Outcome Evaluation of State Finances (*Assam*)

in the context of recommendations of the 14th Finance Commission: Determination of a sustainable debt roadmap for 2020-25, taking into account the impact of introduction of GST and other tax/non-tax trend forecasts

Department of Economics

Gauhati University

A study commissioned by

The Fifteenth Finance Commission

2018

RESEARCH TEAM

Prof. Nissar A. Barua (Principal Researcher)

Dr. Nissar A. Barua is a Professor of Economics in Gauhati University. His areas of interest include Public Finance, Financial Economics and Development Economics

Dr. Nivedita Goswami (Associate Researcher)

Dr. Nivedita Goswami is an Associate Professor of Economics in Gauhati University. Her areas of interest are Public Finance, Industrial Economics and Institutional Economics.

Ms. Bandana Chowdhury (Associate Researcher)

Bandana Chowdhury is an Assistant Professor of Economics in Gauhati University. Her areas of interest include Public Finance, Development Economics and Operations Research

(Research Assistant)

Dr. Abdur Rashid Ahmed

Jahidul Haque

Drafting Assistants

Nitu Moni Bora

Afshana Parveen

Durga Devi

ACKNOWLEDGEMENT

On behalf of the Department of Economics, Gauhati University, the drafting committee extends its profound appreciation to the Fifteenth Finance Commission for inviting the department to take up the study on State Finance of Assam.

Moreover members of the drafting committee, thank the Departmental Advisory Committee for nominating them to take up this great responsibility.

It is our privilege and pleasure to acknowledge the extensive use of the reports of the Comptroller and Auditor General of India, Directorate of Economics and Statistics-Government of Assam, Department of Economic Affairs- Ministry of Finance, Government of India, Department of Public Enterprise and the Reserve Bank of India.

It would also be appropriate to acknowledge the contributions of the members of the university community to the writing of this report through their invaluable comments, arguments and suggestions.

Last but not the least, we take the opportunity to express our deep appreciation to our research assistants, Rashid and Jahidul and our drafting assistants, Nitumoni, Afshana and Durga for their tireless effort in bringing out the report.

Nissar A. Barua Nivedita Goswami Bandana Chowdhury

INDEX

List of the Tables

List of Boxes

EXECUTIVE SUMMARY

INTRODUCTION

In India, Finance Commissions, over the years, have evolved 'from an arbitrager between the centre and the states to being an architect of financial restructuring'. While the various rates of vertical devolution to the states have been defined and redefined, the formula for horizontal devolution witnessed the maximum debate, innovation and assenting intervention. Continuing in this tradition, the Fourteenth Finance Commission has also brought in fresh perspective in the perceived relationship between the centre and the states and among the states themselves.

This study seeks to undertake a comprehensive analysis of the state of public finance in Assam in the backdrop of the Fourteenth Finance Commission. As a geographically, economically and socially challenged state, Assam is confronted by the task of fulfilling the expectations of hundreds and thousands of young people looking for work and a better life while at the same time being constrained by the structural rigidities which is so typical of such a state.

In these trying circumstances and under pressure from its burgeoning committed expenditures in the form of salaries & wages, pension payment, and interest obligations from its ever increasing public debt, post-1991 Assam was rapidly drifting towards fiscal insolvency. In that period, the state had to seek repeated financial accommodation from the RBI to tide over the recurring crisis, thus severely damaging its financial credibility.

Assam achieved a turnabout in its fiscal position with the enactment of the Assam FRBM Act, 2005, which allowed it to undertake extensive programmes of fiscal consolidation. Hard-pressed, the state was able to extricate itself from the difficult situation through some commendable fiscal management which enabled it to meet, and even to exceed, the rigid targets set by the AFRBM Act. Despite its success in securing fiscal stability and sustainability, Assam constantly faces the threat of fiscal slippage, especially when it seeks to implement the recommendations of the State Pay Commission.

In the context of the recommendations of the Fourteenth Finance Commission, this study seeks to explore and analyse the finance of Assam for the period 2006-07 to 2018-19*.

1. REVENUE RECEIPTS: TRENDS, PATTERN AND EXPECTATIONS

The Fourteenth Finance Commission recommendations, besides increasing the share of devolution for the states have adopted a new horizontal devolution formula that incorporated new variables, exclusion of existing variables and significant changes in the weights assigned. The state of Assam benefitted with the introduction of the dimension of *Population of 2011* with a weight of 10, whereas it lost out with the exclusion of the dimension of *fiscal discipline* which was accorded a weight of 17.5 by the previous Thirteenth Finance Commission. Thus in absolute terms Assam experienced substantial gains and was positioned just after Jammu & Kashmir and Himachal Pradesh among the special category states (Economic Survey, 2014-15). However in terms of benefit per capita (which is a better indicator of impact), it was Arunachal Pradesh, Mizoram and Sikkim who were better off.

In the period from 2006-07 to 2018-19, receipt from *State Taxes* exhibited a cumulative average growth rate (CAGR) of 13.20 percent. In the same period receipt from *Non-Tax Revenue* grew at a very slow pace of 0.14 percent indicating its diminishing significance as a source of revenue. However, Share of Central Taxes displayed a healthy CAGR of 15.75 percent, which was bolstered by a steep jump in transfer from the divisible pool of central taxes. Significantly the recommendation for a countervailing reduction in Grants-in- Aid against an enhanced devolution from the central divisible pool by the Fourteenth Finance Commission was reflected in a significant decline in the Grants-in-Aid extended to Assam by Rs. 1210 cr in 2015-16

The change in the composition of the revenue receipts in Assam is reflected in the changing contribution of the four sources of revenue receipt. The falling yields from non-tax revenue had impacted the critical parameter of State's Own Revenue, which had come down from 39.09 percent in 2006-07 to 26.10 percent in 2018-19. However the contribution of the Total Central Transfer has remained steady at around 60-69 percent as the gains from the enhanced devolution from the divisible pool has been partly eroded by the cuts in grants-in-aid whose

* The interim report was prepared as per the 10 year time period (2016-07 to 2015-16) specified by the *Terms of Reference*. However the final report was updated to 2018-19 (using budget estimates) as per the request of the Fifteenth Finance Commission.

share in the total revenue receipt came down from 36.76 percent in 2014-15 to 30.19 percent in 2018-19.

Based on the thirteen years trend, the revenue receipt has been projected for 2019-20 to 2024-25. The projected receipt is expected to grow at a CAGR of 4.98 percent, growing from Rs. 64362 crs in 2019-20 to Rs. 86148 crs in 2024-25.

In this regard, a comparative statement indicating the projections made by the Fourteenth finance Commission and the actual revenue receipt by the state is the most revealing. The revenue performance of the state can also be assessed in terms of the revenue projection made by the Fourteenth Finance Commission. It is observed that the actual Own State Taxes were successively lower than what was projected by the finance commission. It was only in the Non Tax Revenue in 2016-17 and revised estimate of Non Tax Revenue in 2017-18, that the state managed to attain an actual that superseded the forecast made by the fourteenth finance commission. However the budget estimate of Non Tax Revenue in 2018-19, slipped below the forecasted amount.

In the Pre GST era, tax revenue, was overwhelmingly dominated by Sales Tax which was supplemented by proceeds from State Excise, Taxes on vehicles, Taxes on Goods and Passengers, Taxes on Property and Capital Transactions etc. Again, the Non-tax Component of Own Resource of Assam was totally dominated by revenue proceeds from petroleum, though receipts from General Services and Interest Receipts have shown recent gains.

With the landmark implementation of VAT in 2006-07, State Sales Tax receipt in Assam increased from Rs. 1546.74 crs to Rs. 3872.62 crs in 2018-19, exhibiting a CAGR of 7.32 percent in the intervening period. Moreover the contribution of Sales tax to the State Tax Revenue has been notably increasing from a 44.41 percent in 2006-07 to 66.49 percent in 2010-11 and then to 67.79 percent in 2016-17 reflecting its importance to the state exchequer. This was an indication of better tax compliance, reduced evasion and more efficient tax mobilization in the new dispensation. Notably there was a steep drop in the state sales tax to Rs. 4116 crs (34.18 percent) in 2017-18 and then to Rs. 3872.62 percent (22.19 percent) in the subsequent year.

The **tax effort** of Assam with an *Own Tax Revenue-GSDP Ratio* (OTR/GSDP) of 5.1 percent is one of the best among Special Category States and is easily comparable with the better performing General Category States which enjoys an average rate of 6.8 percent. However, in terms of **efficiency**, Assam's revenue system compared unfavorably with the national average so far as cost of collection of public resources is concerned.

In Assam, the **cost recovery** level in Social Services is extremely low at 0.48 percent in 2015-16, though in the case of economic services, at 37.54 percent, it is decidedly higher than the national recovery rate of 35.49 percent. This had been achieved by enhancement of user charges, greater transparency and accountability in the mobilisation process and also due to improvement in the quality and delivery of services.

In conclusion, trends from the reference period make it obvious that revenue receipt, over the years, will be dominated by state tax receipt and Share of Central taxes. Quantum jump in the revenue from sales tax in the post-VAT era augurs well for the days to come, especially after the transition to the Goods and Service Tax regime. Such optimism emanates from evidence of better tax compliance, reduced evasion and more efficient tax mobilization in the new dispensation.

2. EXPENDITURE

Total expenditure in Assam increased from Rs. 12991 cr in 2006-07 to Rs. 86431.61 cr in 2018-19, registering a CAGR of 15.69 percent. It constituted roughly 20 to 22 percent of the state's GSDP during the period of study and has registered a growth higher than that of the growth of population. Of the total expenditure, revenue expenditure on an average had a share of 88 percent of the total expenditure while the share of capital expenditure ranged between 8 to 11 percent.

In Assam, over 90 percent of the non-developmental revenue expenditure is expended on *Interest Payments and Servicing of Debt*, *Administrative Services* and *Pensions*. *Pensions and Administrative Services* accounted for over 74 percent of the revenue expenditure on general services in 2015-16, which is fairly high and unfortunately cannot be expected to reduce. With the implementation of the recommendations of the Seventh Pay Commission, this head of expenditure is will undoubtedly show a sharp rise and place the expenditure in the state at higher levels for all the subsequent years. An idea of such a possible trend is visible from the projections made for the period 2019-20 to 2024-25. Social Services, which accounted for 64 percent of the developmental revenue expenditure in 2015-16, saw the dominance of *Education, Sports, Art and Culture* over all other heads of expenditure. A head of revenue expenditure which is gradually gaining prominence and has a share similar to *Health and Family Welfare* is *Water Supply, Sanitation, Housing and Urban Development*. Revenue Expenditure on economic services has been dominated by *Agriculture & Allied Activities*, along with *Rural Development*, followed by *Transport and Communic*ation, *Irrigation* and *Flood Control*. Grants-in-aid mainly in the form of compensation and assignment to local bodies and *Panchayati Raj* institutions never exceeded 3 percent of the state's revenue expenditure.

The bulk of capital expenditure is directed towards developmental purposes with general services constituting only 10.64 percent in 2018-19 (BE). The highest share of capital expenditure is accounted by economic services (over 80 percent) followed by social services. *Special Areas Programme*, *Transport & Communication*, *Energy* and *Major & Medium Irrigation* and *Flood Control* accounted for over 90 percent of the capital expenditure on economic services of the state.

On an average, committed expenditure accounted for roughly 65 percent of the state's revenue expenditure and 57 percent of the total expenditure. During the study period, it grew at a rate of 14.01 percent per annum which was higher than the growth rate of revenue expenditure. Accounting for nearly two-thirds of the revenue expenditure of the state meant that only one-third of the expenditure was directed for maintenance activities, which has an adverse bearing on the state's infrastructural position. It is also important to note that committed expenditure as a percentage of revenue expenditure as well as total expenditure is slowly growing at roughly 1 percent per annum, which has serious implication for growth.

In Assam, the direction of public expenditure points toward a certain degree of distortion. *Public Health and Family Welfare* has received a substantially lower share of the state's revenue expenditure in comparison to *Education, Sports, Arts and Culture*. The rising share of *Water Supply, Sanitation, Housing and Urban Development* in the state's revenue expenditure needs to be approached with a sense of caution. The lion's share of the capital expenditure on social services went to water supplies, sanitation, housing and urban development which provided benefits for an advantaged section of the population only, which is undesirable. Capital expenditure in the state is rightly focused on economic services though the misallocation is present here also. Thus, *Transport & Communication* has found precedence at the cost of *Industry*. With misallocation of developmental funds, on one hand, and the growing size of committed expenditure on the other, the Government of Assam may not be able to sustain the current and future resource needs of the state if no attempt is made to rationalize and realign its expenditure.

3. AN ANALYSIS OF DEFICITS AND THE ***AFRBM ACT***

Post 1991, Assam exhibited an exaggerated picture of the structural deficits that prevailed in the central and state budgets in India. Unfettered increase in charged expenditure emanating from commitments in salary and wages, pension and cascading interest liabilities were hurling the state down towards financial insolvency. Under increasing pressure from the centre which was seeking to implement the *Fiscal Responsibility and Budget Management Act 2003*, Assam made a concerted attempt to secure fiscal consolidation by enacting their own *Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005* and *Assam Fiscal Responsibility and Budget Management Act (Amendment), 2011.* In its objectives to secure fiscal stability and sustainability for the state, the *AFRBM Act* seeks, among other things, to attain revenue surplus and bring the fiscal deficit to predetermined levels. Subsequently deficit indicators in Assam had been significantly influenced by the checks imposed on the fiscal operations under the ambit of the Act.

The enactment of the Assam FRBM Act in 2005 was a landmark event in Assam's state finance which brought in conscious effort towards fiscal consolidation that was accompanied by fiscal discipline, control and correction. Commendable fiscal management in the state resulted in an abrupt and significant reduction in the revenue deficit from 0.67 percent in 2004-05 to a remarkable revenue surplus of 2.60 percent in 2005-06, the year in which the AFRBM was implemented. Parallely fiscal deficit was corrected from an unsustainable 4.76 percent to an outstanding 0.61 in the span of a single year.

The good work done in confining the revenue deficit and the fiscal deficit well within the Assam FRBM target was sustained for the next three years, i.e. from 2006-2007 to 2008-09, though 2009-10 saw a sudden spike where the two deficits went up to 1.92 percent and 5.78 percent respectively. This aberration can be explained by the jump in committed expenditure due to the implementation of the State Pay Commission recommendations. Besides, there was relaxation in the FRBM targets in that year to counter the slowdown in revenue receipts due to the global recession that was threatening the state.

However the violation of the targets was quickly corrected in the next year itself when the state came up with a revenue surplus and the fiscal deficit was brought down to 1.91 percent. It is gratifying to see that since then, Assam had consistently maintained revenue surplus and a fiscal deficit well within the AFRBM target. However in the penultimate year of the reference period i.e. 2017-18 (revised estimate), the state exhibited its highest revenue deficit ever of the FRBM regime at 9.04 percent. This may be due to the fresh burden imposed with the implementation of the recommendations of the state pay commission. However sanity is expected to be restored, with the budget estimates of 2018-19 estimating another revenue surplus at - 0.84.

Projections of revenue deficits, fiscal deficits and primary deficits from 2019-20 upto 2024-25 are made assuming that the policies of the state towards fiscal consolidation would remain consistent with the objectives of the Assam FRBM Act of 2005. As deficit figures are highly sensitive to operational fiscal policies hence assuming a linear trend is at best improbable. Hence the projections based on a thirteen year trend should be viewed with the caution that is necessary, in light of the limitations of such exercises.

As indicated the existing revenue deficit is projected to gradually increase from 3.27 percent in 2019-20 to 5.85 percent in 2024-25. The projection however is very adversely effected by the fiscal deficit of 9.04 percent in 2018-19, which is a major aberration brought about by the spurt in revenue expenditure. Such abnormally high levels are also observed in the projections of fiscal deficits and primary deficits.

In conclusion, it is noteworthy that the state has managed to secure and maintain the extremely demanding fiscal goals despite its locational and other constraints as a special category state. The fiscal targets were violated in 2009-10 with the implementation of the recommendations of the Sixth Assam Pay Commission. This is a cause for concern as the implementation of the Seventh Pay commission is expected to have similar adverse fallout against which the fiscal planners have to brace.

4. PUBLIC DEBT IN ASSAM

There has been significant decline in the debt to GSDP ratio of the state from 31.84 in 2006-07 to 18.54 in 2016-17. 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 favourable *rate spread* contributed towards the reduction in debt-GSDP ratio of the state which has been supplemented by the positive *debt stabilisation index.*

In view of the comfortable cash balances, the state may consider resorting to more need based borrowing programmes in a cost-effective manner. Projects need to be identified which require capital investment and borrowing should be undertaken on the basis of realistic assessment of cash needs along with effective cash management for better synchronization of cash flows. Besides, it would help in curbing unwarranted build-up of cash surplus.

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.

5. FISCAL DEVOLUTION TO LOCAL BODIES

On 31st March 2015, there were a total of 2,412 Panchayati Raj Institutions (PRIs) and 94 Urban Local Bodies (ULBs) in Assam. PRIs were mainly entrusted with the implementation of the Centrally Sponsored Schemes, like the *Mahatma Gandhi National Rural Employment Guarantee Scheme* (MGNREGS), *Indira Awas Yojana* (IAY), *Backward Region Grant Fund* (BRGF), *National Social Assistance Programme* (NSAP) and *National Rural Livelihood Mission* (NRLM). ULBs, on the other hand, were able to generate their own resources in a much stronger way than PRIs as they had an access to several tax and non-tax sources of revenues such as taxes on holdings, water tax, *etc.,* building plan sanction fee, rent from shops and buildings, tolls and other fees and charges. The State Finance Commissions, over the years, have suggested several measures to increase the own resources of the local bodies, both at the rural and urban areas. There is an emphasis on revising the tax rates periodically, as well as widening the tax net of the PRIs and ULBs, as a means for increasing the own revenues of the ULBs.

The approach of state governments towards local bodies in Assam leaves a lot to be desired. Other than a few selected years, transfers from the state government to the local bodies, was less than 10 percent of the state's revenue expenditure. The pattern of funding of the PRIs have resulted in these institutions carrying out the flagship programmes of the Government of India which leaves them almost no liberty to implement ideas that are suitable for local needs. Decentralization initiatives in the state are being carried out by the Government through various schemes, most of which have succeeded in creating physical infrastructure in local areas.

A serious gap in the case of local bodies is seen in their mechanism of auditing accounts. There is a large gap in the coverage of units of local bodies, both PRIs and ULBs, for purpose of audit by the primary auditor, viz. the Director of Audit, Local Fund (DALF). Improvement in the accounting practices of local bodies can ensure better utilization of funds by the PRIs and ULBs. The State Finance Commissions (SFC) plays a major role in the area of fiscal devolution. The five SFCs constituted so far have given recommendations which have mostly been accepted by the state government and the Action Taken Reports have been laid in the Table of the House periodically.

6. POWER SECTOR REFORMS

Power sector reforms in Assam were initiated with the signing of the Memorandum of Understanding made between the Ministry of Power, Government of India and the Government of Assam in 2001. The objective of the reform was to ensure the commercial viability of the power sector so that its dependence on budgetary support is gradually removed.

The APGCL, the company involved in the production of power in the state, could alone produce approximately 16 percent of the state's demand for power. However, it was through purchases from various sources that APGCL attempted to meet the energy requirements of the state. There is a gap between peak demand and supply and also energy requirement and energy availability. Despite this mismatch, both the two gaps are being bridged over the years. In 2015-16, the shortfall against peak demand was only 4.98 percent whereas only 3.64 percent of the energy requirement in the state was not met. With efforts to augment the supply of power through increased production and efficient transmission and distribution, the gap between demand and supply of power in the state may no longer exist in the coming years.

The role of *Assam Electricity Regulatory Commission* (AERC), which is assigned the responsibility of fixation of electricity tariff, assumes significance because all the three existing power corporations in the state are still making losses. The issue of financial performance of the corporations needs to be seriously addressed because if they continue making losses, the reforms will turn out to be self-defeating.

7. STATE SUBSIDIES: AN ASSESSMENT

State subsidies, as a whole have shown a steady rise from 2007-08 onwards till it peaked at 2013-14. However, in 2014-15, state subsidies registered a 28 percent decline, that was further reduced in 2015-16, by a hefty 67 percent.

Subsidies in Assam are granted to a few sectors only. These include the Co-operative Departments, Agriculture & Allied Departments, Industry and Commerce Department, Welfare of Schedule Castes, Schedule Tribes and Other Backward Classes, Rural Development and Hill Areas Development.

State subsidies have not been directed towards the provision of merit goods, like education, health and infrastructure, nor have they aimed at correcting market failure. Instead, subsidies in the state have tried to achieve the social objectives of empowerment of the backward groups in Assam. The portion of subsidies directed to the Industries and Commerce Department is possibly an indicator of the Government's desire to encourage industrial growth in the State, and perhaps reflects the belief of the planners that subsidies alone have the capacity to guide the industrial development of the state, over other forms of public expenditure. In the absence of clear-cut policy objectives, subsidies may only end up creating interest groups and rent-seekers in Assam.

8. PUBLIC SECTOR ENTERPRISE AND PUBLIC UTILITIES

In Assam, besides directly investing in PSEs, the government extends them financial support in the form of loans and advances and also by guaranteeing their debt. PSEs under *Industries and Commerce* are earning profits and paying dividends to the government. Besides, there are signs of revival of the chronically loss making *Assam State Transport Corporation* (ASTC) and the *Assam Tourism Development Corporation* (ATDC). The list of PSUs that are operational but loss making includes the critical *Assam State Electricity Board* (ASEB) which continues to flounder despite the power sector reforms initiated.

A significant amount of resources is invested by the government with borrowed funds on statutory corporations, government companies, joint stock companies and co-operatives with the basic objective of promoting economic and social welfare and inducing rapid economic growth. 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.

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 falls entirely on the government as the guarantee of the loan.

Besieged, the state government has adopted a strategy of standardized disinvestment of the loss making PSEs. Notwithstanding the strong opposition from retrenched workers and other stakeholders, it is essential that the process is continued so that the government can avoid repeated fiscal crisis.

9. ANALYSIS OF CONTINGENT LIABILITIES OF THE STATE

Contingent liabilities of Assam had dropped dramatically from a high of 11.44 per cent of the revenue receipt in the year 2006-07 to 0.98 per cent in 2016-17.

In order to deal with contingent liabilities of the state, the Twelfth Finance Commission had recommended the state governments to constitute a Guarantee Redemption Fund which was implemented only in September 2009. This fund was constituted 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. As per the guidelines of the scheme, the fund was set up with an initial contribution of Rs. 5 cr 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. As on 31 March 2016, the total amount in the Fund, which is invested by the Reserve Bank of India, was rupees 26.81 cr (including the interest of Rs. 1.82 cr for 2015-16).

Apart from fiscal correction and consolidation, the fiscal reform at the state level should focus on the growing volume of guarantees and other payment assurances in the nature of guarantees. There is need for fixing ceiling on guarantees, taking into account the default and devolvement probability, the nature of guarantees issued, the pricing of services rendered by the project for which guarantees are extended etc.

10. GOODS AND SERVICE TAX

Assam was the first state to ratify the constitution amendment bill on Goods and Services Tax (GST), followed by the state of Bihar. As on 31st December, 2017, the collection of Central GST in Assam was Rs 1772.66 cr whereas the state GST was Rs. 2249.19 cr. Assam contributed a meager 1.61 percent to the Central GST of India. Data reveals that the total GST collected in Assam was Rs. 92283 cr in August 2017 and increased significantly to Rs. 10345 cr in April 2018, which is a positive indication. The state of Assam accrued Rs. 11435.27 as taxes on commodities and services which included Sales tax, state excise, vehicle tax, taxes on goods and passengers, taxes and duties on electricity, entertainment tax, SGST and other taxes Besides, GST Compensation released during April 2018 to September 2018 in Assam was Rs. 109 crores which constituted of a meagre 0.35% of the total GST Compensation released in India.

Drawing on the evidence of efficiency gains revealed in empirical evaluation of the implementation of VAT in 2005, the GST is expected to strengthen cooperative federalism and have far-reaching implications for the Indian economy. It is anticipated that, GST will bring major benefits for the states of the Northeast Region because they are largely destination and consumer states.

11. OUTCOME IMPLICATIONS OF STATE FINANCES IN THE CONTEXT OF RECOMMENDATIONS OF THE THIRTEENTH AND FOURTEENTH FINANCE COMMISSIONS

The present study provides an insight into Assam's Finances over a thirteen year period. As per the terms of reference, the study initially covered the period from 2006-07 to 2015-16 which coincides with the terms of the Twelfth Finance Commission and the Thirteenth Finance Commission, with only the period 2015-16, falling under the domain of the Fourteenth Finance Commission. However the period was extended to 2018-19 in the final report. Under the circumstances, the report evaluates the outcomes of state finance in the context of the recommendations of the Thirteenth Finance Commission and linking that to explore contiguity with the Fourteenth Finance Commission recommendations.

Each finance commission made their mark for suggesting unique solutions to resolve the pressing problems of their time. The Twelfth Finance Commission, while making expected recommendations with regards to vertical devolution to states was extended debt relief that was consistent with macro-economic stability and debt sustainability. Assam was a major beneficiary of this scheme, which enabled it to retrieve itself from a position of fiscal insolvency to a much more comfortable state of fiscal stability and sustainability.

The Thirteenth Finance Commission assumed the responsibility of facilitating the implementation of the GST regime by recommending a *grand bargain* with the adoption of the *Model GST Design* that would define the operational modalities, chalk out the necessary agreement between the centre and states, and state the disincentives for non-compliance and procedures for claiming compensation. The recommendations of the Thirteenth Finance Commission prepared the ground work for the successful implementation of the GST in the term of the Fourteenth Finance Commission.

The focus of the Fourteenth Finance Commission was on enhancing the fiscal autonomy of the states which was sought to be implemented by recommending a quantum 10 percent hike in the share of the states in the divisible pool of central taxes. Another recommendation that had a great impact on the Northeastern States is the induction of the dimension of forest cover in the formula for horizontal devolution of the state share. Assam benefited by the assignment of 10 percent weight to the population of 2011 in the devolution formula thus capturing the demographic changes since 1971. The Fourteenth Finance Commission carried forward the initiative to facilitate the successful transition to the GST regime by recommending the setting up of the GST Compensation Fund that would compensate revenue shortfall of the states.

The Fifteenth Finance Commission is expected to retain the medium term strategy of fiscal consolidation of the centre and the states, and the maintenance of fiscal stability and sustainability. Given the fact that it finds itself in a much more comfortable position than the earlier commissions, the Fifteenth Finance Commission can look towards enhancement in the quality of Public Expenditure by preparing modalities pertaining to monitoring of disbursement, maintenance of transparency and assignment of accountability. Finally, the unsustainable PSEs continue to be a concern. While they have continued to be a great burden on the treasury, their non-operation have caused great distress to the stakeholders, especially the embattled employees. The resolution of this vexed issue poses the greatest challenge in the states, for the Fifteenth Finance Commission.

INTRODUCTION

Fiscal Policy is a multi-intent strategy targeted to attain broad macroeconomic goals that directly affects growth, stability and equity. Executed ideally in conjunction with monetary policies, fiscal strategies seek to ensure the optimal allocation of resources, maintenance of price stability while ensuring an acceptable level of growth and employment and attainment of the exalted objective of equity through a viable redistributive policy that guarantees the provision of basic needs to the people who require it the most. Contemporary Public Finance calls for affirmative state intervention in the economy using the fiscal instruments of taxation, public expenditure and public borrowing in contrast to the pre-depression era which swore by the principle of *laissez-faire*. Fiscal Policy as a strategy to achieve various socio-economic objectives can be counter-productive if critical thresholds are breached; hence it requires fine tuning so that a balance is established between taxation and public expenditure. Thus, while the optimal level of government expenditure can induce private sector growth, too much of it can precipitate the *crowding out effect* and retard its progress. Public expenditure should be expended to the extent of 'having enough outlays to meet the needs of Government and support growth, but not so much as to deny the private sector the resources it needs to invest and develop'(Akanni & Osinowo , 2013). This leads to the very vexed question regarding when the government should intervene in the economy and if it does, what should be the extent of intervention. There is no unanimity in the answer to this question as opinions differ along with variations in the nature of the economies, though it is universally agreed that the state do need to step in one way or the other in pursuance of its socio-economic goals.

The Constitution of India has defined specific responsibilities for the centre and states in the Indian Fiscal Federation while making detailed provision for finances to perform them. However federal finance in India has built-in vertical as well as horizontal imbalances which is sought to be rectified by the Finance Commission that is appointed for a term of five years. The Commission constitutes an institutional apparatus that facilitates the transfer of resources from the centre to the states from the proceeds of the central divisible pool and also in the form of grants-in –aid so as to correct the existing horizontal and vertical imbalance. In doing so, over the years the Finance Commissions have evolved 'from an arbitrager between the centre and states to being an architect of financial restructuring'. While the Finance Commissions over the years defined and redefined the various rates of vertical devolution to the states, the formula for horizontal devolution witnessed the maximum debate, innovation and assenting intervention. While weightage was given to the criteria of *need*, in the form of *population* and *income* by the first seven commissions, other important dimensions like *equity*, *fiscal efficiency and disability factors* made their way into horizontal devolution formula in the recommendations of subsequent commissions. It has been asserted that "Fiscal Federalism will always remain a work in progress and the institution of the Finance Commission, as in the past, will continue to deal with the changing environment and emerging challenges". Continuing in this tradition, the Fourteenth Finance Commission has brought in fresh perspective in the perceived relationship between the Centre and the States and among the states themselves. Acknowledging the necessity for enhancing the fiscal autonomy of the states, the Fourteenth Finance Commission recommended an unprecedented hike in the share of devolution from the unencumbered proceeds of the pool of central taxes from 32 percent to 42 percent while seeking a countervailing reduction in the *Central Assistance to States* so as to preserve the fiscal space of the centre. More radical though, had been the proposal to revise the horizontal devolution formula with a 10 percent weight given to population of 2011, over and above a 17.5 percent weightage to the population of 1971. Unexpectedly the weightage given to fiscal discipline had been removed in favour of a 7.5 percent weightage given to forest cover.

Although all states are expected to gain from the Fourteenth Finance Commission transfers, however the benefits are not expected to be evenly distributed. While in absolute terms, the biggest gainers in the general category states (GCS) are expected to be Uttar Pradesh, West Bengal and Madhya Pradesh, among the special category states (SCS) the biggest beneficiaries are expected to be Jammu & Kashmir, Himachal Pradesh and Assam. However in terms of benefit per capita (which is a better indicator of impact), the major gainers among GCS are expected to be Kerala, Chhattisgarh and Madhya Pradesh while among SCS, Arunachal Pradesh, Mizoram and Sikkim are expected to lead the way (Economic Survey, 2014-15).

This study seeks to undertake a comprehensive analysis of the state of public finance in Assam in the backdrop of the Fourteenth Finance Commission. Despite being the gateway to the North East, Assam is challenged by geographical isolation, difficult terrain, long international border, recurring natural calamities and adverse law and order situation. As one of the poorer state, Assam is confronted by the challenge of attaining higher growth so as to fulfil the expectations of hundreds and thousands of young people looking for work and a better life while at the same time being constrained by the structural rigidities which is so typical of such a state.

In these trying circumstances, Assam was rapidly drifting towards fiscal insolvency post 1991, under pressure from its burgeoning committed expenditures in the form of salaries & wages, pension payment, and interest obligations from its ever increasing public debt. In that period, Assam had to seek repeated financial accommodation from the RBI to tide over the recurring crisis, thus severely damaging its financial credibility.

Assam achieved a turnabout in its fiscal position with the enactment of the Assam FRBM Act, 2005, which allowed it to undertake extensive programmes of fiscal consolidation. Hard-pressed, the state was able to extricate itself from the difficult situation through some commendable fiscal management which enabled it to meet, and even to exceed, the rigid targets set by the AFRBM Act. Despite its attainments in securing fiscal stability and sustainability, Assam is constantly exposed to the danger of fiscal slippage, especially when it seeks to implement the recommendations of the State Pay Commission.

In the context of the recommendations of the Fourteenth Finance Commission, this study seeks to explore and analyse the finance of Assam within the ambit of the following terms of reference:

TERMS OF REFERENCE

The study would provide an analysis of the state finance over a period of thirteen years starting from 1st April 2006*. Specifically, the study should include (and may not be restricted to) the following:-

i. Estimation of revenue capacities of state and measures to improve the tax-GDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system in the State.

ii. Analysis of the State's own non-tax revenues and suggestion to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises.

iii. Expenditures pattern and trends separately for Revenue and Capital, and the major components of expenditure there under. Measures to enhance allocative and technical efficiency in expenditures during the last 5 years. Suggestions for improving efficiency in public spending.

* The interim report was prepared as per the 10 year time period (2016-07 to 2015-16) specified by the *Terms of Reference*. However the final report was updated to 2018-19 (using budget estimates) as per the request of the Fifteenth Finance Commission.

iv. Analysis of Deficits-Fiscal and Revenue.

v. The level of debt: GSDP ratio and the use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of the state's debt in terms of market borrowing, Central Government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public amount(small savings, provident fund etc.) and borrowings from agencies such as NABARD, LIC etc.

vi. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments of aggregates.

vii. Analysis of the state's transfers to urban and rural local bodies in the State. Major decentralization initiatives.

viii. Impact of State Public Enterprises finances in the State's financial health and measures taken to improve their performance and/or alternatives of closure, disinvestment etc.

ix. Impact of Power Sector Reforms on State's fiscal health. In case reforms have not been implemented, the likely outcome on the State's fiscal health.

x. Analysis of contingent liabilities of the State.

xi. Subsidies given by the States (Other than Central subsidies), its targeting and evaluation.

xii. Outcome Evaluation of State Finances in the context of recommendations of the 14th Finance Commission.

xiii. Determination of a sustainable debt roadmap for 2020-25, taking into account impact of introduction of GST and other tax/non-tax trend forecasts.

Chapter-I

Revenue Receipts: Trends, Pattern and Expectations

1.1 INTRODUCTION

Constitutionally the central government enjoys primacy in the federal setup and hence have privy to most of the buoyant and elastic taxes. In fact, to ensure the pre-eminence of the union government there is a conscious and predetermined attempt to impart vertical asymmetry in to the fiscal federation. This was apparent in the submissions made by the states before the Fourteenth Finance Commission which called for a reduction in the vertical imbalance, mostly through an increase in the share of the tax devolution. However there were other suggestions that included inducting cess and surcharges and also non-tax revenue so as to expand the divisible pool, declaration of minimum guaranteed tax devolution and reduced role of Centrally Sponsored Schemes (CSS). As opposed to the states, the Union Ministry of Finance recommended that the existing level of devolution, as recommended by the Thirteenth Finance Commission be retained so as to empower the central government to keep on tract the fiscal consolidation strategy while maintaining the level of investment critical development infrastructure.

The Fourteenth Finance Commission in its wisdom rejected the demand for inclusion of cess and surcharges (and the constitution amendment it entails) in the divisible pool and instead choose to increase the share of states in the divisible pool from 32 percent to 42 percent that is to be balanced by commensurate reductions in the Central Assistance to States(CAS). This was expected to enhance the fiscal autonomy of the states while maintaining the fiscal space of the union government.

The Fourteenth finance commission recommendations, besides increasing the share of devolution for the states have adopted a new horizontal devolution formula that incorporated new variables, exclusion of existing variables and significant changes in the weights assigned. The state of Assam benefitted with the introduction of the variable Population for (2011) with a weight of 10, whereas it lost out with the exclusion of the dimension of fiscal discipline which was accorded a weight of 17.5 by the previous Thirteenth Finance Commission. Thus in absolute terms Assam experienced substantial gains and was positioned just after Jammu & Kashmir and Himachal Pradesh among the special category states (Economic Survey, 2014-15). However in terms of benefit per capita (which is a better indicator of Impact), it was Arunachal Pradesh, Mizoram and Sikkim who were better off. This was largely due to the impact of the newly introduced dimension of forest cover with a weight of 7.5 which these states were endowed and of course, due to their relatively smaller population.

1.2 ANALYSIS OF REVENUE IN ASSAM

The revenue in Assam, as in other states, is constituted by the State's *Own Revenue Receipt*, which in turn is supplemented by transfer from the centre. The *Own Revenue Receipt* of the state sourced from *State Taxes* and the State's *Non-Tax revenue*, while central transfers is received in the form of the state share in the *Divisible Pool* of Central Taxes and *Grants-in-Aid*.

In the referred time period of 2006-07 to 2018-19[*], receipt from *State Taxes* increased from Rs. 3,483 crs to Rs. 17451 crs exhibiting a cumulative average growth rate (CAGR) of 13.2 percent. In the same period receipt from *Non-Tax Revenue* grew at a very slow pace of 0.14 percent indicating its diminishing significance as a source of revenue. However, Share of Central Taxes displayed a healthy CAGR of 15.7 percent, which was bolstered by a steep jump in transfer from the divisible pool of central taxes. Significantly the recommendation for a countervailing reduction in Grants-in- Aid against an enhanced devolution from the central divisible pool by the Fourteenth Finance Commission was reflected in a significant decline in the Grants-in-Aid extended to Assam by Rs. 1210 crs in the year 2015-16.

[*] The interim report was prepared as per the 10 year time period (2016-07 to 2015-16) specified by the *Terms of Reference*. However the final report was updated to 2018-19 (using budget estimates) as per the request of the Fifteenth Finance Commission.

Table 1.1

Revenue Receipts of Govt. of Assam

(in crs rupees)

Year	State Taxes	Non-Tax Revenue	Share in Central Taxes	Grants-in-Aid	Total	Projected
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	
2012-13	8250	2474	10602	9366	30691	
2013-14	8995	2705	11575	8938	32213	
2014-15	9450	2413	12284	14035	38181	
2015-16	10107	2742	16785	12825	42458	
2016-17	12080	4353	20189	12598	49220	
2017-18(RE)*	12043	6409	20025	17428	55905	
2018-19(BE)*	17451	1892	26096	22380	74119	
2019-20	*PROJECTED*					**64362**
2020-21						**68719**
2021-22						**73076**
2022-23						**77433**
2023-24						**81791**
2024-25						**86148**
CAGR	13.20%	0.14%	15.75%	13.28%	13.89%	4.98%

Source: *Accounts at Glance* (Various Years), Principal Accountant General (A&E), Assam

*Revenue Receipts of States and Union Territories with Legislature (2018-19), RBI

Figure 1.1

Forecasted Trends in Revenue Receipts in Assam

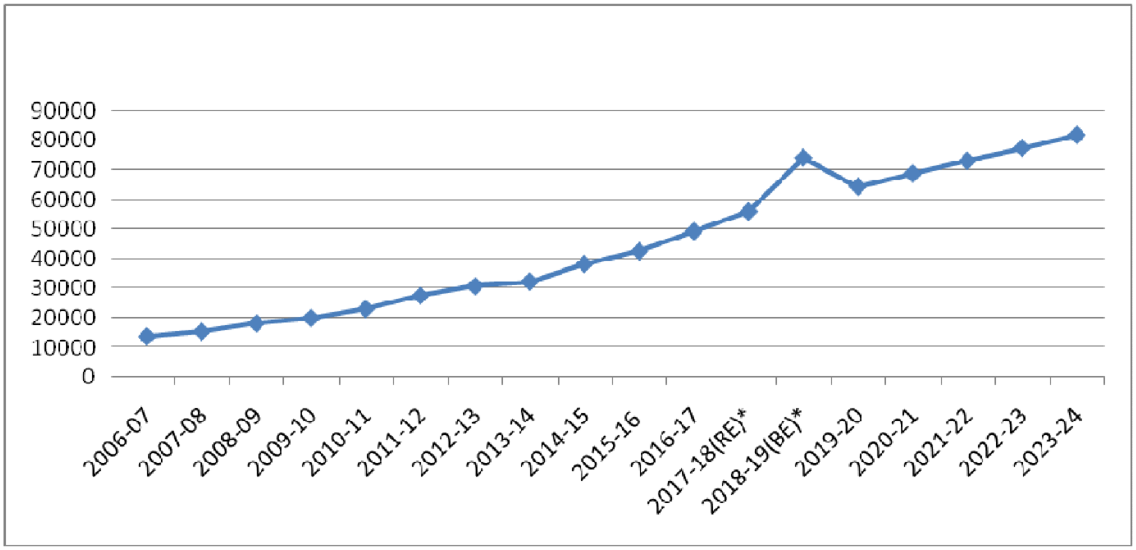


Fig:1.2

Trends in State's Own Revenue

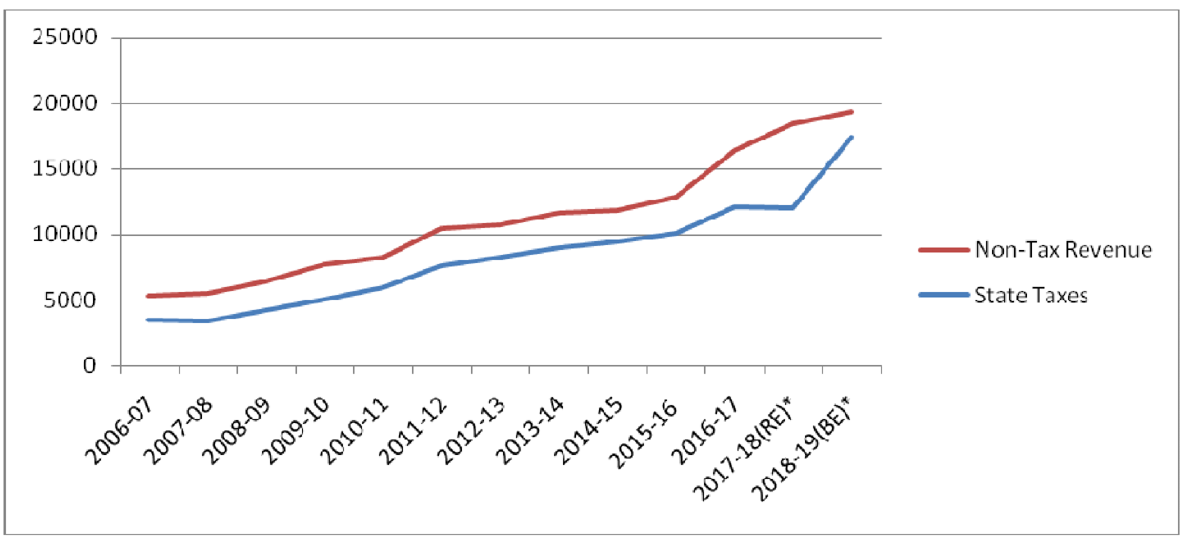


Figure-1.3

Trends in Central Transfers

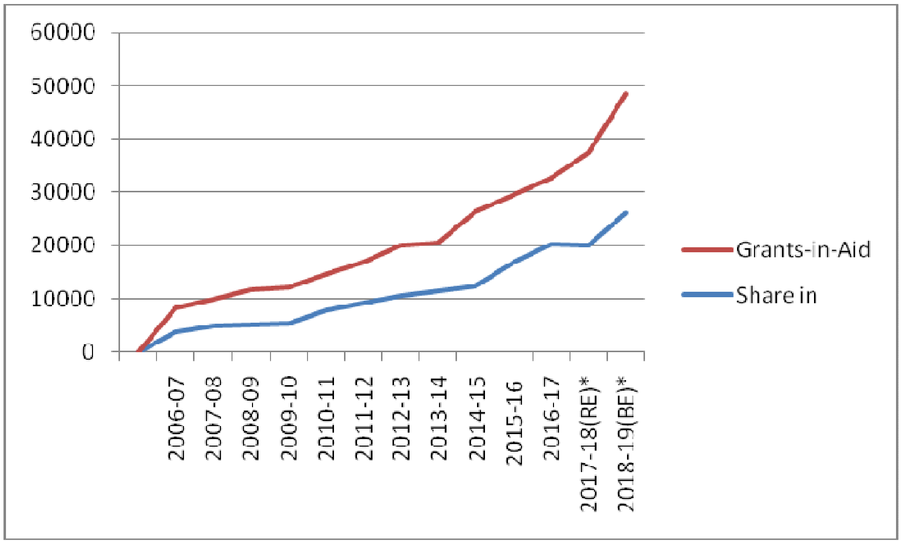


Table 1.2

Contribution to Revenue Receipts of Assam

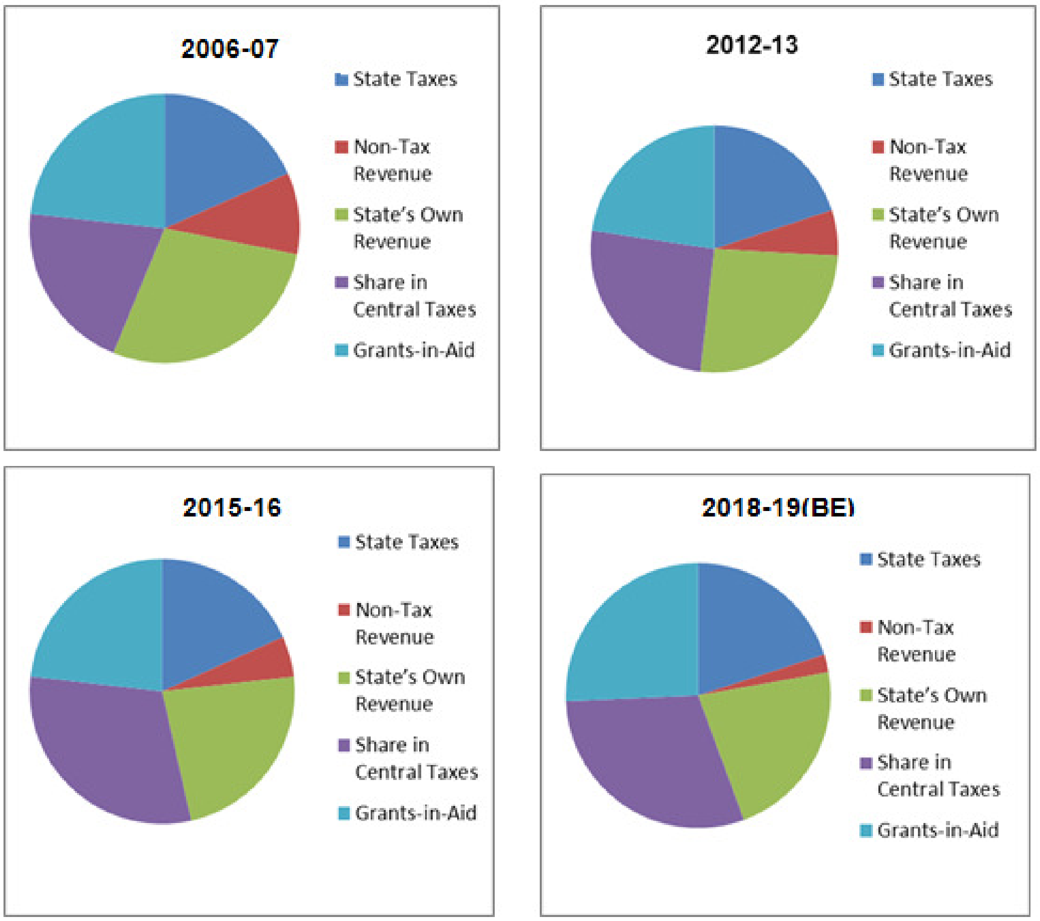
(% Percentage)

Year	*State Taxes*	Non-Tax Revenue	State's Own Revenue	Share in Central Taxes	Grants-in-Aid	Total Central Transfer
2006-07	**25.48**	**13.60**	**39.09**	**28.53**	**32.38**	**60.91**
2007-08	**21.92**	**13.93**	**35.85**	**32.09**	**32.06**	**64.15**
2008-09	**22.96**	**12.57**	**35.53**	**28.71**	**35.76**	**64.47**
2009-10	**25.08**	**13.85**	**38.93**	**26.85**	**34.22**	**61.07**
2010-11	**25.78**	**10.32**	**36.09**	**34.64**	**29.27**	**63.91**
2011-12	**27.82**	**10.44**	**38.26**	**33.81**	**27.92**	**61.74**
2012-13	**26.88**	**8.06**	**34.94**	**34.54**	**30.52**	**65.06**
2013-14	**27.92**	**8.40**	**36.32**	**35.93**	**27.75**	**63.68**
2014-15	**24.75**	**6.32**	**31.07**	**32.17**	**36.76**	**68.93**
2015-16	**23.80**	**6.46**	**30.26**	**39.53**	**30.21**	**69.74**
2016-17	**24.54**	**8.84**	**33.39**	**41.02**	**25.60**	**66.61**
2017-18(RE)	**21.54**	**11.46**	**33.01**	**35.82**	**31.17**	**66.99**
2018-19(BE)	**23.54**	**2.55**	**26.10**	**35.21**	**30.19**	**65.40**

Source: Estimated from Table-1.1

Figure 1.4

Revenue Receipt by Source



The change in the composition of the revenue receipts in Assam is reflected in the changing contribution of the four sources of revenue receipt. As expected the significance of *non-tax revenue* has declined considerably from 13.60 percent to a mere 2.55 percent in 2018-19, whereas the percentage contribution of State Taxes has held steady at around 24 percent. However, the falling yields from non-tax revenue had impacted the critical parameter of State's Own Revenue, which has come down from 39.09 percent in 2006-07 to 26.10 percent in 2018-19. On the other hand, Share of Central taxes from the divisible pool exhibited a step hike from 32.17 percent in 2014-15 to 35.21 percent in 2018-19 following the recommendations of the *Fourteenth Finance Commission*. However the contribution of the Total Central Transfer has remained steady at 69.74 percent as the gains from the enhanced devolution from the divisible pool has been partly eroded by the cuts in grants-in-aid whose share in the total revenue receipt came down from 36.76 percent in 2014-15 to 30.19 percent in 2018-19.

PROJECTIONS OF REVENUE RECEIPT FOR ASSAM

The total revenue receipt is Assam grew from Rs. 13667 crs in 2006-07 to Rs. 74119 crs in 2018-19, at a CAGR of 13.89 percent. Based on the thirteen years trend, the revenue receipt has been projected in Table-1.1, from 2019-20 to 2024-25. Thus the projected receipt is expected to grow at a CAGR of 4.98 percent, growing from Rs. 64362 crs in 2019-20 to Rs. 86148 crs in 2024-25.

In this regard, a comparative statement indicating the projections made by the Fourteenth finance Commission and the actual revenue receipt by the state is the most revealing. The revenue performance of the state can also be assessed in terms of the revenue projection made by the Fourteenth Finance Commission. In Table-1.3, it is observed that the actual Own State Taxes were successively lower than what was projected by the finance commission. It was only in the Non Tax Revenue in 2016-17 and revised estimate of Non Tax Revenue in 2017-18, that the state managed to attain an actual that superseded the forecast made by the fourteenth finance commission. However the budget estimate of Non Tax Revenue in 2018-19, slipped below the forecasted amount.

Table- 1.3

Projected Revenue Receipts by Fourteenth Commission

Year	Own State Taxes			Non-Tax Revenue		
	Projected	Actual	Deficit	Projected	Actual	Deficit
2015-16	13197	10107	3090	3771	2742	1029
2016-17	15351	12080	3271	4195	4353	-158
2017-18(RE)*	17856	12043	5813	4699	6409	-1710
2018-19(BE)*	20634	17451	3183	5299	1892	3407

Note: Projection undertaken by the Fourteenth Finance Commission.

Source: ***Accounts at Glance*** (Various Years), Principal Accountant General (A&E), Assam

*Revenue Receipts of States and Union Territories with Legislature (2018-19), RBI

STATE'S OWN REVENUE

The share of State's Own Revenue in the Revenue Receipts indicates the fiscal potency of the state and its sustainability in the long run. It is also an indicator of the performance of the in revenue mobilization. In Table-1.4, the State's Own Revenue as a percentage of Revenue Receipt is presented for all Indian states. In order to obtain a more compatible comparison, the states are divided into General Category States and Special Category States.

Among the General Category States, Goa was the best performing in this criterion in 2005-06 mobilizing 85.66 percent of its revenue receipt itself. The other leading states included Haryana and Gujarat. However by 2015-16, the performance of all these three states with respect to their share of Own Revenue to the Revenue Receipt declined, with the Goa experiencing the highest adverse effect. In fact in 2015-16, Haryana was the leading state in the dimension of State's Own Revenue in the Revenue Receipts at 74.35 percent, with Gujarat and Goa following closely behind. The worst performing state in this category was Bihar where in 2005-06 only 22.90 percent of its Revenue Receipts were generated from its

Table 1.4

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

(*as percentage*)

States	State's Own Revenue-Revenue Receipt Ratio			Variation (*During*)	
	2005-06	2010-11	2015-16	2005-06 to 2010-11	2010-11 to 2015-16
General Category States					
Andhra Pradesh	68.53	68.93	55.66	0.59	-19.25
Bihar	22.90	24.38	27.60	6.46	13.25
Chhattisgarh	59.73	56.50	51.32	-5.42	-9.17
Goa	85.66	80.93	71.09	-5.53	-12.15
Gujarat	75.99	78.88	72.09	3.80	-8.61
Haryana	83.31	79.08	74.35	-5.07	-5.98
Jharkhand	52.21	45.31	43.51	-13.21	-3.97
Karnataka	74.09	71.84	68.81	-3.04	-4.22
Kerala	70.11	76.39	68.67	8.96	-10.10
Madhya Pradesh	54.91	52.35	45.52	-4.67	-13.04
Maharashtra	81.60	78.64	73.17	-3.63	-6.95
Orissa	46.46	48.01	42.88	3.34	-10.69
Punjab	79.74	80.31	71.46	0.72	-11.02
Rajasthan	60.56	58.91	53.92	-2.73	-8.47
Tamil Nadu	76.35	74.70	69.03	-2.16	-7.59
Uttar Pradesh	48.11	47.26	44.07	-1.76	-6.76
West Bengal	48.13	49.71	41.13	3.28	-17.25
All Non Special Category States	65.05	63.44	64.12	-2.48	1.07
Special Category States					
Arunachal Pradesh	14.25	13.73	9.16	-3.66	-33.28
Assam	39.01	36.02	33.05	-7.67	-8.26
Himachal Pradesh	33.42	42.01	35.27	25.71	-16.05
Jammu and Kashmir	20.98	20.61	27.97	-1.79	35.76
Manipur	7.07	9.69	8.99	37.01	-7.30
Meghalaya	22.81	20.43	16.06	-10.43	-21.39
Mizoram	10.66	8.17	7.66	-23.32	-6.25
Nagaland	8.91	8.21	7.62	-7.82	-7.24
Sikkim	57.88	46.46	19.73	-19.73	-57.54
Tripura	11.94	14.59	14.86	22.15	1.83
Uttarakhand	43.98	43.74	45.50	-0.55	4.04
All Special Category States	28.59	28.01	27.31	-2.03	-2.49
India	60.37	59.01	53.84	-2.26	-8.75

Source: State Finances: A Study of Budgets (RBI), related issues

own sources. However from that low base it had exhibited the highest improvement rate that had enabled it to enhance the ratio percentage to 27.60 percent. Despite its attainments it still has a long way to go to catch up with the stragglers in the group like Orissa, and Uttar Pradesh who generates around 42 to 44 percent of its revenue receipts from their own sources.

In the Pre GST era, the State's own revenue was mainly constituted by State's Tax Revenue whose contribution was gradually increasing, while the contribution from Non-Tax Revenue was gradually becoming marginalized. The Total Tax Revenue again, was overwhelmingly dominated by Sales Tax which was supplemented by proceeds from State Excise, Taxes on vehicles, taxes on goods and passengers, taxes on property and capital transactions etc. Again, the Non-tax Component of Own Resource of Assam was totally dominated by revenue proceeds from petroleum, though receipts from General Services and Interest Receipts have shown recent gains.

Box-1.1

STATE'S OWN REVENUE (A + B)

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

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*

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

1.3 STATE TAXES

State Sales Tax receipt in Assam increased from Rs. 1546.74 crs in 2006-07 to Rs. 3872.62 crs, exhibiting a CAGR of 7.32 percent in the intervening period. Moreover the contribution of Sales tax to the State Tax Revenue has been notably increasing from a 44.41 percent in 2006-07 to 66.49 percent in 2010-11 and then to 67.79 percent in 2016-17 reflecting its importance to the state exchequer. This was an indication of better tax compliance, reduced evasion and more efficient tax mobilization in the new dispensation. Notably there was a steep drop in the state sales tax to Rs. 4116 crs (34.18 percent) in 2017-18 and then to Rs. 3872.62 percent (22.19 percent) in the subsequent year.

Table 1.5

Sales Tax Receipts in Assam

(*in crs rupees*)

Years	State Sales Tax	Contribution to State Tax Revenue (%)
2006-07	1546.74	44.41
2007-08	2282.12	67.92
2008-09	2696.12	64.97
2009-10	3210.52	64.38
2010-11	3942.71	66.49
2011-12	5172.82	67.72
2012-13	5686.74	68.93
2013-14	6279.41	69.81
2014-15	6811.47	72.08
2015-16	6533.35	64.64
2016-17	8188.7	67.79
2017-18(RE)	4116	34.18
2018-19(BE)	3872.62	22.19
CAGR	7.32%	

Source: State Finances: A Study of Budgets (Reserve Bank of India, 2006 to 2019)

In analyzing revenue mobilization from Sales Tax in Assam, the landmark implementation of the VAT regime has to be incorporated into the analysis. Taking into account the pre –VAT period of 2000-01 to 2004-05, Sales Tax collection went up from Rs. 917.89 crs to Rs. 2098.57 crs in exhibiting a CAGR of 18 percent. However with the implementation of VAT in 2006-07, sales tax collection went up from Rs. 2568 crs to Rs. 10868 crs in 2018-19, notching a CAGR of 10.86 percent. A significant observation in the data is that there is a considerable year-to-year fluctuation in the data that was present in both the periods.

Table 1.6

Pre-VAT and Post-VAT Sales Tax in Assam

(*in crore rupees*)

Year	Pre-VAT		Post-VAT	
	Actual Collection	Annual Growth (%)	Actual Collection	Annual Growth (%)
2000-01	917.89	-		
2001-02	1072.76	16.87		
2002-03	1441.02	34.33		
2003-04	1551.23	7.65		
2004-05	2098.57	35.28		
2005-06			2568.00	-
2006-07			2783.24	8.38
2007-08			2691.44	-3.30
2008-09			3110.57	15.57
2009-10			3535.26	13.65
2010-11			4318.6	22.16
2011-12			5693.96	31.85
2012-13			6223.13	9.29
2013-14			6848.01	10.04
2014-15			7351.25	7.35
2015-16			9437.27	28.38
2016-17			11796.58	25.00
2017-18(RE)			9058.26	-23.21
2018-19(BE)			10868.88	19.99
CAGR	**18.0%**	-	**10.86%**	-

Source: State Finances: A Study of Budgets (Reserve Bank of India, 2000 to 20119)

In comparison to Sales Tax, receipts from Excise Tax are relatively small. From Rs. 174.88 crs in 2006-07, excise receipts had in the thirteen years period, grown to Rs. 1300 crs. Although this had been achieved at a commendable growth rate of 16.69 percent, however in relative terms its share in the State tax revenue had grown at a snail's pace, from 5 percent in 2006-07 to 5.4 percent in 2010-11 and finally to 7.45 percent in 2018-19.

Table 1.7

Excise Tax Receipts in Assam

(*in crs rupees*)

Years	State Excise	Contribution to State Tax Revenue (%)
2006-07	**174.88**	**5.02**
2007-08	**188.71**	**5.62**
2008-09	**198.68**	**4.79**
2009-10	**239.19**	**4.80**
2010-11	**323.12**	**5.45**
2011-12	**503.35**	**6.59**
2012-13	**568.11**	**6.89**
2013-14	**610.26**	**6.78**
2014-15	**664.99**	**7.04**
2015-16	**807.96**	**7.99**
2016-17	**963.81**	**7.98**
2017-18(RE)	**1060.19**	**8.80**
2018-19(BE)	**1300**	**7.45**
CAGR	16.69%	

Source: State Finances: A Study of Budgets (Reserve Bank of India, 2006 to 2019)

Similarly, taxes on vehicles had being growing at a steady rate of 12.96 percent in the reference period, though the faster growth in contribution in other heads have meant that its share in the total state tax revenue had come down marginally from 4.34 percent to 4.23 percent**.** On the other hand, receipts from taxation of Goods and Passengers had witnessed considerable fluctuations ranging from a low Rs. 12.39 crs in 2007-08 to a sudden spike in 2009-10 to Rs 545.41 crs. In fact, the volatility in this head had continued over the entire reference time period. Despite that, receipt from Taxes on Goods and Passengers in 2017-18 had settled at Rs. 483.06 crs which constituted 4.01 percent of the State Tax Revenue.

Table 1.8

Taxes on Transportation in Assam

(*in crs rupees*)

Years	Taxes on Vehicles		Taxes on Goods and Passengers	
	Amount	Share (%)	Amount	Share (%)
2006-07	151.15	4.34	70.15	2.01
2007-08	138.62	4.13	12.39	0.37
2008-09	145.21	3.50	284.67	6.86
2009-10	177.26	3.55	545.41	10.94
2010-11	231.99	3.91	478.1	8.06
2011-12	293.7	3.85	536.39	7.02
2012-13	328.08	3.98	369.1	4.47
2013-14	351.11	3.90	413.89	4.60
2014-15	364.53	3.86	396.94	4.20
2015-16	442.73	4.38	583.12	5.77
2016-17	521.59	4.32	1069.81	8.86
2017-18(RE)	573.75	4.76	483.06	4.01
2018-19(BE)	737.35	4.23	10.65	0.06
CAGR	12.96%		-13.50%	-

Source: State Finances: A Study of Budgets (Reserve Bank of India, 2006 to 2019)

The contribution of *Taxes and Duties on Electricity* to the state exchequer is very small, both is absolute as well as in relative terms. This source of tax receipt along with receipt from *Entertainment Tax* had grown at a steady pace in the reference period at 11.02 percent and 0.06 percent respectively. Another minor head of tax receipt is *Other Taxes and Duties* has exhibited a steady growth rate from Rs. 4.81 crs in 2006-07 to Rs. 85.13 crs, attaining a CAGR of 0.27 percent.

Table 1.9
Taxes and Duties on Electricity, Entertainment and Others Duties

(*in crs rupees*)

Years	Taxes and Duties on Electricity	Entertainment Tax	Other Taxes
2006-07	15.9	0.85	4.81
2007-08	4.62	2.65	3.58
2008-09	22.36	2.22	6.05
2009-10	27.07	2.63	6.04
2010-11	41.58	2.65	7.31
2011-12	36.67	2.76	9
2012-13	41.82	18.35	52.76
2013-14	40.54	2.63	44.96
2014-15	44	2.54	52.38
2015-16	48.64	3.13	58.96
2016-17	49.44	1.59	77.39
2017-18(RE)	54.39	1.74	85.13
2018-19(BE)	61.9	-	-
CAGR	11.02%	0.06	0.27

Source: State Finances: A Study of Budgets (Reserve Bank of India, 2006 to 2019)

1.4 NON TAX REVENUE RECEIPT

As mentioned earlier, the State's Non-Tax Revenue have been rather stagnant in the thirteen year reference period wherein it achieved a growth of only 12.08 percent. However its importance as a source of revenue receipt has come down over the years with its contribution to the revenue receipt of the state declining successively over the period. This is evident when the percentage share of non-tax revenue in the revenue receipt in 2006-07, which stood at 13.60 percent, is compared with its position in 2018-19, where it is a mere 11.05 percent.

Table-1.10
Own Tax and Non-Tax Receipt in the Revenue Account

(in crs rupees)

Year	State Taxes	% Share of State Taxes	Non-Tax Revenue	% Share of Non-Tax Revenue
2006-07	3483	25.48	1859	13.60
2007-08	3360	21.92	2135	13.93
2008-09	4150	22.96	2272	12.57
2009-10	4987	25.08	2753	13.85
2010-11	5930	25.78	2373	10.32
2011-12	7638	27.82	2866	10.44
2012-13	8250	26.88	2474	8.06
2013-14	8995	27.92	2705	8.40
2014-15	9450	24.75	2413	6.32
2015-16	10107	23.80	2742	6.46
2016-17	12080	24.54	4353	8.84
2017-18 (RE)	9767	17.47	6409	11.46
2018-19(BE)	11640	15.70	8192	11.05
CAGR	**9.73%**		**12.08%**	

Note: as percentage of Revenue Receipt of Assam

Source: State Finances: A Study of Budgets (Reserve Bank of India, 2006 to 2019)

Table 1.11
Non-Tax Revenue in Assam

(*in crore rupees*)

Year	Interest Receipts	Dividends & Profits	General Services	Social Services	Fiscal Services	Economic Services excluding Petroleum	Petroleum	Total
2006-07	167.49	18.54	32.74	135.26	-	119.42	1385.82	1859
2007-08	240.72	24	140.29	30.89	-	150.8	1547.88	2135
2008-09	433.16	19.45	139.77	20.87	-	228.52	1430.12	2272
2009-10	493.63	14.92	351.5	24.96	-	293.76	1574.18	2753
2010-11	415.88	14.98	91.16	27.39	-	197.99	1625.93	2373
2011-12	475.94	13.64	88.96	26.95	-	290.64	1970.63	2867
2012-13	510.21	11.64	102.09	30.44	-	229.67	1589.55	2474
2013-14	418.61	12.05	191.07	29.73	-	262.27	1791.31	2705
2014-15	313.99	16.23	387.87	28.7	-	244.94	1421.15	2413
2015-16	298.8	70.06	416.65	74.87	-	209.15	1672.03	2742
2016-17	475.4	124.44	280.81	44.53	-	325.98	3101.96	4353
2017-18(RE)	530.84	138.13	318.57	49.43	-	671.82	4699.96	6409
2018-19(BE)	585.74	153.33	353.61	54.87		633.12	6411	8192
CAGR	**10.11%**	**17.65%**	**20.09%**	**-6.70%**		**13.69%**	**12.50%**	**12.08%**

Source: State Finances: A Study of Budgets (Reserve Bank of India, 2006 to 2019)

Non-Tax Revenue in Assam is mostly collected from Economic Services which again is traditionally dominated by Petroleum. In fact, in 2006-07 of the total non-tax revenue receipt of Rs. 1859.27 crs, the receipt from petroleum was Rs. 1385.82 percent which constituted 74.54 percent of the non-tax revenue receipt. Although petroleum dominates non-tax revenue, however the quantum of revenue from this source has been relatively non-buoyant. This is evident from the fact that the growth of revenue from this head has been very modest at 12.5 percent. This along with growing contributions from other sources has reduced its contributions in the total non-tax proceeds to 58.9 percent in 2014-15.However since then changes in the indirect tax structure and also in oil prices have been steadily increasing the contribution of this head. In fact it has reached all time high level (within the reference period) of 78.26 percent in 2018-19.

As indicated earlier, receipts from non tax revenue from General Services have risen at a very high rate of 20.09 percent in the reference period, rising steadily from Rs. 32.74 crs in 2006-

07 to Rs 353.61 crs in 2018-19. This has increased its percentage share in the total non-tax revenue from 1.76 percent to 4.32 percent, indicating its growing importance as a source of resources under the head

Table 1.12

Non-Tax Revenue in Assam (as % of Total Non-Tax Revenue)

(*in %*)

Year	Interest Receipts	Dividends & Profits	General Services	Social Services	Fiscal Services	Economic Services excluding Petroleum	Petroleum	Total (as % of State Own Revenue)
2006-07	9.01	1.00	1.76	7.27		6.42	74.54	34.80
2007-08	11.28	1.12	6.57	1.45		7.06	72.51	38.85
2008-09	19.07	0.86	6.15	0.92		10.06	62.95	35.38
2009-10	17.93	0.54	12.77	0.91		10.67	57.18	35.57
2010-11	17.52	0.63	3.84	1.15		8.34	68.51	28.58
2011-12	16.60	0.48	3.10	0.94		10.14	68.74	27.29
2012-13	20.63	0.47	4.13	1.23		9.28	64.26	23.07
2013-14	15.48	0.45	7.06	1.10		9.70	66.22	23.12
2014-15	13.01	0.67	16.07	1.19		10.15	58.90	20.34
2015-16	10.90	2.56	15.20	2.73		7.63	60.99	21.34
2016-17	10.92	2.86	6.45	1.02		7.49	71.26	26.49
2017-18(RE)	8.28	2.16	4.97	0.77		10.48	73.34	34.73
2018-19(BE)	7.15	1.87	4.32	0.67		7.73	78.26	42.35

Source: Estimated from Table-1.10

To a lesser extent, similar growth is also seen in receipts from Economic Services (excluding petroleum) where revenue proceeds has gone up from Rs. 119.42 crs in 2006-07 to Rs. 633.12 crs at a CAGR of 13.69 percent. This is again reflected in its percentage share in the total non-tax receipt which had gone up from 6.42 percent to 7.73 percent in the same period. Thus, the growing importance of non-tax receipts from General Service and Economic Service net of petroleum and also the stagnancy of receipts from Petroleum have meant that the share of petroleum in the total Non-tax Revenue receipts has steadily declined from a domineering 74.54 percent in 2006-07 to 60.99 percent in 2015-16.

BOX-1.2

NON TAX REVENUE AMONG NORTH EAST STATES

YEAR	Assam	Arunachal Pradesh	Meghalaya	Manipur	Mizoram	Nagaland	Sikkim
2006-07	2.93	8.73	2.16	6.32	4.07	1.31	53.19
2007-08	2.94	16.95	2.07	4.69	3.43	1.67	60.09
2008-09	2.93	13.57	2.07	4	3.41	1.92	37.32
2009-10	3.13	6.84	2.2	3.45	2.25	1.2	22.11
2010-11	2.28	6.07	1.99	2.83	2.42	1.62	15.93
2011-12	2.48	3.24	2.32	2.93	2.4	1.9	12.44
2012-13	1.72	2.27	2.64	1.98	2.64	1.55	8.1
2013-14	1.52	2.78	2.84	1.79	1.89	1.31	6.42
2014-15	1.21	2.55	1.36	1.14	2.32	1.47	4.81
2015-16	1.69	1.93	0.83	0.74	2.23	1.25	2.48
2016-17	2.93	2.26	2.32	0.71	2.4	1.64	2.39

Non Tax Revenue in Assam has more than doubled in the period 2006-07 and 2016-17. Although it has increased in absolute terms, its share in the Gross State Domestic product has been gradually decreasing, barring the occasional spikes. Contributing 2.93 percent of the GSDP in 2006-07, its relative share reached the highest level at 3.13 percent in 2009-10. Since then there had been a gradual decline in its productivity with its contribution in 2016-17 registering a mere 2.93 percent of the GSDP. Petroleum overwhelmingly dominates Non Tax Revenue in Assam. The contribution of Petroleum to Non Tax Revenue in 2006-07 was 34.80 percent. However over the years, the contribution of petroleum has been declining with revenue due to marked increase in the share of Other Economic Services and Interest Receipts.

Although the contribution of non-tax revenue in most of the North East states are comparable, the state of Sikkim constitutes an aberration, experiencing the highest variation in nontax revenue. In 2006-07, the contribution of non-tax revenue as a percentage of GSDP was a phenomenal 53.19 percent, which climbed even higher to 60.09 percent in the subsequent year. This flow was sustained by receipt in the General Services head. However since then the contribution from non-tax revenue declined steadily to touch an all time low of 2.39 percent. This trend was reinforced by a continuous decline in the proceeds from general services and the simultaneous increase in the contributions from income tax, corporation tax, service tax and excise duties. This is a reflection of the strong service sector of the state that is powered by the tourism industry.

Arunachal Pradesh is another aberration in the northeast, so far as non-tax revenue is concerned. In the period 2007-08 to 2008-9, proceeds from non-tax revenue was higher than tax revenue. Supported by revenue from hydro- power projects, economic services was the dominant source of non-tax revenue. However, from 2009-10 onwards the share of non-tax revenue started falling and by 2016-17 the state's nontax revenue proceeds was comparable to any other North-East states.

1.5 TAX EFFORT

The tax effort of a state can be gauged in terms of a number of parameters that includes Revenue Receipt-GSDP ratio, Own Tax Revenue-GSDP Ratio, Own Non Tax Revenue-GSDP ratio and Current Transfer- GSDP ratio.

The average Revenue Receipt-GSDP (RR/GSDP) for Assam was very high in the reference period at 19.8 percent, which was greater than all General Category States barring Bihar. However, within Special Category States its RR/GSDP is the lowest barring Uttarakhand. In this context, it must be pointed out that this ratio does not reveal the true tax effort of the state as it is to a great extent distorted by the central transfer which is not part of the state effort. This is obvious when the attainments in RE/GSDP across states are considered which reveals that performing General Category states have RR/GSDP that are significantly lower than that of Special Category States which are privy to liberal transfer of resources from the centre.

In contrast, the Own Tax Revenue-GSDP ratio (OTR/GSDP) and Own Non Tax Revenue-GSDP (ONTR/GSDP) ratio are much more appropriate indicators of the tax effort of the concerned states as they consider only the revenue generated by the states minus the central transfers. In this context, the tax effort of Assam at 5.1 percent is one of the best among special category states and is easily comparable with the better performing General Category States which enjoys an average rate of 6.8 percent. On the other hand Assam's ONTR-GSDP is on the lower side and is less than the average rate for Special category states. This however is not very significant as the ONTR- GSDP tends to vary among states over a limited range except for Sikkim and Goa which are blessed with a thriving tertiary sector powered by the tourism industry. This in fact, is very significant for a state like Assam which does not have a robust manufacturing sector. Developing its tertiary sector, especially its tourism industry provides a very sustainable growth path to Assam, given its enormous potential in wildlife, nature and adventure tourism. Some interventions have taken place but there is a need for a sustained effort that is comprehensive in nature.

Table 1.13

Revenue Receipt-GSDP Ratio

(*as percentage*)

States		Average (2006-2016)			
		RR/GSDP	OTR/GSDP	ONTR/GSDP	CT/GSDP
A.	General Category States	13.5	6.8	1.3	5.3
1	Andhra Pradesh	15.3	7.7	1.6	6.0
2	Bihar	22.4	5.3	0.5	16.6
3	Chhattisgarh	18.4	7.4	2.6	8.4
4	Goa	18.0	8.6	5.5	4.0
5	Gujarat	10.4	6.6	1.3	2.6
6	Haryana	11.1	7.2	1.7	2.2
7	Jharkhand	16.1	5.0	2.3	8.8
8	Karnataka	12.9	8.3	1.0	3.6
9	Kerala	11.6	7.0	1.2	3.4
10	Madhya Pradesh	18.8	7.4	2.1	9.3
11	Maharashtra	9.9	6.7	1.0	2.2
12	Orissa	18.5	6.1	2.4	10.0
13	Punjab	12.9	6.5	1.3	5.1
14	Rajasthan	15.2	6.6	2.0	6.6
15	Tamil Nadu	11.9	7.7	0.8	3.4
16	Telangana	11.9	6.7	1.6	3.7
17	Uttar Pradesh	18.8	7.0	1.8	10.0
18	West Bengal	10.8	4.7	0.3	5.8
B.	Special Category States	24.8	5.0	2.0	17.7
1	Arunachal Pradesh	56.6	2.5	4.4	49.8
2	Assam	19.8	5.1	1.7	13.1
3	Himachal Pradesh	20.7	5.5	2.5	12.6
4	Jammu and Kashmir	33.8	6.3	2.4	25.0
5	Manipur	43.7	2.5	1.3	39.8
6	Meghalaya	27.4	3.7	1.6	22.2
7	Mizoram	53.2	2.2	2.6	48.5
8	Nagaland	39.6	1.9	1.3	36.4
9	Sikkim	53.9	4.9	20.0	29.0
10	Tripura	31.0	3.6	0.9	26.6
11	Uttarakhand	14.9	5.5	1.3	8.1
All States		13.0	6.2	1.3	5.6

Source: State Finances: A Study of Budgets (RBI), related issues

1.6 EFFICIENCY OF THE REVENUE SYSTEM

i. Cost of Collection:

The efficiency of revenue system can be gauged by the cost of mobilization of resources by the state. In fact, the ratio of collection expenditure to Gross Collection constitutes a good parameter for measuring the efficiency of the revenue system.

In this context, Assam always had a revenue system that compared unfavorably with the national average so far as cost of collection of public resources is concerned. As is evident in Table-1.13, Assam incurred a relatively greater collection cost as a ratio of total collection in most of the revenue heads. Thus in sales tax the ratio hovered significantly over unity whereas the National Average cost of collection was 0.86. The same was true for State Excise where the state ratio was significantly higher than the All India Average in the entire reference period. In case of taxes on vehicle, the relative inefficiency of collection is again evident, though the state generates its resources from Stamps and Registration more efficiently than most Indian states. This can also be explained the relatively higher rates that are applicable for Assam as compared to the rest of the country.

Table 1.14

Cost of Collection of various State Taxes during 2006-07 and 2015-16

(*in Crore Rupees*)

Type of Tax	Year	Gross Collection	Expenditure on Collection	Percentage of Expenditure to Gross Collection	All India Average Cost of Collection (2006-16)
Sales Tax	2006-07	2783.24	34.93	1.26	0.86
	2007-08	2691.44	23.39	0.87	
	2008-09	3110.57	39.49	1.27	
	2009-10	3535.26	42.72	1.21	
	2010-11	4318.60	54.25	1.26	
	2011-12	5693.96	67.96	1.19	
	2012-13	6223.13	80.13	1.29	
	2013-14	6848.01	80.49	1.18	
	2014-15	7351.25	86.48	1.18	
	2015-16	7493.72	95.07	1.27	
State Excise	2006-07	174.88	9.70	5.55	3.33
	2007-08	188.71	10.37	5.50	
	2008-09	198.68	11.62	5.85	
	2009-10	239.19	16.51	6.90	
	2010-11	323.12	26.79	8.29	

	2011-12	**503.35**	**24.16**	**4.80**	
	2012-13	**568.11**	**27.04**	**4.76**	
	2013-14	**610.26**	**30.13**	**4.94**	
	2014-15	**664.99**	**31.67**	**4.76**	
	2015-16	**807.96**	**32.43**	**4.01**	
Taxes on Vehicles	**2006-07**	**151.15**	**8.08**	**5.35**	5.48
	2007-08	**138.62**	**8.36**	**6.03**	
	2008-09	**145.21**	**9.03**	**6.22**	
	2009-10	**177.26**	**10.64**	**6.00**	
	2010-11	**231.99**	**10.07**	**4.34**	
	2011-12	**293.70**	**17.99**	**6.13**	
	2012-13	**328.08**	**19.91**	**6.07**	
	2013-14	**351.11**	**24.18**	**6.89**	
	2014-15	**364.53**	**25.70**	**7.05**	
	2015-16	**442.73**	**29.84**	**6.74**	
Stamps and Registration	**2006-07**	**97.32**	**3.91**	**4.02**	13.42
	2007-08	**109.91**	**6.27**	**5.70**	
	2008-09	**111.17**	**10.28**	**9.25**	
	2009-10	**105.49**	**17.60**	**16.68**	
	2010-11	**129.00**	**16.47**	**12.77**	
	2011-12	**173.62**	**15.26**	**8.79**	
	2012-13	**252.00**	**16.04**	**6.37**	
	2013-14	**252.00**	**18.29**	**7.26**	
	2014-15	**188.51**	**18.61**	**9.87**	
	2015-16	**224.83**	**17.95**	**7.98**	

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

ii. Arrears in Revenue

Revenue Arrears is defined as the outstanding amount of revenue proceeds that the state fails to collect. This arrear may exist in case of both tax as well as non-tax revenue and is an adverse indicator of the revenue effort. Arrears in Revenue arise out of preexisting limitations in the institutional and operational framework of the revenue system and indicate presence of inefficiency in the revenue administration.

Revenue Arrear as a percentage of Own Revenue Receipt was a whopping 105.12 percent (Rs. 2527crs) in 2002-03(CAG, 2002-06). Since then, there had been a massive correction undertaken through the introduction of *Fiscal Reform Facility* and the subsequent computerization of the revenue machinery. This had lead to noticeable tightening of the revenue administration brought about by improved detection, surveillance and compliance.

In the reference period from 2006-07 to 2015-16, the performance of the Revenue administration was best in 2008-09, when the ratio fell to an acceptable 10.39 percent amounting to Rs. 722.12 crs. Since then, there had been a steady worsening of the position with the Arrears of Revenue as a ratio of Own Revenue Receipt rising to reach a new high of 38.33 percent representing a Rs. 4924.36 crs.

The deterioration in the Arrear Revenue ratio has been acknowledged by the CAG which recommended that the malaise can be addressed through well directed punitive action and imposition of higher interest on outstanding arrears.

Table 1.15

Arrears on Revenue Receipt of the State

Year	**Arrears of Revenue Receipt (in crore rupees)**	**Arrears of Revenue as Percentage of Own Revenue Receipt (%)**
2006-07	755.00	14.13
2007-08	756.00	13.76
2008-09	722.12	10.39
2009-10	1175.02	22.97
2010-11	1777.89	29.76
2011-12	2470.82	19.30
2012-13	2027.08	19.23
2013-14	2062.54	17.63
2014-15	4120.83	34.74
2015-16	4924.36	38.33
CAGR	**20.6%**	**10.5%**

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

iii. Cost recovery of Social and Economic Services

Almost all policy prescriptions on fiscal consolidation recommend enhanced cost recovery from public services as one of the critical component of revenue side interventions. Cost Recovery which is technically described as revenue receipt from public service as percentage of non-plan revenue expenditure expended in it mostly accrues in economic and social services provided by the state.

In practice cost recoveries are easier to recover from economic services as the presence of externalities in social services provides strong rationale for their subsidization.

This is evident in data from the reference period, both in the case of Assam and that of India, where cost recovery in social Services is extremely low. However, at the national level cost recovery is exhibiting an upward trend from 5.78 percent in 2006-07 to 8.24 percent in 2015-16, indicating a conscious effort to change the dismal status quo. On the contrary, in case of Assam the pre-existing adverse recovery level of 3.63 percent is further aggravated to 0.48 percent in 2015-16, implying a lax attitude of the state administration with regards to recover cost of expenditure in health and education services. However this is consistent with the stated policy of the government which seeks to extensive capacity creation in health and education expenditure, given the low level of attainments in these two critical dimensions of human development.

.

However the same arguments are less applicable in the case of economic services like power and irrigation where there is greater potential for cost recovery without associated risk of undermining the social-economic objectives. In this head, the state has shown spectacular attainments with cost recovery increasing from 8.11 percent in 2006-07 (against the national average of 30.95 percent) to 37.54 percent in 2015-16 which is decidedly higher that the national recovery rate of 35.49 percent. This had been achieved by enhancement of user charges, greater transparency and accountability in the mobilisation process and also due to improvement in the quality and delivery of services. It must be pointed out all these had been achieved despite great public pressure against revision of user charges and reduction of subsidies

Table 1.16

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

(*as percentage*)

Year	Social Services		Economic Services	
	Assam	All States	Assam	All States
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
2010-11	0.39	5.05	66.22	35.27
2011-12	0.42	4.80	97.33	34.44
2012-13	0.41	6.01	66.36	29.78
2013-14	0.33	6.82	66.33	29.87
2014-15	0.24	7.02	40.27	25.58
2015-16	0.48	8.24	37.54	35.49

Source: Compiled from State Finances: A Study of Budgets (RBI), related issues

iv. Buoyancy of Tax in Assam

Buoyancy of Tax in states is defined as a proportionate change in Own Tax Revenue to a proportionate change in the GSDP. This concept indicates the how the tax revenue of the state changes with change in their tax base, which in this case is the GSDP. Buoyancy of tax signals the change in the capacity of state to mobilise resources as its domestic income grows. Tax is said to be buoyant if the Gross Tax Revenue increase more than proportionately in response to rise in GDP.

In Table-1.17, buoyancy is measured for Assam in terms of State Taxes and also Tax Revenue, against the GSDP of the state.

In so far as State Taxes is concerned, Assam's revenue system has been volatile, exhibiting intermittent periods of buoyancy in the tax proceeds followed by periods where the tax collection was relatively less buoyant. To a large extent this is understandable as the state's own tax revenue is sourced from indirect taxes, which is theoretically, less buoyant than direct taxes, this of course is the privy of the central government. In the case of Own Tax

Revenue, the state's tax structure has exhibited similar volatility in buoyancy that had fluctuated between -1.94 in 2017-18 to 2.02 in 2011-12.

Table-1.17 also indicates the expected buoyancy of the state taxes and tax revenue for the period 2019-20 to 2024-25, based on projections of state taxes, tax revenue and GSDP. It is seen from the forecasted values that the buoyancy of state taxes and tax revenue is expected to remain at a stable 0.96 and 1.01 respectively.

Table 1.17

Buoyancy Coefficients of Own Revenue and Own tax

Year	State Taxes	Tax Revenue	GSDP	Buoyancy of State Taxes	Buoyancy of Tax Revenue
2006-07	3483	7382	63428	-	-
2007-08	3360	8278	72700	-0.24	0.83
2008-09	4150	9340	77506	3.56	1.94
2009-10	4987	10326	88023	1.49	0.78
2010-11	5930	13899	104218	1.03	1.88
2011-12	7638	16921	115408	2.68	2.02
2012-13	8250	18852	143567	0.33	0.47
2013-14	8995	20570	177745	0.38	0.38
2014-15	9450	21734	195723	0.50	0.56
2015-16	10107	26892	226276	0.45	1.52
2016-17	12080	32269	257510	1.41	1.45
2017-18(RE)*	12043	32068	258337	-0.95	-1.94
2018-19(BE)*	17451	43547	332939	1.56	1.24
2019-20	15329	39263	313544	2.09	1.69
2020-21	16333	41992	335112	0.95	1.01
2021-22	17336	44721	356680	0.95	1.01
2022-23	18340	47450	378248	0.96	1.01
2023-24	19344	50179	399815	0.96	1.01
2024-25	20348	52908	421383	0.96	1.01

Source: Projected from Table-1.1

1.7 TRANSFERS FROM THE CENTRE

The vertical inequity in the Indian federal structure requires an institutional mechanism that ensures a fair, systematic and regular transfer of resources from the centre to the states. The Finance Commission has a constitutional mandate in facilitating sharing of resources between the centre and the states, and within the states themselves. The Commission recommends the distribution of net proceeds of taxes from the divisible pool and the allocation among states. Moreover it is vested with the responsibilities of determining the principles for recommending Grants-in-Aid and also the quantum therein.

Box-1.3

Transfer from the Centre

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

Assam, like other states in the Indian Federation, is highly dependent on Central Transfer for its sustainability. As is evident in Table-1.18, the state is heavily dependent on its share in the Central Taxes, which has been rising at a CAGR of 15.7 percent. More noteworthy is the fact that the share of central taxes in Assam's Revenue Receipt had gone up from 28.53 percent in the beginning of the reference period to 35.21 percent at the period end. On the other hand, grants-in-aid had gone up at a more modest rate of 30.21 percent in the period though significantly the secular rising trend had been interrupted in 2015-16, where the total grants came down to Rs. 12825 crs , implying a cut in Rs.1210 crs. This has resulted in a steep fall in the share of grants-in-aid in the revenue receipt of the state from 36.76 percent to 30.21 percent. This of course, in a manifestation of the Fourteenth Finance Commission recommendations that has enhanced the Share of Central Taxes in fiscal transfers at the cost of grants-in aid. An estimate by the Economic Survey states that the enhancement in the share of states in the central divisible pool from 32 percent to 42 percent has meant that the increment of Fourteenth Finance Commission transfers in 2015-16, over 2014-15; in absolute terms would be Rs. 7295 crs while the benefit per capita would touch Rs. 2338 crs.

Table-1.18

Central Transfers into Assam

Year	Share in Central Taxes	% share of Central Taxes	Grants-in-Aid	% share of Grants-in-Aid
2006-07	3899	28.53	4425	32.38
2007-08	4918	32.09	4913	32.06
2008-09	5190	28.71	6465	35.76
2009-10	5339	26.85	6805	34.22
2010-11	7969	34.64	6733	29.27
2011-12	9283	33.81	7666	27.92
2012-13	10602	34.54	9366	30.52
2013-14	11575	35.93	8938	27.75
2014-15	12284	32.17	14035	36.76
2015-16	16785	39.53	12825	30.21
2016-17	20189	41.02	12598	25.60
2017-18(RE)	20025	35.82	17428	31.17
2018-19(BE)	26096	35.21	22380	30.19
CAGR	**15.7%**		**13.28%**	

Source: Estimated from Table-1.1

In order to preserve the fiscal space of the centre, given the enhanced devolution from the divisible pool, the Fourteenth Finance Commission has recommended a commensurate reduction in the Central Assistance to States (CAS). This is expected to enhance the fiscal autonomy of the states without compromising on the fiscal space of the centre.

This is evident in Table-1.18, where the reduction in CAS was reflected in a sharp reduction in grants for Centrally Sponsored Schemes from Rs. 2103 crs in 2013-14 to Rs. 17 crs and Rs 15 crs in 2014-15 and 2015-16 respectively. In fact the overall Grants-in-Aid to Assam experienced a sharp fall in 2015-16 by Rs. 1210 crs as fallout of the FFC recommendations. The decline in the significance of grants for Centrally Sponsored Schemes can be perceived from the fact that their share in the Total Grants-in-Aid had fallen from 23.53 percent in 2013-14 to 0.12 percent in the subsequent two periods.

Table 1.19
Grants-in-Aid for Assam

(*in crore rupees*)

Year	Non-Plan Grants	Grants for State Plan Schemes	Grants for Central Plan Schemes	Grants for Centrally Sponsored Schemes	Grants for Special Plan Schemes	Total Grants-in-Aid
2006-07	709	2754	188	721	54	4426
2007-08	886	2979	134	722	192	4913
2008-09	1021	4191	55	993	205	6465
2009-10	1593	3995	40	1032	145	6805
2010-11	944	4374	23	1341	51	6733
2011-12	962	4759	19	1875	52	7667
2012-13	1422	5996	46	1860	42	9366
2013-14	681	6059	30	2103	65	8938
2014-15	1491	12376	19	17	132	14035
2015-16	3330	8737	572	15	171	12825
2016-17	2154	9111	207	147	979	12598
CAGR	10.63%	11.49%	0.88%	-13.46%	30.14%	9.98%

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

Table 1.20

Grants-in-Aid for Assam

(*As percentage*)

Year	Non-Plan Grants	Grants for State Plan Schemes	Grants for Central Plan Schemes	Grants for Centrally Sponsored Schemes	Grants for Special Plan Schemes	Total Grants-in-Aid
2006-07	16.02	62.22	4.25	16.29	1.22	100.00
2007-08	18.03	60.64	2.73	14.70	3.91	100.00
2008-09	15.79	64.83	0.85	15.36	3.17	100.00
2009-10	23.41	58.71	0.59	15.17	2.13	100.00
2010-11	14.02	64.96	0.34	19.92	0.76	100.00
2011-12	12.55	62.07	0.25	24.46	0.68	100.00
2012-13	15.18	64.02	0.49	19.86	0.45	100.00
2013-14	7.62	67.79	0.34	23.53	0.73	100.00
2014-15	10.62	88.18	0.14	0.12	0.94	100.00
2015-16	25.96	68.12	4.46	0.12	1.33	100.00
2016-17	17.10	72.32	1.64	1.17	7.77	100.00

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

1.8 STRATEGIES TO ENHANCE REVENUE RECEIPT

The revenue performance of Assam, like other special category states, is modest when viewed from the perspective of the State's own revenue. More striking is the very small contribution made by the non-tax receipt component, which will be poorer if the contribution from petroleum is ignored. In this context this study would like to make the following suggestions that will help the state to enhance its internally generated revenue receipt.

1. Simplifying the tax system is the first step that should be undertaken to expand the tax net and to induce compliance. The existence of multiple slabs in the goods and service tax results in ambiguity and is a source of confusion for the taxpayer. Moreover frequent changes in reallocation of taxed items among different slabs aggravate the confusion.

Though use of electronic medium is an investment for future productivity, however it is a cause for great anxiety and helplessness among a large number of un-accustomed tax-payers who are panicking at the prospect of the new structure. Institutional mechanism need to be put in place to facilitate the smooth transition to the new system and to protect the tax-payers from unscrupulous middleman.

2. There has been phenomenal growth in the usage of smart phones in India. Efficient mobile apps can play a huge role in increasing tax compliance by eliminating the burden of long queues in the tax office. ATM enabled pay window can also be another option that holds great promise as it is widely used in both rural and urban areas.

Moreover accessibility of taxpayers to existing internet portals can be made easier by appointing certified intermediary who will operate under standard printed fee chart.

3. Tax evasion constitutes a source of leakage from the tax net besides promotes a culture of disregard for the tax machinery that can be contagious.

A system of sound auditing enhances tax enforcement by identifying and penalizing tax offenders. But more important, it signals the intension of the state vis-à-vis serial tax offenders and hence has an all pervading effect on inducing better tax compliance.

4. In an economy like Assam where there are a huge number of small tax payers, it is difficult to keep track of all taxpayers on a continuous basis. There is the option of segmenting different taxpayers as *high, medium* and *low potential* or as, *high, medium* and *low compliance taxpayers*. This will enable the tax machinery to undertake scrutiny at different intensity, as the relevant segment demands. In fact, dedicated account managers can be appointed and assigned to small groups of high worth taxpayers which will minimize the risk of evasion.

5. "*A penny saved is a penny earned"*. This old adage tells us that wasteful public expenditure runs counter-productive to measures for raise revenue receipts. Chronic loss making PSEs are a source of leakage to the public exchequer and it is imperative that it is put to an end as early as possible. Similarly public lending and public investment are colossal loss making activities that is to be avoided.

6. "A happy and willing taxpayer is a productive taxpayer". The taxpaying public needs to be reassured that their hard earned money are going to be put to good use. The public information wing of the government should inform the public how their tax contributions are to be utilized for the enhancement of social and economic welfare of the community. However, action speaks louder than words, and outcomes from public expenditure would act as a much more effective inducement for taxpayers than mere assurances.

1.8 CONCLUSION

Trends from the reference period make it obvious that revenue receipt, over the years, will be dominated by state tax receipt and Share of Central taxes. In fact, the share of these two components is expected to grow at the expense of State Non-Tax Revenue and Central Grants-in-Aid.

Quantum jump in the revenue from sales tax in the post-VAT era augurs well for the days to come, especially after the transition to the Goods and Service Tax regime. Such optimism emanates from evidence of better tax compliance, reduced evasion and more efficient tax mobilization in the new dispensation. However, the contribution of State's Non-Tax Revenue to the revenue receipt had been drastically coming down over the years, which is due to the slow growth in receipts in absolute terms from this head. Given the fact that revenue from Petroleum totally dominates this head, Non-tax Revenue does not, at least in the short run, present a viable alternative to bring about a significant jump in revenue receipt of the state.

The tax effort of the state, as evidenced from the Own Tax Revenue-GSDP ratio (OTR/GSDP) and Own Non Tax Revenue-GSDP (ONTR/GSDP) ratio is one of the best among Special Category States and is easily comparable with the better performing Special Category States. Given the fact that tourism sector tends to give a big boost to OTR/GSDP and ONTR/GSDP, Assam has a strong potential to dramatically improve its position in this dimension given its enormous potential in wildlife, nature and adventure tourism.

An area of concern for Assam is its high Cost of Resource Mobilization. This is true for almost all the heads, and is a domain where corrective measures can be taken. Similarly, Revenue Arrears indicate presence of inefficiency in the revenue administration which can be due to both institutional and operational framework of the revenue system. In this count the situation has been deteriorating in Assam over the years with the worst reserved for 2015-16, where the Arrears of Revenue as a ratio of Own Revenue Receipt has risen to an unsustainable high of Rs. 4924.36 crs representing 38.33 percent of its Own Revenue.

However there have been areas where the state had consciously intervened to enhance its level of fiscal consolidation. A case in the point would be Economic Services where the state has shown spectacular attainments with cost recovery increasing from 8.11 percent in 2006-

07 (against the national average of 30.95 percent) to 37.54 percent in 2015-16 which is decidedly higher that the national recovery rate of 35.49 percent. This has been made possible with enhancement of user charges, greater transparency and accountability in the mobilisation process and also due to improvement in the quality and delivery of services and despite great public pressure against revision of user charges and reduction of subsidies.

Chapter-II:
Public Expenditure: Trend, Pattern and Management Strategies

2.1 INTRODUCTION

For a federal country like India, in addition to Central Government expenditure, every State Governments have to incur expenditure for the growth and development of their respective economies defined by their specific geographical boundaries. The growing developmental needs of the state necessitate the growth of public expenditure. Public expenditure can affect economic growth in two ways (Mallick, 2013). First is, by including public capital as an input in the aggregate production function and second is by raising the productivity of private capital and hence the rate of return, which in turn, results in private investment being crowded-in. On the other hand, rising public expenditure in unproductive areas can lead to a rise in the tax rate, which may eventually affect the flow of private investment in a state. Rising public expenditure, if not adequately financed from the receipts or revenue generated by government can create problems. The enactment of the FRBM Act in 2003 was a step to ensure the curtailment of unproductive public expenditure as it set limits to the government's fiscal deficit. Recognizing the importance of public expenditure in affecting the development prospects of a region, this chapter takes a look at the trend and pattern of public expenditure in Assam and the efficiency of its allocation.

2.2 TOTAL EXPENDITURE IN ASSAM – TREND, PATTERN AND COMPONENTS

To understand the trend of public expenditure, we look at its growth over the period 2006-07 to 2018-19. Table 2.1 shows the trend of total expenditure and its components.

Table No 2.1

Trends and Composition of Total Expenditure in Assam (2006-19)

(In Crs)

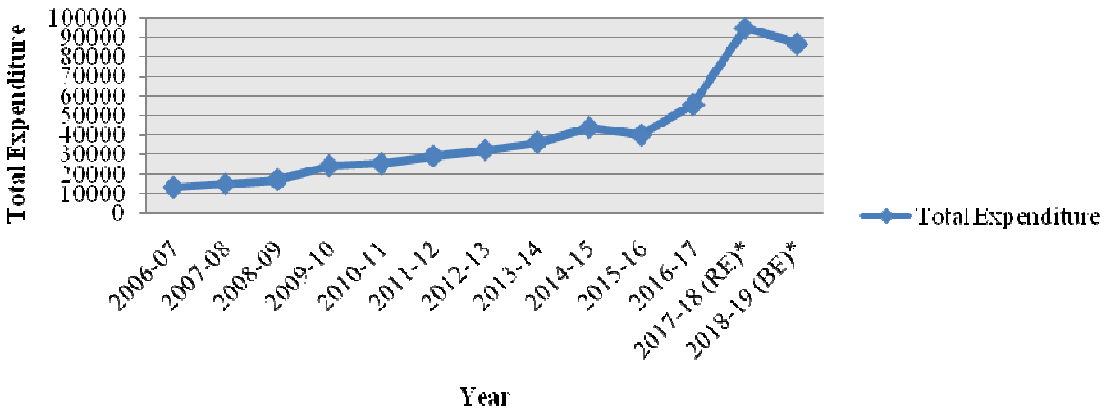
Year	Revenue Expenditure	Capital Outlay	Disbursement of Loans and Advances	Total Expenditure	Total Expenditure as a Percentage of GSDP	Total Expenditure Per Lakh Population
2006-07	11457 (88.19%)	1453 (11.18%)	81 (0.62%)	12991 (100.00%)	20.48	45.32
2007-08	12744 (87.44%)	1688 (11.58%)	143 (0.98%)	14575 (100.00%)	20.05	50.17
2008-09	14243 (85.26%)	2373 (14.21%)	89 (0.53%)	16705 (100.00%)	21.55	56.75
is by	21232 (88.61%)	2629 (10.97%)	99 (0.41%)	23960 (100.00%)	27.22	80.36
2010-11	22952 (91.72%)	2001 (8.00%)	71 (0.28%)	25024 (100.00%)	24.01	82.89
2011-12	26529 (91.09%)	2506 (8.61%)	88 (0.30%)	29123 (100.00%)	25.23	95.27
2012-13	29137 (90.45%)	2617 (8.12%)	461 (1.43%)	32215 (100.00%)	22.44	104.10
2013-14	31989 (88.86%)	3189 (8.86%)	822 (2.28%)	36000 (100.00%)	20.25	114.95
2014-15	39078 (89.59%)	3912 (8.97%)	631 (1.45%)	43621 (100.00%)	22.29	137.64
2015-16	37011 (92.62%)	2691 (6.73%)	260 (0.65%)	39962 (100.00%)	17.66	124.61
2016-17	49363 (89.16%)	5502 (9.94%)	499 (0.90%)	55364 (100.00%)	21.50	170.62
2017-18 (RE)*	79256.54 (83.74%)	14860.11 (15.70%)	533.02 (0.56%)	94649.67 (100.00%)	33.63	288.48
2018-19 (BE)*	71329.37 (82.53%)	14571.57 (16.86%)	530.67 (0.61%)	86431.61 (100.00%)	25.96	260.60
CAGR	**15.10%**	**19.40%**	**15.56%**	**15.69%**	**1.84%**	**14.40%**

Source: Various Reports of Finance Accounts, Government of Assam, CAG India,

*State Finances: A Study of Budgets (2018-19), RBI

Total expenditure in the state has increased from Rs. 12991crores in 2006-07 to Rs. 86431.61 in 2018-19 (BE), registering a CAGR of 15.69%. An exceptionally high growth was registered in 2009-10 when total expenditure grew by 43.43% compared to its previous year. Total expenditure reached its peak in 2014-15 and after that registered a decline in the following year. However, total expenditure started showing a rise again, reaching the highest ever level of Rs. 94649.67 in 2017-18, which was an unprecedented rise of 71% over its previous year. The trend of total expenditure is presented in figure 2.1.

Figure 2.1
Growth of Total Expenditure



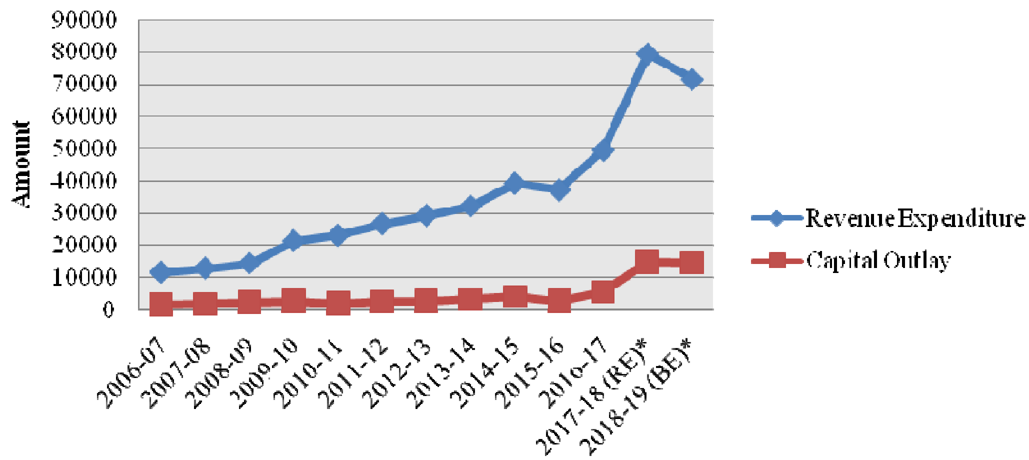
Total expenditure constituted roughly 20 to 25 percent of the state's GSDP during the period of study. In 2009-10 and 2017-18, the share was slightly larger at 27.22% and 33.63% respectively. Total expenditure as percentage of Assam's GSDP was the lowest in 2015-16 at 17.66%. Given the requirement to meet the needs of a growing population, public expenditure is bound to show a rise. However, the growth of expenditure has been higher than that of the growth of population as is seen from the fact that total expenditure per lakh population has increased from Rs. 45.32 crores per lakh of population in 2006-07 to Rs. 288.48 crores in 2017-18 but came down to Rs. 260.60 crores in 2018-19.

Total expenditure in the state has three main components – Revenue expenditure, Capital Outlay 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.

Revenue expenditure forms the bulk of total expenditure followed by Capital Outlay and Disbursement of Loans and Advances respectively. On an average, revenue expenditure's share was roughly 88% of the total expenditure during the period of study. However, there have been fluctuations in its share in certain years. For instance, for three consecutive years, from 2010-11 to 2012-13 and 2015-16, the share has been greater than 90%, while it was as low as 85.62% in 2008-2009 and 82.53% in 2018-19. Correspondingly, the share of capital expenditure was the highest in 2018-19 constituting 16.86 % of the total expenditure. High shares of capital expenditure were also seen in 2017-18.

While both revenue and capital expenditure show a rising trend, as expected, yet the pattern of growth is different. Capital outlay registered a higher CAGR at 19.40 % for the study period as against a CAGR of 15.10 % of revenue expenditure. Revenue expenditure showed a more or less steady rise with sharp increases in two years, viz. 2009-10 and 2017-18, whereas capital expenditure had exceedingly high annual growth rates (over 100% in 2016-17 in 2017-18). In between, there have been fluctuations of high and low annual growth rates. The trend of revenue expenditure and capital outlay for the period 2006-07 to 2018-19 is shown in figure 2.2.

Figure 2.2
Growth of Revenue Expenditure and Capital Outlay in Assam



To sum up, total expenditure in the state has shown a rising trend, which is very much in consonance with the increasing developmental needs of the state. The rise in expenditure in fact has been higher than that of the state's population, as is evident from the increasing values of total expenditure per lakh population during the study period. As far as the components of total expenditure are concerned, revenue expenditure constitutes over 85% of the total expenditure, a feature which is common to all states of India. It is only in specific years that capital outlay's share increases, indicating that capital outlay increases are consequent of some major policy decision. A reflection of this comes out in the pattern of growth of revenue expenditure and capital outlay where the former shows a steady annual increase whereas the latter has sharp fluctuations in its annual growth rates. For a deeper understanding of the factors which have influenced the growth of public expenditure in Assam, we look at the individual components separately.

2.3 REVENUE EXPENDITURE - TREND, PATTERN AND COMPOSITION

Revenue expenditure in the state has four main components – viz. General Services, Social Services, Economic Services and Grant-in-Aids. **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, Health and Family Welfare, Water supply, Sanitation, Housing and Urban Development, Information and Broadcasting, Welfare of Schedule Castes, Schedule Tribes and Others, Labor and Labor Welfare, Social Welfare and Nutrition and Others. **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. The classification of expenditure under these broad heads clearly reveals that expenditure under general services is of non-developmental nature whereas the expenditure under social and economic services belongs to the category of developmental expenditure. **Grants-in-aid** include the compensation and assignments made to local bodies and *Panchayati Raj* institutions.

Before analyzing the different components of revenue expenditure, we take a brief look at the estimation of revenue expenditure by the Fourteenth Finance Commission, and see how these estimates compare with the actual values. Table 2.2 shows the differences between the estimates and actual figures of revenue expenditure for Assam.

Table 2.2

Projected and Actual Revenue Expenditure of Assam

Year	Revenue Expenditure (in Rs. Crores)		
	Projected*	Actual	Gap between Projected and Actual
2015-16	38403	37011	-1392
2016-17	42941	49363	6422
2017-18	48006	79256.54#	31250.54
2018-19	53659	71329.37#	17670.37

Source: * Projection by 14th Finance Commission
Various Reports of Finance Accounts, Government of Assam, CAG India,
#State Finances: A Study of Budgets (2018-19), RBI

Table 2.2 reveals that the actual values of revenue expenditure were higher than the forecasted value for all the years except 2015-16. However, the figures for 2017-18 reveal the unusually high difference between the estimated and actual values. While the difference remained less than 15% of the actuals, for 2015-16 and 2017-18, the gap was the highest in 2017-18, with the actual being 39 percentage points higher than the projected value. While the gap comes down in 2018-19, the effect of the rise seems to have a lingering presence. This is evident table 2.3 where the projections for revenue expenditure have been made for the years 2019-20 to 2024-25.

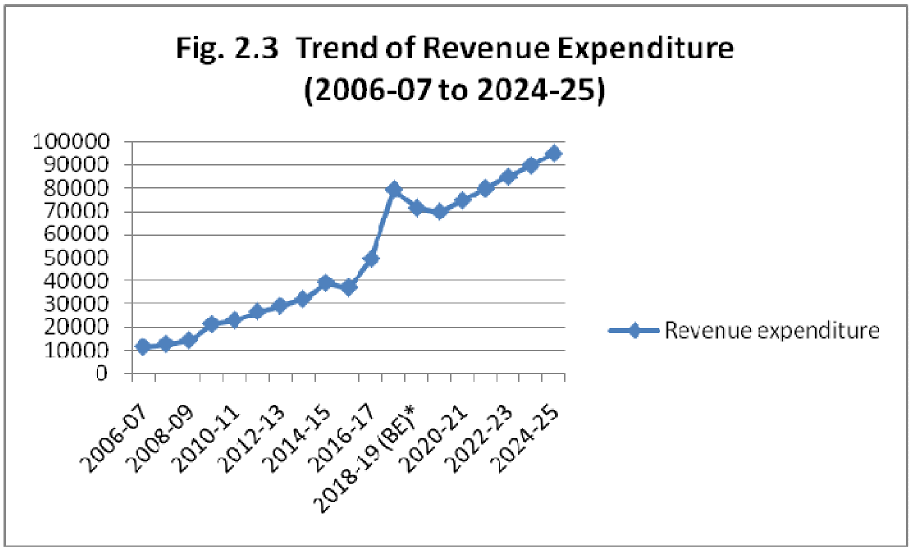
Table 2.3

Projected Revenue Expenditure for the period 2019-20 to 2024-25

Year	Projected Value of Revenue Expenditure (in Rs. Crores)
2019-20	69614.14
2020-21	74654.40
2021-22	79694.65
2022-23	84734.90
2023-24	89775.15
2024-25	94815.41
CAGR	**5.28%**

Source: Author's own calculation.

The entire data on revenue expenditure (including the projected values) is represented graphically in figure 2.3.



It is visible from figure 2.3 that the unprecedented rise in revenue expenditure in 2017-18 has resulted in the revenue expenditure moving to a higher level. A similar picture is seen for 2009-10 when the sharp rise in revenue expenditure led to the trend line shifting to a higher level. Thus, sudden rises in revenue expenditure act as shocks which have a lingering effect for the next few time periods. Such breaks thus have an impact on the fiscal health of the state.

Having discussed the projections for revenue expenditure, we next move on to analyze the different components of revenue expenditure in the state. Table 2.4 shows the expenditure on the different components of revenue expenditure in Assam for the period 2006-07 to 20018-19.

Table 2.4

Revenue Expenditure and its Components

(Amount in crores rupees)

Year	General Services	Social Services	Economic Services	Grant-in-Aids	Total
2006-07	4302.36 (37.55%)	4477.48 (39.08%)	2668.89 (23.30%)	7.80 (0.07%)	11456.53 (100.00%)
2007-08	4924.42 (38.64%)	4956.75 (38.89%)	2854.05 (22.39%)	8.94 (0.07%)	12744.16 (100.00%)
2008-09	5365.82 (37.67%)	5844.36 (41.03%)	2885.64 (20.26%)	147.51 (1.04%)	14243.33 (100.00%)
2009-10	8379.57 (39.47%)	8543.21 (40.24%)	3759.52 (17.71%)	549.90 (2.59%)	21232.20 (100.00%)
2010-11	7766.42 (33.84%)	10158.97 (44.26%)	4668.86 (20.34%)	357.57 (1.56%)	22951.82 (100.00%)
2011-12	9743.68 (36.73%)	11465.79 (43.22%)	4663.27 (17.57%)	655.82 (2.475)	26528.56 (100.00%)
2012-13	10570.34 (36.28%)	12617.46 (43.30%)	5209.38 (17.87%)	739.74 (2.54%)	29136.92 (100.00%)
2013-14	10928.41 (34.16%)	14850.09 (46.42%)	5835.54 (18.24%)	375.76 (1.17%)	31989.80 (100.00%)
2014-15	12921.59 (33.07%)	18087.75 (46.28%)	7075.32 (18.10%)	993.50 (2.54%)	39078.16 (100.00%)
2015-16	12656.04 (34.19%)	17740.36 (47.93%)	6239.86 (16.86%)	375.16 (1.01%)	37011.42 (100.00%)
2016-17	17123.19 (34.69%)	22673.15 (45.93%)	8914.03 (18.06%)	652.35 (1.32%)	49362.72 (100.00%)
2017-18 (RE)*	28820.59 (36.36%)	31833.24 (40.16%)	18077.22 (22.81%)	525.49 (0.66%)	79256.54 (100.00%)
2018-19 (BE)*	23124.58 (32.42%)	32628.50 (45.74%)	15334.36 (21.50%)	241.92 (0.34%)	71329.36 (100.00%)
CAGR	**13.81%**	**16.51%**	**14.40%**	**30.24%**	**15.10%**

***Source*:** Various Reports of Finance Accounts, Government of Assam, CAG India,

*State Finances: A Study of Budgets (2018-19), RBI

As far as the components of revenue expenditure are concerned, it is seen from table 2.4 that in 2018-19, social services accounted for the highest share (45.74%) of revenue expenditure, followed by general services (32.42%) and economic services (21.50%). The share of grants-in-aid was lowest and less than 1 percent of the total revenue expenditure. At the beginning of the period of study, i.e. 2006-07, the share of general and social services have more or less been the same, but from 2008-09 onwards, the share of social services has been gradually rising. Development expenditure, which is the expenditure on social and economic services have increased from 62.38% in 2006-2007 to 67.24% in 2018-19. Overall, the share of developmental expenditure has been between 60 to 70 percent of total revenue expenditure.

Table 2.4 reveals that while revenue expenditure recorded a CAGR of 15.10% p.a., its components showed varying growth rates. Interestingly, the component which had the lowest share of revenue expenditure, viz. grants-in-aid had the highest CAGR of 30.24 % p.a. Sharp increases under this head came in 2009-10 and further in 2012-13 and 2014-15, but a decline was noticed from 2015-16 onwards. Social services displayed a CAGR of 16.51% p.a., followed by economic services (14.40 % p.a.) and the lowest CAGR was recorded for the general services (13.81% p.a).

The differences in the pattern of growth of the different components of revenue expenditure are shown in figure 2.4.

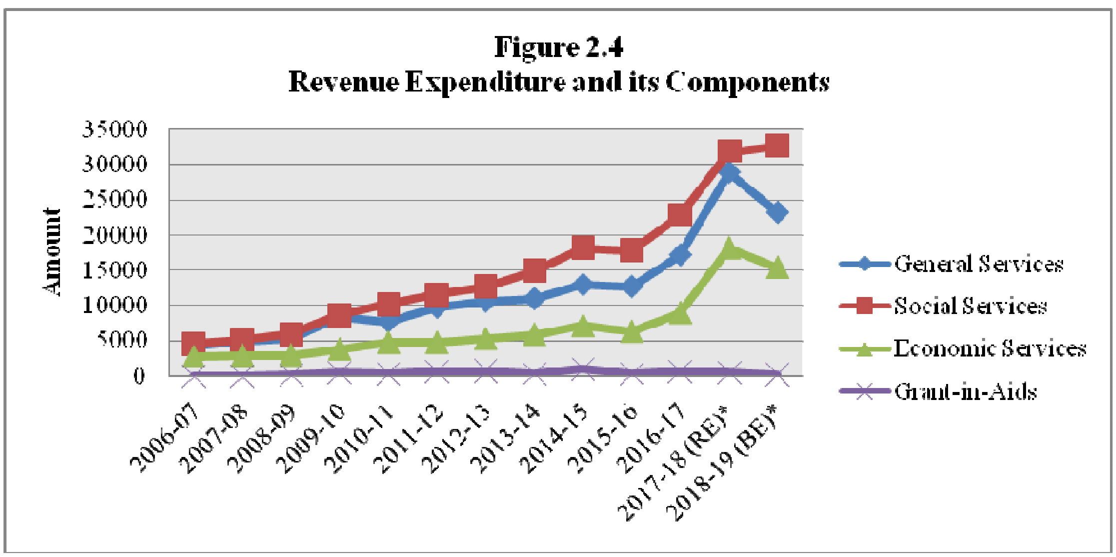


Figure 2.4 shows that revenue expenditure of all the four components have been increasing in the thirteen years period of study. Revenue expenditure on general services too saw a sharp

rise of 56 % in 2009-10 over the previous year. While annual growth rates varied, prominent rises were observed in 2016-17 and 2017-18. In 2017-18, revenue expenditure on general services increased by a massive 68% over its previous year.

Revenue expenditure under social services saw a sharp rise in 2009-10 when it recorded an annual growth of 46 % over the previous year, and again in 2017-18 when increased by 35.83% over its previous year. Revenue expenditure on economic services has been growing at a more or less steady rate. The highest expenditure under this head was incurred in 2017-18.

What comes out clearly from table 2.4 is that the sharp rise in revenue expenditure (and consequently total expenditure) in 2017-18 is on account of an increase in expenditure on all the three components. The common factor that appears to be affecting all the component parts of revenue expenditure is the revision of pay following the recommendations of the Seventh Pay Commission. Fortunately, the radical rise in revenue expenditure appears to be confined to that year, as revenue expenditure slipped down in the following year.

To sum up, revenue expenditure, which is the major component of total expenditure of the state grew at a rate of 15.10 % p.a., though its components displayed varying growth rates. More than 60% of the revenue expenditure was incurred for developmental purposes, of which social services was the chief head. Since salaries and pensions form a decisive part of revenue expenditure, hence pay revisions in the state have a major impact in changing the trend line of revenue expenditure, for a better insight on the areas where revenue expenditure has been incurred, we look into the details of the sub-heads of this form of expenditure. Sections 2.3.1 to 2.3.4 look specifically at the components of the four main heads of revenue expenditure. It needs to be mentioned here that the analysis in sections 2.3.1 to 2.3.4 shall be confined to the originally specified time period of the present study, i.e. from 2006-07 to 2015-16.

2.3.1 REVENUE EXPENDITURE ON GENERAL SERVICES

General services, which constituted 32.42% of the state's revenue expenditure in 2018-19, has five major components, viz. organs of state, fiscal services, interest payments and servicing of debt, administrative services and pensions and a sub-head termed as 'miscellaneous'. Table 2.5 provides the details of the revenue expenditure on the different components of general services.

Table No 2.5

Revenue Expenditure of Government of Assam on General Services

(Amount in Crore Rupees)

Year	Organs of State*	Fiscal Services#	Interest Payments and Servicing of	Administrative Services	Pensions	Miscellaneous	Total
2006-07	85.8 (1.99%)	135.38 (3.15%)	1691.67 (39.32%)	1211.12 (28.15%)	1177.86 (27.38%)	0.53 (0.01%)	4302.36 (100.00%)
2007-08	100.54 (2.04%)	134.97 (2.74%)	1716.24 (34.85%)	1631.5 (33.13%)	1340.68 (27.23%)	0.5 (0.01%)	4924.42 (100.00%)
2008-09	177.43 (3.31%)	161.92 (3.02%)	1701.33 (31.73%)	1882.35 (35.11%)	1437.37 (26.81%)	0.93 (0.02%)	5361.33 (100.00%)
2009-10	153.45 (1.83%)	197.64 (2.36%)	1940.58 (23.16%)	2905.5 (34.67%)	1769.28 (21.11%)	1413.12 (16.86%)	8379.57 (100.00)
2010-11	318.78 (4.12%)	252.28 (3.26%)	2032.12 (26.27%)	2681.33 (34.66%)	2384.52 (30.82%)	67.46 (0.87%)	7736.49 (100.00%)
2011-12	248.01 (2.55%)	259.32 (2.67%)	2207.5 (22.74%)	3600.62 (37.09%)	3136.07 (32.30%)	256.22 (2.64%)	9707.74 (100.00%)
2012-13	253.29 (2.40%)	287.43 (2.73%)	2248.91 (21.35%)	3593.75 (34.12%)	3778.87 (35.87%)	371.89 (3.53%)	10534.1 (100.00%)
2013-14	344.33 (3.16%)	285.26 (2.62%)	2341.1 (21.51%)	3645.36 (33.49%)	4264.13 (39.18%)	4.2 (0.04%)	10884.4 (100.00%)
2014-15	296.58 (2.30%)	398.16 (3.08%)	2469.98 (19.12%)	4019.14 (31.10%)	5237.02 (40.53%)	500.72 (3.88%)	12921.6 (100.00%)
2015-16	424.49 (3.35%)	421 (3.33%)	2775.91 (21.93%)	3469.87 (27.42%)	5985.23 (47.29%)	-420.46# (-3.32%)	12656 (100.00%)
CAGR	**17.34%**	**12.01%**	**5.08%**	**11.10%**	**17.65%**	**98.40%***	**11.39%**

Source: Various Reports of Finance Accounts, Government of Assam, CAG India,

*Calculated by Excluding 2015-16

Recoveries of Overpayments.

An interesting feature of the expenditure under general services is that three sub-heads alone account for over 90% of the revenue expenditure under general services. These are Interest Payments and Servicing of Debt, Administrative Services and Pensions. However, the shares of each of these components have changed substantially in the last ten years. Table 2.5 shows that interest payments and servicing of debt constituted 39.32% of the state's revenue expenditure on general services in 2006-07 while Administrative Services and Pensions constituted 28.15% and 27.38% respectively. The distributive shares have changed significantly over the years and in 2015-16, pensions had the major share of 47.29% of the revenue expenditure on general services, followed by Administrative Services (27.42%) and interest payments and servicing of debt (21.93%).

When one looks at each individual component of the revenue expenditure under general services, it is seen that organs of state, fiscal services and miscellaneous sub-heads not only constitute a very small part of the general services, their growth is also moderate. The sub-head miscellaneous however registered a sharp rise in 2009-10 which has been on account of 'other expenditure'. The head 'organs of state' included the expenditure incurred on conduct of elections in the state, and this amount obviously shows a rise in the years when elections to the parliament, state legislature and local bodies are held. Fiscal services, on the other hand, include mainly the expenditure on collection of taxes and hence show a steady rise over the years, implying the growing cost of tax collection. The trends of these three components are shown in figure 2.5 separately as their total amounts are much smaller compared to the other three components.

Figure 2.5
Revenue expenditure on selected components of General Services

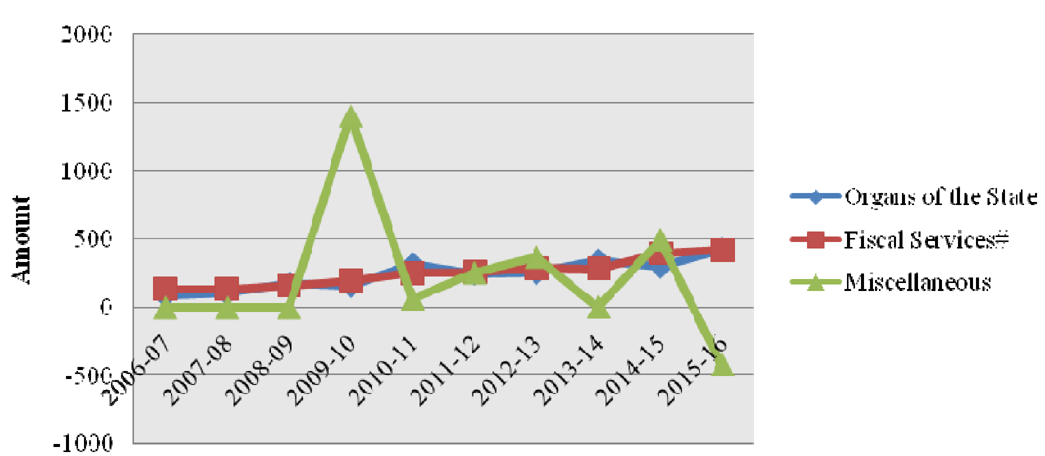
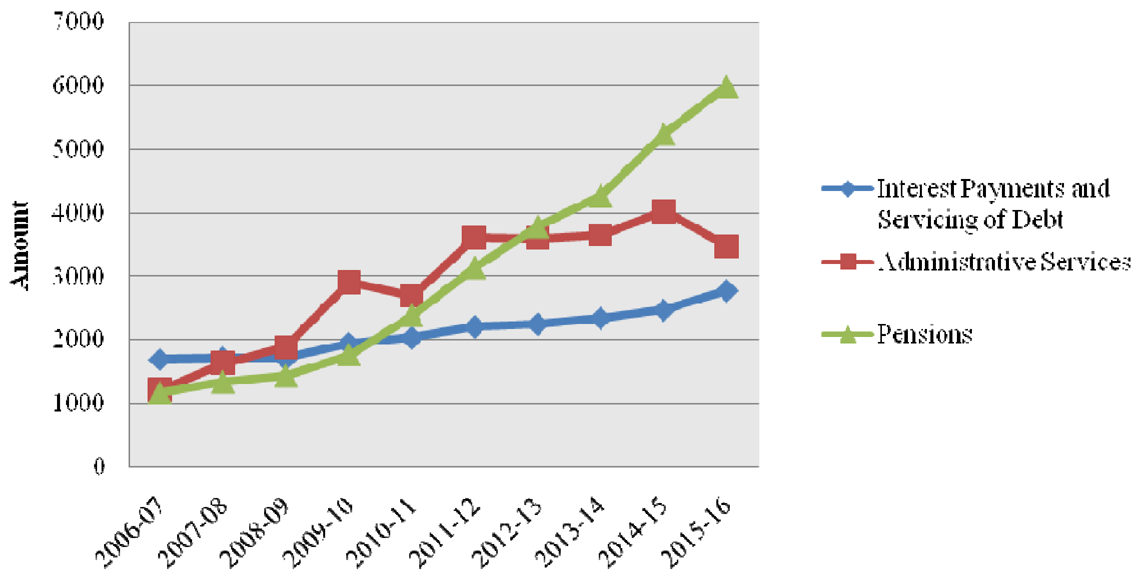


Figure 2.6 shows the amount of revenue expenditure incurred on the three major components of general services, viz. Interest Payments and Servicing of Debt, Administrative Services and Pensions.

Figure 2.6
Revenue Expenditure on Three Major Components of General Services



Interest payments, which had the largest share in 2006-07, have shown a very gradual increase in the ten years study period, but its share has come down substantially. This is on account of Assam being placed in the *special category state* with the grants to loan components changing to the proportion of 90:10.

Administrative services include among others, the expenditure on state public service commission, the secretariat, district administration, treasury and accounts, police and jails. It includes expenses on wages and salaries, training on personnel as well as maintenance expenditure. Clearly, administrative services have shown a steady rise, with a CAGR of 11.1% which is similar to the CAGR of revenue expenditure on general services. A sharp rise in this component came in 2009-10 when it rose by 53.4% over the previous year, which was on account of the pay revision following the recommendations of the Sixth Pay Commission.

The most critical component of the general services is the expenditure on pensions which has been showing a steady rise over the years and constituted 47.29 % of the revenue expenditure on general services in 2015-16, recording a CAGR of 17.65% p.a. which is much higher than the CAGR of general services as a whole.

Revenue expenditure on general services belongs to the category of non-developmental expenditure. Looking at the details of expenditure on this head reveals that pensions are the major source of expenditure followed by administrative services. These two heads accounted for over 74.71% of the revenue expenditure on general services in 2015-16, which is fairly high and unfortunately cannot be expected to reduce. With the implementation of the recommendations of the Seventh Pay Commission, this head of expenditure will show a sharp rise and place the expenditure in the state at higher levels for all the subsequent years.

2.3.2 REVENUE EXPENDITURE ON SOCIAL SERVICES

We next look at the different heads of revenue expenditure under social services, which belong to the category of developmental expenditure, and are presented in Table 2.6.

A look at table 2.6 reveals that education, sports, art and culture constitutes the bulk (more than 60%) of revenue expenditure under social services for all the years in the period of study, except for the year 2009-10, when its share was 52.9% only. This head had a CAGR of 14.56% p.a. which was similar to the CAGR of social services as a whole. Health and Family Welfare had the second highest share, accounting for 16.09% of the revenue expenditure on social services in 2015-16. The share of this important sector has ranged between 10% to 17% of the revenue expenditure under social services.

This sub-sector along with Social Welfare and Nutrition accounted for roughly one-fourth of the revenue expenditure on social services. Social Welfare and Nutrition, by itself, accounted for 9.16% of the revenue expenditure on social services in 2006-07, and its share showed a gradual increase, remaining around 12 % during most of the years in the study period. Welfare of Schedule Castes, Schedule Tribes and Others formed 7.94% of the revenue expenditure in 2006-07, but its share has been showing a decline over the years.

Table 2.6
REVENUE EXPENDITURE OF GOVERNMENT OF ASSAM ON SOCIAL AND COMMUNITY SERVICES

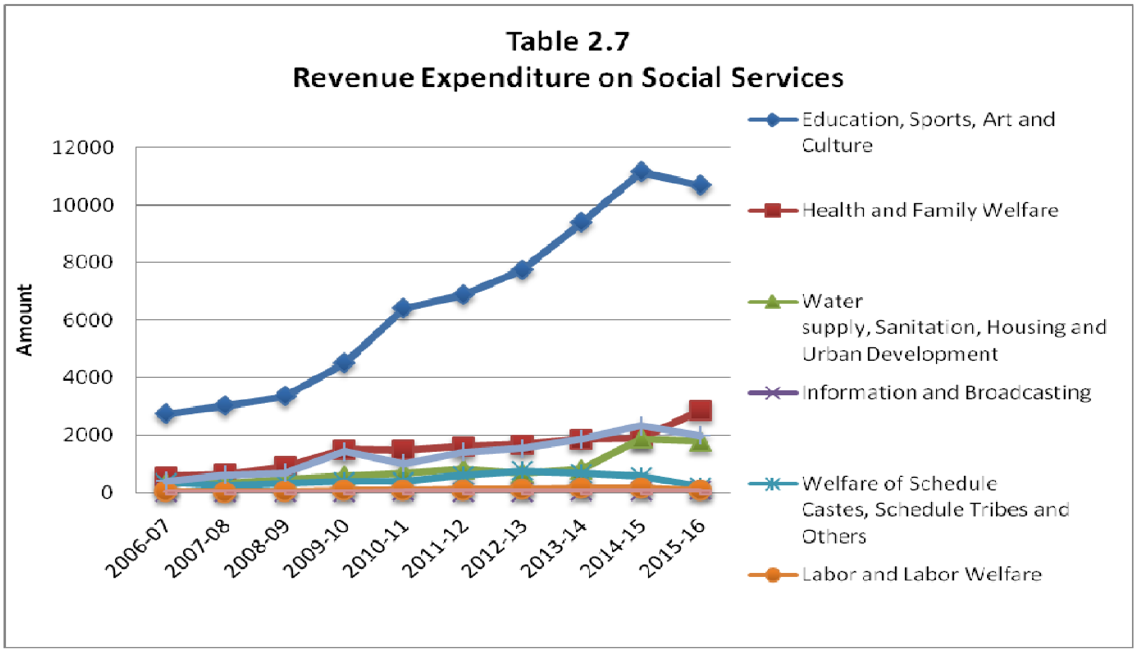
(Amount in crores rupees)

Year	Education, Sports, Art and Culture	Health and Family Welfare	Water supply, Sanitation, Housing and Urban Development	Information and Broadcasting	Welfare of Schedule Castes, Schedule Tribes and Others	Labor and Labor Welfare	Social Welfare and Nutrition	Others	TOTAL
2006-07	2751.11 (61.44%)	568.41 (12.69%)	328.87 (7.34%)	10.65 (0.24%)	355.64 (7.94%)	40.73 (0.91%)	410.36 (9.16%)	11.71 (0.26%)	4477.48 (100.00%)
2007-08	3047.05 (61.47%)	653.26 (13.18%)	311.14 (6.28%)	19.26 (0.39%)	259.11 (5.23%)	34.07 (0.69%)	619.95 (12.51%)	12.90 (0.26%)	4956.75 (100.00%)
2008-09	3378.71 (57.81%)	909.71 (15.57%)	451.84 (7.73%)	20.11 (0.34%)	337.51 (5.77%)	44.21 (0.76%)	686.78 (11.75%)	15.50 (0.27%)	5844.36 (100.00%)
2009-10	4526.56 (52.98%)	1496.42 (17.52%)	582.26 (6.82%)	20.24 (0.24%)	380.06 (4.45%)	90.68 (1.06%)	1430.61 (16.75%)	16.39 (0.19%)	8543.22 (100.00%)
2010-11	6430.89 (63.30%)	1479.69 (14.57%)	685.17 (6.74%)	43.62 (0.43%)	396.08 (3.90%)	92.94 (0.91%)	1008.45 (9.93%)	22.13 (0.22%)	10158.97 (100.00%)
2011-12	6892.07 (60.11%)	1603.14 (13.98%)	810.12 (7.07%)	27.68 (0.24%)	596.77 (5.20%)	107.01 (0.93%)	1406.60 (12.27%)	22.40 (0.20%)	11465.79 (100.00%)
2012-13	7766.56 (61.55%)	1679.81 (13.31%)	682.31 (5.41%)	35.88 (0.28%)	760.04 (6.02%)	129.91 (1.03%)	1538.38 (12.19%)	24.58 (0.19%)	12617.47 (100.00%)
2013-14	9420.02 (63.44%)	1865.19 (12.56%)	812.63 (5.47%)	38.84 (0.26%)	675.39 (4.55%)	148.83 (1.00%)	1860.89 (12.53%)	27.60 (0.19%)	14849.39 (100.00%)
2014-15	11164.47 (61.72%)	1909.32 (10.56%)	1880.73 (10.40%)	47.53 (0.26%)	566.69 (3.13%)	154.50 (0.85%)	2335.00 (12.91%)	29.49 (0.16%)	18087.73 (100.00%)
2015-16	10710.21 (60.38%)	2853.79 (16.09%)	1792.07 (10.10%)	73.56 (0.41%)	214.35 (1.21%)	76.26 (0.43%)	1986.73 (11.20%)	31.39 (0.18%)	17738.36 (100.00%)
CAGR	**14.56%**	**17.51%**	**18.48%**	**21.32%**	**-4.94%**	**6.47%**	**17.08%**	**10.36%**	**14.76%**

***Source*:** Various Reports of Finance Accounts, Government of Assam, CAG India,

In fact from 2014-15, there is a decline in the absolute value of expenditure under this sub-head, which reflected the falling importance of this head of expenditure. Water supply, Sanitation, Housing and Urban Development, as a head of revenue expenditure under social services has been growing in importance over the years. Having a relatively higher CAGR of 17.51%, the share of this sector increased from 7.34% in 2006-07 to 16.09% in 2015-16, indicating this sub-head as an important component of developmental expenditure. Expenditure under the remaining three heads, viz. Information and Broadcasting, Labor and Labor Welfare and Others formed less than 2% of the revenue expenditure under social service.

The trend of revenue expenditure of the different components under social services in the state is shown in figure 2.7.



In terms of the CAGR, the highest growth rate was for Information and Broadcasting. But since its share was among the lowest, this high CAGR is unlikely to have affected the growth of revenue expenditure under social services. Water supply, Sanitation, Housing and Urban Development has displayed growth rates higher than that of the growth of revenue expenditure under social services. This head saw a massive rise of expenditure by 131% over its previous year in 2014-15, and the levels of expenditure have remained high since then. Education, Sports, Art and Culture, the major component of revenue expenditure under social services, saw sharp rises in expenditure in two consecutive years, viz. 2009-10 and 2010-11, by 34% and 42.1% respectively. A sharp rise was visible in 2013-14 as well, when it increased by 21.3% over the previous year. Compared to the education, sports, art and culture, the share of Medical, Family Planning, Public Health and Sanitation has been low in the revenue expenditure on social services. Growth rates in this head had increased sharply over the previous year in 2008-09 and 2009-10, but witnessed a slight fall in 2010-11. In 2015-16, there was an annual rise of around 49.5%, following the launch of the National Health Mission in 2013.

Thus revenue expenditure on social services was dominated by three main heads, viz. Education, Sports, Art and Culture, Health and Family Welfare, Water supply, Sanitation, Housing and Urban Development, which accounted for over 80% of total revenue expenditure on social services, the share being the highest of 86.6% in 2015-16. While the importance of all the three sub-heads cannot be disputed upon, yet there is apparently a greater focus on Education, Sports, Art and Culture over all other heads of expenditure.

2.3.3 REVENUE EXPENDITURE ON ECONOMIC SERVICES

Economic services include in its ambit as many as nine sub-heads there by encompassing a wide range of activities. Table 2.7 presents gives the details of the revenue expenditure incurred by the different sub-heads under economic services.

Table 2.7
Revenue Expenditure on Economic Services

(Amount in Crores Rupees)

Years	Agri& Allied Activities	Rural Development	Special Area Program	Irrigation and Flood Control	Energy	Industry and Mineral	Transport & Communication	Science, Technology and Environment	General Economic Services	Total
2006-07	613.58 (61.01%)	561.36 (21.03%)	27.01 (1.01%)	269.22 (10.09%)	290.94 (10.90%)	112.74 (4.22%)	386.65 (14.49%)	2.01 (0.08%)	405.38 (15.19%)	2668.89 (100.00%)
2007-08	672.32 (41.76%)	785.76 (27.53%)	53.22 (1.86%)	292.05 (10.23%)	30.82 (1.08%)	177.92 (6.23%)	503.72 (17.65%)	5.68 (0.20%)	332.56 (11.65%)	2854.05 (100.00%)
2008-09	896.96 (61.13%)	673.2 (23.33%)	105.96 (3.67%)	310.77 (10.77%)	0.08 (0.00%)	185.03 (6.41%)	448.08 (15.53%)	18.94 (0.66%)	246.62 (8.55%)	2885.64 (100.00%)
2009-10	1169.49 (40.26%)	813.49 21.64%)	211.18 (5.62%)	381.06 (10.14%)	11.81 (0.31%)	247.23 (6.58%)	566.45 (15.07%)	18.31 (0.49%)	340.5 (9.06%)	3759.52 (100.00%)
2010-11	1628.37 (44.72%)	939.54 20.12%)	123.79 (2.65%)	529.06 (11.33%)	28.53 (0.61%)	381.89 (8.18%)	805.05 (17.24%)	15.13 (0.32%)	217.5 (4.66%)	4668.86 (100.00%)
2011-12	1470.94 (31.54%)	852.03 (18.27%)	185.61 (3.98%)	581.02 (12.46%)	101.92 (2.19%)	380.21 (8.15%)	805.48 (17.27%)	13.02 (0.28%)	233.33 (5.00%)	4663.27 (100.00%)
2012-13	2070.30 (39.74%)	806.71 (15.49%)	83.10 (1.60%)	708.36 (13.60%)	21.42 (0.41%)	381.56 (7.32%)	806.15 (15.47%)	7.73 (0.15%)	324.05 (6.22%)	5209.37 (100.00%)
2013-14	1894.62 (32.47%)	1480.84 (25.38%)	287.80 (4.93%)	696.13 (11.93%)	151.80 (2.60%)	377.24 (6.46%)	1189.46 (20.38%)	29.00 (0.50%)	28.64 (0.49%)	5835.54 (100.00%)
2014-15	2088.08 (0.00%)	1654.84 23.39%)	151.4 (2.14%)	733.2 (10.36%)	113.86 (1.61%)	394.63 (5.58%)	1477.12 (20.88%)	21.65 (0.31%)	440.54 (6.23%)	7075.32 (100.00%)
2015-16	1667.03 (26.72%)	1787.9 (28.65%)	129.9 (2.08%)	669.38 (10.73%)	2.77 (0.04%)	320.44 (5.14%)	1404.88 (22.51%)	2.79 (0.04%)	254.78 (4.08%)	6239.86 (100.00%)
CAGR	**10.51%**	**12.28%**	**17.01%**	**9.54%**	**-37.21%**	**11.01%**	**13.77%**	**3.33%**	**-4.54%**	**8.86%**

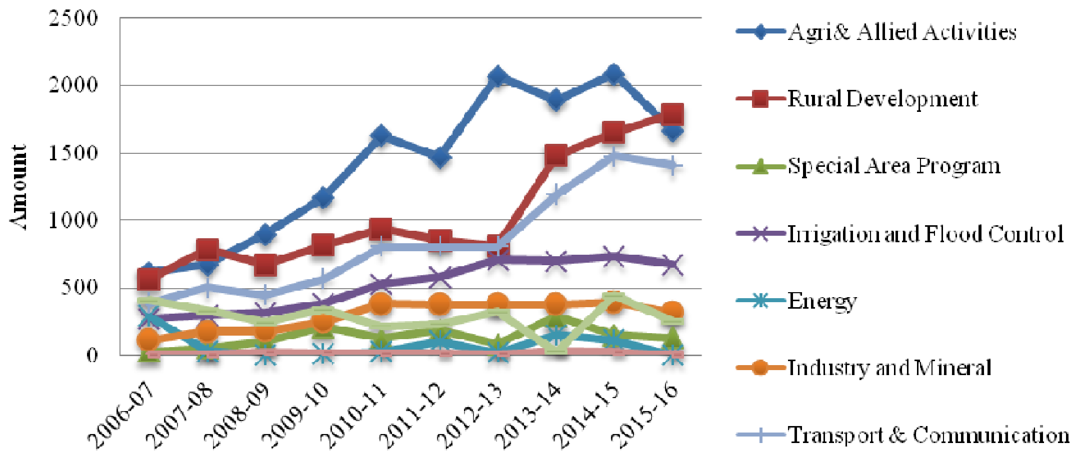
Source: Various Reports of Finance Accounts, Government of Assam, CAG India

Among all the sub-heads under economic services, agriculture and allied activities along with rural development account for nearly half of the revenue expenditure in the state. For an agrarian state like Assam, this level of expenditure is on expected lines. In 2015-16, transport and communication accounted for 22.51% of the revenue expenditure, its share showing a consistent rise from 14.49% in 2005-06. The next highest share is the irrigation and flood control which is 10.73% of the revenue expenditure on economic services in 2015-16. The share of this sub-head has remained more or less unchanged throughout the ten years period of study, excepting for a slight increase to 13.60% in 2012-13. General economic services had a share of 15.19% in 2006-07, but this has been come down considerably over the last ten years, and was only 4.08% of the revenue expenditure on economic services. An important sector of the economic services, viz. industry and mineral, accounts for a very low share (4.22% in 2006-07 and 5.14% in 2015-16) of the revenue expenditure. The highest ever share of this sub-head was 8.18% in 2010-11. Special Areas Programme, another sub-head too had shares ranging from 1% to 6% of the revenue expenditure. This head included the expenditure on programmes for the north-east region and for backward regions of the state. The sub-heads, Energy and Science, Technology and Environment account for less than one percent of the share of revenue expenditure each, though energy had a high share of 10.9% of the expenditure in 2006-07.

The CAGR of the revenue expenditure on economic services was 8.86% p.a. over the study period, but its sub-heads displayed differing growth rates. The highest CAGR of 17% p.a. was seen in the Special Areas, Program, followed by transport and communication, (13.77% p.a.), rural development (12.28%). The major sub-head agriculture and allied activities show a CAGR of 10.51% p.a. unfortunately, general economic services and energy displayed negative growth rates for the period of study.

The trend of revenue expenditure on economic services is also visible from figure 2.8. When the share of certain sectors is large, fluctuations in revenue expenditure can be generated from any of these constituent heads. Agriculture and Allied Activities, which has a dominant share in the revenue expenditure on economic services, as is visible from figure 2.8 showed sharp fluctuations in its annual growth rate. For instance, in 2012-13, the annual growth rate was 40.7% whereas in 2015-16, there was a fall in expenditure by 20.2% on this sub-sector,

Table 2.8
Revenue Expenditure on Economic Services



Rural development too has seen fluctuations in the level of revenue expenditure. Similar pattern exists for revenue expenditure on Rural Development. While there has been a fall in the expenditure on this head in 2008-09, 2011-12 and 2012-13, a massive rise (83.6% over its previous year) in revenue expenditure came about in 2013-14. Transport and Communication, which has witnessed a rising share of revenue expenditure as well as high CAGR, has displayed fluctuations in its growth over the last ten years. While there has been a fall in the expenditure in this head for some intermittent years, yet the annual growth rates of expenditure have been considerably high (over 40% in 2010-11 and 2013-14). Revenue expenditure on transport and communication reached a peak in 2014-15. The consistent rise in expenditure on transport and communication is on account of the widening of the national highways in the state (from 2005-06 onwards), together with construction of other roads and bridges in the state.

2.3.4 REVENUE EXPENDITURE ON GRANTS-IN-AID

Grants-in-aid comprise mainly of the compensation and assignment to local bodies and Panchayati Raj institutions. While the share of grants-in-aid never exceeded 3% of the state's revenue expenditure, yet it displayed the highest CAGR of 30.24% p.a. Grants-in-aid saw a massive rise in 2008-09, and further in 2009-10. It reached its peak in 2014-15 with a share of 2.54% of the state's revenue expenditure. The sudden rises in grants-in-aid probably speak of the tendency to disburse funds by the government, either towards the end of the term of a specific development programme or prior to elections to the local bodies. Since grants-in-aid comprise a small part of the state's revenue expenditure, hence fluctuations in this head are not expected to have a major bearing on the expenditure pattern of the state as a whole.

Revenue expenditure constitutes the major part of the state's total expenditure. The manner in which the expenditure is incurred has a bearing, not only on the present but also the future fiscal health of the state. An in-depth analysis of the revenue expenditure in the state shows that a major portion (approximately 65%) of it is undertaken for developmental purposes, which is a good sign. However, when more than 95% of this remaining 35% of the revenue expenditure is spent on interest payments, administrative services and pensions, it entails a major burden for the state. As far as the developmental expenditure is concerned, it is the social services which have a higher share of revenue expenditure than economic services. Within the social services head, 'Education, Sports, Art and Culture' has a greater share of revenue expenditure (around 60% in 2015-16) than 'Health and Family Welfare (roughly 16% in 2015-16). In view of the important bearing which both health and education have on the present as well as future levels of productivity of the people, there is a need to increase health related expenditure in the state. The rising share of revenue expenditure on Water supply, Sanitation, Housing and Urban Development needs to be treated with a sense of caution, because despite the importance of this head, such expenditure is eventually going in for maintenance purpose only. As far as economic services are concerned, agriculture and allied activities together with rural development are the areas where major revenue expenditure of the state is incurred. The rising share of transport and communication speaks of the development of infrastructure in the state. This infrastructural growth is likely to set the pace for further developmental activities in the state, both in the private and public sector. Industry and minerals sub-head, which includes small, cottage and village industries, handloom and textiles have a low share of revenue expenditure. There is a need to focus on this sector as it has the capacity to provide employment to the masses. Overall, revenue expenditure is going to areas where developmental needs of the state are sought to be fulfilled. However, there do exist possibilities of the flow of expenditure being more channelized and moving to areas of social concern rather than being decided by past levels of expenditure and political concerns.

2.4 CAPITAL EXPENDITURE

The other important component of total expenditure is the expenditure on capital outlays. It essentially gives an idea about the expenditure incurred on capital assets which in turn are expected to influence the future growth rates of the economy. Like all other Indian states, the share of capital expenditure to the total government expenditure in Assam is small, and was 16.86 % of the total expenditure in 2018-19. Like revenue expenditure, capital expenditure also has similar components, viz. general services, social services and economic services. Table 2.8 gives the break-up of capital expenditure for the period 2006-07 to 2018-19.

Table 2.8 clearly shows that the bulk of capital expenditure is directed towards developmental purposes. General services constitute only 1.59% of the capital expenditure of the state in 2006-07, and the share increased to 10.64% in 2018-19. The highest share of capital expenditure is accounted by economic service (over 80% in seven of the thirteen years of the study period) followed by social services. Total capital expenditure saw sharp increases in 2008-09 and 2015-16, when it increased by 40% over the previous year but it recorded a fall in 2010-11.While total capital expenditure grew at a CAGR of 19.4% p.a., it constituent heads showed differing growth rates. The highest CAGR of 38.2 % p.a was recorded for the general services, followed by 30.4% p.a. for social services.

Economic services, which had the lion's share of the total capital outlay, recorded a lower CAGR of 15.3% p.a. A closer look at table 2.8 shows that the high CAGR in the social services was mainly on account of the sharp rise of expenditure in 2015-16. If we exclude this year of exceptional rise, we find that the CAGR in the social services comes to around 15.53% p.a., which is at par with the overall CAGR of capital outlay.

The trends of the three components of capital outlay are presented in figure 2.9.

Table No. 2.8

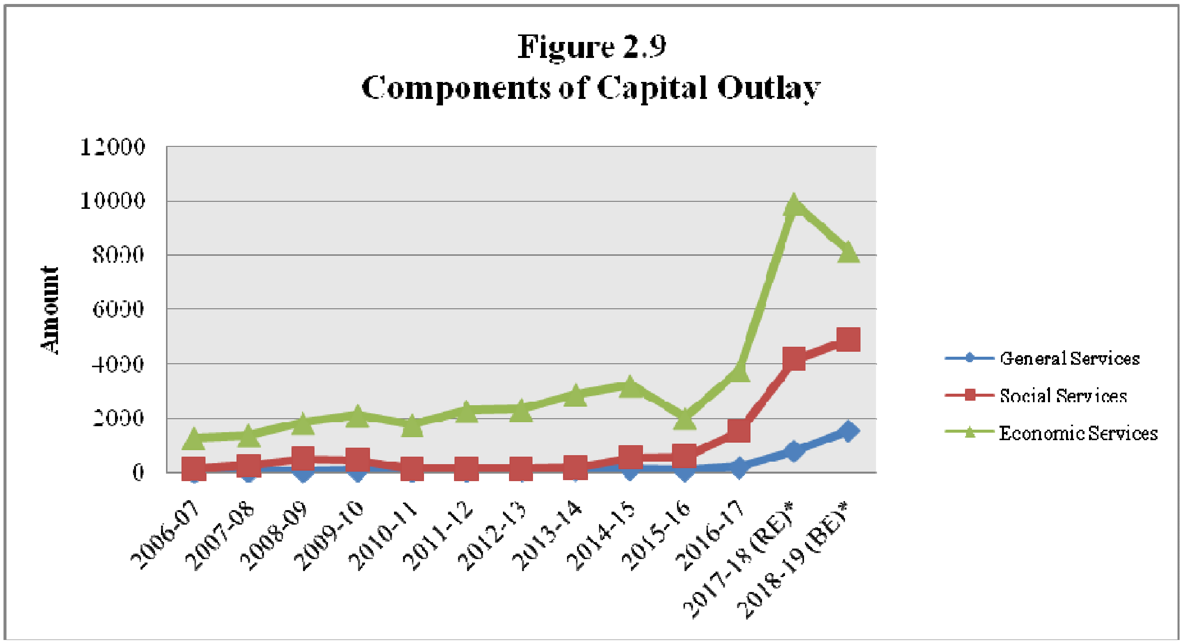
Composition of Capital Outlay of Government of Assam

(Amount in Crores Rupees)

Year	General Services	Social Services	Economic Services	Total Capital Outlay
2006-07	23.17 (1.59%)	155.13 (10.68%)	1274.68 (87.73%)	1452.98 (100.00%)
2007-08	43.28 (2.56%)	265.31 (15.72%)	1379.22 (81.72%)	1687.81 (100.00%)
2008-09	36.47 (1.54%)	496.99 (20.94%)	1839.55 (77.52%)	2373.01 (100.00%)
2009-10	74.82 (2.85%)	452.22 17.20%)	2102.31 (79.96%)	2629.35 (100.00%)
2010-11	53.58 2.68%)	176.11 (8.80%)	1771.29 (88.52%)	2000.98 (100.00%)
2011-12	68.48 (2.73%)	162.00 (6.46%)	2275.52 (90.80%)	2506.01 (100.00%)
2012-13	101.86 (3.89%)	176.26 (6.73%)	2339.16 (89.37%)	2617.27 (100.00%)
2013-14	125.74 (3.94%)	194.65 (6.10%)	2868.84 (89.95%)	3189.23 (100.00%)
2014-15	134.57 3.44%)	568.81 (14.53%)	3208.89 (82.02%)	3912.27 (100.00%)
2015-16	75.56 (2.81%)	596.09 (22.15%)	2019.26 (75.04%)	2690.91 (100.00%)
2016-17	199.60 (3.63%)	1542.60 (28.04%)	3759.88 (68.34%)	5502.08 (100.00%)
2017-18 (RE)*	795.70 (5.35%)	4161.30 (28.00%)	9903.10 (66.44%)	14860.10 (100.00%)
2018-19 (BE)*	1550.8 (10.64%)	4870.55 (33.42%)	8150.30 (55.93%)	14571.65 (100.00%)
CAGR	38.2%	30.4%	15.3%	19.4%

Source: Various Reports Finance Accounts, Government of Assam, CAG India

*State Finances: A Study of Budgets (2018-19), RBI



The pattern of growth of the three components is different, as is visible from figure 2.9. Capital expenditure on general services has increased over the years, with intermittent falls in three years. An unprecedented increase was visible in 2017-18, followed by further increase in the next year as well. Capital expenditure on social services showed a sharp rise from 2006-07 to 2008-09 (annual growth rates exceeding 70%) after which there was a continuous drop. From 2012-13, capital expenditure started rising gradually, but registered massive increases in 2014-15 and 2016-17 and 2017-18. Capital expenditure on economic services has been rising steadily too, but sharp increases (exceeding 25% over the previous year) came about in 2008-09 and 2011-12. Annual increases in capital expenditure on social services to the tune of 86.2% and 163.4% were registered in 2017-18 and 2018-19 respectively. Clearly, the sharp rise in total expenditure in the state in 2017-18 can be attributed to the increases in both revenue and capital expenditure.

To understand what caused the fluctuations in capital expenditure of the two main constituent parts, we look at the trend and composition of capital expenditure on the social and economic services for the state for the originally specified period of study.

2.4.1 CAPITAL EXPENDITURE ON SOCIAL SERVICES

The social services sector has several components, but the broad divisions are Education, Sports, Art and Culture, Medical and Public Health and Family Welfare, Water Supply, Sanitation, Housing and Urban development, and Others (which includes Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes, Social Security and Welfare and other social services). Table 2.9 gives the year-wise break-up of capital expenditure on the above mentioned components.

A look at table 2.9 shows the vast differences that the pattern of capital expenditure on social services has from that of revenue expenditure. The bulk of capital expenditure (more than 90 percent in seven of the ten years of study) in the state is directed towards two specific sub-heads, viz. Water Supply, Sanitation and Urban development. The share of Water Supply, Sanitation however is much higher than that of urban development. Water Supply, Sanitation saw a steep rise from 2005-07 to 2008-09, after which it started registering a decline and consequently its relative share also start falling. Capital expenditure on urban development, on the other hand saw a steady rise from 2006-07 to 2009-10, after which, there was a sharp fall by 87 percentage points in 2010-11. From 2012-13, expenditure on this head started rising slowly, and had a very high level of expenditure in 2015-16, The share of Education, Sports, Art and Culture formed only around 1 percent of the capital expenditure, and unfortunately, there has been no capital investment on this head from 2013-2014 onwards. Medical and Public Health and Family Welfare, an important component of developmental expenditure accounts for less than 7 percent of the capital expenditure on social services in the state and in 2008-09, its share was a meager 0.31 percent. The overbearing presence of a selected few heads on social services is visible from figure 2.10.

Table 2.9

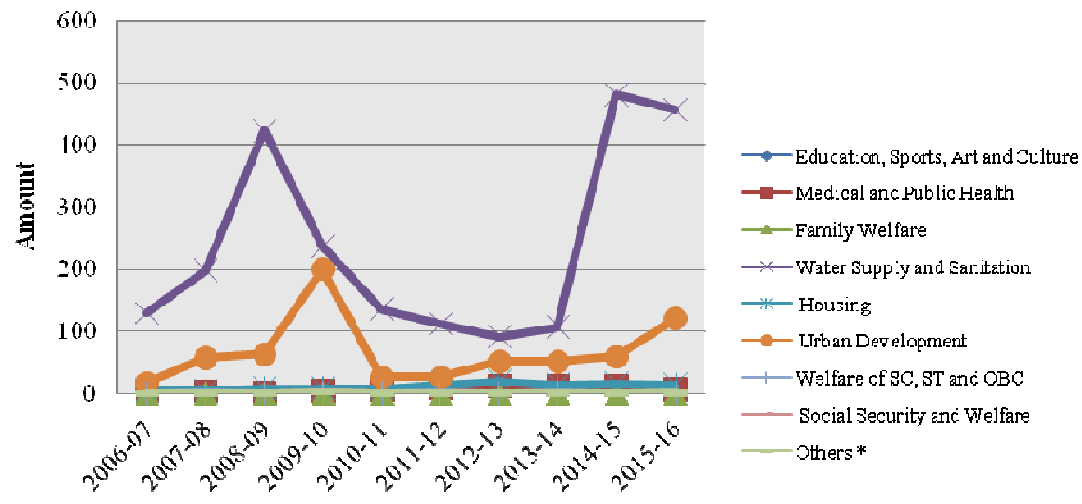
Capital Expenditure on Social Services of Assam

(Amount in Crore Rupees)

Year	Education, Sports, Art and Culture	Medical and Public Health	Family Welfare	Water Supply and Sanitation	Housing	Urban Development	Welfare of SC, ST and OBC	Social Security and Welfare	Others *	Total Social Services (1 to 9)
2006-07	1.75 (1.13%)	3.65 (2.35%)	0.05 (0.03%)	128.99 (83.14%)	3.96 (2.55%)	16.53 (10.65%)	0.13 (0.08%)	0 (0.00%)	0.07 0.05%)	155.14 100.00%
2007-08	1.18 0.44%)	3.86 1.45%)	0 (0.00%)	197.69 (74.43%)	4.79 (1.80%)	57.47 21.64%)	0.62 (0.23%)	0 (0.00%)	0 0.00%)	265.61 100.00%
2008-09	0.63 0.13%)	1.55 0.31%)	0 (0.00%)	422.5 (85.46%)	7.17 (1.45%)	62.32 12.61%)	0.2 (0.04%)	0 (0.00%)	0 0.00%)	494.38 100.00%
2009-10	0.5 0.11%)	4.21 0.93%)	0 (0.00%)	237.15 (52.60%)	6.91 (1.53%)	199.17 44.18%	0.45 (0.10%)	1.33 (0.30%)	1.12 0.25%)	450.84 100.00%
2010-11	0.02 (0.01%)	5.23 (2.99%)	0 (0.00%)	135.84 (77.60%)	8.06 4.60%)	25.87 14.78%)	0 (0.00%)	0 (0.00%)	0.03 0.02%)	175.05 100.00%
2011-12	0.18 (0.11%)	9.85 (6.10%)	0 (0.00%)	111.52 (69.01%)	14.27 (8.83%)	25.39 15.71%)	0.35 (0.22%)	0 (0.00%)	0.05 0.03%)	161.6 100.00%
2012-13	2.01 (1.14%)	12.18 (6.93%)	0 (0.00%)	90.88 (51.68%)	19.18 (10.91%)	51.4 29.23%)	0.2 (0.11%)	0 (0.00%)	0 0.00%)	175.85 100.00%
2013-14	0 (0.00%)	12.52 (6.79%)	0 (0.00%)	106.87 (57.95%)	13.78 (7.47%)	50.81 27.55%)	0.45 (0.24%)	0 (0.00%)	0 0.00%)	184.43 100.00%
2014-15	0 (0.00%)	13.12 (2.31%)	0 (0.00%)	480.88 (84.54%)	15.24 (2.68%)	59.42 10.45%)	0 (0.00%)	0 (0.00%)	0.15 0.03%	568.81 100.00%
2015-16	0 (0.00%)	6.32 (1.06%)	0 (0.00%)	456.40 (76.50%)	13.20 (2.21%)	120.10 (20.13%)	0 (0.00%)	0 (0.00%)	0.60 (0.10%)	596.62 (100.00%)
CAGR	**-100%**	**5.64%**	**-100%**	**13.47%**	**12.79%**	**21.93%**	**-100%**	**0%**	**23.97%**	**14.42%**

Source: Various Reports of Finance Accounts, Government of Assam, CAG India.

Figure 2.10
Capital Expenditure on Social Services



Thus, there is a highly skewed allocation of capital outlay in the social services sector. While the importances of water supply, sanitation, housing and urban development in a developing state cannot be undermined, yet the excessive focus on this sub-head to the extent of utter neglect of the other components is definitely not desirable. Though capital expenditure constitutes approximately 10 to 12 % of the state's total expenditure, yet it is this head of expenditure that leads to asset creation. Hence when no part of this expenditure goes towards education, it needs serious contemplation. Incidentally, water supply, sanitation, housing and urban development shows a rising trend in the case of revenue expenditure as well. This rising trend could in all probability continue in future too, as high capital expenditure in current times necessitates the expenditure on maintenance, repairs, etc. in future. A probable impact of expenditure on health and education on the related social indicators is presented for the eight north-eastern states of India in Box 2.1.

Box 2.1

Education and Health Expenditure of the North Eastern States of India

The North Eastern states of the country are often considered as a region by itself for it similarities on several fronts. Here, a brief comparison is made among these states, on their budgetary allocation to two major heads of social service expenditure, viz, health and education, and we try to observe if high levels of expenditure have been able to improve the indicators of health and education positively. Table 2.10 and 2.11 provide the details of budgetary allocation for the eight states over year, and the performance of selected social indicators.

Table 2.10
Budgetary Allocation to Health and Education in the North Eastern States.

(In Percent)

State	Expenditure on Medical and Public Health and Family Welfare As Ratio to Aggregate Expenditure		Expenditure on Education As Ratio to Aggregate Expenditure	
	2006-07	2015-16	2006-07	2015-16
Arunachal Pradesh	4.4	4.3	10.7	11.6
Assam	4.2	6.8	20.4	25.5
Manipur	2.7	5.4	11.9	12.5
Meghalaya	5.1	7.6	14.1	16.2
Mizoram	3.6	5.8	13.8	17.6
Nagaland	4.2	5.1	12.3	14
Sikkim	2.5	5.8	10.5	17.6
Tripura	5.1	5.3	15.9	15.5

Sources: State finances, Reserve Bank of India.

As far as the expenditure on health is concerned, Assam occupies the second position after Meghalaya in 2015-16. In 2006-07, Sikkim's budgetary allocation was the least, whereas in 2015-16, Arunachal Pradesh's allocation was the least. The budgetary allocation towards education was higher than health for all the eight states.

Box 2.1 (Contd.)

Assam had the highest allocation compared to the other north eastern states. The lowest allocation was in Sikkim in 2006-07 and Arunachal Pradesh in 2015-16. Thus, as far as budgetary support is concerned, Assam is favorably placed compared to the rest of the north eastern state, for both health and education.

To understand whether such budgetary support has been able to deliver the goods, we look at certain indicators of performance of the health and education sector. These social indicators pertain to the Population Census of India for 2011. Table 2.11 presents these selected indicators.

Table 2.11
A Few Social Indicators of North Eastern States

State	IMR	Birth Rate	Death Rate	Literacy Rate (in %)
Arunachal Pradesh	55	22.5	7.9	67
Assam	33	19.4	5.8	73.2
Manipur	10	14.6	4	79.8
Meghalaya	49	24.1	7.6	75.5
Mizoram	35	16.3	4.4	91.6
Nagaland	18	15.6	3.2	80.1
Sikkim	24	17.2	5.4	82.2
Tripura	28	13.9	4.8	87.8

Source: Census Report of India, 2011.

In terms of health indicators, Assam does not perform very well as it has the fourth highest rate of infant mortality rate (IMR), third highest birth rate and death rate. Arunachal Pradesh, which had a low budgetary allocation in health, had the worst health outcomes among all the eight states. In case of education, Assam had the highest allocation, and yet literacy rate was among the least of all the eight states. This reflects the dismal state of affairs in Assam, particularly for the education sector. While the case of Arunachal Pradesh shows that low allocation can have detrimental impact, yet the case of Assam indicates that budgetary allocation alone is not a sufficient condition. The allocation should be channelized in a manner which can yield the maximum return, and at least improve the basic indicators of health and education.

2.4.2 CAPITAL EXPENDITURE ON ECONOMIC SERVICES

Economic services constitute an important for of developmental expenditure. Since the bulk of capital expenditure in Assam is accounted for by economic services, hence it is pertinent to see the composition of capital expenditure on economic services. Table 2.12 presents the details of capital expenditure on economic services.

A closer look at table 2.12 shows that four sub-heads, viz. Special Areas Programme,

Table 2.12
Capital Expenditure on Economic Services

(In Crores)

Year	Agriculture and Allied Activities	Rural Development	Special Area Programmes	Major and Medium Irrigation and Flood Control	Energy	Industry and Minerals	Transport and Communication	Science, Technology and Environment	General Economic Services	Total Economic Services (1 to 9)
2006-07	1.02 (0.08%)	0 (0.00%)	400.56 (31.42%)	197.01 (15.46%)	208.23 (16.34%)	99.89 (7.84%)	357.32 (28.03%)	0 (0.00%)	10.66 (0.84%)	1274.69 (100.00%)
2007-08	1.43 (0.10%)	0 (0.00%)	227.62 (16.50%)	196.23 (14.23%)	419.31 (30.40%)	17.6 (1.28%)	516.62 (37.46%)	0 (0.00%)	0.41 (0.03%)	1379.22 (100.00%)
2008-09	3.81 (0.21%)	0 (0.00%)	456.39 (24.76%)	431.61 (23.42%)	404.4 (21.94%)	15.44 (0.84%)	528.72 (28.69%)	0 (0.00%)	2.61 (0.14%)	1842.99 (100.00%)
2009-10	8.01 (0.38%)	0 (0.00%)	404.07 (19.18%)	757.48 (35.96%)	180.68 (8.58%)	105.95 (5.03%)	631.87 (29.99%)	0 (0.00%)	18.59 (0.88%)	2106.65 (100.00%)
2010-11	2 (0.11%)	0 (0.00%)	530.39 (29.89%)	559.65 (31.53%)	173.68 (9.79%)	38.42 (2.16%)	458.54 (25.84%)	0 (0.00%)	12.04 (0.68%)	1774.72 (100.00%)
2011-12	25.91 (1.14%)	0 (0.00%)	689.18 (30.23%)	694.76 (30.48%)	117.17 (5.14%)	87.24 (3.83%)	635.35 (27.87%)	0 (0.00%)	30.11 (1.32%)	2279.7 (100.00%)
2012-13	10.57 (0.45%)	0 (0.00%)	707.57 (30.22%)	571.96 (24.43%)	202.35 (8.64%)	83.31 (3.56%)	759.95 (32.46%)	0 (0.00%)	5.78 (0.25%)	2341.49 (100.00%)
2013-14	7.21 (0.25%)	0 (0.00%)	1026.53 (35.50%)	525.06 (18.16%)	417.17 (14.43%)	120.49 (4.17%)	785.22 (27.16%)	0 (0.00%)	9.58 (0.33%)	2891.26 (100.00%)
2014-15	10.88 (0.34%)	0 (0.00%)	379.63 (11.83%)	1505.87 (46.93%)	176.71 (5.51%)	116.58 (3.63%)	994.11 (30.98%)	0 (0.00%)	25.12 (0.78%)	3208.89 (100.00%)
2015-16	18.30 (0.91%)	0 (0.00%)	238.40 (11.81%)	925.20 (45.82%0	164.50 (8.15%)	-32.50* (-1.61%)	699.90 (34.66%)	0 (0.00%)	5.30 (0.26%)	2019.10 (100.00%)
CAGR	**33.47%**	**0%**	**-5.06%**	**16.73%**	**-2.33%**	**0%**	**6.95%**	**0%**	**-6.75%**	**4.71%**

***Source*:** Various Reports of Finance Accounts, Government of Assam, CAG India

*Recoveries of Overpayments

Transport and communication, Energy and Major and Medium Irrigation and Flood Control alone accounted for over 90% of the capital expenditure on economic services of the state. Till 2008-09, energy was also an important head of capital expenditure, but from 2009-10 onwards, it has accounted for roughly 10 % of the capital expenditure on economic services. Across the years, the relative shares of these sub-heads have changed due to the emphasis of policies on different issues at different points of time. The reasons for the high expenditure in the early years of the study period was on account of the changes that were incorporated in the erstwhile Assam State Electricity Board following the power sector reforms in the state,

A distinguishing feature of the capital expenditure on the four major heads of economic services has been their fluctuating trends. Figure 2.11 reflects this fluctuating trend of the four major components of capital expenditure on economic services.

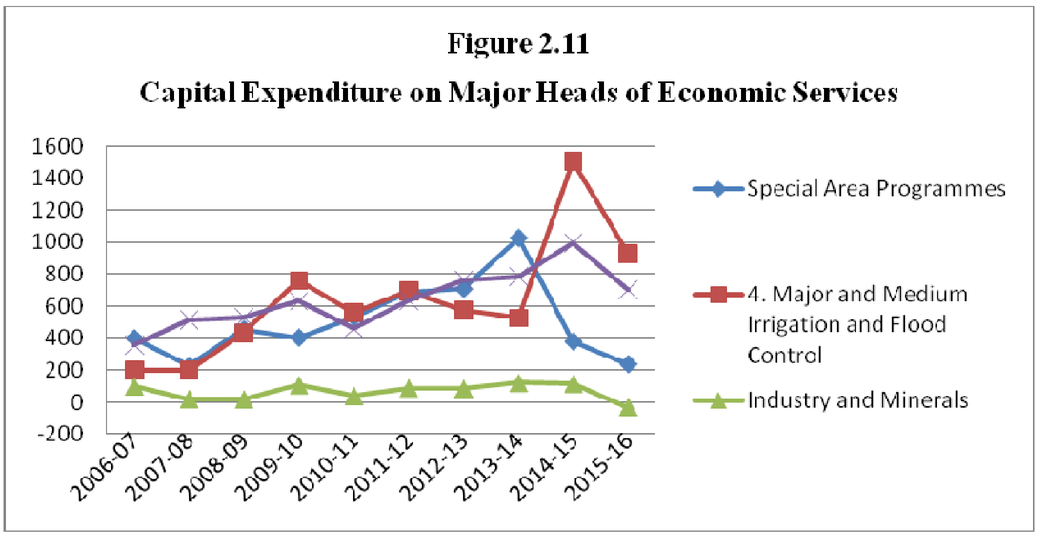
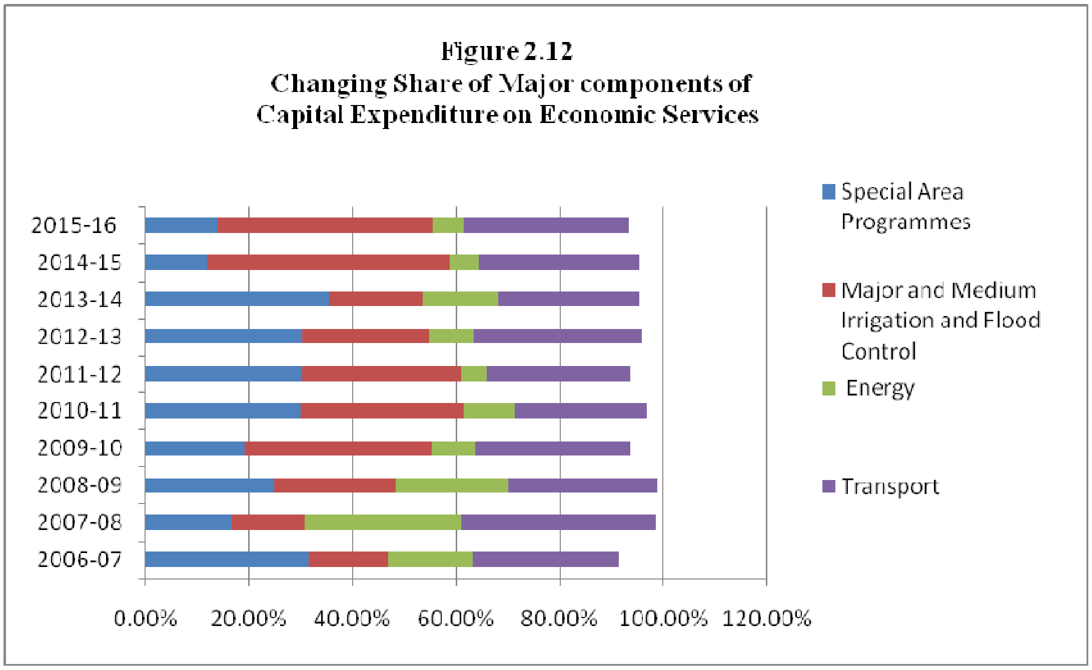


Figure 2.11
Capital Expenditure on Major Heads of Economic Services

The change in the relative shares of these four sub-heads is visible from in Figure-2.11. Industry and Minerals revealed the most fluctuating trend, with capital expenditure increasing and decreasing almost alternately. Transport and Communication is one sub-head that has seen a consistent rise in expenditure over the study period, reaching a peak in 2014-15 followed by a fall the next year.



To sum up, capital expenditure on economic services in Assam for the study period reveals that four sub-heads alone accounted for lion's share. The differing growth rates as well as relative shares of these sub-sectors tend to indicate that capital expenditure in the state does not follow a pre-planned framework with specific attainable objectives. The only sub-sector which has displayed a consistent growth rate is the transport and communications sector, the chief reason for which could be the planned objective of the widening of the national highways in the state (from 2005-06 onwards), together with construction of other roads and bridges in the state. A positive aspect of the capital expenditure on economic services is that it meets the region specific needs of the state, particularly since Major and Medium Irrigation and Flood Control and Special Area Programme are important constituents of the state's capital expenditure.

2.5 EXPENDITURE UNDER PLAN AND NON-PLAN HEADS

We next take a look at the expenditure in the state under the plan and non-plan heads. The discussion is carried out for revenue and capital expenditure only. Table 2.12 gives the break-up of total expenditure for the ten years of study under plan and non-plan heads.

Table No. 2.13

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

(in Crores Rupees)

Year	**Total Plan Expenditure**	**Total Non Plan Expenditure**	**Total Expenditure**
2006-07	3065.63 (23.76%)	9836.08 (76.24%)	12901.71 (100.00%)
2007-08	3538.21 (24.53%)	10885.12 (75.47%)	14423.33 (100.00%)
2008-09	5396.81 (32.77%)	11072.02 (67.23%)	16468.83 (100.00%)
2009-10	6717.89 (28.82%)	16593.76 (71.18%)	23311.65 (100.00%)
2010-11	6985.93 (28.40%)	17609.21 (71.60%)	24595.14 (100.00%)
2011-12	8915.71 (30.71%)	20118.85 (69.29%)	29034.57 (100.00%)
2012-13	9036.44 (28.46%)	22717.75 (71.54%)	31754.19 (100.00%)
2013-14	10116.24 (28.76%)	25062.89 (71.24%)	35179.13 (100.00%)
2014-15	13218.04 (30.75%)	29772.4 (69.25%)	42990.43 (100.00%)
2015-16	NA	NA	42513.42 (100.00%)

Note: NA-Not Available

Source: State Finances: A Study of Budgets (RBI), related issues

As seen from table 2.13, non-plan expenditure forms approximately 70% of the state's total expenditure, though the exact share differs across different years. However, in terms of CAGR, the growth of plan expenditure is higher than that of non-plan expenditure. For revenue expenditure, non-plan expenditure's share is higher, accounting for over 80% of the total revenue expenditure. The picture gets reversed in case of capital expenditure, where the share of plan expenditure is much higher (over 90%). The logic behind this pattern of allocation under plan and non-plan heads is obvious. Capital outlays are usually undertaken to satisfy the long term developmental needs of the state and hence need to be approved under the plan proposals. Revenue expenditure, on the other hand, is more directed to meet the current needs, for which approvals under plan proposals may not be required. This therefore explains why the share of plan expenditure under capital outlay is higher than that under revenue expenditure. With the replacement of the Planning Commission by the NITI Aayog in 2014, the distinction between plan and non-plan expenditure has become non-functional, and accordingly, it can be seen that such data is not available from 2015-16 onwards.

2.6 EFFICIENCY OF GOVERNMENT EXPENDITURE

Efficiency in economics has two connotations – allocative efficiency and productive efficiency. In case of public expenditure, allocative efficiency would look at the use or type of government spending, while measuring productive efficiency would mean analyzing the outcomes of government spending. Given the time constraint of the present work, this study will focus only on the allocative efficiency of public expenditure in Assam.

The relevant issue here is to analyses whether the allocation of public resources is meeting the developmental needs. This in turn depends on the extent to which the Government has to bear the burden of certain expenditures which though unproductive in nature needs to be paid out. This expenditure is referred to as committed expenditure and includes expenditure on interest payments, pension and salary and wages. 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 official imbalances.

Hence to study the efficiency public expenditure, we first take a look at the trend and composition of committed expenditure, and then analyze the efficiency of public expenditure through the standard efficiency indicators. Table 2.14 presents the details of committed expenditure in the state for the study period.

Table No. 2.14

Components of Committed Expenditure

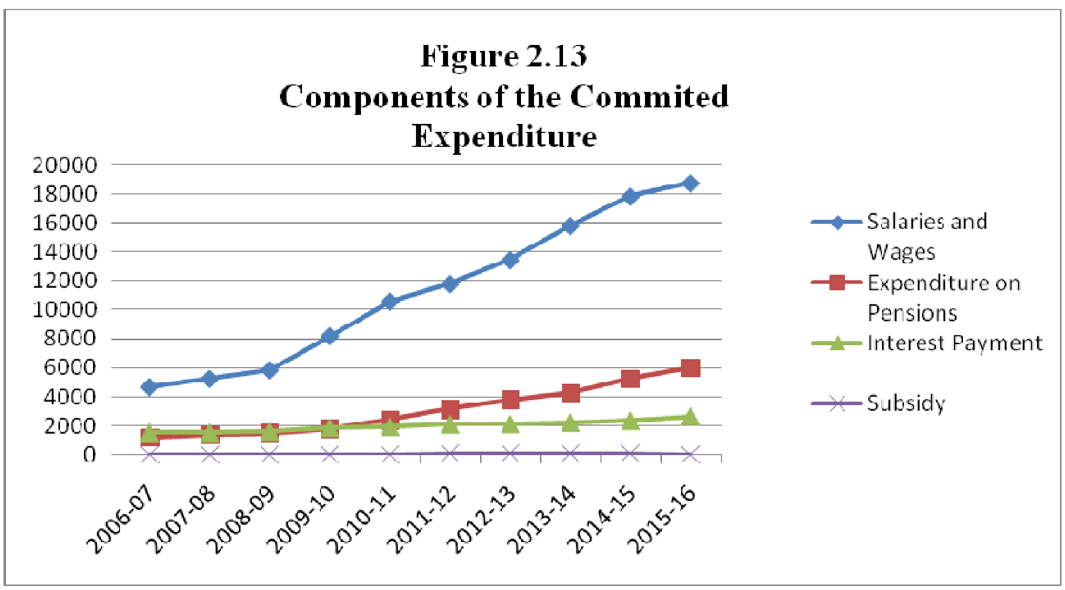
(in Rs. Crores)

Year	Salaries and Wages	Expenditure on Pensions	Interest Payment	Subsidy	Total
2006-07	4684 (63.49%)	1178 (15.97%)	1516 (20.55%)	NA (0.00%)	7378 (100.00%)
2007-08	5241 (64.75%)	1341 (16.57%)	1512 (18.68%)	NA (0.00%)	8094 (100.00%)
2008-09	5842 (65.66%)	1437 (16.15%)	1593 (17.90%)	26 (0.29%)	8898 (100.00%)
2009-10	8193 (69.24%)	1769 (14.95%)	1833 (15.49%)	38 (0.32%)	11833 (100.00%)
2010-11	10576 (70.93%)	2385 (15.99%)	1912 (12.82%)	38 (0.25%)	14911 (100.00%)
2011-12	11793 (69.07%)	3136 (18.37%)	2074 (12.15%)	72 (0.42%)	17075 (100.00%)
2012-13	13442 (69.23%)	3779 (19.46%)	2115 (10.89%)	80 (0.41%)	19416 (100.00%)
2013-14	15814 (70.73%)	4264 (19.07%)	2198 (9.83%)	81 (0.36%)	22357 (100.00%)
2014-15	17829 (70.03%)	5237 (20.57%)	2334 (9.17%)	58 (0.23%)	25458 (100.00%)
2015-16	18758 (68.51%)	5985 (21.86%)	2618 (9.56%)	19 (0.07%)	27380 (100.00%)

Source: State Finances: A Study of Budgets (RBI), related issues

A look at table 2.14 shows that committed expenditure in the state grew at a rate of 14.01% p.a. As regards its constituent parts, the share of salaries and wages was 68.5%, pensions was

21.9%, interest payments 9.6% and subsidies 0.1% in 2015-16. Thus salaries, wages and pensions accounted for the greatest share of committed expenditure in the state. The trend of growth of each of the individual components of committed expenditure shows that the growth of interest payments is low at 5.62% p.a., and its share has progressively declined over the years due to the grant of the status of special category state. The share of subsidies has been low, and had attained high levels only in the years 2011-12 to 2013-14. Pensions, which are basically transfer payments, have displayed a growth rate which was higher than that of committed expenditure as a whole. Moreover, its share has been progressively increasing over the years. A jump in expenditure on pensions came in 2010-11, when it grew by 34% over the previous year, possibly on account of the implementation of the Sixth Pay Commission. Since then, pensions have shifted to a higher level, as can be seen from figure 2.13 The same trend is seen for wages and salaries, the largest component of committed expenditure, when it increased by 40.24% in 2009-10 over its previous year. Since then, wages and salaries have been growing at higher rate, as is evident from the trend line becoming steeper in figure 2.13. It was in 2015-16 only that wages and salaries registered a low growth rate of 5.2% over the previous year.



On an average, committed expenditure accounted for roughly 65% of the state's revenue expenditure and 57% of the total expenditure during the study period. The share was however higher at 74% and 63.6% respectively in 2015-16. The high share of committed expenditure has an important bearing on the development prospects of the state. Accounting for nearly two-thirds of the revenue expenditure of the state meant that only one-third of the expenditure was directed for maintenance activities. This could have an adverse effect on the state's infrastructural position. It is also important to note that committed expenditure as a percentage of revenue expenditure as well as total expenditure is slowly growing at roughly 1% p.a. It would be of serious consequence if the growth is not checked, or the means of financing this expenditure is not increased.

Public expenditure in India is categorized into two classes – developmental and non-developmental. Expenditure on social and economic services constitutes developmental expenditure. Table 2.15 looks the indicators of efficiency in the use of public expenditure through a few standard ratios

Table 2.15

Indicators of Efficiency of Public Expenditure in Assam

Year (1)	TE/GSDP (2)	TE/RR (3)	RE/TE (4)	CE/TE (5)	ESS/TE (6)	EES/TE (7)	(CE on SS and ES)/TE (8)
2006-07	20.1%	95.1%	88.2%	11.2%	35.7%	30.4%	11.0%
2007-08	20.5%	95.1%	87.4%	11.6%	35.8%	29.0%	11.3%
2008-09	20.6%	92.4%	85.3%	14.2%	38.0%	28.3%	14.0%
2009-10	25.9%	120.5%	88.6%	11.0%	37.5%	24.5%	10.7%
2010-11	24.1%	108.8%	91.7%	8.0%	41.3%	25.7%	7.8%
2011-12	20.3%	106.1%	91.1%	8.6%	35.8%	21.9%	8.4%
2012-13	20.5%	105.0%	90.4%	8.1%	35.6%	21.5%	7.8%
2013-14	20.2%	111.8%	88.8%	8.9%	37.5%	22.1%	8.5%
2014-15	22.0%	114.2%	89.6%	9.0%	42.8%	23.6%	8.7%
2015-16	19.2%	101.3%	86.0%	11.2%	44.8%	23.2%	12.3%

Source: CAG, Audit Report, State Finances

The various columns of table 2.15 give an idea about the use of public expenditure, particularly its allocation to developmental needs and the extent to which it is supported by the state's resources. Total expenditure as a percentage of the state's GSDP hovered around

20% indicating that the ability of expenditure to generate an income four times its size. This speaks positively about the productivity of the state's expenditure.

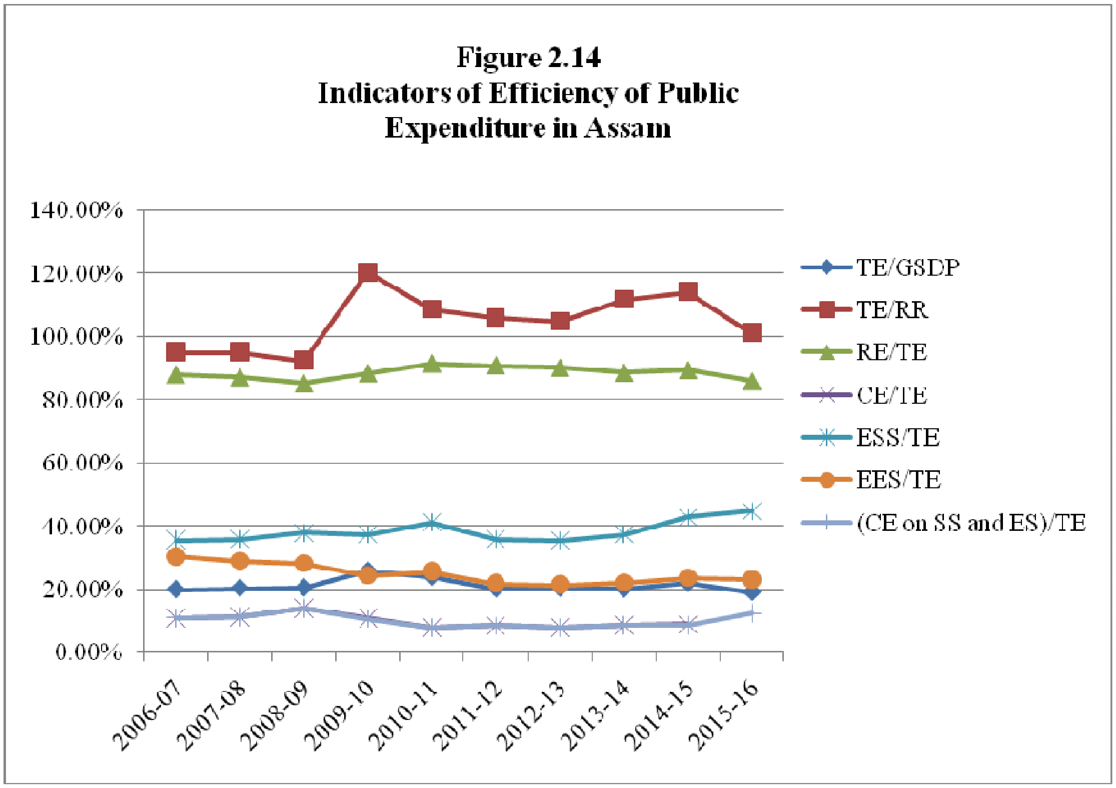
Total expenditure as a percentage of the state's revenue receipts gives an idea about the extent to which total expenditure can be met from internally generated resources. Total expenditure was less than revenue receipts of the state for the first three years of the study, which was a positive reflection. However, from 2009-10 onwards, it exceeded the revenue receipts, the peak being in 2009-10. This was the likely consequence of the pay revision process at that time. Though greater than revenue receipts, the ratio has come down in the subsequent periods and was almost equal to revenue receipts in 2015-16, which too is a positive sign.

The shares of revenue and capital expenditure (excluding disbursement of loans and advances) to total expenditure speak about the use of resources to meet the current and future needs. The high share of revenue expenditure indicates the need of the state to meet the current obligations. Capital expenditure constituted less than 9% of the total expenditure for the period 2010-11 to 2012-13, but since then it has shown an upward rise.

A look at columns (5) and (8) reveals that nearly the entire amount of capital expenditure in the state is directed towards meeting the developmental needs. This is a very positive indicator, as far as the efficiency of public expenditure is concerned because it suggests that capital assets are being created for enhancing the productive capacities of the state.

Columns (6) and (7) describe the flow of total expenditure towards developmental purpose. The sum of the two columns show that on an average, more than 63% of the total expenditure of Assam is of developmental nature, which is a very positive feature. The share was the highest in 2015-16 when it formed 68% of the total expenditure. Development expenditure in the state has seen a higher share of social services than economic services. The share of social services hovered around 35% of the total expenditure between 35% from 2006-07 to 2012-13 (with the exception of 2010-11), but from 2013-14, it has started showing a gradual rise. Consequently, the share of economic services has been falling gradually.

A diagrammatic representation of the different ratios is given in figure 2.14. As can be seen, almost all the ratios have not shown a drastic change in the last ten years, indicating that the allocation of public expenditure in the state has tried to adhere to the existing norms.



2.7 CONCLUSION

Public expenditure in Assam displays the same nature as in the rest of the country with revenue expenditure accounting for a major share. Total expenditure in the state reached a peak in 2017-18, which was brought about by increases in both revenue as well as capital expenditure. While pay revision appeared as the main reason for high revenue expenditure, completion of several projects during that period led to the rise in capital expenditure, An in-depth study into the components of public expenditure in the state has brought out the strengths as well as weaknesses of the pattern of expenditure. The most striking positive feature of the public expenditure is that it is directed towards meeting the developmental needs – both in the revenue account as well as capital account. In the revenue account, it was the social services that accounted for the greater share, whereas in the capital account, a higher share was accorded to the economic services. In terms of indictors of efficiency, one can say that there has been an efficient allocation of public expenditure towards productive uses.

Looking at the details of allocation of expenditure across the different heads, some of the things that come to notice are the predominance of education over health in the revenue expenditure on social services, the entire bulk of capital expenditure in social services going to water supply and sanitation and the bulk of capital expenditure under economic services concentrating in four main heads. Transport and communication appear to be an area where both revenue and capital expenditure is directed. With a high share of committed expenditure on one hand, and a flow of developmental expenditure into a few selected areas public expenditure in the Government may not be able to sustain the current and future needs of the state if no attempt is made to realign the expenditure with the need to enhance the productive capacities of the state.

Chapter-III
AN ANALYSIS OF DEFICITS

3.1 INTRODUCTION

Budget Deficit refers to the public expenditure over and above the public receipt. In the early years, the classical economists advocated for a balanced budget under the influence of the adage that a good government is one that governs the least. But the great depression brought in a paradigm change in this regard when it was realized that autonomous investment through deficit budgets provided a way out of the all cumulative downslide triggered by deficit demand. Over the years deficit financing have become popular among all economies as a way of financing their public interventions and also to maintain the effective demand which is so important for sustainable growth.

Budget deficits are usually bridged by public borrowing. This permits the state to avoid imposition of additional taxation despite having a public outlay that is higher than the current public revenue. However budget deficits over a sustained period that is financed through public borrowing, shifts the liability of debt servicing and principal repayment to the future generation who has to endure additional taxation for the benefits that accrues to the present taxpayers. Such a strategy has found support on the rationale that the future generation who benefits from the incremental stream of income generated from the present public investment, could well bear the burden of the additional taxation.

Since independence, India too adopted a strategy of running up budget deficits to finance its development plans that is dominated by the public sector. However over the years the deficits had spiraled out of control both in the central budget and well as in the budgets of the states. The matter had been made worse by the poor performance of the public sector enterprises that were supposed to be a key contributor to the anticipated payoff from the colossal public investments.

Post 1991, Assam exhibited an exaggerated picture of the structural deficits that prevailed in the central and state budgets in India. Unfettered increase in charged expenditure emanating from commitments in salary and wages, pension and cascading interest liabilities were hurling the state down towards financial insolvency. Under increasing pressure from the centre which was seeking to implement the *Fiscal*

Responsibility and Budget Management Act 2003, Assam made a concerted attempt to secure fiscal consolidation by enacting their own *Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005* and *Assam Fiscal Responsibility and Budget Management Act (Amendment), 2011.* In its objectives to secure fiscal stability and sustainability for the state, the *AFRBM Act* seeks, among other things, to attain revenue surplus and bring the fiscal deficit to predetermined levels. Subsequently deficit indicators in Assam had been significantly influenced by the checks imposed on the fiscal operations under the ambit of the Act.

In contemporary public finance the concept of Budget Deficit has been rendered insignificant as a tool of meaningful analysis. In its place deficits in the budgets are now articulated in terms of revenue deficit, fiscal deficit and primary deficit. Revenue Deficit is defined as the difference between Revenue Expenditures and Revenue Receipts. Revenue Deficit is considered to be unsustainable as it reflects an inability of the state to generate adequate income to finance its recurring expenditures which are mostly in the nature of consumption and maintenance.

The liabilities created in the receipt-disbursement process are reflected in the fiscal deficit. Defined as the difference between the total expenditure (net of debt repayment) and total receipt (minus debt creating capital receipts), it is fiscal deficit that truly reflects the accurate status of the state's finance.

As a derivation of the fiscal deficit, Primary Deficit is the difference between the fiscal deficit and interest payment.

Revenue Deficit = Revenue Expenditure – Revenue Receipt
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*
Primary Deficit = Fiscal Deficit – Interest Payment

3.2 REVENUE DEFICITS IN ASSAM

Revenue Deficit reflects the gap between recurring expenditure and recurring income and hence is an indicator of the long term financial sustainability of a state. Theoretically a solvent state should be able to meet all its consumption and maintenance expenditure from its recurring sources of income. This ensures that receipts from public borrowing are not used to finance revenue expenditure thus shielding the economy from the threat of fiscal instability and unsustainability.

The Assam FRBM Act, 2005 had taken cognizance of the importance of maintaining a revenue surplus by targeting the elimination of revenue deficit within four financial years, starting from 2005. Moreover, recognizing the danger of unchecked revenue expenditure the Act specifically made it mandatory for the state to contain expenditure on salary and wages of state government employees within 60 percent of the revenue receipt.

The significance of the Assam FRBM Act can be gauged by the fact that it was preceded by a sustained period of fiscal instability characterized by high revenue deficits and fiscal deficits that were mainly triggered by the implementations of the state pay commission report in 1999-2000. Burgeoning committed expenditure, mainly in the shape of salaries and wages and also the growing pension payments was forcing the government to divert debt generating capital receipt to meet its revenue expenditure. This was also aggravated by the escalating interest obligation that accompanied by the public borrowing, thus pushing the government into persistent financial crisis. That period was replete with regular instances of state being unable to meet its charged expenditure commitments in time with the state government employees having to suffer inordinate delays in receiving their salaries. In fact, during that period the state had to accept financial accommodation on a continuous basis from RBI through instruments like *Ways & Means* and *Overdrafts*, which was relatively more expensive. More important was the fact that it highlighted the fiscal instability of the state raising question marks about the sustainability of its long run fiscal strategy.

Under pressure from the centre Assam joined the FRBM bandwagon to consciously act on a comprehensive strategy toward fiscal consolidation in 2005. This move was preceded by a gradual realization by the state of the unviable tends in state finance and a conscious effort to bring in some prudence in the existing fiscal practices. Thus from a revenue deficit of 1.61 percent on 2003-04 and 0.67 percent in 2004-05, Assam managed to attain a revenue surplus of 2.60 percent in 2005-06, the year in which the Assam FRBM Act was passed. Since then the state had improved the revenue surplus consistently reaching an all-time high of 4.72 percent in 2008-09.

However the revenue deficit reappeared at 1.92 percent in 2009-10 with the implementation of the recommendations of the State Pay Revision Committee. The spike was also an effect of the relaxation of the FRBM targets necessitated by the global slowdown.

Table 3.1

Revenue Deficit of Assam

(*in Rs. crs*)

Year	Revenue Receipts	Revenue Expenditure	Revenue Deficit (+)/ Surplus (-)	Revenue Deficit as a percent of GSDP*
2006-07	13667 (13.46)	11457 (8.73)	-2210	(-) 3.43
2007-08	15325 (12.13)	12744 (11.23)	-2581	(-) 3.60
2008-09	18077 (17.96)	14243 (11.76)	-3834	(-) 4.72
2009-10	19884 (10.00)	21232 (49.07)	1348	1.92
2010-11	23005 (15.70)	22952 (8.10)	-53	(-) 0.05
2011-12	27453 (19.33)	26529 (15.58)	-924	(-) 0.65
2012-13	30690 (11.79)	29137 (9.83)	-1553	(-) 0.99
2013-14	32210 (4.95)	31972 (9.73)	-238	(-) 0.13
2014-15	38180 (18.53)	39078 (22.23)	898	0.45
2015-16	44260 (15.92)	37011 (-5.29)	-7249	(-) 3.23
2016-17	49220(19.11)	49363(19.17)	142.91	0.06
2017-18(RE)	55910 (21.64)	79260 (30.68)	23350	9.04
2018-19(BE)	74120 (22.26)	71330 (21.42)	-2790	(-)0.84

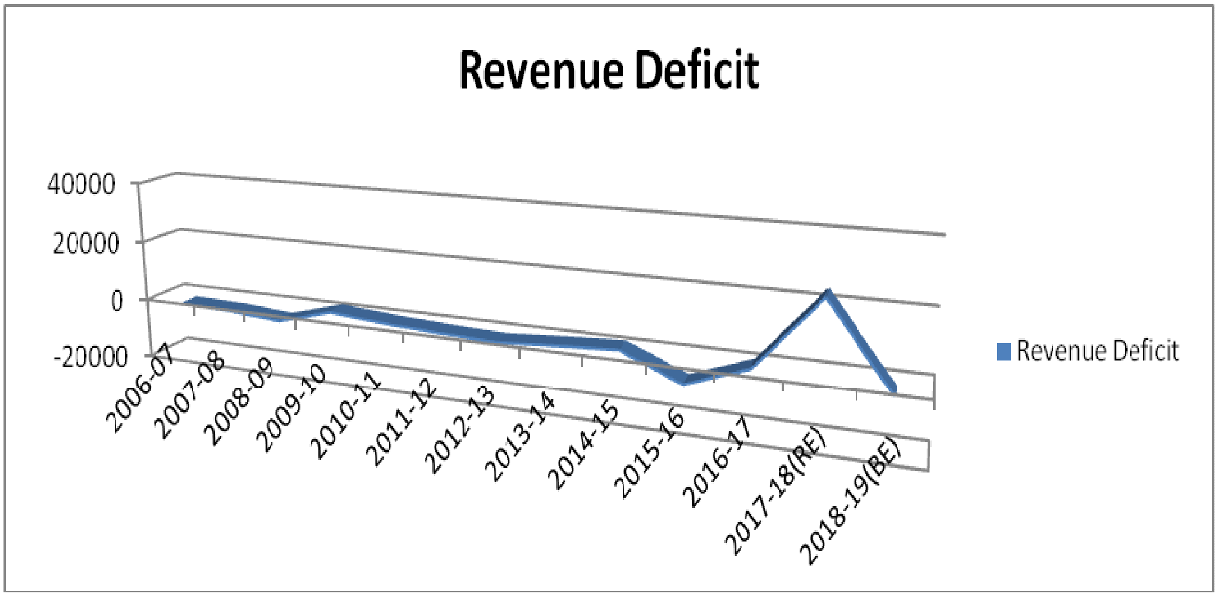
Note:

i) Minus sign (-) indicates surplus in the deficit indicators

ii) Figures in parentheses represent annual growth rate of the variables

Source*:* Report of Comptroller and Auditor General of India, Government of Assam, related issues
State Finance: A Study of Budgets (2018-19), RBI

Figure-3.1



The deficit was quickly corrected and the state came back with another revenue surplus budget in 2010-11. Since then Assam has managed to maintain the Assam FRBM Act requirement of a revenue surplus in the subsequent period except for 2014-15, where there was a blip in the radar in the form of a revenue deficit of 0.45 percent. In the penultimate year of the reference period i.e. 2017-18 (revised estimate), the state exhibited highest revenue deficit ever of the FRBM regime at 9.04 percent. This may be due to the fresh burden imposed with the implementation of the recommendations of the state pay commission. . However sanity is expected to be restored, with the budget estimates of 2018-19 estimating another revenue surplus at - 0.84.

3.3 FISCAL DEFICITS IN ASSAM

Over the years, fiscal deficits have become the most important indicator of the financial health of the state, signifying its short term stability and long term sustainability. Defined as the difference between the total expenditure (net of debt repayment) and total non-debt creating receipts, it indicates the shortfall in the total receipts of the state that have to be bridged through public debt. Hence persistently high fiscal deficit can put immense pressure on state finance through rising public debt and the associated burden of committed expenditure in the form of burgeoning debt servicing and principal repayment.

To be solvent in the long run a state must keep the debt-GSDP within limits. Hence good fiscal management strongly advocates that the use of resources generated through fiscal deficits must not be used for consumption and maintenance as this would be unsustainable in the long run. Instead, proceeds from public debts should be confined to productive capital outlays including remunerative loans and advances which would enhance the capacity to manage such debts by increasing the future income of the state. In fact, this is reflected in the targets set by the Assam FRBM Act that stipulates the reduction of the 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 on the 31st day of March, 2009;

- Restriction of 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.

In the early and mid nineties, Assam enjoyed a comfortable fiscal deficit that was well within permissible limit. This was also one of the outcomes of the favorable central transfer of funds to Assam as a special category state under the 90:10 pattern. However with the implementation of the recommendations of the Assam Pay Commission, under pressure from the revenue deficit, the fiscal deficit shot up to unsustainable levels. This unfortunately persisted with rising pressure from committed expenditure on wages and salaries, pensions and debt servicing.

The enactment of the Assam FRBM Act in 2005 was a landmark event in Assam's state finance which brought in conscious effort towards fiscal consolidation that was accompanied by fiscal discipline, control and correction. Commendable fiscal management in the state resulted in an abrupt and significant reduction in the fiscal deficit from an unsustainable 4.76 percent in 2004-05 to an exceptional 0.61 in the span of a single year.

The good work done in confining the fiscal deficit well within the Assam FRBM target was continued for the next three years, i.e. 2006-2007 to 2008-09, however 2009-10 saw a sudden spike where it went up to 5.78 percent. This aberration can be explained by the jump in committed expenditure due to the implementation of the State Pay Commission recommendations. Also as mentioned above, there were relaxation in the FRBM targets in that year to counter the global recession that was threatening the state and also the country. However the violation of the target was quickly corrected in the next year itself when the fiscal deficit was brought down to 1.91 percent. It is gratifying to see that since then, Assam had consistently maintained a very small fiscal deficit upto 2015-16. This however was violated in 2016-17, when the fiscal deficit went up to 7.85 percent; an outcome of the implementation of the recommendation of the State Pay Commission. However the revised estimates in 2017-18 and the budget estimate in 2018-19 points to a state where the fiscal deficit would turn negative.

Table 3.2

Amount and Composition of Gross Fiscal Deficit of Assam

(*in Rs. crs*)

Year	**Gross Fiscal Deficit**		**Capital Outlay**	**Net Lending**
	In Crore Rupees	*as % of GSDP*	*as % of Fiscal Deficit*	
2006-07	(-)711	1.10	204.36	6.47
2007-08	(-)790	1.10	213.67	13.04
2008-09	(-)1407	1.52	168.66	3.83
2009-10	4043	5.78	65.02	1.64
2010-11	1991	1.91	100.50	2.16
2011-12	1646	1.43	152.25	4.07
2012-13	1520	0.97	172.37	29.61
2013-14	3780	2.13	84.84	21.69
2014-15	5430	2.77	72.04	11.42
2015-16	3006	1.33	183.03	1.33
2016-17	6126	2.38	97.97	7.85
2017-18(RE)*	36600	14.17	40.60	-4.40
2018-19(BE)*	9770	2.93	149.15	-20.55

Note:

i) (-) implies surplus

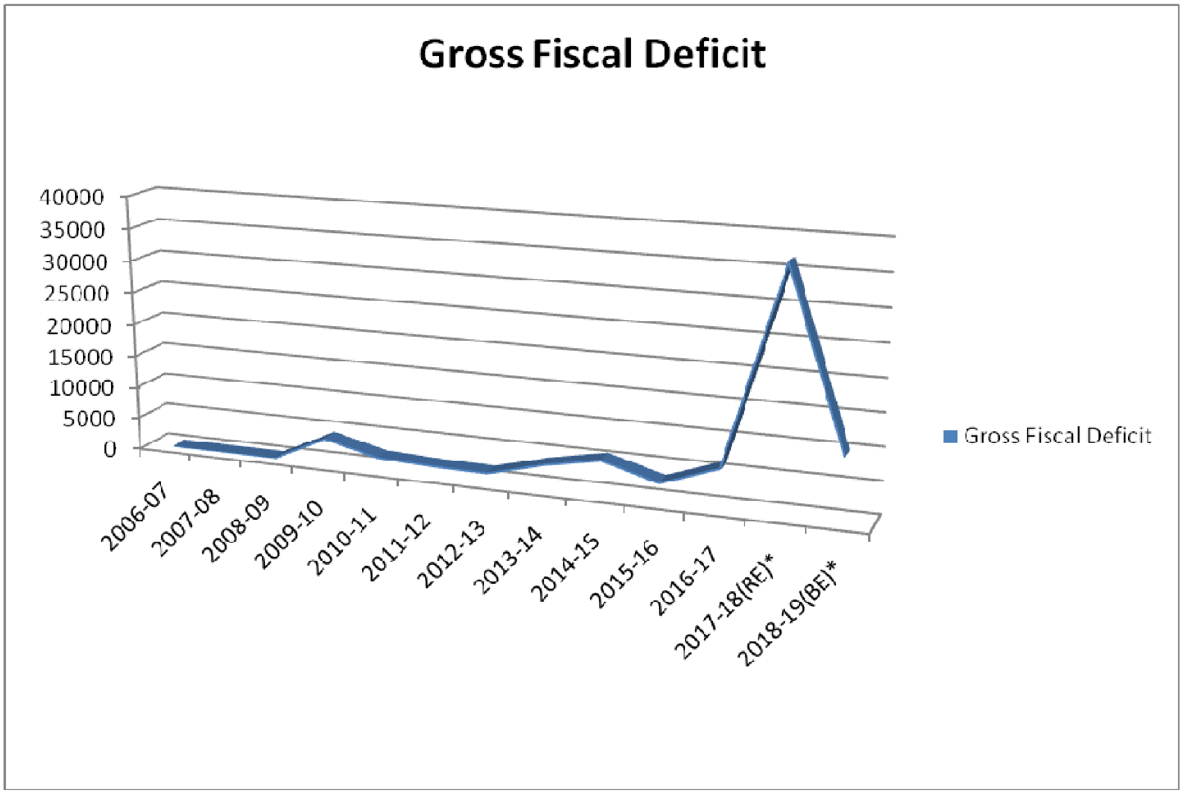
ii) Net lending is equal to disbursement of loans and advances by the government minus recovery of loans and advances.

iii) Figures in parentheses represent percentage of this variable to GSDP at current prices

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

*State Finances: A Study of Budgets (2018-19), RBI

Figure-3.2



Again, it augers well for the state that the capital outlay as a percentage of the fiscal deficit is very high. Together with the fact, that the state is consistently running revenue surplus, this implies that most of the resources mobilized through public borrowing have been expended on capital expenditure. Net lending as a percentage of fiscal deficit is modest barring three years. It is apparent that such outflow will enhance the future income of the state if there is proper recovery of loans and satisfactory realization of interest. However subsequent chapters will show that recovery of loans and realization of interest is extremely poor in Assam, implying more often than not such investment represents dead weight loss.

3.4 PRIMARY DEFICIT

Primary Deficit is the fiscal deficit net of interest payment. It basically disregards the interest obligation of the state for its past public debt in the fiscal deficit. Under the circumstances if the state has no public debt to service then primary deficit equals the fiscal deficit, implying that the entire public debt is expended on public expenditure on revenue and capital account without any interest payment liability. On the contrary, if primary deficit is zero, it implies that the entire resources generated through public debt are spent on interest payment.

Table-3.3

Primary Deficits in Assam

Year	Primary Deficit	As % of GSDP
2006-07	-2227	-3.45
2007-08	-2302	-3.21
2008-09	-3000	-3.24
2009-10	2210	3.16
2010-11	79	0.07
2011-12	-428	-0.3
2012-13	-598	-0.38
2013-14	1584	-0.89
2014-15	3096	-1.58
2015-16	5623	-2.49
2016-17	3161	1.23
2017-18*	130	0.05
2018-19*	90	0.03

Note:

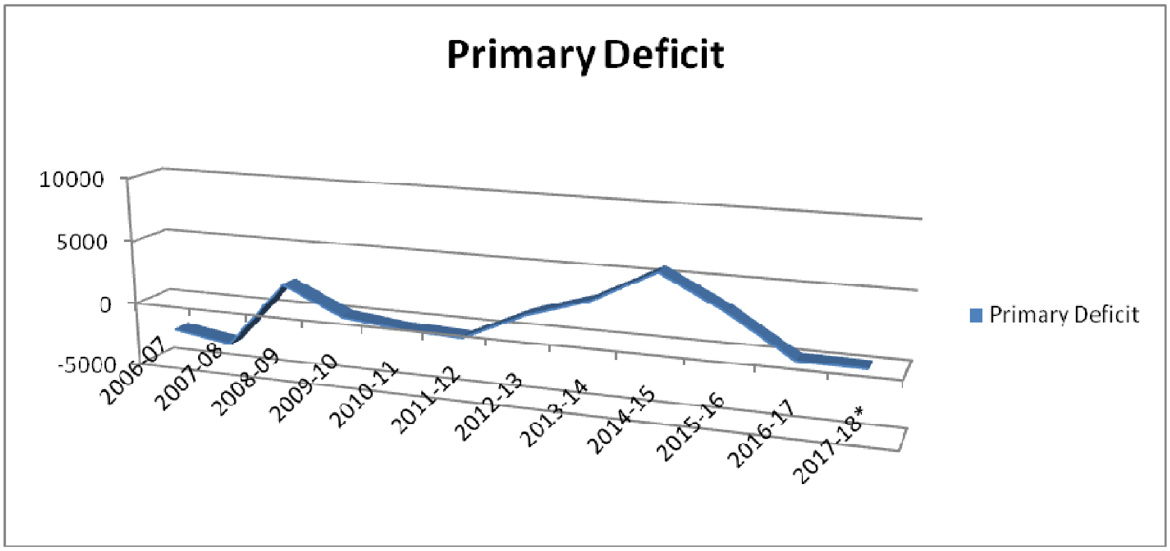
i) Minus sign (-) indicates surplus in the deficit indicators

ii) Figures in parentheses represent annual growth rate of the variables

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

*State Finance: A Study of Budgets (2018-19), RBI

Figure-3.3



It is illuminating to disintegrate Primary Deficit into Primary Revenue Deficit and Capital Outlay (inclusive of loans & advances). Primary Revenue Deficit reflects the total expenditure on consumption and maintenance that has to be financed through public borrowing. This is a critical indicator of fiscal prudence on part of the state as it implies that smaller this deficit, the lesser is the need for the state to borrow for consumption. On the other hand, the component of the Primary Deficit directed towards Capital Outlay and Loans & Advances tends to be productive and hence is considered to be relatively sustainable. Under the theoretical backdrop of primary deficit it is useful to analyze the implication of the primary deficit and primary revenue deficit in the reference period of 2006-07 to 2018-19. In fact, the years preceding the reference period had been fiscally good for the state, as the primary deficit had been negative. This implies that primary expenditure (which is total expenditure net of principal and interest repayment) has been less than the non-debt receipt of the state implying the attainment of primary surplus. This has been the case except for 2004-05 when a small primary deficit of 1.24 percent appeared. This was immediately corrected in the subsequent period which exhibited a surplus of 3.22 percent. Correspondingly, the primary revenue surplus was considerably higher implying that a substantial component of the primary expenditure was directed towards capital outlay and to a lesser extent to Loans & Advances. In fact a closer scrutiny of the primary non-revenue expenditure reveals that the aberration in 2004-05 in the form of the primary deficit is mostly due to a sudden 7.61 times spike in the Loans & Advances and 3.51 times hike in the Capital Outlay(CAG, 2002- 2006).

Table 3.3 illustrates the primary deficit and primary revenue deficits in the reference period of 2006-07 to 2018-19. It is evident that the favorable primary deficit and primary revenue deficit in the preceding years was also maintained in the reference period. While the non-debt receipt and primary revenue expenditure mostly directed towards consumption and maintenance had grown steadily as is expected, there had been a steady increase in the capital outlay as well which was in contrast to earlier periods. However, 2015-16 saw a steep jump in the capital outlay which could be possibly due the recommendations of the Fourteenth Finance Commission which has increased devolutions of tax proceeds from the divisible pool at the expense of grants-in-aid routed through centrally sponsored schemes.

Table 3.4

Primary Deficit and Primary Revenue Deficit of the State

(*in crore rupees*)

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 (=3-2)**	**8 (=6-2)**
2006-07	13702	9941	81	1453	11475	-3761	-2227 (-3.45)
2007-08	15365	11232	143	1688	13063	-4133	-2302 (-3.21)
2008-09	18112	12650	89	2373	15112	-5462	-3000 (-3.24)
2009-10	19917	19399	99	2629	22127	-518	2210 (3.16)
2010-11	23033	21040	71	2001	23112	-1993	79 (0.07)
2011-12	27476	24454	88	2506	27048	-3022	-428 (-0.30)
2012-13	30698	27022	461	2617	30100	-3676	-598 (-0.38)
2013-14	32219	29792	822	3207	33821	-2427	1584 (-0.89)
2014-15	38191	36744	631	3912	41287	-1447	3096 (-1.58)
2015-16	42967	34393	260	5502	40155	-8574	5623(-2.49)

Note:

i) Figures in parentheses represent percentage of these variables to GSDP at current prices.

ii) (-) implies surplus

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

Capital outlays are expected to substantially increase in subsequent periods as the untied central transfers provide the state with the necessary freedom to chose the projects which are to be prioritized in an unencumbered manner. This also allows unconstrained fund flow that facilitates the implementation and operation of the projects and programmes taken up. On the other hand, disbursements under loans and advances had always been unsustainable in Assam with poor recovery of loans and abysmal realization of interest. This component fortunately had been a minor part of the primary expenditure, and had fluctuated wildly from Rs. 81 crs in 2006-07 to 2013-14. However there is an observable tendency by the state to keep this component under strong check.

3.5 PROJECTION OF DEFICITS

Table-3.5 presents projection of revenue deficits, Fiscal deficits and primary deficits from 2019-20 upto 2024-25. These projections are made assuming that the policies of the state towards fiscal consolidation would remain consistent with the objectives of the Assam FRBM Act of 2005. As deficit figures are highly sensitive to operational fiscal policies hence assuming a linear trend is at best improbable. Hence the projections based on a thirteen year trend should be viewed with the caution that is necessary, in light of the limitations of such exercises.

As indicated the existing revenue deficit is projected to gradually increase from 3.27 percent in 2019-20 to 5.85 percent in 2024-25. The projection however is very adversely effected by the fiscal deficit of 9.04 percent in 2018-19, which is a major aberration brought about by the spurt in revenue expenditure due to the implementation of the recommendations of the state pay commission. Such abnormally high levels are also observed in the projections of fiscal deficits and primary deficits.

Table -3.5

Projections of Deficits

Year	PROJECTION OF REVENUE DEFICIT (%)	PROJECTION OF FISCAL DEFICIT (%)	PROJECTION OF PRIMARY DEFICIT (%)
2006-07	-3.43	1.1	-3.45
2007-08	-3.6	1.1	-3.21
2008-09	-4.72	1.52	-3.24
2009-10	1.92	5.78	3.16
2010-11	-0.05	1.91	0.07
2011-12	-0.65	1.43	-0.3
2012-13	-0.99	0.97	-0.38
2013-14	-0.13	2.13	-0.89
2014-15	0.45	2.77	-1.58
2015-16	-3.23	1.33	-2.49
2016-17	0.06	2.38	1.23
*2017-18(RE)**	9.04	14.17	0.05
*2018-19(BE)**	0.84	2.93	0.03
2019-20	**3.27**	**5.69**	**0.47**
2020-21	**3.79**	**6.07**	**0.66**
2021-22	**4.30**	**6.44**	**0.85**
2022-23	**4.82**	**6.82**	**1.03**
2023-24	**5.34**	**7.20**	**1.22**
2024-25	**5.85**	**7.58**	**1.41**

CONCLUSION

In the 2000s, Assam like most states in India were reeling under the burden of committed expenditure forced upon it by the burgeoning salaries and pension bill of its government employees. Moreover persistent borrowing to tide over its financial difficulties was driving up its interest obligation, thus pushing the Assam to a state of insolvency. The state made a concerted attempt to secure fiscal consolidation by enacting its own *Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005* and *Assam Fiscal Responsibility and Budget Management Act (Amendment), 2011* with the stated objectives of attaining revenue surplus and to bring the fiscal deficit to predetermined levels. This, it was believed, would impart fiscal stability and sustainability to the state.

With the enactment and adoption of the Assam FRMB Act, exemplary fiscal management by the state, secured immediate attainment of revenue surplus and a steep drop in fiscal deficit well within the targeted limit. More important, the state has managed to maintain the extremely demanding fiscal goals despite its locational and other constraints as a special category state. The fiscal targets were violated in 2009-10 with the implementation of the recommendations of the Sixth Assam Pay Commission. This is a cause for concern as the implementation of the Seventh Pay commission is expected to have similar adverse fallout against which the fiscal planners have to brace.

Chapter-IV

An Analysis of Public Debt in Assam

4.1 INTRODUCTION

The detailed analysis of revenue, expenditure and deficits in the previous chapters has shown that the main cause of Assam's debt is the slow growth of the revenue generation capacity of the state. The nature and adequacy of the revenue side has been analyzed for examining the availability of funds for expenditure needs of the state. There is a noticeable enhancement in the revenue of the state which is found to be mainly due to the increase in own revenue collection and improved 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 an earlier chapter, the pattern and composition of government expenditure has been studied to check the growth and quality of public expenditure of the state. It has been found that proper allocation of resources with emphasis on developmental expenditure is the prerequisite 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 significant to study whether the total receipts of the state government are sufficient to meet the expenditure responsibilities of the government.

Literature suggests that while revenue receipts of governments should be adequate to meet the revenue expenditure, capital expenditure could be incurred out of the borrowed funds. There is an increasing awareness among the states in India in recent decades to restrain fiscal imbalances which has led to accrual of debt and deterioration in the fiscal indicators. Earlier, most Indian economists were of the view that the growth of public debt in planned and regulated manner 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.

As Assam is a relatively poor state with paucity of resources in the infrastructure sector, the study of the trend of debt to GSDP ratio of the state becomes indispensable with great significance given to debt sustainability. Considering the above fact, trend and composition of public debt of the state during the time period 2005-06 to 2015-16 has been analysed in this chapter. Besides, 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

Constitutionally, a State in India 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. Contextualizing India, public debts refer to all financial liabilities of the government, irrespective of to whom they are owed. A large accumulation of public debt might be a problem for the state government with regards to repayment of the principal along with its interest payments and it also raises the issue of sustainability of the current stock of debt of the state.

Usually, sustainability is measured in terms of debt-GSDP ratio. A low debt-GSDP ratio is desirable since it is an indication that an economy that produces a large number of goods and services, probably earns sufficient surplus to pay back its debts. No universally

Table-4.1

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

(Rs. in crores)

Year	Outstanding debt (in Crore Rupees)	Debt-GSDP Ratio (per cent)	Interest Payments-Revenue Receipt Ratio
2006-07	20598	31.84	11.09
2007-08	21871	30.77	9.87
2008-09	25234	31.07	8.80
2009-10	26465	30.78	9.22
2010-11	29693	28.49	8.31
2011-12	31497	27.29	7.55
2012-13	32897	20.97	6.89
2013-14	34376	19.34	6.82
2014-15	38512	19.44	6.11
2015-16	42409	18.74	6.17
2016-17	47754	18.54	6.02
2017-18(RE)*	53130	20.57	6.71
2018-19(BE)*	66360	19.93	5.65
CAGR	**9.4%**	**-4.1%**	**-5.4%**
Projected Values			
2019-20	58880.31	15.42	
2020-21	62118.20	14.13	
2021-22	65356.09	12.84	
2022-23	68593.98	11.55	
2023-24	71831.87	10.26	
2024-25	75069.76	8.97	

Source: Accounts at Glance (Various Years), Principal Accountant General (A&E), Assam

*Revenue Receipts of States and Union Territories with Legislature (2018-19), RBI

prudent target value of debt-GSDP ratio has been determined. The credibility in the debt market is lost if a particular government fails to meet the repayment obligations of the public debt. 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. 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 which is very difficult to set. 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 table 4.1 provides time series data on outstanding liabilities, debt-GSDP ratio and interest payments-revenue receipt ratio of the state government.

Box: 4.1

A Note on Assam's Public Debt

Table-4.1 indicates that the outstanding liabilities of the state government have increased from Rs.19082 crores in 2005-06 to Rs 41230 crores in 2015-16 and thus registering an annual compound growth rate of 8 percent during the period under consideration. The debt-GSDP ratio of the state was found to decline from 33.13 percent in 2005-06 to 27.29 in 2011-12. Also, the debt-GSDP ratio started decreasing significantly to 18.54 in the year 2016-17. 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 state government faced the problem of fiscal instability because along with the high debt-GSDP ratio, the fiscal indicators of the state were found to deteriorate during that period. But, inspite 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 till 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 2011-12, which is lower than what is prescribed by the Twelfth Finance Commission. The projection of outstanding debt is seen to be increasing whereas the debt-GSDP ratio indicates a decreasing trend till 2020-25.

Fig 4.1

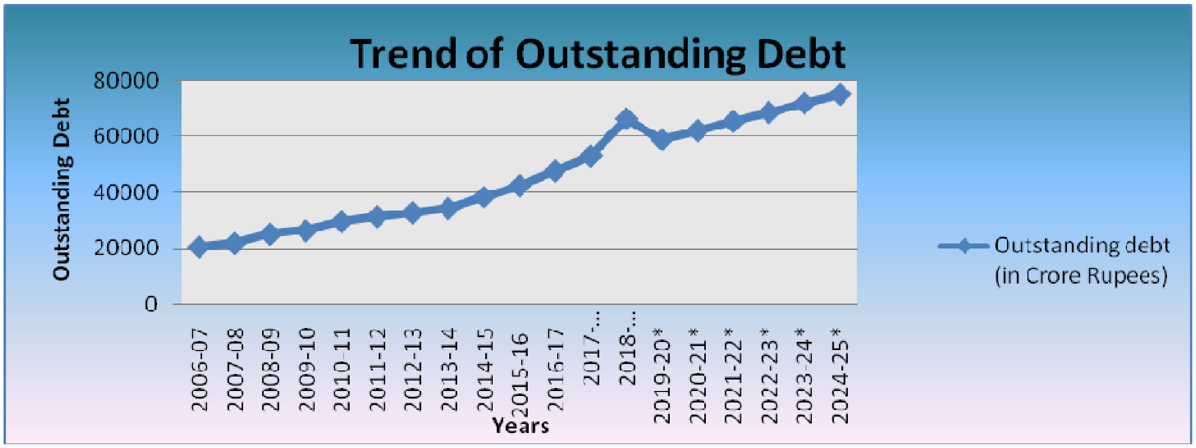
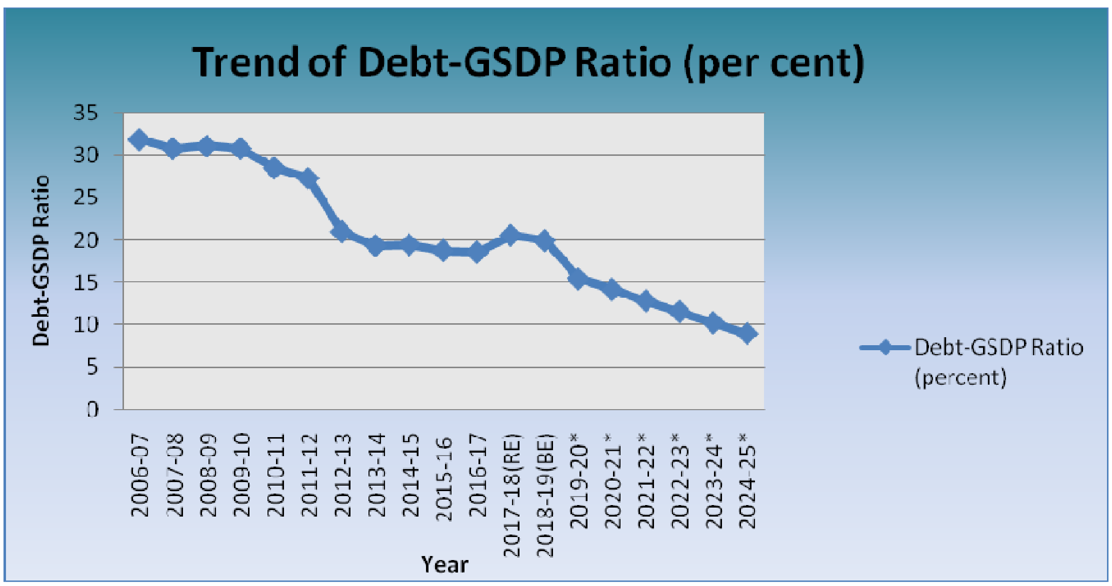


Fig 4.2



The diagrammatic representation of the 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 33.13 in 2005-06 to 18.54 in 2016-17 and 19.93 in 2018-19(BE). It is also found that interest payments-revenue receipts ratio of the state is below the level as recommended by the Twelfth Finance Commission. 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.

4.3 USE OF PUBLIC DEBT OF THE STATE

The proper use of the borrowed funds can be accessed from the composition of the fiscal deficit. These borrowed funds should be used for capital expenditure which increases the repayment capacity of economy. *Fiscal deficit* is defined as the excess of aggregate expenditure over non-debt receipt of the state, which gives an idea about the use of public debt of the state. 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 4.3.

Table-4.2
Amount and Composition of Gross Fiscal Deficit of Assam during 2006-2019

(Rs. in crore)

Year	Gross Fiscal Deficit (in Crore Rupees)	Revenue Deficit	Capital Outlay	Net Lending*
		As a % of Gross Fiscal Deficit		
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
2012-13	1520 (0.97)	-101.97	172.37	29.61
2013-14	3780 (2.13)	-6.35	84.92	21.69
2014-15	5430 (2.77)	16.57	72.01	11.42
2015-16	3006 (1.33)	54.62	44.05	1.33
2016-17	6130	2.28	89.72	7.83
2017-18(RE)*	36600	63.80	40.60	-4.40
2018-19(BE)*	9770	-28.56	149.13	-20.57

Source: Accounts at Glance (Various Years), Principal Accountant General (A&E), Assam

*Revenue Receipts of States and Union Territories with Legislature (2018-19), RBI

(-) implies surplus

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

Note: 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

Table 4.3 indicates that capital outlay constitutes a significant portion of the fiscal deficit during the time period 2005-06. This 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.

However, the state had experienced revenue deficit in the year 2009-10 amounting to Rs.1348 crores which forced the state government to use borrowed funds for revenue expenditure. Also, 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 crores 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. The gross fiscal deficit in 2014-15 was as high as Rs. 5430. The

4.4 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 which has two implications for a state. The identification of sources of finance is essential to frame the developmental plan of the state. This is due to the fact that 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. 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. Along with public debt, it is also necessary to analyse the liabilities in the public account of the state.

Table-4.3
Composition of Public Debt of the State

(Rs. in crore)

Source	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 (RE)*	2018-19(BE)*
SDLs	6525	7155	9255	11419	10750	11130	10560	9450	11690	13670	15670	22470	32110
Power Bonds	772	686	643	557	560	430	340	210	90				
Compensation and other Bonds	–	–	–	–							0.08		
NSSF	4689	4699	4717	4668	4720	5580	6060	7370	8450	9960	9330	8670	7960
WMA from RBI	–	–	–	–									
Loans from LIC	3	2	2	2							0.05		
Loans from GIC	19	17	17	17	10	10	10	10			0.28		
Loans from NABARD	303	434	597	737	670	740	830	880	960	1680	1740	2910	4180
Loans from SBI and other Banks	–	–	–	–									
Loans from NCDC	-24	-30	-31	-31									
Loans from other Institutions	118	89	57	23									
Other Loans	–	–	–	–									
Loans from Banks and FIs	418	512	641	747	690	760	840	890	960	1680	1740	2910	4180
Total Internal Debt*	12403	13052	15256	17392	16720	17900	17810	17920	21190	25320	26740	34040	44240
Loans and Advances from Centre	2670	2601	2499	2388	2350	2250	1840	1680	1600	1530	1430	1780	1750
Provident Funds, etc.	3615	3933	4282	4667	4810	5350	5990	7630	8520	9540	10180	11320	12510
Reserve Funds	1126	1492	1492	1492	2010	1980	2880	3620	1330	1330	2810	3310	3840
Deposit and Advances (Net Balances)	-375	-936	-936	-936	-340	-1070	-630	60	2770	3460	2830	2640	3960
Contingency Funds	50	50	50	50	50	50	50	50	50	50	50	50	50
Outstanding Liabilities	19490	20192	22644	25053	25610	26460	27940	30970	35460	41230	44040	53130	66360

Source: ***Accounts at Glance*** (Various Years), Principal Accountant General (A&E), Assam

*Revenue Receipts of States and Union Territories with Legislature (2018-19), RBI

Table 4.3 reveals that the total internal debt of the state government has increased from Rs.12403 crores in 2006-07 to Rs.25320 crores in 2015-16. But the significance of the loans from centre has declined during the period of study. Loans and advances from centre have declined from Rs.2670 crores in the year 2006-07 to Rs.1530 crores in the year 2015-16. Again, the importance of the State Development loans (SDLs) has increased from Rs. 6525 crores in 2006-07 to Rs.13670 crores in 2015-16. Similarly, loans from the NSSF have increased from Rs.4689 crores in 2006-07 to Rs.9960 crores in 2015-16. The state has been resorting to *ways and means* advances during the time period 2000-01 to 2004-05 but has not sought the same route of advances during the time period 2005-06 to 2015-16 indicating the adequacy in cash balances of the state government.

4.5 LIABILITIES IN PUBLIC ACCOUNT OF THE STATE

"Total liabilities of the State" means the liabilities under the Consolidated Fund of the State and the Public Account of the State (Assam Fiscal Responsibility and Budget Management Act, 2005). 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.

Table 4.4 indicates that public account of the state has increased from Rs. 17292.27 crore in 2005-06 to Rs. 187269.83 crore in 2015-16 with a compound growth rate of 26.9 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. 616.52 crore in 2005-06 to Rs. 1760.19 crore in 2015-16 and thus registering a compound growth rate of 11.1 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, Rs. 5820 crores. Remittances also constitute, on an average, 3638.86 crores in the state during the period under consideration.

Table 4.4
Public Account of the State

(Rs in crores)

Year	Small Savings & Provident Funds	Reserve Fund	Deposit & Advances	Suspense & Miscellaneous	Remittances	Total
2006-07	566	370	2150	-158	1918	4846
2007-08	608	506	2739	-3	2243	6093
2008-09	390.22	-109.97	30.48	169.42	99.12	579.27
2009-10	489.54	413.92	568.14	295.7	-164.64	1602.66
2010-11	540.41	-153.12	-728.61	180.04	27.97	-133.31
2011-12	634.98	901.23	437.17	16.84	-50.84	1939.38
2012-13	807.52	201.08	413.21	-156.99	-35.27	1229.55
2013-14	837.52	543.44	157.47	1323.04	10.32	2871.79
2014-15	890.13	818.17	-233.04	-91.92	30.26	1413.6
2015-16	860.14	230.02	1005.83	-228.6	-47.66	1819.73
2016-17	796.46	1240.52	345.65	2551.67	-72.37	4861.93
2017-18(BE)*	900	240	-1100	-240	-60	-260
2018-19(BE)*	1200	530	1320	-30	12320	15340
CAGR	5.95%	2.80%	-3.68%	-12.00%	15.38%	9.27%

Figures in parenthesis represent percentage to total public account of the state.

Source: Accounts at Glance (Various Years), Principal Accountant General (A&E), Assam

*Revenue Receipts of States and Union Territories with Legislature (2018-19), RBI

The above discussion gives an idea about trend and composition of the public debt of the state. The following section 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.

4.6 Primary Deficit and Debt Stabilization

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.

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). 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. 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

(Rs. in crores)

Year	GSDP Growth Rate	Effective Interest Rate	Interest Spread	Quantum Spread (Debt*Interest spread)	Primary Deficit (-)	Debt Stabilization Index (quantum spread + primary deficit)
2006-07	13.02	8	0.94	774	2228	3002
2007-08	11.79	7.62	2.25	881	2302	3183
2008-09	14.07	7.39	6.88	989	3000	3989
2009-10	14.39	7.29	6.56	1196	-2210	-1014
2010-11	12.16	6.57	5.59	1817	-79	1738
2011-12	10.95	7.22	4.18	1313	428	1741
2012-13	9.56	7.57	4.38	2263	598	2861
2013-14	13.31	8.13	3.03	2860	-1584	1276
2014-15	10.11	7.59	6.91	2662	-3096	-434
2015-16	15.61	7.74	3.64	1546	5623	7169
2016-17	13.8	7.23	7.23	3137	-3161	-24

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

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 decline from 30.13 percent in the year 2006-07 and reached a high of in 29.61 in 2009-10. 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. However, debt-GSDP ratio decreased to 20.10 in the year 2015-16. 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.

4.7 CONCLUSION

It can be thus concluded that Assam had the ability 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 incentive provided by the Eleventh, Twelfth and Thirteenth 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. 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 overall decrease in receipts of Public Debt by 29 per cent and increase in repayment of Public Debt by 4 per cent in 2015-16 showed improvement in the State's debt management.

Chapter –V

The Assam FRBM Act: Implementation and Outcome

5.1 INTRODUCTION

Post 1991 there was growing recognition of the fiscal threat posed to both the centre and the states, by the growing gap between public expenditure and revenue that was aggravated by state expenditure in consumption and maintenance. The burgeoning revenue expenditure was fueled by mounting committed expenditure in the form of salaries & wages and pension payments for government employees. The natural reaction of governments in both the two tiers was to meet their deficits through public borrowing which in turn exerted additional pressure in the form of interest payment, on the revenue expenditure putting their finance under considerable strain.

In response to the growing mismatch between public expenditure and revenue that was posing a real peril to the solvency of state finance, *The Fiscal Responsibility and Budget Management Act, 2003* (FRBM Act) was enacted in 2003 to effect a comprehensive strategy of fiscal consolidation to ensure the fiscal stability and sustainability of the central government. The act set a number of time bound targets for the central government which was expected to correct the unsustainable fiscal drift of the government.

The central FRBM Act was mandatorily expected to be duplicated for all individual states to achieve the same set of objectives in their respective budgets so that they are set on a course towards fiscal consolidation. Along with other Indian states, 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 AFRBM Act, 2005 and its implementation coincided with the term of the Twelfth Finance Commission. When the act was amended in 2011 for the AFRBM Act (Amended), 2011, it again coincided with the term of the Thirteenth Finance Commission. Thus the AFRBM Act, its implementation and outcome is discussed in the context of the recommendations of the two finance commissions. Moreover the implications of the recommendations of the Fourteenth Finance Commission are incorporated into the discussions for the relevant period of the study.

5.2 THE ASSAM FRBM ACT AND THE TWELFTH FINANCE COMMISSION

Assam adopted a conscious strategy towards fiscal consolidation with the adoption of the ***Assam Fiscal Responsibility and Budget Management (AFRBM) Act, 2005*** which was expected to impart stability and sustainability to its finances in the median and long term. The Act mandates the government to achieve among others, the following primary targets

- 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.

The government sought to implement the AFRBM Act, 2005 through a fiscal correction path based on key outcome milestone against pre-stated fiscal time-periods. The milestones in the fiscal correction plan are indicated in Table 5.1, which envisages that the state would attain a revenue surplus by 2007-08, which then would be maintained upto 2009-10, culminating with the end of the term of the Twelfth Finance Commission. It was also envisaged that the fiscal deficit would be brought down from a high of 6.49 percent to the AFRBM Act target of 3 percent by 2008-09, and is to be reduced even further in subsequent periods.

Table 5.1

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

(in crs)

Year	Revenue Receipts	Revenue Expenditure	Revenue Deficit (+)/ Surplus (-)	Fiscal deficit Deficit(+)/ Surplus(-)
2005-06	12046 (25.57)	10536 (22.36)	1509 (2.60)	356 (0.61)
2006-07	13667 (13.46)	11457 (8.73)	-2210(- 3.43)	-711(1.10)
2007-08	15325 (12.13)	12744 (11.23)	-2581(- 3.60)	-790 (1.10)
2008-09	18077 (17.96)	14243 (11.76)	-3834(- 4.72)	-1407 (1.52)
2009-10	19884 (10.00)	21232 (49.07)	1348 (1.92)	4043 (5.78)

Note: 1. In the revenue column positive figures indicate surplus and negative indicate deficit

2. 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.

Assam unexpectedly did an exceptional job in its deficit management post the AFRBM Act. The actual Revenue and Fiscal Deficits in the period 2005-06 to 2009-10 presented against the estimated targets in the fiscal correction path in Table 5.2, reveals that it achieved most of the AFRBM Act targets in the first year of the implementation of the act. Thus in 2005-06 itself, the state eked out a revenue surplus of 2.60 percent against a targeted revenue deficit of Rs. 331.48 crs. favorable attainments in the revenue balance continued until 2009-10 where an aberration These appeared in the form of a revenue deficit of 1.92 percent.

The performance was even more impressive in the case of fiscal deficit where in the first year of the implementation of the FRBM Act the state brought down its fiscal deficit to 0.61 percent which is way below 6.49 percent, which were the 2005-06 targets for fiscal deficit. The state has managed to contain its fiscal deficit well below the recommended 3 percent for all the subsequent years until 2009-10, where like the revenue deficit, the fiscal deficit shot up to 5.78 percent which is well above the AFRBM Act target of 3 percent. This spike in both the revenue and fiscal deficits is mostly attributed to the implementation of the recommendations of the Assam Pay Commission which brought about a substantial hike in its revenue expenditure. Moreover the fiscal relaxation extended by the centre due to the global slowdown is thought to have had an impact in the fiscal aberrations.

Table 5.2

Estimated and Actual key Deficit indicators

(in crs rupees)

Years	Revenue Deficit/Surplus		Fiscal Deficit	
	Estimated	*Actual*	*Estimated*	*Actual*
2005-06	-331.48	1509 (2.60)	3052.68 (6.49)	356 (0.61)
2006-07	-434.78	-2210(- 3.43)	3319.42 (6.54)	-711(1.10)
2007-08	+275.70	-2581(- 3.60)	2476.02 (4.52)	-790 (1.10)
2008-09	+901.08	-3834(- 4.72)	1777.77 (3.00)	-1407 (1.52)
2009-10	+1657.00	1348 (1.92)	1540.78 (2.41)	4043 (5.78)

Note: 1. *In the revenue column positive figures indicate surplus and negative indicate deficit*

2. *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.

As indicated by Table-5.2, the fiscal year 2009-10 was an adverse year, so far as fiscal outcomes were concerned. Despite attaining revenue surplus in the last four preceding years, 2009-10 exhibited a revenue deficit of 1.92 percent amounting to a sum of Rs. 1348 crs. The impact of the fiscal violations was also evident in the fiscal deficit. Thus despite a relaxation of the target by 0.5 percent, Assam was unable to maintain the fiscal deficit to the targeted 3.5 percent as it shot up to 4.59 percent. This was way above the milestone set up by the fiscal correction path or by the five year fiscal statement. However, on the positive note critical fiscal targets like ***Salary as percentage of State's Own Resources & devolution from GOI*** was maintained at 56 percent, which was marginally below the AFRBM target of 60 percent. Similarly, the ***Ratio of the Total Debt Stock to GSDP of the previous year*** was confined to 30 percent, which was significantly lower than 45 percent mandated by the Act. Maintaining the two critical parameters at permissible levels meant that it was easier for the government to correct the slips in the revenue deficit and the fiscal deficit in subsequent periods

Table- 5.3

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

Note: 1. In the revenue row positive figures indicate surplus and negative indicate deficit

2. Figures in the parentheses represent deficit as per cent of GSDP

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

5.3 ASSAM FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT (AFRBM) AMENDMENT ACT, 2011 AND THE THIRTEENTH FINANCE COMMISSION

The fiscal slippage in 2009-10 prompted the Thirteenth Finance Commission to work out a fresh road map for Assam so as to enable the state to achieve the necessary fiscal consolidation. Under the circumstances the AFRBM Act, 2005 was amended to evolve into the Assam Fiscal Responsibility and Budget Management (AFRBM) Amendment Act, 2011. Effective from 1st April, 2010, the AFRBM (Amendment) Act, 2011 set the following fiscal targets.

- ✓ 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.

Assam made a remarkable recovery from the fiscal slippage in 2009-10, by coming up a with a revenue surplus of Rs. 53 crs in 2010-11, which was much better than Rs.5960 crs which was its targeted revenue deficit. The state was able to maintain the revenue surplus in the subsequent term of the Thirteenth Finance Commission, faltering only in 2014-15 where it ran up a revenue deficit of Rs 897 crs despite the fact that it had a targeted revenue surplus of Rs. 9384 crs. Like before, the attainments of the state in terms of fiscal deficit is creditworthy. Despite the reverses in 2009-10, the state was able to drastically reduce its fiscal deficit from 5.78 percent to 1.77 percent which was well within the target assigned by the AFRBM Act of 2011 and also its own target of Rs. 9315 crs. The management of the fiscal deficit was efficient in the subsequent period of the thirteenth finance commission with the state adhering to the AFRBM target. The state managed to maintain the FRBM fiscal deficit target within 3 percent even when the government ran up a revenue deficit in 2014-15. The performance was enhanced in the first year of the term of the Fourteenth Finance Commission when the state achieved an unprecedented fiscal surplus of 1.34 percent.

The attainments in key fiscal variables in 2014-15, which was the final year of the term of the Thirteenth Finance Commission, indicate the fiscal performance of the state in reference to the AFRBM Act (Amended) 2011. As evident in Table-5.5, the state ran up revenue deficit of Rs. 897 crs in that year and hence was unable to maintain the fiscal surplus which it successfully achieved in the previous four periods. Hence in that year the AFRBM target of maintenance of a revenue surplus and Medium Term Fiscal Projection of Rs. 2084 crs surplus was violated. However, despite the uncharacteristic revenue deficit, Assam was able to maintain a fiscal deficit of 2.95 percent which was just within the AFRBM threshold of 3 percent. But the fiscal slippage was evident in the actual deficit of Rs. 5430 crs which was relatively adverse in comparison to the budget estimate of a fiscal surplus of Rs. 1640 crs. It compared unfavorably even to fiscal deficit of Rs. 1621 crs projected by the medium term fiscal plan. Moreover despite the unfavorable revenue deficit, the state was still able to maintain the ***ratio of total outstanding debt to GSDP*** at 20.95 percent, which is well below the AFRBM target of 28.50 percent. In fact the state over performed in this parameter as it was better than its budgetary estimate as well as its medium term fiscal projection, of 25.08 percent

Table 5.4

Estimated and Actual key Deficit Indicators

(*in Crore Rupees*)

Year	**Revenue Deficit (-)/Surplus (+)**		**Fiscal Deficit**		
	Estimated	**Actual**	**Estimated**	**Actual**	**Actual (%)**
2010-11	-5960	53	9315	1991	1.91
2011-12	1114	927	3473	1646	1.43
2012-13	1364	1554	3886	1517	0.97
2013-14	3100	223	6053	3782	2.13
2014-15	9384	-897	(-) 1640	5430	2.77
2015-16	62565	5446	(-) 52391	(-) 3005	1.33

Note:

1. *In the revenue column positive figures indicate surplus and negative indicate deficit*
2. *Figures in the parentheses represent surplus/deficit as per cent of GSDP*

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

Table 5.5

Trends in Major Fiscal Parameters/Variables vis-à-vis Projections for 2014-15 & 2018-19

(Rupees in crs)

Fiscal variables	Targets as prescribed in AFRBM Act, 2011	Assumptions made in Budget	Projections made in Medium Term Fiscal Plan	Actual 2014-15	2018-19*
Revenue Deficit (-) / Surplus (+) (in crore rupees)	Eliminate Revenue Deficit by 31.3.2012 and attain Surplus thereafter.	(+) 9,384	(+) 2,084	(-) 898	(-) 2790
Fiscal Deficit (-)/ Surplus (+) (in per cent of GSDP)	Three per cent of GSDP by 31.3.2011 and to maintain the same level thereafter.	(-) 1,640 (- 0.92%)	1,621	5,430 (2.77%)	9770 (2.93%)
Ratio of total outstanding debt of the Government to GSDP (in per cent)	28.50 per cent (in 2014-15)	25.08	25.08	20.95	66360

Note:

1. *In the revenue row positive figures indicate surplus and negative indicate deficit*
2. *Figures in the parentheses represent deficit as per cent of GSDP*

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

*Projected from Budget Estimate, *State Finance: A Study of Budgets* (2018-19), RBI

Table 5.6

Attainments in Key Fiscal Variables vis-à-vis Projections for 2015-16

Fiscal variables	Targets as prescribed in AFRBM Act, 2011	Assumptions made in Budget (in core rupees)	Projections made in Medium Term Fiscal Plan (in core rupees)	Actual (in core rupees)
Revenue Deficit (-) / Surplus (+) (in crore rupees)	Eliminate Revenue Deficit by 31.3.2012 and attain Surplus thereafter.	(+) 62,565	(+) 1,201	(+) 5,446
Fiscal Deficit	Three per cent of GSDP by 31.3.2011 and to maintain the same level thereafter.	(-) 52,391	(+) 3,646	(-) 3,005
Ratio of total outstanding debt of the Government to GSDP (in per cent)	28.50 per cent (in 2015-16)	-	25.08	18.91

Note:

1. *In the revenue row positive figures indicate surplus and negative indicate deficit*
2. *Figures in the parentheses represent deficit as per cent of GSDP*

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

The Fourteenth Finance Commission covers the period 2015-16 to 2019-20. Hence the relevant fiscal year in the reference period of the present study is constituted by 2015-16. As indicated in Table-5.6, the fiscal performance of the state vis-à-vis the AFRBM targets and also the Medium Term Fiscal Plan Projections are highly favorable. Thus, in the period 2015-16, as mandated by the AFRBM Act (Amended) 2011, Assam continued to maintain a fiscal surplus of Rs. 5446 crs. Though actual attainment is an improvement upon the Medium term Projection of Rs. 1201 crs, the fiscal managers could not achieve the highly ambitious budgetary estimate of Rs. 62565 crs.

The achievements with respect to the fiscal deficit is even more striking, as the state was able to significantly better the AFRBM requirement of 3 percent by attaining a fiscal surplus of Rs. 3005 crs which was 1.3 percent of the GSDP. Moreover the state improved upon its previous Debt-GSDP ratio from 20.95 percent to 18.91 percent which is way below the AFRBM target of 25.08 percent.

5.4 CONCLUSION

It is evident in the trends in key fiscal parameters over the years that Assam had embarked on a systematic process of fiscal consolidation since 2005, when it first enacted the AFRBM Act, 2005. Over the years the fiscal managers in the state has responded exceedingly well to the demanding targets set by the Act. However there had been violations in the FRBM targets in 2009-10 and 2015-16, mostly due to the pressure on committed expenditure forced upon the state with the implementation of the recommendations of the state pay commission. In fact, the rising salary component of government servants constitutes the most serious threat to fiscal consolidation, especially with the gradual decline of pensions and interest payment.

Chapter-VI

Fiscal Devolution to Local Bodies: An Evaluation

6.1 INTRODUCTION

Local bodies refer to the grassroots institutions that are involved in the governance activities of the state. The present structure of the three tier federal system in India originated with the passage of the 73rd and 74th Constitutional Amendment Act, 1992. The 73rd amendment conferred constitutional status to the Panchayats in the rural areas whereas the 74th Constitutional Amendment suggested the creation of Local Self Government (LSG) for the urban area population wherein Municipalities were provided with the Constitutional status for governance. Under this constitutional amendment, 29 subjects listed in XIth Schedule of the Constitution of India were transferred for Panchayatiraj Institutions (PRIs) and 18 subjects listed in the XIIth Schedule of the Constitution were transferred to the urban local bodies (ULBs).Thus, the amendments provided for devolution of powers and responsibilities to local self-government institutions with respect to preparation of plans and programmes for economic development and social justice.

The Administrative set-up of Panchayats in the State consists of a three tier system; Gaon Panchayats (GP) at the Village level, Anchalik Panchayats (AP) at the Intermediate level coterminous with Blocks and Zilla Parishad (ZP) at District level. Till 31st March 2015[1], there were a total of 2,412 PRIs, which included 21 ZPs, 189 APs and 2202 GPs. In the urban areas, there were 94 ULBs in the State, consisting of one Municipal Corporation (MC), 34 Municipal Boards (MBs) and 59 Town Committees (TCs). All the local bodies fall under General Areas, as PRIs and ULBs do not exist in the Sixth Schedule Areas where local governance is vested with the Autonomous District Councils (ADCs).

6.2 SOURCE OF FUNDS FOR LOCAL BODIES

The main source of income of PRIs in the State is funds released by the Government of India under various Centrally Sponsored Schemes, Central Finance Commission (CFC) grants, State Finance Commission (SFC) grants and State Government grants under various schemes. In addition, PRIs also mobilize revenue from own sources such as taxes, rents, license fees

[1] Report of the CAG of India on Local Bodies for the year ended 31 March 2016.

etc. For the schemes implemented by PRIs, the funds are released either directly to the PRIs or through the controlling Departments. Table 6.1 below gives the details of the sources of funds received by PRIs in the state from 2010-11 onwards. Data on the same is not available for the prior periods.

Table 6.1

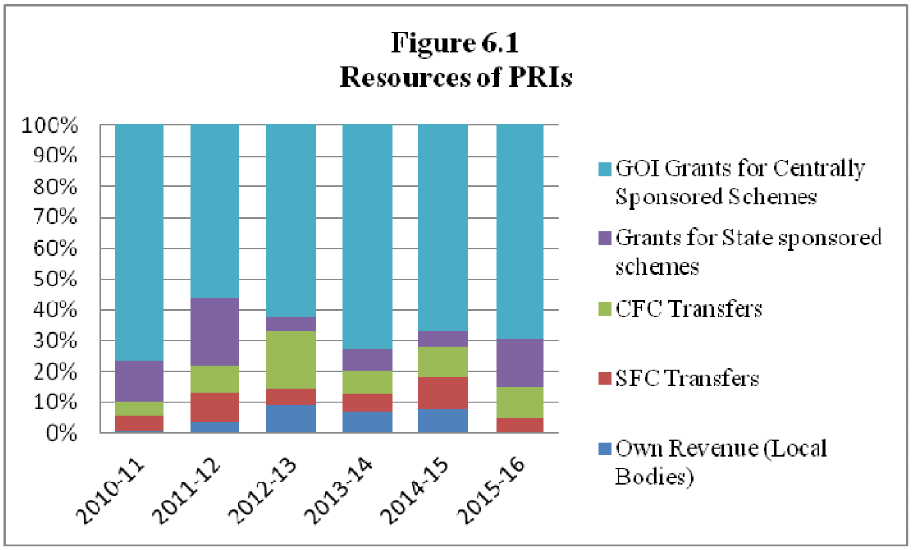
Resources of Panchayati Raj Institutions (PRIs)

(*Amount in Crore Rupees*)

Year	Own Revenue (Local Bodies)	SFC Transfers	CFC Transfers	Grants for State sponsored schemes	GOI Grants for Centrally Sponsored Schemes	Total
2010-11	23.46	119.36	125.97	334.40	1931.18	2534.37
2011-12	87.85	227.96	196.01	520.73	1323.36	2355.91
2012-13	176.16	104.42	362.05	89.09	1211.38	1943.10
2013-14	193.80	158.23	201.93	197.29	2000.58	2751.83
2014-15	213.18	298.84	270.54	147.04	1879.94	2809.54
2015-16	-	147.36	292.40	486.00	2070.00	2995.76

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

A look at the table shows that Government of India grants for Centrally Sponsored Schemes (CSS) provided the main source funds for the PRIs. In 2010-11, 76.2% of the PRIs resources came from CSS, followed by State Sponsored Schemes (13.19%). Central and State Finance Commission Transfers constituted approximately 5% of the PRI resources. The own revenue generated by the PRIs formed less than 1% the PRIs resources. From 2011-12 onwards, the share of CSS has come down and in 2015-16, it provided 69.1% of the PRIs resources. Grants from state sponsored schemes were fluctuating in the concerned years, and the highest share of this source was 22.10% in 2011-12. The share of central and state finance commission transfers remained less than 10% each, though in two intermittent years, the shares were higher. A positive feature that emerges is the continuous rise in the own revenue generated by the PRIs. Accordingly, the share of PRIs owns revenue has been showing a rise, and reached as high as 9.07% in 2012-13. The changing shares of the different sources of PRI revenue is shown in figure 6.1



For urban local bodies, the sources of funds are similar to the PRIs but the pattern of funding is different. Table 6.2 provides the details of these sources for the period 2010-11 to 2015-16.

Table 6.2

Resources of Urban Local Bodies (ULBs)

(*Amount in Crore Rupees*)

Year	Own Revenue (Local Bodies)	SFC Transfers	CFC Transfers	Interest for delayed payment of CFC Grants	State Sponsored Schemes	GOI Grants for Centrally Sponsored Schemes	Total
2010-11	128.78	151.67	12.04	0.30	20.54	33.27	346.60
2011-12	151.57	189.68	31.97	0.11	16.13	24.09	413.55
2012-13	190.04	149.59	44.28	0.20	4.14	33.41	421.66
2013-14	-	133.11	-	0.12	8.22	25.57	167.02
2014-15	-	169.07	39.74	0.18	12.29	11.03	232.31
2015-16	-	-	46.57	-	0.31	14.46	61.34

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

Unlike the PRIs, for the ULBs, the main source of funds came from State Finance Commission transfers. In 2010-11, 43.76 % of the resources came from SFC, and this share was as high as 79.7% in 2013-14. In 2014-15, the share was still high at 72.7%, but for 2015-16, the relevant figures are not available. The own revenue generated by ULBs was high and accounted for as high as 45.07% of the total resources of the ULBs in 2012-13. The share of CFC transfers was only 3.47% of the total resources in 2010-11, but later displayed an increasing share. In 2015-16, for the available data, it constituted 75.92% of the ULBs resources. State sponsored schemes and centrally sponsored schemes contribution did not exceed 6% and 16% of the ULBs resources respectively, though the share of CSS did rise to 23.57% in 2015-16. There was an additional component for ULBs, viz. interest for delayed payment of CFC Grants, but this had an insignificant share.

Thus, a sharp difference is visible between the pattern of funding of PRIs and ULBs. PRIs, being mostly entrusted with the implementation of the Centrally Sponsored Schemes, therefore have the CSS as the main resource provider. Some of the main Centrally Sponsored Schemes that are being implemented in the state are Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Indira Awas Yojana (IAY), Backward Region Grant Fund (BRGF), National Social Assistance Programme (NSAP) and National Rural Livelihood Mission (NRLM). On the other hand, ULBs are able to generate their own resources in a much stronger way than PRIs. ULBs have an access to several tax and non-tax sources of revenues such as taxes on holdings, water tax, *etc.,* building plan sanction fee, rent from shops and buildings, tolls and other fees and charges, whereas PRIs have a comparatively narrower base of tax and non-tax revenue.

As regards the funding of local bodies, an issue of concern is the continuous shortfall in release of funds by the State Government. According to the Report of the CAG of India on Local Bodies (2015), during 2010-11 to 2014-15, the State Government released only Rs. 872.53 crores as against Rs. 2794.51 crores which was to be devolved for PRIs. Similarly, for ULBs, against devolution of Rs. 1117.71 crores, the State Government could release only Rs. 28.76 crores. Such shortfalls make it difficult for the local bodies to implement the various welfare activities that would assist the overall economic development.

While examining the sources of own revenue of local bodies, it has been observed that the existing tax domain of the local bodies is narrow and relatively inelastic. This has resulted in their dependence on higher transfer from Government level. Considering the wide range responsibilities that these bodies have to shoulder, it is important for these bodies to generate their own resources by exploring the untapped sources of revenue. Tax revenue is a good source of augmenting the own resources of the local bodies. The various state finance commissions, in their respective reports have given recommendations on ways of expanding the own resources of Panchayats and Urban Local Bodies. These recommendations have been accepted by the State government in their respective action taken reports.

Some of the measure suggested to improve the generation of own resources for the Panchayats, as suggested by various state finance commissions include abolition of the maximum limit of taxation and providing a floor rate of taxation for each tier of PRI with provision to revise the rates suitably at the expiry of every three years. Rural local bodies must be empowered to impose surcharge on stamp duty on the sale, gift etc., of immovable property. Fees on weekly/ bi-weekly bazaars and markets being the most promising source of revenues of the Panchayats, there is a strong need to enlarge this source of revenue.

For urban local bodies, property tax happens to be the most universal and stable local tax. Periodic review in assessment of property tax every five years, extending of enhanced rate of property tax which is applicable to new holdings to existing holdings, valuation of urban land in different urban area should be done realistically on the basis of the prevailing market prices are some ways of increasing the own resources of ULBs. The ULBs can adopt special rates for scavenging charges from hotels, private hospitals, private markets, and residential private education institutions as these establishments put considerable pressure on civic facilities provided by urban bodies. Revision of trade license fees every three years and bringing in of new trades under the trade license fee net ULBs have also been suggested by the state finance commissions.

The success of all these measures, however, is greatly dependent on the existence and maintenance of a reliable, systematic and regular data base with minimum level of information as well as on simplification in administration and enforcement of taxes.

6.3 TRANSFER OF RESOURCES FROM THE STATE TO THE VARIOUS LOCAL BODIES

This section focuses on the devolution of funds from the state government to the local bodies. A part of the resources of the state government flows to the local bodies, which are in turn used to fulfill the local needs. We look at the details of this transfer of resources to understand whether the flow of funds is moving in the desired direction or not. Table 6.3 provides the details for the period 2006-07 to 2015-16.

Table 6.3 shows that transfer of resources to local bodies formed less than 10% of the government's revenue expenditure. It was only in certain years, viz. 2006-07, 2012-13 and 2013-14 that the share was over 10%. This is clearly in line with the discussion in the previous section where state transfers did not form the major source of funds for the local bodies. A look at the constituent parts of the local bodies showed that over 90% of the funds were directed towards four heads only, viz. Universities and Educational Institutions, Power companies, Autonomous Councils and Other Institutions. It needs to be mentioned that the State Universities, being autonomous bodies are considered to be local bodies. In four of the ten years of the study, viz. in 2008-09, 2010-11, 2012-13 and 2013-14, the share of these four heads accounted for over 96% of the funds devolved to the local bodies. In 2008-09, the high share was due to the increase in the transfer to funds to Universities and Educational Institutions (following the pay revision of employees). In 2010-11 too, Universities and Educational Institutions took a high share (71.59%) of the state funds to local bodies. The increase in the share of grants to local bodies as a percentage of revenue expenditure in 2012-13 can be attributed to the sharp rise in the allocation to Power companies from Rs. 69.1crores in 2011-12 to Rs. 401.43 crores in 2012-13. In the same year as well as the following year, i.e 2013-2014, allocation to Autonomous Councils also saw a substantial rise. Thus, the rise in the share of local bodies' grants to revenue expenditure saw a rise in particular years due to the increased allocation in specific heads only.

Component-wise when we look at the heads of expenditure, it is seen that Municipal Corporations/Urban Sewerage Board received less than 5% of the total grants. There was a sharp jump in the allocation in 2009-10. An important constituent of the state's local bodies, municipal corporations truly signify decentralisation of power, particularly in urban areas. Although this head is capable to generating its own resources, yet a lower share of state's grants makes it difficult to carry out activities which meet the developmental needs of the urban areas.

Table 6.3

Transfer of Resources from the State to the various Local Bodies

(*Amount in Crore Rupees*)

Year	Municipal Corporations/Urban Sewerage Board	Co-operative Societies and Co-operative Institutions	Universities and Educational Institutions	Power Companies etc. (ASEB, etc.)	Assam State Housing Board (ASHB)	Assam Khadi and Village Industries Board	Urban Development Authority (GMDA, etc.)	Autonomous Councils	ZillaParishads and other PRIs (Panchayati Raj Institutions)	Other Institutions	Total	Assistance as % of Revenue Expenditure
2006-07	17.66	0.04	892.58	70.53	1.34	6.80	27.79	167.75	27.19	61.44	1273.12	11.11
2007-08	24.47	1.64	822.57	102.36	1.34	11.25	0.12	83.86	42.53	109.22	1199.36	9.41
2008-09	9.25	0.10	829.40	3.10	0.08	5.90	10.10	92.54	-	191.49	1141.96	8.02
2009-10	105.41	0.34	955.46	42.24	1.64	11.87	13.28	102.09	-	281.52	1513.85	7.13
2010-11	56.74	1.00	1539.47	50.21	0.40	12.18	8.37	127.58	-	354.45	2150.40	9.37
2011-12	112.26	1.18	1602.93	69.10	0.46	21.56	10.14	123.88	-	175.96	2117.47	7.98
2012-13	94.37	7.88	2239.27	401.43	2.11	27.01	3.58	404.88	-	244.45	3424.98	11.75
2013-14	62.20	5.50	2760.62	278.76	4.58	24.77	11.52	393.42	-	671.91	4213.28	13.17
2014-15	93.47	12.53	1267.36	652.38	5.22	23.37	23.94	308.17	-	329.78	2716.22	6.95
2015-16	6.43	108.12	589.33	25.00	0.87	14.37	17.29	282.67	-	627.46	1671.54	4.50

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

Cooperatives are important associations for empowering the masses. As a local body, it received less than 1% of the state's transfers to local bodies, with the exception of 2015-16 when there was a massive rise in allocation to Rs. 108.12 crores from Rs .12.53 crores in the previous years.

Universities and educational institutions have been taking the lion's share of the transfers to local bodies, accounting for over 63% of the state's transfers till 2013-14. In 2011-12, it alone received 75% of the state's transfers, which is not desirable from the equity point of view. The highest amount of grants received by this head was in 2013-14, after which there has been a continuous fall in funds allocated to universities. In 2015-16, it accounted for 35.26% of the total funds transferred, which was the second highest allocation.

Power companies have had less than 10% of the share of funds for the local bodies. In two particular years however, the share has been much higher – 11.72% in 2012-13 and 24.02% in 2014-15. In monetary terms, power companies have seen great fluctuations in the amount of fund allocation. The sharp rise in allocation in specific years was possibly on account of implementation of new initiatives launched by this sector, time to time.

Assam State Housing Board (ASHB) and Khadi and Village Industries Board and Urban Development Authority (GMDA, etc.) were three constituents which received less than 1% each of the state's transfers to local bodies. While GMDA has adequate scope of generating own revenue which may justify a lower allocation, the other two constituents have limited possibilities of resource generation. To that extent, a higher allocation of grants is desirable.

Autonomous Councils (excluding those in Sixth Schedule areas) have received between 5% to 10% of the state's transfers for most of the years of the study. A sharp rise in fund allocation came in 2012-13 when it registered a rise of 227% over its previous year. Zilla Parishad and other PRIs, have not been receiving grants from the state since 2008-09 onwards, indicating the absence of intention on the part of the state government for empowering these institutions.

The allocation of funds towards 'Other institutions' have been showing a steady rise in the concerned period of study. Only in two particular years, viz. 2011-12 and 2013-14, there was a fall in the transfer of funds to this head. 'Other institutions' received the highest transfer of Rs.67191 crores in 2014-15. With the fall in the grants to Universities and educational institutions; the share of 'other institutions' in the transfer to local bodies, was the highest (37.54%) in 2015-16.

To sum up, the approach of state governments towards local bodies in Assam leaves a lot to be desired. Other than a few selected years, transfers from the state government to the local bodies, was less than 10% of the state's revenue expenditure. A major part of these transfers went towards universities and educational institutions. Although these institutions belong to the category of local bodies, by definition, yet they do not serve the purpose for which the local bodies as a third tier of the Government is formed. Again, there is disparity in the distribution of funds towards the local bodies. This is evident from the fact that four out of the nine constituent entities (excluding Zilla Parishad) received more than 90% of the funds for local bodies. With the possible exception of autonomous councils, these major entities are not directly concerned with the issue of decentralization of powers. Of the other entities which received the remaining 10% share of the state's transfer to local bodies, a few of them (Municipal Corporations and GMDA) have the ability to generate their own resources, but the rest do not have that scope. Hence shortage of funds for such local bodies creates severe restrictions in their functioning.

6.4 MECHANISM OF AUDITING OF ACCOUNTS OF LOCAL BODIES

Auditing of accounts of local bodies in Assam, both Panchayats and the Municipalities, is entrusted to the Director of Audit (Local Fund) Assam under the Technical Supervision and Guidance of the Comptroller and Auditor General of India. This is as per the recommendation of the 11th Finance Commission. Accordingly, under the provisions of the Assam Local Funds (Accounts and Audit) Act of 1930, the Director of Audit (Local Fund) Assam is empowered to audit the accounts of the Departments, institutions (both Government and Non-government) and other organizations which are under the purview of audit of the Director of Audit (Local Fund) Government of Assam, and any other Departments, institutions or organizations, determined and entrusted by the Government in the Finance Department from time to time.

All tiers of PRIs and Urban local bodies in Assam are audited at two levels. The primary auditor is the ***Director of Audit, Local Fund*** **(DALF),** Assam. For PRIs, the DALF, carries out the audit of local funds as well as performs the function of facilitating submission of Audit Reports of the administrative departments. In accordance with the Assam Audit Manual, the DALF is required to send an Annual Audit Report to the Finance Department by

30th September each year, incorporating major outstanding audit objections relating to PRIs which were pending for settlement, for further action by the Finance Department.

The secondary auditor for the Local Bodies in Assam is the Comptroller and Auditor General (CAG) of India. In case of PRIs, the CAG of India conducts audit of substantially financed PRIs only and audit of specific grants to PRIs. The CAG conducts the audit of PRIs as per the Technical Guidance and Support (TGS) arrangements, entrusted by the State Government. Likewise, for urban local bodies, the CAG as the secondary auditor conducts **selective audit of ULBs only.** For example, during April 2016 to March 2017, accounts of only 10 ULBs (one Municipal Corporation, five Municipal Boards and four Town Committees) were audited.

An assessment of the system of auditing the accounts of the PRIs and ULBs can be made from the extent of audit coverage by the DALF. According to the CAG Report on Local Bodies (2017), there is a high extent of arrears in the audit of PRIs, by the DALF, during the period 2012-17, ranging between 21 and 50 per cent. Similar arrears are visible for urban local bodies as well. Table 6.4 provides the details of the arrears of audit for PRIs and ULBs in Assam for the period

Table 6.4

Shortfall in Covering the Units Planned for Audit by DALF

Year	PRIs			ULBs		
	No. of units planned for audit	No. of units audited	Percentage of shortfall	No. of units planned for audit	No. of units audited	Percentage of shortfall
2010-11	1297	458	65	71	24	66
2011-12	877	492	44	54	34	37
2012-13	1423	788	45	58	26	55
2013-14	1130	888	21	57	41	28
2014-15	1131	842	26	48	21	56
2015-16	1511	753	50	67	41	39
2016-17	1560	801	49	76	49	35

***Source*:** Report on Local Bodies of Assam, CAG, 2016, 2017 and 2018

Table 6.4 clearly reveals the massive differences in the number of audits planned for and actual number of audits carried out. The reasons for this shortfall have been attributed to inconsistency of manpower as against the total number of auditable units. Adding to this problem is the increasing volume of transaction due to the introduction of various schemes and programmes by the Government. Besides, the Audit officials were also engaged for long periods in the Panchayat Elections and works related to National Register of Citizens (Report on Local Bodies of Assam, CAG, 2016).

Another lacuna in the auditing of accounts of the local bodies in Assam concerns the Inspection Reports. Inspection Reports (IRs) are issued by the Accountant General (Audit), Assam to the audited PRI authorities with a copy of each to the State Government. The PRI authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions brought out in the IRs and report their compliance promptly within three months from the date of receipt of the IRs. Important audit findings were also reported to the Government through the Audit Reports on Local Bodies. The Report on Local Bodies of Assam, CAG, 2018 mentions that "*As of March 2017, 6353 paragraphs with a monetary value of 2366.29 crores were pending for settlement for want of replies from the concerned PRIs. Further, even the first reply had not been received for 6092 paragraphs out of the 6353 paragraphs. This situation is indicative of the fact that compliance to the audit observations was not taken seriously. The administrative heads of the departments concerned also did not take steps to ensure that the concerned officers of the PRIs took prompt and timely action in furnishing replies to IRs thereby contributing to the weakening of the accountability mechanism for PRIs*". For ULBs, as of March 2017, settlements of 1,916 paragraphs with monetary value of 620.95 crores were pending for want of replies from concerned ULBs.

Another objection raised by the CAG Report on Local Bodies of Assam (2018) in the existing mechanism of auditing of account of the local bodies of Assam, is the release of funds by the Government to the PRIs and ULBs who had not submitted budget proposals. The Report also mentions that departments lacked control over their own revenue resources, as data regarding revenue mobilization of the PRIs and ULBs were not available. The Urban Development Department (UDD) and Panchayat and Rural Development Department (PRDD) failed to furnish information on the present status of preparation of accounts.

To sum up, the mechanism for auditing of accounts of local bodies in Assam suffers from several drawbacks. The absence of internal audit for both PRIs and ULBs and ensuring compliance with the auditing requirements makes the auditing process even more difficult. Until and unless the auditing arrangements of the local bodies are in place, the scope for misuse of the funds for the local bodies will thrive. The state government has to ensure that adequate help in terms of manpower and other technical assistance is provided to the local bodies for better reporting of their accounts.

6.5 MAJOR DECENTRALIZATION INITIATIVES OF THE GOVERNMENT OF ASSAM

Decentralization refers to the process by which the activities of an organization, particularly those regarding planning and decision making, are distributed or delegated away from a central, authoritative location or group. Decentralized planning or planning at the grass-root level or from below was introduced in India in the Seventh Plan. Following the recommendations of the Hanumantha Rao Committee, decentralized planning was initiated in Assam in 1986 with the setting up of the Decentralized Planning Division (DCP) at State Head Quarter and Decentralized Planning Cell (DPC) at every plain districts of Assam. The main objective of such decentralization was to ensure peoples' participation and decision making in the socio-economic development process of the state. The DCP, which has been renamed as the Transformation and Development Department, is the Nodal Department of the schemes at the State Level and performs the supervisory function while the Decentralized Planning Cell acts as the Nodal Implementing Agency in the plain districts under the district administration.

While most of the activities of the PRIs in the state are confined to implementing the Centrally Sponsored and State Sponsored schemes in the state, the principle of peoples' participation, as envisaged in the institution of Panchayati Raj fails to be promoted. In this context, a few decentralization initiatives have been launched by the Government of Assam, which seeks to ensure that local needs of the people or community are met. The ongoing schemes are the Member of Parliament Local Area Development (MPLAD) Scheme, MLA's Area Development Scheme, Scheme SUHRID, Sub Divisional Special Project (Untied Fund Scheme), Gyanjyoti Scheme and the Dharmajyoti Scheme. A brief description of the different schemes are presented in boxes from 6.1 to 6.6.
The various ongoing schemes in Assam as part of the Government's decentralization initiatives seek to meet in a major way, the infrastructural needs of the local areas. The

MPLAD, MLAAD and Untied Fund schemes are of this nature, since their emphasis has been on creation of durable assets that are expected to have a positive impact on productivity, On the other hand, schemes like Gyanjyoti encourage the aspirations of upcoming generation, while Dharmajyoti Scheme addresses the well-being of the elderly citizens. SUHRID, which is comparatively new, tries to provide relief to families in terms of providing aid to meet their health and educational needs. To this extent, there appears to be some diversity in the decentralization initiatives of the Government of Assam. Over time, with changing circumstances and needs, the guidelines of these schemes may be revised so as to enable greater people's participation and fulfillment of local needs.

Box 6.1

Member of Parliament Local Area Development (MPLAD) Scheme

The MPLAD Scheme was introduced in the year 1993-94 enabling an MP to recommend works of developmental nature with emphasis on creation of durable assets based on the locally felt needs to be taken up in their constituency. Initially, the allotment per MP was Rs. 5.00 lakh per annum, but with regular revisions, the allotment is presently Rs. 5.00 crores per annum per HPC. With 14 Lok Sabha MP's and 7 RajyaSabha MP's in Assam, the state is annually entitled to received Rs.105.00 crores under MPLAD scheme. Under this scheme, a Member of Parliament recommends schemes to Deputy Commissioners who in turn implement the schemes at the district level through the District Planning Cells.

Box 6.2

MLA's Area Development Scheme

In the line of MP's Local Area Development Scheme, the MLA's Area Development Scheme was originally introduced in 1994-95 with a view to up-grade the infrastructural status in each Assembly Constituency of the State. At the early stage of the scheme, each MLA was given the choice/ suggestion for development works amounting to Rs. 5.00 lakh annually to the concerned Deputy Commissioner of the district. This amount has seen successive revisions, and presently the annual allocation for each LAC is of Rs. 1.00 crore. An individual project's cost is limited between Rs. 0.50 lakh to Rs. 10.00 lakh, but in special cases of bigger projects, the limit cannot exceed Rs. 20.00 lakh. This has been effective from 2012-13 onwards. All schemes are implemented by the concerned Deputy Commissioner of the district on recommendation of the concerned MLA as per guidelines of the MLAAD Scheme.

The works recommended under this scheme should be of developmental nature, with the creation of assets which provide direct benefit to the public. Community programmes, self employment programme for backward groups, schemes for drinking water supply, education, electricity facility, health and family welfare, irrigation facility, roads, pathways, culverts and bridges, sports and other public facilities including sanitation and public health are some of the suggested areas where developmental projects under this scheme can be carried out.

Box 6.3

Untied Fund Scheme

The objective of this scheme, which was introduced in 1988-89, was to encourage Local Level Planning where local people are encouraged to plan schemes which address the special problems of local area, along with a certain measure of financial freedom. A certain amount of fund is earmarked for the purpose, and the fund is named as Untied Fund. The scheme under Untied Fund is primarily for asset creation and is desirable that the schemes help either production or employment generation or both. Purchase of inventory of revenue expenditure is strictly barred under the scheme. Fund is released to the concerned Deputy Commissioner for implementation of different development schemes. Unlike the MP's or MLA's Local Area Development Scheme, the Untied Fund is not divided among Legislative Constituencies and the selection of schemes is also not to be done constituency wise.

The Untied Fund Scheme requires that the type of works should be such that can be completed in one or two working seasons i.e. within the same financial year. It should lead to the creation of durable assets and should be for development works based on local felt needs. Scheme should be productive/remunerative /revenue earning and economically viable. It is important that the scheme helps removal of some problem of the area. At the same time, the scheme should be visible and may also contribute towards infrastructure development of the area.

Works belonging to commercial organization trusts, registered, societies, private institutions of cooperative institutions, repair and maintenance works, grants and loans, memorials, acquisition of land or any compensation for land acquired and places of religious worship are excluded from the purview of the Untied Fund scheme. Implementation of the untied fund scheme is carried out by the respective Government Department/Agency.

Box 6.4

SUHRID

A relatively new scheme, "SUHRID", was introduced in 2016-17. Under this scheme, an amount of Rs.6300 Lakh at the rate of Rs. 50 lakh per LAC for 126 LACs to the concerned Deputy Commissioners is to be released every year to provide financial assistance to the needy people, particularly to meet the hardship of health and education sector. This is done on the basis of the recommendation of the concerned MLA.

Box 6.5

Gyanjyoti Scheme

The scheme was introduced in 2004-05 with a view to provide awareness and exposure among the school students of Class- VIII to X, through educational excursion in different places within the state of Assam. Particular emphasis was made for students residing in rural areas of the state. From 2013-14 onwards, the programme was extended to visit places outside State also.

Through this initiative, around 7500 numbers of students from the rural areas are to be taken for educational excursion each year during the summer/winter vacation of the school. Apart from visit to educational institutions, the scheme also envisages a series of competition among the students and career counseling sessions. With an estimated cost of Rs. 1200 per student, the total expenditure under this scheme amounts to Rs. 9 crores per year[1]. However, in the financial year 2015-16, an amount of Rs. 3.00 crores was allotted and about 2500 students benefitted during that year.

Box 6.6

Dharmajyoti Scheme

The scheme was introduced in 2004-05 with a view to encourage the pilgrims and elderly persons to visit Religious and Historical places both within and outside the State. The scheme is implemented by the Assam State Transport Corporation with the help of all concerned Deputy Commissioners of the district. The Deputy Commissioner of Kamrup (M) district is the Nodal Deputy Commissioner for the scheme. An amount of Rs. 7.50 crores were released/utilized from 2011-12 to 2015-16 and 1, 33,446 nos. of people benefitted from the scheme. During the financial year 2016-17 an amount of Rs. 150.00 lakh was released and utilized for implementation of the scheme.

6.6 STATE FINANCE COMMISSIONS OF ASSAM – A BRIEF LOOK AT THE STATUS OF THE ACTION TAKEN REPORTS

Following the 73rd and the 74th amendments of the Constitution of India, the Assam Finance Commission (Miscellaneous and Provision) Act, 1995 was enacted by the Assam Legislative Assembly on18th April, 1995. The Act came into force with effect from 23rd June, 1995 and with that the Assam State Finance Commission was constituted by the Governor of Assam. The commission was set up to review the financial position of the local bodies and to make recommendations on the principles which should govern the distribution of the net proceeds of the taxes, duties, tolls and fees levied by the State, between the State and the Panchayats and Municipalities, the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by the Panchayats and Municipalities as well as the grants-in-aid to the Panchayats and Municipalities from the Consolidated Fund of the State. The term of the First State Finance Commission was from 1996-2001. Till date, five State Finance Commissions (SFC) have been constituted and the term of the Fifth SFC ends in 2020.

The First State Finance Commission in its report gave recommendations on the data base of local finance, devolution and distribution of taxes, expenditure norms, grants-in-aid, augmentation of resources as well as on the debt position of local bodies. The Report of the Assam Finance Commission together with Explanatory Memorandum on the Action Taken

Report (ATR) on the recommendations of the Commission was laid on the Table of the House in 1996. In its ATR, the Government accepted all the recommendations of the SFC report.

The Second Assam State Finance Commission covered a period of five years from 1st April 2001 to 31st March 2006. The recommendations submitted by the Commission in its Report, together with the ATR were laid on the Table of the house in 2003. While the Government accepted the recommendations regarding the augmentation of resources, debt relief and local finance data base, it stated the non-acceptance of the recommendations of the Commission on devolution of tax revenue to local bodies and grant-in-aid in the ATR.

The Report of the Third Assam State Finance Commission covering the period of five years from 1st April 2006 to 31st March 2011 together with ATR on the recommendations of the commission was laid on the Table of the house in 2008. Almost all the recommendations of the Commission were accepted by the state government in the ATR.

The Fourth Assam State Finance Commission was constituted in 2010. It presented its preliminary report which covered the period of one year from 1st April 2011 to 31st March 2012. This report along with ATR on the recommendations of the commission was laid on the Table of the house in 2011. The decisions taken by the Government on the recommendations of Preliminary Report of Fourth Assam State Finance Commission (FASFC) for 2011-12 have been accepted by the state government, but subject to the condition that PRIs and ULBs need to be adequately staffed with properly trained personnel, subjects to be transferred as per Schedules XI and XII of the Constitution of India, activity mapping to be prepared and accounts of the funds to be maintained properly. Otherwise, the possibility of non-utilization or misutilization of the devolved fund cannot be ruled out.

The Final Report of the Fifth Assam State Finance Commission covered the period of five years from 1st April 2015 to 31st March 2020. But by the time the report was tabled, the first year 2015-16 was already over. For the second year 2016-17, an interim report was submitted on 13-07-2016. As such, this report was to be valid for a period of 4 year's w.e.f. 1st April 2016 to 31st March 2020. The report along with the ATR on the recommendations of the Commission was laid on the Table of the House in 2017.

Thus, all the ATRs on the recommendations of the various state finance commissions have been tabled in the state legislature, while the recommendations have generally been accepted in all the ATRs, yet there are expressions of caution by the government in the ATRs.

6.7 CONCLUSION

In a federal set-up like India, local bodies have an important role to play. Being involved with the governance at the grassroots level, these bodies are better equipped in terms of knowledge to solve the problems arising at the local levels. It needs no explanation that local conditions in a state are very different from that at the national level. It is towards this end of ensuring better solution of the local problems and understanding their conditions and sentiments that the three tier federal system came into existence in India. Successful workings of the local bodies depend on an adequate and timely supply of funds. A study of the flow of funds to local bodies in Assam reveal that the transfer of government funds to these bodies is not going in a desirable manner because the entities getting the major share of the state's funds are not directly working at the grassroots level. Details about the source of funds of PRIs reveal that Government of India grants for Centrally Sponsored Schemes (CSS) is the major provider of the PRI funds in the state. This entails the PRIs to carry out these flagship programmes of the Government like Indira Awas Yojana, MGNREGS, and NRHM etc. which leaves them almost no liberty to implement ideas that are suitable for local needs. Undoubtedly, through these programmes, the basic needs of health and shelter of the rural people are met, yet the underlying principles of people's participation in decision making are not addressed. For urban local bodies, the pattern of funding was different with Central Finance Commission transfers and own revenue providing the major source of funds. Shortfalls in the state's transfers were as a major detriment to both rural and urban local bodies. Another drawback concerning the local bodies in Assam, as mentioned in the Report of the CAG of India on Local Bodies (2015), is that all the functions that have been constitutionally provided to the PRIs and ULBs have in effect not been handed over to the local bodies in Assam. This further places restrictions on their activities. To sum up, decentralization of decisions, as envisioned in the three tier governance system of our country, has not yet come up to the desired level even after twenty years of the constitutional amendments.

Chapter-VII

State Support to Public Sector Enterprise and Public Utilities: An Assessment

7.1 INTRODUCTION

Public utilities are those business undertakings which provide necessary services to the society. The undertakings dealing with public utilities require large scale capital investments. It is expected that the services should be provided at reasonable rates. Public utilities tend to be monopoly concerns. The entry of other entrepreneurs in these fields is generally barred by the government. R.G. Hawtrey defines public utilities as "a service in which a tendency to a local monopoly necessitates the intervention of a public authority to defend the interest of the consumer." Garuham Roper defines a public utility as "any undertaking that meets the needs or inconveniences of a considerable section of the public and that places the undertakings in a position justifying the imposition of the control in return for monopolistic or other special privileges." The purpose of making public utilities as monopoly concerns is to serve the consumers in a better way and to provide services at cheap rates. Certain special privileges are also given to these concerns with a view to improve their working.

Public Sector Enterprises often referred to as government owned undertakings/enterprises or state-owned enterprises are wholly or partly owned and controlled by the government and produce marketable goods and services i.e. PSEs includes industrial and commercial enterprises which are managed and controlled by government. A public sector enterprise (PSE) may be defined as any commercial or industrial undertaking owned and managed by the government with a view to maximize social welfare and uphold the public interest. 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.

Among public utilities, a very vital one is the sector, which is a natural monopoly producing the product electricity. What makes the power sector distinct from other public sector enterprises is that unlike other commodities, electricity cannot be stored and, at all times, supply must match demand. Provision of electricity involves interrelated process, namely, generation, transmission and distribution. Given that the demand for electricity varies across the day as well as across seasons, there is the need to have vertical integration of these three components and from the point of view of efficiency, it is preferable to have them under single ownership (Chandran, 2001). The industry is characterized by high sunk cost, requiring large and lumpy investment. Again, as the industry mostly provides an intermediate good, electricity tariff must be kept low so that the final product is not priced high. As a consequence, capital amortization requires a relatively long time`. All these characteristics make it desirable for the power sector to be under public ownership rather than private ownership.

However, around the seventies, all around the world, questions were raised on public monopoly of infrastructure development. The main argument was that under exclusive public ownership of infrastructure, the citizen could not get the same economic and responsive service as under market competition which could ensure efficiency and optimal allocation of resources. The perception of inefficient and unaccountable functioning of public monopolies led to the move towards de-monopolization of the power sector globally.

This chapter analyses the public sector enterprises of Assam with particular focus on the financial implications for the state, and then proceeds to examine the case of the power sector of Assam, mainly with reference to the implications of the power sector reforms.

7.2 PUBLIC SECTOR ENTERPRISES IN ASSAM

There are three basic forms of PSEs. PSEs are managed under specific government departments that are headed by a minister, known as departmental undertakings**.** These functions like any other government departments and are both functionally and financially accountable to the legislature. As statutory corporations, PSEs are also set up on the basis of specific act of parliament/state legislative assembly. Under this, the entity assumes a distinct identity with a fair degree of autonomy that is subject to the Act that defines the functions of the PSE and the rules and regulations under which it is to be governed. Also, PSEs exist 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. A large part of the Plan expenditure incurred by the Central Government is through public sector enterprises. Budgetary support for financing these enterprises is provided by the Government either through investment in share capital or through loans.

Government of India, as part of its national agenda to promote growth, to increase efficiency and international competitiveness, has been continuously framing policies for industrial growth, fiscal, trade and foreign investment to achieve overall socio-economic development of the country.

The main elements of the present Government policy towards Public Sector enterprises as contained in the National Common Minimum Programme (NCMP) are reproduced below:

i) To devolve full managerial and commercial autonomy to successful profit making companies operating in a competitive environment

ii) Generally, profit-making companies will not be privatized

iii) Every effort will be made to modernize and restructure sick public sector companies and revive sick industry

iv) Chronically loss making companies will either be sold off or closed, after all workers have got their legitimate dues and compensation

v) Private industry will be inducted to turn-around companies that have potential for revival

vi) Privatization revenues will be used for designated social sector schemes

vii) Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

7.2.1 PSEs IN ASSAM - AN OVERVIEW

With its establishment in 1958, the Assam State Warehousing Corporation (ASWC) was one of the earliest State PSU in Assam. The Assam Government Marketing Corporation Ltd.

(AGMC) was incorporated under the Handloom, Textile and Sericulture department in the succeeding year. 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 control such units. The department was empowered with far-reaching power which included the basic responsibility of framing the overall policy on the establishment, management and control of State PSUs. Approving new proposals, undertaking performance appraisal, suggesting remedial measures, and coordinating the functions and operations of the existing PSUs in the state were few of the main functions of such PSUs.

The seven boxes below indicate the number of PSUs of the state of Assam. As on 2006 it 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-7.1

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

Box-7.2

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

Box-7.3

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	06.08.1975	Welfare of Plain Tribes & Other Backward Classes	Private Company

		Other Backward Classes Ltd.			
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-7.4

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	19.04.1954	Finance	Statutory

		Corporation			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-7.5

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-7.6

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-7.7
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

7.2.2 STATUS 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 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.

To get a proper perspective of the status of the state PSEs, the enterprises have been arranged under three categories as ***Operationally Viable, Operational but Loss Making,*** and ***Chronic Loss Making Units Closed or Facing Closure***.

Box-7.8
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	Assam State Transport Corporation	Transport
	Assam Tourism Development Corporation Ltd	Tourism
	Assam Electronics Development Corporation Ltd	Information Technology
	Assam Fisheries Development Corporation Ltd	Fisheries

Improving Trend	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-8 indicates 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 incurring losses but with signs of improvement.

Box-7.9

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.		Welfare of Minorities & Development
Assam State Development Corporation for Other Backward Classes Ltd.		
Assam Minorities Development & Finance Corporation Ltd.		

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

Box-9 contains PSUs that are operational but loss making. The list includes the critical Assam State Electricity Board (ASEB) which continues to roll under losses notwithstanding 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.

Lastly, Box-10 displays 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.

Box-7.10 **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 Power loom 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.

7.2.3 INVESTMENT AND RETURNS

A significant amount of resources is invested by the government on statutory corporations, government companies, joint stock companies and co-operatives. The vital justification for state intervention is that these units involve massive investment with long gestation period which acts as a disincentive for private enterprises. Moreover, the presence of positive externalities in such projects imply 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. 1984.46 crores which yielded a return of only Rs. 18.94 crores (0.93 percent). Given that fact that the government had to borrow at 7.75 % interest in that year, the loss to the government was in terms of the difference between interest paid and return was 6.82 percent. Although the rate of return was 1.21 in the year 2007-08, but this trend of lower than 1 percent (as % of rate of return) continued in the case of government investment with the average rate of return in the six year period (2008-09 to 2014-15) lying below 1 percent. In the subsequent year (2015-16) the percentage return on investment increase to 2.92 percent although the government liability was significantly reduced by a decline in the average interest rate payable on borrowed funds to 3.56 percent in that period.

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

Table-7.1

Returns on Government Investment

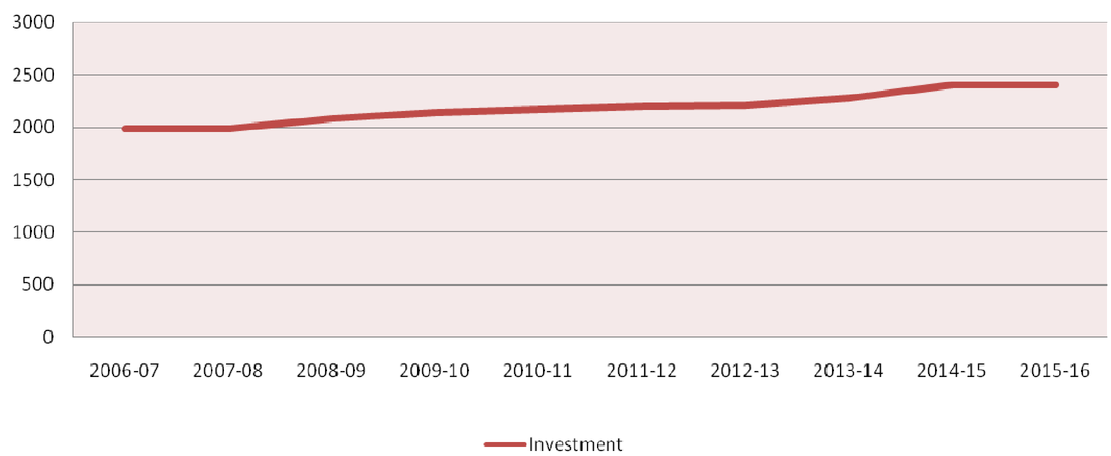
(In crore rupees)

Year	Investment	Return	% of Return	Average Interest on Government Borrowing	Difference between Interest paid and return
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
2012-13	2212.97	11.64	0.53	6.57	6.04
2013-14	2282.19	12.05	0.53	6.53	6.00
2014-15	2403.90	16.23	0.68	6.40	5.72
2015-16	2404.37	70.06	2.91	6.47	3.56
2016-17	2509.95	124.44	4.96	6.57	1.61

Source: Audit Report (State Finance) 2002-03. 2006-07, 2011-12, 2015-16, Government of Assam.

Figure 7.1

Investment



Box-7.11

Accumulated loss of PSEs

(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	

Source: Audit Report (State Finances) 2011-12, Government of Assam.

7.2.4 GOVERNMENT 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. Except for the year 2008-09, the total interest received was negligible at even less than 0.5 percent of the total loans and advances outstanding in the period 2006-07 to 2016-17. The biggest recipient of the loans in 2006-07 were power projects which were sanctioned Rs. 72.54 crores.

The total outstanding loans and advances decreased from Rs. 2675 crores in 2006-07 to Rs. 4694 crores in 2016-17. Although the total out standings 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 2011-12 of a total outstanding of Rs. 3054 crores the interest received was only Rs. 11 crores 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.

Table-7.2

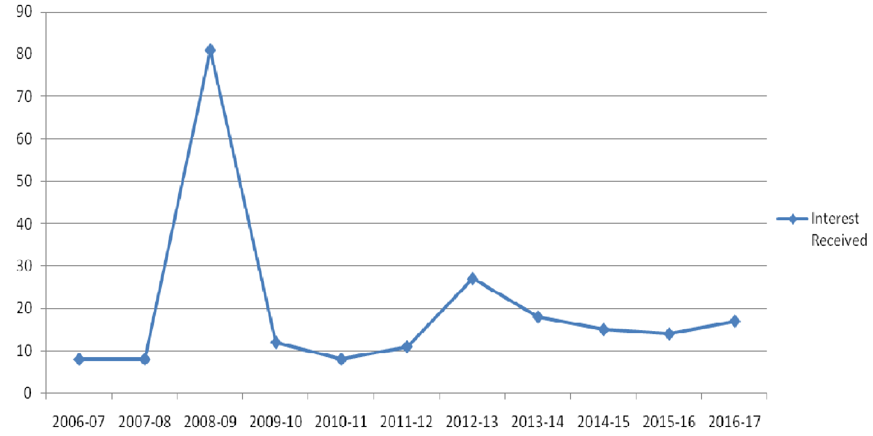
Average Interest Received on Loans by the State Government

(Rs. in crores)

Head	Opening Balance	Advance	Repayment	Closing Balance	Net Addition	Interest Received	% of Interest Received on Outstanding Loans	Average Interest on Government Borrowing (%)	Net interest paid over Interest Receipt (%)
2006-07	2675	81	35	2721	46	8	0.29	7.75	7.46
2007-08	2721	143	40	2824	103	8	0.28	7.14	6.86
2008-09	2824	89	35	2878	54	81	2.81	6.76	3.95
2009-10	2878	99	33	2944	66	12	0.41	6.83	6.42
2010-11	2944	71	28	2978	43	8	0.27	6.58	6.31
2011-12	2987	88	21	3054	67	11	0.36	6.78	6.42
2012-13	3054	460	7	3507	453	27	0.77	6.57	5.80
2013-14	3507	822	6	4323	816	18	0.42	6.53	6.11
2014-15	4323	631	10	4944	621	15	0.30	6.40	6.10
2015-16	4944	260	510	4694	-250	14	0.30	6.47	6.17
2016-17	4694	499	19	5174	480	17	0.33	6.57	6.24

Source*:* Audit Report (State Finance) 2006-07, 2011-12, 2017-18, Government of Assam

FIGURE-7.2
Interest Received



Out of the Rs.88 crores loans disbursed in 2011-12, the major portion was allocated to Economic Services (Rs. 70.43 crores), Rs. 11.37 crores went to Social Services and an amount of Rs. 6.47 crores was directed towards government servants. As in the earlier period, power project got the largest share of the loans disbursed with 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 2011-12 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. Again, in 2015-16, 0.30 percent of interest was received on outstanding loans. It had increased to 0.33 percent in 2016-17.

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.

7.2.5 CHALLENGES OF PSEs

There is a presence of a defective pricing policy and PSEs have been given the independence to fix their own price in a competitive manner. In the recent years various price regulatory commission for regulating prices in best interest of both consumers and producers have been established whose recommendations are applicable both for private and PSEs. Government on its part continues to be sensitive to the needs of the poor and price level in the economy. Any rise in price generally warranted by market conditions is avoided. For example, pricing of petroleum. The rise in the international price of crude oil is hardly passed on to the consumers. The social approach set prices in PSE causes a lower returns and financial losses. There also exists considerable political interference in the operational aspects of PSEs in terms of appointment in the management, pricing of products, location of projects. The decisions are guided by political considerations and not by economic factors. Due to red-tapism and bureaucratic management there is delay in decision-making of these organizations. PSEs thus fail to take advantage of opportunities thrown open by the market.

Besides, the public sector enterprises are overstaffed which increases cost of production and inefficiency in the organization. The offers made by the Government for disinvestment of PSEs are not attractive and stringent bureaucratic procedures cause the discouraging of the private sector investors. Again, the appraisal system lack performance-based remuneration system. The system lacks incentives to improve and penalties for delays and failures. The security of service makes them lethargic and reduces creativity. This lack of accountability causes inefficiency and losses in the public enterprises. Thus, public enterprises operate at less than their full capacity and produce lower than potential output.

The basic objectives of the state PSUs were to promote rapid economic growth and to enhance social welfare. The underlying principle 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.

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. Despite the good intension, the state PSEs have failed to achieve their objectives both functionally and financially.

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 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 Government needs to be transparent about its approach towards sequencing the restructuring and the methods of privatisation of PSEs.

Box-7.12

Budgetary Support to SPSUs

(Rs. in crores)

SL.NO.	Particulars	2013-14		2014-15		2015-16		2016-17	
		No. of SPSUs	**Amount**	**No. of SPSUs**	**Amount**	**No. of SPSUs**	**Amount**	**No. of SPSUs**	**Amount**
1	**Equity capital outgo from budget**	**2**	**55.42**	**-**	**-**	**-**	**-**	**1**	**0.07**
2	**Loans given from budget**	**6**	**255.54**	**5**	**589.48**	**6**	**455.35**	**6**	**411.57**
3	**Grants/subsidy from budget**	**18**	**759.75**	**13**	**413.07**	**9**	**507.25**	**9**	**841.75**
4	**Total outgo (1+2+3)**	**19**	**1071.11**	**17**	**1002.55**	**12**	**962.6**	**13**	**1253.39**

The total budgetary support given by the Government of Assam to PSUs was Rs. 1253.39 crores which indicated an increase since the previous year 2015-16 as it was Rs. 962.6 crores. It was Rs. 1002.55 crores in 2014-15. Higher grants/subsidy was given in 2016-17 due to which there as a sharp increase in the total outgo.

In an era of reduced budgetary support PSEs have been allowed to raise equity finance from the capital market. This has provided a market pressure on PSEs to improve their performance. The state government has adopted a strategy of standardized disinvestment of the loss making PSEs. Notwithstanding the strong opposition from retrenched workers and other stakeholders, it is essential that the process is continued 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 has yet a crucial role to play in a comparatively underdeveloped state like Assam and their revival remains one of the biggest challenges of the government. Since PSEs may be regarded as the driver of economic growth, the performance of Public Sector Enterprises has considerable scope for improvement in Assam.

Box 7.13
Suggestions to Improve the Performance of PSUs

Since public sector undertakings are not guided by pure monetary considerations but with the sole objective of promotion of public welfare, hence, the performance of PSU should be evaluated in terms of welfare criteria which may involve the following considerations-

- *Whether PSEs have promoted welfare with the provision of necessary essential goods and services at affordable prices*
- *Whether PSEs have contributed to the development of SSI and ancillary industries.*
- *Whether PSEs have made employment opportunities along with promotion of balanced regional development*
- *Whether PSEs have generated better infrastructure for the speedy growth of industries and presence of no underutilization of capacity.*
- *Whether pricing policy of the public enterprises is not guided solely by profit motive but social consideration too.*

Box 7.13 (contd.)

- *Whether there is favorable input-output ratio including administrative efficiency.*
- *Whether huge expenditure on social overheads are controlled.*

Thus, restructuring involving modernization, rationalization of capacity, product-mix changes, selective exit and privatisation is necessary to make PSEs viable, efficient and competitive. This is only possible through the introduction of new technology to improve competitiveness and efficiency and proper establishment of new institutional set-up that is responsive to environmental change. Disinvestment of shares in PSEs shall help to raise resources and encourage wider participation. Heavy losses were incurred by the Assam Power Distribution Company Ltd (Rs 418.14 crores), Assam State Transport Corporation (Rs 33.43 crores) and Assam Industrial Development Corporation Ltd (Rs 7.46 crores) in previous years. The state PSUs can discharge their role efficiently only if they are financially self-reliant. Besides, there is a need for improving professionalism and accountability in the functioning of PSUs.

7.3 POWER SECTOR OF ASSAM

In the Indian context, the power sector plays a decisive role as a critical input in a nation's economic development. Provision of electricity in India belongs to the concurrent list of the Seventh Schedule, where power is exercised both by the central and state governments. Accordingly, the bodies which look after the generation, transmission and distribution of electric power in the states are States Electricity Boards (SEBs) and central agencies as National Thermal Power Corporation (NTPC), National Hydro Power Corporation (NHPC). In nineties, poor financial positions of the State Electricity Boards and the ever-rising demand-supply gap in electricity provision led to the initiation of the process of power sector reforms in the Indian states (Chandran, 2001). Power sector reforms entailed the setting up of independent regulatory commission, unbundling of the state electricity boards and eventual privatization, especially of distribution. Orissa was the pioneer state, which enacted comprehensive electricity reforms legislation in 1995 incorporating the above elements.

7.3.1 POWER SECTOR REFORMS IN ASSAM

Power sector Reforms in the state were initiated with the signing of the Memorandum of Understanding made between the Ministry of Power, Government of India and the Government of Assam in 2001. The objective of the reform was to ensure the commercial viability of the power sector so that its dependence on budgetary support could be gradually removed. Prior to the reforms, the generation, transmission and distribution of electricity in Assam was carried out by the Assam State Electricity Board (ASEB) which was created in 1975 under the Electricity (Supply) Act of 1948. 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; defaults in making payments to its lenders, power suppliers like NEEPCO, gas suppliers like GAIL and OIL, non-completion of hydro-electric projects, etc. which resulted in severe power shortage. The quality of power supply to consumers too was extremely poor with problems of low voltage, frequent tripping of the system and unscheduled load. Under the 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.

As part of the power sector reforms in the state, the ASEB was unbundled into three different companies allocating generation, transmission, and distribution activities among them. These three companies were Assam Power Generation Company Ltd (APGCL), which was assigned the task of power generation, Assam Electricity Grid Corporation Ltd (AEGCL) which was to ensure the transmission of power, and Assam Power Distribution Company Ltd (APDCL) which was assigned with the work of distribution of electrical power.

Assam Power Generation Corporation Ltd. was constituted after unbundling of ASEB in December 2004 and the final transfer scheme was implemented on August 2005. The company was to ensure the maximum energy generation to meet up the energy demand in the state. For this, stress was laid on developing new power projects, following the best practices for repair and maintenance of power houses and electrical infrastructure to improve quality and avoiding cost and time overruns on the schemes under execution through effective monitoring systems.

Some of the ongoing projects of APGCL are the Lower Kopili Hydro Electric Project (LKHEP) with a capacity of 120 MW, Borpani Middle-II Small Hydro Electric Project2 of 24 MW capacity, Borpani Middle-I SHEP (DPR under process) of 22.5 MW and Margherita Thermal Power Project (2X800 MW)

The **Assam Electricity Grid Corporation Limited** (AEGCL) was formed out of restructured Assam State Electricity Board in 2003 and was notified as the State Transmission Utility (STU).

Its core business is to efficiently transport electrical power from electrical power bulk heads to the distribution company networks in the state of Assam. The corporation inherited 3862 circuit kms. of EHV lines above 66 kV voltage class and 38 numbers of EHV sub-stations having a total transformation capacity of 1636.50 MVA at its birth in 2003. Over the years, it has added 1584 circuit kms of EHV lines and has added 4125 MVA transformation capacity by way of commissioning 17 new EHV sub-stations and augmenting existing sub-stations. It has also added Reactive Power Compensation at 33 kV bus to the tune of 285 MVAR. Assam Electricity Grid Corporation Limited had also added one 400/220 kV Grid Substation and One 220/33 kV GIS Sub Station during the preceding years. As on 21.07.2018, AEGCL has 65 nos. of EHV Grid Substations (400 kV-1 no., 220 kV- 11 nos. and 132 kV - 53 nos.) with total Transformation capacity of 6158 MVA[2]. The **APDCL** was formed to take over, manage and operate the electricity distribution system of the ASEB. For better distribution of electricity, APDCL seeks to have an advanced planning for procurement of electricity, enhance the capacity of the electrical sub-divisions and distribution networks by investing in infrastructure , expand the distribution network to cover all the villages, create awareness among the consumers about economic use of electricity. Additionally, it seeks to replace electro-mechanical meters with electronic meters and detect unauthorized use of electricity for better revenue collection. Emphasis is also on ensuring an effective HT/LT Ratio, reduction of AT&C Losses and installation of underground cable in lieu of overhead lines.

Being the company that deals with the users of electricity directly, the APDCL is thus involved in the implementation of certain schemes meant for the users of electricity in the state. The **'Saubhgya' (Pradhan Mantri Sahaj Bijli Har Ghar Yojana)** scheme proposes to achieve universal household electrification in the country by 31st March, 2019. Covering both urban and rural areas, a total of 26.45 lakhs of households are proposed to be electrified in Assam. All new connections under Saubhagya Scheme will be released through the Mobile App named "SANJOG" and hence will ensure a paperless connection process. **The Deen Dayal Upadhyaya Gram Jyoti Yojana (DDUGJY)** is another scheme that is being implemented by APDCL. Under the programme, electrification is sought to be provided to all villages, to further develop the sub-transmission and distribution network to improve the quality and reliability of power supply and metering to reduce the losses. **The Integrated Power Development Scheme (IPDS)** is a similar scheme meant for **s**trengthening of sub-transmission and distribution network in the urban areas along with metering of distribution transformers/feeders/consumers in the urban areas. With the

[2] Source: www.aegcl.org

objective to improve the operational and financial efficiency of the State Power Distribution Companies (DISCOMs), APDCL is also involved in the **Ujwal Discom Assurance Yojana (UDAY).** Under this scheme, APDCL has proposed to reduce the AT&C losses to 15% & ACS-ARR Gap to Rs. 0.05 by 2019-20.

To sum up, various changes have been sought to be made by the three corporations in Assam, following the initiation of the power sector reforms in the state. Reforms were basically introduced to improve the financial performance of the power sector and at the same time ensure a supply of electricity that matches the demand requirements of the state. To understand whether the reforms have been able to influence the power sector of the state positively, we proceed to examine whether the demand – supply requirements correspond with each other, and also examine the financial performance of the three power corporations.

7.3.2 IMPACT OF POWER SECTOR REFORMS ON THE FISCAL HEALTH OF ASSAM

The performance of the power sector in terms of availability of power has a definitive role in the economic development of the region. The 'energy sector' is an important head of expenditure under Economic Services, entailing both revenue and capital expenditure. In the period from 2006-07 to 2015-16, the energy sector accounted for less than 5 percent of the revenue expenditure on economic services and between 5 to 10 percent of capital expenditure on economic services. Capital expenditure on the sector was especially high (over 20 percent) in 2007-08 and 2008-09.Thus, the power sector, while aiding the development process also claims the state's resources. To assess whether the power sector reforms in the state have made a desirable impact, we need to examine whether the availability of power supply in the state has been able to match the demand for it, and also whether the three corporations involved in generating, transmitting and distributing electricity are performing well financially. The ability of the power sector to supply power which meets the demands of a growing economy would imply the efficient functioning of the sector. Likewise, good financial performance of the three corporations would indicate that these companies are no longer a burden on the state's resources.

As far as power generation is concerned, Assam Power Generation Corporation Ltd.(APGCL) alone could not fulfill the needs of the state entirely. In 2017-18, APGCL produced 1492.32 MU equivalent power and the remaining power demand to the tune of 8013.72 MU had to be met through power purchase from various sources, like North East Electric Power Corporation (NEEPCO), National Thermal Power Corporation (NTPC), Indian Oil Corporation, National Hydroelectric Power Corporation (NHPC), etc, as well as through bilateral sources (Statistical Handbook of Assam, 2018). Thus APGCL could meet roughly 16 percent of the state's power demand. The rates at which power is purchased from sources outside the state, is determined according to the rules and regulations specified in the Tariff Policy of the Ministry of Power, Government of India.

We first take a look at the performance of the power sector in Assam in terms of its availability for the users. Table 7.3 presents the power supply position of the state in terms of the energy demand and availability.

Columns 2, 3, 4 and 5 of table 7.3 show the availability of power sector to meet the peak demand. Over the years, peak demand for power in the state has been increasing, and so also the availability to meet the peak demand. But the peak demand is unable to be met in the state, resulting in a demand-supply gap. The same picture holds for the energy requirement and energy availability. Energy requirement stands higher than availability for all the years of study. Despite this gap between demand and supply, a positive feature that come out both for peak demand and energy requirement is that the gap has been coming down over the years.

Shortage as a percent of peak demand was 21.46 percent in 2006-07, and this has been gradually coming down. In 2015-16, only 4.98 percent of the peak demand was unable to be met in the state. Energy shortage, as a percentage of energy required was 16.55 percent in 2006-07, and this gradually showed a downslide over the years. The gap was suddenly high in 2014-15, possibly due to the rise in energy requirement of that particular year. In 2015-16, only 3.64 percent of the energy required in the state was not met.

Table 7.3

Power Supply Position of Assam

Year (1)	Peak (MW)		Peak Shortage(-)/Surplus(+)		Energy (MU)		Energy Shortage(-)/Surplus (+)	
	Peak Demand (2)	Peak Demand Met (3)	(MW) (4)	(%) (5)	Requirement (6)	Availability (7)	(MU) (8)	(%) (9)
2006-07	797	626	-171	-21.46	4585	3826	-759	-16.55
2007-08	891	775	-116	-13.04	4621	4018	-603	-13.05
2008-09	972	824	-148	-15.25	5039	4270	-769	-15.26
2009-10	974	885	-89	-9.14	5049	4590	-459	-9.09
2010-11	1065	947	-118	-11.08	5403	5031	-372	-6.89
2011-12	1135	1060	-75	-6.61	5877	5700	-177	-3.01
2012-13	1286	1068	-218	-16.95	6392	5895	-497	-7.78
2013-14	1362	1218	-144	-10.57	7434	6965	-469	-6.31
2014-15	1423	1194	-229	-16.09	9104	7165	-1939	-21.3
2015-16	1526	1450	-76	-4.98	7857	7571	-286	-3.64

Source: Economic Survey of Assam, related issue

The diminishing gap between the demand and supply of power is evident from figures 7.3 and 7.4.

Figure 7.3

Peak Demand and Peak Demand Met of Power in Assam

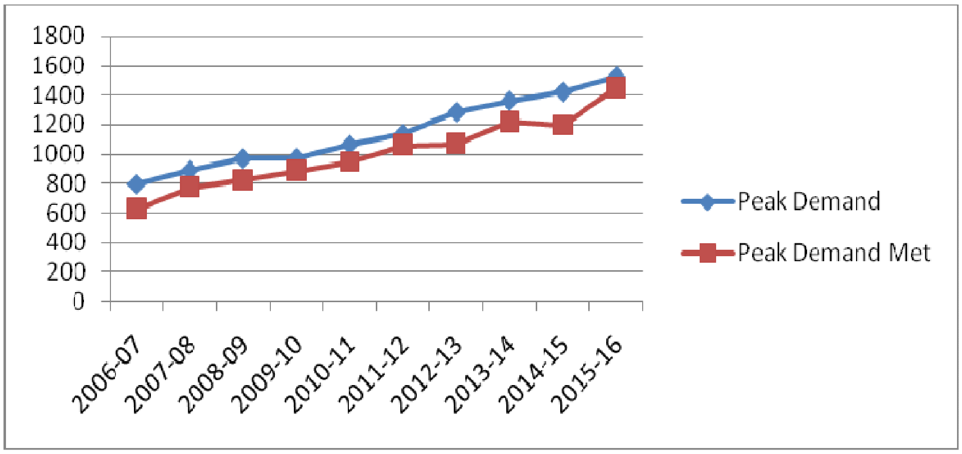
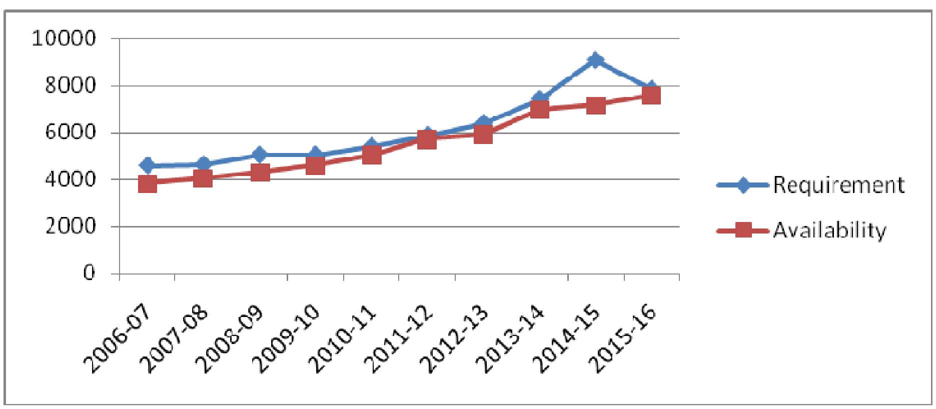


Figure 7.4

Energy Requirement and Availability of Assam



The two figures clearly show the rising levels of demand for power in the state, as well as the supply of power. What is important to note here is that the gap between the two is getting reduced. With efforts to augment the supply of power through increased production and efficient transmission and distribution, the gap between demand and supply of power in the state may no longer exist in the coming years.

Having analyzed the performance of the power sector in terms of availability, we next move on to examine the financial performance of the three constituent companies of the power sector of Assam. This is done by looking at their income and expenditure details for a few selected years as is presented in table 7.4.

Table 7.4

Total Income and Expenditure of APGCL, AEGCL and APDCL

(*Amount in Crore Rupees*)

Organization	Item	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Assam Power Generation Company Ltd (APGCL)	Total Income	-	-	-	367.27	429.07	429.17	473.42	576.59	618.38	550.43
	Total Expenditure	-	-	-	373.34	411.95	506.21	479.00	662.51	687.04	825.51
Assam Electricity Corporation Grid Ltd (AEGCL)	Total Income	198.01	222.21	348.6	315.10	315.09	429.19	597.7	520.76	555.76	623.91
	Total Expenditure	266.72	280.94	328.9	342.18	342.18	496.76	473.8	527.51	636.31	823.65
Assam Power Distribution Company Ltd (APDCL)	Total Income	-	-	-	-	1565.33	2358.70	2638.36	3031.14	2638.36	-
	Total Expenditure	-	-	-	-	1864.25	2914.86	3140.41	3577.77	3140.41	-

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

Table 7.4 denotes the income-expenditure figures of the three corporations. For all the three, the expenditure incurred consistently exceeded the income earned for all the concerned years, suggesting that none of the corporations have been able to break even. Plotting the income and expenditure figures on a graph reveal interesting differences between the financial performances of the three companies.

Figure 7.5
Income and Expenditure of APGCL

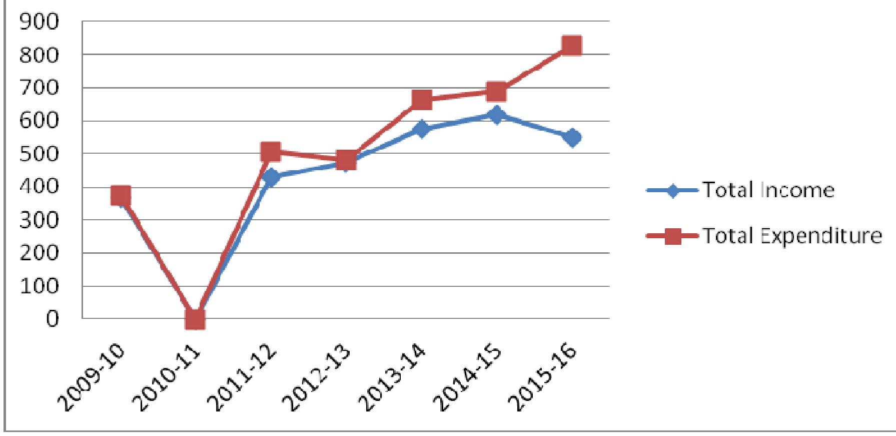


Figure 7.6
Income and Expenditure of AEGCL

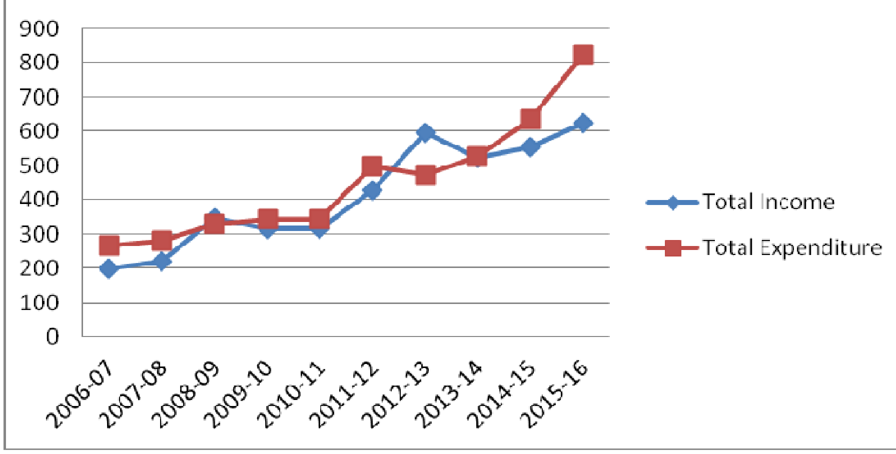
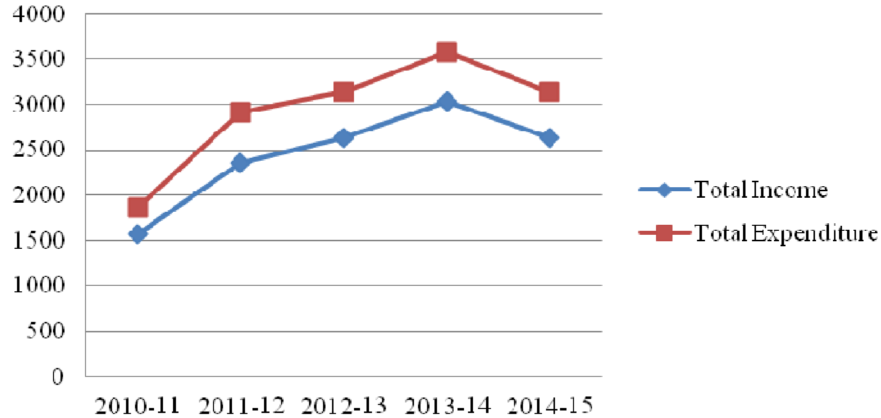


Figure 7.7
Income and Expenditure of APDCL



For APGCL, which is involved in the generation of electricity, the gap between income and expenditure appear to be widening indicating increasing losses. For AEGCL, the corporation entrusted with the transmission of power, the income-expenditure gap appears to be closing down, but then has widened from 2014-15 onwards. For APDCL which deals with the distribution of electricity, the gap between income and expenditure has remained more or less constant. These three different income expenditure patterns suggest that the costs and pricing of their respective products need to be addressed separately. Only then can effective solutions be worked out, which are necessary for the three corporations to financially sustain themselves. Until and unless this is taken care of, the reforms in the power sector will fail to meet its objectives.

Changes in the power sector of the state have been incorporated ever since the reforms were initiated in 2001. For augmenting the supply of power in the state, necessary steps have been adopted to increase production and reduce transmission losses as well as losses arising out of theft. Additionally, the welfare needs of the people of the state have to be kept in mind, which means expansion in the provision of electricity. The very nature of the good, i.e. electricity, is such that even if its provision is privatized, yet the pricing structure cannot be identical with that of a private firm. In this connection, the task of the Assam Electricity Regulatory Commission (AERC) which is assigned with the fixation of tariff for electricity in the state assumes significance. This is important given that all the three power corporations in the state are still making losses. The issue of financial performance of the corporations needs to be seriously addressed because if they continue making losses, the reforms will turn out to be self-defeating. As far as the provision of electricity in Assam is concerned, both demand and supply are increasing. Although demand for energy still exceeds the availability, yet the gap between the two has been coming down. Continuing the efforts to augment the existing supply of power together with exploring other non-conventional sources of energy, such as solar energy, the power supply position in the state can be improved further. This together with the financial prudence of the power companies can ensure that power sector reforms in the state contribute positively to the fiscal health of the state.

Chapter-VIII
Analysis of Contingent Liabilities of the State

8.1 INTRODUCTION

Contingent liabilities have gained prominence in the analysis of public finance and the assessment of the true financial position of the public sector. They indicate the liabilities that are conditional upon predefined events or circumstances which largely include the state government guarantees in respect of bond issued and other borrowings by the State Level Public Sector Undertakings or other bodies. They refer to obligations whose timing and magnitude depend on the occurrence of some uncertain future event outside the control of the government. The focus on contingent liabilities reflects the increased awareness of their ability to impair fiscal sustainability. Contingent liabilities bear potential financial risks conditioned upon the occurrence of the event.
Contingent Liabilities can be defined as obligations triggered by a discrete event that may or may not occur due. This is due to the fact that in case of any default by the borrowing entity, the responsibility directly falls on the government to redeem the borrowed amount. The visible costs of financial crisis are well known such as bank recapitalization, stimulus spending and shrunken tax revenues.

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 highly uncertain occurrence of the event such as default by the principal borrower. For a better perspective, the types of contingent liabilities are explained below.

8.2 TYPES OF CONTINGENT LIABILITIES

Contingent liabilities can be explicit or implicit.

Explicit liabilities are obligations based on contracts, laws or clear policy commitments. These are, with few exceptions, liabilities that the government deliberately chooses to take on. They are recognized by law or contract such as state guarantees issued on behalf of sub national governments and public and private sector entities. They include, loan guarantees (state guarantees to repay a third party borrowing in case it defaults), export guarantees (guarantee against the importer reneging on the contract), other financial guarantees (exchange rate guarantees, minimum pension guarantees, income, profit, rate of return guarantees, deposit guarantees, guarantees of pension savings etc.), government insurance programme (state insurance schemes such as for deposits, floods, crops etc.) trade and exchange rate guarantees offered by the state, natural disaster spending (infrastructure under government responsibility, such as buildings, roads, ports, hospitals and universities), legal claims against the government related to privatization, liquidation of agencies and personnel management. 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.

In contrast, *implicit* contingent liabilities are political or moral obligations and sometimes arise from expectations that government would intervene in the event of a crisis or a disaster, or when the opportunity cost of not intervening is considered to be unacceptable. They primarily are the indications of public expectation which includes bailouts of public enterprises, financial institutions, sub-national governments and private firms that are either strategically important or "too big to fail", natural disaster relief, environmental cleanup spending. Implicit contingent liabilities are graver as it tends to grow with weakness in the macroeconomic policies, regulatory and supervisory system and the financial sector.

Contingent Liabilities can also be categorized into two groups funded or unfunded. *Funded* liabilities are matched by a reserve or charge against profits equal to the actuarial value of the liability i.e., the reserve equals the present discounted value of the payoffs while *Unfunded* liabilities do not have matching reserves.

8.3 CONTINGENT LIABILITIES AND ITS IMPORTANCE

The relative importance of various types of contingent liabilities is country-specific but implicit liabilities have generally been the most costly.

The Internal Working Group of Ministry of Finance for setting up an independent debt management office, chaired by Jahangir Aziz, in its Report (October 2008) had highlighted the following issues of contingent liabilities.

- Explicit contingent liabilities are a cost-effective manner for states to incentivize the private provision of public goods. However, proper pricing and valuation of these guarantees is very important for efficient risk management by the State. There could be significant negative fiscal repercussions for the State if contingent liabilities mature in large numbers at the same point in time.
- By their very nature, contingent liabilities are most likely to be called in during an economic downturn. These fiscal payments are counter-cyclical in nature. But, this is also the time when the state is least able to afford to fulfil such obligations due to reduced revenue collection. Hence, risk management of these liabilities would allow states to lessen the risk of default on these liabilities.
- Making the nature and volume of these liabilities public will increase both transparency and accountability in budgetary transactions.
- Further, guarantee-risk is conceptually the same as the risk taken in borrowing and on-lending funds, which is a risk that a debt management office will have to deal with on a day-to-day basis.

Hence the Aziz Committee had suggested the creation of a *"National Treasury Management Agency"* to deal with such contingency liability management issues.

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.

There is an argument which is invoked to justify taking on risks through contingent liabilities which include income redistribution and international competitiveness. In the context of contingent liabilities, government guarantees could keep some firms alive and prevent increases in unemployment. With decisions which involve the use of public funds, decisions to take on fiscal risks through contingent liabilities maybe made on the cost-benefit analysis.

The complication regarding the non-transparency of accounts maintained by state governments is their treatment of contingent liabilities. It is important that the state governments identify the possible sources of financial stress in the future. Contingent liabilities are fiscal risks that are realized when uncertain events occur. It is common for the state governments to enter into arrangements with private sector enterprises or public or co-operative sector enterprises to build/own or operate projects. The sub national government may provide equity funding or subsidies or guarantees related to demand for output, supply of inputs and on debt of the enterprise. Such obligations are in the form of contingent liabilities which are not directly reflected in the budget (they are many times referred to as off budget items) of state governments. If any of the projects financed on this basis runs into financial trouble the state government would be called upon to pay up. It has been argued that governments potentially have two ways to deal with contingent liabilities. Firstly, the government could wait till the contingent liability becomes an actual liability (i.e. in case of a guarantee wait till it is actually exercised) at which point debt can be raised by the extent of the guarantee. Secondly, the government could set up an independent trust fund that would itself have a limited liability.

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 crores 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.

Table-8.1

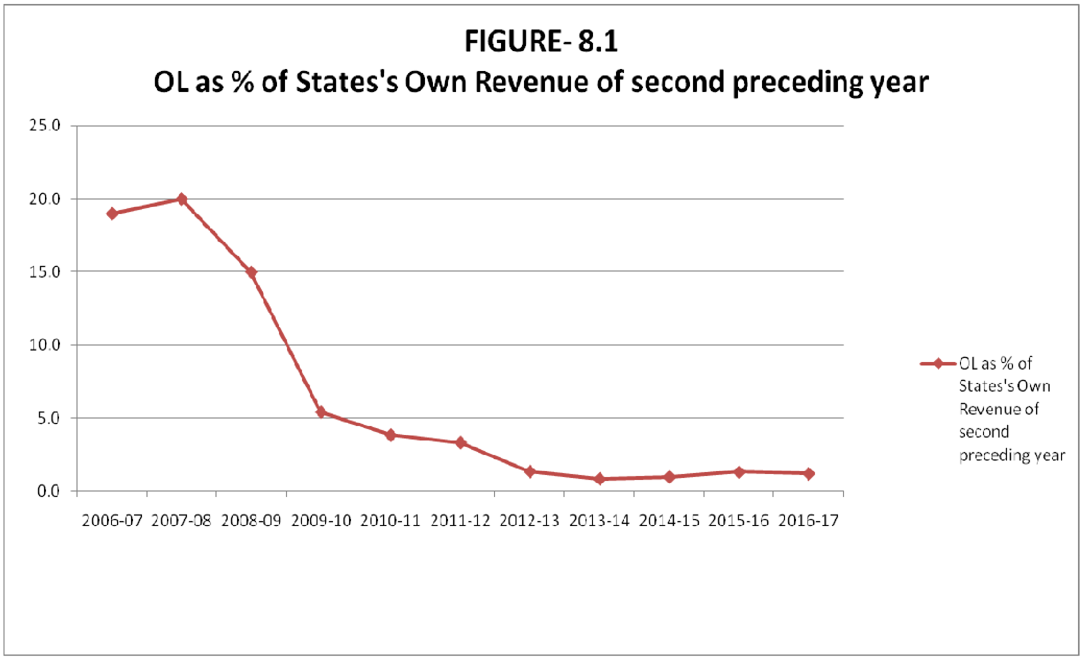
Average Interest Received on Loans by the State Government

(Rs. in crores)

Head	Opening Balance	Advance	Repayment	Closing Balance	Net Addition	Interest Received	% of Interest Received on Outstanding Loans	Average Interest on Government Borrowing (%)	Net interest paid over Interest Receipt (%)
2006-07	2675	81	35	2721	46	8	0.29	7.75	7.46
2007-08	2721	143	40	2824	103	8	0.28	7.14	6.86
2008-09	2824	89	35	2878	54	81	2.81	6.76	3.95
2009-10	2878	99	33	2944	66	12	0.41	6.83	6.42
2010-11	2944	71	28	2978	43	8	0.27	6.58	6.31
2011-12	2987	88	21	3054	67	11	0.36	6.78	6.42
2012-13	3054	460	7	3507	453	27	0.77	6.57	5.80
2013-14	3507	822	6	4323	816	18	0.42	6.53	6.11
2014-15	4323	631	10	4944	621	15	0.30	6.40	6.10
2015-16	4944	260	510	4694	-250	14	0.30	6.47	6.17
2016-17	4694	499	19	5174	480	17	0.33	6.57	6.24

Source: Comptroller and Auditor General of India, 'Audit Report (State Finances)' Various issues (2006-2017)

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee had been extended. According to FRBM Act, State Government guarantees shall be restricted to 50 per cent of State's Tax and Non-Tax Revenue of the second preceding year.



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. Contingent liabilities of Assam in the initial stage of the study period were quite high and outstanding liabilities of the state as high as Rs. 904 crores. Also, before the study period i.e.; in the years, 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 at 11.44 per cent of the revenue receipt in the year 2006-07. But it gradually decreased over the years and stood at 0.98 per cent of the revenue receipt in the year 2016-17. 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. 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 2006-07 to 2016-17 except for the year 2014-15 when the outstanding liabilities increased to Rs 247crore from Rs. 259 crores respectively. However, it is to be noted that even the increase in contingent liabilities in the year 2014-15 was within the prescribed limit of the FRBM Act in terms of percentage of state's own revenue of second preceding year. 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 2016-17.

The contingent liabilities of the State Government, as defined in terms of its outstanding guarantees, have shown significant reduction over the last few years. The total outstanding guarantees have come down to Rs.7620 crores as on end March 2012 as compared to Rs. 12701 crores as at the beginning of 11th Five Year Plan. The Guarantee Redemption Fund (GRF) has been steadily augmented and aggregated to Rs.1958 crores as on 31st December 2012. The State Government has initiated a number of measures to institutionalize the path of fiscal correction.

In order to deal with contingent liabilities of the state, the Twelfth 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 utilised 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.

During 2015-16, the State Government contributed only rupees one crores to the Fund against required amount of contribution of rupees 2.70 crores (3 per cent of rupees 90 crores). This led to short contribution of rupees 1.70 crores by the State Government during the year. No guarantee was invoked during the year. As on 31 March 2016, the total amount lying in the Fund was rupees 26.81 crores (including the interest of rupees 1.82 crores for 2015-16) and the entire amount had been invested by the Reserve Bank of India.

8.5 CONCLUSION

There is an urgent need to force state governments to abandon the current provident fund scheme for state government employees that create an unfunded debt and move to a fully funded scheme.

The same is true of contingent liabilities arising out of loan guarantees provided by states. The state government should consider the creation of a trust fund that would manage these guarantees. Unless this is done state budgets would always be at risk from unforeseen events like defaults on debts guaranteed by it.

Apart from fiscal correction and consolidation, the fiscal reform at the State level should focus on the growing volume of guarantees and other payment assurances in the nature of guarantees. There is need for fixing ceiling on guarantees, taking into account the default and devolvement probability, the nature of guarantees issued, the pricing of services rendered by the project for which guarantees are extended etc. The twelfth finance commission has also recommended that all states should impose a limit on their contingent liabilities through their FRLs and that states set up guarantee redemption funds.

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. Fiscal liabilities became a matter of concern because it raised the issue of sustainability. There has been significant decline in the amount contingent liabilities during the period of study. But, Assam is well within the safe limit as far as the intensity of contingent liabilities is concerned during the study period. With the Central Government and the Reserve Bank of India not having effective control of the extent of indebtedness of state governments and the extent of their contingent liabilities, a credible fiscal adjustment effort at the national level can potentially be seriously jeopardized by the fiscal crisis faced by some state governments.

CHAPTER-IX
STATE SUBSIDIES: AN ASSESSMENT

9.1 INTRODUCTION

The word "subsidy" is derived from the Latin word 'subsidium', meaning 'troops stationed in reserve'. Literally, it implies coming to assistance from behind. Subsidy is often viewed as the converse of a tax and like an indirect tax; it can alter relative prices and budget constraints and thereby affect decisions concerning production, consumption and allocation of resources. The economic rationale of a subsidy is that it is used to correct market failures. When externalities or other forms of market inefficiencies exist, it leads to divergence of the private costs and benefits from social costs and benefits. In such cases when the Pareto optimality conditions are not met, a subsidy may be introduced to align private costs and benefits with social costs and benefits.

Subsidies create a wedge between consumer prices and producer costs, which leads to changes in demand/supply decisions. Thus, subsidies can induce higher consumption/production levels when markets by themselves cannot ensure the socially optimum levels of consumption or production. If markets do not allocate resources to their most efficient use, subsidies may be used to offset market imperfections. For example, if there is under-investment in research and development activities, a subsidy for research and development can help in correcting this under-investment. Apart from correcting market failure, subsidies may also aim at achieving some social objectives like redistribution of income etc.

A subsidy programme may be administered in a number of ways. A subsidy may be given to the producers of a good with the objective of augmenting its consumption. This would result in increasing the supply, thereby enabling a higher consumption of the good. Likewise, consumption of a good may be encouraged by giving subsidy directly to the consumers, which would result in an increase in demand. When a particular good can be produced by using different combinations of inputs, the use of a particular input is encouraged by providing subsidies on that input. Again, subsidies may be administered through direct intervention in the market by setting up a public enterprise to produce/procure/distribute the goods in question or their inputs at chosen administered prices. The difference in the market price and the actual sale/purchase price leads to the subsidy, while the government has to sustain the losses incurred by the enterprise. Another way of administering subsidies is through cross-subsidization, a form of intra-sectoral financing which is possible when the classes of consumers can be distinguished from one another.

Administration of subsidies has its own set of costs and difficulties. This arises due to difficulty in identifying the target group for whom the subsidy is meant. Errors of exclusion of genuine beneficiaries and inclusion of non-beneficiaries are the main errors that are faced by the administrators.

The effects of subsidies have always been subject to debate. Generally, the economic effects of subsidies are broadly grouped into (i) allocative effects, (ii) redistributive effects, (iii) fiscal effects and (iv) trade effects. Allocative effects relate to the sectoral allocation of resources wherein subsidies help draw more resources towards the subsidized sector. Redistributive effects refer to the effects of subsidies between groups, such as between producers and consumers, rural and urban population etc. Subsidies have obvious fiscal effects since subsidies form a part of the revenue expenditure of the budget and hence can increase fiscal deficits. Subsidies may also indirectly affect the budget adversely by drawing resources away from tax-yielding sectors towards sectors that may have a low tax revenue potential. As regards trade effects, a regulated price (as in the case of subsidy), which is substantially lower than the market clearing price, may reduce domestic supply and lead to an increase in imports.

Subsidies may also have undesirable economic effects when they are imposed on a competitive market where a subsidy may not be justified. Such subsidies may waste resources and may have perverse distributional effects too. Subsidies have a tendency to self-perpetuate, especially when they create vested interests and generate rent-seeking activities. In India, some areas concerning subsidy that have been debated upon are the distortionary effects of agricultural subsidies on the cropping pattern, their impact on inter-regional disparities in development, the sub-optimal use of scarce inputs like water and power induced by subsidies, targeting of subsidies, particularly the food subsidies, etc.

Coming to the economic rationale for introducing subsidies as means for correcting market failures, one area where subsidies are preferred are in the provision of merit goods – viz. goods that confer benefits not only to its direct users but also to others. Health and education are two common examples of merit goods where public expenditure through subsidies may help to meet the social benefits.

9.2. Subsidies in Assam:

Given the importance of subsidies in allocating resources towards different end-uses, we take a look at the distribution of state subsidies across different sectors in Assam. Table 9.2 shows the allocation of subsidies in the state from 2007-08 to 2015-16.

Table 9.1

Subsidy (Revenue Account) by Govt. of Assam

(*in lakh rupees*)

Year	Co-operative Departments	Agriculture & Allied Departments	Industry and Commerce Department	Welfare of Schedule Castes, Schedule Tribes and Other Backward Classes	Rural Development	Hill Areas Development	Total Subsidy
2007-08	-	-	-	-	-	-	2090
2008-09	1194.37 (45.43)	69.08 (2.63)	625 (23.77)	730.55 (27.79)	- (0.00)	10 (0.38)	2629
2009-10	1696.3 (44.52)	114 (2.99)	804.61 (21.12)	895.09 (23.49)	200 (5.25)	100 (2.62)	3810
2010-11	106.2 (2.83)	40 (1.06)	1400 (37.24)	2203 (58.60)	- (0.00)	10 (0.27)	3759.2
2011-12	370.84 (5.12)	- (0.00)	5285.89 (72.95)	1548.95 (21.38)	- (0.00)	40 (0.55)	7245.68
2012-13	858 (10.68)	8.14 (0.10)	6335 (78.88)	799.98 (9.96)	- (0.00)	29.76 (0.37)	8030.88
2013-14	119.99 (1.48)	- (0.00)	4090 (50.45)	3865.4 (47.68)	- (0.00)	32 (0.39)	8107.39
2014-15	1182 (20.40)	311.47 (5.38)	3742.37 (64.60)	464.52 (8.02)	- (0.00)	93 (1.61)	5793.36
2015-16	- (0.00)	- (0.00)	1876 (98.63)	- (0.00)	- (0.00)	26 (1.37)	1902

Source: CAG, State Finances

Data on subsidies are available from 2007-08 onwards, with the details of allocation being available from 2008-09 till 2015-16. State subsidies, as a whole have shown a steady rise from 2007-08 till 2009-10, followed by a slight fall in 2010-11. However, the next three years saw a massive rise in state subsidies from Rs. 3759.2 cores in 2010-11 to 7245.68 lakhs in 2011-12, which was an increase of 92 percent. Subsidies were high for the next two years, the highest being recorded in 2013-14. From 2014-15, state subsidies registered a decline, and fell by 28 percent in 2014-15 and again by 67 percent in 2015-16.

As regards the allocation of subsidies across different heads, it is obvious that subsidies were granted for a few sectors only. These included the Co-operative Departments, Agriculture & Allied Departments, Industry and Commerce Department, Welfare of Schedule Castes, Schedule Tribes and Other Backward Classes, Rural development and Hill Areas Development.

In 2008-09, Cooperatives Department accounted for 45.43 percent of the total subsidies granted, followed by Welfare of Schedule Castes, Schedule Tribes and Other Backward Classes (27.79 percent) and Industry and Commerce Department (23.77 percent). These three heads alone accounted for nearly 97 percent of the total state subsidies. Subsidy in the Cooperatives Department, which went chiefly to the Dairy Cooperatives, still accounted for the highest share in 2009-10, but then had a sharp decline in the share to 2.83 percent only in 2010-11. In absolute terms also, the amount of subsidy declined from Rs. 1696.3 lakhs to Rs. 106.2 lakhs which was a fall of 93 percent from the previous year.

Welfare of Schedule Castes, Schedule Tribes and Other Backward Classes was another head which received a large share of state subsidies. The subsidies here were part of income generation schemes for the people belonging to this category. The subsidy allotted to this head reflects a rising trend but especially high increases came about in 2010-11 and 2013-14, wherein the share of the head was as high as 58.6 percent and 47.68 percent respectively. From 2014-15, the allotment of state subsidy under this head came own drastically to Rs. 464.52 lakh, and in 2015-16, there was no subsidy allotted under this head.

The most prominent claimant of state subsidy in Assam has been the Industries and Commerce Department. The department received a subsidy amount of Rs. 625 lakh in 2008-09 and the amount has been rising steadily over the years. A sharp rise in the amount of subsidy to the department came in 2011-12 when it increased to Rs. 5285.89 lakh from Rs. 1400 lakh the previous year, registering a rise of 277 percent. The amount of subsidy increased further to Rs. 6335 lakh in 2012-13 and after that there has been a decline in the amount of subsidy. Along with the increase in allotment, the share of the Industries and Commerce Department has been rising compared to other departments. In 2011-12 and 2012-13, the shares were 72.95 percent and 78.88 percent respectively. In 2015-16, the Industries and Commerce department was the single largest claimant of the state subsidy, when it received 98.63 percent of the total subsidy disbursed, and the remaining 1.37 percentage share went to Hill Areas Development. Subsidies given to the

Industries and Commerce Department were part of the implementation of the State Industrial Policies.

Three other departments which received state subsidy were Agriculture & Allied Departments, Rural development and Hill Areas Development. In Agriculture and Allied Department, state subsidy increased from Rs. 69.08 lakh in 2008-09 to Rs. 114 lakh in 2009-10. However, from 2010-11 onwards, the amount of subsidy given to the department started falling. An erratic pattern of receipt of subsidy is observed with the department receiving no subsidy in three years (viz. 2011-12, 2013-14 and 2015-16) and a sudden disbursement of Rs. 311.47 lakh in 2014-15, the highest amount of subsidy ever received by the Agriculture and Allied Department. This amount went exclusively to Crop Husbandry as part of the scheme of distribution of power tiller and rotary tiller at subsidized rates. The Rural Development department received a solitary subsidy of Rs. 200 lakhs in 2009-10. Hill Areas Development has been receiving subsidy on a regular basis, with a share not exceeding 2.62 percent of the total state subsidy. Two particular years saw a sharp rise in the amount of subsidy received, viz. an amount of Rs. 100 lakh in 2009-10 and Rs. 93 lakh in 2014-15.

Analyzing the flow of subsidies in Assam, we find that of the six departments which have received state subsidy, all of them constitute a part of developmental expenditure. Other than Welfare of Schedule Castes, Schedule Tribes and Other Backward Classes, the remaining departments are a part of Economic Services. Despite the only presence of the department of Social Services being a claimant of state subsidies, it had a significant presence, as seen by the fact that it accounted for more than 20 percent of the total subsidies till 2011-12 and almost half of the share of state subsidy in two particular years. Under Economic Services, the major participant was the Industries and Commerce Department wherein subsidies offered by the Industrial Policies of the state were disbursed. The distribution of subsidies across different end-users reveal that subsidies disbursed in the state are more in the nature of implementation of popular schemes for certain categories of people rather than a measure for either achieving a socially or economically desirable goal.

9.3 STATE SUBSIDIES – AN EVALUATION

An analysis of the flow of subsidies in Assam for a period of eight years reveals the following:

- Subsidies in the state are moving towards developmental services, as all of the heads receiving subsidy belong either to the social services or economic services.
- Economic services have been claiming the major share of state subsidies.

- State subsidies have not been directed towards the provision of merit goods, like education, health and infrastructure.
- Subsidies offered by the state government do not aim at correcting market failure. This can be judged by looking at the fact that subsidies in Agriculture and Allied activities, and Cooperatives have focused on a single department alone.
- Subsidies in the state have tried to achieve the social objectives of empowerment of the backward groups in Assam, as is seen from the fact that departments of Welfare of Schedule Castes, Schedule Tribes and Other Backward Classes, and Hill Areas development are two major beneficiaries of the subsidies in the state.
- The major share of subsidies going to the Industries and Commerce Department are possibly an indicator of the Government's desire to encourage industrial growth in the State. As far as the state's revenue and capital expenditure is concerned, this department has been accorded lower priority vis-à-vis other heads of economic services. Perhaps the belief of the planners is that subsidies alone have the capacity to guide the industrial development of the state, rather than other forms of expenditure.

9.4 CONCLUSION

Subsidies given by the government of Assam do not appear to be based on economic justifications as they are neither directed towards the provision of merit goods nor towards the correction of market failures. The total amount of subsidies in the state has come down from 2014-15 onwards. For certain departments, the flow of subsidies has been erratic. Though subsidies form a very small part of the Government's revenue expenditure, yet if it follows a clear-cut policy objective, it could play a decisive role in stimulating development in the state. In the apparent absence of such a policy, state subsidies may end up creating interest groups and rent-seekers.

Chapter-X
Goods and Service Tax: The Way Ahead

10.1 INTRODUCTION

The governments in developing countries endeavor to manipulate the prices of goods and services and it does so with the usage of various institutional arrangements and policy instruments. Thus, reforms of indirect taxes play a pivotal role in the structural adjustment programme. A few approaches of indirect taxation are - replacing lost revenue through other indirect taxes, replacing Value Added Tax (VAT) with the introduction of Goods and Service Tax (GST), broadening of the tax base, increasing the existing tax rates etc.

10.2 VAT- INTRODUCTION AND PITFALLS

As a part of the 1991 economic reforms, the inefficient sales tax regime of the states in India was initiated to move to VAT in 1994. The Chelliah Committee (1992) provided an eloquent account of the various dangers of cascading. There was an evolution of sales tax over the years and this system of taxation was considered to be a foremost hindrance to efficiency in resource use and to the growth of a national common market. A well-designed VAT was regarded as a reliable instrument to raise revenue considering the fact that it is based on neutrality and thus encourages efficiency. It also helped in minimizing the cascading effect. VAT is considered to be superior to sales tax since it helped in avoiding distortions of production techniques and is applied to a much broader consumption base. Sales tax are levied both on intermediate and final goods resulting thus, in tax cascading. Revenue neutral reforms generally lead to gains by upper-income group at the cost of the lower-income group.

The state sales tax was which had been successful replaced by VAT in 2005 in India. Tax cascading is a major flaw which increases production cost and puts Indian suppliers at a competitive disadvantage in international markets, creates bias in favour of imports which do not bear the hidden burden of taxes on production inputs and also detracts from a neutral application of tax to competing products.

After the introduction of value added tax (VAT), further reform of indirect taxes for evolving a comprehensive and broad based goods and services tax (GST) had been under consideration. There has been a steady expansion of the base of service taxation over the years. A series of changes have taken place in the taxation of services since its introduction, both by bringing in more services under the tax net and by periodic revision of the rates of taxation.

10.3 INTRODUCTION OF GST

The concept of the GST was first introduced by the report on "Reform of Domestic Trade Taxes in India: Issues and Options" (Chairman: A. Bagchi; 1994). In fact, the VAT was adopted as a stop-gap arrangement for implementation of the GST in future. In 2000, the Government initiated discussions on the GST by constituting an Empowered Committee (Chairman: Dr Asim Dasgupta) with a mandate to design the GST model and oversee the IT back-end preparedness for its rollout. The Task Force on "Implementation of the Fiscal Responsibility and Budget Management Act, 2003" (Chairman: Vijay Kelkar) noted that although the indirect tax policy has been steadily progressing in the direction of VAT since 1986, the existing system of taxation of goods and services in India still suffers from many problems and suggested the introduction of a comprehensive GST based on the VAT principle.

In India, taxes on goods and services levied by the Central and state/local governments are subject to different sets of rates, procedures and compliance. The existing legal framework for these indirect taxes pose several challenges, viz., (i) multiplicity of rates (ii) cascading effect of taxes (iii) excessive compliance/procedures and (iv) fractured flow of import credits. A single goods and services tax (GST) is best suited to overcome these challenges.

The previous indirect system of taxation in India i.e. the Value added Tax (VAT) had a differentiated rate structure across commodities. The Goods and Service Tax (GST) had been proposed which had a uniform rate structure and would also help in administrative simplicity which subsequently mitigates the collection costs and the compliance costs (Empowered Committee 2009). GST has been implemented in India since 1st July 2017.

France was the first country to implement GST to reduce tax - evasion. Since then, more than 140 countries have implemented GST, with some of them having Dual-GST model (e.g. Brazil, Canada etc.). India has chosen the Canadian model of dual GST as it has a federal structure where the Centre and states have the powers to levy and collect taxes.

10.4 RELEVANCE OF GST

The system of Value Added Tax (VAT) is not uniform in nature. It is different for different states and there are different rates of taxation for different goods. Because of the existence of multiple taxes, there is a cascading effect. A uniform VAT may be is able to remove this cascading effect. VAT is levied on goods whereas GST on both goods & services as it is evident from the name. However the interstate effect of cascading effect still exists. Also a differentiated commodity tax system requires frequent changes in tax rate with respect to a change in tastes and technological change. A uniform VAT is easier to administer and less susceptible to fraud than VAT with differentiated rates. This is so because no borderlines are required to be drawn between different categories of goods and VAT. GST can bring on uniform tax in the country. According to NCAER[3] study, implementation of GST will increase Indian GDP by 0.92% with an increase in exports. When tax rates decrease, the cost of production will decrease. As a result, products will be more competitive thus, leading to an increase in exports.

GST is a destination based tax which means the final tax will be collected where the good is finally reached. It is not an origin – based tax. GST will replace all the various tax systems together such as excise central tax, sales tax etc. The core issues to be focused upon are the cost of the collection has to be minimal, compliance system has to be high and distortions need to be minimal. According to Empowered Committee of State Finance Ministers (2009:4), *"GST will be a further significant improvement – the next logical step – towards a comprehensive indirect tax reform in India"*. GST is the summation of all the indirect taxes levied in India which will help in providing a transparent and complete chain of set-offs. This shall subsequently, lead to widening the coverage of the tax base and help in improving tax compliance.

10.5 GST STRUCTURE

The Constitution empowered the central government to levy excise duty on manufacturing sector and service tax on the supply of services. Further, it has empowered the state governments to levy sales tax or value added tax (VAT) on the sale of goods. In addition, central sales tax (CST) was

[3]National Council of Applied Economic Research (NCAER) is an independent non-profit institution committed to assisting the government, civil society and the private sector to make informed policy choices. NCAER's research priorities include household behavior, rural development, trade, growth, and economic management

levied on intra-state sale of goods by the central government, but collected and retained by the exporting states. Furthermore, many states levy an entry tax on the entry of goods in local areas. Cumulatively, this has resulted in a complex indirect tax structure with hidden costs for trade and industry in the country. Despite several reform measures, goods and services continue to be bogged down with several indirect taxes at different stages of the value chain with significant tax cascading. Therefore, a need to introduce a consumption-based destination-centric goods and services tax (GST) has been strongly felt. Incidentally, the proposal for the introduction of GST was first mooted in the Union Budget 2006-07.

Present Indirect Tax Structure in India

CGST

- Central Excise
- Additional duties of Custom (CVD)
- Service Tax
- Surcharges and all cesses

SGST

- VAT/sales tax
- Entertainment Tax
- Luxury Tax
- Lottery Tax
- Entry Tax
- Purchase Tax
- Stamp Duty
- Goods and passenger Tax
- Tax on vehicle
- Electricity, banking, Real state

***SGST and CGST for intrastate transaction**:* In the GST system, both Central and State taxes will be collected at the point of sale. Both components (the Central and State GST) will be charged on the manufacturing cost. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping companies.

IGST for Interstate transaction: 'IGST Model' will be in place for taxation of inter State transaction of Goods and Services. The scope of IGST Model is that centre would levy IGST which would be CGST plus SGST on all inter State transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.

The GST paid on the purchase of goods and services is to be paid on the supply of goods and services. There should be no distinction between raw materials and capital goods in allowing input tax credit. The tax base should comprehensively extend over all goods and services up to final consumption point on value addition.

In the Indian context, there exists a serious apprehension about the revenue mobilization capability of the proposed GST which has to yield more than the combined revenue of the present Central excise and all the sales taxes generated at the state level. Any major deficit would give rise to a serious dent on the public finances of both the Centre and states; hence, the projected GST rate/rates have to be suitably calibrated. In this regard, the GST Council has settled for a 4-tier structure set at 5, 12, 18 and 28 per cent which would reflect purely revenue concerns. It, perhaps, is also indicative that there can be no single optimal rate for taxing commodities.

While the GST Council has decided that all the existing cesses would be subsumed under the GST except the clean energy cess levied on coal, it proposes to levy a cess on ultra-luxury goods (viz., high end cars) and demerit goods (viz., tobacco, pan masala, aerated drinks). Accordingly, luxury and demerit goods attract tax at 28 per cent as well as a cess. The GST Council has capped the proposed cess on aerated drinks and luxury automobiles at 15 per cent, pan masala at 135 per cent and cigarettes at 290 per cent. The cess would be used to create a Compensation Fund to help the states that sustain any loss of revenue due to introduction of the GST. In particular, states will be given full compensation for any shortfall in revenue on the basis of a formula that entails a secular revenue growth of 14 per cent for tax revenue of states (with 2015-16 as the base year) over the five years of compensation period. The cess will have a sunset clause of 5 years. It will be reviewed on a yearly basis and any surplus in the Fund will be distributed among the states. The GST Council will review the taxation structure once the cess is withdrawn.

GST does not include a) alcoholic liquor for human consumptions, b) electricity c) real estate. In addition, inclusion of petroleum products (petrol, diesel and ATF), crude petroleum and natural gas have been postponed to an unspecified future date that would be decided by the GST Council. However, there is a common misconception that inclusion of these excluded goods and services under GST could expand the GST base and therefore a lower GST rate would be needed to achieve revenue neutrality. In fact, goods which are presently kept out of GST (e.g., petroleum products) make up a substantial share of the total tax base of the Central and State Governments and attract tax rates which are substantially higher than standard CENVAT and/ or VAT rates. For example, effective tax rate on petroleum products (other than natural gas and crude petroleum) is 40 per cent. Therefore, if these goods are included under GST, GST revenue neutral rate shall increase.

10.6 GST IN ASSAM

Assam was the first state to ratify the constitution amendment bill on Goods and Services Tax (GST) which cleared the way to bring GST Act in India on 12 August 2016, followed by the state of Bihar. Also, of the central GST portion, 42 per cent tax will be given back to the state itself.

In the fiscal year 2010-11, the Union Government was levying service tax on 104 selected services. The Union Budget 2012-13 introduced the concept of a negative list in service taxation, which implied that except for certain identified services, all other services would be subject to taxation. Seventeen services were placed in the negative list that year. The introduction of the negative list concept has, to a large extent, rendered the tax base comprehensive and eliminated selectivity and discretion in service taxation and has contributed to an increase in revenue growth. Revenue growth in 2012-13 over 2011-12 was 36.0 per cent and is projected to be 24.4 per cent and 31.0 per cent in 2013-14(RE) and 2014-15 respectively. The share of service tax in total tax revenue is expected to increase from 10.9 per cent in 2011-12 to 15.8 per cent in 2014-15 (BE).

As on 31st December, 2017, the collection of Central GST in Assam was Rs 1772.66 crores whereas the state GST was Rs. 2249.19 crores. Assam contributed a meager 1.61% to the Central GST of India. Maharashtra had the highest collection of both central GST of Rs. 16639.47 crores and state GST Rs. 30186.57 crores.

Table 10.1

Collection of GST
(July 2017 to 31st December, 2017)

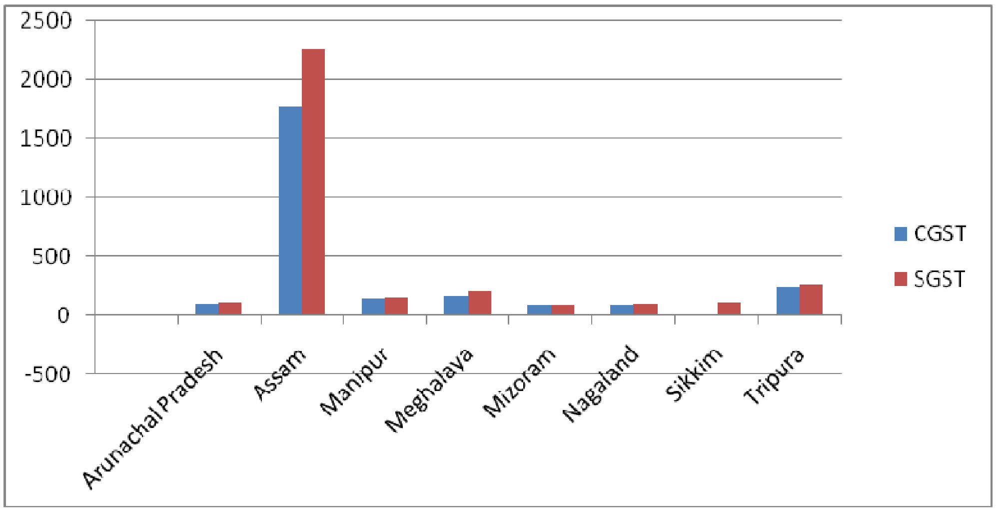
(Rs in crores)

State/UTs	CGST	SGST
Andaman and Nicobar Islands	78.84	82.02
Andhra Pradesh	4816.78	6041.67
Arunachal Pradesh	94.91	101.18
Assam	1772.66	2249.19
Bihar	3365.65	3704.25
Chandigarh	415.38	501.95
Chhattisgarh	1588.89	2302.85
Dadra and Nagar Haveli	-319.79	144.48
Daman and Diu	-156.73	69.34
Delhi	6009.39	8241.14
Goa	495.04	807.58
Gujarat	6139.43	12067.15
Haryana	2199.16	6188.29
Himachal Pradesh	529.42	1037.34
Jammu and Kashmir	1210.83	1434.63
Jharkhand	1328.81	2284.31
Karnataka	9918.58	14107.97
Kerala	6417.05	7193.67
Lakshadweep	4.10	4.09
Madhya Pradesh	4201.73	5605.56
Maharashtra	16639.47	30186.57
Manipur	136.36	145.29
Meghalaya	156.41	193.65
Mizoram	78.68	82.74
Nagaland	86.66	92.86
Odisha	1747.96	3668.15
Puducherry	155.03	286.62
Punjab	3078.34	4541.10
Rajasthan	5503.73	6961.83
Sikkim	-12.44	108.67
Tamil Nadu	8305.97	15019.08
Telangana	5674.15	7422.40
Tripura	240.06	258.42
Uttar Pradesh	11087.69	14752.95
Uttarakhand	458.09	1435.76
West Bengal	6214.91	8405.95
India	109661.20	########

Source: indiastat.com

Figure 10.1
Collection of GST

(August 2017 to 31st December, 2017)



Data in table 10.2 reveals that the total GST collected in Assam was Rs. 92283 crores in August 2017 and increased significantly to Rs. 10345 crores in April 2018, which is a positive sign.

Table 10.2
Month-wise Number of Tax Payers Registered, Returns Filed, Amount Collection/Transferred under Goods and Services Tax (CGST/SGST/IGST) and Compensation Cess in India (August 2017 to April 2018)

Month (As on)	Tax Payers Registered (In Lakh Nos.)	Returns Filed (In Lakh Nos.)	(A) Amount Collection under GST (Rs in Crore)					(B) Amount Transferred from IGST to CGST/SGST Account*		
			Total GST	CGST	SGST	IGST	Compensation Cess	CGST	SGST	Total Amount
29th Aug., 2017	59.57	38.38	92283	14894	22722	47469	7198	-	-	-
25th Sept., 2017	68.20	37.63	90669	14402	21067	47377	7823	-	-	-
23rd Oct., 2017	72.00	42.91	92150	14042	21172	48948	7988	-	-	-
25th Nov., 2017	95.90	50.10	83346	-	-	-	-	-	-	-
25th Dec., 2017	99.01	53.06	80808	13089	18650	41270	7798	10348	14488	24836
24th Jan., 2018	100.00	56.30	86703	-	-	-	-	-	-	-
25th Feb., 2018	103.00	57.78	86318	14233	19961	43794	8331	11327	13479	24806
25th Mar., 2018	105.00	59.51	85174	14945	20456	42456	7317	12140	13424	25564
30th April, 2018	-	60.67	103458	18652	25704	50548	8554	13841	14553	28294

Source: Press Information Bureau, Govt. of India.

Note: **Amount Transferred from IGST to CGST/SGST Account by way of settlement of funds on account of cross utilization of IGST credit for payment of CGST and SGST respectively or due to inter State B2C transactions.*

Figure 10.2
Tax Payers Registered and Returns Filed

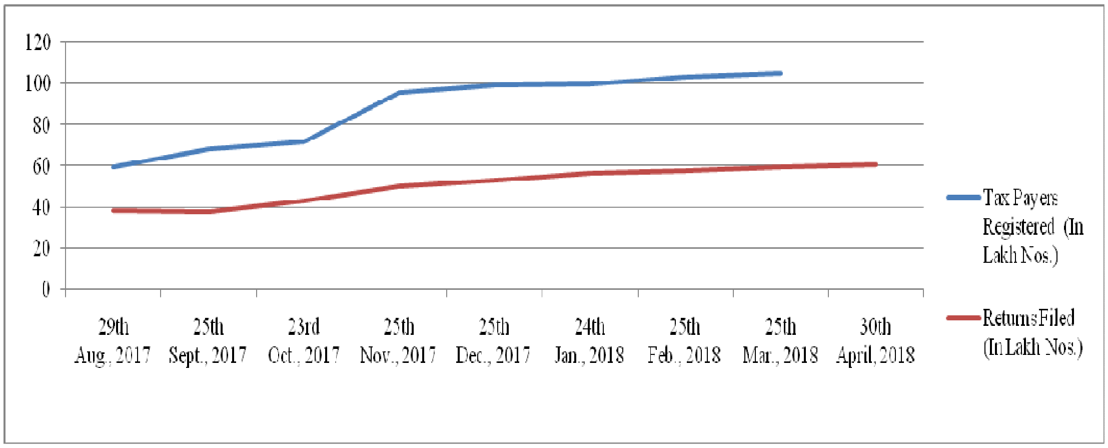
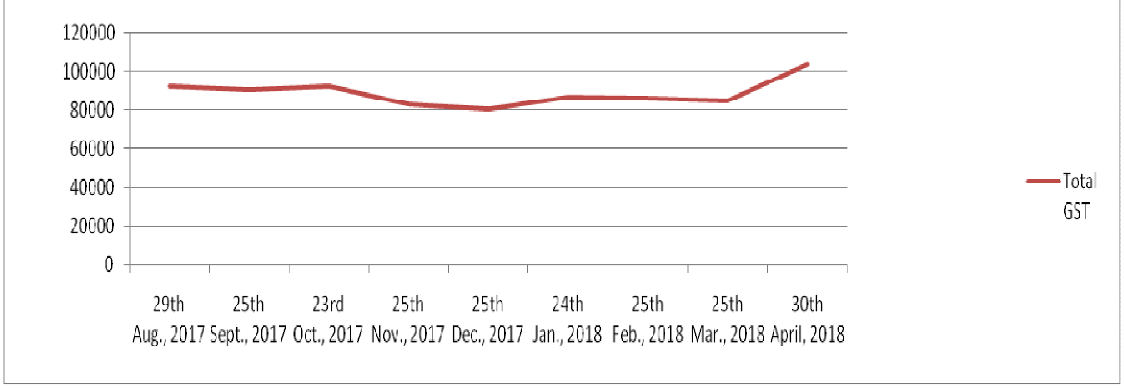


Figure 10.3
Total GST



10.7 GST: A SUSTAINABLE DEBT ROADMAP

10.7.1 CONCEPT OF SUSTAINABILITY

The term "sustainability" has been used with increasing frequency in the academic literature and multilateral policy discussions, but with different connotations under different circumstances. A state requires adequate amount of revenues to discharge its expenditure responsibilities in the absence of which there shall exist imbalances between total resources of the government and their expenditure obligations. Fiscal imbalances of a state generally occur mainly due to soaring growth of expenditure and incapability of the state government to meet that expenditure out of their capital and revenue receipts. Deterioration in the fiscal indicators along with the increase in the state government's public debt disrupts the normal functioning of the economy leading to macroeconomic instability of the whole nation which had been mentioned in the recommendations of the Twelfth Finance Commissions of Government of India that had have given stress on debt sustainability. It is often said that borrowing *per se* is not bad provided it is used for productive purposes. While this may be a desirable goal, there could be deviations for various reasons. The accumulation of debt liabilities, if left uncontrolled, may cause macroeconomic stability issues.

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. Since Assam is a relatively poor state with paucity of resources relating to infrastructure sector, a sustainable debt to GSDP ratio helps a state to maintain a stable fiscal position without undertaking drastic and painful reform measures. The significance of debt sustainability is more for poor and backward states as deterioration in their fiscal position may hinder the overall economic development of those states.

The debt position of Assam which had deteriorated witnessed significant improvement from 2013-14 onwards. This has been attributed, among others, to the implementation of fiscal rules through the enactment of Fiscal Responsibility and Budget Management (FRBM) Acts/Fiscal Responsibility Legislations (FRLs) at the state level in early 2000s. The fiscal consolidation initiatives of the state governments were complemented by debt and interest relief measures of the Centre, and supported by a favorable macroeconomic environment following the high growth phase and a reversal of the interest rate cycle in the mid-2000s. Due to the continuous fiscal imbalances since 1999, the State Government had to undertake different fiscal reform measures which mainly targeted 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 percent 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 Rs. 159.45 crores 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 Assam *Governance and Public Resource Management Programme (*funded by the Asian Development Bank*)*, Assam achieved the fiscal targets of AFRBM Act in the initial years of the Twelfth Finance Commission award period.

The Twelfth Finance Commission had also recommended the creation of a *Debt Consolidation and Relief Facility* (DCRF), which involved the rescheduling and consolidation of certain loans from the union government to the States. The debt waiver under this scheme was linked to states undertaking fiscal correction through their respective FRBM legislations. 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 crores for the year 2005-06 in 2007-08, Rs.105.41 crores for the year 2006-07 in 2008-09 and Rs.105.41 crores 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.

The fiscal roadmap drawn up by the Twelfth Finance Commission mandated the elimination of revenue deficits of the states as well as limiting their fiscal deficits to a maximum of 3 per cent of gross state domestic product (GSDP) by 2008-09. The state-level FRBM legislations, enacted subsequent to the recommendation of the Twelfth Finance Commission, provided a platform for the implementation of prudent revenue and expenditure policies. The DCRF brought a measure of relief to the States by reducing interest payments due to write-off and rescheduling of Central loans after 2005. There was also improvement in the fiscal position of States due to various factors including: (i) increase in revenue collections as a result of the adoption of value-added tax (VAT) by all the States (ii) retirement of high-cost debt, under the debt-swap scheme floated by the Union Government (iii) buoyant economic growth (iv) increased tax devolution on account of the high revenue buoyancy of central taxes and (v) a low interest rate regime. Many States introduced measures such as the New Pension Scheme to rationalise their expenditures and reduce future fiscal risks.

The Thirteenth Finance Commission had recommended that States should bring down their debt-GDP ratio to 25 per cent by 2014-15. In 2012-13, thirteen states had a debt-GSDP ratio of less than 25 per cent, which included Assam but the other fifteen remained above the threshold, despite a declining trend. Some of North-eastern states such as Manipur, Mizoram and Nagaland continued to have high debt burdens. This could be due to the small size of their GSDP and the widely fluctuating nature of GSDP growth. 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. Generally low debt-GSDP ratio is one of the most reliable sustainability indicators since it signifies that an economy generates a high income to meet its debt commitments. There has been significant decline in the debt to GSDP ratio of the state from 33.13 in 2005-06 to 18.54 in 2016-17. It is also found that interest payments-revenue receipts ratio of the state is below the level as recommended by the Twelfth Finance Commission. Thus, the state has adhered to its respective debt targets set by the Thirteenth Finance Commission for the period 2010-2014.

It is pertinent that certain institutional measures like legislation in respect of guarantees and fiscal responsibilities in the form of enactment of the Assam Fiscal Responsibility and Budget Management Act in 2005 (amended in 2011) had been taken for strengthening fiscal discipline in the State. The state may consider deferring or resorting to more need based borrowing programmes in a cost-effective manner, in view of the comfortable cash balances. Projects need to be identified which require capital investment and they should borrow only to that extent by realistic assessment of cash needs with effective cash management for better synchronization of cash flows. Besides, it would help in curbing unwarranted build-up of cash surplus.

10.7.2 IMPACT AND PROJECTION OF GST

The GST is expected to strengthen cooperative federalism and have far-reaching implications for growth, inflation, public finances and external competitiveness in the Indian economy, drawing on the evidence of significant efficiency gains revealed in empirical evaluation of the implementation of VAT in 2005. GST is believed to bring major benefits for the states of the NE region because these states are largely destination and consumer states since most items of consumption are not produced in these states. Under these circumstances, there is a need to ensure optimality regarding the implementation of GST.

The justification of a linear tax system such as GST is that since the government does not observe individual tax payer’s consumption of a good, in particular, the commodity taxes should be impersonal. It is occasionally regarded better to introduce a flat rate on basic items of consumption which will generate revenue, and a part of this revenue can be used for the betterment of masses than subsidizing the masses. The Indian tax system when compared to other countries reveal that Indian economy is highly indirect tax dependent, productivity and efficient tax rates are lower, and marginal tax rates are higher. Thus, an effective indirect tax system shall be effective in encouraging the growth of the economy. The present tax reforms including introduction of GST is expected to improve tax productivity and reduce the marginal effective tax rates.

The introduction of the Goods and Service Tax (GST) can be regarded as the biggest reform in the tax system of India. Services are excluded from VAT. But this proves to be a major weakness since the exclusion of services will not help in the elimination of tax cascading Thus, GST will help in the growth of GDP by 1%-2%, the tax-GDP ratio by 2%, 10% reduction in cost of indigenous growth, impact over black economy and will subsequently lead to consolidation of manufacturing in order to obtain economies of scale (Kumar 2015).

The dual GST will envisage taxation of supply of goods and services simultaneously by the Centre and the states. GST is expected to simplify and harmonise the complex indirect tax regime in the country and reduce the cost of production, thereby making industry more competitive. By unifying the tax structure across states, the new tax regime would pave the way for a common national market for goods and services. If the GST rate is reduced, the spending by general consumers might increase resulting in overall buoyancy in the economy. GST could be a potential solution for the fiscal deficit problem with the calculated yield ratio[4] being positive. Furthermore, GST will broaden the tax base and result in better tax compliance.

Seamless implementation of GST is contingent upon a robust dispute resolution mechanism and a sound information technology (IT) infrastructure. Due to the seamless transfer of input tax credits from one stage to another in the value chain, there is an in-built mechanism that would incentivize tax compliance by traders. In short, GST is the next step forward towards wide-ranging indirect tax reform in the country after the introduction of Value Added Tax (VAT). From a medium term perspective, the GST assumes significance in the context of the debt sustainability of states and the evolving contours of state finances.

The Fourteenth Finance Commission had recommended that the State Government should improve their budgetary forecasts with the adoption of a more scientific approach for this process and that the fiscal responsibility legislations and estimates in the MTFPs should be supported by well-calibrated reasoning to justify the forecasts. Based on the recommendations of the Fourteenth Finance Commission, the scenario for the period 2015-16 to 2021-22 has been indicated by the Department of Finance, Government of Assam.

Table 10.3

Medium Term Fiscal Plan

(Rs. in Crore)

Items	**2015-16 (Actual)**	**2016-17 (BE)**	**2017-18 Projection**	**2018-19 Projection**	**2019-20 Projection**	**2020-21 Projection**	**2021-22 Projection**
1. Total Revenue Receipts	42458.14	66179.88	70719.61	80674.44	92582.59	106186.17	122187.08
Own Revenues (a+b)	12848.07	21480.82	23898.14	29126.28	35549.49	43449.75	53177.02
a). Own Tax Revenue (I to X)	10106.50	15634.31	16434.19	20542.73	25678.42	32098.02	40122.52
I. Sales Tax/GST	7493.72	11582.67	12936.58	16170.72	20213.40	25266.75	31583.44
II. State Excise	807.96	1299.55	1393.72	1742.15	2177.69	2722.11	3402.64
III. Stamp Duty & Registration	224.83	478.80	351.23	439.04	548.80	686.00	857.50

[4] ratio of the increase in VAT revenues as a part of GDP due to an increase in the VAT rate

IV. Motor Vehicle Tax	442.73	577.81	691.77	864.71	1080.89	1351.11	1688.89
V. Taxes on Goods & Passengers	583.12	729.18	212.56	265.70	332.13	415.16	518.95
VI. Tax on Professions, Trades etc.	182.93	303.20	285.83	357.29	446.61	558.26	697.83
VII. Other Taxes on Commodities & Services	61.09	107.05	77.94	97.43	121.78	152.23	190.28
VIII. Land Revenue	229.46	395.59	358.54	448.18	560.22	700.27	875.34
IX. Taxes on agricultural income.	32.01	80.71	50.02	62.53	78.16	97.70	122.12
X. Taxes & Duties on Electricity	48.64	79.75	76.00	95.00	118.75	148.44	185.55
b) Non-Tax Revenue	**2741.57**	**5846.52**	**7463.95**	**8583.54**	**9871.07**	**11351.73**	**13054.50**
I. Interest receipts	298.80	424.93	398.32	458.07	526.78	605.79	696.66
II. Royalty on Crude Oil & Natural Gas	1704.60	3638.63	5590.71	6429.32	7393.71	8502.77	9778.19
III. Forestry & Wild life	117.30	995.74	561.30	645.50	742.32	853.67	981.72
IV. Others	620.85	787.22	913.62	1050.66	1208.26	1389.50	1597.93
Transfer from the Centre (a+b)	**29610.07**	**44699.05**	**46821.48**	**51548.16**	**57033.11**	**62736.42**	**69010.06**
a) Share of Central Taxes	16784.88	18938.27	25651.41	28216.55	31038.21	34142.03	37556.23
b) Grants (I to v)	**12825.19**	**25760.78**	**21170.07**	**23331.61**	**25994.90**	**28594.39**	**31453.83**
i) CASP/Transfer from Centre	8644.00	19161.78	19465.90	21412.49	23553.74	25909.11	28500.02
ii) CS/CSS/NEC/NLCPR	850.27	3071.66					
iii) Non-Plan Grants under Finance Comm./Grants under Finance Commission	2944.41	3044.21	1704.17	1919.12	2441.16	2685.28	2953.80
iv) Other Non-Plan Grants	386.51	483.14					
2. Recovery of loans and advances	510.19	569.47	2747.23	3021.95	3324.15	3656.56	4022.22
3. Revenue Expenditure (a to d)	**37011.43**	**62459.04**	**68319.45**	**78328.23**	**89939.46**	**103428.65**	**119121.11**
a) Interest	2618.44	3209.32	3746.75	4308.76	4955.08	5698.34	6553.09
b) Salary	18484.46	22541.16	25010.71	30012.85	36015.42	43218.51	51862.21
c) Pension	5985.23	7680.19	9768.49	11233.76	12918.83	14856.65	17085.15
d) Others	9923.29	29028.37	29793.50	32772.85	36050.14	39655.15	43620.66
4. Capital Outlay	2690.91	10394.40	12389.42	13628.36	14991.20	16490.32	18139.35
5. Lending	260.09	570.78	460.40	483.42	507.59	532.97	559.62
6. Revenue Deficit [Surplus (-)/ Deficit(+)]	**-5446.72**	**-3720.84**	**-2400.16**	**-2346.21**	**-2643.13**	**-2757.52**	**-3065.97**
7. Fiscal Deficit [Surplus (-) / Deficit (+)]	**-3005.90**	**6674.87**	**7702.43**	**8743.62**	**9531.51**	**10609.20**	**11610.78**
8. Year End Debt Stock	35690.22	42160.22	49895.30	54884.83	60373.31	66410.64	73051.71
9. Year End Outstanding Guarantees	143.13	143.13	150.29	157.80	165.69	173.98	182.67
10. Debt Stock including Guarantees (8+9)	**35833.35**	**42303.35**	**50045.59**	**55042.63**	**60539.00**	**66584.62**	**73234.38**
11. Debt/GSDP	17.75%	18.77%	19.31%	18.47%	17.67%	16.90%	16.17%
12. (Debt+Guarantee)/GSDP	17.82%	18.83%	19.37%	18.53%	17.72%	16.95%	16.21%
13. Revenue Balance/Revenue Receipts (%)	-12.83	-5.62	-3.39	-2.91	-2.85	-2.60	-2.51
14. Revenue Balance/GSDP (%)	-0.03	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01
15. Fiscal Balance/GSDP (%)	-1.49	2.97	2.98	2.94	2.79	2.70	2.57
16. GSDP (Rs. in crore) at current prices	201064.00	224641.00	258337.15	297087.72	341650.88	392898.51	451833.29
17. GSDP Nominal Growth Rate			15.00%	15.00%	15.00%	15.00%	15.00%

Note: The actual figures of 2015-16 have been applied as the base year figure for projection of MTFP in tune with the stipulations of AFRBM Act, 2011.

Source: Finance Department, Government of Assam, 2017-18 destination which would subsume all the indirect taxes such as CST, VAT and local taxes. Further, since GST rates would be fixed within a band around the revenue neutral rate, it would prevent wide differences in tax rates across states which could trigger inter-state flight of businesses. Centralized filing of returns will also reduce hassle for retailers. Transparency and simplification associated with GST should increase tax compliance among online retailers. The immediate impact of GST on government finances is deemed to be negligible given that the GST rate structure emphasizes a revenue neural rate. In the medium to long term, however, GST is likely to increase the tax buoyancy of the Central and state governments by 0.6 per cent which is likely to reduce the gross fiscal deficit by 0.7-1.2 per cent of GDP if disinvestment receipts and non-tax revenues remain unchanged from the trend of the previous 5 years (CRISIL, 2014).

Finally, the implementation of GST would make industry more competitive through dismantling of the complex indirect tax structure and would boost the tax revenue of states as a lasting solution. Cumulatively, these measures are likely to propel states on the path of fiscal consolidation without compromising on expenditure quality. In a welfare state like India, especially Assam in the north-eastern region which aims to attain high growth rates and equitable development that is sustainable, the need for optimal indirect taxation is immense.

Box-10.1

Goods and Services Tax (GST) Compensation Released
(April 2018- September 2018)

States/UTs	GST Compensation Released (Rs. in Crore)
Assam	109
India	**30751**

It indicates the GST Compensation released during April 2018 to September 2018 in Assam was Rs. 109 crores which constituted of a meager .35% of the total GST Compensation released in India.

Table 10.4
State-wise Number of E-Way Bill Violation Cases Detected and Recoveries of Goods and Services Tax (GST) by Department of Revenue in India (2018-2019-upto November, 2018)

(Rs. in Crore)

States/UTs	No. of Cases Detected	Tax Evasion Detected	Tax Evasion Recovered	Penalty Recovered
Assam	8	0.02	0.01	0.01
India	**1100**	**27.64**	**10.97**	**10.38**

***Source*: Indistate.com**

Table 10.4 shows the number of e-way bill violations cases detected and recoveries of goods and services tax (GST) in the Northeastern states including India.

Table 10.5
Selected State-wise Enrolment Status of Taxpayers on Goods and Services Tax Network (GSTN) in India(on 30th April, 2017)

States/UTs	No. of Taxpayers with Validated PAN	Users Activated Till Date	%age of Users Activated
Assam	206034	57532	27.92
India	**8350499**	**6050177**	**72.45**

Table 10.5 shows the state-wise enrolment status of taxpayers on goods and services tax network (GSTN) in India and Assam. Here, Assam recorded a highest collection of CGST/SGST as compared to all other northeastern states.

Table-10.6

State wise Central/State Goods and Services Tax (CGST/SGST) Collection (Including Settlement) in India (August 2017 to 31st December, 2017)

(Rs. in Crore)

States/UTs	Central Goods and Services Tax (CGST)	State Goods and Services Tax (SGST)
Arunachal Pradesh	94.91	101.18
Assam	1772.66	2249.19
Manipur	136.36	145.29
Meghalaya	156.41	193.65
Mizoram	78.68	82.74
Nagaland	86.66	92.86
Sikkim	-12.44	108.67
Tripura	240.06	258.42
India	109661.20	167730.71

Figure 10.4

State Wise Collection of CGST and SGST

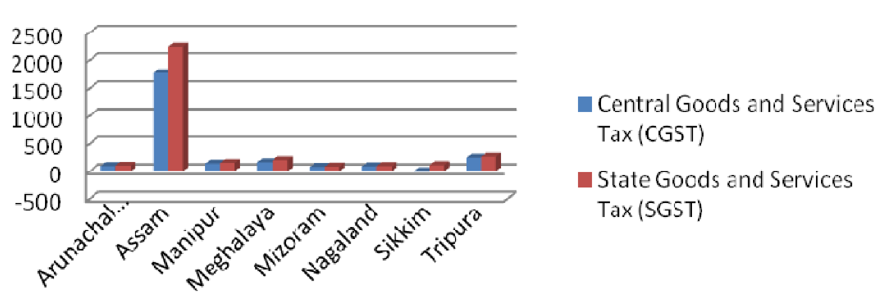


Table-10.7

State-wise Effective Rates of Sales Tax/VAT/GST on Petroleum Products in India
(Effective 01.01.2019)

(In %age)

States/UTs	Sales Tax/VAT	
	Petrol	Diesel
Arunachal Pradesh	16.20% VAT	8.60% VAT
Assam	32.66% or Rs. 14 per Litre whichever is Higher as VAT, Reduction of Rs.2.5/Litre	23.66% or Rs. 8.75 per Litre whichever is Higher as VAT, Reduction of Rs. 2.5/Litre
Manipur	21.20% VAT	10.60% VAT
Meghalaya	22% VAT+2% Surcharge, Reduction of Rs. 2.5/Litre	13.5% VAT+2% Surcharge, Reduction of Rs. 2.5/Litre
Mizoram	20% VAT	12% VAT
Nagaland	20.38% VAT+5% Surcharge+Rs.1.50/Litre as Road Maintenance Cess	10% VAT+5% Surcharge+Rs. 1.50/Litre as Road Maintenance Cess
Sikkim	25% VAT+Rs. 3000/KL Cess+Rs. 100/KL Sikkim Consumer Welfare fund	17.5% VAT+Rs. 2500/KL Cess+Rs. 100/KL Sikkim Consumer Welfare fund
Tripura	23% VAT+3% Tripura Road Development Cess	15.50% VAT+3% Tripura Road Development Cess

Source: Indiastate.com

Box 10.2
Revenue Receipts of Assam
[(Includes GST Revenue of 2016-17, 2017-18(RE), 2018-19(BE)].

(Rs in crores)

Item	2016-17	2017-18 (RE)	2018-19 (B E)
TOTAL REVENUE (I+II)	49219.8	55905.13	74118.5
I. TAX REVENUE (A+B)	32268.2	32068.5	43547
A. State's Own Tax Revenue (1 to 3)	12079.56	9766.98	11640.23
1. Taxes on Income (i+ii)	207.49	228.25	242.83
2. Taxes on Property and Capital Transactions (i to iii)	436.8	480.48	528.53
3. Taxes on Commodities and Services (i to viii)	11435.27	9058.26	10868.88
i) Sales Tax (a to e)	8751.63	4800	4041.31
a) State Sales Tax/VAT	8188.7	4116	3872.62
b) Central Sales Tax	558.26	672	168.69
c) Surcharge on Sales Tax			
d) Receipts of Turnover Tax			
e) Other Receipts	4.68	12	
ii) State Excise	963.81	1060.19	1300
iii) Taxes on Vehicles	521.59	573.75	737.35
iv) Taxes on Goods and Passengers	1069.81	483.06	10.65
v) Taxes and Duties on Electricity	49.44	54.39	61.9
vi) Entertainment Tax	1.59	1.74	
vii) SGST		2000	4717.66
viii) Other Taxes and Duties	77.39	85.13	
B. Share in Central Taxes (i to ix)	20188.64	22301.52	31906.77
i) Corporation Tax	6470.99	6829.45	7326.84
ii) Income Tax	4497.36	5767	6483.84
iii) Estate Duty			
iv) Other Taxes on Income and Expenditure			
v) Taxes on Wealth	14.82	-0.22	-0.23
vi) Customs	2783.57	1643.64	1285.62
vii) Union Excise Duties	3178.6	1702.54	1252.81
viii) Service Tax	3154.6	1028.87	
ix) CGST		3078.83	9051.11
x) IGST		2251.41	6506.78
xi) Other Taxes and Duties on Commodities and Services	88.7		
II. NON-TAX REVENUE	16951.61	23836.63	30571.5

Source: Accounts at Glance (Various Years), Principal Accountant General (A&E), Assam

*Revenue Receipts of States and Union Territories with Legislature (2018-19), RBI

The state of Assam accrued Rs. 11435.27 as taxes on commodities and services which included Sales tax, state excise, vehicle tax, taxes on goods and passengers, taxes and duties on electricity, entertainment tax, SGST and other taxes. It can be seen that state's own tax revenue which consists of Taxes on Income, Taxes on Property and Capital Transactions and Taxes on Commodities and Services reduced from 12079.56 to 9766.98 but total tax revenue collection increased from 49219.8 in 2016-17 to 55905.13 in 2017-18 (RE). This is due to the rise in the share of central taxes and sharp increase in non tax revenue.

10.7.3 CHALLENGES IN THE GST REGIME

Notwithstanding several benefits, the implementation of GST may involve several issues which have been debated in policy circles in recent years. Primary among them is the issue of the revenue neutral rate – the rate which would ensure that the migration to the proposed GST would not entail any revenue shortfall for the Centre and states from the current level. In order to achieve this goal, rates have to be appropriately set, exemplifying the true spirit of fiscal federalism in which revenues are equitably shared by the Centre and states. Nevertheless, the levy of cess by the Centre on several goods and services is a contentious issue as revenues from cesses are not shareable. While large e-retailers would be able to apply software programmes to calculate and levy taxes based on destination, small retailers will not be in a position to bear this additional cost and may restrict their sales to certain geographical areas. It is also necessary to explicitly address the issue of treatment and liability of online market-place platforms.

Since most of the cesses will be subsumed into the GST, it will increase the size of the divisible pool of resources to the advantage of the states. Introduction of a new cess on luxury and demerit goods may be contrary to the spirit of the GST but the proceeds would be used to compensate the states; thus, the impact of GST would be beneficial overall. Nonetheless, from the point of view of implementation, it could be argued that GST is imposed on consumption while cess, which is typically applied at the stage of manufacturing, may be difficult to administer and could also lead to cascading effects.

The GST has drawn out a new course for fiscal federalism in India focusing on cooperation. The GST has subsumed taxes levied by the Centre, states and local bodies; therefore, the fiscal capability of local bodies may be affected after implementation of GST. The state of vertical imbalances would depend on the pattern and the rate of the GST that will be put in place under the dual rate regime. Therefore, the GST rates should be determined taking into account the present level of revenues of the two-tiered tax structure so as to ensure that the fiscal imbalance does not increase.

Although GST is a revenue-neutral rate, however, in practice, a tax like the GST is likely to result in significant revenue gain and such reforms in tax administration could result in more buoyant revenues. In the context of varying rates of taxes across states, the GST endeavors to simplify the tax regime. To the extent, however that it leads to disagreement between states and between the Centre and the states, the very spirit of fiscal federalism may be defeated. The GST is widely regarded as a critical structural reform with broader ramifications in terms of growth, inflation, fiscal viability and external competitiveness.

10.8 CONCLUSION

The introduction of the GST is expected to have significant macroeconomic implications in terms of growth, inflation, export competitiveness and the fiscal balance in the years ahead. This impact of introduction of the GST could turn out to be significant in the years ahead, given the dominance of the services sector in India. Besides giving a major boost to tax revenue, the larger impact on the fiscal health would be from reduction in the administrative compliance cost. GST is likely to be supportive of fiscal consolidation without compromising capital expenditure.

Moreover, GST implementation is likely to boost the small and medium scale enterprises (SME) sector by (i) improving their ease of doing business; (ii) lowering logistical costs (iii) extending outreach beyond state borders and (iv) aiding SMEs dealing in sales and services. Furthermore, economic activity would also benefit from exports becoming more competitive as the GST regime will eliminate the cascading impact of taxes.

The implementation of GST is the single most important tax reform undertaken since the onset of economic reforms with far reaching fiscal consequences for the federal structure of the Indian government. In this regard, the key issue is the determination of the revenue neutral rate which would ensure that the Centre and states would not incur any loss of revenue post-GST implementation. While states are expected to forego fiscal autonomy in the levying of new taxes, changing the existing tax rate or giving tax exemptions with the implementation of the GST, it is expected to promote cooperative federalism and reduce competitive federalism.

CHAPTER-XI

OUTCOME EVALUATION

11.1 INTRODUCTION

All Finance Commissions make the customary recommendations on devolution of resources from the centre to the states, but then each Commission also have their distinct identity that is characterized by their own perspective on various issues and their unique solutions to specific problems. The Thirteenth Finance Commission was unique in the sense that it had recommended a *Grand Bargain* to facilitate the transition to the Goods and Service Tax regime. One of the important items under its Terms of Reference was to review the state of finance of the Union and States particularly in the context of *State Debt Consolidation and Relief*. The recommendations of the Thirteenth Finance Commission was also significant for its recommendations on a calibrated exit strategy from the past expansionary fiscal stance, restoration of predominance of formula based plan transfers as opposed to Centrally Sponsored Schemes, and in ensuring that collections under cesses & surcharges are fully reflected in the finance accounts. The Fourteenth Finance Commission sought to impart greater fiscal autonomy to the states by radically enhancing the share of the states in the divisible pool from 32 percent to 42 percent which is the maximum hike in vertical tax devolution. Of course it had to recommend countervailing reductions in grants-in –aid to preserve the fiscal space of the centre. Moreover, a revised horizontal formula for the distribution of state's share in the divisible pool among the states had significant implications for individual states.

11.2 OUTCOME IMPLICATIONS OF STATE FINANCES IN THE CONTEXT OF RECOMMENDATIONS OF THE THIRTEENTH AND FOURTEENTH FINANCE COMMISSIONS

The present study provides an insight into Assam's Finances over a thirteen year period. As per the terms of reference, the study covers the period from 2006-07 to

2018-19 which coincides with the terms of the Twelfth Finance Commission and the Thirteenth Finance Commission, and all but a year in the domain of the Fourteenth Finance Commission. Under the circumstances, this section will evaluate the outcomes of state finance in the context of the recommendations of the Thirteenth Finance Commission and to explore contiguity, linking that to with the Fourteenth Finance Commission recommendations.

11.2.1 REVENUE

Resources to the state accrue in the form of Revenue Receipts and Capital Receipts. While revenue receipt can be tax or non-tax revenue, capital receipt accrues from market borrowings, borrowings from financial institutions, advances by Central Government, recoveries of loans and advances and also proceeds from disinvestments. However the central government had been making direct transfer of a significant amount of funds to the State Implementing Agencies that are operating in various social and economic sectors which have critical implications on the general welfare of the people. Using 2012-13 as a reference, among the various programmes/ projects that were being implemented, significant amounts were directed towards the implementation of *Mahatma Gandhi National Rural Employment Guarantee Scheme* (MGNREGS) (11.20 per cent), *National Rural Drinking Water Programme* (13.81 per cent), National *Rural Health Mission* (NRHM) (18.32 per cent), *Indira Awaas Yojana* (8.91 per cent) and *Sarva Shikha Abhiyan* (SSA) (30.11 per cent) (CAG, 2014). However the receipt and utilization of the off-budget funds that are directly transferred to the agencies are not officially monitored by any designated agency nor are any substantive data available regarding their nature of expenditure or the efficacy of their implementation. The Thirteenth Finance Commission had taken cognigence of this and had explicitly recommended that initiatives should be taken to reduce the number of Centrally Sponsored Schemes and restore the pre-dominance of formula –based transfers.

The Fourteenth Finance Commission sought to enhance the fiscal autonomy of the states by increasing the share of the states in the divisible pool from 32 percent to 42 percent. However to preserve the fiscal space of the centre, it recommended a commensurate reduction in the Central Assistance to States (CAS) which is subject to significant discretion of the centre. Following the recommendations of the Fourteenth Finance Commission, the Central Transfer from the divisible pool increased by 37 percent which amounted to Rs. 4502 cr. This was accompanied by a corresponding 9 percent decrease in the Grants-in-Aid that amounted to Rs.1210 cr. But within Plan grants, Central Plan Schemes and Special Plan Schemes received 30 percent enhancement in grants mostly due to additional allocation under *Special Assistance for State Securities* (CAG, 2018).

As per the recommendations of the Thirteenth Finance Commission, Assam became eligible for debt relief measures on NSSF loans when it enacted the Assam FRBM Act, 2005. Accordingly, debt relief arrears on account of resetting the interest rates of NSSF loans amounted to Rs. 5.18 cr for 2010-11 & 2011-12 and for the period 2012-13 the relief was of the tune of Rs. 21.21 cr. The state also benefitted by the Rs. 502 cr waiver recommended by the Finance Commission for Central Loans outstanding in 2009-10, after it was extended to cover Centrally Sponsored Schemes. These relaxations enabled the state to take forward the fiscal consolidation process in a much more effective manner. In fact, the extensive financial accommodation by the centre is one of the key factors that have enabled the state to achieve the AFRBM targets so successfully.

11.2.2 PUBLIC EXPENDITURE

Public expenditure and its composition play a significant role in the fiscal consolidation process of a state. It is pertinent not only to ensure that expenditure is directed towards developmental needs, but also to see they are met from internally generated resources and not from loans. In Assam, on an average, total expenditure constituted roughly 20 to 22 percent of the state's GSDP during the period of study, and the growth of expenditure has been higher than that of the growth of population. Total expenditure has three components of which revenue expenditure is the main, accounting for roughly 88 percent of the total expenditure during the period of study. Under the head of revenue expenditure, development expenditure, which is the expenditure on social and economic services, is the major constituent. It may be mentioned that the Non Plan Revenue Expenditure remained significantly higher than the normative assessments made by Thirteenth Finance

Commission but lower than the projections of the State Government. Compared to the projections made by the Fourteenth Finance Commission, revenue expenditure in Assam was lower than the projected value in 2015-16, but then exceeded the projected values for the period 2016-17 to 2018-19. The massive gap was in 2017-18 when actual values of revenue expenditure was 1.65 times the projected value due to the implementation of the recommendations of the Seventh Pay Commission. In case of capital expenditure, although more than 96 percent is directed towards developmental needs, yet, the major focus was on water supplies, sanitation, housing and urban development (under social services) and transport and communications (under economic services).

Along with the composition of public expenditure, the efficiency of its use is equally important. The first thing is to ascertain the level of expenditure that the government is bound to meet in the form of committed expenditure. On an average, committed expenditure accounted for roughly 65 percent of the state's revenue expenditure and 57 percent of the total expenditure during the study period. The share was however higher at 74 percent and 63.6 percent respectively in 2015-16. It was found that the share of subsidies and interest payments were remarkably low. Interest payments, which were mainly on internal debt, in fact were very much within the assessments of Thirteenth Finance Commission and State projections. Wages and salaries, and pensions, were the chief components of committed expenditure as a whole. Pension payment was more than the assessments of Thirteenth Finance Commission as well as the projections made by the State Government in its Medium Term Fiscal Plan (MTFP).

Total expenditure in the state was directed to developmental areas, and was less than the revenue receipts of the state till 2008-09. However, after the implementation of the recommendations of the Sixth Pay Commission, it started exceeding the revenue receipts. The buoyancy ratio of total expenditure to revenue receipts however indicates that the pace of increase in revenue receipt is greater than that of expenditure. However, implementation of the Seventh Pay Commission can adversely affect this trend.

11.2.3 PUBLIC DEBT

Public debt is the accumulated stock of government financial liabilities which is measured by summing the face value of that stock. Contextualizing India, public debts refer to all financial liabilities of the government, irrespective of to whom they are owed. A large accumulation of public debt may create a problem for the state government with regards to repayment of the principal along with its interest payments and also may raise the issue of sustainability of the current stock of debt of the State. The outstanding Debt of the State increased from Rs. 31497 cr in 2011-12 to Rs. 47754 cr in 2016-17 and is expected to increase further to Rs.66360 in 2018-19(BE) at a compound annual growth rate of 9.4 per cent. Data revealed that the quantum spread together with primary deficit/surplus was positive in 2008-09 but turned negative in 2009-10. However, it turned positive in the year 2010-11 and maintained it in the years 2011-12 and 2012-13 indicating that the debt-GSDP ratio was stable. The sum of quantum spread and primary deficit at Rs. 2,861 cr during 2012-13 was a positive sign towards fiscal balances for improving the debt sustainability position of the State. High level of surplus cash in recent past seems to withstand pressure on finances and the State was not resorting to *ways and means* advances or overdrafts.

The source of financing of the total public debt of the state 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. This has significant implications for a poor state like Assam with low credibility in the loan market. Besides, the interest rates are different for different sources of financing which ultimately determines the total interest obligations of the state. Without the identification and availability of fund, it is not possible for a state to make developmental plans. In order to support the state government towards urgent fiscal correction, the Thirteenth Finance Commission had worked out a fiscal consolidation roadmap for Assam which stated that the State will be eligible for flexibility of 0.25 percent over the targeted three percent fiscal deficit for any given year for which borrowing limits are to be fixed if their debt - GSDP ratio is less than or equal to 25 per cent in the preceding year. As per the recommendations of the Thirteenth Finance Commission the States should bring down their debt-GDP ratio to 25 per cent by 2014-15. In 2012-13, thirteen states had a debt-GSDP ratio of less than 25 per cent, which included Assam but fifteen states remained above the threshold, despite a declining trend. Some of the north-eastern states-such as Manipur, Mizoram and Nagaland - continued to have high debt burdens. This could be due to the small size of their GSDP and the widely fluctuating nature of GSDP growth. For achieving fiscal consolidation, the State enacted Assam Fiscal Responsibility and Budget Management (AFRBM) Act in 2005 and amended subsequently in 2011. As per the amended Act 2011, the State Government was to eliminate Revenue Deficit by 2011-12 and maintain revenue balance or attain surplus thereafter and reduce Fiscal Deficit to three per cent of the estimated GSDP by 2010-11 and maintain the same level thereafter. Further, the Act also envisaged that the state government would attain the total outstanding debt to GSDP ratio at 28.40 per cent in 2012-13 and maintain the same level in 2013-14. Further, the level of 28.50 per cent had to be maintained in 2014-15 and thereafter. Operationally, the debt-GSDP ratio had declined from 20.97 in 2012-13 to 18.54 in 2016-17, which was well within the norms (26.93 per cent), prescribed by the Fourteenth Finance Commission. This was a positive sign towards fiscal consolidation for improving the debt sustainability position of the State.

The Thirteenth Finance Commission had also recommended the creation of a Debt Consolidation and Relief Facility (DCRF), which involved the rescheduling and consolidation of certain loans from the Union Government to the States. The debt waiver under this scheme was linked to States undertaking fiscal correction through their respective FRBM legislations. The DCRF brought a measure of relief to the States by reducing interest payments due to write-off and rescheduling of central loans after 2005. There was also improvement in the fiscal position of States due to various factors such as increase in revenue collections as a result of the adoption of value-added tax (VAT) by all the States, buoyant economic growth, retirement of high-cost debt, under the debt-swap scheme floated by the Union Government, increased tax devolution on account of the high revenue buoyancy of central taxes and a low interest rate regime.

11.2.4 FISCAL DEFICITS AND AFRBM

The Thirteenth Finance Commission had recommended that the FRBM Act must pre-specify the nature of shocks that would require a relaxation in the FRBM targets. This follows from the expansionary fiscal stance adopted by the government following the global slowdown of 2008-09 and 2009-10. The severe violations in the AFRBM targets in 2009-10 prompted the Commission to prepare a fiscal consolidation roadmap for Assam to correct the slippage through a calibrated exit strategy from the fiscal expansion. In consonance with the roadmap, the Assam FRBM Act, 2005 was amended in 2011 to reemerge as the Assam Fiscal Responsibility and Budget Management (AFRBM) Amendment Act, 2011. As per the Act, the State Government was to eliminate revenue deficit by 2011-12 and maintain revenue balance or attain surplus thereafter. Concurrently, it was mandated that the state reduce fiscal deficit to three per cent of the estimated GSDP by 2010-11 and maintain the same level thereafter. Further, the Act also envisaged that the State Government would attain the total outstanding debt to GSDP ratio at 28.40 per cent in 2012-13 and maintain the same level in 2013-14. Further, the level of 28.50 per cent had to be maintained in 2014-15 and thereafter. However given its exceptional fiscal performance, Assam (as a special category state) was awarded Performance Incentive Grants of Rs. 300 cr as 'an appreciation of fiscal prudence under cost disabilities and fiscal challenges'.

Following the enactment and implementation of the Act, Assam achieved significant fiscal correction and consolidation that was facilitated by larger devolution from the Thirteenth Finance Commission. However in the coming years there is a possible threat of fiscal slippage due to the implementation of recommendations of 7th Assam Pay Commission which has potential financial implication of Rs. 3238.28 cr for 2017-18. This is significant because the state has chosen to ignore the Thirteenth Finance Commission recommendation of avoiding the structural shock arising out of arrear payment of revised pay by fixing the date of effect from the day when the report is accepted.

11.2.5 LOCAL BODIES

The passage of the 73rd and 74th amendment of the Constitution, which led to the creation of a three tier federal system in India, was a major move towards decentralization. Till March 2015, there were a total of 2412 Panchayati Raj Institutions (PRIs) in Assam, and 94 urban local bodies (ULBs). A look at the sources of funds for the local bodies show that

Centrally Sponsored Schemes were the major provider of funds for PRIs while Central Finance Commission transfers and own revenue constituted the major sources of finance for the urban bodies. As far as the state's transfers to local bodies are concerned, the bulk of the resources went to universities and educational institutions, and 'other institutions'. A paradoxical situation is thus created, with grassroots institutions implementing the flagship programmes of the Central Government, like Indira Awas Yojana, MGNREGS, etc. and the state government expending the resources meant for local bodies to bodies not directly involved with local self-governance. Decentralization initiatives are rather carried under the aegis of the Transformation and Development Department of Government of Assam. Most of these schemes have emphasized on creation of local infrastructure with the involvement of the local MP and/or MLA and the local people. Auditing the accounts of the local bodies, both in rural and urban areas, has large arrears. During the period 2010-17, shortfalls in the number of units audited to those planned for, ranged between 21 to 65 percent for PRIs and 28 to 66 percent for ULBs. Non-compliance with the Inspection Reports and release of funds by the Government to local bodies, without the submission of budget proposals are some of the problems plaguing the local bodies in Assam.

11.2.6 PUBLIC SECTOR ENTERPRISE

Public Sector Enterprise (PSE) refers to any commercial or industrial undertaking which is owned and managed by the government with a view to maximize social welfare and uphold the public interest. The government of Assam not only invests in the PSEs, but 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. PSEs under Industries and Commerce (*Assam Gas Company Ltd*. and *Assam Petrochemicals Ltd*.) are earning profits and paying dividends to the government. At the same time, *Assam State Transport Corporation* (ASTC) and the *Assam Tourism Development Corporation* (ATDC) which are incurring losses are exhibiting signs of improvement. The *Assam State Electricity Board (ASEB)* continues to roll under losses notwithstanding the fact that it has been disintegrated and reconstituted into five succeeding companies. There has been a significant amount of resources that had been invested by the government on statutory corporations, government companies, joint stock companies and co-operatives. It has been observed that 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. Initially, 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, had over the years put considerable pressure on government expenditure in the form of interest servicing and principal repayment.

The total government investment was Rs. 1984.46 cr in 2006-07, which yielded a return of only Rs. 18.54 cr (0.93 percent). Given the fact that the government had to borrow at 7.75 percent interest in that year, the loss to the government in terms of the difference between interest paid and return was 6.82 percent. Although the rate of return was 1.21 percent in the year 2007-08, the rate continued to be less than one percent in the next six year period (2008-09 to 2014-15. In the consequent year 2016-17, the percentage return on investment increased to 4.96 percent although the government liability was significantly reduced by a decline in the average interest rate payable on borrowed funds to 1.61 percent in that period. 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. Except for the year 2008-09, the total interest received was negligible at even less than 0.5 percent of the total loans and advances outstanding in the period 2006-07 to 2016-17. The biggest recipients of the loans in 2006-07 were power projects which were sanctioned Rs. 72.54 cr. The total outstanding loans and advances increased from Rs. 2675 cr in 2006-07 to Rs. 4694 cr in 2016-17. Besides directly investing in PSEs and also lending to them, the government also extends financial support to these units by guaranteeing the loans (known as contingent liabilities) which they raise. Interest receipts from the states have come down considerably after disintermediation of Union Government loans to States, following the recommendations of the Twelfth Finance Commission. Revenue from interest on loans to CPSEs has also declined, as these enterprises borrow mainly from financial institutions and not the government. Thus, 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.

11.2.7 CONTINGENT LIABILITIES

Conditional liabilities are the liabilities that are conditional upon predefined events or circumstances which largely include the state government guarantees in respect of bond issued and other borrowings by the State Level Public Sector Undertakings or other bodies. They refer to obligations whose timing and magnitude depend on the occurrence of some uncertain future event outside the control of the government. Contingent liabilities are critical due to the fact that their cognigence reflect the increased awareness of their ability to impair fiscal sustainability. Contingent liabilities bear potential financial risks conditioned upon the occurrence of the event. Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee had been extended. According to FRBM Act, State Government guarantees shall be restricted to 50 per cent of State's tax and non-tax revenue of the second preceding year.

As per the recommendations of the Twelfth Finance Commission , the Government of Assam had constituted (September 2009) a 'Guarantee Redemption Fund' to meet the payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and other borrowings by the State Level Public Sector Undertakings or other bodies and invoked by the beneficiaries. The accumulations in the Fund would be utilized only towards payment of the guarantees issued by the Government and not paid by the institution on whose behalf guarantee was issued. According to the scheme guidelines, the Fund should be set up by the Government with an initial contribution of Rs. 5 cr and during each year the Government should contribute an amount equivalent to at least three per cent of the outstanding guarantees at the end of the second financial year preceding the current financial year as reflected in the books of accounts as maintained by the Accountant General (Accounts & Entitlement). During 2014-15, the State Government contributed only Rs.1 cr to the Fund against the required amount of contribution of Rs. 3.42 cr (3 per cent of Rs. 114 cr). This led to short contribution of Rs. 2.42 cr by the State Government during the year. No guarantees were invoked during the year. During 2015-16, the State Government contributed only Rs.1 cr to the Fund against required amount of contribution of Rs. 2.70 cr (3 percent of Rs. 90 cr). This led to short contribution of Rs. 1.70 cr by the State Government during the year. During 2016-17, the State Government contributed Rs. 4.29 cr to the Fund, which was 3 per cent of Rs. 143 cr (i.e., outstanding guarantee at the end of the second financial year preceding the current financial year). No guarantee was invoked during the year. As on 31st March 2017, the total amount lying in the Fund was Rs. 32.88 cr (including the accrued interest of Rs. 1.78 cr for 2016-17) and the entire amount had been invested by the Reserve Bank of India.

11.2.8 SUBSIDIES

Subsidies are a component of government expenditure that are given to the producers or consumers with a view to influence the consumption or production of a particular good. While a good number of subsidies are administered centrally, there are some subsidies which are provided by the state. The Thirteenth Finance Commission has not laid any specifications on state subsidies. In Assam, state subsidies constitute less than 1 percent of the state’s revenue expenditure, and have shown a decline from 2014-15 onwards. Three main departments account for nearly 96 percent of the subsidies given, viz. Cooperatives, Welfare of Schedule Castes, Schedule Tribes and Other Backward Classes, and Industry and Commerce Department. In 2015-16, the Industries and Commerce Department was the single largest claimant of the state subsidy, receiving 98.63 percent of the total subsidy disbursed by the state government. Subsidies in the state are not directed towards providing merit goods, but appear to meet the goals of social empowerment and inviting industrial investments.

11.2.9 POWER SECTOR REFORMS

Initiation of power sector reforms in Assam in 2001 has seen the creation of three corporations from the erstwhile Assam State Electricity Board. Assigned with separate tasks of generation, transmission and distribution of electricity in the state, the three corporations have been able to fill-up the demand-supply gap of power to a large extent. Restructuring of the power sector in Assam has been enabled through increased capital expenditure.

Subsidies, however, no longer exist for the power companies. Financially, the power companies have not yet been able to show profits, but with a proper pricing strategy, the financial performance of the power companies can be improved. This would then entail lesser burden for the government exchequer.

11.2.10 GOODS AND SERVICE TAX (GST)

The Thirteenth Finance Commission had appointed a task force on GST and recommended a single rate of 5 per cent for Central GST and 7 per cent for State GST, based on the report of this task force. It also recommended a uniform threshold of Rs 10 lakhs for goods and services under both the levies and uniform treatment for both goods and services to avoid classification disputes. The GST design proposed by the Thirteenth Finance Commission limited the exemption from the tax to public services of the government, unprocessed food under the public distribution scheme, health and education services. The design also included motor spirit, alcohol and tobacco under GST as a creditable levy. It also recommended a compensation amount of Rs. 50,000 cr, in case of revenue loss to the States, for five years from 2010-11 to 2014-15. While the introduction of the GST would have a favorable impact on both the Union and State finances, there may be a case for revenue compensation to the States by the Union Government for the transitional years. However, in case there is a revenue loss to States due to the introduction of the GST, the Union Government should be able to make resources available for compensation. Assam was the first state to ratify the constitution amendment bill on Goods and Services Tax (GST) which cleared the way to bring GST Act in India on 12 August 2016, followed by Bihar. GST implementation is likely to boost the Small and Medium Scale Enterprises (SME) sector by improving their ease of doing business, lowering logistical costs extending outreach beyond state borders and aiding SMEs dealing in sales and services. Furthermore, economic activity would also benefit from exports becoming more competitive as the GST regime will eliminate the cascading impact of taxes.

The Fourteenth Finance Commission has assumed that the introduction of the GST would be revenue-neutral. However, in practice, a tax like the GST is likely to result in significant revenue gain, in which case the tax revenue increase we envisaged in our assessment would be even easier to achieve. The financing of the National Disaster Response Fund (NDRF) has so far been almost wholly through the levy of cess on selected items, but if the cesses are discontinued or when they are subsumed under the Goods And Services Tax (GST) in future, the Fourteenth Finance Commission recommended that the Union Government consider ensuring an assured source of funding for the NDRF. The Fourteenth Finance Commission, thus, recommended that the constitutional legislative and design aspects of the GST should help in enabling transition towards universal application of GST over the medium to long term, while making necessary provisions for smooth transition through temporary arrangements. As on 31st December, 2017, the collection of Central GST in Assam was Rs 1772.66 cr whereas the state GST was Rs. 2249.19 cr. Assam contributed a meagre 1.61percent to the Central GST of India. Also, the amount collected through GST (CGST+SGST) in Assam showed a significant increase from Rs 92283 cr at the end of August 2017 to Rs. 103458 cr at the end of April 2018. Based on the recommendations of the Fourteenth Finance Commission, the scenario for the period 2015-16 to 2021-22 has been indicated by the Department of Finance, Government of Assam. Besides, GST Compensation released during April 2018 to September 2018 in Assam was Rs. 109 crores which constituted of a meagre 0.35% of the total GST Compensation released in India. The state of Assam accrued Rs. 11435.27 crs as taxes on commodities and services which included Sales tax, state excise, vehicle tax, taxes on goods and passengers, taxes and duties on electricity, entertainment tax, SGST and other taxes. Also, state's own tax revenue which consists of Taxes on Income, Taxes on Property and Capital Transactions and Taxes on Commodities and Services reduced from Rs. 12079.56 crs to Rs. 9766.98 crs but total tax revenue collection increased from Rs. 49219.8 crs in 2016-17 to Rs. 55905.13 crs in 2017-18 (RE). This is due to the rise in the share of central taxes and sharp increase in non tax revenue.

11.3 CONCLUSION

As was indicated in the beginning of this chapter, each finance commission made their mark for suggesting unique solutions to resolve the pressing problems of their time. The Twelfth Finance Commission, while making expected recommendations with regards to vertical devolution to states from the central pool of sharable taxes and on the principles of horizontal devolution of sharable central taxes among the states, also came up with striking suggestions on other fiscal issues which were a cause of great concern. One of the mandates of the commission was extension of debt relief that was consistent with macro-economic stability and debt sustainability. Assam was a major beneficiary of this scheme, which enabled it to retrieve itself from a position of fiscal insolvency to a much more comfortable state of fiscal stability and sustainability. The state was also a major beneficiary of the Twelfth Finance Commission's recommendations of partial equalization of expenditure in education and health. Its independent awards for maintenance of roads & bridges, grants for heritage conservation and grants for state-specific needs had great significance for Assam.

The Thirteenth Finance Commission assumed the responsibility of facilitating the implementation of the GST regime by recommending a *grand bargain* with the adoption of the *Model GST Design that* would define the operational modalities, chalk out the necessary agreement between the centre and states, and state the disincentives for non-compliance and procedures for claiming compensation. The recommendations of the Thirteenth Finance Commission prepared the ground work for the successful implementation of the GST in the term of the Fourteenth Finance Commission. It sought to strengthen the process of fiscal consolidation by recommending the discontinuance of diverting plan assistance to non-plan use, seeking disinvestment and privatization of non-viable PSEs, minimizing transmission and distribution losses in the power sector and last but not the least, the earliest migration to the New Pension Scheme. All the recommendations were actively adopted and implemented in the state of Assam which made a significant impact in its process of fiscal consolidation.
The focus of the Fourteenth Finance Commission was on enhancing the fiscal autonomy of the states which was sought to be implemented by recommending a quantum 10 percent hike in the share of the states in the divisible pool of central taxes. Another recommendation that had a great impact on the Northeastern States is the induction of the dimension of forest cover in the formula for horizontal devolution of the state share. Assam benefited by the assignment of 10 percent weight to the population of 2011 in the devolution formula thus capturing the demographic changes since 1971. The Fourteenth Finance Commission carried forward the initiative to facilitate the successful transition to the GST regime by

recommending the setting up of the GST Compensation Fund that would compensate revenue shortfall of the states.

The Fifteenth Finance Commission is expected to retain the medium term strategy of fiscal consolidation of the centre and the states, and the maintenance of fiscal stability and sustainability. Given the fact that it finds itself in a much more comfortable position than the earlier commissions, the Fifteenth Finance Commission can look towards enhancement in the quality of Public Expenditure by preparing modalities pertaining to monitoring of disbursement, maintenance of transparency and assignment of accountability. Cost recovery from public services has always been a matter of great political inexpediency and the rational solution appears to be an exit policy whenever it is plausible. Finally, the unsustainable PSEs continue to be a concern. While they have continued to be a great burden on the treasury, their non-operation have caused great distress to the stakeholders, especially the embattled employees. The resolution of this vexed issue poses the greatest challenge in the states, for the Fifteenth Finance Commission.

REFERENCES

1. Akanni K.A & Osinowo O.H.(2013) 'Effect of Fiscal Instability on Economic Growth in Nigeria', ***Advances in Economics and Business,*** 1(2): 124-133.

2. Blinder, A.S. and Solow R. (1973), "Does Fiscal Policy Matter", ***Journal of Public Economics***, pp. 319-337.

3. Buiter, W. H. and Patel U. R. (1992), "Debt, Deficit and Inflation: An Application to the Public Finances in India" ***Journal of Public Economics***, Vol.47, pp.171-205.

4. Comptroller and Auditor General of India (2002-03 to 2017-18), ***Audit Report (State Finances, Various Years)***, Government of Assam.

5. Chelliah, Raja J. (1996), ***Towards Sustainable growth: Essays in Fiscal and Financial Sector Reforms in India***, Oxford University Press, New Delhi.

6. Comptroller and Auditor General of India (2002-03 to 2017-18), ***Report of the Comptroller and Auditor General of India on Revenue Secto***r, ***Various Years***, Government of Assam.

7. Comptroller and Auditor General of India (2015), ***Report of Comptroller and Auditor General of India, Related Issues***, Government of Assam.

8. Crisil Research (2014), ***CRISIL Budget Analysis***, Mumbai, India

9. Directorate of Economics and Statistics (2002-03 to 2016-17), ***Economic Survey, Assam***, ***Various Issues***, Government of Assam.

10. Directorate of Economics and Statistics (2012 to 2017), ***Statistical Handbook, Assam***, ***Various Issues***, Government of Assam.

11. Directorate of Economics and Statistics (2017), ***Economic Survey, Assam***, ***Various Issues***, Government of Assam.

12. Department of Economic Affairs (2015) ***Economic Survey 2014-15***, New Delhi, Ministry of Finance, Government of India

13. Department of Public Enterprise (2017) ***List of Public Sector Enterprise*** Government of Assam

14. Government of India (2017), ***Press Information Bureau***, Govt. of India, Government of India.

15. Mallick, J. (2013), "Public Expenditure, Private Investment and Income: Evidence in Indian States", The Journal of Developing Areas, Vol. 47, No. 1 (Spring 2013), pp. 181-205

16. Reserve Bank of India (2005-2018), ***Reserve Bank of India, 'State Finances- A Study of Budgets***, ***(Various Years)***, Government Of India.

17. Srivastava, D.K. and Nath H.R. A, H.K (2001), ***Central Budgetary Subsidies in India*, **National Institute of Public Finance and Policy, New Delhi.