State Fiscal Studies ASSAM

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T.S. Rangamannar

NIPFP

National Institute of Public Finance & Policy
New Delhi

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Preface

This study was undertaken by the National Institute of Public Finance and Policy in consultation with the State authorities and on a local consultancy assignment from the World Bank. It is part of the first batch of a series of **Fiscal Studies of the States**.

The study team consists of D. K. Srivastava, Saumen Chattopadhyay and T. S. Rangamannar. Opinions expressed here are those of the authors. The members of the Governing Body of the National Institute of Public Finance and Policy are in no way responsible for these.

New Delhi

Ashok K. Lahiri
Director

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D.K. Srivastava
Saumen Chattopadhyay
T.S. Rangamannar

Introducing Assam : some key statistics

CAPITAL : DISPUR

Number of Districts	23
Urban Agglomerations/ Towns	87
Principal Language	**Assamese**
Number of Villages (1991)	**28590**

Status : Special Category

Area (Sq. Km.)		78438
	Hills	15322
	Plains	63116
		1991
Population (Lakh)		224.14
	Urban	24.88
	Rural	199.26
Density of Population (persons per Sq. Km.)		286
Females Per '000 Males		922
Literate Population (percent)		52.89
	Males	61.87
	Females	43.03

Poverty Index		***1993-94***
	Assam	40.9
	India	36.0

Per Capita Income (NSDP) Rs.at Current Prices

	1990-91	***1994-95***
Assam	4281	5999
India	5073	8399

Stucture of Production (Sector Shares) (Average, percent of GSDP)	***1990-95***
Agriculture	36.9
Industry	16.4
Services	46.7

Infant Mortality (Per '000 live births)		***1993***
	Assam	81
	India	74
Life Expectancy (Years)		***1991-96***
	Male	58.7
	Female	58.5
Infrastructure Index		***1993-94***
	Assam	78.9
	India	100

Key Fiscal Indicators (percent of GSDP)

	1990-91	***1995-96***
Expenditure	23.1	24.26
Own Tax Revenue	3.96	4.05
Own Non Tax Revenue	2.61	1.93
Central Revenue Transfers	10.09	13.48
Fiscal Deficit	5.36	3.76
Primary Deficit	2.89	0.95
Outstanding Debt	38.52	29.08

		1994-95
Railways : Route Length (Km.)		2362
	Per '000 Sq.Km.	30.13
Roads : Length (Km.)		68090
	Per '000 Sq.Km.	868.5

Per Capita Power Consumption		***1994-95***
Utilities(KWH)	Assam	90
	India	320
		1993-94
Post Offices (Number)		3807

Units : 1 Crore = 10 Million = 100 Lakh,

Source : CMIE, 1997; GoA, relevant years (b); GoI, 1996.

Executive summary

CONSTRAINTS AND ECONOMIC SLIDE

Assam is pivotal to India's northeast. Given the balance of its natural advantages (forests, minerals, tea-centric terrains) and constraints (remoteness, turbulent rivers, lack of infrastructure and entrepreneurship), Assam had been able to achieve, in terms of real Gross State Domestic Product (GSDP) growth, an economic performance which was a shade above that of the five low income States in India. Since the late eighties, even this modest performance took a turn for the worse, with the real GSDP growth rate, on an average, falling by close to 1 percentage point.

At the core of this economic slide was the problem of insurgency. In its wake, the area became unattractive for investment while the State government's energies were sapped by the immediate security concerns. The depressed economic base, and growing unemployment, bloated up the cadres of insurgency, setting up a vicious downward spiral. The economic plight of Assam was recognised by the Centre by declaring it a **Special Category State** (SCS) in 1991. A year earlier, it had been declared a disturbed area.

Several disquieting features of the emerging scenario became evident:

- Along with the retardation of economic growth, the poverty ratio which had receded from 40.5 percent in 1983-84 to 36.2 percent by 1987-88, climbed back to a figure of 40.9 percent by 1993-94.

- Budgetary capital expenditure, net of repayments, measured in relation to GSDP, fell by a clear 2 percentage points, between 1990-91 and 1996-97.

- The share of wages and salaries in the budget, measured as a proportion of GSDP, increased sharply (by about 6 percentage points between 1990-91 and at present after salary revisions are taken into account).

- Serious resource shortages emerged in vital areas like the provision for basic minimum services (BMS) (safe drinking water, elementary education, primary health and housing for the rural and shelterless population). The high level commission appointed by the Centre estimated the resource requirements for BMS at Rs. 3951.80 crore at 1996-97 prices for the Ninth Plan period.

Centre's concern with the mounting problems of Assam, and indeed with those of the entire northeast, grew. A significant northeast initiative has been launched with the

Deputy Chairman of the Planning Commission heading the northeast council. About 43 Central ministries are committed to set aside 10 percent of their plan outlay for their projects located in the northeast. A corpus of Rs. 1500 crore (unspent amount earmarked by these ministries at the end of 1997-98) is being established for expenditure on northeast projects.

FISCAL PROFILE: CRITICAL IMBALANCES

Critical imbalances have developed in the fiscal profile of the State. Government expenditure (net of repayments) as a percentage of GSDP has fallen by 3.5 percentage points between 1986-87 and 1996-97 while the structure of government expenditure has kept shifting towards non-capital, non-discretionary expenditures. Non-discretionary expenditures (wages and salaries, interest payments, pensions, etc.) now constitute about 17 percent of GSDP leaving little room for developmental expenditure with total expenditure being only fractionally above 20 percent of GSDP.

On the side of revenues, three features stand out, *viz.*, growing dependence on Central funds, a significant fall in the growth of the main tax source (sales tax), and a serious decline in the contribution of non-tax revenues:

- The share of Central revenue transfers (grants and shared taxes) has increased by 4.3 percentage points, in relation to total government expenditure between 1990-91 and 1996-97, the level of dependence of Assam government on Central funds being about 68 percent of its total expenditure in 1996-97.

- Sales tax has been by far the most important revenue source for the State government. Yet, growth in sales tax revenue, measured in relation to growth in GSDP, shows a tangible and significant decline since the late eighties. The basic reason is extensive tax evasion and limited administrative capacity. Assam is a transit State for goods traffic meant for markets further east. This feature is exploited for evading tax by showing taxable goods as transiting the State, while they are actually sold within the State.

- The contribution of non-tax revenues has fallen from 4.5 percent of GSDP in 1986-87 to 1.7 percent in 1996-97. The recovery rates in respect of costs incurred in the provision of social and economic services, even when several of these services considered as merit goods are set aside, are extremely low. For social and economic services, not belonging to the merit category, these rates are merely 0.34 and 2.22 percent of the relevant total costs.

- The return to the Government of Assam, in the form of interest and dividends, on a total investment in State Level Public Enterprises

(SLPEs) amounting to around Rs. 2500 crore is less than Rs. 3 crore, implying a near-zero rate of return on the capital invested.

The deleterious linkages of the fiscal chain may thus be characterised as: Central funds, accompanied by a decline in own revenue effort get spent more and more on wages and salaries of government employees (or in sustaining employment in SLPEs) whose effective contribution keeps falling because of inadequate expenditure on goods and materials, and on investment. In turn, the economic base is further weakened increasing dependence on Central funds.

Further, the plan that is actually implemented is a dwarfed and distorted version of its original blueprint, primarily because of over-projection of available resources. Many plan schemes remain half-done and leave liabilities running into the new plan, making returns on plan investment low or negligible.

In effect, therefore, there are three intertwined downward spirals besetting the economic and fiscal base of the State arising from unproductive plans, fiscal imbalance and insurgency.

ECONOMIC RESURGENCE: CORE REFORMS

In the wake of insurgency and stunted private initiatives, the State government will have to be placed at the core of a viable strategy for resurgence. As a first step, the basic fiscal imbalance, which is exhibited in the ratio of expenditure on salaries to that on goods and materials and capital formation should be corrected. It is of little avail having highly paid employees, if they are starved of a minimum amount of working expenditure for materials and in the absence of complementary investment activities.

Expenditure reorientation

In order to reverse the trend of falling capital expenditure (as a percentage of GSDP), we propose that in the next two years, when the required adjustment would be maximum, the target for capital expenditure should be at least 30 percent of the plan outlay (about 2.6 percent of GSDP). This target should be gradually increased to 50 percent of plan outlay (amounting to about 4.8 percent of GSDP) by the end of the adjustment period (2001-02). In the case of a normal (non-special category) State, it is expected that capital expenditure would be about 70 percent of the plan outlay. However, as a special category State, Assam has been allowed to divert 20 percent of plan expenditure for non-plan purposes. Ultimately, Assam, like the other general category States, should also aim at a target of capital expenditure of about 70 percent of the plan outlay particularly since the 20 percent diversion has been allowed only as a temporary measure.

Further, we need to consider the form this capital expenditure would take. Since it is not being suggested that government should invest further in public enterprises (in the form of equity investment or loans), most of the capital expenditure would directly augment assets pertaining to government departments. Capital expenditure should be allocated to the following priority sectors: irrigation, education, health and infrastructure. For general administration, emphasis should be on modernisation and computerisation.

The adjustment programme requires an appropriate policy for government employment. Employment in general administration should fall. This will have to be achieved by (i) not filling up posts when people retire; (ii) redeploying staff from general administration to sectors that will yet expand, *viz.*: education, health, urban and rural infrastructure; and (iii) setting up a suitable Voluntary Retirement Scheme (VRS). In fact, a Redeployment Commission may be set up which can identify surplus staff, and arrange for retraining staff where necessary.

Other expenditure adjustments would include (i) reduction in direct subsidies; (ii) adequate provision for maintenance expenditure; and (iii) ensuring that the State government's share for the Northeast Plan is provided for. Provision for maintenance expenditures should be monitored as per the guidelines provided by the Tenth Finance Commission.

Resource augmentation

Sales tax is by far the most important among tax sources though much of the relevant tax-base remains untapped. Sales tax reforms should have two primary objectives, *viz.*, improving the administrative capacity and reforming the system in preparation for a subsequent implementation of VAT, and taking initiatives to exploit the potential tax base. Our specific recommendations are: (i) reduce the number of tax rates; (ii) review the list of exemptions; (iii) arrive at an agreement with the neighbouring States to collect their sales taxes at entry point in Assam; and (iv) improve administrative capacity by modernisation and computerisation of the tax departments. We further suggest that the State government may consider reducing the Central sales tax rate to 2 percent by allowing a partial rebate on inputs for registered dealers above a threshold. Along with it, the State government may consider levying a turnover tax at a low rate of 1 percent applicable to the resellers which will cover the revenue loss and possibly yield additional revenues. While we recognise that a turnover tax is not to be encouraged under normal circumstances, we are making this suggestion specifically for the existing circumstances in Assam. It may, however, be scrapped when VAT is fully implemented.

Other taxes with unexploited revenue potential are State excise duties, profession tax, and the tax on specified lands. For these too, we have made specific recommendations. An estimated additional sum of about Rs. 900 crore (compared to projection on the basis of existing trends) should be forthcoming by the year 2001–02 from the tax sources. A major contribution in this is expected from the sales tax and the excise duties.

The contribution of non-tax revenues to the budgetary resources has been low and falling because the fees and charges for the services that the government provides have remained unchanged for a long time. As this is an area with considerable revenue potential, we have suggested increases in the concerned rates in a gradual manner. Further, we have underlined the importance of the forestry sector and timber-based industries and measures to reactivate this sector. The expected additional amount from the non-tax sources by 2001–02 is about Rs. 180 crore.

The power sector is due for complete overhaul. Assam should aim to become a net exporter of electricity exploiting its coal and oil reserves as also its hydro-potential. For this, the State government should attract, with the cooperation of the Central government, domestic and international capital, for taking up power projects through the formation of consortia.

Privatisation can be attempted in selected segments with Assam State Electricity Board (ASEB) continuing to be a nodal agency. Maximum effort should be made to privatise inefficient plants. Small investment can reduce T&D losses significantly. Further, an attractive VRS should be set up and built-in flexibility should be provided for periodic upward revision of tariffs when costs escalate.

The Assam State Transport Corporation (ASTC) also makes losses, but there has been an improvement in vehicles – productivity and fuel efficiency has not deteriorated. The basic problems are: increasing cost of fuel, overstaffing and low bus tariffs. Further reduction in staff strength (there has already been some), a more favourable combination of profitable and unprofitable routes, and a marginal increase in bus (and ferry) tariffs should enable the ASTC to turn the corner.

Other SLPEs, with minor exceptions, are a virtual write-off. They should be privatised or handed over to workers' cooperatives. If there are no takers, they should be closed down with a plan for redeployment of staff.

FISCAL PROSPECTS UNDER REFORMS

This study attempts to construct alternative fiscal profiles for Assam for the period 1997–98 to 2001–02. The quantitative framework used for this purpose indicates first the total amount of resources available. Non-discretionary expenditures (interest payments, wages and salaries, pensions and current transfers to local bodies) are then set aside leaving a balance for meeting other expenditure claims. The base scenario, which provides a benchmark, indicates the extent of adjustment that is required. Initially, it amounts to more than 4 percentage points of GSDP. It also highlights that, in the absence of corrective action, adequate capital formation and provision of basic minimum services can both be ruled out. To remedy this situation, we explore the main avenues of reform through two scenarios.

In the first case (reform 1) State-specific initiatives are considered. There are three main remedial avenues: (i) improving tax receipts; (ii) augmenting non-tax revenues; and (iii) restructuring expenditure. The quantitative impact of revenue side policies implies that own tax revenues, measured as a proportion to GSDP, increase from 4.32 percent in 1997-98 to about 6 percent in 2001-02 and non-tax revenues increase from 1.76 percent to 2.24 percent during the same period. Expenditure on wages and salaries falls to 9.4 percent while capital expenditure increases to about 5 percent by 2001-02. As a result of these changes, the situation improves, but it is not fully ameliorated, especially in the first two years.

The next (reform 2) takes into account the full impact of the State initiatives complemented by the Centre. The completed adjustment produces a picture in which, while keeping fiscal deficit at a low and sustainable level, priority spending targets are met. As a result, capital expenditure increases to about 6 percent by 2001-02, and about 1.6 percent of GSDP is set aside for targeted spending on BMS and infrastructure. The share of wages and salaries fall to less than 9 percent of GSDP. These results flow from both direct policy reforms and achievement of a higher growth of real GSDP.

POLICY COORDINATION AND URGENCY

The Central government will have to play a key role in encouraging and complementing fiscal reforms in Assam (and in the northeast). Extra assistance from the Centre will be required to enable the State to tide over the resource shortages in the first two years. However, the Centre ought to insist on this additional support being conditional upon the State government initiating the reform process immediately.

On its part, the State government needs to realise that while 1998-99 and 1999-2000 will be difficult years, the situation will be considerably eased if the reform process is initiated straightaway. The situation is well past the stage where a sequencing could be done among the policy options which are limited. Concerted and simultaneous action on reforms on all the four major fronts, *viz.*, taxes, non-tax sources, expenditures targeted for reduction (wages and salaries, subsidies and transfers) and for augmentation (maintenance and capital formation) must be undertaken. Action initiated now in respect of power sector reforms and withdrawal from other SLPEs would start yielding results in the next few years.

Synopsis of recommended fiscal reforms

State Initiatives

Sales Taxes

*Close the gap between potential and actual tax revenue by increased revenue effort
*Reduce the number of tax rates
*Modernise tax administration
*Collection of Sales tax for the neighbouring States at entry point in Assam under a suitable agreement
*Consider introduction of partial input rebates,phased reduction in CST to 2% and introduction of TOT of 1%
*Review the regime of exemptions and incentives

Other Taxes

*Explore possibilities of revenue augmentation in Profession Tax and Tax on Specified Lands
*Replace licensing by auction system in the case of State excises

Subsidies

*Reduce direct subsidies
*Reduce extent of subsidisation in social and economic services through increased fees and user charges.

State Level Public Enterprises

*ASEB : Attempt privatisation in selected segments ; built-in provision for tariff revision : continue freeze on employment, set up an attractive VRS
*ASTC : Continue reducing staff strength ; give to ASTC some more profitable routes
*Other SLPEs : Gradual withdrawal of State through formation of cooperatives/privatisation

Expenditure Restructuring

*Reduce the number of government employees in general administration and redeploy staff towards priority sectors (edu.,health & infrastructure) ; set up a Redeployment Commission
*Ensure adequate spending in priority areas like maintenance,basic minimum services including primary education and health and infrastructure ; reactivate forestry sector
*Ensure that capital expenditure is not less than 50% of Plan outlay.

Central Initiatives

Sales Taxes

*Persuade all North Eastern States to levy Sales tax, explore possibilities of their centralised collection with agreed principles for sharing the proceeds

North East Plan

*Formulate Special North East Plan as per Shukla Commission Report (a corpus of Rs1500 Cr is now available)

Non tax Revenues

*Link rate of royalty on crude oil more closely to market prices

*Provide relief in respect of insurgency-related expenditures

Central Sector Projects

*Help the State prepare projects for the exploitation of hydropotential especially where other States are involved ; undertake large scale projects with external assistance as Central Sector projects or jointly with the private sector

Monitoring Expenditures

*Expenditure on maintenance should be effectively monitored as per the recommendations of the Tenth Finance Commission

Abbreviations

AIT	Agricultural Income Tax
ASEB	Assam State Electricity Board
ASTC	Assam State Transport Corporation
BMS	Basic Minimum Services
CLS	Country Liquor Shops
CMIE	Centre for Monitoring the Indian Economy
CSO	Central Statistical Organisation
CST	Central Sales Tax
DPAP	District Primary Aided Project
DPEP	District Primary Education Programme
EAP	Externally Aided Project
GDP	Gross Domestic Product
GSDP	Gross State Domestic Product
HIS	High Income States (Goa, Punjab, Maharashtra, Haryana, Gujarat)
LIS	Low Income States (Bihar, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh)
MIS	Middle Income States (Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, West Bengal)
NE	Northeast
NEEPCO	North Eastern Electric Power Corporation
NGO	Non-Government Organisation

NHPC	National Hydro Power Corporation
NIPFP	National Institute of Public Finance and Policy
PF	Provident Fund
NSDP	Net State Domestic Product
PLF	Plant Load Factor
RBI	Reserve Bank of India
REC	Rural Electrification Corporation
SCS	Special Category States
SFC	State Finance Commission
SLPE	State Level Public Enterprises
T&D	Transmission and Distribution
TFC	Tenth Finance Commission
TOT	Turnover Tax
TSL	Tax on Specified Lands
USSR	Union of the Soviet Socialist Republics
VDIS	Voluntary Disclosure Income Scheme
VRS	Voluntary Retirement Scheme

1. Economy: A macro perspective

Assam is pivotal to India's northeast. Notwithstanding its past glory (as *Kamrupa* and *Ahom Kingdom*), the State presently nurses a seriously ailing economy. Its distance from the national capital and other economic foci of the country, its admixture of plains and hills, and its flood-prone rivers constitute crucial constraints on its economic performance that are mitigated, albeit partially, by its mineral riches, forests, and tea-centric terrains.

Onset of insurgency in recent years has further debilitated the economic pulse of the State. In its wake, investment and growth are stunted while the State governments' energies are sapped by the immediate security concerns. Growing unemployment increases the cadres of insurgency, setting up a vicious downward spiral.

In recognition of its growing problems, Assam was declared a **Special Category State** (SCS) in 1991. A changeover in the grant to loan composition[1] of plan assistance from 30 : 70 to 90 : 10 took effect from 1990-91. Earlier, in November 1990, Assam had been declared a disturbed area.[2]

GROWTH : AGGREGATE AND SECTORAL

Using comparable data [prepared by the Central Statistical Organisation (CSO) especially for the Tenth Finance Commission] on per capita National State Domestic Product (NSDP) (average for 1987-88 to 1989-90), Assam is ranked second lowest among the SCS, Tripura being the lowest. Among all States, it is ranked as the sixth lowest (chart A1). A similar picture emerges in a comparison of per capita Gross State Domestic Product (GSDP) (average for 1991-92 to 1994-95) except that, in this case, Madhya Pradesh and Manipur are also ranked below Assam.

Growth in GSDP at constant prices over the period 1980-81 to 1984-85 (table 1.1) was higher in Assam as compared to the group of five general category Low Income States (LIS), viz., Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh. Assam went below the LIS group in the later two periods, i.e., 1985-86 to 1989-90 and 1990-91 to 1994-95. Its position has always remained below the all-India average. During the period 1989-90 to 1992-93, the annual growth rate of per capita GSDP of Assam fell sharply.

The profile of sectoral shares indicates a fall in the share of agriculture as well as industry while the share of services has increased. Average shares in GSDP at 1980-81 prices during the early eighties (1980-81 to 1984-85) read in conjunction with those in the early nineties (1990-91 to 1994-95), indicate that agriculture[3] accounts for a large but declining share (from 42.6 to 36.9 percent). The share of industry also marginally decreased from 17.2 to 16.4 percent. The share of services, however, increased from 40.2 to 46.7 percent (much of which may just reflect growth in public administration). The decline in industry in Assam is contrary to the all-India pattern or even that for the LIS group (table 1.1). Sectoral growth rates have fallen in agriculture and industry. This fall is especially pronounced for the industrial sector.

Within agriculture, the contribution of foodgrains to total crop production was 40 percent on an average (1980-81 to 1994-95), falling from an average of about 45 percent for the 1989-90 to 1994-95 period. Rice is the major crop accounting for 95 percent of the foodgrains production. Other important crops are tea, bananas, potatoes, sugarcane and wheat. The area under rice production (table A1.1) has been increasing among foodgrains. Among non-foodgrains, positive growth rates for area under cultivation are noticeable for coconuts, bananas and arecanuts. Vulnerability to floods, coupled with occasional droughts and outdated cropping pattern has beset the growth of this sector. Almost 13 percent of revenue expenditure in the Government budget goes to agriculture, although this share has been declining over the years. The share of this sector in government's capital expenditure was only 1 percent in 1994-95, declining from 5 percent in 1980-81.

Table 1.1: Sectoral Shares in GSDP and Growth Rates

(GSDP at 1980-81 Prices)

Sectors	1980-81 to 1984-85			1985-86 to 1989-90			1990-91 to 1994-95		
	Assam	LIS[1]	India	Assam	LIS[1]	India	Assam	LIS[1]	India
Shares (Percent of GSDP)									
Agriculture[2]	42.6	48.0	38.8	40.0	42.8	34.4	36.9	38.5	33.8
Industry[3]	17.2	22.1	25.0	17.4	24.3	26.8	16.4	26.6	27.6
Services[4]	40.2	29.9	36.1	42.6	33.0	38.8	46.7	34.9	38.7
Growth Rates (Percent Per Annum)									
Agriculture[2]	1.9	3.1	4.0	3.3	2.7	3.7	1.4	3.0	3.3
Industry[3]	11.4	5.7	6.8	3.1	8.3	7.5	2.6	4.4	5.3
Services[4]	5.6	5.2	5.7	4.5	7.7	7.4	6.6	4.0	6.1
GSDP	4.6	4.2	5.3	2.9	5.5	6.0	3.1	3.7	4.9

Source (basic data): CSO.

Notes: 1. LIS stands for five low income States: Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh. 2. Includes agriculture, forestry and logging, and fishing. 3. Includes manufacturing, mining and quarrying, electricity, gas and water supply, and construction. 4. Includes transport, storage and communication, trade, hotels and restaurants, banking and insurance, real estate, public administration and other services. Growth rates in the first block relate to 1981-82 to 1984-85.

Industry in Assam has lost a lot of ground with its share in GSDP (1980-81 prices) declining to less than 17 percent in the nineties. The main industrial activities relate to tea, petroleum and a few other agro - and resource-based industries.[4] Mining and quarrying pertain mainly to crude oil and natural gas. The share of this sector increased rapidly at first, rising to 15.36 percent in 1982-83 and later declined to 8.60 percent in 1994-95. The main bottlenecks relate to deficiency in infrastructure and banking facilities. Assam has one bank for 20,300 persons while the all-India average is about 13,000 persons. The credit-deposit ratio in Assam has continuously fallen since 1985. In March 1985, this ratio was 57.8. By March 1996, it had fallen to 39.3 (CMIE, 1997).

Tea is synonymous with Assam. The tea industry in Assam dates back to the late nineteenth century with considerable acreage being devoted to tea plantations in the Brahmaputra and Barak valleys. At present, Assam has the largest concentration of tea plantations in the world and is the biggest tea producing area. As on December 31, 1994 there were 1,012 tea estates in Assam. Over a forty-year period (1955-1995), production of tea increased from 1,66,640 to 3,99,133 ('000) kgs. (139 percent increase), its acreage went up from 1,56,749 hectares to 2,34,580 hectares (49.65 percent increase), while the yield (kg. per hectare) has gone up in the same period from 1,063 to 1,701 (60 percent increase). In this period, Assam tea accounted for almost 55 percent of India's total tea production and about 80 percent of the tea exports of the country. The tea industry in Assam provides direct and indirect employment to about 40 lakh persons (Assam Review and Tea News, January 1997) which is about 18 percent of the State's population. Employment in tea industry is favourably oriented towards rural areas and female workers. Among agricultural crops, it provides the highest employment per unit of arable land. Secondary employment is generated through warehouses and ancillary industries, and activities relating to supply of inputs. Growth in many economic activities in Assam like hotels, transport, banking and telecommunications relates directly to the growth of the tea industry. This industry contributes to the State exchequer through land revenue levied on tea estates, agricultural income tax, sales taxes and tax on specified lands (levied since 1990) on plucked and unprocessed green tea leaves grown in Assam. The Central government and the West Bengal government also derive substantial revenues from the Assam tea industry from Central excise duties and from entry tax and sales tax on tea sold in Calcutta and Siliguri auction centres, respectively.

SOCIAL DEVELOPMENT AND INFRASTRUCTURE

Social development indicators point out that in some respects Assam is marginally better than the corresponding all-India figures. While the literacy ratio is only marginally higher (table 1.2) than the all-India level, in the case of female literacy, it is higher by four percentage points. Yet, considered by itself, female literacy at 43.0 is too low. In rural areas, it is only 39.2 percent of population. A significant improvement in the infant mortality ratio from 106 in 1981 to 81 in 1991 is noticeable. In 1996, the infant mortality rate, at 74.0 and 72.0 for India and Assam, respectively, shows further improvement. The poverty (head-count) ratio indicates a marginal increase from 40.5 in 1983 to 40.9 in 1993-94 while in the same period the all-India poverty ratio went down from 44.5 to 36.0. In fact, by 1987-88, the poverty ratio in Assam had declined to 36.2, but it relapsed to the earlier level in the wake of the depressed economic conditions.

In the case of infrastructure, Assam's achievement is about 80 percent of the all-India index. This position has remained unchanged over the last fifteen years (table 1.2).

Table 1.2: Social and Infrastructure Development Indicators

(Percent)

	Assam		India	
	1981	**1991**	**1981**	**1991**
Literacy 34.6(1971)	N.A.	52.9	43.7	52.2
Female literacy 23.5(1971)	N.A.	43.0	29.8	39.3
Crude birth rate (per '000 population)	32.9	29.3	33.8	29.9
Infant mortality (per '000 live births)	106.0	81.0	110.0	80.0
Sex ratio (females Per '000 males)	900.0	922.0	934.0	927.0
	1951-61	**1961-71**	**1971-81**	**1981-91**
Population (growth per decade) Assam	35.0	35.0	23.4	24.2
(Census was not conducted in Assam in 1981; figures are interpolated) India	21.5	24.8	24.7	23.9
Poverty ratio (population below poverty line)	**1983**	**1993-94**	**1983**	**1993-94**
	40.5	40.9	44.5	36.0
Life expectancy (years) Male	Female		Male	Female
1986-91 55.7	55.2	1991-96	58.7	58.5
Index of infrastructure development	**1980-81**	**1984-85**	**1990-91**	**1993-94**
Assam (India = 100)	77.7	79.2	79.6	78.9

Source: GoI, 1992; CMIE, 1994 and 1997; GoI, 1993; and GoI, 1997b.

2. State finances

FISCAL TRENDS: AN OVERVIEW

As a percentage of GSDP, the size of the State budget, as measured by total budgetary expenditure, has fallen from 24 percent in 1986-87 to 20.5 percent in 1996-97 (table 2.1). While revenue expenditure relative to GSDP has marginally increased from 18 percent in 1990-91 to 18.55 percent in 1996-97, capital expenditure as a percentage of GSDP has been low and falling. Its fall from 5.34 percent in 1986-87 to 1.90 percent by 1996-97 has been accompanied by a fall in GSDP growth. Salaries have amounted to a little less than 9 percent of GSDP until 1994-95. It had risen further as percentage of GSDP in the next two years. According to available information, after the implementation of revision of salaries in line with the Fifth Central Pay Commission recommendations, the salary bill will rise to about 14 percent of GSDP. Deficit indicators are not alarming because borrowing by the State is restricted. Three trends are noticeable in capital receipts: (i) the share of internal debt (financial institutions and market) in total capital receipts has been increasing over time; (ii) loans and advances from the Centre are lower in the period 1990-91 to 1994-95 compared to that during the period 1985-86 to 1990-91 (the capital receipts profile is sharply divided by the 1991 threshold); and (iii) ways and means advances from Reserve Bank of India (RBI) and the Central government were used to overcome serious cash flow problems. The outstanding debt to GSDP ratio is better than that in most other States. In 1990-91, this ratio was 38.5 percent of GSDP but by 1996-97 it had fallen to 27 percent.

Assam's revenue receipts were about 20 percent of GSDP in 1996-97, i.e., just a shade above its level in 1986-87 although in 1993-94 this ratio had peaked to about 22.5 percent. Most of the changes in the revenue receipts reflect corresponding changes in grants from the Centre due to the acquisition by Assam of the special category status. Contribution from shared taxes shows a marginal increase after a steep fall during 1990-91 to 1993-94. Table A2.4 and chart A3 profile the major revenue sources and their relative contribution as a percentage of total revenue receipts.

The fiscal aggregates point to a deleterious fiscal chain which may be characterised as: Central funds, accompanied by a fall in own revenue effort, get spent, more and more, on wages and salaries of government employees (or in sustaining employment in SLPEs) whose effective contribution keeps falling because of inadequate expenditure on goods and materials, and on investment. In turn, the economic and revenue base is further eroded increasing dependence on Central funds.

Table 2.1: State Finances: An Overview

(Percent of GSDP)

	1986-87	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Revenues	**19.97**	**17.10**	**20.41**	**20.03**	**22.54**	**18.09**	**19.46**	**20.03**
Own tax revenue	4.10	3.96	4.32	3.97	4.16	3.86	4.05	3.98
Own non-tax revenue	4.51	2.61	2.22	3.53	2.37	1.99	1.93	1.67
Central revenue transfers[1]	11.36	10.53	13.87	12.53	16.01	12.23	13.48	14.38
Expenditure	**24.00**	**22.08**	**22.60**	**21.67**	**22.46**	**22.47**	**23.27**	**20.45**
Revenue expenditure	18.66	18.03	18.13	18.78	19.71	19.97	20.62	18.55
Of which interest payments	2.50	2.47	0.78	3.15	3.33	3.60	2.81	2.91
Pensions	0.20	0.46	0.70	0.80	0.91	0.99	1.04	1.11
Capital expenditure (net)	**5.34**	**4.05**	**4.47**	**2.89**	**2.75**	**2.49**	**2.66**	**1.90**
Of which capital outlay	2.91	2.33	2.41	1.82	1.70	1.69	1.73	1.25
Economic Classification: Selected Categories								
Wages and salaries	7.72	7.81	8.52	8.93	8.68	8.74	10.69	11.72
Direct subsidies	0.78	0.58	0.70	0.46	0.37	0.83	N.A.	N.A.
Current transfers	2.91	2.07	2.73	3.26	3.91	4.16	N.A.	N.A.
Deficit and debt[2]								
Fiscal deficit[3]	3.83	5.36	2.15	1.59	-0.12	4.34	3.76	0.38
Primary deficit	1.33	2.89	1.37	-1.55	-3.45	0.74	0.95	-2.53
Revenue deficit	-1.31	1.37	-2.27	-1.24	-2.83	1.89	1.15	-1.48
Outstanding debt	38.00	38.52	36.14	33.66	28.24	27.84	29.08	27.14

Source: CAG relevant years; CSO relevant years; Wages and salaries taken from the Budget Speech of the Chief Minister for 1998-99.

Notes:
1 Shared taxes and grants.
2. Minus sign denotes surplus.
3. Further details are given in the Appendix to Chapter 2 (Table A2.10).

TAXES

Own tax revenues, as a percentage of GSDP, have declined over time falling from 4.10 percent in 1986-87 to 3.98 percent in 1996-97.

Sales tax, agricultural income tax and land revenue together have accounted for about 80 to 85 percent of own tax revenues (chart A4). Among the State taxes, a structural transformation of the relative roles of different components is evident. Sales tax is by far the most important own tax revenue source. Its relative share in own tax revenues has continued to increase, whereas that of agricultural income tax has continued to decline in importance although with an erratic year-wise movement. Profession tax, and stamps, and registration fees have assumed greater importance over time. Stamp duty and registration fees have increased substantially during 1990-91 and 1991-92 mainly due to enhancement in the rates of registration fees.

Agricultural income tax (AIT) depends mainly on income from tea which, in turn, depends on a wide range of endogenous and exogenous factors like volume of production, cost variations, climatic conditions and international prices. Hence income from tea is subject to considerable fluctuations. Further, only 60 percent of the income from tea is treated as agricultural income and is taxed by the State government. The AIT rates were lowered from 83 percent in 1990-91 to 75 percent in 1991-92, and further to 60 percent in 1993-94. This explains the significant fall in the buoyancy of AIT in more recent years (table A2.1) with a virtually stagnant tax base. In 1997, the highest AIT rate has further been brought down to 45 percent, with lower rates according to income slabs for companies and persons (table A2.11). Further, sale of Assam tea was also significantly affected owing to the disintegration of the erstwhile USSR. Land revenue experienced its highest growth rate in 1991-92 with the introduction of `tax on specified lands'.

The revenue buoyancy coefficients of major taxes in Assam, estimated over the period 1986-87 to 1995-96 are: State excise duties (1.52), stamp duty and registration fees (1.02), motor vehicles tax (1.54), entertainment tax (0.34), and profession tax (1.90). Buoyancy of sales tax is 1.05. Sales tax buoyancy reflects a significant drop from the corresponding figure calculated over earlier sample periods. For example, over 1981-82 to 1986-87, buoyancy of total sales tax was 1.60. Part of the problem relates to insurgency due to which dealers do not keep stocks with them and business has shifted to West Bengal. Revenues from AIT and land revenue are highly volatile and accordingly their buoyancies change considerably with change in the period of reference.

Sales tax reached the highest rate of growth of 20.4 percent in 1991-92 primarily due to increased revenue from various petroleum products during the year. Since then, its growth rate has fallen sharply. Increase in sales tax revenues via increased tax rates is difficult because the neighbouring States have zero or very low tax rates. As such, trade could easily be diverted to areas with lower tax rates. However, there is considerable scope for reducing tax evasion which may be extensive. Assam happens to be a transit State for considerable goods traffic for markets further east. Utilising this feature, a significant proportion of goods that are shown as transiting the State actually get sold within the State and thus evade taxation. The bulk of commodity-based tax revenue comes from a limited number of organisations in the tea and petroleum sectors requiring little administrative effort.

There is a tendency on the part of the government to allow frequent exemptions of sales taxes. In 1992-93, purchase tax on paddy was withdrawn and instead a small levy of 2 percent *ad valorem* duty on rice, wheat and wheat products was introduced. In 1995-96, the Finance Minister gave exemptions on commodities such as paper, footwear, educational accessories, jute cloth, bamboo and wax candles. While exemptions as incentives to investment may be justified for Assam, there is no case for giving exemptions on a variety of consumption goods. Further, the efficacy of investment-related exemptions needs to be reviewed.

NON-TAX REVENUES

Among the non-tax revenues, royalty on crude oil paid by the oil companies accounts for more than 70 percent of the total non-tax revenue of the State. The royalty rate was fixed at Rs. 192 per metric tonne in 1984 and later revised to Rs. 393 per metric tonne. The royalty rates are determined by the Central government, and revised every three years. For the 1993-96 block, this rate, based on the actual cost of production of crude oil in 1992-93 was fixed at Rs. 528 per tonne. Cost of production has since increased significantly but the royalty rate for the 1996-99 block was revised only to Rs. 578 per tonne, effective from April 1, 1996. The State government claims that this rate should be enhanced to Rs. 1204 per tonne, if the royalty rate is related to import parity price alongwith transport cost from the nearest port. Given that petroleum prices are in general being de-administered, there is a strong case for linking royalty rates more closely to import parity prices while keeping the national interest in view.

The contribution of own non-tax revenues has fallen from 4.51 percent of GSDP in 1986-87 to 1.67 percent by 1996-97. This is mainly due to the non-revision of rates and fees for services provided by the government and loss of revenue from forests (table 2.1).

GRANTS

Grants given by the Central government for the State plan schemes account for the bulk of grants (chart A5). Their share, experienced a discrete jump in 1991-92 (of 24.7 percentage points). It continued to increase until 1993-94. Since then it has fallen, although marginally. The share of non-plan grants, on the other hand, has fallen steeply from above 35 percent to just above 10 percent over the period under review. This change in pattern is due to the acquisition of the special category status by the State in 1991.

Table 2.2: Resource Transfers from the Centre

(Percent of total expenditure)

	1986-87	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total transfers	50.8	70.7	65.8	55.9	59.8	59.7	64.6	73.7
Shared taxes	17.9	20.8	19.8	20.9	23.5	22.3	22.6	29.9
Grants	16.0	26.9	41.5	37.0	47.7	32.1	35.3	40.4
Net loans	16.8	22.9	4.5	-1.9	-11.4	5.2	6.7	3.4

Source: CAG, relevant years.

EXPENDITURES

The composition of revenue expenditure between social, economic and general services indicates that the share of social services has remained virtually stagnant at around 41 percent (within it, the share of education has increased), the share of economic services has fallen (by almost four percentage points over the period 1984-85 to 1994-95), and that of the general services has increased because of the rising share of interest payments. Net of interest payments, even the share of general services has also fallen.

Looking at sub-categories, the relative share of non-discretionary expenditure (interest payments, wages and salaries, pensions, etc.) have increased while that of other general services has fallen.

As a percentage of GSDP, revenue expenditure has increased from 18 percent in the early nineties to about 20 percent by 1996-97. Interest payments as percentage of GSDP had increased from about 2.5 percent in 1990-91 to about 3 percent in 1996-97 (table 2.1).

The changing profile of capital expenditure (table 2.3) may be highlighted by noting that, considered as percent of GSDP: (i) the share of social services has fallen from 0.62 in 1986-87 to 0.09 in 1996-97, (ii) that of economic services from 2.13 to 1.15 over the same period with transport accounting for a large portion of capital expenditure in economic services, (iii) loans and advances by the State (mainly to power projects) have fallen, and (iv) repayment of outstanding loans to the Centre have increased.

Table 2.3: Capital Expenditure and Outlay

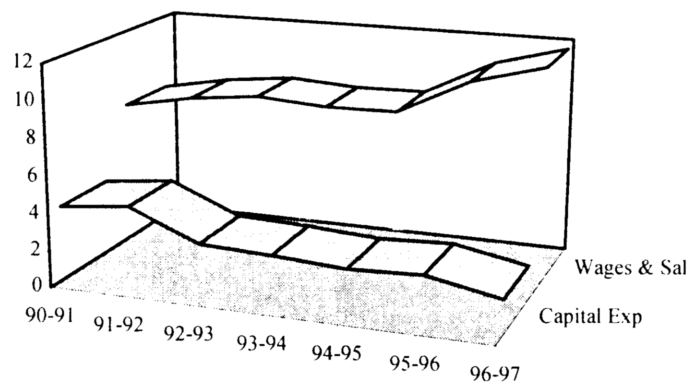
(Percent of GSDP)

	1986-87	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Capital expenditure	7.47	5.73	4.97	5.02	4.56	4.42	3.66	3.61
Capital expenditure (net of repayments)	5.50	4.05	4.54	3.01	2.86	2.50	2.67	1.90
of which capital outlay	3.07	2.33	2.48	1.94	1.82	1.70	1.75	1.25
Capital outlay on selected services								
Education	0.18	0.05	0.04	0.03	0.02	0.03	0.04	0.03
Health and family welfare	0.26	0.17	0.12	0.10	0.09	0.08	0.05	0.02
Agriculture and allied services	0.39	0.07	0.05	0.00	0.02	0.04	0.02	0.00
Transport	0.73	0.64	0.67	0.67	0.52	0.49	0.63	0.44
Industry and minerals	0.12	0.19	0.20	0.07	0.12	0.12	0.11	0.14
Social services	0.62	0.29	0.21	0.17	0.18	0.20	0.23	0.09
Economic services	2.13	1.99	2.14	1.59	1.48	1.43	1.41	1.15

Source: CAG, relevant years.
Note: Capital expenditure includes repayments as well as loans and advances. Capital outlay excludes both repayments, and loans and advances

The fall in capital expenditure (net of repayments) from 5.5 percent of GSDP in 1986-87 to 1.9 percent in 1996-97 (i.e., a fall of 3.6 percentage points) may be considered in two parts (table 2.3). One is the fall in capital outlay of services provided by the government from 3.07 percent of GSDP to 1.25 percent, i.e., a fall of 1.8 percentage points. This significant fall has been accompanied by slowing down of growth in the State economy where government investment has a key role to play. The remaining fall in net capital expenditure, amounting to 1.8 percentage points is because of a fall in loans and advances (mostly to the SLPEs).

Wages and salaries accounted for about 9 percent of GSDP in 1994-95, i.e., approximately one-third of the government budget. Wages and salaries grew at an



Fiscal Imbalance is indicated here by the increasing share of wages and salaries accompanied by a steady decline in capital expenditure, both measured as percentages to GSDP.

Chart 1
Wages and Salaries and Capital Expenditure : Increasing Imbalance

Dependence on Central Revenue Transfers has been increasing while own revenues (tax and non tax) have declined.

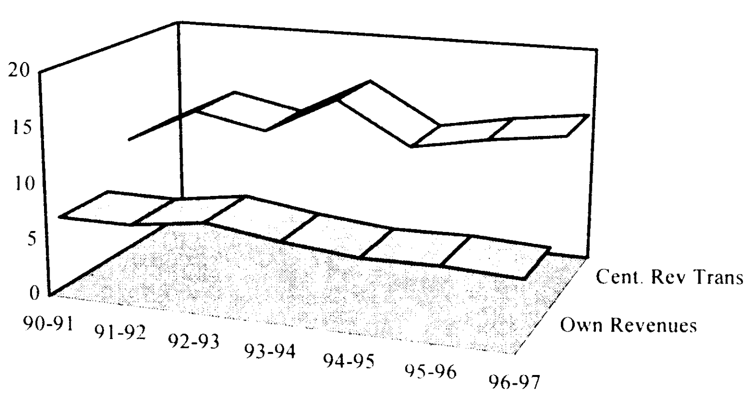


Chart 2
Own Revenues and Central Revenue Transfers : Increasing Gap

average rate of about 13 percent per annum over the period 1986-87 to 1994-95. We estimate that in 1997-98 (prior to salary revisions), wages and salaries would be about 12 percent of GSDP and about 14 percent of GSDP after the salary revisions. The average annual growth rate in the number of State government employees during 1986-1992 was about 5.5 percent per annum, while afterwards growth in the number of State government employees fell to a lower rate.

The expenditure heads having first charge are interest payments, salaries and wages, pensions, repayment of debt, and security related expenditures. As such, cuts are made in capital expenditure and non-salary and non-security related revenue expenditure. The Planning Commission permits diversion of upto twenty percent of normal Central assistance towards non-plan expenditure. Further, posts created in the Seventh and Eighth Plans are still treated as chargeable to the current Plan.

DEFICITS AND DEBT

Recent trends in three alternative deficit measures, namely, revenue deficit, fiscal deficit and primary deficit, as percentages to GSDP, are indicated in table 2.1. The revenue account was in surplus in 1986-87 and then in the early 1990s. In 1994-95, the revenue account deficit reached its maximum level. This was due to a huge fall in revenue receipts (of about 11 percent) compared to 1993-94.

Fiscal deficit during 1986-87 to 1995-96 has been rather high upto 1990-91. There was an improvement in the early nineties. The deficit started declining from its level of 5.8 percent of GSDP in 1989-90 and reached a surplus of 0.12 percent of GSDP in 1993-94. The situation deteriorated substantially in 1994-95. The surplus in 1993-94 reflects an accounting adjustment. The improvement in 1992-93 over 1990-91 is mainly due to an increase in non-tax revenues of the State and grants from the Centre. Also, in this context, it may be noticed that the fiscal deficit during 1991-92 and 1992-93 could have been much less but for the interest payments on past accumulated debt which is evident from the primary deficit figures in these two periods. The grant from the Centre experienced an increase of 51 percent in 1993-94 compared to 1992-93 due to accounting adjustment of grants for 1990-91. Similarly, the share of Central taxes increased by almost 21 percent. These two increases account for the surplus in fiscal account in 1993-94. A drop in grant by 25 percent in 1994-95 reverses the trend again.

Borrowing by a State government is effectively controlled by the Central government. The main channels of borrowing are: Central government (including borrowing against small savings), internal debt (market borrowing) and borrowing from funds like small savings and funds kept in public accounts by the State government. The constraint on borrowing is relaxable temporarily and to a limited extent by (i) closing a financial year with outstanding balance on ways and means advances and overdrafts from RBI; (ii) impounding of salary arrears, etc., into the provident fund (PF); and (iii) borrowing through public enterprises. Apart from impounding into PF accounts, there are several instances in Assam where financial years were closed with outstanding amounts against ways and means advances and overdrafts. Assam government also borrowed from the Peerless General Finance and Investment Company through Assam State Cooperative Marketing and Consumer Federation Ltd. in 1995-96.

The composition of debt (chart A6) indicates a significant share of Central loans although its relative importance indicated as a percentage of GSDP fell from 34.04 in 1986-87 to 21.83 in 1995-96. Correspondingly, the share of internal debt has increased. In recent years, the net flow of funds through Central loans has fallen drastically.

SUBSIDIES: DIRECT AND IMPLICIT

Direct subsidies, as estimated in the economic classification of government expenditure, amounted to Rs. 136 crore in 1994-95. However, these considerably underestimate subsidies implicit in the governmental provision of services. In a recent study on *Government Subsidies in India* (Srivastava et. al., 1997), budget-subsidies, defined as unrecovered costs in the governmental provision of social and economic services, were estimated for the Central and selected State governments including Assam for 1994-95. A set of selected services are set aside as merit goods. Subsidies in major sectors, other than those clearly belonging to the merit category, amount to Rs. 2495.8 crore. The main sectors contributing to this implicit subsidy, which can be targeted for subsidy reduction are irrigation, power, industries and transport. Their respective shares in total subsidy pertaining to the non-merit category were 8.96, 8.67, 5.77, and 1.57. The recovery rate, measured as percent of total cost, in social services as a group is just 0.34, and in economic services, it is 2.22 (table A2.7). Reduction in these implicit subsidies should constitute an important part of fiscal reforms in the State.

CONTINGENT LIABILITIES

Guarantees given by the Assam Government, as on March 31, 1995 amounted to Rs. 1607.71 crore, with Rs. 1271.41 crore as outstanding on this date (table A2.5). It was during the late eighties that the State government took upon itself substantial contingent liabilities. The main organisations for whom the State government guaranteed loans are indicated below with their percentage share in total guaranteed amount in parenthesis: REC (20.17); Assam Financial Corporation (14.57); Assam State Minor Irrigation Development Corporation Ltd. (2.28); Peerless (3.11); Assam Mineral Development Corporation Ltd. (3.11); Assam State Co-operative Marketing & Consumer Federation Ltd. (6.22); and Assam State Health and Consumer Federation (8.40). There are several cases of defaults. Two of these, at present under negotiation, pertain to Assam Minor Irrigation Schemes Ltd., and Assam Polytex Ltd. In these cases, the liabilities have come upon the Assam Government. In one case, the government has renegotiated with the creditor and paid back half of the renegotiated amount. We understand that the aggregate figures given in the budget document may not fully reflect the magnitude of contingent liabilities. In particular, several old loans and unpaid interest have compounded the problem. Many enterprises work under the psychology that if the State government provides a guarantee, it no longer is the responsibility of the enterprise to service the debt. The State government should desist from guaranteeing any loans at least for a period of three years until full information about the outstanding liabilities is brought together, and proper procedures are set up to deal with cases of default.

TRANSFERS TO LOCAL BODIES: THE STATE FINANCE COMMISSION

Assam has a three-tiered structure of rural local bodies. Their respective numbers are: *Mohakuma* (sub-regional) *Panchayats* (43), Block (*Anchal Panchayats*) (202), and Village (*Gaon Panchayats*) (2489). The number of urban bodies (Municipalities/Town Committees) is 64. The outstanding loans of these urban bodies as on 31.3.1996 was Rs. 1743.42 lakh. A State Finance Commission (SFC) was constituted in June 1995. It submitted its report in February 1996. Its main recommendations having financial implications are as follows:[5]

(i) The existing rates and taxes that are shared between the State government and its local bodies should continue; an additional 10 percent of revenue from the motor vehicles tax should be included for sharing with rural local bodies.

(ii) The total share of State taxes for transfer to local bodies should be 2 percent; estimated amounts for each financial year during 1996-97 to 2000-01 are Rs. 17.83, 20.06, 22.50, 25.16 and 28.20 crore, respectively.

(iii) The fund of Rs. 147.56 crore as per the award of Tenth Finance Commission (TFC) should be distributed equally in each year from 1996-97 to 1999-2000 as grants-in-aid to each local body on the basis of 1971 population (out of the Fund allocated under State Plan); equivalent annual amount as in 1999-2000 may be given by the State government during 2000-2001 out of Plan funds. The year-wise grants are: Rs. 3689 lakh (1996-97), Rs. 3714.54 lakh (1997-98) and Rs. 3701.77 lakh each for 1998-99, 1999-2000 and 2000-2001.

(iv) The outstanding State government loan of the municipalities as on March 31, 1996 should be consolidated into a single block loan to be repaid in 30 equal annual instalments with interest at the rate of 5 percent per annum effective from 1996-97; loan-grant composition in plan outlay should be 1 : 3, and outstanding debt of *panchayats* as on 31.3.1996, estimated at Rs. 46.40 lakh, should be written off.

Available information indicates that the recommendations of the Assam SFC have been accepted in principle. Plans for implementing them are also being worked out. In the budget of 1998-99, the provision under the head `Compensation and Assignment to Local Bodies' has been set at Rs. 12.46 crore, which is substantially higher than the allocation in 1996-97.

FINANCIAL MANAGEMENT

Cash-flow problems have led to considerable dependence on ways and means advances and overdrafts. The limit of ways and means advances for the State is Rs. 80 crore. Although, there is no limit on overdraft, it needs to be liquidated within 10 working days. Cash flow is managed by rotating the overdraft. The interest rate on overdrafts is at present 11 percent and the rate on ways and means advances is 9 percent. The total interest cost on account of ways and means advances and overdrafts has come close to Rs. 10 crore per year in recent years. Owing to the cash-flow problem, payments to contractors and other suppliers to the government are inordinately delayed. As a result, these parties load on the 'waiting costs' in their quoted prices.

There is considerable divergence between the budget estimates and the corresponding realisations, both on the side of revenues and expenditure. Better financial and expenditure management would certainly reduce the costs of government services.

As part of financial management, the report of the Comptroller and Auditor General (CAG) of India, especially the one on civil accounts should be viewed seriously, with adequate follow-up of the recommendations.

3. Sectors: profiles and issues

SOCIAL SECTORS: EDUCATION AND HEALTH

Assam ranks 16th among 24 States (CMIE, 1997) in literacy rate according to the 1991 Census. Male literacy rate is 61.9 percent whereas the female literacy rate is 43 percent, providing an aggregate figure of 52.9 percent, which is low but above the all-India average. Assam has only 4.1 teachers per school (primary, middle and secondary combined) as against the all-India average of 5.1, with Kerala at 15.6. Dropout rate in Assam is also higher than the all-India average of 55.66 percent for class I-V and 75.72 percent for class I-VIII. The number of primary institutions has remained stagnant at less than 28900 over the years 1989-90 to 1993-94 (table 3.1) (although additional teachers were recruited during this period). The number of middle level institutions has risen from 5703 to 6729 in the corresponding years. Secondary schools and colleges have also increased in number.

Total expenditure on education (including sports, art, and culture) was 4.47 percent of GSDP in 1986-87. It dropped to about 4.29 percent in 1990-91. Since then, it has steadily increased reaching 5.66 percent of GSDP in 1995-96. In terms of growth rates, revenue expenditure on education evinced an average annual growth of 15.84 percent during 1986-87 to 1989-90. This average annual growth rate increased to 16.41 percent during 1990-91 to 1995-96. Capital expenditure actually fell in absolute amounts in the late eighties. However, its average annual growth in the nineties has been at about 18 percent per annum.

Table 3.1: Educational Institutions in Assam

Educational Institutions	1989-90	1990-91	1991-92	1992-93	1993-94
Primary institutions	28875	28876	28876	28876	28876
Middle institutions	5703	5703	5703	5703	6729
Secondary schools/junior colleges	3137	3443	3467	3467	3637
Colleges for general education	179	213	217	217	231
Professional education	15	15	15	15	21
University	3	3	3	3	5

Source: GoA, relevant years (b).

Life expectancy in Assam was 58.74 years for males and 58.48 years for females in 1991-96. There was one doctor per 2140 persons in 1991 reflecting an improvement from 2520 in 1980. The number of primary health centres, sub-centres and community health centres have increased (table 3.2). Assam with 1968 persons per bed in 1991, fares poorly in comparison with the all-India average of 1324 (1994-95). The couple protection rate at 28.2 percent is much lower in Assam (as on 31.3.1991) compared to the all-India average of 44.1 percent. In the case of health and family welfare in 1987-88, total expenditure was 1.50 percent of GSDP (1.39 percent in 1986-87). Since then, its share in government expenditure has been falling. In 1995-96, it was 1.31 percent of GSDP.

In terms of growth rates, revenue expenditure on health showed an average yearly growth of about 10 percent during 1987-88 to 1989-90, and about 15.9 percent during 1990-91 to 1995-96. Therefore, most of the fall in the health sector came in capital expenditure. In the last part of the eighties, it had been rising at an average rate of about 9.5 percent per year, but during 1990-91 to 1995-96, there is a fall at an average yearly rate of about 10.7 percent.

Table 3.2: Health Centres in Assam

Health Centres	Number					as a percentage to All-India	
	1985-86	1990-91	1991-92	1992-93	1993-94	1985-86	1993-94
Primary health centres	237	449	492	529	571	2.60	2.72
Sub-Centre health centres	1711	5280	5280	5280	5280	2.04	4.02
Community health centres	12	60	76	86	97	N.A.	N.A.

Source: GoA relevant years (b); and CMIE, 1997.

IRRIGATION

Assam has total irrigable land of 27 lakh hectares, but irrigation coverage is only 23 percent (all-India coverage is about 85 percent). The strategy adopted so far is to provide supplemental irrigation for the *kharif* and early *ahu* (a pre-monsoon crop) and *rabi* crops when there is lean discharge of surface water. When river water supply is plentiful during the *kharif* season, demand for water is low. But floods cause extensive damage to the *Kharif* crops. A new strategy currently being considered is to cultivate pre-*kharif* and pre-*rabi* crops during the period, November to May, which is flood-free by providing sufficient irrigation cover. For this purpose, the irrigation cover should be extended to its full potential. Under major and medium irrigation, the progress has been sluggish as the potential created so far has been only 1.74 lakh hectares whereas the estimated total potential for major/medium irrigation is 10 lakh hectares. The State does have a large programme under the minor irrigation sector which has claimed a higher share of budgetary expenditure as compared to major and medium projects. However, budgetary allocations on the major head `irrigation and flood control' have gone down steadily. From a peak of 6.6 percent of total expenditure in 1991-92, it had fallen to 3.52 percent by 1995-96. This fall of 3.08 percentage points has been shared by both current expenditure (2.26 percentage points) as well as capital expenditure (0.59 percentage point). Additional resources need to be provided for this sector. An estimate is provided later in this section.

There may be considerable surplus staff with the irrigation department, in respect of regular staff as well as temporary staff on its muster rolls. New schemes, besides completion of old schemes should be taken on a priority basis in this sector to productively employ people. Further, the State should take full advantage of the scheme of `accelerated irrigation programme' where the Centre would contribute twice as much as the State for completing half-finished irrigation projects.

FORESTS

At one time, considerable (non-tax) revenues were generated from the forest sector. The activities in this sector were arrested following a Supreme Court (SC) judgement. However, contrary to the general impression, the SC directive does not completely ban the felling of trees, but requires that this be done scientifically according to an approved working Plan. While twenty-seven such `Plans' are required to cover the whole of Assam, only three such `Plans' have been prepared so far. It is imperative that all plans are completed in the next one to two years, and some additional finance to the Forest department may be made available for this purpose, if required. The SC directive also requires that timber factories should be relocated in `industrial estates' established by the State government for the purpose. However, the costs involved in this may be prohibitive. As an alternative, the State government should prepare a convincing case for considering the municipal limits of a town as an `industrial estate' with adequate provision for monitoring inflow and outflow of timber. Reactivation of forest and timber related activities under an adequate regulatory framework is rather important for the resurgence of the Assam economy.

POWER

Supply of electricity by the ASEB consists of two parts: that which is generated in the ASEB plants, and that which is purchased. Electricity is purchased from Meghalaya and the Central sector corporations like the North Eastern Electric Power Corporation (NEEPCO) and National Hydro Power Corporation (NHPC). There is also some private sector generation (e.g., DLF Power Co.). Own generation and purchase from outside are roughly half and half, and overall, the shortfall is only marginal during peak hours.

The cost profile varies across own generation plants and alternative sources of purchase from outside. On an average, own generation is costlier than the average cost of purchase. Own generation is costlier because of overstaffing, obsolete equipment and non-availability of inputs (oil/coal) at the required time and in the requisite amount which leads to a low Plant Load Factor (PLF). The number of employees in ASEB are

14 per million units sold as compared to the national average of 4. In addition, there are transaction and distribution (T&D) losses (technical as well as theft) especially in rural areas and between low tension lines. The retailing activities (metering and billing) are also outdated and need to be modernised.

Apart from these reasons pertaining to internal inefficiency, low, less than average cost tariffs, which have to be approved by the State government, coupled with uncollected arrears, have placed ASEB into a poor financial situation.

Capital invested in ASEB as per the available information upto 1994-95, was Rs. 1645.05 crore, which was about 60 percent of total capital investment in all SLPEs in Assam. ASEB has not been able to cover even its operational expenditures from the revenue receipts. Commercial losses have been increasing over time. Effective subsidy (defined as average unit cost of supply minus average unit realisation multiplied by the total sales for agricultural and domestic sectors) was Rs. 13.3 crore in 1995-96. It increased to Rs. 49.3 crore in 1996-97. Subsidy for domestic consumers has increased from Rs. 37.2 crore in 1992-93 to Rs. 104.3 crore in 1996-97. Table 3.3 reflects subsidy to sales revenue ratio with and without the cross subsidy.

Table 3.3: Physical and Financial Performance of Assam State Electricity Board

Physical	1992-93	1993-94	1994-95	1995-96
Share of power sector outlay in total outlay (percent)	23.49	21.96	18.24	14.31
Outlay on renovation and modernisation of power sector (Rs. crore)	16.11	18.48	55.94	40.00
Plant load factor of thermal stations (percent)	24.30	19.90	26.70	28.60
Gross generation (MKWH)	1068.30	939.90	1255.00	1436.00
Net generation (MKWH)	970.20	859.60	1156.80	1373.00
Purchase of power (gross) (MKWH)	1042.50	1234.60	1095.50	1350.00
Power supply position [surplus (+)/deficit (-)] (percent)	-15.80	-11.40	-8.40	-10.80
Financial	**1992-93**	**1993-94**	**1994-95**	**1995-96**
Sales revenue as a ratio of cost (percent)	47.39	47.31	48.14	71.95
Commercial loss (-)(with no subsidy from the State government) (Rs. crore)	-205.40	-213.80	-269.80	-261.40
Subsidy to sales revenue ratio (with cross subsidisation) (percent)	111.00	111.30	107.70	39.00
Subsidy to sales revenue ratio (without cross subsidisation) (percent)	34.00	32.30	35.30	22.90
Cross subsidy from other users (Rs. crore)	-148.00	-159.00	-187.00	-70.00
Rate of return on capital (without subsidy from the State Government) (percent)	-43.30	-44.80	-32.00	-27.30

Source: GoI, 1997.

The financial situation of ASEB can be turned around by following a privatisation strategy in segments/parts covering generation, transmission, and retailing, with ASEB continuing to act as a nodal and regulatory agency. In the sphere of generation, some of the very high-cost plants like the plants at Bongaigaon (coal-based) and at Chandrapur (oil-based) may be targeted first for privatisation. We have the impression that T&D losses can be substantially reduced by small investment in replacing selected segments of cables. Further, an attractive VRS, some upward revision of tariffs, and part-collection of arrears would make the ASEB viable.

Assam should aim to become a net exporter of electricity in the medium-to-long term. Its own reserves of coal, petroleum and gas offer considerable scope. In addition, with suitable agreements with Arunachal Pradesh, much of the hydro-potential of the northeast can be tapped for the northern grid. While ASEB can itself target the smaller projects, the larger projects can be taken up as Central/joint/private sector projects.

TRANSPORT

The performance of the Assam State Transport Corporation (ASTC) is discussed below. The number of buses per lakh population was 42.15 in 1994, compared to all States' average (leaving UTs) of 47.36 (GoI, 1995). It is lower than other hill States like Mizoram (157) and Nagaland (190). The fleet utilisation and the financial position of ASTC is shown in table 3.4. The loss incurred per (kilometre) has increased over the last three years. Net loss shows a marked fall in 1995-96 because of a rise in operating revenue relative to operating expenditure (GoI, 1995). Increase in costs and fall in staff productivity should be held responsible for these losses. The rise in vehicles productivity (i.e., revenue earning kms. per bus held per day) from 106 in 1992-93 to 115 in 1993-94 implies a better utilisation of the existing fleet. But the bus staff ratio has risen from 10.30 to 12.59, the corresponding all-India averages being 8.07 and 7.95 for the same years. The staff cost per revenue earning km. fell significantly from 581 to 444 in 1993-94. Although fuel efficiency has remained the same, its cost has steadily increased, thus nullifying the improvement in the productivity of vehicles.

Even though both of them are in the red, the situation of ASTC is different from that of ASEB. The transport sector is already highly privatised. There are only about 400 ASTC buses plying at present, as compared to about 11,000 private buses. The ASTC also has to serve several uneconomic routes. Due to competition, the scope for increasing tariffs is limited. A small upward revision of tariffs, an improved combination of economic and uneconomic routes, further reduction in staff through a suitable VRS, and some diversification of activities, will enable the ASTC to turn the corner.

Assam serves as the gateway to the rest of the northeast through roads and railways which provide the basic infrastructure for transportation of goods and passengers. The Asian highway linking west Asia to southeast Asia is slated to pass through Assam. The Road Development Plan for India (1991-2001) has targeted a road length of 49,826 kms. in Assam upto 2001 A.D. excluding national highways and border roads. Against this target, only 25,253 kms. had been achieved upto 31.3.94. Out of this, 4641.7 kms. are surface roads. The road system also suffers from about 8000 semipermanent timber bridges with a total length of 149 kms. Backlog in respect of other district roads and village roads on the plain districts of Assam is estimated at 2300 kms. as per the Master Plan. According to the development plan, all villages are to be connected by roads by 2001 A.D. Out of 20,064 villages, road connections have been provided to 15,631 villages.

Table 3.4: Fleet Strength and Financial Position of Assam State Transport Corporation

Particulars	1993-94	1994-95	1995-96
Average number of vehicles held	885	852	775
Average number of vehicles on road	466	406	389
Percentage of utilisation	53	48	50
Average expenditure per km. (paisa)	1203.00	1483.93	1606.36
Average revenue per km. (paisa)	377.00	600.86	664.95
Profit (+)/loss (-) per km. (paisa)	-836.00	-883.07	-947.41
Net profit/loss (Rs. crore)	-27.65	-21.74	-17.40
Contribution to plan (Rs. crore)	-23.03	-17.04	-12.65

Source: CAG, 1996; GoI, 1995.

Inland water transport is an important means of movement of passengers and goods in Assam. At present, 68 ferry services are operating all over Assam both in the river Brahmaputra and Barak. Cargo commercial services within Calcutta-Numaligarh for carrying refinery machineries and from Jogighopa-Abhayapur for carrying boulders from Bhutan are operative. Movement of cargo through water transport is expected to grow. The report of Transport Research Division, Ministry of Shipping and Transport indicates that about 2 million metric tonnes of cargo will move to the northeastern region through water transport by the end of the Ninth Five Year Plan. A strategy for developing inland water transport should prioritise segments with natural advantages, focus on improving productivity of existing assets through modernisation and upgradation and building up of trained and skilled manpower for inland water transport operation. Private entrepreneurs may be encouraged by giving suitable incentives and contracts for operations.

Budget expenditure on transport and communications has gone down from a peak of 7.22 percent in 1991-92 to 5.68 percent in 1995-96. The share of revenue and capital expenditure on transport in 1991-92 were 4.32 and 2.90 of the total budget expenditure. These shares declined to 3.07 and 2.61 percent respectively by 1995-96. Capital expenditure on roads (excluding bridges) was less than half a percent of the total government expenditure. This is a sector where augmenting capital expenditure would yield significant returns to the economy especially when trade routes with the southeastern neighbours are opened up.

OTHER STATE LEVEL PUBLIC ENTERPRISES

There are 48 SLPEs in Assam including ASEB and ASTC. Total government investment in 1994-95 amounted to Rs. 2484 crore, comprising paid-up capital of Rs.1209 crore, loan from government of Rs.1222 crore, and grant-in-aid of Rs.53 crore. Total capital investment in these enterprises was Rs.2719 crore with the contribution of the State government being 91.35 percent. These enterprises have a total of 61,857 employees on their rolls with the total wage bill amounting to Rs.180 crore in 1994-95. Government investment per employee works out to about Rs. 4 lakh. The returns from these enterprises into the budget in the form of dividends and interest was less than Rs.3 crore (in 1994-95). At an effective interest rate of 11 percent, on an overall figure of government investment of Rs.2484 crore, this entails a loss of about Rs.273 crore per year. If ASEB and ASTC are left aside, the remaining 46 enterprises account for a total investment of about Rs. 700 crore.

The latest available review (GoA, 1996) of the SLPEs indicates that eleven enterprises made profits in the latest year of reporting which was 1994-95 for seven enterprises and 1993-94 for four enterprises. Six of them did not carry any accumulated loss. Their profits, pertaining to 1994-95 for three enterprises, and to the previous year for the remaining three, added upto Rs. 11.01 crore. The remaining five earned profit in 1994-95 (1993-94 in one case) but were carrying accumulated losses. Their profits added upto Rs. 0.41 crore.

Several enterprises have been `operationally closed down', which means that they are not functioning but the staff have to be paid salaries. Often, salaries remain in arrears. The relatively low level of performance of the enterprises is attributed to lack of professionalism. There is no corporate planning to check inefficiency in management. Overhead costs are high due to locational disadvantages and poor infrastructure. The maintenance of fixed assets is poor.

The State government had set up a special committee to examine the performance of some of the SLPEs. Attempts at disinvestment and privatisation of some of these enterprises were made with limited success. For example, Assam Polytex Limited., was privatised but even then it could not become viable and now stands closed. Ashok Paper Mills (Assam) Ltd., which was closed for long, was privatised, and had to be closed again. Assam Co-operative Sugar Mills Ltd., was in the cooperative sector. It was privatised, but now stands closed. Assam State Textile Corporation Ltd., is one instance where after privatisation, the enterprise is now running. Assam Co-operative Spinning Mills Ltd., and *Swahid Kushal Konwar Samabay Sutakal* Ltd., are enterprises where investment was made but they never took off. Operationally closed units are: Assam Hills Small Industries Development Corporation Ltd., Assam State Minor Irrigation Development Corporation Ltd., Cachar Sugar Mills Ltd. (only leased), Assam Spun Mills Ltd., Assam Polytex Ltd., Assam State Weaving and Manufacturing Company Ltd., Ashok Paper Mills (Assam) Ltd., Assam State Fertilizers & Chemicals Ltd., Fertichem Ltd., and Assam Co-operative Jute Mills Ltd.

It is certain that these SLPEs (other than ASEB and ASTC), with some exceptions, are a virtual write-off. They should be privatised or handed over to workers' cooperatives. If there are no takers, they should be closed down with a plan for redeployment of staff.

The reform process relating to the public enterprises should include: (i) complete moratorium on setting up any new public enterprises; (ii) one-time settlement with the workers and handing over the enterprises to them by formation of cooperatives with no future liabilities for the government; and (iii) full or part privatisation, wherever feasible. For enterprises still remaining with the government, there should be clear memoranda of understanding (MoU) with performance appraisal. The recommendations of the sub-group on the Role of State Public Enterprises constituted by the Planning Commission for the Ninth Plan, in which Assam was represented should be carefully considered by the Assam Government.[6]

EXTERNALLY AIDED PROJECTS

There are four externally aided projects (EAPs) currently being implemented in the State. Two are being administered by non-government organisations (NGOs) or registered societies and the other two, by Government departments. In the latter category, currently the main project is the Assam Rural Infrastructure and Agricultural Services Project which was started in August 1995. Six departments, namely, agriculture, animal husbandry and veterinary, fisheries, rural roads, minor irrigation, and flood control, and land reforms are involved besides the Assam Agricultural University. Apart from land reforms, other segments of the project appear to be progressing well after a rather slow take-off. Two EAPs relate to district primary education programme (DPEP), and public health. In general, utilisation ratio is low. Another project aimed at strengthening technical education (started in 1991) is now drawing to an end. One EAP, the funding for which is channelised as additional Central assistance would come to Assam as 90 percent grant and 10 percent loan. As such, the issue of debt-sustainability may not be so important for Assam in the context of EAPs. However, the absorptive capacity and effective utilisation of assistance are relevant. Also, projects should be so designed as to not leave the State with the burden of financing salaries after project completion. This could be done by suitably redeploying the concerned staff in other EAPs. In fact, EAPs can play a vital role for several infrastructural activities in the State. Their functioning outside the general governmental constraints with an assured flow of funds would ensure definite positive benefits for the State. For instance, a comprehensive flood control project would be very useful under the EA umbrella.

ASSESSMENT OF PRIORITY SPENDING: SELECTED ITEMS

The historical patterns of expenditures reveal failings both of commission and omission. While wages and salaries gulp up an overwhelmingly large part of resources, expenditure claims that ought to have priority are crowded out. We consider below four items of priority spending relating to (i) maintenance; (ii) basic minimum services; (iii) infrastructure; and (iv) minimum capital outlay.

MAINTENANCE OF ASSETS: MINIMUM SPENDING AND MONITORING

Both the Ninth and the TFC had recognised the importance of maintenance of assets. They had estimated these requirements and provided for them in their recommendations while determining non-Plan grants. The basic failing of the States is not that resources have not been provided for, but that in the absence of proper monitoring, resources meant for maintenance are diverted elsewhere. It is not economical to continue to create new assets at high costs while letting the assets already created run down and go out of service for lack of maintenance.

The Tenth Finance Commission had estimated norm-based expenditure requirements for maintenance of assets for important service heads for Assam. The TFC estimates pertain to the period 1995-96 to 1999-2000. They take into account cost-escalation due to inflation, covering items as: (i) flood control works; (ii) buildings; (iii) roads; (iv) major and medium irrigation schemes; (v) minor irrigation schemes; (vi) water supply; and (vii) milk schemes. The TFC estimates have been carried forward for the years 2000-01 and 2001-02 by applying implicit growth rates in the estimates for 1995-96 to 1999-2000 with a view to obtaining benchmark figures for minimum requirements on maintenance expenditures for the above service heads. Monitoring of maintenance expenditure should be done according to the TFC scheme (annexure 6).

BASIC MINIMUM SERVICES

Relative to any reasonable norm-based assessment of requirements for basic minimum services (BMS), Assam suffers from serious deficiencies in respect of health, education, and infrastructure.

A high level commission headed by Shri S.P. Shukla, member of the Planning Commission (GoI, 1997a), recently reviewed the resource requirements of the north eastern States for infrastructure development and the provision of seven BMS on the basis of norms defined in physical terms and corresponding costs (annexure 3). For BMS, the commission assessed an amount of Rs. 3951.80 crore for Assam. Service-wise break-up is as follows: rural connectivity (Rs. 269.20 crore); housing [(rural and shelterless), Rs. 1616.77 crore]; safe drinking water (Rs. 744.65 crore); elementary education (Rs. 253.45 crore); primary health (Rs. 249.31 crore); and PDS (Rs. 5 crore), along with a provision of Rs. 813.42 crore for salaries. For BMS projects, the State government is supposed to contribute 15 percent of the estimated costs.

INFRASTRUCTURE

For infrastructure, the *Shukla Commission* estimated the requirement for the Ninth Plan period at Rs. 4492 crore, covering irrigation, flood control, roads, inland water transport, and power. The estimated requirements for these items are Rs. 1085, 500, 1107,174 and 1626 crore, respectively. In this case also, we suggest that the contribution of the State government should be limited to 15 percent. In the general category of infrastructure covering railways, national highways, civil aviation, etc., it is the Central government that is expected to make the necessary investment. The Central ministries have already been asked to set aside 10 percent of their developmental outlays for projects in the northeast.

MINIMUM CAPITAL OUTLAY

In the context of the falling share of capital outlay in the case of Assam, we consider that a certain minimum target for capital outlay should be fixed. Being a special category State, Assam is allowed to divert 20 percent of Plan funds to non-Plan expenditure. Further, wages and salaries in respect of jobs created in the Seventh and Eighth Plans are chargeable to the current Plan. Realising that for a non-special category State, 70 percent is considered to be a target for capital outlay out of total Plan outlay (since that is how the 70 : 30 ratio of loan to grant in assistance came into being), we consider a target of 50 percent of current Plan outlay as the minimum capital outlay target for Assam. However, at present capital expenditure has become extremely low. We propose that the target of 50 percent be achieved by the year 2001-02 in a gradual way (30, 30, 40, 50), beginning with a target of 30 percent of Plan outlay in 1998-99. These figures are exclusive of the capital expenditure involved in BMS and infrastructure set apart in relation to the *Shukla Commission* report. When the relevant amounts are added, the achievement would be correspondingly higher. The longer term objective should be to achieve the 70 percent benchmark.

We would like to observe that the Plan that is actually implemented is usually a dwarfed and distorted version of its original blueprint. This is because of overestimation of resource availability, diversion to non-Plan heads and sustenance of employment created in earlier Plans by the new Plan funds. All this leaves a litany of unfinished projects under the new Plan, thus lowering the returns on Plan investment, and further weakening the resource base of the economy.

In effect, there are three intertwined downward spirals which reflect insurgency, fiscal imbalance and poor plan performance. Depicted in chart 3, these summarise our diagnosis of Assam's economic slide.

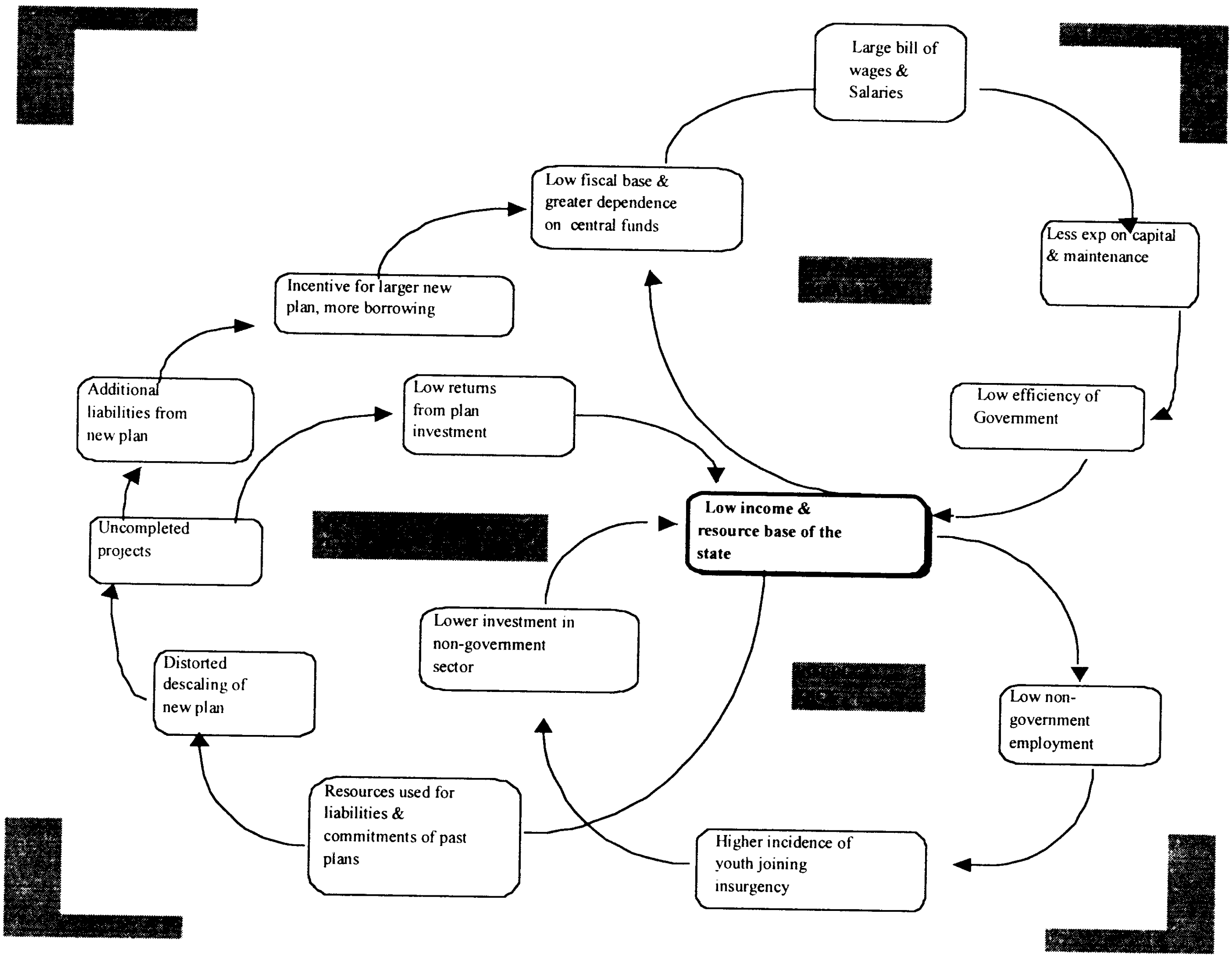


Chart 3:Three Intertwined Downward Spirals

4. Role of centre : the northeast initiative

Insurgency, weak economic base, extreme and increasing dependence on the Centre, poor own tax, and revenue effort, are common problems among the northeastern States which continue to be of strategic importance to the country. The Central government has a special role to play in this context. It should be providing not only grants but correct signals for inducing the desired fiscal responses.

Realising that massive infrastructural projects require huge investments and their benefits would be shared among the northeastern States, the Central government is keen on a special northeast plan. With this view, the 26-year old northeastern council is being revamped with the Deputy Chairman of the Planning Commission slated to become its Chairman. A non-lapsable "Central pool" with Rs. 1500 crore as a corpus fund for northeastern projects is being set up. About 43 Central ministries have agreed to earmark 10 percent of their plan expenditure for northeastern projects. About 41 NE projects have already been outlined by the Planning Commission. Reopening of trade and tariff routes to the neighbouring countries is also being contemplated. Earlier, the *Shukla Commission* had studied the major deficiencies in various sectors in the northeastern States, and had recommended a plan focused on providing BMS and infrastructure for the region.

Assam, being the largest among the northeastern States, will benefit considerably from the Centre's northeastern initiative. In addition, the Centre will need to attend to certain specific problems of Assam. It should look sympathetically into the following issues raised by the Assam Government:

> revision of rate of royalty on petroleum crude with effect from 1.4.1996 for the 1996-99 block as also the revision of the rate for the 1993-96 block and payment of related arrears; (ii) debt relief in the form of a moratorium on repayment of Central loans together with interest accrued thereon at least for three years; (iii) reimbursement of expenditure on relief and rehabilitation of about 30,000 families (expenditure incurred Rs. 30 crore, claim preferred Rs. 23.78 crore, amount sanctioned so far Rs. 8.25 crore); (iv) planning and undertaking flood control projects relating to Brahmaputra and other rivers and exploiting the hydroelectrical potential of the State; (v) actual relief of the full amount of Rs. 440 crore as reimbursement of insurgency-related expenditure; (vi) financing of the non-plan gap with arrangements similar to the pre-1990 system; and (vii) removal of impediments for undertaking the Gas Cracker Project by settling outstanding issues with the Reliance Industries Ltd., who are the promoters.

The changeover to a special category status has created a problem regarding the flow of Central loans to Assam. While new loans are 10 percent of the approved Plan assistance, the repayments of old loans, based on 70 percent of assistance being loans, are considerable. This is only a shortrun problem, and once the bulk of past loans are repaid, the new loans and repayments would be better aligned. The Central government may, therefore, consider rescheduling of repayments of past loans to ease the present fiscal pressures.

We also suggest that the Central government should play a role in persuading the northeastern States that are currently not levying sales tax and other taxes to levy them so as to improve their own resource bases (it implies reduction in tax evasion in Assam). The Central government may arrive at an agreement with the northeastern States and arrange for a centralised collection of these taxes by the Central government on their behalf and subsequent reimbursement on agreed principles.

5. Reform scenarios: fiscal prospects

In this chapter, we consider the fiscal prospects of the State, utilising a broad quantitative framework, in the context of three alternative scenarios. The period of reference is 1997-98 to 2001-02, but adjustments occur only in the last four years. The model works as follows. Total receipts, i.e., revenue receipts, fiscal deficit and other capital receipts including recoveries of loans and advances are determined first. This provides the profile of total available resources indicating the extent to which expenditure can be financed. Of these, non-discretionary expenditures are first set aside. These consist of (i) interest payments; (ii) pensions; (iii) wages and salaries; and (iv) current transfers to local bodies. We then have a balance of resources left for all other expenditure claims.

The following expenditure claims, in order of priority, are then considered: (i) maintenance (covering expenditure on goods and materials and maintenance of assets); (ii) targeted spending on BMS; (iii) capital expenditure; (iv) targeted spending on infrastructure; (v) loans and advances by the State; and (vi) other expenditure (mainly, subsidies and current transfers). Any balance left is then allocated to additional capital expenditure. Capital expenditure is targeted to be at least 50 percent of Plan outlay by the last year of the projection period. Targeted spending on BMS and infrastructure consists only of Assam's share (15 percent) of total costs that may be set aside for a special northeast Plan as per the recommendations of the *Shukla Commission*. This may be administered either by the concerned State government or jointly with the northeast council.

BASE SCENARIO

The base scenario is based on the following features/assumptions:

(i) GSDP is set to grow at 10.5 percent per annum (3.5 percent in real terms), which is lower than the GDP growth rate, but well in line with Assam's growth experience in recent years; (ii) Central taxes are projected on the basis of estimated equations separately for income tax, corporation tax, customs, Union excise duties and others. The divisible pool is taken to be 29 percent of the projected Central tax revenues over the period 1998-99 to 2001-02. The share of Assam has been worked out by applying the relevant shares recommended by the TFC. Details are given in Annexure 3; (iii) Additional payment on account of increased salaries linked to the recommendations of the Fifth Central Pay Commission[7] is included from 1998-99 onwards. Salary arrears are impounded into the PF; (iv) Debt-relief given by TFC to Assam for its special category status has been included; (v) Subsidies and transfers are set at 70 percent of their real level in 1994-95, translated into nominal terms for the projection years; and (vi) Revision in petroleum royalty rate for the 1999-2002 block has been provided.[8]

Projections based on maintaining the extant expenditure drives with a superimposition of salary revisions bring to the fore a deleterious fiscal scenario. In Table A5.1, the main features of the base scenario are given. After non-discretionary expenditures are set aside, resources left are not adequate to meet the spending targets. Total adjustment required is about 4.5 percentage points of GSDP in the years where the impact of salary revisions is high. We estimate about Rs. 1000 crore of arrears. In order to absorb their fiscal burden, payment of arrears may be divided into two parts to be given in successive years. Further, these may be impounded into the PF. By the terminal year, the required adjustment would be reduced but would still be about 3 percentage points of GSDP. We explore below the possible avenues for achieving these adjustments.

REFORMS: STATE INITIATIVES

Tax revenues

There has been a sudden fall in tax-buoyancies of some of the important revenue-sources like the sales tax and AIT. To make up for the revenue loss in AIT, the rate of tax on specified lands (TSL) may be increased further. Although, the latter, in some sense, compensates for the revenue loss in the former owing to extensive rate revision, there is considerable difference in the nature of the two tax bases. While the former may respond much more to changes in World tea prices, the latter, being linked to productivity can increase upwards only slowly and marginally. The tax rate on TSL may be raised gradually up to what was originally proposed, *viz.*, 50 paise per kg., which is likely to yield an additional revenue of about Rs. 36 crore by 2001-02.

While the reduction in AIT revenue can be explained as a sharp reduction in the tax-rates unaccompanied by a compensating increase in the tax-base, revenue loss in the case of sales tax is due to leakages and evasion. In this case, the potential tax revenue is much higher than the actual. A quantitative indication of the revenue potential can be obtained by looking at the difference between the buoyancy of sales tax upto mid-eighties and later. Thus, during 1981-82 to 1986-87, the sales tax buoyancy was as high as 1.6. During 1986-87 to 1995-96, this has gone down to 1.05. We think that an improvement of buoyancy of 0.30 over the current buoyancy is feasible. This is consistent with the normative buoyancy for sales tax for Assam indicated by the TFC. Translated into amounts, this would bring an additional Rs. 120 crore in 1998-99 which would rise cumulatively. This effort would progressively close the gap between the potential and actual tax revenue.

The list of exemptions from the levy of sales tax is quite extensive. While there may be justification for tax concessions on necessities like rice and pulses, there is no reason for giving concessions on a variety of other goods. The list of exemptions has been further extended in the 1998-99 budget. Continuation of investment incentives has also been promised recently. We would suggest that the regime of exemptions may be reviewed with a view to weeding out unnecessary exemptions. The following items may be targeted for removal from the exemption list: chemical fertilisers, mustard, rapeseed, and wheat and wheat products. Instead of exempting them altogether, they should be taxed at a low rate of 2 percent. Further, investment incentives, while they may be justified in the case of Assam which is struggling to attract capital, ought to be reviewed to ascertain their efficacy.

The neighbouring States further east to Assam either do not levy a sales tax or levy it at very low rates. This itself dampens the revenue for Assam. If the State government could arrive at an agreement with the neighbouring States, it can collect their sales tax at the entry point in Assam, and reimburse them after charging a collection fee. In this way, considerable evasion would be avoided and the neighbouring States would also benefit. The stock transfers often resorted to by the forest/natural resource-based industries for sale outside the State cannot be tapped for tax purposes on account of lacunae in the tax laws relating to consignment transfers.

Assam should be slated for implementation of the value added tax (VAT) in the second phase, after its successful implementation in other major States. However, the State should prepare itself administratively for this purpose by reforming its present sales tax structure. This would involve (i) reduction in the number of tax rates in the present Sales-tax Act to about four rates (at present there are 11 main rates); (ii) computerisation of tax departments and checkposts for collecting and collating information; and (iii) formal training of officers in the administration of VAT. These steps are required, in any case, to tone up the administration of the sales tax so as to minimise leakages. We further suggest that the State government may consider the following combination of changes: reduction of the Central sales tax rate to 2 percent, partial rebate on inputs for registered dealers above a threshold, with the consequent revenue loss being made up by a levy of 1 percent turnover tax applicable to the resellers as well. This should cover both taxable and non-taxable goods and dealers beyond the first point of sale. The partial rebate on inputs will initiate the introduction of the VAT principle and expand the tax base by capturing the value added at stages beyond the first point of sale. We realise that a turnover tax is not to be encouraged, in general. However, we are making this suggestion specifically for Assam owing to the existing circumstances. The turnover tax may be scrapped after the full implementation of VAT and/or after the fiscal situation has improved in a significant way.

Although in recent years, there has been an increase in the profession tax rate, its contribution to total revenue is still marginal. There is some scope for widening its ambit, as also for its better enforcement in the small scale sector and businesses. In the Central and semi-Central offices, arrangements for disbursement of salaries from their respective headquarters located outside the State prevail, thus obviating the levy of the profession tax. The headquarters for the three principal products of Assam, viz., tea, petroleum products, and plywood are outside the State which narrows the tax base for the State.

By converting the licensing system into an auction system, extending the coverage of country liquor shops (CLS) to all districts, and adding a system of liquor booths to each CLS, the excise revenue can be substantially increased. It is estimated that about Rs. 70 crore per year can be raised additionally from the State excise system.

Growth in revenue from entertainment tax has fallen significantly. Buoyancy of entertainment tax was 1.43 over the period 1981-82 to 1986-87. It is only 0.34 over the period 1986-87 to 1995-96. There is scope for garnering additional revenue in this case by using a compounding system, as evasion is large especially in late night shows in the theatres. Further, a tax on cable operators per cable connection may also be imposed.

In the reform scenarios, we have used a buoyancy of 1.35 for sales tax as well as for other commodities taxes. The implied increase in the aggregate own tax revenue is about Rs. 186 crore in 1998-99, rising to about Rs. 920 crore by 2001-02. These increases should be achieved by setting up suitable year-wise revenue targets.

NON-TAX REVENUES

Non-tax revenues need to be augmented as part of the overall strategy of reducing subsidisation of government services. In this context, gradual increases in the following may be considered: (i) examination fees; (ii) rents and hire charges of government accommodation, and machinery and equipment; (iii) charges from patients for treatment in hospitals and dispensaries, and sale of medicine; (iv) rates for water supply; (v) rents from government pool accommodation and other housing; (vi) fees for registration of trade unions and other fees realised under the Factory Act; (vii) fees from parks and gardens; (viii) rates for irrigation water; (ix) tolls on roads; and (x) rates for water transport services. While precise estimates cannot be made as to the revenue yield from these measures, increase in rates and fees accompanied by better services may be accepted by people if the increases are suitably graduated and accompanied by an improvement in the quality of services. We have provided for graduated increases. In 1998-99, the additional revenue expected from these measures is about Rs. 14 crore, rising to Rs. 180 crore by the terminal year.

Dividends and interest receipts from SLPEs are languishing at about Rs. 2.50 crore per year. We have provided for an increase of 10 percent per year on the base figure for 1997-98.

The commercial losses of ASEB, as estimated by the Planning Commission (GoI,1997) for the year 1996-97, are Rs. 300 crore. It is also estimated that if the electricity tariff is raised by Rs. 1.23 per unit, ASEB would breakeven, i.e., Rs. 300 crore additional revenues would be generated to wipe out the losses. It is also known that revenue arrears in 1994-95 for ASEB amounted to Rs. 130 crore. As such a suitable revision of the tariff rate and a programme for recovering arrears would yield to ASEB an amount close to Rs. 430 crore. These measures would reduce the dependence of ASEB on budgetary support and release funds for additional outlays.

There is clear scope for improving the performance of ASTC because the operational parameters for the ASTC are much below the corresponding all-India averages. The staff cost per revenue earning kilometre in Assam is Rs. 6.78 whereas the corresponding all-India figures Rs. 3.30. If staff cost per revenue earning kilometre is brought close to the all-India average, it would imply a reduction of a little more than Rs. 3 per revenue earning kilometre per bus per day. Since revenue earning kilometres per bus held per day in Assam are 123 and vehicles held per day are 775 (figures for 1995-96), we estimate that total additional revenue will be about Rs. 10 crore in a year.

While the relevant estimates given above for ASEB and ASTC indicate the revenue potential, we do not think that either of these would directly contribute to the budgetary resources in the reference period. However, their improved financial performance would facilitate reduction in subsidies. This is discussed in the next section.

RESTRUCTURING EXPENDITURE

If the number of government employees is reduced at the rate of 1 percent per annum, the saving generated by the terminal year would be about Rs. 180 crore. For a 2 percent fall, the corresponding figure is Rs. 300 crore. The State government should carefully consider the possibilities of downsizing employment in general administration and redeployment of existing staff towards education, health and infrastructure sectors. We suggest that a `Redeployment Commission' be set up to identify surplus staff in different departments. The commission should determine quarterly targets for redeployment and coordinate training of staff, where necessary.

Setting up a pension fund is a good idea for the State. We realise that, in the context of the gap-filling approach followed by the Finance Commissions as far as non-Plan expenditures are concerned, there is little incentive for the States to do so. However, in its own interest, the State government should set up a pension fund using contributions from its employees as also its own contribution.

Direct subsidies in 1994-95 were 136.28 crore. In constructing the alternative scenarios, we have projected the 1994-95 figures (latest available in terms of economic classification) by a growth rate of 7 percent per annum, implying constancy in real terms. In the base scenario, the expenditure on direct subsidies has been put at 70 percent of these amounts. Reduction in subsidies can be brought about by reducing expenditure on a wide-range of economic services on social services other than education and health and family welfare. We suggest a target of a further reduction of expenditure on direct subsidies in the first two years by 20 percent, thus reducing direct subsidies to 50 percent of the 1994-95 levels in real terms.

Table 5.1: Balance of Resources and Adjustment Required in Alternative Scenarios

(Percent of GSDP)

	1998-99	1999-00	2000-01	2001-02
Base scenario				
Balance of resources	5.09	5.54	8.00	9.81
Total adjustment required	4.45	4.45	3.31	2.90
Reform 1				
Balance of resources	6.50	7.43	9.67	12.09
Total adjustment required	1.90	1.36	1.15	0.00
Reform 2				
Balance of resources	8.18	8.48	10.35	12.78
Total adjustment required	0.00	0.00	0.00	0.00

Note: Balance of resources after meeting non-discretionary claims like interest payments, wages and salaries, pensions and current transfers to local bodies.

ALTERNATIVE SCENARIOS: REFORM 1 AND REFORM 2

Reform 1 is a scenario based on actions that can be initiated by the State government. The buoyancy of sales tax and other commodity taxes is set at 1.35 percent. Interest receipts and dividends are targeted to increase by 10 percent per annum on the existing low base following reforms pertaining to the SLPEs. Receipts from general, social and economic services are set to progressively increase at 20, 30, 40 and 50 percent on the respective previous year bases. Expenditure is restructured. In particular, government employment falls at the rate of 1 percent. It is expected that these changes, especially higher capital expenditure, would be accompanied by a higher growth rate. In Reform 1, real GSDP growth rate is set at one percentage point higher than that in the base scenario. In Table 5.1, the impact of these measures is summarised. Details are given in the appendix to chapter 5 (table A5.2). It is seen that considerable improvement is achieved through State-specific initiatives. The adjustment required in the first year is reduced by about 2.5 percentage points. By the last year, full adjustment is achieved.

The next scenario builds on reform 1. The Centre plays a key role in this scenario. Additional features are as follows: the Centre pays arrears on the royalty on petroleum for 1996-1999 block in partial agreement with the State's claim for revision of royalty rates (amount Rs. 300 crore, paid in two instalments in 1998-99 and 1999-2000). The Centre reimburses in full, the insurgency related expenditures, as agreed. Total amount involved is Rs. 440 crore. We provide for Rs. 40 crore in 1997-98, and Rs. 200 crore each in 1998-99 and 1999-2000. There are some additional grants from the Centre in the first two years, to enable the State to tide over its immediate difficulties. The State government responds by reducing the number of government employees at the rate of 2 percent per year. These changes are accompanied by additional GSDP growth of 1 percentage point over reform 1. Now, not only the adjustments are completed, but some additional resources become available for capital formation.

ECONOMIC RESURGENCE: CORE STRATEGY

It is imperative that fiscal reforms considered in the preceding sections be viewed as the core of an overall strategy for the economic resurgence of the State which should use agriculture (at least two crops) and allied sectors and revitalisation of the forestry sector as its cornerstones. Further, Assam should aim to become a net exporter of electricity by exploiting or allowing the exploitation of its mineral and hydro-potential on favourable terms (e.g., at least 50 percent of it being processed at source; and having a divisible pool formula determined by the Central government for coal, gas and petroleum).

While the government and the public enterprises dry up as a source of employment, it is imperative that a strategy for employment of Assam youth be set up by (i) facilitating their employment outside the State (in India and abroad); and (ii) by expanding economic activities in selected sectors. Local entrepreneurs need to be given exposure to the mechanics of import-export business. The reactivation of forest and timber-based industries, a growing agricultural sector via increasing the irrigation cover, and adequate attention to education and health, accompanied by full-scale fiscal reforms, as discussed in the course of the study would yield results.

6. Conclusion

Assam's matrix of problems comprises seriously dwindling industrial economy with near-zero capital inflows, industries like timber and plywood coming to a standstill, a cash-constrained government budget, pre-emptive claims of salaries, and virtual halt of capital formation from budgetary resources. In fact, three intertwined downward spirals have been identified that account for the economic slide of Assam. At the core of these spirals are insurgency, fiscal imbalance, and unproductive plans.

We have suggested a full array of measures and outlined the time path for taking corrective action. These measures are primarily aimed at correcting the fiscal imbalance, ensuring more capital formation from the budgetary resources, and making government expenditure more productive. We have also suggested that agriculture, forestry and further development of the irrigation and power sectors be made the cornerstones of a strategy for the State's economic resurgence.

The fiscal situation of Assam can be improved by concerted action on the part of the State government effectively complemented by the Central government. The Central government has launched a northeast initiative. The two levels of government should work in tandem, launching developmental projects, including those that can be financed by multilateral agencies. Assam should realise that it has a vital role to play not only for itself but for the entire northeast.

Endnotes

1. Assam was notified a Special Category State (SCS) on the basis of a decision taken by the National Development Council in December, 1991. This decision entitled the State to receive Central assistance for the State Plans in the form of 90 percent as grant and 10 percent as loan. Prior to this, the grant-loan composition of Central assistance was 30 : 70. The decision to treat Assam as a SCS was made effective from 1990-91.

2. The State was declared a disturbed area by a Gazette Notification dated November 27, 1990. This entitled the State to receive special consideration from the Centre in some areas. The liability of the State government is limited to 60 percent of expenditure on a company except the expenditure on rations which is met fully by the Central government.

3. During the four decades 1951-71, 1971-81 and 1981-91, the rate of growth of population in Assam was 35 percent for the first two decades, and 23.36 and 24.24 percent for the following two decades. The figures are tangibly higher than the all-India average of around 22 percent per decade. About 89 percent of the population in Assam is rural and 74 percent depend on agriculture and allied activities. The density of population in Assam is 286 persons per square kilometer whereas the corresponding all-India figure is 267. Assam has a large segment of migrant population.

4. A District Industry Centre (DIC) programme was initially started in 1978-79 as a centrally sponsored scheme (with 50 : 50 sharing), which catered to the needs of the small scale sector. There were two popular schemes under the programme, viz., the seed/margin money scheme and the rural artisan programme (RAP). The entire programme was made part of the State plan in 1993-94 and the State had to bear the financial liabilities of all the 23 DICs inclusive of staffing. However, funds are not being allocated any more for the programme. The rural artisan programme has been abandoned. The traditional handloom and textile industry and sericulture have been suffering for want of resources. The *Khadi* and Village Industries Board is doing some useful work in the rural areas in the field of *khadi* production, bee keeping, footwear and jute products.

5. Other important recommendations of the SFC are:

   (i) Registration of births and deaths should be shifted from the Health and Family Welfare department to the local bodies, immediately for urban bodies, and later for rural bodies, i.e., after the functioning of *Gaon Panchayats* is stabilised.

   (ii) In order to better maintain a local finance data base with proper registers, forms and records, the State government should provide, as grants to local bodies out of Plan funds, at the rate of Rs. 1000 per local body for 1997-98 and at the rate of Rs. 500 per local body for 1998-99, 1999-2000 and 2000-2001.

6. The main recommendations are as under — **Manufacturing Enterprises**: These should not be in the government sector; for existing enterprises, 51 percent equity may be divested in one go, leaving management to professionals; **Trading/Service Enterprises**: The State government should withdraw from trading enterprises. For service enterprises (electricity, water supply and transport), it is recommended that generation of electricity in the first phase, and transmission and distribution in subsequent phases, should be privatised (with a regulatory authority put in place); water supply, if not being handled by government departments should be privatised or transferred to local bodies; and government should withdraw from the transport sector; **Financial Enterprises**: The State government should divest from manufacturing enterprises; and **Promotional and Developmental Enterprises**: The State government should divest with some exceptions like tourism and industrial estates.

7. An empowered committee has been set up in Assam to look into the revision of the pay scales of State government employees in the wake of the recommendations of the Fifth Central Pay Commission. The implementation of the revised pay scales in 1998-99 is likely to entail about Rs. 700 crore annually.

8. Petroleum royalty rate was Rs. 578 per tonne for the 1996-97 block. At that rate, revenue from petroleum was Rs. 264 crore in 1996-97. The State has claimed Rs. 1204 per tonne as the rate consistent with the import parity price. For the 1999-2002 block, if upward revision of rate is allowed, revenue in 1999-2000 would increase to Rs. 457 crore (at the rate of Rs. 1000 per tonne) giving the State an additional amount of about Rs. 190 crore.

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Appendices

Per Capita SDP: Special & General Category States

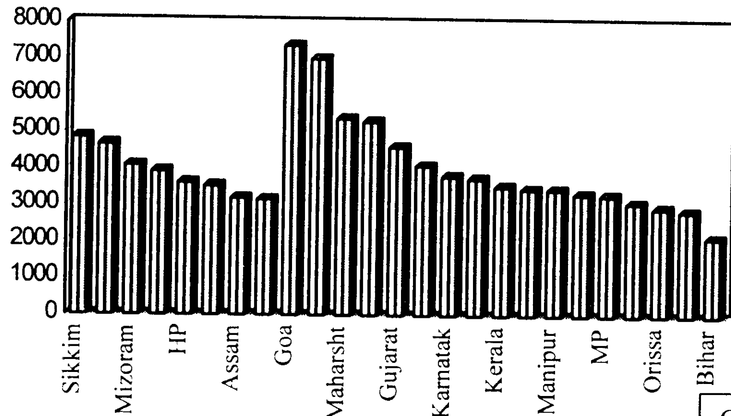

Chart A1

Growth Rate of Per Capita GSDP of Selected States

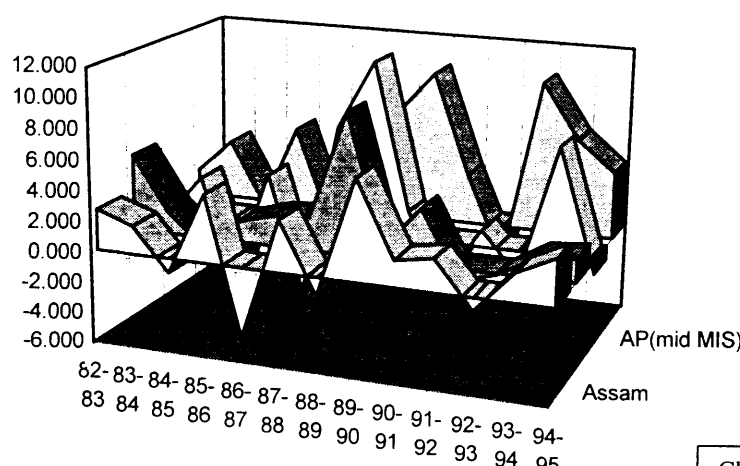

Chart A2

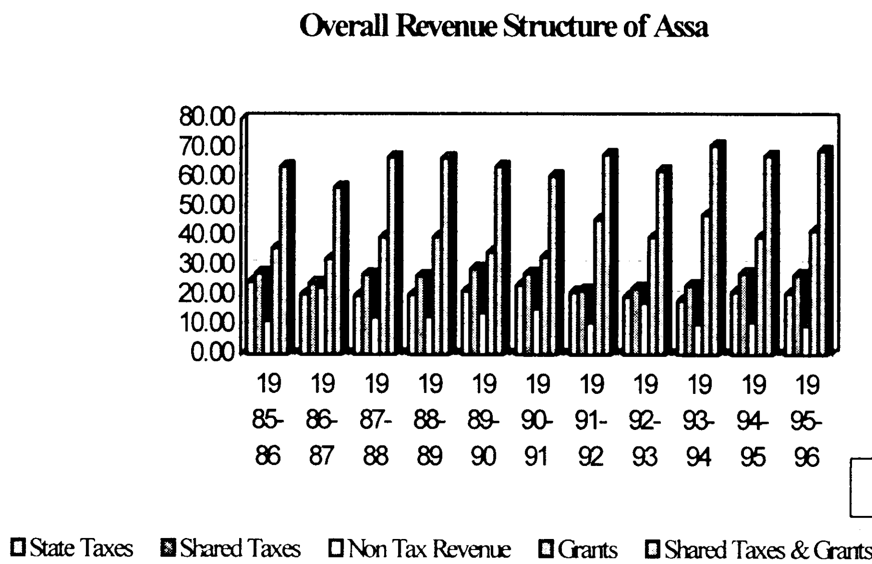

Chart A3

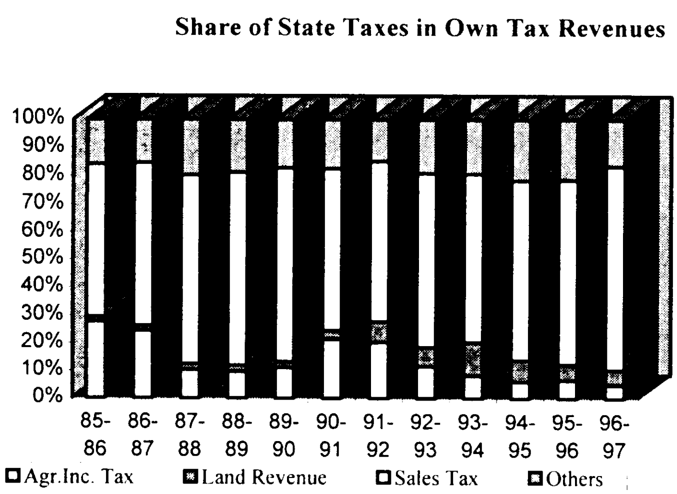

Chart A4

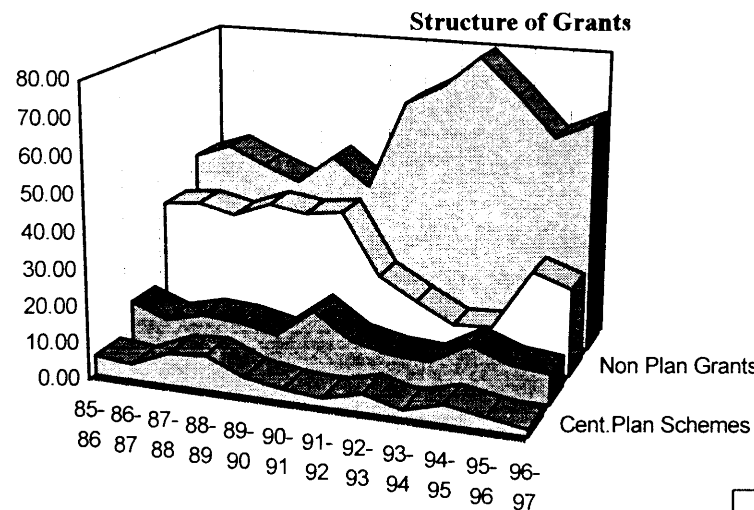

Chart A5

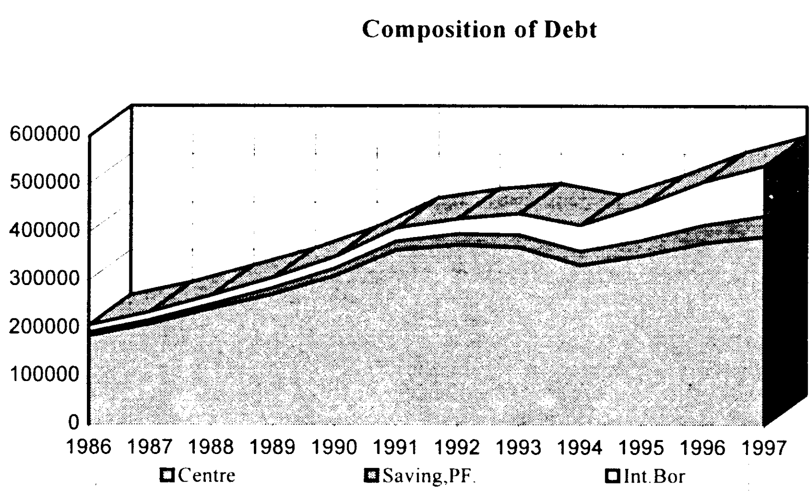

Chart A6

Table A1.1: Major Agricultural Commodities: Area, Production and Yield

(Average annual growth rates)

Commodity	Area	Production	Yield	Commodity	Area	Production	Yield
Foodgrains				**Non-foodgrains**			
Rice	0.8	2.8	2.0	Jute	-2.3	0.0	2.2
Maize	-0.4	0.5	0.9	Mesta	-7.3	-6.3	1.1
Wheat	-4.1	-3.5	0.5	Tea	1.0	2.2	1.1
Arhar	-3.7	-4.3	-0.6	Chillies	2.4	3.6	1.1
Other pulses	-1.7	0.9	2.6	Turmeric	0.6	1.5	0.7
Total foodgrains	0.5	2.5	2.1	Arecanuts	3.5	-0.2	-2.5
Non-foodgrains				Potatoes	3.9	4.8	0.9
Sesamum	0.5	0.9	0.3	Sweet potatoes	-0.6	-0.6	0.1
Rapeseed and mustard	-0.3	0.7	0.8	Tapioca	0.8	0.5	-0.3
Linseed	1.4	2.3	0.7	Bananas	4.0	4.4	0.3
Coconuts	8.8	8.7	-0.1	Sugarcane	-3.0	-5.7	-2.6

Source: CMIE, 1996.

Table A2.1: Buoyancy Coefficients of State's Tax Revenues

Tax	Buoyancy		
	1981-82 to 1995-96	1981-82 to 1986-87	1986-87 to 1995-96
Tax revenue	1.21	1.34	1.06
Own tax revenue	1.19	1.49	1.08
Agricultural income tax	0.84	1.80	0.33
Profession tax	1.95	1.84	1.90
Land revenue	1.71	0.45	2.73
Stamps and registration fees	1.02	0.98	1.02
Taxes on commodities and services	1.21	1.49	1.07
Total sales tax	1.23	1.60	1.05
State sales tax	1.74	1.57	1.47
Tax on vehicles	1.19	0.92	1.54
Tax on passengers and goods	1.32	1.43	1.39
Entertainment tax	0.89	1.43	0.34
State excise duty	1.18	0.61	1.52
Electricity duty	0.56	1.52	-0.33
Share in Central taxes	1.23	1.21	1.05

Source (basic data): CAG, relevant years; and CSO

Table A2.2: Structure of Grants

(Percent of total grants)

	1986-87	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Plan schemes	63.0	61.5	78.3	84.2	89.6	89.0	72.29
State plan schemes	48.6	40.5	65.2	70.9	79.7	70.0	59.13
Central plan schemes	4.5	3.5	2.5	5.2	2.4	5.5	3.59
Centrally sponsored schemes	10.0	17.5	10.5	8.1	7.5	13.4	9.55
Special plan schemes	0.0	0.0	0.0	0.0	0.0	0.0	0.02
Non-plan grants	37.0	38.5	21.7	15.8	10.4	11.0	27.71
Memo: total grants (Rs. lakh)	40,171	58,433	111,207	104,517	157,828	118,219	142,420

Source: CAG, relevant years.

Table A2.3: Cost of Collection of Taxes

(Percent of individual tax revenues).

Tax Category	1992-93	1993-94	1994-95
Sales tax	1.5	1.6	1.9
Land revenue	8.2	3.7	6.8
Agricultural income tax	0.2	0.3	0.4
Motor vehicles tax	10.2	8.2	7.4
Electricity duties	20.9	27.7	25.9
Total	**2.4**	2.2	2.7

Source: CAG, relevant years.

Table A2.4: Structure of Revenue Receipts

(Percent of total revenue receipts)

Source of Revenue	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
State taxes	24.6	20.5	20.1	20.3	21.7	23.6	21.2	19.8	18.5	21.3	20.8
Shared taxes	27.7	24.3	27.3	26.7	29.2	27.4	22.0	22.5	23.4	27.7	27.1
Non-tax revenue	11.5	22.6*	12.8	12.9	14.3	15.6	10.9	17.6	10.5	11.0	9.9
Grants	36.2	32.6	40.2	40.1	34.8	33.3	46.0	46.0	47.6	39.9	42.2
Shares of taxes and grants	63.9	56.9	67.5	66.8	64.0	60.7	68.0	62.5	71.0	67.6	69.2

Source (basic data): CAG, relevant years.

* This sudden increase is mainly attributable to revision of royalty rates on petroleum and payment of arrears.

Table A2.5: Institution-Wise Guarantees Given by the Government of Assam

(Rs. crore)

Institution/Party for Whom Guarantee is Given	Guaranteed Amount	Percentage	Outstanding Guaranteed Amount as on 31.3.95	Percentage
REC	324.20	20.17	292.45	23.00
Bond holders for marketing borrowing	411.92	25.62	330.67	26.01
Assam financial corporation	234.19	14.57	234.22	18.42
Assam State minor irrigation development corporation ltd., Ulubari	36.66	2.28	0.35	0.03
Peerless	50.00	3.11	0.00	0.00
Assam mineral development corporation ltd.	50.00	3.11	23.50	1.85
Assam State cooperative marketing & consumer federation ltd.	100.00	6.22	82.00	6.45
Assam State health and consumer federation	135.00	8.40	110.00	8.65
Others	265.74	16.53	198.21	15.59
Total	**1607.71**	**100.00**	**1271.41**	**100.00**

Source: GoA, 1997c.

Table A2.6: State-Wise Per Capita Expenditure: 1994-95

(Rupees)

State	Total Expenditure	Plan Expenditure	Non-Plan Expenditure	Non-Plan as Percentage of Total Expenditure
Bihar	899.5	170.7	728.7	81.0
Uttar Pradesh	1226.3	311.5	914.8	74.6
West Bengal	1234.7	328.9	905.8	73.4
Madhya Pradesh	1263.4	403.5	859.9	68.1
Orissa	1457.1	445.7	1011.5	69.4
Andhra Pradesh	1701.9	536.4	1165.5	68.5
Assam	**1702.1**	**513.5**	**1188.7**	**69.8**
Rajasthan	1713.4	562.1	1151.3	67.2
Karnataka	1814.2	609.8	1204.4	66.4
Tamil Nadu	1927.7	415.3	1512.5	78.5
Kerala	1932.3	459.2	1473.1	76.2
Gujarat	2115.4	475.5	1639.9	77.5
NCT Delhi	2129.0	1057.8	1071.2	50.3
Maharashtra	2292.3	762.2	1530.1	66.7
Tripura	2807.1	1182.2	1624.9	57.9
Meghalaya	2938.2	1045.0	1893.2	64.4
Manipur	3293.3	1284.6	2008.7	61.0
Punjab	3415.7	659.6	2756.1	80.7
Himachal Pradesh	3623.0	1351.5	2271.6	62.7
Haryana	3806.3	610.6	3195.7	84.0
Jammu & Kashmir	3850.8	1116.3	2734.5	71.0
Goa	4406.5	1239.6	3166.9	71.9
Nagaland	6063.7	2038.0	4025.7	66.4
Arunachal Pradesh	6990.1	3966.3	3023.8	43.3
Mizoram	7424.0	3204.4	4219.5	56.8
Sikkim	13234.1	2920.6	10313.5	77.9
All States	**1718.7**	**480.0**	**1238.8**	**72.1**

Source: RBI, 1997.

Table A2.7: Implicit Subsidies in Assam: 1994-95

	Subsidy (Rs. Lakh)	Share (Per Cent)	Per Capita Subsidy (Rs.)	Recovery Rate
Merit Goods/Services	**107495.00**	**100.00**	**443.63**	**1.09**
i. Social services	**62673.16**	**58.30**	**258.65**	**0.19**
Elementary education	42126.65	48.49	215.12	0.00
Public health	2861.00	2.66	11.81	0.00
Sewerage and sanitation	223.22	0.21	0.92	0.00
Information and publicity	955.40	0.89	3.94	0.35
Welfare of SC., ST., and OBCs	3136.00	2.92	12.94	0.00
Labour	288.58	0.27	1.19	28.18
Social welfare	2379.65	2.21	9.82	0.00
Nutrition	701.74	0.65	2.90	0.00
ii. Economic services	**44821.84**	**41.70**	**184.98**	**2.33**
Soil and water conversation	975.93	0.91	4.03	0.00
Environmental forestry and wild life	800.47	0.74	3.30	4.79
Agricultural research and education	2107.87	1.96	8.70	0.00
Flood control and drainage	15013.45	13.97	61.96	0.00
Roads and bridges	25683.25	23.89	105.99	3.84
Other scientific research	157.10	0.15	0.65	0.00
Ecology and environment	83.76	0.08	0.35	0.00
Non-Merit Goods and Services	**249584.20**	**100.00**	**1030.02**	**1.14**
i. Social services	**144636.20**	**57.95**	**596.91**	**0.34**
Education, sports, art and culture	36281.40	14.54	149.73	0.33
Medical and family welfare	20392.59	8.17	84.16	1.34
Water supply and sanitation	80161.62	32.12	330:82	0.02
Housing	2898.24	1.16	11.96	2.36
Urban development	2013.80	0.81	8.31	0.10
Social security and welfare	1746.42	0.70	7.21	0.36
Other social services	1142.08	0.46	4.71	0.01
ii. Economic services	**104948.10**	**42.05**	**433.11**	**2.22**
Agriculture and allied activities	21826.33	8.75	90.08	8.07
Cooperation	3418.22	1.37	14.11	0.28
Rural development	11488.23	4.60	47.41	0.13
Special area programmes	4658.97	1.87	19.23	0.01
Irrigation	22366.99	8.96	92.31	0.17
Power	21646.89	8.67	89.34	0.01
Industries	14396.24	5.77	59.41	0.92
Transport	3924.57	1.57	16.20	4.78
Civil supplies	31.03	0.01	0.13	0.00
Other economic services	1190.63	0.48	4.91	5.19
Total subsidies	**357079.20**		**1473.65**	**1.12**

Source: Srivastava, D.K., *et.al.*, 1997.

Table A2.8: Structure of Grants: 1985-86 to 1996-97

(Rs. lakh)

	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Total grants from Centre	**23773.10**	**40171.43**	**49488.44**	**55103.01**	**53352.74**	**63096.35**	**111207.02**	**104516.68**	**157827.90**	**118218.94**	**142419.77**	**159122.25**
Grants for State plan schemes	15518.06	19506.94	21728.82	21974.46	25646.91	23659.73	72544.33	74085.35	125720.40	82789.12	84217.38	102076.21
Block grants	14802.85	18663.58	20852.69	21048.37	23546.48	21405.65	67601.81	68256.19	116068.33	73021.79	83894.15	101761.21
Under proviso to Article 275(i)	709.27	767.66	505.70	82.19	0.00	81.51	4926.07	160.80	301.50	369.66	0.00	315.00
Other grants	5.94	75.70	370.43	843.90	2100.43	2172.57	16.45	5668.36	9350.57	9397.67	323.23	0.00
Central plan schemes	1944.10	1812.96	4401.83	5337.89	2789.90	2040.27	2821.95	5443.69	3803.96	6470.65	5111.91	3137.84
Centrally sponsored schemes	4749.74	4000.68	6178.01	6458.92	5073.18	10227.85	11638.82	8432.13	11897.80	15893.93	13597.34	13401.84
Grants for special plan schemes							49.50	36.00	0.00	45.50	24.50	2022.00
Total non-plan grants	**1561.20**	**14850.85**	**17179.78**	**21331.74**	**19842.75**	**27168.50**	**24152.42**	**16519.51**	**16405.74**	**13019.74**	**39468.64**	**38484.36**
Non-plan grants: statutory	1244.95	0.00	7564.02	10561.78	0.00	6913.00	6742.00	14383.75	12335.50	9630.00	34922.33	3751.00
Non-plan deficit [Article 275(i)]	0.00	0.00	7564.02	10561.78	0.00	4663.00	4492.00	12696.25	9523.00	7380.00	31382.33	0.00
Natural calamities	1244.95	0.00	0.00	0.00	0.00	2250.00	2250.00	1687.50	2812.50	2250.00	3540.00	3751.00
Tax on railway passenger fare	192.85	192.85	192.85	192.85	139.84	226.00	207.00	207.00	226.00	226.00	496.00	520.00
Proviso to Article [275(i)]	13.33	10909.07	5099.00	3027.49	14023.33	12732.33	9722.08	13.33	13.33	13.33	0.00	26750.33
Non-plan grants: other	110.07	3748.93	4323.41	7549.62	5679.58	7297.17	7481.34	1915.43	3830.91	3150.41	4050.31	7463.03

Source: CAG, relevant years; GoA, relevant years(a).

Table A2.9: Outstanding Debt of Assam Government*

(Rs. lakh)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Outstanding debt[1]	**207075**	**234692**	**269097**	**305547**	**348679**	**409136**	**428201**	**439173**	**415617**	**455856**	**504296**	**539316**
Debt to Centre	185273	210250	241455	271430	309622	363517	375475	370136	332375	351622	378581	391984
Debt internal borrowing	14206	16041	17915	20388	22843	26983	30557	43314	54099	71067	87787	103774
Debt to saving, provident fund	7596	8401	9727	13729	16214	18636	22170	25723	29143	33167	37928	43558

Source: CAG, relevant years; GoA, relevant years(a).

Notes: * (as on 31st March).
1 Outstanding Debt excludes outstanding ways and means advances from Reserve Bank of India and Centre.

Table A2.10: Financing and Composition of Fiscal Deficit: 1986-87 to 1996-97

(Rs. lakh)

	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Fiscal deficit (estimated from definition)	23,667	42,028	30,516	52,526	52,275	25,474	20,809	-1,784	71,058	65,219	7,378
Financing of fiscal deficit											
1. Net borrowing[1]	27,617	34,404	36,451	43,132	60,457	19,064	10,973	-23,556	40,239	48,439	35,021
2. Withdrawal of funds	-9,182	5,852	-3,702	-137	1,744	-290	13,536	7,930	20,557	32,760	-31,637
3. Ways and means advances (RBI and Centre)	0	0	1,508	20,287	39	6,440	-24,874	1,728	354	23,157	3,220
4. Change in cash balance and overdrafts	5,232	1,772	-3,741	-10,757	-9,964	259	21,175	12,114	9,907	-39,137	774
Fiscal deficit (1 + 2 + 3 + 4)	23,667	42,028	30,516	52,526	52,275	25,474	20,809	-1,784	71,058	65,219	7,378
Composition of fiscal deficit											
Revenue deficit	-8,081	7,560	6,363	13,396	9,903	-26,953	-16,231	-41,628	30,929	20,002	-28,451
Capital outlay	17,954	4,129	16,780	24,808	24,697	28,521	23,723	25,080	27,718	30,069	24,220
Net lending	13,795	10,339	7,373	14,321	17,675	23,906	13,318	14,764	12,410	15,148	11,609
as a percentage of GSDP											
1. Net borrowing	4.47	4.91	4.80	4.75	5.69	1.61	0.84	-1.60	2.46	2.79	1.83
2. Withdrawal	-1.49	0.84	-0.49	-0.02	0.16	-0.02	1.04	0.54	1.26	1.89	-1.65
3. Ways and means advances (RBI and Centre)	0.00	0.00	0.20	2.23	0.00	0.54	-1.91	0.12	0.02	1.34	0.17
4. Change in cash balance and overdrafts	0.85	0.25	-0.49	-1.18	-0.94	0.02	1.62	0.82	0.61	-2.26	0.04
Fiscal deficit	3.83	6.00	4.02	5.78	4.92	2.15	1.59	-0.12	4.34	3.76	0.38
Composition of fiscal deficit											
Revenue deficit	-1.31	1.08	0.84	1.47	0.93	-2.27	-1.24	-2.83	1.89	1.15	-1.48
Capital outlay	2.91	3.45	2.21	2.73	2.33	2.41	1.82	1.70	1.69	1.73	1.26
Net lending	2.23	1.48	0.97	1.58	1.66	2.02	1.02	1.00	0.76	0.87	0.61

Source: (basic data) CAG, relevant years.

Note: 1. This amounts to fiscal deficit as it reflects change in the outstanding debt. This equals fiscal deficit as estimated from definition only when items number 2, 3 and 4 are all zero.

Table A2.11: Rates of Agricultural Income Tax: 1997-98*

Companies	For income upto Rs. 1.0 lakh	40%
	For income exceeding Rs. 1.0 lakh	45%
Persons	For income upto Rs. 30,000	Nil
	Next Rs. 20,000	20%
	Next Rs. 50,000	40%
	For income exceeding Rs. 1.0 lakh	45%

Rates for Assam taxation on specified lands (First levied in 1990): (Tax base: per kilogram of annual productivity)

Area of Specified Land	**Tax Rate**
Less than 4 hectare	Nil
Less than 40 hectare	20 paisa
More than 40 hectare	30 paisa general 27 paisa (if area is in Barak valley)

It was first levied in 1939.

Table A3.1: Subsidy to Assam State Electricity Board

Particulars	1991-92	1992-93	1993-94
Subsidy from the State government (Rs. crore)	64.07	65.85	66.46
Total revenue receipts (including State subsidy) (Rs. crore)	249.34	264.67	292.41
Net surplus (+)/deficit (-) (Rs crore)	-274.55	-185.51	+144.73
Revenue per KWH (paisa)	115.82	125.97	136.00
Expenditure per KWH (paisa)	127.67	144.33	255.00
Profit (+)/loss (-) per KWH (paisa)	-11.85	-18.36	-119.00

Source: CAG, 1996; GoI, 1997.

Table A3.2: Assam State Transport Corporation: Performance Indicators

Particulars	1992-93	1993-94
Vehicles productivity[1]	106	115
Passenger kms. operated per bus/day by Assam STC	4016	4094
Bus staff ratio on fleet operated	10.30	12.59
Staff productivity[2]	17.00	14.90
Staff cost per revenue earning km. (paisa)	581	444
Fuel cost per revenue earning km. (paisa)	176.10	208.57
Fuel efficiency (kms. per litre)	4.00	4.00

Source: GoI, 1995.
Notes: 1. Revenue earnings in kms. per bus held per day.
2. Revenue earnings in kms. per worker per day.

Table A3.3: Estimates of Norm-Based Maintenance Expenditure

(Rs. lakh)

Item/Service	1997-98	1998-99	1999-00	2000-01	2001-02
Flood control works	4600	4876	5119	5424	5748
Buildings	2850	3047	3230	3450	3684
Roads	14128	16544	18960	22318	26271
Major & medium irrigation schemes	686	755	815	894	980
Minor irrigation schemes	1175	1245	1308	1386	1469
Water supply	498	522	549	576	604
Milk schemes	272	286	300	315	300
Total	**24209**	**27275**	**30281**	**34362**	**39086**

Source (basic data): GoI, 1994.

Table A5.1: Base Scenario: Summary of Results

(Percent of GSDP)

	1997-98	1998-99	1999-00	2000-01	2001-02
Revenue receipts	**18.77**	**21.13**	**20.72**	**22.04**	**22.78**
Tax revenue	**11.00**	**13.26**	**11.78**	**12.49**	**12.96**
Own tax revenue	4.27	4.32	4.37	4.42	4.47
Land revenue	0.38	0.38	0.39	0.40	0.41
Agricultural income tax	0.27	0.27	0.27	0.26	0.26
Stamp and registration and profession tax	0.32	0.33	0.35	0.36	0.38
Taxes on commodity and services	3.30	3.33	3.36	3.39	3.42
Total sales tax	2.70	2.72	2.73	2.74	2.76
Other tax on commercial (excise sales tax)	0.60	0.62	0.63	0.65	0.66
Share in Central tax	6.73	8.94	7.41	8.07	8.50
Non-tax revenue	**1.79**	**1.64**	**2.32**	**1.96**	**1.79**
Interest receipts, dividends	0.01	0.01	0.01	0.01	0.01
Services (general, social and economic)	0.41	0.39	0.37	0.35	0.33
Petroleum	1.36	1.23	1.93	1.60	1.45
Grants	**5.98**	**6.23**	**6.62**	**7.59**	**8.02**
Plan	5.09	5.68	6.21	6.65	7.10
Non-plan	0.89	0.55	0.41	0.93	0.92
Capital receipts	**3.84**	**5.03**	**4.62**	**2.85**	**3.04**
New borrowing (fiscal deficit)	3.80	4.99	4.58	2.80	3.00
Recovery of loans	0.04	0.04	0.04	0.04	0.04
Total receipts	**22.61**	**26.16**	**25.34**	**24.89**	**25.81**
Interest payments	3.33	3.41	3.48	3.79	3.88
Pensions	1.02	1.65	1.66	1.43	1.43
Wages and salaries	11.54	15.77	14.42	11.44	10.48
Current transfers to local bodies	0.25	0.24	0.23	0.23	0.22
Total non-discretionary expenditure	**16.14**	**21.07**	**19.80**	**16.88**	**16.01**
Balance of resources	**6.47**	**5.09**	**5.54**	**8.00**	**9.81**
Additional expenditure claims arranged in order of priority					
Maintenance	1.99	1.93	1.87	1.81	1.75
Targeted spending on BMS	0.00	0.36	0.59	0.79	0.99
Capital expenditure	2.18	2.37	2.55	3.63	4.79
Targeted spending on infrastructure	0.00	0.41	0.67	0.90	1.12
Loans and advances by the State	1.30	1.26	1.22	1.18	1.15
Other expenditure including subsidy and current transfers	4.73	3.21	3.10	3.01	2.91
Resources available for additional capital formation	0.00	0.00	0.00	0.00	0.00
Total adjustment required	**3.73**	**4.45**	**4.45**	**3.31**	**2.90**
Total financiable expenditure	22.61	26.16	25.34	24.89	25.81
Fiscal deficit	3.80	4.99	4.58	2.80	3.00
Primary deficit	0.47	1.59	1.10	-0.98	-0.88
Outstanding debt	29.12	31.35	32.94	32.62	32.51

Table A5.2: Reform 1: Summary of Results

(Percent of GSDP)

	1997-98	1998-99	1999-00	2000-01	2001-02
Revenue receipts	**18.75**	**21.93**	**21.74**	**22.64**	**23.84**
Tax revenue	**10.93**	**13.38**	**12.22**	**13.22**	14.01
Own tax revenue	4.32	4.68	5.07	5.50	5.96
Land revenue	0.37	0.39	0.42	0.45	0.49
Agricultural income tax	0.26	0.26	0.26	0.25	0.25
Stamp and registration and profession tax	0.32	0.33	0.35	0.36	0.38
Taxes on commodity and services	3.36	3.69	4.05	4.43	4.83
Total sales tax	2.76	2.86	2.96	3.07	3.18
Other tax on commercial (excise sales tax)	0.60	0.83	1.09	1.36	1.65
Share in Central tax	6.61	8.70	7.15	7.72	8.05
Non-tax revenue	**1.76**	**1.65**	**2.38**	**2.18**	2.24
Interest receipts, dividends	0.01	0.01	0.01	0.01	0.01
Services (general, social and economic)	0.40	0.43	0.50	0.63	0.85
Petroleum	1.34	1.20	1.87	1.53	1.37
Grants	**6.06**	**6.89**	**7.14**	**7.25**	7.60
Plan	5.00	5.52	5.99	6.36	6.73
Non-plan	0.88	0.54	0.40	0.89	0.87
Capital receipts	**3.77**	**4.90**	**4.46**	**2.72**	2.88
New borrowing (fiscal deficit)	3.73	4.86	4.41	2.68	2.84
Recovery of loans	0.04	0.04	0.04	0.04	0.04
Total receipts	**22.52**	**26.83**	**26.20**	**25.36**	26.72
Interest payments	3.27	3.32	3.36	3.62	3.67
Pensions	1.01	1.61	1.60	1.36	1.35
Wages and salaries	11.33	15.17	13.59	10.50	9.40
Current transfers to local bodies	0.24	0.23	0.22	0.22	0.21
Total non-discretionary expenditure	**15.85**	**20.33**	**18.77**	**15.70**	**14.63**
Balance of resources	**6.66**	**6.50**	**7.43**	**9.67**	12.09
Additional expenditure claims arranged in order of priority					
Maintenance	1.95	1.88	1.80	1.73	1.66
Targeted spending on BMS	0.00	0.35	0.56	0.76	0.94
Capital expenditure	2.14	2.31	2.46	3.47	4.54
Targeted spending on infrastructure	0.00	0.40	0.64	0.86	1.06
Loans and advances by the State	1.28	1.23	1.18	1.13	1.09
Other expenditure including subsidy and current transfers	4.64	2.23	2.14	2.87	2.76
Resources available for additional capital formation	0.00	0.00	0.00	0.00	0.05
Total adjustment required	**3.36**	**1.90**	**1.36**	**1.15**	0.00
Total financiable expenditure	22.52	26.83	26.20	25.36	26.72
Fiscal deficit	3.73	4.86	4.41	2.68	2.84
Primary deficit	0.46	1.54	1.06	-0.94	-0.83
Outstanding debt	28.60	30.51	31.78	31.18	30.80

Table A5.3: Reform 2: Summary of Results

(Percent of GSDP)

	1997-98	1998-99	1999-00	2000-01	2001-02
Revenue receipts	**21.71**	**23.07**	**22.08**	**22.47**	**23.59**
Tax revenue	**10.77**	**13.32**	**12.32**	**13.40**	14.26
Own tax revenue	4.28	4.85	5.42	6.02	6.63
Land revenue	0.36	0.38	0.40	0.43	0.47
Agricultural income tax	0.26	0.25	0.25	0.24	0.24
Stamp and registration and profession tax	0.32	0.33	0.35	0.37	0.38
Taxes on commodity and services	3.34	3.88	4.42	4.98	5.54
Total sales tax	2.74	3.05	3.35	3.64	3.93
Other tax on commercial (excise sales tax)	0.60	0.83	1.07	1.34	1.62
Share in Central tax	6.49	8.47	6.90	7.38	7.63
Non-tax revenue	**1.73**	**2.21**	**2.84**	**2.08**	2.12
Interest receipts, dividends	0.01	0.01	0.01	0.01	0.01
Services (general, social and economic)	0.40	0.42	0.49	0.61	0.81
Petroleum	1.32	1.78	2.34	1.46	1.30
Grants	**9.21**	**7.54**	**6.91**	**6.99**	7.20
Plan	4.91	5.38	5.78	6.08	6.38
Non-plan	0.86	0.52	0.38	0.85	0.82
Additional grant	3.25	0.83	0.03	0.05	0.00
Capital receipts	3.70	4.77	4.30	2.60	2.73
New borrowing (fiscal deficit)	3.66	4.73	4.26	2.56	2.69
Recovery of loans	0.04	0.04	0.04	0.04	0.04
Total receipts	**25.41**	**27.84**	**26.37**	**25.07**	26.31
Interest payments	3.21	3.23	3.24	3.46	3.48
Pensions	0.99	1.57	1.55	1.30	1.28
Wages and salaries	11.13	14.65	12.89	9.75	8.57
Current transfers to local bodies	0.24	0.23	0.22	0.21	0.20
Total non-discretionary expenditure	**15.57**	**19.67**	**17.90**	**14.73**	**13.53**
Balance of resources	**9.84**	**8.18**	**8.48**	**10.35**	12.78
Additional expenditure claims arranged in order of priority					
Maintenance	1.92	1.83	1.74	1.65	1.57
Targeted spending on BMS	0.00	0.34	0.54	0.73	0.89
Capital expenditure	2.10	2.25	2.38	3.32	4.30
Targeted spending on infrastructure	0.00	0.39	0.62	0.82	1.01
Loans and advances by the State	1.26	1.20	1.14	1.08	1.03
Other expenditure including subsidy and current transfers	4.56	2.17	2.06	2.75	2.61
Resources available for additional capital formation	0.00	0.00	0.00	0.00	1.37
Total adjustment required	**0.00**	**0.00**	**0.00**	**0.00**	0.00
Total financiable expenditure	25.41	27.84	26.37	25.07	26.31
Fiscal deficit	3.66	5.73	4.26	2.56	2.69
Primary deficit	0.45	1.50	1.02	-0.90	-0.79
Outstanding debt	28.10	29.70	30.66	29.82	29.20

Table A5.4: Adjustment in Reform 2 Relative to the Base Scenario

(Percent of GSDP)

	1998-99	1999-00	2000-01	2001-02
Adjustment required in base scenario	4.45	4.45	3.31	2.90
Corresponding adjustment required in Reform 2	**4.22**	**4.15**	**3.03**	**2.60**
Contribution of higher GSDP growth	0.23	0.31	0.28	0.30
Adjustment achievement through				
Increased tax ravenues	0.75	1.36	1.98	2.62
Increased non-tax revenues	0.66	0.68	0.28	0.51
Reduction in wages and salaries	0.30	0.53	0.71	0.84
Reduction in other expen. includg. subsidies and current transfers	0.87	0.83	0.00	0.00
Central funds	1.64	0.75	0.05	0.00
Adjustment actually achieved *of which*	**4.22**	**4.15**	**3.03**	**3.97**
Additional capital expenditure	0.00	0.00	0.00	1.37

Table A5.5: Expenditure from Balance of Resources: Cumulative Achievement

(Percent of GSDP)

Base Scenario	1998-99	1999-00	2000-01	2001-02
Balance of resources	5.09	5.54	8.00	9.81
Additional expenditure claims arranged in order of priority: cumulative total				
Maintenance	1.93	1.87	1.81	1.75
Targeted spending on BMS	2.29	2.45	2.60	2.74
Capital expenditure	4.66	5.00	6.23	7.53
Targeted spending on infrastructure	5.07	5.67	7.13	8.65
Loans and advances by the State	6.34	6.89	8.31	9.79
Other expenditure including subsidies and current transfers	9.54	10.00	11.32	12.70
Total adjustment required	4.45	4.45	3.31	2.90
Reform 1				
Balance of Resources	6.50	7.43	9.67	12.09
Additional expenditure claims arranged in order of priority: cumulative total				
Maintenance	1.88	1.80	1.73	1.66
Targeted spending on BMS	2.23	2.36	2.49	2.59
Capital expenditure	4.54	4.83	5.95	7.13
Targeted spending on infrastructure	4.94	5.47	6.81	8.19
Loans and advances by the State	6.17	6.65	7.95	9.28
Subsidies and current transfers	8.40	8.79	10.82	12.04
Additional capital expenditure	8.40	8.79	10.82	12.09
Total adjustment required	1.90	1.36	1.15	0.00
Reform 2				
Balance of resources	8.18	8.48	10.35	12.78
Additional expenditure claims arranged in order of priority: cumulative total				
Maintenance	1.83	1.74	1.65	1.57
Targeted spending on BMS	2.17	2.28	2.38	2.46
Capital expenditure	4.42	4.66	5.69	6.76
Targeted spending on infrastructure	4.81	5.28	6.52	7.77
Loans and advances by the State	6.01	6.42	7.60	8.80
Other expenditure including subsidies and current transfers	8.18	8.48	10.35	11.41
Additional capital expenditure	8.18	8.48	10.35	12.78
Total adjustment required	0.00	0.00	0.00	0.00

Notes: The shaded portions indicate the extent to which expenditure claims can be satisfied.
The lighter shade portions indicates where expenditure claims can only partially be met.
The line on additional capital expenditure indicates achievement additional to the original target.

Table D1: Finances of Assam Govrnment (Receipts): 1986-87 to 1996-97

(Rs lakh)

	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Revenue Receipts	**123324**	**124075**	**137286**	**153482**	**181627**	**241763**	**261323**	**331746**	**296141**	**337574**	**385581**
Tax revenue	**55283**	**58762**	**64530**	**78168**	**90778**	**104307**	**110755**	**139019**	**145272**	**161595**	**194245**
Own tax revenue	25307	24923	27890	33290	42014	51216	51771	61281	63221	70246	76690
Land revenue	464	528	667	703	1323	3867	3622	7467	4896	4051	3897
Agricultural income tax	6200	2588	2698	3715	9020	10396	6015	5075	3868	4697	3536
Stamps & registration and profession tax	981	1546	1374	1862	2803	2380	3323	3641	4217	5138	5758
Taxes on commodity and services	17663	20261	23151	27009	28868	34572	38811	45098	50240	56359	63499
Total sales tax	14748	16892	19298	23131	24349	29322	32264	36888	40790	46405	51741
Other tax on commercial (excluding sales tax)	2915	3369	3852	3879	4519	5249	6547	8210	9450	9954	11758
Share in Central taxes	29975	33840	36640	44878	48764	53091	58985	77738	82051	91349	117556
Non-tax revenue	**27870**	**15824**	**17654**	**21961**	**27752**	**26249**	**46052**	**34899**	**32650**	**33560**	**32213**
Interest receipts, dividends	1106	462	153	294	145	232	257	247	220	247	252
General and social service	2555	2399	2380	1775	1400	2216	2038	2608	2513	3202	2512
Petroleum	0	8825	11172	16405	20765	19405	38376	25233	25756	25445	24380
Industries and other economic services	24209	4138	3948	3487	5442	4397	5380	6812	4160	4666	5069
Grants	**40171**	**49488**	**55103**	**53353**	**63096**	**111207**	**104517**	**157828**	**118219**	**142420**	**159122**
Plan	25321	32309	33771	33510	40591	87055	87997	141422	105199	102951	120638
Non-plan	14851	17180	21332	19843	22506	24152	16520	16406	13020	39469	38484
Capital receipts (net)	**19666**	**40583**	**33381**	**43560**	**62795**	**19359**	**25155**	**-15045**	**61500**	**82048**	**4201**
Capital receipts (gross)	32833	53336	50728	63628	80647	25250	53010	11615	93055	99498	37026
Internal debt (net)	**1835**	**1874**	**2473**	**2455**	**4139**	**3574**	**12758**	**10785**	**16967**	**16721**	**15987**
Internal debt (gross)	2813	2978	3601	3759	4202	4408	14360	12512	17153	17015	17889
Loans and advances from Centre (net)	**24977**	**31205**	**29975**	**38192**	**53895**	**11957**	**-5338**	**-37761**	**19247**	**26959**	**13403**
Loans and advances from Centre (gross)	37165	42853	46193	56956	71684	17015	20914	-12828	50617	44114	44326
Plan	31575	36177	37532	40379	41243	6199	10841	-20868	11531	25235	11715
State plan schemes	30008	33796	34958	38029	39058	3864	7833	-23601	8500	22386	11266
Central plan & Central sponsored schemes	1482	2253	2462	2219	2063	2188	2825	2565	2742	2765	366
Special plan schemes	85	127	111	131	122	147	183	169	289	85	84
Non-plan	5591	6676	8662	16577	30441	10816	10073	8040	39086	18879	32611
Share of small savings (gross)	5300	17	20	21	15011	10707	9489	10068	38798	18386	32145
Others	291	6659	8642	16556	15430	109	584	-2028	288	493	466
Recovery of loans	**1231**	**327**	**633**	**565**	**594**	**584**	**646**	**581**	**703**	**849**	**817**
Small savings and provident funds (net)	**805**	**1326**	**4002**	**2484**	**2423**	**3533**	**3553**	**3420**	**4025**	**4760**	**5631**
Withdrawal from funds (public account)	**-9182**	**5852**	**-3702**	**-137**	**1744**	**-290**	**13536**	**7930**	**20557**	**32760**	**-31637**
Total receipts	**142990**	**164658**	**170668**	**197042**	**244422**	**261122**	**286478**	**316701**	**357641**	**419623**	**389782**

Source: CAG, relevant years GoA, relevant years (a)
Note: 1 Net of repayments of internal debt and loans to Centre

Table D2: Finances of Assam Government (Expenditures): 1986-87 to 1996-97

(Rs. lakh)

	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Revenue expenditure	**115243**	**131635**	**143649**	**166878**	**191530**	**214810**	**245092**	**290118**	**327070**	**357577**	**357130**
General services	**34030**	**40007**	**45035**	**53529**	**59583**	**53499**	**86564**	**103705**	**121321**	**122135**	**131639**
Interest payments	15427	18481	21892	26543	26246	9270	41073	49003	58933	48761	55990
on Central loans	13282	15545	18650	22118	21856	3371	34480	41233	46471	35275	--
on savings and provident fund	811	944	1191	1882	1966	2526	2606	2599	2885	3291	--
on internal borrowing	1334	1993	2051	2543	2424	3374	3987	5171	9577	10195	--
Administrative services	13933	15728	16739	18348	23624	29259	29137	34576	38165	45322	45494
Pensions	1208	2296	2942	4024	4935	8334	10485	13395	16151	18040	19836
Other general services	3462	3502	3463	4614	4777	6635	5869	6730	8072	10012	10319
Social services	**47820**	**56089**	**63261**	**65721**	**77675**	**95111**	**98526**	**121563**	**131203**	**145674**	**155334**
Education, sports, etc.	26495	29439	33538	39408	44984	55990	64623	79191	87003	97438	103462
Health & family welfare	6933	8486	9514	9239	11031	14202	13644	17241	19215	21751	22750
Other social services	14392	18164	20208	17074	21660	24919	20258	25132	24985	26486	29122
Economic services	**32758**	**34895**	**35016**	**46476**	**53480**	**65350**	**59364**	**63902**	**73963**	**88811**	**69751**
Agriculture & allied services	22339	17237	13850	21059	24337	27831	23966	25362	28599	45782	29408
Energy	0	20	2	20	15	35	22	44	45	48	12
Industry & minerals	2838	3459	4225	6888	4999	8187	5974	6717	9091	8341	5892
Transport	4760	5110	6383	7064	8869	11826	12485	11596	13496	12927	13029
Other economic services	2820	9069	10556	11445	15259	17471	16918	20182	22731	21713	21410
Grants-in-aid (Comp. to local bodies)	**636**	**642**	**331**	**1151**	**777**	**850**	**639**	**948**	**584**	**956**	**407**
Grants-in-aid/contributions	**0**	**1**	**6**	**0**	**15**	**0**	**0**	**0**	**0**	**0**	**0**
Capital expenditure[1]	**32980**	**34795**	**24786**	**39695**	**42966**	**53011**	**37687**	**40425**	**40832**	**46067**	**36646**
Social services	**3858**	**4882**	**2259**	**3263**	**3058**	**2509**	**2248**	**2695**	**3330**	**3995**	**1635**
Education, sports, etc.	1130	1246	410	382	552	447	383	262	490	696	656
Health & family welfare	1631	2049	1409	1889	1793	1396	1332	1380	1298	905	424
Other social services	1097	1587	441	992	713	665	534	1053	1541	2393	556
Economic services	**13146**	**18295**	**14014**	**20581**	**21152**	**25346**	**20735**	**21721**	**23402**	**24501**	**22101**
Agriculture & allied services	2421	380	95	398	715	550	48	326	720	277	36
Transport	4528	5389	3472	6140	6789	7925	8732	7584	8018	10994	8359
Other economic services	6197	12526	10447	14044	13648	16872	11956	13810	14664	13230	13707
General services (non-developmnt)	**950**	**953**	**507**	**964**	**487**	**666**	**740**	**664**	**987**	**1574**	**484**
Loans and advances by the State	**15026**	**10666**	**8006**	**14887**	**18269**	**24490**	**13964**	**15345**	**13113**	**15997**	**12426**
Discharge of internal debt	**978**	**1105**	**1128**	**1304**	**63**	**834**	**1603**	**1727**	**186**	**294**	**1902**
Repayment of loans to Centre	**12188**	**11648**	**16218**	**18764**	**17789**	**5058**	**26252**	**24933**	**31370**	**17155**	**30923**
Total expenditure[1]	**148223**	**166430**	**168435**	**206572**	**234496**	**267821**	**282779**	**330543**	**367902**	**403643**	**393776**

Source: CAG relevant years; GoA, relevant years(a).
Note: 1. Net of repayments, i.e., excluding discharge of internal debt and repayment of loans to Centre.

Table D3: Gross State Domestic Product at Factor Cost by Industry of Origin at Current Prices: 1980-81 to 1995-96

(Rs lakh)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96[Q]
Gross State domestic product	**251626**	**[illegible]806**	**365701**	**434656**	**511308**	**567348**	**617606**	**700147**	**760033**	**908380**	**1062066**	**1184809**	**1304772**	**1471699**	**1637495**	**1734434**
Agriculture and allied activities		**[illegible]98**	**137316**	**167334**	**196345**	**208006**	**217204**	**245285**	**283305**	**327193**	**398580**	**473570**	**518817**	**586266**	**686876**	**704953**
Agriculture		[illegible]24	123195	152386	179574	186897	194393	221108	254805	296296	355674	425681	467553	530306	629187	645258
Forestry & logging		7040	6638	6935	7091	10047	10383	11489	14726	15798	24843	27607	29263	32905	33436	33867
Fishing	5080	6234	7483	8013	9680	11062	12428	12688	13774	15099	18063	20282	22001	23055	24253	25828
Industry	**36927**	**85055**	**97721**	**120361**	**145322**	**168434**	**184450**	**219711**	**220176**	**292158**	**318598**	**297173**	**317745**	**359010**	**372999**	**395087**
Mining and quarrying	5185	42993	56164	63675	61165	69136	74307	97982	105732	125553	116208	114521	121135	139503	141675	141226
Manufacturing	18399	23156	23396	33685	54050	67933	74338	79922	62682	108486	137221	106840	111315	118824	121265	134685
Registered	12269	16155	16142	25738	41868	56264	63913	67813	50190	93811	120520	88903	90914	96787	94570	104753
Unregistered	6130	7001	7254	7947	12182	11669	10425	12109	12492	14675	16701	17937	20401	22037	26695	29932
Construction	10888	15415	14541	18560	25255	25501	28292	32531	37297	43637	48488	55224	63316	76256	82528	89312
Electricity, gas and water supply	2455	3491	3620	4441	4852	5864	7513	9276	14465	14482	16681	20588	21979	24427	27531	29864
Services sector	**100384**	**117753**	**130664**	**146961**	**169641**	**190908**	**215952**	**235151**	**256552**	**289029**	**344888**	**414066**	**468210**	**526423**	**577620**	**634394**
Transport, storage and comm	8922	12577	14838	17059	19110	22948	27371	29149	34850	40030	44038	50723	58729	67489	73734	86638
Railways	2544	3203	4307	4917	5216	6623	6886	8295	8338	9642	9989	10870	13182	15930	13186	14736
Transport by other means[1]	5258	7933	8762	10083	12065	14283	17612	18709	22207	25813	29409	33540	38417	42230	49050	57867
Communication	1120	1441	1769	2059	1829	2042	2873	2145	4305	4575	4640	6313	7130	9329	11492	14035
Trade, hotels and restaurants	27816	30831	32238	36184	44172	50235	53842	59475	66383	81033	83970	106182	121489	146465	153083	158699
Banking and insurance	3226	3972	5318	6288	7020	8851	11184	10769	13313	14080	24559	32954	32265	39604	55216	65176
Real estate[2]	28008	31138	34088	35922	40739	44024	48273	52085	53688	52300	56357	59744	64132	68592	77747	86665
Public administration	9392	11150	12634	16510	19229	21533	26622	29500	32689	40174	50650	65639	72507	80554	87299	98094
Other services	23020	28085	31548	34998	39371	43317	48660	54173	55629	61412	85314	98824	119088	123719	130541	13922
Population ('00)	17893	18253	18624	19005	19400	19810	20239	20687	21160	21658	22187	22705	23211	23721	24230	24735
Per capita SDP (Rs)	1406	1768	1964	2287	2636	2864	3052	3384	3592	4194	4787	5218	5621	6204	6758	7012
Growth rate (per capita per annum)		**25.76**	**11.03**	**16.47**	**15.24**	**8.66**	**6.55**	**10.91**	**6.13**	**16.77**	**14.13**	**9.01**	**7.73**	**10.37**	**8.93**	**3.76**

Source: CSO

Notes: Q Denotes quick estimates
1 Includes storage
2 Includes ownership of dwellings and business services

Table D4: Gross State Domestic Product at Factor Cost by Industry of Origin at 1980-81 Prices: 1980-81 to 1995-9

(Rs. lakh)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96Q
Gross State domestic product	**251626**	**274380**	**287687**	**299139**	**302537**	**323113**	**315423**	**333430**	**337158**	**362041**	**376895**	**394220**	**399706**	**416098**	**429003**	**436191**
Agriculture and allied activities	**114315**	**114161**	**122340**	**128851**	**122763**	**131570**	**126225**	**134146**	**132747**	**143270**	**144440**	**148484**	**149360**	**152053**	**153502**	**152404**
Agriculture	103951	103302	110788	117337	110413	119036	113887	122799	121452	131798	133710	137581	138834	141356	143026	141537
Forestry and logging	5284	5699	6292	6102	6812	6898	6591	5483	5298	5334	4440	4465	4618	4831	4675	4698
Fishing	5080	5160	5260	5412	5538	5636	5747	5864	5997	6138	6290	6438	5908	5866	5801	6169
Industry	**36927**	**50178**	**50179**	**50973**	**55078**	**55539**	**53054**	**58404**	**60806**	**63741**	**63888**	**63566**	**64785**	**68067**	**71084**	**73068**
Mining and quarrying	5185	14145	14720	13804	12265	13774	14533	14322	15155	16066	14248	14044	14040	15563	15698	15222
Manufacturing	18399	21030	21292	21669	24783	24243	22763	24326	24707	25791	26077	25940	26803	27453	28049	29020
Registered	12269	14468	14861	15360	16557	17255	16856	17654	18252	18851	18951	19250	19948	20347	20147	21369
Unregistered	6130	6562	6431	6309	8226	6988	5907	6672	6455	6940	7126	6690	6855	7106	7902	7651
Construction	10888	11752	11046	12139	14581	13557	11142	14380	15020	15404	16277	16496	16445	17332	19505	21108
Electricity, gas and water supply	2455	3251	3121	3361	3449	3965	4616	5376	5924	6480	7286	7086	7497	7719	7832	7718
Services sector	**100384**	**110041**	**115168**	**119315**	**124696**	**136004**	**136144**	**140880**	**143605**	**155030**	**168567**	**182170**	**185561**	**195978**	**204547**	**210759**
Transport, storage & communication	8922	10988	11199	11656	12412	13641	14457	15670	15829	17419	17370	19460	20378	21242	21160	24202
Railways	2544	2899	3094	2882	2947	3455	3790	4380	3717	4148	4054	4283	4357	4328	3722	3771
Transport by other means[1]	5258	6832	6844	7359	7970	8661	9062	9990	10618	11669	11724	13568	14233	14930	15023	17636
Communication	1120	1257	1261	1415	1495	1525	1605	1300	1494	1602	1592	1609	1788	1984	2415	2795
Trade, hotels and restaurants	27816	29517	28746	29018	31995	34182	33500	34525	36036	39699	38986	44604	45639	49968	52232	54148
Banking and insurance	3226	3547	4537	4811	5553	6457	8729	8903	10277	11618	15066	16181	14618	16600	16856	17637
Real estate[2]	28008	30947	31968	33030	34130	35268	36448	37669	38936	40245	41603	43010	44468	45980	52282	53399
Public administration	9392	9985	10529	12432	13353	14102	14246	14750	14895	17344	19765	22397	22620	23398	24883	25392
Other services	23020	25057	28189	28368	27253	32354	28764	29363	27632	28705	35777	36518	37838	38790	37134	35981
Population ('00)	17893	18253	18624	19005	19400	19810	20239	20687	21160	21658	22187	22705	23211	23721	24237	24741
Per capita real SDP (Rs.)	1406	1503	1545	1574	1559	1631	1559	1612	1593	1672	1699	1736	1722	1754	1770	1763
Growth rate (per capita per annum)		**6.89**	**2.76**	**1.89**	**-0.92**	**4.59**	**-4.45**	**3.42**	**-1.14**	**4.91**	**1.62**	**2.21**	**-0.82**	**1.86**	**0.91**	**-0.40**

Source CSO.
Notes: Q Denotes quick estimates
1 Includes storage
2 Includes ownership of dwellings and business services

Annexures

Annexures

1. Notes on the Methodology for Constructing the Base and Reform Scenarios

The model has been constructed with a view to highlighting the impact of alternative strategies of adjustment. It is not a forecasting model. It deals only with broad magnitudes of adjustment.

The model is recursive in nature. The sequential connections are given below. Own revenue receipts are determined on the basis of historical buoyancies or other key empirical features. Share of Assam in Central taxes is determined by projecting Central tax revenues (detailed in annexure 3) first and then effecting Assam's share as given by the TFC. Non-Plan grants are taken from TFC and extended forward for the last two projection years. Plan grants are taken from information obtained from the Planning Commission regarding the size of the Ninth Plan for Assam as agreed to between the Assam Government and the Planning Commission.

Borrowing by the State net of repayments due is considered in four main parts, *viz.*, (i) borrowing from the Central government against small savings; (ii) other borrowing from the Centre both for Plan and non-Plan; and (iii) borrowing from the market (internal debt), and borrowing from (own) Provident Fund/Small Savings Accounts. A distinction is made between fresh borrowing and existing stock of debt. Interest has been calculated on the prevailing category-wise rates. Details of borrowing and corresponding interest payments, as estimated are given in annexure 2.

Total resources are determined by revenue receipts, recoveries of loans and advances, and fiscal deficit. This determines total financiable expenditure.

On the expenditure side, non-discretionary expenditures are determined first. These include four items, *viz.*, interest payments, pensions, wages and salaries, and current transfers to local bodies. The determination of interest payments both on outstanding debt and fresh borrowings is detailed in annexure 2.

Regarding wages and salaries and pensions, the following method is followed. Information on total payment in 1997-98 is obtained from the State government both for wages and salaries and pension.

Total payment in either case is seen as the product of number of employees (pensioners) and the average salary. In 1998-99, average salary is revised upward by a factor of 30 percent. This gives an increment in the wage bill which is very close to the current estimate of the impact of pay revision being currently provided by the State government, *viz.*, Rs. 700 crore. For subsequent years, the same average salary is maintained except that an inflation cover for 16 percent of it (representing current DA component) is provided.

The number of workers are projected under alternative assumptions in different scenarios. In the base scenario, the number of workers increases by 0.5 percent per year. In reform 1, the number of workers is reduced at the rate of 1 percent per year. In reform 2, the number of workers declines at the rate of 2 percent per year.

In the case of pensioners, in all scenarios, the number of pensioners increases after 1997-98 by a given number which is calculated at 2.5 percent of the estimated number of employees in 1997-98. Transfers to local bodies is determined by projecting in real terms the transfers effected in 1994-95.

Together, these provide the non-discretionary expenditure in the budget. Given the total available resources, a balance of resources is estimated that can be used for other expenditure claims. These additional claims are generated by using certain norms/rules as specified below:

(i) **Maintenance:** maintenance expenditure achieved in 1994-95 projected forward using 7 percent growth to provide cover in real terms.

(ii) **Targeted spending on basic minimum services:** as determined by the *Shukla Commission*; Assam's share is taken as 15 percent.

(iii) **Targeted spending on infrastructure:** as estimated by the *Shukla Commission*, Assam's share is taken to be 15 percent.

(iv) **Capital outlay:** taken as 30, 30, 40 and 50 percent of estimated annual outlays for the five years of the Ninth Plan.

(v) **Loans and advances by the State government:** 1994-95 levels projected forward by using 7 percent annual growth to provide cover in real terms.

(vi) **Subsidies and transfers:** 1994-95 levels projected forward at 7 percent annual growth rate. In the base scenario, 70 percent of these amounts are provided for, while in the reform scenarios, this is further reduced to 50 percent for the first two years, i.e., 1998-99 and 1999-2000.

This quantitative framework enables us to look at the possibilities of adjustment and expenditure on discretionary heads from the balance of resources left after meeting non-discretionary expenditure claims. The year 1994-95 was selected as base for the above purpose as it is the latest year for which data are available as per the economic classification.

2. CALCULATION OF OUTSTANDING DEBT AND INTEREST PAYMENTS

Borrowing is done by the State government from the following sources (i) Central loans: a. against small savings; b. other than small savings; (ii) internal borrowing (from financial institutions, etc.); and (iii) from public accounts relating to State's own funds for small savings and provident fund. Fresh loans are estimated for each of these streams as indicated below:

i. **Central loans:**

  a. **against small savings:** on the basis of historical growth.
  b. **other than small savings:** on the basis of amounts indicated in the Ninth Plan document agreed upon between the Planning Commission and the State government.

ii. **Internal borrowing:** on the basis of the Ninth Plan document.

iii. **Small savings and provident funds:** on the basis of historical growth plus impounding of arrears in 1998-99 and 1999-2000.

Interest is calculated by applying the historically calculated average affective rate on outstanding debt as on 31st March 1996 and its falling amounts in subsequent years after repayments. On fresh borrowing, current interest rates are applied. Denoting outstanding debt as on 31.3.1997 as D^o (old debt) and repayments relating to old debt as R_t^o, we have, for each projection year, outstanding stock of old debt as

$$D_t^o = D^o - R_t^o \qquad (t = 1, ..., 5)$$

fresh borrowing is indicated by B_t. Accumulation of fresh borrowing gives new debt stock indicated by

$$D_t^n = \sum B_t - \sum R_t^n \qquad (t = 1, ..., 5)$$

where R_t^n denotes repayments relating to new borrowings. Interest payment is calculated as

$$I_t = D_{t-1}^o * e_t + D_{t-1}^n * r_t$$

where e_t is the effective interest rate for old debt and r_t is the rate of interest applicable for fresh borrowing.

The nominal interest rates used for different categories of loans are as follows:

(Percent per annum)

	Interest Rate on Past Borrowing	Interest Rate for Fresh Borrowing
Central loan against small saving	10.50	14.50
Other Central loans	9.00	13.00
Internal borrowing	13.35	13.35
Small savings and provident funds	12.00	12.00

In addition, for the ways and means advances and overdrafts, Rs. 10 crore per year as interest has been provided. The interest rates on fresh borrowing have been decided after reviewing their history. The interest rate for Central loans against small saving has continuously risen and is currently kept at 14.5 percent despite protests from the State governments. The interest rate on other Central loans is presently 13 percent. Its history indicates lack of responsiveness with respect to changes in the rate of inflation. The rate on internal borrowing is more responsive. At present, it is 13.75 percent. However, we expect that it would decline. We have kept it equal to the effective rate.

3. PROJECTION OF CENTRAL TAX REVENUES: 1997-98 TO 2001-02

Table AN3.1: Central Taxes : Estimated Equations for Projections (Sample Period: 1985-86 to 1995-96)

Tax	Tax-Base	Intercept	Buoyancy	Slope Shift (1993-94)	Adj. R. Sq.
Income tax	NAG-GDP	-6.41532 (-17.57)	1.186855 (-41.58)		0.994
Corporation tax	NAG-GDP	-6.16335 (-11.30)	1.173351 (-27.51)		0.986
Customs	GDP	-2.97917 (-2.72)	0.977193 (-11.58)	-0.014542 (-2.22)	0.964
Union excise duties	GDP-manufacturing	0.622331 (-1.42)	0.834386 (-21.23)	-0.00862 (-2.70)	0.990
Other Central taxes	GDP	-5.17855 (-1.83)	0.958101 (-4.49)		0.635

Source (basic data): GoI, relevant years; GoI, various issues; and GoI, 1997-98.

Note: GDP figures are at current market prices. All variables are in logs. Non-agricultural GDP and GDP in the manufacturing sector are at factor cost. Using non-agriculture GDP as the base for corporation tax entails leaving out some part of agriculture GDP (e.g., plantations, etc.) that may have relevance for corporation tax. The effect is expected to be small. Figures in brackets are t-statistics.

The following tax categories have been separately projected: income tax, corporation tax, customs, Union excise duties and other Central taxes. The tax base for income tax and corporation tax is non-agricultural GDP. GDP in the manufacturing sector is taken as the tax-base for the Union excise duties, and GDP at current market prices, for the remaining two categories. The base figures for GDP for 1996-97 have been taken from the quick estimates released by the CSO on February 6, 1998. Projections have been obtained by using estimated equations summarised below. Nominal growth rates assumed for GDP, non-agricultural GDP and GDP in the manufacturing sector for the period from 1998-99 to 2001-02 are 14.5, 17.5 and 18.5 percent per annum, respectively. For 1997-98, these rates are taken as 13.5, 16.0 and 17.5 percent, respectively.

Table AN3.2: Projections of Central Tax Revenues and States' Share

(Rs. crore)

Year	Income Tax	Corporation Tax	Customs	Union Excise Duties	Other Central Taxes	Total Central Taxes	Estimated Share of States
1997-98	20944	22368	43374	55453	4508	146647	40458
1998-99	25362	27027	49412	63797	5133	170731	61877*
1999-00	30712	32657	56292	73397	5844	198901	57681
2000-01	37190	39460	64129	84441	6653	231873	67243
2001-02	45035	47680	73057	97146	7575	270493	78443

* This includes estimated share of States in the VDIS collections (Rs. 7365 crore) and arrears on account of change-over from the main to the alternative scheme of devolution (Rs. 5000 crore) proposed by the Tenth Finance Commission.

The share of States for 1997-98 is derived using the main devolution scheme of the TFC, i.e., by applying 77.5 percent to income tax revenue, and 47.5 percent to Union excise duties after adjustment so that they are applicable to the net distributable amounts. For the period 1998-99 to 2001-02, the share of States is derived by applying 29 percent to the total Central tax revenues. For obtaining the share of individual States, the aggregate share of the States is divided into three categories: share in respect of additional excise duty (3 percent of Central tax revenues), share in respect of deficit-based devolution (7.5 percent of the percentage contribution of Union excise duties to total Central tax revenues) and the balance meant for general devolution. Distributable revenues under these heads are given below. The share of individual States can be derived by applying their respective share with respect to each category. The distribution of the VDIS revenue is on the basis of general devolution shares, and the distribution of arrears is on the basis of the three categories indicated above.

Table AN3.3: Allocation of Share of States into Three Categories of Devolution

(Rs. crore)

Year	General Devolution	Deficit-Based Devolution	Additional Excise Duties	Total Share of States
1997-98	33521	3408	3529	40458
1998-99	51760	4845	5272	61877
1999-00	46657	5057	5967	57681
2000-01	54476	5811	6956	67243
2001-02	63651	6677	8115	78443

Assam's share is worked out on the basis of applying the following shares for the three respective categories.

Table AN3.4: Share of Assam in Devolution

(Percent)

	General Devolution	Deficit Based-Devolution	Additional Excise Duties
1997-98	2.784	11.849	2.483
1998-99	2.784	10.748	2.483
1999-00	2.784	9.290	2.483
2000-01	2.784	10.629	2.483
2001-02	2.784	10.629	2.483

4.

Table AN4.1: Assessment of Spending Gaps by High Level Commission

(Rs. crore)

Basic Services	Requirements Proposed by Assam	Amounts Recommended for Assam
1. Rural connectivity	1185.00	269.20
2. Housing - rural and the shelterless	5852.83	1616.77
3. Safe drinking water	1508.54	744.65
4. Elementary education	843.63	253.45
5. Primary health	836.84	249.31
6. Nutrition	6.34	-
7. Public distribution system	11.00	5.00
Total (1 to 7)	9837.84	3138.38
Add salaries	941.90	813.42
Total	**10779.74**	**3951.80**

Infrastructure

	On-Going Projects		New Projects	
	Total Cost	Ninth Plan Requirement	Total Cost	Ninth Plan Requirement
Power				
Hydel	363.0	185.0	618.0	516.0
Thermal (coal)	-	-	367.0	5.0
Thermal (gas)	-	-	377.0	80.0
Combined cycle	-	-	212.0	212.0
Transmission	-	-	781.0	628.0
Total	**363.0**	**185.0**	**2355.0**	**1441.0**

the Ninth Plan Requirement in Other Sectors are Specified Below:

	Ninth Plan Requirement
Irrigation	1085.00
Flood control	500.00
Roads	1107.00
Inland water transport	174.00
Total for Ninth Plan	**4492.00**

Source: GoI, 1997c.

Table AN4.2: Cost of Providing Basic Minimum Services in Assam

Item	Physical Gap	Unit Cost (Rs. Lakh)	Total Cost (Rs. Crore)	Remarks
1. Rural connectivity 5384 village X 1.25 km.	6730 km	@ 4.00	269.20	
		Sub Total	269.20	
2. Elementary education				
i. Construction of lower primary school (new)	5554 nos	@ 1.00	55.54	
ii. Construction of upper primary school (new)	5391 nos	@ 2.00	107.82	
iii. Augmentation of existing school buildings	13641 nos	@ 0.50	68.21	
iv. Drinking water & sanitation for i & ii	10945 nos	@ 0.10	10.94	
v. Salary for lower primary schools	5554 X 2	@ 0.36 Per annum Per teacher	199.94	
vi. Salary for upper primary schools	5391 X 3	@ 0.48 Per annum Per teacher	388.15	Provision for Ninth Plan period Provision for Ninth Plan period
vii. Furniture for new schools i & ii	10945 nos.	@ 0.10	10.94	
		Sub Total	841.54	
3. Primary health				
i. Construction of sub-centres	2733	@ 3.00	81.99	
ii. Construction of PHC	245	@ 30.00	73.50	
iii. Construction of CHC	114	@ 60.00	68.40	
iv. Furniture & equipment for PHC	245	@ 2.00	4.90	
v. Furniture & equipment for CHC	114	@ 18.00	20.52	
vi. Salary & allowances for staff at SC	2733	@ 0.96 Per annum	131.18	For Ninth Plan period
vii. Salary & allowances for staff at PHC	245	@ 0.43 Per annum	52.43	For Ninth Plan period
viii. Salary & allowances for staff at CHC	114	@ 7.32 Per annum	41.72	For Ninth Plan period
		Sub Total	474.64	
4. Safe drinking water supply				
a. Rural				
i. Not covered habitations	10060		256.80	Requirement of funds is to take the supply to the existing norms.
ii. Partially covered habitations (according to existing norms)	23793		180.80	
iii. Partially covered habitations (according to new norms)	35316		176.05	Requirement of funds to supply according to revised norms.
iv. Installation of iron removal plant	10000	@ 0.15	15.00	
b. Urban Ongoing 23 schemes			116.00	
		Sub Total	744.65	
5. Housing for shelterless poor				
i. Housing sites for rural landless agricultural families	66665		20.00	
ii. Indira Awas Yojana	798384	@ 0.20	1596.77	IAY has been under implementation for some time. Achievement so far, i.e., between 1985-86 to 1995-96 is 66671. The highest annual rate of achievement reported is 26871 in 1995-96. Even if the rate were to be doubled, it would take 15 years to clear the backlog.
		Sub Total	1616.77	
6. P.D.S.				
i. Increase in storage capacity from 23000 mt. to 200000 mt.			5.00	The need for creation of additional capacity is recognised. However, the scheme will be worked out in detail.
		Sub Total	5.00	
		Grand Total (1+2+3+4+5+6)	**3951.80**	

Source: GoI, 1997c.

Table AN4.3: Requirement of Funds for Infrastructural Development in Assam: State Government Estimates

Sector/Sub-Sectors	Rupees Crore
1. Rural water supply	873.95
2 Urban water supply	634.59
3 Rural and urban health	436.84
4 Housing	5852.83
5. Rural roads	1185.00
6. Nutrition (mid-day meal)	6.34
7. Public distribution system	11.00
8. Elementary education	936.06
9 Power (ASEB)	4122.90
10. Roads and bridges	24735.00
11. Inland water transport	325.00
12. Assam State transport corporation	73.50
13. Commissioner of transport	21.55
14. Irrigation	8091.62
15. Flood control	17073.00
16. Agriculture	1376.41
17. Fisheries	58.93
18. Animal husbandry & veterinary	302.53
19. Dairy development	3.03
20. Forest	408.77
21. Soil conservation	37.15
22. Co-operation	120.90
23. Rural development	102.40
24. Land reforms	36.61
25. Industries	543.62
26. Handloom & powerloom	12.08
27. Khadi & village industries	5.67
28. Sericulture	106.42
29. Science & technology	16.56
30. Tourism	95.00
31. Higher education	203.98
32. Technical dducation	140.84
33. Library	20.10
34 Museum	7.04
35. Archives	3.80
36. Medical education	162.38
37. Tezpur mental hospital	25.00
38 Urban development (by M.A.D.)	3.00
39. Urban sanitation (by M.A.D.)	38.25
40. Capital project	1000.00
41. Public works	25.00
42. Secretariat training school	0.50
Grand Total	**69235.15**

Source: GoI, 1997c.

5.

Table AN5: State Level Public Enterprises: Government Investment and Number of Employees (1994-95)

	Government Investment[1] (Rs. Lakh)	Number of Employees[2]
I. Service (public utilities) enterprises		
1 Assam State electricity board (ASEB)	175,296	21,829
2 Assam state transport corporation (ASTC)	16,462	6,076
3 Assam urban water supply & sewerage board (AUWSSB)	N.A.	208
II. Trading enterprises		
4 Assam State co-operative marketing & consumers' federation Ltd. (STATFED)	5,607	1,891
5 Assam government marketing corporation Ltd. (AGMC)	447	228
6 Assam ppex weavers' & artisans co-operative federation Ltd. (ARTFED)	322	248
7 Assam State warehousing corporation (ASWC)	1,113	512
8 Assam gas company Ltd (AGCL)	968	480
III. Welfare enterprises		
9. Assam plains tribes development corporation Ltd. (APTDC)	2,340	231
10 Assam State development corporation for OBC (ASDC for OBC)	319	88
11 Assam State development corporation for SC (ASDC for SC)	919	260
IV. Promotional enterprises		
12. Assam industrial development corporation Ltd. (AIDC)	9,369	192
13 Assam small industries development corporation Ltd. (ASIDC)	710	354
14. Assam hills small industries development corporation Ltd. (AHSIDC)	N.A.	100
15. Assam financial corporation (AFC)	720	191
16 Assam film (finance & development) corporation [AF(F&D)C]	18	11
17 Assam khadi & village industries board (AKVIB)	488	950
18 Assam tourism development corporation (ATDC)	581	62
19 Assam agro industries development corporation Ltd (AAIDC)	896	445
20 Assam seeds corporation (ASC)	1,516	428
21. Assam state minor irrigation development corporation Ltd. (ASMIDC)	6,077	605
22. Assam livestock & poultry development corporation Ltd (ALPCO)	322	43
23 Assam fisheries development corporation Ltd. (AFDC)	800	172
V. Production enterprises		
24 Assam tea corporation (ATC)	2,944	16,420
25 Cachar sugar mills Ltd. (CSM)	N A	N A.
26. Assam spun silk mills Ltd (ASSM)	345	396
27 Assam polytex Ltd. (APL)	N.A.	N A
28 Assam syntax Ltd. (ASL)	N.A	N A.
29 Assam State textile corporation Ltd. (ASTC)	2,224	707
30 Assam State weaving & manufacturing company Ltd (ASWMC)	1,049	193
31. Assam electronics development corporation (AEDC)	909	153
32 Ashok paper mills (Assam) Ltd. (APM)	2	422
33. Assam petrochemicals Ltd. (APCL)	2,078	528
34. Assam State fertilizers & chemicals Ltd. (ASFC)	542	178
35. Fertichem Ltd.	200	147
36 Assam conductor's & tubes Ltd. (ASCON)	356	81
37 Nagaon co-operative sugar mills Ltd. (NCSM)	493	525
38. Assam co-operative sugar mills Ltd. [ACSM (sugar)]	N A	N A
39. Assam co-operative spinning mills Ltd. [ACSM (spinning)]	612	233
40 Swahid kushal konwar samabay sutakal Ltd. (SKKSS)	198	158
41 Assam polyester co-operative society Ltd (APOL)	1,173	1,177
42. Assam co-operative jute mills Ltd (ACJM)	324	855
43. Assam plantation corps development corporation (APCDC)	1,572	261
44 Assam textbook production & publication corporation Ltd. [AST(P&P)C]	100	141
45. Assam mineral development corporation Ltd. (AMDC)	352	134
VI. Construction enterprises		
46 Assam government construction corporation Ltd. (AGCC)	170	493
47. Assam police housing corporation Ltd (APHC)	4	219
48. Assam State housing board (ASHB)	2,825	400

Source: GoA 1996.

Notes: 1 Government investment includes equity, loan and grants
2. Number of employees includes executive, supervisory and others.
N A = not available

6. MONITORING OF MAINTENANCE EXPENDITURE: SCHEME RECOMMENDED BY THE TENTH FINANCE COMMISSION

Introduction

Any system of monitoring will require that the accounts reflect, in a clear manner, the expenditure incurred on maintenance. It is necessary that the accounts are so designed that they indicate the works component and the work charged establishment separately under total maintenance expenditure.

The existing position

(i) The major heads concerned with maintenance expenditure are:

3054 - Roads and Bridges
2059 - Public Works (for Buildings)
2216 - Housing
2701 - Major and Medium Irrigation
2702 - Minor Irrigation

(ii) Among these heads, "Maintenance and Repairs" is already a minor head (053) under 2059-Public Works. In all the other cases, it is a detailed head-170. 140-Minor Works is another detailed head and 174-Work charged establishment is a sub-detailed head.

The scheme

(i) Since these heads are already heads of revenue expenditure they may be deemed to be entirely for maintenance expenditure. Some States have now defined capital expenditure at such low limits as rupees one lakh that, in fact, no other type of expenditure would even now be getting charged to these heads. However, there may be some other items which may be getting charged here and for which a revenue head of expenditure might still be necessary.

(ii) But even if these major heads are deemed to be heads of expenditure for maintenance, there will still be need to have a minor head for "Maintenance and Repairs" under all these major heads, as is now the case under major head 2059-Public Works.

(iii) In the present system of functional classification of the budget, the minor head reflects a programme. Maintenance should be considered one such item hereafter. There should be no objection to having this as a minor head. In any event, there is a precedent in the case of major head 2059 – Public Works. The same precedent can be followed in the case of the other major heads.

(iv) Under the minor head: "Maintenance and Repairs" there should be two sub-heads: (i) Works and (ii) Work Charged Establishment. In this specific case the Accountants General could be requested to include in the accounts not merely the minor head but these two sub-heads so that the actual expenditure under the works portion and under establishment can be separately monitored.

(v) In all these cases, there is a sub-major head: "General" under which there is a minor head: "Direction and Administration" which shows the departmental establishment. The problem sought to be tackled above is specifically in regard to the work charged establishment consequent upon its becoming provincialised.

Details

Major Head 3054 - Roads and Bridges:

(i) There are two sub-major heads here. 03-State Highways and 04-District and Other Roads. Under each a minor head - "Maintenance and Repairs" can be opened.

2059-Public Works:

There are already minor heads here under the sub-major heads.

01-Office Buildings
60-Other Buildings

There is no problem here.

2216 – Housing:

(a) This head has a sub-major head 01 – Government residential buildings and a minor head: 106 – General Pool Accommodation. Under this minor head there are sub-heads:

(i) Direction and Administration
(ii) Maintenance and Repairs
(iii) Machinery and Equipment.

(b) What is needed is that Maintenance and Repairs should show Works and Establishment separately, i.e., Establishment other than under sub-head (i) Direction and Administration. We also require that maintenance and repairs should be a minor head and not a sub-head.

(c) Therefore, Government Pool Accommodation should be made a sub-major head. Under this there should be the following minor heads:

001 Direction and Administration
052 Machinery and Equipment
053 Maintenance and Repairs
799 Suspense
800 Other Expenditure

This is the case at present for the sub-major head 04: Bombay Building Repairs and Reconstruction Scheme.

Under minor head 053: Maintenance and Repairs there will be two sub-heads — Works and Establishment.

The same procedure can be followed for 107: Police Housing and 700: Other Housing which are at present minor heads along with 106: General Pool Accommodation under sub-major head 01: Government Residential Buildings.

2702-Minor irrigation:

There are two sub-major heads here.

01-Surface Water; and
02-Ground Water

(a) In the case of surface water, there are two minor heads,

101-Water Tanks; and
102-Lift Irrigation Schemes.

Maintenance is different in these two schemes and the element of recovery will be much more important in the case of lift irrigation schemes. It is, therefore, important that the maintenance of these two is indicated separately.

(b) If, in this case, a minor head is opened, "Maintenance", "Water Tanks" and "Lift Irrigation Schemes" will have to be separate sub-heads which will not serve the purpose. Therefore, in the case of Minor Irrigation, one option would be that "Maintenance" should be a new sub-major head. Then under this the minor heads will be "Water Tanks", "Lift Irrigation Schemes" and "Tube Wells".

2701 – Major and medium irrigation:

- The position here is complicated because both minor and medium projects have been brought under one major head; consequently, Major Irrigation and Medium Irrigation have become sub-major heads. As a result, all other heads below have been pushed down by one level. At the same time, this is a head where each project is big enough to be shown as a separate minor head.

- One possibility, therefore, would be to break up this major head into two major heads – one for Major Irrigation and the other for Medium Irrigation. In the numbering series of major heads there are spare numbers available for the purpose.

- Major Irrigation then becomes the major head. Each project can then be the sub-major head. Under this sub-major head, there can be a minor head for Maintenance. Under this there would be two sub-heads – Works and Work Charged Establishments as has been suggested in other cases.

- If, however, the major head cannot be split up, as suggested above, then it should be first clarified that only maintenance expenditure, whether on Works or on Provincial Establishment, will be charged to the Revenue head (2701) and all other project establishment and project works will have to be charged to the capital head. Then, automatically the expenditure under the minor head will reflect the total maintenance expenditure on a particular project.

- Under this minor head the sub-heads are for items like dam and canal. Under the revised scheme, expenditure under three items – Works, Provincial Establishment and Work Charged Establishment would be reflected separately. If the expenditure at this sub-head level is to be reflected by the Accountant General, as has been suggested for other heads, this might pose a problem under works because of the number of sub-heads involved. Therefore, it is suggested that there may be three group sub-heads – (a) Works; (b) Provincial Establishment; and (3) Work Charged Establishment. The existing sub-heads can then be suitably grouped under these three groups and the Accountant General can indicate expenditure upto group sub-head level.

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