



Asian Development Bank

Proposed Program Loan and Technical Assistance Grant
India: Assam Governance and Public Resource
Management Sector Development Program –
Subprogram II
Supplementary Appendices

Table of Contents

A.	Problem/Constraints Analysis	1
B.	The Key Assumptions and Features underlying the Medium-term Fiscal Reform Program	11
C.	Detailed Government of Assam Overall Cost Adjustment	14
D.	Detailed Cost Adjustment for Public Sector Enterprises Notified for Closure	17
E.	Technical Assistance Procurement Plan and Consultant Terms of Reference	19
F.	Detailed Governance and Anticorruption Risk Assessment	29
G.	Chronology of Program Processing	40
H.	Summary Table of Commitments by Components and Outcomes under Subprogram I	41
I.	Detailed Listing of Commitments by Actions under Subprogram I	42
J.	Linkage between the Sector Development Program and Project	48
K.	Matrix of Poverty Impact and Mitigation Assessment	57
L.	Impact of Restructuring of Public Sector Enterprises (PSEs)	61
M.	Impact of Greater Decentralization	63
N.	Matrix on Environmental Assessment of Policy Interventions	64

PROBLEM/CONSTRAINTS ANALYSIS

A. Introduction

1. The analysis proceeds from the following generalized specification which shows a functional link between a particular desired outcome and the variables that impact it.

$$Y = f(x_1 \dots x_n, p_1 \dots p), e$$

where Y = desired outcome

$x_1 \dots x_n$ = series of uncontrollable exogenous variables¹

$p_1 \dots p_n$ = series of policy instruments

e = error term

2. For purposes of the proposed Program, the functional relationship shown above can be specified as follows.²

<p>Creation of Fiscal Space = $f[x_1(\text{political will of State Government})^3$ $x_n(\text{central government policies})^4$ $x_n(\dots);$</p> <p>$p_1(\text{revenue enhancement})$ $p_2(\text{expenditure rationalization})$ $p_3(\text{debt management})$ $p_4(\text{strong institutions of governance})$ $p_n(\dots)] + e$</p>

Note: The hypothesized relationships between all policy instruments and the outcome are positive in these instances—higher revenues, lower expenditures, lower debts, and strong institutions of governance, or combinations thereof.

B. Problem Analysis

1. Broader Political Economy Considerations

3. The problem/constraints analysis for this Program has to start from a critical look at the broader political economy context of the State of Assam and the northeast region as a whole.⁵ The policy framework for the region that the central government in New Delhi has so far been guided by is a combination of approaches impacting on the region's political economy and culture. The main focus of the political economy approach used has been on the central tenet of

¹ These are akin to the binding constraints, analysis on this follows.

² This is a very simplified formulation of the problem analysis and is meant more as a starting point for a discussion on what the problem is and what are the most feasible entry points to better address it. As is evident above, the formulation is incomplete as there are n other variables and policy instruments that are relevant for the problem analysis. Simply, however, $FS=f(DM, RE, ER), e$ (i.e., fiscal space is a function of proper debt management, revenue enhancement, and expenditure rationalization; the e refers to an error term that signifies other unspecified variables).

³ Political will is assumed to be an exogenous variable because it is difficult to predict whether or not any subsequent government will necessarily retain a particular level of political will that it may profess prior to taking over the reins of government.

⁴ These refer to, among others, the regional policy for the northeast adopted by the central government.

⁵ The region comprises the states of Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura (Sikkim has been a later addition), with about 8% of the country's geographical area and about 4% of its population. Their combined contribution to the national economy is around 2%.

the role of the state in the economy, and the approach has inordinately relied on the capacity of the state and its bureaucratic arrangements to foster economic development.⁶

4. To understand the nature of governance (including that of fiscal governance) in Assam, it is necessary to keep in mind the general context of the region with respect to the special constitutional arrangements, historical background, and geographical location as well as other peculiar features of the region. The states in this region were created primarily with an eye on ethnic, political, and cultural aspirations of the people. Economic rationale and considerations do not seem to have been factored to any extent. Given massive central assistance to these states (Assam included), there tended to be a minimal incentive to develop internal financial resources and, consequently, non-developmental expenditure relied overwhelmingly on central transfers. This, in turn, led to a tendency to multiply administrative units and employees beyond reasonable requirements given the relatively free flow of central resources. The end result of this has been a government-led development paradigm, not only in Assam but also in the other states of the region. The general consensus now appears to be that this paradigm and the economic policy framework in place have manifestly failed.⁷

5. Assam itself lacks substantial economic endowments and the difficult geographical terrain leads to poor scope for manufacturing activities. It also has the poorest infrastructure and social indicators in India and, despite its rich natural resources and environment, its per capita income is among the lowest in India.⁸ While Assam does not suffer from the same problems as besetting the other states of the region to the same extent, it has had its share of severe economic and fiscal problems.

2. Program Logic

6. The logic of the proposed Program draws from the analysis above regarding the pressures that Assam has faced. The results chain logic for this Program is anchored in some assumptions that are shared by policymakers as well as analysts. These assumptions include

⁶ This has been the prevailing development paradigm that has characterized development efforts in Assam over the past several decades and can be best described as one that was public expenditure-led (i.e., the state played a critical role in the economy).

⁷ The genesis of this unique position goes back to the first two decades after India's independence when the northeastern region did not figure high on New Delhi's agenda. The only consideration appeared to be that the region was strategic and thus needed concentration of military strength (after all, only 2% of the border of the entire region is with India). When the realization came that the region was critical for an integrated India and that economic development was saliently absent, the central government pumped in vast amount of resources as a way to assimilate the region and its people with the so-called Indian 'mainstream'. However, this did not necessarily have the desired impact because (i) there was significant leakage of funds at various levels of the government machinery (and development funds making their way into the coffers of the insurgent groups were common knowledge); and (ii) there was lack of capacity in the states in the region to absorb the huge quantity of funds. The lack of development aggravated the already existent social disharmony among the myriad groups in the region and the resultant insurgency then further undermined economic development prospects. As such, the region got caught in the vicious cycle of lack of development breeding insurgency and unrest, and militancy and violence retarding economic growth.

⁸ Assam is also lagging behind the average India economic growth rate. According to the economic survey, 2006–2007 published by the GOI, GDP growth rate for the country as a whole was 9.0% in 2005–2006 and 9.2% in 2006–2007 so far. Corresponding figures [for gross state domestic product (GSDP)] for Assam were a mere 5.9% for both financial years. The Planning Commission assumes that for the Eleventh Five Year Plan period (2007–2012), this will rise merely to 6.0% for Assam.

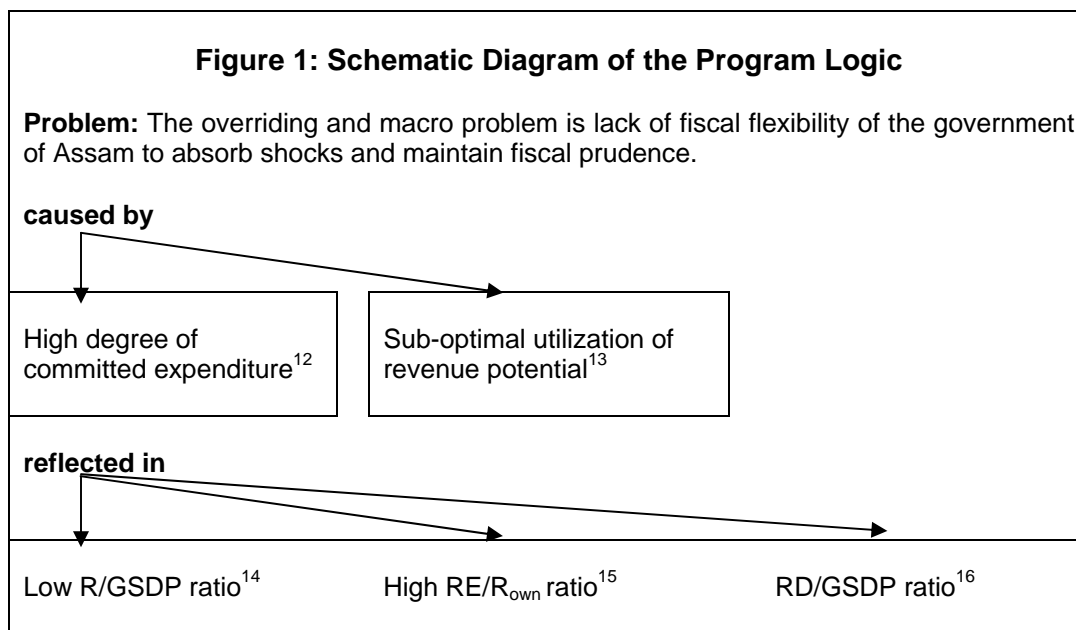
- (i) That social unrest is one of the issues at the core of the development paradigm that has governed public policy expenditure in Assam and indeed in northeast India;⁹
- (ii) That this Program will help create the fiscal space needed to allow the government of Assam to invest further in public infrastructure, which will, in turn, promote private investment thus leading to income generation and employment. Given that youth unemployment has historically been a direct contributor to the social unrest, creating greater fiscal space has a consequential impact on the resolution of the problem of social unrest;
- (iii) That greater fiscal space will result in reorientation of expenditure into social and economic infrastructure;
- (iv) That creating fiscal space is necessary but not a sufficient condition to resolving the state's financial and economic woes;¹⁰
- (v) That a resolution of the social unrest problem will create further impetus for private investment thus yielding a virtuous cycle; and
- (vi) That transparency in fiscal affairs is a key in order to ensure that the government of Assam is held accountable for its actions;¹¹ thus, good governance and proper fiscal management are complementary.

7. Proceeding from the general specification above, the particular issue of creating greater fiscal space can be analyzed in the following manner (see Figure 1):

⁹ It is relevant to note here that the northeast is the land of the oldest insurgency in independent India.

¹⁰ Thus, the proposed Program focuses on a few other policy actions as well, including, for example, enhancing transparency through auctions, increasing capability of some economic institutions, reducing mismanagement through automation (e.g., CTMIS, TIMS), introducing the OVM for all major classes of properties so as to be transparent about and accountable for assets, computerizing records, etc.

¹¹ A significant part of this transparency in fiscal affairs has to do with making public the contingent liabilities that the government of Assam has incurred as a result of years of support to failing PSEs. This is one key component of the proposed project.



R = revenue, RE = revenue expenditure, R_{own} = own revenue, RD = revenue deficit, GSDP = gross state domestic product.

Source: Asian Development Bank.

↓

*what to address: **How to increase fiscal space?***

↓

ways to address

Table 1: Associated Policy Actions to Increase Fiscal Space

Fiscal Space Component	Subcomponent	Policy actions
I. Revenue Administration	Value-added tax	<ul style="list-style-type: none"> • Prepare and adopt the VAT audit manual. • Simplify filing requirements under the VAT Act to include (i) enhancement of the turnover limit for composition tax liability of general category retailers; and (ii) reduction in the frequency of submission of returns. • Upgrade the TIMS to make it fully functional such as (i) system upgrading keeping in view the possible GST requirements; (ii) enabling e-filing of VAT returns; (iii) enabling e-filing of motor vehicle data; (iv) enabling the

¹² Also known as non-discretionary expenditure, this includes salaries, pensions, debt servicing costs, etc. Notationally, non-discretionary expenditure = f (size of government expenditure, debt stock, wage rate) where the hypothesized relationships among the endogenous and exogenous variables are all positive.

¹³ Revenue itself is generated from tax and non-tax sources, as it relates to taxes, revenue is a function of the tax rate, tax base, and efficiency of tax administration plus externalities.

¹⁴ Revenue to GSDP is low (8%–9%).

¹⁵ Revenue expenditure to own revenue is very high (approximately 90%).

¹⁶ A low R/GSDP ratio combined with a high RE/R_{own} ratio results in high revenue deficit to GSDP ratio (approximately 1.03% in 2006–2007).

Fiscal Space Component	Subcomponent	Policy actions
		interface between TIMS with CTMIS; (v) operationalizing the audit module in the TIMS including completion of historical return data entry; and (vi) enable online taxpayer services module. <ul style="list-style-type: none"> • Establish and make operational a large taxpayer unit.
	Excise taxes, stamp duty, and registration fees/land revenue, and composite checkposts	<ul style="list-style-type: none"> • Auction allotment of country liquor shops. • Introduce an ad valorem duty structure for IMFL introducing a percentage basis on the maximum retail price. • Computerize registration of properties and land records. • Prepare guidelines for and computerize the OVM for all major classes of properties and linked to property registration. • Operate composite checkposts to maximize efficiency of tax collection and increase tax revenues.
II. Expenditure Management	Outcome-based budgeting, O&M expenditure, fixed assets register	<ul style="list-style-type: none"> • Introduce outcome budgeting across departments. • Resource departments accordingly. • Ensure sustainable O&M expenditure in all spending departments. • Prepare fixed asset registers across departments.
	Pension management	<ul style="list-style-type: none"> • Join the GOI pension fund, including finalizing agreement with the GOI appointed fund managers. • Finalize modalities of employees' contributions to the pension fund. • Submit statements on the collection of employee's contribution to the pension fund (for purposes of transparency).
III. Proper Debt Management	Debt Management Unit (DMU) and policy	<ul style="list-style-type: none"> • Staff, and adequately resource, a dedicated DMU. • Make provisions for suitable training of the DMU staff on debt management tools. • Prepare comprehensive and realistic debt management policy and procedural manual.
	Contingent liability management and loan reconciliation	<ul style="list-style-type: none"> • Issue guarantees for borrowings by government agencies. • Establish and manage a guarantee redemption fund. • Reconcile central loans from administrative ministries of GOI that are outstanding.
IV. PSE Restructuring and Closure	Asset management	<ul style="list-style-type: none"> • Set up and make functional an asset management cell under Assam Industrial Development Co. to estimate the assets of the closed PSEs. • Review all PSE restructuring and closures possibilities. • Liquidate assets of closed PSEs. • Conduct statutory audits of PSEs that are closed.
	VRS and social safety nets	<ul style="list-style-type: none"> • Prepare necessary guidelines on VRS and provide VRS compensation as per those guidelines. • Make provisions for training in alternate skills to those employees availing VRS.

CTMIS = computerized treasury management information system, DMU = debt management unit, GOI = Government of India, GST = goods and services tax, IMFL = India-made Foreign Liquor, O&M = operation and maintenance, OVM = objective valuation method, PSE = public sector enterprise, TIMS = tax information management system, VAT = value-added tax, VRS = voluntary retirement scheme.

Source: Asian Development Bank and Government of Assam.

8. Other relevant policy actions are with respect to the broader issues of governance in public management at the state-level; while the Program has a consequential impact on them, they are critical to the Program success.¹⁷

Table 2: Other Relevant Policy Actions

Area of focus	Weaknesses	Policy actions
Governance, management, and accountability mechanisms, included in the public financial management system	Complex bureaucratic procedures and outdated business processes	<ul style="list-style-type: none"> Review and institute needed business process reengineering, including strengthening e-governance. Review machinery-of-government (e.g., rightsizing, including simplifying inter-agency coordination and aligning economic policies with social development)
	Mismanagement of resources	<ul style="list-style-type: none"> Address the problem in selected (and visible) institutions of government (e.g., the police service). Strengthen the role of the state vigilance commission.
	Weak internal accountability mechanisms	<ul style="list-style-type: none"> Consider results-oriented management in non-financial and economic agencies as well. Strengthen existing arrangements for internal control, internal audit, and accounting standards in public bodies. Enhance accountability and transparency in fiscal matters (e.g., making public the level of contingent liabilities, etc.) Improve capacity in line ministries for public budgeting practices (e.g., mean time between failures) Continue to emphasize increased transparency in the working of the bureaucracy [including through greater facilitated application of the right to information laws]
Relationships with devolved bodies	Weak local administration and autonomous councils	<ul style="list-style-type: none"> Hold necessary elections for local governments. Grant fiscal autonomy to local governments and autonomous district councils. Implement all existing provisions of local administration legislative and other arrangements. Further devolve administrative and fiscal powers. Build capacity of local administrations, particularly with respect to provision of social and economic services. Strengthen local elected councils.
Empowerment of citizens (particularly the marginalized ones) to improve governance	Weak voice mechanisms for citizens	<ul style="list-style-type: none"> Identify and strengthen relevant institutions that foster good governance. Strengthen capacity of judiciary (and alternative mechanisms) to enforce voice provisions, including grievance redress mechanisms. Enable increased demand from citizens for effective service delivery. Further strengthen the state vigilance commission. Review laws that have wider application to the more marginalized segments of the population to assess the degree to which they make life easier for the poor.

Source: Asian Development Bank and Government of Assam.

¹⁷ There are *n* number of policy actions that the state can take to improve governance and public management, not all of them are discussed here. This particular Program deals with those primary ones that deal with the ability of the government to absorb economic shocks and maintain fiscal prudence.

C. Stakeholders

9. There are several stakeholders in this Program, including the governments of the day at the Center and at the state-level, the state bureaucracy, institutions other than the core state bureaucracy, business associations at the state-level, Industrial Training Institutes (ITIs), and citizens at large in the state.

10. **Government of the Day.** The Government of the day in the state is responsible to ensure that all policy actions are taken in order to facilitate greater fiscal space and that all relevant governance mechanisms are taken into account with respect to meeting the outcomes of the Program. The state government has already made its commitment to the Program, as explicitly given, that this is a continuation of the reforms sought during Subprogram I. The Finance Minister of the government of Assam has in the budget speech for 2007–2008 made this commitment very explicit.

11. **State Bureaucracy.** The State bureaucracy, including, for example, the finance department, commercial taxes department, etc., will play a critical role in the implementation of the Program—this set of stakeholders also include individual employees of the government of Assam that will have a stake in the manner in which the state conducts its business [such as, for example, on information technology (IT) training, revised business processes, etc.]. A further sub-set of this set of stakeholders is that constituting employees of the closed public sector enterprises (PSEs), these are individuals who will be in receipt of the voluntary retirement scheme (VRS) and who will avail of opportunities for training at the ITIs. The bureaucracy's commitment to the Program is visible in those agencies that are directly involved in Program implementation (such as, for example, the finance department and a few others)—the commitment of others is assumed at this point.

12. **Government of the Day at the Center.** The Government of the day at the center is also a key stakeholder given the existing devolved relationships in the federal system of government which impacts the state political economy in many substantial ways (e.g., in taking on the costs of subsovereign loans to states, in making central level fiscal transfers [90% as grants], and in instituting relevant policies related to the management of specific state affairs [such as policies on dealing with the insurgency]). The central government's commitment to the Program has been strong and is in keeping with the support rendered for Subprogram I.

13. **Institutions other than Core Government Ones at State-level.** This also have a stake (albeit a rather indirect one) in the Program. These include, e.g., the Accountant General, and others who will play a role in ensuring that Program actions are in consonance with existing rules and regulations.

14. **Business Associations at State-level.** With inclusions of the industry associations, chambers of commerce, etc., have considerable stake in the Program since they will be subject to the tax and other provisions sought for in the Program. Experiences from Subprogram I reveal that, while in the short run, these associations (representing private business in the state) perceive greater compliance and transaction costs of the Program, they also see long-term benefits in terms of greater efficiencies resulting from Program interventions.

15. **State-level Industrial Training Institutes.** They will be participating with the state government to provide training in alternative skills to employees availing VRS. Their role will be important to ensure that any remaining ex-employees of the closed PSEs that are not gainfully employed will be able to enter the labor force with new skills.

16. **Citizens.** Finally, the citizens at large are obvious stakeholders of the Program. While their involvement in the Program is indirect, and Program benefits are not immediate, they are expected to benefit from the long-term results of the reorientation of state finances towards greater investments in social and economic services.

D. Binding Constraints

17. An analysis of the existing political economy of Assam (and indeed of the northeast states as a whole) reveals a distinct set of binding constraints to resolving the program as specified here. These can be generally specified as follows.

- (i) **Social Unrest.** The social unrest that exists in parts of Assam (and elsewhere in the states of the northeast) has become persistent and intractable although successive administrations at the center and in the state have sought to address various facets of the problem.¹⁸ Still, the constraint is not likely to be minimized any time soon. This will, in turn, pose binding constraints to the state government in terms, not only of how it positions its finances, but also how it develops relevant policies for ensuring that development impulses are transmitted to the conflict-laden hinterlands.
- (ii) **Persistent Expenditure Burden.** The constraint highlighted in (i) reveals a further binding constraint to the state. That, after decades of the public expenditure-led development paradigm, a persistent expenditure burden has been imposed on the state. Minimizing this burden requires a fundamental shift in the logic of how economic growth is to be fostered in the state. There is increasing evidence now that policy makers are acutely aware of this necessity.
- (iii) **Geographical Terrain.** Assam also has a binding constraint in the difficult geographical terrain. While it has the most developed infrastructure (in terms of railways, roads, etc.) among the states of the northeast, this is still considered inadequate. The difficult geographical layout not only hinders effective penetration to the rural hinterlands, it also prohibitively increases the costs to the state of providing the infrastructure. Given the unwillingness/inability of the private sector to come in with substantial resources to invest in infrastructure, this binding constraint is set to remain.
- (iv) **Relationship with Central Government.** This is also a binding constraint in the state government.¹⁹ This constraint is evident in four specific ways.
 - a. Given the weak economic conditions in Assam, the state is heavily dependent on central resource transfers (which account for more than

¹⁸ For some time now, there has been a strong realization both at the center and at the state that the solution to the insurgency problem has to be political and not military. The current chief minister, in an interview back in 2001, framed the problem thus "... Let me make it very clear that the solution to any insurgency has to be political and not military, so, to that extent, our approach is clear. As I have said before, insurgency is the product of large-scale unemployment and poverty. If we take steps to alleviate that problem, insurgency will automatically be controlled." (<http://www.rediff.com/news/2001/may/14inter.htm>), date of access was 15 February 2008.

¹⁹ The 'mainstream' economic literature on the northeast generally argues that the economies of this region have been neglected by the center, thus, massive developmental assistance from the central government is required. A counter-argument has been that the failure of these states is not because of any so-called 'economic neglect' but because of an inappropriate economic policy framework which has created an unbalanced and unsustainable economy and destroyed the basis for institutions of a modern market economy in the region (see G. Sachdeva, *India's North-East: Rejuvenating A Conflict-Riven Economy*, February 2006, ...).

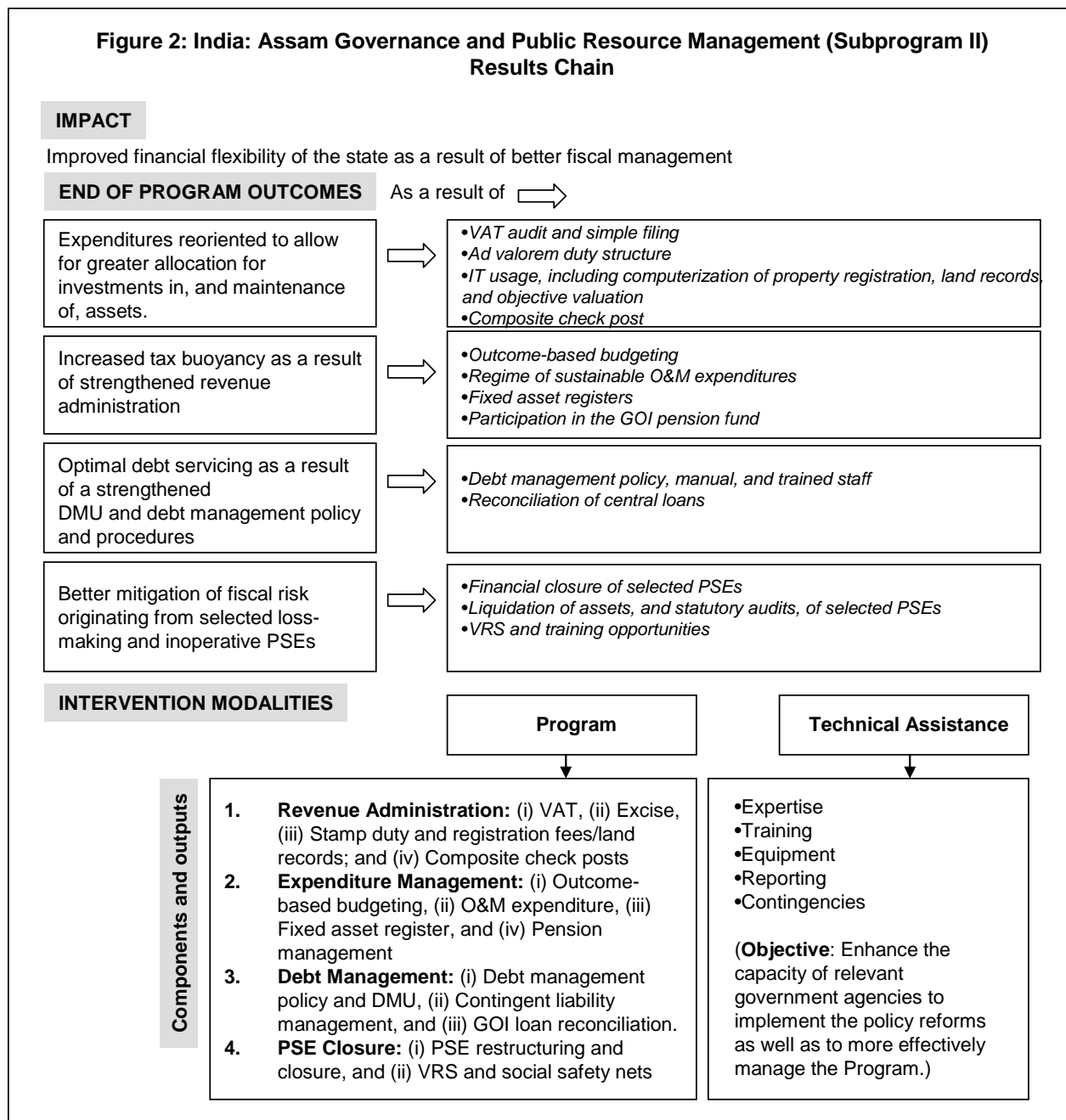
- 61% of its revenue receipts);²⁰ this means that the state is constrained by the center's predispositions and actions.
- b. Given the existing insurgency, the central government, by virtue of its mandate over security and peace, is in a position to dictate to the state government what policy actions need to be in place; a fair number of these policy actions will be in the fiscal domain (e.g., in terms of mandatory spending for specific programs in conflict areas).²¹
 - c. The work of the various central commissions impact the state economy in substantial ways (see footnote 20). In addition, wage recommendations of the central pay commission, while not applicable to state employees, do tend to exert pressures on state governments to respond in kind.
 - d. The Delhi-based Department of Development of North Eastern Region (DONER) also interacts with the state government in specific ways, and while the engagement may not necessarily always have strong fiscal implications, the operating space for the state government could well be contained, thus serving as a binding constraint to the government.

18. Any program designed to increase the fiscal space for the state government will thus have to account for these primary binding constraints in order to be successful. The Donor Coordination Matrix in Appendix 4 shows that various development partners have been active in providing support to the state government. However, there is very little involvement in the area of fiscal management and governance. The proposed Program thus is uniquely placed to continue contributing to fiscal stability in the state in line with the outcomes sought under Subprogram I.

19. The Program logic and design is shown in the next page (for greater details, see the Design and Monitoring Framework, Appendix 1).

²⁰ The transfer and devolution of resources from the center to the states are essentially via three channels (i) statutory transfers comprising tax sharing and grants-in-aid through finance commission recommendations, (b) plan grants through the planning commission guidelines (the planning commission fixes the assistance to states to carry out their plans while the finance commission determines the assistance required for current account budgetary support), and (iii) 'discretionary' grants through central ministries, primarily for centrally sponsored schemes. In February 2008, the central government approved an impressive 33% hike in plan outlay for Assam.

²¹ Other policy actions that are not necessarily directly related to the fiscal domain, but which have implications, include, for example, devolving greater powers to the autonomous district councils. A recent illustration of the impact of the central government on the state is evident in the following (i) until March 2005, the loan proceeds of Externally Aided Project (EAP)s had been transferred by the center to the special category states, including Assam, as 90% grant and 10% loan. However, under the Twelfth Finance Commission (TFC) award, GOI decided to transfer such external loans to all states on a back-to-back basis, i.e., as 100% loan thus imposing a greater financial burden on the state. (It was only upon special appeal of the government of Assam that GOI agreed to continue the earlier pattern of 90% grant and 10% loan for the special category states).



DMU = debt management unit, GOI = Government of India, IT = information technology, O&M = operation and maintenance, PSE = public sector enterprise, VAT = value-added tax, VRS = voluntary retirement scheme.
 Note: See Appendix 1 for the Program Framework that stems from this approach.
 Source: Government of Assam.

THE KEY ASSUMPTIONS AND FEATURES UNDERLYING THE MEDIUM-TERM FISCAL REFORM PROGRAM

I. Overall Features

1. Multiyear fiscal projections reflecting the program policy measures have been prepared in consultation with the government of Assam and Government of India (GOI). These projections will form inputs into the government's FY2007/2008 budget in the context of the medium-term framework for fiscal consolidation. The projections are based on conservative growth assumptions that reflect recent trends in all-India inflation and the trend real growth rate of Assam. The projections assume a gradual increase in the nominal growth rate around 11% towards the end of the Program.

2. The fiscal aspects of the Program focus on (i) consolidation of the public finances through own tax revenue enhancement, as well as through compression of current expenditure; (ii) improvement in the "quality" of the fiscal balance by focusing on the composition of fiscal adjustment, including increased expenditure on capital outlays and operation and maintenance (O&M); and (iii) net attrition in consolidated employment levels of government employees.

3. Increased resource mobilization will be achieved over the medium-term through improvement in buoyancy of the sales tax, state excise, stamp duty, motor vehicle tax, and other taxes, strengthening tax administration including setting-up of composite checkposts and improvements in cost recovery of key own non-tax revenue components. Regarding share of central taxes and grants-in-aid, the past trends have been maintained. The award of the Twelfth Finance Commission (TFC) will be incorporated when effective.

II. Baseline Assumptions

4. In the reform scenario, the medium-term fiscal plan presented above (a priori satisfaction of the Fiscal Responsibility and Budgetary Management targets) has been taken as the starting point, and assumptions have been made accordingly. In particular, the revenue account is brought into balance from 2008 to 2009 onwards and fiscal deficit is kept at 3% of gross state domestic product (GSDP).

5. The following growth rates have been assumed to make the fiscal projections.

- (i) **Output growth.** GSDP growth is assumed to be 11%. During the last three year period from 2004-05 to 2006-07, GSDP growth rate has been 11%.
- (ii) **Inflation rate.** Inflation rate for the projection period has been assumed to be 5%. However, given the recent inflation rate is higher than 5%, the baseline assumptions will be revised during the following MTFP revision process.
- (iii) **Expenditure growth**
 - (a) **Interest payment.** For consolidated debt, an interest rate of 7.5% per annum is applied. For other debt, an interest rate of 9% is applied based on the progressive reduction of the interest rate. The growth rate of interest payment is assumed to be 9% per annum.
 - (b) **Social services.** The expenditure growth rate in education and health is set at 15% as compared to the historical growth rates of 10.1% in education and 7.4% in health. The growth rate in social services as a whole is taken as 10%. This is comparatively higher than recent growth rate in social services such as 2-3%. Through this reform period, the state

- government is planning to enhance the expenditure for the purpose of social need.
- (c) **Economic services and other general services.** The growth rate for other general services (other than interest rate and pensions) and economic services is kept at 10% per annum. This rate is comparatively lower than recent growth rate such as 14.7% between 2004-05 and 2006-07.
- (d) **Salary and Pension.** The growth rates of Salary and Pension are assumed to be 8% and 10%, respectively.
- (iv) **Revenue receipts growth.** The growth rate for revenue receipts are detailed in table A3.3.

Table A3.3: Tax Buoyancies

Tax	Buoyancy	T-values
Own Tax	1.399	25.302
Sales Tax	1.604	17.792
State Excise Duty	1.589	6.747
Stamp Duty and Registration Fee	1.336	30.801
Motor Vehicle Tax	1.345	13.391
Other Taxes	0.494	4.132

Source (basic data): Finance accounts of Assam and budget FY2007.

6 From the buoyancy coefficients, the growth rate for the respective taxes is derived by multiplying the buoyancy coefficient with the GSDP growth rate. Accordingly, the following growth rates for different taxes have been recognized during the recent years, however, 13% of own tax revenue as a whole has been used for the projection.

- Sales tax.** 11% for the first 2 years and 17.6% for the last 2 years. During the recent period between 2004-05 and 2006-07, the growth rate is 15.16% on average.
- State excise duties.** 17.5%.
- Stamp duty and registration fees.** 14.7%.
- Tax on motor vehicles.** 14.8%.
- Other taxes.** 5.4%
- Nontax revenues.** Nontax revenues are allowed to grow at 10% per annum, taking into account the impact of public sector restructuring and increases in user charges as the part of the reform process. However, during the recent period between 2004-05 and 2006-07, the Nontax revenues growth rate is more than 31% per annum.
- Central transfers.** Growth of central tax revenues will continue to be critical for Assam because of the relatively large contribution of central transfers in the form of tax devolution. During the recent years from 2004-05 to 2006-07, the growth in the states' share of central taxes has been found to increase at the rate of 16-17% per annum. Here, given the good signal of improvement in fiscal consolidation in Assam, the growth in the states' share of central taxes has been assumed to be 15% per annum. Assuming that Assam's share in central taxes remains the same during the entire projections period, the same growth rate has been applied for projecting the state's share in central taxes.

7 **Grants.** State plan grants have been assumed to grow at 5% as the historical trend growth rate is 9.98%. For other components of grants, including Finance Commission grants, the grant profile given in the state's medium-term fiscal plan has been used, as a large portion of these grants has already been determined. With respect to CSS/NEC/NLCPR and other non-plan grants, the growth rates are assumed to be 10% and 5%, respectively.

8 **Capital outlay and lending.** Based on consultation with state government of Assam, the growth rates of capital outlay and lending are assumed to be 20% and 10%, respectively.

DETAILED GOVERNMENT OF ASSAM OVERALL COST ADJUSTMENT

Table 1: Government of Assam Overall Cost Adjustment of all the Components
(\$ millions)

Description in Policy Matrix	ADB Loan	Govt Resources	Subtotal
PSEs closure: VRS and other costs (e.g., statutory dues)	72	48	120
Government contribution to pensions fund for newly joined employees after 1 February 2005	20	2	22
Guarantee redemption fund	4	8	12
Operations and maintenance for a public work department	4	13	17
Composite checkpost facilities	--	36	36
Computerized registration of properties and land records	--	2	2
TIMS upgrade, large taxpayer unit piloting, administrative fees and training for DMU and AMC, statutory audit fees, social safety net, training, etc.	--	1	1
ADB loan in total	100		
Government resources in total		110	
Total			210

AMC = asset management cell, DMU = debt management unit, PSE = public sector enterprise, TIMS = tax information management system, VRS = voluntary retirement scheme.

Source: Asian Development Bank.

Table 2: Government of Assam Detailed Cost Adjustment of All the Components

Item	Total Cost (\$ million)	Assumption
DMU staff cost and other administrative costs	40,000	Two staff for 36 months at Rs20,000 per month per staff + \$4,000 as administrative expense.
DMU contractual specialist	120,000	One person for 12 months at \$10,000 per month.
DMU training in debt management	30,000	100 training person days.
Guarantee Redemption Fund	12,000,000	Rs1,250 crore is the total principal and interest outstanding of guaranteed loans. GRF should cover 20% of the risky portfolio over a period of five years assuming a 50% probability of default. So GRF should cover Rs125 crore over five years. Per year contribution to GRF required is Rs25 crore. For two years, it is \$12 million.
Outcome-based budgeting	120,000	Three persons working across 40 agencies in budget division using 5% of their time in preparation of outcome budgets. Assuming their monthly salary at Rs20,000 per month.
O&M Adjustment Cost	17,270,000	See below for calculations
Fixed Asset Registers	90,000	Six person months for consultants at \$10,000 per month. Two staff per department for the two departments over one year at Rs240,000 per person year salary cost.
Pension	22,000,000	As per the government of Assam, calculation is based on actual number of joinees since 1 February 2005
TIMS Upgrade	460,000	\$300,000 for TIMS upgrade as per departmental preliminary

Item	Total Cost (\$ million)	Assumption
		estimate of CTD + 160,000 for hardware at tax offices as per CTD proposal.
LTU	60,000	\$50,000 for required LTU infrastructure + 2 dedicated staff cost at Rs30,000 per month over six months of LTU operation.
Computerized registration of properties and land records computerization	2,200,000	As per department estimate in 21 districts of Assam
OVM	100,000	Two department staff at Rs10,000 for six months + one domain expert for six months at Rs150,000 per month + one program management for three months at Rs200,000 per month + travel and administrative expenses
Composite checkpoint facilities	36,000,000	As per government submission for only Srirampur and Baxirhat
PSE VRS and other cost	120,000,000	As per calculations from accounts (4,950 employees from 12 PSE notified for closure, excluding 30 million already disbursed under Subprogram I)
Asset Management Cell	35,000	Valuers for each PSE at \$10,000 + \$5,000 annual operation cost of AMC over three years + 3 staff for three years @ Rs20,000 per month
Statutory audit	25,000	\$2,500 per PSE for audit fees
Social Safety Net Training	155,000	Ten percent of 3,100 employees opted for VRS will volunteer for training, Rs20,000 per person training cost at ITI for a one year vocational course.
Total	210,705,000	

AMC = asset management cell, DMU = debt management unit, GRF = guarantee redemption fund, ITI = industrial training institutes, LTU = large taxpayer unit, O&M = operation and maintenance, OVM = objective valuation method, PSE = public sector enterprise, TIMS = tax information management system, VRS = voluntary retirement scheme.
Source: Asian Development Bank and Government of Assam.

I. Calculation of Additional Provisioning for O&M Expenditure

A. Maintenance Expenditure Trend as per Twelfth Finance Commission (TFC) Norms 2005–2006

Item	Rs. crore
Roads*	366.9
Buildings	113.5
Irrigation (includes major, medium, and minor irrigation)	151.6
Aggregate of sectors above (A)	631.9

*Roads figures have been normalized with respect to TFC grants.
Source: Asian Development Bank and Government of Assam.

B. Actual Expenditure in 2005–2006

Item	Rs. crore
Revenue	8,409.3
Interest	1,654.1
Pensions	1,012.0
Primary non-plan revenue expenditure	6,755.2
Primary non-plan revenue expenditure excluding pensions (B)	5,743.2

Source: Asian Development Bank and Government of Assam.

C. Normative Expenditure to Actual Expenditure Ratio (A/B = C): 0.11**D. Expenditure Projections based on Trend (Rs. crore)**

Item	2005– 2006 (Actual)	2006– 2007 RE	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012
Interest payments	1,654.1	2,138.3	1,900.9	2,143.3	2,478.3	2,845.6	3,246.0
Pensions	1,012.0	1,466.8	1,781.7	2,085.3	2,164.4	2,471.7	2,893.0
NPRE	8,409.3	9,158.8	9,975.1	10,864.2	11,832.5	12,887.1	14,035.8
Primary NPRE	6,755.2	7,020.5	8,074.2	8,720.9	9,354.2	10,041.6	10,789.7
Primary NPRE- Pensions (D)	5,743.2	5,553.7	6,292.6	6,635.7	7,189.8	7,569.9	7,896.7

NPRE = non-plan revenue expenditure.

Source: Government of Assam.

E. Projected O&M Expenditure for the Above Sectors (E = C*D)

In Rs crore	2005– 2006 (Actual)	2006– 2007 RE	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012
Projected maintenance expenditure for the sectors above	632	611	692	730	791	833	869

Source: Government of Assam.

F. Provisioning for O&M expenditure projected with an assumed inflationary annual increase of 5% over the 2005–2006 actual

In Rs crore	2005– 2006 (Actual)	2006– 2007 RE	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012
Aggregate of sectors above	631.91	663.51	696.68	731.51	768.09	806.50	846.82

Source: Government of Assam.

G. Additional O&M expenditure provisioning to meet TFC norms during 2009–2010 to 2011–2012 (E-F)

In Rs crore	2009– 2010	2010– 2011	2011– 2012
Aggregate of sectors above	22.79	26.19	21.82

Source: Government of Assam.

Total Additional O&M expenditure provisioning required for 2009–2010 to 2011–2012:

Rs70.80 crore = \$17.27 million

**DETAILED COST ADJUSTMENT
FOR PUBLIC SECTOR ENTERPRISES NOTIFIED FOR CLOSURE**

Sl. No.	Name of the PSE	Year of		Estimated liability as per last provisional accounts		Disbursements since last provisional accounts \$ Million	Outstanding liability: estimated cost of adjustment	Date of		Comments
		Last Statutory Audit	Last Provisional Accounts	INR in crore	\$ Million			PSE Closure	Cabinet Resolution	
1	<u>ASSM</u>	1996-97	2006-07	45.29	11.32	-	11.32	31.12.2003	21.06.2005	Estimated liability as per the balance sheet of 2006-2007
2	<u>FL</u>	1998-99	2006-07	25.88	6.47	-	6.47	31.08.2003	21.06.2005	Estimated liability as per 2006-2007 balance sheet
3	<u>ASWMCL</u>	2001-02	2006-07	12.44	3.11	0.12	2.99	31.03.2006	25.04.2006	Estimated liability as per 2006-2007 balance sheet
4	<u>AGCCL</u>	1996-97	2006-07	17.25	4.31	-	4.31	23.08.2005	23.08.2005	Estimated liability as per 2006-2007 balance sheet
5	<u>ASMIDC</u>	1991-92	2003-04	91.03	22.76	3.58	19.18	01.07.2005	21.06.2005	Needs updated A/cs. Current estimates based on 2005-2006 balance sheet
6	<u>CSM</u>	1995-96	2006-07	20.35	5.09	-	5.09	24.04.2007	24.04.2007	Estimated liability as per 2006-2007 (30 Sept balance sheet)
7	<u>AAIDC</u>	1995-96	2003-04	14.56	3.64	-	3.64	30.08.2006	22.08.2006	Needs updated A/cs. Current estimates based on extract of liabilities
8	<u>ASTCL</u>	1996-97	2006-07	25.73	6.43	-	6.43	28.06.2007	22.06.2007	Estimated liability as per 2006-2007 balance sheet
9	<u>APDCL</u>	1993-94	2006-07	1.60	0.40	-	0.40	23.12.2005	23.12.2005	Estimated liability as per 2006-2007 balance sheet

Sl. No.	Name of the PSE	Year of		Estimated liability as per last provisional accounts		Disbursements since last provisional accounts \$ Million	Outstanding liability: estimated cost of adjustment	Date of		Comments
		Last Statutory Audit	Last Provisional Accounts	INR in crore	\$ Million			PSE Closure	Cabinet Resolution	
10	ASCON	1990–91	1993–94	7.36	1.84	1.51	0.33	25.04.2006	25.04.2006	1. Liabilities as per cabinet memo 2. No provisional accounts provided
11	STATFED	1995–96	2003–04	252.13	63.03	-	63.03	27.02.2006	27.02.2006	1. Liabilities as per cabinet memo 2. No provisional accounts provided
12	CT & MSI	N/A	N/A	Nil	Nil			01.04.2003	04.08.2005	No liabilities
13	ASL	1998–99	2006–07	34.13	8.53		8.53	*	*	As per 2006–2007 balance sheet. The closure decision has yet to be notified by the cabinet
14	IPAL	1996–97	2005–06	0.42	0.11		0.11	**	**	As per 2005–2006 balance sheet. Updated accounts needed. Decision on closure yet to be taken
	Total			548.16	137.04		5.21			

TECHNICAL ASSISTANCE PROCUREMENT PLAN AND CONSULTANT TERMS OF REFERENCE

I. Procurement Plan and Packages

A. Introduction

1. In view of the complexity of the Program, a piggybacked technical assistance (TA) has been provisioned so that relevant executing agency (EA) and implementing agency (IA) can be facilitated in their work related to Program objectives. The outcome of the TA is to enhance the capacity of the government to effectively implement the Program. Its impact can be measured only in association with the attainment of the objectives of the Program itself. The TA contributes to the attainment of the Program objectives through capacity building measures in revenue administration, expenditure rationalization, debt management, and public sector enterprise (PSE) restructuring. Particular assistance is to be provided in the technical requirements for information and communication technology (ICT) and for debt management. For the efficient and effective assistance, ADB needs to recruit individual consultants (Business Development Services Specialist and Human Resources Development and Training Specialist) in addition to a consulting firm.

2. For proper management of the TA, all procurement plans will be undertaken in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time) and the *Guidelines on the Use of Consultants* (2007, as amended from time to time). This plan is comprised of (i) the particular contracts for the equipment, consulting services, and training services required to carry out the Program during the Program period; (ii) the proposed methods for procurement of such contracts that are permitted under the loan agreement; (iii) for consulting services packages, this plan covers the proposed methods for selection and type of proposal, and an indicative recruitment schedule/budget; and (iv) related ADB review procedures (see below).

B. Procurement Plan Reviews

3. ADB will review the procurement arrangements in the procurement plan for its conformity with the loan agreement and the relevant guidelines mentioned in para. 3. While this procurement plan initially covers the entire three years of the Program period, the procurement plan will be updated on an annual basis or as needed.

C. Procurement Plan

Table 1: Program Information

Country	India
Name of borrower	India
Program name	Assam Governance and Public Resource Management Subprogram II
Loan reference	Program Loan
Date of effectiveness	September 2008
Amount (\$)/Of which committed (\$)	\$20,000/ -
Procurement Method	Shopping goods or Direct purchase
Executing agency	Finance Department of the Government of Assam
Approval date of original procurement plan	

Approval of most recent procurement plan	
Publication for local advertisements	August 2008
Period covered by this plan	October 2008–September 2011

TA = technical assistance.

Source: Asian Development Bank.

D. Procurement Packages for the Technical Assistance¹

Table 2: Indicative Procurement Packages for the TA

Item	Total Cost
A. ADB Financing	
1. Consultants	490.0
a. Remuneration and Per Diem	
i. International Consultants	
Number of Person-months	0.0
ii. Domestic Consultants	350.0
Number of Person-months	55.0
b. Per diem	100.0
c. Local Travel	35.0
d. Reports and Communication	5.0
2. Equipment a/	20.0
3. Workshops, Training/Seminars and Conferences b/	20.0
4. Miscellaneous administrative and support costs	10.0
5. Contingency	60.0
Subtotal (A)	600.0
B. Government Financing	
1. Office Accommodation	40.0
2. Local Transport	10.0
3. Remuneration and per diem of counterpart staff	60.0
4. Reports and Communications	10.0
5. Other administrative support	10.0
6. Contingencies	20.0
Subtotal (B)	150.0
TOTAL	650.0

Source: Asian Development Bank.

¹ Table 4: Procurement Thresholds for Good and Related Services^a

Procurement method	Value
ICB works (none)	Over \$1,000,000
ICB goods	Over \$500,000
NCB goods	Over \$100,000
Shopping goods	Over \$5,000
Direct purchase	Up to \$5,000

ICB = international competitive bidding, NCB = national competitive bidding.

Source: Asian Development Bank (ADB).

Table 5: Procurement Thresholds for Consulting Services^a

Procurement Method	Value
Quality Cost Based Selection (QCBS)	Over \$200,000

Source: Asian Development Bank (ADB).

a/ Equipment

Type	Quantity	Cost (\$'000)
Computers	5	10.0
Printer, photocopier, fax machine and related networks	1 per each	10.0

b/ Workshops, Training/Seminars and Conferences

Purpose	No. of Participants	Venue	Duration	Cost (\$'000)
training programs in cooperation with local training institutes in Assam state	100-150	Assam state	2.5 years	\$20.0

Note: A fixed quality cost ratios of 80:20 will be applied to the consultancy selection.

II. Outline Terms of Reference for National Consultants**A. Public Finance Specialist and Team Leader (7 person-months)**

1. The specialist will have postgraduate and professional qualification in public finance or related fields along with a preferred 10 years of professional experience with demonstrated public finance reform experience.
2. The specialist's responsibilities will include but not limited to the following.
 - (i) Support Program administration under the guidance of ADB and the government of Assam and support government of Assam's satisfactory compliance with the tranche requirements and assist the project manager to provide overall direction, coordinate, and supervise the work of related consultants;
 - (ii) Support preparation of midterm review reports on the progress made by government of Assam towards achievement of the tranche release conditions;
 - (iii) Support in organizing, designing, implementing, and monitoring training programs (workshops and seminars) in consultation with the government of Assam;
 - (iv) Coordinate inputs from all consultants to assist the government of Assam in complying the policy actions and procedures;
 - (v) Assure the quality of outputs from the teams' functional specialists and support general administration and reporting requirements, including a summary of major achievements, the status of key activities under each component, summary findings of assessments, and the approval status of the work;
 - (vi) Assist the government of Assam to study on limiting the growth rate of expenditure through implementation of measures to limit the committed expenditures on pensions and salaries;
 - (vii) Advise the government of Assam how to efficiently allocate operation and maintenance (O&M) expenditures as per the stipulations under the medium-term fiscal plan (MTFP);
 - (viii) Assist the government of Assam to improve the budget preparation and monitoring mechanisms;
 - (ix) Develop procedures, in consultation with the expenditure management specialist, for introducing outcome-based budgeting and assist the government of Assam to prepare an assessment report covering the status of the outcome-based budgeting and areas of future improvement;

- (x) Assist the government of Assam during the course of establishment of debt management unit with full-time staff and increased resources;
- (xi) Assist the government of Assam to complete disbursement of employees' salary dues and voluntary retirement scheme (VRS) compensation as well as statutory dues of the PSEs notified for closure;
- (xii) Assist the government of Assam to set-up an asset management cell to undertake the valuation and subsequent liquidation of assets of the PSEs for closure;
- (xiii) Assist FMU to prepare project performance management system (PPMS) in line with ADB guidelines which will help the government of Assam to ensure that (a) the Program is managed efficiently, (b) benefits are maximized, and (c) social impacts are monitored;
- (xiv) Assist the government of Assam in consultation with pension specialist to comply with fund manager recruitment issues (one of the second tranche conditions) in the case of delayed process of GOI's fund manager recruitment; and
- (xv) Other tasks requested by the government of Assam and ADB to implement the Program.

B. Expenditure Management Specialist (6 person-months)

3. The specialist will have postgraduate and professional qualification in business, economics, or related fields and proven experience in public expenditure management for a preferred 10 years.

4. The specialist's responsibilities will include but not limited to the following.

- (i) Review and update the medium-term fiscal framework based on recent performance and changes in the economic scene;
- (ii) Develop procedures for introducing outcome-based budgeting, guidelines for outcome-based budgeting, and assist the government of Assam to prepare an assessment report covering the status of the outcome-based budgeting (based on pilot outcome-based budgeting for a department of scheme) and areas of future improvement;
- (iii) Outline a mechanism for data capture over time for monitoring identified outcomes and outputs;
- (iv) Develop mechanisms for capturing data and providing expenditure estimates for the O&M of asset-creating projects in the budget;
- (v) Prepare a strategy document to ensure sustainable O&M expenditure in all departments;
- (vi) Assist the government of Assam to prepare O&M expenditure estimates following the directives in selected departments;
- (vii) Assist in initiating pilots for O&M data capture and provisioning in budget, on a pilot basis, for one key works department (Public Works Department–Roads and Buildings);
- (viii) Assist the government of Assam to prepare guidelines how to manage a guarantee redemption fund;
- (ix) Assist the government of Assam to prepare a mechanism with respect to settling the existing arrears of the government of Assam and the government of Assam's employees' contribution to the defined contribution pension scheme;
- (x) Assist the government of Assam to review the agreement with the fund managers for the GOI pension fund for managing the funds contributed by the

- the government of Assam and the government of Assam's employees for the defined contribution pensions scheme; and
- (xi) Other tasks requested by the government of Assam and ADB to implement the Program.

C. Revenue Administration Specialist (6 person-months)

5. The specialist will have postgraduate in business, economics, or related fields, with around 10 years of professional experience in managing revenue administration issues as well as capacity building for effective tax administration.

6. The specialist's responsibilities will include but not limited to the following.

- (i) Assist the government of Assam to finalize an action plan for upgrading the Tax Information Management System (TIMS), which includes (a) system upgrading keeping in view the possible goods and services tax (GST) requirements; (b) enabling e-filing of value-added tax (VAT) returns; (c) enabling e-filing of motor vehicle data; (d) enabling the interface between TIMS with comprehensive treasury management information system (CTMIS); (e) operationalizing the audit module in the TIMS; and (f) enabling online taxpayer service module;
- (ii) Devise dealer education strategies;
- (iii) Educate tax administration officials to undertake tax audits including criteria for selection of tax files to be audited;
- (iv) Identify a process of re-engineering possibilities in administering VAT, excise and stamp duties, and registration fees;
- (v) Support the strengthening of excise administration through an organizational study of the excise department;
- (vi) Assist the government of Assam to develop framework based on best practice for the auctioning of country liquor shops, such framework to include clear guidelines for the auctions;
- (vii) Assist the government of Assam to adopt the proposals for converting excise duty from a fixed rate/fee basis to an ad valorem basis for Indian Made Foreign Liquor (IMFL) and the introduction of ad valorem duty structure for IMFL;
- (viii) Assist the government of Assam to establish Large Taxpayer Unit (LTU) in Guwahati as a pilot and advise the government of Assam in related issues and action plans; and
- (ix) Other tasks requested by the government of Assam and ADB to implement the Program.

D. Public Sector Reform Specialist (6 person-months)

7. The specialist will have postgraduate and professional qualification in business, finance, or related fields along with preferred 10 years of professional experience with demonstrated public sector reform experience.

8. The specialist's responsibilities will include but not limited to the following.

- (i) Assist the government of Assam to classify all PSEs in Assam as restructuring under the government of Assam's ownership, disinvestment of shares along with management control to a private sector strategic partner and closure of PSEs assessed as unviable;

- (ii) Examine relevant international and national best practices in PSEs restructuring, with a view on incorporating lessons from these experiences into the Program for Assam;
- (iii) Assist the government of Assam's taskforce to prepare a report on (i) the review of PSEs restructuring and closure; (ii) implementation and monitoring of labor restructuring; (iii) completion of VRS compensation disbursement;
- (iv) Recommend, for public enterprises identified for closure, in corporation with the Accounting Specialist, (a) processes and procedures to be followed for the disposal of assets; (b) prioritization for settling liabilities including creditors utilizing sale proceeds; (c) government of Assam's financial support for settling liabilities not covered by proceeds from the sale of assets; and (d) procedures to be followed for bringing PSEs to legal closure;
- (v) Undertake a feasibility study for transferring commercial undertakings under administrative departments as public-private partnerships (PPPs) or PSEs;
- (vi) Estimate and analyze, for swapping high-interest loans with low-interest credit, its fiscal impacts in the medium-term fiscal framework and incorporate the impacts in the medium-term expenditure framework; and
- (vii) Other tasks requested by the government of Assam and ADB to implement the Program.

E. Business Development Services (BDS) Specialist (5 person-months)

9. The specialist will have (i) postgraduate and professional qualification in accounting, business, or related fields along with preferred eight years of professional experience with demonstrated public sector reform experience; (ii) substantial exposure in dealing with micro-, small- and medium-sized enterprise (MSME) in developing countries, especially small economies in Asia; and (iii) demonstrate good understanding of the history and development of the MSME sector. The tasks of the BDS specialist will include the following:

- (i) Assisting the government of Assam promoting MSME development strategies including a competitiveness study to determine key sectors and products having potential advantage for the state, and supply-chain and value-added analyses to determine weak links and gaps to be developed;
- (ii) Train government officials to provide identified service offerings that may include (a) consulting services for business planning and business counseling, identification, and provision of information, and coaching, (b) training services on costing and pricing, marketing and sales, accounting, and entrepreneurship; and (c) facilitation services for market access facilitation, accessing finance, and facilitating the formation of cooperatives;
- (iii) Conduct workshops and an inventory of available studies on the competitiveness, supply chain, and value-added analyses to assist previous employees of the PSEs notified for closure in setting up cooperatives or other kinds of MSME;
- (iv) Assist the government of Assam in the implementation and evaluation of a comprehensive BDS supply and demand inventory and the dissemination of the results;
- (v) Develop standard BDS products to be marketed, based on the study results and roundtable discussions with related stakeholders including business association representatives and the government of Assam;
- (vi) Monitor and evaluate BDS operations, including preparing a benefit impact analyses;

- (vii) Conduct a report on procurement activities relating to cluster and supply chain development;
- (viii) Create a BDS website with support of the government of Assam and other consultants under this project;
- (ix) Assist the government of Assam to establish a business development center and to develop related manuals and knowledge database to provide sustainable assistance to the former employees of the PSEs notified for closure beyond the Project period; and
- (x) Other tasks requested by the Government to implement the PSDP.

F. Management Information System (MIS) Specialist (4 person-months)

10. The specialist will have postgraduate in business, engineering, or related fields, with a preferred eight years of professional experience of working on MIS and ICT.

11. The specialist's responsibilities will include but not limited to the following

- (i) Assist in developing a system for electronic filing of tax returns and exploring technological options for uploading data from paper tax return forms;
- (ii) Explore options for integrating systems of the excise, transport, forest departments at check gates linked to the TIMS;
- (iii) Assist the government of Assam to extend the computerization of registration of properties in districts in consultation with other consulting team, if necessary;
- (iv) Assist the government of Assam to ensure the operations of TIMS and CTMIS in an appropriate manner, and further integration among TIMS, CTMIS, and other following components; and
- (v) Support other team members in identifying possibilities for automation that would improve procedural efficiencies in their respective fields.

G. Legal Specialist (4 person-months)

12. The specialist, with preferred eight years of professional experience, will have a degree in law or degree in related fields and extensive working knowledge in public resource management reform area.

13. The specialist's responsibilities will include but not limited to the following.

- (i) Review existing legislation, regulations, policy guidelines and procedures, including relating legal requirements for the establishing, registering, and operating PSEs;
- (ii) Identify key regulations which may hinder PSE reform (privatization, restructuring, and liquidation), and prepare an action plan for improving the legal and regulatory environment for PSE reform;
- (iii) Draft PSE reform related laws, departmental regulations, and other policy guidelines as required for PSE reform implementation;
- (iv) Review tender documents and bid invitation letters for PSEs in the process of privatization and closure, and develop policy guidelines on privatization procedures covering competitive bidding process, evaluation of bids, selection, and contract with selected bidder;

- (v) Guide the government of Assam and the public sector reform specialist on risk mitigation measures to be adopted in transactions, including advice on transaction safeguards to be built into transaction documents;
- (vi) Prepare such transaction documents as share-purchase agreements, shareholders agreements, etc; and
- (vii) Other tasks requested by the government of Assam and ADB to implement the Program.

H. Social Safety Net and Labor Retrenchment Specialist (4 person-months)

14. The specialist, with preferred eight years of professional experience, will have proven experience in design and implementation of re-skilling and redeployment of former PSEs staff, and also have a degree in related fields.

15. The specialist's responsibilities will include but not limited to the following.

- (i) Advise the government of Assam in formulating an early retirement scheme for employees to be displaced on account of PSE reforms, including compensation packages based on best practices in similar economies;
- (ii) Develop a social safety net program for displaced employees comprising (a) measures for providing psychological, investment, and rehabilitation counseling; (b) appropriately designed training courses aiming to retrain and develop skills for alternative livelihood opportunities; (c) identification of training institutes and other facilities for imparting training programs; and (d) mechanisms for monitoring Assam Governance and Public Resource Management (AGPRM) progress and ensuring necessary interventions where necessary;
- (iii) Advise the government of Assam on necessary policy actions required for institutionalizing the social safety net program;
- (iv) Work in close coordination with the Public Sector Reform Specialist to offer recommendations on the fitness of personnel implementing the social safety net program, along with their roles and responsibilities in the recommended organization structure of the focal agency;
- (v) Assess the impact of PSE reform on labor and develop a labor-rationalization plan to complement and underpin PSE reform;
- (vi) Assess the impact of program loans on poverty pursuant to ADB's *Guidelines for the Assessment of the Impact of Program Loans on Poverty*; and
- (vii) Other tasks requested by the government of Assam and ADB to implement the Program.

I. Pension Management Specialist (4 person-months)

16. The specialist, with preferred eight years of professional experience, will have proven experience in design and implementation of pension management pension liability analysis as well as pension and employee database management, and also have a degree in related fields.

17. The consultant will be responsible, although not limited, to the following activities:

- (i) Assist the government of Assam to comply with pension management tranche conditions including fund manager recruitment issues in the case of delayed process of GOI's fund manager recruitment;
- (ii) Assist the government of Assam to design methodology for continuous updating

- pensions and employee database;
- (iii) Provide training to concerned staff in the government of Assam to familiarize in the database management methodology and to conduct efficient database management beyond the TA period;
- (iv) Carry out a complete actuarial assessment of state pension liabilities and assist the government of Assam to set up a 'defined contribution pension scheme for new state employees including length of service for entitlement of pension, rates of contribution, indexation of benefits, coverage and so on and draft legislation if necessary;
- (v) Examine various pension scheme models available in other countries and regions as well as in private sector organizations and recommend concerned staff practical model for managing a state pension fund, taking into account the impact of any change in the pension scheme on staff morale and motivation and possible consideration to mitigate the potentially negative impacts of any change; and
- (vi) Other tasks requested by the government of Assam and ADB to implement the Program.

J. Capacity Building and Training Specialist (6 person-months)

18. The specialist will have around 10 years experience in public resource management, and possess an educational background in economics, business, finance or equivalent area. The specialist will have work in training jointly with Assam training institutes or conduct workshops or other training activities. The specialist will work closely with the team leader and other consultants in related areas.

19. The specialist's responsibilities will include but not limited to the following.

- (i) Undertake a comprehensive training needs assessment focusing on related departments and other stakeholders and prepare a comprehensive training plan in cooperation with other consultants;
- (ii) Develop institutional link-up between the technical assistance team and Assam training institutes to support arrangement of training facilities, training institute resource persons, and other activities to support sustainable and effective training development;
- (iii) Design, in coordination with other consultants, a capacity development plan for achieving outcomes under the project;
- (iv) Conduct, in coordination with other consultants, training workshops to disseminate reform initiatives, improved policy/procedure framework, and related information sharing; and
- (v) Other tasks requested by the government of Assam and ADB to implement the Program.

K. Human Resources Development and Training Specialist (8 person-months)

20. The specialist, with a preferred 10 years of professional experience, will have proven expertise in human resource management, 'soft' capacity building and training, and other related areas.

21. The specialist's responsibilities will include but not limited to the following.

- (i) Build institutional and human resource capacity to develop 'soft' capacities including management, leadership, facilitation, negotiation, and conflict resolution competencies as reform champions;
- (ii) Identify emerging skills demand in the job market in Assam based on a study of the labor market and rising industries in Assam;
- (iii) Undertake a holistic review of the capacity of existing agencies, assess the strengths and weaknesses of agencies for implementing reforms, and help design targeted interventions for capacity enhancement;
- (iv) Assess human resources needs and create a human resources development plan;
- (v) Identify new skill requirements for staff in the changing socio-economic scene;
- (vi) Identify, in cooperation with the Social Safety Net and Labor Retrenchment Specialist, opportunities for retraining and redeploying employees;
- (vii) Undertake a functional review of several departments, to be selected jointly by the government of Assam and ADB, whose main functions will be rendered redundant;
- (viii) Take an inventory of the civil service in terms of total numbers, departmental size, age, and qualification of the staff;
- (ix) Analyze competencies required under each job and define associated skills;
- (x) Develop a human resources management system that draw clear and sustainable links between pay and performances;
- (xi) Conduct workshops with different stakeholders in order to illustrate the new pay and grading schemes and disseminate advantages; and
- (xii) Other tasks requested by the government of Assam and ADB to implement the Program.

L. Administrative Assistants (2 persons)

22. The administrative assistants will do the following.

- (i) Collate primary and secondary information and provide necessary research and analytical support to the national consultants;
- (ii) Carry out tasks entrusted to them by the specialists when they are not on field;
- (iii) Provide support for conducting workshops and focus group meetings; and
- (iv) Other tasks requested by the government of Assam and ADB to implement the Program.

23. The inputs indicated above for the various consultant positions are indicative and the precise composition and prioritization will be realigned according to project priorities that emerge during TA implementation.

DETAILED GOVERNANCE AND ANTICORRUPTION RISK ASSESSMENT

I. Introduction

1. ADB's Second Governance and Anticorruption Action Plan (GACAP II) specifies that program/project design should incorporate findings on governance, institutional, and corruption risk assessments, and that project documentation should clearly identify risk and risk management/mitigation measures. Accordingly, this assessment takes a risk-based approach to issues in public resource management in the state of Assam, India.

2. The assessment considers the following (i) broader political economy of Assam within which this Program is situated; (ii) relevant governance issues in the Assam public sector, including the focus on procurement, public financial management (PFM), and corruption; (iii) relevant risk analysis of the public finance sector;¹ and (iv) recommendations on how the findings of the assessment can be incorporated into the design of the loan.

II. Relevant Governance Issues

A. Political Economy

3. The broader political economy of Assam is characterized by, among others:

- Assam is a key participant in the oldest insurgency in independent India, and the social unrest sits at the core of the political economy in Assam and the region; this, in turn, poses a binding constraint to the government in terms not only of how it positions its finances but also how it develops relevant policies for ensuring that development impulses are transmitted to the conflict-laden hinterlands.
- The role of the state in the economy (and the reliance on the capacity of the state and its bureaucratic arrangements to foster development) is a central tenet of the political economy of the state and indeed the Northeast region. This has been the prevailing development paradigm that has characterized development efforts in Assam over the past several decades and can be best described as one that was public expenditure-led. This has meant that there is now a persistent expenditure burden imposed on the state.
- There is significant lack of capacity of the state governments of the region to absorb the huge quantity of funds that have been pumped into the region by the center. This feature has perpetuated considerable reliance on the central government in New Delhi for resource transfers² and this reliance on the central government has shaped the political economy of the state.
- Over and above the resource transfers from the center, Assam, as a state in a federal system of government, is also impacted by policies emanating from New Delhi. At a very direct level, the work of the various central commissions (such as the finance commission, planning commission, etc.) directly impacts the state and, not always in a positive manner; often, these serve to constrain the domain of policy action by the state government.

¹ This includes viewing the various potential risks in the particular sector, their perceived severity, review of ongoing and proposed mitigation measures to address the risks and specification of residual risks, if any.

² These currently account for more than 60% of the state's revenue receipts (at its peak, this figure was 72%, in 1996–1997).

B. Broad Economic Performance

4. Assam lags behind the average India economic growth rate. According to the economic survey, 2006–2007 published by the Government of India (GOI), gross domestic product (GDP) growth rate for the country as a whole was 9.0% in 2005–2006 and 9.2% in 2006–2007 so far. Corresponding figures for gross state domestic product (GSDP) for Assam were a mere 5.9% for both financial years. The planning commission assumes that for the Eleventh Five Year Plan period (2007–2012), this will marginally rise to 6.0% for Assam. The state government's actions and policies are guided by the underlying priorities to achieve a GSDP growth rate of 9% by 2011–2012.

5. There are several reasons for the state's less than satisfactory economic performance. Natural calamities like floods and drought³ and an insurgency-related violence and its adverse effects in the investment climate have dampened the performance. Some central level decisions also have a tendency to hit Assam hard.⁴

C. Public Service

6. The character of the public service in Assam has been described, among others, as follows⁵ (i) the number of state government employees per thousand population is one of the highest in India (20.5); (ii) the current level of government employment is considered to be fiscally untenable (almost 50% of revenue expenditure goes to the salary and wages bill); and (iii) salaries account for a preponderant proportion of existing budget expenditure in key departments such as education, health, irrigation, public works, etc. Largely in response to this, measures announced by the government of Assam since 2001 have focused on, among others, restricting replacement of retiring government employees and growth of salaries, abolishing all posts which have been vacant for more than a year, abolishing all non-essential posts, phase-wise reduction in a number of existing posts in the government and consideration of (i) VRS in key government agencies, (ii) of redeployment of staff, as well as identification of surplus staff, and (iii) the recommendation from the central government on setting aside 5% of the salary budget for training purposes.

7. The government of Assam has over the years constituted three administrative reform commissions which have all targeted these issues raised here. In addition, a state-level empowered committee (SLEC), under the chairmanship of the chief secretary, has been working on optimizing manpower in the state government in line with the various recommendations made. Major reforms in the past five years have included reduction of the number of council of ministers from 35 to 19 (as per a constitutional amendment) and reduction of government agencies from 54 to 25 [as per the recommendation of the Assam Administrative Reforms Commission Reforms (AARC)]. Devolution of functions to elected local bodies is also

³ Assam is primarily an agrarian economy with nearly 87% of its population living in the rural areas and nearly 70% of them being dependent on agriculture and the allied sectors for their livelihood. 2007 saw an abnormal drought-like situation that impeded agricultural growth in the state.

⁴ For example, until March 2005, the loan proceeds of externally aided project (EAP)s had been transferred by the center to the special category states, including Assam, as 90% grant and 10% loan. However, under the Twelfth Finance Commission award, the Government of India (GOI) decided to transfer such external loans to all states on a back-to-back basis, i.e., as 100% loan. Upon special appeal of the government of Assam, GOI has now agreed to continue the earlier pattern of 90% grant and 10% loan for the special category states.

⁵ ADB. 2005. Technical Assistance to India for TA4128: Assam Budget Reform, Computerization, and Expenditure Management (final report on May).

reflective of public administration reforms that have been carried out.⁶ Functional reviews of the existing departments are also being done. Other recommendations of the AARC that will impact the nature and capability of the public service have to do with revamping service delivery, vigilance set up in the public sector, etc.

8. A memorandum of understanding (MOU) with GOI in 2001 and 2003 (under the Assam medium-term fiscal reform program) has necessitated the government of Assam to target containment of staff and expenditure on salaries and pensions. Even then, it has been considered necessary for the government of Assam to undertake a fundamental and comprehensive review of functions, activities and organizations on the basis of zero-based budgeting (i.e., starting from a review of first principles).

9. A particular aspect of the public sector in Assam has to do with the nature of public enterprises (and associated with it the notion of corporate governance). The government of Assam has, since the 1950s, resorted to state-level public sector enterprises (PSEs) to expedite the process of development. Seven PSEs were created in the 1950s, the number went up in successive decades (9 in the 1960s and 20 in the 1970s), but the numbers fell to 10 in the 1980s and a mere 2 in the 1990s.⁷ Thirty-three of the 48 PSEs were incorporated as companies, 8 under the Cooperative Societies Act, and 7 as statutory bodies. This is relevant for the discussion here since the process of closing them is easier for some types of PSEs (such as those under the Cooperative Societies Act) than others.

10. Most PSEs, however, are considered to be a drain on state finances. Of these, two—the Assam State Electricity Board and the Assam State Transport Corporation—alone account for more than 90% of the total state government investment in the PSEs. Inherent deficiencies in the public sector, such as lack of autonomy accompanied by lack of accountability, tendency of management to steer clear of risks, non-professional management, surplus workforce, poor work culture, etc., have made these PSEs yield very little to the state treasury were several have been inoperative and losing concerns over a period of time. In 2001, only 6 of the 48 PSEs were considered to be “performing well,” this number dropped to 5 in 2003. Of these 5, only two were paying dividends and the other 3 had no accumulated loss.

11. PSE reforms now incorporate several measures—outright closure of some, organizational, financial, marketing, and production restructuring of others, mergers of some, and disinvestment of yet others. As such, about 11 PSEs have now been identified for closure, and the state government has committed one-time settlements (OTS) of government guaranteed loans availed by 16 other state PSEs. Employment in PSEs has also dropped about 20% from 2004–2007 in a sign that PSEs are beginning to lose their appeal.

12. Finally, part of the reforms for the PSEs deals with promotion of good corporate and financial governance. Proposals on good corporate good governance have been made to the state government on, inter alia, separation of ownership and operation, separation of regulatory function from market participation, compliance of statutory requirements, preparation of financial statements, determination of output costs, transparency in government funding, documentation

⁶ The state government also recently constituted the 3rd State Finance Commission. The most important term of reference given to this commission was to suggest appropriate devolution from the state government to both urban and rural local bodies. While the commission's report is yet to be publicly available, the government has acted on a pending recommendation of the commission to open a separate window in the 2007–2008 budget for devolution to Panchayati Raj Institutions and urban local bodies.

⁷ The creation of state public sector enterprises (PSEs) was restricted in the late 1990s.

of internal procedures, formulation of code of conduct, etc. There are also proposals for instituting a mechanism for ensuring performance accountability through a MOU system.

D. Public Finance Management

13. Three particular areas of focus have tended to dominate the public finance management domain in Assam. These include

- (i) **Debt Management.** A major problem faced by state governments is sustainability of debt, which is accumulated due to incurring fiscal deficits on a year-to-year basis. The debt-GSDP ratio in Assam was nearly 28% in 1993–1994, which had shot up to 37.4% in 2005–2006. As more borrowing is needed to finance the increase in salaries and pensions expenditure, the debt burden has risen. An associated feature of debt management in Assam is that of contingent liabilities whereby the government has extended guarantees to loans taken by state-level public enterprises. Given the financial performance of these enterprises, many of these contingent liabilities have the potential of becoming actual budgetary liabilities. The government of Assam has also decided to set up a debt management unit in the finance department in order to better manage debts.
- (ii) **Revenue Administration.** Under Subprogram I, the principal objectives in the area of revenue administration were broadening the tax base through transparent and efficient implementation of taxes and enhancing revenue collection. The significant own tax revenue sources of Assam include sales/VAT, excise duty, and stamp duty-registration fees. However, the bulk of the state revenue (almost two-thirds) comes from central government transfers. Weaknesses in revenue administration span the gamut of lack of audit and operations manual to a weak tax information management system. These not only impact the effective collection of enhanced revenues but also reflect vulnerabilities to leakages and mismanagement.
- (iii) **Expenditure Rationalization.** Gaps in expenditure rationalization are reflected in the absence of: results-based budgeting, links between capital and recurrent budgets as well as inadequacies in operation and maintenance (O&M) expenditures, weak internal audit function in agencies and absence of fixed asset registers in these agencies. Without effective rationalization of expenditure items in the budget, it is difficult to see how the state will be able to stabilize state finances. The level of revenue expenditures was expected to have reached an unprecedented level of 27% the last financial year.

14. To better get a handle on its public finance management, Assam has recently enacted a fiscal responsibility legislation [the Fiscal Responsibility and Budget Management (FRBM) Act 2005, latest amendment in August 2007] which stipulates several fiscal targets,⁸ but more importantly, requires the government of Assam to show in the annual budget a detailed statement giving the number of employees in government, public sector, and aided institutions and related salary. The government of Assam has also recently presented the medium-term fiscal plan (MTFP) giving projections of the likely fiscal path for the state.

⁸ For example, that the revenue deficit will be reduced annually at a rate that is consistent with achieving the target of zero revenue deficit by 2008–2009, or that the fiscal deficit will be brought down to 3% of gross state domestic product (GSDP), also by 2008–2009, etc.

E. Procurement

15. Assam, like all other states in the Union, is subject to the procurement legislation existing in the country. While GOI does not have a central comprehensive law governing public procurement, the general financial rules (GFR), framed by MOF, lay down the principle for general financial management and procedures for public procurement by central government agencies, including for development activities at the state-level. Still, since India follows a federal government structure, the procurement function is decentralized; the state governments have their own general financial rules based on broad principles outlined in the GFR. Some states such as Karnataka, and Tamilnadu have even introduced their own procurement laws.⁹

16. Assam is nowhere close to this but it has prepared the Assam Public Procurement Manual, brought out in January 2008, which lays down very clear guidelines on how procurement is to take place at the state-level. Prepared under the assistance of the Subprogram I, the manual focuses on, inter alia, the guiding principles of economy, transparency, accountability, equity, effectiveness, efficiency, and ethical standards. The manual covers all public procurement of goods, works, and services by procuring entities of the government of Assam utilizing public funds from the state budget loans, credits, grants, trust funds, or technical assistance from external donors (the only exceptions are for funding done through donor procurement procedures). To regulate and monitor public procurement in Assam and ensure that the manual is used by all procuring entities, it has been recommended that the state government establish an oversight body called the Assam Public Procurement Monitoring Office (APPMO) which would serve as a regulator of public procurement. As the manual is very new, the degree of adherence to the new regulations has not been assessed rigorously to date.

17. Assam also participates in the Indian government's 'tenders' information system which is a central source/portal for state/central government and public sector procurement.¹⁰ This website has information on tenders, notifications issued by the central and state governments and other public bodies across India for goods, services, and works. It includes an archive of tenders, latest tenders, and open tenders.

F. Corruption and Mismanagement

18. A general concern with public resource management in Assam has been the poor governance and lack of accountability of the officials and the official machinery engaged in ushering in the development of the region and corruption and leakage of development funds.¹¹ The problem is not new.¹²

⁹ The Tamilnadu Transparency in Tender Rules, 2000; and Tamilnadu Transparency in Tenders Act, 1998; and the Karnataka Transparency in Public Procurement Act, 1999.

¹⁰ The website can be accessed at: www.tenders.gov.in.

¹¹ Even the central government has been known to admit that funds meant for development activities for the region are reaching the insurgents in the region (e.g., in June 2003, the union minister for the Department of North Eastern Region maintained that almost 10% of the funds meant for the development of the region was going to the coffers of the militants in most of the central government schemes (see B. Routray, 'Neglected Northeast: Whose Responsibility?', Institute for Peace and Conflict Studies, New Delhi).

¹² Most anti-poverty programs in the state were said to suffer from "considerable leakage and inefficiencies in their implementation." It was reported in the late 1990s that in the running of the public distribution system for food security, Assam was the 4th lowest among 17 states in terms of reaching the subsidy to the bottom 20% of households. At the same time, the leakage of rice and wheat from the system was as high as 69% and 98%, respectively (S. Jha and P. Srinivasan, "On targeting food subsidies," paper presented at the Symposium on Reforming India's Social Sectors: Strategies and Prospects, 16-17 April 1998).

19. A general concern with public resource management in Assam has been the poor governance and lack of accountability of the officials and the official machinery engaged in ushering in the development of the region and corruption and leakage of development funds.

20. The problem of corruption in Assam has been reported to be substantial. The India Corruption Study 2005 ranks Assam the 15th most corrupt state out of the 20 it surveyed in India. The study also finds that corruption in the police in Assam is among the top in India.¹³ Massive irregularities have been reported in the Assam police in recent years.¹⁴ There are other scams in the Assam police that the state's chief vigilance commissioner is presently investigating. Another area of corruption has been evident in the state's several rural schemes.

21. Citizens have access to the Right to Information Act, which has been successful in bringing out the cases to the public's attention although state officials are still considered to be difficult in handing out the information, and there are cases of individuals being beaten up and harassed for doing so.¹⁵ Largely, to deal with the issue of corruption and mismanagement of resources, the state has established the State Vigilance Commission (SVC) which is mandated to identify the corruption-prone spots in government departments, plan and enforce surprise as well as regular inspection to detect system failures and existence of malpractices, and ensure compliance of conduct rules. The SVC has also asked the state government to reactivate and strengthen the institution of *Lokayukta* (akin to a local ombudsman's office) as per the Assam *Lokayukta* and *Upa-Lokayukta* Act 1985 in order to be better able to address public grievances against the problems of corruption and mismanagement in the public sector.

22. A particular aspect of mismanagement has to do with the verification of maintenance of audit records. The principal accountant general (audit) arranges to conduct periodical inspection of the state government departments to test/check transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up by inspection reports (IRs). When important irregularities, etc., detected during inspection are not settled on the spot, IRs are issued to the heads of offices inspected with a copy to the next higher authorities. IRs issued up to December 2005 disclosed that 4,494 paragraphs relating to 1,495 IRs remained outstanding at the end of June 2006. The initial replies, which were required to be received from the head of offices within six weeks from the date of issue, were not received for more than 40% of IRs issued between April 1994 and June 2006. As a result, serious irregularities involving Rs293.95 crore had not been settled as of June 2006.¹⁶

23. Finally, as per instructions (May 1994) of the finance department, all government departments are required to constitute audit objection committee (AOC) for expeditious disposal

¹³ Transparency International, India Corruption Study 2005, to Improve Governance, Volume 1 – Key Highlights, June 30, 2005. A separate opinion poll (of 16 major state capitals and 1,743 respondents) conducted by India Today and ORG-MARG showed that Assam ranked as the 4th most corrupt province of the union (see http://mahendra-agarwalonline.20m.com/PR_IndiaSleazeCorruption.htm, accessed: 15 February 2008).

¹⁴ "Corruption racket unearthed in Assam police," 3 August 2002, Shankhadeep Choudhury, TNN, <http://timesofindia.indiatimes.com/articleshow/17880124.cms> (date of access: 13 February 2008).

¹⁵ An example of this reluctance to hand over the information, see <http://www.rtiindia.org/forum/997-assam-rti-applicant-alleges-assault.html> (date of access: 13 February 2008).

¹⁶ The relevant agency reports that 'a review of the inspection reports (IRs) which were pending due to non-receipt of replies revealed that the heads of offices/departments failed to discharge due responsibility as they did not send any reply to a large number of IRs, indicating their failure to initiate action in regard to the defects, omissions, and irregularities pointed out. The commissioners and secretaries of the concerned departments, who were informed of the position through half yearly reports, also failed to ensure that concerned officers of the department take prompt and timely action' (Source: Asian Development Bank and Government of Assam).

of audit observations contained in the IRs and these audit committees are to meet regularly and ensure that final action is taken on all audit observations outstanding for more than a year, leading to their settlement. During the year 2005–2006, only one (transport) out of the 8 government departments convened meetings of the audit committee. This shows that other departments did not make effective use of the machinery created for expeditious settlement of outstanding audit observations.

G. Transparency

24. The state of Assam has attempted to be transparent about its government business. The official website (www.assamgovt.nic.in) contains relevant information on the various affairs of the state although it is not very comprehensive in matters of procurement issues, pending corruption cases, audited accounts, etc. There is now considerable emphasis being given on the transparency of fiscal matters. This includes making available financial information readily available to the citizens. Along these lines, the government now publishes a semi-annual report on achievements of financial reforms and budget targets. This is set to continue. As per the FRBM Act, the Department of Finance should also undertake a review every year on the trends in receipts and expenditures including the fiscal indicator targets for the current year explaining the reasons for any deviations and related remedial measures.

25. As per Subprogram II, for example, the state government will be required to auction country liquor licenses in a public manner so that the process is transparent (as well as bringing in to the state treasury greater revenues). Transparency in fiscal affairs is the key in order to ensure that the government is held accountable for its actions,¹⁷ thus, good governance and proper fiscal management are complementary. The state government has also agreed to introduce other measures to enhance transparency, including, e.g., reducing mismanagement through automation,¹⁸ introducing the objective valuation method (OVM) for all major classes of properties so as to be transparent about, and accountable for, assets, computerizing records, etc.

26. Finally, in order to bring about transparency in the delivery of public services, the state is taking measures to keep the general public aware of the various schemes and programs of the government. For example, it is proposed that the government publication 'Raijor Batori' be made more comprehensive. It will now be mandatory for all government departments and institutions under it to release their advertisements, tender notices, employment news, as well as other important information through 'Raijor Batori.' Also, funds have been allocated under the non-plan budget for installation of a fixed loud speaker system in key locations both in urban and rural areas.

III. Identification of Risks, their Severity, and Risk Mitigation Measures

27. The assessment of the governance situation with respect to public finance management clearly highlights several risks that the government of Assam and ADB will need to be cognizant of. In this section, an assessment of the various risks that this Program faces is analyzed. The analysis first starts with some underlying assumptions, followed by specification of the different kinds of risks that the Program faces, determination of their severity and an analysis of the

¹⁷ A significant part of this transparency in fiscal affairs has to do with making public the contingent liabilities that the government of Assam has incurred as a result of years of support to failing PSEs.

¹⁸ Comprehensive Treasury Management Information System (CTMIS) and Tax Information Management System (TIMS).

mitigating measures (both ongoing and proposed). It needs to be mentioned here that the analysis is by nature subjective (depending as it does upon heuristic measures), hence an iterative process or peer review both within the government of Assam and at ADB is recommended.

A. Underlying Assumptions

28. The main underlying assumptions that are made in this risk analysis are that

- The government of Assam will stay the course in its objective of public finance reforms, including aligning with the union government in terms of any policies that may be dictated from the center;
- Effective institution building processes in key agencies in public finance management will continue to be in place;
- The favorable political economy climate will persist for the foreseeable future; and
- The government of Assam shares the view that this assessment presents an accurate and rigorous review of the risks in the sector.

B. Risk Specification

29. An assessment of the situation in these areas of public resource management in the state reveals that some of the risks that could arise not only in relation to the Program specifically but also across the public sector broadly can be specified as under three broad categories (i) exogenous to the state, (ii) within the state machinery, and (iii) specific program-related:¹⁹

Table 1: Risk Specification

Exogenous to the state	Within the state machinery	Specific program-related
<ul style="list-style-type: none"> • Aggravation of the insurgency problem leading to deterioration of the law and order situation (which will not only drain resources but will also adversely affect the impact of development funds); • Central level policy changes or delays in specific initiatives (e.g., establishment of the central pension fund); • Decline in central transfers;²⁰ 	<ul style="list-style-type: none"> • Insufficient capacity throughout all institutions, e.g., not only in terms of staffing of the relevant units,²³ but also skilled staff members and those who have strong hands on experience in, say, revenue administration, etc.; • Risk of corruption, fraud, and mismanagement in the public sector, e.g., <ul style="list-style-type: none"> i. collecting VAT; ii. inadequate documentation and lack of physical verification of assets; and iii. internal auditors that are 	<ul style="list-style-type: none"> • Risk of dispersion of the government of Assam functions in fiscal management (e.g., the responsibility of government borrowing, debt recording, debt servicing, accounting for debt transactions and overall debt management, including government on-lending and guarantees, are scattered across several government agencies); • Gaps in relevant rules and regulations, e.g., of the Assam Excise Act 2000, which have led to issues of weaknesses in

¹⁹ This analysis does not take into consideration the specific risks that may be applicable in the design and implementation of the Program. This is done in the analysis on the design and monitoring framework and in the main body of the Report and Recommendation of the President (RRP).

²⁰ The transfer of resources from the center to states are essentially via 3 channels (i) statutory transfers comprising tax sharing and grants-in-aid through finance commission recommendations, (ii) plan grants through the planning commission guidelines, and (iii) "discretionary" grants through central ministries, primarily for centrally sponsored schemes. In February 2008, the central government approved an impressive 33% hike in plan outlay for Assam.

Exogenous to the state	Within the state machinery	Specific program-related
<ul style="list-style-type: none"> • Exposure to international market risks;²¹ and • Extraneous events.²² 	<p>also responsible for the performance of day-to-day accounting and other administrative functions which can potentially compromise the objectivity and independence of auditors in evaluating the adequacy of controls.</p> <ul style="list-style-type: none"> • Weak internal accountability mechanisms in government agencies; • Insufficient government commitment to continuing with reforms (or even risk of policy reversal), not only in terms of broad fiscal reforms, but also resourcing the reform measures that may have been initiated (such as, e.g., underfunding for the modernization of the revenue administration departments or renewal of basic facilities to enable more efficient tax/revenue administration); and • Complex bureaucratic processes and outdated business processes. 	<p>enforcement of the provisions of the act;</p> <ul style="list-style-type: none"> • PSE-related, including weaknesses in corporate governance arrangements, difficulties in winding down unviable PSEs, potential proliferation in adjustment costs of closure of PSEs, costs and delays associated with possible litigation by ex-PSE employees, and improper/inadequate books of account as required by Section 209 of the Companies Act 1956.

Source: Asian Development Bank and Government of Assam.

C. Risk Severity

30. Figure 1 provides a severity matrix which gives an indication of the four types of risks based on severity. The calculation of risk severity is given by $RS=I*L$ (where RS is risk severity, I is impact, and L is likelihood). The severity ratings, based on heuristic measures and evidence from various studies, are defined and treated thus

- Type I risks require urgent attention and need to be mitigated/addressed prior to any assistance being rendered in the sector concerned;

²¹ For example, the government of Assam is now able to obtain loans directly from multilateral and bilateral sources as per the 2005 budget of GOI. This requires a policy for foreign currency borrowing in order to determine the extent of borrowing, the level of risk the government is willing to take, and the system and infrastructure required to manage external loans.

²² Such as, for example, variations in international prices for tea, a key export of the state, that can impart a degree of volatility to the state tax base. Assam's tea production is more than 450 million kilogram (kg) per annum and captures a sizeable chunk of the export market. This is one of India's largest foreign exchange earners, of which Assam contributes the biggest share with its strong brew. Guwahati, the capital of Assam, is also home to the largest tea auction center in Asia.

²³ For example, progress reports of Subprogram I state that there is a serious problem of availability of field-level staff in the grades of inspectors, superintendents, and assistant commissioners in the area of value-added tax (VAT) collection.

- Type II risks, although less urgent, still require attention (assistance could still go ahead in the presence of these risks but they need to be mitigated eventually);
- Type III risks should be regularly reviewed to ensure that they do not develop and become more serious; and
- Type IV risks are generally left to be managed by routine project controls, including built-in processes by the agencies eventually to be in charge of the use of the funds.

Figure 1: Risk Severity Matrix²⁴

		Impact		
		High	Moderate	Low
Likelihood of Event Occurring	High	Type I <ul style="list-style-type: none"> • Insufficient capacity in certain implementing agencies, both in terms of existing resources and specific knowledge and skills required to implement the reforms. 	Type II <ul style="list-style-type: none"> • Aggravation of the insurgency problem • Other extraneous events (such as fluctuations in the price of tea) • Risk of dispersion of the government of Assam functions in fiscal management • Gaps in relevant rules and regulations 	Type III <ul style="list-style-type: none"> • Decline in central transfers
	Moderate	Type II <ul style="list-style-type: none"> • Central level policy changes or delays in specific initiatives • Continued risk of corruption and mismanagement in the public sector • Weak internal accountability mechanisms in government agencies 	Type II/III <ul style="list-style-type: none"> • Exposure to international market risks • Risks related to PSEs (including weak corporate governance arrangements, and possible court cases) • Complex bureaucratic procedures and outdated business processes 	Type III <ul style="list-style-type: none"> • Containment of the replacement of retiring government employees as well as salary expenditure
	Low	Type III <ul style="list-style-type: none"> • Low government commitment to continuing with reforms (or risk of policy reversal) 	Type III	Type IV

Source: Asian Development Bank and Government of Assam.

D. Ongoing and Proposed Mitigation Measures, and Residual Risks

31. In line with the Guidelines for the Implementation of GACAP II, only those risks that have been classified as Type I (high likelihood of occurring, high potential impact on development effectiveness, likely to continue over the CPS period) will be included in the Risk Mitigation Plan (RMP). The RMP is set out in Table 2.

Table 2: Risk Mitigation Plan

Risk specification	Ongoing mitigation measures	Proposed mitigating measures	Residual risks, if any
Component 1 (2) Framework and guidelines for the auctioning of country liquor shops licenses do not comply with best practices	<ul style="list-style-type: none"> • Not applicable (recently introduced practice of the government of Assam) 	<ul style="list-style-type: none"> • Technical assistance focused on the development and implementation of the framework and guidelines for the auctioning of country liquor shops, based on best practices 	<ul style="list-style-type: none"> • Inadequate implementation

²⁴ Details on the risk specifications are provided in para. 28.

Risk specification	Ongoing mitigation measures	Proposed mitigating measures	Residual risks, If any
Component 2 (1) Sub-optimal use of public financial resources (i.e, not fully achieving intended development outcomes)	<ul style="list-style-type: none"> • Introduction of output budgeting in 10 departments 	<ul style="list-style-type: none"> • Technical assistance to the development of outcome based budgeting and the subsequent piloting thereof 	<ul style="list-style-type: none"> • Limited availability of financial records and relevant socio-economic data
Component 3 (1) Debt obligations of the government of Assam not fully known	<ul style="list-style-type: none"> • The government of Assam currently in the process of setting up a Debt Management Unit 	<ul style="list-style-type: none"> • Technical assistance for (i) the preparation of a debt management policy and operational manual and (ii) the training of DMU staff 	<ul style="list-style-type: none"> • Magnitude of the work might limit full reconciliation of outstanding debts
Component 4 (1) PSEs not properly closed and /or former PSE employees not compensated in a timely manner	<ul style="list-style-type: none"> • The government of Assam has established a task force to implement PSE closure and employee compensation. 	<ul style="list-style-type: none"> • Technical assistance to support the task force in the fulfillment of their mandate 	<ul style="list-style-type: none"> • Gaps in the government of Assam employee data

PSE = public sector enterprise,

Source: Asian Development Bank and Government of Assam.

32. Many of the proposed mitigating measures are already included in the design of the Program, and in the policy matrix inherent in it. The political commitment of the government of Assam to implement measures in the policy matrix is an underlying assumption of this risk assessment.

IV. Recommendations

33. The preceding governance and corruption risk assessment points to several recommendations on ways to not only address the risks but also enhance the design and implementation of the public resource management program. These recommendations include

- Program should provide technical assistance designed to directly address the Type I risk; and
- Drawing from the risk analysis conducted here, incorporate several provisions on good governance and anticorruption as loan conditions and assurances as relevant (some of these will be upon inception and some for future tranche release).

CHRONOLOGY OF PROGRAM PROCESSING**Table 1: Program Processing**

Activity	Date
PPTA Fact Finding	8 August 2006
PPTA 4866 approval	13 November 2006
PPTA 4866 Inception Mission	4–11 July 2007
PPTA 4866 Consultant Team Mobilization	18 June 2007
Loan Reconnaissance	25–30 November 2007
Fact Finding Mission	11–21 February 2008
Management Review Meeting I	22 April 2008
Appraisal Mission	5–11 May 2008
Management Review Meeting II	2 July 2008
Loan Negotiations among GOI, government of Assam, and ADB	28–31 July 2008
Board Circulation	27 August 2008
Board Approval	17 September 2008

ADB = Asian Development Bank, GOI = Government of India, PPTA = project preparatory technical assistance.

SUMMARY TABLE OF COMMITMENTS BY COMPONENTS AND OUTCOMES UNDER SUBPROGRAM I

Component	Outcome	No. of Commitments in Tranche 1 (December 2004)	No. of Commitments in Incentive Tranche	No. of Commitments in Tranche 2 (April 2006)	Total No. of Commitments
Component 1: Reform State Finances	Outcome 1: Enhance fiscal responsibility	2	4	0	6
	Outcome 2: Broaden tax base and enhance tax collection	3	4	7	14
	Outcome 3: Enhance non-tax revenues	1	0	1	2
	Outcome 4: Restructure state debt	2	1	1	4
	Outcome 5: Contain state pension liabilities	2	0	5	7
Component 1 Subtotal		10	9	14	33
Component 2: Fiscal Governance Reforms	Outcome 6: Improve state budgeting	1	2	2	5
	Outcome 7: Enhance poverty focused and growth-oriented expenditure	1	0	5	6
Component 2 Subtotal		2	2	7	11
Component 3: Reorienting the State	Outcome 8: Reform of public sector enterprises	3	3	5	11
	Outcome 9: Strengthen public-private partnership	0	1	2	3
	Outcome 10: Public administration review	3	0	4	7
Component 3 Subtotal		6	4	11	21
Grand Total		18	15	32	65

Source: Asian Development Bank and Government of Assam.

DETAILED LISTING OF COMMITMENTS BY ACTIONS UNDER SUBPROGRAM I

SUBPROGRAM I			
Tranche 1 (December 2004)	Incentive Tranche	Tranche 2 (December 2006)	Total level of Commitments
COMPONENT 1: REFORM OF STATE FINANCES			
Outcome 1: Enhance fiscal responsibility			
<ul style="list-style-type: none"> • approve a MTFP for FY2005/2006 onwards • approve (i) establishment of a FMU in the finance department consisting of 5 cells (revenue reform cell, debt management cell, budget reform cell, expenditure reform cell, and pensions reform cell); and (ii) a time-bound action plan on staffing, reporting, skills, and computerization requirements for the FMU 	<ul style="list-style-type: none"> • prepare an updated MTFP¹ pursuant to reviews of MTFP quarterly review and remedial action reports on targets • introduce a FRB in the state's legislative assembly, including targets for deficit reduction, fiscal transparency, the government of Assam guarantees, a prohibition on recurrence of fiscal yearend negative cash balances, and authority of the FMU related to the FRB • adopt a policy as of 30 April 2005 of not resorting to overdrafts with the RBI so as to ensure that there are no fiscal yearend negative cash balances as of 31 March 2006 • approve an earmarked fund for one-time negative cash balance liquidation • have implemented the time-bound action plan for the FMU 		
No. of Commitments = 2	No. of Commitments = 4	No. of Commitments = 0	6
Outcome 2: Broaden tax base and enhance tax collection			
<ul style="list-style-type: none"> • approve revenue policy guidelines • direct the FMU revenue reform cell to develop an action plan on information technology and services for sales tax, excise, and transport tax administration in support of composite 	<ul style="list-style-type: none"> • approve and notify a composite checkpost at Srirampur • introduce a bill into the state's legislative assembly to amend the VAT bill or introduce its equivalent in the form of a destination-based 	<ul style="list-style-type: none"> • complete implementation of the FMU Revenue Reform Cell action plan on verification and validation of individual tax administration information through the composite checkposts 	

¹ The updated MTFP shall take due account of Twelfth Finance Commission proposals.

SUBPROGRAM I			
Tranche 1 (December 2004)	Incentive Tranche	Tranche 2 (December 2006)	Total level of Commitments
<ul style="list-style-type: none"> checkposts • reduce the peak rate of agricultural income tax to equal the rates in the Central Income Tax Act 	<ul style="list-style-type: none"> multipoint sales tax • introduce a bill in the state's legislative assembly to amend the Excise Act to convert specific excise duties on IMFL into an ad valorem levy • approve and notify OVMs for properties 	<ul style="list-style-type: none"> • approve and notify composite checkpoints at Boxirhat and Digarkhal • introduce a bill in the state's legislative assembly to amend the Excise Act to replace the fixed fee-based licenses with an alternative method of collection of excise for country spirits • establish valuation committees chaired by deputy commissioners and commence the use of OVMs • computerize state register data for motor vehicles and prepare an action plan for regular updating of data • apply penalties at composite checkpoints (Boxirhat, Digarkhal, and Srirampur) through introduction of weighbridge facilities • issue and notify government order to amend property tax rules on the property tax structure and collection mechanism to implement a unit area method of property taxation 	
No. of Commitments = 3	No. of Commitments = 4	No. of Commitments = 7	14
Outcome 3: Enhance non-tax revenues			
<ul style="list-style-type: none"> • mandate a strategic review of user fees in the health, transport, water supply, and education sectors in Assam, including affordability, service quality, and feasibility issues 		<ul style="list-style-type: none"> • approve a user fees policy committing to increased total non-tax revenues from user fees in, health, transport, water supply, and education 	
No. of Commitments = 1	No. of Commitments = 0	No. of Commitments = 1	2
Outcome 4: Restructure state debt			
<ul style="list-style-type: none"> • approve debt swaps of high interest GOI debt • agree on debt settlement of high 	<ul style="list-style-type: none"> • agree on debt swaps/negotiated settlements of high interest institutional loans (and guarantees) 	<ul style="list-style-type: none"> • complete automated inventory of debt managed by the FMU 	

SUBPROGRAM I			
Tranche 1 (December 2004)	Incentive Tranche	Tranche 2 (December 2006)	Total level of Commitments
interest institutional loans	given to PSEs)		
No. of Commitments = 2	No. of Commitments = 1	No. of Commitments = 1	4
Outcome 5: Contain state pension liabilities			
<ul style="list-style-type: none"> • approve pensions policy guidelines on (i) commitment to develop systemic reforms on introduction of a pension arrangement for new government of Assam employees in line with GOI's pension scheme; and (ii) consideration of a menu of options on parametric reforms • mandate the FMU Pension Reform Cell to act as the nodal agency of the pensions reform process for (i) process reengineering and skill upgradation, and (ii) development of a reliable and comprehensive pensions database 		<ul style="list-style-type: none"> • complete and validate the estimation of all government of Assam's pension liabilities • approve a pensions policy for a new government of Assam's employees contributory pension scheme • complete a pensions database within the finance department • notify a nodal department for pensions administration • notify an appropriate pension fund in line with GOI rules and procedures for the duly approved pension scheme for new government of Assam's employees 	
No. of Commitments = 2	No. of Commitments = 0	No. of Commitments = 5	7
COMPONENT 2: FISCAL GOVERNANCE REFORMS			
Outcome 6: Improve state budgeting			
<ul style="list-style-type: none"> • mandate the FMU Budget Reform Cell to (i) develop budget processes and procedures for comprehensive and transparent public reporting of fiscal performance monitoring and evaluation consistent with the MTFP; and (ii) prepare a time-bound action plan for an inventory of all major central transfer schemes 	<ul style="list-style-type: none"> • approve the operating guidelines on state budgeting covering budget presentation and content, charts of accounts, off-budget borrowings, contingent liabilities, arrears, PSE losses, and subsidies • commence preparation of a state budget for FY2006/2007 incorporating revised MTFP projections 	<ul style="list-style-type: none"> • publish a semi-annual report on achievement of FRB targets or remedial action on key fiscal information including contingent liabilities, off-budget borrowings, arrears, PSE losses, and subsidy payments • complete the inventory of all major central transfer schemes and record all related funding and reporting requirements 	
No. of Commitments = 1	No. of Commitments = 2	No. of Commitments = 2	5
Outcome 7: Enhance poverty focused and growth-oriented expenditure			
<ul style="list-style-type: none"> • mandate the FMU Expenditure Reform Cell to (i) develop a 		<ul style="list-style-type: none"> • approve (i) a CIP in accordance with prioritization procedures for 	

SUBPROGRAM I			
Tranche 1 (December 2004)	Incentive Tranche	Tranche 2 (December 2006)	Total level of Commitments
prioritization process for the government of Assam's investment program which will evaluate investment in accordance with objective prioritization criteria related to economic rates of return; (ii) determine the adequacy of the structure and levels of O&M expenditure to appropriately maintain assets; (iii) design government financial management reports for performance evaluation and decision-making purposes; (iv) design the payments approval process and disbursement systems in terms of speed, efficiency, transparency and accountability, and resultant cash management and budgetary controls; and (v) develop standards for all public procurement		FY2007/2008 onwards; and (ii) approve O&M expenditure targets consistent with the updated MTFP for FY2007/2008 onwards <ul style="list-style-type: none"> • The government of Assam shall implement elements of an integrated financial management system required to support monitoring of FRB targets • complete implementation of a treasury information technology action plan, including agreed service standards of MIS reporting required to support cash management and budgetary controls • adopt a procurement manual for all public procurement 	
No. of Commitments = 1	No. of Commitments = 0	No. of Commitments = 5	6
COMPONENT 3: REORIENTING THE ROLE OF THE STATE			
Outcome 8: Reform of PSEs			
<ul style="list-style-type: none"> • approve policy guidelines on a comprehensive policy on PSE reforms. • approve an earmarked SRF for implementation of PSE reforms • prepare a draft social safety net program design acceptable to ADB 	<ul style="list-style-type: none"> • approve, issue, and notify the social safety net program designs • approve one-time settlements of PSE debts of identified inoperative PSEs to be closed • provide budget acknowledgment of ASEB terminal benefit liabilities 	<ul style="list-style-type: none"> • publish MOUs on the DPE website • publish DPE's annual reports of PSEs to enable performance measurement of PSEs against plan and budget parameters • approve, issue, and notify rules and regulations governing relationships between the government of Assam, line departments, DPE, and PSE board of directors • approve and issue MOUs between the government of Assam and 8 PSEs on financial and operating performance and corporate conduct 	

SUBPROGRAM I			
Tranche 1 (December 2004)	Incentive Tranche	Tranche 2 (December 2006)	Total level of Commitments
		<ul style="list-style-type: none"> commence the process of closure of identified inoperative PSEs, for containing the government of Assam's further fiscal exposure and shall initiate VRS and social safety net activities 	
No. of Commitments = 3	No. of Commitments = 3	No. of Commitments = 5	11
Outcome 9: Strengthen PPPs			
	<ul style="list-style-type: none"> establish a business incubation Unit and a skills development and placement unit, both in the DPE, to facilitate PSE employment training and PSE outsourcing services 	<ul style="list-style-type: none"> the PPP task force shall submit to the government of Assam (i) a review of labor, environmental and business establishment related laws, inspection procedures, licensing, and regulations for purposes of rationalization; and (ii) a review of single window agency clearance facilities in Assam for purposes of promotion of private investment into Assam the relevant units of DPE shall submit to the government of Assam a report on PSE employment training and outsourcing services for PSEs 	
No. of Commitments = 0	No. of Commitments = 1	No. of Commitments = 2	3
Outcome 10: Public Administration Review			
<ul style="list-style-type: none"> approve a public administration rationalization policy, which (i) restricts the replacement rate of the government of Assam's employees retiring in accordance with the MTFP; and (ii) enables departmental replacement/recruitment in accordance with functional reviews mandate the FMU Expenditure Reform Cell to undertake public expenditure tracking surveys of 		<ul style="list-style-type: none"> mandated agency shall submit to the State Level Empowered Committee public expenditure tracking surveys of selected departments mandated agency shall submit to the State Level Empowered Committee functional reviews of selected departments mandated agency shall submit to the State Level Empowered 	

SUBPROGRAM I			
Tranche 1 (December 2004)	Incentive Tranche	Tranche 2 (December 2006)	Total level of Commitments
<p>selected government of Assam's departments and mandate the Assam administrative reforms commission to build on its functional reviews for selected government of Assam's departments and its review of the functioning of the vigilance commissioner, directorate of anticorruption and other existing vigilance mechanisms to enhance their effectiveness for prevention and investigation of corruption</p> <ul style="list-style-type: none"> mandate the finance department to act as the repository of an employee database and develop the approach and methodology for preparing a complete digitized staff inventory for identified departments, and a system for updating the inventory 		<p>Committee a review of anticorruption mechanisms within the state</p> <ul style="list-style-type: none"> complete an automated employee database 	
No. of Commitments = 3	No. of Commitments = 0	No. of Commitments = 4	7

ADB = Asian Development Bank, CIP = core investment program, DPE = Department of Public Enterprises, FMU = fiscal management unit, FRB = fiscal responsibility bill, FY = fiscal year, GOI = Government of India, IMFL = Indian-made foreign liquor, MIS = management information system, MOU = memorandum of understanding, MTFP = medium-term fiscal plan, O&M = operation and maintenance, OVM = objective valuation method, PPP = public-private partnership, PSE = public sector enterprise, RBI = Reserve Bank of India, SRF = state revolving fund, VAT = value-added tax, VRS = voluntary retirement scheme.

Source: Asian Development Bank and Government of Assam.

LINKAGE BETWEEN THE SECTOR DEVELOPMENT PROGRAM AND PROJECT

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support ¹
Component 1: Reform of State Finances		
1. Enhance fiscal responsibility		
1.1 Medium-term Fiscal Plan (MTFP)	The government of Assam shall prepare an updated MTFP pursuant to reviews of MTFP quarterly review and remedial action reports on targets and obtain government approval of the updated MTFP.	Assist the government of Assam in setting up the FMU and in preparing (i) an updated MTFP and quarterly review and remedial action report; (ii) a draft FRB; (iii) quarterly review and MIS quarterly reports on public debt and risk categorized guarantees; (iv) development of systems and skill enhancement of FMU; and (v) developing an accounting and reporting system to monitor and evaluate utilization of central transfers.
1.2 Fiscal Responsibility Bill (FRB)	Introduction of a FRB, including targets for deficit reduction and fiscal transparency, government of Assam's guarantees, a prohibition on recurrence of fiscal yearend negative cash balances and authority of the FMU related to the FRB.	
1.3 Fiscal Management Unit (FMU)	The government of Assam shall (i) approve establishment of a FMU in the finance department consisting of 5 cells (revenue reform cell, debt management cell, budget reform cell, expenditure reform cell, and pensions reform cell; and (ii) approve and implement a time-bound action plan on staffing, reporting, skills, and computerization requirements for the FMU.	
1.4 Cash Management	The government of Assam shall adopt a policy as of 30 April 2005 of not resorting to overdrafts with the RBI to ensure that there are no yearend negative cash balances.	Assist the government of Assam to (i) develop key elements of an integrated PFMIS (see 7.2); and (ii) prepare all documents and arrangements required for the procurement of the turnkey PFMIS.
2. Broaden Tax Base and Enhance Tax Collection		
2.1 Revenue Administration	The government of Assam shall approve and notify a composite checkpost at Srirampur.	Assist the government of Assam in (i) drafting the revenue reform cell action plan; and (ii) operationalizing the checkposts in terms of staffing, resourcing, and MIS for sales tax, excise, and transport tax administration.

¹ Project loan support will also extend for Subprogram II indicative milestones as indicated by Appendix 10 but this will be further assessed in light of progress made on Subprogram I.

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support ¹
	The government of Assam shall (i) complete implementation of the FMU Revenue Reform Cell action plan on verification and validation of individual tax administration information through the composite checkpoints; and (ii) approve and notify composite checkpoints at Boxirhat and Digarkhal.	
2.2 Sales Tax	Introduction in the state's legislative assembly of a bill to amend the VAT bill or introduce its equivalent in the form of a destination-based multipoint sales tax.	Assist the government of Assam in (i) drafting the VAT law or its equivalent; (ii) developing functional risk assessment based and performance oriented sales tax administration; and (iii) ICT strategy for moving from a first point tax to a destination-based multipoint tax.
2.3 State Excise	Introduction in the state's legislative assembly of a bill to amend the Excise Act to convert specific excise duties on IMFL into an ad valorem levy.	Assist the government of Assam in (i) drafting the amendment to the Excise Act; and (ii) developing an ICT strategy to support the conversion of excise tax duty on IMFL from specific to ad valorem.
	Introduction in the state's legislative assembly of a bill to amend the Excise Act to replace the fixed fee-based licenses with an alternative method of collection of excise for country spirits.	Assist the government of Assam in (i) drafting the amendment to the Excise Act; and (ii) developing an ICT strategy to replace the fixed fee-based licenses with an alternative method of collection of excise for country spirits.
2.4 Stamp Duties and Registration Fees	The government of Assam shall approve and notify OVMs for properties.	Assist the government of Assam to develop an objective methodology for valuation of properties and guidelines on minimum valuation.
	The government of Assam shall establish valuation committees, chaired by deputy commissioners, which will commence use of OVMs.	
2.5 Agricultural Income Taxes	-	-

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support¹
2.6 Transport Tax Administration	The government of Assam shall (i) computerize state register data for motor vehicles and prepare an action plan for regular updating of data; and (ii) apply penalties at composite checkpoints (Boxirhat and Digarkhal) through weighbridge facilities.	Assist the government of Assam in developing and implementing an ICT strategy for (i) operationalizing the state register for motor vehicles; and (ii) application of penalties at composite checkpoints.
2.7 Local Bodies Fiscal Empowerment	The government of Assam shall issue and notify government order to amend property tax rules on the property tax structure and collection mechanism to implement a unit area method of property taxation.	Assist the government of Assam in (i) developing operational parameters for a unit area method of property taxation; and (ii) drafting the government order to amend property tax rules on the property tax structure and collection mechanism in order to implement a unit area method of property taxation.
3. Enhance Non-tax Revenues		
3.1 User Fees Policy	The government of Assam shall approve a user fees policy committing to increased total non-tax revenues from user fees in health, transport, water supply, and education.	Assist the government of Assam to (i) conduct a strategic review of the existing user fees for education, health, irrigation, water supply, and transport in order to evaluate the feasibility service quality and affordability issues in increasing user fees; and (ii) develop a user fees policy-based on a strategic review, including consideration of (a) an enhanced health sector mobilization plan, (b) a levy of particular charges on fuel for the road fund, (c) a levy of delinked water charges by local bodies, and (d) enhanced secondary, higher, and technical education fee increases with targeted protection for the poor.
4. Restructure State Debt		

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support¹
4.1 Loan and Guarantees Data Collection and Management	The government of Assam shall have a complete automated inventory of debt managed by the FMU.	Assist the government of Assam to (i) design, develop, and implement a debt and guarantee database to ensure a complete automated inventory of debt with all terms of borrowing, maturity, loan amount, source, debt servicing dates, outstanding balances in terms of principal, interest and arrears, and guarantees made and discharged; (ii) provide training to FMU staff in maintaining the debt and guarantee database; and (iii) design, draft, and assist in implementing a loan procedures manual including on guarantees and onlending.
4.2 Debt Swaps and Settlement	The government of Assam shall agree on debt swaps or negotiated settlement of high interest institutional loans (and guarantees given to PSEs).	Assist the government of Assam to prepare up-to-date details for and undertake debt swaps and negotiated settlements of debt.
5. Contain State Pension Liabilities		
5.1 Estimation of Liabilities	The government of Assam shall complete and validate the estimation of all government of Assam pension liabilities.	Assist the government of Assam in estimating the pension liabilities using actuarial techniques and a comprehensive pensioner database.
5.2 Pensions Policy	The government of Assam shall approve a Pensions Policy for a new government of Assam employees' contributory pension scheme.	Assist the government of Assam in drafting the new pension policy on the basis of a background note for the new government of Assam employees' contributory pension scheme in line with GOI's pension scheme.
5.3 Pensions Administration	The government of Assam shall notify a nodal department for pensions administration.	Assist the government of Assam to prepare necessary amendments to pension code and amend rules to enable notification of a nodal department for pensions administration.
5.4 Budget Mechanism for new government of Assam's employees contributory pension scheme	The government of Assam shall notify an appropriate pension fund in line with GOI rules and procedures for the duly approved pension scheme for new government of Assam's employees.	Assist the government of Assam in developing SOPs for managing the earmarked account and implement an ICT strategy for the new pension scheme.

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support¹
5.5 Pensions Database Management	The government of Assam shall complete a pensions database within the finance department.	Assist the government of Assam to design and develop a comprehensive pensioner database.
Component 2: Fiscal Governance Reforms		
6. Improve State Budgeting		
6.1 Budget Planning, Preparation, and Presentation	The government of Assam shall (i) approve the operating guidelines on state budgeting covering budget presentation and content, charts of accounts, off-budget borrowings, contingent liabilities, arrears, PSE losses and subsidies; and (ii) commence preparation of a state budget for FY2006/2007 incorporating revised MTFP projections.	Assist the government of Assam to (i) develop the operating guidelines to ensure transparency and efficiency in state budgeting; (ii) develop budget process and mechanisms to reduce dependence on supplementary budgets and to establish a linkage with a CIP and MTFP requirements, as well as strengthen the targeting of subsidies; and (iii) prepare the annual budget for FY2006/2007 taking account of CIP and MTFP projections.
6.2 Budget Reporting	The government of Assam shall (i) publish a semi-annual report on achievement of FRB targets or remedial action on key fiscal information including contingent liabilities, off-budget borrowings, arrears, PSE losses, and subsidy payments; and (ii) shall complete the inventory of all major central transfer schemes and record all related funding and reporting requirements.	Assist the government of Assam to (i) develop a semi-annual report on achievement of FRB targets; and (ii) design, develop, and implement complete automated inventory of all major central transfer schemes.
7. Enhance Poverty Focused and Growth-oriented Expenditure		
7.1 O&M Expenditure	The government of Assam shall (i) approve a CIP in accordance with the prioritization procedures for FY2007/2008 onwards; and (ii) approve O&M expenditure targets consistent with the updated MTFP for FY2007/2008 onwards.	Assist the government of Assam to (i) develop a CIP consistent with the updated MTFP; and (ii) develop O&M expenditure targets consistent with the updated MTFP.
7.2 Financial Management System	The government of Assam shall implement elements of an integrated financial management system required to support monitoring of FRB targets.	Assist the government of Assam to obtain key human resources and fiscal data and undertake procurement of PFMIS consisting of IT, SOPs, and MIS leading to improved financial management.

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support¹
7.3 Treasury and Payments	The government of Assam shall complete implementation of a treasury information technology action plan, including agreed service standards of MIS reporting required to support cash management and budgetary controls.	Assist the government of Assam to design, develop, and implement an integrated treasury IT system for improved standards for expenditure and budget reporting, processing, and controls.
7.4 Procurement	The government of Assam shall adopt a procurement manual for all public procurements.	Assist the government of Assam to design and develop a procurement manual for statewide procurement standards.
Component 3: Reorienting the Role of the State		
8. Reform of PSEs		
8.1 PSE Reform Policy	-	-
8.2 Budget Mechanisms for PSE Reform	The government of Assam shall (i) publish MOUs on the DPE website; and (ii) publish DPE's annual reports of PSEs to enable performance measurement of PSEs against plan and budget parameters.	Assist the government of Assam to operationalize DPE blue print including DPE staffing, structure, reporting lines, and SOPs.
		Assist DPE to operationalize the state renewal fund including accounting and operating procedures, internal controls, and approval and verification process regarding the release of funds.
		In building DPE capacity, assist DPE to design and develop (i) MIS system to enable performance measurement of PSEs against budget parameters; and (ii) internet website designing for disclosing appropriate plans and progress to the public on MOUs and the annual reports of the PSEs.

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support¹
<p>8.3 Promotion of Corporate and Financial Governance and Performance Accountability of PSEs to be Restructured</p>	<p>The government of Assam shall (i) approve, issue, and notify rules and regulations governing relationships between the government of Assam, line departments, DPE, and PSE board of directors; and (ii) approve and issue MOUs between the government of Assam and 8 PSEs on financial and operating performance and corporate conduct.</p>	<p>Assist the government of Assam to draft and design (i) the rules and regulations governing relationships between PSE stakeholders, including PSE board of directors and MOUs between the DPE, the government of Assam line departments, and 8 PSEs, including internal SOPs, management of the accounts backlog clearance program of PSEs, management of the property valuation program across the PSE portfolio, adoption of sound commercial accounting practice in the PSE sector, and corporate governance, change management, restructuring, public service obligations, PPPs, and closure.</p>
<p>8.4 Social Safety Net (SSN)</p>	<p>The government of Assam shall approve, issue, and notify the SSN program designs.</p>	<p>Assist the DPE to establish the SSN unit supervised by the DPE to draft and design (i) communication plan, (ii) financing, training, vocational guidance, and (iii) financial counseling for those PSE employees eligible for VRS (refer to 9.2).</p> <p>Assist DPE on the creation and operationalizing of the SSN consultative working group, consisting of labor, PSE management, the government of Assam, and other civil society representative.</p>
		<p>Assist DPE to provide individual PSEs boards and management support in SSN communication, internal company SSN structures, industrial relations, and other SSN issues.</p>

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support¹
8.5 Closure of PSEs	The government of Assam shall (i) approve one-time settlements of PSE debts of identified inoperative PSEs to be closed; and (ii) commence the process of closure of identified inoperative PSEs for containing the government of Assam's further fiscal exposure and shall initiate VRS and SSN activities.	Support the government of Assam to process and complete the closure of selected PSEs including (i) general management and problem solving during the closure process; (ii) undertaking individual closure transactions' verification issues; (iii) procure accounting and auditing services for the completion and reviewing of accounts of PSEs to be closed; (iv) undertaking asset and liabilities realization and attendant accounting and legal advice; (v) appointing advisor and valuer and supervision of their performance; and (vi) finalization of transaction documentation, including debt settlements.
8.6 Assam State Electricity Board (ASEB)	The government of Assam shall provide budget acknowledgment of ASEB terminal benefit liabilities.	Assist the government of Assam to assess ASEB terminal benefit liabilities and sources of funds.
9. Strengthen PPPs		
9.1 Public/Private (PP)Task Force	The public/private task force shall submit to the government of Assam (i) a review of labor, environmental and business establishment related laws, inspection procedures, licensing, and regulations for purposes of rationalization; and (ii) a review of single window agency clearance facilities in Assam for purposes of promoting private investment in Assam.	<p>Assist the government of Assam to undertake the staffing and structuring of public/private task force.</p> <p>Assist public/private sector task force through background notes and drafts to make recommendations on (i) labor, environmental and business establishment related laws, inspection procedures, licensing, and regulations for purposes of rationalization; and (ii) establishing single window agency clearance facilities in Assam for purposes of promotion of private investment into Assam.</p> <p>Assist the public/private sector task force in coordinating the communication program to promote investment through seminars, roadshows, and the Assam Development Forum.</p>

Policy Outcome	Subprogram I Loan Actions Incentive Tranche/Tranche 2	Project Loan Support¹
9.2 Business Incubation Unit and Skills Development and Placement Unit	The government of Assam shall establish a Business Incubation Unit and a Skills Development and Placement Unit, both in the DPE, to facilitate PSE employment training and PSE outsourcing services.	Assist DPE to (i) establish the Business Incubation Unit and a Skills Development and Placement Unit; (ii) establish third party arrangements for retraining in line with SSN program; and (iii) prepare reports on employment training and outsourcing services for PSEs.
	The relevant units of DPE shall submit to the government of Assam a report on employment training and outsourcing services for PSEs.	
10. Public Administration Review		
10.1 Public Administration Rationalization	-	
10.2 Public Administration Quality Reviews	The expenditure reform cell of the FMU shall submit to the government of Assam public expenditure tracking surveys and the Assam Administrative Reforms Commission shall submit to the government of Assam functional reviews of selected departments and a review of anticorruption mechanisms within the state.	Assist the government of Assam to (i) design and execute functional reviews for selected departments, possibly including revenue (sales tax and excise), education, health, transport, and PWD; (ii) design and conduct public expenditure tracking surveys in selected departments, possibly including education, health, rural development, social welfare, and PWDs; and (iii) review of anticorruption mechanisms in the state to enhance their effectiveness for prevention and investigation.
10.3 Public Administration Management	The government of Assam shall complete an automated employee database.	Assist the government of Assam to design and develop a comprehensive employee database.

ASEB = Assam State Electricity Board, DPE = Department of Public Enterprises, FMU = fiscal management unit, FRB = fiscal responsibility bill, ICT = information and communication technology, IMFL = Indian-made foreign liquor, IT = information technology, MTFP = medium-term fiscal plan, RBI = Reserve Bank of India, MIS = management information system, OVM = objective valuation method, PFMIS = public financial management information system, PPP = public-private partnership, PSE = public sector enterprise, PWD = public works department, SOP = standard operating procedure, SSN = social safety net, VAT = value-added tax, VRS = voluntary retirement scheme.

Source: Asian Development Bank and Government of Assam.

MATRIX OF POVERTY IMPACT AND MITIGATION ASSESSMENT

Table 1: Poverty Impact of Improvement in Public Administration

Channel of Effect	Direct Effect– Short Run	Indirect Effect– Short Run	Indirect Effect– Medium Run	Group Affected/Targeted	Enhancement and Mitigation Measures
Labor market	With increase in public expenditure on services arising from enhanced outreach and cost-effective delivery, demand for labor would increase	Wide distribution of spending on services will generate economic linkages that will further increase demand for labor	Vertical and horizontal linkages would generate additional demand for labor	Skilled and unskilled workers	
Prices	Prices paid by the poor may increase on account of rationalization of user charges			Poor	<ul style="list-style-type: none"> • Prior information on affordability and accessibility by the poor will be obtained through ADB supported project • Communication program to demonstrate a parallel increase in quality of access of services
Access	Access to services will improve	Improvements in infrastructure will further improve access. Also, restructuring of public administration will release resources that would be available for investments to improve the quality and quantum of public services	Public administration restructuring will release resources for large investments in services and infrastructure	All groups	Targeting
Net transfers	Positive	Positive	Positive	All groups	
Analytical basis and/or assumptions	Improved efficiency in service in public administration and governance will improve the income of those groups whose economic activity is linked with government service. For example, enhanced efficiency of the government will result in less time spent in government offices resulting in reduction in transaction costs The spread effect of service delivery will generate demand for labor. Targeting will be required for improved access to services				

Source: Asian Development Bank and Government of Assam.

Table 2: Impact of Changes in User Fees

Channel of effect	Direct Effect–short run	Indirect Effect–short run	Indirect Effect–medium run	Group Affected/Targeted	Enhancement and Mitigation Measures
Labor market	Increased opportunities due to focus on funding further investments			All groups including poor	
Markets and prices	Temporary increase in prices due to increased charges		Improved services will benefit people	All groups including poor	<ul style="list-style-type: none"> The government of Assam will conduct a strategic review of the existing user fees for education, health, irrigation, water supply, transport, and other public service departments in order to evaluate the feasibility and affordability of increasing user fees and charging fees for other public services that are not currently charged. Special emphasis will be laid on affordability and accessibility of the poor. The ADB is assisting this through the provision of program assistance to help the government of Assam complete its tasks
Access to assets	Improved access			<ul style="list-style-type: none"> All groups including poor 	
Access to public services	Significantly higher access to quality services and higher costs		Better quality of life and higher investments in productive investments from money raised leading to higher employment	<ul style="list-style-type: none"> All groups including poor 	<ul style="list-style-type: none"> As stated above, emphasis will be on the accessibility and affordability of the poor

Channel of effect	Direct Effect– short run	Indirect Effect– short run	Indirect Effect– medium run	Group Affected/Targeted	Enhancement and Mitigation Measures
Direct transfers			Government can re-allocate expenditure to other social services		
Net impact	Improved services with reduced government support will lead to better quality of life and overall improvement in economic condition, with increased employment opportunities for the poor at local level and increased efficiency in operations				
Information basis or crucial assumptions	<ul style="list-style-type: none"> Government commitment to implement (i) the enhanced health sector resource mobilization plan; (ii) levy of particular charges on fuel for the road fund; (iii) levy water and irrigation charges; and (iv) enhanced secondary, higher, and technical education fees increases with targeted protection for poor students 				

Source: Asian Development Bank and Government of Assam.

Table 3: Impact of Water and Irrigation Tariffs

Channel of effect	Direct Effect– short run	Indirect Effect– short run	Indirect Effect– medium run	Group Affected/Targeted	Enhancement and Mitigation Measures
Labor market	Increased opportunities due to focus on completion of schemes	Re-allocation of funds from salaries to works will lead to indirect employment generation	Increased employment for poor in scheme managed by Panchayati Raj Institutions (PRI)	Reduced employment opportunities in Public Health Engineering Department (PHED)	Reduced employment in PHED through attrition will be more than offset by employment of poor by PRI
Markets and prices		Small farmers may feel the burden of increased water charges levied by Water Users' Associations (WUA)	Improved services and incomes will offset the effect of higher charges		
Access to assets	Improved access to tail-end farmers due to participatory management				
Access to public services					
Direct transfers			Government can re-allocate expenditure to other social services and completion of irrigation and flood control works		
Net impact	Improved irrigation services due to beneficiary participation with reduced government support shall lead to better productivity and overall improvement in economic conditions of farmers, with increased employment opportunities for poor at the local level				
Information basis or crucial assumptions	Government commitment to re-orient the role of irrigation department from execution to advisory, handholding support to WUA to enhance their capacity to effectively operate and maintain transferred irrigation projects				

PHED = Public Health Engineering Department, PRI = Panchayati Raj Institutions, Water Users' Associations (WUA).

Source: Asian Development Bank and Government of Assam.

IMPACT OF RESTRUCTURING OF PUBLIC SECTOR ENTERPRISES (PSEs)

Channel of effect	Effects on the poor			Effects on other stakeholders	Enhancement and Mitigation Measures
	Direct Effect– Short Run	Indirect Effect– short run	Indirect Effect– medium run		
Labor market	Marginal reduction in employment	Reduced employment opportunities in restructured PSEs	The PSE restructuring will create labor surplus, a part of which would need to be redeployed. With the availability of VRS funds, it is expected that small entrepreneurs would emerge and might support the labor market. In addition financial counseling will be provided to assist labor surplus maximize the benefits. The divested and restructured entities could provide employment opportunities in the medium- to long-term, due to increase in level of activities and expansion of business.	The reform program promotes establishing a consultative working group on labor relations, with representatives of all stakeholders to develop a SSN policy. The consultative working group is expected to develop standards for negotiating settlements, to serve as a conduit for information for labor representatives and provide a forum for policy discussion regarding labor issues such as the treatment of contract labor.	A carefully developed and executed SSN program is planned to mitigate the adverse consequences such as fair and transparent VRS procedures, financial counseling, and vocational retraining. The reform program promotes establishing a consultative working group on labor relations with representatives of all stakeholders to contribute to the development of a SSN policy. Development of fully transparent standards for negotiating settlements. Appropriate monitoring procedures to ensure sound governance of the SSN funds.
Markets and Prices	The PSE restructuring is expected to bring in efficiently produced goods and services to the market by both the private and public sector.		In the medium-term, there would be improved access to markets and lower cost of products and services.	Opportunity for private sector expansion.	
Access to assets					
Access to public services	Improved access to public services due to improvement in efficiencies of the restructured entities.	Improved access	Implementation of public service provider framework will help government identify, quantify, and cost public	Opportunity for private sector expansion.	

Channel of effect	Effects on the poor			Effects on other stakeholders	Enhancement and Mitigation Measures
	Direct Effect– Short Run	Indirect Effect– short run	Indirect Effect– medium run		
			service deliveries leading to more efficient resource allocation and possible alternative lower cost delivery providers		
Direct transfers			Government can re-allocate funds saved (that were otherwise being provided to PSEs to meet their unrecovered costs) to other social services, e.g., health, education, etc.		
Net impact	<p>The PSE reform program makes a positive contribution to poverty reduction through Removing market distorting interventions to stimulate growth. Thirteen of the 19 PSEs nominated for reform have closed business operations and the PSEs are still accruing employee liabilities despite these employees not working and looking for alternative employment. It is better to redirect the resources to productive uses and to assist those employees to receive their past entitlements and a VRS, combined with financial counseling and training to assist them in the search for alternative employment</p> <p>Improving the quality of governance in a critical area of the public-private sector interface. Since effective and efficient delivery of basic services by the public sector matters most to the poor, weak governance hurts them disproportionately. Public sector inefficiency and waste have left the government with insufficient resources to support basic health, education, transport infrastructure, sanitation, and basic water needs of the larger population. The program will encourage transparent use of public funds, encourage sound fiscal management, promote efficient delivery of public services, and help establish the rule of law</p>				
Information basis or crucial assumptions	<p>Government commitment to implement the PSE restructuring program</p> <p>Formation of the PSE reform committee with clearly defined roles and responsibilities</p> <p>Strengthening of DPE to carry out the reform process</p>				

DPE = Department of Public Enterprises, PSE = public sector enterprises, SSN = social safety net, VRS = voluntary retirement scheme.
 Source: Asian Development Bank and Government of Assam.

IMPACT OF GREATER DECENTRALIZATION

Channel of Effect	Direct Effect – Short Run	Indirect Effect– Short Run	Indirect Effect – Medium Run	Group Affected/Targeted	Enhancement and Mitigation Measures
Labor market	Devolution will encourage local bodies to undertake socio-economic activities which, in turn, will provide employment avenues among rural workers	Higher allocations to local bodies will generate more employment opportunities	More employment to rural poor		Not needed
Markets and prices					Not needed
Access to assets	Increase in spending by local bodies will enhance access of rural poor to community-based infrastructure				Not needed
Access to public services	Delivery of services particularly to the rural poor will greatly increase				Not needed
Direct transfers	Greater mobilization of the rural poor for community activities		Better availability of social services to the poor		Not needed
Net impact	Activation of local bodies will lead to the development of infrastructure and community assets and higher resource mobilization at local level, which in turn, will relieve pressure on state finances, at least in a modest way. Increase in activities and implementation of development schemes, particularly those having focus on employment, will help the poor economically				
Information basis or crucial assumptions	Constitutional provision to make the local bodies as self-governing institutions will be fulfilled and these institutions will be able to play their role in planning and implementation of schemes for the socio-economic development of the areas besides ensuring participation of the poor in decision-making processes				

Source: Asian Development Bank and Government of Assam.

MATRIX ON ENVIRONMENTAL ASSESSMENT OF POLICY INTERVENTIONS

Policy Intervention	Economic and Social Outcomes	Environmental Impact	Mitigation Measures
1. Enhanced fiscal responsibility	Fiscal responsibility regime established under the MTFP and FRB. Fiscal discipline prohibiting WMAs and overdrafts recourse for negative cash balances established as of FY2005/2006.	No potential environmental impact is expected.	No mitigation measures required.
2. Broadened tax base and enhanced tax collection	VAT and other tax policy and administration reforms.	No potential environmental impact is expected. However, with enhanced tax incidence, lower allocations could be made for environment protection measures by corporates/user groups.	No mitigation measure required. However, compliance with environmental measures should be monitored regularly.
3. Enhanced non-tax revenues	Increased user fees in health, transport, water supply, and education sectors pursuant to feasibility and affordability strategic review.	Marginal environmental impacts may occur with secondary effects of implementation of user fees policy, e.g., in water, it might intensify ground water exploitation and change patterns of use of natural resources on the negative side. On the positive side, it may rationalize the use of the scarce water resources.	The strategic review would examine the implications of the various levies and suggest mitigation measures as necessary.
4. Restructured state debt	Containment of state debt attained by restructuring and settlement of high interest state debt in accordance with MTFP. Sustainable management of public debt established through automated and comprehensive debt data inventory and loan procedures and systems processing benchmarks.	No potential environmental impact is expected.	No mitigation measure required.
5. Containment of state pension liabilities	Systemic reform for containment of new government employees' pension liabilities established.	No potential environmental impact is expected.	No mitigation measure required.
6. Improved state budgeting and expenditure	Standards for transparent and comprehensive state budget presentation and	Marginally positive environmental impact. With better O&M, the waste	No mitigation measure required.

Policy Intervention	Economic and Social Outcomes	Environmental Impact	Mitigation Measures
orientation	<p>reporting in accordance with MTFP requirements established.</p> <p>Objective criteria established for allocation of capital and O&M expenditure in accordance with the MTFP.</p> <p>A PFMIS established which underpins compliance with state budget standards and objective criteria.</p>	emissions on receptors (land, water, air) are expected to decrease.	
7. PSE reforms and strengthened PPPs	<p>A policy framework and coordinated oversight established to enable PSE reforms.</p> <p>A VRS-SSN program for all PSE employees affected by PSE closures established for social impact mitigation of reforms on unproductive PSE expenditures.</p> <p>Streamlining of legal, regulatory, administrative and investment processing requirements for private sector investment assessed.</p>	No potential environmental impact is expected.	No mitigation measure required.
8. Public administration review	Improvement in the quality of public administration expenditure and prevention of corruption.	No potential environmental impact is expected.	No mitigation measure required.

FRB = Fiscal Responsibility Bill, MTFP = medium-term fiscal plan, O&M = operation and maintenance, PFMIS = public financial management information system, PPP = public-private partnership, PSE = public sector enterprise, SSN = social safety net, VAT = value-added tax, VRS = voluntary retirement scheme, WMA = ways and means advances.

Source: Asian Development Bank and Government of Assam.