Information supplied by Government of Tripura.

Notes: TRTC - Tripura Road Transport Corporation
TNGC - Tripura Natural Gas Company Ltd.
TAMCS - Tripura Apex Marketing Co-operative Society Ltd.
TSCCF - Tripura State Co-operative Consumers' Federation Ltd.

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sources a large assortment of consumer goods, along with a truck transport business. Aggregating across all branches, its manpower requirement works out to 63, yielding excess manpower of 16. At the same time, the organisation feels a key shortage in managerial manpower at the A and B levels. At present it has no A category staff, and only 2 in the B category. It is possible that installation of one person in the A category, and an additional two in the B category, could lead to a scaling up of its activities, such that the present manpower in excess in the lower categories is fully absorbed. The case for offloading workers in this very promising enterprise is therefore not as strong as indicated in the static numbers of redundancy. It carries accumulated losses of 3 crore, but is reported to have made a profit of 3.6 lakh in 2002-03 (exact cost figures are not available and are therefore not reported in table VI.2)

The Tripura State Co-operative Consumers' Federation Ltd. (TSCCF) runs eleven retail outlets (departmental stores) with 142 employees, at 13 employees per outlet. The formal loss figures shown in the table VI.2 of 14 crore seriously underestimate its true losses, since it has run up debts to private concerns from whom goods have been obtained on credit for the retail outlets that it runs. The accumulated losses have been covered in part through loans amounting to 4.7 crore from TSCB, on which it is in default. The debts of this PSU are so far in excess of its ability to honour them as an ongoing enterprise, that the best option may be to close down this enterprise, and sell its retail outlets, which are in prime urban locations. Because of its real estate holdings, the PSU is judged to still carry positive net worth, and it may be wise to close it before its net worth is further eroded by operating losses.

VI.4 CATEGORY THREE PSUS

The two PSUs in this category come under the forest department. Both engage in plantation development for production of rubber and timber. The key difference between them is that TRPC is directed at rehabilitation of jhumia (shifting) cultivators, by assigning them rights of rubber collection from plantations developed by TRPC on public lands. TFDPC on the other hand has employees assigned the duty of rubber collection. The difference is reflected in the excess manpower figures, estimated at 89 percent for TFDPC, and zero for TRPC. TRPC has an accumulated loss of 3 crore, as against 9 crore of TFDPC. The difference between the two highlights the far greater efficiency of paying for rubber collection on a piece-rate basis, which is what TRPC in effect does, versus getting it collected by paid employees who have no incentive to work.

Table VI.3

PSUs of Category Three

(All figures in Rs. lakh)

	TRPC	**TFDPC**
Year of origin	1983	1976
Turnover	344.00	1469.00
Salary expenditure	148.00	240.00
Non-salary expenditure	378.00	1189.20
Total	526.00	1429.20
Manpower (regular)		
A	5	7
B	3	7
C	94	172
D	51	61
Total	153	247
Casual workers	30	2139
Manpower (regular + casual)	183	2386
Accumulated loss (- denotes profit)	287.00	931.64
Average loss (- denotes profit)	14.35	34.51
Estimated loss in 2002-03	-14.86	-39.80
Salary expenditure / turnover (%)	43.02	16.34
Salary / total manpower	0.81	0.10
Agreement to VRS by PSU	Yes	No
Agreement date	Nov 6 2003	Nov 6 2003
No. of centres		
Rubber collection	64	51
Processing	18	2
Manpower norms per centre		
Rubber collection	2	3
Processing	2	40
Manpower for zonal offices	20	35
Total manpower requirement	184	268
Excess manpower	none	2118
Excess / Existing manpower (%)		89

Source: Ibid.

Notes: TRPC - Tripura Rehabilitation Plantation Corporation Ltd.
TFDPC - Tripura Forest Development Plantation Corporation Ltd.

There is no VRS agreement for TFDPC. However, the per manpower salary figure in TFDPC is very low, at Rs.10,000 per year, as against Rs. 81,000 in TRPC, so the corresponding cost saving from introducing a VRS will be correspondingly lower.

Under these circumstances, the best solution may be to allow attrition of the workforce through retirement, and to slowly shift over time to piece rate collection of rubber. There may also be some advantage to internal redeployment, away from defunct processing centres, to others where higher processing capacity in timber or rubber may be possible at fairly low incremental cost.

VI.5 CATEGORY FOUR PSUS

This is a group of financial intermediaries, typically characterised by problems going well beyond mere overstaffing. Non-recovery of dues is endemic to these enterprises, but the promising feature is that there is now a recognition of the imperative need for loan recovery and restoration of the health of the asset portfolio.

Tripura State Co-operative Bank Ltd. (TSCB), even after providing for generous norms of 4 personnel per rural branch, and 14 per urban branch, has 70 excess staff, who constitute 21 percent of present staff size. Even this is an underestimate of the overstaffing in TSCB, which is an apex institution lending to institutions rather than individuals. Of the 216 primary co-operatives (PACs) that TSCB serves, only 5 are estimated to be functioning. Although the closure of loss-making branches of the TSCB is among the agreements reached with the Government of Tripura in November 2003, that might not be a wise option, given the spatial dispersal of loans, and the need for branches all over the state, even if presently loss-making, for recovery of past loans. But the need for reducing staff assigned to these branches remains a pressing need. Non-performing assets are estimated at 32 percent out of a total asset portfolio of 255 crore. There has been a recent step-up in recovery from 5 crore in 2002-03 to 30 crore in 2003-04, and increasing recognition of the need to get the institution onto a stable financial footing. With accumulated losses at 13 crore, the implications of failure to reform impinge on the deposit holders, who include more than just residents of the state.

Table VI.4

PSUs of Category Four

(All figures in Rs. lakh)

	TSCB	TCARDB	ACUB	TIDC
Year of origin	1957	1980	1978	1974
Asset portfolio	25456.24	3082.67	1420.00	
Salary expenditure	446.35	80.71	33.35	44.32
Non-salary expenditure	90.08	7.95	7.53	17.56
Total	536.43	88.66	40.88	61.88
Manpower (regular)				
A	1	2	2	7
B	40	7	12	4
C	195	24	4	14
D	78	21	7	3
Total	314	54	25	28
Casual workers	22	2	3	17
Manpower (regular + casual)	336	56	28	45
Accumulated loss (- denotes profit)	1278.91	1013.99	14.23	497.00
Average loss (- denotes profit)	27.80	44.09	0.57	17.14
Estimated loss in 2002-03	183.77	90.31	3.16	
Salary / total manpower	1.33	1.44	1.19	0.98
Agreement to VRS by PSU	Yes	No	No	No
Agreement date	Nov 14 2003	Nov 14 2003		Nov 5 2003
No. of branches		5		
Rural	32			
Urban	7			
Manpower norms per centre		5		
Rural	4			
Urban	14			
Manpower for head office	40	30	16	
Total manpower requirement	266	55	16	
Excess manpower	70	1	12	
Excess / existing manpower (%)	21	2	43	

Source: Ibid.

Notes: TSCB - Tripura State Co-operative Bank Ltd.
TCARB - Tripura Co-operative Agriculture and Rural Development Bank Ltd.
ACUB - Agartala Co-operative Urban Bank Ltd. (has only a single head office, and no other branches).
TIDC - Tripura Industrial Development Corporation Ltd.

The Tripura Co-operative Agriculture and Rural Development Bank Ltd. (TCARDB) is funded by NABARD, and makes advances of upto 10 years maturity. Its manpower requirement per norms works out to 55, equal to actual manpower in place. Although it carries non-performing assets assessed at 33 percent of its total asset portfolio, it is not a defaulter to NABARD, and is rated as the best in its category in the North-East, notwithstanding its accumulated losses of 10 crore. There has been a recent improvement in recovery, including in respect of loans written off in the past.

The Agartala Co-operative Urban Bank Ltd. (ACUB) has a single branch, which serves only government employees. Even so, its non-performing assets are assessed at 20-25 percent of total assets. For a single branch bank, serving only government employees, it has 28 staff, of whom 14 are at levels A and B. At least 12 of these higher level staff could usefully be transferred out of ACUB, into those PSUs which do not have enough staff in these higher categories. The functioning of ACUB needs to be toned up. Given its client category, it should be running no default loans at all. Discussions revealed that ACUB has not even issued demand notices to its clients on amounts due.

The Tripura Industrial Development Corporation Ltd. (TIDC) is a lending organisation under the purview of the Industries Department. Its accumulated losses amount to nearly 5 crore, but no estimates of its NPAs are available. With a total manpower of 45, it is not possible to ascertain whether a staff reduction would enable any improvement in performance. The agreement reached between TIDC and the State government in November 2003 does not mention a VRS.

VI.6 CATEGORY FIVE PSUS

The four PSUs in this category are basically lending institutions to targeted beneficiaries belonging to underprivileged sections of the population. The asset portfolio of each is small, and the combined manpower of all four together, at 105, is not large. These four institutions could usefully be merged into a single lending organisation serving all the designated beneficiary groups, since the function performed is the same, and loan recovery would benefit from merger. The four organisations already have a single Managing Director. The merged organisation could focus its activities on group lending, so as to reduce its default ratios.

TableVI.5

PSUs of Category Five

(All figures in Rs. lakh)

	TSCDC	TSTDC	TOBCDC	TMDC
Year of origin	1979-80	1979	1997	1997
Asset portfolio	275.50	654.10	34.11	138.00
Salary expenditure	27.88	26.00	2.72	1.69
Non-salary expenditure	6.80	8.00	5.47	4.04
Total	34.68	34.00	8.19	5.73
Manpower (regular)				
A	1	1	1	1
B	1	1		
C	43	41	3	3
D	3	3		
Total	48	46	4	4
Casual workers	1	2		
Manpower (regular + casual)	49	48	4	4
Accumulated loss (- denotes profit)		1.15	7.18	4.48
Average loss (- denotes profit)		0.05	1.20	0.75
Salary / total manpower	0.57	0.54	0.68	0.42
Agreement to VRS by PSU	No	No	No	No

Source: Ibid.

Notes: TSCDC - Tripura Scheduled Castes Development Corporation Ltd.
TSTDC - Tripura Scheduled Tribes Development Corporation Ltd.
TOBCDC - Tripura OBC Development Corporation Ltd.
TMDC - Tripura Minorities Development Corporation Ltd.

VI.7 SUMMARY AND RECOMMENDATIONS

In conclusion, the fiscal reform programme in chapter II and the fiscal responsibility bill bring endogenous pressure on PSUs to reform, because the kind of budgetary support for losses previously available will now be closed. Therefore the impetus for reform exists in an embedded form in the larger programme for fiscal reform. Many of the PSUs have a rationale for their existence, providing as they do marketing outlets for goods manufactured on a small-scale all over the state. This rationale continues to exist and should be served, with the difference that the functioning of these enterprises should be improved sharply. To the extent that staff downsizing will aid in better functioning, it should of course be introduced, but a VRS has to be seen as a means to an end, rather than as an end in itself.

All the 19 PSUs reviewed above in five categories, regardless of type and function, carry accumulated losses, with a single exception: TNGC. The other eighteen PSUs are in need of reform, as listed below; four of them marked with asterisks, are recorded as having made profits in 2002-03.

Profit-making PSUs requiring no reform:

TNGC

Loss-making PSUs in need of reform, but no staff redundancy

TSIC (could scale up turnover with existing manpower)
TRPC* (could scale up turnover)
TCARDB (in need of improved loan recovery)
TIDC (in need of improved loan recovery)
TSCDC, TSTDC, TOBCDC, TMDC (in need of merger, and improved loan recovery).

Loss-making PSUs requiring VRS (percent redundant staff) or alternatively, scaling up of turnover:

THHDC (66 percent)
TRTC (55 percent)
TFDPC* (89 percent; could be achieved through attrition over the next few years, with internal redeployment in the interim away from defunct processing centres).
TSCB (21 percent; uniformly distributed over all branches, since outright closure of specific branches will affect prospects of loan recovery)
TTDC (25 percent redundant staff; could be absorbed by 33 percent increase in turnover through expansion of processing capacity).
TAWCS* (11 percent redundant staff; could be absorbed by 13 percent increase in turnover).

Loss-making PSUs requiring additional higher-level staff for effective utilisation of lower-level staff:

TAMCS (20 percent redundant staff; could be absorbed by an increase in A and B category staff, which will enable expansion in the scale of activity).

Loss-making PSUs overstaffed at higher levels, could supply PSUs in need of higher level staff:

ACUB (excess staff in A:1; excess staff in B: 11)

Loss-making PSUs requiring closure:

TJML (accumulated loss of 76 crore; excess manpower 81 percent of total workforce).
TSCCF (accumulated loss of 14 crore with additional amounts owed to private creditors from whom goods have been taken on credit; excess manpower 69 percent of total manpower).

PSUs with excess staff in each category:

Category 1 (4 out of 5 PSUs under Industries Department): 1796 (51%)
Category 2 (3 out of 4 miscellaneous PSUs): 582 (54%)
Category 3 (one of two PSUs under Forest Department): 2118 (89%)
Category 4 (3 out of 4 lending PSUs): 83 (20%)
Category 5 (welfare of weaker sections): none

CHAPTER VII: CONCLUSIONS AND RECOMMENDATIONS

VII.1 CRITICAL FISCAL CONCERNS OF THE STATE: The critical fiscal concerns of the state arise from the following developments over the last five years:

1. There has been a sharp rise in the debt/GSDP ratio, budgeted to go upto 51.8 percent by 31 March 2005, implying a rise by 15 percentage points since 1998-99. This in turn has made for a sharp rise in the interest bill, which amounted to 4.5 percent of GSDP in 2003-04. Own revenue at 4.8 percent of GSDP in 2003-04 barely covered the interest liability of the state. Clearly this is not a sustainable situation.
2. The revenue balance of Tripura turned sharply adverse in 1999-00 and 2000-01, after having stayed consistently positive since 1980-81. As a result, Tripura did not qualify in 2000-01, the first year of the Eleventh Finance Commission award period, for the fiscal incentive, which is presently configured to require a reduction of two points in the revenue deficit as a percentage of total revenue receipts (RD/RR) with reference to the preceding year, or equivalently an increase of two percentage points in the revenue surplus. Subsequently, a revenue surplus appeared in 2001-02, only to turn into a deficit again in 2002-03. In 2003-04, however, a revenue surplus appeared again by the revised estimates. Thus, the balance on the revenue account has been very volatile.
3. The power sector, presently a departmental enterprise of the state government, runs huge losses. Actuals for 2002-03 show a loss of 93.5 crore in 2002-03 as against revenue of 59.7 crore. However, there has since been a 35 percent hike in the tariff structure.
4. Non-departmental PSUs of the state have accumulated enormous losses, aggregating to a staggering 302 crore by actuals for 2002-03 (not including the power sector). These losses are are being added to each year, and covered by the state budget, through capital account disbursements towards incremental contributions to the share capital of PSUs.

VII.2 CENTRAL TRANSFERS: Tripura, like other Special Category States depends heavily on Central transfers, to the extent of 85 percent of total revenues. There has been considerable year-to-year volatility in growth rates of (aggregate) Central transfers, which actually fell in absolute terms in 2002-03 by (-) 0.8 percent, thus precipitating the sharp decline in the overall revenue balance by 7.2 percent of revenue receipts that year, and then grew the next year by 21.9 percent, enabling a revenue surplus in 2003-04. Exogenous revenue volatility of this kind is extremely destructive of fiscal discipline in the Special Category States. There has also been a decline in the annual growth rate of central transfers, from 14 percent over 1994-99 to 11 percent over 1999-04. Tripura can make a strong case for raising the share of Tripura in statutory transfers, on the basis of a carbon trading scheme across states, whereby Tripura is compensated for carrying more area under forest cover vis-à-vis the mainland states. But there is an even stronger need for stabilising non-statutory flows from the Planning Commission, so that there is not the kind of volatility suffered by the state in recent years.

VII.3 A SUGGESTED ALTERNATIVE CONFIGURATION OF THE FISCAL INCENTIVE: It is recommended here that if a Special Category State carries a positive primary revenue balance, implying an excess of revenue receipts over non-interest expenditure, that in itself should be sufficient for securing the fiscal incentive, **regardless of the change with respect to the preceding year.** Clearly even the alternative suggested criterion is threatened if the primary revenue surplus declines, as it did in 1999-00 and 2000-01, and again in 2002-03. There is therefore a very urgent need for an FRB for Tripura that reverses the decline in the primary revenue balance, and the rise in debt/GSDP ratio, **but with targets that are judged to be feasible by state authorities.**

VII.4 THE NEED FOR ACCURATE GSDP DATA: The GSDP of any state is a critical variable with respect to which fiscal indicators, like the debt stock, are normalised. This is because GSDP is a measure of the size of the state's economy, and hence of its carrying capacity. There appear to be some credibility problems with the GSDP as officially reported. Therefore, GSDP was projected for the exercises reported in this report, from a starting point of actuals in 1999-00, at 12.35 percent per year. The only exception is the GSDP series used for the buoyancy estimates in chapter III, which are based on the officially reported figures, **but for this reason, the buoyancy calculations do not go beyond 2000-01,** the last year for which the official series was made available.

VII.5 THE NEED FOR ACCURATE FISCAL DATA: There is an urgent need for keeping fiscal records and data in order. Normally, the fiscal deficit obtained from the excess of the sum of revenue and (net) capital expenditure, over total revenue (and disinvestment receipts if any) should equal, approximately at least, the net new borrowing in any fiscal year. The discrepancy in 2003-04 was of the order of 100 crore. There are discrepancies for earlier years as well, though of not so high an order.

VII.6 THE URGENT NEED FOR A FISCAL REFORM PROGRAMME: Debt/GSDP is the first indicator targeted. It is the rise in this over the last five years that is the principal cause of concern. No explicit targets are specified for the fiscal deficit, since that is implicit in the debt/GSDP target. Fiscal deficits threaten the public finances of a state because of what they add to the debt stock. The second indicator targeted is the revenue balance, which does need to be targeted directly. If in deficit, as was the case in three of the last five years, public borrowing is financing current expenditure rather than (potentially) growth-promoting capital expenditure. The revenue balance indicator is specified in accordance with convention as a deficit, although in Tripura the starting point, in 2004-05 as budgeted, is a surplus. The revenue deficit is normalised by revenue receipts (RD/RR). For Special Category States like Tripura, which are heavily dependent on revenue receipts from the Centre, it is preferable to normalise the imbalance flow indicators with respect to revenue receipts. GSDP carries an explanatory or causal link only with respect to own revenues endogenously generated within the state. RD/RR is also aligned with the monitorable indicator currently in use for the EFC award period. However, the stock of debt has to remain normalised by the size of the economy as measured by the GSDP.

VII.7 FISCAL FACTORS WITHIN THE CONTROL OF THE STATE: Capital expenditure grew at 27.67 percent per year over 1999-04, from 13.7 percent per year over 1994-99, because of the practice of budgetary cover for PSU losses taking the form of incremental contributions to the share capital of the PSU through the capital account of the budget. This practice is explicitly banned in the design of the fiscal responsibility bill, so that capital expenditure is conserved for growth-promoting investment in infrastructure. All cover for PSU losses will henceforth have to be included in revenue expenditure, and will therefore be subject to the controls on the revenue imbalance worked into the bill. The heartening feature of the fiscal situation is the improvement in own revenue receipts, from 15.7 percent annual growth over 1994-99, to 21.8 percent annual growth over 1999-04. This very commendable feature provides a basis on which to build a fiscal correction programme in the state. The other commendable feature is that non-interest revenue expenditure growth, was 12.6 percent over 1999-04, no higher than over 1994-99.

VII.8 THE FISCAL RESPONSIBILITY BILL: The Fiscal Responsibility Bill covers the period 1 April, 2005 to 31 March, 2010. There are annual path limits on RD/RR, with two options, for the state government to choose between, and a terminal target for debt/GSDP, set at 40 percent. The justification for choosing this particular target is that own tax revenue by 2009-10 is projected to increase to 4.3 percent of GSDP, which will just about cover interest at 10 percent on debt/GSDP of 40 percent. It is own tax revenue rather than total own revenue which is of relevance, since by the end of the projection period, it is likely that own non-tax revenue from power will not accrue to the state budget.

VII.9 DESIGN OF THE FISCAL RESPONSIBILITY BILL:

Annual Paths specified for RD/RR are inflexible, once chosen. However, flexibility is built in by providing for cumulative adherence to the targets in two successive years.

Compliance with Annual Path Limits. The Legislature is empowered to respond to failure to comply with annual path limits over two successive years by not passing the demands for grants for the next financial year.

The Debt/GSDP is specified only for the final year (2009-10). This provides flexibility on the capital account. However, in the simulated outcomes summarised in para VI.11, the annual path to the eventual target is linearly pro-rated.

Caps on outstanding guarantees on long-term debt are specified at the absolute level attained at the start of the FRB on 1 April 2005.

Compliance with the Guarantee Cap: When the cap limits are reached, no fresh guarantees may be given except for the purpose of replacing high-cost debt in such a way that there is no net increase in outstanding guarantees after the debt-swap.

Fiscal Conduct: (1) No assistance to loss making PSUs may be given through non-plan loans or contributions to share capital from the capital account. All assistance to loss-making PSUs has to be included in revenue expenditure.

(2) Within a period of six months before elections to the Tripura Legislative Assembly, no abnormal expenditure increase or remission in State revenues, or credit operations based on future revenues, are permissible.

(3) No liabilities may remain unpaid for more than three months after the due date, and no fresh liabilities may be incurred in the event that there are such unredeemed liabilities.

VII.10 ASSUMPTIONS UNDERLYING SIMULATED OUTCOMES OF THE FISCAL RESPONSIBILITY BILL: Two critical assumptions underline the projection exercises in chapter II. The first concerns budgetary revenues from the power sector, which is presently a departmental enterprise. Although corporatisation of the power sector is contemplated, it is sufficiently uncertain in its timing that, for the purposes of the fiscal projections in this report, it is assumed that power tariffs will continue to accrue to the state budget as non-tax revenue. Since power sector losses will also thereby be removed from routine cover through the budget, the actual fiscal situation in the event of corporatisation will actually be better than that projected. Discretionary cover for power sector losses are capped by the limits prescribed in the Fiscal Responsibility Bill. The second critical assumption concerns the possible introduction of a VAT in the state. There are so many uncertainties here that it is impossible to factor in possible losses in own revenue and Central cover for those losses.

Other Assumptions:

Annual Growth Rate of Nominal GSDP	:	12.35 %
Annual Growth Rate of Own Revenue	:	16.00 %
Annual Growth Rate of Central Transfers	:	11.32 %

VII.11 SIMULATED OUTCOMES FOR 2005-10:

Depending on which of the two paths is chosen for reduction of RD/RR (RD/RR ↓2%; ↓5%), the relative room for increase of non-interest revenue expenditure and capital expenditure gets determined accordingly. Simulated outcomes for the alternative revenue deficit reduction targets are presented, in order to enable the choice. These are tabulated below:

Permissible Growth Rates

Non-interest Revenue Expenditure

	Assumed Interest Rate on Inherited Debt Stock	
	9%	**10%**
RD/RR ↓ 2%/yr	9.82	9.41
RD/RR ↓ 5%/yr	4.39	3.90

Capital Expenditure

	Assumed Interest Rate on Inherited Debt Stock	
	9%	**10%**
RD/RR ↓ 2%/yr	8.52	8.52
RD/RR ↓ 5%/yr	17.85	17.85

VII.12 CHOOSING REFORM SCENARIOS: The simulations show very little sensitivity of non-interest revenue expenditure growth to the interest rate on the debt stock, because the interest bill itself is such a small component of total expenditure. Reduction of RD/RR by 5 percent/year requires containment of non-interest revenue expenditure growth at 3-4 percent annually. If the alternative of RD/RR reduction of 2 percent/year is chosen, non-interest revenue expenditure can increase in the 9-10 percent range per year. This is only a little below the average annual rate of increase over 1999-04 of 12.64 percent, and is therefore more feasible than a sudden compression to 3-4 percent growth per year. There will be a correspondingly lower capital expenditure growth rate of 8.5 percent per year. This is quite sufficient, since capital expenditure under the design of the Bill, does not include loss cover for PSUs.

VII.13 OWN REVENUE: The assumed increase of 16 percent annually in own revenue underlying the fiscal reform programme is judged to be feasible, on the basis of past trends, provided certain supportive policy measures are taken. Within own revenue it is own tax revenue that has had the highest and most stable rates of growth. Although the buoyancy of own tax revenue was lower after 1993 as compared to the 1980-93 period, the annual rate of increase in own tax revenue is only slightly lower in the second period, 19 percent, as against 20 percent in the earlier period. It is the nominal rate of growth of GSDP, 16.8 percent in the second period versus 12.9 percent in the earlier period, which accounts for the sharply reduced buoyancy. It is the prospects for own tax revenue that matters for Tripura, since the power tariffs component of non-tax revenue is likely to be removed from the budget by the end of the projection period.

VII.14 OWN TAX REVENUE: Own tax revenues have grown especially rapidly since 1998-99. The only year when annual growth fall below 16 percent was 2002-03. Sales tax alone accounts for 45 percent of total own revenues and carries the highest buoyancy in the post 1993-94 period. The growth in own tax revenue was a result of the following policy measures, all of which were among the process commitments made under the MTFRP:

i. A uniform floor rate for sales tax.

i. Upward revision of profession tax.

ii. Revision and rationalisation of state excise.

iii. Motor vehicle registration fee enhancement.

iv. Upward revision of stamp duty and registration fees.

Tripura has some catching up to do with other Special Category States, which had an own tax/GSDP average in 2000-01 of 4.3 percent, as against 2.4 percent in Tripura that year.

VII.15 MEASURES TO REDUCE SALES TAX EVASION: There is prima facie evidence of undercollection of sales tax resulting from failure to put in place a usable information base on goods entering by road and rail. Tripura is a net importer of goods, which enter by road into Tripura through the Churaibari check-post. Only 5 percent of vehicles are physically unloaded and checked. The more serious shortcoming is that information as declared at the checkpost is not cross-checked against sales tax collections from importing dealers in a systematic way. An on-line link of the commercial taxes department with the Churaibari checkpost will cost Rs 20 crore, and is estimated to enable a 30 percent increase in sales tax collections, which at present levels is an incremental revenue of Rs 40 crore a year. Thus, the project is financially a very viable one.

VII.16 REMOVAL OF TAX SUBSIDIES FOR PRIVATE INVESTMENT: Subsidies, as a device for attracting private investment, are not recommended in this report. Further, with a changeover to a VAT, subsidies of this kind will have to be phased out in any case. Studies on other states show that incentives of this kind do not bring commensurate benefits to any individual state. Tripura incentives are at par with those in neighbouring states, and therefore carry no incremental punch. This is a policy arena where inter-state co-operation is called for, but it is recommended here that Tripura could benefit from a unilateral cessation of subsidies while awaiting a cross-state agreement. The gains to the exchequer from removing these exemptions could be used to support enterprises with better infrastructure, so offering a more positive approach to offsetting the many locational disadvantages of setting up industry in the state. The natural resource advantages of Tripura are immense, but needs state provision of infrastructure to become realised advantages. The cost of the state subsidies is quantified at between 30-50 lakh per year. This seems an implausibly low estimate. Since there is a Central incentive package for investment in the northeastern region, there is no justification whatever for state-level add-ons.

VII.17 FACTORS WHICH COULD RETARD OWN TAX INCREASES: The commercial taxes department suffers from an acute shortage of staff, at the C category level particularly. There are 10 unfilled vacancies at the level of Inspector of Taxes (a C-level post). This staff requirement could be easily met from the redundancy in other departments. Also, tax revenues in Tripura have surprisingly benefited from payment of sales tax on goods such as milk powder and pharmaceuticals legitimately purchased in Tripura, and smuggled across the border to Bangladesh. The fencing of the border, and the crackdown on smuggling, are expected to have a negative impact on own tax collections in Tripura.

VII.18 LOCAL REVENUES: Panchayats are estimated in the year 2002-03 to have raised a total of 95 lakh in non-tax revenues from fees and rentals on panchayat properties, which works out to Rs. 3.59 per capita, out of a total own revenue collection that year of 282 crore. This is a phenomenal increase, up from 24 paise per capita in 1997-98, as recorded in the Report of the Eleventh Finance Commission. Urban local bodies are estimated to have raised own revenues of 2.26 crore in 2002-03, working out to Rs 41.62 per capita, also considerably up relative to the nineties. The maintenance of these levels of per capita collection should be possible without any further expansion in the local fiscal domain. Exactly as in the case of state-level taxes, improvements in administration should help in the maintenance of present per capita levels of collection, and this should in turn be possible with effective utilisation of the EFC funding provision for administrative upgradation of local government.

VII.19 POWER SECTOR LOSSES: If the existing power department loss of Rs 93.50 crore in 2002-03 were to be covered fully by revenue, which yielded only 59.68 crore that year, the required realised tariffs would require to be hiked by a factor of 2.57. Since there was already a 35 percent upward revision of power tariffs on 1 July 2003, a further hike in power tariffs is not feasible. Policy therefore has to focus on the following three ways by which to reduce losses, which is an urgent imperative regardless of whether or when corporatisation takes place:

i. Reduction of the T&D losses below the very high level of 40.63 percent recorded in 2002-03. The gap between energy availability and energy sold has to be reduced below the present level of 274 Mkwh

ii. Reduction of the gap between realised and nominal tariffs by reducing theft and unmetered consumption.

iii. Reduction of operating expenditure. The manpower in the power department is examined, along with other departments of the government, in Chapter V.

VII.20 REDUCING THE INTEREST BILL: Although it is of paramount importance for Tripura to reduce its interest bill through every possible means, interest accounts for only 15 percent of revenue expenditure. So the scope for substantial pruning of revenue expenditure through reducing the interest bill is limited.

VII.21 THE DEBT SWAP SCHEME OF GOI: The debt swap scheme has to be operated on a much wider scale for it to make any appreciable dent in the interest bill for Tripura. Under this scheme, loans from the Centre bearing coupon rates in excess of 13 percent can be swapped against small savings proceeds and open market borrowings within specified limits. The interest saving for Tripura in 2002-03 amounted to only 3.63 crore, 1.25 percent of the total interest bill that year of 290.73 crore. Of the several parameters that go towards determining the interest saving from the scheme, there are only two policy levers, both under the control of the GOI. These have to do with the permissible limits as prescribed by the GOI, with respect to the fraction of small savings and amount of additional OMB which can be swapped in, and the potential swappable debt (presently confined to debt bearing coupon rates of 13 percent or higher). A simulation for Tripura, widening the scope of the scheme to include all small savings, only increased the interest saved to 2 percent. That is because debt to GOI constitutes only about one-quarter of the total debt stock of 3113 crore.

VII.22 OTHER INTEREST REDUCTION POSSIBILITIES: The interest rates on provident fund, are institutionally governed. If market borrowings taken in earlier years can be swapped against borrowing entitlements at present rates, a 3 percent gain in coupon rates on the total stock of 583 crore could yield a maximum interest bill reduction of 17.48 crore. Other internal liabilities owed to creditors like NABARD and HUDCO, excluding debt to the NSSF, carry bilaterally negotiated interest rates. It is possible that there may be scope for reduction through bilateral negotiation. The overall quantum of such debt amounted to only 13.22 percent of total debt at end-March 2003, or Rs. 411 crore in absolute terms. A one percent reduction (more may be difficult to negotiate) will yield an interest bill gain of 4.12 crore. In all, a maximum gain of 21.5 crore may be possible in the interest bill on debt in the internal liabilities category.

VII.23 MANPOWER REQUIREMENTS OF DEPARTMENTS OF THE STATE GOVERNMENT: As on 31 March 2002, there were 98379 regular employees of the Government of Tripura. More recent figures are not available. Adding on casual staff, the total of regular and casual staff in March 2002 is conservatively estimated at 1.1 lakh, which works out to 3.4 percent of the 2001 census population of the State. Comparable figures for India, available only for 1996, are 1.4 percent, and for China, for the early nineties, 2.8 percent. Even after allowing for the size effect, whereby smaller states will have larger percentages, the Tripura government is clearly overstaffed. Notwithstanding this, the immediate need is for containment of growth in staff size beyond present levels, rather than for an absolute reduction in staff size. With natural attrition rates through retirement of 3 percent per year, zero staff size growth permits a gross addition of 3 percent annually. The second problem is with the configuration of staff. Only 6.7 percent are in categories A and B; while Group C and D have 71.26 and 22.04 percent of employees respectively.

VII.24 ***MANPOWER REDUNDANCY CALCULATIONS:*** Manpower data were available broken down by 50 departments, whereas expenditure data were broken down by 56 demands. Six of the demands were merged with others to correspond to the departmental boundaries. Per staff non salary expenditure (psn) was computed for each of these departments, taking non salary expenditure as a measure of the scale of activity. Of the 50 departments, 41 were judged amenable to the application of uniform psn norms. When a psn norm of Rs 50 lakhs is applied to A+B category staff, labour redundancy adjusted for retirees upto 2004-05 works out to 681, which is 10 per cent of the total staff in A+B categories as of 2001-02. When a psn norm of Rs 5 lakhs is applied to C+D staff, including casual labour, the labour redundancy adjusted for retirees works out to 16337, which is 15 per cent of total regular C+D and casual employees as of 2001-02. The norms assumed for identifying labour redundancy across departments are ad hoc, and can be altered by the State, if need be.

VII.25 ***LABOUR REDUNDANCY IN POWER SECTOR:*** In case of regular employees of A+B and C+D categories, the psn for the power sector works out at 49.69 and 4.91 respectively, marginally below the uniform psn norm assumed at Rs 50 lakhs and Rs 5 lakhs respectively for A+B and C+D categories. After including casual labour with C+D category staff, the labour redundancy in the power sector, adjusted for retiring employees, is 689, which is only 14.22 per cent of total C+D (regular plus casual) employees (4847) in the power department.

VII.26 ***LABOUR REDUNDANCY IN SCHOOL EDUCATION:*** The department of school education is among those not amenable to uniform psn norms of labour redundancy. Using the PTR norm (Pupil Teacher Ratio), the labour redundancy is calculated separately. Assuming universalisation of school education, the potential enrolment (population in age group 5-14) is taken instead of existing students enrolled to calculate the teacher requirement. Applying PTR norm of 20:1, there is a deficit of 11809 teachers to meet the potential enrolment. However, the labour redundancy in school education derived through PTR norm of 40:1 is 9006, which turns out to be 30.20 per cent of total A+B+C category. There are also 3722 D category staff, which works out to only a little over one per school (there are 3148 schools in Tripura), and therefore does not suggest very much redundancy. The distribution of these staff between institutions is another matter, and is not revealed by the aggregate numbers.

VII.27 ***RATIONALISATION OF MINISTRIES:*** As per the recent 91st Constitutional Amendment Act 2003 enacted on 1 January, 2004, the number of Ministers, including the Chief Minister, in the Council of Ministers in a State shall not exceed 15 per cent of the total number of members of the Legislative Assembly, and shall not be *less than twelve.* As the size of Legislative Assembly in Tripura is 60, there cannot be more than 12 ministers in Tripura as per the new law. This requirement has already been complied with, and is therefore not addressed in the report.

VII.28 ***PSU RESTRUCTURING:*** The evaluation of nineteen non-departmental PSUs in Tripura shows an urgent need for restructuring these enterprises and identification of staff redundancy. A variety of norms have been used to assess excess manpower in each enterprise depending on information available, and the functions performed by each. Tripura Natural Gas Company (TNGC) is the only profit making PSU requiring no reform. The PSUs are examined in five categories. Category one consists of five PSUs under the purview of the Industries Department. Category two consists of four other commercial undertakings not falling under the purview of the Industries Department. Category three consists of two undertakings that come under the Forest Department. Category four groups together four lending organizations, of which one, Tripura Industrial Development Corporation (TIDC), comes under the Industries Department. Category five consists of four social welfare organizations for underprivileged groups. The accumulated loss aggregated across all five categories amounts to 302 crore, excluding the power sector, which is a department of the Government of Tripura. The major shares in this accumulated loss are accounted for by Tripura Road Transport Corporation (TRTC: 126 crore) and Tripura Jute Mills Limited (TJML:76 crore).

VII.29 ***PSUs NEEDING CLOSURE:*** Of the 19 PSUs examined, TJML with an accumulated loss of 76 crore and excess manpower of 81 percent of its total workforce;

and Tripura State Cooperative Consumers' Federation (TSCCF) with an accumulated loss of 14 crore and excess manpower of 69 percent of its total workforce are recommended for closure. Along with its formal accumulated loss, TSCCF owes additional amounts to private creditors from whom goods have been taken on credit. Both enterprises have physical assets, the disposal of which should enable cover of the loss accumulated over the years.

VII.30 PSUs NEEDING VRS: TRTC, though it carries the highest accumulated loss and excess manpower assessed at 55 percent, cannot be closed because it is a transport corporation. But, it requires an immediate VRS. Privatization of routes along the lines introduced by the Assam State Transport Corporation has to supplement the downsizing exercise for TRTC, so as not to constrain the expansion of transport services in Tripura. Other organisations in need of manpower downsizing are Tripura Handloom and Handicrafts Development Corporation (THHDC), Tripura Forest Development Plantation Corporation (TFDPC), Tripura State Co-operative Bank (TSCB), Tripura Tea Development Corporation (TTDC) and Tripura Apex Weavers Co-operative Society (TAWCS). The last two have the alternative of absorbing their excess manpower by scaling up their turnover. In the case of TFDPC, the desired staff reduction could be achieved through attrition over the next few years, with internal redeployment in the interim away from defunct processing centres. For TSCB, which is included above in the list of PSUs needing downsizing, a more uniform distribution of staff over all branches is necessary in order to improve its loan recovery performance. ACUB is overstaffed for what is a single branch bank, but its redundancy is at the higher categories of staff. This PSU could be a source of supply for other PSUs like TAMCS, who are in need of higher level staff for effective utilization of lower staff already in place.

VII.31 PSUs WITHOUT STAFF REDUNDANCY BUT IN NEED OF REFORM: There are also loss making PSUs, which have no redundant staff but clearly are in need of reform. Tripura Small Industries Corporation (TSIC) could benefit by scaling up its turnover with existing staff while Tripura Co-operative Agriculture and Rural Development Bank (TCARDB) and TIDC need improved loan recovery techniques. The PSUs in category five for the welfare of underprivileged groups (TSCDC, TSTDC, TOBCDC and TMDC), could benefit from merger. They could be merged into a single lending organization, serving all the designated beneficiary groups, since the function performed is the same, and loan recovery would benefit from the larger presence of the merged enterprise.

32. FISCAL CORRECTION AND GROWTH: The final objective of any fiscal correction exercise is enhancement of growth and of the economic condition of the average inhabitant. Foreign direct investment will not enter the state if physical infrastructure is inadequate. No External Assistance Programme will be feasible unless the repayment prospects of the loan component, however small it may be, look promising. Fiscal correction in Tripura is needed not for itself alone, but as a growth imperative.

Annexure I

Table 1: Computation of Department-wise Salary Expenditure for 2001-02

		DEPARTMENT	salexp-2002-03	Ratio (2002-03)	salexp-2001-02
1	1	ASSEMBLY SECRETARIAT	255.77	0.0029	275.32
2	2	GOVERNOR'S SECRETARIAT	50.56	0.0006	54.42
3	3	GA (SA)	623.82	0.0070	671.50
4	4	ELECTION	92.72	0.0010	99.81
5	5	LAW	781.12	0.0087	840.82
6	6	Revenue (DA,LR,SR,WM)	2410.06	0.0269	2594.26
7	7	GA (AR)	40.87	0.0005	44.00
8	8	GA (P & T)	1482.30	0.0165	1595.59
9	9	PLANNING (ECONOMICS & STATISTICS)	172.75	0.0019	185.96
10	10	Home (Homeguard, Police, Radio)	14870.62	0.1658	16007.18
11	11	TRANSPORT	45.67	0.0005	49.16
12	12	CO-OPERATION	472.38	0.0053	508.48
13	13	PWD (ROADS & BUILDINGS)	3087.67	0.0344	3323.66
14	14	POWER	3849.84	0.0429	4144.08
15	15	PWD (WR)	1491.43	0.0166	1605.42
16	16	HEALTH & FAMILY WELFARE	6931.76	0.0773	7461.56
17	17	INFORMATION, CULTURAL AFFAIRS & TOURISM	592.80	0.0066	638.11
18	18	GA (POLITICAL)	10.78	0.0001	11.60
19	19	WELFARE FOR SCHEDULED TRIBES	532.03	0.0059	572.70
20	20	WELFARE FOR SC, OBC & MINORITIES	107.82	0.0012	116.06
21	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	608.63	0.0068	655.15
22	22	REVENUE (RELIEF & REHABILITATION)	18.76	0.0002	20.19
23	23	RURAL DEVELOPMENT (PANCHAYAT)	1448.47	0.0162	1559.18
24	24	INDUSTRIES & COMMERCE	724.74	0.0081	780.13
25	25	INDUSTRIES & COMMERCE (HH & S)	292.55	0.0033	314.91
26	26	FISHERIES	741.73	0.0083	798.42
27	27	AGRICULTURE	3794.58	0.0423	4084.60
28	29	ANIMAL RESOURCE DEVELOPMENT	1525.61	0.0170	1642.21
29	30	FOREST	1657.38	0.0185	1784.05
30	31	RURAL DEVELOPMENT	768.66	0.0086	827.41
31	32	WELFARE FOR SCHEDULED TRIBES (TRP & PGP)	189.10	0.0021	203.55
32	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	64.04	0.0007	68.94
33	34	PLANNING & CO-ORDINATION	85.30	0.0010	91.82
34	35	URBAN DEVELOPMENT	29.99	0.0003	32.28
35	36	HOME (JAIL)	410.18	0.0046	441.53
36	37	LABOUR	199.70	0.0022	214.97
37	38	GA (PRINTING & STATIONERY)	341.12	0.0038	367.20
38	39	HIGHER EDUCATION	1712.53	0.0191	1843.42
39	40	SCHOOL EDUCATION	31327.76	0.3493	33722.15
40	41	SOCIAL WELFARE & SOCIAL EDUCATION	2318.42	0.0259	2495.62
41	42	YOUTH AFFAIRS & SPORTS	949.57	0.0106	1022.15
42	43	FINANCE (SS, GI & IF)	49.93	0.0006	53.75
43	45	Finance (Excise+ Taxes)	173.71	0.0019	186.99
44	48	HIGH COURT	23.77	0.0003	25.59
45	49	HOME (FIRE SERVICE)	766.94	0.0086	825.56
46	50	HOME (CIVIL DEFENCE)	23.08	0.0003	24.84
47	51	PWD (PHE)	1372.18	0.0153	1477.05
48	54	LABOUR (FACTORIES & BOILERS)	12.74	0.0001	13.72
49	55	EMPLOYMENT SERVICES & MANPOWER PLANNING	130.43	0.0015	140.40
50	56	INDUSTRIES & COMMERCE (I T)	10.57	0.0001	11.38
		TOTAL	89674.96	1.00	96528.82

Source: Dept-wise Salary Exp. (2002-03) from Finance Dept & Total salary exp. (2001-02) from TFC doc.

Note: Ratios of Department-specific salary to total salary is computed for 2002-03. Applying these ratios to the total salary bill of 2001-02, Department-specific salary expenditure is derived for 2001-02.

Table 2: Computed Salary and Non-salary Break up for 2001-02

Sl No.	Dem.No.	Department	Expenditure	Salary exp	Non salary exp
1	1	ASSEMBLY SECRETARIAT (Parliamentary Affairs)	409.35	275.32	134.03
2	2	GOVERNOR'S SECRETARIAT	115.18	54.42	60.76
3	3	GA (Sectt. Administration)	1123.99	671.50	452.49
4	4	ELECTION	114.86	99.81	15.05
5	5	LAW	1001.09	840.82	160.27
6	6	REVENUE (DA, LR, SG, WM, Treasury)	3606.11	2594.26	1011.85
7	7	GA (Administrative Reforms)	68.81	44.00	24.81
8	8	GA (P & T) (Tripura Public Service Commission)	106.23	1595.59	-1489.36
9	9	PLANNING (ECONOMICS & STATISTICS)	211.68	185.96	25.72
10	10	HOME (POLICE + RADIO)	23652.76	16007.18	7645.58
11	11	TRANSPORT	1157.3	49.16	1108.14
12	12	CO-OPERATION	950.8	508.48	442.32
13	13	PWD (ROADS & BUILDINGS)	22951.51	3323.66	19627.85
14	14	POWER	23932.62	4144.08	19788.54
15	15	PWD (Water Resources)	5627.88	1605.42	4022.46
16	16	HEALTH & FAMILY WELFARE	9335.52	7461.56	1873.96
17	17	INFORMATION, CULTURAL AFFAIRS &	1022.47	638.11	384.36
18	18	GA (POLITICAL)	55.36	11.60	43.76
19	19	WELFARE FOR SCHEDULED TRIBES	9094.78	572.70	8522.08
20	20	WELFARE FOR SC, OBC & MINORITIES	1508.6	116.06	1392.54
21	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	702.29	655.15	47.14
22	22	RELIEF & REHABILITATION	1047.56	20.19	1027.37
23	23	RURAL DEVELOPMENT (PANCHAYATI RAJ)	7892.95	1559.18	6333.77
24	24	INDUSTRIES & COMMERCE	3723.65	780.13	2943.52
25	25	INDUSTRIES & COMMERCE (HH &	1255.78	314.91	940.87
26	26	FISHERIES	1154.77	798.42	356.35
27	27	AGRICULTURE + HORTICULTURE	6946.27	4084.60	2861.67
28	29	ANIMAL RESOURCE DEVELOPMENT	2305.77	1642.21	663.56
29	30	FOREST	3929.95	1784.05	2145.90
30	31	RURAL DEVELOPMENT	6943.07	827.41	6115.66
31	32	WELFARE FOR SCHEDULED TRIBES (TRP &	415.76	203.55	212.21
32	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	193.77	68.94	124.83
33	34	PLANNING & CO-ORDINATION	351.22	91.82	259.40
34	35	URBAN DEVELOPMENT	1798.68	32.28	1766.40
35	36	HOME (JAIL)	564.82	441.53	123.29
36	37	LABOUR	187.49	214.97	-27.48
37	38	GA (PRINTING & STATIONERY)	459.34	367.20	92.14
38	39	HIGHER EDUCATION	3802.53	1843.42	1959.11
39	40	SCHOOL EDUCATION	38588.15	33722.15	4866.00
40	41	SOCIAL WELFARE & SOCIAL EDUCATION	5549.62	2495.62	3054.00
41	42	YOUTH AFFAIRS & SPORTS	1288.05	1022.15	265.90
42	43	FINANCE (SS, GI & IF)	70968.52	53.75	70914.77
43	45	FINANCE (TAXES & EXCISE)	247.4	186.99	60.41
44	48	HIGH COURT	196.85	25.59	171.26
45	49	HOME (FIRE SERVICE)	843	825.56	17.44
46	50	HOME (CIVIL DEFENCE)	28.75	24.84	3.91
47	51	PWD (PHE)	4670.8	1477.05	3193.75
48	54	LABOUR (FACTORIES & BOILERS)	47.09	13.72	33.37
49	55	EMPLOYMENT SERVICES & MANPOWER	151.58	140.40	11.18
50	56	INDUSTRIES & COMMERCE (I T)	241.01	11.38	229.63
		GRAND TOTAL	**272543.39**	**96528.82**	**176014.57**

Source: Salary expenditure of 2001-02 is derived in table 1 of Annexure I and total expenditure of 2001-02 is taken from Budget at A Glance, 2003-04, Govt. of Tripura (pages 14-22).

Table 3: Category-wise Break Up of Regular and Casual Employees across Departments in Tripura

			REGULAR					CASUALS		TOTAL
Sl No.	Dem.No.	Department	A	B	C	D	Total (regular)	finconcur rence	nofincon currence	Total (regular+ casuals
1	1	ASSEMBLY SECRETARIAT	9	35	138	127	309			309
2	2	GOVERNOR'S SECRETARIAT	4	2	21	33	60	10		70
3	3	GA (Sectt. Administration)	12	60	421	249	742	135		877
4	4	ELECTION	1	9	69	26	105	1		106
5	5	LAW	55	19	430	334	838	16		854
6	6	REVENUE (DA, LR, SG, WM, Treasury)	3	25	1534	1501	3063	64	205	3332
7	7	GA (Administrative Reforms)	1	7	25	2	35	3		38
8	8	GA (P & T) (Tripura PSC)	410	178	334	34	956	1	3	960
9	9	PLANNING (ECO & STATISTICS)	0	8	144	24	176	4		180
10	10	HOME (POLICE + RADIO)	8	227	15821	1524	17580	2938	62	20580
11	11	TRANSPORT	0	0	32	25	57	5	23	85
12	12	CO-OPERATION	3	18	368	93	482	4	42	528
13	13	PWD (ROADS & BUILDINGS)	233	162	1139	2093	3627	1072	690	5389
14	14	POWER	208	228	1837	2192	4465	30	788	5283
15	15	PWD (Water Resources)	116	70	865	572	1623		799	2422
16	16	HEALTH & FAMILY WELFARE	864	99	3621	2674	7258	239		7497
17	17	ICAT	7	31	418	228	684	75	107	866
18	18	GA (POLITICAL)	0	2	8	3	13	2		15
19	19	WELFARE FOR SCHEDULED TRIBES	8	12	314	258	592		8	600
20	20	WELFARE FOR SC, OBC & MINORITIES	1	1	68	41	111			111
21	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	0	27	354	374	755	18	19	792
22	22	RELIEF & REHABILITATION	0	1	8	11	20			20
23	23	RURAL DEVELOPMENT (PANCHAYATI RAJ)	0	2	1492	169	1663	7	1574	3244
24	24	INDUSTRIES & COMMERCE	16	13	544	289	862		195	1057
25	25	INDUSTRIES & COMMERCE (HH & SERICULTURE)	2	9	220	101	332		66	398
26	26	FISHERIES	8	94	408	284	794	140	43	977
27	27	AGRICULTURE + HORTICULTURE	216	315	2523	632	3686	4	75	3765
28	29	ANIMAL RESOURCE DEVELOPMENT	131	61	946	405	1543	129	35	1707
29	30	FOREST	2	20	1465	442	1929	143	54	2126
30	31	RURAL DEVELOPMENT	15	70	457	310	852	1	95	948
31	32	WELFARE FOR SCHEDULED TRIBES (TRP & PGP)	5	2	96	160	263		37	300
32	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	4	4	33	44	85		9	94
33	34	PLANNING & CO-ORDINATION	3	9	49	28	89			89
34	35	URBAN DEVELOPMENT	3	4	14	8	29	1	512	542
35	36	HOME (JAIL)	3	1	421	39	464		8	472
36	37	LABOUR	2	2	123	106	233	31		264
37	38	GA (PRINTING & STATIONERY)	1	10	272	77	360	13		373
38	39	HIGHER EDUCATION	359	28	503	546	1436		46	1482
39	40	SCHOOL EDUCATION	89	1669	28062	3722	33542	135	82	33759
40	41	SOCIAL WELFARE & SOCIAL EDUCATION	3	15	1709	867	2594	5965	5	8564
41	42	YOUTH AFFAIRS & SPORTS	3	43	968	38	1052	15	23	1090
42	43	FINANCE (SS, GI & IF)	1	3	38	9	51		1	52
43	45	FINANCE (TAXES & EXCISE)	2	18	125	42	187		1	188
44	48	HIGH COURT	11	0	0	0	11			11
45	49	HOME (FIRE SERVICE)	1	4	814	109	928			928
46	50	HOME (CIVIL DEFENCE)	0	0	15	8	23			23
47	51	PWD (PHE)	82	50	737	788	1657			1657
48	54	LABOUR (FACTORIES & BOILERS)	2	0	8	4	14			14
49	55	EMPLOYMENT SERVICES & MANPOWER	1	10	87	40	138	3	2	143
50	56	INDUSTRIES & COMMERCE (I T)	2	0	8	1	11			11
		GRAND TOTAL	2910	3677	70106	21686	**98379**	11204	5609	115192

Source: Finance Department, Tripura

Table 4: Labour Redundancy (Devoid of Retirees-2002-03 to 2004-05) of A+B Category: (Descending Order of Redundant Labour Minus Retiring Employees with norm PSN = Rs 50 lakhs)

	Demand No.	Department	Non salary expenditure	A+B staff	psn (1/2)	desired labour	redundant labour (2-4)	A+B retirees	Redundant labour – retirees (5-6)	Ratio (7/2)
		POSSIBLY AMENABLE	1	2	3	4	5	6	7	8
1	29	ANIMAL RESOURCE DEVELOPMENT	663.56	192	3.46	13	179	8	171	88.92
2	26	FISHERIES	356.35	102	3.49	7	95	12	83	81.25
3	15	PWD (Water Resources)	4022.46	186	21.63	80	106	31	75	40.08
4	5	LAW	160.27	74	2.17	3	71	11	60	80.80
5	51	PWD (PHE)	3193.75	132	24.20	64	68	11	57	43.28
6	3	GA (Sectt. Administration)	452.49	72	6.28	9	63	18	45	62.43
7	1	ASSEMBLY SECRETARIAT (Parliamentary Affairs)	134.03	44	3.05	3	41	3	38	87.09
8	42	YOUTH AFFAIRS & SPORTS	265.90	46	5.78	5	41	7	34	73.22
9	17	INF, CULTURAL AFFAIRS & TOURISM (ICAT)	384.36	38	10.11	8	30	7	23	61.35
10	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	47.14	27	1.75	1	26	3	23	85.40
11	12	CO-OPERATION	442.32	21	21.06	9	12	3	9	43.59
12	55	EMPLOYMENT SERVICES & MANPOWER PLG	11.18	11	1.02	0	11	2	9	79.78
13	48	HIGH COURT	171.26	11	15.57	3	8	0	8	68.86
14	9	PLANNING (ECONOMICS & STATISTICS)	25.72	8	3.22	1	7	0	7	93.57
15	38	GA (PRINTING & STATIONERY)	92.14	11	8.38	2	9	2	7	65.06
16	34	PLANNING & CO-ORDINATION	259.40	12	21.62	5	7	0	7	56.77
17	4	ELECTION	15.05	10	1.50	0	10	3	7	66.99
18	49	HOME (FIRE SERVICE)	17.44	5	3.49	0	5	0	5	93.02
19	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	124.83	8	15.60	2	6	1	5	56.29
20	2	GOVERNOR'S SECRETARIAT	60.76	6	10.13	1	5	1	4	63.08
21	7	GA (Administrative Reforms)	24.81	8	3.10	0	8	5	3	31.30
22	32	WELFARE FOR ST (TRP & PGP)	212.21	7	30.32	4	3	1	2	25.08
23	54	LABOUR (FACTORIES & BOILERS)	33.37	2	16.69	1	1	0	1	66.63
24	18	GA (POLITICAL)	43.76	2	21.88	1	1	1	0	6.24
25	19	WELFARE FOR SCHEDULED TRIBES	8522.08	20	426.10	170		2		
26	20	WELFARE FOR SC, OBC & MINORITIES	1392.54	2	696.27	28		0		
27	35	URBAN DEVELOPMENT	1766.40	7	252.34	35		3		
28	11	TRANSPORT	1108.14	0				0		
29	23	RURAL DEVELOPMENT (PANCHAYATI RAJ)	6333.77	2	3166.89	127		0		
30	31	RURAL DEVELOPMENT	6115.66	85	71.95	122		1		
31	22	RELIEF & REHABILITATION	1027.37	1	1027.37	21		1		
32	13	PWD (ROADS & BUILDINGS)	19627.85	395	49.69	393	2	50		
33	14	**POWER**	19788.54	436	**45.39**	396	40	49		
34	37	LABOUR		4				1		
35	56	INDUSTRIES & COMMERCE (I T)	229.63	2	114.81	5		0		
36	25	INDUSTRIES & COMMERCE (HH &	940.87	11	85.53	19		0		
37	24	INDUSTRIES & COMMERCE	2943.52	29	101.50	59		6		
38	50	HOME (CIVIL DEFENCE)	3.91	0		0		0		
39	8	GA (P & T) (Tripura Public Service Commission)		588				61		
40	30	FOREST	2145.90	22	97.54	43		5		
41	43	FINANCE (SS, GI & IF)	70914.7	4	17728.6	1418		0		
		Total (possibly Amenable)	154074.9	2643		3060	853	309	681	
		NOT AMENABLE								
42	40	SCHOOL EDUCATION	4866.00	1758	2.77	97	1661	325	1336	75.98
43	39	HIGHER EDUCATION	1959.11	387	5.06	39	348	64	284	73.34
44	16	HEALTH & FAMILY WELFARE	1873.96	963	1.95	37	926	42	884	91.75
45	27	AGRICULTURE + HORTICULTURE	2861.67	531	5.39	57	474	64	410	77.17
46	10	HOME (POLICE + RADIO)	7645.58	235	32.53	153	82	19	63	26.85
47	45	FINANCE (TAXES & EXCISE)	60.41	20	3.02	1	19	4	15	73.96
48	6	REVENUE (DA, LR, SG, WM, Treasury)	1011.85	28	36.14	20	8	4	4	13.44
49	36	HOME (JAIL)	123.29	4	30.82	2	2	0	2	38.36
50	41	SOCIAL WELFARE & SOCIAL EDUCATION	3054.00	18	169.67	61		5		
		Total (Non Amenable)	23455.87	3944		469	3518	527	2996	
		Total (Possibly Amenable +Non Amenable)	34670.76	4979		693	4329	657	3677	
		Grand Total	177531.41	**6587**		3528	4371	836	3677	

Source: (Basic Data), Budget at A Glance, 2003-04, Govt. of Tripura (pp 14-22) & Dept of Finance (2003).

Table 5: Labour Redundancy (Devoid of Retirees-2002-03 to 2004-05) of C+D Category: (Descending Order of Redundant Labour Minus Retiring Employees with norm PSN = Rs 5 lakhs)

	D	Department	Non	C+D	CD	Desired	redunda	C+D	Redunda	ratio
		AMENABLE								
1	30	FOREST	2145.90	1907	1.13	429	1478	164	1314	68.89
2	29	ANIMAL RESOURCE DEVELOPMENT	663.56	1351	0.49	133	1218	73	1145	84.77
3	42	YOUTH AFFAIRS & SPORTS	265.90	1006	0.26	53	953	33	920	91.43
4	49	HOME (FIRE SERVICE)	17.44	923	0.02	3	920	13	907	98.21
5	51	PWD (PHE)	3193.75	1525	2.09	639	886	58	828	54.31
6	5	LAW	160.27	764	0.21	32	732	19	713	93.32
7	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	47.14	728	0.06	9	719	41	678	93.07
8	26	FISHERIES	356.35	692	0.51	71	621	30	591	85.37
9	3	GA (Sectt. Administration)	452.49	670	0.68	90	580	19	561	83.66
10	15	PWD (Water Resources)	4022.46	1437	2.80	804	633	77	556	38.66
11	17	INFO, CULTURAL AFFAIRS & TOURISM (ICAT)	384.36	646	0.59	77	569	25	544	84.23
12	12	CO-OPERATION	442.32	461	0.96	88	373	12	361	78.21
13	38	GA (PRINTING & STATIONERY)	92.14	349	0.26	18	331	22	309	88.42
14	23	RURAL DEVELOPMENT (PANCHAYATI RAJ)	6333.77	1661	3.81	1267	394	89	305	18.38
15	1	ASSEMBLY SECRETARIAT (Parliamentary Affairs)	134.03	265	0.51	27	238	3	235	88.75
16	32	WELFARE FOR SCHEDULED TRIBES (TRP & PGP	212.21	256	0.83	42	214	6	208	81.08
17	24	INDUSTRIES & COMMERCE	2943.52	833	3.53	589	244	62	182	21.88
18	9	PLANNING (ECONOMICS & STATISTICS)	25.72	168	0.15	5	163	15	148	88.01
19	55	EMPLOYMENT SERVICES & MANPOWER PLG	11.18	127	0.09	2	125	5	120	94.30
20	25	INDUSTRIES & COMMERCE (HH&	940.87	321	2.93	188	133	29	104	32.34
21	4	ELECTION	15.05	95	0.16	3	92	5	87	91.57
22	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	124.83	77	1.62	25	52	0	52	67.58
23	2	GOVERNOR'S SECRETARIAT	60.76	54	1.13	12	42	2	40	73.79
24	34	PLANNING & CO-ORDINATION	259.40	77	3.37	52	25	2	23	30.02
25	50	HOME (CIVIL DEFENCE)	3.91	23	0.17	1	22	0	22	96.60
26	7	GA (Administrative Reforms)	24.81	27	0.92	5	22	2	20	74.21
27	54	LABOUR (FACTORIES & BOILERS)	33.37	12	2.78	7	5	0	5	44.38
28	18	GA (POLITICAL)	43.76	11	3.98	9	2	2	0	2.25
29	8	GA (P & T) (Tripura Public Service Commission)		368				1		
30	11	TRANSPORT	1108.14	57	19.44	222		3		
31	13	PWD (ROADS & BUILDINGS)	19627.85	3232	6.07	3926		296		
32	14	**POWER**	19788.54	4029	**4.91**	3958	**71**	200		
33	19	WELFARE FOR SCHEDULED TRIBES	8522.08	572	14.90	1704		27		
34	20	WELFARE FOR SC, OBC & MINORITIES	1392.54	109	12.78	279		10		
35	22	RELIEF & REHABILITATION	1027.37	19	54.07	205		3		
36	31	RURAL DEVELOPMENT	6115.66	767	7.97	1223		48		
37	35	URBAN DEVELOPMENT	1766.40	22	80.29	353		5		
38	37	LABOUR		229				15		
39	43	FINANCE (SS, GI & IF)	70914.77	47	1508.82	14183		0		
40	48	HIGH COURT	171.26	0		34		0		
41	56	INDUSTRIES & COMMERCE (I T)	229.63	9	25.51	46				
		Total (Possibly Amenable)	154074.9	25926		30815	11855	1416	**10976**	
		NOT AMENABLE								
42	40	SCHOOL EDUCATION	4866.00	31784	0.15	973	30811	1723	29088	91.52
43	10	HOME (POLICE + RADIO)	7645.58	17345	0.44	1529	15816	340	15476	89.22
44	39	HIGHER EDUCATION	1959.11	1049	1.87	392	657	97	560	53.40
45	16	HEALTH & FAMILY WELFARE	1873.96	6295	0.30	375	5920	334	5586	88.74
46	6	REVENUE (DA, LR, SG, WM, Treasury)	1011.85	3035	0.33	202	2833	160	2673	88.06
47	27	AGRICULTURE + HORTICULTURE	2861.67	3155	0.91	572	2583	173	2410	76.38
48	41	SOCIAL WELFARE & SOCIAL EDUCATION	3054.00	2576	1.19	611	1965	125	1840	71.44
49	36	HOME (JAIL)	123.29	460	0.27	25	435	12	423	92.03
50	45	FINANCE (TAXES & EXCISE)	60.41	167	0.36	12	155	4	151	90.37
		Total (Not Amenable)	23456	65866		4691	61175	2968	58207	
		Total (Amenable +Non-Amenable)	46867	82332		9373	72959	3776	69183	
		Grand Total	177531	**91792**		35506	73030	4384	69183	

Source: (Basic Data), Budget at A Glance, 2003-04, Govt. of Tripura (pages 14-22) and Department of Finance (2003).

Table 6: Labour Redundancy (Devoid of Retirees-2002-03 to 2004-05) of C+D+ Casuals (Descending Order of Redundant Labour Minus Retiring Employee with norm PSN = Rs 5 lakhs)

	Dema	Department	nonsalexp	C+D+	CDC-	desired lbr	redunda	C+D	Redundan	ratio
		POSSIBLY AMENABLE AND REDUNDANT								
1	23	RURAL DEVELOPMENT (PANCHAYATI RAJ)	6333.77	3242	1.95	1267	1975	89	1886	58.18
2	30	FOREST	2145.90	2104	1.02	429	1675	164	1511	71.81
3	15	PWD (Water Resources)	4022.46	2236	1.80	804	1432	77	1355	60.58
4	29	ANIMAL RESOURCE DEVELOPMENT	663.56	1515	0.44	133	1382	73	1309	86.42
5	42	YOUTH AFFAIRS & SPORTS	265.90	1044	0.25	53	991	33	958	91.75
6	49	HOME (FIRE SERVICE)	17.44	923	0.02	3	920	13	907	98.21
7	51	PWD (PHE)	3193.75	1525	2.09	639	886	58	828	54.31
8	26	FISHERIES	356.35	875	0.41	71	804	30	774	88.43
9	13	PWD (ROADS & BUILDINGS)	19627.85	4994	3.93	3926	1068	296	772	15.47
10	5	LAW	160.27	780	0.21	32	748	19	729	93.45
11	17	INFO, CULTURAL AFFAIRS & TOURISM (ICAT)	384.36	828	0.46	77	751	25	726	87.70
12	21	FOOD, CIVIL SUPPLIES & CONSUMER AFFAIRS	47.14	765	0.06	9	756	41	715	93.41
13	3	GA (Sectt. Administration)	452.49	805	0.56	90	715	19	696	86.40
14	14	POWER	19788.54	4847	4.08	3958	889	200	689	14.22
15	12	CO-OPERATION	442.32	507	0.87	88	419	12	407	80.18
16	24	INDUSTRIES & COMMERCE	2943.52	1028	2.86	589	439	62	377	36.70
17	38	GA (PRINTING & STATIONERY)	92.14	362	0.25	18	344	22	322	88.83
18	32	WELFARE FOR SCHEDULED TRIBES (TRP & PGP)	212.21	293	0.72	42	251	6	245	83.47
19	1	ASSEMBLY SECRETARIAT (Parliamentary Affairs)	134.03	265	0.51	27	238	3	235	88.75
20	35	URBAN DEVELOPMENT	1766.40	535	3.30	353	182	5	177	33.03
21	25	INDUSTRIES & COMMERCE (HH & SERICULTURE)	940.87	387	2.43	188	199	29	170	43.88
22	9	PLANNING (ECONOMICS & STATISTICS)	25.72	172	0.15	5	167	15	152	88.29
23	55	EMPLOYMENT SERVICES & MANPOWER PLG	11.18	132	0.08	2	130	5	125	94.52
24	4	ELECTION	15.05	96	0.16	3	93	5	88	91.66
25	33	SCIENCE, ENVIRONMENT & TECHNOLOGY	124.83	86	1.45	25	61	0	61	70.97
26	2	GOVERNOR'S SECRETARIAT	60.76	64	0.95	12	52	2	50	77.89
27	34	PLANNING & CO-ORDINATION	259.40	77	3.37	52	25	2	23	30.02
28	7	GA (Administrative Reforms)	24.81	30	0.83	5	25	2	23	76.79
29	50	HOME (CIVIL DEFENCE)	3.91	23	0.17	1	22	0	22	
30	54	LABOUR (FACTORIES & BOILERS)	33.37	12	2.78	7	5	0	5	44.38
31	18	GA (POLITICAL)	43.76	13	3.37	9	4	2	2	17.29
32	19	WELFARE FOR SCHEDULED TRIBES	8522.08	580	14.69	1704		27		
33	20	WELFARE FOR SC, OBC & 1392.54		109	12.78	279		10		
34	11	TRANSPORT	1108.14	85	13.04	222		3		
35	31	RURAL DEVELOPMENT	6115.66	863	7.09	1223		48		
36	22	RELIEF & REHABILITATION	1027.37	19	54.07	205		3		
37	37	LABOUR		260				15		
38	56	INDUSTRIES & COMMERCE (I T)	229.63	9	25.51	46		0		
39	48	HIGH COURT	171.26					0		
40	8	GA (P & T) (Tripura Public Service Commission)		372				1		
41	43	FINANCE (SS, GI & IF)	70914.77	48	1477.39	14183		0		
		Total (Amenable)	154074.9	32910		30781	17646	1416	16337	
		Non Amenable								
42	40	SCHOOL EDUCATION	4866.00	32001	0.15	973	31028	1723	29305	91.57
43	10	HOME (POLICE + RADIO)	7645.58	20345	0.38	1529	18816	340	18476	90.81
44	41	SOCIAL WELFARE & SOCIAL EDUCATION	3054.00	8546	0.36	611	7935	125	7810	91.39
45	39	HIGHER EDUCATION	1959.11	1095	1.79	392	703	97	606	55.36
46	16	HEALTH & FAMILY WELFARE	1873.96	6534	0.29	375	6159	334	5825	89.15
47	6	REVENUE (DA, LR, SG, WM, Treasury)	1011.85	3304	0.31	202	3102	160	2942	89.03
48	27	AGRICULTURE + HORTICULTURE	2861.67	3234	0.88	572	2662	173	2489	76.95
49	36	HOME (JAIL)	123.29	468	0.26	25	443	12	431	92.17
50	45	FINANCE (TAXES & EXCISE)	60.41	168	0.36	12	156	4	152	90.43
		Total (Non Amenable)	23455.87	75695		4691	71003	2968	68036	
		Total (Amenable+Nonamenable)	88050	89615		17610	88650	4277	84373	
		Grand Total	177531	**108605**		35472	88650	4384	84373	

Source: (Basic Data), Budget at A Glance, 2003-04, Govt. of Tripura (pages 14-22) and Department of Finance (2003).

APPENDIX 1

TERMS OF REFERENCE

To study fiscal scenario of the State and suggest measures which the State government can take to restructure the State Finances covering following areas:

1. Suggest ways and means for implementation of MTFRP.
2. Suggest measures to improve debt management, on study and analysis of trends, composition of Public Debt and other component of borrowings and scope of alternative cost effective patterns of financing of debt.
3. Suggest measures to augment revenue receipts on study of trends determinants and scope.
4. Suggest measures for improvement in cash management.
5. Suggest measures to foster social development and sustainable economic growth by addressing prevailing resources and implementation constraints in the State.
6. Suggest measures for implementation of Public Sector Reforms including capacity building, institutional strengthening and management policy and operational framework for restructuring of public enterprises.
7. Suggest measures for promoting and enabling environment for private sector participation.
8. Suggest measures in improving efficiency of Govt. expenditure.
9. Suggest measures for Budgetary Reforms.
10. Preparation of a proposal on overall Fiscal Reform for the State to facilitate obtaining soft loan/assistance from Multilateral.
11. Identify the areas which can be projected for obtaining Externally Aided Project.
12. To suggest measures for budgetary reforms and ways and means for implementation of MTFRP.
13. To prepare draft Bills on Fiscal Responsibility and Budget Management as well as on Legislative Ceiling on Guarantees.

Appendix 2

Draft Fiscal Responsibility Bill for Tripura

1. Short title and commencement –

(i) This Act may be called the Tripura Fiscal Responsibility Act, 2004.

(ii) It extends to the whole of Tripura.

(iii) It shall come into force on such date as the State Government may, by notification, appoint.

2. Definitions – In this Act, unless the context otherwise requires:

(i) "Annual Budget" means the annual financial statement laid before the State Legislature under article 202 of the Constitution;

(ii) "Current Year" means the year preceding the year for which the budget and Fiscal Reform Programme (FRP) are being presented.

(iii) "Fiscal Deficit" means the excess of –

total disbursements from the Consolidated Fund of the State (excluding repayment of debt) over total non-debt receipts into the Fund. These receipts are the sum of own tax and non-tax revenue receipts, devolution and other grants from Government of India to the State on the revenue account, and non-debt capital receipts during a financial year. The fiscal deficit thus represents the borrowing requirements, net of repayment of debt, of the State Government during the financial year.

Clarification: For the purpose of calculation of fiscal deficit, borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government are to be treated as borrowings of the Government, even though the initial borrowing might have been off-budget.

(iv) "Fiscal Indicators" means the measures such as numerical ceilings and proportions to gross state domestic product or total revenue receipts, as may be prescribed, for evaluation of the fiscal position of the State Government;

(v) "Previous Year" means the year preceding the current year.

(vi) "Revenue Deficit" means the excess of revenue expenditure over revenue receipts. This excess may be negative, if in a year there is a surplus of receipts over expenditure.

Clarification: For the purpose of this clause, interest payment by Government towards borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on Government, shall be treated as revenue expenditure.

(vii) "Ensuing Year" means the financial year for which the budget is being presented.

(viii) "Financial Year" means the year beginning on the 1st April and ending on the 31st March next following.

(ix) "Off Budget Borrowing" means borrowing by the State Government or its Agencies which is not reflected in the Budget.

(x) "Reserve Bank" means the Reserve Bank of India constituted under sub-section (1) of section 3 of the Reserve Bank of India Act, 1934 (Act 2 of 1934).

(xi) "Prescribed" means prescribed by rules made under this Act.

(xii) "Total Liabilities" means the liabilities under the Consolidated Fund of the State and the public account of the State.

3. Fiscal Reform Programme to be laid before the Legislature-

(i) The State Government shall in each financial year lay before the Legislature a Fiscal Reform Programme along with the annual budget.

(ii) The Fiscal Reform Programme shall set forth a multi-year rolling target for the prescribed fiscal indicators with specification of underlying assumptions.

(iii) The Fiscal Reform Programme shall, inter alia, contain,-

(a) the medium term fiscal objectives of the State Government;

(b) an evaluation of the performance of the prescribed fiscal indicators in the previous year vis-a-vis the targets set out, and the likely performance in the current year as per revised estimates.

(c) a statement on recent economic trends and future prospects for growth and development.

(d) the strategic priorities of the State Government in the fiscal year of the ensuing financial year;

(e) the policies of the State Government for the ensuing financial year relating to taxation, expenditure, borrowings (including borrowings by Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government, with ceiling fixed on each agency) and other liabilities, lending and investments, pricing of administered goods and services and description of other activities, such as guarantees and activities of Public Sector Undertakings which have potential budgetary implications; and the key fiscal measures and targets pertaining to each of these;

(f) an evaluation as to how the current policies of the State Government are in conformity with the fiscal management principles set out in section 4 and the fiscal objectives set out in the Fiscal Reform Programme.

4. Fiscal Management Principles:

In particular, and without prejudice to the generality of the foregoing provisions, the State Government shall –

(i) Reduce revenue deficit (or increase the revenue surplus, as the case may be) as a percentage of total revenue receipts by two (five) percentage points within a period of five financial years beginning from the initial financial year on the 1st of April, 2005 and ending on the 31 st day of March, 2010.

(ii) Reduce the ratio of the debt stock to estimated Gross State Domestic Product to forty percent within a period of five financial years beginning from the initial financial year on the 1 st of April, 2005 and ending on the 31 st day of March, 2010.

(iii) Cap outstanding guarantees on long term debt at the absolute level attained at the start of the FDR on 1 April 2005.

(iv) Reduce the prescribed fiscal indicators in a cumulative manner, whereby, in case the path limits for the revenue deficit, specified in subsection (i) may not be achieved in the initial financial year beginning on the 1st day of April, 2005, a reduction by four (ten) percentage points shall be achieved in the next financial year.

5. Fiscal Conduct

(i) No abnormal increase in expenditure on Government Employees, remission in State revenue or other measure which may result in credit operations based on future revenue, other than the normal open market and other borrowings of the State Government, conducted through the Reserve Bank, shall be undertaken within a period of six months before elections to the Tripura Legislative Assembly become due.

(ii) No department of the State Government shall allow any liabilities, which have become due, to remain unpaid for a period of more than three months, or incur fresh liabilities, if previously increased liabilities have remain unpaid for a period of more than three months.

(iii) No financial disbursements from the State Governments to State Public Sector Undertakings for the purposes of cover for losses may be made from the capital account. All such disbursements shall be made from the revenue account.

6. Measures for Fiscal Transparency-

(i) The State Government shall take suitable measures to ensure greater transparency in its fiscal operations in the public interest and minimize as far as practicable, secrecy in the preparation of the annual budget.

(ii) In particular, and without prejudice to the generality of the foregoing provision, the State Government shall, at the time of presentation of the annual budget, disclose in a statement in the form as may be prescribed-

(a) the significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of prescribed fiscal indicators;

(b) as far as practicable, and consistent with protection of public interest, the contingent liabilities created by way of guarantees; the actual liabilities arising out of borrowings of Public Sector Undertakings and Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government; all claims and commitments made by the State Government having potential budgetary implications, including revenue demands raised but not realized; tax expenditures; losses incurred in providing public goods and services through public utilities and undertakings; liability in respect of major works and contracts; and subsidy payments and the impact of the same on the fiscal position of the State including in relation to the targets referred to in section 4.

7. Public Expenditure Review Committee-

(i) As soon as may be after the commencement of the Act, the Government may by notification in the Gazette appointed a Committee to be called the Public Expenditure Review Committee.

(ii) The Committee shall consist of not more than five members who are having expertise in the fields of Finance, Economic Management, Planning, Accounts and Audit and Law.

(iii) The members of the Committee shall be appointed by the Government on the recommendation of the Selection Committee consisting of the Chief Minister, Finance Minister and the Leader of the Opposition.

(iv) The terms and conditions of the members in the Committee shall be such as may be prescribed.

8. Measures to enforce compliance-

(i) The Annual Budget, and policies announced at the time of the budget, shall be consistent with objectives and targets specified in the Fiscal Reform Programme for the coming and future years.

(ii) The Minister in charge of the Department of Finance, shall review every six months, the trends in receipts and expenditure in relation to the budget, and suggest remedial measures to be taken to achieve the budget targets. The outcome of such reviews shall be placed before the Legislature. The review report shall be in such form as may be prescribed.

(iii) The review report shall explain:

(a) any deviation or likely deviation in meeting the obligations cast on the State Government under this Act;
(b) whether such deviation is substantial and relates to the actual or the potential budgetary outcomes, and how much of the deviation can be attributed to the general economic environment and to policy changes by the State Government; and
(c) the remedial measures the State Government proposes to take.

(iv) Whenever there is a prospect of either shortfall in revenue or excess of expenditure over pre-specified levels for a given year on account of any new policy decision of the State Government that affects either the State Government or its Public Sector Undertakings, the State Government, prior to taking such a policy decision, shall take measures to fully offset the fiscal impact for the current and future years by curtailing the sums authorized to be paid and applied from and out of the

Consolidated Fund of the State under any Act to provide for the appropriation of such sums, or by taking interim measures for revenue augmentation, or by taking up a combination of both.

Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under clause (3) of article 202 of the Constitution.

Provided further that, while adhering to the fiscal targets, the State Government shall give priority to protecting certain expenditure declared in the Fiscal Reform Programme as “high priority development expenditure” (including, inter alia, elementary education, basic health and rural water supply) from curtailment or may imposed a reduced or partial curtailment.

(v) Whenever one or more supplementary estimates are presented to the Legislature, the State Government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue measures to fully offset the fiscal impact of the supplementary estimates in relation to the budget targets of the current year and the Fiscal Reform Programme objectives and targets for the future year.

(vi) Whenever outstanding guarantees exceed the limits specified in sub-section (iii) of section 4, no fresh guarantee shall be given except for the purpose of replacing high cost debt in such a way that there is no net increase in outstanding guarantees after such a debt swap.

(vii) The State Government may assign an independent external agency to carry out the periodic review for the compliance of the provisions of this Act in such manner as may be prescribed.

(viii) In the event of failure to attain the revenue deficit/annual reduction targets as specified in this Act, the government shall give an undertaking that the cumulative commitment, as spelled out in subsection (iv) of section 4 of this Act, shall be met, failing which the Legislature is empowered to not pass the demands for grants for the next financial year.

9. Power to make rules

(i) The State Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act,

(ii) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:

(a) the fiscal indicators to be prescribed for the purpose of sub-section (ii) of section 3 and clause (a) of sub-section (ii) of section 6;
(b) the form of the Fiscal Reform Programme referred to in sub-section (ii) of section 6;
(c) the periodic review by an independent external agency under sub-section (vii) of section 8; and
(d) any other matter which is required to be, or may be, prescribed.

10. **Rules to be laid before Legislature-** Every rule under this Act shall be laid, as soon as may be after it is made, before each House of Legislature, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or may be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

11. **Protection of action taken in good faith-** No suit, prosecution or other legal proceedings shall lie against the State Government or any officer of the State Government for anything which is in good faith done or intended to be done under this Act or the rules made thereunder.

12. **Application of other laws not barred-** The provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

13. **Power to remove difficulties-**

(i) If any difficulty arises in giving effect to the provisions of this Act, the State Government may, by order published in the Official Gazette, make such provisions not inconsistent with the provisions of this Act as may appear to be necessary for removing the difficulty

Provided that no order shall be made under this section after the expiry of two years from the commencement of this Act.

(ii) Every order made under this section shall be laid, as soon as may be after it is made, before the State Legislature.