EVALUATION OF STATE FINANCES

With respect to the State of Assam

A study funded by the Fourteenth Finance Commission

Research Team

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INDEX

Introduction		1-4
Chapter I	Revenue Receipts: Trend and Pattern	5-44
Chapter II	Public Expenditure: Component, Pattern and Trends	45-86
Chapter III	An Analysis of Deficits	87-94
Chapter IV	Public Debt in Assam: An Analysis	95-109
Chapter V	The ASSAM FRBM ACT: Targets and Attainments	110-117
Chapter VI	Fiscal Decentralization in Assam: A Study	118-140
Chapter VII	Public Sector Enterprises and State Finance	141-156
Chapter VIII	Contingent Liabilities in Assam: An Evaluation	156-161
Chapter IX	Public Expenditure and Financial Management (PEFM) Reforms in Assam	162-169
Chapter X	Power Sector Reforms in Assam	170-180
Conclusion		18-208
References		209-210

INTRODUCTION

Fiscal Policy plays a central role in inducing economic growth and development in a country and promoting fiscal and monetary stability in it. A well designed fiscal strategy helps to move an economy on to a higher growth path minimising inflation and intergenerational transfers of the burden of public debt. Appropriate and timely framed fiscal policy measures can do that by setting efficient and effective use of scarce resources and by creating the right incentive signals (Heller and Rao, 2006). Perhaps the most fundamental achievement of Keynesian revolution was the re-orientation of the way the economists view the influence of government activity in the private economy. Before Keynes, it was believed that government spending and taxation were powerless to affect the aggregate level of spending and employment in the economy (Blinder and Solow, 1973). Now it is unanimously agreed upon that state intervention through fiscal and monetary policies is critical for optimal allocation of resources, maintenance of price stability while ensuring acceptable levels of employment and growth and also for enhancing the level of equity through realistic redistributive strategy.

In the Indian federal setup the constituent states have a critical role to play in their sphere of operation which is well defined by the Constitution. The Indian Constitution has clearly earmarked the areas of responsibility for the states which includes agriculture, power, education, health, social welfare etc. and also made provision for financing that effort by empowering them with specific resource mobilization power. Consequently the total budgeted expenditure of the states and union territories becomes substantial, working out to be more than half of the total expenditure of the centre-states combined. However in recognition of the built-in fiscal imbalance reflected in the inadequacy of the states to mobilize sufficient resources, the constitution also has made allowance for a system of financial devolution from the centre to the states.

As is the case for the centre, fiscal policy of the state governments has critical implications for the overall economy as chronic fiscal imbalances may drag the constituent states into a state of flux. Deterioration in the fiscal health of the states disrupts the normal functioning of the economy and creates macroeconomic instability leading to a major loss in confidence in the incumbent government and putting immense pressure on its viability. There are diverse factors which may create frequent fiscal imbalances leading to deterioration in fiscal health of an economy. Available literature on this issue indentifies an assortment of factors which are responsible for fiscal instability such as poor tax administration in the form of tax evasion, low tax base, low buoyancy of tax and inadequate non-tax revenue due to inappropriate user charges, sudden increase in expenditure in the form of pay revision, war expenditure, natural calamities etc. (Lahiri, 2000; Rao, 2002).

In the 1980s and the 1990s there had been a marked secular deterioration of government finances both at the centre and the states, although the rate of deterioration was significantly lesser for the latter. However matters turned grave in the late 1990s when state fiscal performance experienced a sharp decline with rising deficits and debt burden bringing with it an uncomfortable question mark on the long run fiscal sustainability of sub-national entities. Although the crisis was triggered by the implementation of State Pay Commission recommendations (which was already under great pressure from the Central Pay Commission awards) the problem was systemic in nature. Political instability feeding unsustainable populist policies including unchecked government recruitment and the associated burgeoning salary and pension liabilities, unjustifiable subsidies, establishment of unviable PSEs and later the liability of offering repeated bailout packages played havoc with the tenets of prudential fiscal management and the secular decline in revenue receipts hastened the slide down. The initial reaction to the crisis in the form of badly needed fiscal reforms was confined to the centre with only a few states being involved in limited peripheral restructuring through some *Memorandum of Understanding* (MOU). It was only the growing insistence of successive Finance Commissions and also international stakeholders in the form of Multilateral Financial

Institutions, with induced the states to go in for more meaningful fiscal reforms that was based on the model followed by the centre.

A turnaround was achieved from around 2001when the gross fiscal deficit and the gross revenue deficit exhibited appreciable decrease. The attainments were subsequently consolidated with the enactment of the *Fiscal Responsibility and Budget Management (FRBM) Acts* both at the Centre and also in the states. The federal system thus moved into an incentive based consolidation mode with the benefits of *Debt Consolidation and Relief Facility (DCRF)* made available to the states that had enacted, endorsed and implemented their respective FRBM Acts. However the attainments are somewhat diluted when the off budget expenditures of the centre and that of the States are incorporated into the equation. There had been also alarming reports of drastic squeeze in development expenditures especially among poorer states as they strived to meet their FRBM targets thus seriously compromising their potential growth rates.

Assam is the gateway to the north-east besides being the biggest state in the region. Being a low income special category state its fiscal needs and responsibilities are very much governed by exogenous factors such as geographical isolation, difficult terrain, long international border, recurring natural calamities and adverse law and order situation. (Sarma, 1971; Srivastava et. al, 1999). The per-capita income of the state is one of the lowest among all the states in India. In fact, it has the dubious distinction of having the lowest per-capita income among the North Eastern states in the year 2009-10 (CSO, 2011). This was not always the case as at the time of independence, per capita income of Assam was 4 percent higher than the national average. However it plunged below the national average by 1960-61 and the downhill trend since then had persisted. The decline is evident in the year 2009-10, where the per capita income of Assam was recorded as only 58.5 percent of the national average (Government of Assam, 2011).

Assam, like the rest of the Indian states experienced considerable fiscal volatility in the recent past. However the state got a huge fiscal respite when it was declared as a *special category state* in 1990-91 when the pattern of financing of the state plans became abruptly more favourable with the grants to loan components changing from 30:90 to 90:10. However successive implementations of State Pay Commission recommendations played havoc with state finance which was made worse by the relentless borrowing that the state undertook to compensate for its fiscal transgressions. The unsustainable deficit in the revenue account fuelled by burgeoning committed expenditure in the form of salaries, pensions and interest payment was disturbingly nudging the state towards fiscal insolvency. The crisis was evident when the government was not able to honour its committed expenditure with delays in salary payment becoming a common phenomenon. With cash flow severely restricted the state was forced to seek repeated financial accommodation from the RBI severely eroding the financial credibility of the government.

Assam enacted and implemented its version of the FRBM Act in 2005 which reversed the cumulative downward spiral and enabled the state to achieve a fiscal surplus after eleven long years. Exemplary fiscal management in the subsequent periods enabled the state to operate with a revenue surplus and a fiscal deficit that was well within the ceiling set by the Assam FRBM Act. Despite the commendable attainments the fiscal health is under continuous threat overtly from pressure on the government to enhance populist public expenditure and covertly from off budget expenditures which threatens to undo the good job.

The report is an attempt to examine the overall fiscal heath of the state during the period 2001-02 to 2011-12. It seeks to explore the trends in important fiscal indicators like revenue and expenditure. It scrutinizes the key deficits, their trends and the resultant implications on state finance. There is also an attempt to inspect the reforms and restructuring in state finance and analyse their implications on fiscal decentralisation, retrieval and consolidation of PSEs, and the revival of the strategic power sector.

CHAPTER-I:

REVENUE RECEIPTS: TREND AND PATTERN

1.1 INTRODUCTION

In line with the federal structure of the country the Seventh Schedule of the Indian Constitution contains three lists i.e. the Union List, the State List and the Concurrent List, which demarcates the functions and resources between the centre and the states. In principle, the centre has the jurisdiction of the functions and resources which have inter-state character while the functions and resources that are confined to a state or locality is earmarked for the states.

The Union List contains the items of Tax Revenue which is the exclusive privy of the central government. Given the supremacy of the central government in the Indian polity, most of the elastic and buoyant taxes like Income Tax, Corporation Tax, Customs Duties, Taxes on Services, Tax on inter-state trade etc are incorporated in the Union List. The union government through this list can mobilize funds as non-tax receipt in the form of Commercial and Administrative Revenues and also grants and gifts. Besides under Article 292 of the Constitution the Union government can mobilize funds both through internal as well as external borrowing. The State List or List-II contains the items which lie within the jurisdiction of the states indicating the sources of tax revenue which includes Land Revenue, Agriculture Income Tax, Taxes on Land & Buildings, Local Sales Tax, Taxes on Professions, Taxes on Luxuries, Stamp Duties etc. The non-tax revenue of the states including the administrative and commercial revenues pertaining to the states and also grants-in –aids from the centre are included in the list. The state governments are empowered to undertake internal borrowing under Article 293 of the constitution.

The Concurrent List or List-III incorporates those items which are subject to the jurisdiction of both the centre and the states. However the central laws have precedence over state laws in the event of contradiction between them. This is in addition to the residual power enjoyed by the centre in this list. The concurrent list precludes the possibility of the taxation of the same base by the centre and the states by excluding all tax items.

Originally the Constitution of India provided for two levels of government, one at the centre and the other for the states. But by the the73rd and 74th constitutional amendments the states were obliged to create local bodies in the form of *Panchayats* at the rural areas and *Municipalities* in urban centres. The local bodies were subject to the state governments for their creation, allocation of functions and devolution of funds.

The federal finance structure defined by the Indian Constitution has an inherent tendency to aggravate the *vertical fiscal imbalance* against the constituent states. Given the pre-eminence of the union in the federation, the vertical asymmetry incorporated into the structure is deliberate and institutionalized. However there exists horizontal asymmetry among states in the Indian federation which are non-transparent and arbitrary that has the tendency to promote rent-seeking among the states and result in allocation which may be an outcome of the power equations between the various tiers of decision makers.

1.2 REVENUE PERFORMANCE OF ASSAM

The total revenue receipt of the state of Assam is constituted by *State Taxes* plus the *State Non-Tax Revenues* which is the **State's Own Revenue Receipt**. This is supplemented by the transfer from the centre which includes the *State Share in Central Taxes* and *Grants-In-Aid*.

In absolute terms receipt in the form of *State Taxes* has gone up from Rs. 1934 crs in 2002-03 Rs. 7638 crs in 2011-12 exhibiting a CAGR of 16.49 percent. On the other hand the *Non-Tax Revenue* also grew proportionally (17.09 percent) increasing from Rs. 693 crs to Rs. 2867 crs in 2011-12. Trends reveal that both tax revenue and the non-tax revenue of the state has increased at a comparable rate.

Breaking down the study into three periods of three years, it is observed that the *Non-Tax Revenue* in the first period showed a quantum hike of 110.53 percent. This was obviously the direct outcome of a sudden jump in non-tax revenue from petroleum which rose from Rs. 31973 lakh in 1999-2000 to Rs. 57283 lakh in 2002-03. Considering the fact that this constitutes the biggest source of non-tax revenue for the state it is clear revision in royalty rates in petroleum has significant impact in the overall non-revenue proceeds. On the other hand the level of *State Taxes* has increased significantly by 85.04 percent in the third period following a deceleration in collection in the second quarter to 28.40 percent. Data in the ten years period reveal that revenue receipt in the form of *Share in Central Taxes* have been successively increasing in the three periods with the last period showing the highest hike at 78.86 percent. On the contrary, there has been a steady deceleration in the growth in the Grants-in-Aid with the rate decreasing from 82.7 percent (2002-03 to 2005-06) to 18.58 percent in the period 2008-09 to 2011-12.

At the aggregate level the CAGR in revenue receipt over the study period is 16.79 percent. However breaking down the time span into three periods it is distinctly perceived that the rate of growth in revenue receipt exhibits a decreasing trend. Thus from a growth rate of 77.33 percent (2002-03 to 2005-06) the aggregate revenue receipt exhibited a significant decline in the subsequent two periods registering growth rates of 50.77 percent and 51.87 percent respectively. However this does not correspond with tax revenue (including both the state tax and central transfer portion) which has been growing at an accelerated rate. Instead this is a reflection of the deceleration in the proceeds from non tax revenue and central Grants-in Aid.

In 2011-12, the revenue receipt for the state grew by 19.33 percent. This was powered by an encouraging growth in the own resources of the state in the form of a significant leap of 28.8 percent in *State Taxes* and a 20.78 percent in *Non-Tax Revenue.* On the other hand growth in central transfer in the form of *Share in Central Taxes* and *Grants-in-Aid* were relatively modest at 16.49 percent and 13.86 percent respectively. However this does not have a major impact on the dependency ratio for the state as the long-established dependence of the state on central funding make the task of correction of the distortion extremely difficult.

Table 1.1

Composition of Different Sources of Revenue Receipts of Assam

during 2002-03 to 2011-12

(in crs)

Year	State Taxes	Non-Tax Revenue	Share in Central Taxes	Grants-in-aid	Total
1	2	3	4	5	6
2002-03	**1934**	**693**	**1814**	**2352**	**6793**
2003-04	2071	946	2162	2587	7765
2004-05	2713	1070	2584	3570	9937
2005-06	**3232**	**1459**	**3057**	**4297**	**12046**
2006-07	3483	1859	3899	4425	13667
2007-08	3360	2135	4918	4913	15326
2008-09	**4150**	**2272**	**5190**	**6465**	**18077**
2009-10	4987	2753	5339	6805	19884
2010-11	5930	2373	7969	6733	23005
2011-12	**7638**	**2866**	**9283**	**7666**	**27453**
Growth Rate 2002-03 to 2005-06	*67.11*	*110.53*	*68.52*	*82.70*	*77.33*
Growth Rate 2005-06 to 2008-09	*28.40*	*55.72*	*69.77*	*50.45*	*50.07*
Growth Rate 2008-09 to 2011-12	*84.05*	*26.14*	*78.86*	*18.58*	*51.87*
CAGR 2002-03 to 2011-2012	**16.49**	**17.09**	**19.89**	**14.03**	**16.79**

Source:

i. Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

ii. Directorate of Economics and Statistics, 'Statistical Handbook, Assam'. Various issues (2002-2012)

iii. Reserve Bank of India, 'State Finances. A Study of Budgets', Various issues (2002-2012)

Table 1.2

Percentage Contribution of Different Sources of Revenue Receipt of the State during 2002-03 to 2010-12

Year	State Taxes	Non-Tax Revenue	Total own Revenue	Share in Central Taxes	Grants-in-aid	Total central Transfers
1	2	3	4 = (2+3)	5	6	7 = (5+6)
2002-03	28.48	10.20	38.68	26.71	34.62	61.32
2003-04	26.67	12.18	38.85	27.84	33.31	61.15
2004-05	27.31	10.77	38.07	26.00	35.92	61.93
2005-06	26.83	12.11	38.95	25.38	35.67	61.05
2006-07	25.49	13.60	39.09	28.53	32.38	60.91
2007-08	22.14	13.89	36.03	32.00	31.97	63.97
2008-09	22.96	12.57	35.53	28.71	35.76	64.47
2009-10	25.08	13.84	38.92	26.85	34.22	61.07
2010-11	25.77	10.31	36.09	34.64	29.26	63.90
2011-12	27.82	10.43	38.26	33.81	27.92	61.73

Source:

1. Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues, (2002-2012)
2. Directorate of Economics and Statistics, 'Statistical Handbook, Assam'. Various issues (2002-2012).
3. Reserve Bank of India, ' State Finances. A Study of Budgets', Various issues (2002-2012)

In this the share of self generated revenue in the total revenue in Assam has increased marginally from 38.67 percent in 2002-03 to 38.94 in 2005-06. However there was a steep drop in the share in 2008-09 which went down to 35.35. Subsequently there followed a period of recovery which put back the state's revenue performance at par with the earlier levels with at 38.26 percent in 2011-12. However a closer look in the composition of the receipts reveal that in absolute terms the self generated revenue in the state continued to increase in 2008-09, and it was the sudden spurt in the grants-in- aid that reduced the relative share of the state's own revenue. This was the only aberration in the last ten year as the share of the state's own revenue receipts in the last ten years tended to be very stable ranging from 38.2 percent to 38.7 percent. Again the contribution of state taxes to the total revenue receipt has been significant and had remained stable at around 27-28 percent. The non-tax revenue which became insignificant in Assam after the restraining order of the Honorable Supreme Court on unfettered tree felling in the 1990s, had remained more of less stagnant at 10-12 percent in the study period.

As a low income special category state, Assam is very much dependent on central transfer for its sustenance. The level of dependency has over the years (including the study period) remained the somewhat constant with the state's own revenues accounting for around 40 percent of the total revenue receipt with the rest 60 percent being sourced as central transfer. In the period 2005-2010, the Assam's ratio at 31.90 percent compares very unfavourably to the own revenues generated by developed states like Maharashtra (76.48 percent), Punjab (87.61 percent), Gujarat (73.77 percent), Goa (81.15 percent) etc. However Assam is relatively better off among special category states like Arunachal Pradesh (15.44 percent), Tripura (13.62 percent), Jammu and Kashmir (22.39 percent) etc although even in this category states like Sikkim (52.63 percent) and Himachal Pradesh (38.58 percent) have better revenue performance than Assam. Besides Assam has failed to exhibit any definite trends towards the improvement of this ratio which is evident in Table: 1.3.

Table 1.3

Own Resources-Revenue Receipt Ratio of Assam vis-a-vis other States in India

(in percentage)

States	Own Resources-Revenue Receipt Ratio (Per Cent)				Improvement Index		
	1990-95	1995-00	2000-05	2005-10	A	B	C
Andhra Pradesh	64.00	64.26	68.65	66.66	0.41	6.83	-2.90
Bihar	40.42	39.92	27.55	19.63	-1.24	-30.99	-28.75
Goa	65.41	85.51	88.94	81.15	30.73	4.01	-8.76
Gujarat	79.95	80.12	78.11	73.77	0.21	-2.51	-5.56
Haryana	85.71	85.25	87.39	83.68	-0.54	2.51	-4.25
Karnataka	72.87	73.82	74.15	72.27	1.30	0.45	-2.54
Kerala	66.94	71.89	73.79	69.97	7.39	2.64	-5.18
Madhya Pradesh	58.27	60.78	58.06	50.27	4.31	-4.48	-13.42
Maharashtra	79.47	82.92	85.51	76.48	4.34	3.12	-10.56
Orissa	40.42	43.04	37.06	42.27	6.48	-13.89	14.06
Punjab	82.02	84.37	87.61	79.48	2.87	3.84	-9.28
Rajasthan	56.10	61.59	58.81	57.44	9.79	-4.51	-2.33
Tamil Nadu	69.80	74.54	76.60	72.93	6.79	2.76	-4.79
Uttar Pradesh	47.92	50.84	50.20	44.80	6.09	-1.26	-10.76
West Bengal	56.70	56.41	53.37	50.77	-0.51	-5.39	-4.87
Major States	63.36	66.72	67.05	62.77	5.30	0.49	-6.38
Special Category States							
Assam	**33.40**	**31.07**	**37.37**	**31.90**	**-6.98**	**20.28**	**-14.64**
Arunachal Pradesh	13.42	8.91	11.05	15.44	-33.61	24.02	39.73
Himachal Pradesh	28.18	39.41	57.33	38.58	39.85	45.47	-32.71
Jammu and Kashmir	15.79	14.83	18.78	22.39	-6.08	26.64	19.22
Manipur	9.38	8.50	8.37	9.16	-9.38	-1.53	9.44
Meghalaya	15.95	17.69	20.37	19.03	10.91	15.15	-6.58
Mizoram	12.06	7.09	7.28	9.99	-41.21	2.68	37.23
Nagaland	9.81	7.32	6.95	8.41	-25.38	-5.05	21.01
Sikkim	38.44	72.81	59.36	52.63	89.41	-18.47	-11.34
Tripura	9.11	10.44	15.45	13.62	14.60	47.99	-11.84
Special Category States	18.55	21.80	24.23	22.11	17.52	11.15	-8.75
All States	60.13	63.19	62.37	57.55	5.09	-1.30	-7.73

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues

Directorate of Economics and Statistics, 'Statistical Handbook, Assam'. Various issues

Reserve Bank of India, 'State Finances. A Study of Budgets', Various issues

It is perceived that the adverse *own revenue - total revenue receipt ratio* and the *own revenue-GSDP ratio* for Assam emanates from the higher share of agriculture in the sector GSDP. It also is a reflection of the insignificance of the secondary sector and especially the absence of a vibrant manufacturing industry. The absence of an integrated *Goods & Service Tax constraints* the state in accessing the dynamic tertiary sector for resources. However improving revenue performance leading to higher generation of own revenue promises to set off the process of correction which is so necessary for the fiscal independence of the state.

1.3 OWN REVENUE RECEIPT IN ASSAM

As discussed earlier Assam's own revenue receipt is constituted by the state's own *tax revenue* receipt along with the receipt of non-tax revenue. The Indian constitution mandates the state to mobilise resources from earmarked taxes which is enshrined in the State List. The sources of tax and non-tax revenue in Assam mobilisation are indicated in Box-1.

Box-1

<table>
<tr><th colspan="2">STATE'S OWN REVENUE (A + B)</th></tr>
<tr>
<td>A. State's Own Tax Revenue (I + II + III)

I. Taxes on Commodities & Services (i to vii)

i) Sales Tax (a to c)
a) Sales Tax/VAT
b) Central Sales Tax
b) Other Receipts
ii) State Excise
iii) Taxes on Vehicles
iv) Taxes on Goods & Passengers
v) Taxes & Duties on Electricity
vi) Entertainment Tax
vii) Other Taxes & Duties
II. Taxes on Income (i + iii)

i) Agricultural Income Tax
ii) Taxes on Professions, Trades, Callings and Employment

III. Taxes on Property and Capital Transactions (i to iii)

i) Land Revenue
ii) Stamps & Registration Fees
iii) Urban Immovable Property Tax</td>
<td>B. State's Own Non-Tax Revenue (I to IV)

I. Interest Receipts
II. Dividends & Profits
III. General Services
IV. Social Services (i to ix)
i) Education, Sports, Arts & Culture
ii) Medical & Public Health
iii) Family welfare
iv) Housing
v) Urban development
vi) Labour & Employment
vii) Social Security & Welfare
viii) Water Supply & Sanitation
ix) Others
V. Economic Services (i to xvi)

i. Crop Husbandry   ii. Animal husbandry
iii) Fisheries   iv) Forestry & Wild Life
v) Plantations   vi) Co-operation
vii) Other Agri Prog   viii) Major & Medium Irrigation
ix) Minor irrigation   x) Power
xi) Petroleum   xii) Village & Small Industries
xiii)Industries   xiv) Road transport
xv) Tourism   xvi) Others</td>
</tr>
</table>

Source: *State Finances. A Study of Budgets of 2012-13*, Reserve Bank of India, 2013

i) State's Own Tax Revenue

a) Sales Tax

Sales Tax traditionally has been the most important state level tax in India. Over the years this has been true also for Assam with the contribution of sales tax in the total tax revenue ranging between 70 to 80 percent. At the operational level sales tax is constituted by General Sales Tax (GST)/VAT which are levied for intra-state sales and Central Sales Tax (CST) which is levied by the centre but collected by the state for inter-state sales. Besides the state levies additional taxes on selected commodities. This includes entry tax on selected inter-state imports, luxury tax on tobacco products and selected textiles, entertainment tax and other surcharges.

In the period 2002-3 to 2011-12 the total sales tax receipt increased from Rs. 1441 crs to Rs. 5436 crs (RBI, 2002-3 to 2011-12), exhibiting a CAGR of 15.9 percent . RBI data indicate a steady increase in the State Sales Tax in the study period which however is accompanied by massive fluctuations in CST and Other Receipts.

Table 1.4

Sales Tax Receipts in Assam

(in lakh)

Years	State Sales Tax	Central Sales Tax	Other Receipt	Total Sales Tax
2002-03	144,068	34	0	144,102
2003-04	123,452	892	30,779	155,123
2004-05	93,931	679	115247	209,857
2005-06	144,559		112282	256,841
2006-07	154,674		123650	278,324
2007-08	228,212		40932	269,144
2008-09	269,612	34,175	7,270	311,057
2009-10	32,1052	3,093	154	324,299
2010-11	394,271	36,641	949	431,860
2011-12 (RE)	497,588	45,000	1053	543,641
CAGR				***15.90***

Source: State Finances: A Study of Budgets (2002-3 to 2011-12), Compendium of Articles, RBI

In the pre-VAT era, the sales tax structure in Assam, as was for the rest of the country, complex and inefficient which often lead to market distortions resulting in serious productivity implications for the economy while at the same time generating contentious issues of unproductively, inequity, and non-viability from the perspective of the taxation machinery. One of the most serious flaws of the sales tax system was that in both the pre-existing *Central Excise Duty* and the *State Sales Tax* there were multiple taxation where inputs were initially taxed and the finished product was subsequently taxed together with the initial input tax load, resulting in multiple taxation and 'tax cascading'. The administration of multi-point sales taxation in the state also aggravated the cascading problem with tax paid at earlier levels of transaction entering the price to be taxed again.

There was a concerted national effort to streamline the indirect tax system which had major implication for Assam. The adoption of uniform floor rates of sales tax in January, 2000 was a giant step forward towards harmonisation of sales tax rate. Assam experienced significant positives from this step as it was able to benefit from the elimination of competitive reduction in sales tax- rates which was being practised by its neighbours.

The introduction of VAT in Assam in May, 2005 constitutes another milestone in the evolution of the indirect taxation system of the state. In VAT the problem arising from the emergence of 'tax on tax' is resolved by provisions for extending tax credit to sales tax paid previously for inputs and on previous purchases. Thus extending the benefits of set-off from the tax burden of previously paid sales tax has managed to effectively resolve the problem of tax cascading which was very inequitable and irrational. At the national level, the corresponding CENVAT was put in place to offer tax credit to previous duty paid on inputs, which otherwise would have entered the price of the finished product leading to cascading. The substitution of sales tax by VAT also was perceived to have induced greater tax complacence and enhanced transparency as set-off in the tax burden in the form of tax credit is based on sales tax paid on previous inputs (CENVAT) and on tax paid on previous inputs or on transaction undertaken(state VAT).

Sales Tax mobilisation in Assam received a boost since 2000 with the general consensus among the centre and states to introduce floor rates of sales tax which was expected to discourage competitive tax cutting and incentive offers among states to attract investment. In the ten year study period, sales tax increased from Rs. 1441 crs in 2002-03 to Rs. 5694 crs in 2011-12 exhibiting a CAGR of 16.49 percent. However breaking down the two periods into Pre-VAT and Post-VAT, it was observed that the rate of growth of sales tax mobilisation showed a distinct deceleration with the introduction of VAT in 2005-06. Thus in the period 2002-03 to 2004-05 the CAGR in sales tax collection was 20.39 percent. This is in contrast to the post-VAT era where the CAGR in sales tax mobilisation decelerated to 11.28 percent. The deceleration in sales tax revenue by 9.11 percent could be an indication of the status of the state as a net importer and also the nature of CST which is levied on the origin principle. This allows the relatively developed net exporting states to transfer the burden of their tax to the poorer net importing states.

In practice Assam has a sales tax regime with four basic tax rate slabs along with a number of special rates applicable to specific commodities. This however is in total contradiction of the initially conceived VAT system which would have two main rates at 4 percent and 12.5 percent. This also negates the global unanimity in the application of only one basic rate in the VAT regime. This also ignores the potential benefit which an integrated centre-state VAT system could offer.

The prevailing VAT regime also suffers from some apparent limitations. At the centre, the existing CENVAT have failed to subsume several central tax within its domain thus depriving some manufacturers from benefiting from the possible set-off from the tax burden on previous input tax payment. Besides the value added in the distribution chain completely evades CENVAT leading to revenue loss for the states. In the case of state VAT also many state level taxes have remained outside the ambit of VAT. Besides the failure to integrate the CENVAT and state VAT has resulted in cascading of the CENVAT load on the value of goods taxed by the state VAT.

Table 1.5

A Comparative Position of the Pre-VAT and Post-VAT

Collection of Sales Tax in Assam

(in crore)

PRE-VAT			POST-VAT		
Year	**Actual Collection**	**Annual Growth**	**Year**	**Actual Collection**	**Annual Growth**
2002-03	1441	34.30	***2005-06***	2568	22.34
2003-04	1551	7.63	***2006-07***	2783	8.37
2004-05	2099	35.33	***2007-08***	2727	-2.01
			2008-09	3111	14.08
			2009-10	3535	13.63
			2010-11	4319	22.18
			2011-12	5694	31.84
CAGR 2002-3 to 2004-05	**20.39**		***CAGR 2002-3 to 2001-05***		**11.28**

Note: Assam Entry Tax not included.

Source: Reports of the Comptroller and Auditor General of India, 2010-11, 2011-12, 2012-13

In a review of on transition from sales tax to value-added tax for the period 2005-06 to 2007-08, the *Audit Report (Revenue), Assam Sales Tax* (Government of Assam, 2009) has made the following scathing observations.

- An Input tax credit of Rs. 55 lakh was availed by the dealers without furnishing the required certificates duly signed by the chartered accountants.

- Non-detection of application of lower rate of tax resulted in leakage of revenue of Rs. 1.29 crore.

- Due to deficiencies in the provisions for input tax credit, the genuineness of input tax credit to the dealers could not be verified in audit.

- The department irregularly allowed exemption of tax of Rs. 1,026 crore on tax paid sales without any supporting documents.

- Due to lacunae in the Act prescribing discretionary provisions for levy of penalty, penalty upto Rs. 47.24 lakh though leviable, was not levied.

- Compensation claim of Rs. 278.65 crore extended by the State Government during 2006-07 and 2007-08 was inadmissible.

The Comptroller General of India's Audit Report (Revenue Sector) (Government of Assam, 2012) points out the weak management information system reflected in non-availability of data on VAT eligible dealers and of classifying dealers into large and small tax payers.
The non-completion of assessment also prompted a call for preparation of action plan to complete the assessment in a time bound manner.

Gross collection cost of tax on sales, trade etc. is higher in Assam in comparison to the national average. However it is encouraging to note that the adverse difference is being corrected over the years. But despite the high cost efficiency concerns has dogged the collection process which is evident in 262.44 percent increase in tax arrears in comparison to the 55.16 percent hike in the tax receipts over the period 2006-07 to 2010-11 (Government of Assam, 2012). Although this extra-ordinary hike is attributed to the stay order issued the Gauhati High court on taxes on various taxes, the matter is aggravated due to the absence of any norms or strategy for the disposable of cases or of any targets for recovery of arrears.

The report also went on to make the following observations.

- During 2006-07 to 2010-11, the recovery of arrears was in the range of one to two *per cent* while there were 15,795 pending cases involving revenue of 1,564.31 crore as on 31 March 2011.
- Non-availability of information on movable and immovable properties of resulted in the non-realisation of Rs. 9.94 crs in arrears.
- Reluctance to pursue coercive measures including issue of warrant of arrest lead to non-recovery amounting to Rs. 51.11 crore.
- The penalty rate of interest for late payment of arrear has been unrevised in the last 100 years at 6.25 percent. This is another factor which fails to thwart non-compliance and compromises on revenue performance.

Besides the lapses various other instances had been identified which had adverse effect on tax receipt. This includes assessment at lower rate of tax, non-assessment or scrutiny of evasive tax payer, instances where excess input tax credit was extended, irregularities in the assessment of TDS, and unjustified grant of exemption.

From the observations of the regulatory authorities it is evident that the weakness in the sales tax / VAT regime in Assam is both institutional and operational.

Leakages, short/non mobilisation and non-recovery of revenue leading to revenue losses for the state were mostly due to inadequacy of data on the assessed or because of inefficient operation of the tax machinery. Deliberate violation of existing rules and disregard for established norms have been identified as important reasons for under mobilisation.

The need of the hour is a major streamlining of the sales tax department imparting a structure of operational autonomy laced with rigorous accountability. Direct contact between the tax-officials and tax payers should be minimised and when essential, a well-defined and transparent procedure should be defined for such interaction. For ensuring efficiency and integrity in the tax collecting machinery a system of incentive and penalty needs to be integrated to the structure which is objective and transparent.

In terms of policy framework the limitations of the CENVAT and state VAT needs to be rectified with the earliest implementation of the Goods and Service Tax (GST), both at the central and at the state level. The inclusion of the remaining central and state tax into the proposed GST regime promises to minimise the cascading of tax, which continues to take place even after the imposition of CENVAT and state VAT. The inclusion of service into the value-added chain for taxation promises extension of the tax base and also the scope of availing tax-credit for the tax-payer lower down the chain for tax paid on services.

b) State Excise

The State Excise Department operates under the purview of the Assam Excise Act (AE Act), 1910 and the Assam Excise Rules (AER), 1945 along with various administrative orders issued from time to time. Besides enforcing the excise laws on prohibition, the excise department also assumes the responsibility of collecting excise tax on country spirits, Extra Neutral Alcohol, and other spirits that are imported from outside the state. Besides excise duties are imposed on Indian Made Foreign Liquor (IMFL) and Beer which are manufactured and bottled in the state as well as those that are imported from outside.

State Excise receipt has exhibited a steady increase in the study period 2002-03 to 2011-12, with a sharp acceleration in the last two years. Its contribution to the total tax receipt has remains stable at 5-7 percent. It the period under consideration the CAGR in state excise was 16.47 percent which was proportional to the rate exhibited by the State's own tax receipt.

Table 1.6

Excise Tax Receipts

(In lakh)

Years	State Excise	% Contribution to Tax Receipt
2002-03	12,167	7
2003-04	12,929	7
2004-05	14,406	6
2005-06	16,039	5
2006-07	17,488	5
2007-08	18,871	6
2008-09	19,868	5
2009-10	23,919	5
2010-11	32,312	6
2011-12 (RE)	48,000	7
CAGR	**16.47**	

Source: State Finances: A Study of Budgets (2002-03 to 2011-12), Compendium of Articles, RBI

The receipts from state excise had fluctuated from five to seven percent in the period 2007-08 to 2011-12 (Government of Assam, 2012). However in absolute terms steep increases in excise receipts was observed in 2010-11 and 2011-12 to the extent of 35.09 and 55.79 percent respectively. This was a direct outcome of issuance of greater number of licences of bar serving IMFL. The Audit Report (Revenue Sector), 2012 has pointed out loses to the exchequer due instances of

- Non-payment of Licence fee
- Non/ short realisation of establishment charges
- Losses due to warehouse going dry
- And other irregularities.

The persistence of irregularities despite audit strictures is obvious from the following observations of the Audit Report (Revenue Sector) of the Comptroller General of India.

> *Scrutiny of the records of the State Excise Department revealed several cases of non-observation of the provisions of the Acts/Rules/departmental orders as mentioned in the succeeding paragraphs. These cases are illustrative and are based on test checks carried out by Audit. Some of the omissions on the part of the departmental officers are pointed out by Audit every year. However not only do the irregularities persist, these irregularities continue till subsequent audit is conducted. It is a matter of concern as these observations are also sent to the higher authorities including the Government each time these are detected. There is, thus, a need for Government to improve the control and monitoring mechanism, besides putting in place an effective internal audit system so that these omissions are prevented, detected and corrected regularly and promptly.* (Government of Assam, 2012)

Based on the observations of the auditor's report the following suggestions are made.

i) As excise duties are imposed on the *cost price* of the IMFL/Beer, cost estimation should be clearly defined to avoid faulty base and subsequent loss of revenue.

ii) The maximum permissible wastage in the production process should be clearly mentioned so that revenue loss arising from false claim of short production is avoided.

iii) Maintenance of minimum stock should be specified by for the bonded warehouses so that no loss is experienced due to inefficient warehouses.

iv) Audit strictures on the excise department of persistent violation of rules and regulations despite repeated objections points to the urgent necessity of departmental introspection with regards to introduction of rigorous system of accountability an effective structure of reward and punishment.

c) Tax on Vehicles

Motor Vehicles tax is levied on the ownership of motor vehicles and is accessed at the point of registration. Although the tax is realised once in every fifteen years for private vehicles, it is only payable annually by commercial vehicles. For commercial vehicles from outside the state a composite fee is imposed in lieu for motor vehicle tax. Besides, revenue is also generated through the imposition of tax on passengers and goods.

Table 1.7
Taxes on Transportation

(In lakh)

Years	Taxes on Vehicles	Taxes on Goods and Passengers	% contribution to tax receipt
2002-03	11,628	1,330	7
2003-04	12,399	1,699	8
2004-05	13,472	1,588	6
2005-06	15,591	6,152	7
2006-07	15,115	7,015	7
2007-08	13,862	1,239	5
2008-09	14,521	28,467	11
2009-10	17,726	54,541	16
2010-11	23,199	47,810	13
2011-12 (RE)	30,000	46,824	11
CAGR	**11.11**	**48.54**	

Source: State Finances: A Study of Budgets (2002-03 to 2011-12), Compendium of Articles, RBI

Motor vehicle tax had been growing very steadily over the years in which it increased from Rs. 116.28 crs in 2002-03 to 300 crs in 2011-12 showing a CAGR of 11.11 percent. Correspondingly there has been a whopping hike in receipt from tax on goods & passengers from 13.3crs in 2002-03 to Rs. 468.24 percent in 2011-12 exhibiting a CAGR of 48.54 percent. The percentage contribution of transportation tax to the total tax receipt has remained steady at around 6-7 percent in the period 2002-03 to 2007-08, after which it started to increase very rapidly.

However the cost of collection of motor vehicle tax in the state is exorbitant and compares very unfavourably to the national average. This is evident in the 2010-11 and 2011-12 figures where the percentage expenditure to gross collection in Assam was 10.07 percent and 11.58 percent in comparison to the All India figures which were 3.07 percent and 3.71 percent respectively (Government of Assam, 2012).

The CAG *Audit Report (Revenue Sector) for the year ended 31 March 2012* points out the non/short levy and realisation of motor vehicles taxes amounting to Rs. 671.39 crs due to lapses in the form of non-levy of fine on overloaded vehicles, non/short realisation of motor vehicle taxes and other irregularities. It also expresses its concerns to repeated omissions by the department and the non-compliance of the department to adequately 'monitor the status and arrest their and arrest their recurrence' (Government of Assam, 2012).

The spectacular increase in tax revenue in this head, despite the high collection cost, administrative lapses and violation of rules, has been due to the explosive growth of the transport sector. It is unanimously agreed that improved governance with greater accountability will make the revenue performance in this head much more productive.

d) Taxes and Duties on Electricity, Entertainment and Other Taxes & Duties

Although the state government imposes a levies on generation and consumption of electrical energy in the state, its power to tax this sector is subject to the constraints imposed by Article 287 and Article 288 of the Constitution of India.

As evident in Table 1.8, that although the revenue proceeds in this head has grown at a CAGR of 14.69 percent however its contribution to the total tax revenue is very negligible, remaining mostly under 1 percent. Similarly entertainment tax and also levies clubbed under Other Taxes & Duties make an insignificant to the total tax revenue of the state. In fact, although Other Tax & Duties has exhibited a healthy CAGR of nearly 40 per cent in the study period, the receipts from entertainment tax has shown a negative growth indicating the growing irrelevance of the tax with respect as a source of tax revenue.

Table 1.8

Taxes and Duties on Electricity, Entertainment and others

(In lakh)

Years	Taxes and Duties on Electricity	Entertainment Tax	Other Taxes and Duties
2002-03	1,282	3,320	38
2003-04	273	2,375	842
2004-05	6,184	1,604	1,163
2005-06	1,329	231	279
2006-07	1,590	85	481
2007-08	462	265	358
2008-09	2,236	222	605
2009-10	2707	263	604
2010-11	4158	265	731
2011-12 (RE)	4403	506	755
CAGR	**14.69**	**-18.86**	**39.39**

Source: State Finances: A Study of Budgets (2002-03 to 2011-12), Compendium of Articles, RBI

ii) State's Own Non-Tax Revenue

In Assam the State's Own Non-Tax Revenue consists of interest receipts, dividends & profits, revenue from general services, social sacrifices and also from economic services. In terms of sectoral composition the revenue mobilization as proceeds from royalty of petroleum constitutes the biggest contributor of non-tax revenue. Other major heads of non-tax revenue are interest receipts, revenue from economic services (other than petroleum) and general services.

Box 2

State's Own Non-Tax Revenue

1. Interest Receipts 2. Dividends & Profits 3. General Services 4. Social Services *i. Education , Sports, Arts & Culture* *ii. Medical & Public Health* *iii. Family Welfare* *iv. Housing* *v. Urban Development* *vi. Labour & Employment* *vii. Social Security & Welfare* *viii. Water Supply & Sanitation* ix. *Others*	5. Economic Services *i. Crop Husbandry* *ii. Animal husbandry* *iii. Fisheries* *iv. Forestry & Wild Life* *v. Co-operation* *vi. Other Agricultural Programmes* *vii. Major & Medium irrigation Projects* *viii. Minor Irrigation* *ix. Power* *x. Petroleum* *xi. Village & Small Industries* *xii. Industries* *xiii. Tourism* xiv. *Others*

Source: *State Finances. A Study of Budgets of 2012-13*, Reserve Bank of India, 2013

Traditionally royalty proceeds from petroleum always dominated non-tax revenue in Assam. This is also true for the study period where non-tax revenue from petroleum increased from Rs. 27283 lakh in 2002-03 to Rs. 88592 lakh in 2001-12, exhibiting a CAGR of 17.13 percent. While maintaining its overwhelming dominance, the sectoral composition of petroleum in the overall non-tax revenue has gradually declined in the study period from 82.66 percent to 69.64 percent. This is due to among other things, increasing revenue mobilisation from other heads especially proceeds in the form of interest receipts. Given the overwhelming dependence of the state on petroleum royalty it is a legitimate demand that royalty should be linked with market price and hence should vary with fluctuating petroleum prices.

Besides crude oil and natural gases non-tax revenue is also generated from coal and also from minor minerals in the form of limestone, boulder, stone and sand. Such receipts emanate from levies in the form of fees for mining lease and prospecting licence, royalty, dead rent, surface rent, fines/penalties and interest on belated payment of dues. Although together this category contributes an overwhelming majority of the non-tax revenue, the ***Report of the Comptroller and Auditor General of India on Revenue Sector*** (Government of Assam, 2012) points out significant loss of potential revenue due to institutional and operational weaknesses.

- In this context it points out leakage of additional revenue due to absence of standard norms on operational utilisation of fuels. There is a call for rectification through the fixation of a ceiling for claims of operational utilisation.
- Instances of short payment of royalty was noticed where the lessee understated the quantity of minerals extracted. To avoid such types of losses for the state exchequer, it has been suggested that adequate structure be constructed that would automatically cross-verify and ascertain the actual amount of extraction which has taken place and also ensure that no such short payment is repeated.
- At the operational level lapses by the concerned authorities has resulted in revenue loss for the state. This includes short payment resulting from application of lower rates of royalty, non-submission of claims by the state government for legitimate additional royalty, failure to charge interest on delayed payment etc. These are examples of localized governance failure which is mostly due to laxity in administration on part of the concerned department and also in instances willful connivance with evaders.

Table 1.9

Non-Tax Revenue in Assam

(in lakhs)

Year	Interest Receipts	Dividends & Profits	General Services	Social Services	Fiscal Services	Economic Services excluding Petroleum	Petroleum	Total
1	2	3	4	5	6	7	8	9
2002-03	307 (0.44)	593 (0.86)	2483 (3.58)	1308 (1.89)	1 (.001)	7323 (10.57)	57283 (82.66)	69296
2003-04	589 (0.62)	688 (0.73)	3435 (3.63)	4996 (5.28)	1 (.001)	12769 (13.50)	72103 (76.23)	94580
2004-05	1006 (0.94)	929 (0.87)	6383 (5.97)	2117 (1.98)	0	7980 (7.46)	88587 (82.79)	107001
2005-06	3641 (2.50)	1547 (1.06)	3474 (2.38)	3858 (2.64)	0	11790 (8.08)	121616 (83.34)	145927
2006-07	16749 (9.01)	1854 (1)	3274(1.76)	13526 (7.27)	0	11942 (6.42)	138582 (74.54)	185927
2007-08	24072 (11.28)	2400 (1.12)	14029 (6.57)	3089 (1.45)	0	15080 (7.07)	154788 (75.51)	213458
2008-09	43316(19.07)	1945(0.86)	13977(6.15)	2088 (0.92)	0	22852 (10.06)	143012 (62.95)	227189
2009-10	49363 (17.93)	1492 (0.54)	35150 (12.77)	2496 (0.91)	0	29376 (10.67)	157418 (57.18)	275295
2010-11	41588 (17.52)	1498 (0.63)	9116 (3.84)	2739 (1.15)	0	19799 (8.34)	162593 (68.51)	237333
2011-12(RE)	45746 (16.89)	1648 (0.61)	10027 (3.70)	3012 (1.11)	0	21777 (8.04)	188592 (69.64)	270802
CAGR	**74.24**	**39.38**	**21.81**	**9.57**	**-100.00**	**19.30**	**17.13**	**19.79**

Figures in parentheses represent the percentage contribution of different sources of non-tax revenue towards total non-tax revenue

Source: Directorate of Economics and Statistics, Government of Assam, Various issues

The Report on Revenue Sector (Government of Assam, 2012) has made certain suggestions to minimize loss in non-tax revenue for the state on the basis of the audit which mostly focused on water resources of the state. These included

i. Preparation of a comprehensive State Water Policy.

ii. Updating assessment within a definite time frame and recovering subsequent dues.

iii. Prescribing and enforcing duties on water use for domestic, commercial and industrial purpose.

iv. Installation of meters on bored deep tube wells to determine extent of water use and the subsequent application of charges.

v. Application of interest charges on delayed payment of charges.

Most reports make scathing observations on non/short realization of non-tax revenues which are mostly due to administrative shortcomings, inadvertent lapses and in some cases willful connivance with evaders. There are a few instances where operational Acts and existing Rules constraints the concerned authorities from mobilizing the justifiable and potential non-tax revenue.

A very significant trend in the composition of non-tax revenue is the growing share of interest receipt which has gone up from Rs. 3.07 crs to Rs. 457.46 crs. This represents an extra-ordinary jump from 0.44 percent to 16.89 percent which is remarkable in such a brief period of 10 years. This has been sought to be explains by the huge interest receipt accruing from the deposits maintained with RBI including the Consolidated Sinking Fund (CSF).

iii. Revenue Effort of the State

Revenue Effort of a state may be described in terms of the deviation of the actual tax effort of the state from its potential capacity. This concept seeks to measure how the state performs in its revenue mobilization effort given its taxable capacity.

a. Revenue Receipt-GSDP ratio

Although in practice, revenue potential is difficult to estimate however a number of dimensions can and do give the magnitude of the concept and serves as the base for making an assessment on the revenue effort. In this context, the **revenue receipt/GSDP ratio, own tax revenue/GSDP ratio, own non-tax revenue/GSDP ratio and current**

Table 1.10

Revenue Receipt GSDP Ratio

State	Average for 2004-08			
	RR/GSDP	*OTR/GSDP*	*ONTR/GSDP*	*CT/GSDP*
1	2	3	4	5
Non Special Category	**13.5**	**7.0**	**1.6**	**4.9**
1. Andhra Pradesh	14.0	7.6	1.9	4.4
2. Bihar	21.9	4.2	0.5	17.2
3. Chhattisgarh	16.5	7.2	2.4	6.9
4.Goa	15.1	7.3	5.5	2.3
5. Gujarat	10.5	6.5	1.5	2.5
6. Haryana	12.8	8.0	2.9	1.8
7. Jharkhand	13.7	4.4	2.1	7.2
8. Karnataka	15.8	9.8	1.9	4.1
9. Kerala	11.6	7.6	0.7	3.4
10. Madhya Pradesh	17.7	7.2	2.3	8.2
11. Maharashtra	10.6	7.1	1.5	2.0
12. Odisha	16.9	5.7	2.1	9.1
13. Punjab	13.9	7.3	4.1	2.6
14. Rajasthan	14.8	6.8	1.9	6.1
15. Tamil Nadu	13.2	8.8	1.0	3.4
16. Uttar Pradesh	16.5	6.5	1.4	8.6
17. West Bengal	9.9	4.5	0.5	4.9
Special Category	**27.4**	**5.0**	**3.1**	**19.3**
1. Arunachal Pradesh	54.7	1.8	7.8	45.1
2. Assam	20.4	5.2	2.6	12.7
3. Himachal Pradesh	24.1	5.5	3.7	14.9
4. Jammu and Kashmir	37.9	5.8	2.4	29.7
5. Manipur	43.6	1.8	2.0	39.7
6. Meghalaya	24.4	3.4	2.1	19.0
7. Mizoram	56.2	1.9	3.6	50.8
8. Nagaland	35.3	1.6	1.4	32.4
9. Sikkim	103.3	7.5	53.3	42.4
10. Tripura	30.4	3.0	1.1	26.3
11. Uttarakhand	18.1	6.1	1.9	10.0
All States #	**11.9**	**5.7**	**1.4**	**4.7**

Note: ONTR: Own Non Tax Revenue RR: Revenue Receipt CT: Current Transfers
OTR: Own Tax Revenue GSDP: Gross State Domestic Product
* Data for Puducherry pertains to 2006-07
# Data for All States are as per cent to GDP

Source: RBI (2011-12) ***State Finances: A Study of Budgets***, Reserve Bank of India.

transfer/ GSDP ratio serves as good indicator on the revenue performance of the state. In this context RBI data indicates that although Assam has a relatively high RR-GSDP ratio, than most of the general category states, a closer look reveals that a huge proportion of its receipts are central transfer which is evident it its much lower OTR-GSDP ratio. In fact this is a feature of all special category states whose OTR/GSDP is relatively lower than that of general category states, and that indicates their poorer tax performance when compared to the latter states.

In contrast the Assam's ONTR/GSDP ratio is relatively higher than most of the states from both the two categories. This can be accounted for by the huge contribution made by royalty from petroleum to non tax revenue. However it is evident in Table 1.10 that states that has a strong tourism sector also sources a higher proportion of their revenue from their own non-tax sources i.e. Goa (5.5 percent), Sikkim (53.3 percent) etc. In this context given Assam's weak manufacturing sector and a stagnant agricultural sector it is imperative that it adopts a growth model that is powered by the tertiary sector. Again given its tremendous unharnessed potential in nature, wildlife and adventure tourism, development of the tourism sector promises great return to the state in its objective to become more self sustaining.

b. Cost of Collection

Cost of Collection of tax constitutes another parameter for measuring the efficiency of the taxation system. For a tax to be viable the cost of collection of the tax has to be significantly lower than that of the tax mobilized. Assam's tax performance in terms of cost of collection vis-a-vis the national average has been a mixed bag with the percentage of collection expenditure to Gross Collection fluctuating above and under the national ratio. In the latter period of the study the cost percent has deviated rather violently upwards away from the national average (Table 1.11).

Table 1.11

Cost of Collection of Taxes and Duties in Assam

(In crs)

Year	Gross Collection	Expenditure on Collection	Percentage of Expenditure to Gross Collection for Assam	Percentage of Expenditure to Gross Collection for All States
1	2	3	4	5
2002-03	1935	100.52	5.19	6.49
2003-04	2070	100.33	4.85	6.12
2004-05	2713	159.65	5.88	5.80
2005-06	3232	119.32	3.69	4.28
2006-07	3483	134.63	3.87	3.93
2007-08	3360	133.73	3.98	2.86
2008-09	4039	260.22	6.57	3.04
2009-10	4333(RE)	294	6.78	3.67

Source: Report of Comptroller and Auditor General of India, Government of Assam, various issues

From a disaggregated perspective (Table 1.12) the cost of collection of *sales tax* is relatively less than that of other tax. Besides the collection cost incurred is comparable with that of the national average collection cost of sales tax. However in the case of *state excise* and *taxes on vehicles* the cost of collection is significantly higher than the national rate which is an indication of the relative inefficiency of the taxation machinery in the state. The relative inefficiency in revenue mobilization is the highest in case of *Stamps & Registration* receipts where in the collection cost in Assam is three to four times than that of the national average.

Table 1.12

Cost of Collection of Different State Taxes during the Time Period 1999-00 and 2008-09

Sl. No.	Type of Tax	Year	Gross Collection	Expenditure on Collection	Percentage of Expenditure to Gross Collection	All India Average Cost of Collection during 2000-09
1	Sales Tax	1999-00	742.32	25.56	3.44	0.83
		2000-01	917.89	13.02	1.42	
		2001-02	1072.76	13.61	1.27	
		2002-03	1440.90	13.22	0.92	
		2003-04	1551.06	16.14	1.04	
		2004-05	2098.58	14.70	0.70	
		2005-06	2568.41	19	0.74	
		2006-07	2783.24	34.93	1.26	
		2007-08	2691.43	23.39	0.87	
		2008-09	3110.58	39.49	1.27	
2	State Excise	1999-00	-	-	-	3.24
		2000-01	137.56	6.49	4.72	
		2001-02	150.91	7.32	4.85	
		2002-03	121.67	7.18	5.90	
		2003-04	-	-	-	
		2004-05	-	-	-	
		2005-06	-	-	-	

		2006-07	174.88	9.70	5.55	
		2007-08	188.71	10.37	5.50	
		2008-09	198.68	11.62	5.85	
3	Taxes on Vehicles	1999-00	68.69	4.58	6.67	2.58
		2000-01	73.77	5.20	7.05	
		2001-02	93.59	4.91	5.25	
		2002-03	116.28	5.21	4.48	
		2003-04	124	5.29	4.75	
		2004-05	134.72	6.33	4.70	
		2005-06	155.91	8.15	5.23	
		2006-07	151.15	8.08	5.35	
		2007-08	138.62	8.36	6.18	
		2008-09	145.21	9.03	6.22	
4	Stamps and registration	1999-00	-	-	-	2.08
		2000-01	38.33	6.82	17.65	
		2001-02	41.97	5.83	13.89	
		2002-03	50	6.49	12.98	
		2003-04	62.12	5.30	8.53	
		2004-05	-	-	-	
		2005-06	-	-	-	
		2006-07	97.32	3.91	6.07	
		2007-08	109.91	6.27	3.71	
		2008-09	111.17	10.28	9.23	

Source: Report of the Comptroller and Auditor General of India, Government of Assam, various issues

c. Arrears in Revenue

Arrears in Revenue constitutes another dimension of revenue effort and indicates the inefficiency of the tax administration. Defined as the outstanding amount of revenue receipt, both tax and non-tax, which the state has so far failed to collect, arrear in revenue indicate the existing institutional and operational lacuna that results in under mobilization of resources given the tax potential of the state.

Table 1.13

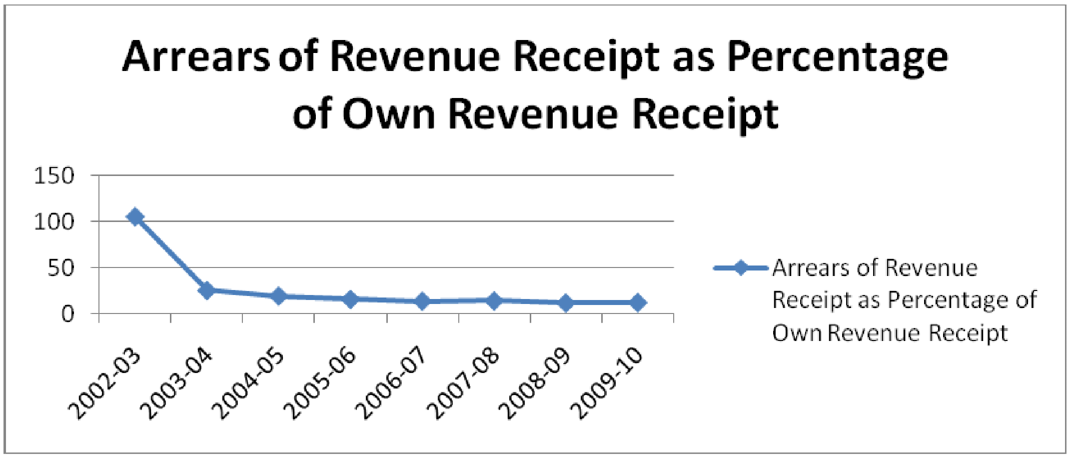
Arrears on Revenue Receipt of the State

(in crs)

Year	Arrears of revenue Receipt	Arrears of Revenue Receipt as Percentage of Own Revenue Receipt
1	2	3
2002-03	2757	105.12
2003-04	745	25.54
2004-05	725	19.67
2005-06	768	16
2006-07	755	14.11
2007-08	756	14.32
2008-09	756	12.12
2009-10	722	12.56

Source: Report of Comptroller and Auditor General of India, Government of Assam, various issues (2002-2010).

Figure 1.1



Examination of trends in the study period indicate that revenue arrear as a percentage of own revenue receipt has been correcting since 2002-03. Thus from a whopping 105.12 percent (Rs. 2757 crs) in 2002-13 there has been a dramatic correction in revenue arrear over the years which have culminated in a much more acceptable 12.56 percent (Rs. 722 crs). The much needed tightening was attained through the computerization of the taxation machinery which led to significant enhancement in detection, surveillance and compliance. This was part of the *Fiscal Reform Facility* adopted by the government of Assam which led to a comprehensive tightening of the tax administration of the state. CAG audits reports points out the great scope for enhancing revenue receipts through greater efforts to address the problem of revenue arrear through punitive action and also the application of higher interest on outstanding arrears.

d. Cost Recovery of Social and Economic Services

Cost Recovery is a particular head is measured as the revenue receipt in that head against the non-plan revenue expenditure incurred in it. It is unanimously acknowledged that cost recovery from public service constitute one of the most critical instrument variables that can be addressed to make state finance sustainable. Cost recoveries are undertaken in economic and social services and traditionally the extent of recoveries are always higher in the former than that in the latter. Hence as policy strategy there is always a concerted effort to enhance cost recovery in economic services such as power and irrigation. Conversely considering the positive externalities generated by provision of services in the social sector a lower priority is set for cost recovery in areas of health and primary education. However with greater realization of the distinction between school education and higher education as merit goods, in the coming years the ratio is expected to improve in education.

Cost recovery as a ratio depends on the user charges that is administered on the services that is provided. Besides, the revenue receipt from the services offered also depends upon the efficiency in collection, the transparency in operation and the minimization of leakages. On the expenditure side the ratio can be kept enhanced if the establishment and maintenance cost is kept at the minimum level.

Historically in India, cost recovery from public services had been low. In Assam the situation is even worse with the level of cost recovery being roughly half of what has been achieved for the country as a whole. This is evident in Table 1.14 and fig 1.2 & fig 1.3, which indicate cost recovery for social service in Assam ranged somewhere between 0.38 to 2.22 against the national level between 3.29 to 5.86. The same picture is also true for economic services with cost recovery remaining more or less stagnant at a significantly lower level than that of the national average.

Effort to raise cost recovery by the state must adopt a strategy that will incorporate measures to raise rates in user charge, greater efficiency and transparency in mobilisation, enhancement in the quality of the service provided. The existing subsidised rates of public services make their provision unviable and put enormous pressure on the state exchequer. Any efforts to increase rates are met with tremendous public opposition. In this context, although the government need to firmly deal with such opposition by a population who is used to living on subsidised public services, it needs to ensure that there is no leakages or misutilisation of funds raised as user charges and also that the service provided is of the highest quality, which will induce more consumer compliance.

Table 1.14

Cost Recovery of Social and Economic Services of Assam and all States

Year	Assam	All States	Assam	All States
	Social Services		*Economic Services*	
2001-02	0.74	3.11	6.40	26.57
2002-03	0.66	3.29	10.86	29.59
2003-04	2.02	3.58	12.42	25.45
2004-05	0.66	3.67	6.25	38.08
2005-06	1.33	4.18	7.80	31.53
2006-07	3.63	5.78	8.11	30.95
2007-08	0.76	5.86	8.52	30.51
2008-09	0.38	3.91	12.29	31.04
2009-10	0.58	3.47	8.17	32.29

Source: State Finances: A Study of Budgets (2002-03 to 2011-12), Compendium of Articles, RBI

Figure 1.2

Cost Recovery of Social Services of Assam and All States

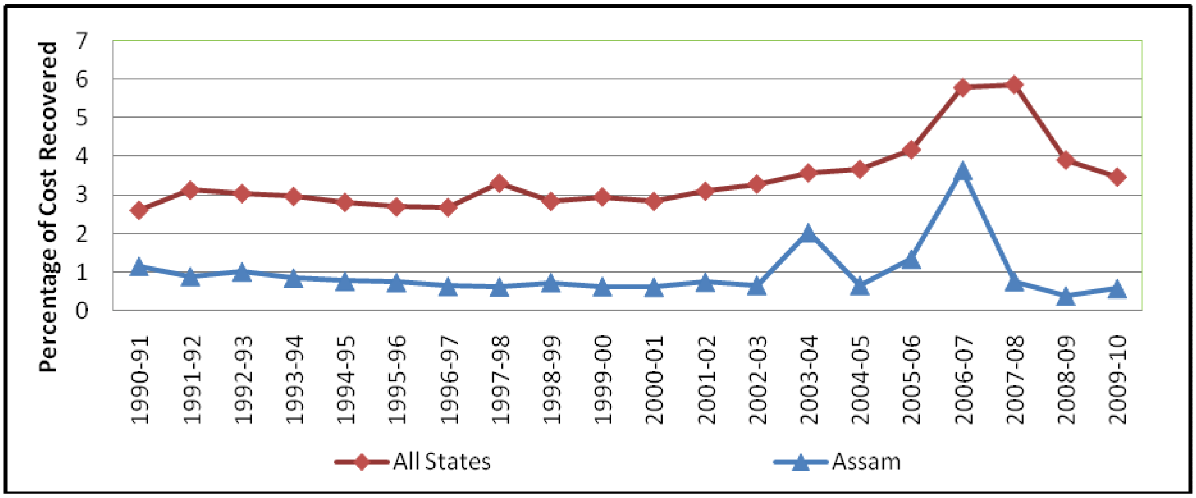
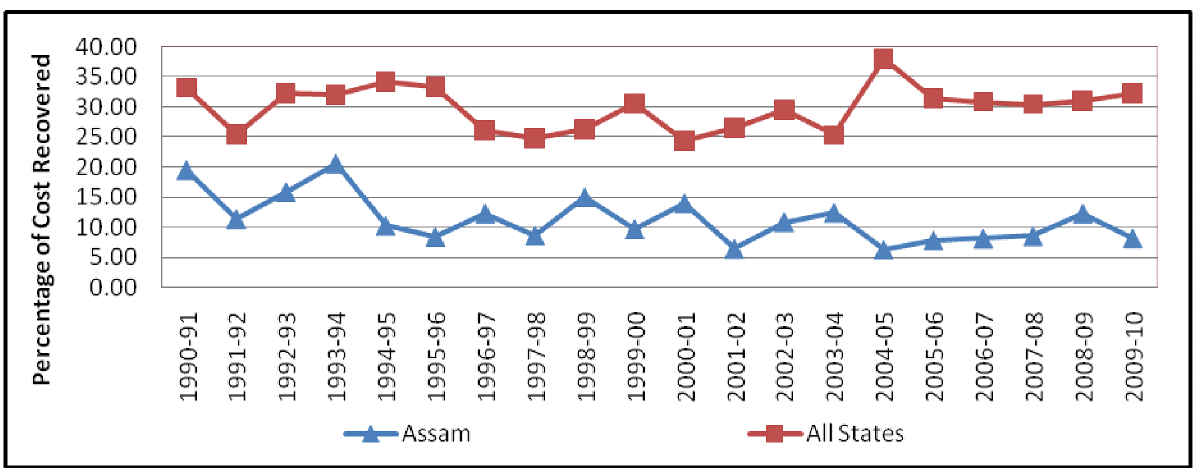


Figure 1.3

Cost Recovery of Economic Services of Assam and All States



e. Buoyancy of Tax

The enactment and implementation of the FRBM Act and the subsequent fiscal reforms initiated made it mandatory for all the states to embark on a process of fiscal consolidation. The tax effort which constitutes a big part of this process was sought to be assessed in terms of the Own Tax Revenue- GSDP ratio. However what this ratio reveals is how much the states have achieved in their mobilisation effort rather than their actual capacity to mobilise the resources. The latter is perceived in the concept of Buoyancy of Tax. In India state wise buoyancies are estimated in terms of proportionate change in Own Tax Revenues to proportionate increase in the GSDP.

Evidence presented in Table 1.15, reveals that with the enactment adoption of the FRBM Act, the deliberate fiscal consolidation process which was resorted to in Assam did not lead to an improvement in tax effort. This is evident in the data, where post 2005 the revenue and own tax buoyancy deteriorated instead of improving. In fact the fiscal correction that had been achieved was mostly the result of austerity measures observed in the expenditure side.

Table 1.15

Buoyancy Coefficients of Own Revenue and Own tax

Year	Own Revenue	Own Tax Revenue
2002-03	1.04	1.83
2003-04	1.61	0.78
2004-05	2.30	2.56
2005-06	2.29	1.18
2006-07	1.51	0.87
2007-08	1.23	-0.36
2008-09	1.28	1.67
2009-10	0.69	1.40
2010-11	1.29	1.56
2011-12	1.77	2.63

Note: In the event of any discrepancy in data in the reports, the latest report is assumed to be correct
Source: State Audit, Government of Assam,(2005-06, 2006-07, 2007-08, 2008-09, 2009-10, 2011-12)

1.4 TRANSFERS FROM THE CENTRE

As discussed earlier India has a federal structure which has strong unitary elements. In the dual tier structure there is a strong vertical inequity where the centre has much greater access to resources compared to their responsibilities and conversely the states are revenue starved given their constitutionally mandated functions. In Indian federal finance the existing imbalance is sought to be corrected through a series of centre-states transfers comprising of tax sharing, grants and loans. The process of federal transfer is facilitated by the Finance Commission which has the constitutional mandate to recommend allocation of tax between the centre and the states and within the states themselves. Besides, grants-in-aid to the states are extended at the recommendation of the Finance Commission. The Planning Commission on the other hand, proposes allocation of resources among states in the form of additional grants and loans. Although not a constitutional entity, it is responsible for framing the five year plans of the country besides approving the annual plans of the states.

Assam has always been heavily dependent on central transfer for its sustenance. As indicated earlier in Table 1.2 the share of total central transfer in the state's total revenue receipt has been stable hovering consistently between 61-62 percent. Within the central transfers the share of *share in central taxes* has risen significantly from 26.71 percent in 2002-03 to 33.21 percent in 2011-12. Correspondingly the share of grants-in–aids had fallen from 34.62 percent to 27.92 percent (Government of Assam, various years). This has happened despite the growth of both transfers in absolute terms, because relatively the state's own tax revenue, the non tax revenue and share of central taxes has been growing faster at CAGRs of 16.49 percent, 17.09 percent and 19.89 percent than the *grants in aid* which exhibited a CAGR of 14.03 percent.

Box 3

Transfer from the Centre

Share in Central Taxes	**Grants from Centre**
i. Corporation Tax ii. Income Tax iii. Taxes on Wealth iv. Customs v. Union Excise Duties vi. Service tax vii. Other taxes and Duties on Commodities & Services	i. State Plan Schemes ii. Central Plan Schemes iii. Centrally Sponsored Schemes iv. NEC/ Special Plan schemes v. Non-Plan Grants *a. Statutory Grants* *b. Grants for relief on account of Natural Calamities* c. *Others*

Among the central taxes that are devolved by the centre to Assam, the share of Corporation Tax was the highest at Rs. 36676 crs in 2011-12 (revised estimate), which was followed by the share of income tax (Rs. 19022.8 crs) and share of customs (16207.2 crs) .Other contributors to the transfer include share from Union Excise Duties (Rs. 12361) and Service Tax (Rs. 9387.8 crs). The enhancement in tax revenue in Assam by 29 percent in 2011-12 can be largely accounted for by the 17 percent increase in share of central tax besides comparable increase in own tax revenue of the state. Most of the increments in the transfer emanated from Corporation tax (Rs. 539 crs) followed less significantly by Customs (Rs. 216 crs) and Income tax (Rs. 210 crs).

Central Taxes are shared by the centre with the states on the basis of recommendations made by the constitutional mandated Finance Commission. The Finance Commission allocates the central taxes between the centre and the states and also among the states for every five years as per a predetermined formula which is constructed on the basis of criteria that capture both the *needs* as well as *fiscal performance* of the states. The Finance Commission also awards grants-in-aids which are targeted to bridge the Non

Plan Revenue Deficit (NPRD). The size of the grant is relatively less than that of the share of taxes that is devolved.

Over the years different Finance Commissions had used different criteria to determine the allocation of sharable central taxes. However the awards of the 12th and 13th Finance Commission have aggravated the negative deviation of Assam's share from the mean share among states. Besides Assam, which had benefited greatly from the grants-in-aids from the earlier Finance Commissions had been denied by the 13th Commission on the grounds that given its favorable balance in revenue account it has graduated from that form of assistance and instead is eligible for performance grant of Rs.300 crs.

Besides the Finance Commission, the Planning Commission also facilitates transfer from the centre to the states in the form of grants. This includes the block plan grants which is the grant component of the central assistance which is extended as part loan and part grant. As a special category state Assam enjoys 90 percent of the assistance as grants and bears only 10 percent of it as loans. The recognition of Assam as a special category state in 1991 resulted in a dramatic jump in the grant component of the state plan from 41.86 percent in 1990-91 to 65.22 percent in 1991-92.

The centre also extends grants to Assam (as to other states) for Central Sector Schemes, Centrally Sponsored Schemes and Special Plan Schemes. These schemes which targets poverty alleviation and capacity creation in the areas of nutrition, health, and education are either wholly centrally funded (Central Sector Schemes) or implemented on a cost sharing basis with the state (Centrally Sponsored Schemes). Assam has the additional access to the special plan schemes which are framed for the all round development of the North-Eastern states.

As is evident in Table- 1.16, the relative size of the Grants-in-Aid under the three schemes has over the study period fluctuated between approximately 13 percent at the lower level to 22 percent at the upper end. Among the three schemes the grant extended in the form of Centrally Sponsored schemes totally dominate the transfer. The expenditure incurred contributes immensely towards the provision of basic needs including primary education, rural health, maternity and child care etc. Although substantial capacity creation has achieved and although huge number of genuine beneficiaries has been recorded, disquieting reports of leakages, pilferages and corruption threaten to discredit some of the good work that has taken place.

Table 1.16

Grants-in-Aid for Assam (in lakh)

Year	Grants for Central Plan Scheme	Grants for Centrally Sponsored Scheme	Grants for Special Plan Scheme (NEC)	Total	Total Grants-in- Aid
1	2	3	4	5 = (2+3+4)	6
2001-02	**429** (1.17)*	**33442** (90.88)	**2927** (7.95)	**36798** (16.97)**	**216880**
2002-03	**538** (1.38)	**32987** (84.68)	**5428** (13.93)	**38953** (16.57)	**235150**
2003-04	**505** (1.11)	**27433** (60.31)	**17548** (38.58)	**45486** (17.58)	**258691**
2004-05	**1931** (3.91)	**39630** (80.33)	**7771** (15.75)	**49332** (13.82)	**356960**
2005-06	**3971** (5.87)	**52486** (77.65)	**11135** (16.47)	**67592** (15.73)	**429712**
2006-07	**18828** (19.56)	**72050** (74.86)	**5369** (5.58)	**96247** (21.75)	**442536**
2007-08	**13426** (12.67)	**82496** (77.87)	**10025** (9.46)	**105947** (21.57)	**491263**
2008-09	**70323** (36.97)	**99323** (52.22)	**20545** (10.80)	**190191** (29.42)	**646503**
2009-10	**3964** (3.26)	**103226** (84.82)	**14514** (11.93)	**121704** (17.88)	**680500**
2010-2011	2304 (1.63)	**134078** (94.75)	**5130** (3.63)	**141512** (21.02)	**673315**
2011-12	**21956** (6.48)	**290486** (85.70)	**26496** (7.82)	**338938** (25.55)	**1326620**

Note:
*Figures in parentheses represent the percentage contribution of individual component to total transfers through above schemes
**Figures in parentheses represent percentage contribution of total transfers through above schemes to total grants-in-aid

Source: Directorate of Economics and Statistics, Government of Assam, various issues

In 2011-12, the grants-in-aid from the centre was enhanced by Rs. 934 crs or 14 percent which was effected by an increment in grants in Centrally Sponsored Schemes (Rs. 534 crs), State Plan grants (Rs. 385 crs), Non-Plan Grants (18 crs) and grants for special plan schemes which was partially offset by a reduction in grants for Central Plan Schemes (Rs.4 crs).

The overt centre to state transfer system is considered to be moderately progressive. However the 'hidden or implicit' transfer mechanism in the form of interstate tax exportation against the poorer states through central sales tax more than offset the formal built-in progressivity in the transfer process (World Bank, 2005). Another source of hidden transfer takes place in the form of procurement of food grains at a price greater than what prevails in the market. As these schemes target the advanced agricultural states like Punjab and Haryana the subsidies accounts to more than what they receive as formal central transfer which in the real sense does away with the progressiveness that exist in the formal transfer system (World Bank, 2004).

The existing mechanism of fiscal devolution in India is very complex as it seeks to maintain the standards set by various dimensions, which are often contradictory. The greatest strength in the system is the continuous self introspection taking place within the system which corrects distortions in a regular basis. However despite the inherent merits, the system exhibits a high degree of vertical imbalance which inhibits the federal character of the nation and erodes the financial accountability of the two tiers of the governments. Besides the prevalence of hidden central transfers reverses the progressiveness of the transfer system and thus inhibits the objective of horizontal balance.

CHAPTER-II

PUBLIC EXPENDITURE:
COMPONENT, PATTERN AND TRENDS

2.1 INTRODUCTION

Expenditure incurred by the government for its own maintenance as well as for the development of the concerned society and economy is referred to as public expenditure. Public expenditure differs from the expenditure undertaken by a private economic unit guided by its own economic interests, on account of the fact that the functions of the state are not only wide and varied, but its effects too have far reaching consequences. While pursuing the goal of economic growth, the state cannot afford to ignore the issues of social justice. Thus, to satisfy such multiple needs of society, the state has to incur large amounts of expenditure. This has resulted in a rapid growth of public expenditure all over the world. Theoretical explanations of increasing public expenditure include Wagner's view that there is a functional relationship between state activities and the growth of the economy. Wiseman and Peacock point out that public expenditure does not increase in a smooth and continuous fashion. At times, certain social or other disturbances take place which results in the government assuming a large proportion of the total national income. This results in public expenditure increasing in a step like fashion. Musgrave, on the other hand, points out that the growing demand for private goods results in corresponding demand for public goods as well.

In federal forms of government, states as sub-national level entities have a vital role in economic development of a country. In India too, state governments have to incur different kinds of expenditure either for the satisfaction of the collective needs of the citizens or for promoting their economic and social welfare. The Constitution of India has assigned specific expenditure responsibilities to each tier of the Government under separate list. The Seventh Schedule (Article 246) of the Constitution lays down the respective financial resources of the Union and State governments in India. It has been found that most of the developmental and normal administrative functions such as public order, police, local government, public health and sanitation, hospitals and dispensaries, agriculture, water, fisheries, public debt etc. are assigned to the states, whereas the responsibility of the central government is relegated to the provision public goods that have a national character. Thus, state governments in India have to play a significant role in a number of areas critical for enhancing growth and development of the state. They have to shoulder multiple responsibilities, like maintaining law and order while at the same time ensure the provision of most of the economic and social infrastructure. Hence proper allocation and prioritisation of the expenditure of the state governments is important. For a state like Assam, where private investment is shy in view of the difficult geographical terrain and poor infrastructure, public investment has to play a significant role in providing social and physical infrastructure. Under these circumstances, the analysis of the trend and pattern of public expenditure of the state during the study period assumes considerable significance.

This chapter shall explore the details of the expenditure patterns of the government for the period 2002-03 to 2011-2012. Sections 2.2 and 2.3 look at the trend and composition of total expenditure respectively, Section 2.4 discusses the revenue expenditure part, section 2.5 looks into the expenditure on capital outlays, and section 2.6 analyses the plan, non-plan expenditure. Sections 2.7 and 2.8 of this chapter delve into the issue of committed expenditure and quality of expenditure respectively.

2.2 TREND AND PATTERN OF TOTAL EXPENDITURE IN ASSAM:

Total expenditure of the state government is composed of revenue expenditure, capital outlay and disbursement of loans and advances. The growth and pattern of total expenditure is guided by the growth of each of these components. Table 1 gives the size and growth rates of total expenditure in Assam as well the share of each component of total expenditure.

Table 2.1

Trend and Composition of Total Expenditure in Assam (2002-03)

(in Rs. crore)

Year	Revenue Expenditure	Capital Outlay	Disbursement Of Loans and Advances	Total Expenditure	Annual growth rate of total expenditure (in %)	Total Expenditure as a Percentage of GSDP	Total Expenditure Per Lakh Of Population
2002-03	7113 (91.79)	506 (6.53)	131 (1.69)	7749	4.13	17.56	28.62
2003-04	8450 (91.86)	622 (6.78)	128 (1.39)	9199	18.71	19.13	33.45
2004-05	10229 (76.43)	2181 (16.3)	974 (7.28)	13384	45.49	25.06	47.90
2005-06	10536 (89.84)	1085 (9.25)	106 (0.9)	11727	-12.38	19.75	41.32
2006-07	11457 (88.20)	1453 (11.19)	81 (0.62)	12990	10.77	20.08	45.06
2007-08	12744 (87.44)	1688 (11.58)	143 (0.98)	14575	12.20	20.51	49.77
2008-09	14243 (85.26)	2373 (14.21)	89 (0.53)	16705	14.61	20.57	56.16
2009-10	21332 (89.03)	2629 (10.97)	99 (0.41)	23960	43.43	25.91	79.29
2010-11	22952 (91.72)	2001 (8)	71 (0.28)	25024	4.44	24.06	81.53
2011-12	26528 (91.09)	2506 (8.61)	88 (0.30)	29122	16.38	25.23	93.40
CAGR (in percent)	**15.75**	**19.45**	**-04.32**	**15.85**	**4.13**		

Figures in parentheses represent percentage to total expenditure

Source: Report of the Comptroller and Auditor General of India, Government of Assam, various issues

From Table 2.1, it can be seen that total expenditure has been showing a steady increase over the ten year period from 2002-03 to 2011-12, except for the year 2005-06 in which it registered a fall. Total expenditure increased from Rs. 7749 crore in 2002-03 to Rs 29122 crore in 2011-12 showing a compound annual growth rate (CAGR) of 15.75 *per cent.* If we look at the annual growth rates of total expenditure, it is seen that these rates fluctuated greatly over the ten year period. Total expenditure registered an exceptional increase in 2004-05 from Rs 9199 crore in 2003-04 to Rs 13384 crore in 2004-05, which was an increase of 45.49 per cent; the highest ever increase in this ten year period. Likewise, there was a phenomenal rise in total expenditure from Rs 16705 crore in 2008-09 to Rs 23960 in 2009-10. A notable fall in total expenditure occurred in 2005-06 when it declined from Rs 13384 crore in 2004-05 to Rs 11727 crores. Leaving aside these years, total expenditure has still exhibited a fluctuating growth with growth rates varying between 4 to 18 per cent annually.

In a growing economy, when both income and population is rising, total expenditure is bound to show an increase as the role of the government gets expanded. If we look at the total expenditure as percentage of GSDP, we find that over the years, total expenditure in the state formed approximately 20 per cent of the state's GSDP. However, the share has been showing a slight increase to roughly 25 per cent of the GSDP from 2009-10 onwards, the year when total expenditure registered a sharp increase. Similarly, total expenditure was around 25.06 per cent of Assam's GSDP in 2004-05, the year when total expenditure recorded an exceptional rise. Thus, in the two years of high increase in total expenditure, its ratio to the state's GSDP showed a rise.

Likewise, a growing population necessitates enhanced government role. Hence, it would be of interest to know how the proportion of total expenditure to population as varied over the years. As population figures are available in every ten years, hence the population figures for each year has been calculated by taking the average annual exponential growth of population of 1.50 per cent from the census figures for the period 2001-2011. Since, the growth rate of population was much lower than that of total expenditure, hence total expenditure per lakh of population has been showing a steady increase from Rs. 28.6 crore in 2002-03 to Rs 93.40 crore which is a threefold increase.

Thus total expenditure in Assam has shown a rising trend, which is very much in consonance with the rise in GSDP. Total expenditure has maintained a more or less steady percentage to Assam's GSDP but compared to the population growth rate, it increased at a much faster rate.

While increasing public expenditure is a necessity in a growing economy, it is equally important to see whether expenditure has been moving towards fulfilling the developmental goals of the economy. For this reason, it is important to have a detailed look at the various components of total expenditure and see how they have changed in the last ten years, which is the period of analysis of this study. This would shed light not only on whether the actual developmental goals have been achieved by increasing public expenditure, but also give directions for future allocation of resources in the economy.

2.3. COMPONENTS OF TOTAL EXPENDITURE

Total expenditure of the state has three main components. They are revenue expenditure, capital expenditure and disbursement of loans and advances. Revenue expenditure is required to maintain the current level of services and payment for past obligations and as such does not result in any addition to state's physical assets or financial claims. Capital expenditure, on the other hand, includes expenditure made on various physical assets as well as on financial claims, and to that extent is regarded as being productive compared to revenue expenditure.

As seen from Table 2.1, of these three components, revenue expenditure is the major expenditure accounting for nearly 90 per cent of the total expenditure of the state for the entire ten year period. A slight fall in the share of the revenue expenditure was observed from 2005-06 to 2009-10, but after that share of revenue expenditure has once again increased. The share of capital outlay in total expenditure has slowly been increasing from 6.53 per cent in 2002-03 to 14.21 per cent 2008-09 and again fell to 8.61 per cent in 2011-12. The share of the third component, i.e. disbursement of loans and advances is minimal and accounted for approximately 1 per cent of the total expenditure during the entire period of study.

In terms of absolute value, all three components of total expenditure have been increasing over the years. Revenue expenditure has been increasing over the years, with a CAGR of 15.75%, but the growth has not been even. The annual growth rate of revenue expenditure was less than 10 per cent in four years viz. 2002-03, 2005-06, 2006-07 and 2010-11. However, exceptionally high growth of revenue expenditure occurred in 2009-10 when it increased from Rs 14243.33 crore in 2008-09 to Rs 21232.2 crore in 2009-10, recording a growth of 49 per cent.

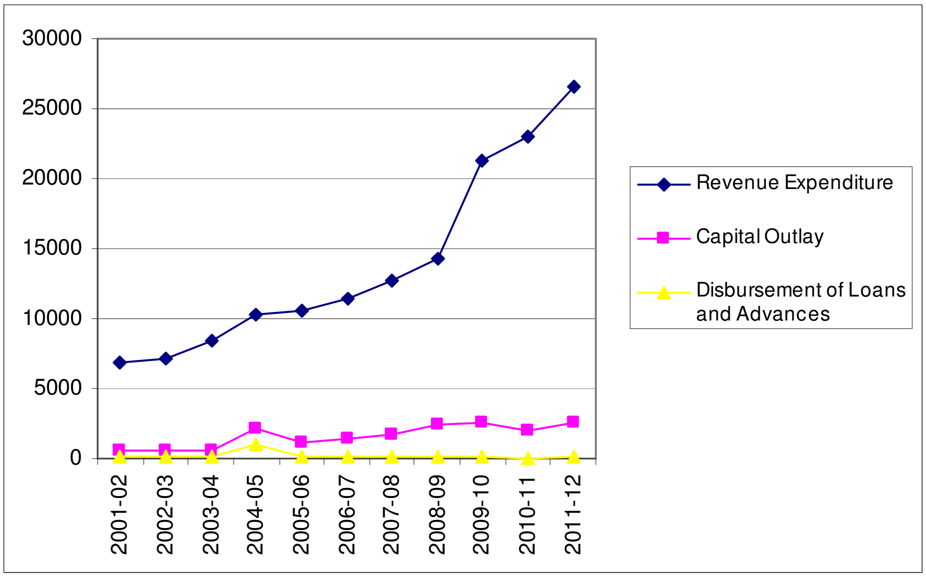
Capital outlay on the other hand increased from Rs 505.53 crore in 2002-03 to Rs 2506.01 crore in 2011-12, recording a CAGR of 19.45 per cent. It share in the total expenditure was highest in 2004-05 when it constituted 16.29 per cent and then in 2008-09 when its share in was 14.2 per cent of the total expenditure. Otherwise, capital outlays' share remained between 6 to 12 per cent of the total expenditure.

Disbursement of loans and advances had the lowest share in the total expenditure accounting for less than 1 per cent of it for almost all the years. The CAGR of this component was -4.32 per cent. Disbursement of loans and advances was Rs 974 crore in 2004-05, the highest in the entire period of study.

The trend of growth the three components of total expenditure are shown in figure 2.1. Clearly, revenue expenditure takes the lion's share and also exhibits a reasonably high growth rate.

Figure 2.1

Trend of the different components of total expenditure



To sum up, revenue expenditure forms the bulk of public expenditure - a feature which is common to most Indian states. The trend of total expenditure is therefore, largely dictated by the trend of revenue expenditure and this could possibly explain the exceptional increase in total expenditure in 2009-10 which also saw a marked rise in revenue expenditure in the same period.

At this point, it needs to be mentioned that in India, total expenditure is also classified in another way, viz. as plan expenditure and non-plan expenditure. Each of these types of expenditure can be further discussed under revenue and capital accounts along with their respective sub-heads. The following sections examine the various components of total expenditure and try to identify whether the developmental goals of the state are being met by the existing pattern of public expenditure.

2.4. REVENUE EXPENDITURE

Revenue expenditure constituted 91.09 per cent of the total expenditure of the state in 2011-12, thereby forming the bulk of the state's expenses. Its share had remained above 85 per cent for the entire ten year period, excepting in 2004-05, when it constituted a 76.43 per cent of the state's total expenditure. In this context, it is important to note that, this form of expenditure is not only recurring in nature, its rate of growth (as evident from the CAGR) of 15.8 per cent p.a. exceeds the 1.58 per cent growth of population as well as 11.27 per cent CAGR of Assam's GSDP. Therefore, it is important to understand whether this expenditure has been expended for developmental or non -developmental purposes. For this, it would be instructive to look at the different components of revenue expenditure.

Revenue expenditure has four main components viz. general services, social services, economic services and grant-in-aid. General services include the following components, viz. organs of state (i.e. state legislature, governor, council of ministers, administration of justice, plain areas, hill areas and elections), fiscal services (collection of taxes and duties and other fiscal services), interest payments and servicing of debt, administrative services and pensions. Social services include education, sports, art and culture, medical, family plan, public health, sanitation and others (such as urban development, welfare of Schedule Caste, Schedule Tribe and Other Backward Caste, labour welfare, social security and welfare, nutrition). Economic services include Agriculture and Allied Activities, Rural Development, Special Area Programme, Irrigation and Flood Control, Energy, Industry and Minerals, Transport and Communication, General Economic Services and Science, Technology and Environment.

Although revenue expenditure does not add to the physical assets or financial claims of the state, yet it is not always regarded as being unproductive in nature. Of the three components of revenue expenditure, general services are considered to be of non-developmental nature whereas the social and economic services have an aspect of development associated with it as they are aimed at enhancing social and economic infrastructure in the state.

Table 2.2
Revenue Expenditure and its Components

Years	General Services	Social Services	Economic Services	Grant in Aid	Total
2001-02	2925.52(42.73)	2701.62(39.46)	1215.21(17.75)	3.89(0.06)	6846.24
2002-03	3112.2(43.76)	2898.01(40.75)	1094.75(15.39)	7.54(0.11)	7112.5
2003-04	3529.12(41.77)	3361.49(39.78)	1546.83(18.31)	12.35(0.15)	8449.79
2004-05	3688.9(36.06)	4262.43(41.67)	2264.7(22.14)	13.11(0.13)	10229.14
2005-06	4201.61(39.88)	3987.1(37.84)	2336.71(22.18)	10.89(0.10)	10536.31
2006-07	4302.36(37.55)	4477.48(39.08)	2668.89(23.30)	7.8(0.07)	11456.53
2007-08	4924.42(38.64)	4956.75(38.89)	2854.05(22.39)	8.94(0.07)	12744.16
2008-09	5365.82(37.67)	5844.36(41.03)	2885.64(20.26)	147.51(1.04)	14243.33
2009-10	8379.57(39.47)	8543.21(40.24)	3759.52(17.71)	549.9 (2.59)	21232.2
2010-11	7766.42(33.84)	10158.97(44.26)	4668.86(20.34)	357.57(1.56)	22951.82
2011-12	9743.68(36.73)	11465.78(43.22)	4663.27(17.58)	655.82(2.47)	26528.55
CAGR (in %)	**13.52**	**16.51**	**17.47**	**64.24**	

Figures in parenthesis represent percentage of total expenditure.

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

The pattern of revenue expenditure and its components is shown in table 2. 2. From the above table, it can be seen that expenditure on general services in total increased from Rs 3112.2 crore in 2002-03 to Rs 9743.68 crore in 2011-12, showing a CAGR of 13.52 per cent, on social services from Rs 2898.01 crore in 2002-03 to Rs 11465.8 crore in 2011-12 with a CAGR of 16.51 per cent, on economic services from Rs 1094.75 crore in 2002-03 to 4663.27 crore in 2011-12 with a CAGR of 17.47 per cent. The expenditure on grants-in-aid increased from Rs 7.54 crore in 2002-03 to Rs 655.82 crore in 2011-12 showing a massive CAGR of 64.24 per cent. Leaving aside grants-in-aid, the rate of growth of economic services was the highest in this period followed by social services and then general services.

In term of the shares of each component, it was seen that in 2002-03, general services accounted for 43.76 per cent of the total expenditure followed by social services (40.75 per cent), economic services (15.39 per cent) and grants-in-aid (0.11 per cent). In 2011-12, a shift in the share of the components was observed when social services constituted the largest share (43.22 per cent) followed by general services (36.73 per cent), economic services (17.58 per cent) and then grant-in-aid (2.47 per cent).

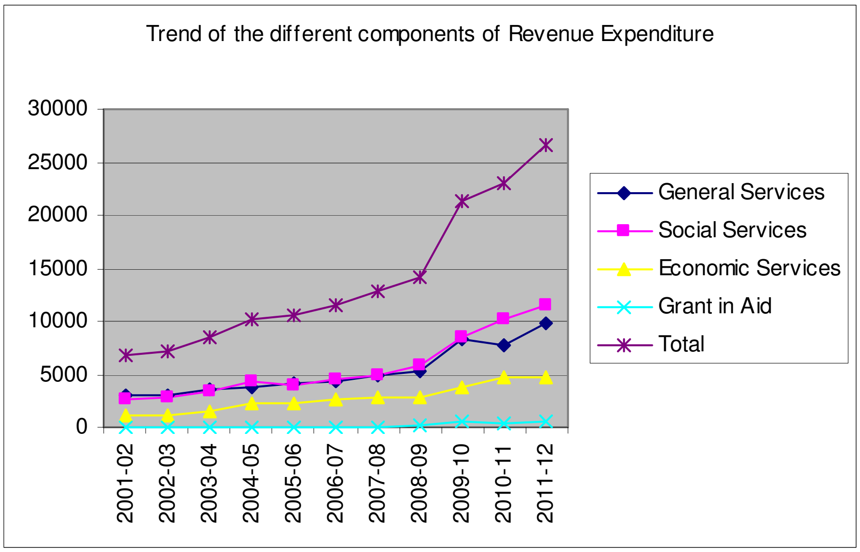
If we look at developmental expenditure (i.e. expenditure on social and economic services), it was seen that developmental expenditure constituted 56.13 per cent of total expenditure in 2002-03 and its share gradually kept increasing to 60.79 per cent in 2011-12. This is a positive trend of the revenue expenditure in Assam. The growth of revenue expenditure and its different components in the ten year period of study is shown in figure 2.

From the following figure it can be seen that the rate of growth of revenue expenditure took a sharp rise in 2009-10 and similar increases were noted in the general services as well as social services. To understand the reason for this sharp rise, there is a need to look further into the constitutive parts of each of these services which is done in sections 2.4.1, 2.4.2 and 2.4.3.

We next look at the respective shares of each component of revenue expenditure. During this ten year period, it was found that the share of expenditure on general services fell from 43.76 per cent in 2002-03 to 36.73 per cent in 2011-12. Its share was the lowest of 33.84 per cent in 2010-12. The share of social services increased from 40.75 per cent in 2002-03 to 43.22 per cent in 2011-12, though its share was below 40 per cent between 2005-06 and 2007-08.

Figure2.2

Trend of different components of Revenue Expenditure



The share of economic services is lower than the first two categories. Its share in the total expenditure was 15.39 per cent in 2002-03 and increased to 17.58 per cent in 2011-12. However, between 2004-05 and 2008-09, economic services accounted for more than 20 per cent of the total revenue expenditure of the state.

To summarize, two positive features emerge from the analysis of revenue expenditure in Assam. First is that, a major part of the revenue expenditure in the state has been in the form of developmental expenditure, where the share of social services is greater than that of economic services. Secondly, non-developmental revenue expenditure, as indicated by the share of general services is gradually declining. A major increase in revenue expenditure occurred in 2009-10, which was likely due to the contribution to the general and social services components, which too increased in that year.

To get a clear picture of the expenditure pattern in the state, there is a need to look at a more disaggregated level and analyze the share and growth of the various sub heads of each of these components of revenue expenditure. Section 2.4.1 looks at the components of general service, section 2.4.2 at the composition of social services and section 2.4.3 analyses the components of economic services.

2.4.1. EXPENDITURE ON GENERAL SERVICES – TREND AND COMPOSITION

General services is composed of organs of state, fiscal services, interest payments and servicing of debt, administrative services and pensions. The first two components formed less than 8 per cent of the revenue expenditure under general services in 2011-12 and their shares had remained more or less similar in the preceding years. Table 2.3 gives the breakup of the expenditure incurred on the different components of general services from 2002-03 to 2011-12.

Among the dominant components of revenue expenditure on general services, it is seen that expenditure on interest payments and servicing of debt servicing grew from Rs 1316.74 crores in 2002-03 to Rs 2237.38 crores in 2011-12, registering a CAGR of 4.93 per cent. While in absolute numbers, these expenditures grew slowly, its shares in total expenditure has been coming down over the years. This can be partly attributed to the fact that Assam has been place in the category of special states since 1991whereby the state receives 10 percent of the central plan funds as loans and the rest of the 90 percent as grants resulting in a significant decline in Central government loan. As an incentive under the Debt Consolidation and Reform Facility (DCRF) of the Twelfth Finance Commission, Government of Assam received debt waiver of Rs.105.41 crore for the year 2005-06 in 2007-08, Rs.105.41 crore for the year 2006-07 in 2008-09 and Rs.105.41 crore for the year 2007-08 in 2009-10. The gain from different incentive schemes of the central government has also contributed towards the moderation of interest liabilities for the state.

Table 2.3

Revenue Expenditure of Government of Assam on General Services

(in crs)

Year	Organs of State*	Fiscal Services#	Interest payments and Servicing of Debt	Administrative Services	Pensions	Total
2002-03	58.2(1.87)	101.88 (3.27)	1316.74 (42.31)	858.47 (27.58)	776.86(24.96)	3112.19
2003-04	97.01 (2.75)	101.86 (2.89)	154.21 (43.70)	878.84 (24.90)	909.31 (25.77)	3529.12
2004-05	98.00 (2.66)	161.60 (4.38)	144.75 (39.24)	91.86 (24.90)	1063.14 (28.82)	3688.91
2005-06	113.73 (2.71)	120.35 (2.86)	1654.12 (39.37)	131.04 (31.19)	1011.99 (24.09)	4201.61
2006-07	85.80 (1.99)	135.38 (3.15)	1691.67 (39.32)	1211.12 (28.15)	1178.39 (27.39)	4302.36
2007-08	100.54 (2.04)	134.97 (2.74)	1716.24 (34.78)	1631.50 (33.13)	1340.68 (27.23)	4924.42
2008-09	177.43 (3.30)	161.92 (3.02)	1701.33 (31.73)	1882.35 (35.10)	1437.37 (21.71)	5361.33
2009-10	153.45 (1.84)	187.31 (2.24)	1940.58 (23.22)	2893.14 (34.62)	1769.28 (21.17)	8356.86
2010-11	318.78 (4.12)	252.28 (3.26)	2032.12 (26.27)	2681.33 (34.66)	2451.98 (31.69)	7736.49
2011-12	344.69 (3.25)	465.86 (4.39)	2237.38 (21.10)	4764.30 (44.92)	2793.57 (26.34)	10605.8
CAGR			**4.93**	**20.97**		

Note:
* 1. State Legislature 2. Governor 3. Council of Minister 4. Administration of Justice, Plain areas 5. Administration of Justice, Hill Areas 6.Elections
\# Collection of taxes and duties and other fiscal services
Figures in parenthesis represent percentage of total expenditure on general services.

Source: Directorate of Economics and Statistics, 'Statistical Handbook, Assam'. Various issues (2002-2012)

Expenditure on administrative services has been on the rise, as anticipated in a growing economy. It grew from Rs 858.47 crores in 2002-03 to Rs 4764.30 crores in 2011-12, thereby registering a CAGR of 20.97 per cent. The highest growth was registered in 2011-12 when the expenditure increased from Rs 268133 lakhs in 2010-11 to Rs 476430 lakhs in 2011-12, a rise of 77.68 per cent. This was mainly on account of increase in expenditure on criminal investigation and vigilance and district police. In terms of the share, administrative services constituted 27.58 per cent of the total general services expenditure in 2002-03. Its share however increased to over 33 per cent from 2007-08 onwards and was as high as 44.92 per cent in 2011-12.

Pensions, the third major component of expenditure on general services, grew from Rs 77686 lakhs in 2002-03 to Rs 279357 lakhs in 2011-12, registering a growth 15.28 per cent over the ten years period. Pensions started showing a particularly high annual growth from 2009-10, the year from which pay revisions according to the Sixth Pay Commission came into effect in the state.

Thus, analyzing the various components of the expenditure on general services, it is seen that administrative services and pensions formed the major sources of expenditure. In 2002-03, these two categories accounted for 52.54 per cent while interest payments and debt servicing alone accounted for 42.31per cent of the revenue expenditure on general services. The picture has changed over the ten year period as the share of interest payment and servicing of debt declined to 21.10 per cent and the share of administrative services and pensions increased to 71.26 per cent of the revenue expenditure in 2011-12. A positive feature is that the share of interest payments and debt servicing is on the decline, thereby reducing the debt burden on the government.

4.2 EXPENDITURE ON SOCIAL AND COMMUNITY SERVICES – TREND AND COMPOSITION

We next look at the various components of the revenue expenditure under social and community services. There are three main components of this head, viz. education, sports, art and culture, medical, family plan, public health and sanitation and others which include expenditure on urban development, welfare of SC, ST, and OBC, labour welfare, social security and welfare and nutrition.

Table 2.4 reveals that expenditure on education, sports, art and culture increased from Rs 199706 lakhs in 2002-03 to Rs 718919 lakhs in 2011-12, registering a CAGR of 15.29 per cent. The increase in expenditure has been steady, although from 2009-10 onwards, the annual growth rates have been higher. This has been mainly on account of the increase in expenditure under general education where expenditure on mid-day meal scheme, financial assistance to venture lower primary/upper primary and assistance to universities increased.

Table 2.4
Revenue Expenditure of Government of Assam on Social and Community Services

(in crore)

Year	Education, Sports, Art and Culture	Medical, Family Plan, Public Health and Sanitation	Others*	Total
2002-03	1997.06 (68.91)	519.64 (17.93)	381.31 (13.16)	2898.01
2003-04	2362.48 (70.28)	564.38 (16.79)	434.63 (12.93)	3361.49
2004-05	2502.51 (58.71)	823.98 (19.33)	935.93 (21.96)	4262.42
2005-06	2515.60 (63.09)	821.23 (20.60)	650.27 (16.31)	3987.10
2006-07	2751.12 (61.44)	897.28 (20.04)	829.08 (18.52)	4477.48
2007-08	3047.05 (61.47)	964.41 (19.46)	945.29 (19.07)	4956.75
2008-09	3291.38 (58.96)	1236.24 (22.14)	1054.95 (18.90)	5582.57
2009-10	4091.94 (51.85)	1900.86 (24.09)	1898.48 (24.06)	7891.28
2010-11	5705.47 (63.30)	1894.65 (21.02)	1413.83 (15.68)	9013.95
2011-12 (R.E)	7189.19 (57.32)	2752.78 (21.95)	2601.06 (20.74)	12543.03
CAGR	**15.29%**	**20.35 %**	**23.78%**	

Figures in parentheses represent percentage of these variables to total

*includes expenditure on urban development, welfare of SC, ST and OBCs, labour welfare, social security and welfare, nutrition

Source: Directorate of Economics and Statistics, 'Statistical Handbook, Assam'. Various issues (2002- 2012)

Expenditure on medical, family plan sub health and sanitation increased from Rs 51964 lakhs in 2002-03 to Rs 275278 lakhs in 2011-12, with a CAGR of 20.35 *per cent*. Like the first component, the increase under this head too has been steady with a marginal fall in expenditure in 2005-06 and 2010-11. Massive increase in expenditure under this head occurred in 2004-05, 2009-10 and 2011-12. In 2009-10, this was due to increase expenditure against districts and headquarters establishments and primary health centres under Guwahati Medical College, Regional Dental College, Guwahati, Barpeta, Tezpur and Jorhat Medical Colleges.

Under the third head of social and community services, revenue expenditure increased from Rs 38131 lakhs in 2002-03 to Rs 260106 lakhs in 2011-12 with a CAGR of 23.78 per cent. This expenditure saw a sharp rise in 2004-05 when it increased to Rs 93593 lakhs as against Rs 43463 in 2003-04. Likewise a major increased occurred in 2009-10 due to transfer of funds under social welfare and nutrition in respect of National Calamity Contingency Fund granted by the Government of India during 2008-09 to Calamity Relief Fund during 2009-10. Similarly, high increase in expenditure took place in 2011-12 due to the Special Nutrition Programme as well as increase in expenditure under welfare of SC and ST.

Expenditure on education, sports, art and culture had the largest share of the expenditure in social services, followed by that of expenditure on medical, family plan sub health and sanitation and then others. However, over the years, the share of the first component has come down from 68.91 per cent of the total expenditure in 2002-03 to 57.32 per cent in 2011-12. The share of medical, family plan, public health and sanitation has increased from 17.93 per cent of the total expenditure in 2002-03 to 21.95 per cent in 2011-12 while that of the third component has also grown from 13.6 per cent of the total expenditure in 2002-03 to 20.74 per cent in 2011-12. Thus, there has been a modest change in the composition of the expenditure on social services in the ten year period of study.

2.4.2 EXPENDITURE ON ECONOMIC SERVICES – TREND AND COMPOSITION

Economic services include a number of areas, viz. Agriculture and Allied Activities, Rural Development, Special Area Programme, Irrigation and Flood Control, Energy, Industry and Minerals, Transport & Communication, General Economic Services and

Science, Technology and Environment. Table 2.5 gives the breakup of expenditure on these components of economic services for the period of study, i.e. from 2002-03 to 2011-12.

Table 2.5

Expenditure on Economic Services

Years	Agri & Allied Activities	Rural Dev.	Special Area Prog.	Irrigation and Flood Control	Energy	Industry and Mineral	Transport & Comm	General Economic Services	Science, Technology and Environment	Total
2002-03	362.21	218.96	9.41	128.78	5.08	87.17	222.38	0.97	59.79	1094.75
2003-04	478.14	264.62	21.24	177.18	142.02	96.47	246.91	1.39	118.86	1546.83
2004-05	487.91	436.16	19.98	207.84	312.25	129.56	309.00	3.24	358.76	2264.70
2005-06	547.79	376.83	21.77	218.66	322.59	133.90	346.62	1.72	366.83	2336.71
2006-07	613.58	561.36	27.01	269.22	290.94	112.74	386.65	2.01	405.38	2668.89
2007-08	672.32	785.76	53.22	292.05	30.82	177.92	503.72	5.68	332.56	2854.05
2008-09	896.96	673.20	105.96	310.77	0.08	185.03	448.08	18.94	246.62	2885.64
2009-10	1169.49	813.49	211.18	381.06	11.81	247.23	566.45	18.31	340.50	3759.52
2010-11	1628.37	939.54	123.79	529.06	28.53	381.89	805.05	15.13	217.50	4668.86
2011-12	1480.29	852.04	185.60	581.02	101.92	380.21	805.48	13.02	263.69	4663.27
CAGR	**16.93**	**16.29**	**39.27**	**18-22**	**39.54**	**17.78**	**15.37**	**33.44**	**17.92**	**17.47**

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'.

Various issues (2002-2012)

From the above table, it can be seen that in 2011-12, agriculture and allied activities accounted for the largest share (31.74 per cent) of revenue expenditure on economic services, followed by rural development (18.27 per cent), transport and communication (17.27 per cent) and irrigation and flood control (12.46 per cent). These four sectors accounted for almost 80 per cent of the total revenue expenditure on economic services, implying the priority accorded to the agrarian economy of the state. Other than the three years which saw unprecedented rise in the expenditure on energy sector, the relative shares of the nine sectors under economic services have remained more or less unchanged over the study period.

In terms of the CAGR, it is seen that excepting three sectors, the CAGR of expenditure of the other six sectors have been similar to the CAGR of the revenue expenditure of economic services as a whole. The three sectors which have recorded high growth rates were special areas programme, energy and general economic services. Expenditure on Special areas programme has almost doubled every year, compared to its preceding year during the period 2007-08 to 2009-10.

Revenue expenditure on the energy sector revealed interesting trends. From a low figure of Rs. 5.08 crores in 2002-03, revenue expenditure in the energy sector saw a massive rise to Rs. 142.02 crores the very next year. Expenditure on this sector was high till 2006-07, and then, again fell back to low levels till 2010-11. Expenditure again rose to a high of Rs. 101.98 crores. The very high revenue expenditure on the energy sector came during the time when power sector reforms were introduced in the state, and could be on account of the deals that were formulated for the reforms.

To sum up the discussion on revenue expenditure in the state, it was seen that this expenditure formed the major part of the total expenditure of the state government. The increase in total expenditure in two particular years, viz. in 2004-05 and 2009-10 was on account of the increase in expenditure on economic services and general services respectively. In 2004-05, reforms in the power sector were initiated and that led to a massive rise in revenue expenditure in that particular year, and also continued for the next two years. The increase in expenditure in 2009-10 was on account of the pay revision which resulted in a hike in salaries, wages and pensions. Other than these two years, revenue expenditure has been growing modestly, with a major part of it going towards developmental needs.

2.5 EXPENDITURE ON CAPITAL OUTLAY - ITS COMPONENTS

This section discusses the different aspects concerned with the second component of total expenditure, viz. capital outlays. As seen from Table 2.1, expenditure on capital outlays in Assam has increased from Rs. 506 crores to Rs. 2506 crores in 2011-12, registering a CAGR of 19.45% which is higher than that of revenue expenditure as well as total expenditure.

Table 2.6

Composition of Capital Outlay of Government of Assam (in crs)

Year	General Services	Social Services	Economic Services	Total Capital Outlay
2002-03	11.25 (2.23)	21.95 (4.34)	472.33 (93.43)	505.53
2003-04	17.63 (2.83)	39.47 (6.35)	564.90 (90.82)	622.00
2004-05	23.20 (1.06)	47.40 (2.17)	2109.93 (96.76)	2180.53
2005-06	10.41 (0.96)	45.07 (4.15)	1029.84 (94.89)	1085.32
2006-07	23.17 (1.59)	155.13 (10.68)	1274.68 (87.73)	1452.98
2007-08	43.28 (2.56)	265.61 (15.73)	1379.22 (81.70)	1688.11
2008-09	36.47 (1.54)	496.99 (20.94)	1839.55 (77.52)	2373.01
2009-10	74.82 (2.85)	452.22 (17.20)	2010.31 (79.96)	2629.35
2010-11	53.58 (2.68)	176.02 (8.80)	1771.29 (88.53)	2000.89
2011-12 (RE)	68.49 (2.73)	162.00 (6.46)	2275.52 (90.80)	2506.01
CAGR	22.22	24.86	19.08	19.46

Figures in parentheses represent percentage of these variables to total

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

Although the growth rate of capital outlay has been high, yet in terms of annual growth rates, the growth has been uneven. Growth rate was exceptionally higher in 2004-05 when expenditure increased to Rs. 2181 crores from Rs. 622 in 2003-04. Likewise a high growth of 40.58% was seen in 2008-09 as well. Growth rates were negative in two years, though not of very marked nature.

Like revenue expenditure, expenditure on capital outlays too is divided into general, social and economic services. Table 2.6 gives the breakup of expenditure on capital outlays and its various components over the ten year period of study.

We first look at the components of expenditure on capital outlays as a whole. Over the ten year period, it is seen that expenditure on general services increased from Rs 11.25 crore in 2002-03 to Rs 68.49 crore in 2011-112, registering a CAGR of 22.22 per cent. Capital outlays on social services increased from Rs 21.95 crore in 2002-03 to Rs 162 crore in 2011-12, at a CAGR of 24.86 per cent and on economic services from Rs 472.33 crore in 2002-03 to Rs 2275.52 crore in 2011-12 at a CAGR of 19.08 per cent. Thus expenditure or capital outlays grew at the highest rate for social services followed by that of general services.

Although the CAGR of the economic services was lower than that of the other two services, yet the share of economic services was the highest accounting for over 90.8 per cent of the expenditure on capital outlays followed by that of social services (6.46 per cent) and general services (2.73 per cent). The respective shares have more or less remain unchanged over the ten years period of study, except between 2006-07 to 2009-10 when share of social services was slightly higher and constituted between 10 to 20 per cent of total expenditure on capital outlays. Share of economic services was higher in 2004-05 accounting for 96.76 per cent total expenditure on capital outlays due to rise in expenditure on power sector in that particular year.

We next focus at each component of capital outlay individually. General services, though having the smallest share, saw an uneven rise during the ten year period of the study. There was more than 100 per cent growth in capital outlays on general services in 2006-07 and 2009-10 on one hand, whereas there was a fall in expenditure in 2005-06 and 2010-11. In case of social sector, there was a massive increase in capital outlays, from Rs 45.07 crore in 2005-06 to Rs 115.13 crore in 2006-07 (an annual increase of 244 per cent), of which Rs 149 crore was spent on water supply, sanitation , housing and urban development.

The major component of expenditure on capital outlays, i.e. economic services too showed fluctuation with an extremely high growth of 273.5 per cent in 2004-05 and negative growth in two years.

We next look at the details of the expenditure on capital outlays for developmental purposes, viz. the expenditure on the social and economic services which constitute over 95 per cent of the expenditure on capital outlays.

In case of the social sector, it is seen that of the various components, the share of water supply, sanitation, housing and urban development has always been the highest in the entire ten year period, and from 2006-07 onwards, it has the lion's share of having more than 90 per cent of the total expenditure on capital outlays in the social services sector. In fact, 2006-07 saw a phenomenal rise of 398.3 per cent p.a. in the expenditure from Rs. 30 crores in 2005-06 to Rs. 149.49 crores.

Health and Family welfare had the second largest share in the expenditure on capital outlays in the social sector. In 2003-04, the share of this component was in fact the highest among all the components of the social services sector. Till 2005-06, Health and Family welfare had accounted for over 26 per cent of the total expenditure on capital outlays in the social sector. However, from 2006-07 onwards, the focus of the expenditure seemed to concentrate only on water supply, sanitation, housing and urban development. The share of health and family welfare was as low as below 1 per cent in 2008-09 and in the years after 2006-07, it remained less than 10 per cent.

The share of education, sports, art and culture in the expenditure on capital outlays in the social services has been less than 5 per cent in the entire ten year period, except in 2005-06. A disappointing pattern is observed in the expenditure on this sector, viz. it has a negative CAGR of 15.5 per cent and after 2009-10, education, sports, art and culture did not get even Rs. 1 crore for expenditure on capital outlays.

To sum up, it has been seen that expenditure on capital outlay in social services concentrated chiefly on water supply, sanitation, housing and urban development, so much that even health and education received low priority. The nature of this type of expenditure definitely has an urban bias, and to that extent, there is a need to bring in balance in the pattern of expenditure on capital outlays in the social services.

We next move on to discuss the pattern of expenditure on capital outlays for the economic services. Other than the energy sector, the CAGR of capital expenditure in all the components of economic services have shown a very high growth rate, which is indeed a positive feature. As many as three components had a high share in the expenditure on capital outlays of the economic services, viz. Special Area Programmes, Irrigation and Flood Control, Transport. Even the energy sector had a sizeable share of the total expenditure on capital outlays in the social services till 2008-09, and particularly in 2004-05 when it alone accounted for 65.13 per cent of the expenditure on capital outlays in the economic services. These four sectors accounted for over 90 per cent of the total expenditure on capital outlays in the economic services during the ten year period of study.

Expenditure on capital outlays in Industry and Minerals has grown significantly in this period, but its share has always remained less than 5 per cent of expenditure on capital outlays in the economic services. This points out to the need of direction of appropriate resources towards industrial development in the state.

To sum up, all the three components of expenditure on capital outlays displayed a CAGR of over 19 per cent and almost the entire amount of the expenditure (approximately 97 per cent) was development expenditure which is a positive sign. However, there appears to be an urban bias in the expenditure of the social services, whereas, the expenditure appears to be balanced in case of the economic services.

2.6 ANALYSIS OF PLAN AND NON-PLAN EXPENDITURE IN ASSAM

Total expenditure is also classified in another way, viz. under plan and non plan heads. Accordingly, revenue expenditure and expenditure on capital outlay, along with all their components can be classified as being a part of either plan expenditure or non plan expenditure. In this section, we first analyze the trend of plan and non plan expenditure as a whole in Assam for the period 2002-03 to 2011-12. At this point, it needs to be mentioned that we shall be concentrating only on the revenue expenditure (comprising only of general services, social services and economic services) and expenditure on capital outlays under plan and non-plan heads and shall not take into account the expenditure on loans and disbursements and grants-in-aid.

Table 2.7 gives the breakup of total expenditure of the Government of Assam during the concerned period of study into plan and non-plan heads. From the table, it can be seen that non-plan expenditure increased from Rs. 5832.72 crores in 2002-03 to Rs. 19459.64 crores in 2011-12 registering a CAGR of 14.34 per cent while plan expenditure increased from Rs. 1786.77 crores in 2002-03 to Rs. 8919.1 crores in 2011-12 registering a CAGR of 19.55 per cent. The share of non-plan expenditure has always been higher, constituting over 70 per cent of the total expenditure in all the years excepting in 2008-09 and 2011-12, when it was marginally lower than 70 per cent of the total expenditure. In terms of annual rates of growth, it has been seen that both plan and non-plan expenditure saw a massive growth in 2004-05, the year in which total expenditure in the state as a whole had increased. Plan expenditure saw a high annual rate of growth in 2008-09, whereas non-plan expenditure had a high annual growth rate in the next year, i.e. in 2009-10.

Table 2.7

Share and Growth Rates of Non-plan and Plan expenditure in Assam

(in crore)

Year	Total Non Plan Expenditure	Total Plan Expenditure	Total Expenditure	Growth rate of non plan expenditure	Growth rate of plan expenditure	Share of non plan expenditure to GSDP	Share of plan expenditure to GSDP
2002-03	5823.72 (76.52)	1786.77 (23.48)	7610.49			13.20	4.05
2003-04	7062.94 (77.96)	1996.5 (22.04)	9059.44	21.28	11.74	14.69	4.15
2004-05	9599.21 (77.43)	2797.35 (22.57)	12396.56	35.91	40.11	17.97	5.24
2005-06	8468.57 (72.94)	3142.17 (27.06)	11610.74	-11.78	12.33	14.26	5.29
2006-07	9836.08 (76.24)	3065.63 (23.76)	12901.71	16.15	-2.44	15.20	4.74
2007-08	10885.12 (75.47)	3538.21 (25.43)	14423.33	10.67	15.42	15.32	4.98
2008-09	11072.02 (67.23)	5396.81 (32.77)	16468.83	1.72	52.53	13.63	6.65
2009-10	16593.76 (71.18)	6717.89 (28.82)	23311.65	49.87	24.48	17.94	7.26
2010-11	17609.21 (71.60)	6985.93 (28.40)	24595.14	6.12	3.99	16.93	6.72
2011-12	19459.64 (68.57)	8919.1 (31.43)	28378.74	10.51	27.69	16.86	7.73
CAGR	**14.34%**	**19.55%**				**2.7583**	**7.4448**

Figures in the parentheses represent percentage of total expenditure

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

As a share of the state's GSDP, it is seen that non-plan expenditure increased from 13.80 per cent in 2002-03 to 16.86 per cent in 2011-12. Plan expenditure, on the other hand was 4.05 per cent of the state's GSDP in 2002-03 and gradually increased to 7.73% in 2011-12. The rise in the share of both plan and non-plan expenditure to the state's GSDP is explained by the fact that both plan and non-plan expenditure grew at a higher rate than Assam's GSDP of 11.2 per cent.

Having examined the trends of plan and non-plan expenditure in the state, we next we take up the revenue expenditure part, and examine the pattern of expenditure under plan and non-plan heads. Similar analysis is done for the expenditure on capital outlays.

2.6.1 Plan and Non-Plan Revenue Expenditure

Table 2.8 gives the breakup of revenue expenditure and its different components under plan and non-plan heads.

Revenue expenditure under plan head increased from Rs 1332.21 crore in 2002-03 to Rs 6487.76 crore in 2011-12, registering a CAGR of 19.23 per cent while non plan revenue expenditure increased from Rs 5772.75 crore in 2002-03 to Rs 19384.97 crore in 2011-12, registering a CAGR of 14.41 per cent. Non plan revenue expenditure has always been higher than plan revenue expenditure, though the CAGR of plan revenue expenditure has been higher at 19.23 per cent compared to the CAGR of non-plan revenue expenditure at 14.41 per cent. If we observe the annual growth rates, it can be seen that the growth rate of plan revenue expenditure was negative in 2006-07. However, on the other hand, the annual growth rate of non plan revenue expenditure has been positive but having wide variations. Annual growth rate was highest in 2009-10 when non plan revenue expenditure increased from Rs 11132.67 crore in 2008-09 to Rs 17063.29 crore in 2009-10, registering a growth of 53.27 per cent. The increase in non plan revenue expenditure was mainly due to increase in expenditure under administrative general services, pensions and miscellaneous general services and education

Table 2.8

Revenue Expenditure under Plan and Non Plan Head

Year	Non Plan Expenditure				Plan Expenditure				Non plan to total revenue expenditure	Plan to total revenue expenditure
	General Services	*Social Services*	*Economic Services*	***Total***	*General Services*	*Social Services*	*Economic Services*	***Total***		
2002-03	3099.17	1974.48	699.1	5772.75	13.03	923.53	395.65	1332.21	81.25	18.75
2003-04	3512.28	2467.61	1028.32	7008.21	16.84	893.88	518.51	1429.23	83.06	16.94
2004-05	3679.25	3231.85	1283.55	8194.65	9.65	1030.58	981.15	2021.38	80.21	19.79
2005-06	3995.5	2896.93	1503.98	8396.41	206.11	1090.17	832.73	2129.01	79.77	20.23
2006-07	4298.76	3724.83	1762.63	9786.22	3.6	752.65	906.26	1662.51	85.48	14.52
2007-08	4920.99	3997.95	1748.9	10667.84	3.43	958.8	1105.15	2067.38	83.77	16.23
2008-09	5149.36	4348.32	1487.48	10985.16	216.46	1496.04	1398.16	3110.66	77.93	22.07
2009-10	8334.69	6324.69	1854.01	16513.39	44.88	2218.52	1905.51	4168.91	79.84	20.16
2010-11	7731.32	7052.44	2754.53	17538.29	35.1	3106.53	1914.33	5055.96	77.62	22.38
2011-12	9239.47	7402.35	2743.15	19384.97	504.21	4063.43	1920.12	6487.76	74.92	25.08
CAGR	12.90	15.82	16.40	**14.41**	50.11	17.89	19.19	**19.23**		

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'.Various issues (2002-2012)

We next look at the revenue expenditure on the different components under the plan and non plan heads. Under the plan head, it was observed it was observed that expenditure on general services increased from Rs 13.03 crore in 2002-03 to Rs 504.21 crore in 2011-12. This increase in expenditure was uneven with sudden jumps in expenditure taking place in 2005-06 (Rs 206.11 crore), 2008-09 (Rs 216.46 crore) and 2011-12 (Rs 504.21 crore). In case of social services, plan expenditure was Rs 923.53 crore in 2002-03 and increased to Rs 4063.43 crore in 2011-12. The growth of expenditure in social services increased steadily from 2007-08 onwards till 2011-12. For economic services, plan expenditure increased from Rs 395.65 crore in 2002-03 to Rs 1920.12 crore in 2011-12, registering a particularly high annual growth of 89.22 per cent in 2004-05.

The share of expenditure of different components under plan head reveal that general services accounted for less than 2 per cent of the total plan expenditure but had a higher share in the three years mentioned earlier. However, plan expenditure under general services did not exceed 10 per cent of the total plan expenditure. The share of plan expenditure was highest in the social services component constituting over 60 per cent of the total plan expenditure. Likewise, plan expenditure on economic services constituted between 29 to 55 per cent of the total plan expenditure. The share of this category was highest (54.51 per cent) in 2006-07 but fell gradually and was 29.6 per cent in the total plan revenue expenditure in 2011-12. Thus plan expenditure under social and economic services constituted over 90 per cent of the total plan expenditure over the entire ten years period, signifying that development expenditure formed the major part of plan revenue expenditure.

Under the non plan head of the revenue expenditure, it was found that expenditure on general services increased from Rs 3099.17 crore in 2002-03 to Rs 9239.47 crore in 2011-12 with a CAGR of 12.9 per cent and social services from Rs 1974.48 crore in 2002-03 to Rs 9743.68 crore in 2011-12 (CAGR of 15.8 per cent). Expenditure on economic services increased from Rs 699.1 crore in 2002-03 to Rs 2743.2 crore in 2011-12 (CAGR of 16.4 per cent) and grant-in-aid from Rs 7.54 crore in 2002-03 to Rs 655.8 crore in 2011-12 (CAGR of 64.2 per cent). Thus, under the non plan head (excluding grant-in-aid), the growth of economic services was highest followed by social services and then general services.

In terms of the share of each component, it was seen that under the non plan head, general services had the largest share (53.6 per cent) in 2002-03, followed by social services (34.16 per cent) and economic services (12.87 per cent). The share of general services started falling over the years and in 2011-12, it accounted for 46.10 per cent of the total non plan expenditure. The share of social services increased to 36.94 per cent while that of economic services marginally increased to 13.69 per cent of the total non plan expenditure. Here too a shift in the composition of non plan expenditure is visible in the sense that developmental expenditure which constituted 46.25 per cent of the non plan revenue expenditure in 2002-03 increased to 50.63 per cent in 2011-12.

To summarize, as far as revenue expenditure was concerned, non plan revenue expenditure was consistently higher than plan revenue expenditure with non plan revenue expenditure accounting for almost 75 per cent of the total revenue expenditure. However, the growth of plan revenue expenditure was higher at 19.23 per cent p.a. than non plan revenue expenditure which showed a CAGR of 14.41 per cent during the period 2002-03 to 2011-12.

2.6.2 Expenditure on Capital Outlays Under Plan And Non Plan Heads

The expenditure on capital outlays under plan and non plan heads for the period from 2002-03 to 2011-12 is presented in table 11.

Table2.9

Expenditure on Capital Outlays under Plan and Non Plan Heads (in crs)

Year	**Non Plan Expenditure**				**Plan Expenditure**				**Non plan to total capital expenditure**	**Plan to total capital expenditure**
	General Services	***Social Services***	***Economic Services***	***Total***	***General Services***	***Social Services***	***Economic Services***	***Total***		
2002-03	3.35	7.18	40.44	50.97	7.9	14.77	431.89	454.56	10.08	89.92
2003-04	4.99	11.05	38.69	54.73	12.64	28.42	526.21	567.27	8.80	91.20
2004-05	5.2	12.22	1387.14	1404.56	18	35.18	722.79	775.97	64.41	35.59
2005-06	2.17	9.82	60.17	72.16	8.24	35.25	969.67	1013.16	6.65	93.35
2006-07	6.73	7.18	35.95	49.86	16.44	147.95	1238.73	1403.12	3.43	96.57
2007-08	19.36	11.67	186.25	217.28	23.92	253.64	1192.97	1470.53	12.87	87.13
2008-09	10.43	21.92	54.51	86.86	26.04	475.07	1785.04	2286.15	3.66	96.34
2009-10	5.44	16.87	58.06	80.37	69.38	435.35	2044.25	2548.98	3.06	96.94
2010-11	8.51	11.29	51.21	71.01	45.07	164.82	1720.08	1929.97	3.55	96.45
2011-12	7.06	11.51	56.1	74.67	61.43	150.49	2219.42	2431.34	2.98	97.02
CAGR	8.64	5.38	3.70	4.33	25.60	29.40	19.95	20.48		

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

Out of the total expenditure on capital outlay, it has been seen that plan expenditure has always occupied a larger share than non plan expenditure. Plan expenditure has been over 90 per cent of the total expenditure on capital outlays for most of the years, except in 2004-05 when it accounted for only 35.58 per cent of total capital outlays.

If we observe the trend of expenditure on capital outlays, it can be seen that non-plan expenditure increased from Rs 50.97 crore in 2002-03 to Rs 74.67 crore in 2011-12 with a CAGR of 4.33 per cent as against a CAGR of 20.48 per cent for plan expenditure on capital outlays. A phenomenal increase in non plan expenditure on capital outlays took place from Rs 54.73 crore in 2003-04 to Rs 1404.56 crore in 2004-05 which was on account of an investment of Rs 1350 crore in the public sector undertaking of the energy sector. Likewise, the high non plan expenditure on capital outlays of Rs 217.28 crore in 2007-08 was on account of the expenditure on energy sector.

As regards expenditure on capital outlays under plan head, it has been seen that expenditure increased from Rs 454.56 crore in 2002-03 to Rs 2431.31 crore in 2011-12, registering a CAGR of 20.48 per cent. Annually the plan capital outlay has displayed variation in growth with a high annual rate of growth of 55.43 per cent in 2008-09 and negative growth rates in two years, viz. 2002-03 and 2010-11. The high capital expenditure under plan head in 2008-09 was on account of expenditure on water supply, sanitation, housing and urban development, irrigation and flood control and energy.

To sum up, expenditure on capital outlays under plan head has always had a higher share than non plan capital outlay in Assam. Additionally, the CAGR of plan expenditure has been higher than that of non plan expenditure. Excepting for the year 2004-05, non plan capital outlay has always been lower and its growth rate too has been lower.

We next look at the expenditure on capital outlays under general, social and economic services, both under plan and non plan heads. In case of plan expenditure, in 2011-12, it was seen that the highest share was accounted by the economic services (91 per cent) followed by social services (6.19 per cent) and general services (2.53 per cent). The share of economic services was over 90 per cent from 2002-03 to 2005-06 but gradually started falling. In 2008-09, it accounted for 78.08 per cent of the total plan expenditure on capital outlays as the comparative share of social services had increased. However, after that it picked up gradually to 91.28 per cent in 2011-12.

The share of social services started showing a larger share from 2006-07 onwards and its highest share of 20.78 per cent of plan expenditure on capital outlays was in 2008-09. The share of general services less than 3 per cent of total expenditure on capital outlays for the entire period under study.

We next look at the trend of each component of plan expenditure on capital outlays. As regards general services, the plan expenditure under capital outlays rose from Rs. 7.9 crores in 2002-03 to Rs. 61.45 crores in 2011-12 with a CAGR of 25.59 per cent. There was a sharp rise of 116.4 per cent in 2009-10 from Rs 26.04 crore in 2008-09 to Rs 69.38 crore in 2009-10.

Plan expenditure on capital outlays for the social service sector rose from Rs. 14.77 crores in 2002-03 to Rs. 150.49 crores in 2011-12 with a CAGR of 29.42 per cent. It registered a massive rise from Rs 35.25 crore in 2005-06 to Rs 147.95 crore in 2006-07 (319.72 per cent rise). From 2006-07 to 2009-10 plan expenditure was particularly high in the social service sector.

Plan expenditure on capital outlays under economic services saw a steady rise over the years from Rs. 431.89 crores in 2002-03 to Rs. 2219.42 crores in 2011-12 with a CAGR of 19.94%.

Thus, in terms of CAGR, it was seen that social services has the highest growth rate over the ten year period followed by that of general services and then of economic services.

To sum up, a major part of plan expenditure on capital outlays has been on development purposes. The CAGR of all the three components was over 19 per cent though the growth of capital expenditure on social services sector was the highest

Coming to the non plan head of capital expenditure on capital outlays, if we look at the various components, it can be seen that in 2011-12 the share of economic services was the highest (75.13 per cent), followed by that of social services (15.41 per cent) and general services (9.25 per cent). Non plan capital expenditure on general services grew at a steady pace except for the years 2007-08 and 2008-09 when it increased sharply to Rs 19.36 crore and Rs 10.43 crore respectively as compared to Rs 6.73 crore in 2006-07.

Capital expenditure on social services under non plan head too had a sharp rise from Rs 11.67 crore in 2007-08 to Rs 21.92 crore inn 2008-09 on account of increased expenditure on water supply, sanitation, housing and urban development.

Non plan capital expenditure on economic services, whose share was the highest had an uneven growth rate over the ten year period which two massive increase in expenditure in 2004-05 on the power sector PSUs and again in 2007-08.

In terms of CAGR, general services recorded the highest CAGR of 8.6 *per cent* followed by social services (5.38 per cent) and then economic services (3.70 *per cent*). Thus, compared to plan expenditure, the different components of non-plan expenditure on capital outlays had a slower growth rate compared to its plan head counterparts. Though the development expenditure had the highest share here too, the growth rate of the non-development expenditure was higher, which is a sign of worry.

To sum up, plan expenditure on capital outlays was significantly higher than non plan expenditure. Capital expenditure is considered to be enhancing the productive capacity of a state, thereby increasing the pace of development. A major portion of Assam's expenditure goes as revenue expenditure leaving approximately 10 *per cent* of the total expenditure for capital expenditure. Of this capital expenditure, the major part comes under Plan head implying that most of the capital expenditure in Assam comes as per the allocation stipulated under central and state plans. The only exception to this trend was in 2004-05 when a huge portion of non plan capital expenditure was invested in the power sector.

A brief summary of the expenditure under plan and non-plan heads on revenue and capital accounts and their respective heads is presented in Table 2.10 below.

Table 2.10

Share and CAGR of the Different Components of Expenditure under Plan and Non-Plan Head

(in per cent)

2011-12		Revenue Expenditure		Capital Expenditure	
		Non-Plan	Plan	Non-Plan	Plan
General Services	Share	47.66	7.77	9.45	2.53
	CAGR	*12.9*	*50.11*	*8.64*	*25.6*
Social Services	Share	38.19	62.63	15.41	6.19
	CAGR	*15.82*	*17.89*	*5.38*	*29.42*
Economic Services	Share	14.15	29.60	75.13	91.28
	CAGR	*16.4*	*19.19*	*3.70*	*19.95*
CAGR (aggregate)		14.41	19.23	4.33	20.48

Thus, from the expenditure made under plan and non plan heads, the following observations are made

- Non plan expenditure forms that bulk of the total expenditure in Assam.
- The share of non plan expenditure to total expenditure has decreased from 75.25 per cent of total expenditure in 2002-03 to 69.07 per cent in 2011-12 while the share of plan expenditure has increased from 23.06 per cent in 2002-03 to 30.63 per cent in 2011-12.
- In the revenue account, non plan expenditure forms a major part. It constituted 81.26 per cent of the total revenue expenditure in 2002-03 but its share has come down to 75.5 per cent in 2011-12. Plan expenditure on the other hand formed 18.73 per cent of the total

revenue expenditure in 2002-03 but its share had gradually increased to 24.45 per cent in 2011-12.

- In the revenue account, the rate of growth of plan expenditure is higher at 19.23 per cent compared to non plan expenditure's CAGR of 14.41 per cent.

- As regards expenditure on capital outlays, it was found that plan expenditure constituted the bulk of expenditure (97.02 per cent of total expenditure on capital outlays) as against 3.98 per cent of non plan expenditure in 2011-12. The share of non plan expenditure on capital outlays fell from 10.08 per cent in 2002-03 to only 2.98 per cent in 2011-12 as against plan expenditure which increased from 89.92 per cent in 2002-03 to 97.02 per cent in 2011-12.

- Plan expenditure under capital outlays not only had a higher share, but also a higher growth rate of 20.48 per cent compared to the growth rate of 4.33 per cent of non plan expenditure.

- Thus under both revenue and capital expenditure, plan expenditure increased at a faster rate than non plan expenditure.

- In the revenue account, it was found that development expenditure constituted 99.02 per cent of the total plan expenditure in 2002-03 but its share gradually fell to 92.22 per cent in 2011-12. On the other hand, development expenditure constituted 46.25 per cent of the total non plan expenditure in 2002-03 and fell to 40.63 per cent in 2011-12. Thus, a major part of non plan expenditure in Assam goes for non developmental purposes as compared to plan expenditure which goes in for developmental purposes.

To sum up, non-plan expenditure formed the bulk of total expenditure in Assam. However, a major part of plan and non-plan expenditure had been expended for developmental purpose, which is a positive feature of the total expenditure pattern of the state.

2.8 EFFICIENCY OF GOVERNMENT EXPENDITURE – AN ANALYSIS OF COMMITTED EXPENDITURE

Efficiency of resource use basically relates to reduction of structural rigidities. In a state, there may exist certain inherent structural rigidities, which may be difficult for the government to control. This in turn is likely to affect the quality of expenditure and could lead to misallocation of expenditure. This happens particularly during the time of fiscal imbalances when government fails to control the expenditure on those unproductive components such as guarantees, interest payments, pension and wages and salaries etc.

Table2.11

Components of Committed Expenditure

(Rs crore)

Year	Salaries* and Wages	Expenditure on Pensions	Interest Payment	Subsidy
2002-03	3883 (57.16)	776 (11.42)	1245 (18.33)	NA
2003-04	4462 (57.46)	909 (11.71)	1446 (18.62)	NA
2004-05	5194 (52.27)	1062 (10.69)	1404 (14.13)	NA
2005-06	4238# (35.18)	1011 (8.39)	1510 (12.54)	NA
2006-07	4684 #(34.24)	1178 (8.62)	1516 (11.09)	NA
2007-08	5241 (34.20)	1341 (8.75)	1512 (9.87)	NA
2008-09	5842 (33.32)	1437 (7.95)	1593 (8.81)	26 (0.14)
2009-10	8193 (41.20)	1769 (8.90)	1833 (9.22)	38 (0.19)
2010-11	10576 (45.97)	2385 (10.37)	1912 (8.31)	38 (0.17)
2011-12	11793 (42.95)	3136 (11.42)	2074 (7.55)	72 (0.26)

**Represents salaries only and includes salaries spent from grant-in-aid but excludes wages up to 2004-05*

 # Represents salaries only but excludes wages and salaries spent from grant-in-aid.

Note: The state government has been giving subsidies to various target groups but has not made any explicit provision for subsidies in its annual budget before 2008-09

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012).

Thus, to have a proper idea about efficiency of public expenditure, it is also necessary to observe the expenditure on interest payments, pension and salary and wages which are popularly known as committed expenditure. The higher proportion of committed expenditure to revenue expenditure reduces the expenditure on maintenance activities which in turn may deteriorate the existing infrastructure of a state. The expenditure on these three items constitutes a major portion of the revenue expenditure of the state government. Due to the nature of downward rigidity of these components of expenditure, the government fails to reduce committed expenditure particularly during the time of fiscal imbalances. The factors which normally contribute towards enhancement of those expenditure are revision of the pay scale of the government employees and increase in high cost public debt etc. Table 2.10 gives the break-up of the different components of committed expenditure in Assam for the study period.

From the above table, it can be seen that relevant data for subsidies are not available from 2002-03 till 2007-08. Hence, excluding the expenditure on subsidies, it is seen that committed expenditure grew from Rs.5904 crores to Rs.17003 crores registering a CAGR of 12.47 per cent. A major jump in committed expenditure came in 2009-10 when it increased by 32.9 per cent compared to its previous year. This increase is likely to be on account of the pay revision of the government which affects two main components of committed expenditure viz. salaries and wages and pensions. If we look at the individual components of committed expenditure, we find that salaries and wages constitute the major part of committed expenditure followed by pensions. These two components display downward rigidity and hence are the major determinants of committed expenditure.

The share of committed expenditure to total revenue expenditure revealed committed expenditure formed more than three quarter of the total revenue expenditure, which is indeed alarming. However, the fall in its share to around 64% in the coming years could be on account of the change in definition of salaries and wages for calculating committed expenditure. It is interesting to note that committed expenditure has had an almost steady share of the total revenue expenditure, hovering between 62 to 65 per cent in the entire period, except in 2009-10, when its share had come down to 55.55% . This was an unusual in light of the implementation of the higher pay structure of the state government employees in that particular year. However, a closer look revealed that the annual growth rate of total revenue in that year was much higher at 49.09 per cent p.a. compared to 32.95 per cent p.a. growth rate of committed expenditure, thereby resulting in the reduced share of committed expenditure to total revenue expenditure.

Looking at the individual components, it is seen that salaries and wages grew from Rs. 3883 in 2002-03 to Rs. 11783 cr. in 2011-12, registering a CAGR of 13.13 per cent. In terms of the annual growth rates, it is seen that the annual growth rates of salaries and wages was below 16 per cent till 2009-10. In fact, it was negative in 2004-05, which however was likely to be on account of the change in definition of salaries and wages component. Salaries and wages grew by 40.24 per cent in 2009-10 over 2008-09 and still showed a high annual growth rate of 29.09 per cent in 2010-11. It fell to 11.51 per cent in the following year, which was similar to the growth rates prior to pay revision.

Pensions, on the other hand, grew from Rs. 776 crores in 2002-03 to Rs. 3136 crores in 2011-12 registering a CAGR of 16.78 per cent. Just like salaries and wages, pensions too grew at a steady rate of roughly 16 per cent from 2002-03 to 2008-09 and showed a sharp rise of 23.10 per cent in 2009-10 over its previous year. In the following two years, the annual growth rates were even higher, exceeding 30 per cent growth p.a. The year 2009-10 saw the implementation of revised pay scales which led to the sharp increase in the expenditure on pensions based on the revised rates.

The third component of committed expenditure, viz. interest payments, grew from Rs. 1245 crores in 2002-03 to Rs. 2074 crores in 2011-12 at a CAGR of 5.83 per cent. Thus, among all the three components mentioned so far, the growth rate of interest payments have been the lowest. If we look at the respective shares of the these three components to committed expenditure, an interesting observation that crops up is that interest payments had the second largest share of committed expenditure from 2002-03 to 2008-09. In

2009-10, salaries and wages accounted for nearly 70% of the total committed expenditure (excluding subsidies) while pensions and interest payments had an approximate share of 15% each. After 2009-10, pensions have been consistently higher than interest payments.

The figures for subsidy are available from 2008-09 only. They formed less than 1% of the committed expenditure of the state. The amount spent on subsidies, though small in absolute terms, have however almost doubled in 2011-12 over its previous year.

Committed expenditure being rigid and non-developmental in nature implies that increasing levels of this type of expenditure is bound to affect the development prospects of the state at some future point of time. Hence it is important to know whether this expenditure (which is revenue expenditure) is being met from the current resources generated within the state, i.e. from revenue receipts. From the table it can be seen that till 2004-05, committed expenditure formed a very high percentage of the state's revenue receipts, which meant that very little (less than 20%) of the revenue receipts could be used for other forms of revenue expenditure. However, after 2004-05, the share of committed expenditure has fallen (which could be on account of the change on definition of salaries and wages included under the head of committed expenditure). Committed expenditure as a ratio of revenue receipts kept falling from 77.09 per cent in 2004-05 to as low as 50.08 per cent in 2008-09. However, from 2009-2010 onwards, committed expenditure as a part of revenue receipts started increasing and was 61.92% of revenue receipts in 2011-12. If we look at the individual components of committed expenditure, we find that it was wages and salaries that started taking a larger share of the revenue receipts after 2009-10 followed by pensions. This was undoubtedly the effect of the pay revision following the recommendations of the Sixth Pay Commission.

To sum up, committed expenditure forms an important part of government expenditure because the level of expenditure that can be incurred for development purposes is to a great extent dependent of the level of committed expenditure. A high level of committed expenditure can reduce the resources available for developmental purposes in the state. In Assam, it has been found that salaries, wages and pensions constitute the bulk of committed expenditure. Interest payments, which account for less than 20 per cent of the committed expenditure, have been declining over the years. Subsidies, which usually entail a great burden for governments, formed less that 1 per cent of the committed expenditure in the state in the four years for which relevant data is available. Thus, the level of committed expenditure is directly determined by the expenditure on wages, salaries and pensions. It is for this reason that committed expenditure showed a rise, both in absolute terms as well as in terms of percentage of revenue receipts, from 2009-10 onwards, the year from which pay revision came into effect.

2.9. Efficiency of Expenditure Use

The size of public expenditure is not a single indicator of the development goals pursued by a government. The quality of expenditure, which is more important, needs to be addressed as this alone can ensure efficient utilization of public expenditure. Rising public expenditure can have detrimental effects if it does not go in the right direction. Accordingly, State Governments have to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods.

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. In a developing economy, access to basic education, health services and drinking water and sanitation facilities etc. have a strong linkage with eradication of poverty and lays the foundation of economic progress. Hence, it is important for the government to ensure the expansion and efficient provision of such services in the State. Likewise, expenditure which promotes directly or indirectly the productive capacity of a state's economy needs to be encouraged. Thus, expenditure (both revenue and capital) incurred on social and economic services, which are developmental in nature, is considered as an indicator of the quality of public expenditure.

We look at some indicators of the quality of public expenditure in Assam so as to get an idea about whether there is efficiency in the expenditure pattern of the state. Table 2.12 gives an account of the values of the different indicators from 2002-03 to 2011-12.

Column 1 of the table shows that total expenditure as a percentage of the state's GSDP has been increasing. This, as was discussed earlier, was on account of the fact that total expenditure was increasing at a much higher rate than the state's GSDP, thereby taking an increasing share.

Column 2 shows total expenditure as a ratio of revenue receipts of the state. This ratio gives an idea about the extent to which total expenditure can be met from internally generated resources. Total expenditure exceeded revenue receipts for most of the years of the study, but was less than the revenue receipts for four consecutive years, viz. from 2005-06 to 2008-09. Thus, although total expenditure exceeded revenue receipts usually, yet it has shown a down slide in the last two years of the study period. This is a positive indication in the sense that it implies that the state has been able to meet its expenditure obligations from its revenue receipts alone.

The third column shows revenue expenditure as a ratio of total expenditure. As has already been discussed, the consistently high share of revenue expenditure in total expenditure is a feature which is common to most states in India. Hence, it is more important to know whether this revenue expenditure has been expended on fulfilling developmental goals or not. Columns 5 and 6 provide information about the direction of revenue expenditure towards development needs of the state. Combining columns 5 and 6 reveal that roughly 60 per cent of the state's total revenue expenditure goes towards developmental goals. This is a good sign.

Table 2.12

Indicators of Efficiency of Public Expenditure in Assam

Years	TE/GSDP	TE/RR	RE/TE	ESS/TE	EES/TE	CE/TE	CE on SS and ES
1	2	3	4	5	6	7	8
2002-03	17.89	114.09	91.77	37.68	20.22	6.53	6.37
2003-04	19.50	118.48	91.85	36.96	22.96	6.76	6.57
2004-05	25.29	134.69	76.43	32.20	32.69	16.30	16.12
2005-06	20.28	97.35	89.85	34.38	28.71	9.25	9.17
2006-07	20.16	95.05	88.19	35.66	30.36	11.19	11.01
2007-08	20.51	95.10	87.44	35.84	29.04	11.58	11.29
2008-09	20.6	92.41	85.21	37.96	28.28	14.21	13.99
2009-10	25.84	120.5	88.61	37.54	24.46	10.97	10.66
2010-11	24.06	108.78	91.72	41.30	25.74	8.00	7.78
2011-12	25.23	106.07	91.09	39.93	23.83	8.61	8.37

Note:
TE includes RE,CE and Loans and Advances
TE: Total Expenditure
GSDP: Gross State Domestic Product
RR: Revenue Receipt
RE: Revenue Expenditure
CE: Capital Expenditure
ESS: Expenditure on Social Services
EES: Expenditure on Economic Services

Column 7 indicates the share of capital expenditure in total expenditure. Share of capital expenditure was high in the intermediate years of the study period, but has come down in the last two years. Column 8 indicates whether capital expenditure has gone into meeting the developmental needs of Assam. Comparing columns 7 and 8 shows that almost all of the state's capital expenditure has been directed towards the social and economic services, which is a good sign.

Figure 2.3

Indicators of Efficiency of Public Expenditure in Assam

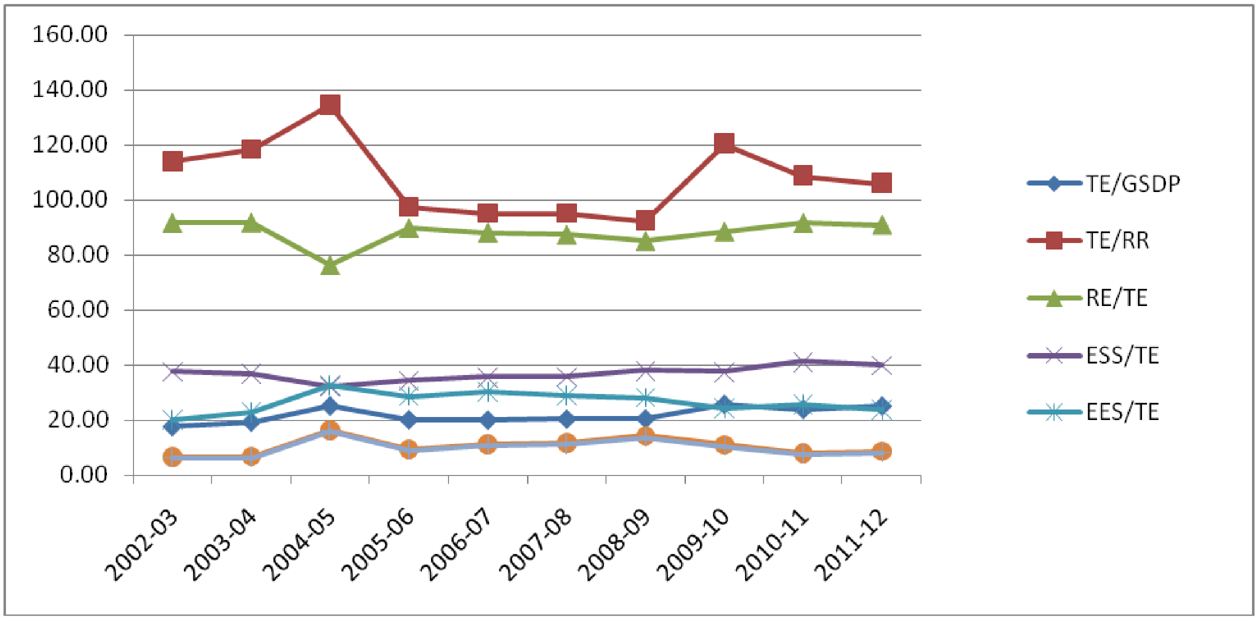


Figure 2.3 is a diagrammatic representation Table 2.12, which shows the various indicators of the quality of expenditure in Assam. A cursory look at the figure shows that each of the ratios represented here have more or less maintained the same proportion to the total, except for the share of total expenditure in the state's GSDP and the share of total expenditure to revenue receipts.

2. 9 Conclusion and Suggestions

Public expenditure in Assam has been rising over the years, and notable increases in expenditure occurred in 2004-05 and 2009-10. The reasons for this high rise have been identified by the present study. The rise in 2004-05 came about as a consequence of the reforms introduced in the power sector, whereas the rise in 2009-10 has been the result of revision of pay scales in the state. The trends of revenue and capital expenditure have been analyzed along with that of plan and non-plan expenditure. Revenue expenditure forms the bulk of total expenditure as well as that of non-plan expenditure. As far as plan expenditure was concerned, capital expenditure had a larger share, which is indeed a welcome indication. A positive feature of the pattern of public expenditure of Assam is that there is a bias towards meeting the developmental goals of the state, as development expenditure was a major constituent of both revenue and capital expenditure. The falling share of general services in the total revenue expenditure is mainly on account of the continuously declining interest payments and debt servicing expenditure in the state.

In case of capital expenditure, it has been observed that a particular head under social services (viz. water supply, sanitation, housing and urban development) has received a lot of importance as far allocation of resources were concerned, to the extent that, heads of expenditure under education and health have received low priority. Such imbalances in the allocation of public expenditure need to be checked. Likewise, there is a need to frame out a clear policy to revive the industrial sector. Industry, as a component of economic services, has received low priority as is seen from its low share of the capital expenditure in the economic services. Hence there is a definite need to have a long term planning for the industrial sector wherein the state can play a more proactive role rather than relying on private investment alone to boost the industrial climate of the state.

To conclude, public expenditure in Assam has been more or less focused on meeting the developmental needs of the state, which is a good sign. However, a detailed look at the components of public expenditure point out to the fact that there exists scope for reallocation of resources, and this could lead to a balanced development of all important sectors of the state's economy.

CHAPTER III

ANALYSIS OF DEFICITS

3.1 INTRODUCTION

Until the Keynesian revolution, prudent fiscal policy advocated a balanced budget and any deficit in public accounts were considered wasteful. With the advent of economists like Keynes, Hansen, Dalton and others the concept of Compensatory Finance which advocated deliberate unbalancing of the budget to maintain economic stability gained universal acceptance.

In India, throughout the sixties, there was a deliberate strategy to finance capital formation and infrastructure development through deficit financing. However with revenue expenditure consistently exceeding revenue receipt and alarmingly low returns from earlier capital expenditures the nation was confronted with a structural deficit in its budget that had serious implication for its fiscal sustainability. As was the case with most of the Indian states, Assam too confronted serious fiscal crisis fuelled by consistently high revenue and fiscal deficit that was aggravated by huge charged expenditure in the form of salary & wages, pension and interest liabilities. Subsequently there was deliberate shift in policy with the adoption of a strategy aimed at fiscal consolidation which significantly checked the secular deterioration of the state finance.

Fiscal parameters such as revenue deficit, fiscal deficit and primary fiscal deficit indicate the extent of fiscal imbalances in the finances of governments. Revenue deficit is the difference between revenue expenditure and revenue receipts. Revenue Expenditure which is synonymous with consumption and maintenance in the form of *wages and salaries, consumption goods and services, interest payment, subsidies* etc, are recurring in nature and do not result in the creation of assets. Similarly revenue receipts are recurring and accrue in the form of tax and non-tax revenue including transfer from the centre. Thus a deficit in the revenue account indicates an inability on part of the government to finance its recurring expenditure with its recurring receipts.

Fiscal Deficit, on the other hand, is the difference between total expenditure (net of debt repayment) and total receipt (excluding debt creating capital receipt). Thus on the receipt side only non debt capital receipt (recoveries of loans plus disinvestment proceeds) are incorporated while debt creating capital receipts are left out. The actual state of public account is reflected by fiscal deficit as it indicates the liabilities created in the receipt-disbursement process of the government.

Fiscal Deficit **= *Total Expenditure (net of debt repayment)***

– ***(Total Revenue Receipts + Non Debt Capital Receipts)***

Non Debt Capital Receipt = recovery of loans + disinvestment proceeds

Debt Creating Capital Receipt = public borrowing + other liabilities

Finally the primary deficit is calculated as the difference between the fiscal deficit and interest payment.

All the deficits in the government account represent gaps between expenditure and receipt. The significance of analyzing the deficits stems from the fact that the nature and origin of the gaps and procedure adopted to finance them has great impact on government finance and immense consequences for the overall economy.

3.2 REVENUE DEFICITS IN ASSAM

Fiscal prudence demands revenue surplus or at least zero revenue deficit in the public budget. This is so because the presence of revenue deficit point to a government that is consuming beyond its means. This goal has been enshrined by the Assam Fiscal Responsibility and Budget Management Act (FRBM), 2005 which had set the state the objective of eliminating its revenue deficit within a period of five years.

Revenue Deficit in Assam, prior to in the study period exhibited considerable fluctuation with some years exhibiting revenue surplus followed by years of deficit in the account. However in 1999-00 there was a sudden spike in the revenue deficit due to the hike in public expenditure due the implementation of the recommendations of the state pay revision. The deficit persisted for a number of years until 2005-06 when the Assam FRBM Act was enacted and adopted. The ensuing adverse imbalance in the revenue account was aggravated by the burgeoning increase in committed expenditure in the form of salaries and pension and also debt service obligation due to the relentless public borrowing by the state. There was a growing tendency of financing revenue expenditure by capital receipt which pushed the state to a potential position of financial insolvency. With cash flow of the government severely restricted the state had to depend on more and more on relatively more expensive financial accommodation from the RBI through instruments like *Ways & Means* and *Overdrafts*. In the most difficult period during 2001-02 and 2002-03, the state was on overdraft for 312 and 315 days respectively (Government of Assam, 2003) resulting in repeated delays in payment of salaries to the employees severely eroding the financial credibility of the state. However with the adoption of the state FRBM Act and the subsequent implementation of measures aimed at fiscal consolidation there was marked improvement in state finance which was reflected in the revenue surplus of 2.6 percent in 2005-06. Fiscal discipline by the state government enabled the state to maintain a state of revenue surplus in the next few years which however was distorted in 2009-10 when the revenue deficit re-emerged at 10.92 percent. This was the outcome of the implementation of the pay revision and also an effect of the relaxation extended on the FRBM targets both at the centre and states due to the global economic slowdown. To its credit, the Assam government was able to correct the deficit in the next two years by attaining revenue surplus to the extent of .05 percent and .80 percent in 2010-11 and 2011-12 respectively.

Table 3.1

Revenue Deficit of Assam

(in crore)

Year	Revenue Receipt	Revenue Expenditure	Revenue Deficit	Revenue Deficit as a percent of GSDP*
1	2	3	4	5
2002-03	6793 (14.05)	7113 (3.89)	319	0.87
2003-04	7765 (14.05)	8450 (18.80)	685	1.61
2004-05	9937 (27.97)	10229 (21.06)	292	.67
2005-06	12046(21.22)	10536 (3)	-1509	(-) 2.60
2006-07	13667 (13.46)	11457 (8.73)	-2210	(-) 3.43
2007-08	15325 (12.45)	12744 (11.24)	-2581	(-) 3.60
2008-09	18077 (17.62)	14243 (11.76)	-3834	(-) 4.72
2009-10	19884 (10)	21232 (49.06)	1348	1.92
2010-11	23005 (15.70)	22952 (8.10)	-53	(-) 0.05
2011-12	27453 (19.34)	26529 (15.58)	-927	(-) 0.8

Note:
i) Minus sign (-) indicates surplus in the deficit indicators
ii) Figures in parentheses represent annual growth rate of the variables

Source:

1. Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)
2. Directorate of Economics and Statistics, 'Statistical Handbook, Assam'. Various issues (2002-2012)

3.2 FISCAL DEFICITS IN ASSAM

As the difference between total expenditure (net of debt repayment) and total receipt (excluding debt creating capital receipt), Fiscal Deficit is a critical indicator of the status of finances of the state. As fiscal deficit is financed through debt creating capital receipts of the government, and its persistence deteriorates the debt-GSDP ratio leading to unsustainable increase in the committed expenditure in the form of debt repayment and interest obligation. However the utilisation of the resources mobilised through fiscal deficit also has a bearing on the sustainability of the state finance. The use of borrowed funds for committed expenditure on salaries and pension payment does not augur well for of the long term fiscal sustainability of the state whereas restriction of the fund to capital outlay and other productive loans and advances may make the deficit much more viable by enhancing the state's future income and its ability to bear the debt burden.

With the declaration of Assam as a *special category state* in 1990-91, the pattern of financing of the state plans abruptly became more favourable with the grants to loan component changing from 30:70 to 90:10. Subsequently the state enjoyed moderate fiscal deficit with the two spikes in 1994-95 and 1995-96 emerging as aberrations. That however changed in 1998-99 when rising revenue deficit pushed up the fiscal deficit sharply. Instead of correcting, the deficit aggravated in subsequent years facing the onslaught of rising commitment in salary payment and debt servicing. It was only the enactment and adoption of the Assam FRBM Act and the implementation of fiscal consolidation measures which could reverse the downtrend to secure for the state a fiscal surplus after a span of eleven years. Commendable fiscal management by the Assam government allowed the state to operate with a fiscal surplus which was well within the target of 3 percent fiscal deficit set by the Assam FRBM Act. However all the good work was done in with the implementation of the recommendation of the Assam Pay Commission which resulted in a sharp hike in the fiscal deficit to 5.8 percent violating the targets set under the FRBM Act. The jump in the deficit was also justified by enhanced public spending as a fiscal intervention to counter the global recession and the subsequent economic slowdown in the Indian economy. However corrective measures have ensured the reduction of the fiscal deficit within permissible limits in the next two years which augers well for state finances in the future. This is especially true when the low fiscal deficits are considered along with the revenue surplus which indicates that borrowed funds are being targeted to the capital component of the state expenditure.

Table 3.2

Amount and Composition of Gross Fiscal Deficit of Assam

(In crs)

Year	Fiscal Deficit	Revenue Deficit	Capital Outlay	Net Lending
		As a percentage of Fiscal Deficit		
2002-03	928 (2.54)	34.38	54.53	11.09
2003-04	1394 (3.47)	49.14	44.62	6.24
2004-05	2057 (4.76)	14.19	105.98	-20.17
2005-06	-356 (.61)	-423.88	304.78	19.1
2006-07	-711 (1.10)	-310.83	204.36	6.47
2007-08	-790 (1.10)	-326.71	213.67	13.04
2008-09	(-)1407 (1.52)	-272.49	168.66	3.83
2009-10	4043 (5.78)	33.34	65.02	1.64
2010-11	1991 (1.91)	-2.66	100.50	2.16
2011-12	1646 (1.43)	-56.32	152.25	4.07

Note:
i) (-) implies surplus
ii) Net lending is equal to disbursement of loans and advances by the government minus recovery of loans and advances.
iii) Figures in parentheses represent percentage of this variable to GSDP at current prices

Source:

iv. Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

v. Directorate of Economics and Statistics, 'Statistical Handbook, Assam'. Various issues (2002-2012)

3.3 PRIMARY DEFICIT

Primary Deficit is defined as the Fiscal Deficit net of interest payment and represents the debt creating receipts necessary to meet the current expenditures of the state. The primary deficit can be further disaggregated into Primary Revenue Deficit and the Capital Outlay (which include the net loans and advances). Primary Revenue reflects that part of the recurring consumption and maintenance expenditure of the state (net of interest payable for previous borrowings) which has to be met through debt creating receipt. Primary Revenue Deficit is the basic indicator of fiscal prudence and consolidation as it indicates the portion of the public borrowing that is consumed without the creation of any assets.

Table-3.3 presents the Primary Revenue Deficit and Primary Deficits in the study period of 2002-03 to 2011-112. Time Series data in that period indicate that Assam always had a surplus in the primary revenue account implying that its current consumption (net of its considerable interest payment obligation) has always been less than its revenue receipt plus the non-debt portion of the Capital receipt. This has translated into Primary Surplus for most years in the period except for a minor aberration in 2004-05 (where there was a primary deficit of 1.24 percent) and a major one in 2009-10 when the benchmark deficit soared to 3.16 percent.

Thus a close examination of the data reveals that although the Assam government due to its modest but persistent primary revenue surplus is in a position to finance its current consumption and maintenance expenditure (net of interest payment) from its revenue receipt however any pressure on the economy does result in a revenue deficit (as it happened in 2004-05 and 2009-10). Under those circumstances the state’s recurring consumption and maintenance expenditure exceeds its revenues forcing the government to finance them through public borrowing. This is undesirable and violates the maxim that public borrowing should always be used for asset creation.

Table 3.3

Trend and Composition of Primary Deficit and Primary Revenue Deficit of the State

(in crs)

Year	Non Debt Receipt	Primary Revenue Expenditure	Loans & Advances	Capital Outlay	Primary Expenditure	Primary Revenue Deficit	Primary Deficit
1	2	3	4	5	6 (3+4+5)	7	8 (6-2)
2002-03	6821	5868	131	506	6505	-925	-316 (.72)
2003-04	7805	7004	128	622	7754	-761	-51 (.10)
2004-05	11326	8825	974	2181	11980	-1112	654 (1.24)
2005-06	12083	9026	106	1085	10217	-3019	-1866 (3.22)
2006-07	13702	9941	81	1453	11475	-3726	-2227 (3.45)
2007-08	15365	11232	143	1688	13063	-4093	-2302 (3.21)
2008-09	18112	12650	89	2373	15112	-5427	-3000 (3.24)
2009-10	19917	19399	99	2629	22127	-485	2210 (3.16)
2010-11							79
2011-12							-428

Figures in parentheses represent percentage of these variables to GSDP at current prices.
(-) implies surplus

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

In this context Assam Fiscal Responsibility and Budget Management Act, 2011 that came into force with effect from 1st April, 2010 has set a new set of deficit targets for the state. That includes elimination of revenue deficit by 2011-12 (and thereafter maintain revenue balance and preferably surplus) and also reduction of the fiscal deficit to 3 percent of the GSDP by 2010-11 (and maintain it thereafter). To its credit the Assam government has managed to keep both the two indicators well within the FRBM targets which is a reflection of the improving fiscal performance of state induced by conscious self-introspection on expenditure policies and subsequent measures on austerity and fiscal prudence.

Chapter-IV:

Public Debt in Assam: An Analysis

4.1 INTRODUCTION

In the previous chapters, a detailed analysis of revenue and expenditure of the state has been presented. The nature and adequacy on the revenue side is analyzed for examining the availability of funds for expenditure needs of the state. There is a perceptible improvement in the revenue scenario of the state during the first decade of the present century compared to the previous decade. The improved revenue scenario of state government is found to be mainly due to increase in own revenue collection and enhanced allocation from the central government. The fiscal reform measures adopted during the time period are found to be one of the main reasons which has helped the state government to receive more funds from the central government as well as to increase the state's own revenue collection. In Chapter 3, the pattern and composition of government expenditure has been studied to see the growth and quality of public expenditure of the state. Implication of recent fiscal reform measures on government expenditure has also been examined to know the allocation and prioritization of expenditure. It has been found that proper allocation of resources with emphasis on developmental expenditure is the main requirement for overall development of the state. The state needs sufficient amount of revenues to discharge those expenditure responsibilities in the absence of which there will be imbalances between total resources of the government and their expenditure obligations. Under these circumstances, it is pertinent to study whether the total receipts of the state government are sufficient to meet the expenditure responsibilities of the government. Available literature on this issue opines that while revenue receipts of the governments should be adequate to meet the revenue expenditure, capital expenditure could be incurred out of the borrowed funds (Srivastava, 2009; Rao, 2002; Lahiri, 2000). The above two rules are basically influenced by the Maastricht Treaty and U.K. Golden rule. The Maastricht Treaty which was signed in February 1992 by the members of the

European community in Maastricht, Netherlands stated that country's overall budget deficit for each fiscal year must be equal to or below 3 percent of GDP. The U.K. has been operating a Golden rule since 1997 whereby borrowing should be made only to finance capital spending. Fiscal imbalances of a state generally occur mainly due to excessive growth of expenditure and inability of the state government to meet that expenditure out of their revenue and capital receipts.

There is a growing awareness among the states in India in recent decades to contain fiscal imbalances which has led to accumulation of debt and deterioration in the fiscal indicators (Rao, 2002; Srivastava, 2009). Earlier, most Indian economists were of the view that the growth of public debt in planned magnitude was normal and desirable in a developing country like India where borrowing represents the absorption by the government of a part of domestic savings and the inflow of capital from abroad to finance and promote capital formation in the public sector and priority areas in the private sector (Chelliah, 1996). But this view was based on the assumption that borrowed funds would be used only for capital investment and the resultant outcome would yield adequate direct and or indirect returns. But these assumptions were not often fulfilled in case of both central and state governments in India. The fiscal crisis and the resultant exponential growth of public debt in India in later part of 1990s was not merely because of rising revenue expenditure ahead of current revenues, but also because capital expenditure financed by borrowings did not yield adequate returns (Chelliah, 1996). The deterioration in the fiscal indicators and rising public debt of the state governments in India during that period disrupted the normal functioning of the economy (Rao, 2005). Rising public debt of the state governments contributed towards macroeconomic instability of the whole nation which had found expression in the recommendations of the recent Finance Commissions of Government of India that had have given stress on debt sustainability (TFC, 2009). A sustainable debt to GSDP ratio helps a state to maintain a stable fiscal position without undertaking drastic and painful reforms measures. The significance of debt sustainability is more for poor and backward states as deterioration in their fiscal position may hamper the overall economic development of those states. As Assam is a relatively poor state with lots of deficiencies particularly in the infrastructure sector, it is necessary to study the trend of debt to GSDP ratio of the state. Considering the above fact, trend and composition of public debt of the state during the time period 2001-02 to 2011-12 has been analyzed in this chapter. Moreover an appraisal on the composition of liabilities in public account of the state has been carried out.

4. 2 TREND OF PUBLIC DEBT IN ASSAM

The Constitution of India provides that a State may borrow within the territory of India, upon the security of Consolidated Fund of the State within such limits, if any, as may from time to time, be fixed by an act of legislature of the State. Public debt is the accumulated stock of government financial liabilities. It is measured by summing the face value of that stock (Rajaraman et al. 2005). In Indian context, public debt refers to all financial liabilities of the government, irrespective of to whom they are owed (Lahiri and Kannon, 2004) A large accumulation of public debt may create problem for the state government in terms of repayment of the principal and interest payments. It also raises the issue of sustainability of the current stock of debt of the state. Sustainability is the capacity to endure the burden of the public debt without a financial breakdown. In the context of public debt, sustainability embodies concern about the ability of the government to service its debt. A government which does not generate enough current revenues for debt service must either default on its obligations or borrow more to service its past debt as well as to cover ongoing imbalances. Continual borrowings of this kind are known as ponzi game which is reflected in the time path of debt-GSDP ratio. Usually, sustainability is measured in terms of debt-GSDP ratio. Generally, low debt-GSDP ratio is desirable as it indicates an economy that produces a large number of goods and services and probably profits that are high enough to pay back debts. There is no universally prudent target value of debt-GSDP ratio (Chelliah, 2002; Buiter and Patel, 1992). If a particular government fails to meet the repayment obligations of the public debt, it will lose its credibility in the debt market. This is very relevant as loans from market are found to be a significant source of borrowings of the state government during the period of study. It is in this context that the issue of stability of the public debt in the state has gained its relevance in fiscal literature. The simplest way for determining the appropriate level of debt of the states has been to arrive at the acceptable level of debt-GSDP ratio and the ratio of interest payments to total revenue receipts. It is very difficult to set a debt-GSDP ratio which is likely to be sustainable. The Twelfth Finance Commission of Government of India recommended 28 percent and 15 percent as acceptable level of the debt-GSDP ratio and the ratio of interest payments to total revenue receipts respectively. The time series data on outstanding liabilities, debt-GSDP ratio and interest payments-revenue receipt ratio of the state government have been provided in table 4.1.

Table 4.1

Outstanding Liabilities, Debt to GSDP and Interest payments to Revenue Receipts ratio of the State

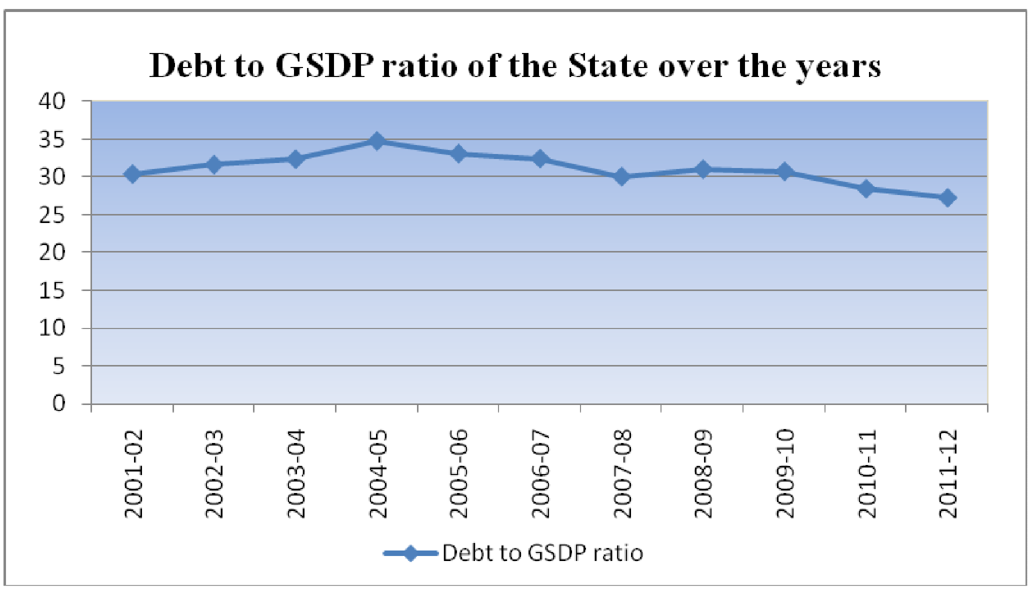
(Rs. in crore)

Year	Outstanding Liabilities	Debt-GSDP ratio	Interest payments-Revenue Receipt ratio
1	2	2	4
2001-02	11632	30.42	17.80
2002-03	13720	31.66	18.32
2003-04	15285	32.39	18.62
2004-05	17855	34.79	14.12
2005-06	19082	33.13	12.54
2006-07	20483	32.47	11.09
2007-08	21871	30.08	9.87
2008-09	25234	31.07	8.80
2009-10	28465	30.78	9.14
2010-11	29693	28.49	8.33
2011-12	31497	27.29	7.55

Source: State Finances: A Study of Budgets, RBI, various issues

It is evident from table 1 that the outstanding liabilities of the state government have increased from Rs.11632 crore in 2001-02 to Rs 31947 crore in 2011-12 and thus registering an annual compound growth rate of 10.47 percent during the period under consideration. The debt-GSDP ratio of the state was found to increase from 30.12 percent in 2001-02 to 34.79 in 2004-05. Since then, the debt-GSDP ratio started declining and in the year 2011-12, total outstanding debt of the state government constituted 27.29 percent of GSDP. It is necessary to mention here the state government faced the problem of fiscal instability during the period, i.e. 1999-00 to 2004-05 (Dutta, 2013). This is due to the fact that along with the high debt-GSDP ratio, the fiscal indicators of the state were found to deteriorate during that period. But, in spite of high debt-GSDP ratio, the state government was able to maintain a stable fiscal position during the time period 2005-06 to 2008-09 mainly due to the revenue and primary surplus attained by the state during that period as discussed in the previous chapter of the report. The fiscal instability of the state during the time period 1999-00 and 2004-05 prompted the state to adopt lots of fiscal reform measures which actually helped to maintain stable fiscal position. The debt-GSDP ratio of the state was found to decline from 33.13 percent in 2005-06 to 27.29 percent in 20011-12, which is lower than what is prescribed by the Twelfth Finance Commission.

Figure 4.1:



It is also found that interest payments-revenue receipts ratio of the state is below the level as recommended by the Twelfth Finance Commission. The diagrammatic representation debt- GSDP ratio of the state has been shown in figure 4.1 where it is evident that there has been significant decline in the debt to GSDP ratio of the state from 30.42 in 2001-02 to 27.29 in 2011-12. It is necessary to explore the reasons for this significant decline in the debt to GSDP ratio. The state government has adopted series of fiscal reform measures during the first decade of the present century which may have helped the state to reduce the debt to GSDP ratio of the state. The next section of the chapter discusses the impact of the fiscal reform measures on the debt status of the state government.

4.3 FISCAL REFORMS AND DEBT STATUS OF THE GOVERNMENT

The continuous fiscal imbalances from 1999-2000 prompted the State Government to undertake different fiscal reforms measures targeting specifically the deficit indicators. The Eleventh Finance Commission of Government of India fixed cumulative improvement in the reduction of revenue deficit as proportion of revenue receipts at 16 percentages for special category states like Assam during the award period of Eleventh Finance Commission. As against the target of 16 percent, Government of Assam achieved 18 percent cumulative improvement in reduction of revenue deficit as a percentage of revenue receipts. As a result, Government of Assam was able to receive ₹ 159.45 crore as non-plan revenue deficit grant from the incentive fund under Fiscal Reform facility of the Eleventh Finance Commission (Government of Assam, 2011). Further, in pursuance of the award of the Twelfth Finance Commission, Government of Assam enacted Assam Fiscal Responsibility and Budget Management Act (AFRBM), 2005 to qualify for debt relief. As discussed in the previous chapters, the main objective of the AFRBM Act was to reduce the revenue deficit to zero and fiscal deficit to 3 percent of GSDP gradually by 2008-09 from the initial award period of Twelfth Finance Commission. With the implementation of the AFRBM Act and adoption of the Medium Term Fiscal Reform Plan under the Asian Development Bank funded Assam Governance and Public Resource Management Programme (AGPRMP), Government of Assam achieved the fiscal targets of AFRBM Act in the initial years of the Twelfth Finance Commission award period. The revenue deficit, which was Rs. 292 crore in the year 2004-05, became surplus of Rs. 1509 crore in 2005-06, Rs. 2210 crore in 2006-07, Rs. 2581 crore in 2007-08, Rs. 3834 crore in 2008-09 respectively. Similarly, fiscal deficit, which was Rs. 2057 crore in 2004-05 turned into surplus of Rs. 356 crore in 2005-06, Rs.711 crore in 2006-07, Rs. 790 crore in 2007-08 and Rs.1407 crore in 2008-09. As an incentive under the Debt Consolidation and Reform Facility (DCRF) of the Twelfth Finance Commission, Government of Assam received debt waiver of Rs.105.41 crore for the year 2005-06 in 2007-08, Rs.105.41 crore for the year 2006-07 in 2008-09 and Rs.105.41 crore for the year 2007-08 in 2009-10. Thus, adoption of fiscal reform measures has helped the state to restrict the deficit indicators and gain from different incentive schemes of the central government.

Along with the trend and composition of the state's debt, it is necessary to analyse the use of public debt of the state. The next section of the chapter discusses the pattern of the use of public debt of the state.

4.4 USE OF PUBLIC DEBT OF THE STATE

As discussed in the previous section, the borrowed funds should be used for capital expenditure which increases the repayment capacity of economy. The proper use of the borrowed funds can be accessed from the composition of the fiscal deficit. As Fiscal deficit is defined as the excess of aggregate expenditure over non-debt receipt of the state, the composition of the fiscal deficit of the state gives an idea about the use of public debt of the state. As discussed earlier, available literatures on this issue are of the view that while revenue expenditure should be made out of revenue receipt, the borrowed funds should be used only for capital expenditure. The composition of the gross fiscal deficit of the state has been provided in Table 4.2.

It is evident from Table 4.2 that capital outlay constitutes a small portion of the fiscal deficit during the time period 2001-02 to 2003-04. It constitutes 35.43 percent of the

Table 4.2

Amount and Composition of Gross Fiscal Deficit of Assam during 2001-2012

(Rs.in crore)

Year	Fiscal deficit	Revenue Deficit	Capital Outlay	Net Lending*
		As a percentage of Fiscal Deficit		
2001-02	1448 (4.33)	60.84	35.43	3.73
2002-03	928 (2.54)	34.38	54.53	11.09
2003-04	1394 (3.47)	49.14	44.62	6.24
2004-05	2057 (4.76)	14.19	105.98	-20.17
2005-06	-356 (0.61)	-423.88	304.78	19.1
2006-07	-711 (1.10)	-310.83	204.36	6.47
2007-08	-790 (1.10)	-326.71	213.67	13.04
2008-09	(-)1407 (1.52)	-272.49	168.66	3.83
2009-10	4043 (5.78)	33.34	65.02	1.64
2010-11	1991 (1.91)	-2.66	100.50	2.16
2011-12	1646 (1.43)	-56.31	152.25	4.07

(-) implies surplus

* Net lending is equal to disbursement of loans and advances by the government minus recovery of loans and advances.

**As fiscal deficit is in current prices and used as a ratio of GSDP, figures in parentheses represent percentage of this variable to GSDP at current prices

Source: Report of the Comptroller and Auditor General of India, Government of Assam, various issues during 1990-2012 fiscal deficit in 2001-02 followed by 34.38 percent in 2002-03 and 49.19 percent in 2003-04. After that significant improvement has been observed which augers well for the state as increasing use of borrowed funds for capital outlay will increase the future repayment capacity of the economy. This had been made possible by the revenue surplus during the time period 2004-05 to 2008-09 which has helped the state government to increase the allocation of resources for capital outlay and net lending.

But the state had experienced revenue deficit in the year 2009-10 amounting to Rs. 1348 crore which forced the state government to use borrowed funds for revenue expenditure. But again there was a fiscal recovery in the year 2010-11 and 2011-12 as the state experienced revenue surplus amounting to Rs.53 and Rs. 927 crore respectively. This has helped the state government to administer devolution of more funds for capital outlay and advancement of loans and advances for developmental purposes.

4.5 FINANCING PATTERN OF PUBLIC DEBT OF THE STATE

While the trend of debt to GSDP ratio of the state is of great significance, it is also equally important to analyse the source of financing of the total public debt of the state. It has two implications for a state. First, identification of sources of finance is essential to frame the developmental plan of the state. This is because unless there is certainty about availability of fund, it is not possible for a state to make developmental plans. This had become even more pertinent following the recommendations of the Twelfth Finance Commission which states that the Planning Commission should not provide loans to the state governments. After this recommendation, the centre's intermediation in state debt has been discontinued and the states have been asked to raise subscriptions of their loans from the market itself (Srivastava, 2009). This development has significant implications for a poor state like Assam with low credibility in the loan market. The second important factor relevant in public debt is the issue of interest payments. The interest rates are different for different sources of financing which ultimately determine the total interest obligations of the state. The sources of public debt of the state have been provided in Table 4.3. The amounts shown under each source of borrowings are the net of outflows or disbursement during that year.

Table 4.3
Composition of Public Debt of the State

(Rs. in crore)

Source	*2000-2001*	*2001-2002*	*2002-2003*	*2003-2004*	*2004-2005*	*2005-2006*	*2006-2007*	*2007-2008*	*2008-2009*	*2009-2010*	*2010-2011*	*2011-2012*
SDLs[1]	2281	2790	3678	4497	5129	5847	6525	7155	9255	11419	10750	11330
Power Bonds	–	–	–	858	858	858	772	686	643	557	560	430
Compensation and other Bonds	–	–	5	–	–	–	–	–	–	–		
NSSF	828	1216	2071	3099	3932	4561	4689	4699	4717	4668	4720	5580
WMA from RBI	677	1303	535	298	317	–	–	–	–	–		
Loans from LIC	7	7	5	4	4	3	3	2	2	2		
Loans from GIC	–	–	–	25	23	21	19	17	17	17	10	10
Loans from NABARD	137	180	186	194	160	232	303	434	597	737	670	740
Loans from SBI and other Banks	4	4	4	–	–	–	–	–	–	–		
Loans from NCDC	-21	-25	-28	19	-25	25	-24	-30	-31	-31		
Loans from other Institutions	–	–	–	188	167	144	118	89	57	23		
Other Loans	182	168	119	–	–	–	–	–	–	–		
Loans from Banks and FIs	309	334	286	430	329	425	418	512	641	747	690	760
Total Internal Debt*	**4094**	**5643**	**6576**	**9180**	**10566**	**11691**	**12403**	**13052**	**15256**	**17392**	**16720**	**17900**
Loans and Advances from Centre	4801	4613	4711	3454	2830	2769	2670	2601	2499	2388	2350	2250
Provident Funds, etc.	1308	1578	1798	2498	2880	3265	3615	3933	4282	4667	4810	5350
Reserve Funds	252	305	417	679	914	874	1126	1492	1492	1492	2010	1980
Deposit and Advances (Net Balances)	-244	-167	-403	-173	-197	-248	-375	-936	-936	-936	-340	-1070
Contingency Funds	15	15	–	50	50	50	50	50	50	50	50	50
Outstanding Liabilities	10227	11988	13099	15688	17043	18401	19490	20192	22644	25053	25610	26460

*Total internal debt includes power bonds, compensation and other bonds, NSSF, WMA from RBI, loans from LIC, loans from GIC, loans from NABARD, loans from SBI and other banks, loans from NCDC, loans from other institutions, other loans and loans from banks and FIs

Source: Report of the Comptroller and Auditor General of India, Government of Assam, various issues during 2001-2012.

It is evident from table 4.3 that the total internal debt of the state government has increased from Rs.4094 crore in 2000-01 to Rs.17900 crore in 2011-12 and thus registering a compound growth rate of 15.90 percent during that period. But the significance of the loans from centre has declined during the period of study. Loans and advances from centre have declined from Rs.4801 crore in the year 2000-01 to Rs.22.5 crore in the year 2011-12. On the other hand, the importance of the State Development loans (SDLs) has increased as it has increased from Rs. 2281 crore in 2001-02 to Rs.11330 crore in 2011-12. The computed compound growth rate of SDLs is found to be 21.02 percent during the period under consideration. Similarly, loans from the NSSF has increased from Rs.828 crore in 2001-02 to Rs. 5580 crore in 2011-12 with a compound growth rate of 21 percent. The state has been resorting to ways and means advances during the time period 2000-01 to 2004-05. But the state has not taken ways and means advances during the time period 2005-06 to 2011-12 implying the adequacy in cash balances of the state government. Along with public debt, it is also necessary to analyse the liabilities in the public account of the state. The next section of the chapter discusses the liabilities in public account of the state.

4.6 LIABILITIES IN PUBLIC ACCOUNT OF THE STATE

According to the Assam Fiscal Responsibility and Budget Management Act, 2005, the "total liabilities of the State" means the liabilities under the Consolidated Fund of the State and the Public Account of the State. As total liabilities of the state also include receipt from public account of the state, it constitutes a financial obligation for the state. Table 4.4 as provided below gives details about different sources of public account of the state.

It is evident from Table 4.4 that public account of the state has increased from Rs. 2276.09 crore in 2001-02 to Rs.12176 crore in 2011-12 with a compound growth rate of 11.10 percent. The small savings and provident fund has been an important component of the public account of the state as it has increased from Rs.405.51 crore in 2001-02 to Rs.1162 crore in 2011-12 and thus registering a compound growth rate of 11.10 percent.

The deposit and advances is found to be the most significant source of public account of the state as it contributes, on an average, 43.94 percent of the total public account of the state. Remittances also constitute, on an average, 35.96 percent of the total public account of the state during the period under consideration.

Table 4.4
Composition of Public Account of the State

Year	Small Savings & Provident Funds	Reserve Fund	Deposit & Advances	Suspense & miscellaneous	Remittances	Total
1	2		3	4	5	6
2001- 02	405.51 (17.82)	113.28 (4.98)	935.08 (41.08)	16.77 (0.74)	809.45 (35.56)	2276.09
2002-03	407.33 (17.88)	183.89 (8.03)	851.22 (37.17)	-9.67 (-0.42)	857.60 (37.44)	2290.37
2003-04	746 (18.85)	135 (3.41)	926 (23.40)	1138 (28.76)	1012 (25.57)	3957.12
2004-05	610 (20.41)	478 (16)	1349 (45.15)	(-) 901 (-30.15)	1452 (48.59)	2988
2005-06	617 (14.88)	419 (10.11)	1637 (39.48)	(-) 155 (-3.74)	1898 (45.78)	4146.26
2006-07	566 (11.68)	370 (7.64)	2150 (44.37)	(-) 158 (-3.26)	1918 (39.58)	4846
2007-08	608 (9.98)	506 (8.30)	2793 (45.84)	(-) 3 (-0.05)	2243 (36.81)	6093
2008-09	628 (8.06)	317 (4.07)	3852 (49.42)	87.26 (1.12)	2909 (37.32)	7794
2009-10	755 (7.10)	733 (6.90)	5580 (52.49)	(-) 136 (-1.28)	3698 (34.79)	10630
2010-11	953 (9.16)	256 (2.46)	5480 (52.67)	81 (0.78)	3634 (34.58)	10404
2011-12	1162 (9.54)	1108 (25.61)	6364 (21.14)	(-) 122 (-1.00)	3664 (30.09)	12176
CAGR*	11.10	25.61	21.14	-	16.29	18.25

*CAGR = Compound Annual Growth Rate
Figures in parenthesis represent percentage to total public account of the state.

Source: Report of the Comptroller and Auditor General of India, Government of Assam, various issues during 2001-2012.

The above discussion gives an idea about trend and composition of the public debt of the state. The next part of the chapter discusses the relationship between public debt and primary deficit of the state. A debt stabilisation index is also computed to observe the sustainability of the current stock of public debt of the state.

4.7 Primary Deficit and Sustainability of the Public Debt in Assam:

The sustainability of the current stock of debt is the main determinant of the overall fiscal sustainability of a government (Hamilton and Flavin, 1986). Debt sustainability is defined as the ability to maintain the constant debt-GSDP ratio over a period of time (Rajaraman et al., 2005). In simple terms, public debt is considered to be sustainable as long as the growth of income exceeds the interest rate or cost of public borrowings subject to the condition that the primary balance is either positive or zero. A zero primary deficit is required for stabilization of debt as percent of GSDP, if the nominal rate of growth of GSDP is equal to the interest rate on inherited debt. Given the rate spread (GSDP growth rate - interest rate) and quantum spread, debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilize eventually. On the other hand, if the primary deficit along with quantum spread is negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling (Rath, 2005; Domar, 1944). If there is a primary deficit, it is likely that the debt-GSDP ratio will be higher at the close of the fiscal year, unless the growth rate of GSDP during the year is higher than the nominal rate of interest on the inherited debt stock. Additionally, the quantum spread and debt stabilization index are computed to know the impact of the primary deficit and public debt on debt-GSDP ratio of the state. The quantum spread is calculated by multiplying the rate spread with outstanding stock of debt. The interest rate used here is the effective interest rate which is calculated as,

$$\text{Effective interest rate} = \left[\frac{\text{Interest Payments}}{\frac{\text{Amount of previous year's fiscal liabilities + current year's fiscal liabilities}}{2}} \right] * 100$$

The debt stabilization index is nothing but the summation of the quantum spread and the primary deficit. A positive debt stabilization index helps to reduce the debt-GSDP ratio and vice versa (Rath, 2005). The debt sustainability status of the state in terms of interest spread and quantum spread during the study period has been shown in table 4.5.

Table 4.5
Debt Sustainability of Assam in terms of Quantum Spread and Primary Deficit

(in crore)

Year	GSDP Growh Rate	Effective Interest Rate	Rate Spread	Quantum Spread (D_t*Rate spread)	Primary Deficit(-)	Debt Stabilization Index (quantum spread+ primary deficit)	Debt-GSDP ratio
1	2	3	4	5	6	7	8
2001-02	4.07	9.56	-5.49	-669	-386	-1055	31.29
2002-03	13.30	9.93	3.37	449	317	766	30.18
2003-04	8.98	10.05	-1.07	-170	52	-118	33.16
2004-05	11.05	8.51	2.54	433	-654	-221	31.92
2005-06	11.21	8.52	2.69	495	1866	2361	30.99
2006-07	8.94	8.00	0.94	182	2227	2409	30.13
2007-08	9.87	7.62	2.25	454	2302	2756	28.41
2008-09	14.27	7.39	6.88	1575	3000	4575	28.88
2009-10	13.85	7.29	6.56	1797	-2210	-413	29.61
2010-11	12.16	6.57	5.59	1660	-79	1581	28.49
2011-12	10.95	6.77	4.18	1317	-428	889	27.29

Source: Author's own calculation based on the report of the Comptroller and Auditor General of India, Government of Assam, various issues and GSDP data from CSO reports)

It is evident from table 4.5 that there was a gradual decline of the debt to GSDP ratio of the state from 31.29 percent in 2001-02 to 27.29 percent in 2011-12. The positive rate spread or Domar gap enjoyed by the state in some years during the above time period might have helped to reduce the debt-GSDP ratio. The primary surplus experienced by the state in some of the years contributed towards the favourable debt-GSDP ratio of the state. The debt-GSDP ratio of the state, however, was found to increase from the year 2001-02 and reached a high of 33.16 percent in 2003-04. The favourable rate spread also contributed towards the reduction in debt-GSDP ratio of the state and allowing it to maintain a stable debt-GSDP ratio in recent years. This is mainly due to the higher growth of GSDP compared to effective interest rate on public debt. The growth rate of GSDP is found to be greater than the effective interest rate on public debt for consecutive years from 2004-05 to 20011-12. The debt stabilisation index is also found to be positive for most of the years during the period under consideration and thus helped to reduce the debt to GSDP ratio of the state.

4.8 Conclusion:

It can be inferred from the above discussion that the state has been able to reduce the debt to GSDP ratio during the period under consideration. The fiscal reform measures adopted by the state government have helped the state government to reduce the debt to GSDP ratio of the state. The debt-GSDP ratio and interest payments to revenue receipt ratio of the state are found to be lower than the recommendation of the Twelfth Finance Commission. The financing pattern of public debt of the state indicates the growing dependence of market borrowings in economic development of the state. Significant decline in the share of central government's loans to the state government has been observed during the period of study. The state has been able to maintain a stable debt to GSDP ratio in recent years mainly due to positive interest spread enjoyed by the state. Along with that, primary surplus enjoyed by the state during the period of study also contributed towards reduction of debt-GSDP ratio of the state. The incentive provided by the Eleventh and Twelfth Finance Commission of India and subsequent reform measures adopted by the state proved to be crucial in maintaining stable fiscal position in the later part of the present decade.

CHAPTER-V

THE ASSAM FRBM ACT: TARGETS AND ATTAINMENTS

5.1 INTRODUCTION

The Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) was adopted by the central government in 2003 in recognition of the importance of sustainability of government accounts and also the adverse effects of various deficits of both central and state governments on the overall economy This act was passed with objectives of reducing *Revenue Deficit* and *Fiscal Deficit* to pre specified limits within a particular time frame. On similar note, the Government of Assam enacted the ***Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005*** and ***Assam Fiscal Responsibility and Budget Management Act (Amendment), 2011*** 'to ensure fiscal stability, sustainability, improve efficiency and transparency in management of the public finances of the State, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove the impediments to effective conduct of fiscal policy and prudent debt management for improving the social and physical infrastructure and human development in the State' (Government of Assam, 2005). The implementation of the Act has been done in two phases as per the recommendation of the Twelfth and Thirteenth Finance Commission with an amendment of the Act which came into force with effect from 1st of April, 2010. Therefore, the analysis of the implementation of the Act and commitment towards its targets are presented in two sections.

In the following section, the analysis for the awarded period of the Twelfth Finance Commission (2005-06 to 2009-10) is presented. The third section discusses the recommendations of the Thirteenth Finance Commission and also the amendment in the act. Besides targets of the state and attainments are also presented.

5.2. The ASSAM FRBM ACT, ITS TARGETS AND ACHIEVEMENTS

(THE TWELFTH FINANCE COMMISSION PERIOD)

In order to achieve its core objectives of fiscal stability and sustainability and also enhanced efficiency and transparency in budget management the Assam FRBM (AFRBM) Act has set the following targets for the government to attain.

- Eliminate revenue deficit within four financial years beginning on the 1st day of April, 2005 ending on the 31st day of March, 2009;
- By the year 2010, the expenditure on account of salary and wages of the employees of the State Government will be contained within 60 per cent of the total tax and non-tax revenue of the State Government;
- Restrict the revenue expenditure under Annual State Plan to one third of the Plan outlay in a financial year;
- Reduce fiscal deficit to three per cent of the estimated Gross State Domestic Product within a period of four financial years beginning on the 1st day of April, 2005 and ending 31st day of March, 2009;
- Restrict the total debt stock of the State Government including the Government guarantees to 45 per cent of the GSDP of the previous year at current prices within a period of five years beginning on the 1st day of April, 2005.

Keeping in view the above targets laid down in the AFRBM Act, 2005 the Government of Assam had developed its *Own Fiscal Correction Plan* indicating the milestones of outcome indicators with target dates of implementation during the period from 2005-06 to 2009-10. Table 5.1 shows the key outcome indicators of the State’s Own Fiscal Correction Path for the award period of Twelfth Finance Commission.

Table 5.1

Key Outcome Indicators of the State's Own Fiscal Correction Path

(in crs)

Years	Revenue Receipts	Revenue Expenditure	Revenue Surplus/Deficit*	Fiscal Deficit
2004-05	9937.27	10229.14	-291.87	2057.45 (4.73)
2005-06	14285.04	14616.52	-331.48	3052.68 (6.49)
2006-07	15661.45	16096.23	-434.78	3319.42 (6.54)
2007-08	16724.21	16448.51	+275.70	2476.02 (4.52)
2008-09	17961.02	17059.94	+901.08	1777.77 (3.00)
2009-10	19308.91	17651.91	+1657.00	1540.78 (2.41)

**Revenue Receipt – Revenue Expenditure*
Figures in the parentheses represent fiscal deficit as per cent of GSDP

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues.

As against the State's Own Fiscal Correction Plan, the actual figures of the key deficit indicators (Revenue and Fiscal Deficits) in the period 2005-06 to 2009-10 are presented in Table 5.2.

Table 5.2

Estimated and Actual key deficit indicators

(in crs)

Years	Revenue Deficit/Surplus		Fiscal Deficit	
	Estimated	***Actual***	***Estimated***	***Actual***
2005-06	-331.48	1509 (2.60)	-3052.68	356 (0.61)
2006-07	-434.78	2216 (3.43)	-3319.42)	712 (1.10)
2007-08	+275.70	2581 (3.60)	-2476.02	790 (1.10)
2008-09	+901.08	3834 (4.72)	-1777.77	1407 (1.52)
2009-10	+1657.00	-1348 (- 1.92)	-1540.78 (2.41)	-4043 (-4.59)

.

Positive figures indicate surplus and negative indicate deficit
Figures in the parentheses represent surplus/deficit as per cent of GSDP

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues.

After the enactment of the AFRBM Act in 2005, the state account which was running in deficit in both fiscal and revenue account made a tremendous improvement in its fiscal position. In the year 2005-06 itself, a fiscal deficit of 4.73 per cent of GSDP and a revenue deficit of 0.67 per cent of GSDP in 2004-05 had turned into a fiscal surplus of Rs.356 crore and a revenue surplus of Rs. 1509 crore. Through the period from 2005-06 to 2008-09, the state government's commitment towards the targets of AFRBM Act, 2005 was fulfilled and in each year the state fiscal policy performed better than what it envisaged in its fiscal correction plan. In the year 2005-06, as against the estimated revenue deficit of Rs. 331.48 crore and a fiscal deficit of Rs.3052.68 crore (6.49 per cent of GSDP) there were surplus in both the measures amounting to Rs 1509 crore and Rs 356 crore respectively. Similarly in the year 2006-07, against the estimated revenue and fiscal deficits, the actual fiscal indicators indicated surplus. For the period 2007-08 and 2008-09, the state government estimated revenue surplus to be Rs 275.70 crore and Rs 901.08 crore respectively where as the actual surplus exceeded the estimated values and amounted to Rs 790 crore and Rs 1407 crore. In the same period there were fiscal surplus in the state account of Assam. However in the year 2009-10, surplus turned into deficit due to increase in government expenditure and poor recovery cost of merit goods such as education, health transportation etc. Revenue deficit stood at Rs 1348 crore against the estimated surplus of Rs 1657.00 crore and fiscal deficit turned into staggering Rs 4043 crore against the estimated deficit of Rs 1540.78 crore in the year 2009-10.

The summary report of the key fiscal indicators at the end of the Twelfth Finance Commission period for the year 2009-10 against the targets of AFRBM Act, 2005 are presented in the Table 5.3.

Table 5.3 indicates that the state has achieved the AFRBM targets prescribed in the ACT except containing fiscal deficit to 3.5 per cent of GSDP. Although the Central Government allowed the State Government to raise an additional market borrowing of 0.5 per cent of GSDP to finance development expenditure and thereby allowing fiscal deficit to 4 per cent of GSDP, but the state had exceeded the prescribed limit. Failure to contain fiscal deficit within the prescribed limit had resulted in loss of debt relief of Rs 105.41 crore for 2009-10.

<u>TABLE- 5.3</u>

Trend in Major Fiscal Variables *Vis-A-Vis* Projections for 2009-10

(in crs)

Fiscal variables	2009-10			
	Targets as per prescribed in FRBM Act	Projections made in		Actual
		Fiscal Correction Path	*Five Year Fiscal plan Statement*	
Revenue Deficit	0.0 (By 31.3.2009)	(+) 1,657	(-) 305	(-) 1,348
Fiscal Deficit	--	(-) 1,541	(-) 2,972	(-) 4,043
Fiscal Deficit/GSDP	3.5 *per cent* of GSDP (By 31.3.2010)	2.41	3.37	4.59
Salary as percentage of State's Own Resources & devolution from GOI except Plan Grants	60 *per cent* (By 31.3.2010)	57	88	56
Ratio of the Total Debt Stock including Government Guarantees to GSDP of the previous year	45 *per cent* (By 31.3.2010)	44	32	30
Ratio of State Guarantees to State's Own Resources of second preceding year	50 *per cent*	18	13	5

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues.

Revenue account as on 31st March, 2009 stood at a surplus of Rs 3834 crs (Table2). However, in the year 2009-10 revenue account ran a deficit of Rs 1348 crs. Nevertheless, the AFRBM Act target was fulfilled with achievements like reduction in *Salaries as percentage of State's Own Resources and devolution from GOI except Plan Grants* to 56 *per cent* against the target of 60 per cent and also lowering the *Ratio of the Total Debt Stock including Government Guarantees to GSDP of the previous year* to 30 per cent against the targeted ratio of 50 per cent.

5.3 FRBM Targets and Achievements for the period of the Thirteenth Finance Commission

In order to support the state government in fiscal consolidation Thirteenth Finance Commission had worked out a road map for Assam requiring the state to eliminate revenue deficit and to reduce fiscal deficit to 3 per cent in each year of the award period (2010-11 to 2014-15). Accordingly the AFRBM Act, 2005 was amended and Assam Fiscal Responsibility and Budget Management (AFRBM) Amendment Act, 2011 came into existence. This Act came into force with effect from 1st April, 2010 and according to which following are some important fiscal targets which the State Government sought to achieve.

- State Government was to eliminate revenue deficit by 2011-12 and maintain revenue balance or attain surplus thereafter.
- Reduce fiscal deficit to 3 per cent of the estimated GSDP by 2010-11 and maintain the same level thereafter.
- Attain the total outstanding debt to GSDP ratio at 28.2 per cent in 2010-11, 28.3 per cent in 2011-12, 28.4 per cent in 2012-13 and 2013-14 and 28.5 per cent in 2014-15 and to maintain the same level thereafter.

Keeping in view the targets set by the AFRBM Amendment Act, 2011, as per the recommendation of the Thirteenth Finance Commission, the performance of the State Government in managing its state account was satisfactory to a large extent. The achievements of the state government in terms of key fiscal variables are presented in Table 5.4.

It is evident from Table 5.4 that Assam has achieved all the FRBM targets as prescribed in the Act except containing Debt-GSDP ratio within the permissible limit of 28.2 per cent by 31st March, 2011. For the year 2010-11, state account experienced revenue surplus of Rs 53 crore and also incurred a fiscal deficit of 1.91 per cent of GSDP against the targeted goal of 3 per cent of GSDP. However, the state government should initiate requisite measures to contain the Debt-GSDP ratio within prescribe limit of the AFRBM Amendment Act, 2011. The ratio of Debt-GSDP ratio for the year 2010-11 beyond the permissible limit indicates that borrowed funds were not assessed and managed judiciously.

Table 5. 4

Achievement in Terms of Key Fiscal Variables *Vis-À-Vis* Projection for 2010-11

(in crs)

Fiscal variables	2010-11			
	Targets as prescribed in FRBM Act	***Assumptions made in Budget***	***Projections made in Five Year Fiscal Plan Statement***	***Actual***
Revenue Deficit	Eliminate Revenue deficit (By 31.3.2012)	(-) 5,960	(+) 2,620	(+) 53
Fiscal Deficit/GSDP (per cent)	3 *per cent* of GSDP (By 31.3.2011)	9.47	0.31	1.91
Ratio of total outstanding debt of the Government to GSDP	28.2 *per cent* (By 31.3.2011)	28	26	29

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues

For the year 2011-12, the achievement of the state government as per the targets of the Act is better than the previous year. The performance of the state government in terms of key fiscal indicators for the year 2011-12 is presented in Table 5.5. The Table indicates that the state has achieved the FRBM targets as prescribed in the Act in all the key fiscal variables. There is surplus of Rs 927 crs in the revenue account of the state which is better than the target prescribed in the AFRBM Act. Fiscal deficit of 1.43 per cent of GSDP is realized at the end of the financial year 2011-12 as against the permissible limit of 3 per cent by the Act. For the same year, Debt-GSDP ratio stood at 27.52 per cent which is well within the permissible limit of 28.3 per cent.

<u>Table 5.5</u>

Achievement in Terms of Key Fiscal Variables *Vis-À-Vis* Projection for 2011-12

(in crs)

Fiscal Variables	***2011-12***			
	Targets as prescribed in FRBM Act	***Assumptions made in Budget***	***Projections made in Five Year Fiscal plan Statement***	***Actual***
Revenue Deficit	Eliminate Revenue deficit (By 31.3.2012)	(+) 1,114	(+) 1,808	(+) 927
Fiscal Deficit/GSDP (per cent)	3 *per cent* of GSDP (By 31.3.2011) and maintain the same level thereafter	3.01	1.33	1.43
Ratio of total outstanding debt of the Government to GSDP	28.3 *per cent* (By 31.3.2012)	26.4	24	27.52

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues

5. 4. Conclusion

From the above discussion and the relevant statistics of the concerned fiscal variables, it can be concluded that the state government is heading towards the destination of fiscal consolidation as per the prescribed road map laid down by the Thirteenth Finance Commission. The commitment of the state government towards the fulfillment of the FRBM targets is sincere and evidently necessary steps have been taken in order to attain fiscal consolidation thereby attaining sustainable economic growth. However, since there have been a few years in between when the fiscal targets prescribed by the Act could not be attained, hence it is important to identify the causes of such deviations and ensure that such causes do not recur. For instance, the existence of revenue and fiscal deficits in the year 2009-10 was on account of the high government expenditure arising out of the implementation of pay revision to state employees. Such events are unlikely to arise on a regular basis, but care must be taken to see that control of expenditure along with revenue generation is maintained at a level that ensures the development of the state without leading to indebtedness on any front.

CHAPTER-VI

FISCAL DECENTRALIZATION IN ASSAM: A STUDY

6.1 INTRODUCTION

In a federal set up having different layers of government, the problem of finance relating to local self government assume great importance. Local bodies, which are involved in governance at the grass root level, are better equipped in terms of knowledge to solve the problems arising at the local levels. A better understanding of the local conditions and sentiments ensures that those bodies can work more efficiently in fulfilling the needs and aspirations of the local people. In view of the advantages, of local self governments, it is important to study the issues of finance related to the local bodies. Adequate and timely transfer of funds from the state government to the local bodies can go a long way in ensuring efficient utilization of local resources, thereby making the federation strong at the grass root level.

Till 1993, the Indian constitution provided for only two tier of government i.e. at the centre and at the state. Although, port trusts and cantonment boards were concurrently constituted but there was no uniformity in their functions and in the resources allotted to them across the different states. However, after the 73rd and 74th Amendments in the constitution, it is obligatory for each state to legislate for specified varieties of local bodies corresponding to the classification of local areas. Two categories of the local governments are to be provided, viz. Rural Local Bodies or Panchayati Raj Institutions (like gram sabha, panchayats) and Urban Local Bodies (like municipal committees, councils and corporations). In addition to these, certain local bodies are nominated with specially assigned functions, like port trusts, improvement trusts etc.

The 73rd and 74th amendments of the constitution incorporated two schedules into the constitution. The Eleventh Schedule contains a subjects list of 29 entries for rural bodies while the Twelfth Schedule contains a subject list of 18 entries for urban local bodies. These amendments also provide for a State Finance Commission to be constituted in each state every fifth year or earlier. In Assam, four state finance commissions have completed their terms and the presently, the Fifth State Commission has been set up for the period 2015-16 to 2019-20.

The responsibility of the local bodies have been growing with the passage of time, implying that there is an increasing need for resources to perform their assigned responsibilities. On one hand, the services provided by these bodies are varied and essential for the wellbeing of the community, but on the other hand, their power to raise resources are limited. Consequently, local bodies are greatly dependent on the state governments for financial aid. Hence every state governments are expected to assigned some specific taxes, duties, tolls and fee to local bodies as well as share some net proceeds of some specified taxes, duties tolls and fee with the local bodies. Apart from this, transfers from the state government to the local bodies take place in the form of grants out of the State's Consolidated Fund.

This chapter takes a look at the transfer of resources from the state to the local bodies in Assam. Section 2 gives an overview of the local bodies existing in Assam while section 3 describes the various financial resources of the local bodies. Section 4 analyses the pattern of transfer of resources to the local bodies in Assam. Section 5 mentions about a few decentralization initiatives undertaken in the state while the conclusion is presented in section 6.

6.2 LOCAL BODIES IN ASSAM: AN OVERVIEW

In conformity with the 73rd Constitutional Amendments Act, the Assam Panchayat Act 1994 also adopted a three tier *Panchayati Raj System* comprising of Gaon Panchayat (GP) at the village level, Anchalik Panchayat (AP) at the block level and Zilla Parishad (ZP) at the district level. As of 31 March 2012, there are 20 ZPs, 185 APs and 2,202 GPs in the state. The total rural population covered by PRIs at all levels is 2,01,98,790 which constitutes nearly 88 percent of the total population of the State. The total rural area covered by PRIs at all level is 40658.64 sq km constituting nearly 52 percent of the total geographical area of the State

Likewise, in consonance with the 74th Constitutional Amendment Act, 1992 the municipal administration in Assam is based on three categories of Urban Local Bodies as noted below:

(i) Town Committee (TC) for a transitional or emerging urban area;

(ii) Municipal Board (MB) for a comparatively small urban area, and

(iii) Municipal Corporation *i.e.*, Guwahati Municipal Corporation (GMC) for a larger urban area.

As of 31 March 2012, there were 89 ULBs in the State comprising of one Municipal Corporation, 33 MBs and 55 TCs (Comptroller and Auditor General of India, 2011-12).

The total urban area of the State is 961.77 sq.km which accounts for 1.23 % of State's total geographical area. For the purpose of assessment of municipal finances, the MBs and TCs have been grouped under a single category because of similarity in their functions, finances and responsibilities. They are also governed by the provision of the same Act i.e., the Assam Municipal Act, 1956 whereas the only Municipal Corporation in the state, GMC is treated as a separate category which is governed by the provisions of the Gauhati Municipal Corporation Act, 1971.

6.3 FINANCIAL RESOURCES OF THE LOCAL BODIES

For the rural local bodies, the main sources of revenue are tax and non-tax sources statutorily allocated to them, resource transfer from the State under the award of SFCs, grants-in-aid from Government of India under the award of Central Finance Commissions and discretionary grant from GOI for implementation of various Centrally Sponsored Schemes relating to poverty alleviation programmes.

The taxation powers of each tier of PRIs have been laid down separately in the Assam Panchayat Act, 1994. Sections 25, 57 and 95 of the said Act prescribe these taxation powers of GPs, APs and ZPs respectively. Apart from house tax allocated to the GPs, the other levies that the PRIs are empowered to collect are toll fees, user charges, fines etc which can be clubbed under the category of non-tax revenue. However, the major non-tax revenue of the rural local bodies are haats, ferries and fisheries located within their respective jurisdiction which are leased out annually by inviting sealed tenders.

In case of urban local bodies too, the main sources of revenue are own revenue collected from tax and non-tax sources statutorily allocated to them, resource transfer from the State under the award of SFCs, grants-in-aid from GOI under the award of Central Finance Commission and grants from GOI for implementation of different Centrally Sponsored Schemes. The principal source of tax revenue of ULBs is the holding tax better known as house tax. Along with holding tax other levies like water tax, latrine tax, lighting tax and urban immovable property tax are also collected as a certain percentage of the annual value. The non-tax revenue of ULBs are derived mainly from trade licence fees, market fees, fees on slow moving vehicles, sale of water, parking fees, fines and penalties and others.

6.4 TRANSFER OF RESOURCES TO THE LOCAL BODIES IN ASSAM: AN ANALYSIS

Having discussed the status of local bodies in Assam and the importance of the transfer of resources to them along with the constitutional directives to that effect, we take a look at the pattern of transfers to the local bodies that have been taking place in Assam from 2002-03 to 2011-12.

Table-6.1 below provides the details of such transfers to local bodies and other autonomous organizations/institutions. In this context, it needs to be mentioned that the State Universities, being autonomous bodies are considered to be local bodies and hence the devolution of funds to the various local bodies also includes within it the funds given to the universities and other autonomous educational institutions

Total assistance to the local bodies increased from Rs 876.2 crores in 2002-03 to Rs 2117.47 crores in 2011-12, registering a CAGR of 10.30 per cent. The rate of growth of total assistance has not been steady over the ten year period. A massive increase in the flow of resources to the tune of 114.7 per cent took place in 2004-05. Likewise, notable increase took place in 2009-10 and 2010-11 (32.56 per cent and 42.04 per cent over its previous years respectively). Apart from these three years, the annual rates of growth have been low and also negative in some years. The CAGR of 10.30 per cent of state's fund to the local bodies is lower than CAGR of 15.75 per cent of revenue expenditure[1] of the government for the same period.

[1] Refer Chapter-3 of the present report.

Table 6.1:
Transfer of Resources from the State to the various Local Bodies

(in Crs)

Year	Zilla Parishads and other Panchayati Raj Institutions	Municipal Corporations /Urban Sewerage Board	Co-operative Societies and Co-operative Institutions	Universities and Educational Institutions	Assam State Electricity Board (ASEB)	Assam State Housing Board (ASHB)	Assam Khadi and Village Industries Board	Guwahati Metropolitan Development Authority	Other Institutions	Autonomous Councils	Total	Assistance as % of RE
2002-03	25.53 (2.91)	13.59 (1.55)	10.49 (1.20)	761.4 (86.90)	21.84 (2.49)	0.61 (0.07)	1.3 (0.15)	0.5 (0.06)	17.49 (2.00)	23.45 (2.68)	876.2	12.32
2003-04	14.82 (1.45)	19.63 (1.92)	3.82 (0.37)	841.75 (82.40)	86.28 (8.45)	0.86 (0.08)	2.46 (0.24)	8.86 (0.87)	31.35 (3.07)	11.66 (1.14)	1021.49	12.09
2004-05	23.04 (1.05)	65.28 (2.98)	1.85 (0.08)	919.04 (41.89)	946.92 (43.16)	0.97 (0.04)	5.90 (0.27)	26.13 (1.19)	69.58 (3.17)	135.24 (6.16)	2193.95	21.45
2005-06	27.30 (2.18)	16.71 (1.34)	0.04 (0.003)	922.90 (73.81)	81.26 (6.50)	1.42 (0.11)	6.96 (0.56)	33.88 (2.71)	76.56 (6.12)	83.28 (6.66)	1250.31	11.87
2006-07	27.19 (2.14)	17.66 (1.39)	0.04 (0.003)	892.58 (70.11)	70.53 (5.54)	1.34 (0.11)	6.80 (0.53)	27.79 (2.18)	61.44 (4.83)	167.75 (13.18)	1273.12	11.11
2007-08	42.53 (3.55)	24.47 (2.04)	1.64 (0.14)	822.57 (68.58)	102.36 (8.53)	1.34 (0.11)	11.25 (0.94)	0.12 (0.01)	109.22 (9.11)	83.86 (6.99)	1199.36	9.41
2008-09		9.25 (0.81)	0.10 (0.01)	829.40 (72.63)	3.10 (0.27)	0.08 (0.01)	5.90 (0.52)	10.10 (0.88)	191.49 (16.77)	92.54 (8.10)	1141.96	8.02
2009-10		105.41 (6.96)	0.34 (0.02)	955.46 (63.11)	42.24 (2.79)	1.64 (0.11)	11.87 (0.78)	13.28 (0.88)	281.52 (18.60)	102.09 (6.74)	1513.85	7.13
2010-11		56.74 (2.64)	1.00 (0.05)	1539.47 (71.59)	50.21 (2.33)	0.40 (0.02)	12.18 (0.57)	8.37 (0.39)	354.45 (16.48)	127.58 (5.93)	2150.40	9.37
2011-12		112.26 (5.30)	1.18 (0.06)	1602.93 (75.70)	69.10 (3.26)	0.46 (0.02)	21.56 (1.02)	10.14 (0.48)	175.96 (8.31)	123.88 (5.85)	2117.47	7.98

RE denotes revenue expenditure

Figures in parentheses represent percentage of the total assistance for the particular year

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

The trend of the transfer of resources from the state government can largely be explained by looking at the shares of the different components. As already mentioned, the transfers of funds to local bodies were very high in three particular years, viz. 2004-05, 2009-1 and

2010-11. A look at 1 reveals that the sharp rise in funds transfer in 2004-05 was mainly due to the very high amount of fund allotted to Assam State Electricity Board (ASEB). This particular year had witnessed exceptional increase in total expenditure of the state, incurred chiefly on the power sector, which was a move in line with the reforms in the power sector initiated in those years. In fact, in 2004-05, ASEB took the lion share of (43.20 per cent) of total funds transferred from the state as against its usual share which is less than 10 per cent.

The increase in devolution of funds to the local bodies in 2009-10 and 2011-11 were accounted mainly due to the increase in transfers to the universities and educational institutions. This was on account of the implementation of the recommendations of the Sixth Pay Commission and the salary hike and payment of arrears during that period. Thus, universities and other educational institutions which are the major stake holders in the devolution of funds appear to be the primary beneficiaries of the flow of funds from the state.

For an in-depth understanding of the flow of funds to the local bodies in Assam, we look at the share of the different local bodies in the total assistance received from the state. In 2011-12, the largest share of the funds (75.70 per cent) went to the universities and other educational institutions, followed by other institutions (8.3 per cent), autonomous councils (5.85 per cent) and municipal corporations/urban sewage board (5.3 per cent). In fact, five of the total nine local bodies (i.e.; 55.5 per cent of them) had less than 5 per cent share of the total assistance meant for local bodies. This speaks of the highly unequal distribution of funds to the local bodies. Leaving aside the share of universities and other educational institutions, a look at the distribution of the remaining amount of funds reveal that three of the eight local bodies viz. municipal corporation, other institutions and autonomous councils obtained 80.09 per cent of the total funds in 2011-12, which again represents inequality in the distribution of funds transferred from the state to the local bodies.

This uneven distribution of funds is indeed a negative aspect of the devolution of funds to the local bodies. What is more distressing is that this inequality has persisted for the last ten years, as can be seen from the respective shares of each component to the total funds allotted yearly.

Although, the assistance to local bodies has increased over the years, yet assistance or a percentage of the state's revenue expenditure is quite low. In 2002-03, assistance to local bodies formed only 12.32 per cent of the state's revenue expenditure, this share has steadily been coming down over the years and in 2011-12, assistance to local bodies formed a meagre 7.98 per cent of the state's revenue expenditure.

Since universities and educational institutions do not fall into the category of local bodies as per the constitutional specifications, hence a picture of the transfer of resources to local bodies would be misleading if this component (which also happen to take the highest share of the assistance) is included.

To get a more correct picture/idea about the state of transfers to local bodies, we compare the share of assistance to the state's revenue expenditure without including universities and educational institutions with the share where assistance includes the share of universities and educational institutions. This is presented in table 6.2.

Excluding the component, universities and educational institutions, it is seen that assistance to local bodies formed a meagre share of only 1.93 per cent of the state's revenue expenditure in 2011-12. Excepting 2004-05, when ASEB received a huge amount of funds, assistance to local bodies formed less than 4 per cent of the state's revenue expenditure throughout the entire period of study. Thus, while total assistance (i.e. inclusive of universities and other educational institutions) had a slightly higher share to revenue expenditure, actual assistance to the local bodies as defined/specified by the Indian Constitution has been dismally low. This indicates the low priority accorded to the local bodies and their development in Assam.

Table 6.2

Assistance to Local Bodies as Percentage of Revenue Expenditure

Year	Total Assistance as percentage of Revenue Expenditure	
	Including universities and other educational institutions	*Excluding universities and other educational institutions*
2002-03	12.32	1.61
2003-04	12.09	2.12
2004-05	21.45	12.46
2005-06	11.87	3.11
2006-07	11.11	3.32
2007-08	9.41	2.96
2008-09	8.02	2.19
2009-10	7.13	2.63
2010-11	9.37	2.66
2011-12	7.98	1.93

Source: Estimated on the basis of Table- 6.1

We next look at the different local bodies receiving the transfers in order to analyse the pattern of transfer of funds. Excluding university and educational institutions, it is seen that three of the eight local bodies received around 80 *per cent* of the assistance given by the state government. These bodies were 'other institutions', municipal corporations and autonomous councils. The high shares of these local bodies indicate that resource transfers from the state are guided by political and economy considerations and needs of the urban populace.

The other local bodies which received a low share of funds from the state include Zilla Parishads (ZPs), cooperatives, Assam State Electricity Board (ASEB), Assam State Housing Board (ASHB) , Assam Khadi and Village Industries Board (AKVIB) and Guwahati Municipal Development Authority (GMDA). Although after the power sector reforms and its subsequent corporatization, ASEB has little claims as a local body but, the other being local bodies, required a much higher allotment of funds from the state.

GMDA, as a local body has a greater scope for realising its own revenue compared to the rest of the local bodies and hence its low share of state's resources may be justified to a certain extent. But the other remaining bodies have limited means of generating their own resources and hence, a meagre allocation of funds towards such local bodies has adverse affects on their functioning.

Table 6.1 presented above does not contain the necessary devolution data for Zilla Parishads and other Panchayati Raj Institutions from 2008-09 onwards. Relevant data for these years was obtained from the Report of the Fourth State Finance Commission (2011). However, since there was no way of checking whether the two sets of data are comparable, hence those obtained from the Report of the Fourth State Finance Commission (2011) were not included in Table-6.1. Presented below is Table-6.3 indicating data on transfer of resources to Panchayati Raj Institutions from the state from 2008-09 to 2010-11.

Table 6.3

Transfer of Resources to Panchayati Raj Institutions

(2008-09 to 2010-11)

(in Crs)

Year	Transfer from state to Panchayati Raj Institutions under State Finance Commission Award
2008-09 (actual)	48.60
2009-10 (estimated)	67.62
2010-11 (estimated)	119.35

Source: Preliminary Report of the Fourth State Finance Commission (2011)

Although the data on total assistance to local bodies, as shown in Table 6.1, does not include the data reported in Table6.3, yet a rough idea can be drawn on the priority accorded to rural local bodies. The fact that transfers of resources to Panchayati Raj Institutions formed approximately 5% of the total assistance to local bodies (reported in Table 6.1) was an indication of the very low priority accorded to local bodies.

Rural local bodies in the state have a multifarious role to play and therefore require a sizeable amount of funds. The Fourth State Finance Commission Report (2011), points out that a sizeable amount of the funds allotted to the rural local bodies goes to meet the salary/remunerations need of the members of the Rural Local Bodies (RLBs), which means almost nothing is left to meet the developmental needs of the rural areas. This goes very much against the spirit of decentralization as mandated by the Indian Constitution.

With less than 2 per cent of the revenue expenditure in 2011-12 going towards local bodies, it is obvious that such bodies have lost their liberty in functioning and have merely become agencies involved in implementing certain central government flagship programmes like Indira Awas Yojana, National Rural Health Mission, Sarva Siksha Abhiyan, etc. Thus, whatever developmental efforts taking place, particularly in rural areas are mainly on account of such schemes rather than on the initiatives taken up by the local bodies.

6.5 DECENTRALIZATION INITIATIVES UNDERTAKEN IN THE STATE

The 73rd and 74th Constitutional amendment gave the constitutional status to PRIs and ULBs and established a system of uniform structure, holding of regular elections, regular flow of funds through Finance Commissions, etc. As a follow up, the States are required to entrust these bodies with such powers, functions and responsibilities so as to enable them to function as institutions of self-governance. In particular, the PRIs and ULBs are required to prepare plans and implement schemes for economic development and social justice including those enumerated in the Schedule XI and XII of the Constitution. Given below are a few decentralisation initiatives taken in Assam with the aim of increasing the involvement of local bodies in the development process of the state and also in improving their financial reporting processes.

- *In June 2007, Government of Assam (GOA) issued notification regarding activity mapping for 23 subjects out of 29 as listed in Schedule XI of the Constitution for devolution of 3Fs to the PRIs. Following the activity mapping which defined the functions and functionaries that are to be devolved to each tier of PRIs, Government orders were issued for devolution in respect of only seven subjects out of 23 notified. Orders are yet to be issued in respect of remaining already notified subjects. Further, activity mapping in respect of remaining six subjects are yet to be completed.* (CAG, 2012)
- *The Government of Assam amended (May 2011) the Assam Municipal Act (AMA), 1956, which provided for transfer of 3Fs to ULBs relating to 18 subject listed in the Twelfth Schedule of the Constitution and also for the constitution of a committee under the Chairmanship of Minister in charge, Urban Development Department to monitor the matter for early and smooth transfer of 3Fs. Thus, in case of ULBs, the process of decentralization has just been initiated with the recent amendment of Assam Municipal Act.* (CAG, 2012)
- *For devolution of fund, Government of Assam created a panchayat/municipality window in the State Budget earmarking every year substantial outlays under plan and non-plan in the revenue account for panchayats and municipalities. In the absence of suitable administrative machinery due to non-transfer of 3Fs to PRIs and ULBs the amount earmarked was spent through the functionaries of the respective line departments. Thus, the objective of creating the panchayat/municipality window in the State Budget was frustrated due to lack of effective and prompt action on the part of the Government to implement its own decisions on devolution of 3Fs to the local bodies.* (CAG, 2012)
- *The Government of Assam accepted (August 2004) the Model Accounting System prescribed by Ministry of Panchayati Raj (MoPR) in consultation*

with the C&AG of India for PRIs and accordingly amended the Assam Panchayat (Financial) Rules 2002 in August 2004. (CAG, 2012).

- *The State Government, in the line of National Municipal Accounting Manual (NMAM), prepared the draft State Municipal Accounting Manual (SMAM) in July 2010 which is based on accrual based accounting system and amended the Assam Municipal Act, 1956 in May 2011, to provide for maintenance of accounts on accrual basis and preparation of Receipt and Payment Accounts, Income and Expenditure Account and the Balance Sheet. However, the accounts of ULBs continued to be maintained on cash basis due to late amendment of the Assam Municipal Act and thereby true and fair view of financial affairs of ULBs and their assets and liabilities were not disclosed. (*CAG, 2012)
- *As per recommendation of Eleventh Finance Commission, the CAG was entrusted with Technical Guidance and Support (TGS) over the proper maintenance of accounts of local bodies and their audit, including providing technical guidance to the Director of Local Fund Audit in May 2002. Government of Assam again entrusted (May 2011) audit of PRIs and ULBs to CAG under Section 20 (1) of the CAG's (DPC) Act, as per standard terms and conditions in view of the recommendations of Thirteenth Finance Commission.* (CAG, 2012)
- *Under Technical Guidance and Support (TGS) arrangement, audit findings of test-check of accounts of local bodies conducted by the CAG are presented in the form of Annual Technical Inspection Reports (ATIRs) in the State Legislature. ATIRs on Local Bodies for the years 2004-05 to 2010-11 have been submitted to the State Government.* (CAG, 2012)
- *As per para 101(i) of Assam Audit Manual, Director of Audit, Local Fund (DALF) is also required to prepare an Annual Report for submission to Finance Department by 30 September each year incorporating major audit objections relating to Local Bodies*. (CAG, 2012).

6.6 CONCLUSION

Local bodies, both at the rural and urban level can play a decisive role in ensuring the progress of a state right from the grassroots level. It was with this objective that the Indian constitution had worked out the modalities of creation of a three tier governance system in the country. In Assam, local bodies had the potentiality of acting as catalysts to development, given the fact that the needs and resources of the state differ in many ways from the rest of the country. However, these bodies have not developed in the manner as desired, mainly on account of the negligible transfer of resources from the state to the local bodies. The major part of the state transfers to the local bodies goes to universities and other educational institutions, which per se do not belong to the category suggested by the Indian Constitution. The low amount of transfers together with their uneven distribution has resulted in the total neglect of a few local bodies and boards. With limited means of mobilizing its own resources, local bodies in Assam have ended up being mere agents involved in carrying out different welfare programmes sponsored by the central government.

The Fourth State Finance Commission (2011) has stated that there appears to be inordinate delay in framing the Assam Panchayat (Financial) Rules, 2002 after enactment of the principal Act in 1994. More importantly, the framing of relevant bye-laws laying down the rates of taxes, manner of collection etc are still pending. This has left the functionaries of PRIs to have a casual approach in the matter of mobilization of their own resources and dampened any enthusiasm they might have had in the matter of mobilization of their resources. Besides it tended to encourage their dependence on exogenous financial support. Therefore, to motivate the PRI functionaries to become pro-active, the required legal and administrative framework needs to be put in place.

To conclude, there is an urgent need to review the transfer of resources from the state to the local bodies in Assam. Along with the release of funds in an equitable manner, there is the need to set up a supportive legal and administrative framework that would help in providing greater operational autonomy to the local bodies which will ensure their involvement in the development process of the state. Only then can all decentralization initiatives undertaken in the state, both in the past as well as in future, succeed in the true sense, both in letter and spirit.

APPENDIX-1

JAWAHARLAL NEHRU NATIONAL URBAN RENEWAL MISSION

1. INTRODUCTION

Jawaharlal Nehru National Urban Renewal Mission (JnNURM) is a massive urban development programme undertaken by the Government of India under the Ministry of Urban Development in association with the State Governments and Urban Local Bodies (ULBs). The scheme was officially inaugurated by the Prime Minister Manmohan Singh on 3rd of December, 2005 for a period of seven years, as a mission to improve the quality of life in the urban areas of the country and development of urban infrastructure. The mission envisages investing over US $20 billion over the assigned period. Subsequently, the mission has been extended for another two years from April 2012 to March 2014.

The cities having elected urban bodies in provision are eligible for recognition under the JnNURM. A total of 67 cities have been identified for the mission. However, thirteen reforms are mandatory for state and municipalities in order to receive fund for development activities. These mandatory reforms are at the state and ULB levels as per the Memorandum of Agreement (MoA) signed between States/ULBs/Parastatal agencies and the Government of India.

At the level of ULBs, and parastatal agencies, the mandatory reforms that are expected include the following:

(a) Adoption of modern accrual-based double entry system of accounting in ULBs and parastatal agencies.
(b) Introduction of a system of e-governance using IT applications for various services provided by ULBs and parastatal agencies.
(c) Reform of property tax. It becomes a major source of revenue for ULBs and arrangements for its effective implementation so that efficiency in collection of taxes reaches at least 85 per cent within next seven years.
(d) Levy of reasonable user charges by ULBs and Parastatals with the objective that the full cost of Operation and Management (O&M) or recurring cost is collected within the next seven years. However, cities and towns in the North East and other special category States may recover only 50 per cent of O&M charges initially. However, full O&M cost recovery must be achieved in a phased manner.
(e) Internal earmarking, within local bodies, budgets for basic services to the urban poor.
(f) Provision of basic services to the urban poor including security of tenure at affordable prices, improved housing, water supply and sanitation. Delivery of other existing universal services of the government for education, health and social security is ensured.

At the level of states, the reforms include:
(a) Decentralization measures as envisaged in 74th Constitutional Amendment Act should be implemented. The State should ensure meaningful association and engagement of ULBs in planning the function of parastatal agencies as well as the delivery of services to the citizens.

(b) Repeal of Urban Land Ceiling and Regulation Act♣*.*

(c) Reform of Rent Control Laws♣ *maintaining a balance between the interests of landlords and tenants.*

(d) Rationalization of Stamp Duty so as to bring it within 5 per cent within next seven years.

(e) Enactment of the Public Disclosure Law to ensure preparation of medium-term fiscal plan of ULBs and parastatal agencies and release of quarterly performance information to all stakeholders.

(f) Enactment of the Community Participation Law to institutionalise citizen's participation and introduce the concept of the Area Sabha in urban areas.

(g) Assigning elected ULBs with "city planning function". Over a period of seven years, transferring all special agencies that deliver civic services in urban areas to ULBs and creating accountability platforms for all urban local bodies.

As per the guidelines issued by JnNURM, only cities/Urban Agglomerations (UAs) as per the 2001 census are selected for assistance of development under the scheme. The criteria and number of cities/UAs are mentioned below:

Category A	Cities/UAs with 4 million plus population	07
Category B	Cities/UAs with one million plus but less than 4 million population	28
Category C	Selected cities/UAs (state capitals, other cities/UAs with religious, historic and touristic importance)	28

Note: All the values are as per 2001 census

Number of cities equals to 63, however, four other cities were included later.

♣ In respect of people oriented schemes relating to water supply and sanitation, the mentioned State level mandatory reforms may be taken as optional reforms:

It is to be mentioned here that Guwahati comes under category C as per the coverage criteria mentioned above.

2. REFORMS UNDERTAKEN IN ASSAM UNDER JNNURM CONDITIONALITIES

In contemporary times cities and towns play vital role in the country's economic growth. As per 2011 census, approximately 31.1 per cent people live in urban areas which were estimated to grow to nearly 40 per cent by the 2021. While the scheme was designed, it was estimated that the contribution of urban area to the nation's Gross Domestic Product (GDP) would be 40 per cent by the year 2011. Thus with exponential growth in population in the urban areas as a result of migration and low death rate, there is increased pressure on availability of land and urban infrastructure. This is also the result of unplanned growth of cities and towns over the decades. Therefore, a well planned approach was very much necessary in order to accommodate the growing population with improved means of life sustainability. JnNURM is thus a holistic approach in the country's goal of making cities well developed and improved place for living.

Guwahati is recognized to be the most critical and important city in the entire North Eastern Region (NER). Given the geographical location as the gateway to the NER and its connectivity with rest of the country, the development of the city is of immense importance not only for Assam but for the entire NER. Keeping in view the development perspective of the entire NER, Guwahati is one of the 67 cities from the entire country under JnNURM getting financial development assistance.

Guwahati has two major projects that are under progress which are approved under JnNURM. One of them is Solid Waste Management with an approved cost of Rs 3516.71 lakhs and an additional central assistance of Rs 3165.04 lakhs. The other project is South and West Guwahati Water Supply Scheme in Guwahati Metropolitan Development Area with an approved cost of Rs 28094.00 lakhs and an additional central assistance of

Rs.25284.60 lakhs. In light of the assistance received under this scheme, it is important to take a look at the reforms that have been undertaken under JnNURM conditionality.

There are many mandatory and non mandatory reforms that have been undertaken in Guwahati under JnNURM. With the objectives of building Guwahati as one of the prime cities in the entire country, improved infrastructure and efficient mechanism is in place to deal with its problems and prospects several reforms were undertaken, some of which are completed and others in progress.

2.1 Mandatory Reforms Undertaken at the level of the State Government

In order to receive assistance from the Central Government, certain state level reforms are made mandatory to achieve rapid urban development. These include

i. Implementation of the 74th Constitutional Amendment Act

Reforms in the form of the 74th Constitutional Amendment were implemented in order to achieve a meaningful association and engagement of ULBs in urban development and management activities. These reforms include constitution of municipalities, composition of municipal councils, Constitution of District Planning Committee, Metropolitan Planning Committee and incorporation of *Schedule 12* into the State Municipal Act. Periodic municipal elections, as part of the reform process, were held over the last seven years.

ii. Integration of City Planning and Delivery Function

With an objective to assign and associate elected ULBs with city planning and delivery function reforms were undertaken by states/ cities in the area of institutional convergence at the city level. In most of the urban development planning and delivery service the responsibility was entrusted upon GMDA/GMC. However, in transport Assam State Transport Corporation (ASTC) also took active part. The main areas of planning and service delivery with necessary association of ULBs were land-use and spatial planning, Development of new areas, basic infrastructure services, such as water, sewerage and sanitation, urban planning including town planning, water supply- domestic, industrial and Commercial, etc. the association of ULBs were already observed with further strengthening during the mission period.

iii. Rent Control Reforms

With the objective of having a system that balances the rights and obligations of landlords and tenants to encourage construction and development of more housing stock, as well as promoting an efficient and robust rental/tenancy market, so as to improve the availability of housing across all income categories, rent control reforms were undertaken. The State Government adopted Model Rent Control Legislation circulated by the Government of India in the fourth year of the mission. The state government adopted new rent control legislation and defined rights and obligation of landlords and tenants in the third year of the mission. Other institutional reforms such as periodic review of rents/ rental value guidance, institute dispute resolution mechanisms (e.g. Special Tribunals/ Courts etc), etc were also undertaken.

iv. Rationalization of Stamp Duty

With the objective of establishing an efficient real estate market with minimum barriers on transfer of property so as to be put into more productive use, stamp duty was reduced to 5 *per cent*. The timeline of achieving the target is presented in BOX-1.

BOX-1 : Stamp duty in various period of JnNURM

Period	Year1	Year2	Year3	Year4	Year5	Year6	Year7
Rate of Stamp duty (*per cent*)		12	11	10	9	7	5

Source: Government of Assam, Guwahati Municipal Corporation

v. Repeal of Urban Land Ceiling and Regulation Act (ULCRA)

With the objective of increasing the supply of land in the market and the establishment of an efficient land market, ULCRA was repealed. Reforms were achieved in the specified period of six months from signing the MoA.

vi. Community Participation Law

With the objective of institutionalizing citizen participation as well as introducing the concept of the Area Sabha in urban areas, the enactment of Community Participation Law was undertaken. The resolution was passed within six months from the date of signing the MoA. Three tiers were intended to establish in the municipality (Municipality, Ward Committee and Area Sabha) with clear division of power, function and devolution of funds. Accordingly community participation for city development was made possible by various means in almost all the functions of the municipality except for fire service, urban forestry, protection of environment and promotion of ecological aspects, and safe guards on the interest of weaker section of the society including the handicapped and mentally retarded persons.

vii. Public Discloser Law

Under JnNURM reforms in regard to discloser of information to the public in respect of the works of the municipality, its audit report and audited financial statement, budget publication of city development plan in its web site and many others were undertaken by the Guwahati Municipality Corporation. Most of the information regarding important services such as water supply, solid waste management, building plan approval etc were disclosed either on half yearly or quarterly basis.

2.2 Mandatory Reforms Undertaken at the Level of the Urban Local Body

i. E-Governance

With objectives of having a transparent administration, quick service delivery, and general improvement in the service delivery links information technology tools were proposed to be utilized under JnNURM. Various time lines were indicated by GMC to bring in reforms in the governance of the local bodies. And accordingly various steps of reforms were made in spheres such as appointment of state level Technology Consultant, preparation of Municipality E-Governance Design Document (MEDD) etc.

ii. Municipal Accounting

Under this head, reforms was under taken in the form of double entry book keeping and accrual principles with objectives of better financial management, transparency and self reliance. This reform includes completion and adoption of Municipal Financing Accounting, appointment of field level consultants for implementation at the city level etc.

iii. Property Tax

This reform was intended to be undertaken under JnNURM in order to establish a simple, transparent, non discretionary and equitable property tax regime. Various reforms such as enhancing coverage of property tax, elimination of exemption, setting up of a non discriminatory method for determining property tax etc were adopted.

iv. User Charges

With an objective to attain self sustaining delivery of urban services by maintaining a balance between asset creation and asset maintenance, reforms were undertaken by the state in the levy of user charges on municipality services. According user charges were levied on services such as water supply, street light, hiring of municipal assets, etc which was already in placed with recovery of complete cost in Guwahati in some of the assets such as water supply and solid waste management.

v. Internal Earmarking[1] of Funds for Services to Urban Poor

In order to provide with basic amenities to urban poor, earmarking of funds became necessary as one of the mandatory reforms under JnNURM. 25 *per cent* allocation of revenue expenditure as a *per cent* of total revenue income is allocated to the provision of basic urban services to the poor and same is the case with capital expenditure.

6. Provision of Basic Services to Urban Poor

With an objective to improve the quality of living of urban poor, with the delivery of basic services to these people, a MoA was signed between the state government and the Central government which targeted the provision of water supply, sanitation and housing to cent per cent urban poor by the 7th year of the mission. However, this objective was not achieved.

3. CONCLUSION

Reforms have been initiated in Assam, both at the level of the local bodies and the state, under JnNURM conditionalities. However, it is equally important to ensure that these reforms are put in practice in the true spirit of the scheme, rather than remaining a mere paperwork. The implementation of the reforms should include measures to ensure that urban citizens have an easy access to the basic urban services that have been envisaged under JnNURM.

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[1] Refers to percentage allocation of the total estimated income that would be utilised for provision of housing and basic services to urban poor.

CHAPTER –VII

PUBLIC SECTOR ENTERPRISES AND STATE FINANCE

7.1INTRODUCTION

Public Sector Enterprise (PSE) refers to any commercial or industrial undertaking which is owned and managed by the government. Unlike private enterprise, PSEs are established in areas which call for massive investment that has a relatively long gestation period. The reluctance of private investment to venture in such areas makes it imperative for public sector to step in with the motive of enhancing social welfare and promoting economic growth.

PSEs are established in three basic forms. As **departmental undertakings**, PSEs are managed under specific government departments that are headed by a minister. It functions like any other government departments and is both functionally and financially accountable to the legislature. PSEs are also set up as **statutory corporations** on the basis of specific act of parliament/ state legislative assembly. In this case the entity assumes a distinct identity with a fair degree of autonomy that is subject to Act that defines the functions of the PSE and the rules and regulations under which it is to be governed. In the last instance PSE exists as **government companies** when the entities are registered under the Indian Companies Act, 1956 and the government holds 51 percent or more of the share capital.

7.2 PUBLIC SECTOR ENTERPRISES IN ASSAM

One of the earliest State PSU was the *Assam State Warehousing Corporation* (ASWC) which was established in 1958. In the subsequent year the *Assam Government Marketing Corporation Ltd* (AGMC) was incorporated under the Handloom, Textile and Sericulture department. In those early years two important promotional PSUs were established, i.e. *Assam Small Industries Development Corporation Ltd.* (ASIDC) in 1962 and *Assam Industrial Development Corporation Ltd.* (AIDC) in 1965. Acknowledging the importance of State PSUs in Assam's economy, the state created the *Department of Public Enterprise* in 1976 to promote, regulate and basic responsibility of framing the overall policy on the establishment, management and control of State PSUs. It also was given the responsibility of approving new proposals, undertaking performance appraisal, suggesting remedial measures, and coordinating the functions and operations of the existing PSUs in the state.

As indicated in the seven boxes below the state as on 2006 had three PSUs in the service sector, three in the Trade sector, four in the welfare sector , twelve in the promotional sector, fifteen in the production sector, and three in the construction sector.

Box-1

PUBLIC SECTOR ENTERPRISE IN THE SERVICE SECTOR					
Sl No	**Abbreviation**	**Name**	**Date of Incorporation**	**Administrative Department**	**Registered as**
1	***ASEB***	Assam State Electricity Board	20.01.1975	Power	Statutory Board
2	***ASTC***	Assam State Transport Corporation	31.03.1970	Transport	Statutory Board
3	***AUWS & SB***	Assam Urban Water Supply & Sewerage Board	09.01.1987	Urban Development	Statutory Board

Source: ***List of Public Sector Enterprise****,* Department of Public Enterprise, Government of Assam

Box-2

PUBLIC SECTOR ENTERPRISE IN THE TRADE SECTOR					
Sl No	**Abbreviation**	**Name**	**Date of Incorporation**	**Administrative Department**	**Registered as**
1	***AGMC***	Assam Government Marketing Corporation Ltd.	16.12.1959	Handloom, Textile & Sericulture	Private Company
2	***ASWC***	Assam State Ware- housing Corporation	12.08.1958	Co-operation	Statutory Corporation
3	***AGCL***	Assam Gas Company Ltd.	31.03.1962	Industries & Commerce	Private Company

Source: ***List of Public Sector Enterprise***, Department of Public Enterprise, Government of Assam

Box-3

PUBLIC SECTOR ENTERPRISE IN THE WELFARE SECTOR					
Sl No	**Abbreviation**	**Name**	**Date of Incorporation**	**Administrative Department**	**Registered as**
1	***APTDC***	Assam Plains Tribes Development Corporation Ltd.	29.03.1975	Welfare of Plain Tribes & Other Backward Classes	Private Company
2	***ASDC for OBC***	Assam State Development Corporation for Other Backward Classes Ltd.	06.08.1975	Welfare of Plain Tribes & Other Backward Classes	Private Company
3	***ASDC for SC***	Assam State Development Corporation for Scheduled Castes Ltd.	18.06.1975	Welfare of Plain Tribes & Other Backward Classes	Private Company
4	***AMDFCL***	Assam Minorities Development & Finance Corporation Ltd.	27.02.1997	Welfare of Minorities & Development	Private Company

Source: ***List of Public Sector Enterprise***, Department of Public Enterprise, Government of Assam

Box-4

PUBLIC SECTOR ENTERPRISE IN THE PROMOTIONAL SECTOR					
Sl No	Abbreviation	Name	Date of Incorporation	Administrative Department	Registered as
1	***AIDC***	Assam Industrial Development Corporation Ltd.	21.04.1965	Industries	Private Company
2	***ASIDC***	Assam Small Industries Development Corporation Ltd.	27.03.1962	Industries	Private Company
3	***AHSIDC***	Assam Hills Small Industries Development Corporation Ltd.	30.03.1968	Hill Areas	Private Company
4	***AFC***	Assam Financial Corporation	19.04.1954	Finance	Statutory Corporation
5	***AF (FD) CL***	Assam State Film (Finance & Development) Corporation Ltd.	0409.1974	Cultural Affairs	Public Company
6	***ATDC***	Assam Tourism Development Corporation Ltd.	09.06.1988	Tourism	Private Company
7	***AAIDC***	Assam Agro Industries Development Corporation Ltd.	27.01.1967	Agriculture	Private Company *
8	***ASC***	Assam Seeds Corporation Ltd.	01.04.1967	Agriculture	Private Company
9	***ASMIDC***	Assam State Minor Irrigation Development Corporation Ltd.	15.10.1980	Irrigation	Private Company*
10	***ALPCO***	Assam Livestock & Poultry Development Corporation Ltd.	06.02.1984	Animal Husbandry & Veterinary	Private Company
11	***AFDC***	Assam Fisheries Development Corporation Ltd.	01.03.1977	Fisheries	Private Company
12	***AEDC***	Assam Electronics Development Corporation Ltd.	04.04.1984	Information & Technology	Private Company

* terminated on 31-08-2006

Source: ***List of Public Sector Enterprise***, Department of Public Enterprise, Government of Assam

Box-5

PUBLIC SECTOR ENTERPRISE IN THE PRODUCTION SECTOR					
Sl No	**Abbreviation**	**Name**	**Date of Incorporation**	**Administrative Department**	**Registered as**
1	***ATC***	Assam Tea Corporation Ltd.	09.02.1972	Industries	Public Company
2	***CSM***	Cachar Sugar Mills Ltd.	27.06.1972	Industries	Public Company
3	***ASSM***	Assam Spun Silk Mills Ltd.	31.03.1960	Industries	Private Company*
4	***ASL***	Assam Syntex Ltd.	29.10.1982	Industries & Commerce	Private Company
5	***ASTCL***	Assam State Textile Corporation Ltd.	26.02.1980	Industries & Commerce	Private Company
6	***ASWMCL***	Assam State Weaving & Manufacturing Company Ltd.	28.11.1988	Industries & Commerce	Private Company *
7	***APDCL***	Assam Power Loom Development Corporation Ltd.	05.03.1990	Industries	Private Company *
8	***APM***	Ashok Paper Mill (Assam) Ltd.	07.01.1991	Industries & Commerce	Private Company
9	***APCL***	Assam Petrochemicals Ltd.	22.04.1971	Industries & Commerce	Private Company
10	***ASFC***	Assam State Fertilizer & Chemicals Ltd	30.03.1988	Industries & Commerce	Private Company
11	***FERTICHEM***	Fertichem Ltd.	29.03.1974	Industries & Commerce	Private Company *
12	***ASCON***	Assam Conductors & Tubes Ltd.	22.06.1964	Industries & Commerce	Private Company *
13	***APCDC***	Assam Plantation Crop Development Corporation Ltd.	01.11.1974	Soil Conservation	Private Company
14	***ASTBPPCL***	Assam State Textbook Production & Publication Corporation Ltd.	30.03.1972	Education (Elementary)	Private Company
15	***AMDC***	Assam Mineral Development Corporation Ltd.	19.05.1983	Mines & Minerals	Private Company

* terminated on 31-08-2006

Source: ***List of Public Sector Enterprise***, Department of Public Enterprise, Government of Assam

Box-6

PUBLIC SECTOR ENTERPRISE IN THE CONSTRUCTION SECTOR					
Sl No	**Abbreviation**	**Name**	**Date of Incorporation**	**Administrative Department**	**Registered as**
1	***AGCC***	Assam, Government Construction Corporation Ltd.	24.03.1964	Public Works	Private Company*
2	***APHC***	Assam Police Housing Corporation Ltd.	05.11.1980	Home	Private Company
3	***ASHB***	Assam State Housing Board	01.08.1974	Urban Development	Statutory Board

Box-7

PUBLIC SECTOR ENTERPRISE IN THE COOPERATIVE SECTOR					
Sl No	**Abbreviation**	**Name**	**Date of Incorporation**	**Administrative Department**	**Registered as**
1	***STATFED***	Assam State Co-operative Marketing & Consumers' Federation Ltd.	23.01.1957	Co-operation	Co-operative Society *
2	***ARTFED***	Assam Apex Weavers' & Artisans' Co-operative Society Ltd.	27.07.1977	Handloom, Textile & Sericulture	Co-operative Society
3	***NCSM***	Nagaon Co-Operative Sugar Mills Ltd.	01.09.1975	Co-operation	Co-operative Society
4	***ACSgM***	Assam Co-Operative Sugar Mills Ltd.	17.01.1955	Co-operation	Co-operative Society
5	***ACSpM***	Assam Co-Operative Spinning Mills Ltd.	22.03.1979	Co-operation	Co-operative Society
6	***SKKSS***	Swahid Kushal Konwar Samabay Sutakol Ltd	22.03.1979	Co-operation	Co-operative Society
7	***APOL***	Assam Polyester Co-Operative Society Ltd.	14.09.1981	Co-operation	Co-operative Society
8	***ACJM***	Assam Co-Operative Jute Mills Ltd.	23.10.1959	Co-operation	Co-operative Society

* terminated on 31-08-2006

Source: ***List of Public Sector Enterprise***, Department of Public Enterprise, Government of Assam

7.3STATUS OF PUBLIC SECTOR ENTERPRISES IN ASSAM

In Assam the government directly invests in PSEs. Besides it also extends financial support to the existing PSUs by extending to them loans and advances and also by guaranteeing loans and advances which they receive from third parties. By and large PSEs in general suffer from mismanagement resulting in chronic losses for the units. Time and time again the state has to offer bailout package to the loss making units which have imposed enormous pressure on state finances.

Box-8

Status of Public Sector Enterprises in 2006 *(Operationally Viable)*

Status	State Public Sector Enterprise	Administrative Department
Paying Dividend From Profit	**Assam Gas Company Ltd**	Industries & Commerce
	Assam Petrochemicals Ltd	
Profit making without accumulated loss	**Assam Co-operative Jute Mills Ltd.**	Co-operation
	ARTFED	Handloom, Textile & Sericulture
	Assam State Textbook Production & Publication Corporation Ltd.	Education (Elementary)
Loss Making but with Improving Trend	**Assam State Transport Corporation**	Transport
	Assam Tourism Development Corporation Ltd	Tourism
	Assam Electronics Development Corporation Ltd	Information Technology
	Assam Fisheries Development Corporation Ltd	Fisheries
	Assam Livestock & Poultry Corporation Ltd	Animal Husbandry & Veterinary
	Assam Police Housing Corporation Ltd	Home
	Assam Film (Finance & Development) Corporation Ltd.	Cultural Affairs

Source: Department of Public Enterprise ***Activities & Status of State Public Sector Enterprises*** Government of Assam.

Box-9

Status of Public Sector Enterprises in 2006 *(Operational but Loss Making)*

State Public Sector Enterprise		Administrative Department
Assam State Electricity Board	*Five successor companies set up under Power sector reform program*	Power
Assam Seeds Corporation Ltd		Agriculture
Assam Plantation Crop Development Corporation Ltd		Soil Conservation
Assam Mineral Development Corporation Ltd		Mines & Minerals
Assam Govt. Marketing Corporation Ltd.		Handloom, Textile & Sericulture
Assam Hills Small Industries Development Corporation Ltd		Hill Areas
Assam Urban Water Supply & Sewerage Board		Urban Development
Assam State Housing Board		
Assam Financial Corporation		Finance (Taxation)
Assam Industrial Development Corporation Ltd		Industries & Commerce
Assam Tea Corporation Ltd.		
Assam State Fertilizer & Chemicals Ltd	*Revival attempted jointly with Assam Petrochemicals Ltd*	
Assam Small Industries Development Corporation Ltd		
Assam State Warehousing Corporation		Co-operation
Assam Polyester Co-operative Society Ltd		
Assam Plains Tribes Dev.Corporation Ltd.	*Recommended for merger*	Welfare of Plains Tribes & Backward Classes
Assam State Development Corporation for Scheduled Castes Ltd.		
Assam State Development Corporation for Other Backward Classes Ltd.		Welfare of Minorities & Development
Assam Minorities Development & Finance Corporation Ltd.		

Source: Department of Public Enterprise ***Activities & Status of State Public Sector Enterprises*** Government of Assam.

Box-10
Status of Public Sector Enterprises in 2006
(Chronic Loss Making Units Closed or Facing Closure)

Status	Public Sector Units
Losing And Closure Decided By The Cabinet	FERTICHEM Ltd. Assam Spun Silk Mills Ltd Assam Powerloom Development Corporation Ltd Assam Conductors & Tubes Ltd Assam State Weaving & Manufacturing Company Ltd. STATFED Assam Govt. Construction Corporation Ltd. Assam State Minor Irrigation Development Corporation Ltd Assam Agro-Industries Dev. Corpn Ltd
Loss Making & Closure Proposal In Process	Assam State Textile Corporation Ltd. Cachar Sugar Mills Ltd Assam Syntex Ltd (under lease & in operation)
Loss Making & Inoperative	Ashok Paper Mills (Assam) Ltd (under lease & not in operation) Assam Co-operative Sugar Mills Ltd. Nagaon Co-operative Sugar Mills Ltd. Assam Co-operative Spinning Mills Ltd. Swahid Kushal Konwar Samabay Sutakal Ltd

Source: Department of Public Enterprise ***Activities & Status of State Public Sector Enterprises*** Government of Assam.

In Box-8, there are two PSEs under Industries and Commerce which are earning profits and paying dividends to the government. However in the same box, there are the important *Assam State Transport Corporation* (ASTC) and the *Assam Tourism Development Corporation* (ATDC) which are loss making but at the same time showing signs of improvement.

Box-9 contains PSUs that are loss making but operational. The list includes the critical Assam State Electricity Board (ASEB) which continues to reel under losses despite the fact that it has been disintegrated and reconstituted into five succeeding companies. The issues involved have been discussed in details in the section containing the power sector.

Finally Box-10 exhibits chronic loss making units that had been either closed down or are facing closure. This marks an end to the repeated assault by the companies on state finances.

7.4 INVESTMENT AND RETURNS

The government invests considerable resources on statutory corporations, government companies, joint stock companies and co-operatives. The basic rationale for state intervention is that these units are that it involves massive investment which has a high gestation period which acts as a deterrent for private enterprise. Besides, the presence of positive externalities in such projects implies that private initiative acting under the price mechanism will be unable to make an efficient level of provision which can serve as a serious bottleneck to the growth effort or can have adverse impact on the level of social welfare. Thus traditionally the state government had been investing heavily in PSEs in diverse areas such as the service sector, trade sector, welfare sector, promotional sector, production sector, and construction sector. The basic consideration in these investments was of course, promoting economic and social welfare and inducing rapid economic growth.

Primarily the government had undertaken heavy investment in the state PSEs with borrowed funds which had imposed considerable strain on its finances by drastically increasing its liability in the form of principal repayment and interest obligations. The inefficient performance of these PSEs which was reflected in abominably low rate of return on the investment made has over the years put considerable pressure on government expenditure in the form of interest servicing and principal repayment.

In 2002-03 the total government investment was Rs. 570.35 crs which yielded a return of only Rs. 5.93(1.04 percent). Given that fact that the government had to borrow at 9.82 % interest in that year, the loss to the government was in terms of the difference between interest paid and return was 8.78 percent. This had been the trend in the case of government investment with the average rate of return in the five year period (2002-03 to 2006-07) lying below 1 percent whereas the government had to pay on the average 8.84percent on the funds borrowed for the investment. In the subsequent period (2007-12)the average return on investment continued to be very poor (0.83 percent) although the government liability was significantly reduced by a decline in the average interest rate payable on borrowed funds to 6.82 percent in that period.

Table-7.1
Returns on Government Investment

(In crs)

Year	Investment	Return	% of Return	Average Interest Rate on Government Borrowing	Difference between Interest paid and return
2002-03	570.35	5.93	1.04	9.82	8.78
2003-04	587.89	6.88	1.17	9.97	8.80
2004-05	1952.91	9.29	0.48	8.47	7.99
2005-06	1969.95	15.47	0.79	8.18	7.39
2006-07	1984.46	18.54	0.93	7.75	6.82
2007-08	1989.32	24.00	1.21	7.14	5.93
2008-09	2079.12	19.45	0.94	6.76	5.82
2009-10	2145.42	14.92	0.70	6.83	6.13
2010-11	2165.82	14.98	0.69	6.58	6.78
2011-12	2194.84	13.64	0.62	6.78	6.16

Audit Report (State Finance) 2003-03. 2006-07, 2011-12, Government of Assam.

In 2011-12, the Assam government invested Rs. 21.60 crs in Statutory Corporations, Rs. 3.29 crs in Co-operative Societies, Rs. 4.13 crs in Government Companies. The investment in Statutory Corporations was allocated between Assam State Warehouse Corporation (Rs. 15.50 crs) and Assam State Transport Corporation (Rs. 6.10 crs).

As on 2011-12 the accumulated losses between the three Statutory Corporations were Rs. 578.29 crs where as the accumulated losses of the 20 loss making government companies were Rs. 330.67 crs. The government announced the initiation of a disinvestment policy targeting chronic loss making PSEs to cut further losses in August, 2012

Box-11. (In crs)

Public Sector Enterprise	Accumulated Loss	Type
ASSAM STATE FINANCIAL CORPORATION	0.80	*Statutory Corporations*
ASSAM STATE WAREHOUSING CORPORATION	7.73	
ASSAM STATE TRANSPORT CORPORATION	569.76	
ASSAM INDUSTRIAL DEVELOPMENT CORPORATION	123.94	*Government Companies*
ASSAM AGRO INDUSTRIES DEVELOPMANT CORPORATION	30.69	
ASSAM SEED CORPIORATION LTD	24.70	
ASSAN TEA CORPORATION LTD	55.10	
ASSAM MINERAL DEVELOPMENT CORPORATION LTD	4.76	

Audit Report (State Finance) 2011-12, Government of Assam.

7.5GOVERNMENT LOANS AND ADVANCES

Besides investing in PSEs, the state also extends loans and advances to the needy units. The creditworthiness of the PSEs is extremely poor as indicated by inept history in debt servicing. The interest received against the outstanding loans and advances continues to be extremely insignificant. Thus in the period 2002-03 to 2006-07, the total interest received was negligible at even less than 0.5 percent of the total loans and advances outstanding. As usual the biggest recipient of the loans in 2006-07 were power projects which were sanctioned Rs, 72.54 crs.

Table-7.2
Interest Received on Goverment Loans

Head	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Opening Balance	2832	2935	3022	2607	2675	2721	2824	2878	2944	2987
Advance	131	128	974	106	81	143	89	99	71	88
Repayment	28	41	1389	38	35	40	35	33	28	21
Closing Balance	2935	3022	2607	2675	2721	2824	2878	2944	2978	3054
Net Addition	103	87	-	68	46	103	54	66	43	67
Interest Received	1	4	7	6	8	8	81	12	8	11
% of Interest on Outstanding Loans	0.03	0.13	0.27	0.23	0.29	0.28	2.81	0.41	0.27	0.36
Average Interest on Govt. Borrowing	9.82	9.97	8.47	8.18	7.75	7.14	6.76	6.83	6.58	6.78
Net Interest Paid over interest receipt	9.79	9.84	8.20	7.95	7.46	6.86	3.95	6.42	6.31	6.42

Source: *Audit Report (State Finance)* 2003-03. 2006-07, 2011-12, Government of Assam.

The total outstanding loans and advances decreased from Rs. 2935crs in 2002-03 to Rs. 2721crs in 2006-07 and subsequently went up to Rs. 3054 crs in 2011-12. Although the total outstanding had fluctuated within a narrow corridor however interest receipt continued to remain very poor causing an immense strain on state finance which is mostly financed from government borrowing. For instance in 2001-12 of a total outstanding of Rs. 3054crs the interest received was only Rs. 11 crs amounting to 0.36 percent of the total outstanding. Given the fact that the government had to pay on the average an interest of 6.78 percent on borrowed funds, the loss emanating from the net interest payment (interest rate of borrowed funds – rate of interest received from funds lent to PSEs) amounted to 6.42 percent.

Out of the Rs.88 crs loans disbursed in 2011-12, the major portion was allocated to Economic Services (Rs. 70.43 crs), Rs. 11.37 crs went to Social Services, and an amount of Rs. 6.47crs was directed towards government servants. As in the earlier period, power project got the lion share of the loans disbursed by cornering 91 percent of the entire allocation made in Economic Services. Besides the negligible payment of interest by these entities the most damning part of the entire exercise lies in the fact that in 2011-1112 only 0.70 percent of the outstanding loans were repaid by the concerned borrowers implying that the magnitude and the trend of the arrears were unsustainable.

Besides directly investing in PSEs and also lending to them, the government also extends financial support to these units by guaranteeing the loans which they raise. Guarantees are liabilities contingent on the Consolidated Fund of the state in case of default by borrowers for whom the guarantee has been extended. These Guarantees, which are of the form of Contingent Liabilities, and their impact on state finance has been independently discussed under a separate chapter.

7.5. CONCLUSIONS

The state PSUs had been established with the basic objective of promoting rapid economic growth and enhancing social welfare. The rationale for state intervention is based on the fact that in many critical areas of creation of social and economic infrastructure, the colossal size of the required outlay and the long gestation period acts as a strong deterrent to private investment. Under the circumstances the state cannot remain indifferent to the lacuna of non-existent or inadequate social and economic infrastructures which prevents sustainable growth by inhibiting privative enterprise. Again the state also operates in areas where the market mechanism operates reasonably well. Government provision is used to supplement private supply on the rationale that the state intervenes only in the case of merit goods that exhibit positive externalities. This of course is theoretically tenable as the market mechanism is deemed to under-provide goods that exhibit external benefit.

Despite the good intensions the state PSEs have failed to achieve their objectives both functionally and financially. The history of PSEs has been replete with mismanagement, functional inefficiency, financial impropriety and chronic loss making. The enormous political pressure on the government to provide repeated bailout packages to loss making and even unviable sick units had put an enormous strain in state finances. This is evident in the rate of returns of the state PSEs vis-à-vis the rate of interest which the government has to pay on the funds borrowed for the investment. The non-viability of the state PSEs are also evident in their utter inability to service the loans and advances which had been extended by the state. The seriousness of the problem can be gauged from the fact that not only do the PSEs fail to meet their interest commitment they also frequently default on the principal repayment. The pressure of state finances is further extended by the contingent liabilities that occur with the state guarantees on the basis of which the PSEs raise loans from the market. With their failure even to service the market loans, the liabilities of interest payment and principle repayment had falls entirely on the government as the guarantee of the loan. The government is now facing repeated invocation of their guarantees and also has to contend with growing litigation with banks and other financial institutions over dues that were guaranteed.

The state government has adopted a strategy of calibrated disinvestment of the loss making PSEs. It is essential that the process is continued despite strong opposition from retrenched workers and other stakeholders so that the government can avoid repeated fiscal crisis. It is also imperative that scarce critical resources are not frittered away for petty political considerations which endanger the fiscal stability of the state. The government has also embanked on ambitious reforms in the power sector whose success remains very critical for the state. The state needs to adopt measures that impart flexibility to the PSEs with corresponding increase in accountability of the management. Critical decisions based on political considerations plays havoc with the finances and functioning of the PSEs which has to be substituted with professional management and adoption of good practices. Despite the return to the market in recent years the PSEs in a relatively underdeveloped state like Assam has yet a crucial role to play and their revival remains one of the biggest challenges of the government.

CHAPTER-VIII

CONTINGENT LIABILITIES IN ASSAM: AN EVALUATION

8.1 INTRODUCTION

Contingent liabilities refer to liabilities that are conditional upon predefined events or circumstances. These mainly include the state government guarantees in respect of bond issued and other borrowings by the State Level Public Sector Undertakings or other bodies. In case of any default by the borrowing entity, the responsibility squarely falls on the government to redeem the borrowed amount. Therefore, it can be defined as obligations triggered by a discrete event that may or may not occur. The visible costs of financial crisis are well known such as bank recapitalisation, stimulus spending and shrunken tax revenues. But, another set of liabilities which are often ignored are contingent liabilities which bear potential financial risks conditioned upon the occurrence of the event. The analysis on the sustainability of the contingent liabilities of the state has gained importance due to its association with major hidden financial risk relative to government policies. Often they are not visible until they are triggered and therefore represent hidden fiscal risk and have the potential to drain future government finances. Based on this argument, the main distinction between government's contingent and non contingent liabilities is that while nominal obligation and the settlement dates of non contingent liabilities are fixed at the date of issue whereas, in case of the former (contingent liabilities), the timing and amount of the obligation depends on the occurrence of the event such as default by the principal borrower, which is highly uncertain. For proper understanding, contingent liabilities can be divided into explicit and implicit contingent liabilities.

8.2 EXPLICIT AND IMPLICIT CONTINGENT LIABILITIES

Contingent liabilities may be both explicit and implicit. Explicit liabilities are recognised by law or contract such as state guarantees issued on behalf of sub national governments and public and private sector entities. Among other things, trade and exchange rate guarantees offered by the state, state insurance schemes such as for deposits, floods, crops etc also fall in the explicit contingent liabilities category. Thus, explicit contingent liabilities are the contractual liabilities of the government in case of any eventual default by the borrower either on principal amount or on interest payment or on both.

On the other hand, implicit contingent liabilities of the government mainly reflect public expectation. It includes bank failures (support beyond state insurance), failure of non guaranteed pension funds and other security funds, default of public entities on non guaranteed debts, environmental recovery, disaster relief etc. Together these two forms of contingent liabilities constitute a major form of obligation on the part of the government. Implicit contingent liabilities are more serious as it tends to grow with weakness in the financial sector, macroeconomic policies, regulatory and supervisory system.

8.3 RELEVANCE OF CONTINGENT LIABILITIES

Conventional fiscal adjustment programme which aims at reduction of fiscal deficit and debt does not necessarily prevent fiscal instability due to lack of emphasis on hidden fiscal risks associated with contingent liabilities. However, at present it has been realised at both national and international levels that in order to attain fiscal stability and sustainability, a comprehensive understanding of risks associated with contingent liabilities is a necessary condition. There is substantial fiscal risk associated with government contingent liabilities. Liabilities due to state insurance schemes (bank deposits, crops, minimum return from pension funds, floods, earthquakes and other natural disasters) constitute a major threat to fiscal balance in the future. Eventuality of these incidents may results in huge losses of resources and escalating burden on the state finances. Therefore, any policy formulation aimed at fiscal sustainability and stability without taking in due consideration of contingent liabilities of the state would result in non fulfillment of its objectives.

8.4 CONTINGENT LIABILITIES OF ASSAM

Guarantees of loans on behalf of the principal borrowers (such as State Public Sector Undertakings) are contingent on the Consolidated Fund of the state in case of any default by the borrower for whom the guarantee has been extended. As per the constitution of India, states are allowed to borrow within the territory of India under the security of the consolidated fund, as by the revision of the state legislature periodically. Keeping in view several factors such as persistent high fiscal deficit prior to 2004-05, resource scarcity of public sector enterprises, and overall fiscal health of the state, a ceiling of Rs 1500 crore was fixed for one financial year on guarantees to be given with effect from April, 2000. Financial support to the public enterprises in terms of loan guaranteed was important because industrial growth rate in the state has not been very satisfactory for last many decades. On the other hand, too much guarantees by the government may also lead to inefficiency in the performance of the entity.

However, implicit contingent liabilities can only be partially controlled by sound macroeconomic policies and rest has to be borne by the state. But, after the enactment of Assam Fiscal Responsibility and Budget Management Act, 2005, State government guarantees had to be restricted to 50 per cent of State's own revenue of the second preceding year. The maximum amount for which guarantees were given by the state and outstanding amounts of these guarantees in the study period are presented in Table 8.1.

Table 8.1
Contingent Liabilities of Assam

(in crs)

Year	Maximum amount guaranteed	Outstanding Liabilities (OL)*	OL as % of State's Own Revenue of second preceding year	Maximum amount as % of Revenue Receipt
2002-03	2888	1881	90	42.51
2003-04	2904	1833	70	37.40
2004-05	1034	711	24	10.41
2005-06	1727	1273	34	14.34
2006-07	1563	904	19	11.44
2007-08	1189	951	20	7.76
2008-09	1029	796	15	6.04
2009-10	593	299	5.44	2.98
2010-11	652	247	3.85	2.83
2011-12	652	259	3.35	2.37

* includes interest

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

Contingent liabilities of Assam in the initial stage of the study period were quite high and outstanding liabilities of the state were beyond the prescribed limit of Rs.1500 crore by the state legislature. Even before the study period i.e.; in 2000-01 and 2001-02, there was violation of the limit of contingent liabilities. In the year, 2002-03 and 2003-04, contingent liabilities constituted almost 90 per cent and 70 per cent of the state's own revenue, which was not a very healthy sign for the economy. This could bear two very important consequences on the overall economy. First, public sector enterprises were insolvent and were unable to meet their financial requirements by means of user cost and other revenue collection. Second, the liability of the insolvency of these PSEs was continuously falling on the state. The maximum amount guaranteed stood respectively at 42.51 per cent and 37.40 per cent of revenue receipt in the year 2002-03 and 2003-04 respectively. This was mainly due to excessive guarantee of loans to power sector. As a result of high contingent liabilities, fiscal liabilities of the state (which includes contingent liabilities) exceeded two times the revenue receipts of the government for the period 2002-04. Fiscal liabilities became a matter of concern because it raised the issue of sustainability. The Government of Assam's debt sustainability was at stake because the average interest paid at these liabilities is higher than the rate of growth of GSDP at current prices.

However, after the enactment of the FRBM Act, there was considerable decrease in contingent liabilities of the state government. There has been continuous decrease in contingent liabilities of the state government during the time period 2004-05 to 2011-12 except for the year 2005-06 when the outstanding liabilities increased to Rs1273 crore from Rs. 711 crore in the preceding year. However, it is to be noted that even the increased in contingent liabilities in the year 2005-06 was within the prescribed limit of the FRBM Act in terms of percentage of state's own revenue of second preceding year. A major proportion of the outstanding liabilities of the state government have been provided to power sector during the period of study. It is worth mentioning here that Assam has achieved the goal of fiscal consolidation by fulfilling almost all the criteria of the FRBM Act until 2011-12.

In order to deal with contingent liabilities of the state, the Twelve Finance Commission has recommended the state governments to constitute a Guarantee Redemption Fund. However, Assam implemented this recommendation only in September 2009 and thereby constituted the fund to meet the payment obligations arising out of the guarantees issued by the state government in respect of bond issued and other borrowings by the State Level Public Enterprises and other bodies. The fund would be utilized only to make payment of the guarantees issued by the government and not by the institution on whose behalf guarantee was issued. As per the guidelines of the scheme, the fund was set up with an initial contribution of Rs.5 crore by the government and during each year the government would contribute an amount equivalent to at least 3 per cent of the outstanding guarantees at the end of the second preceding financial year. There is also provision of suitable budget provision under the revenue expenditure side.

8.5 CONCLUSION

It can be inferred from the above discussion that the analysis of contingent liabilities is of immense importance as it may drag down the status of state finances. There has been significant decline in the amount contingent liabilities during the period of study. As major portion of the guarantees of the state government are provided to power sector during the study period, the Government of Assam may consider proper financial reform of the power sector. But, Assam is well within the safe limit as far as the intensity of contingent liabilities is concerned during the study period.

CHAPTER IX

PUBLIC EXPENDITURE AND FINANCIAL MANAGEMENT (PEFM) REFORMS

9.1 INTRODUCTION

In the Indian federal setup the expenditure responsibilities relating to social sector and economic infrastructure are largely assigned to the State Government. Enhancing human development levels requires the states to step up their expenditure on key social services like, education, health etc. But improper public expenditure management may result low level of expenditure in a critical sector. The low level of spending on any sector by a particular State may be either due to low fiscal priority attached by the State Government or due to the low fiscal capacity of the State Government or on account of both operating together. The low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if it is below the respective national average while the low fiscal capacity would be reflected if the State's per capita expenditure is below the respective national average even after having a fiscal priority that is more than or equal to the national average (Government of Assam, 2010). It is therefore necessary for proper financial management reforms for uninterrupted flow of funds for different expenditure responsibilities of the state.

Proper public expenditure and financial management reform measures have a positive impact on the pattern and quality of government expenditure. The importance of reform in public expenditure management is apparent from the fact that availability of fund or lack of it for different expenditure obligations actually determines the economic growth and development of a state. Since there is a limited scope for mobilizing resources through deficit or borrowings within the framework of fiscal responsibility legislations, it is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially expenditure directed towards development and social sectors. In this context, the proper use and application of financial reform enables the state government to allocate funds for different activities both efficiently and adequately.

9.2 FINANCIAL REFORM AND EXPENDITURE MANAGEMENT

Along with other state governments, the Government of Assam faced the problem of fiscal instability during the later part of 1990s. The crisis forced the state government to adopt a series of financial reforms. The reforms adopted by the state government through proper expenditure management strategies are discussed in the following section .

9.2.1 Agreements with the Central Government

In pursuance of the decision taken by the Committee of the National Development Council, an agreement was signed (13 January, 2000) between Ministry of Finance, Government of India and the State Government regarding measures to be adopted to deal with the fiscal imbalances arising out of the revenue deficits and resultant recurring overdrafts of the State Government (Government of Assam, 2001). A Memorandum of Understanding (MoU) was signed by the State Government with the Central Government on March 26, 2003. The key performance indicator as detailed in the MoU was to reduce the ratio of revenue deficit to revenue receipts by five percentage points every year from an estimated 14.54 percent in 2000-01 to 0.84 percent in 2004-05. The state government was not able to achieve this target as the ratio declined from 13.82 percent in 2000-01 to 2.92 percent in 2004-05 (Government of Assam, 2003).

9.1.2 Fiscal Responsibility Legislation

As discussed earlier**,** a major financial reform of the state was the adoption of the Assam Fiscal Responsibility and the Budget Management Act (AFRBM) in line with the recommendation of the Twelfth Finance Commission. The act was influenced by

Maastricht Treaty and U. K. Golden rule (Srivastava, 2003). The AFRBM Act was enacted in May 2005 to ensure fiscal stability, sustainability, improve efficiency and transparency in public finances. The Act prescribed different fiscal targets for the state government such as elimination of revenue deficit, reduce the fiscal deficit to 3 percent of GSDP, expenditure on account of salary and wages of the employees of the State Government to be contained within 60 percent of the total tax and non-tax revenue of the State Government and restrict the total debt stock of the state government including the government guarantees to 45 percent of the GSDP etc.

9.1.3 New Pension Scheme

The expenditure on pension is one of the biggest liabilities of the state government. Pension expenditure had been increasing at a very high rate during the nineties of the previous century as discussed in the previous chapters. Considering the gravity of the problem, the Central government urged the state government to impose new pension scheme. Karnataka was the first state to implement the new pension scheme in September 2002. The Government of Assam introduced the New Pension Scheme in September 2002.

9.1.4. Consolidated Sinking Fund

Another important fiscal development in terms of fiscal management for the state was that in line with the recommendations of the Twelfth Finance Commission, the state government set up the Sinking fund for amortization of the market borrowings as well as other loans and debt obligations. As on 31 March 20011-12, the balance in the sinking fund was Rs. 2010.10 crore. During the year 20011-12, Rs. 833.35 crore was invested in the sinking fund.

All the above mentioned reform measures have helped the state to achieve the target on expenditure particularly as set by the Assam Fiscal Responsibility and Budget Management Act (RBI, 2010; Government of Assam, 2009). Besides, the multifaceted strategy had promoted the proper and appropriate use of government resources thus ensuring for the state, an uninterrupted flow of funds for development activities.

9.2 FINANCIAL ANALYSIS OF GOVERNMENT INVESTMENTS

The financial analysis of government investment is important as the State is expected to keep its fiscal deficit (and borrowing) not only at low levels but also meet its requirements for capital expenditure or investment (including loans and advances) particularly after the post-FRBM scenario. On the other hand increasing dependence on market based resources has compelled the state government to initiate measures to earn adequate return on its investments and recover the cost of borrowed funds rather than bearing the same on its budget in the form of implicit subsidy. Resources mobilized from the market also demand the adoption of requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during the period under consideration.

9.2.1 Investment and Return of the State Government

For a healthy and self-sustaining fiscal position, it is necessary that the government should earn sufficient return from its investments in different sources such as statutory corporation, rural banks, joint stock companies, co-operatives and government companies. Table 9.1 shows the difference between interest paid and return from investments in different sources. It is clearly evident from Table 9.1 that the total investment of the government on statutory corporation, joint stock companies and co-operatives has increased from 514.35 crore in 2001-02 to 1984.46 crore in 2011-12. The computed compound growth rate of total investment is found to be 15.61 percent during the period under consideration. The difference between interest paid and return is found to be large and positive implying that return on government investment is very low compared to interest paid by the government.

TABLE 9.1

Time Series Data on Return on Investment of the Government

(in crore)

Year	Total Investment	Return	Rate of Return	Average rate of interest on Government Borrowing	Difference between interest paid and return
2001-02	514.35	0.83	0.16	9.70	9.54
2002-03	570.35	5.93	1.04	9.82	8.78
2003-04	587.89	6.88	1.17	9.97	8.80
2004-05	1952.91	9.29	0.48	8.47	7.99
2005-06	1969.95	15.47	0.79	8.18	7.39
2006-07	1984.46	18.54	0.93	7.75	6.82
2007-08	1989.32	24	1.21	7.14	5.93
2008-09	2079.12	19.45	0.94	6.76	5.82
2009-10	2145.42	14.92	0.70	6.83	6.13
2010-11	2165.82	14.98	0.69	6.58	5.89
2011-12	2194.84	13.64	0.62	6.78	6.16

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'. Various issues (2002-2012)

9.2.2 Loans and Advances by the State Government

In addition to investments in co-operative societies, Corporations and Companies, Government has also been providing loans and advances to many of these institutions and organizations for developmental purposes. Table 9.2 presents the year wise outstanding loans and advances; interest receipts vis-à-vis interest payments during the period under consideration**.**

Tables 9.2 present a detailed analysis of year wise loans and advances provided by the state government for different developmental activities. It has been found that there is a huge gap between interest receipts as percent of outstanding loans and advances and average rate of interest on government borrowings. In other words, the state government has to bear the burden of the difference between of interest on government borrowings and interest receipt on its loans and advances.

<u>Table 9.2</u>

Average interest received on Loans by the State Government

(in crs)

Year	Opening Balance	Amount Advanced	Amount Repaid	Closing Balance	Interest Receipt	Interest receipt as per cent to outstanding loans and advances	Average rate of interest on government borrowings	Difference between interest payment and interest receipts
2001-02	2778	82	28	2832	1	.03	9.70	9.67
2002-03	2832	131	28	2935	1	0.03	9.82	9.79
2003-04	2935	128	41	3022	4	.13	9.77	9.84
2004-05	3022	974	1389	2607	7	0.25	8.47	8.22
2005-06	2607	106	38	2675	6	0.22	8.18	7.96
2006-07	2675	81	35	2721	8	0.29	7.75	7.46
2007-08	2721	143	40	2824	8	0.28	7.14	6.86
2008-09	2824	89	35	2878	81	2.81	6.76	3.95
2009-10	2878	99	33	2944	12	0.41	6.83	6.42
2010-11	2944	71	28	2987	8	0.21	6.58	6.31
2011-12	2987	88	21	3054	11	0.36	6.78	6.42

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'.
Various issues (2002-2012)

9.2.3 Management of Cash Balances

To take care of any temporary mismatches in the flow of resources and expenditure obligations, a mechanism of Ways and Means Advances (WMA) i.e. ordinary and special- from Reserve Bank of India has been put in place. The operative limit for normal WMA is reckoned as the three year average of revenue receipts and the operative limit for special WMA is fixed by Reserve Bank of India from time to time depending on the holding of Government securities. It is generally desirable that the State's flow of resources should match its expenditure obligations making it unnecessary to avail the option of WMA.

Table 9.3

Ways and Means Advances and Overdraft

Year	***Ways and Means Advances***					***Overdraft***			
	Availed In the year	**Number of occasions**	**Outstanding WMA, if any**	**Interest Paid**	**Number of days**	**Availed in the year**	**Number of occasions**	**Number of days**	**Interest paid**
2001-02	608.66	30	176.71	121.53	30	5749.87	111	312	17.70
2002-03	955.84	39	226.39	11.60	39	4533.27	116	315	32.68
2003-04	2092.32	53	227.96	14.26	53	4343.54	104	237	23.10
2004-05	4288.55	81	317.89	10.15	81	1782.80	64	129	3.69
2005-06	1652.63	32	-	3.15	32	228.07	08	30	0.63
2006-07	-	-	-	-	-	-	-	-	-
2007-08	-	-	-	-	-	-	-	-	-
2008-09	-	-	-	-	-	-	-	-	-
2009-10	-	-	-	-	-	-	-	-	-
2010-11	-	-	-	-	-	-	-	-	-
2011-12	-	-	-	-	-	-		-	-

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)'.
Various issues (2002-2012)

WMA and overdrafts availed; the number of occasions when these were availed and interests paid by the State are detailed Table 9.3. It is evident from the table that the state has been resorting to ways and means advances and overdraft during the period 2001-02 to 2005-06. The State Government did not avail any WMA and overdrafts during the time period 2006-07 to 2011-12 indicating the sufficiency of cash balances of the state government. The reason for cash accumulation was attributed to conservative approach in capital spending since the capital outlay as a percentage of total expenditure ranged between 8 to 14 percent during the period from 2007-08 to 2011-12 (Government of Assam 2012). The cash balances enabled the state government to invest in government of India treasury bills and securities of the Government of India.

9.3 CONCLUSION

It has been found that the state government has taken a series of financial reform measures which has helped the state government for uninterrupted flow of funds for developmental activities. But still there is a huge gap between investment and return of the government. Similarly there is a huge gap between interest receipt from loans and advances of the state government and average interest on government's borrowings. In view of the comfortable cash balances during the time period from 2007-2008 to 2011-2012, the State may consider to defer or resort to more need based borrowing programme in a cost effective manner. The State may consider of identifying a clear shelf of projects which require capital investment and borrow only to that extent that is endorsed by a realistic assessment of cash needs that is complemented by effective cash management for better synchronization of cash inflows and outflows. This will at the same time curb unwarranted build-up of cash surplus as well.

CHAPTER X

POWER SECTOR REFORMS IN ASSAM

10.1 INTRODUCTION

Power is a critical infrastructure for economic growth. Recognizing its vital importance as an input both in agriculture as well as in industry, the power sector in India had been receiving subsidies from the governments in all the states for quite some length of time. The reasons for the continuance of subsidies, which finally are supposed to benefit the consumers, have been both economic and political. However, over the years, the large burden of the subsidies started affecting the fiscal health of the states, and accordingly, power sector reforms were initiated in the country in 1991, enabling private sector investment in generation of power. State governments also followed up by reforming state owned utilities. Orissa was the first State to implement comprehensive reforms by reorganizing Orissa State Electricity Board and privatizing the distribution sector in 2000.

The present chapter makes an attempt to examine the various aspects of the power sector reforms that have taken place in Assam. Section 10.2 discusses the various reforms that have been taken place in the power sector of the state while section 10.3 gives a brief overview of the performance of the sector. Section10.4 assesses the impact of power sector reforms on the fiscal health of Assam and the conclusion is presented in section 10.5.

10.2 POWER SECTOR REFORMS IN ASSAM

In Assam, the Department of Power (Electricity), Government of Assam is primarily responsible for providing adequate and quality power to the people of the State. The Department formulates policies and programmes and monitors their implementation in order to achieve the objective of providing power to the state. It also provides a legal and policy framework for smooth functioning of the delivery system and coordinated development of the power sector in the state.

Prior to the reforms, the Department carried out its responsibility in the field through the Assam State Electricity Board (ASEB). The ASEB was created in 1975 under the Electricity (Supply) Act 1948 and was the sole agency to generate, transmit and distribute electricity to the entire state of Assam.

By the year 2000, the power sector in Assam was suffering from serious financial crunch owing to its inability to generate resources on its own. There was lack of funds for investments; the ASEB defaulted in making payments to its lenders like Rural Electrification Corporation and payments to bondholders, power suppliers like NEEPCO, gas suppliers like GAIL and OIL and other material suppliers. Overdue of ASEB to these agencies ran into thousands of crores of rupees. Power suppliers were threatening disconnection of Assam from the regional grid. Credit rating of the ASEB was so poor that no lender was willing to advance loans. Karbi Langpi Hydro-electric Project could not be completed for many years on account of many reasons, most important of which was the lack of funds. The net impact of all this was that the State had severe power shortage. The quality of power supply to consumers was extremely poor as there were rampant problems of low voltage, frequent tripping of the system and unscheduled load shedding. ASEB was also suffering huge technical and commercial losses. Under these circumstances the Government of Assam decided to undertake comprehensive reforms of the power sector so as to supply quality power at reasonable rates to the consumers.

The process of power sector reforms in the state started with a Memorandum of Understanding (MOU) signed by Government of Assam and ASEB with Government of India on Power reforms in February 2001. A Tripartite Agreement was signed between Government of India, Asian Development Bank & Government of Assam in December 2003. The Asian Development Bank (ADB) agreed to provide 250 m US$ loan (Programme Loan 150 m US$ and Project Loan 100 m US$). The programme loan of 150 m US$ was to be utilized to liquidate liabilities of ASEB and the project loan of

100m US$ was to be utilized for construction of new transmission lines, creation, augmentation and extension of sub-station, replacement of breakers, bus capacitors, replacement of meters, installation of meter testing benches etc. ADB loan disbursement of 100 m US$ was completed in June 2009.

A major initiative undertaken as part of the power sector reforms in the state was the unbundling of ASEB into five different companies allocating generation, transmission, and distribution activities among separate companies. These five companies were

Lower Assam Electricity Distribution Company Ltd **(LAEDCL)**

Upper Assam Electricity Distribution Company Ltd **(UAEDCL)**

Central Assam Electricity Distribution Company Ltd **(CAEDCL)**

Assam Power Generation Company Ltd **(APGCL)**

Assam Electricity Grid Corporation Ltd **(AEGCL)**

APGCL was assigned the task of power generation, AEGCL was to ensure the transmission of power and LAEDCL, UAEDCL and CAEDCL were the companies assigned with the work of distribution of electrical power. On 13th May, 2009, the Government of Assam transferred, vested the functions, properties, interests, rights, obligations and liabilities of UAEDCL and CAEDCL along with the personnel of the said companies into LAEDCL with effect from 1st April 2009 and the name 'Lower Assam Electricity Distribution Company Ltd.' was changed to 'Assam Power Distribution Company Limited' (APDCL).

The work of fixation of tariff for electricity in the state was assigned to the Assam Electricity Regulatory Commission (AERC) which was established in February, 2001 as per provisions of Electricity Regulatory Commission Act 1998. The functions of AERC included determining the tariff for electricity whole sale, bulk, grid or retail as the case may be in the manner prescribed in the Act, determine the tariff payable for the use of the transmission facilities as well as regulating power purchase and procurement process of the transmission utilities.

10.3 PERFORMANCE OF THE POWER SECTOR IN ASSAM

The peak demand for power in the State varies from 720 MW to 780 MW out of which only 130 MW to 150 MW of power is being generated from its own power stations. Around 400 MW power is imported from Central Sector Generating Stations in North Eastern Region and remaining from other sources like private producers, Power Trading Agencies etc. There is a shortfall of about 100-150 MW during peak demand. To meet the above gap between energy demand and supply, APGCL at the initiative of Government of Assam, has emphasized on development of large capacity thermal power projects based on coal and natural gas available in the region. This will in a way minimize overdependence on hydro power, particularly during periods when there is lean hydro generation. To boost up own generation, thrust has been given on the implementation of new projects in the State as well as revamping of existing projects. The Department is also exploring the possibility of harnessing mini and small hydro electric power in the State.

As regards transmission of power, the state has an extensive Transmission & Distribution network. 220 KV is the highest transmission voltage adopted by ASEB and it has 1385 of grid lines in this category. To improve the quality of power supply to the consumers of the State, importance has been given to the completion of the major transmission projects with funds available from the Government of India under Non Lapsable Central Pool of Resources (NLC PR) especially for the North Eastern States of the country as well as from the Asian Development Bank. Between 2006-07 and 2010-11, the Assam Electricity Grid Corporation Limited (AEGCL), with the financial assistance of Asian Development

Bank, completed the construction of 12 numbers 220 KV and 132 KV-EHV substations, 12 numbers of 220 KV and 132 KV transmission lines, extension augmentation and refurbishment of existing 14 grid substations, extension of line bays in 8 substations and reactive power compensation at 33 KV bus in17 grid substations[2]. Apart from the above mentioned projects, a number of other similar projects have been taken up by AEGCL with funding from the Non Lapsable Central Pool of Resources (NLCPR), Government of Assam, North East Council (NEC) and also by AEGCL.

In case of distribution, steps have been taken for installation of new distribution substations, 100 per cent consumer metering and replacement of defective meters by electronic meters, complete energy auditing, computerization of consumer billing, etc covering all the 14 Electrical Circles of the state.

With a view to achieve electrification of all villages of Assam and provide access to electricity to all households in line with the National Rural Electrification Policy 2004 and Rural Electrification Policy of Govt. of Assam, Rural Electrification works particularly under Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) scheme have been carried out. Under this scheme all the census villages of Assam are proposed to be electrified by 2009. Electrification in 16 districts is to be implemented by ASEB and in 7 districts by the Power Grid Corporation of India. District wise schemes for electrification of villages have been submitted to the Government of India and approval for 13 districts has already been received.

For the 2145 remote villages in the state which cannot be electrified through grid, the Ministry of New and Renewable Resource of Energy Programme (MNRE) programme intends to enable their electrification through the means of non conventional source of energy.

These are thus some of the ongoing activities of the power sector in Assam. Given the fact that major initiatives have been taken up in the state for improving the performance

[2] Source: Website of Assam Electricity Grid Corporation Limited.

this sector, it is instructive to see whether these steps have had any positive impact on the fiscal health of the state.

10.4 Impact of Power Sector Reforms on the Fiscal Health of Assam

Prior to the reforms, the state government faced two problems in the power sector. First was the financial burden imposed by the state PSE, Assam State Electricity Board (ASEB) and second was the poor quality of power supply in the state. While the first problem had a direct bearing on the state finances, the second problem had affected the development prospects of the state, which is bound to affect the financial position of the state in the long run. We take a look at the impact of power sector reforms in light of these two events, i.e. whether the state's financial position has improved after the initiation of reforms, and secondly, whether the power supply position in the state has improved after reforms.

The World Bank Report on State Fiscal Reforms in India (2005) states that one way to measure the burden of the power sector was to look at the gap between the costs and revenue (before subsidy) in this sector. Accordingly, to assess the impact of power sector reforms on the fiscal health of the state's economy, we take a look at the profit and loss statements of the constituent bodies of the erstwhile Assam State Electricity Board. If these companies have been able to break even or make profits, the burden on the state government would be reduced. This information is important as one of the reasons for introducing the reforms in the power sector was that the losses of the state electricity boards had to be borne by the state government.

Table 1 below is a summary of the total income and total expenditure of the three constituent bodies of the electricity department of Assam for different financial years.

A look at the Profit and Loss statements of the three companies for two consecutive years give an indication of their financial performance status. Apart from AEGCL recording a profit in 2009-10, all the three organizations had been incurring losses. However, a look at the profit and loss statements for two years cannot convey the pertinent information about whether these losses have been increasing, decreasing or remaining unchanged after reforms. With the limited amount of information available at hand, one can conclude that even after five years of initiation of power sector reforms in the state, the different constituent bodies of ASEB have not been able to make profits. This indicates that there exists a financial burden of these companies on the state government, which in turn has a negative impact on the state's fiscal health.

TABLE-10.1

TOTAL INCOME AND EXPENDITURE OF APGCL, AEGCL AND APDCL.

(in crs)

Organisation	**Item**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Assam Power Generation Company Ltd (APGCL)	Total Income			429.17	608.08
	Total Expenditure			506.21	536.56
	Profit/Loss* after tax			**-117.99**	**0.00**
Assam Electricity Grid Corporation Ltd (AEGCL)	Total Income	348.60	315.09		
	Total Expenditure	328.96	342.18		
	Profit/Loss* before tax	**19.63**	**-27.08**		
Assam Power Distribution Company Limited (APDCL)	Total Income		1565.33	2057.82	
	Total Expenditure		1864.25	2553.25	
	Profit/Loss* before tax		**-298.92**	**-495.42**	

* - denotes loss and + denotes profit.

Source: Profit/Loss Statements of APGCL, AEGCL and APDCL respectively.

Generally, two main problems are assumed to plague the power sector of the country. One is the transmission and distribution losses (or energy losses) that occur when power is transformed from high voltage to low voltage level as it reaches the final consumer. The second is the inability of electricity companies to charge the requisite price from the consumers on account of the subsidy factor. This is more predominant in case of agriculture when subsidized rates for irrigation, etc. are provided.

In case of Assam, these two problems are apparently resolved. First, massive efforts have been undertaken for reducing energy losses through the revamping of the transmission and distribution network with the financial aid of the Asian Development Bank, after the initiation of reforms. Secondly, as far as the subsidy factor is concerned, irrigation users constitute less than 1 per cent of the consumers of electricity in Assam. According to The Economic Survey Assam, 2010-11, the bulk of electricity consumers are domestic users (34.57 per cent of the total consumers in 2008-09) who do not receive any subsidy on power. In such a case, appropriate pricing policy can be undertaken without worrying about the subsidy factor.

Given the efforts for reducing energy losses in the state, and also the fact that the bulk of electricity users are not subsidy receivers, such adverse financial performance of the three electricity companies is unjustifiable. It is time for the companies to at least break even, if not earn profits after the initiation of power sector reforms. This has become highly imperative in light of the event that continuation of such losses along with the mounting pressure of repayment of the Asian Development Bank's loan will end up aggravating rather than improving the fiscal health of the state.

We next take a look at whether the power supply position in the state has improved in the post reform period. This needs to be examined as it provides an indication of the physical performance of the power sector, which can have long run implications on the financial health of the state.

TABLE 10. 2

POWER SUPPLY POSITION OF ASSAM

Year	Peak (MW)		Peak Shortage(-) / Surplus(+)		Energy (MU)		Energy Shortage(-) / Surplus (+)	
	Demand	Met	(MW)	(%)	Requirement	Availability	(MU)	(%)
2001-02	553	519	-34.6	-6.15	3415	3302	- 113	-3.33
2005-06	716	576	-140	-18	4621	3537	-679	-16
2007-08	891	775	-116	-13.04	4621	4018	-603	-15
2008-09	972	824	-148	-15.25	5039	4270	-769	-13
2009-10	974	885	-89	-9.13	5049	4590	-459	-9.1
2010-11	1066	828	-238	-22.32	5967	5028	-939	-15.68
2011-12	1135	1024	-111	-9.78	6081	5670	-411	6.75

Source: Economic Survey, Assam 2012-13.

As assessment of the power supply position in Assam can be made from Table-10.2 below. The table shows that the peak demand for Assam has increased, as is expected when there is a rise in population as well as in economic activities of the state. The supply of power to meet this increasing peak demand too has increased. However, there is a shortage of power supply as a result of which the peak demand for power is not being met in the state. From the table, it is evident that the shortage of power supply has been coming down over the last few years, (except for the year 2010-11) possibly on account of the increase in the supply, following the massive revamping of transmission sector after initiation of the reforms. Peak shortage as a percentage of peak demand has also registered a decline over the last few years. Even energy shortage as a percentage of energy requirements has come down over the years. Thus, there has been an augmentation of power supply in the state as a result of which shortage at peak demand has been gradually coming down.

To sum up, after the initiation of power sector reforms in the Assam, the power supply position appears to have improved, but the financial performance of the three constituent bodies is far from impressive. A number of projects have been undertaken by the electricity department and its constituent bodies in Assam to augment the power supply position in the state, using the ADB funds. Once these projects are completed, the financial performance as well as the power situation in Assam is likely to show an improvement. However, since the ADB funds have an element of loan associated with it, and the amount of the financial assistance being very large, it is imperative to ensure the timely completion of these projects. Delay in the commissioning of such projects will add both to the cost of the project as well to the debt obligations of the government, and in either case, will affect the fiscal health of the state.

10.5 WAY FORWARD

Power being a critical infrastructural input plays an important role in the development of a region. The idea behind the introduction of reforms in this sector was to reduce the debt burden which the state governments had to face when the state electricity boards were running into losses. In Assam, efforts are being made to develop this sector, particularly with the financial assistance of the Asian Development Bank. In this context, the Reserve Bank of India (2013) mentions that state power distribution companies can bring about a turnaround in their financial position only when their systemic deficiencies are eliminated, the gap between average revenue realized and average cost of supply eliminated through periodic tariff revisions; and through rationalization and better targeting of subsidies. There is need for restructuring/rescheduling of loans along with concrete and measurable action by the power companies to improve their operational performance. The report also suggests the strict enforceability of the conditions associated with the restructuring packages of the power companies so that the overall financial stability in the economy is not threatened by the restructured loans turning into non-performing assets.

The Working Group on Power for 12th Plan, while referring to the problems faced in the timely implementation of power projects in the north east region, pointed out the need to develop comprehensive road network with particular attention being given to roads, bridges and underpasses with adequate design capacity for transportation of heavy equipments to power projects. The group also suggested the need for setting up of industries for construction material as non availability of construction materials like cement, steel, etc. and their long procurement time makes the hydro projects costly and unviable in the region.

Thus, power sector reforms require a holistic treatment wherein the needs of the present as well as future are kept in mind, and where the other sectors too need a fillip so that the power sector flourishes in physical as well as in financial terms.

CONCLUSION

Introduction

Assam, given its geographical isolation, low connectivity and yet strategic location, present a paradox to the policy makers at the centre. The state has a primary producing low income economy, which hosts a multi-linguistic, multi-ethnic and multi-religious population who has their own political and economic aspirations which often have areas of conflicting interest. Given a historical perception of alienation from the centre and emerging trends in assertion of ethnic identity, often in forms of violent expression, the state also appears to be placed in a cauldron ready to explore at the slightest spark.

Like other states in North Eastern India, Assam historically was constrained by bad governance which was aggravated by periods of political instability and law & order problem. The then incumbent governments responded by adopting populist policies which included unjustifiable government recruitment, untenable subsidies, and establishment of unviable PSEs. Subsequently the states verged towards financial insolvency grappling with escalating salaries & pension liabilities, repeated bailout packages for the inefficient PSEs, and burgeoning interest obligations on the massive amounts of public debt incurred. The recurrent implementation of the state pay commission recommendations made an already bad situation worse, bringing the hapless government to the brink of insolvency.

In recent years there had been a deliberate paradigm shift for both the governments at the centre and states, in the domain of Public Finance where the focus has shifted to fiscal consolidation and the attainment of fiscal sustainability. The signing of *MOUs* between the centre and the states and the enactment of *FRBM Acts* both at the centre and the states initiated and provided direction to the fiscal reform process. The turnaround came at around 2001 and the gains made were subsequently consolidated.

The study is being undertaken for the time period 2002-03 to 2011-12. The conclusions and recommendations are discussed below.

Revenue Side

In the study period the tax revenue and non-tax revenue in Assam, had grown at the same rate. However, breaking down the time span into three equal period reveal that the *tax revenue receipt* is growing at an accelerated rate whereas *non tax revenue* is showing signs of deceleration. Similarly in Central Transfers, the quantum of *Share in Central Tax* had been expanding at an increasing rate which however was neutralized by the decelerating *Grants in Aid*.

However the changing trends in revenue receipts has had no effect on the dependency ratio for the state as the percentage contribution of the *State's Own Revenue* in the *Total Revenue Receipt* remained relatively unchanged at 38.26 percent in 2011-12 against 38.68 in 2002-03.This implies that total Central Transfers (61.73 percent) still dominates the *Total Revenue Receipt.* In fact Assam has a very adverse *dependency ratio* of around 32 percent as compared to developed states like Maharastra, Gujarat, Goa etc. although its relative position among special category states are more favourable.

Assam's adverse *own revenue - total revenue receipt ratio* and the *own revenue-GSDP ratio* stems from the fact that it essentially has an economy which is dominated by the agricultural sector. Besides, the absence of an integrated *Goods & Service Tax* has prevented the state from adequately accessing the burgeoning tertiary sector for tax receipts.

Sales Tax traditionally has been the most important state level tax in Assam with the contribution of sales tax in the total tax revenue ranging between 70 to 80 percent. In the period 2002-3 to 2011-12 the total sales tax receipt exhibited a CAGR of 15.9 percent.

The introduction of VAT in Assam in May, 2005 resulted in a distinct deceleration in the rate of growth of sales tax mobilisation. This deceleration highlights the status of the state as a net importer and also the nature of CST which is levied on the origin principle. The two factors had combined to facilitate the relatively developed net exporting states to transfer the burden of their tax to the poorer net importing states like Assam.

However while acknowledging the above problem, the report would like to point out that the Comptroller and Auditor general had make scathing observations of inefficiencies, leakages and irregularities in the sales tax/VAT dispensation which had resulted in serious loss for the state exchequer. The lapses include assessment at lower rate of tax, non-assessment or non scrutiny of evasive tax payer, instances where excess input tax credit was extended, irregularities in the assessment of TDS, and unjustified grant of exemption. The implications of the CAG report establishes the fact that the weakness in the sales tax / VAT regime in Assam is both institutional and operational. This comprises of inadequate data on tax assesses and inefficient operation of the tax machinery. Serious instances of deliberate violation of existing rules and disregard for established norms have been identified which erodes the effectiveness of the tax administration.

Drastic streamlining of the department is essential with focus given on operational autonomy balanced by rigorous accountability. Direct contact between the tax-officials and tax payers should be minimised and when essential, a well-defined and transparent procedure should be defined for such interaction. For ensuring efficiency and integrity in the tax collecting machinery a system of incentive and penalty needs to be integrated to the structure which is objective and transparent.

Long term policy intervention in the form of early implementation of GST is necessary so that the weaknesses of the existing CENVAT and state VAT are corrected. This will ensure that the central and state taxes which had remained outside the Value Added System will be incorporated into the new GST regime minimising the cascading of tax that continues even after the reforms. For Assam the inclusion of service into the value-added chain for taxation promises extension of the tax base by incorporating the dominant tertiary sector into the tax net.

State Excise receipt has exhibited a steady increase in the study period 2002-03 to 2011-12, with a sharp acceleration in the last two years. In fact a sudden jump in excise receipt was observed in 2010-11 and 2011-12 to the extent of 35.09 and 55.79 percent respectively due to issuance of greater number of licences of bar serving IMFL. Despite the good show the CAG has pointed out has pointed out loses to the exchequer due instances of non-payment of licence fee, non/ short realisation of establishment charges, losses due to warehouse going dry and other irregularities. The CAG report also points out the fact despite repeated observations no effective and lasting measures were initiated by the government to correct the situation and the irregularities persist leading to recurring losses for the government. The Auditor had made a number of specific suggestions to remove the weakness in both institutional and operational aspect of the excise taxation system. It is imperative that the state excise respond to the recommendations.

In Assam revenue mobilization as proceeds from royalty of petroleum constitutes the biggest component of non-tax revenue. Other major heads of non-tax revenue are interest receipts, revenue from economic services (other than petroleum) and general services.

Although traditionally royalty proceeds from petroleum always dominated non-tax revenue in Assam, however the total dominance of the petroleum sector in the overall non-tax revenue has gradually declined in the study period from 82.66 percent to 69.64 percent with non-tax revenue also generated from coal and also from minor minerals in the form of limestone, boulder, stone and sand. However the *Report of the Comptroller and Auditor General of India on Revenue Sector* points out significant loss of potential revenue due to institutional and operational weaknesses.

Most reports make scathing observations on non/short realization of non-tax revenues which are mostly due to administrative shortcomings, inadvertent lapses and in some cases willful connivance with evaders. There are a few instances where operational Acts and existing Rules constraints the concerned authorities from mobilizing the justifiable and potential non-tax revenue.

A very significant trend in the composition of non-tax revenue is the growing share of interest receipt which has gone up from Rs. 3.07 crs to Rs. 457.46 crs. This has been sought to be explains by the huge interest receipt accruing from the deposits maintained with RBI including the Consolidated Sinking Fund (CSF).

Revenue Effort of the State

Revenue Effort of a state may be described in terms of how the state performs in its revenue mobilization effort given its taxable capacity. In this context, although Assam has a relatively high RR-GSDP ratio, than most of the general category states, a closer look reveals that a huge proportion of its receipts are central transfer which is evident it its much lower OTR-GSDP ratio. In fact this is a feature of all special category states whose OTR/GSDP is relatively lower than that of general category states, and that indicates their poorer tax performance when compared to the latter states.

In contrast the Assam's ONTR/GSDP ratio is relatively higher than most of the states from both the two categories. This can be accounted for by the huge contribution made by royalty from petroleum to non tax revenue which also reflects the unsustainable dependence of the state in royalty from its natural resources. In this context given Assam's weak manufacturing sector and a stagnant agricultural sector it is imperative that it adopts a sustainable growth model that is powered by the tertiary sector. Again given its tremendous unharnessed potential in nature, wildlife and adventure tourism, development of the tourism sector promises great return to the state in its objective to become more self sustaining.

Cost of Collection

Cost of Collection of tax constitutes another parameter for measuring the efficiency of the taxation system. Although Assam's tax performance in terms of cost of collection viz-a-viz the national average was favorable for a long time however in recent years the cost percent has deviated rather violently upwards away from the national average

From a disaggregated perspective the cost of collection of *sales tax* is relatively less than that of other tax. However in the case of *state excise* and *taxes on vehicles* the cost of collection is significantly higher than the national rate which is an indication of the relative inefficiency of the taxation machinery in the state. The relative inefficiency in revenue mobilization is the highest in case of *Stamps & Registration* receipts where in the collection cost in Assam is three to four times than that of the national average.

Transfers from the Centre

Assam has always been heavily dependent on central transfer for its sustenance with the share of total central transfer in the state's total revenue receipt hovering consistently between 61-62 percent. In recent years the awards of the 12th and 13th Finance Commission have aggravated the negative deviation of Assam's share from the mean share among states. Moreover Assam, which had benefited greatly from generous grants-in-aids from the earlier Finance Commissions had been denied that devolution route by the 13th Commission on the grounds that given its favorable balance in revenue account it has graduated from grants-in –aid and instead is eligible for performance grant of Rs.300 crs.

Besides the Finance Commission, the Planning Commission also facilitates transfer from the centre to the states in the form of grants. This includes the block plan grants which is the grant component of the central assistance which is extended as part loan and part grant. As a special category state Assam enjoys 90 percent of the assistance as grants and bears only 10 percent of it as loans. The recognition of Assam as a special category state in 1991 resulted in a dramatic jump in the grant component of the state plan from 41.86 percent in 1990-91 to 65.22 percent in 1991-92.

While the overt centre to state transfer system is apparently relatively progressive. However the 'hidden or implicit' transfer mechanism in the form of interstate tax exportation against the poorer states through central sales tax more than offset the formal built-in progressivity in the transfer process. Another source of hidden transfer takes place in the form of procurement of food grains at a price greater than what prevails in the market. As these schemes targets the advanced agricultural states like Punjab and Haryana the subsidies accounts to more than what they receive as formal central transfer which in the real sense does away with the progressiveness that exist in the formal transfer system.

The system of fiscal devolution has to operate on the basis of various dimensions which are often contradictory. Despite the continuous introspection and subsequent rectification the system exhibits a high degree of vertical imbalance which inhibits the federal character of the nation and erodes the financial accountability of the two tiers of the governments. Besides the prevalence of hidden central transfers reverses the progressiveness of the transfer system thus inhibits the objective of horizontal balance and violating the canon of equity.

Expenditure Side

State governments in India have to shoulder multiple responsibilities for enhancing growth and development of the state. Hence proper allocation and prioritisation of the expenditure of the state governments is important. In Assam, public expenditure has increased from Rs. 7749 crore in 2002-03 to Rs 29122 crore in 2011-12 showing a compound annual growth rate (CAGR) of 15.75 *per cent.* Year-wise there have been fluctuations in the growth rates with exceptional increases in 2004-05 and in 2009-10 and a notable fall in 2005-06.

Of the total expenditure, revenue expenditure accounted for nearly 90 *per cent* of the total expenditure of the state for the entire ten year period. A slight fall in the share of the revenue expenditure was observed from 2005-06 to 2009-10, but after that its share has once again increased. The share of capital outlay in total expenditure has slowly been increasing from 6.53 *per cent* in 2002-03 to 14.21 *per cent* 2008-09 and again fell to 8.61 *per cent* in 2011-12. The share of the third component, i.e. disbursement of loans and advances is minimal and accounted for approximately 1 *per cent* of the total expenditure during the entire period of study.

Revenue Expenditure

On the revenue expenditure front, it was seen that developmental expenditure (i.e. expenditure on social and economic services) constituted 56.13 *per cent* of total expenditure in 2002-03 and its share gradually kept increasing to 60.79 *per cent* in 2011-12. This reflects a positive trend. A deeper analysis of the components of revenue expenditure revealed the following:

- As regards the expenditure on general services, administrative services and pensions were the major sources of expenditure. In 2002-03, these two categories accounted for 52.54% while interest payments and debt servicing alone accounted for 42.31% of the revenue expenditure on general services. The picture has changed over the ten year period as the share of interest payment and servicing of debt declined to 21.10% and the share of administrative services and pensions increased to 71.26% of the revenue expenditure in 2011-12. A positive feature is that the share of interest payments and debt servicing is on the decline, thereby reducing the debt burden on the government.
- In case of social services, expenditure on education, sports, art and culture had the largest share, followed by that of expenditure on medical, family plan, public health and sanitation and then others. However, over the years, the share of the first component has come down from 68.91% of the total expenditure in 2002-03 to 57.32% in 2011-12. The share of medical, family plan, public health and sanitation has increased from 17.93% of the total expenditure in 2002-03 to 21.95% in 2011-12 while that of the third component has also grown from 13.6%

of the total expenditure in 2002-03 to 20.74% in 2011-12. Thus, there has been a modest change in the composition of the expenditure on social services in the ten year period of study.

- As regards revenue expenditure on economic services, in 2011-12, agriculture and allied activities accounted for the largest share (31.74%) of followed by rural development (18.27%), transport and communication (17.27%) and irrigation and flood control (12.46%). These four sectors accounted for almost 80% of the total revenue expenditure on economic services, implying the priority accorded to the agrarian economy of the state. Other than the three years which saw unprecedented rise in the expenditure on energy sector, (on account of the power sector reforms) the relative shares of the nine sectors under economic services have remained more or less unchanged over the study period.

To sum up the discussion on revenue expenditure in the state, it was seen that this expenditure formed the major part of the total expenditure of the state government. The increase in total expenditure in two particular years, viz. in 2004-05 and 2009-10 was on account of the increase in expenditure on economic services and general services respectively. In 2004-05, reforms in the power sector were initiated and that led to a massive rise in revenue expenditure in that particular year, and also continued for the next two years. The increase in expenditure in 2009-10 was on account of the pay revision which resulted in a hike in salaries, wages and pensions. Other than these two years, revenue expenditure has been growing modestly, with a major part of it going towards developmental needs.

Expenditure on capital outlays:

Expenditure on capital outlays in Assam has increased from Rs. 506 crores to Rs. 2506 crores in 2011-12, registering a CAGR of 19.45% which is higher than that of revenue expenditure as well as total expenditure. Although the growth rate of capital outlay has been high, yet in terms of annual growth rates, the growth has been uneven. Growth rate was exceptionally higher in 2004-05 when expenditure increased to Rs. 2181 crores from Rs. 622 in 2003-04. Likewise a high growth of 40.58% was seen in 2008-09 as well. Growth rates were negative in two years, though not of very marked nature.

Component-wise analysis of expenditure on capital outlays revealed the following:

- Over the ten year period, it is seen that expenditure on general services increased from Rs 11.25 crore in 2002-03 to Rs 68.49 crore in 2011-112, registering a CAGR of 22.22 *per cent*. Capital outlays on social services increased from Rs 21.95 crore in 2002-03 to Rs 162 crore in 2011-12, at a CAGR of 24.86 *per cent* and on economic services from Rs 472.33 crore in 2002-03 to Rs 2275.52 crore in 2011-12 at a CAGR of 19.08 *per cent*. Thus expenditure on capital outlays grew at the highest rate for social services followed by that of general services.
- Although the CAGR of the economic services was lower than that of the other two services, yet the share of economic services was the highest accounting for over 90.8 *per cent* of the expenditure on capital outlays followed by that of social services (6.46 *per cent*) and general services (2.73 *per cent*). The respective shares have has more or less remain unchanged over the ten years period of study, except between 2006-07 to 2009-10 when share of social services was slightly higher and constituted between 10 to 20 *per cent* of total expenditure on capital outlays. Share of economic services was highest in 2004-05 accounting for 96.76 *per cent* total expenditure on capital outlays due to rise in expenditure on power sector in that particular year.
- A positive feature of the expenditure on capital outlays is that 95% of it was expended for developmental purposes. In case of the social sector, it is seen that of the various components, the share of water supply, sanitation, housing and urban development has always been the highest in the entire ten year period, and from 2006-07 onwards, it has the lion's share of having more than 90% of the total expenditure on capital outlays in the social services sector. Prior to that, health and family welfare accounted for over 26% of the total expenditure on

capital outlays in the social sector. However, from 2006-07 onwards, the focus of the expenditure seemed to concentrate only on water supply, sanitation, housing and urban development. The nature of this type of expenditure definitely has an urban bias, and to that extent, there is a need to bring in balance in the pattern of expenditure on capital outlays in the social services.

- The pattern of expenditure on capital outlays for the economic services revealed that other than the energy sector, the CAGR of capital expenditure in all the components of economic services have shown a very high growth rate, which is indeed a positive feature. As many as three components had a high share in the expenditure on capital outlays of the economic services, viz. Special Area Programmes, Irrigation and Flood Control, Transport. Even the energy sector had a sizeable share of the total expenditure on capital outlays in the social services till 2008-09, and particularly in 2004-05 when it alone accounted for 65.13% of the expenditure on capital outlays in the economic services. These four sectors accounted for over 90% of the total expenditure on capital outlays in the economic services during the ten year period of study.

To sum up, all the three components of expenditure on capital outlays displayed a CAGR of over 19 *per cent* and almost the entire amount of the expenditure (approximately 97 *per cent*) was development expenditure which is a positive sign. However, there appears to be an urban bias in the expenditure of the social services, whereas, the expenditure appears to be balanced in case of the economic services.

Plan and Non-Plan Expenditure:

In Assam the share of non-plan expenditure has always been higher, constituting over 70% of the total expenditure in all the years excepting in 2008-09 and 2011-12, when it was marginally less than 70% of the total expenditure. In terms of annual rates of growth, it has been seen that both plan and non-plan expenditure saw a massive growth in 2004-

05, the year in which total expenditure in the state as a whole had increased. Plan expenditure saw a high annual rate of growth in 2008-09, whereas non-plan expenditure had a high annual growth rate in the next year, i.e. in 2009-10.

As far as revenue expenditure was concerned, non plan revenue expenditure was consistently higher than plan revenue expenditure with non plan revenue expenditure accounting for almost 75 *per cent* of the total revenue expenditure. However, the growth of plan revenue expenditure was higher at 19.23 *per cent* p.a. than non plan revenue expenditure which showed a CAGR of 14.41 *per cent* during the period 2002-03 to 2011-12.

Out of the total expenditure on capital outlay, it has been seen that plan expenditure has always occupied a larger share than non plan expenditure. Plan expenditure has been over 90 *per cent* of the total expenditure on capital outlays for most of the years, except in 2004-05 when it accounted for only 35.58 *per cent* of total capital outlays.

A phenomenal increase in non plan expenditure on capital outlays took place from Rs 54.73 crore in 2003-04 to Rs 1404.56 crore in 2004-05 which was on account of an investment of Rs 1350 crore in the public sector undertaking of the energy sector. Likewise, the high non plan expenditure on capital outlays of Rs 217.28 crore in 2007-08 was on account of the expenditure on energy sector.

On the revenue account, general services alone accounted for 47.66 *percent* of non-plan expenditure while social services had the highest share of 62.63 *percent* of plan expenditure in 2011-12. On the capital account, economic services had the highest share of expenditure, both under plan and non-plan heads. Thus, developmental goals have sought to be met both by plan and non-plan expenditure in the state.

Efficiency and Quality of Public Expenditure:

To have a proper idea about efficiency of public expenditure, it is also necessary to observe the expenditure on interest payments, pension and salary and wages which are popularly known as committed expenditure. The higher proportion of committed expenditure to revenue expenditure reduces the expenditure on maintenance activities which in turn may deteriorate the existing infrastructure of a state

The share of committed expenditure to total revenue expenditure revealed committed expenditure formed more than three quarter of the total revenue expenditure, which is indeed alarming. However, the fall in its share to around 64% in the coming years could be on account of the change in definition of salaries and wages for calculating committed expenditure. It is interesting to note that committed expenditure has had an almost steady share of the total revenue expenditure, hovering between 62% to 65% in the entire period, except in 2009-10, when its share had come down to 55.55% . This was an unusual in light of the implementation of the higher pay structure of the state government employees in that particular. However, a closer look revealed that the annual growth rate of total revenue in that year was much higher at 49.09% p.a. compared to 32.95%p.a. growth rate of committed expenditure, thereby resulting in the reduced share of committed expenditure to total revenue expenditure.

Among all the three components mentioned so far, the growth rate of interest payments have been the lowest. If we look at the respective shares of the these three components to committed expenditure, an interesting observation that crops up is that interest payments had the second largest share of committed expenditure from 2002-03 to 2008-09. In 2009-10, salaries and wages accounted for nearly 70% of the total committed expenditure (excluding subsidies) while pensions and interest payments had an approximate share of 15% each. After 2009-10, pensions have been consistently higher than interest payments.

To sum up, in Assam, salaries, wages and pensions constituted the bulk of committed expenditure. Interest payments, which account for less than 20% of the committed expenditure, have been declining over the years. Subsidies, which usually entail a great burden for governments, formed less that 1% of the committed expenditure in the state in the four years for which relevant data is available. Thus, the level of committed expenditure is directly determined by the expenditure on wages, salaries and pensions. It if for this reason that committed expenditure showed a rise, both in absolute terms as well as in terms of percentage of revenue receipts, from 2009-10 onwards, the year from which pay revision came into effect.

The size of public expenditure is not a single indicator of the development goals pursued by a government. The quality of expenditure, which is more important, needs to be addressed as this alone can ensure efficient utilization of public expenditure. Rising public expenditure can have detrimental effects if it does not go in the right direction. In Assam, it was seen that total expenditure exceeded revenue receipts for most of the years of the study, but was less than the revenue receipts for four consecutive years, viz. from 2005-06 to 2008-09. Thus, although total expenditure exceeded revenue receipts usually, yet it has shown a down slide in the last two years of the study period. This is a positive indication in the sense that it implies that the state has been able to meet its expenditure obligations from its revenue receipts alone.

Since expenditure which promotes directly or indirectly the productive capacity of a state's economy is crucial, hence expenditure (both revenue and capital) incurred on social and economic services, which are developmental in nature, is considered as an indicator of the quality of public expenditure. In Assam, nearly 60 *percent* of the state's total revenue expenditure and 95 *percent* goes towards developmental goals. This is a good sign.

Thus, public expenditure in Assam has been on the rise with revenue expenditure accounting for the major share of the total expenditure. A positive sign of the public expenditure of the state is that a major part of it has been going towards meeting the developmental goals of the state. This holds for both revenue as well as capital expenditure. However, there appears to be an urban bias of capital expenditure under social services. This pattern needs to be changed. The focus of capital expenditure on economic services is on agriculture and there is a need for reorienting it somewhat towards the industrial sector. Thus, there exists scope for reallocation of public expenditure in the state, and this could lead to better and more effective utilisation of the state's rich resources.

Analysis of Deficits

As was the case with most of the Indian states, Assam was confronted by serious financial crisis fuelled by consistently high revenue and fiscal deficit that was aggravated by huge charged expenditure in the form of salary & wages, pension and interest liabilities. Matters were made worse by the low and even negative returns from the considerable capital investments which made the deficit in the budget structural. Taking cognizance of the non sustainability of the existing state there had been a deliberate shift in policy which now focused on fiscal consolidation so that secular deterioration of the state finance could be halted.

The Assam Fiscal Responsibility and Budget Management Act (FRBM), 2005 had set the state the objective of eliminating its **revenue deficit** within a period of five years as part of imbibing fiscal prudence in public finance. Thus with the adoption of the state FRBM Act and the subsequent implementation of measures aimed at fiscal consolidation there was marked improvement in state finance which was reflected in the revenue surplus of 2.6 percent in 2005-06. Fiscal discipline by the state government enabled the state to maintain a state of revenue surplus in the next few years which however was distorted in 2009-10 when the revenue deficit re-emerged at 10.92 percent. This was the outcome of the implementation of the pay revision and also an effect of the relaxation extended on the FRBM targets both at the centre and states due to the global economic slowdown. To its credit, the Assam government was able to correct the deficit in the next two years by attaining revenue surplus to the extent of .05 percent and .80 percent in 2010-11 and 2011-12 respectively.

The declaration of Assam as a *special category state* in 1990-91, made the pattern of financing of the state plans more favorable. Subsequently the state enjoyed moderate fiscal deficit with the two spikes in 1994-95 and 1995-96 emerging as aberrations. However rising revenue deficits in 1998-99 feed the fiscal deficit which aggravated in subsequent years confronted with the liability of rising commitment in salary payment and debt servicing. It was only after the enactment of the Assam FRBM Act and the adoption of fiscal consolidation measures the state could secure a fiscal surplus after a span of eleven years. In the subsequent period creditable fiscal management by the Assam government allowed the state to operate with a fiscal surplus which was well within the target of 3 percent fiscal deficit set by the Assam FRBM Act. However the implementation of the recommendation of the Assam Pay Commission resulted in a sharp hike in the fiscal deficit to 5.8 percent violating the targets set under the FRBM Act. The jump in the deficit was also justified by enhanced public spending as a fiscal intervention to counter the global recession and the subsequent economic slowdown in the Indian economy. Subsequent corrective measures however ensured the reigning of the fiscal deficit within permissible limits in the next two years. This augurs well for the state especially when the low fiscal deficits are juxtaposed with the revenue surplus which indicates that borrowed funds are being targeted to the capital component of the state expenditure.

In this context Assam Fiscal Responsibility and Budget Management Act (Amended), 2011 that came into force with effect from 1st April, 2010 has set a new set of deficit targets for the state. That includes elimination of revenue deficit by 2011-12 (and thereafter maintain revenue balance and preferably surplus) and also reduction of the fiscal deficit to 3 percent of the GSDP by 2010-11 (and maintain it thereafter). The Assam government has managed to keep both the two indicators well within the FRBM targets which is a reflection of the improving fiscal performance of state induced by conscious self-introspection on expenditure policies and supporting adoption of austerity and fiscal prudence.

Public Debt in Assam

Sustainability of public debt embodies concern about the ability of the government to service its debt. Usually one of the most reliable indicators of sustainability is a low debt-GSDP ratio as it indicates an economy that generates a high enough income to meet its debt commitments. Although there is no universally acceptable target value of debt-GSDP ratio, however, the AFRBM Act 2005 seeks to reduce the total debt stock of the State Government including the Government guarantees to 45 *per cent* of the GSDP of the previous year at current prices within a period of five years beginning on the 1st day of April, 2005. This target was modified in the AFRBM (Amendment) Act, 2011 which defines a roadmap for a calibrated change in the total outstanding debt to GSDP ratio to 28.2 *per cent* in 2010-11, 28.3 *per cent* in 2011-12, 28.4 *per cent* in 2012-13 and 2013-14 and 28.5 *per cent* in 2014-15 and to maintain the same level thereafter.

At the operational level, the state has been able to reduce the debt to GSDP ratio during the period under consideration. The debt-GSDP ratio and interest payments to revenue receipt ratio of the state are found to be lower than the recommendation of the Twelfth Finance Commission.

The state has been able to maintain a stable debt to GSDP ratio in recent years mainly due to positive interest spread enjoyed by the state. Along with that, primary surplus enjoyed by the state during the period of study also contributed towards reduction of debt-GSDP ratio of the state. The incentive provided by the Eleventh and Twelfth Finance Commission of India and subsequent reform measures adopted by the state proved to be crucial in maintaining stable fiscal position in the later part of the first decade of the present century.

In Public Debt, Assam is in a very comfortable position successfully maintaining a stable debt to GSDP ratio in recent years. However given the bottlenecks in the state in the form of inadequate social and economic infrastructure, it is imperative that the state uses its favourable financial position to create capacity in socio-economic infrastructure which is a prerequisite for the much needed growth impulse. As long as there is revenue surplus, the state government should utilize the option of borrowing upto the permissible level specifically to invest in the infrastructure sector.

Significant expansion in public account of the state has been observed during the study period as it has increased from Rs. 2276.09 crore in 2001-02 to Rs. 12176 crore in 2011-12 with a compound growth rate of 11.10 percent. The deposit and advances is found to be the most significant source of public account of the state as it contributes, on an average, 43.94 percent of the total public account of the state during the period under consideration.

The growing dependence of the state on market borrowing indicates the changing pattern of the financing of public debt. This had been accompanied by significant decline in the share of central government's loans to the state government during the period of study. As borrowing from the market to finance the government deficit is gaining in importance in recent years, it is desirable that the state should adopt measures that would enhance the level of procedural efficiency in debt redemption. It is also imperative that there is rationalisation in the entire public debt transactions which can be effected by imparting greater market discipline in the lending operations.

Assam FRBM Act:

Following the adoption of the Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act), the Government of Assam enacted the ***Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005*** and ***Assam Fiscal Responsibility and Budget Management Act (Amendment), 2011*** 'to ensure fiscal stability, sustainability, improve efficiency and transparency in management of the public finances of the State, enhance the availability of resources by achieving sufficient revenue surplus, reduce fiscal deficit and remove the impediments to effective conduct of fiscal policy and prudent debt management for improving the social and physical infrastructure and human development in the State' (Government of Assam, 2005). The implementation of the Act has been done in two phases as per the recommendation of the Twelfth and Thirteenth Finance Commission with an amendment of the Act which came into force with effect from 1^{st} of April, 2010.

After the enactment of the AFRBM Act in 2005, the state account which was running in deficit in both fiscal and revenue account made a tremendous improvement in its fiscal position. In the year 2005-06 itself, a fiscal deficit of 4.73 *per cent* of GSDP and a revenue deficit of 0.67 *per cent* of GSDP in 2004-05 had turned into a fiscal surplus of Rs.356 crore and a revenue surplus of Rs. 1509 crore. Through the period from 2005-06 to 2008-09, the state government's commitment towards the targets of AFRBM Act, 2005 was fulfilled and in each year the state fiscal policy performed better than what it envisaged in its fiscal correction plan. The state could achieve the AFRBM targets prescribed in the act except for containing the fiscal deficit to 3.5 *per cent* of GSDP. Although the Central Government allowed the State Government to raise an additional market borrowing of 0.5 *per cent* of GSDP to finance development expenditure and thereby allowing fiscal deficit to 4 *per cent* of GSDP, but the state had exceeded the prescribed limit. Failure to contain fiscal deficit within the prescribed limit had resulted in loss of debt relief of Rs 105.41 crore for 2009-10.

Keeping in view the targets set by the AFRBM Amendment Act, 2011, as per the recommendation of the Thirteenth Finance Commission, the performance of the State Government in managing its state account was satisfactory to a large extent.

Assam has achieved all the FRBM targets as prescribed in the Act except containing Debt-GSDP ratio within the permissible limit of 28.2 *per cent* by 31^{st} March, 2011. For the year 2010-11, state account experienced revenue surplus of Rs 53 crore and also incurred a fiscal deficit of 1.91 *per cent* of GSDP against the targeted goal of 3 *per cent* of GSDP.

Thus, the state government appears to be heading towards the destination of fiscal consolidation as per the prescribed road map laid down by the Thirteenth Finance Commission. However, since there have been a few years in between when the fiscal targets prescribed by the Act could not be attained, hence it is important to identify the causes of such deviations and ensure that such causes do not recur.

Fiscal Decentralization in Assam

Local bodies, which are involved in governance at the grass root level, are better equipped in terms of knowledge to solve the problems arising at the local levels. Adequate and timely transfer of funds from the state government to the local bodies can go a long way in ensuring efficient utilization of local resources, thereby making the federation strong at the grass root level.

In Assam, total assistance to the local bodies increased from Rs 876.2 crores in 2002-03 to Rs 2117.47 crores in 2011-12, registering a CAGR of 10.30 *per cent*. The rate of growth of total assistance has not been steady over the ten year period. A massive increase in the flow of resources took place in 2004-05, 2009-10 and 2010-11. Apart from these three years, the annual rates of growth have been low and also negative in some years. The CAGR of 10.30 *per cent* of state's fund to the local bodies is lower than CAGR of 15.75 *per cent* of revenue expenditure of the government for the same period.

The sharp rise in funds transfer in 2004-05 was mainly due to the very high amount of fund allotted to Assam State Electricity Board (ASEB). This particular year had witnessed exceptional increase in total expenditure of the state, incurred chiefly on the power sector, which was a move in line with the reforms in the power sector initiated in those years. The increase in devolution of funds to the local bodies in 2009-10 and 2011-11 were accounted mainly due to the increase in transfers to the universities and educational institutions. This was on account of the implementation of the recommendations of the Sixth Pay Commission and the salary hike and payment of arrears during that period.

Analysing the share of different local bodies in receiving the funds, it was observed that there existed a lot of disparity. In 2011-12, the largest share of the funds (75.70 *per cent*) went to the universities and other educational institutions, followed by other institutions (8.3 *per cent*), autonomous councils (5.85 *per cent*) and municipal corporations/urban sewage board (5.3 *per cent*). In fact, five of the total nine local bodies (i.e.; 55.5 *per cent* of them) had less than 5 *per cent* share of the total assistance meant for local bodies. Leaving aside the share of universities and other educational institutions, a look at the distribution of the remaining amount of funds reveal that three of the eight local bodies viz. municipal corporation, other institutions and autonomous councils obtained 80.09 *per cent* of the total funds in 2011-12, which again represents inequality in the distribution of funds transferred from the state to the local bodies.

This uneven distribution of funds is indeed a negative aspect of the devolution of funds to the local bodies. What is more distressing is that this inequality has persisted for the last ten years, as can be seen from the respective shares of each component to the total funds allotted yearly.

Although, the assistance to local bodies has increased over the years, yet assistance or a percentage of the state's revenue expenditure is quite low. In 2002-03, assistance to local bodies formed only 12.32 *per cent* of the state's revenue expenditure, this share has steadily been coming down over the years and in 2011-12, assistance to local bodies formed a meagre 7.98 *per cent* of the state's revenue expenditure. Excluding the component, universities and educational institutions, it is seen that assistance to local bodies formed a meagre share of only 1.93 *per cent* of the state's revenue expenditure in 2011-12. Excepting 2004-05, when ASEB received a huge amount of funds, assistance to local bodies formed less than 4 *per cent* of the state's revenue expenditure throughout the entire period of study. This indicates the low priority accorded to the local bodies and their development in Assam.

The other local bodies which received a low share of funds from the state include Zilla Parishads (ZPs), cooperatives, Assam State Electricity Board (ASEB), Assam State Housing Board (ASHB) , Assam Khadi and Village Industries Board (AKVIB) and Guwahati Municipal Development Authority (GMDA). Leaving aside ASEB and

GMDA, the other remaining bodies had limited means of generating their own resources and hence, a meagre allocation of funds towards such local bodies is likely to have adverse affects on their functioning.

Rural local bodies in the state have a multifarious role to play and therefore require a sizeable amount of funds. The Fourth State Finance Commission Report (2011), points out that a sizeable amount of the funds allotted to the rural local bodies goes to meet the salary/remunerations need of the members of the Rural Local Bodies (RLBs), which means almost nothing is left to meet the developmental needs of the rural areas. This goes very much against the spirit of decentralization as mandated by the Indian Constitution. With less than 2 *per cent* of the revenue expenditure in 2011-12 going towards local bodies in Assam, it is obvious that such bodies have lost their liberty in functioning and have merely become agencies involved in implementing certain central government flagship programmes.

A few decentralisation initiatives have been taken in Assam with the aim of increasing the involvement of local bodies in the development process of the state and also in improving their financial reporting processes. A few such initiatives include activity mapping for 23 subjects out of 29 as listed in Schedule XI of the Constitution, amendment of the Assam Municipal Act (AMA), 1956 in May 2011, accepting the Model Accounting System prescribed by Ministry of Panchayati Raj (MoPR) in August 2004.

To conclude, there is an urgent need to review the transfer of resources from the state to the local bodies in Assam. Along with the release of funds in an equitable manner, there is the need to set up a supportive legal and administrative framework that would help in providing greater operational autonomy to the local bodies which will ensure their involvement in the development process of the state. Only then can all decentralization initiatives undertaken in the state, both in the past as well as in future, succeed in the true sense, both in letter and spirit.

As regards the Jawaharlal Nehru National Urban Renewal Mission (JnNRUM), Guwahati is one of the 67 cities from the entire country selected for getting financial development assistance. Guwahati has two major projects that are under progress which are approved under JnNURM. One of them is Solid Waste Management with an approved cost of Rs 3516.71 lakhs and an additional central assistance of Rs 3165.04 lakhs. The other project is South and West Guwahati Water Supply Scheme in Guwahati Metropolitan Development Area with an approved cost of Rs 28094.00 lakhs and an additional central assistance of Rs.25284.60 lakhs. In order to receive assistance from the Central Government, mandatory reforms are required both at the level of the state government as well as at the level of local bodies. Reforms have been initiated in the state in line with the JnNRUM conditionalities and it is important to ensure that these reforms are put in pratice in the true spirit of the scheme.

Public Sector Enterprise and State Finance

The government directly invests in PSEs besides extending financial support to them by extending loans and advances and also by guaranteeing loans and advances which they receive from third parties. Over the years the PSEs in general suffered from mismanagement resulting in chronic losses for the units forcing the state to offer bailout package to the loss making units. This has imposed enormous pressure on state finances and remains an area for corrective intervention.

The heavy investment in the state PSEs with borrowed funds have imposed considerable strain on the finances of the government by drastically increasing its liability in the form of principal repayment and interest obligations. The inefficient performance of these PSEs which was reflected in abominably low rate of return on the investment made has over the years has put considerable pressure on government expenditure in the form of interest servicing and principal repayment.

Besides investing in PSEs, the state also extends loans and advances to the needy units. The PSEs have exhibited poor creditworthiness which is evident in the repeated default in their debt obligations. The government also extends financial support to these units by guaranteeing the loans which they raise. Guarantees are liabilities contingent on the Consolidated Fund which directly effects state finance when there is a default.

The state PSUs had been established with the basic rationale that in many critical areas of social and economic infrastructure, the colossal size of the required outlay and the long gestation period acts as a strong deterrent to private investment. Under the circumstances the state has to intervene to correct the lacuna of non-existent or inadequate social and economic infrastructures which prevents sustainable growth .

However the state PSEs have failed to achieve these objectives with repeated instances of mismanagement, functional inefficiency, financial impropriety and chronic loss making. Besides the enormous political pressure on the government to provide repeated bailout packages to loss making and even unviable sick units had put an enormous strain in state finances. The non-viability of the state PSEs are also evident in their utter inability to service the loans and advances which had been extended by the state.

As part of the fiscal reform process the state governments have embanked on a process of calibrated disinvestment on the chronically loss making PSEs. This is imperative despite the strong resistance from the retrenched workers and other stakeholders. The state need to adopt measures that imparts flexibility to the PSEs with corresponding increase in accountability of the management. The need of the hour is to substitute critical decisions based on political considerations with professional management and adoption of good practices.

Contingent Liabilities

Contingent liabilities assume immense importance in fiscal literature as any policy formulation aimed at fiscal sustainability and stability without taking in due consideration of contingent liabilities would result in non-fulfillment of its objectives. It has been found that contingent liabilities of Assam in the initial years of the study period were quite high and outstanding contingent liabilities of the state were beyond the prescribed limit of Rs.1500 crore in the year 2002-03 and 2003-04. The maximum amount guaranteed stood respectively at 42.51 per cent and 37.40 per cent of revenue receipt in the year 2002-03 and 2003-04 respectively. As major portion of the guarantees of the state government are provided to power sector during the study period, the Government of Assam may consider proper financial reform of the power sector.

But significant decline in the amount of contingent liabilities has been observed particularly after the enactment of the Assam Fiscal Responsibility of Budget Management Act where the amount of contingent liabilities has decreased from Rs 2888 crore in 2002-03 to 652 crore in 2011-12. This augers well for the state as it is well within the safe limit of the target of contingent liabilities given by the *Assam Fiscal Responsibility and Budget Management Act*.

Public Expenditure and Financial Management (PEFM) Reforms

Assam government had administered a series of financial reform measures which has helped the state government in ensuring uninterrupted flow of funds for developmental activities. This includes adoption of Assam Fiscal Responsibility and Budget Management Act, New Pension Schemes and Consolidated Sinking Fund etc.

However despite its best efforts there still remains a huge gap between the return to the government from its investments in different destinations such as statutory corporation, rural banks, joint stock companies, co-operatives and government companies and the interest it has to pay on funds borrowed for the investments.

Similarly there is a huge gap between interest receipt from loans and advances of the state government and average interest on government's borrowings. The difference between interest paid to borrowed funds and the interest received for the funds that is given out as loans and advances points to the loss that the state has to bear in its lending /borrowing operations. The fact that such a state of affair culminates in *loan waivers* and repeated bailout packages constitutes a reflection of the non viability of most of the PSEs and an operational culture which easily reneges on the financial commitments.

Over the last decade serious attempts at rectifying the anomalies had borne fruit with evidence of significant improvement in cash management of the state. This was evident in the fact that the State Government did not avail any WMA and overdrafts during the time period 2006-07 to 2011-12 indicating the sufficiency of cash balances during the period.

The conservative approach in capital spending has contributed towards comfortable cash balances of the state during the period of study. The capital outlay as a percentage of total expenditure ranged between 8 to 14 percent during the period from 2007-08 to 2011-12 which has to an extent compromised on the growth ambitions of the state. Instead the excess cash balances were invested in government of India treasury bills and securities of the Government of India.

In view of the problem of plenty experienced by the Assam government the state may seriously consider resorting to more need based borrowing programme in a cost effective manner. While doing that it is imperative that a clear shelf of viable projects are identified which require capital investment. It is also critical that the state should restrain its borrowing to that extent permitted by a realistic assessment of cash needs. In this context, effective cash management is of essence for better synchronization of cash inflows and outflows which will at the same time curb unwarranted build-up of cash surplus.

Throughout the study it had been observed that there had been a concerted effort by the state to work towards fiscal consolidation and enhance the level of fiscal sustainability. This was evident in the successful attainment of the AFRBM targets and also in their subsequent consolidation. There had been repeated observations of leakages, short mobilization and evasion of revenue both due to weaknesses in the system and also due to deliberate action by officials. In this context the use of the latest information technology can provide a way out to remove the anomalies. The state needs to set in place an effective system of autonomy and accountability and administer a strategy of reward and punishment which surely enhance the level of efficiency of the stakeholders in the public finance system.

Power Sector Reforms in Assam

The process of power sector reforms in the state started with a Memorandum of Understanding (MOU) signed by Government of Assam and ASEB with Government of India on Power reforms in February 2001 and a tripartite Agreement was signed between Government of India, Asian Development Bank & Government of Assam in December 2003. A major initiative undertaken as part of the power sector reforms in the state was the unbundling of ASEB initially into five and finally into three different companies giving away generation, transmission, and distribution activities into separate companies. A major component of the reform process was the Asian Development Bank's (ADB)loan of 250 m US$ loan (Programme Loan 150 m US$ and Project Loan 100 m US$). The programme loan of 150 m US$ was to be utilised to liquidate liabilities of ASEB and the project loan of 100m US$ was to be utilised for construction of new transmission lines, creation, augmentation and extension of sub station, replacement of breakers, bus capacitors, replacement of meters, installation of meter testing benches etc. The assessment of the post reform situation of the power sector has been done in two ways. One was to look at the position of power supply in the state and the other was to look at the financial performance of the three electricity companies. In terms of availability of power supply, the position of the state has improved as is evident from the fact that a larger percentage of the peak demand for the power is being gradually met from increasing power supply. Coming to the financial performance of the three companies, the study found that apart from AEGCL recording a profit in 2009-10, all the three organisations had been incurring losses in the years for which data is available. Given that serious efforts have been undertaken to reduce transmission losses in the power sector (using the Asian Development Bank loan) and the fact the subsidy element forms a negligible part in Assam, the making of losses by these companies can have detrimental effects on the fiscal health of the economy.

It is equally imperative to ensure the timely completion of the power sector projects in Assam as their delay will not only add to the project costs but also increase the debt obligation of the state on account of the fact that these projects have been initiated with the help of the ADB loan which is a big one. Accordingly necessary resources of the state have to be directed towards that end.

The Last Words

Throughout the study it had been observed that there had been a concerted effort by the state to work towards fiscal consolidation and enhance the level of fiscal sustainability. This was evident in the successful attainment of the AFRBM targets and also in their subsequent consolidation. There had been repeated observations of leakages, short mobilization and evasion of revenue both due to weaknesses in the system and also due to deliberate transgression by officials. In this context the use of the latest information technology can provide a way out to remove the anomalies. The state needs to set in place an effective system of autonomy and accountability and administer a strategy of reward and punishment which enhance the level of efficiency of all stakeholders in the public finance system.

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