

3 Assam: Reorienting Fiscal Strategies Towards Economic Development

3.1 Introduction

1. Notwithstanding a decade of relatively rapid economic growth in India following the sweeping economic reforms initiated in 1991, the pace of growth in Assam has slowed down in recent years. It has among the poorest infrastructure and social indicators. Its infrastructure development index is only 79 in comparison to the base level of 100 for the country [NIPFP (1998)]. Despite its rich natural resources and environment, its per capita income is the third lowest among India's states (after Bihar and Orissa). In this respect, its position has also been worsening relative to states such as Kerala, Madhya Pradesh (MP) and Uttar Pradesh (UP) that were at similar levels five years ago but have now advanced to higher levels. There has been little progress at reducing poverty and Assam's population estimated to be below the poverty line was about 41 per cent in 1993-94 against the all-India average of 36 per cent. While poverty in Assam declined from 51 per cent in 1973-74, its relative ranking among 15 major states dropped from 6 to 12. Apart from Haryana, Assam is the only state where there was a drastic worsening of the rank [Agrawal and Srinivasan (2000)]. Together with large-scale migration, this has led to a large and rapidly rising unemployment.
2. Needless to say, a state's public finances play an important role in improving its development performance. But, while the government's development spending increased at the rate of 12 per cent in the 1990s, its spending on non-development grew at a much faster pace of 17 per cent (See Table 3.1). Within development, the share of spending on economic services shrunk over this period owing particularly to the decline within revenue expenditure (whose magnitude is three times more than capital expenditure). On the one hand, the growth in development spending has not kept pace with that in non-development spending and on the other most anti-poverty programmes suffer from considerable leakage and inefficiencies in their implementation. For example, in the running of the public distribution system for food security, Assam is the fourth lowest among 17 states in terms of reaching the subsidy to the bottom 20 per cent of households. At the same time, the leakage of rice and wheat from the system is as high as 69 per cent and 98 per cent respectively [Jha and Srinivasan (1998)].
3. In this Chapter, we analyze the performance in recent years of Assam state government and local governments with a view to finding ways of improving the state's development performance. The rest of the Chapter is organised as follows. In the next section we give a

brief overview of the continuing fiscal problems in the state and consider various options. In section 3 we analyze the situation of local government finances as the lack of adequate effort towards local decentralization has gained a prominent place in recent policy deliberations. In section 4, we present possible fiscal strategies for the state government to pursue in order to improve the development conditions in the state and summarise them in the form of an action plan in the last section.

Table 3.1: Annual Rate of Growth in State Finances of Assam (1990-91 to 2000-01)

Variable	Growth rate (per cent)
GSDP	8
Total Revenue Receipts	11
Own Revenue	9
Own Tax Revenue	12
Own Non-Tax Revenue	5
Central Transfers	12
Share in Central Taxes	13
Total Grants from Centre	12
State Plan Grants	12
Central Plan Grants	17
Centrally Sponsored Schemes	11
Non-Plan Grants	12
Total Expenditure	14
Development Expenditure	12
Social services	14
Economic services	11
Non-Development expenditure	17

Source: RBI Report on State Finances

Notes: 1. GSDP figures from 1997-98 are projected based on past trends. 2. The budget data for 1999-2000 relate to revised estimates and for 2000-01 to budget estimates.

3.2 The Fiscal Position of the State Government

4. As the first step in its response to the fiscal crisis, the Government of Assam (GoA) decided to inform the public of the magnitude of the problem. It issued a White Paper on the state's finances, pointing out specifically that it "had to resort to increased borrowings over the years to meet its current expenditure requirements which, if not drastically curbed, will lead the state irretrievably into a debt trap" [GoA (1999)]. This gives an insight that the Assam government is indeed aware of the need to take steps to set right its fiscal position. However, the White Paper stops short of making any recommendations whatsoever on the strategies that it should adopt to get over its fiscal problems. In the following, we analyze various

aspects of state fiscal policies and performance and suggest possible strategies to be followed.

3.3 Revenue and Expenditure

5. Analyzing data over a 15-year period beginning 1984-85, GoA (1999) recognises the “failure of revenue receipts to meet ... rapidly growing expenditure commitments, particularly expenditure on salaries, wages, allowances and pensions”. While the wage bill is rising due to both rising number of employees and higher wages, the state government has “never been able to meet” this expenditure from its own revenues, except in 1986-87. However, subsequently the fiscal reforms committee [GoA (2001)] set up by the government recommended “curb on fresh employment and reduction of total number of government employees @ 2 per cent per year over the next 5 years”. It also recommended a freeze on dearness allowance for at least three years. The White Paper points out the heavy losses incurred from negligible returns from capital expenditure on projects and investments in public sector undertakings, declining buoyancy of state tax revenues, and the consequent rising costs of public debt and higher borrowings.
6. Increased spending on infrastructure, social sectors and maintenance will be required to improve the quality of services provided before such costs can be recovered through increased user charges. The reform framework should ensure that the proposed public investments are fiscally viable. They should also create an environment for implementation of the sector reforms focusing on programs in the education, health, irrigation, infrastructure and other sectors to crowd-in private investment. Such a statewide reform program would provide Assam with a unique opportunity to breakout from stagnation and move on to a rising growth path.

3.4 Dependence on the Centre

7. The increasing dependence of the state government on the Centre is reflected in the share of revenue generated from its own sources in its total revenue receipts declining from about 40 per cent at the beginning of the decade to just about 30 per cent at the end of it (See Table 3.2 and Figure 3.1). This is a result of a lower annual growth rate of 12.5 per cent in the state’s own revenue receipts than that of Central revenue transfers 16.4 per cent [GoA (1999)]. In addition, the composition of Central transfers shows a decline in the share of state plan transfers and shared taxes; to be covered up mainly by Centrally sponsored schemes and non-plan grants. Furthermore, as regards borrowings, market loans by the government have risen at the rate of 18.1 per cent and state provident funds at 15.41 per cent against the rate of growth of Central

loans at 6.31 per cent.¹ Table 3.3 presents the accumulated arrears of revenue that has not been collected partly due to pending court cases.

Table 3.2: Percentage share of Revenue Receipts in GSDP

Tax Revenue	Non-Tax Revenue	Share in Central Taxes	State Plan Grants	Central Plan Grants	Centrally Sponsored Schemes	Non-Plan Grants	NEC/ Special Plan Scheme	Total Grants from Centre	Observed	NIPFP projections (with state level reforms)
3.96	2.61	4.59	2.33	0.08	1.07	2.08	0.000	5.57	16.73	
4.32	2.22	4.48	6.12	0.24	0.99	2.04	0.000	9.39	20.41	
3.97	3.53	4.52	5.68	0.42	0.65	1.27	0.003	8.01	20.03	
4.16	2.37	5.28	8.54	0.07	0.90	1.11	0.098	10.72	22.54	
3.83	1.98	4.97	4.46	0.33	1.69	0.61	0.065	7.16	17.94	
3.99	1.91	5.19	4.78	0.29	0.77	2.24	0.001	8.09	19.17	
4.03	1.69	6.18	5.37	0.17	0.70	2.02	0.106	8.37	20.27	
4.30	1.86	7.19	5.31	0.13	0.58	1.67	0.053	7.74	21.09	18.75
4.48	2.06	6.15	5.45	0.09	0.83	1.40	0.089	7.85	20.54	21.93
5.71	1.98	6.96	6.36	0.59	1.28	1.72	0.378	10.33	24.98	21.74
5.74	1.91	5.97	6.27	0.56	2.03	3.41	0.533	12.79	26.41	22.64

Report on State Finances, various issues and NIPFP (1998)
 figures from 1997-98 are projected based on past trends.

Table 3.3: Outstanding arrears of state government tax revenue (Rs Lakh)

Tax	Arrears as on March 31, 1997	Tax revenue in 1997-98
Sales tax	16010	50766
Land revenue (including taxes on commercial crops)	2271	6089
Agricultural income tax	3486	8431
Electricity duties	2040	186
Motor vehicles/ Passenger and Road tax	881	6568
Taxes on profession, trades, calling, employment etc.	105	14172
Others	169	1982
Total arrears	24962	88194

Data Source: Government of Assam (1999)

¹ Central loans comprise 10 per cent plan assistance, 75 per cent of net small savings raised in the state, special WMA to be paid within the year and loans for central schemes. Market borrowings include loans raised through issue of SLR based Assam Bonds as per the allocations made by the Planning Commission. The RBI on behalf of the state government raises the latter's market borrowings. Money raised under the State Provident Fund imposes an additional liability, as it is a loan that will have to be repaid to subscribers with interest.

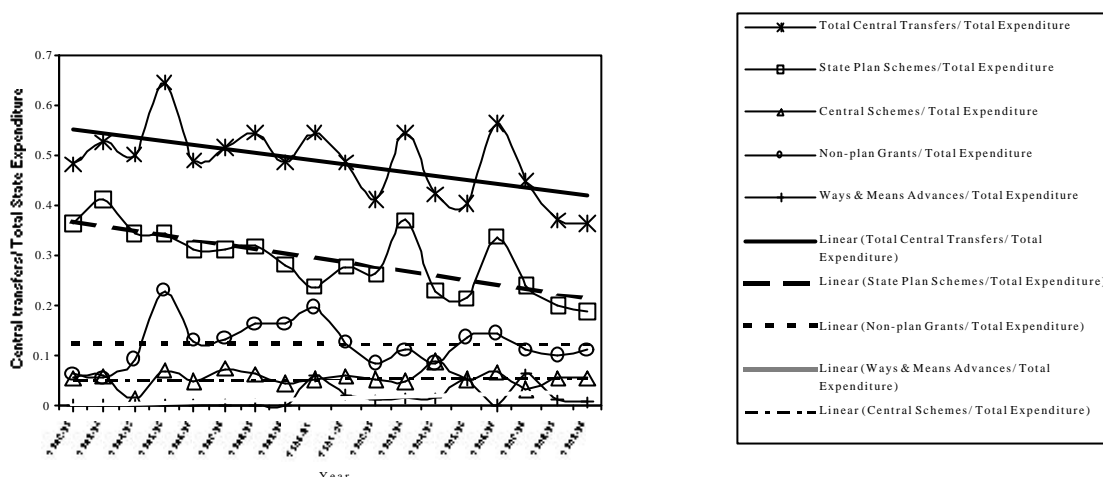


Figure 3.1: Contribution of Central transfers to State Government Expenditure

3.5 Deficits

8. Assam is currently facing a fiscal crisis of unprecedented proportions. It is caught in a vicious circle where low growth keeps both living standards down and reduces revenue yields. There are growing concerns about rising revenue deficit in the state, mainly due to a deterioration of its budgetary position and the persistence of poverty (See Figure 3.2). Frequent law and order problems over the past decade have led to a rapid deterioration in the quality of governance. Poor governance and high growth in the government's wage bill have led to high and growing deficits (See Tables 3.4 and 3.5). For instance, the revenue surplus of 1.41 per cent of GSDP in 1996-97 declined to 0.41 per cent in 1998-99. The revised and budgeted figures for 1999-00 and 2000-01 show a further and steep decline in this surplus (converting it into deficit) to -5.84 per cent and -3.63 per cent respectively. The corresponding fiscal deficit is of the order of about 10 per cent and 8 per cent respectively. It is interesting to note that under two alternative reform scenarios, one with reforms by the state government and the other including a major role by the centre as well, NIPFP (1998) had projected the fiscal deficit of the state to decline to less than 3 per cent by 2000-01.²

² This deficit reduction was obtained despite the rise in expenditure to accommodate the 5th Pay Commission's awards. The main recommendations of NIPFP (1998) pertaining to Assam's state finances in relation to its other economic and non-economic problems are based on counterfactual simulations and include alternative profiles for a 5-year adjustment period beginning 1997-98. Among other things, they recommend targeting capital expenditure to

Among other things, their first scenario assumed annual reduction in government employment of 1 per cent while for the second it was 2 per cent accompanied by payment of arrears of petroleum royalty and insurgency related expenditure by the Centre. Obviously, there has been a slowdown in the past few years in implementing the suggested reforms.

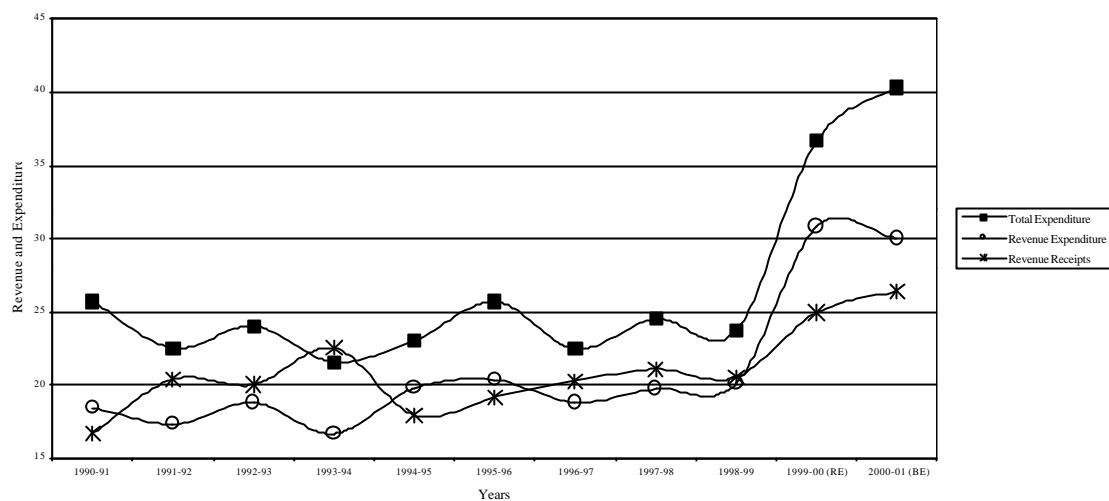


Figure 3.2: Deficits of the State Government (per cent of GSDP)

Table 3.4A: Percentage share of Expenditure in GSDP

Years	Development Expenditure			Non-Development Expenditure			Other Revenue Expenditure	Other Capital Expenditure				Total Expenditure
	Revenue Expenditure	Capital Expenditure	Total	Revenue Expenditure	Capital Outlay	Total	Compensation and Assignment to local bodies	Discharge of internal debt	Repayment of central loans	Loans and Advances by State	Total	
1990-91	12.40	2.28	14.68	5.61	0.05	5.66	0.46	0.01	3.18	1.72	4.91	25.70
1991-92	13.54	2.35	15.89	3.73	0.06	3.78	0.07	0.07	0.65	2.07	2.78	22.53
1992-93	12.10	1.76	13.86	6.63	0.06	6.69	0.05	0.12	2.24	1.07	3.44	24.04
1993-94	12.60	1.66	14.26	4.01	0.05	4.06	0.06	0.12	2.02	1.04	3.18	21.56
1994-95	12.43	1.62	14.05	7.35	0.06	7.41	0.04	0.01	0.79	0.78	1.58	23.07
1995-96	13.31	2.10	15.42	6.93	0.05	6.98	0.11	0.01	2.13	1.05	3.20	25.71
1996-97	11.84	1.25	13.08	6.92	0.03	6.95	0.06	0.09	1.64	0.65	2.38	22.48
1997-98	12.09	1.58	13.67	7.60	0.03	7.63	0.05	0.13	2.53	0.53	3.19	24.54
1998-99	12.82	1.64	14.46	7.26	0.02	7.28	0.05	0.17	1.41	0.35	1.93	23.72
1999-00 (RE)	19.02	2.88	21.90	11.75	0.08	11.83	0.05	0.18	1.60	1.13	2.92	36.71
2000-01 (BE)	19.58	7.29	26.86	10.42	0.07	10.48	0.05	0.19	1.48	1.28	2.95	40.35

Source: RBI Report on State Finances, various issues

Note: GSDP figures from 1997-98 are projected based on past trends.

government departments and allocated to priority sectors of irrigation, health, education, infrastructure and modernization and computerization of general administration.

Table 3.4B: Composition of Expenditure (Percentage of GSDP)

Years	Revenue Expenditure	Capital Expenditure	Total Expenditure	
			Observed	NIPFP projections (with state level reforms)
1990-91	18.46	7.24	25.70	
1991-92	17.34	5.19	22.53	
1992-93	18.78	5.25	24.04	
1993-94	16.68	4.88	21.56	
1994-95	19.81	3.26	23.07	
1995-96	20.36	5.34	25.71	
1996-97	18.82	3.66	22.48	
1997-98	19.75	4.80	24.54	26.25
1998-99	20.13	3.59	23.72	31.69
1999-00 (RE)	30.82	5.89	36.71	30.61
2000-01 (BE)	30.04	10.31	40.35	28.04

Sources: RBI Report on State Finances, various issues and NIPFP (1998)

Notes:

1. GSDP figures from 1997-98 are projected based on past trends.
2. The NIPFP trends incorporate increased salaries due to the 5th Pay Commission recommendations but with a downsizing of staff

Table 3.5: Fiscal deficit as a percentage of GSDP

Composition of fiscal deficit				
Year	Fiscal deficit	Revenue deficit	Capital outlay	Net lending
1998-99	1.54	-0.41	1.66	0.29
1999-00 (RE)	9.90	5.84	2.97	1.09
2000-01 (BE)	8.31	3.63	7.35	-2.68
Financing of fiscal deficit				
Year	Fiscal deficit	Net central loans	Net market borrowings	Others
1998-99	1.54	0.64	1.62	-0.72
1999-00 (RE)	9.90	1.12	1.44	7.33
2000-01 (BE)	8.31	0.89	1.39	6.03

Source: RBI (2000)

Note: '-' indicates surplus

3.6 Borrowings, Guarantees and Debt

9. Persisting fiscal deficits are one of the most significant weaknesses of the state economy, with public sector borrowing crowding out private sector borrowing and increasing macroeconomic risks. Among other things, the declining contribution of Central transfers to total state spending in the last decade has led the state to rely increasingly more on borrowing of various kinds including market borrowing at rising interest rates. The “debt servicing costs account for as much as 95 per cent of fresh debt contracted” and the repayment of principal and interest on Central loans exceed the receipts [GoA (1999)].
10. In addition to borrowings, government guarantees are growing and being used extensively in mobilising funds for capital expenditure (Table 3.6). The high levels of guarantees may not imply immediate obligation but could lead to a large burden on state finances in future. State guarantees have the potential of worsening an already poor fiscal system through the hidden fiscal risk of contingent liabilities associated with such guarantees in a situation of default.³ In cases when guarantees are invoked, the state government would be liable to pay both the principal and the interest due. Indeed, most of the government guaranteed loans have been subject to default according to GoA (1999).

Table 3.6: Guarantees (contingent liabilities) given by Assam State Government (Rs Lakh)

Year	New guarantees	Outstanding guarantees	
		Total	% given to ASEB
1991-92		102796	80
1992-93	11921	109399	76
1993-94	12462	122984	68
1994-95	32482	138382	64
1995-96	14214	124986	53
1996-97	500	114939	56
1997-98	850	143000	63
1998-99 (RE)		143000	66

Sources: RBI (1999) and Government of Assam (1999)

Note: ASEB refers to Assam State Electricity Board.

³ Article 293(1) of the Constitution of the India allows state governments to give guarantees within limits as fixed by the legislature of the concerned state. Unlike for raising loans, states do not require prior consent of the Government of India before giving a guarantee and this is irrespective of whether or not they are indebted to the Government of India.

11. The fiscal crisis along with diversion and inefficient utilization of funds does not allow the state to invest for strengthening the foundations for economic growth and improving social achievement. This has resulted in an unsustainable level of indebtedness. The combined burden of interest bearing public debt and guarantees together as a ratio of NSDP currently stands at 43 per cent. Trends in public debt should be seen with caution as the reported debt has been lower than the actual debt by a factor of about 20-30 per cent due to exclusion of contingent liabilities on account of guarantees issued by the government. For example, in 1998-99 the government's actual outstanding aggregate liability was 37 per cent of GSDP against the conventional estimate of only 31 per cent (See Table 3.7).

Table 3.7A: Outstanding Debt Position of Assam State Government (Rs Lakh)

Year	Central loans	GPF	Market loans	Other Financial institutions	WMA from RBI	Guarantees (contingent liability)	Total	
							Excluding guarantees	Including guarantees
1990-91	363518	18636	22751	4205	21834		430944	
1991-92	378875	22169	26521	4009	24874	102796	456448	559244
1992-93	373536	25722	38686	4602		109399	442546	551945
1993-94	335775	29141	49860	4213	1728	122984	420717	543701
1994-95	355022	33166	66011	5034	2082	138382	461315	599697
1995-96	386380	37926	82269	5497	20839	124986	532911	657897
1996-97	399784	43557	100158	3594	24059	114939	571152	686091
1997-98	415162	50818	120199	2450	19758	143000	608387	751387
1998-99	421960	68180	155699	8153	19758	143000	673750	816750
1999-00 (RE)	455370	135080	191899	21327	19758		823434	
2000-01 (BE)	477450	184580	228099	NA	NA			

Table 3.7B: Outstanding Debt Position of Assam State Government (per cent of GSDP)

Year	Central loans	GPF	Market loans	Other Financial institutions	WMA from RBI	Guarantees (contingent liability)	Total	
							Excluding guarantees	Including guarantees
1990-91	34	1.75	2.14	0.40	2.06		41	
1991-92	32	1.87	2.24	0.34	2.10	8.68	39	47
1992-93	29	1.97	2.96	0.35	0.00	8.38	34	42
1993-94	23	1.98	3.39	0.29	0.12	8.36	29	37
1994-95	22	2.01	4.00	0.30	0.13	8.38	28	36
1995-96	22	2.15	4.67	0.31	1.18	7.10	30	37
1996-97	21	2.29	5.27	0.19	1.27	6.04	30	36
1997-98	20	2.48	5.86	0.12	0.96	6.97	30	37
1998-99	19	3.11	7.10	0.37	0.90	6.52	31	37
1999-00 (RE)	19	5.78	8.21	0.91	0.85		35	
2000-01 (BE)	19	7.44	9.19					

Sources: Government of Assam (1999) and RBI Bulletin on state finances, various issues.

Note: Loans from "other financial institutions" include those from LIC, NABARD and NCDC.

3.7 Shortage of Liquidity and Ways and Means Advances

12. A government can spend only to the extent that it has the cash to pay for. But often due to delays in receiving payments in time, they run into short run liquidity problems. To tide over such mismatches between their receipts and expenditure state governments maintain certain interest-free balances with the RBI.⁴ In turn, the RBI provides them reasonable amount of temporary advances to tide over their liquidity problems through Ways and Means Advances (WMA) and Overdrafts. The record of the North-Eastern states, particularly of Assam, in their dealings with the RBI in this arrangement is worrisome. For example, during 1997-98, of the 16 states that resorted to overdrafts, in three states – Assam, Manipur and Mizoram – payments were stopped, as they could not clear their overdrafts with the RBI within the stipulated time limit of 10 consecutive working days. The problem was particularly severe in Assam where payments were stopped as many as eight times. A similar situation continued during the following year. In the first seven months (April-October) of 1998-99, 16 state governments were again in overdrafts. Of these, in four States – Assam, Manipur, Mizoram and Nagaland – payments were once again withheld, as they could not clear their overdrafts within the specified period.

3.8 Public Sector Enterprises

13. Assam has 49 state Public Sector Enterprises (PSEs). Of these, the Assam State Electricity Board (ASEB) and the Assam State Transport Corporation (ASTC) alone account for more than 90 per cent of the total state government investment in the PSEs, which was of the order of Rs 2243 crore in 1996-97. But such investments have yielded very poor returns to the state government due to over-staffing, large overhead costs, low capacity utilisation, and financial mismanagement making most of the PSEs unviable. In addition ASEB also suffers from frequent breakdowns, high “transmission and distribution losses” and the cost of production in thermal, gas based and hydel-power plants exceed tariff. Interestingly, ASEB accounts for the lion’s share of guarantees given by the state government while the arrears of electricity duty to be collected have surpassed more than 1000 per cent of actual tax collected (See Tables 3.3 and 3.6). Due to accumulated losses and high liabilities on account of power purchase, fuel supplies and rising debt obligations the net worth of the Board has become negative. It was less than –Rs 880 crore in 1998-99. While the average tariff charged by ASEB in that year was Rs 2.62/ Kwh, its net loss per unit of sale was much higher at Rs 3.15/

⁴ Under section 21A of the RBI Act, 1934, a state can entrust to it its banking business by voluntarily entering into an agreement to undertake general banking business in India, including payments, receipts, collection, remittance of money, management of public debt and issue of new loans. 23 states have made such agreements.

Kwh.⁵ Clearly, imposition of appropriate user charges should be high on the agenda of reform. According to GoA (1998), a high-level committee set up is likely to recommend further investment to restructure the Board and strengthen and improve its distribution network and this will increase the net outflow from ASEB.

14. The ASTC is the only statewide public transport service covering remote rural and hilly areas with poor road conditions, uneconomic load factors and lack of private operators. Moreover, it also runs buses for school children, aged people and the public sector. These add up to a high cost and with low tariffs the operation of ASTC is uneconomical making it increasingly more dependent on budgetary support from the state government. The immediate solutions seem to be to invest in better roads and to reduce ASTC's services in areas that are served well by private transport operators.
15. Among the rest of the PSEs in the state, most were created for implementation of socio-economic programmes for weaker sections again with very low returns. Many of these are not operational and the government is trying to revive them through joint private partnerships and leases. Once again, the solution seems to be to charge appropriate fees/ charges for the services provided while at the same time improving the efficiency of operation of these enterprises.

3.9 Local Decentralization and Governance Issues

16. An important aspect of the fiscal situation in a state is the position of its local governments. Local decentralization has both political and economic rationales. It leads to increased political responsiveness and participation at the local level, higher allocative efficiency of public spending reflecting local needs, higher competitiveness of local governments leading to better innovation and increased willingness to pay for local services. It is also expected to achieve higher economic efficiency, better accountability, larger resource mobilisation, lower cost of service provision and higher satisfaction of local preferences. Moreover, at the macroeconomic level, quality of governance could be greatly enhanced by greater fiscal decentralization. These improvements can be brought about through local fiscal autonomy, which stands for the right and capacity of local governments to collect, decide upon and spend their own revenues. But for such achievements local bodies require, among other things, substantial administrative capacity, significant discretion over financial resources and willing bureaucrats.

⁵ Report on the Financial Performance of ASEB, prepared by Planning and development Department, Government of Assam.

17. Among the seven sisters, most of which were carved out of Greater Assam – and include Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura, the state of Assam pioneered the introduction of Panchayat Raj System and conducted regular elections till 1992. However, since then there has been no election despite the 73rd and 74th Constitutional Amendment Acts to strengthen local decentralization. At present there are three distinct systems of local government in Assam.

- Plain areas with 21 districts having Panchayati Raj System

- Hilly and tribal districts under two Autonomous District Councils: Karbi-Anglong and North Cachar Hills with elected councils at district level but no village government

- Areas inhabited by Bodo and other tribals under different autonomous councils representing different ethnic groups

18. The local governments in this state are not developed well particularly in rural areas. For example, as opposed to 2500 people that are served by a rural panchayat on average among all the states in the country, in Assam the corresponding number is more than 7000. While the numbers served by urban municipalities is lower for this state at 3100 against the all-state average of 5600, the urban share of its population is too small to make a difference. Despite the Amendments to the Constitution, the local governments are very poor in contrast with the situation in other states. Tables 3.8 and 3.9 show that rural governments in Assam are much poorer than their urban counterparts and compared to other states, both urban and rural local governments in Assam play a relatively insignificant role in the provision of local services. The rural governments in Assam spend on average just about Rs 17 per capita per annum as against the average for all-states, which is close to Rs 300. Even in urban areas the per capita spending made by local bodies in Assam is less than Rs 200 per annum against the average figure for all-states of almost Rs 7000 (Figure 3.3). A substantial portion of local government spending in this state is on non-developmental items including staff salaries and other administrative expenses. The expenditure on core services is less than 40 per cent of the total by urban governments and less than 30 per cent by rural governments.

19. While the existence of panchayats in terms of resources generated is negligible in Assam, its municipal bodies also generate a meagre amount of about Rs 130 per capita per annum. In contrast, municipal bodies in the other states generate as much Rs 560. The state government carries out most of the spending in the state as seen from Figure 3.4. This reflects to a great extent the lack of decentralization in the state. The weak local governments that lack adequate powers, functions and resources have resulted in a poor pace of development and adversely affected the process of poverty alleviation. In the absence of proper governments at the local levels, this situation is compounded by the fact that programmes for rural development are planned and implemented by state officials and instead of catering to the

poor they benefit more the undeserving classes. Increasing poverty, division between tribals and non-tribals and diversion of public funds has encouraged corruption and also the youth to join the cadres of insurgency thereby adding to the law and order problem. Moreover, some development funds of the state government are also apparently being used to support these groups [Thapliyal (2001)]. One of the ways out of such a situation would be to increase people's participation in the process of governance through regular elections to local bodies and their strengthening by means of implementation of the 73rd and 74th Amendments in true spirit. The first and foremost requirement therefore is to establish well-functioning rural and urban local governments through regular and fair elections.

Table 3.8: Composition of local government finances: 1997-98

Region		Urban areas		Rural areas	
		Assam	All-States	Assam	All-States
Total Revenue (Rs lakh)		3960	1217879	1550	1935554
Total Expenditure (Rs Lakh)		5338	15130843	4057	2093116
Total Population in lakhs (Rural share of 1991)		30.26	2171.66	242.36	7270.35
Per capita Total Revenue (Rs)		130.86	560.80	6.40	266.23
Per capita Expenditure (Rs)		176.41	6967.39	16.74	287.90
Revenue Composition	Own Revenue	60	69	22	3
	Tax	21	51	22	2
	Non-Tax	39	18	0	2
	Other Revenue	40	31	78	97
	Total Revenue	100	100	100	100
Expenditure Composition	Expenditure on core services	38	67	27	7
	Other Expenditure	62	33	73	93
	Total Expenditure	100	100	100	100

Source: Author's calculations

Data Source: Report of the Eleventh Finance Commission

Notes:

1. For rural areas, all-States refer to 23 States - Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, West Bengal.
2. For urban areas, all-States refer to 23 States - Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, West Bengal.
3. Core services comprise water supply, street lighting, sanitation and roads.

Table 3.9A: Per capita revenue generated in local areas from own sources by local and state governments net of shared taxes and transfer of grants (Rs per annum)

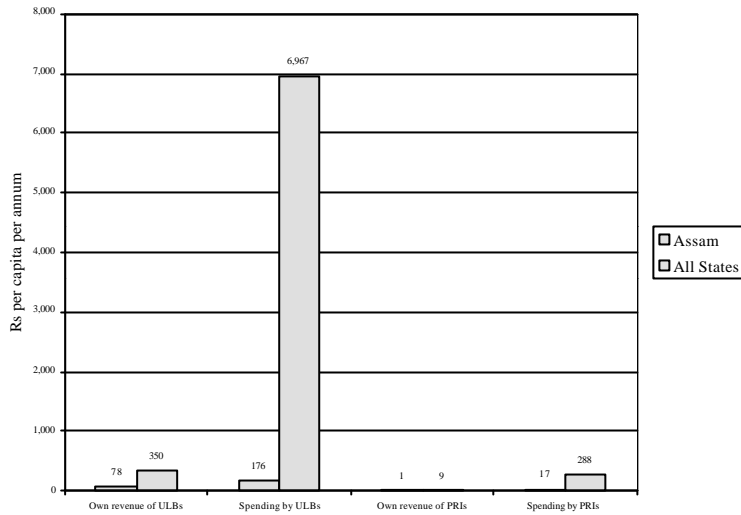
Level of Government	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
I. Assam State Government	296	322	397	382	373	396	407	463
II. Assam's urban local bodies	47	49	52	65	63	72	86	78
Nagar Panchayats	7	7	9	9	10	10	9	9
Municipalities	16	16	18	18	21	21	17	17
Municipal Corporations	24	26	24	37	32	41	59	52
III. Assam's rural governments	1,438	1,434	1,432	1,429	1,427	1,426	1,426	1,428
Gram Panchayats (Village level)	0.977	0.974	0.972	0.970	0.969	0.968	0.968	0.969
Panchayat Samitis (Block/ taluk level)	0.461	0.460	0.460	0.459	0.458	0.458	0.458	0.459
Zilla Parishads (District level)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Assam: Per capita urban revenue (I+II)	343	371	449	447	436	468	493	541
Assam: Per capita rural revenue (I+III)	298	323	399	384	374	397	408	465
IV. All State Governments	473	568	607	701	859	946	1047	1119
V. All states' urban local bodies	142	162	180	214	272	304	355	350
V. All states' urban local bodies (excluding Maharashtra)	76	86	93	114	158	172	199	221
Nagar Panchayats	6	7	7	8	10	12	13	15
Municipalities	35	41	43	55	61	73	82	89
Municipal Corporations	101	114	130	150	201	219	260	246
Municipal Corporations (excluding Maharashtra with Mumbai)	35	39	43	50	87	88	104	117
VI. All states' rural governments	5.75	5.35	5.49	6.25	6.89	7.67	8.68	9.31
Gram Panchayats (Village level)	4.90	4.44	4.46	5.08	5.65	6.36	7.25	7.82
Panchayat Samitis (Block/ taluk level)	0.27	0.28	0.31	0.35	0.37	0.43	0.45	0.47
Zilla Parishads (District level)	0.58	0.63	0.72	0.83	0.88	0.88	0.98	1.02
All states: Per capita urban revenue (IV+V)	616	730	787	915	1131	1250	1402	1469
All states: Per capita urban revenue (IV+V') (excluding Maharashtra)	550	655	700	815	1017	1118	1246	1340
All states: Per capita rural revenue (IV+VI)	479	574	613	707	866	954	1056	1128

Table 3.9B: Per capita spending in local areas by local and state governments net of shared taxes and transfer of grants (Rs per annum)

Level of Government	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
I. Assam State Government	1122	1143	1272	1435	1553	1666	1590	1842
II. Assam's urban local bodies	99	108	108	115	129	128	157	176
Nagar Panchayats	18	18	18	20	24	25	33	34
Municipalities	20	21	24	29	36	36	51	52
Municipal Corporations	62	68	66	66	70	66	74	90
III. Assam's rural governments	1.02	3.86	16	16	17	17	19	17
Gram Panchayats (Village level)	0	1.36	12.14	12.11	13.32	13.15	14.03	12.05
Panchayat Samitis (Block/ taluk level)	1.02	2.24	2.65	2.93	3.22	3.37	3.60	3.65
Zilla Parishads (District level)	0.00	0.26	0.77	0.84	0.92	0.95	1.03	1.04
Assam: Per capita urban spending (I+II)	1221	1251	1380	1550	1682	1794	1747	2019
Assam: Per capita rural spending (I+III)	1123	1147	1287	1451	1570	1683	1609	1859
IV. All State Governments	1080	1254	1360	1509	1779	1920	2224	3922
V. All states' urban local bodies	1269	1237	1255	1753	1972	2236	3810	6967
V. All states' urban local bodies (excluding Maharashtra)	904	1120	1115	1583	1747	1874	2619	2986
Nagar Panchayats	12	14	15	17	19	25	33	39
Municipalities	317	353	365	431	384	518	612	916
Municipal Corporations	940	871	874	1306	1569	1692	3165	6012
Municipal Corporations (excluding Maharashtra with Mumbai)	575	754	734	1136	1344	1331	1974	2031
VI. All states' rural governments	111	126	145	171	187	206	248	288
Gram Panchayats (Village level)	31	34	42	54	55	59	67	74
Panchayat Samitis (Block/ taluk level)	35	38	42	50	60	61	73	83
Zilla Parishads (District level)	45	54	60	67	72	86	108	131
All states: Per capita urban spending (IV+V)	2349	2491	2614	3262	3751	4156	6034	10889
All states: Per capita urban spending (IV+V') (excluding Maharashtra)	1984	2374	2474	3092	3526	3794	4843	6908
All states: Per capita rural spending (IV+VI)	1191	1380	1504	1680	1966	2126	2472	4210

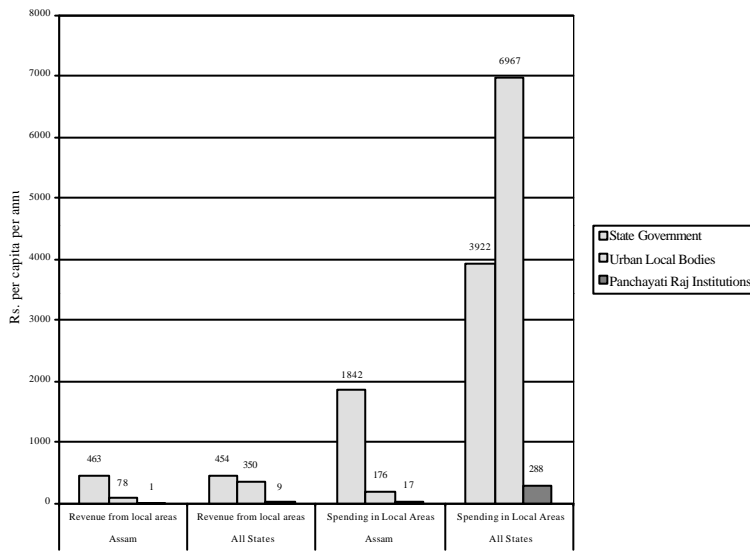
Source: Author's calculations

Data Source: Report of the Eleventh Finance Commission



ULBs: Urban Local Bodies PRIs: Panchayati Raj Institutions
 Data Source: Report of the Eleventh Finance Commission

Figure 3.3: Per Capita Own Revenue and Total Spending of Local Bodies – Assam and All-States: 1997-98



Revenue from Own Sources and Total Expenditure
 Data Source: Report of the Eleventh Finance Commission

Figure 3.4: Revenue and Expenditure Decentralization: Shares of State and Local Governments – Assam and All-states: 1997-98

20. The administrative machinery and tax collection capacity of local governments would have to be improved through institutional development in addition to passing more tax powers to them. The buoyancy of local taxes could be improved by imposing taxes on an ad valorem basis, correcting for under-valuation of property, introducing price differentiation between commercial and residential property, and cutting out exemptions. The state government should fix only the minimum rates – leaving the actual rate fixation to local governments to promote tax competition, higher revenue generation and better service provision. New taxes such as on cable television could also be envisaged for improving local revenues.
21. To improve the availability of trained staff the state could either transfer its own staff or make new recruitment from within local areas. The appointments could be made on temporary/ short-term contract basis to keep the service costs low and avoid legal complications. It is to be noted in this context that due to increase in service cost, the state government has been planning to downsize the strength of its employees by not filling up posts, which have fallen vacant due to retirement and the like. However, the target for staff strength could be maintained even with new contractual appointments by downsizing to a greater extent appropriately. As an additional measure, the workload of staff that are laid off could be reallocated to other regular workers as some officers and staff have been found to have insufficient workload. As yet another measure, some of the work on accounts and establishment may be computerized and work carried out by technically competent staff to allow for further downsizing. The government could also cancel illegal appointments of teachers.
22. There would also be a continuing need to develop training infrastructure and train the technical staff, for example, the accounts staff to be trained in panchayat/ municipal finance, accounts and budgeting. Apart from induction courses, they would need refresher courses at regular intervals. Another key to successful decentralization is to train local staff so as to make them more supportive of the community action programs. These steps aimed particularly at the educated youth would also help solve the insurgency problem, at least to a certain extent.

3.10 Fiscal Strategies for the Future

23. An immediate consequence of the state's fiscal crisis is a decline both in the quantity as well as the quality of public outlays in physical and social infrastructure. Such problems can be addressed by drastically reorienting the state's economic policy framework to restore trust in its public institutions and improve its fiscal capacity to invest in basic infrastructure and social services. The state now needs to initiate a set of fiscal, governance and public enterprise reforms to restore fiscal sustainability, improve governance, and also accelerate economic growth through reforms in the key sectors of the economy to bring about greater technical and financial efficiency. A comprehensive set of fiscal reforms would include:

3.10.1 Public Expenditure Management

24. There is a need for the Assam government to reorient its spending priorities towards growth and development enhancing activities such as capital expenditure/ rural infrastructure and employment programs particularly targeted at the youth to control the problems of insurgency. The safety net programmes of the government can be designed so as to create employment opportunities for uneducated youth. Since most poor live in rural areas, increasing employment in agriculture through higher investment in irrigation and other infrastructure, for example, roads and electricity can induce growth in the state. Also, higher irrigation through better productivity will help to raise real agricultural wages. Given the complementarity between public and private agricultural investment, maintaining a certain minimum level of public investment can crowd in more private investment in agriculture thereby improving the farming conditions, raising growth and reducing poverty. The government can also earmark funds to promote employment of educated youth for qualified jobs in schools, public offices and so on by appropriate downsizing elsewhere. For instance, it can examine the feasibility of curbing the rise in staff cost by transferring some staff from the state government to rural and urban locations to keep its staff size at a prudent level. Any new employment of staff can be on contractual and temporary basis. The government must also work towards rationalising subsidies and restricting guarantees to projects that have good credit rating and are financially viable.

3.10.2 Tax Policy

25. The revenue collections in the state – both at the state and local levels – leave much to be desired. The situation at the state level can be improved by strengthening the administrative machinery for tax collection and by imparting technical training with possible help from the Centre. A focus is also needed on high-yielding and more buoyant sources of tax revenue such as land revenue, tax on vehicles/ passengers and goods, and state sales tax. In the current practice of collection of land revenue through the *Mouzadars* the government is losing a large amount in the form of commission offered to these agents. Instead, the revenue officials in the circle offices may be entrusted with collection of land revenue. The government also loses substantial land revenue due to illegal occupation of government land and it would be worth initiating steps to evict them. Moreover, a sizeable proportion of cultivable and homestead land in rural areas are under Annual *Patta*. If these lands were brought under periodic *Patta*, the government would earn land revenue at enhanced rate. GoA (2001) specifies several measures to strengthen tax collection from different sources.

26. At the local level, the administrative machinery and tax collection capacity of governments would require institutional development along with more tax powers. The buoyancy of local taxes could be improved by levying taxes on an ad valorem basis, correcting for under-

valuation of property, introducing price differentiation between commercial and residential property, and cutting out exemptions.

3.10.3 Public Sector Enterprises

27. The investments in Assam's State Public Sector Enterprises (PSEs) have yielded very poor returns to the state government due to poor organisation making most of the PSEs unviable. Two large enterprises, ASEB and ASTC, that have accounted for the major share of total state government investment in PSEs, are plagued with problems of high costs and low tariffs and the Jain Committee has recommended a comprehensive package for ASTC. Increasing user charges and improving efficiency of operations of the PSEs is inevitable. User charges are potentially an important source of revenue and should be levied and collected vigorously for all public services whether provided by the state or the local governments. Such measures would generate resources for investments, encourage private investment in these sectors, reduce consumer costs and improve quality of services by promoting competition.
28. Privatizing public sector enterprises would help reduce both the government's role in not-so-relevant sectors and the dependence on special purpose vehicles for its borrowing requirements that allow a state to incur commitments but defer actual expenditures by, for example, accumulating payables to contractors in response to a budgetary crunch. Such mechanisms make the state budget constraint soft. Fiscal deficit in the state is increasing the borrowing requirements on the one hand and pre-empting a high proportion of borrowed funds into current consumption on the other. In line with the thinking in some other states, the government of Assam could also pursue the option of a fiscal responsibility act to impose an overall limit on borrowings or debt accumulation.

3.10.4 Accountability

29. One of the important ways for the state government to proceed with reforms would be to make its fiscal operations transparent to the public. This would require full disclosure of all relevant fiscal information on its fiscal policy intentions, public sector accounts and projections in a timely and systematic manner. Its accountability can be increased by regularly (quarterly/ half-yearly) publishing reports on its receipts and expenditure including contingent liabilities and deviations from budgeted estimates with explanation for the latter. Transparency in fiscal policy can improve the quality of decision-making through greater scrutiny of government decisions and also facilitate a congenial atmosphere for investment and growth.

3.10.5 Decentralization to Local Bodies

30. In the light of the 73rd and 74th Constitutional Amendment Acts to promote local governments, the state should work towards establishing well functioning rural and urban local governments through regular and fair elections. This will have to be supplemented by providing them fiscal autonomy to collect, decide upon and spend their own revenues. Programmes for local development will also have to be planned and implemented by local governments with people's participation in the process of governance. Pasting monthly/quarterly reports on receipts and expenditure of the local government outside their offices can increase the accountability of local governments and help to monitor the progress made through their development programmes. Strengthening local governments by giving them adequate powers, functions and resources is an important key to improve the pace of development and the process of poverty alleviation.

3.10.6 Role of the Central Government

31. Per capita growth in Assam will continue to stagnate in the absence of wide-ranging fiscal and structural reforms. The suggested fiscal correction would however require counterpart funding from Central government/ donors (at least in the initial phase of reform), which would have to be done with appropriate monitoring and evaluation. The release of funds could be linked to actual improvements in social and economic indicators as reflected in incomes, poverty, mortality, quality of services, provision of basic infrastructure through spending on priority sectors particularly covering backward areas and the lagging classes of people. The devolution and transfer of funds from the Centre would have to be linked more firmly with improvement in fiscal performance, for example, tax collection relative to tax capacity, imposition of user charges, rationalisation of subsidies etc. The Central government may also need to give a special phased grant to repay part of the state liabilities with strict monitoring of its use and promotion of transparency in its fiscal operations.

32. With the proposed reforms the state can improve the quality of its public services, raise the growth rate of its per capita income, stabilise its public debt and work towards reducing its debt-service ratio to focus greater attention on developmental issues.

3.11 A Summary of Action Plan

33. Initiate fiscal, governance and public enterprise reforms to restore fiscal sustainability, improve governance and accelerate economic growth.

a. Reorient spending priorities

- Capital expenditure – rural infrastructure

◦ Irrigation

- Roads
- Electricity
- Employment
 - safety net programmes targeted at rural areas and uneducated youth
 - of educated youth in schools, public offices etc. by appropriate downsizing elsewhere
- Any new government employment on contractual basis along with downsizing of regular staff
- Staff transfer from state to rural and urban locations
- Rationalisation of subsidies
- Restriction of guarantees to viable projects with good credit rating
- b. Improve tax revenue generation
 - Strengthen administrative machinery for tax collection at state and local level
 - Impart technical training with help from the Centre
 - Focus on high-yielding/ buoyant taxes
 - Levy taxes on ad valorem basis (on value, not quantity)
 - Introduce price differentiation
 - Cut out exemptions
- c. Improve non-tax revenue generation
 - Increase user charges appropriately at state and local level
 - Improve efficiency of operation of public enterprises
 - Privatize enterprises in sectors not very relevant for the government
- d. Impose limit on total borrowings/ debt accumulation
- e. Make fiscal operations transparent to the public
 - Full disclosure of policy intentions
 - Report on receipts/ expenditure and contingent liabilities
- f. Establish well functioning local governments in urban and rural areas with

- Adequate powers, functions and resources
 - Fiscal autonomy to decide upon, collect and spend their revenues
 - Planning and implementation of development programmes
- f. Central government to provide
- Initial counterpart funds for reform, with monitoring and evaluation
 - Special phased grant to repay part of state liabilities
 - Transfer of funds linked to fiscal performance

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