MEMORANDUM

TO THE
THIRTEENTH FINANCE
COMMISSION

GOVERNMENT OF ASSAM
FINANCE DEPARTMENT
18th December – 2008

C O N T E N T

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Chapter-1

Issues before the 13th Finance Commission
Centre-State Financial Relations

1.1 We welcome the Hon'ble Chairman and Members of the Thirteenth Finance Commission on their august visit to Assam and thank them for giving us this opportunity to present this memorandum for their kind consideration. Earlier a joint memorandum was submitted by the States to the Finance Commission in New Delhi on September 16, 2008. Government of Assam is also a signatory to the joint memorandum. A number of important issues which are of common interest to the States have been highlighted in the joint memorandum. In the present memorandum, therefore, we shall focus more on the issues which are of particular relevance and importance to the State of Assam.

Challenges before the 13th Finance Commission

1.2 The Constitution of India has bestowed a solemn responsibility on the Finance Commission to uphold and enforce the spirit of fiscal federalism in the country. Successive Finance Commissions have played a significant role in addressing the issues concerning the fiscal stability of the Centre and the States in accordance with the federal spirit envisioned in the Constitution of India. We appreciate this and thank the successive Finance Commissions. However, in spite of the commendable work done by the previous Finance Commissions, one cannot escape the unpleasant and disturbing reality that the Union-State financial relations continue to be lop-sided. Both the vertical and horizontal imbalances have been on the increase. The issues before the 13th Finance Commission have been enumerated in the Presidential Order constituting the Commission. All of them are relevant and important. However, the fundamental challenge before the 13th Finance Commission remains the same, i.e., to evolve an effective mechanism for just and equitable sharing of resources between the Centre and the States commensurate with their respective responsibilities and put in place a policy regime effective enough to obliterate the widening regional disparities.

Fiscal Consolidation – Pre and Post FRBM scenarios

1.3 The last two Finance Commissions came at a time when almost all the States were going through severe financial crises. The situation today is substantially different from what the earlier Finance Commissions had to face. The Thirteenth Finance Commission has come at a time when the financial position of both the Centre and the States has improved significantly during the last three to four years. Key fiscal parameters are showing significant improvements. Quite a few States have been able to achieve revenue surplus. A few States have achieved fiscal and primary surpluses also. Assam is one of the very few States which have been able to achieve revenue, fiscal and primary surpluses during 2005-06, 2006-07 and 2007-08. Hon'ble Members of the Finance Commission will perhaps agree that this is a remarkable feat by any standard.

1.4 Assam had been passing through an unprecedented financial crisis since the early 1990s. Even the salaries of the State Government employees could not be paid in time. Due to frequent, huge and prolonged over-drafts, Reserve Bank of India used to impose ban on State Government payments with unfailing regularity. For instance, the State Government's account was in over-draft for 294 days in 2000-2001. In the same year, State Government payments remained suspended due to RBI ban for 175 days. The year ending over-draft in 2001-02 was Rs.1027 crore. We are now happy to apprise the Hon'ble Finance Commission that we are no longer being tormented by such financial trauma. As already mentioned we have posted revenue, fiscal and primary surpluses during the last three financial years. This remarkable turnaround has been possible due to a number of reform measures, many of them painful, undertaken by the State Government during the last few years. Some of them are – (a) Implementation of a Medium Term Fiscal Reform Programme adopted in March, 2003 in consultation with Government of India, (b) Implementation of a comprehensive fiscal restructuring programme titled Assam Governance and Public Resource Management Programme sponsored by the Asian Development Bank and Government of India from 2004, (c) Enactment and implementation of the Assam Fiscal Responsibility and Budget Management Act, 2005, (d) Significant improvement in State's own revenue collection, both tax and non-tax, (e) Compression of revenue expenditure where ever possible without affecting public interest and (f) Containment of public debt including Government guarantees and other contingent liabilities. These efforts of the State Government were no doubt complemented by increase in transfers from the Centre – both in terms of State's share in central taxes and grants-in-aid. We take this opportunity to thank Government of India.

Post FRBM- Real Economy Problems

1.5 While we are delighted with our improved fiscal parameters, the disturbing reality is that Assam is still one of the least developed States in the country. Although our GSDP growth rate has increased significantly during the last few years, it is still well below the national GDP growth rate. Compared to 4.07% and 1.75% during the 8th and 9th Plan periods respectively, GSDP growth rate of Assam (at 1999-2000 constant prices) rose to 6.05% during the Tenth Plan period. In 2006-07, GSDP growth rate of the State was 7.6%. Yet it was well below the national GDP growth rate of 9.6% for that year. **The per capita income of Assam in 2006-07 was about two-third of the national average.** As has been detailed in Chapter- 2 of this memorandum, for about 60 years, the NSDP growth rate of Assam has all along been below the NNP growth rate for the country as a whole. These trends clearly bring out two disturbing and unacceptable facts :-

(a) Notwithstanding a comfortable fiscal surplus, the State suffers from a huge development deficit,
(b) Instead of narrowing down, the development deficit has been widening over the years.

At the time of independence, per capita income of Assam was marginally above the All India average. In 2006-07, per capita income of Assam became only 68% of the national average. One measure of the development deficit mentioned above is this. Had the pace of economic development in Assam in post independence period been the same as the rest of the country, the GSDP (at current price) of Assam in 2006-07 would have been Rs.1,00,024 crore in stead of Rs.65,033 crore. The difference, i.e., Rs.34,991 crore can be taken as a measure of the Development Deficit in terms of GSDP. Similarly, Development Deficit persists and is growing in terms of various other indicators like infrastructure, human development index etc.

Having consolidated our financial position after almost thirty years, we are now committed to address the problems of the real economy and catch up with the rest of the country by wiping out the Development Deficit as fast as we can. We have already engaged RITES to prepare project reports for a number of important infrastructure projects. RITES have also been entrusted to prepare Assam Infrastructure Strategic Vision Plan 2030 along with pre-feasibility reports of viable projects under the Vision Plan. They are already on the job. Steps have also been taken to set up an Infrastructure Financing Society under the State Government so as to ensure that the large infrastructure projects undertaken by the State Government are not subjected to year by year budgetary fluctuations. Projects under PPP mode will also be eligible for funding by the Society. Projects in the roads, inland water transport, power, flood control, irrigation, health, education, tourism, water supply, sanitation, urban development as well as railway and civil aviation in collaboration with the respective Central Ministries will be our focus areas.

We request Hon'ble Chairman and Members of the 13th Finance Commission to evaluate our financial requirements from the above perspective keeping in view the needs of the real economy and not merely on the basis of the current financial parameters, which are essentially an outcome of the stringent FRBM stipulations and the AGPRMP policy matrix. In any case, our current revenue surplus may be short-lived in the context of implementation of recommendations of the Sixth Central Pay Commission for the State Government employees as well as the threat of substantial fall in our own tax revenues, non-tax revenues and share of central taxes in the wake of global recession. We have successfully achieved the FRBM targets and realized financial consolidation and stability. But this fiscal equilibrium is at a low level of revenue and expenditure. We would now like to draw the road map for the post FRMB era. Our past FRBM goal is to sustain this equilibrium at substantially higher level of our fiscal and economic growth trajectories. The growth path we are visualizing is one of annual GSDP growth rate of 8.5% to 9.5% sustainable in the foreseeable future without in any way compromising with or jeopardizing our new found fiscal balance and stability.

Trend of Actual Central Transfers to the States

1.6 We would now like to place before the Commission the recent trend in transfer of resources from the Centre to the States. An important point to note in this context is that although the quantum of transfers from the Centre to the States has increased in absolute terms, its proportion to the Centre's total receipts has been declining over the years, as shown in Table- 1.6.

Table- 1.6
Finance Commission Transfers (FCT) as percentage of Centre's Revenue Receipts

Year	Revenue Receipts of Centre (Rs. crore)	Quantum of FCT (Rs. crore)	FCT as % Revenue Receipt
1990-1991	…….	…….	37.80
1999-2000	181482	46222	25.46
2004-05	305991	88354	28.87
2005-06	345754	115345	33.36
2006-07	434387	136486	31.42
2007-08 (BE)	525098	155973	29.70

1.7 **Coming to actual devolution of Central Taxes and Duties, as per the accepted recommendations of the 12th Finance Commission, the States' share of the Central taxes and duties has been fixed at 30.5% of their net proceeds, one percent above what was recommended by the Eleventh Finance Commission. However, the Union receipt budget suggests that actual devolution has hardly been above 26%. To be precise, it was 25.95% in 2002-03, 25.85% in 2003-04, 25.77% in 2004-05, 27.77% in 2005-06, 25.41% in 2006-07 and 25.93% in 2007-08.**

We request the **Thirteenth Finance Commission to kindly take note of this and put in place an effective institutional mechanism to forestall this tendency on the part of Central Government.**

Resource – Responsibility Mismatch in Centre-States Relations

1.8 The mismatch between the developmental responsibilities and resources of the State Governments is a well-documented fact. In the year 2004-05, according to the revised estimates of expenditure compiled by the Reserve Bank of India (RBI Handbook of Statistics on Indian Economy, 2005-06), the burden of annual developmental expenditure that was borne by the states taken together (Rs. 3.62 lakh crore) was more than one-and-a-half times higher than what was borne by the Centre (Rs. 2.33 lakh crore). These figures of developmental expenditure relate to the expenditure that could be made by the States under severe financial constraints. The really needed developmental expenditure of the States would, therefore, have been much higher than this expenditure. On the other hand, of the total revenue collected in the country in the year 2005-06, nearly 62 per cent got raised in the hands of the Central Government and only 38 per cent in all the States taken together. We had referred to the RBI statistics (Hand Book of Statistics on Indian Economy, 2002-03) in our Memorandum to the Twelfth Finance Commission, which said that the combined development expenditure incurred by the States was 60% of the national total, the Central share being only 40%. Against this, the combined share of States in the total revenue generated in the country was only 38% as against 62% of the centre. The Terms of Reference of the earlier Finance Commissions mentioned that the expenditure requirements of the Central Government will have the first claim on the Union Government's tax revenue. It is appreciated that the Terms of Reference of the Thirteenth Finance Commission does not have this stipulation. Besides, there is the provision that the Commission, in making its recommendations shall have regard, among other considerations, to the demands on the resources of the Central Government on account of the projected Gross Budgetary Support to the central and state plans. This is an opportunity for the Commission to recommend transfers even for the State Plans. **States have been raising this issue that although the constitutional provisions do not require the Commission to recommend financial transfers only to the non-plan revenue account, the terms of reference set by the Union Government required the commissions to do so. This left the Commissions constrained in taking a holistic view of state finances. We are confident that the Thirteenth Finance Commission will bid adieu to this discriminatory approach in assessing the expenditure needs of the Central and State Governments and take a holistic view of the State finances.**

1.9 As mentioned above the Constitutional responsibilities and developmental needs of the States is much more compared to their limited Constitutional powers to mobilize resources as well as inadequate central transfers. The current level of vertical devolution, which is 30.5% of the net proceeds of shareable Central Taxes, is grossly inadequate. **We therefore strongly urge the 13th Finance Commission to raise the States' share in Central Taxes from 30.5% at present to 50% of the net proceeds.** This was also the consensus recorded in the joint memorandum submitted by the States to the 13th Finance Commission in New Delhi on September 16, 2008. **Another consensus arrived at by the States and recorded in the joint memorandum is that in the interest of regional balance, prioritized attention should be given to the problems of the North Eastern and special category states including additional devolution of central taxes.**

1.10 **We would also like to request the Thirteenth Finance Commission to recommend transfer of at least 50% of all Central revenue receipts to the States.** Such transfers will consist of States' share in Central taxes, grants-in-aid to States to cover deficits on non-plan revenue account as recommended by successive Finance Commissions, upgradation grants meant for local bodies, grants for calamity relief and plan revenue grants. Although at present such transfers are well below the 50% mark, there are instances in the past when such transfers exceeded 50%. So our suggestion is perhaps not unrealistic and unreasonable.

Market Borrowing

1.11 It may also be noted that share of total market borrowing to which States may be entitled is also fixed by the Centre. While in 1950s share of market borrowing of the states and the Centre in the total governmental market borrowings were approximately in the proportion of 50:50; this share of market borrowing of the states has now fallen sharply to about 20 per cent, with more than 80 per cent of the market borrowing being cornered by the centre. **Consistent with development responsibilities of the States, the share of market borrowing of the States should be increased to 33.33 % immediately and then steadily to 50% within a period of five years, depending on the perceived needs of the States**. The States should be given wider access to market borrowing, often the cheapest source of borrowing, and should also be allowed the option to issue tax-free bonds.

Another aspect of market borrowing that we would like to bring to the notice of the 13th Finance Commission is the inter-state allocation. At present there is no transparency in inter-state allocation of the total annual quantum of market borrowing earmarked by the Finance Ministry for the States. **Such arbitrariness should be stopped and the market borrowing allocations of the States should be proportionate to the overall annual borrowing limits prescribed by the Finance Ministry for each state.**

Debt Relief

1.12 The Thirteenth Finance Commission has been asked to review the state of the finances of the Union and States, keeping in view the operation of the States' Debt Consolidation and Relief Facility, 2005-10 introduced by the Central Government on the basis of the recommendations of the Twelfth Finance Commission. It needs to be mentioned that the proportion of the Union loan in the total debt liabilities of the State governments has dwindled after the operationalisation of DCRF. States have also made conscious efforts to bring down the revenue and fiscal deficits to the levels required as per FRBM Act to avail of the facility for debt restructuring. We have discussed the achievements of Assam in these areas at great length in Chapter- 3. **It is necessary to ensure in this context that over-emphasis on fiscal consolidation is not allowed to come in the way of maintaining desired level of expenditure for public services. This is all the more relevant for a State like Assam which suffers from serious infrastructural backlogs and low level of public expenditure in critical areas like health, education and maintenance of infrastructure.**

1.13 A particular mention needs to be made about the Central loans connected with **small savings loans**, where the rate of interest charged by the Government of India has been higher than the rate of interest paid to the depositors. The debt relief package recommended by the Twelfth Finance Commission excluded from its purview the NSSF loans to the States from 1999-2000 onwards. The fact is that the small saving loans over this period constituted the bulk of the Central loans to the States. Moreover, although the Twelfth Finance Commission recommended consolidation of all Central loans under DCRF, Government of India has consolidated only Ministry of Finance loans. Loans by the other Ministries have been kept out of the purview of DCRF. This anomaly needs to be rectified urgently. We hope the Thirteenth Finance Commission will address this issue. The **Thirteenth Finance Commission is therefore requested that the debt problem of the states should be more comprehensively reviewed taking into account the total loan burden of the States, including the NSSF loan and loans from all other Ministries. It is urged that the Thirteenth Finance Commission recommends effective debt relief measures including reduction in interest rate of NSSF loans and writing off of existing debt. As regards writing off of existing debt, we would like to suggest that a distinction be made between the profligate States and those States which have brought their debts under control through efficient debt management. The Thirteenth Finance Commission may calibrate its debt relief package to the states accordingly.**

Sixth Central Pay Commission Recommendations – Effects on State Finances

1.14 The Chief Ministers and Finance Ministers of all the States had unanimously demanded in the NDC meeting (February 19, 1999) that the Government of India should bear at least 50% of the additional financial burden of the states due to pay revision and the Central Government had agreed to provide that assistance. It is a matter of regret that this assistance was actually not provided. In the joint presentation submitted by the States on 16th September, 2008 before the Thirteenth Finance Commission, it has been demanded that 50% of the additional financial burden arising out of pay revision by the State Governments for their employees consequent to implementation of recommendations of the Sixth Central Pay Commission by the Central Government should be borne by the Central Government or that this financial burden should be fully accommodated by the 13th Finance Commission while assessing the expenditure needs of the States. **The same presentation has also specifically demanded by consensus that in case of the Special Category and North Eastern States the Central Government should provide for 100% of their additional financial burden. Thirteenth Finance Commission is requested to make a recommendation to this effect including an appropriate mechanism to ensure that this recommendation is implemented in letter and spirit.**

In this connection it may be mentioned that if Central Government support is not received for pay revision of the State Government employees at par with the Central Government employees, then the modest fiscal surplus that we were able to generate will be wiped out in no time and the State Government will fall into a serious financial crisis once again.

1.15 With the pay revision of the Central Government employees on the basis of recommendations of the 6th Central Pay Commission, UGC has already made corresponding recommendations for upward revision of the pay scales of College and University teachers. Similar upward revision of the AICTE pay scales as well as the pay scales and other benefits of the Subordinate Judiciary is also expected soon. The State Governments are hardly consulted at the time of such recommendations although their financial burden fall entirely on the State Governments. **We request the 13th Finance Commission to take note of this asymmetrical situation and to recommend that the States should be fully compensated for the entire additional financial burden on account of UGC, AICTE and Subordinate Judiciary pay revisions.**

1.16 One collateral benefit that will accrue to the Central Government due to upward revision of the UGC, AICTE and Subordinate Judiciary pay scales as well as pay scales of the State Government employees is by way of **additional income tax revenue for the Central Government**. At least 20% of the additional expenditure that the state Governments will be incurring for the above mentioned pay revisions will end up as additional income tax revenue for the Central Government. In other words, the Central Government will be enriched at the cost of the State Governments. This is one more reason for the Central Government to compensate the State Governments for all the above mentioned pay revisions that they will have to do as a sequel to the 6th Central Pay Commission recommendations.

Equalization Grants

1.17 We express our sincere gratitude to the Twelfth Finance Commission for its appreciation of our demand for equalisation grant as a means to redress the horizontal imbalances in terms of per capita revenue expenditure in critical areas like health and education across the States. The rationale behind the equalisation grant is that irrespective of his or her state of domicile, each and every citizen of the country must have equal access to basic public services like health, education, sanitation and safe drinking water, which are essential for healthy and dignified human existence. This is in consonance with the Constitutional provisions of Fundamental Rights and the Directive Principles of State Policy. **We request the Thirteenth Finance Commission to recommend continuation of the Equalization Grants with the only difference that the conditionalities should be minimal, straight and simple**. It may be noted that the noble gesture of the 12th FC in recommending Equalisation Grant to the needy States has been negated and frustrated to a large extent by the inability of most of the beneficiary States to actually avail these grants due to the convoluted nature of the conditionalities.

Central Transfers – Need for a holistic view

1.18 In addressing the issue of removing vertical imbalance between the Centre and the States, successive Finance Commissions seem to have suffered from the handicaps inherent in our system of transfer of resources from the Centre to the States. These transfers are made to the States in segments through multiple routes. Such transfers without a single coordinating and monitoring body has also caused some degree of horizontal imbalance to creep into the system. The main routes of Central transfers to the States are – (a) Devolution of Central Tax, (b) Normal plan assistance and additional central plan assistance, (c) Non-plan loans – mainly small savings, (d) Non-plan grants for meeting post-devolution non-plan deficit, up-gradation and calamity relief etc. under Finance Commission awards, and e) Various centrally sponsored schemes. **Perhaps it would be appropriate that the Thirteenth Finance Commission takes a holistic view of all Central transfers to the States before making its recommendation for correction of the vertical and horizontal imbalances.**

Service Tax

1.19 Service tax was introduced in 1994-95 to redress the asymmetric and distortionary treatment of goods and services in the tax framework and to widen the tax net. It has been a buoyant source of revenue in recent years. The number of services liable for taxation was raised from 3 in 1994-95 to 6 in 1996-97 and then gradually to 100 in 2007-08. In 2007-08 Central Budget, certain services were specified as taxable services, scope of some of the specified taxable services was changed, threshold limit of small service providers was increased and certain exemptions were announced. As in the case of other taxes, a cess of 1 per cent was imposed on service tax to finance Secondary and Higher Education. **Revenue from service tax, as the combined outcome of expanding tax net, creeping rate and buoyant service sector growth increased rapidly from a paltry Rs.407 crore in 1994-95 to Rs.37,484 crore in 2006-07 (Provisional) and is budgeted to increase to Rs.50,200 crore in 2007-08. Through a Constitutional amendment, the Centre has acquired for itself the entire power of levying service taxes. Fairness requires that the States may now at least be given the concurrent powers to tax all services.**

Centrally Sponsored Schemes (CSS) –

1.20 Various Central Ministries have been implementing large number of Centrally Sponsored Schemes (CSS) in sectors like agriculture, education, health, social welfare etc. which are essentially State subjects. These schemes are often formulated without adequate consultation with the State Governments and without regard to the priorities of the States. Most centrally sponsored schemes' funding pattern includes a portion as States' share. Many resource constrained States find it difficult to take full benefit out of these schemes due to their inability to provide the required State's shares. Over and above this, sometimes the Central Government unilaterally increases the States' share. For instance, despite repeated objections by all the Chief Ministers, the Centre has taken a decision to increase the share of the States in the Sarva Shiksha Abhijan Programme from 25% in the previous years to 35% now and then steadily to 50%. Here, it is worthwhile to mention that the States have been arguing, particularly since the 1990's, for transfer of Centrally Sponsored Schemes in the State subjects to the States with funds and, if necessary, with guidelines accommodating federal flexibility and special characteristics of each State. While this issue remains unresolved, more and more Centrally Sponsored Schemes with centralized guidelines are being introduced by the Government of India. It may be noted that of the total projected Central Assistance of Rs.3,24,851 crore to the states/UTs for Eleventh Plan Period under various schemes, normal central assistance would be Rs.1,11,053 crore and Centrally Sponsored Schemes would constitute Rs.2,13,798 crore. In other words allocation under the Centrally Sponsored Schemes will be nearly double of the normal Central Plan Assistance. Most of the CSSs require matching shares from the States. Resource constrained States like Assam are often unable to give their matching shares. This means that they have to forego corresponding Central transfers which are later reallocated to the richer States by way of additional allocation. This invariably leads to the unintended consequence of accentuating horizontal imbalances. In any case, most of the CSSs are too straight-jacketed leaving little flexibility to accommodate State-specific priorities and field-level realities. The Central monitoring and fund release procedures are also quite long-drawn. Moreover, there being no provision for advance release of Central fund, they suffer from inordinate delay in implementation, particularly in States with financial constraints**. The Thirteenth Finance Commission may make a detailed review of these schemes and recommend abolition of those CSSs which have outlived their utility.** As for the remaining Centrally Sponsored Schemes falling within the domain of State subjects, they should be transferred to the States with funds along with broad objectives and federal flexibility in implementation, but not in any way dilute the States' fundamental concern of raising the States' share of central taxes to 50% and augmenting the non-discretionary grants-in-aid. **If in any exceptional case a centrally sponsored scheme is retained as such, then the fund in that scheme should be transferred to the consolidated fund of the States and not placed to any other agency bypassing the State. Further the States should have enough flexibility to modify the schemes to better suit their local needs and priorities.**

1.21 In this connection we would also like to submit that in the larger interest of harmonious Centre-States relations **the Central Government should not impose any conditionality on the State Governments in this sphere of State subjects,** even if it be a Centrally Sponsored Scheme largely funded by the Centre, without the concurrence of the States. Recently in the case of JNNURM, the State Governments were unilaterally asked by the Centre to reduce stamp duty rate to a level not exceeding 5% within a period of five years. This not only impacts negatively on resource mobilization efforts of the States, but is also a direct intrusion into the sovereign powers of the States on a subject which comes under the State list of the Constitution.

Plan Finance –

1.22 The Plan and Non-Plan dichotomy in our public finance has created avoidable distortions in the system. The committed liabilities of the earlier Five-year Plans continue to be carried over to the successive plans as plan expenditure. This has resulted in a situation where the State plans are choked with revenue expenditure leaving little scope for meaningful investment expenditure. Revenue expenditure (Rs.2067 crore) comprises 54.4% of our 2007-08 Annual Plan outlay of Rs.3800 crore, leaving only 45.60% outlay on capital account. **It is our submission that the Thirteenth Finance Commission should take into account the committed expenditure in the State plans, which are of revenue nature, in assessing the revenue deficit of the States.**

Prime Minister's Package, NLCPR and NEC

1.23 **A popular misconception** is that Assam is the beneficiary of large sums of Central funds through PM's package, Non-lapsable Central Pool of Resources (NLCPR) and the North-Eastern Council. There is, however, nothing much that are new and substantive in the PM's package so far as Assam is concerned. It is essentially a summation of some existing schemes and ongoing projects. As for NLCPR, total flow of fund to Assam during the last ten years from 1998-99 to 2007-08 was only Rs.1168.85 crore, i.e., an average of only Rs.116.89 crore per annum. Similarly, Government of Assam received only Rs.797.24 crore from the NEC during the ten year period from 1998-99 to 2007-08, i.e., an average of only Rs.79.72 crore per annum. Compared to the requirement of fund for any substantive special development initiative for the State as recommended by the Shukla Commission, these sums are grossly inadequate.

Declining share of Assam in successive Finance Commission Awards

1.24 In spite of the efforts of the successive Finance Commissions, the horizontal imbalance among the States has increased over the years. **During the period 1950-51 to 2001-02, the per capita income of Assam has fallen from a position of being 4% above the national average to almost two-thirds, i.e., 68% of the national average in 2006-07.** The gap between the State and the rest of the country has, infact, widened even more in almost all the sectors of socio-economic development during the post-reform period. It was expected that successive Finance Commissions would progressively increase Assam's relative share in Central devolution to the States**. But unfortunately Assam's inter-se share in total Central transfers to the States has also followed a similar downward trend. Table-1.24 below illustrates the trend.**

Table-1.24

Percentage Share of Assam in Total Central Transfer to States

Finance Commission	Percentage share of Assam
1st	4.01
2nd	5.15
3rd	-
4th	5.02
5th	4.57
6th	4.57
7th	2.49
8th	4.07
9th	3.73
10th	3.67
11th	3.05
12th	3.14

Source : *Finance Commission Reports.*

It is clear from the above table that instead of reducing, successive Finance Commission awards have only aggravated the widening economic gap between Assam and the rest of the country. **We earnestly request the Thirteenth Finance Commission to reverse this trend and restore Assam's inter-se share in total Central transfers to the States at the level of 2nd Finance Commission award, i.e., 4.07%.**

Reasons for limited Revenue Generation Capacity of Assam

1.25 State's own revenue-raising capacity depends mainly on the level and composition of its GSDP. Assam's is a predominantly agrarian economy saddled with – (i) a predominant primary sector, (ii) 87% rural population, (iii) GSDP growth rate much below the national average, (iv) acute unemployment with educated unemployment above 1.1 million, (v) insurgency problems, with a number of outfits in both hills and the plains, mainly due to poverty and unemployment, (vi) sizeable SC and ST population, (vii) recurrent flood and erosion problems and (viii) migration. A State like Assam is severely handicapped in raising more internal resources. On the other hand, the poorer a state, the more are the requirements for expenditure on health, education and other basic services. This is a vicious cycle of a higher social expenditure responsibility and lower resource generation capacity. **We request the Thirteenth Finance Commission to help States like Assam to get out of this vicious cycle.**

Economic Reforms and Growing Regional Imbalance

1.26 **We have elaborated in Chapter –2 how the benefits of the economic reform process have completely bypassed the peripheral States like Assam.** The new economic regime introduced in 1991 signified a radical shift from a socialistic control regime to one relying more on free market economy. **One visible outcome of this paradigm shift is that investments, both domestic and foreign, have gone more to the advanced States with better infrastructure and closer proximity to national and international markets, seaports and international airports, compared to the**

peripheral, land-locked and infrastructure-poor States like Assam. This trend needs immediate correction. We are of the view that the primary task of the Finance Commission is to devise and design a scheme of fiscal transfers which will not only provide a level playing field to the States in an environment of market-driven economy, but also provide special dispensations for the backward regions. **We request the Thirteenth Finance Commission to introduce a suitable mechanism to correct the unintended consequence of widening inter-state disparity arising out of uneven and inequitous distribution of the benefits of the reform process.**

Management of Fiscal Imbalance –

1.27 Different States responded in different ways to their fiscal and revenue deficit problems. Some States borrowed heavily to meet their revenue expenditure. Assam, for one, adopted a conservative approach to its financial problems. We have focused on balancing our finances by relying more on our own revenue efforts than by taking recourse to easy options like borrowing. Despite impressive improvements in our own revenue collection in spite of built-in weaknesses, we had to resort to compression of our revenue expenditure as well. CAG in its annual report for the year 2006-07 has recognised the impressive performance of the state government in ensuring financial discipline and noted that the State has been able to achieve the major FRBM targets well before the time lines prescribed in the Act.

We hope that the Thirteenth Finance Commission will appreciate our sincere efforts in this regard.

Oil Development Cess –

1.28 Exploration for hydrocarbons in Assam commenced in 1866, just seven years after the first discovery of oil in the United States of America (USA). Even after one hundred years of oil and natural gas production, no major petrochemical industry with down-stream potential has come up in the State. Sufficient investments have also not been made to develop the Assam oil fields and increase their productivity. As a result, crude oil production in Assam has declined from a peak of 5.6 million MT in 1989-90 to 4.3 million MT at present. This is inspite of the fact that a **Government of India 1995 study report on Hydrocarbon Perspective: 2010 gave a clear recommendation that -"A special incentive package could be developed specifically for the North-Eastern States as it is anticipated that accelerated efforts in that area can be highly rewarding".** On the other hand, huge amount of Oil Development Cess has been collected by the Central Government over the years. The Cess is meant for development of the Oil Industry. At the current rate of Rs.2,500 per MT, approximately Rs.1100 crore is collected annually by the Government of India from the oil fields of Assam alone. But, instead of investing funds from the Oil Cess for exploration and higher level of production by developing the indigenous oil fields, funds collected from the Oil Cess have been diverted to the Consolidated Fund of India. The amount of fund so diverted since 1974 will amount to thousands of crores of rupees.

Oil & Natural Gas are the only major natural resources of the State, and that too non-renewable. Perhaps it is not unreasonable for the people and the Government of the

State to expect reasonable returns from the non-renewable natural resources of the State. Had adequate investments been made in acquiring state-of-the-art technology for exploration and production and also for setting up of hydrocarbon-based industries with down-stream potential in the State, the State economy would have grown at a much faster rate and the State Government could also have earned a much larger amount of royalty from higher level of production. Higher domestic production would also have saved the country's valuable foreign exchange to that extent against import of oil.

Against the above background, we are of the firm view that Government of India should stop diverting Oil Cess to its Consolidated Fund. It should be used for the purpose for which it is collected, i.e., development of the indigenous Oil Industry. We also feel that the rate of Cess should be reduced by half and the balance half should be given to the oil producing States as additional royalty. As for Oil Development Cess amounts already collected and appropriated by the Government of India in the past, we have the following the suggestion to make. **50 percent of this amount should be deployed for development of oil industry and the remaining 50 percent should be given back to the concerned States. We would like to utilize this fund for much needed infrastructure development in the State. We request the Finance Commission to consider these suggestions on merit and make strong recommendations to that effect.**

Centrally Sponsored Schemes – Funding Pattern

1.29 We have already given our views on the Centrally Sponsored Schemes in para 1.20 of this Chapter. Pending a decision on abolition of the CSSs, which have outlived their utility and transferring the remaining ones to the States with fund, we would like to suggest that **all programmes and schemes under Rural Development should be funded 100% by the Centre for the Special Category States like Assam**. After revision of the pay scales of the State Government employees the State may again face severe financial constraints. Inability of the State Government to provide its matching share should not prompt Government of India to deprive the rural poor of the State from the Central Government allocations as well. For similar reasons we submit that the funding pattern of all other CSSs where the State share is more than 10% should be converted to 90:10 between the Centre and the State.

NLCPR – Funding Pattern

1.30 Funding pattern of the schemes and projects under the Non-Lapsable Central Pool of Resources (NLCPR) is 90% as grant from the NLCPR, the remaining 10% being loan which the State Governments have to raise. The Government of India's directives under the PM's package require various Central Ministries and Departments to earmark 10% of their Plan budget for the North-east. Any unspent balance out of this 10% is deposited into a common pool which comprise the Non-Lapsable Pool. Had the Central Ministries and Departments utilized the full 10% earmarked amount in the North-east, then there would have been no loan burden on the States. **We, therefore, request the Thirteenth Finance Commission to recommend that the schemes and projects under the NLCPR should be funded as 100% grant from the Pool without any loan burden on the States.**

State Plan Assistance

1.31 Although Assam was categorized as a Special Category State from the Fourth Five Year Plan onwards, it was given the benefit of Central Plan Assistance as 90% grant and 10% loan only from 01.04.1990. **Our request is that Assam should be given the benefit of Central plan assistance as 90% grant and 10% loan retrospectively from the beginning of the Fourth Five Year Plan.**

Negative BCR as Development Deficit Grant

1.32 Upto 1988-89 the negative Balance from Current Revenues (BCR) of Assam and the other Special Category States were met by special additional central assistance from Government of India on the recommendation of the Planning Commission. This practice was discontinued from 1989-90 on the assumption that the Finance Commission award will fully meet the negative BCRs. But our empirical evidence shows that huge negative BCRs remain even after Central devolutions under Finance Commission awards. **We, therefore, request the Thirteenth Finance Commission to recommend restoration of the practice of meeting the negative BCRs of the Special Category States by Additional Central Assistance as was the practice prior to 1989-90. In Chapter-VIII of this memorandum we have suggested that this may be given as a Development Deficit Grant.** In this context **we would like to refer to the Joint Memorandum submitted by the States to the Thirteenth Finance Commission in New Delhi on September 16, 2008. All the States have jointly requested that the North-Eastern and other Special Category States should be given prioritized attention, including additional devolution of Central taxes.**

Insurgency and Additional Cost of Policing

1.33 **Insurgency with several militant organizations operating in the State is, to a large extent, a proxy war against the nation by some of our unfriendly neighbours.** The State Government has to depend heavily on deployment of Central Para-Military Forces (CPMF) to combat insurgency and cross-border terrorism. But while Jammu & Kashmir and other North-eastern States are exempted from making any payment towards the cost of deployment of the CPMF, Assam has been made to pay 10% of the normal deployment cost, which is discriminatory. Prior to 01.04.1996 Assam was paying 40% of their normal deployment charges. **We request the Thirteenth Finance Commission to recommend that Assam should be treated at par with other insurgency-affected States and should be fully exempted from making any payment towards deployment of CPMF for counter-insurgency operations.**

Internal Security - Urgent need for expansion and modernization of Assam Police

1.34 **In terms of maintenance of law and order and internal security, there is perhaps no other State which is more challenging, complex and difficult than Assam.** During the last few decades the State has witnessed several ethnic clashes of serious magnitudes where hundreds of innocent people lost their lives and hundreds of thousands of others were rendered homeless. The other more serious threat to internal security has come from large number of insurgent groups who have been resorting to terrorist activities for almost past three decades. They differ from each other substantially in terms of their objectives, organizational structure, cadre strength and striking capability. At present there are 14 such insurgent organizations operating in the State. Quite a few of them have their bases and training camps in the neighbouring countries. Some of them have forged links with international terrorist networks and anti-Indian forces abroad. In several respects they are fighting proxy wars against the nation posing serious threat to national security. **Today we are handling a situation where the dividing line between internal security and external security of the country seems to have disappeared.** During the last 10 years from 1997 to 2008 (Upto 9th November), 2235 nos. of insurgents, 578 nos. security personnel and 2861 nos. of civilians lost their lives in terrorist violence in the State. The lethality of the serial car bomb blasts that took place in the State on 30th October, 2008, where 88 persons were killed and about 500 others were injured, was unprecedented. **Although the manifestations and effects of such insurgency and cross border terrorism are akin to those of a regular war, they are not categorized as external aggression in conventional sense of the term.** As such it is the State Police which has to fight this threat to national security. But the State Police which till recently was dealing with normal policing work in a largely peaceful State is not fully equipped to handle such a serious situation having international dimensions. Its strength in terms of men, materials and infrastructure needs to be enhanced immediately. After the serial bomb blasts that took place in the State on 30th October, 2008, the Hon'ble Prime Minister of India and Hon'ble Union Home Minister visited Assam. We have been advised to raise the manpower strength of Assam Police by at least 50% of its present strength over the next five years. This works out to increasing the size of the Assam Police Force by 30,000. In addition to this, large scale modernization of the State Police Force has become essential and emergent in the wake of emerging internal security scenario. The meagre amount of around Rs.60 crore received annually by the State from the Centre under Police Modernisation Scheme is grossly inadequate for the purpose. **Raising the strength of the State Police Force and its modernization will require an additional amount of Rs.8816 crore over the next five years, including the cost of infrastructure and materials. We have submitted a separate supplementary memorandum on this incorporating all necessary details. We request the Thirteenth Finance Commission to kindly recommend the required fund for this purpose.**

Economic cost of insurgency

1.35 Apart from the loss of human life and property, the disruption and destabilization of the civil society caused by the terrorist activities of the various insurgent groups have adversely impacted on the State economy. Despite a rich natural resource base, investment is not coming to the State as it would have had there been no insurgency. Similarly, growth of institutions that can promote economic development in the State has also been slow. Although there is no accurate estimate of the economic cost the State has suffered due to insurgency, there is no doubt that it will run into several thousand crore rupees every year in terms of investment and production loss as well as wasted manpower. Under similar insurgency and terrorism related circumstances, Punjab and Jammu & Kashmir got special financial dispensation from the Tenth and Eleventh Finance Commissions. Assam has suffered no less. In fact it continues to bleed even more. **In view of the above we request the Thirteenth Finance**

Commission to recommend a special package or Insurgency Damages Neutralisation Grant of at least Rs.25,000 crore over the next five years to offset, at least partially, the economic damages caused by the three decades old insurgency and terrorism in the State.

Calamity Relief Fund

1.36 The present funding pattern of the Calamity Relief Fund (CRF) is 75:25 between the Centre and the States. Assam is very prone to flood and erosion. It is also situated in a highly seismic zone. In the last 110 years, the State had three major earthquakes, two of which measured more than 8 points on the Richter scale. We have four requests to make with regard to CRF. **First**, the size of the CRF for the 13th Finance Commission award period should be at least Rs.4000 crore. We have estimated this figure on the basis of our actual requirements going by our past experience and the urgent need to bring erosion also under the ambit of CRF. **Second**, the funding pattern between the Centre and the State should be changed from present 75:25 to 90:10, particularly in case of a calamity prone States like Assam. It may be mentioned that even then the 10% state share in a Rs.4000 crore CRF will be substantially more than the present 25% in absolute term. **Third,** under the present CRF guidelines erosion is not listed as a calamity. But in Assam erosion by the Brahmaputra and its tributaries has caused great havoc**. Almost 4,000 Sq.Kms of fertile land has been eroded away since 1950. Present value of the eroded land will be almost Rs.20000 crore. In case of flood the affected people can at least start their normal life after the flood abates. But in case of erosion they become landless and totally helpless. We therefore request the Thirteenth Finance Commission to provide for rehabilitation of the erosion affected people under CRF. Fourth,** under the present arrangement the balance amount in the CRF at the end of a financial year will be the opening balance for the next financial year. Our request is that any balance in the CRF at the end of a Finance Commission Award period should not be carried forward to the next Finance Commission Award period. The concerned State should be allowed to use any such balance at the end of a Finance Commission Award period for the purpose of development of infrastructure.

Incentive Fund under 11th Finance Commission Award - Undisbursed Amount

1.37 Following the recommendation of the 11th Finance Commission, the Government of India created an incentive fund for the purpose of Fiscal Reform Facility (FRF) in 2000. To finance the Incentive Fund, 15% of the EFC recommended non-plan revenue deficit grants of the States was withheld and transferred to the Incentive Fund. Equal amount was to be contributed by the Central Government. Releases from the Incentive Fund were made to those States who could achieve the revenue deficit reduction targets under the MTFRPs. Assam was one of the States who could achieve the target for the entire five year period 2000-2005 and received an amount of Rs.159.44 crore as incentives from the Fund.

However, it is learnt that although the total size of Incentive Fund was Rs.10607.72 crore, actual disbursement from the Fund was much lower because many States could not achieve the revenue deficit reduction targets. **As a result about Rs.5,000 crore of the Incentive Fund remained undisbursed at the close of the EFC award period. This amounts to undue enrichment of the Central Government at the cost of the**

States. We request the 13th Finance Commission to recommend that the undisbursed amount should be distributed proportionately to the eligible States.

Compensation for CST Reduction

1.38 Government of India started phasing out Central Sales Tax (CST) w.e.f. 1st April, 2007. The rate of CST has already been reduced from 4% in 2006-07 to 2% in 2008-09. From 1st April, 2010 the rate of CST will be zero. In other words, from 1st April, 2010 there shall be no CST. This decision was perhaps taken on the presumption that Goods and Services Tax (GST) will come into force with effect from 1st April, 2010. Accordingly Government of India remains committed to compensate the States for loss of CST revenue upto 31st March, 2010. However, if GST is not put in place w.e.f. 1st April, 2010, there is then no commitment on the part of the Central Government to compensate the States for the loss of CST revenue after 1st April, 2010. We have estimated that the loss of CST revenue of Assam in 2010-11 will be Rs.1070 crore. **We therefore request the 13th Finance Commission to provide for compensation of CST revenue loss to the States even after 1st April, 2010 and till GST comes into effect.**

Implications of GST

1.39 Another area of concern is that after introduction of GST, the existing disparity amongst the States in terms of revenue generating capacity will be further aggravated. This will be mainly because of uneven growth of the service sector in different States. Particularly, development of the service sector in the Northeastern States is way behind the rest of the country. **It is therefore proposed that the 13th Finance Commission should take note of this issue and recommend additional grant to the less developed States commensurate to the differences in the per capita revenue collection of the States that will emerge after introduction of GST**. On GST we have given our detailed views in Chapter- 4 (para 4.7, 4.8 and 4.9).

Agricultural Income Tax

1.40 In the case of tea, only 60% of the income from the cultivation and manufacture of tea is treated as agricultural income and taxed by the State, the remaining 40% being treated as non-agricultural income and taxed by the Centre. The State Government is of the view that **the entire income from cultivation and manufacture of tea should be treated as agricultural income and taxed by the State.**

Oil, Food and Fertilizer Bonds

1.41 With regard to the decision of the Central Government to incorporate a new Term of Reference for the Thirteenth Finance Commission – regarding liabilities of the Central Government on account of oil, food and fertilizer bonds- we would like to request the 13th Finance Commission to critically examine the financial and economic implications of these bonds. To our mind these bonds have been issued to tide over the difficult economic and financial situation faced by the Central Government without at the same time adding to its current fiscal deficit. In other words, the current liabilities of the Central Government have been deferred to a future date. **The burden of redemption of these bonds should not be shifted, even partially, to the States**.

Addition of this new Terms of Reference should not lead to any further crowding out of the just demands of the States for increasing their share of Central Taxes and enhancement of non-discretionary grants to the States. The Central Government should devise its own ways to service these bonds. Just as the State Governments were advised to set up Sinking Funds and Guarantee Redemption Funds, the Central Government may also create such Funds for servicing of the Oil, Food and Fertilizers Bonds.

In this connection we would like to mention that in the wake of unprecedented rise of crude oil prices, **the States also had to reduce their sales tax rates on these products, adversely affecting their revenue receipts. The Thirteenth Finance Commission may adequately accommodate this aspect of the problem in its recommendations.**

PRIs and ULBs –

1.42 The State Government has given priority to devolution of power to the PRIs and ULBs. The Third State Finance Commission submitted its report in March 2008. Its recommendations are now under consideration of the State Government. A final decision is likely to be taken during this year. However, the State Government have already notified the activity mapping of the transferred subjects. Transfer of functions and functionaries with regard to the transferred subjects, which is a long drawn and complicated matter, is also being done. **Meanwhile, as an interim measure an amount of Rs.5044.83 crore has already been provided for PRIs and ULBs in 2008-09 State budget, details of which have given in Chapter-11.** We hope that the **Thirteenth Finance Commission will recommend significant step up in grant-in-aid of the revenues of the State to augment its Consolidated Fund to supplement the resources of the Panchayat and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.**

Autonomous districts under 6th Schedule of the Constitution –

1.43 There are three 6th Schedule autonomous districts in the State. They enjoy large degree of autonomy over the transferred subjects. They are Karbi Anglong, North Cachar Hills and Bodoland Territorial Autonomous District (BTAD), known as Bodoland Territorial Council (BTC). Several State subjects have been transferred to these Autonomous Districts Councils. The State Government meet their non-plan expenditure, including employees' salary. The resources under State Plan, various Centrally Sponsored Schemes and Finance Commission Grants etc. are shared between the State and the 6th Schedule districts on the basis of formula-based objective criteria, details of which have been given in Chapter-12. The 73rd and 74th Amendments of the Constitution do not apply to the 6th Schedule Districts.

The present level of funding of the 6th Schedule District Councils appears to be grossly inadequate, especially if we compare them with the neighbouring hill states. A comparative analysis on this has been given in the Chapter-12. **We hope the Thirteenth Finance Commission will make generous recommendations for significant step up in the level of funding of the 6th Schedule Districts of Assam.**

1.44 The Annual Report of CAG for 2006-07 clearly shows that Assam has put in remarkable efforts in managing its fiscal imbalances. Our imbalances were not our own creations. They were the product of a host of factors which have been detailed in the subsequent Chapters. We request the Thirteenth Finance Commission to make its own assessment of the nature and magnitude of the problems of each State individually and also to assess the extent to which each State can participate in socially balanced and economically tenable restructuring process while discharging its constitutional responsibilities in the spheres of basic administration and social and economic development. **We request the Thirteenth Finance Commission to make realistic assessment of each State's actual requirement based on the above parameters without adopting a mechanically uniform normative approach**. In the subsequent Chapters we give details of our problems and expectations from the Thirteenth Finance Commission.

Chapter-2

The State Economy: Development Deficit

The Trend-

2.1 The Economy of Assam presents a telling commentary on the unfulfilled vision of balanced and equitable regional growth which is regarded the cornerstone of the post-independence planning process of the country and also on the adverse way the post-economic liberalization era (post- 1991) has impacted the realization of the goal of minimizing regional disparities. Take any indicator of socio-economic and human development, it tells the same disquieting story. **Share of state's NSDP in the NNP which was 1.96% and 1.98% at constant and current prices respectively in 2000-01 kept hurtling downward and stood at 1.77% and 1.72% at constant and current prices (at factor cost) respectively in 2006-07. The ratio of State's per capita NSDP to per capita NNP (at factor cost) witnessed similar decline during the period. It came down from 74.24% and 76.71% at constant and current prices in 2000-01 to 69.27% and 68.03% respectively in 2006-07.** As already mentioned, at the dawn of independence, the state's per capita income was 4% higher than the national average and it came below the national average by 1960-61 and has persisted with the downturn since then. **Similar kind of picture emerges if we look at the relative share of GSDP in the GDP, which was 1.94% in 1999-2000 at constant prices (at factor cost) and came down to 1.72% in 2007-08.** This gap can only widen because of the growth of State economy not being able to keep pace with that of national economy unless the issue receives the required attention at appropriate levels of policy formulation.

2.2 It needs to be noted that private sector investments became the principal engine of economic growth in the post-liberalisation era and the private sector is hardly concerned about the issue of growing regional disparities. It is driven by profit considerations and will go only to the states with better infrastructure and investment climate and this is what has happened in reality. As **Table- 2.2** below clearly shows that lion's share of Foreign Direct Investment has gone to a few cities and states.

Table- 2.2
Region-wise /State-wise break-up of FDI inflows

Rank	RBI's Regional Office	State covered	Amount of FDI Inflows		Share of FDI inflows in rupees (in %)
			Rupees in crore	US$ in million	
1	New Delhi	Delhi, Part of UP and Haryana	21,839.84	4,840.2	25.96
2	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman and Diu	17,815.62	3,921.1	21.18
3	Bangalore	Karnataka	6,416.03	1,418.5	7.63
4	Chennai	Tamil Nadu & Pondicherry	5,089.62	1,116.7	6.05
5	Ahmedabad	Gujarat	2,793.23	611.5	3.32
Source: **FDI Data Cell, Ministry of Commerce.**					

In fact, States like Assam find themselves in a vicious circle, unable to attract private investment because they have poor infrastructure. On the other hand infrastructure is poor because of their inability to attract investment. Twelfth Finance Commission placed a lot of emphasis on the equalisation principle in determining the transfer of central funds, but no meaningful purpose will be served unless the critical disadvantage of the less developed states in terms of private investment is taken into account while recommending the relative share of the state governments in the transferable central fund.

Some causes of Assam's economic deceleration –

2.3.1 Before we proceed to analyse the performance of different segments of the state's economy, it seems necessary to have an idea of some of the important factors causing the state, so richly with natural resources, to fall behind in the process of economic development. Assam's tale of woes actually began with the Partition of the country. **The problem of transport bottleneck and geographical isolation started in 1947**. Road and railway transit routes through erstwhile East Bengal were lost and the traditional trade relations between Assam and the neighbouring countries were strained after partition of the Country. 1947 also meant large-scale migration of refugees from East Pakistan to Assam and the beginning of ethnic tensions in the State. Then came the great earthquake of 1950, which was one of the biggest earthquakes ever recorded in the world. It changed the topography of the region and the courses of the river Brahmaputra and some of its major tributaries. The earthquake was followed by severe floods in the mid-1950s bringing untold devastations and miseries in their trail.

2.3.2 Next came India's war with China in 1962. Assam and the North-East faced the brunt of the war. It was a big psychological blow to the people of the North-East and it sent a strong negative signal to prospective investors that Assam was not a safe place for investment. The 1962 war also perhaps changed the perspective of the national policy makers vis-à-vis Assam from development to defence. Soon thereafter the **Indo-Pak war of 1965** broke out. Once again Assam had to go through the trauma of war. The riverine route from Assam to the outside world through the then East Pakistan was sealed as a result of the war. The next severe blow came in 1971 when Assam not only had to suffer the wartime tension and inconveniences of the **Bangladesh liberation war** but also had to give shelter to millions of refugees from erstwhile East Pakistan for more than a year.

2.3.3 **In 1971 Assam was fragmented once again** and balkanization of the state was taken one step further. Assam had to shift its capital in 1973 from Shillong to Guwahati. One major economic impact on Assam was the loss of the entire hydel power system to Meghalaya. Before the administration could settle down in its new environment in a makeshift temporary capital, the **Assam agitation began in 1979** and the administration was stressed to its limit. Maintenance of law and order got precedence over everything else. The agitation ended in 1985 with the signing of the Assam Accord. But the respite was short-lived. **The rise of the ULFA in the mid 1980s** followed by unrest in Bodo areas engulfed the state with militancy, insurgency, terrorism, and associated killings and extortions. Although the state is very rich in natural resources and industrial raw materials, the process of industrialization in the state came to a grinding halt. Not only did the flow of fresh investment stop, there began a process of capital flight from the State.

2.3.4 Assam has also been a victim of **large scale migration**. Table 2.3.4 below clearly brings out the higher population growth rate of Assam, as compared to the rest of the country. As may be seen from the following Table in most of the decades during the last century the growth rate of population in Assam has been well above the natural growth rate. The difference can be attributed only to large scale migrations, particularly after 1947 and 1971. Partition of the country and Bangladesh liberation war were national problems. But it is Assam that has been made to shoulder the burden of this additional population. Migration to Assam has been continuing from the neighbouring States and countries even in normal times. **This additional population burden is also one of the important factors for relatively slower economic development of the State.**

Table – 2.3.4
Population Trend in Assam and India

Year	Population (in lakh)		Percentage Decade Variation		Density (person per sq.km.)	
	Assam	India	Assam	India	Assam	India
1	2	3	4	5	6	7
1901	33	2384	-	-	42	77
1911	38	2521	+17.0	+5.8	49	82
1921	46	2513	+20.5	+0.3	59	81
1931	56	2789	+19.9	+11.0	71	90
1941	67	3186	+20.4	+14.2	85	103
1951	80	3611	+19.9	+13.3	102	117
1961	108	4392	+35.0	+21.5	138	142
1971	146	5481	+35.0	+24.8	186	177
1981	180 (*)	6833	+23.4 (*)	+24.7	230 (*)	230
1991	224	8463	+24.2	+23.9	286	267
2001	266	10270	+18.9	+21.5	340	325

(*) Interpolated
Source : Census of India, 2001.

2.3.5 The State has had major breakthrough in its fight against insurgency recently with a number of insurgent groups or factions thereof agreeing to come to the negotiating table and lay down arms, but the challenge is far from over. There are still quite a few such outfits actively pursuing their sinister agenda to create obstacles in the socio-economic development of the state. The situation has been further compounded by involvement of some external forces inimical to India and their attempt to fish in the troubled waters. **It has to be appreciated that apart from the direct cost of fighting terrorism including loss of life and property the indirect cost in terms of loss of production, employment, investment and a general environment of insecurity and despondency has been immense.**

2.3.6 Another unique feature of Assam which has adversely affected the social and political climate and economic development of the State is its **ethnic diversity and**

heterogeneous population. There are multiple demands for ethnic homelands. Such demands have usually been accompanied by agitations and ethnic uprisings, which often cause damage to infrastructure, loss of mandays, vitiate the investment climate and retard economic development. The State had to create a number of autonomous councils with separate administrative apparatus to fulfill the aspirations of various ethnic groups. Besides, the State Government has decided to create seven new Development Councils for the Moran, Motok, Ahom, Chutia, Koch-Rajbongshi, Tea Tribes and Gorkha ethnic groups. Creation of these new administrative units puts additional financial burden on the state.

2.3.7 **Assam's case of economic deceleration cannot be explained in its entirety within the framework of economics alone. It must be seen in its proper geographical, historical, cultural, ethnic and political perspectives.** Revenue generation by a State Government is in the long run a function of overall prosperity of the State economy. Economic stagnation constrains the revenue generation capacity of a State. **In the normal run of things, meaningful financial prosperity and self-sufficiency are perhaps unattainable goals for any government in a poor state like ours.**. We request the 13th Finance Commission to give a supportive hand and evaluate our financial projections against this background and make effective recommendations to address this fundamental issue and **help Assam to make up for the lost decades**.

Growth and Structure of Economy

2.4 Economic growth scenario of the State has definitely improved with the economy registering an annual average GSDP growth rate of 5.75% at constant prices during 10th Plan Period as against 3.04% during the 9th Plan Period. Quick estimates for 2006-07 and Advance estimates for 2007-08 place the GSDP growth rate at 7.6% and 8% respectively at constant prices. It has already been discussed that even this improved showing is not at par with the GDP growth rate of the country implying further piling up of the accumulated disadvantages and development deficit.

2.5 Unsatisfactory level of state's economic development becomes more apparent when we compare its Per Capita NSDP (at factor cost) at constant prices with that of a few other states. **Table- 2.5** tells the story.

Table- 2.5
Per Capita NSDP of various states in 2005-06 (in Rs.)

State	Assam	Gujarat	Haryana	Punjab	Maharashtra	All India
Per Capita NSDP	14,786	26,543	32,724	28,872	29,085	23,446

It is quite understandable that the this huge gap cannot be filled with the present rate of State's GSDP growth and will continue to act as a catalyst to the further widening of the gaps among the developed and less developed states.

2.6 The sectoral composition of the economy shows a secular decline in the share of primary sector in GSDP, with a decline from 40.73% in 1999-2000 (at constant prices) to 29.98% in 2007-08. Share of Agriculture sector in GSDP declined from

32.23% to 24.20% during this period. However, it is still higher than the share of agriculture to the national GDP, which was 17.5% in 2007-08.

Another disturbing feature of the structure of the economy has been nearly stagnant share of the secondary sector in GSDP which grew from 12.76% in 1999-2000 to 17.55% in 2004-05, but has shown a marginal decline since then. The share of Tertiary sector has also not grown in an impressive manner. It was 46.49% in 1999-2000 and became 53.92% in 2007-08.

Structural composition of the economy, thus, does show a positive change over the years, but the sluggish growth of the industrial sector is a cause for concern as it implies that the unsustainable pressure of population on agriculture continues to be there.

Lorenz Ratio

2.7 One positive aspect of Assam is - low incidence of social and economic inequality. With a Lorenz Ratio of 0.197, rural areas inequality in Assam is the lowest among all the States in the country (country average 0.297). In urban areas also Assam's Lorenz Ratio of 0.314 is the second lowest in the Country.

Agriculture

2.8 Although the relative share of agriculture in GSDP has been declining, nearly 70% of the state's population and 53% of the rural labour force is dependent on it. The severest handicap of this sector is its predominantly rain-fed nature, which has been the principal factor responsible for major annual fluctuations in the agricultural production in the state. **72.5% of the gross cropped area is rain-fed.** Crop-wise percentage of irrigated area over total cropped area is shown in **Table- 2.8 A** below.

Table- 2.8 A
Crop-wise percentage of Irrigated Area (2006-07) in Assam

Crop	Percentage of cropped area
Winter Paddy	10.08 %
Autumn Paddy	0.07 %
Summer Paddy	27.50 %
Wheat	38.16 %
Pulses	7.85 %
Oil Seeds	9.60 %

All India figures for the coverage of irrigated area under principal crops in 2003-04 is 40% for all the crops, 52.6% for rice, 88.4% for wheat, 13.6% for pulses and 24.7% for oil seeds. Inter-state disparities are even more disconcerting. **Table- 2.8 B** gives an idea of the situation in this context.

Table- 2.8 B
Crop-wise percentage of Irrigated Area in different States (2003-04)

State	Rice	Wheat	Pulses	Oilseeds
Andhra Pradesh	94.3	83.1	-	17.4
Tamil Nadu	90.4	59.1	-	46.6
Punjab	99.3	98.0	86.6	86.2
Haryana	99.9	99.0	31.9	78.7
Uttar Pradesh	68.6	95.6	23.2	47.9
Bihar	55.3	90.4	-	31.6
Gujarat	52.4	84.2	-	22.3
Assam	**10.63**	**38.16**	**7.85**	**9.6**
India	52.6	88.4	13.6	24.7

Needless to say, Assam has miles to go before it can match all India level and the better placed states in terms of the most crucial factor of agricultural productivity.

2.9 As per the latest land utilization statistics, cropping intensity of the state is 144% and only 12.04 lakh hectare out of the net cropped area of 27.53 lakh hectare is shown more than once. This definitely needs to be improved and is one major potential way of enhancing the food security and bolstering the sagging production levels in the state.

2.10 **The irrigation potential created at the all India level so far is estimated to be 73.5% of the ultimate irrigation potential. In Assam, total irrigation potential created so far (upto 2006-07) is 10.86 lakh hectares which is about 40% of the ultimate irrigation potential (27 lakh hectare). Of the total potential created, 84.9% is being utilized at all India level, whereas in Assam, it was 22.84% in 2006-07.** Assam is faced with the unenviable scenario of only 27.5% of its gross cropped area (40.8 lakh hectares) having any kind of irrigation facility. It needs to be pointed out that even with the creation of the ultimate gross irrigation potential, it will be possible to cover only 66.06% of the gross cropped area, as it stands today.

2.11 The pace of creation of additional irrigation potential and the rate of growth of utilization have slackened in the country as a whole, the former coming down from an average of about 3% during 1950-90 to 1.8% during the Tenth Plan period and the latter to 1.5% during this period. However, the situation in Assam borders on the prospect of a crisis in view of the fact that nearly 57% of the state's land is not available for cultivation, limiting the scope of area expansion and 83% of our 27.12 lakh farm families are small and marginal farmers with little capacity to arrange capital for taking care of irrigation and input needs of their farms, which are again small and scattered, with the average size of operational holdings being only 1.14 hectare.

Responding to the continuous decline in the rate of creation of irrigation potential, the central government initiated AIBP from 1996-97 and provided for 90% of the project cost as grant to Special Category States. We urge the Thirteenth Finance Commission to not only recommend 100% of the project cost under this programme as grant, but to take a holistic view of the alarming irrigation scenario and recommend a special package to bring the state on par

with at least the all India average, if not the best placed States, during its award period.

2.12 The rate of growth of food grain production witnessed a serious deceleration during 1990-2007, averaging 1.2% at all India level, lower than the annual growth of population. Assam has been no exception**. Its average annual agricultural growth decreased from 1.80% during 8th Plan Period to 0.39% and 0.27% during 9th & 10th Plan Periods respectively. Table- 2.11** gives an idea of the dismal scenario on this front.

Table- 2.11
Growth Rate of Agriculture in Assam

8th Plan Period	9th Plan Period	10th Plan Period				Average for Plan Period (Anticipated)
		2002-03	2003-04	2004-05	2005-06	
1.13 %	0.39 %	1.41 %	1.57 %	-0.46 %	0.30 %	-0.27 %

Though the state belongs to a high rainfall belt, it suffered serious drought like situations in 2002-03 and 2006-07. It also had deficient rainfall in 2004-05 and was badly hit by three successive waves of flood in 2007-08.

2.13 The soil, topography and climate of the state in general are suitable for cultivation of paddy crops **which occupy 89.47% of the net cropped area and 62.31% of the gross cropped area. The analysis of the production behaviour of the main paddy crop, rice, shows that its production came down from 37.38 lakh MT in 2002-03 to 29.16 lakh MT in 2006-07.** Worst affected is the winter rice, which lost not only in terms of the production level, but also in terms of the area coverage. Increase in production level of summer rice has been a silver lining, but the area coverage under both summer and autumn rice has received a set back in 2006-07.

Another important cereal crop, wheat also had an unsatisfactory growth and shows a decline of 13.5% in its production from 2002-03 to 2006-07. The average annual growth rate of pulses and oilseeds during 10th Plan Period is estimated at -4.71% and -11.5% respectively which is not compensated by the fact that the area under these crops has shown an increasing trend over the years.

The seriousness of the situation gets further accentuated by the fact that the productivity of all the major crops in the state is much lower compared to the national average. **The per hectare productivity gap between the State and the national average for Rice, Pulses and Oilseeds is 605 Kg, 52 Kg and 528 Kg respectively.** If we look at the productivity figures (Kg/hectare) for foodgrains in 2005-06 in major foodgrain producing states, the challenge before Assam becomes even more obvious. This figure for Assam is 1416 against the All India level figure of 1715 and those for Punjab, Haryana, West Bengal and Uttar Pradesh at 3986, 3045, 2423 and 2057 respectively.

This situation raises a serious question mark on the food security scenario in the state. We urge the 13th Finance Commission to have a hard look at the assistance being provided to the state under the programmes like National Food Security Mission and Rastriya Krishi Vikas Yojna and recommend a significant step-up

alongwith necessary revision of their scope and structure to focus on the state-specific needs adequately.

2.14 The production of agriculture crops, besides the weather induced fluctuations, significantly depends on the availability of inputs like fertilizers, certified seeds, credit support, marketing infrastructure and appropriate price signals. It is disheartening that as per the Planning Commission assessment, except for an increase in the rate of growth of credit supply to farmers, there has been a deceleration in the growth of all other variables. Particular cause for worry is that all these negative trends have been more pronounced in Assam leading to a huge gap between the achievements at all India level and state level. The fertilizer consumption (Kgs/Hectares) in 2005-06 in Assam stood at 49.26 against the All India average of 104.50. The corresponding figures for the states Punjab, Andhra Pradesh, Tamil Nadu, Haryana and Uttar Pradesh were 210.06, 203.16, 183.67, 166.72 and 140.37 respectively. **Per hectare consumption of fertilizers increased to 113.3 Kg. in 2006-07 at national level, whereas it stood at 53.50 Kg in Assam.** Per hectare consumption of chemical pesticides in the State is also quite low and well below the national average.

2.15 More than 80% of the farmers rely on farm saved seeds leading to a low seed replacement rate. **The seed replacement of paddy, wheat, pulses and oilseeds in the state in 2006-07 was 10.72%, 34.81%, 40.43% and 15.72% respectively. The corresponding figures for paddy, wheat and pulses at all India level were 33%, 59% and 50% respectively.**

The current farm power availability in the state is only 0.54 HP per hectare against the optimum power input of 110 HP per hectare.

2.16 **It may be noted that as per recommendation of the National Commission on Agriculture, there should be one market within a radius of 5 KMs. By this criteria Assam should have 998 regulated markets. However, there are only 204 regulated markets at present in the State, each covering an average area of about 360 sq. kms.**

2.17 The objective of ensuring adequate and timely support from the banking system to the farmers for their agricultural needs through Kisaan Credit Card remains only partly fulfilled mainly due to under performance of the banking sector. **Only 3.30 lakh (11.31%) of the total number of 37.31 lakh farmers have so far received the Kisan Credit Cards.** In fact, agricultural advances as percentage to total advances in the state were 13.42% only in 2007-08**. Per capita agricultural advance under Annual Credit Plan was Rs. 175.91, far below the national average of Rs. 1531 in 2005-06. Per capita crop loan in the state was Rs. 29.80 only in 2006-07 against all India average of Rs.739.** These figures undoubtedly reflect the poor credit support to the farmers.

2.18 As per the latest land utilization statistics, cropping intensity of the state is 144% and only 12.04 lakh hectare out of the net cropped area of 27.53 lakh hectare is shown more than once. This definitely needs to be improved and is one major potential way of enhancing the food security and bolstering the sagging production levels in the state.

2.19 To conclude the discussion on this vital sector, it will be pertinent to have a glimpse of the comparative picture of the index of Agricultural Production in the State and the country as a whole. **Table- 2.19** shows the position.

Table- 2.19
Index of Agricultural production in Assam and India

Year	Assam			India		
	Food	Non- Food	All Commodities	Food	Non-Food	All Commodities
1	2	3	4	5	6	7
2001-02	169	160	164	172	190	179
2002-03	164	166	165	140	166	150
2003-04	170	162	166	172	201	183
2004-05	152	154	153	160	206	177
2005-06	154	148	153	169	228	191
2006-07	128	156	142	172	224	197

The above figures speak for themselves.

Industry-

2.20 Traditional industries in the State are based on oil, tea, jute and forest resources. The foundation of these industries were laid in the 19^{th} and early 20^{th} centuries. A number of medium as well as small-scale industries also came up during this period. In the first three decades of planning, a number of paper, jute, sugar and textile industries came up in the State. However, beginning with the late 70's the State has been witnessing serious law and order and insurgency related problems. The process of industrialization suffered a serious setback during the last two decades. **Benefits of the Economic reform process and industrial liberalization has literally bypassed the State.** States and regions with high level of infrastructures, proximity to the national market and with locations nearer to the sea ports have been able to attract much more investments than the peripheral and land-locked States like Assam who are handicapped by geographical distance, transport bottleneck, insurgency and poor infrastructure. It is easily discernible from the state-wise distribution of **Special Economic Zones.** Government of India gave In-principle approval for 138 SEZs, formal approval for 513 SEZs and 250 SEZs have been notified as per the latest data available. Assam does not have a single In-principle or formal approval and no SEZ has been notified in the state.

2.21 As on 31.3.2007 there were 27,913 numbers of SSI units providing employment to 1,31,899 persons. The number of large and medium industrial units in the State is 126. However, about 45% of the SSI units and a sizable number of other units have become sick due to inadequate working capital, insurgency related problems, poor market access and infrastructure etc. Thousand of persons have lost their jobs as a result.

2.22 **The index of Industrial Production in the state stands at 152.82 in 2006-07 as compared to 159.10 in 2005-06 as against All India figures of 221.5 and 247.1 respectively for these two years**. Index numbers for manufacturing and mining in

2006-07 for Assam were 171.76 and 95.93 respectively as against the corresponding figures of 263.5 and 163.2 at All India level.

Table- 2.22 below illustrates how the industrial sector in Assam has been almost completely bypassed by the reform process.

Table – 2.22
Post-Reforms Industrial Sector: Key Indicators vis-à-vis India
(From August, 1991 to Feb, 2007)

Sl. No.	Category	Assam	India	Assam's Percentage Share
1.	IEMs (a)Nos. filed (b)Nos. implemented	468 83	69,441 6,492	0.50 0.82
2.	LOIs (Nos. granted)	13	4,235	0.32
3.	100 percent EOU's	2	3,711	0.05
4.	# FDIs (a) Financial (b) Technical	4 15	16,661 7,383	0.02 0.20

Notes: IEM-Industrial Entrepreneurs Memorandum, LOI-Letter of Intent, EOU-Export Oriented Unit, FDI-Foreign Direct Investment.
Source: *(a) SIA Statistics March, 2007.*
(b) Indian Investment Centre for Sl. No.4 (FDI).
 # The FDI figures are for the period August, 1991 to June, 2003.

2.23 Another disturbing development is the **decreasing flow of institutional finance** to Assam especially after the introduction of market friendly economic reforms process in the country. If we look at the state-wise per capita assistance disbursed by All India Financial Institutions in 2001-02, it can be seen that the figure for Assam was Rs. 17.4 against the All India average of Rs.471.7. This figure for states like Maharashtra, Karnataka, Haryana and Gujarat was Rs. 3386.4, Rs. 1653.9, Rs. 691.9 and Rs. 648.3 respectively as per the Report on Development Banking in India.

2.24 As per the provisional results of the Fifth Economic census, there are 42.12 million enterprises in the country and five states- A.P., Maharashtra, Tamil Nadu, U.P. and West Bengal together account for about 50% of the total enterprises in the country. There are about 5.83 lakh enterprises which employed 10 workers or more, accounting for 1.4% of the total enterprises and **53% of these larger enterprises are concentrated in five states- Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Kerala. Similarly, five states, A.P., Maharashtra, T.N., U.P. and W.B. have the combined share of about 40% of total employment at the country level**. It can be seen that **only 2.19% of the enterprises are located in Assam.** Further, from the report of Annual survey of Industries, 2004-05, it can be seen that only 1.25% of the registered factories of the country are located in Assam.

2.25 It is clear from the above statistics that the regional disparity between Assam and the N.E. region on one hand and the rest of the country on the other has increased considerably in the area of industrial development. **Government of India took cognizance of this disturbing trend and announced a special Industrial Policy, 1997 for the N.E. region** containing a package of incentives for a period of 10 years.

Central Excise Duty exemption, Income tax benefit, comprehensive insurance benefit, 15% central capital investment subsidy, 3% central interest subsidy on working capital, transport subsidy etc. were the main highlights of this new Policy initiative. Although effective from 24.12.97, its actual implementation started from the year 2000. This immediately generated a kind of resurgence. Fiftyfour new large and medium industries with a total investment of Rs.2,800 crore providing 6500 direct employment and 14,400 new SSI units generating 60,000 employment were established in Assam after the new policy. Sixty medium scale industries also went for substantial expansion providing additional employment to 4500 persons. The North-East Industrial Policy (NEIP) saw the establishment of industries along modern and high-tech production lines like electronics and white goods, medical equipments, pharmaceutical products, cosmetics and detergents, up-market food processing, readymade garments etc. **However, after the withdrawal of the benefit of Excise Duty exemption from the cigarette and gutkha manufacturing units, most of these units closed shops. Government of India also extended similar package of incentives to Uttarakhand, Jammu & Kashmir and Himachal Pradesh. Prospective investors immediately abandoned their investment plans in Assam and the North-East and moved to those States because of their proximity to the developed infrastructure and industrial and commercial belt of North India in preference to Assam and the North-East.**

2.26 The Govt. of India has recently approved a package of fiscal incentives and other concession for the North East region, namely The North Eastern Industrial and Investment Promotion Policy (NEIIPP) 2007, effective from 01-04-2007. It is hoped that the new policy will give a boost to the industrial development of the State.

Power-

2.27 Power Scenario in the state is shown in **Table- 2.27 A** and **2.27 B.**

Power Scenario at a glance for Assam

Table- 2.27 A

1. INSTALLED CAPACITY AS ON 31-08-2008

(Figures in MW)

Sector	Hydro	Thermal				Nuclear	R.E.S.	Total
		Coal	Gas	Diesel	Total		(MNRE)	
State	100.0	90.0	209.0	20.7	319.7	0.0	27.1	446.8
Private	0.0	0.0	24.5	0.0	24.5	0.0	0.0	24.5
Central	329.7	83.3	178.0	0.0	261.3	0.0	0.0	591.0
Total	**429.7**	**173.3**	**411.5**	**20.7**	**605.5**	**0.0**	**27.1**	**1062.3**

Table- 2.27 B

2. ACTUAL POWER SUPPLY POSITION

Period	Peak Demand	Peak Met	Peak Deficit /Surplus	Peak Deficit /Surplus	Energy Requirement	Energy Availability	Energy Deficit/ Surplus	Energy Deficit/ Surplus
	(MW)	(MW)	(MW)	(%)	(MU)	(MU)	(MU)	(%)
9th Plan End	688	618	- 70	- 10.2	3450	3425	- 25	- 0.7
2002-03	668	589	- 79	- 11.8	3458	3349	- 109	- 3.2
2003-04	738	635	- 103	- 14.0	3527	3321	- 206	- 5.8
2004-05	659	621	- 38	- 5.8	3787	3582	- 205	- 5.4
2005-06	733	679	- 54	- 7.4	4051	3778	- 273	- 6.7
2006-07	771	688	- 83	- 10.8	4297	3984	- 313	- 7.3
2007-08	848	766	- 82	- 9.7	4816	4412	- 404	- 8.4
April-August, 2008	**879**	**787**	**- 92**	**- 10.5**	**2241**	**1960**	**- 281**	**- 12.5**
August, 2008	**849**	**740**	**- 109**	**- 12.8**	**490**	**447**	**- 43**	**- 8.8**

Note: - Peak Demand - 1034 MW, Energy requirement - 5632 MU for the year 2008-2009 (As per 17th EPS Report), Occurrence of peak as per actual power supply position in the month (s) - January & September.

The two **Tables** above make it abundantly clear that the development of Power sector has lagged behind the requirements of the State. **Per Capita availability of power is extremely poor and has hardly been growing. It was 112 Kwh in 2004-05 and 116 Kwh in 2006-07. Growth rate of power generation has been much below the national level. It was 3% against the All India growth rate of above 7% in 2006-07.**

The present derated installed capacity of Assam State Electricity Board is 340 MW. It is expected to go up to 840 MW by the end of 11th Five Year Plan, i.e. by 2012-13.

2.28 Per capita power consumption in the country in 2005-06, as calculated by the Central Electricity Authority has been about 631 Kwh. But there are wide ranging disparities among the states. Position in respect of some of the states and Assam is shown in **Table 2.28** below.

Table- 2.28

Per Capita Power Consumption of some of the states in 2005-06

(In KW per person)

Haryana	1039.93
Punjab	1436.79
Gujarat	1283.77
Maharashtra	934.43
Goa	1970.08
Tamil Nadu	976.81
Assam	170.65

It merits mention here that the per capita consumption figure for Assam is lower than the corresponding figure for the North Eastern states taken together (201.44 Kwh). It will require great efforts and investment to achieve the target of 1000 Kwh per capita consumption by 2012.

2.29 As per the latest data available, twelve states and Union Territories including Assam had T & D losses in excess of 30% in 2004-05, although in Assam it came down to 31% in 2007-08 from 40% in 2002-03. This is indeed a serious situation in view of the studies that reduction of 1% in the T & D losses amount to saving of 800 MW of power. The situation is disturbing not only from the view point of global standards of the T&D losses which are about 5.10%, but also from the success of states like T.N. to contain them to 10% only.

2.30 Situation is equally disturbing when we look at Plant Load Factor position in the state, which is shown in the **Table- 2.**30 below.

Table- 2.30
Comparative position of PLF (%)

Year	Assam	India
2002-03	33.5	72.1
2003-04	32	72.7
2004-05	34	74.2
2005-06	36	74.0
2006-07	39	76.8
2007-08	50	78.6

Assam situation appears even grimmer when we discern that the state government power plants in the country could achieve the PLF level of 71.9% in 2007-08, though even this was much less compared to the PLF of 90% of the private sector power plants.

2.31 Assam has been able to electrify only 72% of its villages so far.

Transportation and connectivity –

2.32 Although road, railway and air connectivity in the State has started improving in the recent years, the existing facilities are yet to measure up to national standards. The improvement in inland waterways has been very slow. For purposes of connectivity Assam is literally the gateway and corridor for the other six N.E. States. Any infrastructure in Assam, particularly its roads, are used extensively by the neighbouring States. Maintenance of the transportation network in Assam is important not only for the State but also for the entire N.E. region and also for strategic defence interests of the country. **Allocation of fund for improvement and maintenance of road, rail, air and waterways connectivities of Assam should, therefore, be viewed as an expenditure for improvement and maintenance of common facilities for the entire N.E. region**.

2.33 **The existing road network in Assam is quite deficient in terms of road density (65 Km/100 Sq.Km),** poor geometrics, inadequate carriage-way width, pavement structure, weak and distressed bridges and a large number of semi- permanent timber bridges. The State PWD has a total road length of 37,555 KMs of which 2836 KMs are national highways and 2819 KMs are State highways. There are 5213 numbers of semi permanent timber bridges with a total length of 1,19,072 running meters. There are still a large number of habitations with population up to 500 which do not have road connectivity. Connectivity with all weather roads are yet to be provided to 15,786 villages out of a total of 26,247 villages in the State.

2.34 Most of the roads in the State need major up-gradation and improvement. Fragile hills, high seismicity, large number of rivers and streams, frequent floods and heavy rainfall make maintenance of the road network in the State a very difficult and expensive proposition. The asset value of existing roads in the State is estimated to be Rs.20976 crore**. As per laid down norms of Ministry of Road Transport and Highways, annual maintenance fund requirement for the State PWD including National Highways is Rs.580 crore. Maintenance of roads is a non-plan expenditure. Because of acute financial crisis of the State Government, against the annual requirement of Rs.580 crore, the State Government could provide an average of only Rs.85 crore per annum during last five years.** Government of Assam has meanwhile adopted a Road Maintenance Policy. A State Road Board has already been constituted for the purpose. Among other things it envisages a dedicated fund for road maintenance. A recent study by the World Bank showed that $ 45 billion invested in main roads have been eroded over the last 20 years through lack of maintenance in 85 countries. Another study shows that **one rupee spent on maintenance saves two to three rupees in vehicle operating cost. In case of rural roads, a saving of one rupee to defer maintenance results in a requirement of rupees five to six in rehabilitation of these roads after three years. Hon'ble Finance Commission is requested to take into account the actual requirement for maintenance of roads in the State in making its recommendations and not to go by the compressed actual expenditure incurred by the State under circumstances of acute financial hardship. Hon'ble Finance Commission may also kindly take into consideration the requirement of Rs.4800 crore for conversion of the existing 5213 numbers of timber bridges to RCC bridges and make appropriate recommendations.**

2.35 The Brahmaputra, the Barak and their major tributaries hold great potential for inland navigation which can be used for movement of passengers, cargo and also for tourism purposes. However, due to absence of night navigation facilities, well equipped cargo handling centers and proper river ghats and ports having necessary amenities, the inland navigation potential of the State remains largely unutilized, although the Brahmaputra was declared as National Waterway No.2 quite sometime back. Taking the low cost of transportation through waterways, particularly in case of bulk cargo, it is imperative that necessary investment is made by the Government of India for improvement and up-gradation of this sector.

Banking

2.36 India has the second highest number of financially excluded households with barely 35% households truly included. Top ten cities account for deposits over 60% and the country as a whole is under-banked with 7.15 branches for one lakh population in 2007-08. **Assam is in a much more disadvantageous position in this sphere too. It has only 4.87 bank branches for one lakh population.** The country had a total of 74326 bank branches in 2007-08 of which only 1369 i.e., 1.84% were located in Assam. At all India level the number of bank branches grew by 5.11% in 2007-08 and for Assam, this figure was only 2.62%. **Table- 2.36** below spotlights some of the glaring disparities between the state and country as a whole in respect of banking sector.

Table- 2.36
Some Indicators of Growth of Banking Sector

Indicator	2006-07		2007-08	
	Assam	India	Assam	India
Bank Population Ratio	19981	14703	19740	13988
Average area per bank branch (Sq. Km)	58.8	46.48	57.3	44.2
Credit-Debit Ratio	48.03	74.5	50.48	74.2

2.37 **Per capita Credit and per capita deposit in the state in the year 2005 were Rs. 2261 and Rs. 6669 as against the all India figures of Rs. 10474 and 16700 respectively** and as can be seen from the **table** above, there was only a marginal increase in the Credit-Deposit ratio in 2007-08. Besides, only 545354 number of No Frills Accounts have been opened so far and as against 31.37 lakh cultivators in the state, only 3.30 lakh (11.31%) have been covered by Kisan Credit Cards. Inability of the banking sector to reach out to the larger segment of the state's population can also be visualized from the figures of Per Capita Agriculture Advance (under ACP) and Per Capita Crop Loan, which were Rs.175.91 and Rs.29.80 respectively as against the all India average of Rs.1531 and Rs.739 respectively in 2006-07.

2.38 **There is obviously a need for substantial enhancement of the rural penetration of the banking sector, credit-deposit ratio and thrust on financial inclusion in the state. This calls for step-up in the banking infrastructure investment, increase in the number of RTGS branches (at present only 265 out of 1369), infusion of greater IT applications and a vigorous institutional mechanism for performance monitoring of the banks by RBI. We request the 13th Finance Commission to give due weightage to these issues in its recommendations.**

Tourism

2.39 Growth of tourism hinges on the ability of a region to convert its natural endowments, heritage structures, cultural specificities and ethnic enclaves into objects of tourist attraction through an aggressive and imaginative marketing strategy and development of infrastructural facilities. Assam has tremendous untapped tourism potential. Although the foreign tourist arrivals in the state more than doubled between 2003 and 2007 as against the growth of 58% for the country as a whole during this period, this constituted only 0.47% of the total foreign tourist arrivals in the country. The State Government is giving priority to this sector. The State Plan budget for tourism has been increased about three fold during the last two years. A State Tourism Policy has been formulated recently. The State Government has allotted a plot of prime land in Guwahati to the Indian Hotels Company (the Taj Group) for setting up the first ever Five-Star hotel in the north-eastern region. An agreement between the State Government and the Indian Hotels Company has already been signed.

Forest & Ecological Balance

2.40 As per the latest assessment of the Forest Survey of India, the forest cover in Assam is 35% of its geographical area, (area within and outside the notified forest area included). This is more than what the nation aspires to achieve by the end of the 11^{th} Plan. The reserved forest area in the state constitutes around 20% of the geographical area of the state. However, the scenario within the notified area depicts a rather gloomy state of affairs in terms of the extent of degradation during last twenty years due to a panoply of biotic factors. It is a daunting challenge to conserve the rich bio-diversity of the state, arrest the process of degradation and regain the lost ground.

The State has five National Parks (two of which, Manas and Kaziranga, are World Natural Heritage sites) and eighteen wildlife sanctuaries. Including two proposed wildlife sanctuaries, total wildlife protected area comes to about 4000 Sq. Km.

The Twelfth Finance Commission was considerate enough to award a special grant for this sector. But that amount was quite modest. The combined allocation for this sector under state and central plan schemes was approximately 40 crore in 2006-07. This is grossly inadequate. The Thirteenth Finance Commission may kindly recommend a substantial special grant.

2.41 One of the favourable spin-offs of the slow pace of economic development of the State has been that it cannot be held guilty of being a contributor to the frightening environmental crisis staring the globe in its eyes, but it cannot escape the impact of what is happening elsewhere. There is an immediate need of creating institutional capacity for study and research on the environmental issues in the state, so that timely and region-specific preparatory and corrective actions can be taken. The Thirteenth Finance Commission is requested to recommend a special grant for setting up of a state level institute dedicated for research and development on ecology and environment and to act as a resource body for undertaking training and orientation programmes on these issues.

2.42 **The commission is also requested to recommend a suitable grant for setting up facilities for the scientific and environment friendly disposal of hazardous industrial and bio-medical waste in the state.**

Human Development Indicators

2.43 UNDP's Global Human Development Report gives India an HDI value of 0.619 with a rank of 128^{th} among 177 countries. With GDI value of 0.60 and Human Poverty Index of 31.3, it ranks 138^{th} among 156 countries and 62^{nd} among 108 developing countries respectively. How does Assam fare on all these counts will be more than obvious if we look at the socio-economic profile of some major States. **Table- 2.43 below** gives the state-wise details.

It can be seen that except for one indicator i.e., percentage of population below poverty line, Assam lags behind the overall position in the country in respect of all other indicators. Even as regards the BPL population in the State, it needs to be submitted that it is highly debatable and does not appear to reflect the correct position. According to latest statistics published by Government of India the BPL population of

Assam in 2004-05 has fallen to 15% from 36.1% in 1999-2000, i.e., by 21.1 percentile points within a short period of five years on the basis of mixed recall period (MRP). On the basis uniform recall period (URP) the State's BPL population has fallen from 40.9% in 1993-94 to 19.7% in 2004-05. As against this the All India BPL figures had fallen only by 4.3% on the basis of MRP and 8.5% on the basis of URP during the respective periods. Such abrupt and precipitous fall in the State's BPL population seems to defy all logic, particularly when the GSDP growth rate of the State has been lower than the growth rate of GDP of the country during the relevant period. Prima facie some computation error appears to have crept in, otherwise BPL ratio in Assam would not perhaps be lower than in advanced States like Tamil Nadu, Karnataka, Pudduchery, Maharashtra and West Bengal. We have taken the matter up with the Government of India.

The range of inter-state disparities in respect of these indicators do put a big question mark on the efficacy of the professed equalization efforts of various Finance commissions and the whole planning process. **Monthly per capita rural expenditure (MPCE) of Kerala is almost double of Assam's and that of Punjab and Haryana more than 60% above its MPCE in rural areas. With regard to prevalence of hunger, Assam is bracketed with West Bengal, Orissa and Bihar as one of the problem States in the country**. It does not come as a surprise in view of the problems of the agriculture sector in the State.

Table- 2.43
Socio-Economic profile of major states

Item	A.P.	Assam	Bihar	Gujarat	Haryana	H.P.	Karnataka	Kerala	M.P.	Maharashtra	Orissa	Punjab	Rajasthan	Tamil Nadu	U.P.	W. Bengal	Chhattisgarh	Jharkhand	All-India
Poverty and Growth related																			
%age of population below p.l. (2004-05)	15.8	19.7	41.4	16.8	14	10	25	15	38.3	30.7	46.4	8.4	22.1	22.5	32.8	24.7	40.9	40.3	27.5
Average MPCE (2004-05)																			
Rural	586	540	417	596	863	798	508	1013	439.06	567.76	398.89	846.75	590.93	602.17	532.63	562.11	425.1	425.3	559
Urban	1019	1058	696	1115	1142	1390	1033	1291	903.68	1148.27	757.31	1326.09	964.02	1079.65	857.05	1123.81	989.97	985.43	1052
Inadequate Food(2004-05) (% Households)	0.5	5	2.7	0.2	0.1	0	0.2	2.3	1.6	0.8	5.3	0.7	0	0.3	1.5	9	2.2	0.6	1.9
Lorenz Ratio(2004-05)																			
Rural	0.288	0.197	0.208	0.268	0.323	0.295	0.264	0.341	0.269	0.31	0.302	0.278	0.248	0.316	0.287	0.273	0.305	0.231	0.297
Urban	0.37	0.314	0.339	0.304	0.361	0.318	0.368	0.4	0.397	0.371	0.355	0.393	0.367	0.358	0.37	0.376	0.439	0.354	0.373
Health related																			
Life Expectancy at birth (2001-05)*	64.1	58.7	61.4	63.9	65.9	66.8	65.1	73.9	57.7	66.9	59.2	69.2	61.7	66	59.8	64.6			63.2
Infant Mortality Rates (2006)	56	67	60	53	57	50	48	15	74	35	73	44	67	37	71	38	61	49	57
Births assisted by a doctor/ nurse/LHV/ANM/ other health personnel (%)	74.2	31.2	30.9	64.7	54.2	50.2	71.3	99.7	37.1	70.7	46.4	68.6	43.2	93.2	29.2	45.7	44.3	28.7	48.2
Institutional births (%)	66.6	22.7	22	54.6	39.4	45.3	66.9	99.5	29.7	66.1	38.7	52.5	32.2	90.4	22	43.1	15.7	19.2	40.7
Facilities at PHCs - (%) (as on March, 2006)																			
With Labour Room	100	NA	13	67	71	NA	100	14	19	68	64	39	33	100	0	44	20	NA	—
With Operation Theatre	87	NA	13	67	71	36	NA	12	63	74	30	33	33	27	0	0	10	NA	—
With 24 Hrs. Delivery Facility	30	NA	14	5	51	NA	24	7	NA	99	9	17	NA	19	NA	11	100	NA	—
Education related																			
GER(6-14 years) (2004-05) Total	87.0	92.0	65.2	101.7	80.0	108.7	98.8	95.4	114.1	105.7	108.5	72.6	102.7	114.0	87.0	94.7	112.6	75.8	93.5
GER(14-16 years) (2004-05) Total	53.1	49.4	22.5	55.3	53.0	134.9	59.0	93.2	45.7	68.9	50.7	51.5	43.9	80.7	48.9	41.5	43.9	26.5	51.7
GER(16-18 years) (2004-05) Total	42.2	14.4	9.6	21.8	34.2	127.7	33.9	27.9	25.3	42.3	32.9	27.9	21.6	43.9	22.9	21.1	30.4	2.5	27.8
Basic Amenities related																			
% of Households having Electricity(2005-06)	88.4	38.1	27.7	89.3	91.5	98.4	89.3	91	71.4	83.5	45.4	96.3	66.1	88.6	42.8	52.5	71.4	40.2	67.9
% of Households having access to toilet facility (2005-06)	42.4	76.4	25.2	54.6	52.9	45.6	46.5	96	27	53	19.3	70.8	30.8	42.9	33.1	59.5	18.7	22.6	44.5
% of Households having safe drinking water facilities (2001)	80.1	58.8	86.6	84.1	86.1	88.6	84.6	23.4	68.4	79.8	64.2	97.6	68.2	85.6	87.8	88.5	70.5	42.6	77.9

Source: Complied based on the data obtained from Planning Commission, NSSO, NHP-2006, RHS-2006, Ministry of HRD, NFHS-3, O/o RGI

*U.P. includes Uttarakhand.

2.44 Launching of National Rural Health Mission has definitely helped in improving the health care facilities in the rural areas, but Assam situation needs a greater injection of resources to come up to even the all India level in respect of health services.

Its Birth Rate (24.6) is very high compared to that of Kerala (14.9), all India figure being 23.5 and death rate (8.7) is also higher than the all India average (7.5). Punjab and West Bengal have Death Rate as low as 6.9 and 6.2 respectively. In respect of availability of Registered Medical Practitioners and Nurses, situation is extremely disconcerting. Problem is even more serious with regard to the availability of female doctors.

2.45 Health consciousness in the country as a whole is quite low. The situation in Assam is no different. **In Assam, more than anywhere else in the country, we need huge investment for upgrading the buildings and medical equipments in the government hospitals to be able to reduce the out-of-pocket heath expenditure in a significant way. Besides, the medical colleges and institutions for the training of nurses and paramedics are also in urgent need of capacity expansion and improvement of infrastructure. Twelfth Finance Commission grant for Health sector has been of immense help in this regard. The Thirteenth Finance Commission is also requested to recommend generous grants-in-aid for this sector.**

2.46 **It needs to be pointed out at this stage that the state government has been devoting a considerable portion of its resources to social services like health and education. Expenditure on Health & Family welfare increased from 0.96% of GSDP in 2004-05 to 1.16% in 2007-08 and is budgeted to be 2.51% in 2008-09. As percentage of total expenditure of the state government it stood at 4.50% in 2007-08 as against the Central Government expenditure of 2.11% of its total expenditure. State's expenditure on education also compares favourably with that of Central Government. It was 5.26% of the GSDP in 2007-08 and 20.50% of the total expenditure of the state government. The central government expenditure on education along with sports & youth welfare was only 4.58% of its total expenditure.** This is submitted to illustrate the point that it is not the lack of will or commitment on the part of the State Government, but sheer enormity of the problems which is responsible for the state's poor standing in terms of socio-economic indicators. What is required is a generous resource support commensurate to the problems in hand.

2.47 Like National Rural Health Mission, Sarva Siksha Abhiyan has made a significant contribution to the improvement of elementary school infrastructure. But a large number of problem areas still remain unattended to. For example, the state government has to find resources for converting alternative schooling centers into full-fledged schools in habitations not having lower primary and upper primary schools within a radius of 1.5 Kms and 3 Kms respectively, besides providing quality textbooks and TLMs to general category students. With the prospect of Right to Education Bill getting passed in the near future, the financial burden of the state governments is likely to increase manifold. However, areas in need of even greater attention are secondary, higher and professional education in the state. All the universities, colleges and secondary/higher secondary schools require fund for renovating their buildings and upgrading basic infrastructure facilities for quality education.

The worsening employability crisis can be appreciated by the fact that out of 100 students, 70 complete primary education and only 7 complete graduation of which hardly 10% are employable. Facilities for vocational education is minimal in the state. **There are only 28 number of ITIs in the state of which only 5 are for women. China runs 5 lakh vocational training centres covering 6 crore students every year whereas India has only 12,000 covering 30 lakh students. The intake capacity of 28 nos. of ITIs in Assam is only 5576 for long term courses, 1008 for short term courses and 2765 for courses under modular employable scheme.** Besides, only 1.17% of the Professional Education institutions in the country are located in the state.

Unemployment –

2.48 Incidence of unemployment is higher in Assam than in the rest of the country. **The number of unemployed persons per 1000 population in the state was 26 in rural areas and 72 in urban areas according to the 57th round of NSS, 2001-02. The corresponding figures for India were 10 and 19 respectively.**

The total number of job-seekers in the Live Register of Assam increased to 18,27,149 during the year 2006 from 17,63,430 in 2005-06. It may also be noted that a large number of unemployed youths residing in far-flung and less accessible areas do not register their names in the Employment Exchanges. Hence, the actual figure of unemployment will be much higher. The most alarming feature of the unemployment problem in the State is its rapid growth among the educated youths. As per Live Register of Employment Exchanges, the number of registered educated job seekers (matriculate and above) stood at 12,36,500 (Provisional) in 2006. The percentage of educated job-seekers to total job-seekers was 68 percent. During last five years i.e., between 2001 and 2006, public sector employment in the State decreased by 0.23%, while in the private sector it decreased by 0.17%.

From the above it appears that the State has not benefited from the so-called **demographic dividend**. We are worried that with the economic slow down the problem unemployment can go from bad to worse. This may have very serious consequences in an insurgency ridden State like Assam.

Flood & Riverbank Erosion Management

2.49 Assam has always been prone to flood and erosion. We shall discuss the problem in more detail in Chapter – 9. Here we would only like to mention that effective flood and river bank erosion risk management (FRERM) calls for a long term planning framework with a holistic basin-wide perspective, which comprises a range of interrelated strategies including (i) improved catchment management, (ii) multipurpose reservoirs that may be socially and environmentally sound and (iii) other structural and non-structural measures which are sustainable in the long run. High priority also needs to be accorded to improvement of existing embankment systems, particularly along high value locations. Alternative approaches need to be pursued in less prioritized areas including flood proofing and non-structural measures such as FFW, flood risk mapping, flood plain zoning and adaptive cropping practices.

2.50 **Regarding riverbank erosion management**, State Government efforts have been concentrated on provision of spurs along strategic locations. While their performance seems generally satisfactory, they require high capital and maintenance costs and often induce erosion elsewhere. **More cost-effective and flexible options adaptive to highly dynamic morphological processes need to be explored following the international best practices. Sound monitoring and prediction systems, linked to advance warning and adaptation measures are also needed.** These should be implemented with comprehensive strengthening of structure, resources and capacity of the sector institutions, particularly Water Resources Department (WRD). In addition to this, the data and knowledge base are also required to be upgraded

2.51 In the context of the 11th Five Year Plan (2007-12), the Government has heightened its priority accorded to FRERM, in line with a paradigm shift of the country's disaster management strategy to focus more on preparedness as opposed to post-disaster response. Disaster Management Guidelines (DMG) for Flood Management was issued in early 2008 to encourage the state governments to prepare and implement comprehensive flood management plans. State Govt. has also initiated steps towards improving the policy, institutional and planning framework of water resources management, in which FRERM remains a key element. A draft State Water Policy (SWP) has been prepared adopting the principle of integrated water resources management (IWRM) on the basis of river basins. The State Water Resources Council (SWRC) and The State Water Resources Board (SWRB) headed respectively by Hon'ble Chief Minister and the Chief Secretary, have also been set up. The draft SWP also envisages setting up a water resources management agency with data and information center, building on the existing base of WRD. These are to be accompanied with (i) state level planning with wider basin management perspectives building on the existing Brahmaputra master plans and the government's task force reports and (ii) institutional reforms of WRD for improved FRERM, in terms of planning, design, implementation, quality control and after-care, with enhanced stakeholder participation. FRERM is also to be integrated into the state disaster management framework.

Needless to say, state government on its own cannot mobilize the resources required for the implementation of the flood Protection and Riverbank Erosion Management programme comprising (i) strengthening of institutions, State level planning framework and knowledge base, (ii) extension of nonstructural measures such as warning systems and preparedness, (iii) provision of flood management structures including embankment improvement with riverbank protection in selected high priority areas. The **Thirteenth Finance Commission is requested to recommend a special grant for setting up a dedicated fund to take up studies on the issues relating to flood protection and riverbank erosion management. Besides, it should also recommend provision for taking up riverbank erosion prevention measures with the CRF.**

Shukla Commission Recommendations-

2.52 The problems faced by the State are so serious that despite its categorization as a Special Category State, there was no significant improvement in the overall economic situation and the gap between Assam and the rest of the country continued to widen at an alarming rate – giving rise to an assorted variety of insurgencies posing threat to national security. In 1996, Hon'ble Prime Minister of India took note of this disturbing situation and announced his "New Initiative for the N.E. Region" for all-round development of the region. A high level Commission was constituted under the Chairmanship of Shri S.P. Shukla, the then member of the Planning Commission to critically examine the backlog in basic minimum services and gaps in infrastructure development of the N.E. States. **The Shukla Commission recommended an amount of Rs.22,758.80 crore for Assam of which Rs.3951.80 crore was for basic minimum services and Rs.18807 crore for bridging the infrastructure gap.** In 1998-99 a Non-lapsable Pool of Central Resources was created for funding the developmental projects in the NE States, particularly those recommended by the Shukla Commission. It has been found that the actual accrual to the Non Lapsable Pool has been much less than what was recommended by Shukla Commission. The state has received Rs.1334.13 crore only till 2007-08 from NLCPR.

2.53 It needs to be mentioned in this context that while the recent policy shift in favour of encouraging Public-Private Partnership and private investment in infrastructure development is welcome, states in the North East are not likely to benefit from it in the same measure as the economically more advanced States. If we look at the loan proposals approved by the India Infrastructure Finance Company Limited (IIFCL) for infrastructure projects in various states, it is seen that out of 64 project proposals approved by the IIFCL, Assam does not have a single one. It may be appreciated that because of disadvantageous geographical location, distance from the mainland, transport bottlenecks and difficult terrain, Assam may not be able to attract large volume of private investment, even under PPP mode, in the infrastructure sector. **Therefore Government will have to continue to play the role of major investor so far as the infrastructure sector is concerned.**

2.54 It is clear from the preceding paragraphs that Assam suffers from a huge development backlog. To catch up with the rest of the country in terms of key socio-economic indicators, the State's GSDP will have to grow at the rate faster than the growth rate of national GDP. Unfortunately, during the last sixty years the truth has been otherwise. Assam needs massive investments in social and physical infrastructure**.** Both and non-plan expenditure in Assam have been lower than the all India average. In 2006-07 per capita plan outlay for Assam was Rs.1311/- as against the all States average of Rs.1794/-. Assam's per capita plan out lay in 2006-07 was the 5th lowest amongst all the States. The contrast becomes more glaring when we compare it with the per capita plan outlay (2006-07) of a few other States – Arunachal Pradesh Rs.10000/-, Chattishgarh Rs.2586/-, Andhra Pradesh Rs.2625/-, Gujarat Rs.2466/-, Sikkim Rs.11000/-, Himachal Pradesh Rs.2951/-, Jammu & Kashmir Rs.4305/-, Karnataka Rs.3056/- etc.

We conclude this Chapter with an earnest request to the Thirteenth Finance Commission to take into consideration the development deficit of the State as compared to the rest of the country and make realistic assessment of our

financial needs so that Assam can catch up with rest of the country and emerge as one of the front ranking State.

Chapter – 3

Present Status of State Finances

3.1 The Terms of Reference (TOR) has mandated that The Commission shall review the state of the finances of the Union and States, keeping in view, in particular, the operation of the State's Debt Consolidation and Relief Facility 2005-2010 introduced by the Central Government on the basis of the recommendations of the Twelfth Finance Commission, and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

3.2 Assam is one of the Special Category States of the country. We shall discuss our constraints in resource generation in Chapter-4. We would like to mention here one important aspect of our State finances. **Our non-plan revenue expenditure are mostly committed expenditure like salary, wages, pension etc. Their movement is always upward. On the other hand our revenue sources are not always stable and certain. They are dependent on the overall economic situation and therefore susceptible to wide fluctuations. This is an inherent vulnerability of our State finances.** Despite abundance of natural resources, the financial resource base of the State is weak. On the other hand the overhead cost of administration is quite high because of creation of new administrative units including a number of Autonomous Districts under the Sixth Schedule of the Constitution and other Autonomous Councils under State Legislations to fulfill demands for autonomy by various indigenous ethnic groups of the State.

3.3 We have already mentioned in Chapter – 1 that after passing through a critical financial situation since the early 1990s, we have been able to achieve a remarkable turn around in our financial position during the last four to five years. This has been possible due to a number of reform measures undertaken by the State Government. Some of them are - (a) Implementation of a Medium Term Fiscal Reform Programme adopted in March, 2003 in consultation with Government of India, (b) Implementation of a comprehensive fiscal restructuring programme titled Assam Governance and Public Resource Management Programme sponsored by the Asian Development Bank and Government of India from 2004, (c)Enactment and implementation of the Assam Fiscal Responsibility and Budget Management Act,2005, (d) Significant improvement in State's own revenue collection, both tax and non-tax, (e) Compression of revenue expenditure wherever possible without affecting public interest and (f) Containment of public debt including Government guarantees and other contingent liabilities. In Chapter – 6 we have discussed in detail the wide ranging reform measures initiated by the State Government in various sectors.

3.4 As a result of the reform initiatives the State Government have been able to achieve the FRBM targets of revenue and fiscal deficit reductions during the last three years. We have already received an amount of Rs.105 crore towards debt write-off for the year 2005-06. We have become eligible for debt write-offs for the FYs 2006-07 and 2007-08 also. The position regarding our revenue and fiscal deficits during the last three years is given in **Table – 3.4** below.

Table – 3.4

Revenue, Non-Plan Revenue and Fiscal Deficits during FRBM period

(Rs. in crore)

Year	Revenue Deficit	Non-Plan Revenue Deficit	Fiscal Deficit
2005-06	-1509.08	-289.17	-355.71
2006-07	-2210.41	-156.26	-711.37
2007-08	-2580.76	-554.46	-790.09

N.B.: (-ve sign indicates surplus)

3.5 During the last six years non-plan revenue receipts of the State has increased by 140% from Rs.4685.43 crore to Rs.11231.28 crore. The details are shown in **Table 3.5 below** .

Table – 3.5

Components of Non-Plan Revenue Receipts

(Rs. in crore)

Year	Own Tax Revenue	Own Non-Tax Revenue	Share in Central Taxes	Non–Plan Grants	Total
2002-03	1934.52	692.97	1814.36	243.58	4685.43
2003-04	2070.32	945.80	2162.07	284.90	5463.09
2004-05	2713.32	1070.03	2584.33	456.89	6824.57
2005-06	3232.21	1459.28	3056.78	948.19	8696.46
2006-07	3483.32	1859.27	3898.99	708.70	9950.28
2007-08	3359.42	2134.59	4918.29	818.98	11231.28

As may be seen from the above table the rates of increase of our own tax revenue and non-tax revenue during the period 2002-03 to 2007-08 are 74% and 208% respectively. The State's share in Central Taxes has also increased by a remarkable 171% during same period.

3.6 As against an increase of 140% in our non-plan revenue receipts during the period from 2002-03 to 2007-08, our non-plan revenue expenditure has increased by 85% from Rs.5780.27 crore to Rs.10676.82 crore. Major component-wise break up of our NPRE during the last six year period is given at Table – 3.6 below.

Table – 3.6

Components of Non-Plan Revenue Expenditure

(Rs. in crore)

Year	Salary with wages	Pension	Interest Payment	Others	Total
2002-03	3030.75	776.00	1244.74	728.78	5780.27
2003-04	3354.49	908.72	1446.10	1311.27	7020.58
2004-05	3679.62	1062.39	1403.53	2062.22	8207.76
2005-06	3906.43	1011.48	1510.12	1979.26	8407.29
2006-07	4475.34	1177.86	1515.67	2625.15	9794.02
2007-08	5130.53	1340.68	1512.24	2693.37	10676.82

As may be seen from the above table, expenditure on salary and wages, pension and interest payments have increased by 69%, 73% and 21% respectively during the period 2002-03 to 2007-08. During the same period other non-plan expenditure has increased by 270% mainly due to increase in expenditure on power sector reform, other PSUs reform, maintenance of internal security and law & order and step up in expenditure on maintenance of infrastructure.

3.7 The debt position of the State has also improved. The debt GSDP ratio has declined from 30% in 2002-03 to 27% in 2007-08. This is below the 28% safe limit prescribed by the 12th Finance Commission. The total debt stock of the State as on 31st March 2008 was Rs.19673.73 crore. Per capita debt burden of Assam as on 31.03.2007 was Rs.7038/-. This is second lowest among all the States in the country. In Chapter-5 we have given details of our debt position.

3.8 With improvement in our financial position the size of the Annual Plan of the State has also increased from Rs.1750.00 crore in 2002-03 to Rs.5011.51 crore in 2008-09. The State plan outlay and its major sources of funding for 2007-08 and 2008-09 are given in Table-3.8 A below :

Table – 3.8 A

(Rs. in crore)

Items	Approved Annual Plan 2007-08	Approved Annual Plan 2008-09
1. State Govt.'s Own Fund	- 1522.81	401.73
Of which BCR	*-1518.85*	*377.32*
2. Borrowing (net)	1830.42	1029.48
3. Central Assistance	3528.35	3684.05
State Government Resources	3835.96	5115.26

(1+2+3)		
PSEs' Resources	-35.96	-103.75
State Plan Outlay	3800.00	5011.51

The year-wise allocation for the 11th Five Year Plan as projected by the Planning Commission is given in Table-3.8 B below :

Table – 3.8 B

(Rs. in crore)

2007-08	2008-09	2009-10	2010-11	2011-12	Total 11th Plan
3631.00	4196.00	5239.00	6421.00	7833.00	27318.00

3.9 Till about 10 years back no major Externally Aided Project (EAP) was taken up in the State. However the situation has now changed. The position regarding the major EAPs taken up in the State during the last few years is given in Table-3.9 below :

Table – 3.9

(Rs. in Crore)

Sl.	Items	Remarks	Estimated Cost
1	World bank funded Assam Rural Infrastructure and Agricultural Services Project (ARIASP)	Completed	567.65
2	World Bank funded Assam Agriculture Competitiveness Project	Ongoing	1022.96
3	ADB funded Assam Power Sector Development Programme Loan (IND 2036)	Completed	675.00
4	ADB funded Assam Power Sector Development Project Loan (IND 2037)	Ongoing	1095.75
5	ADB funded Sub-Programme I under AGPRMP (IND 2041)	Completed	568.00
6	ADB funded Sub-Programme II of AGPRMP (IND 2041)	Ongoing	769.50
7	ADB funded Project loan under AGPRMP (IND 2042)	Ongoing	113.60
8	World Bank funded Assam State Road Project	In pipeline	2250.00
9	Assam Integrated Flood Control and Erosion Mitigation Project	In pipeline	1560.00
10	Greater Guwahati Water Supply Scheme	In pipeline	399.48

3.10 We would like to draw the attention of the Finance Commission to the **persistent gap between the post devolution non-plan revenue gap assessed by the successive Finance Commissions and the actual position.** Upto 1988-89 Government of

India's budgetary support had been extended to special category States including Assam both for plan funding and for covering non-plan revenue gap. However, this special dispensation was discontinued from 1989-90 on the assumption that transfer recommended by Ninth Finance Commission (NFC) would fully meet the requirements of Government of Assam on non-plan revenue account. But contrary to the expectations of the 9th FC, the actual position that emerged was totally at variance with the assessment of 9th FC. The actuals were much higher. There are more such instances of wide variations between assessment made by successive Central Finance Commissions (CFCs) and the actuals. The position during the last three Finance Commission periods is given at **Table No. 3.10** below :

Table – 3.10

Post-Devolution Non-Plan Revenue Gap Assessed by the Finance Commissions vis-à-vis the Actual position

(Rs. in crore)

Ninth Finance Commission (1990-95)	Assessment	Actual
	560.32	1368
Tenth Finance Commission (1995-2000)	Assessment	Actual
	712.03	1152
Eleventh Finance Commission (2000-05)	Assessment	Actual
	110.68	6514

It is clear from the above Table that the variations were indeed substantial. The full financial burden of meeting this additional gap over the level assessed by the successive Finance Commissions, devolved on the State Government. The underlying cause and the magnitude of the fiscal imbalance that the State Government had been passing through till recently is explained to a large extent by this single factor. Apart from this, the percentage share of Assam in the Central divisible pool has also been declining constantly under the awards of successive Finance Commissions. It has declined from 4.07 per cent under the award of 8th Finance Commission to 3.22 per cent under the 12th Finance Commission.

3.11 It was against the above background that the negative budgetary balance of the State started rising during the 1990s and it reached a peak during 1999-2000. After 1999-2000 the magnitude of negative budgetary balance started declining due to adoption of a number of fiscal reform measures by the Government of Assam. The trend of revenue deficit, non-plan revenue deficit and fiscal deficit is shown in Table-3.11 below :

Table – 3.11

Revenue, Non-Plan Revenue and Fiscal Deficits

(Rs. in crore)

Year	Revenue Deficit	Non-Plan Revenue Deficit	Fiscal Deficit
1990-91	138.65	5.56	562.37
1991-92	-269.54	92.46	254.73
1992-93	-162.30	459.28	208.11
1993-94	-80.64	293.65	317.84
1994-95	309.29	517.22	710.58
1995-96	200.02	320.94	652.20
1996-97	-284.51	111.63	73.78
1997-98	-287.10	19.08	142.09
1998-99	-90.22	345.52	338.16
1999-2000	1004.73	1358.42	1605.82
2000-01	779.48	1269.06	1539.36
2001-02	881.38	1310.55	1448.14
2002-03	319.15	1094.83	927.70
2003-04	684.69	1557.47	1394.00
2004-05	291.87	1383.19	2057.45

N.B.: (-ve sign indicates surplus)

3.12 As has been mentioned in the preceding paragraphs the fiscal position of the State Government appears to be quite comfortable at present and we have been able to restore the balance between our revenue and expenditure. However this fiscal equilibrium is at a very low level of revenue and expenditure. Our per capita expenditure on general administration as well as on essential sectors like Health, Education, Power etc. is well below the national average and the desired level. **Our post FRBM goal is to move upward on the growth path and reach an equilibrium point at much higher levels of both revenue and expenditure.**

3.13 We would like to apprise the Hon'ble Chairman and Members of the Thirteenth Finance Commission about the implications of the recommendations of the 6th Central Pay Commission. There has been persistent demand by the State Government employees for pay parity with their Central Government counterparts. Because of acute financial crisis in the late 1990s we could not give pay parity to the State Government employees with the Central Government employees after the 5th Central Pay Commission. Following Constitution of the 6th Central Pay Commission, the State Government has also constituted a Pay Commission for its employees. **To bring in parity between the pay and allowances of the State Government employees and those of the Central Government employees, an additional annual financial burden of Rs.3000 crore will devolve on the State Government. In addition to this the State Government will also have to pay an amount of Rs.9868 crore to its employees as arrear dues from 01.01.2006 to 31.3.2010. Unless the Government of India compensates the State Government fully for this additional financial burden, our present fiscal surplus will be wiped out in no time and the State will fall into a financial crisis of unprecedented magnitude. We therefore earnestly**

request the Thirteenth Finance Commission to make a strong recommendation for 100% Central support to the State to meet this additional financial burden.

3.14 Before we conclude this Chapter we would like to mention the probable adverse impact of the global recession on the State finances and economy. The international crude oil prices has fallen sharply from US $ 147 per barrel a couple of months ago to US $ 48 per barrel. This implies a fall of about Rs.1000 crore p.a. in our oil royalty. Going by the current market trends, it is likely to fall further. If the recession continues then there is every likelihood that our own tax revenue collection as well as devolution of share Central taxes may also fall. We request the Thirteenth Finance Commission to take into account these uncertainties at the time of making its recommendations.

Chapter-4

State's Own Tax Revenue –Trend and Some Issues

4.1 As stated in the **chapter-3,** in the year 2006-07, 39% of the revenue receipts of the state came from its own sources, both tax and non-tax - their shares being 25.48% and 13.60% respectively. **Table- 4.1** below shows that the state's own tax collection has more than doubled from 2001-02 to 2007-08, although its relative share in the total Revenue Receipts remained almost the same. Marginal decline in own tax collection was chiefly due to non-collection of entry tax pursuant to the repeal of the relevant Act by Gauhati High Court and reduction in rate of CST.

Table- 4.1
Details of Revenue Receipts

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue Receipts (Rs. in crore)	5965	6793	7765	9937	12045	13667	15325
Own Taxes (Rs. in Crore)	1557 (26.10)	1935 (28.49)	2070 (26.66)	2713 (27.30)	3232 (26.83)	3483 (25.48)	3360 (21.92)
Non-Tax Revenue (Rs. in crore)	533 (8.94)	693 (10.20)	946 (12.18)	1070 (10.77)	1459 (12.11)	1859 (13.60)	2135 (13.93)

Note : Figure in brackets indicate percentage of total revenue receipts

Tax Revenue

4.2 The share of Sales Tax (comprising of Sales Tax/VAT, CST and Entry Tax) in total tax revenue has been more than 68% throughout the period 2001-07, but it sharply increased since 2004-05 to 80% in 2006-07, mainly due to the higher rate of tax under VAT and Entry Tax, a factor which will obviously not be contributing to such increase in future, as is evident from **Table- 4.2** below, which gives the trends in growth and composition of tax revenue during 2001-07. Percentage increase in sales tax declined from 35.33% in 2004-05 to 8.37% in 2006-07. The sales tax collection in 2007-08, in fact, declined from Rs. 2783 crore in 2006-07 to Rs. 2691 crore in 2007-08 due to repeal of Entry Tax by Gauhati High Court and reduction in rate of CST.

Table- 4.2
Trends in Growth and Composition of Tax Revenue

(Rs. in crore)

	2001-02	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Sales Tax	1073	1441	1551	2099	2568	2783	2691
State Excise	151	122	129	144	160	175	189
Taxes on vehicles	94	116	124	135	156	151	140
Stamps and Resignation fees	42	50	62	72	86	97	110
Land Revenue	63	62	62	58	75	74	80
Taxes and duties on Electricity	3	13	3	62	13	16	5
Other taxes	116	128	136	138	167	184	145
Total	**1557**	**1935**	**2070**	**2713**	**3232**	**3483**	**3360**

Revenue Capacity of the State – Some Constraints

4.3 It transpires from the above table that actual collection of state's own taxes as recorded in 2005-06 was Rs.3232 crore, which exceeded the assessed figure of TFC for that year by Rs.107 crore. But this tempo could not be sustained in the following years. In the next year 2006-07, the state's own tax revenue was Rs. 55 crore less than the assessed figure of TFC and it went down to Rs. 645 crore below the TFC assessed figure for the year 2007-08.

i. The rate of growth of late, has received a beating as manifested through the recent global melt down. This will no doubt, impact state's economy and growth adversely. Further, a large portion (45%) of State's Sales Tax revenue is derived from crude oil and petroleum products. The crude oil price has started declining rapidly from around US $150 per barrel a few months back. It is now hovering around US $ 50 per barrel. Besides reducing our crude oil royalty by about two-thirds, this will also adversely impact on our sales tax collection from petroleum and petroleum products.

ii. On the domestic front, State's economy is basically agrarian in character. Roughly 88% of the state's population lives in rural areas which are largely inhabited by socially and economically disadvantaged people of different ethnic groups. Their consumption pattern hardly includes any taxable consumer goods. This has narrowed down own tax base considerably.

iii. Due to the poor social and physical infrastructure, the production base for taxable consumption goods is narrow. The inevitable fall out of this is that the state has been reduced to a consuming one, depending on other parts of the country for meeting the deficit in food grains, essential inputs and other manufactured goods. Unlike other industrially advanced states, the scope to raise tax revenue through inter-state trade is also limited.

iv. Moreover, the state being surrounded by low-tax zones, the scope of trade diversion and evasion of tax including motor vehicle tax and excise duty on IMFL is germane in the system.

v. Although the tourism potential of the state is immense, because of absence of necessary infrastructure tourism industry in the State is still in an underdeveloped state. Till now the entire north-eastern region does not have a single five star hotel. As a result, compared to its potential tourist footfalls in the state is disproportionately low. As a consequence the base for luxury tax and VAT from the tourism sector is nominal.

vi. Although the state's economy is basically agrarian the service sector has been growing faster and overtook the primary sector in the composition of GSDP. As of now, it contributes nearly 47% of the GSDP as against 37% by the primary sector. But resource generation by the state through taxes is not commensurate with the phenomenal growth in service sector because service sector in the state is limited to education, health and public employment which do not yield much revenue to the state.

vii. Agricultural Income Tax (AIT) which is collected from tea is volatile due to demand and price fluctuations in domestic and international markets. The supply side of tea industry is again subject to the fluctuation in climatic condition, which appears to have been aggravated in the recent years by global warming. Due to sharp competition from other tea producing countries coupled with inherent constraints of domestic production, the yield from AIT which peaked at Rs.103 crore in 1998-99 has plummeted to an all time low of Rs.2.5 crore in 2002-03. It continues to languish in single digit.

Moreover, in the case of tea, only 60% of the income from the cultivation and manufacture of tea is treated as agricultural income and taxed by the State, the remaining 40% being treated as non-agricultural income and taxed by the Centre. The State Government is of the view that the entire income from cultivation and manufacture of tea should be treated as agricultural income and taxed by the State.

viii. The Assam Entry Tax was levied in October, 2001. The tax was levied on goods entering the state for consumption purposes. But in October 2006 it was struck down by a verdict of the Hon'ble Gauhati High Court. The Government of Assam passed a new Entry Tax Act in 2008. This Act has also been challenged in the Hon'ble Gauhati High Court. The actual collection of sales tax in 2006-07 included an amount of Rs.216.43 crore realized from entry tax. In view of the fresh court case it may not be worthwhile to consider it for the purpose of projection.

ix. In the wake of recent hike in fuel prices and with a view to giving relief to the consumers, Government of Assam reduced sales tax on petrol and diesel by Re one per litre. This has also adversely affected sales tax collection by the state.

x. The stamp duty has been recently reduced from 12% to 5%. This has led to corresponding reduction in revenue collection.

xi. Due to poor conditions of cinema halls there is hardly any collection of entertainment tax in the State.

xii. Many ethnic communities of the state brew their own traditional liquor on which no excise duty is collected. On the other hand, although IMFL is an important source of revenue, the State Government does not wish to actively promote and encourage its consumption in view of its social and cultural ramifications.

xiii. The Constitution of India has put a ceiling on the rate of professional tax. As such there is hardly any room for the State Government to realize more revenue from this source.

xiv. The state levies cess on production of green tea leaf. However, due to constraints on production of green tea leaf, there is hardly any flexibility to increase revenue collection from this source.

4.4 Measures being taken to improve tax collection

i. The State Government has established Tax Information Management System (TIMS) covering all field offices and check gates. Registrations of dealers, issue of forms, vehicle movement information, returns etc. are computerized. Steps are being taken to introduce e-filing of returns, e-filing of vehicle data and online payment of taxes.

ii. Composite check gates at Srirampur and Baxirhat (Assam-West Bengal border) and at Digarkhal (Assam-Meghalaya border) have been notified. A project of Rs.44 crore is being implemented for construction of a state-of-the-art inter-state check gate at Srirampur.

iii. Advalorem excise duty on India Made Foreign Liquor (IMFL) and an alternative method of collection of excise, i.e., through auctions for country spirits in place of earlier fixed fee based licences, were notified to enhance transparency in excise duty collection.

iv. Introduction of availability fee, profile registration fee and mono cartoon registration fee under Assam Excise Rules.

v. Introduction of entry tax w.e.f. 1st June, 2008 under Assam Entry Tax Act, 2008 as the earlier Act was struck down by the Gauhati High Court on 30.08.07.

vi. Rationalisation of duty structure under Assam Motor Vehicles Taxation Act and Rules to counter the losses due to lower rates of taxes in the neighbuoring N.E. states.

vii. Revision of stamp duties under the Indian Stamp (Assam Amendment) Act, 2004 and 2008.

viii. Incorporation of effective provisions to check undervaluation of properties transaction by inserting a new section 27-A vide Indian Stamp (Assam Amendment) Act, 2004.

ix. Introduction of the Objective Valuation Method (O.V.M) for fixation of the value of land - both in towns and rural areas.

Although these measures have resulted in generation of some additional resources, they are not sufficient enough to make any substantial impact on our overall revenue generation.

4.5 The Tax-GSDP Ratio from 2000-01 to 2007-08 is shown in the **Table- 4.5** below.

Table- 4.5
Tax-GSDP Ratio

Year	Tax Revenue Collection (Rs. in Crore)	GSDP at current prices (Rs. in Crore)	Percentage of Tax Revenues to GSDP
2000-01	1409.69	36814.16	3.83
2001-02	1556.98	38313.08	4.06
2002-03	1934.52	43407.00	4.46
2003-04	2070.32	47304.60	4.38
2004-05	2711.75	52920.31	5.12
2005-06 (P)	3232.21	57542.88	5.62
2006-07 (Q)	3483.32	65033.42	5.36
2007-08	3359.42	72700.47	4.62

P – Provisional Q – Quick Estimate

Impact of Phasing out of CST

4.6 The Government of India has started phasing out of CST w.e.f. 01.04.2007. The rate of CST was reduced from 4% to 3% w.e.f. 01.04.2007 and to 2% w.e.f. 01.06.2008. The rate of CST is proposed to be reduced further to 1% from 01.04.2009 and to zero level w.e.f. 01.04.2010. The CST revenue collection in 2006-07 of Assam was Rs.550.49 crore i.e. 19.78% of total sales tax collection of Rs.2783 crore. The CST revenue was growing at a rate of 18.1% (CAGR). Thus for state of Assam, CST revenue is a very big component of revenue collection and was also growing at a healthy rate. The estimated loss on account of CST reduction in 2008-09 will be about Rs.380 crore and Rs.680 crore in 2009-10. After CST rate is brought down to 0% w.e.f. 01.04.2010, it is estimate that in 2010-11 there will be a loss of Rs.1070 crore to the state. Thus, reduction of CST is going to cause huge loss to the state. The Government of India stands committed to compensate loss of CST revenue up to 31.03.2010 assuming that Goods and Service Tax (GST) will come into force w.e.f. 01.04.2010. However, as per the present scenario, it is unlikely that GST will come into force w.e.f. 01.04.2010.

Therefore, it is imperative that the 13th Finance Commission recommends appropriate compensation to the States to offset their loss of CST even after 01.04.2010.

As regards additional revenue benefit to the States out of **abolition of Form-D**, the Government of India have earmarked Rs.1500 crore for apportioning amongst the States for the year 2007-08 in the ratio of their CST revenue during 2006-07 and the same would be deducted from the total CST loss to be compensated to the States for the year 2007-08. In this connection it has already been conveyed to Government of India that the withdrawal of the benefit of purchases of goods at concessional rates by the Government Department by the use of Form-D of the CST Act may benefit some States with large manufacturing base. Assam is basically a consuming State and therefore the Government Departments here heavily depend on the sourcing of inputs from outside the State. As such, this measure will not benefit the State of Assam. In any case, in the absence of relevant data, it is not possible to quantify such gains. On the contrary, the State Government will loose a substantial amount by way of costlier purchases of inputs from outside the State.

The 13th Finance Commission is therefore requested to kindly recommend that such unwarranted deduction from CST compensation be stopped.

Impact of proposed Introduction of GST

4.7 Introduction of GST would enable States to levy tax on services, which is at present the prerogative of the Centre. However, the service sector is poorly developed in backward regions like the North Eastern States. Thus, even if States get the power to levy Services Tax under GST, there may be hardly any benefit in terms of revenue collection to backward States. The present Central Service Tax revenue from Assam is approx. Rs.60 crore per year. Therefore, even if the State gets the power to levy Service Tax, the revenue collection from this source is expected to be in the same range. For developed States like Andhra Pradesh, Maharashtra, Tamil Nadu and Delhi, the present Service Tax collection is in range of thousands of crores of rupees and they can expect to collect GST on service in similar range under the proposed dispensation also. **It has been proposed that introduction of GST would protect existing revenue of the States. However, while protecting revenue of each state, certain states with more developed service sector will earn more revenue. Thus, introduction of GST will accentuate already existing regional imbalances.**

Therefore, the 13th Finance Commission may kindly consider this serious issue and propose necessary additional grants to the less developed States. The quantum of additional grants should be linked to the differences in their per capita revenue collection which is bound to increase after introduction of GST, so that the resultant regional imbalance may be neutralized.

4.8 The GST will comprise existing VAT, CENVAT and Service Tax. However, as of now it is not clear what will be the legal framework of GST. The Constitution of India provides for a federal structure of polity under which the States are entrusted with major responsibility of welfare measures like health, education, agriculture etc., besides other important subjects like police, maintenance of law and order as well as maintenance of infrastructure. The States have been empowered to levy tax on sales of goods. The States have power to administer sales tax collection and to vary the rates of tax as may be necessary to meet their Constitutionally mandated expenditure responsibilities and to balance their budgets.

It is therefore necessary that the power of the States to levy, vary the rates of taxes from time to time as per exigencies of the situation and administer collection of taxes is preserved in the legal framework of the proposed GST so that the States can mobilize sufficient resources to fulfill their constitutional responsibilities as well as to meet the development needs of their people. Therefore, the 13th Finance Commission is requested to ensure that this important concern of the States is taken care of during introduction of GST.

4.9 One basic requirement for introduction of GST would be robust IT infrastructure in the Taxation Departments of each State and the Central Indirect Taxation Department. Further, the IT infrastructure between the Centre and States and amongst the states will have to be compatible for information sharing on real time basis. At present, the Empowered Committee of State Finance Ministers is operating TINXYS system. This is a kind of a temporary arrangement and not yet fully functional.

The 13th Finance Commission may kindly consider setting up of common IT infrastructure under an autonomous authority having representation from Centre and the States with full funding from the Finance Commission award.

Further, the 13th Finance Commission may also keep provision for support to the states for the upgradation of their IT systems. The independent authority may act as the Nodal agency for funding and technical guidance to the States. The independent authority may also formulate basic parameters for taxation IT system and data exchange.

Proposal for setting up Regional Tax Policy Research Institution

4.10 Already, with the introduction of VAT, tax structures in various States have become almost similar. Further, variation of tax rates, etc. in one State affect the other states, both in terms of revenue and growth of trade and industries. Further, GST will be introduced in foreseeable future. GST would be similar for all the states with minor procedural differential based on local conditions. It is necessary that the Central Government sets up Regional Institutions for research in Tax Policy and Structures and training of Taxation Officers of States and Central Government. This will help in proper groundwork for policy formulation and training of Taxation Officers. It is difficult for individual States to set up own tax research institutions because of financial constrains and lack of qualified manpower.

The 13th Finance Commission may consider setting up of four such Regional Institutions across the country – one each for the North, East, South and the Western region.

Proposal for increase in rate of Professional Tax

4.11 Article 276 of the Constitution of India prescribes a ceiling of Rs.2500/- per annum on the professional tax payable by a person. This ceiling was fixed by 60th amendment in 1988. This rate is applicable for salaried persons, self-employed persons, firms and companies. **The ceiling can be increased to Rs.5000/- for salaried persons and self employed persons and Rs.50000/- for firms and companies.** This will not only improve revenue collection of the States but also dramatically improve finances of the urban local bodies.

Non-Tax Revenue

4.12 **The Non-Tax revenue of the state has grown more than three times from Rs.533 crore in 2001-02 to Rs.1859 crore in 2006-07**, sharpest increase being Rs.400 crore (27%) in 2006-07 over the previous year, mainly due to increase in interest receipts on investment of cash balance by state government and increase in royalty on crude oil. **Non-tax revenue of the state was Rs.572 crore more than that assessed by 12th Finance Commission for 2006-07. In 2007-08 the contribution of Non-Tax Revenue went up to Rs.2134.58 crore and was again more than the normative assessment of TFC for that year.**

However, oil royalty is likely to decline in the near future with the present trend of fall in international prices of oil. This will adversely affect our non-tax revenue. Our non-tax revenue is also likely to be adversely affected due to the unsatisfactory growth of mineral production in the state. **Table- 4.12** below clearly shows that though there has been a quantum jump in coal production from 2004-05 to 2006-07, there was only a marginal increase in the production of natural gas. Production of crude oil and lime stone have, in fact, declined during this period. The Index of mineral production in the state declined from 97.19 in 2004-05 to 95.33 in 2006-07.

Table- 4.12
Mineral Production in Assam

Year	Coal (MT)	Crude Oil (MT)	Natural Gas (MCM)	Limestone (MT)
2004-05	581	4702	2037	419
2005-06	986	4429	2195	410
2006-07	1058	4426	2238	296

4.13 We would like to highlight the following issues with regard to the Non-Tax Revenue Receipts of the state.

i. **Sharing of Profit Petroleum with the States:-**

As per demands of the State Governments the Twelfth Finance Commission had recommended that

a. The Union Government should share the Profit Petroleum arising out of Production Sharing Contracts (PSC) in respect of onshore New Exploration Licensing Policy (NELP) blocks with the states from where the mineral oil and natural gas are produced in the ratio of 50:50.

b. The revenues earned by the Union Government on Production Sharing Contracts signed under the Coal Bed Methane (CBM) Policy may also be shared with the producing states in the same manner as profit petroleum.

c. In respect of any mineral, if a loss of revenue is anticipated for a state in the process of implementation of a policy which involves production sharing, a similar compensation mechanism should be adopted by the Central Government.

At present ten NELP blocks are in operation in Assam. Exploration for crude oil and natural gas is in progress in these NELP blocks from which production of hydrocarbons is anticipated soon in the event of successful commercial discovery. Further there is possibility of allocation of CBM blocks under PSC in Assam for exploration in near future. Hence, it is urged that the recommendations given by the Twelfth Finance Commission should be maintained by the Thirteenth Finance Commission also to safeguard the interests of the states.

ii. **Royalty on coal and other minerals:-**

The Ministry of Coal, Government of India revised the royalty on coal w.e.f. 01-08-2007 switching over to ad-valorem system as per which royalty is based on the price of coal. But while revising the royalty, **the Government of India imposed a condition that "for states that levy cess or other taxes specific to coal bearing lands, the royalty allowed shall be adjusted for the local cesses or such taxes so as to limit the overall revenue to the formula based yield." Due to this new condition the State of Assam is deprived of the full benefit of revised royalty on coal,** the actual benefit being very marginal due to the fact that the Assam Tax (on specified lands) at the rate of Rs.50/- per Tonne of annual productivity of coal bearing land is being adjusted in the revised royalty on coal. This has defeated the very objective of imposing the Assam Tax (on specified lands). The annual production of coal in Assam is about 12.40 lakh tonnes. So the annual loss of royalty on coal due to the adjustment of Assam Land Tax @ Rs.50/- per tonne would be Rs.6.20 crore. The state is thus deprived of this huge sum from royalty. Similar adjustment is also anticipated in case of royalty on other minerals due for revision.

It is therefore urged that the condition of adjustment of cess or other taxes specific to coal and other minerals bearing lands be withdrawn so that the States gets due share of royalty.

iii. **Rate of Royalty on crude oil:-**

As per provision of Section 6A (4) of oil fields [Regulation and Development] Act, 1948 the rate of royalty in respect of any mineral oil is not to exceed 20% of the sale price of the mineral oil at the oil fields or the oil well-head, as the case may be.
Para VI (b) of clause 2 of the Resolution issued by the Ministry of Petroleum and Natural Gas, Government of India vide notification No. 0-22013/1/2001-ONG-III dated 17th March, 2003, stipulated that royalty on crude oil production from on land and shallow water offshore areas will be paid @ 20% of the well-head price for the period from 01-04-1998 to 31-03-2002.

Para VII (b) of the said clause has further stated that for crude oil production from on land areas, royalty will be paid @ 20% of the well-head price determined at sub-para (a) of clause VII of the Resolution w.e.f. 01-04-2002.

According to the provision of the above clause, the Government of Assam should get royalty @ 20% of the well-head price w.e.f. 01-04-1998. On the contrary, para (III) of clause 2 of the Resolution stipulated that royalty will be calculated in accordance with the existing methodology i.e. on cum-royalty basis given at Note – 1 of the Resolution as follows:-

$$\text{Royalty amount} = \frac{\text{Well head price} \times \text{Royalty rate}}{100 + \text{Royalty rate}}$$

With the application of the above methodology the government of Assam actually gets royalty @ 16.66% on the well head price instead of 20% as stipulated above. This discriminatory provision of the Resolution has reduced the rate of royalty by 3.34% to the oil producing state of Assam causing huge loss of revenue.

The Government of Assam, therefore, urge the 13th Finance Commission to kindly verify and amend the existing methodology for calculation of rate of royalty on crude oil so that the state actually receives royalty @ 20% of the well head price of crude oil w.e.f. 01-04-1998.

iv. We will also like request that Royalty on coal and all other minerals should be revised more frequently and paid appropriately on ad valorem basis and without any discrimination among the States. Similarly, there should not be any denial of legitimate share of the States on account of oil royalty including basis of pricing and power royalty related to hydel projects.

v. As already mentioned crude oil and natural gas are the only major natural resources of the State, and that too non renewable ones. Because of the wide gap between the cost of exploration and extraction on the one hand and the market price on the other, ONGCL, OIL and other oil producing companies in the State have been making windfall profits which have been going to the Central Government as dividends. Over and above this the Central Government is also realizing Cess on crude oil produced in the State. Compared to this the royalty received by the State Government is quite low. **We request the Thirteenth Finance Commission to recommend enhancement of royalty on crude oil produced in Assam from present 20% to at least 30%, which can be easily accommodated within the existing profit margins of oil producing companies.**

Chapter – 5

Debt Position and Debt Relief

5.1 Paragraph 2 of the Terms of Reference of the Thirteenth Finance Commission requires it to review the state of the finances of the Union and States keeping in view, in particular, the operation of the states Debt consolidation and Relief Facility, 2005-2010 introduced by the central Government on the basis of recommendations of the Twelfth Finance Commission and suggest measures for maintaining a stable and sustainable fiscal environment consistent with equitable growth.

5.2 The standard criterion for determining the sustainability of debt of states has been to arrive at the acceptable levels of debt-GSDP ratio and the ratio of interest payment to total revenue receipts. TFC recommended 28% and 15% as the acceptable levels of debt-GSDP ratio and the ratio of interest payment to total revenue receipts respectively. In the Medium-Term Fiscal Reform framework of the Central Government introduced in 2004, sustainable debt (including guarantees) to Total Revenue Receipt ratio was worked out as 300% for non-special category states and 200% for special category states. At that time Assam was a borderline case. **The debt position of Assam has, of course, improved considerably since then. The ratio of debt to total revenue receipts, which was 202.00% on 31st March, 2003 declined to 134.58% as on 31.3.2008. The Debt-GSDP ratio has also come down to 27% and the ratio of interest payment to total revenue receipts to 9.87% in 2007-08**. **Table- 5.2 A** and **Table- 5.2 B** explains the position in this regard.

Table- 5.2 A
Debt stock of the State Government

(Rs. in crore)

Year	Market Loan	Institutional Loan including NSSF loans	W&M advance from RBI	Loans from the Centre	GPF	Total Debt Stock	Debt stock as % of GSDP
2002-03	7356.44	394.12	435.31	6482.35	1957.89	12948.21	30
2003-04	4339.29	386.65	297.56	6734.45	2497.94	14255.89	30
2004-05	5986.86	329.36	317.49	6904.25	2879.76	16417.72	31
2005-06	6704.51	4977.33	-	2875.02	3265.39	17822.25	31
2006-07	7296.52	5106.01	-	2775.31	3614.78	18792.62	29
2007-08	7841.08	5191.47	-	2708.44	3932.74	19673.73	27

Table- 5.2 B
Ratio of Interest Payment to Total Revenue Receipt

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
18.32	18.62	14.12	12.54	11.09	9.87

This has been possible because of the state government's relentless efforts to bring down the revenue and fiscal deficits, as envisaged in the AFRBM Act, 2005 and TFC and also partly because of the DCRF recommended by the TFC.

During the last five years the State Government liquidated Rs.746.59 crore against many outstanding debts arising out of contingent liabilities including Rs.396.25 crore against defaulted SLR Bonds of Assam State Electricity Board and Assam Financial Corporation. Guarantees issued by the State Government against borrowings by PSUs and other autonomous bodies under it stood at Rs.1881.02 crore on 31.3.2003. This has been reduced to Rs.951.31 crore by 31.3.2008.

Hon'ble Chairman and Members of Thirteenth Finance Commission will be happy to know that Assam has earned the distinction of being the first State in the country to create an automated debt data base by using Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) software in May, 2007, for capturing the entire debt profile of the State Government. The installation of the CS-DRMS software in the Finance Department was an important capacity building measure designed to enable the Government to maintain its debt record in a sustainable manner over time. An exclusive Debt Management Cell (DMU) has also been open in the State Finance Department for handling all public debt related issues.

5.3 Salient features of the DCRF recommended by TFC are as follows:

i. Enactment of Fiscal Responsibility legislation, a pre-condition for availing debt relief.
ii. The central loans to states contracted till 31.03.04 and outstanding on 31.03.05 to be consolidated and rescheduled for a fresh term of 20 years (resulting in repayment in 20 equal installments) at an interest rate of 7.5% w.e.f. the year of the fiscal responsibility legislation.
iii. Repayments due from 2005-06 to 2009-10 recommended to be consolidated to be eligible to write off to the extent of the absolute amount by which the revenue deficit is reduced in each successive year during the award period.
iv. Central Government to allow states to approach the market directly.
v. External assistance to be transferred to states on the same terms and conditions as attached to such assistance by external funding agencies with provision prescribed for the special category states.
vi. All states to set up sinking funds for amortization of loans outside the consolidate fund and public account.
vii. States to set up guarantee redemption fund.

5.4 Impact and implications of the operationalisation of DCRF is summarized below.

i. **Government of Assam enacted the Assam Fiscal Responsibility and Budget Management (FRBM) Act in May, 2005**. This Act came into effect from 1st September 2005. It was amended in September 2005 and again in August 2007. With these amendments, the Assam FRBM Act has provided for meeting all the conditions for claiming debt relief as provided by the Twelfth Finance Commission.
ii. **As per requirement of the Assam FRBM Act, State Government presented the Medium Term Fiscal Plan (MTFP) before the State**

Legislative Assembly during March-April 2008 Budget Session giving projection of likely fiscal correction path up to 2012-13.

iii. Government of Assam has availed the benefit of the consolidation of the central loan under DCRF. The information is furnished below.

Table- 5.4 A
Repayment Schedule

(Rs. in lakh)

Year	Amount of repayment schedule prior to consolidation	Interest payment due prior to consolidation	New amortization schedule after consolidation	Schedule of interest payment after reset of interest at 7.5% per annum
2005-06	26419.94	22917.87	10540.99	15811.48
2006-07	26854.05	20023.23	10540.99	15020.91
2007-08	27268.05	17080.07	10540.99	14230.33
2008-09	12441.60	14074.83	10540.99	13439.76
2009-10	13210.02	12802.18	10540.99	12649.19
Total	**1016193.66**	**86898.18**	**52704.95**	**71151.67**

Assam will therefore be getting a relief of Rs.692.35 crore on this count over the five year period of 2005-06 to 2009-10.

iv. Assam has also achieved the FRBM targets for revenue deficit and fiscal deficit reductions in 2005-06, 2006-07 and 2007-08, position of which is shown at Table-5.4 B below.

Table – 5.4 B

(Rs. in crore)

Year	Revenue Deficit	Fiscal Deficit
2005 – 06	- 1509	- 356
2006 – 07	- 2210	- 711
2007 – 08	- 2581	- 790

Note : (-) sign indicates surplus.

Assam has already received an amount of Rs.105.41 crore from the Centre towards debt write off for the year 2005-06. We have become eligible for debt write offs for the FYs 2006-07 and 2007-08 also.

v. **Government of Assam joined the Consolidated Sinking Fund (CSF), a scheme set up by the Reserve Bank of India to facilitate redemption liabilities of market borrowings by constituting a CSF in 1999-2000** vide Government's letter No.BB.15/98/Pt/127 dated 22.02.2000. The interest accrued and accumulated in the Fund will be utilized towards the redemption of the open market loans of the Government. The Fund shall not be utilized for any purpose other than redemption of the open market loans of the Government.

The State Government had been contributing an amount equivalent to a minimum of 3 percent of the outstanding open market loans as at the end of the previous financial year up to 2006-07. It is open to the State Government to increase the contributions to the Fund at its discretion.

Government of Assam vide its Notification No.BW.6/2006 dated 21.11.2007 has constituted the CSF with revised scheme for redemption of all outstanding loans of the State Government commencing from the year 2007-08. The revised scheme for CSF has come into force from the financial year 2007-08. Under the revised scheme, State Government is to contribute to the CSF on a modest scale of at least 0.5 percent of the outstanding liabilities as at the end of the previous year beginning with the financial year 2007-08.

The corpus of the Fund comprising the periodic contributions as well as the income accruing to the Fund has been kept outside the General Revenues of the Government. The Fund is administered by Central Account of Reserve Bank of India, Nagpur, subject to such directions/instructions as the Government may issue from time to time. The accretions to the CSF is invested in Government of India Securities of such maturities as the Reserve Bank of India determines from time to time.

Under the revised scheme, no withdrawals will be allowed from the CSF until 2001-12, provided that States that have already set up the CSF under the earlier Scheme may withdraw an amount in a year after the lock-in period stipulated in the earlier Scheme. The amount shall not exceed the amount of redemption due for that year in respect of Open Market Borrowings. The year-wise contribution of the Government towards CSF is indicated below:

Table- 5.4 C
Contribution to CSF

Year	Amount (Rs. Crore)
1900-2000	15.32
2000-01	20.00
2001-02	60.00
2002-03	72.00
2003-04	96.00
2004-05	44.00
2005-06	144.00
2006-07	176.00
2007-08	204.00
Total	**831.32**

The total contribution of the Government towards CSF as on 31.03.2008 is Rs.831.32 crore and interest accrued in the CSF as on 31.03.2008 is Rs.254.98

crore. Total investment made by the State Government in Government of India securities as on 31.03 2008 stands at Rs.978.17 crore.

State Government has not yet utilized the interest amount of CSF towards redemption of loans of the State Government.

vi. Guarantee Redemption Fund is going to be set up during 2008-09.

5.5 It is obvious that the State has taken all the corrective measures suggested by the TFC regarding DCRF and there is no denying the fact that this facility has helped in reducing the debt stock of the state as percentage of GSDP as shown in **Table- 5.1.** It has come down from 36% in 2002-03 to 27% in 2007-08, which is lower than the 28% upper limit prescribed by the 12th Finance Commission.

5.6 **Our interest payment liability, which was about 19% of total revenue receipts in 2002-03, almost same as the benchmark fixed by the EFC, came down to 9.87% in 2007-08**. The real picture of our debt sustainability can be captured only if we compare our interest payment liability against non-plan revenue receipts. This is so because our over all revenue receipts include 90% grants under plan assistance. These grants are meant for plan investments and not for debt servicing. **Table-5.6** below presents the position of our interest payment liability in relation to non-plan revenue receipts and non-plan revenue expenditure.

Table- 5.6
Interest Payment Liability

Year	Interest Payment (Rs. in crore)	Non-Plan Revenue Receipts (Rs. in crore)	Non-Plan Revenue Expenditure (Rs. in crore)	2 as % of 3	2 as % of 4
1	2	3	4	5	6
2003-04	1446.10	5463.09	7020.57	26.47	20.60
2004-05	1403.53	6824.57	8207.77	20.57	17.10
2005-06	1510.12	8696.46	8407.29	17.36	17.96
2006-07	1515.67	9950.28	9794.03	15.23	15.48
2007-08	1512.24	11297.96	10676.78	13.38	14.16

This also shows significant improvement in the debt sustainability position of the state.

5.7 It will also be pertinent to look at the position of total fiscal liabilities, comprising public debt and guarantees, vis-à-vis GSDP, total revenue receipts and state’s own revenues. **Table 5.7** below clarifies the position.

Table- 5.7
Details of Fiscal Liabilities

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Fiscal Liabilities (Rs. in crore)	13720	15285	17855	19095	19697	20625
Rate of Growth (%)	17.94	11.41	16.81	6.94	3.15	4.71
Ratio of Fiscal Liabilities to						
GSDP (%)	36.49	37.98	41.02	33.18	30.29	28.37
TRR (%)	202.00	196.80	179.70	158.53	144.12	134.58
Own Resources (%)	522.10	506.80	472.00	407.06	368.65	375.41

It is obvious that Assam has come out of the category of highly stressed states with its fiscal liabilities below the benchmark of 200% of the total revenue receipts and the growth rate of fiscal liabilities has also been drastically reduced in 2006-07 onwards, but the point cannot be missed that overall fiscal liabilities of the state has almost doubled during this period.

5.8 Another important indicator of debt sustainability is the net availability of funds after the payment of the principal amount of earlier contracted liabilities and interest. **Table- 5.8** below gives the position of net availability of fresh loans after debt servicing against past loans.

Table- 5.8
Net Availability of Borrowed Funds

(Amount in Rupees crore)

Year	Loan including GPF received	Debt Service			Net Loan available
		Principal	Interest	Total	
2004-05	9802.20	7640.37	1403.53	9043.90	758.30
2005-06	4193.97	2789.44	1510.12	4299.56	- 105.59
2006-07	1681.70	711.33	1515.67	2227.00	- 545.30
2007-08	1746.58	865.48	1512.24	2377.72	- 631.14

It can be seen that the net fund available on account of the internal debt and other obligation after providing for the interests and repayment remained negative during 2005-06, 2006-07 and 2007-08 despite improvement in debt sustainability position.

5.9 A necessary condition for stability is that if the rate of growth of the economy exceeds the interest rate, the debt-GSDP ratio is likely to be stable, provided primary balances are zero or positive or moderately negative. **Table- 5.9A** below shows the position in this regard.

Table- 5.9A
GSDP Growth Rate and Average Rate of Interest

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average Interest Rate (%)	9.82	9.97	8.47	8.18	7.75	7.50
GSDP Growth (at current price)	13.00	8.91	8.75	12.23	10.12	11.79
Primary Deficit (Rs. in crore) (-) sign indicates surplus	316	51	(-) 654	1866	2228	2302

This trend indicates that the State is moving towards debt stabilisation. However, Thirteenth Finance Commission should appreciate that Assam has done a commendable job in taking less and less recourse to borrowing for financing its developmental efforts and hence, needs higher assistance to meet its gargantuan developmental needs. It can be seen from the **Table- 5.9 B** that the per capita debt burden of Assam was 2nd lowest amongst all States in the country as on 31.03.07.

Table- 5.9 B
Debt Burden – Inter-State Comparison

	States	Debt as on 31.03.2007 (Rs. in crore)	Population as per 2001 (Rs. in crore)	Per capita Debt (In rupees)
1	Andhra Pradesh	91445	7.62	12000
2	Arunachal Pradesh	1950	0.11	17727
3	**Assam**	**18793**	**2.67**	**7038**
4	Bihar	54897	8.30	6614
5	Chattisgarh	14986	2.08	7205
6	Goa	5886	0.13	45277
7	Gujarat	86138	5.07	16989
8	Haryana	29940	2.11	14189
9	Himachal Pradesh	18373	0.61	30119
10	Jammu & Kashmir	15049	1.01	14900
11	Jharkhand	23087	2.69	8582
12	Karnataka	53909	5.29	10190
13	Kerala	57688	3.18	18140
14	Madhya Pradesh	53545	6.03	8879
15	Maharashtra	154556	9.69	15950
16	Manipur	3264	0.23	14191
17	Meghalaya	2849	0.23	12386
18	Mizoram	3147	0.09	34966
19	Nagaland	2943	0.20	14715
20	Orissa	39388	3.68	10703

21	Punjab	57609	2.44	23610
22	Rajasthan	72652	5.65	12858
23	Sikkim	1553	0.05	31060
24	Tamil Nadu	68655	6.24	11002
25	Tripura	4975	0.32	15546
26	Uttaranchal	15197	0.85	17878
27	Uttar Pradesh	1161358	16.62	69877
28	West Bengal	126226	8.02	15738

Per Capita debt burden of Assam as on 31.03.2007 was Rs. 7038/-, which is the 2nd lowest among all the States in the country, next only to Bihar. Per Capita debt of Assam as per projected population of 2.96 crore in 2008 is Rs. 6806/- as against outstanding debt of Rs. 20145 crore as on 31.03.2008.

5.10 To give relief to the States during the critical period of 2002-03 to 2004-05, and also perhaps to ease its own fiscal deficit position, Government of India introduced a Debt-Swap scheme in 2002-03. Under the scheme Assam Government swapped Rs.576 crore of high cost loans against fresh loans bearing lower rate of interest. As result of this the State Government got net interest payment relief of Rs.97.55 crore, in addition to the relief of deferment of repayment liability at a time when the state was facing a critical wage and means position. The new debts are mainly in the form of SLR Bonds of 10 years maturity and loans from NSSF. The repayment period of the NSSF loans being of longer duration, their repayment liability during the 13th Finance Commission Award period will be within manageable limits. **However, the SLR bonds will have to be redeemed with interest in 2012-13, 2013-14 and 2014-15. Additional impact on our debt servicing liabilities during those three years on account of this will be Rs.246.83 crore, Rs.484.83 crore and Rs.258.31 crore respectively. The Thirteenth Finance Commission is therefore requested to kindly take note of these spikes in our debt servicing liabilities while considering debt relief package.**

5.11 From the discussion above it is clear that the State Government has achieved the FRBM targets with regard to containment of debt and contingent liabilities. However, the imperatives of our development deficits as already mentioned earlier will necessitate substantial investment in social and physical infrastructure in the coming years. The size of the investment backlog is so huge that our meager revenue surplus will be totally inadequate for the purpose. Prudent borrowing for investment will therefore have to be taken recourse to as a matter of necessity. It will however be our resolve to utilize borrowed fund only for the purpose of capital formation and not for consumption purpose as it happened in the past.

5.12 Taking into account all the factors mentioned above, we would like to make the following submissions for consideration and recommendation of the 13th Finance Commission.

a. The benefit of central plan assistance as 90% grant and 10% loan to Assam should be given respectively from the beginning of the 4th Five Year Plan.

b. Although the Twelfth Finance Commission recommended consolidation of all the Central loans under DCRF, Government of India has consolidated only the Ministry of Finance loans. This anomaly needs to be rectified urgently.

c. In view of the serious chronic flood problem of the state outstanding loans for Brahmaputra Flood Control, which comes to Rs.251.32 crore, should be written off.

d. All future central assistance for Brahmaputra Flood Control should be given only as grant

e. Schemes and projects under the Non-lapsable Pool of Resources should be funded as 100% grant from the Pool without any loan burden on the States. In paragraph 1.30 of Chapter-1 we have dealt with this issue in more detail.

f. Enhancement of the share of the States in overall market borrowings from about 20% at present to 33% immediately and than to 50% gradually.

g. The outstanding State Government loans from NSSF should also be brought under the purview of the debt relief package.

h. As regards writing off of existing debt, we would like to suggest that a distinction be made between the profligate states and those states who have brought their debts under control through efficient debt management. The Thirteenth Finance Commission may calibrate its debt relief package for the States accordingly.

i. The Twelve Finance Commission Debt Relief Package was tied up with the conditionality of enactment of FRBM Act and fulfillment of revenue deficit as well as fiscal deficit reduction targets in addition to certain other stipulations under the Act. In the post FRBM situation such stringent fiscal conditionalities may not only be unwarranted, rather they may be detrimental to the real economy and turn out to be serious impediments to economic development. The Thirteenth Finance Commission is therefore requested to keep its debt relief package free from such stringent fiscal conditionalities.

Chapter – 6

Reform Initiatives

Financial Sector Reforms –

6.1 We have already narrated in Chapter-I the reform measures undertaken by the State Government in various spheres of governance and the positive outcomes derived from them. Any reform is essentially a process of removing the inefficiencies from the system and raise it to a higher level of efficiency and performance. By this yardstick Assam today is one of the fastest reforming States in the country, although we have not given much publicity about it. About four to five years back the State was passing through a serious financial crisis. The State Treasuries functioned hardly for three to four days in a month. Details of the crisis and the fiscal reform measures undertaken by the State Government have been given in paragraph 1.4 of Chapter-I. Assam could achieve the revenue deficit reduction targets for the five year period 2000-2005 under the MTFRP formulated under 11th FC recommendations and received its full share of grants-in-aid from the Incentive Fund. As already mentioned Assam is one of the very few states to have achieved both revenue and fiscal surplus well before the FRBM stipulated deadline. We have already received the debt write-off amount for the FY 2005-06. We have qualified for such write-offs for the FYs 2006-07 and 2007-08 also.

6.2 After the Medium Term Fiscal Reform Programme adopted in March 2003 in consultation with Government of India, the State Government went for a comprehensive fiscal restructuring programme titled Assam Governance and Public Resource Management Programme (AGPRMP) with effect from December 2004 with financial support from Asian Development Bank and Government of India. After successful completion of Sub-Programme-I of AGPRMP, Sub-Programme-II has been launched from October, 2008. Hon'ble Chairman and Members of the Thirteenth Finance Commission will be glad to know that both the Government of India and the Asian Development Bank have complimented the State Government for successful implementation of its comprehensive fiscal reform programme.

6.3 In May, 2005 The Assam Fiscal Responsibility and Budget Management Act was enacted. As already mentioned, we have already achieved the FRBM targets with regard to the key fiscal indicators. One unique feature of the Assam FRBM Act is that it has defined certain fiscal offences as penal offences under Section 7 and 8 of the Act. The Act has also provided for the penalty of rigorous imprisonment upto three years in addition to recovery of any financial loss caused to the State exchequer to any one whoever commits or abets any such offence. **These provisions in our FRMB Act are much more stringent than the relevant provisions of the Prevention of Corruption Act.**

6.4 **Pension Reforms:** Government of Assam has decided to initiate pension reforms by introducing contributory pension scheme for the new appointees of the State Government who joined service on or after 1st February 2005.

- Action for implementation of the scheme will be taken on receipt of Government of India's guidelines.

- Creation of Employees and Pension Database have been completed. The process is on to link it with Comprehensive Treasury Management Information System (CTMIS).
- Estimation of Pension liabilities has been completed.

6.5 The Directorate of Pension, Assam is being computerized fully. The computerization of comprehensive pension processing system called Director of Pension Information System (DPIS) has already been started.

6.6 The State Government has adopted and implemented a policy of elimination of year ending negative cash balance.

6.7 Value Added Tax (VAT) has been introduced in the State with effect from 1st May, 2005.

6.8 Composite check gates at Srirampur and Baxirhat (Assam-West Bengal border) and at Digarkhal (Assam-Meghalaya border) have been notified.

6.9 **State Government has taken up the development of the Integrated Government Financial Management Information System (IGFMIS) to computerize the functioning of crucial aspects of financial management of the state including Budget Preparation and operation, Human Resource Management, Asset Management etc**. with financial assistance from ADB. This includes updation of the existing financial rules and manuals, computerization of the offices of all the Drawing & Disbursing Officer, intensive training to the DDOs, Computerising the interface of the Finance Department with the office of Accountant General and Banks etc.

6.10 **Assam Government has also undertaken a programme called Comprehensive Treasury Management Information System (CTMIS) for modernization and upgradation of State Treasuries through introduction of E-Governance.** All the 57 Treasury Offices (25 District Treasuries and 32 Sub-Treasuries) in the State have been computerized and they have been linked with the State Headquarter through a central server. All treasury works are now carried out through this system.

6.11 **The Taxation Information Management System (TIMS) was started in the year 2003 to systematize the process of tax collection and bring in transparency and efficiency in tax administration.** The system has been implemented in all the 77 offices under the Commissioner of Taxes, Assam. The important modules are registration, payment, return submission, assessment, refund, appeal, penalties, revision, recovery, GIS, administration, statutory forms, dealer accounting and back office operations.

6.12 **Finance Department, Government of Assam has created an automated debt database by using the Commonwealth Secretariat- Debt Recording and Management System (CS-DRMS) software in May, 2007, for capturing the entire debt profile of the State Government. Assam was the first State in India to have the CS-DRMS software.** The installation of the CS-DRMS software in the Finance Department was an important capacity building measure designed to enable the Government to maintain its debt record in a sustainable manner over time.

6.13 The Government of Assam has established a Debt Management Unit (DMU) in Finance Department for management of its debts.

6.14 **Steps have been initiated for computerization of Finance Department and the office of the Director of Audit(Local Fund**

6.15 Under the Training component of the ADB funded AGPRMP, officers from the Finance Department, Directorate of Accounts and Treasuries, Treasury officers, Deputy Accounts Officers, Accounts Officers, Audit Officers, Officers from the office of the Commissioner of Taxes, have been sent to reputed training institutions across the country for attending various training programmes. The capacity building programmes of Govt. employees have led to efficiency and effectiveness in Govt. functions.

A one day programme on Public Finance and the Constitutional, Statutory and other regulatory provisions relevant to State finances was also organized for the Hon'ble Ministers and MLAs in collaboration with Assam Legislative Assembly Secretariat and National Institute of Finance Management, Faridabad.

6.16 The Government has initiated steps to train all the DDOs in the State, including creation of training infrastructure for DDO training in the Districts/subdivisions, development of training manuals etc under the ADB loan.

6.17 Procurement manual is in the last stage of finalization. This will guide all future Government procurement by following a uniform and standard policy.

PSU Reforms –

6.18 One major area of concern has been the chronically sick and perennially loss making public sector undertakings, who have proved to be a drag on the limited resources of the state as there has hardly been any return on investment in PSU's or recovery of interest on loans and advances thereto. The state had to take over their outstanding liabilities with various financial institutions and has been forced to provide budgetary support to them to ensure their existence. State undertakings in the Power and Transport sector have also been no exception to this. **Table- 6.18** gives a picture of the position of Return on investment in State Government undertaking (Statutory corporations, Government owned companies, Joint stock companies and cooperatives).

Table- 6.18
Return on Investment

Year	Investment at the end of the year (Rs. in crore)	Return (Rs. in crore)	Percentage
2002-03	570.35	5.93	1.04
2003-04	587.89	6.88	1.17
2004-05	1952.91	9.29	0.48
2005-06	1969.95	15.47	0.78
2006-07	1984.46	18.54	0.93
2007-08	1989.32	24.00	1.21

It is obvious that average return on the investments in last six years has been less than 1%.

6.19 Position of average interest received on loans advanced by the state government is shown in the **Table- 6.19** below.

Table- 6.19
Average Interest Received on Loans

(Rs. in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	2832	2935	3022	2607	2675.22	2721.29
Amount advanced during the year	131	128	974	106	80.63	142.89
Amount repaid during the year	28	41	1389	38	34.57	40.00
Closing Balance	2935	3022	2607	2675	2721.29	2823.85
Net Addition	103	87	-	68	46.07	103
Interest Received	1	4	7	6	0.77	0.77
Interest Received as % paid on borrowings by State Govt.	0.03	0.13	0.27	0.23	- 0.95	- 0.54
Weighted Interest Rate paid on borrowing by State Govt.	9.82	9.97	8.47	8.18	12.53	12.53
Difference between weighted interest rate paid and received	9.79	9.84	8.20	7.95	7.37	7.69

6.20 The State Government has taken a number of reform measures to close down the sick and non-viable PSUs and strengthen the remaining ones by capital infusion, VRS and internal organizational reforms.

There are 47 (forty-seven) State Public Sector Enterprises under the administrative control of 22 Departments of the State Government.

The State Government has since closed down 14 unviable Public Enterprises under the ADB funded AGPRM-SDP and has taken over closure liabilities amounting to Rs.478.71 crore, out of which Rs.336.53 crore has already been paid to clear employees' dues and other minor liabilities. The balance non- VRS liabilities will be released by State Government after completion of the process of legal closure.

Power Sector Reforms

6.21 **Assumptions of liabilities of ASEB:**

As a part of Power Sector Reforms, Government has taken a number of steps to improve the financial position of ASEB, which are as follows:

a. **Scheme of securitization:** Government securitised the outstanding dues of power supplying CPSUs, namely, NEEPCO, NTPC and PGCIL under the Government of India's Securitization Scheme. Under this scheme the State Government took over total liabilities of Rs.1568.21 crore, which includes power bond principal amount of Rs.857.53 crore and interest liability of

Rs.710.68 crore. Out of Rs.1568.21 crore, the State Government has already paid Rs.646.26 crore till date.

b. **Settlement of dues of OIL and GAIL:** State Government has taken over outstanding dues of ASEB to OIL and GAIL amounting to Rs.265.22 crore, out of which the State Government has already paid Rs.150.14 crore through One Time Settlement.

c. **Financial Restructuring Plan (FRP) of ASEB:** Under the FRP of ASEB, the State Government has also taken over total liabilities of ASEB to different CPSUs and non-CPSUs including cash deficit support amounting to Rs.1784.04 crore, out of which State Government has already cleared Rs.1233.82 crore.

6.22 **ADB Loan:**

Government has availed ADB loan assistance of US $ 250 million (Loan No.2036 IND: Assam Power Sector Development Programme of US $ 150 million and Loan No.2037 IND: Assam Power Sector Development Project of US $ 100 million) for Power Sector Reforms.

6.23 **Reduction of T & D Losses**

Measures taken to reduce the T & D losses and anti theft measures are as follows:

a) All defective and aging meters are being replaced by high quality electronic meters.

b) In order to bring down the LT / HT ratio new distribution transformers have been installed at load centres.

c) In addition to the billing at consumer premises another meter has been installed outside the consumer premises as a check meter to cross verify the consumption. This arrangement has been made for high value consumers only.

d) Routine analysis of downloaded computerized meter reading instrument data of Industrial Revenue Collection Area consumers is being made to check tampering of meters.

e) In order to mitigate the Aggregate Transmission and Commercial (AT & C) losses in rural areas some Distribution Transformers have been handed over to Franchisees for billing and collection of revenue.

f) Computerized billing system has been introduced in most of the sub divisions to reduce commercial losses.

g) The procedure for new service connection has been simplified to convert the unauthorised consumer into regular consumer.

h) Feeder-wise energy audit has been started by metering all the feeders at injection point. Arrangements have been made to meter all Distribution Transformers.

i) Energy Audit has been started to ascertain the high loss areas under the feeder.

Transport Sector Reforms-

6.24 Assam State Transport Corporation (ASTC) has taken following measures to improve its financial position during the years 2000-01 to 2008-09:

(i) Complete ban on appointment in the ASTC since 1998.

(ii) Improvement of stations, yard and maintenance centres and computerization of ticketing system.

(iii) Increase of its fleet position by repairing its long shutdown vehicles and down-scaling the establishment expenditure by downsizing its staff strength to 1809 through VRS.

(iv) Agreement has been entered into with Numaligarh Refinery Ltd. for opening of 5 (five) Nos. of Retail Outlet at Nagaon, Jorhat, Silchar, Bongaigaon and Mirza.

(v). Modern Inter-State Bus and Truck Terminuses at Guwahati and Silchar have been operationalised

(vi) Construction of a Yatri Niwas at Paltan Bazar, Guwahati is on and is expected to be completed within the financial year 2008-09. This is expected to give revenue earning of over Rs.7 lakhs per month.

(vii) Construction of Inter-State Bus Terminus at Jorhat under NEC fund has been started and on its completion additional revenue will be generated from it.

(viii) Construction of Bus Terminus at Dibrugarh and Sivsagar will be undertaken within this financial year 2008-09.

(ix) Steps have been taken to appoint internet agents for online booking of ASTC tickets.

(x) ASTC has also started utilization of its premises for commercial purposes viz., for advertisement, commercial market complex etc. for generating additional revenues. The stalls let-out to the unemployed youths is generating Rs.5 lakhs per month.

(xi) ASTC has also introduced self-employment scheme from 2001 by which the Corporation has been able to earn an income of over Rs.120 lakh per month.

Reform initiatives in other State Government Departments

6.25 **Health & Family Welfare**

(i) State Government has i**ntroduced a system of levying user charges in all the Medical College Hospitals and the Community Health Centres (CHCS).** Hospital Management Societies have also been formed to administer the fund and utilize them for running day to day affairs of the hospitals.

(ii) Diet money rates for patients in all State Government Hospitals has been raised from Rs.10/- to Rs.25/- per day.

(iii) Mobile Medical Units (MMUs) have been sanctioned for all the 27 districts, of which ten have already become functional.

(iv) **To cover the riverine islands (Char areas), Boat Clinics have been introduced in 5 districts namely Tinsukia, Dibrugarh, Dhemaji, Morigaon and Dhubri on PPP mode**.

(v) Around 30,000 Accredited Social Health Activists (ASHAs) have been deployed across the State for promoting mother and child care & health.

(vi) An integrated drug procurement system has been operationalized replacing the earlier system of procurement through a Central Purchase Board. The new system has facilitated cost reduction ranging from 50% to 40%.

(vii) **Evening OPDs have been started in all district hospitals, sub-divisional hospitals and Community Health Centres (CHCs) for daily wage earners.**

(viii) Village Health and Sanitation Committees (VHSCs) have been constituted in all the 28000 villages in Assam to ensure awareness regarding health care and sanitation.

(ix) In order to make sure that doctors work in rural areas, the department has introduced a system of giving incentives for rural services.

(x) To ensure the success of evening OPDs, incentives are being given to doctors, both Government as well as private.

(xi) Business Process Re-engineering is being introduced in collaboration with the NISG, Hyderabad.

(xii) The Government has introduced Emergency Response Services to take care of persons who are in need of emergency care and support arising ouT of medical, police or fire situations. This new Service is named as "Mritunjoy" and has been started in collaboration with Emergency Management and Research Institute (EMRI), Secunderabad. This scheme was formally launched by Hon'ble Chief Minister on 6th November 2008. The Scheme will cover all the 27 districts of the State. 280 ambulances will be launched across the State. The ambulances are located in a manner so as to reach the caller within 20 minutes in urban areas and about 30 minutes in rural areas. The scheme is now operational in Kamrup and Jorhat districts and by 31st March, 2009 the entire State will be covered.

(xiii) At present the State has three medical colleges in Guwahati, Dibrugarh and Silchar. Three new medical colleges are being set up in Tezpur, Jorhat and Barpeta.

6.26 Food, Civil Supplies and Consumer Affairs

(i) Four-tier Vigilance and Monitoring Committees have been constituted to check and monitor performances of the service providers.

(ii) The process of obtaining utilization certificate of goods issued to the beneficiaries has been introduced. The process has made the implementing agencies and concerned officers responsible and accountable for proper implementation of the scheme.

(iii) A rigorous performance monitoring mechanism with clearly defined performance indicators has been put in place.

(iv) District/Sub-Divisional level stock and price monitoring Committees have been constituted to monitor and review stock and price of essential commodities in open market. This has been able to prevent unfair trade practices to a great extent.

6.27 Elementary Education Department

(i) Community ownership of elementary schools operationalized through formation of School Managing Committees and Mother Groups has been introduced.
(ii) Financial support for Infrastructure maintenance to these schools has been ensured with Annual School and Maintenance Grants of Rs.2000 and Rs.5000 respectively to each of the schools.
(iii) Annual Teachers' Grant of Rs.500 to each of the teachers has been given to ensure adequate availability of teaching-learning materials. Free textbooks have been given to all the students.
(iv) A huge network of Education Guarantee Centres, Alternative Schooling Centres and Centres for Hard-To-Reach Children have been established..
(v) MIS known as District Information System on Education (DISE) has been operationalized.
(vi) Child-friendly teaching-learning materials and activity books developed to improve the quality of early childhood education.
(vii) Scheme of giving bicycles to girl students of class VIII onwards launched in the year 2007-08.

6.28 Secondary & Higher Education

(i) Adoption of "Assam Non-Government Educational Institutions (Regulation and Management) Act, 2006"

(ii) Adoption of "Assam Non-Government Educational Institutions (Regulation and Management) Rules, 2007"

(iii) 46 Junior Colleges, 550 Higher Secondary Schools, 1705 High Schools and 127 Madrassas/High Madrassas have been covered by Construction of School Buildings under Buniyad Scheme.

(iv) A scheme of Distribution of Computers to all the students having secured 1st division in the HSLC examination has been introduced.

(v) A scheme has been taken up to convert one existing school per Block into Model Schools.

(vi) **State government passed the Private University Act, 2005 for establishment of Private Universities in the state.**
(vii) Steps have been initiated for enhancement of College/University fee.
(viii) Deficit grants-in-aid colleges have been provincialized.

6.29 Jail -

(i) Assam at present has 27 Jails. There are full time teachers in 9 jails for imparting education to the illiterate convicts and Under Trial Prisoners (UTPs), while in other jails educated inmates are entrusted to impart literacy and primary education to the illiterate and less educated inmates. One special Study Centre of IGNOU has been opened in the Central Jail, Guwahati for providing distance education to the intending inmates. Training in Computer

Applications, Food & Nutrition Drawing & painting etc. are being conducted from time to time.

(ii) A Study Centre of the Krishna Kanta Handique State Open University (KKHSOU) has been started in the Central Jail, Guwahati with a view to imparting meaningful education to the inmates.

(iii) State Government has started two new schemes under the Eleventh Five Year Plan, viz., (a) Rehabilitation Grant to Released Prisoners and (b) Financial Assistance to Prisoners' Families.

6.30 **Police –**

Government of Assam has introduced The Assam Police Act, 2007 with effect from 18th September 2007 with a view to making the Police Force professionally organized, service oriented and accountable to the law.

6.31 **P. W. Department**

i. State Government has taken up Assam PWD Computerization Project (APCP), the achievements of which are as follows:-

(a) **The department-wise application software (ERP) for computer based processes has been successfully operationlized** and it caters to all the projects including NH, DONER, PMGSY, Building Projects and the externally aided projects.

(b) Live operation commenced from 24th April, 2006 and it is presently accessible online from the 12 piloted field office campuses including the PWD Secretariat.

(c) A state-of-the-art Data Centre (Named Assam PWD Centre of Excellence) housing the central database for the department was inaugurated on 24th January, 2006.

(d) 3400 + mandays of computer training has been imparted

(e) **APWD is among the pioneering departments to have adopted e-tendering system.**

ii. Assam State Road Board formed in 2003.

iii. Enhancement of PWD – Roads and Bridges maintenance budget from Rs.23.01 crore in 2002-03 to Rs.158.04 crore in 2007-08.

We hope that the 13th Finance Commission will appreciate our reform initiatives and support the State Government to carry forward the reform process to its logical conclusion.

Chapter- 7

Sharing of Central Tax Revenue

The Divisible Pool –

7.1 After the Constitution (Eightieth Amendment) Act, 2000, all taxes and duties referred to in the Union List, except the taxes and duties referred to in Articles 268 and 269, surcharge on taxes and duties referred to in Article 271 and any cess levied for specific purposes under any law made by Parliament, have become distributable between the Union and the States. Although the Tenth Finance Commission recommended that the "gross proceeds" be shared between Union and States, the Eightieth Amendment restricted the divisible pool to only the net proceeds. The terms of reference of the 13th Finance Commission have also restricted the divisible pool to the net proceeds of the Central taxes. As already mentioned, the vertical imbalance between the Union and the States in their respective spheres of responsibilities and availability of resources demand that **the "gross proceeds", and not the "net proceeds", should be made distributable between the Union and the States by an amendment of the Constitution.**

Service Tax –

7.2 The Service sector accounted for 55% of country's GDP in 2007-08. Its relative share in the GDP is poised to grow even further in the coming years. Services constitute a very heterogeneous, but wide spectrum of economic activities such as telecom, banking, insurance, consultancy, advertising, hospitality, entertainment, courier, stock broker, real estate agent, C&F agent etc. The Service Tax collections have grown exponentially from about Rs.407 crore in 1994-95 to about Rs.50200 crore in 2007-08. Number of services brought within the ambit of Service taxes has also increased from only 3 in 1994-95 to 100 in 2007-08. In 2007-08 Central Budget, certain services were specified as taxable services, scope of some of the specified taxable services was changed, threshold limit of small service providers was increased and certain exemptions were announced. Recently through a Constitutional amendment the Centre has acquired for itself the entire power of levying Service taxes. **Our considered view is that the States should be given concurrent powers to tax all services. This should be incorporated in the legislative framework of the proposed Goods and Services tax which is scheduled to be introduced from April 1, 2010.**

Cess and Surcharge –

7.3 As regards Cess and surcharges, the Union Government perhaps resorts to them too frequently and for prolonged periods. They yield substantial amount of revenue for the Centre. But they are not shareable with the States. An important point to note here is that whether it is normal taxes or Cess and surcharge, they all come from the same tax base. We are of the opinion that the Union Government should levy any Cess or surcharge only under exceptional circumstances for specific purposes and for a limited period. **Any Cess or surcharge, which is continued beyond one year, should be included in the divisible pool and made shareable with the States**.

Aggregate share of State in Central Taxes –

7.4 All the States have been representing before the successive Finance Commissions for increasing the aggregate share of the States in the pool of Central taxes. The aggregate percentage share of the States in the central pool of taxes as suggested by different States has ranged from 33% to 50%. However, the Standing Committee of Inter-State Council resolved that the aggregate share of the States in the divisible pool of Central taxes be raised to 33.3% to begin with and gradually to 50%. The Tenth Finance Commission under its alternative devolution scheme recommended 29%. The Eleventh Finance Commission and Twelfth Finance Commission had raised it only marginally to 29.5% and 30.5% respectively. We strongly urge the Thirteenth Finance Commission **to raise the aggregate share of the States to 50% of the "gross proceeds" of the Central taxes, which are shareable with the States, as against the "net proceeds", which is the practice now.**

Minimum guaranteed devolution –

7.5 To restore predictability in devolution of share of Central taxes to the States and to provide necessary stability in fiscal management of the States, we suggest that **the Thirteenth Finance Commission should fix a minimum guaranteed devolution of Central taxes from the Centre to the States.** We suggest that the year-by-year devolution to the States as forecast by the Finance Commission on the basis of its forecast of collection of Central taxes should be taken as the minimum guarantee. This will ensure that the Centre does not fail in collecting its tax revenues as projected by the Finance Commission and that in case of any shortfall in Central tax collection, the Centre will bear the shortfall without passing it on to the States on a pro rata basis.

We would like to reiterate that improvement in Centre's tax collection needs immediate attention. Various studies have shown that annually more than Rs.1 lakh crore of black money is generated due to evasion of Central taxes alone. Unearthing such black money and prevention of evasion of Central taxes will be beneficial to both the Center and the States.

Horizontal Distribution – States' inter-se share

7.6 While determining the amount of horizontal devolution, Finance Commission should take into account not only the five-year period during which its recommendations will be applicable, but also a perspective period during which it envisions the various States to reach a reasonable degree of horizontal equality which will put them on a level playing field. As has been mentioned in Chapter – 2, States like Assam will have to grow at a rate much higher than the rest of the country over the next 15 to 20 years if they are to raise their per capita income to the all India level by 2020. While determining the inter se shares of various States, the Finance Commission must take a perspective view and give a certain percentage to the poorer States as an additionality to bridge their backlog and catch up with the rest of the country.

Coming to the horizontal distribution of the Central taxes among the States we would like to emphasize that Assam's inter se share in the aggregate amount of Central taxes devolved to the States has declined with successive Finance Commission. For example, its share in Central taxes has declined from 3.423% as recommended by the Tenth Finance Commission to 3.285% under the Eleventh Finance Commission and 3.235% under Twelfth Finance Commission. We understand that horizontal equity, higher cost of providing services and fiscal efficiency are the three basic principles that underlie the determination of inter se shares of States in tax devolution. Through the mechanism of revenue sharing the resource deficiency across States arising out of systemic and identifiable factors are ironed out. This consideration underlines the principle of horizontal equity. Successive Finance Commissions have used normative yardsticks based on quantifiable criteria and relative weights to determine the inter se shares of the different States. For example, the criteria and weights used by the last three Finance Commissions are given in **Table – 7.7** below.

Special Category States –

7.7 The States of the country have been divided into two categories – general and Special Category States. Inherent problems associated with geographical location, climatic condition, difficult terrains and unique ethnic and political problems coming down the decades signify most of the special category States. The conditions mentioned above are beyond their control. These factors have severely impaired their economic development. The Planning Commission earmarks about 30% of Central plan assistance for the special category States. We have the following two suggestions to make in this regard:-

(a) With the inclusion of Uttarakhand, the number of special category States has gone up from 10 to 11. Some more States may be brought under the special category in the near future. Earmarking of Central Plan Assistance for the Special Category States, which was 30% when their number was 10, should be raised proportionately as and when the number of special category States goes up.

(b) For the same reasons as accepted by the Planning Commission the Finance Commission should also earmark 33%, or more depending upon the number of special category States, of the aggregate share of the State in Central taxes for the special category States. **As already mentioned the Joint Presentation submitted by the States before the Thirteenth Finance Commission in New Delhi on September 16, 2008, there was consensus among the States that in the interest of regional balance, a prioritized attention should be given to the problems of Northeastern States and Special Category States, including additional share of Central taxes for distribution among them.**

We request the Thirteenth Finance Commission to give due consideration to the Special problems of the Northeastern and other Special Category States and recommend Special Financial packages for them as requested by all the States through the Joint Memorandum.

Table – 7.7

Weights used by Finance Commission

	Popula-tion	Distance Income	Area	Index Of Infra-structure	Tax effort	Fiscal Disci-pline	Total
10th FC	20	60	5	5	10	-	100
11th FC	10	62.5	7.5	7.5	5	7.5	100
12th FC	25	50	10	-	7.5	7.5	100

We are of the view that area as a criterion for horizontal distribution may be dropped. The common argument in support of area is that bigger the area of a State, more are the costs of delivering public services. But such costs depend also on the nature of the terrain. For example, a State like Assam is a medium size State in terms of area. But the large number of rivers, streams, marshy low-land, flood- prone areas, hills and forests have caused the State to suffer from serious cost disability. Quantifying and factoring these aspects into the index of area will be a difficult proposition. On the other hand with the exclusion of these factors the area weightage will become unrealistic. Hence we are of the opinion that the area criterion should be dropped.
Similarly, population in terms of number alone, as one of the criteria for horizontal distribution may not be very realistic. The quality of population also matter. A large population with a high level of human development is an asset rather than a handicap. On the contrary, a relatively small population with a low HDI is an expensive handicap. So population also may be dropped as one of the criteria. At best, a combined index of population and HDI may be taken and given a weightage of 5%.

As regards income as a criterion, Eighth and the Ninth Finance Commissions used two methods – (a) Distance method and (b) Inverse-of-income method. Due to the inherent convexity in the Inverse - income method, the middle income States have to bear a relatively bigger burden of this adjustment as compared to the high income States. Apparently because of this the Tenth and Eleventh Finance Commissions did not use this method. They used only the Distance formula. In view of the above, we do not insist on the Inverse-of-income formula, although this appears to be somewhat more advantageous to us. The Thirteenth Finance Commission may adopt the Distance formula and assign it a weightage of 70 percent.

The norms for distributing the Central taxes among the States are based on measurable objective criteria. In our opinion the following five criteria with relative weightage shown against each should be sufficient and reasonable for the purpose:-

Income (distance method)	:	70%
Population and HDI (combined index)	:	5%
Index of infrastructure	:	10%,
Tax efforts	:	5%
Reforms & Fiscal discipline	:	10%
Total	**:**	**100%.**

To conclude, we would like to reiterate our request for additional share of Central taxes for the Special Category States, which was also suggested in the Joint Presentation of the States to The Finance Commission on 16th September 2008.

Chapter – 8

Grants-in-aid

8.1 The principles for giving grants in aid of revenue of the states have evolved over the last 50 years through the recommendations of the successive Finance Commissions. The accepted view now is that grants-in-aid are to be given to the States that are left with deficits on their non-plan revenue account even after devolution of their shares of the Central taxes. The 12th Finance Commission recommended Equalization. Grants-in-aid for the Health and Education sectors in favour of a few States whose per capita expenditure on these two sectors fell short of a normative level. Grants in aid are also made for maintenance of roads, bridges, public buildings, forests, up-gradation of standards of administration of the States and for addressing special problems peculiar to particular States.

Under estimation of deficit by Finance Commissions –

8.2 Earlier in **Chapter-3** we have discussed in detail the gross unrealism in the assessment of our pre and post-devolution revenue deficits by the previous Finance Commissions, particularly the 11th Finance Commission. After wiping out the post-devolution non-plan deficits of the deficit States by Grant-in-aid, there should not be any negative balance from Current Revenue. But the empirical evidence is that against the zero deficit BCRs presumed by the Finance Commissions there were yawning gaps in our non-plan revenue account even after this. The actual position that emerged has been illustrated in **Table-3.10 (Chapter-3).** This position is confirmed also by the negative BCRs assessed by the Planning Commission for our successive annual plan resources, which is shown in **Table-8.2** below;

Table – 8.2

Negative BCR's for Plan Resources: Assam

(Assessed by the Planning Commission)

(Rs. in Crore)

Year	BCR
1997-1998	- 19.08
1998-1999	- 345.32
1999-2000	- 1358.42
2000-2001	- 1269.06
2001-2002	- 1310.55
2002-2003	- 1094.83
2003-2004	- 1557.47
2004-2005	- 1383.19
2005-2006	+ 289.17
2006-2007	+ 156.26

The year-by-year negative BCRs estimated by the Planning Commission shown in the above Table are closer to the reality than the Finance Commission estimates. However because the grants-in-aid recommended by Finance Commissions are in fixed quantum, they do not have the flexibility to bridge the negative BCRs that have been emerging year after year. Up to 1988-89 the negative BCRs of the Special Category States were wiped off by special additional Central assistance from Government of India on recommendation of Planning Commission. But on recommendation of the Ninth Finance Commission this practice was discontinued from 1989-90 on the assumption that the Finance Commission award will fully balance the non-plan revenue accounts. But as the **Table- 8.1** above shows, the 9th Finance Commission assumption has been proved wrong most of the time. Normally the negative BCRs have been taking away a substantial part of the state's plan resources. **We therefore, request the Thirteenth Finance Commission to recommend restoration of the practice prevalent prior to 1989-90 for meeting negative BCRs of the special category States by special additional central assistance.** In paragraph 1.32 of Chapter-I, we have already requested for a Development Deficit Grant to Assam, the amount of which should be equal to the negative BCR of the State as estimated by the Planning Commission.

Plan Revenue Expenditure –

8.3 Grants-in-aid recommended by successive Finance Commissions do not cover the plan revenue account. Some states are understood to have suggested inclusion of the plan revenue account also for determination of grants-in-aid. It is a fact that plan revenue expenditure has increased considerably over the years and now it constitutes a sizeable proportion of the plan outlay. The successive plans have generated three major revenue liabilities for the States beyond the plan periods. They are interest liability for plan borrowings, cost of maintenance of assets created under plan and salary liabilities on account of those employees who were recruited under plan schemes but continue in Government service after the plan period. **It will be a welcome relief to the States if plan revenue expenditure is also taken into consideration while assessing the revenue expenditure of the States**. This is so because revenue expenditure, whether plan or non-plan, are by and large similar in nature and some plan revenue expenditure which should have been transferred to the non-plan account, continue to remain on the plan side for quite some time. We request the Twelfth Finance commission to consider our suggestion to take into account plan revenue expenditure also while making its recommendation for devolution of Central taxes and grants-in-aid. **But inclusion of the overall plan revenue account, including the plan revenue receipts, particularly so far as the Special Category states are concerned must not be contemplated**. This is because 90% of their Central Plan assistance from the Centre come as grants which are categorized as revenue receipts for accounting purpose. But actually these are grants for investment purpose. Therefore, taking into account the overall revenue deficits of the Special Category States will adversely affect their finances. We therefore, request the Thirteenth Finance Commission to take into account both plan and non-plan revenue expenditure vis-à-vis the non-plan revenue receipts of the Special Category States while assessing their need for grant-in-aid.

Equalization Grant –

8.4 So far as the equalization role of fiscal transfers are concerned we agree with the note of observations by Dr. Amaresh Bagchi, Member, Eleventh Finance Commission as recorded in its report. The two basic objectives of fiscal transfers in a federation are – (i) to bridge the vertical gap that is common in federations, and (ii) to redress the horizontal imbalances among the federating units. The principal instruments used for this purpose are sharing of Central taxes and grant-in-aid. As far as possible, the design of fiscal transfers should be such as can serve the objectives of closing the vertical gap and reducing, if not removing, the horizontal disparities simultaneously, so that all States can provide basic public services to their people at reasonably comparable levels. Equalization in a federation is done primarily by equalizing the revenue capacity of the States. For this purpose the revenue that can be generated by a State and the non-plan revenue expenditure that is likely to be incurred by it are assessed normatively. However, such normatively assessed non-plan revenue receipts and expenditure levels do not capture the real picture. For a host of reasons it is not possible to apply the normative principles fully. Moreover, the starting point for the normative exercises remains largely the actual of the past – which vary widely across the States. Further, States like Assam suffer from serious cost disabilities in providing public services to their people for a number of reasons beyond their control. **Tax devolution now is based on a formula, which the successive Finance Commissions have attempted to make more and more progressive. But there is a point beyond which progressivity cannot be pushed through tax devolution**. Since all States are entitled to a share in Centre's taxes – which is necessitated by vertical imbalances – States with relatively strong revenue bases are able to generate handsome surpluses in their non-plan revenue budget. **The burden of revenue capacity equalization thus falls heavily on the grant-in-aid. Herein lies the importance of grant-in-aid.**

8.5 Over the years devolution of Central taxes as a percentage of the statutory transfers from Centre to the States has stabilized around 90%. This leaves only about 10% for devolution by way of grant-in-aid. **What is required is that the needs of the States should be determined on the basis of average per capita revenue expenditure, adjusted for appropriate cost disabilities or advantages of different States, multiplied by their population**. This is so because per capita revenue expenditure is perhaps the best available indicator of the level of public services provided by a State. The gap between the requirements of revenue to meet the needs so determined and what the States could be expected to raise as revenue by making optimum effort, should be provided as grant. Unfortunately, the transfers schemes based on normative principles adopted by the previous Finance Commissions have fallen short of such equalization. Although grants are also given for up-gradation of general administration and redress special problems of individual States, these are only marginal and do not go far to reduce the disparities in revenue capacity of the State to the extent necessary to enable them to provide public services at an equal or reasonably comparable level. **This calls for adequate Equalization Grants to the deserving States to equalize the revenue capacities across the States. Because of 12th Finance Commission Equalization Grants, Assam has been able to increase substantially its revenue expenditure on Health and Education. If these grants are not continued during the Thirteenth Finance Commission award period also, then the State will slip back to the position of poor service delivery in these two vital sectors.**

Post Devolution Non Plan Revenue Deficit Grant

8.6 The most glaring injustice done to Assam by the previous Finance Commissions was with regard to **Post Devolution Non-Plan Revenue Deficit Grant.** The following

Table (Table-8.6) clearly shows that Assam's share was very meager as compared to even some of the advanced states.

Table – 8.6

Post Devolution Non-Plan Revenue Deficit Grant to States

(Rs. In crore)

STATE	11TH FC GRANT	12TH FC GRANT
Arunachla Pradesh	1228.02	1357.88
Assam	110.68	305.67
Himachal Pradesh	4549.26	10202.38
Jammu & Kashmir	11211.19	12353.46
Kerala	-	470.37
Manipur	1744.94	4391.98
Meghalaya	1572.38	1796.86
Mizoram	1676.30	2977.79
Nagaland	3536.24	5536.50
Orissa	673.60	488.04
Punjab	284.21	3132.67
Sikkim	1244.68	188.67
Tripura	840.58	5494.20
Uttar Pradesh	2414.16	-
Uttaranchal	-	5114.68
West Bengal	3246.09	3044.72

The rationale behind the calculation of the post devolution non-plan revenue deficit grants to individual states by the previous two Finance Commissions are not clear to us. However, we suspects that in case of Assam the revenue assessments were unrealistically high and the expenditure assessments were built upon low base year figures. We have already explained in Chapter-4 the constraints and rigidities in revenue capacity of the State. Yet the previous Finance Commissions wanted the state to raise its Tax – GSDP ratio to unrealistically high level and made the revenue assessments accordingly. Similarly, because of acute financial crisis that the state was passing through at the time of the last two Finance Commissions, our actual non-plan revenue expenditure in the relevant base years were abnormally low. Unfortunately, the previous two Finance Commissions made our expenditure assessments on the basis of such low base year figures which were the outcome of unavoidable expenditure compression under compelling circumstances.

We request the Thirteenth Finance Commission to make realistic assessments of our revenue capacity and actual expenditure requirements so that the state does not have to feel discriminated against once again when it comes to non-plan revenue deficit grant.

8.7 In view of the above we would like to propose the following principles for consideration of the Thirteenth Finance Commission:

(a) The relative share of grant-in-aid in statutory transfers from the Centre to the States should be raised from the present level of 10% to 20%.

(b) Instead of giving grant-in-aid to the deficit States only for filling the gaps in their post-devolution non-plan revenue accounts, **there should be**

comprehensive Equalization Gant to equalize the revenue capacities across the States as suggested above. Such Equalization Grants introduced by the 12th Finance Commission in Health and Education sectors for a few deficient States should continue for the 13th Finance Commission Award period also. Otherwise the equalization process initiated by the 12th Finance Commission will come to a premature halt putting the concerned states at a very difficult position, besides lowering the standards and quality of health and educational services provided to the common man in those states. In this connection we would like to request that **the Equalization Grants should not come with convoluted and mechanical conditionalities. Because of such conditionalities most of the beneficiary States have not been able to fully avail the grants during the 12th Finance Commission Award period. If at all the 13th Finance Commission puts any conditionalities for release of the Equalization Grants, they should be minimal, simple and straight.**

Grant to implement Shukla Commission recommendations –

8.8 In **Chapter- 2** we have discussed in detail the recommendations of the Shukla Commission. The Commission was set up by the Government of India at the initiative of the then Hon'ble Prime Minister of India. The Commission recommended an amount of Rs.22,758.80 crore at 1997-98 prices for Assam to bridge its gap in infrastructure and basic minimum services. At current price it will be equivalent to at least two and half times that amount. Since adequate funds from no other sources are visible and the recommendations of the Commission remain largely unimplemented, we earnestly request the Thirteenth Finance Commission to make appropriate grants so that the said recommendations can be implemented within a reasonable time frame, say the next 10 years.

Grant to neutralize cost of Economic Reform –

8.9 We have already mentioned about the slippage in the per capita income of Assam as compared to the all India average. The per capita income of Assam in 2006-07 was only 68% of the per capita income for the country as a whole. We have observed that an unintended consequence of the Reform Process initiated in the early 1990's is growing regional imbalance in the country. Earlier in **Chapter- 2** we have discussed in detail how the reforms process has not only bypassed, but have also adversely affected land-locked peripheral States like Assam. On the other hand States with advanced infrastructure and more convenient locations, particularly the coastal States have benefited immensely from the process of economic reforms. **There is no doubt that the problem of regional disparity in the country has been accentuated by the reforms process to such an extent that it cannot be neutralized by the revenue equalizing capacity of normal devolutions any more. We strongly request the Thirteenth Finance Commission to recommend a special compensatory grant-in-aid to Assam and other similarly affected States. This Special grant should be commensurate to the economic cost of the reforms, which these States have suffered.**

Special Grant for strengthening and modernization of Assam Police Force –

8.10 We have already detailed in paragraph 1.34 of Chapter-1 the extremely difficult circumstances, caused mainly by decades old insurgency and terrorism, under which the Assam Police force has been working. The present strength of the State police force in terms of men, materials and infrastructure is grossly inadequate in comparison to the challenges it is facing. Funds available under Modernization of Police Scheme is quite inadequate to meet the actual requirement. **We have therefore submitted a separate supplementary memorandum giving necessary details for strengthening and modernization of Assam Police over a five year period. Total requirement of fund for the purpose is Rs.8816 crore. We would request the Thirteenth Finance Commission to recommend this amount as a Special Grant.**

Grant to neutralize economic damages cause by insurgency –

8.11 In Chapter-1, paragraph 1.35, we have discussed in detail the economic costs of the three decades old insurgency in the State. Despite a rich natural resource base including oil and natural gas, Assam's economic growth story has not been as impressive as it could have been sans insurgency and terrorist activities. We have also mentioned that insurgency and terrorism in the State has international dimensions. **What Assam is fighting for today is not only maintenance of law and order and public peace in the State, but also national security and integrity.** For this the State is paying dearly not only in terms of loss of life and property, but also in terms of loss of investment, production and an environment congenial for promotion of economic growth and development. **We therefore request for Rs.25,000 crore over the next five years for neutralization of the economic damages caused by insurgency in the State.**

Promotion of Tourism –

8.12 Assam is very rich in its tourism potential. Out of five World Natural Heritage Sites in the country, two are located in Assam. They are Manas and Kaziranga National Parks. There are three more national parks in the State. The Brahmaputra is considered to be one of the top eight rivers in the world in terms of river cruise potential. With its wide range of flora and fauna it is a bio-diversity hot spot. The State Government have taken a number of steps to promote Assam as a Nature and Eco-tourism destination in the world. Religious and cultural tourism also have great potential. However, due to poor infrastructure the State has not so far been able to realize its full tourism potential. Recently, on 26th August, 2008 Hon'ble Prime Minister of India announced preparation of a blue print for integrated development of tourism for the North East with Guwahati as the hub. Meanwhile the State Government have also formulated an ambitious Tourism Policy for the State with emphasis on PPP. With a view to promoting investment in the tourism sector, an attractive Package of Incentives has been incorporated in the State Tourism Policy. Some of the important incentives are – (a) Reimbursement of VAT up to 25% of tax paid during a financial year subject to a ceiling of Rs.10 lakh, (b) Reimbursement of Luxury Tax for new hotels upto 25% of tax paid subject to a ceiling of Rs.10 lakh, (c) State Capital Investment Subsidy @ 30% of investment made subject of a ceiling of Rs.10 lakh, (d) 25% Subsidy on drawal of power line subject to a ceiling of Rs.5 lakh, and (e) 50% subsidy on construction and improvement of approach roads to hotels and resorts subject to a ceiling of Rs.5 lakh. The new policy will be effective from 1st January, 2009. **We request the Thirteenth Finance Commission for a grant of Rs.250 crore for improvement of tourism infrastructure in the State and for successful implementation of State Tourism Policy.**

Grants for up-gradation, modernization and Special Problems –

8.13 Grants for up-gradation of the standard of administration and for addressing special problems of individual States have not been included as one of the terms of reference for the Thirteenth Finance Commission. But previous Finance Commissions made such recommendations, although their impacts were of marginal nature. We feel that the need for such grants still exists. While the revenue deficit grant or equalization grant are of revenue nature which address the problem of disparity in revenue capacity among the States, up-gradation and special problem grants are essentially meant for capital investment in the respective spheres. We have detailed our deficiencies in standards of administration and special problems peculiar to Assam in **Chapter- 13.** We request the Thirteenth Finance Commission to consider our submissions on merit and make suitable recommendations.

Calamity Relief

8.14 We would also like to request the Thirteenth Finance Commission for the following dispensation, details of which have been given in the following chapter, under the Calamity Relief Fund :-

a) Revision of the existing CRF guidelines, as requested at paragraph 9.13 (a) & (e) of the following Chapter, will necessitate the enhancement of CRF corpus to at least four times its present size, i.e. to atleast Rs.4000 crore.

b) More than 90,000 erosion affected families have been rendered landless. A special package of Rs,1000 crore may be recommended for their rehabilitation.

c) The present funding pattern of the CRF is 75 : 25 between the Centre and the State. We request the Thirteenth Finance Commission to change it to 90:10, especially for calamity prone and Special Category States like Assam. As already mentioned in paragraph 1.36 in Chapter-1, even the 10% States share will be substantially more than the present 25% in absolute term if Assam's CRF corpus is raised to Rs.4000 crore for the Thirteenth Finance Commission award period.

8.15 In addition to what we have stated in the preceding paragraphs of this Chapter, we would also like to reiterate our request for the following grants, details of which have been given in Chapter-1 :-

a) Development Deficit Grant equivalent to the negative BCR of a year, (paragraph-1.32),
b) Insurgency Damages Neutralization Grant to neutralize the economic costs of decades old insurgency in the State, (paragraph-1.35),

c) Special grants for strengthening and modernization of Assam Police force
d) Special grants for the 6^{th} Schedule District Councils, 6 Autonomous Councils and 7 Development Councils

Chapter – 9

Calamity Relief

9.1 Assam is prone to various calamities like earthquake, drought, cyclone storm, cloudburst, landslide, etc. Apart from untold human misery, recurrence of flood almost every year has ravaged the State economy. The problem has been further aggravated by large scale erosion by the Brahmaputra and its tributaries. The State covers an area of 78,438 Sq. Kms, which consist of the Brahmaputra Valley, the Barak Valley and two hill districts. The Brahmaputra and the Barak are the two main rivers in Assam. The Brahmaputra has 47 major tributaries and 126 sub-tributaries. The Barak has 20 major tributaries of which 11 are in India. The Brahmaputra is a unique river in the world in that it has a huge catchments area and it has one of the highest water discharge rates. But it has to pass through a narrow U-shaped valley in Assam. While the average width of the river is 6 to 10 Kms in Assam, the average width of the Assam valley is only 80 to 90 Kms. Before it enters Assam the slope of the river is very steep. In the stretch from international border to Kobo Chapori in Assam its bed slope is 1 in 2390, whereas at Dhubri it is 1 in 6990. Its maximum discharge recorded at Pandu is 72,794 cumes. The intensity and damage caused by the annual floods, which more often than not comes in more than one waves, have been increasing since the 1950s. Floods of severe intensity that had occurred in the State were in the years 1954, 1962, 1966, 1972, 1977, 1984, 1988, 1998, 2002, 2004 and 2007, though the flood of less magnitude occurs almost every year.

9.2 After the unprecedented flood of 1954 the Government of India announced a National Flood Policy under which immediate, short-term and long-term flood protection measures were to be taken up. Unfortunately only short term measures of raising embankments along the rivers have been implemented so far, and that too partially. The medium and long term measures of drainage channel, channel improvement and construction of storage reservoirs remain unimplemented for the last 54 years. **The total length of the embankments in the State is 4500 kms at present. Out of this 4176 kms, i.e. 93.56% of the total embankment length is almost 40 years old. They have completely outlived their strength and normal life span.** Breaches of these old and weak embankments have become a regular feature even in a low to medium intensity flood. But the frightening reality is that, not to talk about thousands of villages, even some important towns like Dibrugarh, Jorhat and Sibsagar will cease to exist without the embankments.

9.3 As already mentioned erosion is the other major problem. Because of erosion the width of the Brahmaputra has increased by about 60%. The average width of the river has increased from less than 6 kms in 1910 to more than 9 kms today. At the time of the first survey (1912-28) the river covered an area of 3,870 sq kms. By the time of the third survey (2006), it has increased to 6,080 sq kms. On an average 2500 hectares of land is being eroded by the river annually. In the State as a whole total area eroded by the Brahmaputra, Barak and their tributaries since 1954 is 386,000 Ha, which constitutes 7% of the total area of the State. So far 2,534 villages have been eroded affecting 90,700 families. Some towns, tea gardens and heritage sites have also been eroded. **Even by conservative estimates the present value of the eroded land will be Rs.20000 crore.** Because of its horizontal expansion over the years the

Brahmaputra has become a highly braided river making navigation difficult during the lean months.

9.4 There has hardly been a systematic study on the behavioural pattern of the river Brahmaputra over these years. There is no credible flood forecasting system in place and data on the causative factors, spatial implications and extent of the river bank erosion is negligible. A Technical Assistance project with financial assistance from ADB has been undertaken to study the integrated flood and river bank erosion management strategies. More of such studies and on continuous basis are required to ensure adequate preparedness level. **There is a need, therefore, to set up an institution on the pattern of National Institute of Disaster Management in the State.** As already outlined above, it will be of immense help in evolving an inter-state perspective and strategy to counter the twin menaces of flood and river bank erosion and other natural calamities.

9.5 The extent of flood damages in Assam during the last five years are **tabulated** below:

Table- 9.5
Damages caused by floods in Assam

Year	Area affected (lakh hectares)	Crop area affected (lakh hectares)	Population affected (lakh)	Human lives lost	Cattle lost	Value of lost crop (Rs. in Crore)	Total damage (Rs. in Crore)
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
2000-01	9.66	3.22	38.88	36	19,988	173.51	251.18
2001-02	2.03	0.36	5.42	4	15	518.35	14.90
2002-03	11.87	2.98	75.50	65	4,294	145.59	780.49
2003-04	7.01	2.13	52.75	35	108	124.74	1128.12
2004-05	2.36	5.22	12.64	497	1,18,772	374.70	NA
2007-08	15.04	6.74	108.67	134	728	NA	1444.24

9.6 The state experienced two waves of floods this year resulting in immense loss of lives and properties. The severity of the situation can be gauged from the fact that by last week of July 2008, as many as the twenty districts of the state were in the grip of floods. Extent of damage caused is shown in **Table- 9.6** below.

Table- 9.6
Details of Loss in 2008

i.	No. of Village affected	3019
ii.	Total land area affected	4.16 lakh Hect
iii.	Total cropped area affected	3.14 lakh Hect
iv.	Estimated loss to crops	Rs. 329.00 lakh
v.	No. of houses damaged	Nearly 60,000
vi.	No of human lives lost	40
vii.	Estimated value of damage to public properties	Rs. 1332 crore (Approx.)

9.7 Another aspect of the loss caused by the floods which is very damaging to the state economy and needs to be adequately appreciated is the massive disruption in the execution of developmental works. During monsoon most construction works and majority of the rural development and poverty alleviation works come to a grinding halt and momentum of the economy in general gets slowed down for a considerable period of time. Assam, in fact, does not get more than six to seven months of the financial year for the engine of economic development to run at its full steam. This has throughout been an enormous constraint and has cost the State's economy dearly.

9.8 In addition to recurring flood and erosion problems, Assam faced drought like situation in 2005-06 due to shortage of rainfall. About 5 lakh farmers in 22 districts were badly affected by during the year. The actual rainfall in the State between June 1 and August 23 was only 787.50 mm against the expected average rainfall of 1172.2 mm. It represented almost 33 per cent departure from normal rainfall during 2005-06. However, no major depletion in ground water was reported.

9.9 **As per the approved maintenance norms, average annual requirement of fund for the maintenance of these embankments is Rs.104 crore.** The actual amount spend for this purpose, which is shown in the **Table- 9.9** below.

Table- 9.9
Expenditure on Maintenance of Embankments

(Rs. in crore)

Year	2004-05	2005-06	2006-07	2007-08
Amount	**4.08**	**6.22**	**15.77**	**21.06**

Important point to be noted here is that maintenance, strengthening and expansion of the existing network of embankments have to form an integral part of the calamity relief approach and intervention.

9.10 The Yokohama message emanating from the International Decade for Natural Disaster Reduction in May, 1994 underlined the need for an emphatic shift in the strategy for disaster mitigation. It was inter alia stressed that disaster prevention, mitigation, preparedness and relief are four elements which contribute to and gain from the implementation of the sustainable development policies. These elements alongwith environmental protection and sustainable development, are closely inter related and it was, therefore, recommended that nations should incorporate them in their development plans and ensure efficient follow up measures at the community, sub-regional, regional and national and international levels. The Yokohama strategy also emphasized that disaster prevention, mitigation and preparedness are better than disaster response in achieving the goals and objectives of vulnerability reduction. Disaster response alone is not sufficient as it yields only temporary results at a very high cost. Prevention and mitigation contribute to lasting improvement in safety and are essential to integrated disaster management. This was acknowledged by the Tenth Five Year Plan document which emphasizes that development cannot be sustainable without mitigation being built into developmental process and that investments in mitigation are more cost effective than expenditure on relief and rehabilitation. National Disaster Framework is based on this new approach and underlines the need for effective institutional mechanisms erected on the principle of multidisciplinary and techno-legal framework. **For Assam to benefit from this approach, strengthening of Brahmaputra Board and streamlining of its functioning is imperative to ensure that it works in closer coordination with State Government, its action plans are implemented in a time-bound manner and there is an effective mechanism for the monitoring of its activities in partnership with the State Government. Besides, Assam is also in urgent need of an institution on the pattern of National Institute of Disaster Management to study and conduct action research on various aspects of disaster management and undertake evaluation of various disaster preparedness, mitigation and relief measures. As the developments in the neighbouring north-eastern States have a significant bearing on the flood scenario in Assam, an institution of this kind will be of immense help in developing an inter-state perspective on disaster management in the State.**

9.11 Earthquake is endemic to Assam. The entire State falls in the most seismic zone No.V in terms of seismic vulnerability. During the last 110 years the State witnessed three major earthquakes, two of which (1897 and 1950) measured above 8 points on the Richter scale. **It is perhaps certain that sooner or later Assam will be hit by another major earthquake. What is uncertain is when it will come and what devastation it will bring. The availability of fund under current dispensation is not adequate for effective preparedness against and mitigation of such disaster.**

9.12 As per award of Ninth Finance Commission, a Calamity Relief Fund (CRF) has been constituted with 75% contribution of Central assistance and 25% contribution of State's share. Assistance is provided from this CRF whenever there is damage and devastation caused by floods, hailstorm, cyclone, etc. Assistance for natural calamities is provided as gratuitous relief, rehabilitation grant, ex-gratia grant and observance of International Decade for National Disaster Reduction and flood damage repairing works. Total assistance provided during 2000-01, 2001-02, 2002-03, 2006-07 and 2007-08 to flood affected areas and implementing Departments for repairing works and others is indicated below:

Table- 9.12 A
Assistance Provided under CRF

(Rs. in Lakhs)

Items	2000-01	2001-02	2002-03	2006-07	2007-08	2008-09 till 30.11.08
Gratuitous Relief	479.70	142.60	961.24	4631.70	9912.47	3194.64
Rehabilitation Grant	152.41	19.82	162.18	379.44	1726.83	557.00
Ex-Gratia	1.02	0.60	3.80	19.50	29.50	99.50
Flood damage repairing works	9553.95	2948.84	8381.19	5486.05	26796.09	5770.86
Miscellaneous	1.18	0.39	0.15	241.81	23.44	2917.10
TOTAL :	**10188.26**	**3112.25**	**9508.56**	**107,58.50**	**38488.33**	**12539.10**

Table- 9.12 B

The details of funds provided from the CRF, NCCF and additional fund from State's own resources for funding the different kinds of assistance from 2001-02 are indicated below:

(Rs. in crore)

Year	CRF			NCCF	Additional State's contribution	Total
	Central share	State Share	Total			(4+5+6)
1	2	3	4	5	6	7
2001-02	79.92	26.64	106.56	0.00	0.00	106.56
2002-03	83.92	27.97	111.89	0.00	0.00	111.89
2003-04	88.12	29.37	117.49	0.00	58.80	176.29
2004-05	92.52	30.84	123.36	211.55	0.00	334.91
2005-06	144.79	46.26	194.05	0.00	0.00	194.05
2006-07	148.97	49.66	198.63	0.00	0.00	198.63
2007-08	153.36	51.12	204.48	0.00	198.62	403.10
2008-09 till 30.11.08	78.99	26.33	105.32	300.00	00.00	405.32

9.13 In view of the facts narrated above, the Thirteenth Finance Commission is requested to treat the natural calamities problem of Assam on a different footing. We request the Commission to kindly recommend following measures to enhance the State's capability to deal with such calamities more effectively :-

c) **CRF guidelines need to be modified to provide for undertaking of repair works of all damages caused by natural calamities to public utilities, infrastructure and other assets and restore them to the pre-calamity level.** The EFC recommended that the expenditure on restoration of infrastructure and other capital assets, except those which are intrinsically connected with the affected area and population, should be met from the plan funds on priority. Because of the small size of our State Plan, a large component of committed revenue expenditure and earmarking of practically the entire balance amount, there is hardly any fund left in the State Plan to undertake the necessary restoration works.

d) Review of the guidelines on these lines will necessitate the enhancement of CRF corpus to at least four times its present size, i.e. atleast to Rs.4000 crore.

e) Under the present CRF guidelines erosion affected people do not get any relief. We urge the Thirteenth Finance Commission to recommend inclusion of erosion also under the CRF guidelines.

f) More than 90,000 erosion affected families have been rendered landless. A special package of Rs.1000 crore may be recommended for their rehabilitation.

g) The present funding pattern of the CRF is 75 : 25 between the Centre and the State. We request the Thirteenth Finance Commission to change it to 90:10, especially for calamity prone and Special Category States like Assam. As already mentioned in paragraph 1.36 in Chapter-1, even the 10% States share will be substantially more than the present 25% in absolute term if Assam's CRF corpus is raised to Rs.4000 crore for the Thirteenth Finance Commission award period.

Chapter- 10

Maintenance of Capital Assets and Completed Plan Schemes

10.1 Paragraph 6 (ix) of the terms of reference mandated the Thirteenth Finance Commission to have regard while making its recommendations about "the expenditure on the non-salary component of maintenance and upkeep of capital assets and non-wage related maintenance expenditure on plan schemes to be completed by 31st March, 2010 and the norms on the basis of which specific amounts are recommended for the maintenance of the capital assets and the manner of monitoring such expenditure".

10.2 Broadly speaking, the following categories of capital assets are created through investment made by the State Government under various plan schemes viz. (i) buildings both functional and residential, (ii) roads and bridges, (iii) irrigation projects - major, medium and minor and (iv) flood control projects. The physical infrastructure so created under the plan ultimately get transferred to the non-plan account on its completion or at the and of a particular plan period. Consequently, on the completion of a scheme, its maintenance and upkeep devolves on the non-plan account. Most often, due to budgetary constraints the provision made under non-plan for maintenance of assets is woefully inadequate. Usually other pressing public needs always get priority over the needs for maintenance of assts resulting in poor delivery of services below the experted level. Undeniably, maintenance of assets is equally, if not more, important than its creation. Prolonged neglect in maintenance leads to deterioration of assets already created and its eventual ruin necessitating its replacement involving heavy capital cost. Again resource constraint stand in the way of mobilizing required funds for fresh investment. The poor state of maintenance of capital assets, created at considerable cost to the community, has evoked widespread concern in recent years which needs to be addressed in a time bound manner.

10.3 It is not that the earlier Finance Commissions had overlooked the importance of maintenance of capital assets. In fact, the earlier Finance Commissions had taken a great deal of pain to assess the maintenance requirements on a normative basis. For instance, the 12th FC assessed the maintenance requirements of irrigation works, both major and minor, on a normative basis. But the norm-based estimates have been compared with that of the latest available budget estimates and the higher of the two estimates adopted as the base year estimate. Similarly, in case of roads and buildings the TGR of the preceding ten years have been compared with the latest available budget estimates and the higher of the two adopted as the base. On the base year estimates, 5 per cent annual rate of growth was applied for the purpose of projection.

10.4 As a matter of fact, maintenance requirement worked out on the basis of budget estimates is detrimental particularly to the interest of the resource poor states. Due to perennial resource problem they are compelled to make budget provision much below the required level. Any projection based on such depressed level of expenditure will not be adequate to safeguard their interest. More importantly, the assumption of a meagre 5 per cent annual rate of growth has made matter worse for them. In this context, the glaring mis-match between the maintenance fund provided by the Finance

Commission and the actual expenditure incurred by the State is highlighted in the Table- 10.4 below:

Table 10.4

Fund Provided by Finance Commission vis-à-vis actual expenditure

(Rs. in Crore)

Capital Assets		EFC		TFC					
		2000 – 2005		2005 – 2006		2006 – 2007		2007 – 2008	
		Award	Actual	Award	Actual	Award	Actual	Award	Actual
1	Major / medium irrigation	47.98	118.35	39.95	36.53	41.95	38.56	44.04	37.39
2	Minor Irrigation	169.53	301.72	111.62	99.87	117.20	129.62	123.06	144.68
3	Roads & Bridges	849.92	966.61	300.62	269.30	315.65	315.31	331.43	412.42
4	Buildings	330.78	416.30	113.48	103.18	119.15	127.19	125.11	163.91
5	Flood Control	---	360.32	---	80.74	---	99.29	---	108.27

10.5 It will appear from the above table that the actual expenditure on maintenance during the period 2000 – 2005 against all types of assets had far exceeded the amount recommended by the Eleventh Finance Commission. In regard to the award of TFC, actual position is available for the first three years only. Other than major / medium irrigation, the trend of actual expenditure on maintenance of other types of assets have been rising above the level recommended by the TFC. However, the final position will emerge at the end of the five year period. In respect of maintenance of assets created against flood control project, the Eleventh and the Twelfth Finance Commissions did not make any normative assessment or specific recommendations.

Maintenance of Irrigation Works

10.6 The Twelfth Finance Commission adopted a norm of Rs.600 per hectare for maintenance of utilized potential created under major /medium irrigation works. For minor irrigation works it was Rs.300 per hectare of utilized potential. In addition, for Special Category States a step up of 30 per cent over this norm was allowed. The norm based estimates was then compared with the latest available budget estimates and the higher of the two estimates was adopted as the base and an annual rate of growth of 5 per cent was applied on the base year estimates during the forecast period.

10.7 In regard to maintenance of irrigation works, the potential created under different categories as on 31.03.2008, the norms for maintenance per hectare and the annual cost of maintenance is indicated in Table- 10.7 below:

Table 10.7

Norms for Maintenance of Irrigation Works

Sl.	Type of Project	Potential created as on 31.03.2008 (in hectare)	Rate per hectare (in Rs.)	Annual Cost (Rs. in crore)
Major / Medium Works				
i	Surface Flow	178750	1040	18.59
ii	Surface Lift	48618	1160	5.64
Total Major :		**---**	**---**	**24.23**
Minor Works				
i	Surface Flow	129297	1040	13.45
ii	Surface Lift	134538	1160	15.61
iii	Ground Water	61456	1624	9.98
Total Minor :		**---**	**---**	**39.04**

The actual requirement of fund for non-salary component on a normative basis is Rs.24.23 crore for maintenance of major / medium irrigation works and Rs.39.04 crore for minor irrigation and over this a step up of 15 per cent has been assumed during the forecast period. This is in addition to salary component.

Maintenance of Roads and Bridges

10.8 In regard to maintenance of roads, the TFC compared the TGR based estimates with that of the budget estimates and the higher of the two estimates was adopted as the base. On the base year estimates, an annual growth rate of 5 per cent was applied to arrive at the estimate for the forecast period.

10.9 The total road length in Assam as on 31.03.208is 9213 Km of surfaced road and 25734 Km of unsurfaced road. As per state Public Work Department norm the maintenance cost of surfaced road is Rs.2.60 per Km and unsurfaced road is Rs.0.30 per Km. In addition to roads, large number of SPT bridges, also needs annual repair and maintenance. The cost per Km for maintenance of SPT bridges is Rs.216. The annual cost of maintenance of roads and bridges on a normative basis is shown below.

Type of road	Length in Km.	Cost per Km. (Rs. in lakh)	Annual cost (Rs. in crore)
1. Surfaced road	9213	2.60	239.54
2. Unsurfaced road	25734	0.30	77.20
3. SPT Bridges	34947	216.00	75.12
Total	---	---	391.86

Thus, on a normative basis the actual requirement of fund for maintenance of roads and bridges is Rs.391.86 crore for non-salary component alone. Over this base, an annual growth of 15 per cent has been assumed during the forecast period, in addition to salary component.

Maintenance of Buildings

10.10 In regard to maintenance of buildings, the TFC adopted the same approach as stated above in case of roads.

The factual position regarding plinth area of different types of buildings, the normative rates and the annual cost of maintenance is summarized below:

Type of Buildings	Plinth area CUM for RCC Sq.M for Assam type	Rate per CUM/Sq.M	Annual cost (Rs. in crore)
A. Functional Building			
i. Assam type			
a) Plains	2489586	300.75	74.87
b) Hills	311198	360.90	11.23
ii. RCC			
a) Plains	5706313	84.94	48.47
b) Hills	713289	101.93	7.27
Total- A	**-**	**-**	**141.84**
B. Residential Building			
i. Assam type			
a) Plains	439339	300.75	13.21
b) Hills	54917	360.90	1.98
ii. RCC			
a) Plains	1006996	84.94	8.55
b) Hills	125875	101.93	1.28
Total- B	**-**	**-**	**25.02**
Grand Total (A+B)	**-**	**-**	**166.86**

On a normative basis the actual requirement of fund for maintenance of building, both functional and residential work out to Rs.166.86 crore excluding salary component. Over this base an annual growth rate of 15 per cent has been assumed during the forecast period.

Maintenance of Flood Control Works

10.11 As already stated the last two Finance Commissions did not make a normative assessment of fund requirement for maintenance of flood control schemes. In recent years the menace of flood accompanied by soil erosion has assured an alarming proportion. It needs to be addressed on a priority basis. The existing flood control structure in the state is as follows:

Particulars	Length (Km) / Nos.	Rate/ Unit (Rs. in lakh)	Annual Cost (Rs. in crore)
1. Embankment	4467.15	1.67	74.60
2. Drainage Channel	854.19	0.39	3.33
3. Anti Erosion Works	746	2.55	19.02
4. i) Major Sluices	86	5.00	4.30
ii) Minor Sluices	539	0.50	2.69
		Total	**103.94**

As per norms, the total requirement of fund for maintenance of the above mentioned structure is Rs.103.94 crore for non-salary component alone. Over this base, an annual growth rate of 15 per cent is needed during the forecast period.

Maintenance of Water Supply Scheme

10.12 The earlier Finance Commissions did not make any normative assessment in regard to maintenance of assets created under water supply schemes executed by the Public Health Engineering Department. Due to inadequacy of fund almost every water supply scheme is in bad shape leading to frequent disruption of regular water supply. The eventual victims are the water users who suffer tremendously. The estimated annual requirement for maintenance of the existing rural and urban water supply schemes is Rs.63.93 crore for work component only as detailed below. Over this base year estimates, an annual growth of 15 per cent is required during the forecast period in addition to salary.

Type of Scheme	Number of Installed	Rate per Scheme (Rs. in lakh)	Annual Cost (Rs. in crore)
1. Rural Piped Water Supply Scheme	2925	1.15	33.64
2. Rural Spot Sources	275708	0.006	16.54
3. Urban Piped Water Supply	11	1.25	13.75
Total	**-**	**-**	**63.93**

10.13 **In a nutshell, it is urged upon the Thirteenth Finance Commission to allow an annual growth rate of 15 per cent in case of all work departments for meeting the expenditure on maintenance and upkeep of capital assets, keeping in view the high cost structure, difficult topography, heavy rainfall accompanied by recurring floods and erosion that is prevalent in the State.**

Maintenance of Completed Plan Schemes

10.14 With a view to increasing the development content in plan schemes, the States are expected to transfer the committed liabilities of completed plan schemes to non-plan on the completion of a five year plan period. The Eleventh finance Commission did not recommend any committed liability grant in case of Special Category States.

However, the TFC recommended transfer of 30 per cent of the plan revenue expenditure of the last year of the Tenth Five Year Plan to non-plan side in 2007-08. But in case of Special Category States the recommended transfer to non-plan side was 10 per cent of the plan revenue component. The lower percentage transfer was recommended for the Special Category States on the assumption that the Planning Commission allows them to divert 20 per cent of Central Plan Assistance for meeting non-plan expenditure. Further, in order to determine the plan revenue component in 2006-07, the TFC applied 5 per cent annual growth rate in the plan revenue expenditure.

10.15 In this context, it may be mentioned that during the last five year plan period Assam did not take recourse to diversion of Central Plan Assistance for meeting non-plan expenditure. On top of it, the Government of Assam was constrained to transfer about 87130 plan posts involving a hefty sum of Rs.813 crore from plan to non-plan revenue account, even though the EFC did not recommend any committed liability grant to Assam. Moreover, the annual rate of growth in plan revenue expenditure is far above 5 per cent as assumed by the 12^{th} FC. Hence, on both these counts Assam stand to loose a substantial amount. It is hoped and requested that the Thirteenth Finance Commission will make realistic assessment of our fund requirements for maintenance of capital assets and completed plan schemes.

Chapter -11

Resources for Local Bodies

11.1 As per terms of reference (TOR) at paragraph 4(III) of the Presidential Order dated 13-11-2007, the Thirteenth Finance Commission is required to make recommendations as to the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the State Finance Commission.

The Seventy-third and the Seventy-fourth Constitutional amendments have accorded new status to the Panchayati Raj Institutions (PRI) and Urban Local Bodies (ULB) that fundamentally altered the existing pattern of governance in Indian federal structure. It has conferred constitutional status to PRIs and ULBs and recognised them as the third tiers of governments at the local levels. The basic thrust of these amendments were to endow the local bodies with adequate powers, functions, resources and responsibilities so as to make them viable and vibrant institutions of self government. In its wake, the amendments paved the way for a smooth transition to fiscal decentralization at the grass root level.

Since the passage of the 73rd and the 74th Constitutional amendments, three CFCs beginning with the Tenth had recommended financial support to augment the Consolidated Fund of the States to supplement the resources of PRIs and ULBs, particularly to improve delivery of certain core civic services and computerisation of accounts and creation of local body data base. In the same period three SFCs had been constituted by Government of Assam (GOA) covering the period of 1996-2001 by the first, 2001-2006 by the Second and 2006-2011 by the third SFC. The reports of the first and the second SFCs had been accepted by Government of Assam.

The Third State Finance Commission (TSFC) has also submitted its report. Details of the TSFC recommendations will be discussed in the following paragraphs. The State Government have already notified the activity mapping of the transferred subjects. Transfer of functions and functionaries with regard to the transferred subjects, which is a long drawn and complicated matter, is also being done. Since the State budget for 2008-09 was already prepared and presented before receipt of the final report of the TSFC in March 2008, as an interim measure an amount of Rs.5044.83 crore has already been provided for PRIs and ULBs in 2008-09 State budget. The break-up of this amount is as below :-

a)	Devolution of 10% of net tax proceed of the State	=	Rs.348.33 crore
b)	Against transferred subjects (i) under plan	=	Rs.1117.36 crore
	(ii) under non-plan	=	Rs.2768.14 crore
c)	State share against various CSS to be implemented through PRIs & ULBs	=	Rs.811.00 crore
	Total		**Rs.5044.83 crore**

11.2 The TOR of the 10th CFC had been finalized prior to the Constitutional amendments and it was not followed by any corollary amendment of the TOR.Nevertheless,10th Finance Commission, despite the constraints imposed by its TOR, had recommended assistance to the States for panchayats and municipalities. During its award period 1995-2000, the Commission recommended grants of Rs.4380.93 crores for PRIs at the rate of Rs.100 per capita of rural population as per 1991 census. For ULBs Rs.1000 crores was recommended on the basis of inter-State ratio of slum population derived from the 1991 census. The sum allocated to Assam during 1995-2000 was Rs.133.36 crores for PRIs and Rs.14.20 crores for ULBs.The amount recommended was not available for meeting expenditure on salaries and wages.Further, it was conditional - requiring matching contribution by the Local Bodies. The aforesaid conditions, particularly of matching contribution had stymied the efforts of cash strapped local bodies in utilizing the full amount.

11.3 The Eleventh Finance Commission (EFC) was mandated by its TOR itself to recommend measures needed to augment the Consolidated Fund of the States to supplement the resources of panchayats and municipalities in the States. Initially, EFC observed that no additional devolution for assisting the Local Bodies was required to be made since all additional burden devolving on the State was supposed to be fully taken care of in their assessment of the revenue gap of the States, Nevertheless, considering the fact that certain critical areas might get overlooked in the normal flow of funds from the states, the EFC recommended adhoc grants for Local Bodies**.** And the critical areas highlighted by them were (1) primary education,(ii)primary health,(iii) safe drinking water,(iv)street lighting,(v)sanitation, (vi)drainage,(vii)Scavenging,(viii)Cremation and burial grounds and (ix) Public conveniences. The grant recommended by them during 2000-2005 was Rs.8000 crores for PRIs and Rs.2000 crore for ULBs.Out of which the share of Assam was Rs.233.45 crore and Rs.21.54 crore for PRIs and ULBs respectively falling which the general and the excluded areas. It contained an earmarked amount for creating data base and maintaining accounts by the Local Bodies. The condition of matching contribution imposed by the earlier Commission has been waived but the stipulation not to utilise the amount for payment of salaries and wages remained**.**

11.4 As per its TOR, the Twelfth Finance Commission(TFC) recommended a sum of Rs.25000 crore during 2005-10 as grant-in-aid to supplement the resources of PRIs and ULBs. The Rural-Urban apportionment of the divisible pool was made at the ratio of 80:20 **i.e**, Rs.20000 crore for PRIs and Rs.5000 crore for ULBs, roughly on the basis of rural-urban population ratio. Assam's share was Rs.526 cores and Rs.55 crore for PRIs and ULBs respectively covering general and excluded areas. In case of PRIs, priority was accorded to operation and maintenance of water supply and sanitation with the stipulation that at least 50 per cent of the recurring cost should be realized as user changes . For ULBs, 50 per cent was supposed to be earmarked for the schemes of solid waste management. The **Table- 11.4** below summarises the position of award by the successive Finance Commissions and amounts released by Govt. of India.

Table-11.4
Details of release of fund by Finance Commissions

(Rs. crores)

Period	Award of CFC	Release by GOI
10th FC(1995-2000)		
PRIs	133.36	41.675
ULBs	14.20	4.4375
11th FC(2000-2005		
PRIs	233.4475	116.7237
ULBs	21.5420	10.7011
12th FC(2005-2010)		
PRIs	526.00	
ULBs	55.00	
PRIs		
2005-06	105.20	52.60
2006-07	105.20	
2007-08	105.20	105.20
ULBs		
2005-06	11.00	5.50
2006-07	11.00	
2007-08	11.00	11.00

11.5 In regard to inter-state allocation of the recommended amount the 10th F.C. adopted the criteria of population in case of PRIs and slum population in case of ULBs. However the 11th and 12th F.C. adopted a set of criteria with varying degress of wightages assigned to each as shown in **Table- 11.5** below.

Table.11.5
Criteria for inter state allocation of fund for PRIs and ULBs

Variable	Weightage in PC	
	11th F.C	12th F.C
1.Population	40	40
2.Area	10	10
3.Distance method	20	20
4.Index of decentralization	20	
5.Index of deprivation		10
6.Revenue effort	10	20
7.Total	100	100
8. Perchantage share of Assam in rural pool	2.918	2.630

11.6 **It will be seen from the above Table that shift in emphasis in favour of revenue effort from 10 per cent to 20 per cent as adopted by the 12th FC has brought about a substantial decline in the percentage share of Assam from 2.918 to 2.630.The index of deprivation introduced by TFC was no doubt advantageous to the State lagging behind in the provision of core civic services. But this limited advantage was totally negated by a shift in emphasis in favour of revenue effort. As a consequence the percentage share of Assam in the rural divisible pool came**

down which deprived the RLBs in Assam roughly of Rs.58 crore out of the rural divisible pool of Rs.20000 crore recommended by TFC.

In the matter of revenue effort all States are not equally placed. In states where the process of fiscal decentralization had started early, PRIs there have shown better tax performance because of the early start. Assam, a comparative late entrant in the domain of fiscal decentralization, PRIs here are naturally hard pressed to compete with the PRIs of the States where the process of decentralization started early. Here the administrative machinery is yet to be fully put in place, there is dearth of skilled staff, office accommodation is scanty and more importantly deployment in the posts of tax collectors at the gross root level are peripatetic **.**Against this backdrop PRIs in Assam cannot be expected to compete with their counterparts elsewhere in the country in the matter of revenue effort. **We would therefore urge the 13th Finance Commission for a little moderation in the revenue effort parameter till such time as the administrative machinery is fully fortified in all States.**

During the post amendment period, Government of Assam had constituted altogether three SFCs. The first one recommended devolution of 2 per cent of State's taxes and duties supplemented by nominal grants-in-aid to Local Bodies for the quinquennium 1996-2001.The second SFC had raised the quantum of devolution to 3.5 per cent of the net proceeds of State's taxes and duties supplemented by compensating grants-in-aid to ULBs during the five year period 2001-2006.The recommendations of the first and the second SFC, though accepted by Government of Assam, had remained largely unimplemented for a number of reasons. In the first place, in case of RLBs the salary burden of the provincialised Panchayat staff continued to be met out of the consolidated fund of the state. In case of ULBs including GMC the existing dispensation of sharing the net proceeds of motor vehicle tax coupled with sharing of entertainment tax and surcharge on stamp duty with GMC had been continuing**.** Moreover, meeting the revenue gap of ULBs, particularly of GMC very often get devolved on the state as a matter of fait accompli. On top of this, devolution recommended by SFC was not considered necessary to be passed on to the local bodies, nor was it possible due to State Government's own resource constraints.

Meanwhile, the Third State Finance Commission has submitted its report covering the period 2006-11. The Commission submitted an interim report in March,2007 containing its recommendations for the first two fiscals 2006-07 and 2007-08. It was followed by a technical supplement in September,2007 delineating the parameter of interse distribution of the devolution among the PRIs and ULBs.The final report was submitted on 27th March,2008 covering the remaining three fiscals 2008-09,2009-10 and 2010-11.The recommendations contained in the interim and the final reports are valid for Local Bodies falling within the General areas of Assam excluding Schedule VI areas. Devolution of fund has been recommended for 2479 entities of which 2407 are RLBs and 72 ULBs. **The RLBs comprise 20 Zilla Parishad, 185 Anchalik Panchayats and 2202 Gaon Panchayats. It does not include district councils and the traditional village councils in the Schedule VI areas. The ULBs consist of 1 municipal corporation, 28 municipal board and 43 town committees, excluding 16 municipal boards and town committees in Schedule VI areas.**

11.7 The basic approach of the Commission has been to put the PRIs and ULBs on a sound financial footing in conformity with their empowerment under the Constitutional amendments. Provision of adequate resources to local government commensurate with their duties and responsibility envisaged in the 73rd and 74th amendments and also to safeguard their financial autonomy has been the major concern of the Commission. Along with gradual unfolding of the process of decentralization, transfer of funds from the upper tiers of governments and also resource generation from their own tax regime will increase tremendously. For effective utilization of such larger funds the delivery system has to be properly strengthened. As of now, the delivery system is in total disarray. Where the delivery system is non-existent, it has to be newly created besides upgrading the existing inadequacies. There are certain core functions which need special attention by PRIs and ULBs. The 3rd SFCs dispensation sought to leave adequate surplus to them to attend to such core functions apart from spending on their felt needs.

11.8 **In regard to the determination of divisible pool, the Commission recommended the aggregate net collection of State taxes and duties other than State's share of Central taxes and non-tax revenues should form the divisible pool to be shared between GOA and the Panchayats/Municipalities.**

Having determined the composition and size of the divisible pool, the Commission in its interim report recommended 10 per cent of it should be devolved to PRIs and ULBs during the fiscal 2007-08. Since the fiscal 2006-07 had been already over by the time the interim report was submitted, no recommendation was made for that year. In respect of the final report covering the period 2008-09 to 2010-11, it has been recommended that 25 per cent of the divisible pool be devolved to PRIs and ULBs.

The rural-urban division of the proposed devolution has been made on the basis of population and density of population as per 2001 census. Out of the total devolution, 80 per cent has to be divided in proportion to the actual rural-urban population and 20 per cent in proportion to population density of rural and urban areas. **Table- 11.8** below shows the total devolution recommended by the third SFC with rural-urban bifurcation.

Table-11.8
Details of devolution of fund to PRIs and ULBs

(Rs. crores)

Year	Gross collection of State Taxes	Net collection	Total Devolution	Rural Share	Urban Share
2006-07	----	----	----	----	----
2007-08 (Act)	4041.85	3637.67	363.77	264.69	99.08
2008-09 (Est)	3685.47	3528.44	882.11	641.86	240.25
2009-10 (Est)	3902.66	3733.06	933.26	679.07	254.19
2010-11 (Est)	4123.04	3939.87	984.96	716.69	268.27
Grand Total			**3164.10**	**2302.31**	**861.79**

11.9 In regard to inter-se distribution of rural share between each tier and among the individual units in each tier, it has been recommended that at the first stage it will be horizontally apportioned among different districts based on a composite index having three parameters with weighted averages viz, (1) population 50 per cent, (ii) geographical area 25 per cent and (iii) per capita district domestic product net of mining and quarrying 25 per cent.

In the second stage, the fund allocated district-wise has to be vertically distributed between the three tires of PRIs at the rate of 20:30:50 to ZPs, APs and GPs respectively.

In the final stage, the shares of each AP and GP shall be on the basis of their respective population as per 2001 census.

In respect of ULBs, the urban fund has to be allocated horizontally among the municipal corporation, municipal boards and town committees on the basis of weighted average of a composite index consisting of four factors viz,(1)population 50 per cent,(ii)area 25 PC,(III)Per capita tax collection 12.5 PC and (iv)index of infrastructure 12.5PC. The index of infrastructure has been based on three indicators: (i)length of surface roods,(ii)length of pucaa drains and (iii)number of street lights, according equal weightage to each factor.

Apart from devolution, 3rd SFC recommended additional devolution of Rs.79.55 crore in 2008-09, Rs.85.92 crore in 2009-10 and Rs.92.79 Crore in 2010-11 to the ZPs and APs to enable them to meet the salary burden of DRDA and Block Staff respectively. The salary burden of DRDA and Block Staff is currently met from the consolidated fund of the State. In the event of merger of DRDAs with ZPs and Blocks with APs, the salary burden of the staff of DRDAs and Blocks will devolve on the ZPs and APs respectively.

11.10 **In addition, separate allocation has been made in the State budget for 2008-09 for devolution of funds from the State to the PRIs on account of transferred subjects as per activity mapping. For this purpose, an allocation of Rs.1117.36 crore under plan Supplemented Rs.811.00 crore as State's share and Rs.2764.14 crore under Non-plan has been made in current year's budget. In order to facilitate smooth transfer of fund, drawing and disbursing officers has been declared for each tier of PRIs and ULBs.**

It may mentioned that grants-in aid recommended by the SFC included Rs.52.30 crore in 2007-08 and Rs.46.38 crore in 2008-09 for meeting arrear liability of urban and rural local bodies on account of pay and other terminal benefits. More importantly it included the arrear component of employer's contribution to CPF. These liabilities have accumulated over the years. It has been lingering because the own resources of PRIs and ULBs was not enough to meet this liability, nor could the State Government bail them out because of their own ways and means problem.

So long as this accumulated liability is not settled once and for all it will have telling effects on service delivery which is predominantly vested with the local bodies. Therefore, our submission before the thirteenth Finance Commission is that all sort of undischarged liabilities that can not put off may be taken into cognizance by them while making recommendations as to the measures needed to augment the consolidated fund of the State for supplementing the resources of local bodies. We would also urge that a similar approach may be adopted by the Commission in the matter of grants-in-aid recommended by the SFC for up gradation of physical infrastructure of PRIs and ULBs including development of human resources.

11.11 It may be recalled that TFC in paragraph 8.55(vi) of its report, recommended that "the SFCs must clearly identity the issues which require action on the part of the Central Government to augment the consolidated fund of the State and list them out in a separate chapter for the consideration of the Central Finance Commission."

In deference to the wishes of TFC, the third SFC of Assam has added a list of issues which require action by Government of India at Annexure-9.9 of its report. The list is only indicative and not exhaustive. Nevertheless it had focused attention on a few palpable deficiencies in local administration that need to be addressed on a priority basis. These include shortage of manpower at all levels of PRIs and ULBs, deficiencies in physical infrastructure like office buildings, meeting halls, road connectivity**,** and sources of water supply, sanitation and sewerage.

As per approved staffing pattern currently in force, the number of staff admissible to each ZP, AP and GP is 18,8 and 3 respectively. What is more disappointing is that even this conservative norm laid down more than a decade ago has not been strictly adhered to. And the number of staff actually in position is far below this approved pattern. The ZPs and APs are somewhat better off in terms of manpower but the position of GPs in this respect is deplorable.

In many GPs, Panchayat Secretaries are not in position, while in many others Panchayat Secretaries from the neighboring GPs work on a part-time basis. Many GPs have casual workers who perform the job of peon on payment of meagre lump sum amount per month. The amount being small they do not perform any substantive job at all. Very often, the performance of tax collectors engaged on lump sum payment basis is negative because they collect much less than whatever is paid as remuneration to them. The present scenario of manpower deployment is not only dismal in respect of PRIs, it is equally so in case of ULBs. In case of ULBs, there is even no approved staffing pattern and the number of employees varies widely from 7 in case of Silapathar Town Committee to 225 in case of Silchar Municipal Board.

In the wake of the enlarged functional canvas of the PRIs and more importantly due to a quantum jump in the allocation of various poverty alleviation programmes executed through the PRIs, the 3rd SFC felt that PRIs should be completely revamped to make them effective. For the purpose of determining an appropriate staffing pattern for PRIs, a study has been conducted by them through the SIRD. The finding placed the requirements of staff in different tiers at 30 for ZPs, 20 for APs and 8 for GPs, in contrast to the present staffing pattern of 18, 8 and 3 for ZPs, APs and GPs respectively. **The 3rd SFC has recommended adoption of this revised staffing pattern from 2008-09 itself. The total financial implementation for switching over to the revised pattern has been worked out at Rs.225.20 crore in 2008-09.In case of ULBs, SFC has recommended that studies need to be conducted for determining the right size of manpower at each level.**

Besides strengthening of manpower, SFC has also recommended grants for liquidation of accumulated arrear liability of Rs.36.99 crore for Guwahati Municipal Corporation, Rs.15.31 crore for other ULBs and Rs.46.38 crore for

GPs. We would urge the 13th Finance Commission to look into these aspects while considering measures needed to augment the Consolidated Fund of the State to supplement the resources of Panchayats and Municipalities.

11.12 Next to manpower, SFC has laid stress on equipping the PRIs at all levels with adequate office accommodation and meeting hall. **As of now, only 1000 GPs have buildings of their own though not spacious enough to accommodate the elected representative and the official functionaries. The remaining 1202 GPs are not having any proper office accommodation.** Meeting hall is non existent in any of the GPs. APs are running from block offices. Being small, these are unable to accommodate all functionaries. Similarly, the erstwhile Mahkuma Parishad buildings which house the ZPs are not only small but mostly in dilapidated condition. Hence, construction of office buildings and meeting halls for the PRIs at all level was considered essential by the 3rd SFC as per estimates given below:-

1	Construction of office building for 1202 GPs @ Rs.20 lakhs each	Rs.240.40
2	Renovation of office buildings for 1000 GPs @ Rs.10 lakhs each	Rs.100.00
3	Construction of meeting halls for 2202 GPs @Rs.25 lakhs each	Rs.550.50
4	Construction of office buildings for 185 APs @Rs.50 lakhs each	Rs.92.50
5	Construction of office buildings for 20 ZPs @Rs.1 crore each	Rs.20.00
	Total	**Rs.1003.40**

The PRIs in Assam are still in a fledgling State-totally cash strapped and bereft of skilled manpower-they are not in a position to properly maintain rural roads and bridges. On their behalf, State PWD looks after this job. The length of rural roads is reported at 26,906 Km out of which 24,314 KM are earthen/gravelled and the remaining 2592 Km are black topped. Due to budgetary constrains, State PWD cannot do much beyond routine maintenance of these rural roads and bridges. As a result rural connectivity, even in fair weather, is beyond description**.** Periodic maintenance could improve the situation somewhat, but the cost is prohibitive. **As per PWD norms, the annual cost of periodic maintenance of rural roads and bridges comes to about Rs.216 crore, neither PWD nor PRIs can afford this huge sum.**

Likewise, maintenance and repair of functional and other buildings lying within jurisdiction of PRIs is at present carried out by the PWD. In this matter PWD follows no norm and spend very little amount annually depending upon availability of budgetary allocation. As a result, the buildings are in bad shape and most of these require reconstruction. As estimated by PWD, the annual cost of repair and maintenance of these buildings as per norm work out to Rs.50 crore.

11.13 Guwahati, the capital of Assam, is the largest city in the North eastern region. Besides being the gateway to the North-East, it is also destined to play a vital role in the "Look East Policy "of the GOI. Guwahati Municipal Corporation (GMC) is the premier municipal body in the entire region. It covers an area of 216 Sq. Km having a population of a little over 8 lakh as per 2001 census. The Decadal growth rate of population the city during 1991-2001 was 38.28 percent.

Given the wide ranging responsibilities to provide basic civic amenities to the citizen as well as to serve as the entry point to all the States of this region, the infrastructure facilities available to it is grossly inadequate. Population covered by drinking water supply is only partial leaving most of the city dwellers to fend for themselves. The system of solid waste management is primitive exposing an ugly face of the city. Sewerage system is virtually non-existent. The drainage system is such that at the onset of monsoon even a moderate shower inundates vast area of the city making it difficult to negotiate for vehicles and commuters as well. Public transport system is dismal with traffic snarl being endemic during peak hours.

Against this backdrop, the launching of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) in December, 2005 was hailed as the right step in removing urban infrastructural deficiencies. But belying our expectations, the allocation that Guwahati received under this project was far from adequate. With this limited fund a scheme of Solid Waste management and drinking water supply for a part of the city has been undertaken. Other core civic services like sewerage, drainage and transport could not be undertaken due to inadequacy of fund.

In view of the limited fund under JNNURM, it has been contemplated to undertake schemes for sewerage and drainage system in Guwahati. For this purpose, Detailed Project Report (DPR) has been finalized in consultation with reputed international consultants at an estimated cost of Rs.636 crores for Sewerage system and Rs.259 crore for drainage system. In addition, the State Government has engaged the services of Urban Mass Transit Company (UMTC) for preparing DPR for a Bus Rapid Transit System (BRTS) on the main corridor passing through the city from Jalukbari to Khanapara. The approximate cost would be Rs.630 crore for 35 Km @Rs.18 crore per Km. We would urge the Commission to look into these aspects and recommend a special dispensation for upgradation of urban infrastructure of Guwahati.

There is no approved staffing pattern for GMC. The present sanctioned strength of GMC is 3639 out of which as many as 971 posts are lying vacant. In absence of an approved staffing pattern it is difficult to assess whether the organization is overstaffed or not. Nevertheless rationalization of existing manpower has become inevitable along with computerization of accounts and outsourcing of Jobs in selected services. **With this end in view, it is proposed to introduce VRS covering 500 employees belonging to different categories at an approximate one time settlement of Rs.40 crore.** As stated earlier, GMC also has an undischarged accumulated liability of about Rs.37 crore as arrears of CPF and other terminal benefits. It is hoped that the 13th Finance Commission would take this liability of Rs.77 crore into cognizance.

11.14 In respect of ULBs other than GMC, the total length of Municipal roads is 3125 Km out of which 1032 Km is pucca roads and the remaining 2093 Km is kutcha. The total length of drains across the municipalities in Assam is 5111 Km, almost 75% of this is kutcha drains. Substantial investment will be required to improve the pitiable condition of municipal roads and drains, all of which require special dispensation from Government of India.

With a view to mitigating the effects of vector borne diseases, it has been considered essential to equip the ULBs with adequate number of fogging machines. Financial requirement for this purpose will be around Rs.10 crore only. The Finance Commission is requested to kindly recommend this modest amount as grant-in-aid.

11.15 The Third Assam State Finance Commission had taken a lot of trouble to collect large quantity of district-wise data concerning the PRIs and ULBs. One important information that has surfaced from out of the collected mass of data is the "felt needs" of rural and urban local bodies. A consolidated statement each for PRIs and ULBs were appended at Annexure 9.11 and 9.12 respectively of the 3rd Assam SFC Report, which is being sent to the Thirteenth Finance Commission. It will be seen that PRIs have asked for as much as Rs.16214 crore worth of projects to match their felt needs over a period of 5 years. The ULBs have also asked for an amount of Rs.887 crore to fulfil their felt needs. This will require financial support and assistance from Government of India, which the Thirteenth Finance Commission may kindly recommend.

To sum up:

1. In regard to inter-state allocation of the sum recommended by the Central Finance Commissions to augment the Consolidated Fund of the States to supplement the resources of panchayats/municipalities, the successive Finance Commissions have adopted different parameters with varying degrees of weightage assigned to each parameter. The high degree of weightage given to the parameter of revenue effort by the TFC has been detrimental to the States where the PRIs are yet to become fully functional. It is urged that weightage of the revenue effort parameter should be suitably moderated till administrative machinery in the PRIs are properly put in place.
2. The TASFC has recommended that the aggregate net collection of State's own taxes and duties (other than non-tax revenue and State's Share of Central taxes) should form the divisible pool. Out of the divisible pool, 10 per cent in 2007-08 and 25 per cent in 2008-09 to 2010-11 should be devolved to the PRIs and ULBs as their share.
3. Apart from the devolution, the TASFC has recommended additional devolution to the ZPs and APs to meet the salary burden of DRDA and Block staff respectively.
4. In addition to devolution and additional devolution TASFC has also recommended grants-in-aid to PRIs and ULBs. The fund position as per recommendations of TASFC is summarized in the T**able- 11.15** below. It is hoped that the 13th Finance Commission would take this into consideration.

Table- 11.15
Devolution to Local Bodies as recommended by TASFC

(Rs. in Crore)

Year	Devolution	Additional Devolution	Grants	Total
2007-08	363.77	-	81.24	445.01
2008-09	882.11	79.55	210.98	1172.64
2009-10	933.26	85.92	144.60	1163.78
2010-11	984.96	92.79	156.64	1234.39
Total	**3164.10**	**258.26**	**593.46**	**4015.82**

5. The grants-in-aid recommended by the SFC included Rs. 52.30 crore and Rs. 46.38 crore for meeting arrear liability of ULBs and PRIs respectively on account of pay and other terminal benefits. Our submission before the 13th Finance Commission is that the above undischarged liabilities may be taken into consideration.

6. In addition to State Finance Commission's recommendation, separate allocation has been made in the State budget for 2008-09 for devolution of funds to the PRIs against the transferred subjects as per activity mapping. For this purpose allocation made under non-plan Rs.2764 crore and under plan Rs.1117 crore supplemented by Rs.811 crore as State's share against various Centrally Sponsored Schemes that will be implemented through the PRIs and ULBs.

7. The approved staffing pattern for PRIs currently in force is 18, 8 and 3 respectively for ZPs, APs and GPs. As per recommendations of the SFC this has to be strengthened to 30, 20 and 8 respectively for ZPs, APs and GPs.

8. Over and above the recommendations of the SFC, the issues which require action on the part of the Central Government to augment the Consolidated Fund of the State are listed below.

(Rs. in crore)

	Issues	Amount required
i.	Construction of Office buildings and meeting halls for GPs, APs and ZPs	1003
ii.	Maintenance of rural roads (amount required per annum)	216
iii.	Maintenance of rural buildings (per annum)	50
iv.	Construction of Sewerage System for Guwahati (under GMC)	636
v.	Construction of drainage system (GMC)	259
vi.	Bus Rapid Transport System for Guwahati (by GMC)	630
vii.	VRS package for GMC employees	40
viii.	Adequate Control Govt. support for providing mid-day meal in schools	-
ix.	Purchase of fogging machine for ULBs	10
x.	Improvement f rural infrastructure (for 5 years)	16214
xi.	Improvement of urban infrastructure (for 5 years)	887
	Total	**19945**

Annexure-I

Year-Wise details of grants-in-aid recommended by TASFC.

(Rs. in crores)

	Items	2007-08	2008-09	2009-10	2010-11
1	Arrear Salary etc of				
	i) GMC employees	36.99			
	ii) ULB employees	15.31			
2	Salary of PRIs	15.53			
3	Training of Personnel				
	i) PRIs	2.95	3.07	3.07	3.07
	ii) ULBs		0.6698	0.6697	0.7063
4	**Preparation of Plan& Est. for Town Hall**				
	i) GMC	1.00	--	--	--
	ii) ULBs	1.00	--	--	--
5	Purchase of Cess Pool cleaners for ULBs	8.46	--	--	--
6	Arrear salary of GP. Secys.		46.3832		
7	SATCOM for PRIs.		10.00		
8	Seed money for GMC town Hall.		10.00		
9	Seed money for rural multiplexes		30.00	30.00	40.00
10	Seed money for Town Hall of ULBs		6.00	6.00	8.00
11	Cremation & Burial grounds				
	i)GMC		0.55	0.55	0.55
	ii)ULBs		3.65	3.65	3.65
12	Public toilet for ULBs		1.86	1.86	1.86
13	Rural roads and Buildings		98.80	98.80	98.80
	Grand Total	**81.24**	**210.9830**	**144.5997**	**156.6363**

Annexure- II

Important Recommendations of TASFC regarding measures needed to improve the financial position of PRIs/ULBs.

In addition to devolution, additional devolution and grants-in-aid, other important recommendations of the TASFC are listed below:

1. Over and above the devolution recommended by the TASFC, GMC and other ULBs should not claim any further amount from GOA as their respective share of taxes etc. or any arrear thereof in respect of those Acts in which such sharing and apportionment of such taxes have been provided.
2. Outstanding debt of Rs.46.40 lakhs of PRIs to GOA should be written off by GOA.
3. Outstanding institutional loan of ULBs to LICI amounted to Rs.340.48 lakhs as on 31-3-2007.Being the guarantor of this loan, GOA may ask the concerned department to obtain the exact position and settle this matter as also any other debts of ULBs.
4. For the PRIs, besides making the raising of major taxes and non-taxes revenue obligatory, the floor rates instead of a ceiling limit should be fixed by GOA with provision for periodic revision.
5. Market, ferries, fisheries and ponds run by PRIs should be settled by fixing reasonable rates through market specific studies and the markets now being run by State agricultural Marketing Board should be transferred to the concerned PRIs/ULBs.
6. At least 50 per cent of the cost of each service provided by PRIs/ULBs should be recovered from the users of such services.
7. In regard to supply of drinking water in rural and urban areas, Users' Association should be formed and 50 per cent of the cost should be recovered as user charges from the beneficiaries.
8. PRIs should organize Users' Associations where irrigation projects are run by them and levy water charges from the beneficiaries to recover part of the costs.
9. All three tiers of PRIs should mobilize by way of Additional Resource Mobilization (ARM) Rs.50 crore in 2008-09, Rs.55 crore in 2009-10 and Rs.60 crore in 2010-11.
10. Appointment to the posts of tax collectors in all GPs should be made forthwith either on regular or contractual basis.
11. ULBs including GMC should raise taxes and other non tax revenues which the law provides as per projection made by TASFC.
12. Revision of valuation of holdings should be done by ULBs every five year. Valuation procedure should be changed from Annual Rental Value (ARV) to Unit Area Method (URM).
13. ULBs should be allowed to determine the rates and basis of trade license fees themselves and to **revise** the same periodically.

14. Realistic revaluation of urban land is overdue and this should be done to augment revenue collection.

15. ULBs should be allowed to levy service charges on properties belonging to GOI and State Governments which are located within the territorial areas of such ULBs.

16. ULBs should be empowered to grant building permission and realize the laid down fees. In case of Guwahati the present dual authority of granting building permission by GMC and GMDA should be ended and GMC alone should be allowed to exercise this power.

17. Tax exemption under Section 92 of the Assam Municipal Act, 1956 should be exception and no abuse of this power should be allowed. This section should be amended in line with Section 148 of the GMC Act, 1971.

18. For better tax compliance ULBs should enforce vigilance cover on property valuation, payment of tax through post offices, rebate for timely payment, surcharge for delayed payment, computerised billing and collection and municipal tax clearance certificates for obtaining permission for telephone and electricity connections etc.

19. As recommended for the PRIs and ULBs, in case of GMC also markets should be annually settled only after proper and market specific study.

20. GMC should issue provisional licences for construction of buildings on land other than patta land and collect fees on the same.

21. As in the case of other ULBs, GMC also should change the valuation procedure of property taxation form ARV to UAM, improve the quality and extent of its civic services so as to convince the rate payers to pay property taxes at enhanced rates.

22. GMC should revise the rates of trade licence at regular interval as per statutory provision and include emerging new services in the list under appropriate schedule of the GMC Act.

23. Arrear collection should get priority and where necessary Collection Tribunal may be appointed by GOA for GMC and other ULBs.

24. Estimates of annual collection of revenues by PRIs/ULBs should be made in advance in a realistic manner at the time of drawing up their budgets and performance judged against the achievement of such targets.

25. PRIs and ULBs are autonomous bodies under the Constitution and their allotted functions must be performed by their own staff and not by any provincialised staff. The system of provincialsation should be totally abolished.

26. Borrowing by PRIs/ULBs for meeting current expenditure should not be allowed. Borrowing by financially sound local bodies may be considered against viable schemes which are likely to generate adequate returns to meet debt servicing.

27. Government of Assam should seek financial assistance from GOI for improvement in the quality and quantity of mid-day meal in schools.

28. Public-Private partnership in respect of certain core civic services by GMC and ULBs is recommended.

29. In regard to issuance of bond by GMC and other ULBs a pooled finance mechanism has been advocated where some State sponsored intermediaries will borrow on behalf of ULBs who are not in a position to access capital market on a stand alone basis.

30. Registration of births and deaths should be assigned to PRIs and ULBs empowering them to issue certificates and realize fees.

31. The periods of recommendation of CFC and SFC should be synchronized; if necessary by an amendment of the constitution.

32. The system of accounts and audit should be suitably streamlined

33. A permanent SFC cell, manned by full time officers should be set up in State Finance Department to assist CFCs and SFCs and also to monitor the progress of implementation of their recommendations including funds released by GOI under State Plan, various Centrally Sponsored Schemes and State's share thereof, besides collection of data on a regular basis.

34. Develop a software package for devolution of fund awarded by SFCs/CFCs to the PRIs and ULBs.

35. GPs should be reconstituted by merger and reorganization to make the size viable and the population of each GP should not be less than 6000 unless otherwise deemed necessary.

36. The Schedule VI areas are not covered by the recommendations of TASFC. GOA may consider appointment of a small committee to look into the problems of such areas.

Chapter- 12

Sixth Schedule Districts and other Autonomous Councils

12.1 There are three Sixth Schedule Autonomous districts in Assam. Two of them are in hills, namely, Karbi Anglong and N.C. Hills. The third one, namely Bodoland Territorial Area District (BTAD), also known as Bodoland Territorial Council (BTC), comprises four administrative districts, namely, Kokrajhar, Baska, Chirang and Udalguri. The Government of India Act 1935, based on the recommendations of Simon Commission, had special provisions for administration of "excluded areas" and "partially excluded areas". In pursuance of Section 91 (I) of the Government of India Act 1935 The Governor General promulgated the Government of India (excluded and partially excluded areas) Order 1936. As per this order the following areas were included in the Schedule dealing with excluded areas :

1) North-East Frontier Districts (now Arunachal Pradesh)
2) Naga Hills Districts (now Nagaland State)
3) Lushai Hills Districts (now Mizoram State)
4) North Cachar Hills Sub-division of Cachar District (now North Cachar Hills Autonomous District under the Sixth Schedule)

The following areas were included in the partially excluded areas :

1) Garo Hills District }Now Meghalaya State
2) Khasi & Jayantia Hills District }
3) Mikir Hills District (now Karbi Anglong Autonomous District under the Sixth Schedule)

12.2

(i) The administration of these areas were brought under the Sixth Schedule to the Constitution of India with the adoption of the Constitution. The tribal communities living in these Council areas are sensitive about their cultural heritage and perceive a threat to their land and cultural identities from the non-tribals and other external influences. The Sixth schedule to the Constitution of India has provided Constitution of Autonomous Districts/Regional Councils with wide ranging Legislative, Executive, Financial and Judicial powers.

(ii) Under the Legislative powers the Councils have been entrusted with enactment of suitable laws in respect of management of land, forests other than reserved forests, shifting cultivation, establishment of village councils, town committees, matters connected with customary laws such as appointment/succession of village chief or headman, inheritance of property, marriage and regulation and control of money lending and trading by non-tribal.

(iii) Executive powers have been given to the Councils to manage primary education including the language/languages in which primary education is imparted, establishment and management of medical institutions, cattle pounds, ferries, roads, waterways etc.

(iv) Among the financial powers entrusted to the Districts/Regional Councils mention may be made of assessment and collection of taxes on land and buildings, collection of taxes on trades, profession and callings, a share of royalty on extraction of minerals etc.

(v) Under the Judicial powers, the Councils have been authorized to constitute village councils or courts for the trial of suits and cases between the parties who belong to the Scheduled Tribe Communities only. The powers and functions entrusted to the Autonomous Districts/Regional Councils under the provision of Sixth Schedule in the final analysis are based on the principles of self-governance by the people themselves.

12.3 After North-Eastern Region (Reorganization) Act 1971 only Karbi Anglong Autonomous District Council and N.C. Hills Autonomous District Council remain with Assam. Between them the two hill districts account for 20.58% of the total geographical area of the State and 3.76% of the total population. Similarly, with 9000 sq.kms BTAD comprises 11.46% of the total area of the State and 9.89% of its total population. Thus the three Sixth Schedule districts comprise 32.04% of the State's total area and 13.65% of its total population. These two Autonomous District Councils were further empowered by transferring 30 State subjects and the concerned development departments to them alongwith funds and functionaries and placing their administration under their control. The Councils were given all the powers of implementation of development programmes in their areas and a separate department in the State Government i.e., Hill Areas Department was created to look after the issues pertaining to relationship between the State Government and District Councils as well as to facilitate smooth functioning of the Councils.

12.4 Sixth Schedule to the Constitution was further amended in 2003 to include Bodoland Territorial Area District (BTAD) in accordance with the Memorandum of Settlement signed between the Government of India, Government of Assam and Bodo Liberation Tiger (BLT) on 10th February, 2003. The BTC or Bodoland Autonomous Council in BTAD has been entrusted with 40 departments and the administration of these departments have been transferred to BTC alongwith funds and functionaries. The BTC have Legislative and Executive powers over the subjects transferred to it.

12.5 These Councils are required to be appropriately supported to enable them to discharge their duties and functions assigned to them. The infrastructure development and capacity building need to be augmented to enable them to perform their role effectively. There is need to have decentralized administrative structure in Council areas similar to Panchayati Raj system to ensure empowerment of common people and their participation in the development process. This will require creation of administrative infrastructure at Village, Block and District levels.

12.6 As per 2001 census, the total population of the two hill districts is a little over 10 lakhs which constitute 3.76 per cent of the total State population. Out of this population 58.06 per cent belong to ST and 3.25 per cent belong to SC. The density of population in Karbi Anglong is 78 per sq. km. while in NC Hills it is 38. The two autonomous districts are mostly inhabited by hill tribes whose mainstay is agriculture. The general characteristics of land being hilly terrain, the people living on hill tops and slopes are constrained to practise jhum or shifting cultivation, which does not even provide subsistence to the jhumias for the whole year. As a result people in general are socially and economically less developed, – deprived of many basic amenities of life.

12.7 The non-plan revenue receipts and expenditure of these three Autonomous District Councils and their current deficit on non-plan account from year 2004-05 onwards are shown in **Table- 12.7** below.

Table- 12.7
Non – Plan Revenue Deficit of the Autonomous District Councils

(Rs.in crores)

Year	Karbi Anglong			NC Hills			BTC			Total
	Revenue Receipts	NPRE	Deficit	Revenue Receipts	NPRE	Deficit	Revenue Receipts	NPRE	Deficit	Total Deficit Col.4+7+10
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
2004-05	29.64	72.16	42.52	5.28	25.78	20.50				63.02
2005-06	29.29	71.70	42.41	5.60	26.43	20.83				63.24
2006-07	29.39	75.76	46.37	9.56	37.58	28.02	7.64	35.99	28.35	110.74
2007-08	27.68	87.78	60.10	13.74	42.77	29.03	14.74	36.88	22.14	111.27

It will be seen from the above table that the combined non-plan revenue deficit of the three Sixth Schedule Districts in 2007-08 was Rs.111.27 crore. Moreover, it appears that the annual growth of revenue and expenditure during these years did not follow any uniform pattern and was mostly erratic. **On an average their combined non-plan revenue deficit during the forecast period 2010-15 is likely to be of the order of Rs.165 crore per year. The State Government has to bear the burden of this gap. We urge the Thirteenth Finance Commission to recommended measures to bridge this revenue gap of the Sixth Schedule Districts.**

12.8 **Sharing of State resources with the Sixth Schedule Districts**

(a) **Plan Expenditure –**

Once the Annual Plan outlay of the State is finalized the divisible amount is estimated after deducting the earmarked funds i.e. Centrally earmarked fund for special projects and for externally aided projects, funds which are provided under Finance Commission, Loans from NABARD and MLA's Local Area Development Fund. Out of the divisible plan outlay as estimated above, 7.27% is provided to two Autonomous District Councils in the hills. The respective horizontal allocation between these two Councils is based on population. Similarly, BTAD gets 12.19% of the remaining balance divisible plan outlay. In 2008-09 the Annual Plan outlay of the State is Rs.5011 crore. Out of this the respective shares of Karbi Anglong, N.C. Hills and BTC Sixth Schedule districts are Rs.173.43 crore, Rs.75.47 crore and Rs.150.00 crore respectively.

(b) Non-Plan Expenditure –

The State Government bears the non-plan expenditure of the Sixth Schedule districts, including wages and salary of the employees. The non-plan expenditure are provided for in the State budget and shown separately. The estimates are prepared on the basis of proposals received from the respective

Councils. On an average their non-plan budgets are stepped up by about 5% every year. The State budget for 2008-09 has provided Rs.482.56 crore for BTC, Rs.197.88 crore for Karbi Anglong and Rs.105.92 crore for N.C. Hills Autonomous District Councils towards their non-plan revenue expenditure.

(c) **Twelfth Finance Commission Grants for Local Bodies -**

Grants-in-aid recommended by the Twelfth Finance Commission for the five year period from 2005-10 to the PRIs and ULBs in the State are Rs.526 crore and Rs.55 crore respectively. **Although the 73rd and 74th amendments of the Constitution are not applicable to the Sixth Schedule areas, the State Government has been giving a share of these grants to the Sixth Schedule Districts by applying yardsticks similar to those applied by the Twelfth Finance Commission for allocating funds to the States.** For PRIs weightage have been given on population (50%), geographical areas (25%) and per capita income (25%). For ULBs weightages applied are – urban population (50%), urban area (25%), Infrastructure (12.5%) and per capita tax collection (12.5%). Accordingly, the allocations made by the State Level High Power Committee on TFC Grants for PRIs and ULBs in general areas and those in the three Sixth Schedule Districts for the five year period 2005-10 is given in Table-12.8 below :

Table-12.8

(Rs. in crore)

Area	PRI	ULB
General areas	423.6405	44.2970
BTC 6th Sch. Dist.	64.1195	6.7045
Karbi Anglong 6th Sch. Dist.	25.5725	2.4940
N.C. Hills 6th Sch. Dist.	12.6675	1.5045
Total	**526.00**	**55.00**

(d) Other TFC Grants –

The State Government shares the other TFC Grants, namely Grants for Health, Education etc. also with the Sixth Schedule Autonomous District Councils by applying the same principle as in case of sharing of plan outlay. 7.27% is allocated to the two Sixth Schedule District Councils in the Hill area. Of the balance amount 12.19% is given to BTC.

12.9 73rd and 74th Amendments – exclusion of Sixth Schedule Districts

Originally at the time of framing of the Constitution of India the Provision of Sixth Schedule was made as an interim measure to protect the land and preserve the cultural identity of the tribal people living in erstwhile excluded and partially excluded areas. The intention was that once they come up educationally, economically, socially, culturally and politically, such protections under Sixth Schedule will no longer be required. However, protections under the Sixth Schedule of the Constitution are being demanded by various indigenous tribal groups for creation of ethnic homelands. Creation of BTAD in 2003 is a case in point. **However, one unintended consequence of protection under Sixth Schedule is that the 73rd and 74th**

amendments of the Constitution do not apply to the Sixth Schedule areas. As a result, the PRI institutions, viz, Gram Panchayat, Anchalik Panchayat and Zila Parishad do not exist in the Sixth Schedule districts. Therefore, at the grass-root level there is no scope for community participation in various rural development and other centrally sponsored programmes through the PRIs in the Sixth Schedule districts. There are however traditional Village Councils (VC) in the two hill districts and Village Council and Development Committees (VCDC) in BTAD. But they are not recognized as Gram Panchayats under the 73rd amendment. Similarly, although there are Towns and Municipal Bodies in the Sixth Schedule districts, they are not recognized under the 74th amendment. As a result of this the Sixth Schedule districts are being deprived of devolution and other grants under the State Finance Commissions recommendations.

In view of the above it is imperative that the traditional VCs, VCDCs as well as the Town Committees and Municipalities are brought under the purview of the 73rd and 74th amendments of the Constitution. We have been advised by our legal expert that the Constitution of India does not provide any power to the Governor of Assam to extend the provisions of Part IX and Part IX A to the Tribal Areas of Part I of the Table appended to para 20 of the Sixth Schedule to the Constitution of India within the State of Assam. This power lies with the Parliament of India. Accordingly the matter is being taken up with Government of India by the State Government after due consultation with the concerned Sixth Schedule Autonomous District Councils.

12.10 **Assam Sixth Schedule Districts vis-à-vis neighbouring hill States –**

As indicated in paragraph 12.1 above, the neighbouring hill States of Nagaland, Mizoram and Meghalaya were carved out of Assam. After becoming separate States, these erstwhile tribal districts of Assam have been receiving substantial amount of Central funds from the Finance Commissions and Planning Commission. The population of the Sixth Schedule areas of the State is 39 lakh. As against this, the State of Meghalaya, Nagaland and Mizoram, which were carved out of Assam earlier, have a population of 23 lakh, 20 lakh and 9 lakh respectively as per latest census figures. Although the area and population of the Sixth Schedule districts of Assam are more than the area and population of the above mentioned States, the plan assistance received by the Sixth Schedule areas of Assam (Rs.380 crore) in 2005-06 is far less than the plan assistance received by Meghalaya (Rs.800 crore), Nagaland (Rs.685 crore) and Mizoram (Rs.620 crore). Similarly these States also received non-plan revenue deficit grants of Rs.1796.86 crore, Rs.5536.50 crore and Rs.2977.79 crore respectively under the 12th Finance Commission award, as against only Rs.305.67 crore for the entire State of Assam. This wide divergence between flow of Central funds to the neighbouring hill States and the tribal Sixth Schedule districts of Assam is being perceived as discrimination resulting in slow pace of development in the Sixth Schedule areas of Assam as compared to the neighbouring hill States. This has generated resentment and political turbulence including rise of insurgency demanding separate States in place of the existing Sixth Schedule District status. **In view of the position stated above, justice and fairness demand that the Sixth Schedule Districts of Assam should get Central funds commensurate to their area and population as compared to the neighbouring hill States. We therefore request the Thirteenth Finance Commission to recommend special package for the Sixth Schedule Districts of Assam.**

OTHER AUTONOMOUS COUNCILS

12.11 Further, to provide political space to other ethnic groups, the State Government has created six other Councils to empower smaller ethnic tribal groups under State Acts. These Councils are Mishing Autonomous Council (MAC), Rabha Hasong Autonomous Council (RHAC), Tiwa Autonomous Council (TAC), Deori Autonomous Council, Sonowal Kachari Autonomous Council (SKAC) and Thengal Kachari Autonomous Council (TKAC). In addition to this a non-statutory Barak Valley Hills Tribes Development Council (BVHTDC) has also been set up. While these councils have executive powers for dealing with 34 subjects, they do not have legislative powers. These Councils have been empowered to impose levies and collect some local taxes within limits prescribed by the Government. Their revenue collection from these sources is nominal. For all practical purposes, these councils do not have any source of revenue and depend entirely on State Government funding. Due to resource constraint flow of fund particularly non-Plan fund from the Government of Assam to these Councils is also extremely limited as shown in **Table -12.11** below:

Table- 12.11
Resource transfer from State to other Autonomous Councils

(Rs. in crores)

Name of Council	2007-08		2008-09	
	Plan	Non Plan	Plan	Non Plan
MAC	23.50	1.10	25.00	1.25
RHAC	12.50	1.10	17.60	1.25
LTAC	6.09	1.10	17.06	1.25
DAC	4.00	0.50	11.70	0.60
SKAC	6.00	0.50	10.90	0.60
TKAC	7.00	0.50	10.75	0.60
BVHTDC	0.50	0.30	0.50	0.30

As stated earlier, the tribal population in these areas has become restive and they occasionally take resort to agitational programmes demanding more autonomy. In order to fulfil their hopes and aspirations the non-plan expenditure of the State government would go up substantially in the coming years. **It is, therefore, urged that the Commission may recommend Rs.48 crore annually from 2010-11 onwards for passing on to these Councils, i.e. Rs.240 crore for the five year period 2010-15. Moreover the administrative infrastructure of these councils are almost non-existent. It is therefore imperative to create such infrastructure forthwith to enable them to function efficiently. For this purpose also, the Commission may recommend a one time grant of Rs.30 crore.**

12.12 As has been mentioned earlier there are large number of tribes and other ethnic groups in the State. Quite of few of them are socially and economically less developed. Some of them have been demanding Statutory Autonomous Councils as mentioned in the preceding paragraph. It is imperative that focused attention is given for their socio-economic development. Instead of Statutory Autonomous Councils the State Government has decided to create seven Development Councils for Moran, Motok, Ahom, Chutia, Koch-Rajbongshi, Tea Tribes and Gorkha ethnic group. A modest amount of Rs.12 crore has been provided in 2008-09 State Plan Budget. **The Thirteenth Finance Commission is therefore requested to provide a sum of Rs.175 crore as Grant-in-aid for the seven Development Councils.**

Chapter- 13

Modernisation and Upgradation of Standards of Administration and Special Problems

13.1 We have already discussed in Chapter- 2 how the State administration has remained pre-occupied with handling a series of agitational programmes, insurgencies and ethnic unrest for the past three decades. Natural calamities like floods that torment the State almost every year with unfailing regularity also detract the administration from its normal governance functions. Expenditure on major administrative and regulatory functions like Administration of Justice, Land Revenue, Finance, Secretariat Services, District Administration, Police, Fire Service, Jails, Administration of Forests, maintenance of Health and Educational Services, Public Utilities and infrastructure, Municipal Administration, Rural and Urban Local Bodies and preservation and maintenance of cultural heritage and archaeological sites are usually categorized as non-plan expenditure. Because of our serious financial constraints during the last two decades we had to drastically reduce our non-plan expenditure. To make matters worse, Government properties and infrastructure have been the favourite targets of terrorist attacks.

Judicial Administration

13.2 An efficient judicial administration is essential for development. But in recent years the number of cases pending in the High Court and the Subordinate Courts has been increasing due to shortage of sufficient number of Judges and subordinate staff. It is this consideration that led the Government of Assam to focus its attention towards strengthening of judicial administration. In this context, the recommendations of the Shetty Commission and the directions given by the Hon'ble Supreme Court in All India Judges Association case are of particular relevance. The requirement of additional fund for upgradation of judiciary is highlighted below.

(a) In order to cope up with the swelling number of pending court cases, additional 15 posts of Judges in the Gauhati High Court with necessary subordinate staff and other logistic support will be required. This will cost approximately Rs.40 crore as detailed below:-

(Rs. in crore)

1	Salary of Judges for 5 years	9.00
2	Salary of subordinate staff for 5 years	5.00
3	Vehicles	1.00
4	Construction of buildings and residential complex	25.00
	Total	**40,00**

(b) In terms of the **direction of the Hon'ble Supreme Court in pursuance of the recommendations of the Shetty Commission,** 50 posts of Judges are required for one million population. Taking the projected population of Assam at 28 million as on date, the total requirement of Subordinate Court Judges is 1400. However, it is proposed to create 250 posts of Subordinate Judges in the next quinquennium with supporting staff and physical infrastructure. The estimated cost is approximately Rs.243 crore as detailed below.

(Rs. in crore)

1.	Salary of Subordinate Court Judges	60.00
2.	Salary of subordinate staff	67.00
3.	Vehicles	16.00
4.	Construction of office buildings and residential complex	100.00
	Total	**243.00**

(c) One of the major lacunae in legal system is the absence of an any institution in the State in legal education. After independence India created IIMs, IITs and 'Centres of Excellence' for medical education. But unfortunately, no 'Centre of Excellence' was created in legal education. The first Law University in the country came up only in 1988. Thereafter, many State Governments have established Law Universities in their States. So far, there is no Law University in the North Eastern region. It is, therefore, imperative to establish a **University of Law in Assam which will cater to the needs of the North Eastern States. The proposed University will have a Training Academy for imparting training to judicial officers in view of Hon'ble Supreme Court's direction** for one year compulsory training to all fresh recruits in the Judiciary. The proposed National Law School and Judicial Academy will come up on a sprawling 50 acres of land contiguous to Guwahati for which land allotment has already been initiated. **The estimated cost for this project is Rs.100 crore.**

In this context, it needs to be mentioned that although a strong and independent Judiciary is a prerequisite for economic development, expenditure on Judicial administration is treated as non-development expenditure and have classified as non-plan expenditure. The estimated requirement of fund for strengthening Judicial administration in the State adds upto Rs.383 crore (a + b + c). We urge the Thirteenth Finance Commission to kindly recommend a package of Rs.383 crore for this purpose.

13.3 State Finance Commission Cell

Finance Department has constituted a Finance Commission Cell in the State Finance Department to assist Central Finance Commission and State Finance Commission and to monitor the progress of implementation of their recommendations. This Cell will also monitor utilization of funds released by Government of India under State Plan, various Centrally Sponsored Schemes and State's Share thereof beside collection of data on a regular basis in respect of the Local Bodies.

In order to strengthen the newly created Cell it is essential to equip it adequately with computers, laptops, scanners, MCA computer operators, furniture and fixer, vehicles etc. The estimated requirement for this purpose is Rs.2 crore. The Thirteenth Finance Commission may provide this amount as grants-in-aid.

13.4 **Revenue and Disaster Management Department**

The Revenue & Disaster Management Department is one of the oldest departments of the State. This department, inter-alia, is responsible for Land and Revenue Administration in the State. As such it has to maintain a huge work force at District, Sub-divisional and Circle levels, especially for maintenance and updating of Land records, periodic revision and re-assessment of Land Revenue. The Department has the following field offices:-

1)	Directorate of Land Records & Surveys	- 1
2)	Directorate of Land Acquisition, Requisition and Reforms	- 1
3)	Land Revenue Branches in the office of D.C.s	- 27
4)	Land Revenue Branches in the office of SDOs	- 53
5)	Circle Offices	- 152
6)	Sub Registrar Offices	- 75

The Revenue & DM Department being a non-plan Department has always suffered from inadequacy of funds for the upkeep and modernization of the administrative structure. A large number of offices are running from rented premises and most of the departmental office buildings of Circle Offices and Sub-Registrar Offices are in dilapidated condition. Urgent investment for their maintenance and upgradation is required to ensure efficient functioning of the Department. Keeping this in view, the Department has got a model plan made by the State PWD and preliminary estimates suggest a requirement of Rs.150 crore for construction of new buildings and for upgradation of the existing buildings. **It would be very helpful if the Thirteenth Finance Commission makes available Rs.150 crore for this purpose.** Besides this, Revenue & DM Department needs money for Reorganization of Revenue Lots & Sub Circles, Renovation of Survey & Settlement Training Centre, Upgradation of Assam Survey Press, Updating of Assam Traverses Survey, Char Survey, Cadastral Survey of non-cadastrally surveyed areas, Digitisation of Cadastral Maps and Protection of Tribal areas. **The immediate requirement of funds for this purpose is estimated to be Rs.100 crore.**

While the department will approach the department of Land Resources, Government of India, for assistance for computerization of Land Records, the requirement as projected above is not available under any of the Central Sector or Centrally Sponsored Scheme and as such **it would help if the Thirteenth Finance Commission makes available the required funds to the tune of Rs.250 crore to Revenue & Disaster Management Department.**

Home Department

13.5 While fighting terrorism and insurgency remains the most important function of the state police force, ethnic tension, communal strife and rising urban crimes have also engaged its attention and resources. During the last few years, the most disquieting trend has been the growing nexus between the insurgent groups and fundamentalist forces. Assam police has to come to terms with these emerging realities and focus on improving the condition of police stations and buildings, facilities for training and capacity buildings and its weaponary. **It needs to be mentioned that modern accommodations requirement of Assam police have remained at 17% against the**

national average of 30%. As many as 155 Police Stations and 90 Outposts are housed either in rented or dilapidated accommodations. The present housing infrastructure is not sufficient for more than 19% of the lower subordinate staff of the State Police.

Besides, in view of the mounting challenges, there is a pressing need for substantial increase in the manpower of the Police Department. Hon'ble Home Minister, Government of India also acknowledged this fact during his visit to the State immediately after the serial bomb blast in Guwahati, Kokrajhar, Barpeta and Bongaigaon. It is estimated that the State needs to add 37000 more personnel to the police force which will entail non-plan revenue expenditure to the tune of Rs.2500 crore. The State requires more than Rs.15000 crore for field level civil works, weaponry and mobility of the forces, upgradation of the communication facilities including extension of IT network strengthening of VIP security related hardware, integrating Forensic Science services to crime investigation, improvement of the forensic science facilities, strengthening of the Home Guard and Village Defence setup and as well as for upgradation of the intelligence network. The Thirteenth Finance Commission is requested to appreciate that the State is not only dealing with the problem of insurgency, but also with the serious problem of cross-border terrorism having a serious bearing on the country as a whole and recommend a special grant commensurate with the requirement projected above. **In paragraph 1.34 of Chapter-1 and paragraph 8.9 of Chapter-8 we have requested for Rs.8816 crore as a Special Grant for this purpose and a detail Supplementary Memorandum has also been submitted in support of this requirement.**

Border Area Development Department

13.6 Assam has approximately 2100 KM long inter-state border with Arunachal Pradesh, Meghalaya, Manipur, Mizoram, Tripura, Nagaland and West Bengal and 532 km long international border with Bangladesh and Bhutan. These border areas are mostly forests and extremely underdeveloped in terms of basic facilities like roads and bridges, water supply, sanitation, electricity, etc. As the basic needs of the people of these areas are not being met, these areas have become fertile ground for recruitment by the extremist groups. **Certain sections of the inhabitants also got alienated from the State because of lack of development in the border areas.** The security people engaged for protection of national wealth and to maintain law and order in the areas are also finding it difficult to patrol in the areas and nab the extremists/anti-social elements due to lack of road connectivity. **There are several BPOs taking electricity connection from the neighbouring States.**

Taking advantage of the situation, the neighbouring States are encroaching on the land/forest areas of Assam by constructing roads, setting up schools, health centers, community centers illegally. The intrusion from the neighbouring States has led to depletion of the forest cover and disturbed the ecological balance, destabilized the peaceful relationship among neighbours which existed traditionally for hundreds of years. It has resulted in frequent clashes among people from the opposite sides of the border and has proved to be a serious dampener on the execution of the much needed development efforts in these areas.

The distinctive nature of the problems of these areas demand that some pro-active steps are taken urgently to develop the road connectivity, convert the timber bridges into concrete bridges and renovate the dilapidated ones, setup adequate number of schools to ensure that each habitation has a lower primary and upper primary school within a radius of 1.5 KM and 3 KM respectively, and to provide access to safe drinking water and sanitation facilities. Most of the border Outposts are also in a deplorable condition. Some efforts have been made to improve these facilities under Assam Vikash Yojana and a sum of Rs.5 crore has been provided for this purpose in addition to Rs.10 crore under State Plan, but this is grossly inadequate considering the 2100 KM length of inter-state border. The **Thirteenth Finance Commission is requested to recommend a special grant of Rs.500 crore in view of serious problem of cross border migration and terrorism and frequent law and order problems in the inter-state border areas.**

Development of Char Area

13.7 We wish to draw special attention of the Commission to the problems of the Char or riverine island areas of Assam which suffer from serious locational disadvantages. These are essentially deposit of silt and their problems emanate from the fact that the Brahmaputra is a highly braided river. Its multiple channels frequently change course creating new chars and eroding and submerging the old ones. The shifting nature of the river channels makes the surface communication and creation of permanent assets extremely difficult. Most of the char areas are also not cadastrally surveyed and there are no land records. But because of the fertility of the soil, these are thickly populated. Of late, these areas have also been used by the insurgent groups as their hide-outs due to the communicational bottlenecks. It also needs to be mentioned that most of the riverine islands are inhabited by people from minority community. The urgent necessities are- (i) River police stations well equipped with speed boats and surveillance equipments, (ii) Mobile health units, (iii) Cadastral survey and generation of land records, (iv) Basic administrative structures like Circle and Block Offices, Panchayat Offices, Police stations and Outposts etc., (v) Inland water transport services, (vi) Non-conventional energy and (vii) flood and erosion protection measures. State Government has been trying its best to mitigate the problems of these areas, but needs additional resources to be equal to the task. **We request the Thirteenth Finance Commission, therefore, to recommend a sum of Rs.300 crore for upgradation of the standard of administration and for redressal of the special problems of the Char areas.**

General Administration Department

13.8 One of the serious problems of the administrative set up of the State is non availability of proper infrastructure at the district and sub-divisional headquarters. Office buildings, circuit houses and staff quarters in the old districts and sub-divisions need renovation and expansion and newly created districts and sub-divisions do not have these basic facilities at all. Needless to say, these facilities are critical to the efficiency and morale of the administrative machinery. Following proposals are made, therefore, for the consideration of the Thirteenth Finance Commission.

Sl. No.	Proposals	Amount (Rs. in crore)
i.	Construction and expansion of Circuit Houses at Jorhat, Tinsukia, Dhubri, Nazira, Bokajan, Bokakhat, Kajalgaon, Dhansiri, Bajali, Masalpur and Gohpur	7.00
ii	Construction of DC and SDO (Civil) Office building at Bhergaon, Gohpur, Tamulpur, Salbari, Masalpur, Kajalgaon, Bokajan, Abhiyapuri and Hailakandi	12.00
iii	Construction of staff quarters at Sivasagar, Bhergaon, Udalguri, Gohpur, Tamulpur, Salbari, Masalpur, Chirang, Kajalgaon, Bongaigaon, Golaghat, Bajali, Nalbari, Goalpara and Sankardev Nagar (Hojai)	12.00
	Total :	**31.00**

Labour and Employment

13.9 Strengthening of the network of the ITIs and upgradation of the facilities thereof is of paramount importance for addresssing the problem of unemployment in the state. Some of the ITIs are being upgraded as Centres of Excellence and opening of new ITIs at the block level is under active consideration of the Central Government, but what is immediately required is to make the existing ones fully functional. It is with this background that following proposals are being submitted.

Sl. No.	Proposals	Amount (Rs. in crore)
i.	Hostel facilities at ITIs at Gargaon, Dhansiri, Dibrugarh, Majuli, Morigaon, Bhergaon, Kokrajhar, Srikona, Jorhat, Guwahati and Goalpara	20.00
ii	Staff quarters at ITIs Dhansiri, Gargaon, Morigaon, Dhamaji, Kokrajhar, Majuli, Jorhat and Bongaigaon	10.00
iii	Auditorium at ITI, Guwahati	1.50
iv	Renovation of existing infrastructure of ITIs	1.60
v	Transport facilities at ITI, Dibrugarh, Kokrajhar, Goalpara, Dhansiri, Hailakandi, Srikona, Karimganj and Dhemaji	0.80
	Total :	**33.90**

It is also worth mentioning that the office of Labour Commissioner has become very important with the heightened focus on eliminating child labour, but it lacks the basic office infrastructure both at the HQ and field levels. **It is requested, therefore, that the Commission may consider recommending Rs.6 crore for construction of the office building of the Labour Commissioner and seven zonal office buildings.**

Cultural Affairs Department

13.10 Following proposals are submitted for the consideration of the Thirteenth Finance Commission-

Sl. No.	Proposals	Amount (Rs. in crore)
i.	Construction of new Archival Building to preserve the written cultural heritage of the State	3.00
ii	Construction of administrative building for the Directorate of the Archives	4.00
iii	Digitization and Micro Filming facility at the Directorate of Archives	1.00
iv	Protection, preservation and restoration of 20 nos. of Archaeological /Historical sites and monuments	10.00
v	Preservation and restoration of 20 nos. of heritage building	5.00
vi	Documentation and digitization of antiquities	0.50
vii	Setting up of chemical laboratory for the chemical treatment of the antiquities and art objects	0.50
viii	Construction of Head Office building, Zonal Office building and staff quarters under the Directorate of Archeology	3.00
ix	Protection, preservation and promotion of Satras of Majuli island	5.00
x	Renovation and expansion of reading rooms in 23 nos. of District libraries, 14 nos. of sub-divisional libraries and 204 nos. of rural libraries with proper sitting and lighting arrangements	6.00
xi	Strengthening of the conservation laboratory under the Directorate of Museum	1.00
xii	Digital documentation of Museum objects	0.50
xiii	Improvement of 10 nos. of District Museum	5.00
	Total :	**44.50**

Education Department

13.11 As has been explained in Chapter- 2 of the memorandum, the State has not been able to achieve the desired level of educational infrastructure and facilities despite the State Government devoting a significant portion of its resources for this purpose. Even the fund available under Sarva Siksha Abhiyan has proved to be inadequate. The decision of merging Class- VIII with elementary schools has added to the problem of shortage of class rooms and infrastructural facilities. Condition of the buildings of the Education Department offices, secondary schools and colleges in the State is generally very unsatisfactory. However, some specific areas shown below require immediate attention.

Sl. No.	Proposals	Amount (Rs. in crore)
i.	Renovation and upgradation of the office building of the Directorate of Higher Education and 27 district offices under it	2.00
ii	Infrastructure development and introduction of job oriented courses at Guwahati, Dibrugarh and K.K. Handique State Open Universities	4.50
iii	For K.K. Handique State Open University- a. Retaining wall campus = Rs.50 lakh b. Laboratory facility for vocational course= Rs.50 lakh c. Networking of the study centres= Rs.150 lakh d. Expansion of the studio of educational broadcast= Rs.100 lakh	3.50
iii	Improvement of the buildings, hostels, libraries, laboratories and	500.00

	infrastructure in the higher secondary schools and colleges	
iv	Construction of additional class room for class-viii in the upper primary school @ Rs. 2 lakh per class room for 6910 nos. of class room.	138.00
v	Supply of furniture, blackboard, TLMS for class-viii to the upper primary schools @ of Rs. 20000 per school	14.00
vi	Modernisation of libraries in 74 nos. of institution under the Directorate of Madrasa Education	7.40
vii	Upgradation of science laboratories in 68 nos. of Madrasas	6.80
viii	Repaying of girls common room in 74 nos. of Madrasas	1.50
ix	Improvement of sanitation/toilet facilities at 74 nos. of Madrasas	1.50
x	Improvement of buildings, laboratories, libraries and infrastructure in the secondary schools	300.00
xi	Improvement of campuses, hostels, convention halls, sports complexes, libraries and laboratory facilities, staff quarters in the three universities	225.00
	Total	**1550.70**

Twelfth Finance Commission had recommended a grant of Rs.1107.37 crore for this sector in Assam. **Thirteenth Finance Commission is requested to double this grant to enable the State Government to undertake the implementation of proposals mentioned above along with other measures to enhance the recent quality of elementary, secondary and higher education.**

13.12 **Improvement of buildings, infrastructure etc. of Cotton College, Guwahati.**

Cotton College in Guwahati was established in 1901. It was the first college in the entire North-Eastern region. It has played a very important role in promotion of higher education not only in Assam, but in the entire NE region. Today it has attained the stature of a centre of excellence for higher education in the NE region as well as in the country. For the people of the State, it is not only an educational institution par excellence, it is also a heritage. The alumni of the college have made their mark in different walks of life both nationally and internationally. Even after more than 100 years of existence, it continues to inspire the new generations and attract the best students from all over the State as well as from the neighbouring States. However, because of increase in the number of students and the academic disciplines, without corresponding improvement in its infrastructure and other facilities, this premiere educational institution is facing a multitude of problems. We would like to indicate below some of the improvement, upgradation and development works that Cotton College is in urgent need of. **We hope the Thirteenth Finance Commission will look into the problems of Cotton College sympathetically and recommend a grant-n-aid of Rs.66.96 crore.**

Sl. No.	**Proposals**	**Amount (Rs. in crore)**
i.	Improvement of four numbers of hostels	32.40
ii	Furniture for the hostels (@ Rs. 10,000 per student)	0.80
iii	Construction of four superintends' residence	1.44
iv	Capacity increase of the examination hall	6.00
v	Conversion of the KBR hall to modern conference hall	3.00
vi	Development of the centre for language study	1.80

vii	Modernization of the Physics, PG Block	1.00
viii	Development of the Zoology Block to house the department of Bio-chemistry	1.35
ix	Extension of the central computer and IT centre with necessary computers and furniture	3.00
x	Development of the indoor stadium and gymnasium hall to a modern sports complex	6.00
xi	Development of the museums of department of Anthropology and History	1.30
xii	Development of the extension education centre	2.60
xiii	Development of women study centre	0.82
xiv	Development of the central instrumentation centre	1.30
xv	Development and modernization of the college library	1.25
xvi	Improvement of the Cotton College guest house	1.40
xvii	Development of the college campus by providing boundary wall and land scaping	1.50
	Total	**66.96**

Twelfth Finance Commission had recommended a special grant for Sankardev Nethralaya, Guwahati. Thirteenth Finance Commission is requested to recommend a special grant for the Cotton College, Guwahati.

Health and Family Welfare Department

13.13 There are a large number of health institutions such as Medical Hospitals, Civil Hospitals, Sub divisional hospitals, Community Health Centres (CHCs), PHCs etc. A good proportion of these institutions are in need of repair and renovation. The budget available with the PWD is inadequate to take up even repairs, leave alone undertaking any kind of upgradation. Normal budgetary support is not at all commensurate with the requirements. The Institute of Medical Sciences, Jorhat for imparting 3 years Diploma Course to Rural Health and Medicines started in 2005, also needs expansion due to the response that has been received during the last 3 years in admission.

15 GNM schools and 18 ANM schools are running in the State where renovation of the building and hostel including the quarters of the teaching staff and supporting staff is required.

The quarters for the faculties and Para-medical and non-medical staff of the Medical College & Hospitals, GAC and RDC, RNC. 3 Homeopathic Medical College & Hospitals need complete renovation and repairing since these were constructed long back and no fund could be provided for repairing, renovation from normal budget and as such financial assistance from the Thirteenth Finance Commission has become essential. Similar is the situation in respect of the Dist/Sub-Divisional and other Rural Hospitals that were constructed long back and the three Medical Colleges of Assam.

It is also worthwhile to mention that the State Government has provided 615 numbers of Ambulances for the district Civil Hospitals and other Rural Health Institutions including 6 numbers of Critical Care Ambulances for the Medical College & hospitals. The State Government has also set up Mobile Medical Units and the Boat Clinics for the riverine areas. These vehicles will need replacement after 3 years and a few of them have already reached the stage of replacement. It would be difficult for the Health & Family Welfare Department to continue the said Ambulance services unless support of fund under Thirteenth Finance Commission is received.

Besides, the Government of India have now come out with Indian Public Health Standards (IPHS) which stipulate the standards that are required to be maintained for various categories of health institutions. The health institutions which were created quite sometime back have lot of ground to cover in order to reach standards prescribed by IPHS. Therefore, procurement of equipment, recruitment of manpower (contractual basis) and training of manpower is a basic requirement. In order to take up this programme, the usual budgetary provisions will not be sufficient.

The Government of Assam have taken up several innovative schemes such as scheme for providing pacemaker and chemo therapy drugs to the poor and needy patients. Such noble schemes cannot be run on a long term basis unless additional infusion of funds comes from extra budgetary source. Although NRHM funds have proved to be of immense help in addressing some critical needs of this sector, the state requires a sizeable assistance from the Thirteenth Finance Commission to be able to upgrade the Health & Family Welfare infrastructure and improve the service delivery systems. **It is appreciated that the Twelfth Finance Commission recommended an equalization grant of Rs.966.02 crore for Assam. The Thirteenth Finance Commission is requested to double this grant to enable the State to improve the buildings, infrastructure, equipments and services in the three medical colleges, 23 district level hospitals, 13 sub-divisional civil hospitals, 149 Block PHCs, 120 CHCs, 395 PHCs, 89 mini PHCs and 198 state dispensaries.**

Forest and Environment Department

13.14 The Twelfth Finance Commission recommended a grant of Rs.40 crore for this sector which has been of some help in repair and renovation of forest buildings, roads and culverts and the amenities for the forest staff. However, forest department is faced with a serious resource crunch in protecting and conserving the rich forest cover of the State. Area under forest cover in the State is 27,714 Sq.Kms. This comprises 35.15% of the total area of the State. A few important statistics of the State forests are:-

- (i) No. of World Natural Heritage Sites – 2,
- (ii) No. National Parks – 5,
- (iii) No. of Wildlife Sanctuaries – 20
- (iv) Biosphere Reserves – 2
- (v) Elephant Reserves – 5
- (vi) Tiger Project Areas – 3
- (vii) Ramsar Site – 1
- (viii) Improtant Bird Areas – 46

As per the biogeography classification of India (Rodgers and Panwar, 1988), Assam falls in 9A and 9B zones, i.e. North East Brahmaputra Valley and North-East Hills. The State marks the transitional zone between the Indian and Indo-Malayan and the Indo-Chinese Bio-geographical sub-regions and is one of the most biologically diverse areas in South Asia. Assam’s forests are home to innumerable rare and endangered flora and fauna species and a wealth of medicinal plants, comprising terrestrial, aquatic (lotic and lentic) eco-systems. The landscape of Assam can be divided into the hills and two valleys, namely, Brahmaputra and Barak, which support characteristic vegetation types Dipterocarpus macrocarpur – Messua ferrea – Shorea assamica in the former and Messua ferreaa – Diptercarpur turbinatus _ Plaquium polyathum in the latter. Both the Hill Districts of Assam have very thick forest cover with rich bio-diversities.

Assam hosts approximately 3,017 species of flowering plants, including 193 + species of wild orchids. At least 102 species from 75 genera are considered endemics and Assam hosts several rare and endangered floral species. The forest provides a wealth of non-timber products including oil yielding plants, medicinal plants, resins and gums, kutch and katha, charcoal, broom and thatching grass, roofing materials, fruit species and vegetables. The State is rich in bamboo and canes, having 42 species and 14 species respectively. Potential values of many of these products are quite high.

Bio-Diversity of Assam

Flora		Fauna	
Angiosperm	3,017	Mammal	230
Bamboo	42	Birds	800
Canes	14	Amphibians	185
Orchids	193	Butterflies	1,500

Protection and conservation of the above mentioned forest resources of the State is a daunting task. There are many well equipped organized gangs having international links involved in poaching and illegal felling of trees in our reserved forests, wildlife sanctuaries and national parks. The State Forest Department is poorly equipped in terms of men, materials, equipments and other resources to prevent such poaching and illegal felling of trees. It has to maintain 2800 numbers of buildings at field level and 1375 at various headquarters, total road length of 5685 KM, 4788 number of bridges, 239 number of vehicles and 20 number of river transport systems. The exiting infrastructure of the Forest Department is grossly inadequate. It is in urgent need of modernization and upgradation. **We request the Thirteenth Finance Commission to kindly recommend a grant of Rs.300 crore for the Forest Department. The break up of the proposed grant is as below:-**

Forest Administration:: Financial Requirements

(Rs. in crore)

Schemes	Estimates
Construction/renovation of building	50.00
Construction/maintenance of roads	80.00
Construction/maintenance of bridges	50.00
Purchase of Wireless set	1.00
Purchase of vehicles	25.00
Normalized Plantation including research plots	60.00
Purchase of Arms and equipments	20.00
Purchase of Uniforms	10.00
Expenditure related to wildlife	4.00
Total	**300.00**

Assam Pollution Control Board has the responsibility of undertaking the drive against environmental pollution. However, it requires significant improvement in the institutional and infrastructural capacity to be able to do justice to the responsibilities assigned to it. Some important measures in this regard are given below.

Sl. No.	Proposals	Amount (Rs. in crore)
i.	Providing laboratory facilities to the 7 Regional Offices	2.50
ii	Upgrading the water quality monitoring, inter-state river monitoring and environmental impact assessment system	0.10
iii	Development of facilities for classification and zoning of rivers	0.20
iv	Improvement of air quality monitoring system	0.21
v	Procurement of vehicles for the mobility of staff in 7 Regional Offices	0.35
vi	Upgradtion of central laboratory	1.68
vii	Upgradation of regional laboratories at Sivasagar, Silchar, Tezpur and Bongaigoan	0.24
	Total :	**5.28**

The Thirteenth Finance Commission is requested to recommend a special grant for the forest department and Assam Pollution Control Board accordingly.

Transport Department

13.15

Sl. No.	Proposals	Amount (Rs. in crore)
i.	Construction of office buildings and staff quarters at the district level	2.00
ii	Implementation of e-transport programme in districts other than Guwahati	3.00
iii	Implementation of the recommendations of national and state level councils on road safety measures like purchase of modern equipments, interceptors, training etc.	2.00
iv	Introduction of 2 nos. of high speed CTAMARAN VESSEL between Guwahati and Dibrugarh including berthing facilities at ghats	30.00
v	Introduction of high speed 18 meter long steel shallow draft boards on the river Brahmaputra and Borak	20.00
vi	Dredging on the river Brahmaputra and Borak	20.00
vii	Upgradation of existing Crew Training Centre of IWT Assam to a regional training institute at Guwahati	5.00
viii	Construction of Slip way project at Pandu, Guwahati	5.00
ix	Construction of transit camp at Dhola for Sadiya-Saikhowa ferry service	2.00
x	River Terminal Facilities at Dhubri, Pandu, Tezpur, Neamati, Dibrugarh and Sadiya	60.00
	Total :	**149.00**

Promotion of Tourism –

13.16 Assam is very rich in its tourism potential. Out of five World Natural Heritage Sites in the country, two are located in Assam. They are Manas and Kaziranga National Parks.

There are three more national parks in the State. The Brahmaputra is considered to be one of the top eight rivers in the world in terms of luxury cruise potential. With its wide range of flora and fauna, it is a bio-diversity hot spot. The State Government have taken a number of steps to promote Assam as a Nature and Eco-tourism destination in the world. Religious and cultural tourism also have great potential. However, due to poor infrastructure, the State has not so far been able to realize its full tourism potential. Recently, on 26th August, 2008 Hon'ble Prime Minister of India announced preparation of a blue print for integrated development of tourism for the North East with Guwahati as the hub. Meanwhile the State Government have also formulated an ambitious Tourism Policy for the State with emphasis on PPP. With a view to promoting investment in the tourism sector, an attractive Package of Incentives has been incorporated in the State Tourism Policy. Some of the important incentives are – (a) Reimbursement of VAT up to 25% of tax paid during a financial year subject to a ceiling of Rs.10 lakh, (b) Reimbursement of Luxury Tax for new hotels upto 25% of tax paid subject to a ceiling of Rs.10 lakh, (c) State Capital Investment Subsidy @ 30% of investment made subject of a ceiling of Rs.10 lakh, (d) 25% Subsidy on drawal of power line subject to a ceiling of Rs.5 lakh, and (e) 50% subsidy on construction and improvement of approach roads to hotels and resorts subject to a ceiling of Rs.5 lakh. The new policy will be effective from 1st January, 2009. **We request the Thirteenth Finance Commission for a grant of Rs.250 crore for improvement of tourism infrastructure in the State and for successful implementation of State Tourism Policy.**

Handloom and Textile

13.17 As per 1995 handloom census, there are about 13.2 lakh weavers in the state and about 25 lakh people are directly or indirectly associated with this sector. In view of the important role of this sector as employment provider, following proposals are submitted for recommendation of a special grant.

Sl. No.	**Proposals**	**Amount (Rs. in crore)**
i.	Improvement and upgradation of training facilities in the 102 nos. of Handloom Training Centres	3.00
ii	Improvement and upgradation of facilities in the 4 nos. of Handloom Training Institutes	0.28
iii	Improvement of infrastructure at 20 nos. of Handloom Production Centres	1.50
iv	Improvement of facilities at the Handloom Research and Designing Centres	0.15
	Total :	**4.93**

Veterinary and Animal Husbandary Department

13.18 There are 735 nos. of veterinary hospitals and dispensaries, 796 nos. of first aid centers, 6 nos. of live stock farms, 20 nos. of poultry farms, 1 central vaccine production institute, 10 nos. of district diagnostic laboratories and 2 nos. of schools of veterinary science among major establishments under this department. However, most of these institutions are in a bad shape mainly due to the deplorable condition of buildings and poor infrastructural facilities. The problem is compounded by the fact that one field officer looks after more than 20,000 cattle heads against the norm of one field officer for 5000 cattle heads. Thirteenth Finance Commission will do a great service to the state by recommending a special grant for the following-

Sl. No.	Proposals	Amount (Rs. in crore)
i.	Repairing and renovation of hospitals and dispensaries including residential quarters	400.00
ii	Strengthening of Institute of Farm Management, Rani and other five training institutes	20.00
iii	Repair and renovation of Dairy infrastructure like Chilling Plant, Dhola, Tinsukia, Jaysagar etc., Central Dairy Jorhat, Milk Processing Plant Nagaon, RDC, Howly, Dairy Plants at Silchar, Tezpur etc.	6.00
	Total :	**426.00**

Social Welfare Department

13.19

Sl. No.	Proposals	Amount (Rs. in crore)
i.	Renovation and expansion of Deaf and Dumb school at Guwahati	0.50
ii	Construction of 5 nos. of new Observation Homes and 5 nos. of Children Homes	10.00
iii	Renovation of the existing 12 nos. of Observation and Children Homes	2.00
iv	Improvement of the Social Welfare Complex at Guwahati including the renovation of staff quarters	1.00
	Total :	**13.50**

P.W.D.

13.20 As per maintenance norms late down by the Ministry of Road Transport and Highway, annual maintenance fund requirement for the state PWD is Rs.580 crore. It is definitely not possible for the state government to bear the whole of this expenditure. It is expected that state government will be able to provide Rs.100 crore on an average per year and hence, the Thirteenth Finance Commission is requested to recommend a maintenance grant of Rs.2500 crore for the maintenance of roads. Similarly, the total requirement of fund for the maintenance of public buildings is worked out at Rs.816.24 crore during the Thirteenth Finance Commission award period. Actual average annual expenditure for maintenance of buildings has been negligible as seen against these requirements. **The Commission should, therefore, recommend a special grant of Rs.500 crore for the maintenance of public buildings in the State.**

Agriculture Department

13.21 One of the biggest handicaps the agriculture department has been facing in effective delivery of the services at the grass root level is the poor state of office and residential buildings for the district and field level staff. There are 120 nos. of offices upto the sub-divisional level and 382 nos. of Agricultural Development Offices at the block office. Almost all these offices are in crying need of major renovation and there is a need for constructing separate offices for the ADOs who are the fulcrum of the extension services. **The fund requirement for this purpose is worked out at Rs.82 crores. Besides, the service delivery has also been affected by lack of vehicles. The department needs atleast 100 nos. of vehicles to ensure the required mobility of its officials and this requires a sum of Rs.5 crores.**

Development of the Important Towns of Assam

13.22 One unpleasant aspect of the development scenario in the state has been the lack of adequate focus on the development of the towns other than the state capital, despite their historical and cultural importance. Only one town of the state, Guwahati, is covered under the programme JNURM. This not to say that the funds available for Guwahati under this programme is sufficient to address its hydra-headed problems. But if we look at the other towns, the situation definitely appears to be grimmer. There are – 29 Municipal Boards and 59 Town Committees. The Municipal Boards assigned with the responsibility of the development of towns have hardly the necessary resources to do justice to this task. The civic infrastructure in all the important towns are crumbling. Infrastructure like water supply, drainage, roads, solid waste management, market complexes, street lights, town halls, recreational facilities-parks and open spaces and urban transportation, which were created for populations of 30 to 40 thousand, are now being used by populations which are 4 to 5 times bigger. The situation is similar and equally depressing in almost all the district and sub-divisional head quarters as well as the other urban conglomerations. **The Thirteenth Finance Commission is therefore requested to recommend a grant of atleast Rs.2000 crore for improvement of the urban infrastructure and other civic amenities in the various towns of the State.**

13.23 The requirement of fund for upgradation of administration and the special problem is summarized below.

Sl. No.	Department/Sector wise Proposals	Amount (Rs. in crore)
1	Home Department	8816.00
2	Border Area Development Department	500.00
3	General Administration Department	31.00
4	Labour and Employment	33.90
5	Cultural Affairs Department	44.50
6	Education Department	1550.70
7	Improvement of buildings, infrastructure etc. of Cotton College, Guwahati	66.96
8	Health and Family Welfare Department	1932.04
9	Forest and Environment Department	400.00
10	Assam Pollution Control Board	5.28
11	Transport Department	149.00
12	Tourism Department	250.00
13	Handloom and Textile Department	4.93
14	Veterinary and Animal Husbandry Department	426.00
15	Social Welfare Department	13.50

16	P.W.D.	3000.00
17	Agricultural Department	87.00
18	Development of the Important Towns of Assam	2000.00
19	Development of Char Area	300.00
20	Judicial Administration	383.00
21	State Finance Commission Cell	2.00
22	Revenue Department	500.00
	Total	**20495.81**

We thank the Commission for giving us this opportunity of presenting this memorandum and hope that the issues raised by us will receive its sympathetic consideration.