

CHAPTER IV

THE FINANCIAL INTER-RELATIONSHIPS BETWEEN THE CENTRE AND NORTH-EAST INDIA

4.1 Introduction

Eight states in the northeast India are considered as “special category states”. The “Gadgil Formula” during Fourth Five Year plan has made the division of the states into special and general category states. The common identities of special category states are preponderance of hilly and difficult terrain, a low population density, strategic location, economic and infrastructure backwardness. Under the Gadgil Formula the special category states get 90% of the central assistance as grants and 10% as loans. Why the “assistance” is much more relevant for northeastern states will be clear if we closely look at the development experiences of these states. Due to ecological constraints both agriculture and manufacturing sector have not flourished properly. But, the growth of the tertiary sector has been relatively much better. Thus “jump” of the economy from primary to tertiary sector is the common phenomena of almost all northeastern states.

At the end of March 2004, the credit-deposit ratio for this region was only 29.82 against national average 58.71. In one sense the chronological order of the stages of development has not been maintained in these states. Taking case study of all states, subsequently we shall see that the average values of government expenditure multiplier are generally low due to high import intensity of expenditure. This is why northeastern states are generally highly dependent on external world. Import substitution is not possible due to low profile industrial base and lack of investment opportunities. As a result state money does not generate income and employment within the state and the development

experience of northeastern states may be defined as jobless growth process. The continuous leakage of money to import goods and services may bring macro economic instability in the long run. During 1987-2000 not even a single state of this region has shown a continuous trend of fiscal surplus as percentage of Gross State Domestic product. In comparison with the general category states the performances of special category states are highly insignificant.

The present chapter is divided into three sections. In the first section we have discussed briefly the trend of some common parameters which show the financial health of northeastern economy. In the second section we have presented the principles behind the recommendations of 9th, 10th, 11th and 12th Finance Commissions for the northeastern states. In the third section we have shown the relationship between transfer of resources from the centre and state domestic product in each state.

4.2 Trend of Fiscal Deficit

Fiscal Deficit by definition is measured as *Revenue expenditure + Capital expenditure + Net loans and advances – Revenue receipts – Miscellaneous capital receipts*. Fiscal deficits as percentage of GSDP in northeastern states are given in Table 4.1.

Table 4.1: Fiscal Deficit as a Percentage of GSDP

YEAR	Apradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura
1987-88	-11.88	-6	-2.81	-0.07	-50.95	-10.52	-5.7	-9.41
1988-89	-11.27	-4.02	-8.22	-1.62	-47.45	-12.44	-6.11	-9.9
1989-90	-18.14	-5.78	-10.64	-4.37	13.82	-24.24	-14.25	-9.43
1990-91	36.28	-5.29	-9.25	-4.63	34.73	-14.89	-8.64	-8.3
1991-92	0.56	-2.15	-7	-6.97	3.29	-14.41	-15.86	-8.05
1992-93	0.25	-1.59	0.09	-8.09	-9.48	2.75	-12.79	-1.87
1993-94	11.33	0.12	0.72	-6.63	-2.85	-4.84	-8.49	-7.86
1994-95	-4.87	-4.3	-4.19	-2.4	-7.91	-1	-10.63	-7.34
1995-96	-1.93	-3.49	-6.47	-2.83	-10.34	-12.62	-8.46	-1.92
1996-97	-5.5	-0.37	-8.68	-1.14	-13.75	-7.16	-9.7	-6.3
1997-98	-8.19	-0.67	-9.41	-5.38	-14.12	-11.75	-9.57	-9.24
1998-99	-3.22	-1.45	-4.82	-5.42	-7.35	-6.97	-17.26	-5.1
1999-00	-11.52	-7.88	-9	-11.73	-10.53	-5.23	-11.95	-18.76

Source: 11th Finance Commission report

The linear trends of this parameter in all states have not shown any significant relationships, because of the high degree of fluctuations. Degrees of fluctuations are too high for Arunachal Pradesh (standard deviation 13.69) and Mizoram (standard deviation 22.20). In Arunachal Pradesh during 1990-94 we get fiscal surplus figures and in other periods there are deficits with high or moderate values. Similarly in Mizoram we find a high value of standard deviation because of the presence of fiscal surplus over the period 1989-92. Also, there is a massive change in the fiscal deficit/GSDP ratio from -50.95% (1987) to -10.53% (2000). For other states the degrees of variability measured by standard deviation are 2.49 for Assam, 3.68 for Manipur, 3.20 for Meghalaya, 6.88 for Nagaland, 3.34 for Sikkim and 4.19 for Tripura.

Trend of fiscal deficit is well reflected by the debt-GSDP ratio (Table 4.2) as, "the debt burden has grown enormously and tended to wear down the surplus in their revenue budget" (Elventh Finance Commission Report). Interest payment as percentage of revenue receipts represents the desirable level of debt-GSDP ratio. According to 11th and 12th Finance Commission Reports the average ratio of payment of interest to revenue receipts were not sustainable during 1996-99 in northeastern states (below 15%) and the situation was unchanged during 2000-03 providing unsustainable levels of debt (10% - 18%) in these states.

Table 4.2: Outstanding Debt as a Percentage of GSDP (1993-2003)

	93-4	94-5	95-6	96-7	97-8	98-9	99-00	00-01	01-02	02-03
A.Pradesh	31.80	37.28	35.99	41.77	42.43	43.06	46.86	51.47	54.50	55.45
Assam	27.26	25.72	27.02	27.28	26.92	25.98	28.73	29.76	33.89	33.91
Manipur	34.03	32.26	32.91	31.03	41.67	44.98	45.73	40.06	49.23	43.08
Meghalaya	19.34	22.12	20.53	21.77	20.09	24.61	26.86	29.44	29.43	32.17
Mizoram	45.47	47.73	47.06	56.35	57.95	62.43	70.19	67.16	76.00	81.56
Nagaland	39.21	39.37	44.42	44.60	45.93	47.94	47.03	43.36	46.98	52.10
Sikkim	52.04	52.07	52.19	51.98	52.15	58.03	74.16	63.51	62.25	60.27
Tripura	36.94	32.46	35.04	32.22	30.02	33.16	35.32	36.86	37.25	37.78
TSC	36.48	35.07	35.97	36.23	36.11	36.98	39.16	38.19	42.41	44.29
TNSC	20.78	20.31	20.17	20.16	21.27	22.59	25.34	28.34	30.84	33.54

Source- 12th Finance Commission report; TSC- Total Special Category States; TNSC- Total Non Special Category States.

Table 4.2 clearly shows massive discrepancies in the debt-GSDP ratio between Special Category and General Category States. For the Special Category States after 1998-99 debt-GSDP ratio is steadily rising. For all states except Tripura the linear trend of debt-GSDP ratio have shown significant results as shown in Table 4.3 below.

Table 4.3: Results on the Trend of Debt-GSDP Ratio

	t statistic	R ²	SE
Arunachal Pradesh	14.83	.965	.174
Assam	4.02	.669	.202
Manipur	3.79	.642	.453
Meghalaya	7.02	.860	.199
Mizoram	13.76	.960	.295
Nagaland	4.00	.668	.262
Sikkim	2.64*	.466	.629
Tripura	1.38	.193	.274

[All are significant at 1% level of significance. (*) implies significant at 5% level of significance] Source: Estimated from Table 4.2.

4.3 Trend of Own Tax Revenue

Own tax revenue is a good reflector of internal economic strength of any state or country. The heads of account under own tax revenue are taxes on income levied under state's law, sales tax, state excise tax, tax on vehicles, stamp and registration fees and land revenues. Apart from own tax revenue, tax amount received through union transfer is another major component of total tax revenue. As the own tax is collected through the domestic economic activities mentioned before, own tax revenue/total tax revenue is a good reflector of internal economic

strength. The ratios of own tax revenue and total tax revenue over 1994-2003 in all northeastern states are much lower than any developed states of India like Andhra Pradesh and Maharashtra (Table 4.4). Following the recommendations of Eleventh Finance Commission for all states, shares in union tax transfer have been drastically reduced. Consequently, we notice from Table 4.4 that in all states after 1999-2000 the own tax revenue/total tax revenue ratios are suddenly rising. During this period (1999-2003) growth rates of state's shares in central taxes are negative in all states except Assam.

Table 4.4: Buoyancy of Own Tax Revenue (1st figure) & Own Tax/Total Tax Ratio (2nd figure)

States	94-5	95-6	96-7	97-8	98-9	99-00	00-01	01-02	02-03
A.Pradesh	- .040	1.74 .058	1.12 .045	1.06 .038	-17.6 .040	2.99 .039	5.2 .151	3.25 .164	2.74 .199
Assam	- .435	0.89 .434	1.37 .394	1.89 .374	1.6 .420	0.82 .450	2.03 .450	1.34 .470	2.97 .500
Manipur	- .110	2.12 .140	-4.36 .05	12.92 .10	-0.66 .08	1.88 .09	11.04 .23	0.63 .19	3.78 .18
Meghalaya	- .280	0.67 .290	1.53 .260	-0.21 .200	1.09 .220	1.29 .230	1.02 .410	1.70 .430	2.99 .410
Mizoram	- .02	0.94 .04	0.53 .03	4.40 .03	1.44 .03	1.23 .03	1.28 .14	2.61 .12	3.41 .15
Nagaland	- .09	0.40 .09	1.81 .10	0.42 .07	2.44 .07	3.30 .07	0.64 .40	-0.52 .29	0.68 .29
Sikkim	- .33	4.83 .28	0.47 .21	1.40 .23	0.23 .20	0.78 .20	7.07 .47	-0.43 .36	0.56 .35
Tripura	- .15	0.54 .17	2.77 .15	0.23 .14	1.14 .15	1.01 .16	1.45 .34	1.03 .35	1.19 .37
Andhra Pradesh	- 0.69	- .61	- .62	- .67	- .72	- .72	- .72	- .74	- .74
Maharashtra	- 0.84	- .86	- .83	- .88	- .82	- .86	- .87	- .90	- .90

Source: Calculated from Vol. 2 March 2003 NEDFi Journal

Buoyancy of own tax revenue of each state has been calculated subject to NSDP growth (Table 4.4). By definition this is the ratio of growth rate of own tax revenue to the growth rate of NSDP. Buoyancy of own tax revenue is another good indicator of self-sufficiency of any economy as it reveals the dependency of growth of state domestic product on the growth of own tax revenue based on own economic activities. The linear trend of this buoyancy has not been proved significant except in Meghalaya (significant at 10 % level of significance) for all states (Table 4.5). Buoyancy of own tax revenue is highly fluctuating in case of Arunachal Pradesh (standard deviation 7.25) and Manipur (standard deviation 5.82).

Table 4.5: Results on Trend of Own Tax Revenue Buoyancy

	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura
t Statistic	.509	1.79	.416	2.204	1.039	-.472	-.463	-.06
R ²	.041	.348	.028	.447	.152	.036	.036	.001

Source: Estimated from Table 4.4

Besides a very little part of NSDP growth has been explained by the growth of own tax. Regression results between NSDP growth (dependent variable) and own tax revenue growth (independent variable) have provided very low values of R² and t statistic in each state (Table 4.6). Moreover in Manipur and Meghalaya regressor coefficients are negative. Thus own tax revenue or own economic base has failed to be a good source of income generation within the territories of northeast India. As such fluctuations in case of growth rate of own tax revenue is much higher than the growth rate of NSDP for all states. The standard deviations of the growth rate of own tax revenue is abnormally high for Manipur (standard deviation 57.79) and Sikkim (standard deviation 38.27). For other states standard

deviation values are 12.77 for Arunachal Pradesh, 6.75 for Assam, 8.56 for Meghalaya, 11.43 for Mizoram, 18.03 for Nagaland and 5.73 for Tripura.

Table 4.6: Regression Results between Growth Rate of Own Tax Revenue and NSDP

	A.Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura
t statistic	.957	1.60	-.229	-1.343	.368	1.72	.169	.099
R ²	.132	.300	.009	.231	.022	.331	.074	.022

Source: Estimated from the data provided by Vol. 2 March 2003 NEDFi Journal

4.4 Aggregate Expenditure and NSDP

Aggregate expenditure of the northeastern states during 1994-2001 is given in Table 4.7.

Table 4.7: State wise Aggregate Expenditure (Rs. Crore) During 1994-2002

	94-5	95-6	96-7	97-8	98-9	99-00	00-01	01-02
A.Pradesh	691	803	891	972	1004	1098	1383	1325
Assam	3998	4390	4268	5022	5204	7086	10194	9668
ddManipur	675	811	1014	1133	1116	1780	1759	1545
Meghalaya	587	779	785	851	1008	1195	1561	1745
Mizoram	592	715	810	870	893	1161	1311	1148
Nagaland	906	1040	1096	1230	1491	1495	1836	1870
Sikkim	601	993	1241	1394	1621	1620	1199	1046
Tripura	880	989	1179	1350	1531	1773	2255	2725

Source- Vol. 2 March 2003 NEDFi Journal

Trends of aggregate expenditure in all states are significant at 1% level of significance except Sikkim over 1994-2001. The trend equation in this case was

$$y = ab^t \quad [t = 1 \text{ for } 1994]$$

$$\text{or } y = A+Bt \quad \text{where } A = \log a, B = \log b$$

The results on the trend equations were the following:

Table 4.8: Results on the Trend of Aggregate Expenditure

	SE	R ²	t statistic	p value
Arunachal Pradesh	.008	.956	11.36	.000
Assam 3068.68(15.26) [†]	.021	.884	6.77	.001
Manipur 630.81(14.45) [†]	.021	.869	6.32	.001
Meghalaya 507.75(16.18) [†]	.012	.963	12.48	.000
Mizoram 566.23(10.96) [†]	.014	.908	7.68	.000
Nagaland 810.78(11.40) [†]	.007	.977	16.13	.000
Sikkim	.046	.271	1.50	.186
Tripura 713.36(17.46) [†]	.006	.991	25.03	.000

Source: Estimated from the previous Table

The successive growth rates of aggregate expenditure derived from Table 4.7 are highly fluctuating. The values of standard deviation of this growth rate are 9.5 for Arunachal Pradesh, 19.00 for Assam, 23.77 for Manipur, 11.55 for Meghalaya, 13.52 for Mizoram, 9.03 for Nagaland, 29.50 for Sikkim and 5.21 for Tripura.

Low industrial base or manufacturing profile as argued in the introductory portion of this chapter is responsible for the high import intensity of expenditure. A high fraction of state money goes out to import goods and services, which is considered as leakage of money. This leakage provides less scopes of income generation within the economy. With reference to Table 4.9 we observed three things about NSDP- aggregate expenditure ratio. Firstly, for all states the ratios are not much high. Secondly, for Arunachal Pradesh, Assam, Manipur and Meghalaya the ratios are almost stagnant. Thirdly, for Mizoram, Nagaland, Sikkim and Tripura the ratios are augmented, though it is always less than one in case of Sikkim. To find out the strength of relationship between NSDP growth rate and aggregate expenditure growth rate we determined the Person correlation coefficient between two for each state. Calculated p values suggest that no state has provided significant value of correlation coefficient at 1%, 5%, or even 10% level of significance.

Table 4.9: NSDP/Aggregate Expenditure Ratio during 1994-2002

States	94-5	95-6	96-7	97-8	98-9	99-00	00-01	01-02
A.Pradesh	1.30	1.36	1.34	1.40	1.34	1.32	1.15	1.30
Assam	3.64	3.73	4.09	3.75	3.88	3.70	2.77	3.17
Manipur	1.93	1.74	1.54	1.54	1.90	1.38	1.43	1.90
Meghalaya	2.14	2.04	2.24	2.54	2.55	2.43	2.13	2.11
Mizoram	1.01	1.06	1.21	1.17	1.27	1.10	1.24	1.54
Nagaland	1.33	1.38	1.68	1.73	1.46	1.55	1.86	2.06
Sikkim	0.67	0.44	0.39	0.41	0.41	0.46	0.73	0.93
Tripura	1.48	1.57	1.44	2.23	2.26	2.36	2.15	2.03

Source: Calculated from the data provided by Vol. 2 March 2003 NEDFi Journal

Table 4.10: Pearson Correlation Coefficient between NSDP & Aggregate Expenditure Growth Rates

	APradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura
Correlation coefficient	.396	.480	.031	.454	.436	.362	-.354	-.310
P value	.380	.276	.947	.306	.328	.424	.436	.498

Source: Estimated from Table 4.7 and March 2003 NEDFi Journal

Financial assistance from the Centre to the northeastern states for development and other purposes flows under the following heads:

4.5 Union Tax Transfer

To determine the aggregative share of the states in all Union taxes, most special category states like Sikkim, Meghalaya, Mizoram and Tripura are in favour of distribution of 30% of the shareable pool for distribution among the SC states. In the "inter se" distribution of the aggregate share of the Central tax revenues, population and assessment were the only two criteria up to the period of Seventh Finance Commission. After that distance, inverse to income, poverty ratio, index of backwardness and tax effort have been included as determinant factors of

Inter se distribution. Distance and inverse income formulae utilise population and per capita income status. Compared to the distance formula, in the inverse income formula, the middle income states have to bear a relatively higher burden due to implicit convexity in it. The index of infrastructure gives economic and social infrastructure of any state. It includes agriculture, banking, electricity, transport, education and health facility provided to the citizens of the respective states. The basic purposes for determining "inter se" shares are equity and efficiency. The principle of equity is to wipe out resource deficiencies and the principle of efficiency is to strengthen resource base through providing services at minimum cost. In the memoranda submitted before the Tenth Finance Commission, Nagaland was in favour of giving 50% weightage to the population factor. Inclusion of composite index of backwardness, distance of per capita income of state from the highest per capita income and inverse of per capita income weighted by population, have been supported by Assam, Manipur, Meghalaya and Nagaland. Some states like Arunachal Pradesh, Assam, Meghalaya have suggested reserving certain percentage of divisible proceeds for distribution among revenue deficit states. On the other hand Manipur, Mizoram and Nagaland have preferred an exclusive distribution among special category states. Most of the north-eastern states are small with hilly terrain. But the costs to establish the framework of government machinery may be higher due to nature of the terrain. So the "area" factor behind inter-se distribution of union tax revenues has been taken into consideration for northeastern states. Different Finance Commission reports have given different weightages to the determinant factors of inter se distribution. As per Twelfth Finance Commission report the weights of the factors are - population (25%), income distance (50%), area (10%), tax effort (7.5%) and fiscal discipline (7.5%). Table 4.11 gives year wise recommendations on tax transfer over 1990-2010.

Table 4.11: Finance Commission Recommendations on Tax Transfer (Rs. Crore)

Year	A.Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Sikkim	Tripura
1990-91	82.70	471.50	112.02	88.17	100.46	123.29	24.65	151.04
91-92	92.52	525.89	125.30	98.57	112.41	137.91	27.57	168.86
92-93	103.59	586.78	140.23	110.24	125.88	154.4	30.85	188.95
93-94	115.97	654.74	156.92	123.31	140.93	172.82	34.53	211.36
94-95	129.81	730.66	175.60	137.92	157.79	193.46	38.65	236.45
95-96	144.81	1023.25	190.74	180.88	146.53	219.12	67.98	262.11
96-97	195.05	1212.45	249.94	233.73	199.09	303.47	86.81	344.19
97-98	282.6	1462.05	350.65	320.81	293.82	454.22	116.88	486.62
98-99	336.3	1613.95	402.13	372.21	351.54	551.57	134.7	568.27
99-2000	401.27	1752.43	486.26	426.95	410.99	669	155.7	664.62
00-01	132	1776	198	185	107	119	99	263
01-02	154	2070	231	216	125	139	116	307
02-03	179	2414	269	251	146	162	135	358
03-04	209	2816	314	293	170	189	158	417
04-05	244	3285	366	342	198	220	184	487
05-06	263.37	2958.19	331.04	339.26	218.54	240.48	207.58	391.34
06-07	301.53	3327.11	379	388.41	250.40	275.32	237.65	448.05
07-08	345.98	3574.40	434.89	445.69	287.10	315.90	272.70	514.1
08-09	397.89	3120.05	500.12	512.54	330.16	363.29	313.59	591.22
09-2010	458.57	2526.16	576.39	590.71	380.52	418.68	358.62	681.31

Source: 9th, 10th, 11th and 12th Finance Commission Reports

The trend equation $y = ab^t$ is fitted on tax transfer for every state and the results are presented in Table 4.12. The trends of Union tax transfer for all states are statistically significant. Besides, the values of t statistic are positive for all states. So, over the years the amount of Union tax transfer is enhanced significantly in the north-eastern states.

Table 4.12: Results on the Trend Equations of Union Tax Transfer

States	R ²	SE	T statistic	p value
Arunachal Pradesh	.645	.012	5.72*	.000
Assam	.911	.008	13.57*	.000
Manipur	.726	.010	6.91*	.000
Meghalaya	.786	.011	8.12*	.000
Mizoram	.359	.014	3.18*	.005
Nagaland	.152	.019	1.79**	.089
Sikkim	.925	.009	14.84*	.000
Tripura	.640	.011	5.65*	.000

[(*) implies significant at 1% level of significance. (**) implies significant at 10% level of significance] Source: Estimated from Table 4.11.

4.6 Taxes on Railway Fare and Freights

Article 269 of the Constitution empowers the Government of India to levy and collect taxes on railway fare and freights but the net proceeds will be distributed among the states. As per recommendations of 8th Finance Commission the states were supported to be paid 10.75% of the non-suburban passengers' earnings. An amount of Rs. 95 crore per annum was recommended for the period 1984-89. In the report of 9th Finance Commission the amount was raised to Rs. 150 crore annually. This amount was Rs. 380 crore per annum in the 10th Finance Commission report. The shares of the states were determined in the same proportion. Most of the hill states in the north-east do not have railway lines and the people of these states collect ticket from other states. These states suggested taking population as criterion for distribution of railway grants. Manipur suggested an increase in the grant with an extra weightage to the total traffic.

4.7 Calamity Relief Fund

Natural calamities have serious impacts on the human life and the economy of any region. Such as negative impact on labour market, migration of cattle, malnutrition, inavailability of drinking water are the results of drought. On the other hand floods, cyclones or earthquakes may cause loss of both human and cattle lives with damage of public and private property.

Calamity Relief Fund (CRF) was formed on the basis of the recommendations of the Ninth Finance Commission. Earlier Commissions utilised the "marginal money" scheme, which is an annual balance and may be invested in case of any emergency. As per arrangement of Ninth Finance Commission the share of the Center and states in the CRF was 75:25. The average actual ceiling of expenditure approved for a state was the determinant factor of the size of CRF. According to the Tenth Finance Commission a calamity of "rare severity" was considered as national calamity. Material and financial support should be more than the amount stipulated by CRF. Accordingly National Fund for Calamity Relief (NFCR) was established over the period 1995-2000 of Rs. 700 crore with Center-state share ratio 75:25. Eleventh Finance Commission has taken decision to operate CRF with the same ratio for the victims of cyclone, drought, earthquake, fire, flood, and hailstorm. A National centre for calamity management (NCCM) under the Ministry of Agriculture has been established to monitor all types of natural calamities. The scheme of NFCR is being discontinued. To take immediate action in the calamities of rare severity without waiting for any memorandum from states, National Calamity Contingency Fund (NCCF) is created. The view of Twelfth Finance Commission is not much different from the main track of 11th Finance Commission. Keeping centre state share ratio in the CRF same, the size of CRF is raised to Rs. 21333 crore. Besides landslides, avalanches, cloud burst and pest attacks have been considered as natural calamity. The scheme of NCCF is allowed to continue with a budget of Rs 500 crore.

Nagaland, Tripura and Assam were unwilling to contribute in CRF. Arunachal Pradesh wanted to reduce the share of state from 25% to 10%. All northeastern states are in favour of augmenting the amount to CRF. Some low income states like Assam was unable to spend sufficient money in any emergency. These states are against the assessment on future allocation depending on past efficiency.

Table 4.13: Recommendations for Calamity Relief Fund (Rs. in Crore)

States	1990-95	1995-2000	2000-2005	2005-2010
Arunachal Pradesh	7.50	27.79	49.83	112.56
Assam	112.50	197.46	420.60	767.89
Manipur	3.75	9.79	11.89	22.11
Meghalaya	7.50	11.01	16.32	44.88
Mizoram	3.75	5.00	12.32	26.19
Nagaland	3.75	6.71	8.12	15.19
Sikkim	11.25	18.59	28.63	69.74
Tripura	11.25	17.75	21.55	51.12

Source: Successive Finance Commission Reports

Some area specific problems are described as calamity by many northeastern states. Those are landslides for Arunachal Pradesh, Assam, soil erosion for Assam and bamboo flowering for Mizoram. As per assessment of different FC reports recommendations on CRF are given above in Table 4.13

4.8 Recommendations for Local Bodies

Tenth Finance Commission emphasised on the augmentation of consolidated funds of the states, for supplementation of resources of the panchayats and municipalities. Land taxes, surcharge/cess on state taxes, profession tax, property tax, Octroi/ entry tax, user charges etc. have been suggested as the instruments to serve the purpose. In this regard centre was reluctant to provide any financial support for the states. However the Centre was willing to make provision for maintenance of civic service like primary education, primary health

care, safe drinking water, street lighting, sanitation, maintenance of cremation and burial grounds, public conveniences and other common property resources. To maintain accounts and audit and to create a database on the finance of the local bodies' financial support is provided.

As per TFC report the activities of panchayats will be supported by state's own resource and central transfer both. Rs.100 percapita for rural population was granted to Panchayati Raj Institution. To overcome the problems arising from the growth of slum population an additional grant of Rs.1500 crore were provided for all states. Under EFC report a total grant of Rs.1600 crore for the panchayats and Rs. 400 crore for the municipalities have been provided. In per capita term rural gain is higher than urban gain as the scopes to generate revenue in urban area are more than that of rural area. According to the principles of "inter se" distribution the criterion and corresponding weights to distribute the grant among all states are - population(40%), index of decentralization(20%), revenue effort (10%), geographical area(10%) and distance from highest per capita income(20%). As per this measure the total provision for all north-eastern state was Rs.399.33 crore.

The Constitutional changes under 73rd and 74th amendments consider the panchayats and municipalities as institutions of self-government. The devolution of financial resources to these bodies has been ensured by State Finance Commissions for the recommendations on taxes, duties, tolls, fees and grants-in-aid from consolidated fund. A number of north-eastern states like Meghalaya, Mizoram, Manipur and Tripura have been excluded from the operation of 73rd amendment. It is suggested that administrative recognition is necessary for these institutions to ensure their development as viable institutions of self-government.

Table 4.14: Own Revenue, Other Revenue & Expenditure on Core Services of Local Bodies 1990-98 (Rs. in Crore)

States	Own Revenue	Other Revenue	Expenditure on C.S
Assam	171.43	92.37	181.76
Manipur	11.63	24.18	0.86
Meghalaya	28.01	102.27	7.98
Mizoram	0.02	1.48	--
Nagaland	0.63	406.42	--
Sikkim	0.00	7.28	--
Tripura	6.21	129.85	15.26

Source: Compiled from 11th Finance Commission Report

From the records during 1990-98 it may be concluded that the local bodies (Panchayats and Municipalities) of northeastern states have not taken active participation in the development programme of core services. Core services mean making provisions for water supply, street lighting, sanitation, roads, burial grounds, etc. As per the report of 11th Finance Commission the performances of the states of Arunachal Pradesh, Mizoram, Nagaland, Sikkim in connection with the expenditure of local bodies on these core services are nil. A large discrepancies between own revenue and revenue from external sources have been noticed. On the other hand, a meager proportion of total revenue has been spent on core services in most cases.

Twelfth Finance Commission recommended a total amount of Rs. 2500 crore which will be divided between panchayats and municipalities in the ratio of 4:1. The criterion with corresponding weights for inter se distribution are population (40%), geographical area(10%), distance from highest per capita income (20%), index of deprivation (10%) and revenue effort (20%). Under this measure the total provision for all northeastern states is Rs. 920 crore. The following Table gives the provision for local bodies as per recommendations of successive Finance Commissions

Table 4.15: Provision for Local Bodies -1995-2010 (Rs. in Crore)

States	1995-2000	2000-2005	2005-2010
Arunachal Pradesh	4.63	28.52	71.00
Assam	147.56	254.99	581.00
Manipur	11.54	23.17	55.00
Meghalaya	10.12	28.31	58.00
Mizoram	3.32	11.70	30.00
Nagaland	5.21	14.66	46.00
Sikkim	2.48	5.50	14.00
Tripura	14.97	32.48	65.00

Source: 10th, 11th, 12th Finance commission Reports.

4.9 Up gradation Grants

Up gradation of standards in non-developmental and social sectors and services to bring efficient fiscal management through modernisation and rationalisation of administrative set up is one of the main targets of Centre. Upto the Fifth Finance Commission report, Centre emphasised on any specific need of the states, viz, expanding primary education, improvement of road communication etc. The inequality with respect to all-state average per capita expenditure in administrative and social service sectors was examined under Sixth Commission report. Centre has chosen those fields for assistance which are relevant and important to administration and society.

From Tenth Finance Commission and onwards the fields of assistance for the purpose of overall development have been classified into some broad categories. Those are: (a) District Administration: it includes police administration, construction of police station buildings and forensic science laboratories, equipment and weapon for the police, facilities for women police personnel, prisons administration, fire services etc. During 1995-2000, a total amount of 172.25 crore was recommended for northeastern states under this item. During 2000-2005, for public administration an amount of Rs. 71 crore was recommended. (b) Education and Health Sector: In the report of 10th Finance Commission it is argued that there is a strong correlation between the rise in female literacy and the decline in fertility and mortality rate. Low female literacy is

also the source of many negative sides of any society. It can be found that in 1991, female literacy was below 20% in 83 districts and this figure was in between 20% to 40% in 199 districts.

Drinking water facility in upper primary and primary schools along with separate toilet facilities for girls has been considered as parameters of sound educational system. To provide the facilities the unit cost for sanitation was taken as Rs. 10,000 and on average unit cost for a hand pump set was estimated as Rs. 15,000. Accordingly the requirement for upgradation of education is estimated during 1995-2000 is 78.85 crore for all north-eastern states. In the Eleventh Finance Commission report the grant on elementary education was based on an index. This index includes the number of illiterates in the age group of 7-14 years as per the census of the 1991 and average per capita consumption expenditure of the states under three consecutive budgets during 1995-98. Keeping in mind the increasing importance of information technology school children are provided grant for the computer training facility. Each state and each district in rural area have been provided Rs. 1 crore and Rs 20 Lakh respectively for the improvement of library facility.

Before any recommendation the 12th Finance Commission was concerned about two things. Firstly, the states are supposed to spend a certain minimum percentage of total revenue expenditure and secondly, identification of those states for which the required percentage of expenditure is less than a normative level per capita expenditure in the education sector. Different states have submitted proposal for up gradation of health infrastructure through providing building for the hospitals and health centers, residential quarter, equipment, vehicles etc. On an estimation of one regional diagnostic center for every four districts, EFC has made a provision of 19 centers for all northeastern states with a total cost of Rs. 189 crore.

In an initiative of Sarva Shiksha Abhiyan, Centre has provided a portion of total expenditure. So, in the 12th Finance Commission report the Centre was willing to

provide more in health sector than education sector [during 2005-2010 the average growth rate of grant for general education was 9.5 percent and average growth rate for health sector was 11.5percent]. Secondly, under major head 2202, 2210 & 2211, Assam has been given additional grant in both sectors. During 2005-10 this amount is Rs 1107.37 crore for education and Rs 966.02 crore for health sector. Over the span 2000-2010, total provision in education and health sector is Rs. 782 crore for Arunachal Pradesh, 14135 crore for Assam, 2075 crore for Manipur, 1630 crore for Meghalaya, 1099 crore for Mizoram, 1618 crore for Nagaland, 849 crore for Sikkim and 3304 crore for Tripura.

Table 4.16: Recommendations on Up gradation Grants Under Successive Finance Commission (FC) Reports [Rs. in Crore]

States	9 th FC	10 th FC	11 th FC	12 th FC
Arunachal Pradesh	15.33	18.31	60.59	206.63 (1029%)
Assam	11.96	146.85	102.54	2697.47 (1737%)
Manipur	50.00	24.73	36.59	148.18 (499%)
Meghalaya	6.58	11.71	27.39	157.27 (1243%)
Mizoram	4.21	7.12	42.84	96.73 (1259%)
Nagaland	17.05	23.95	32.84	197.81 (726%)
Sikkim	3.19	4.56	16.78	63.72 (1297%)
Tripura	3.05	13.90	30.18	132.90 (856%)
Total	111.27	251.13	349.75	3682.71 (1366%)

Source: Successive Finance Commission Reports

The column of 9th FC includes grants for up gradation and state specific programmes. The percentage figures within the brackets of 12th FC column

represent the growth rate of grant over 10th FC report of the respective states. The growth rate of Central assistance under this item is highest for Assam due to special grant mentioned before. It is already mentioned that district administration, education and health sectors are some major fields of assistance under up gradation programme. Some other major items are maintenance of roads, bridges, forests, heritage protection etc. As per Twelfth FC report total amount of transfer under these four items is Rs. 1620 crore for all north-eastern states. For augmentation of traditional water sources in the north-eastern region EFC had provided an amount of Rs. 43 crore

4.10 Grants-in-aid

According to article 280 of the Constitution the Finance Commission has to make recommendations on the Grants-in-aid for the states. Grants -in-aid take place after the transfer to the states on the account of (i) devolution of income tax and Union excise duties, (ii) share in additional excise duties and (iii) share in grants in lieu of tax on railway passenger fares. The recommendations and principles under these items have been explained before categorically. In the EFC report the conception of grants-in aid is extended to upgrade the standards of state administration. This will reduce inter-state disparity in terms of the availability of administrative and social services. Expenditures on district administration, education and health sector, local bodies' calamity relief, maintenance of roads, bridges, buildings, forests, heritage conservation and state specific problems are coming under grants-in-aid account. We have discussed these issues previously. Over the period 1990-2010 provisions as grants-in-aid for the north-eastern states is furnished below in Table 4.17

Table 4.17: Recommendations on Grants-in-Aids during 1990-2010 (Rs. Crore)

States	9 th FC	10 th FC	11 th FC	12 th FC
Arunachal Pradesh	310.29	408.33	1396.96	1758.22
Assam	986.73	1263.91	918.81	4478.71
Manipur	375.40	446.99	1838.59	4648.76
Meghalaya	263.68	354.27	1674.40	2091.16
Mizoram	383.54	403.64	1790.16	3194.39
Nagaland	462.42	595.66	3621.86	5839.74
Sikkim	95.93	136.82	941.49	436.20
Tripura	477.26	547.40	2528.37	4135.39
Total	3353.25	4157.02	14708.34	26581.57

Source: Successive Finance Commission Reports

From the Table above we observe that during 1990-2010 the total amount of provision for grants-in-aids is Rs. 48800.18 crore for all north-eastern states. Following Table 4.17 we notice that for all states except Assam there are sharp rises in the amount of grants under the recommendation of 11th Finance Commission with respect to the recommendation of 10th Finance Commission. On the other hand, the growth rate of grants of Assam is highest in the report of 12th Finance Commission over the report of 11th Finance Commission. Table 4.18 shows year wise actual grants during 1994-2003 for each state.

Table 4.18: Year wise Actual Grants (1994- 2003) Rs.Crore

States	94-5	95-6	96-7	97-8	98-9	99-00	00-01	01-02	02-03
A.Pradesh	387.5	540.5	556.4	528.8	578.9	598.3	760.3	1063.3	988.6
Assam	1182.2	1424.2	1591.2	1587.2	1722.7	1722.5	2018.3	2741.5	3230.0
Manipur	336.8	452.5	502.9	475.9	502.8	599.4	790.4	1108.1	943.9
Meghalaya	290.8	391.0	388.1	306.6	392.3	415.0	762.7	928.8	987.2
Mizoram	339.6	452.1	432.7	419.8	409.5	576.5	686.0	918.6	1358.2
Nagaland	350.0	527.8	526.8	495.0	518.3	543.4	1236.9	1271.6	1352.89
Sikkim	158.6	242.1	225.0	253.2	280.8	320.5	436.0	624.8	634.1
Tripura	425.9	622.5	609.0	545.8	682.4	731.0	1181.8	1373.6	1500.0

Source: March 2003 NEDFi Journal

We have fitted the trend equation $y = ab^t$ of the year-wise actual grants given in the Table 4.18 for each state. The results are presented in the Table 4.19.

Table 4.19: Results on the Trend Equations of Year-wise Grants during 1994-2003

States	Trend Equation	R ²	SE	t statistic
Arunachal Pradesh	372.41(1.11) ^t	.850	.017	6.30
Assam	1053.63(1.12) ^t	.896	.014	7.78
Manipur	304.90(1.14) ^t	.887	.018	7.42
Meghalaya	225.87(1.16) ^t	.786	.030	5.07
Mizoram	265.07(1.16) ^t	.819	.026	5.62
Nagaland	292.94(1.17) ^t	.802	.031	5.33
Sikkim	137(1.18) ^t	.928	.017	9.49
Tripura	365.03(1.16) ^t	.877	.021	7.07

[All t values are statistically significant at 1% level of significance]

Source: Estimated from Table 4.18.

4.11 Total Transfer

Total transfer to the states includes total union tax transfer (income tax+ excise duties+ additional duties+ tax on railway passenger fare) and Grants-in-aids (non plan revenue deficit +up gradation grant+ special problem grant +local bodies+ relief expenditure). During 1990-2010 total amount of transfer to north-eastern states is Rs. 129137.42 crore. Per capita transfers to the northeastern states have been estimated as per recommendation of 9th and 11th Finance Commissions. For special category states this is much higher than general category states (Table 4.20).

We may form an index of per capita transfer with the help of popular formula prescribed by UNDP:

$$(\text{Actual value} - \text{Minimum value}) / (\text{Maximum value} - \text{Minimum value})$$

The values are given below in Table 4.21. We notice that except Mizoram this index value has increased for all states. For Sikkim there is a massive rise in this figure.

Table 4.20: Per capita Transfer During 1990-95 and 2000-05

States	Per capita Transfer (1990-95) as per 1981 Population- Rs.	Per capita Transfer (2000-05) as per 1991 Population- Rs.
Arunachal Pradesh	13091	36919
Assam	1932	5926
Manipur	7612	17723
Meghalaya	6096	16635
Mizoram	20592	36739
Nagaland	16007	36777
Sikkim	7624	39829
Tripura	6930	15801
	2028 (Orissa- Highest among all Indian states)	6568 (Bihar- Highest among all Indian states)
	875 (Haryana- Lowest among all Indian states)	2456 (Maharashtra- Lowest among all states)

Source- Census Report 1981, 2001 and respective Finance Commission Report

Table 4.21: Index Value of Per Capita Transfer of Central Resource

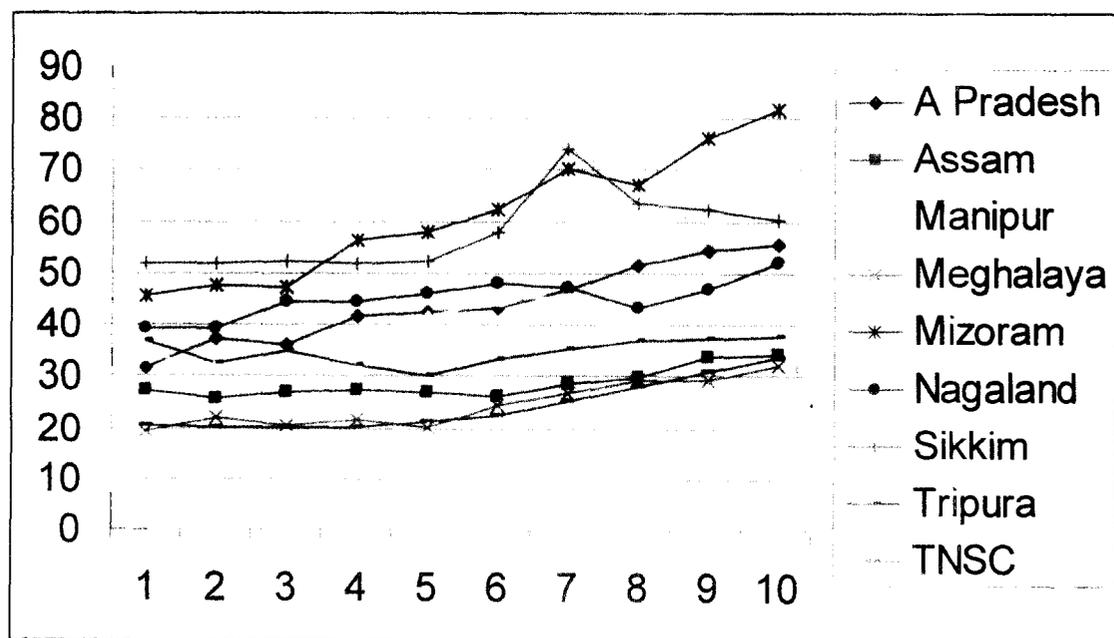
States	Index values on Per capita Transfer (1990-95) as per 1981 population	Index values on Per capita Transfer (2000-05) as per 1991 population
Arunachal Pradesh	0.62	0.92
Assam	0.05	0.09
Manipur	0.34	0.41
Meghalaya	0.26	0.37
Mizoram	1.00	0.917
Nagaland	0.77	0.918
Sikkim	0.34	1.00
Tripura	0.31	0.36

Source: Calculated from previous Table

4.12 Relationship between NSDP and Central Resource

As mentioned before, this section gives an account of the dependency of state domestic product on the resource transfer from Centre. As such we have seen before, per capita allocation of Central resource in each state of north-east India is much higher than that of any other general category state. The major components of Central transfer are tax devolution, grants-in-aid and loan. In section 4.2 we have noticed that the trend of debt-GSDP ratio was proved statistically significant and now the ratio figures in Table 4.2 again can be represented with the help of line diagram. We observe that the position of debt/GSDP trend line for non-special category states is far below compared to the same of special category north-eastern states (Figure 4.1). States like Arunachal Pradesh, Mizoram and Nagaland have shown sharp rise in this ratio. Thus a major portion of state domestic product in each northeastern states of India is covered by debt only.

Figure 4.1: Trend Line of Debt-GSDP Ratio



TNSC- Total Non-Special Category States

The total amounts of grants and tax transfer over the period 1994-2003 are added for all northeastern states except Sikkim and Meghalaya and then the obtained figures are divided by NSDP of corresponding year. So, we get the ratio of (Grants + Tax transfer) and NSDP for each state over 1994-2003. The Table 4.22 given below clearly shows NSDP trends are heavily dependent on grants and tax transfer specially in Arunachal Pradesh and Mizoram. However, Assam has different scenario on this matter. Nagaland and Tripura have achieved a falling trend in this ratio.

Table 4.22: State wise (Grants + Tax transfer)/NSDP Ratio

States	94-5	95-6	96-7	97-8	98-9	99-00	00-01	01-02	02-03
A.Pradesh	0.57	0.60	0.61	0.56	0.62	0.64	0.54	0.69	0.59
Assam	0.13	0.14	0.15	0.16	0.15	0.12	0.13	0.14	0.15
Manipur	0.39	0.43	0.46	0.44	0.39	0.40	0.37	0.45	0.39
Mizoram	0.83	0.75	0.62	0.65	0.60	0.69	0.47	0.58	0.74
Nagaland	0.44	0.50	0.43	0.42	0.41	0.45	0.38	0.36	0.33
Tripura	0.51	0.54	0.54	0.32	0.32	0.30	0.29	0.29	0.29

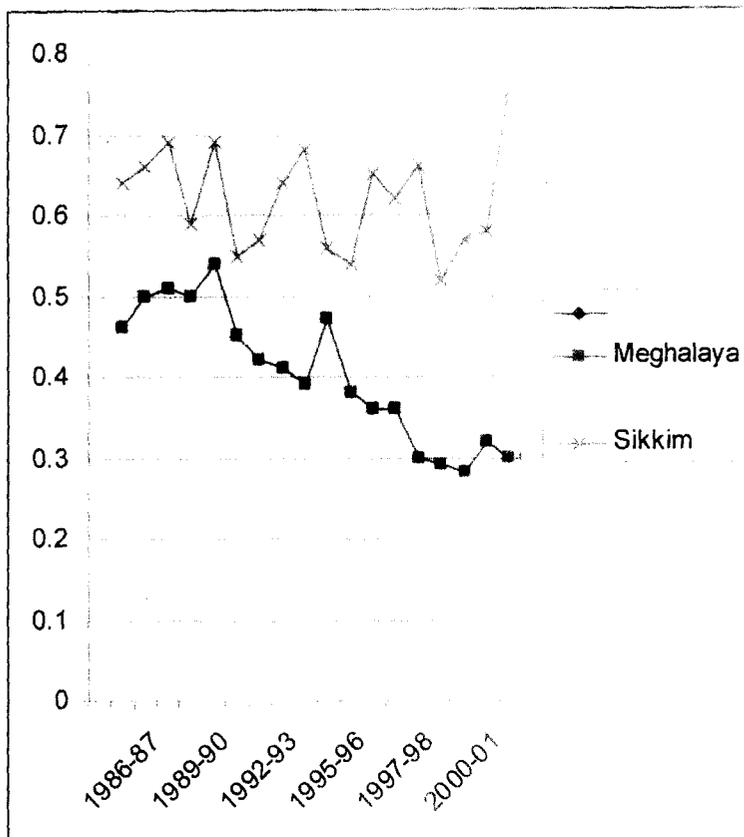
Table 4.23- Ratio of Total Transfer to SDP (Meghalaya) and (Union Tax Transfer + Grants) to SDP (Sikkim)

Year	Meghalaya	Sikkim
1984-85	0.46	0.64
1985-86	0.5	0.66
1986-87	0.51	0.69
1987-88	0.5	0.59
1988-89	0.54	0.69
1989-90	0.45	0.55
1990-91	0.42	0.57
1991-92	0.41	0.64
1992-93	0.39	0.68
1993-94	0.47	0.56
1994-95	0.38	0.54
1995-96	0.36	0.65
1996-97	0.36	0.62
1996-97	0.3	0.66
1997-98	0.29	0.52
1998-99	0.28	0.57
1999-00	0.32	0.58
2000-01	0.3	0.75

Source: Calculated from Sikkim HDR 2001, Das (2005) and EPW Research Foundation (2002).

We computed the ratio of total amount of transfer to state domestic product for Meghalaya and the ratio of total amount of union tax transfer + grants to state domestic product for Sikkim over 1984-2001. The data are obtained from Sikkim HDR 2001, Das (2005) and EPW Research Foundation (2002). The ratio is continuously falling for Meghalaya implying, decreasing dependency of Central resources in the state income. Though, we have to remember that the outstanding debt-GSDP ratio is steadily rising during 1993-2002. Besides, the ratio values have not taken into consideration the loan amount over the period for Sikkim albeit; the trend shows heavy dependency of state income on Central resource. The debt-GSDP figures are also too high in this state. We have presented below, the ratios for both the states with the help of line diagram (Figure 4.2).

Figure 4.2: Line Diagram Showing Ratio of Total Transfer to GDP (Meghalaya) and (Union Tax Transfer + Grants) to GDP (Sikkim)



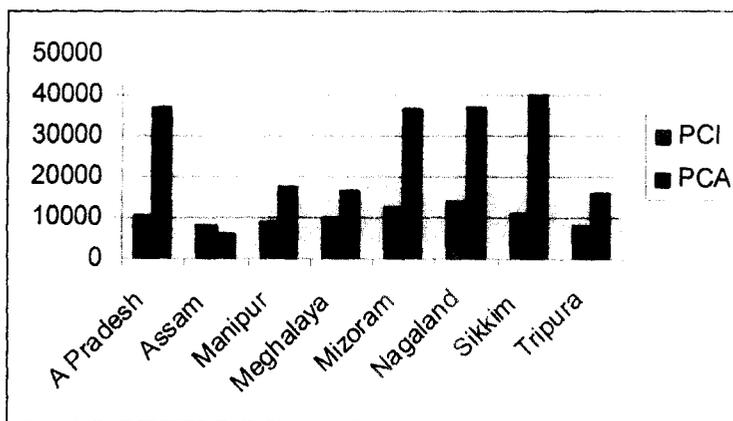
Per capita allocation under 11th Finance Commission report (2000-05) was based on the average per capita state income of 1994-95, 1995-96 and 1996-97. Below in the first column we present state wise average per capita income over 1994-96 and in the second column we present the per capita allocation during 2000-05. The correlation coefficient (.843) calculated between the two (PCI & PCA) are statistically significant at 1% level of significance and positive. This again confirms heavy dependencies of state income on central transfer in northeastern India. Per capita income and per capita allocation for northeastern states as per the recommendation of 11th Finance Commission report are shown with the help "Bar diagram" (Figure 4.3).

**Table 4.24: Per Capita Income (Average of 1994-95, 1995-96 and 1996-97)
Per Capita Allocation (2000-05)**

	PCI	PCA
A Pradesh	10705	36919
Assam	7968	5926
Manipur	8799	17723
Meghalaya	9823	16635
Mizoram	12378	36739
Nagaland	13932	36777
Sikkim	11109	39829
Tripura	7983	15801

Source: 11th Finance Commission Report

Figure 4.3: Bar Diagram Showing Per Capita Income and Per Capita Allocation



4.13 Summary

Central money is injected into the northeastern economy under two broad items viz. union tax transfer and grants-in-aids. Financial weakness of internal economy is established through different results obtained in our study for all northeastern states. Those results are: low own tax revenue-total tax revenue ratio, low income-aggregate expenditure ratio, high fiscal deficit-GSDP ratio, statistically insignificant trend of buoyancy of own tax revenue and weak correlation between growth rates of state income and state aggregate expenditure.

To prevent the macroeconomic instability in the long run brought through all these financial drawbacks of internal economy the trends of debt-GSDP ratio, union tax transfer, grants-in-aid are found statistically significant. Per capita allocation for each northeastern state is much higher than the per capita allocation for any of the general category states. Similarly, aggregate income of each northeastern state is heavily dependent on the central money. The correlation between per capita income and per capita central allocation is found statistically significant on the basis of 11th Finance Commission report.
