



# Technical Assistance Report

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Project Number: 36308  
November 2006

## India: Preparing the Assam Governance and Public Resource Management Subprogram II (Financed by the Japan Special Fund)

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 8 November 2006)

Currency Unit – Indian rupee/s (Re/Rs)

Re1.00 = \$0.0223

\$1.00 = Rs44.8250

## ABBREVIATIONS

ADB	–	Asian Development Bank
AGPRM	–	Assam Governance and Public Resources Management
ATC	–	Assam Tea Corporation
FMU	–	Fiscal Management Unit
FRBM	–	Fiscal Responsibility Budget Management (Act)
GOA	–	government of Assam
GSDP	–	gross state domestic product
PPP	–	public-private partnership
PSE	–	public sector enterprise
TA	–	technical assistance
TIMS	–	Tax Information Management System
VAT	–	value-added tax
VRS	–	voluntary retirement scheme

## TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management, and public policy
Subsector	–	Public finance and expenditure management
Themes	–	Sustainable economic growth, governance, private sector development

## GLOSSARY

crore – 10,000,000

lakh – 100,000

## NOTES

- (i) The fiscal year (FY) of the Government of India begins on 1 April and ends on 31 March. FY before the calendar year denotes the year in which the fiscal year ends, e.g., FY2000 ends on 31 March 2000.
- (ii) In this report, "\$" refers to US dollars.

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## I. INTRODUCTION

1. The Asian Development Bank (ADB) country strategy and program update for India<sup>1</sup> for 2006–2008 includes support for governance and public resource management reforms in the state of Assam, and the Subprogram II phase of the Assam Governance and Public Resource Management (AGPRM) program cluster loan is programmed.<sup>2</sup> The government of Assam (GOA) is supportive of ADB's technical assistance (TA) to assess achievements in the broad areas under the first phase of the AGPRM. Based on the understanding of the outcomes achieved, it will further explore new areas to be incorporated into Subprogram II of AGPRM. The major components will include sustainable and time-bound fiscal consolidation together with complementary governance reform for budgeting, expenditure, debt and asset management, and public sector enterprise (PSE) restructuring and closure.

2. This TA is part of ADB's support to prepare and implement the AGPRM program loan.<sup>3</sup> The Fact-Finding Mission visited Assam in July 2006 and reached an understanding with GOA on the purpose, output, methodology, key activities, cost estimates and financing plan, implementation arrangements, and terms of reference of the TA.

## II. ISSUES

### A. Economic Situation

3. Although Assam is rich in natural resources (particularly petroleum and coal) and has good potential for developing agriculture, its economic performance has lagged behind that of rest of India because of several factors, especially poor infrastructure, remoteness, and inability to minimize crop damage from frequent floods. Assam's economic growth decelerated even further after economic reforms in the early 1990s. While per capita gross state domestic product (GSDP) grew by 3.63% on average from fiscal year (FY) 1981 to FY1994, growth decelerated to 2.63% in 1994–2001. In the same period, growth in all states' per capita GSDP accelerated from 5.27% to 5.72%. During FY2002, GSDP growth in Assam was a healthy 6.09%, dropping to 4.68% in FY2003. However, recently there has been acceleration in various sectors of the state's economy, which is estimated to have attained a growth rate of 5.90% in FY2005.<sup>4</sup> The net state domestic product (NSDP) of Assam registered growth in real terms of 5.20% in FY2004, up from 4.09% in FY2003. It is expected that a growth rate of 6.2% in the NSDP in real terms will be achieved in FY2006.<sup>5</sup>

4. Notwithstanding the improvement in economic growth, large revenue and fiscal deficits have continued. The fiscal deficit had increased from Rs1,395 crore in FY2004 to Rs2,058 crore in FY2005. State revenue consists mainly of state tax and other revenue, central tax transfers, and grants-in-aid from the Government of India. Overall revenue receipts increased 14.33% on average from FY2001 to FY2005. The total expenditure of the state increased at an average trend rate of 13.46% from FY2001 to FY2005. However, the growth rate for expenditure in FY2005 was 45.48%, far outpacing the 5-year average.<sup>6</sup> The current deficit represents the gap between GOA's receipts and expenditure. Even though the ratio of revenue deficit to fiscal deficit has decreased, with inter-year variations, from 49.8% in FY2004 to 14.9% in FY2005, the state continues to suffer from

<sup>1</sup> ADB. 2005. *Country Strategy and Program Update: India 2006–2008*. Manila.

<sup>2</sup> The TA first appeared in *ADB Business Opportunities* on 12 September 2006.

<sup>3</sup> During the country program meeting in September 2006, the loan was programmed in 2008 (other) and 2009 (firm).

<sup>4</sup> Government of Assam. 2005. *Economic Survey Assam 2004–2005* (Directorate of Economics and Statistics). Assam.

<sup>5</sup> Government of Assam. 2006. *Budget Speech of Finance Minister 2006–2007 by Shri Tarun Gogoi, Chief Minister of Assam State*. Assam.

<sup>6</sup> Government of Assam. 2006. *Report of the Comptroller and Auditor General of India (for the year ended 31 March 2005 (Civil))*. Assam.

persistent revenue deficits. In view of the limited tax base and tax policy instruments, revenue measures alone will not be sufficient to reduce revenue deficits and fiscal deficits over the short term. Accordingly, GOA will also need to adopt fiscal compression measures targeting expenditures to rein in deficits.

## **B. Building on Achievements under Subprogram I**

5. Subprogram II of the AGPRM will help GOA design and sequence further public resource management and governance reforms and strengthen its implementation capacity. Although, under Subprogram I, there has been significant movement towards (i) fiscal consolidation in Assam through revenue reforms, (ii) controlling expenditure growth, and (iii) closing several non-operational PSEs, reform measures need to be consolidated further through (i) the identification and removal of inefficiencies in tax administration; (ii) better budget preparation, execution, monitoring, and control; (iii) further restructuring of PSEs; (iv) a refined voluntary retirement scheme (VRS) and strengthened social safety net; (v) better management of the debt portfolio; and (vi) expansion of the tax base through initiatives that seek to promote greater investment, such as promoting public-private partnerships (PPPs) and foreign private investment in tourism and infrastructure.

6. Subprogram I was launched against a backdrop of constraints to GOA's accomplishing revenue augmentation and expenditure compression. Progress was achieved with the approval of the Fiscal Responsibility Budget Management (FRBM) Act. Although FY2005 saw the fiscal deficit increase to 5.9% of GSDP, this was largely due to GOA's efforts to pay the arrears of the Assam State Electricity Board and its payment of interest arrears. Projections for FY2005–FY2009 are encouraging regarding meeting the objective of reducing the fiscal deficit to close to 3% of GSDP and eliminating the revenue deficit by FY2009, as stated in the FRBM Act. A medium-term fiscal framework was approved that builds measures to successfully implement a medium-term expenditure framework. In addition, controls on budget and expenditure management have been improved to enhance the efficiency and effectiveness of budget processing. A major contribution to the reduction in current expenditure is expected through declining interest payments (through swapping high-interest loans with low-interest loans from ADB and others), a freeze on the number of GOA posts, and the current policy of restricting new recruitment to 70% of attrition.

7. Some of the major revenue-augmentation achievements under Subprogram I have been the introduction of the value-added tax (VAT) with positive results, a policy decision to adopt *ad valorem* imposition of excise duty on Indian-manufactured liquor under foreign branding notification of two composite check posts<sup>7</sup>, and the implementation of the Tax Information Management System (TIMS). However, given the narrow revenue base and inefficiencies in revenue administration, the key challenges faced by GOA are building capacity for VAT audits, developing electronic tax filing, entering paper tax return forms in the TIMS, adopting objective valuation methods, and reducing human discretion in the valuation of properties. Subprogram II will need to address these issues comprehensively to bring effective revenue augmentation. On the budget and expenditure-compression side, GOA would need to become more performance-oriented by introducing results-based indicators for key expenditure departments and improving budget formulation, monitoring, and reporting. Subprogram II will need to address some of these issues.

8. With respect to reforming PSEs, of the seven non-operational PSEs identified for closure when the loan was negotiated, five have been closed, and it has recently been decided to close the other two. However, excluding the Assam Electricity Board, there are still 47 PSEs in Assam, of

<sup>7</sup> The modern and well-equipped composite checkposts have been set up at *Srirampur* and *Boxirhat*. The checkposts are strategic entry posts into the state, and designed to enable relevant departments to check vehicles entering the state at one place. This will improve the transparency of the checking process, and facilitates interdepartmental coordination.

which 10 are non-operational, 16 are in severe financial crisis, 16 incur losses, and 5 enjoy profitability.<sup>8</sup> The PSEs operate in most sectors. Those involved in development through lending<sup>9</sup> are in a poor state, typically with few of their loans performing. Those in the welfare sector are also ineffective, and mergers of PSEs are under consideration. Most of the non-operational PSEs are in the production sector. PSEs are organized in a variety of forms including limited liability companies, central and state-level corporations, cooperatives managed as PSEs, societies, and unincorporated businesses. A recent development has been the joint-sector company, with tax advantages granted to the public-private arrangement. Government intervention over the last 5 years has been limited to several areas.<sup>10</sup> The main decision has been to close some non-operational PSEs, and the process continues. In this regard, Subprogram II will help GOA to begin the process of closing PSEs identified as non-operational and so containing GOA's further fiscal exposure and enhancing VRS and social safety net. These measures will provide more training opportunities for discharged people and identify emerging skills demand in the job market in Assam, based on a comprehensive study on the labor market and rising industries in Assam.

9. Therefore, although there has been significant movement towards fiscal consolidation in Assam through revenue reforms, controlling expenditure growth, and closing non-operational PSEs, reform measures need to be consolidated further through (i) the identification and removal of inefficiencies in tax administration; (ii) better budget preparation, execution, monitoring, and control; (iii) further restructuring of PSEs; (iv) better management of the debt portfolio; and (v) expansion of the tax base achieved through enhanced economic activity brought by PPP promotion and investment facilitation. GOA is planning to host a senior Assam Development Forum in January 2007 in Guwahati, Assam. GOA will need to expend all efforts toward developing a good business climate, improving governance, and enhancing public infrastructure. AGPRM Subprogram II is expected to establish an enabling environment in terms of good governance and so facilitate investment in Assam.

### III. THE TECHNICAL ASSISTANCE

#### A. Impact and Outcome

10. The impact of TA will be to further improve development management in Assam by implementing a policy matrix for Subprogram II against the background of the reforms undertaken under Subprogram I, and the outcomes of TA will be an agreed design of a policy matrix for the program loan and capacity built to implement it. TA will (i) identify the broad areas to be supported under the Subprogram II loan toward better development management, (ii) prioritize key reform measures into an agreed policy matrix, and (iii) strengthen GOA's implementation capacity in the following areas: (a) reforming state finances through revenue augmentation and better debt management; (b) reforming fiscal governance through better fiscal discipline, improved resource allocation, and better operational management; and (c) reorienting the role of the state from being a

<sup>8</sup> Of the five profit-making firms, two have not produced accounts for over 5 years, and all (except for Assam Apex Weavers and Artisans Co-operative Federation Limited) are in protected markets. The causes of PSE failure include (i) capital cost overruns, (ii) large trading losses, (iii) excess plant capacity, (iv) overstaffing, (v) price controls, (vi) private sector competition, and (vii) failure to collect debts. The 47 PSEs employ 31,500 people, of which 54%, or 16,900, are employed by Assam Tea Corporation (ATC). The total annual investment is around Rs44 crore, and annual losses are around Rs100–Rs200 crore, of which the loss in ATC was Rs19,924 lakh in FY2004. However, only four PSEs have audited accounts to date, and figures are only approximate, understating the losses. The PSEs have negative net worth based on book value, but their land and buildings have appreciated.

<sup>9</sup> Assam Industrial Development Corporation Limited, Assam Financial Corporation, Assam Small Industries Development Corporation Limited, Assam Hills Small Industries Development Corporation Limited, Assam Minorities Development and Finance Corporation Limited, Assam State Film (Finance & Development) Corporation Limited, etc.

<sup>10</sup> GOA's intervention includes, among a few other minor investments, (i) acquiring new vehicles for ATC, (ii) some investments in Assam Gas Company Limited, and (iii) designing VRSs in some companies, but rarely at a level to eliminate losses.

provider of services to a facilitator of services. TA will become an important bridge to support GOA's prioritizing of its reform measures to achieve the outcomes of Subprogram II.

## **B. Methodology and Key Activities**

11. **Component 1: Reform of State Finances.** TA will (i) review the revenue-augmentation and administration-facilitation exercise under Subprogram I; (ii) support strengthening VAT revenue administration by preparing guidelines for auditing returns under VAT and by building the capacity of officials to undertake effective and efficient audits; (iii) assist in developing a system for electronic filing of tax returns and exploring the adoption of technology to upload data from paper tax return forms; (iv) devise dealer education strategies; (v) identify process reengineering possibilities in the administration of VAT, excise and stamp duties, and registration fees; (vi) explore options for integrating systems of excise, transport, and forest departments at check gates linked to the TIMS; (vii) support strengthening excise administration through a comprehensive study of Excise Department organization; and (viii) support strengthening debt management through a study of the needs for establishing a dedicated debt management office.

12. **Component 2: Fiscal Governance Reforms.** TA will include (i) reviewing the fiscal governance exercise under Subprogram I; (ii) developing procedures for introducing results-based budgeting, including defining departmental outcomes and outputs on a pilot basis, for which data will need to be captured over a period of time; (iii) developing mechanisms for capturing data and providing expenditure estimates for the operation and maintenance of asset-creating projects in the budget, including the initiation of a pilot exercise for key departments; (iv) undertaking a feasibility study and preparation of an action plan for creating physical asset registers for GOA's assets, in preparation for moving toward accrual-based accounting; and (v) supporting the development of an internal audit policy and preparing an outline of an internal audit manual.

13. **Component 3: Reorienting the Role of the State.** TA will (i) review the PSEs restructuring exercise under Subprogram I, (ii) develop detailed mechanisms for operationalizing the State Renewal Fund,<sup>11</sup> (iii) develop mechanisms to improve PSEs' disclosure and transparency systems, (iv) undertake a feasibility study for transferring commercial undertakings under administrative departments as PPPs or PSEs, (v) develop an action plan for VRSS' management and disbursement mechanisms, (vi) identify emerging skills demand in the job market in Assam based on a study on the labor market and rising industries in Assam, (vii) functionally review selected departments to identify opportunities for retraining and redeploying employees, (viii) develop a PPP framework including model concession agreements for sectors where PPPs would be more effective in Assam, (ix) prepare a business plan for operationalizing the single window mechanism for industrial facilitation and investment promotion, and (x) prepare a strategy for the tourism sector and facilitate PPPs to promote tourism.<sup>12</sup>

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<sup>11</sup> There is always a risk that proceeds from the sale of assets in a PSE during a restructuring exercise will be used to finance the current expenditure of the government. Ideally, these proceeds should be used for capital expenditure to improve infrastructure and support further economic growth. This makes imperative creating the separate State Renewal Fund to receive proceeds from PSE restructuring.

<sup>12</sup> Assam is the gateway to northeastern India, with rich flora and fauna. It is renowned for its tea and the world famous one-horned rhino in the Kaziranga National Park. There is significant scope for river tourism, as the majestic Brahmaputra River flows through the state. Assam also has potential for religious tours to the Kamakhya temple situated in Guwahati. With its natural beauty, Assam has been trying to make tourism one of the major sectors to generate employment and defuse its insurgency problems. This makes imperative preparing a comprehensive strategy for the tourism sector and an action plan for facilitating PPPs.

### C. Cost and Financing

14. TA is estimated to cost \$625,000 equivalent. Of this, \$500,000 will be a grant from the Japan Special Fund, funded by the Government of Japan. The Government of India will provide \$125,000 equivalent to finance counterpart staff, office accommodation, transport, and other expenses such as workshops and facilitating in-country study. The detailed cost estimates and financing plan are in Appendix 3. The Government of India has been informed that approval of TA does not commit ADB to finance any ensuing project.

### D. Implementation Arrangements

15. The Finance Department of the state of Assam will be the executing agency for TA. The Finance Department will be supported by the Fiscal Management Unit (FMU) set up under Subprogram I of AGPRMP. The project director of FMU will act as the nodal person for this TA. The state Finance Department will provide office space, furniture, equipment, and counterpart staff for TA consultants, who will receive operational advice and guidance from the FMU project director. GOA will set up a steering committee, co-chaired by the commissioner and secretary of the Finance Department, with the project director acting as the secretary to the steering committee.<sup>13</sup> All procurement of equipment will be undertaken in accordance with ADB's *Guidelines for Procurement*, and all equipment will be handed over to GOA at completion of TA.

16. ADB will engage a team of consultants to execute TA. International consultants will work for 7 person-months, and national consultants for 49 person-months. A firm of consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants*. For selecting consulting firms, simplified technical proposals and quality and cost-based selection will be used. The outline terms of reference for the consultants are in Appendix 4, and a summary initial poverty and social analysis report is provided in Appendix 2. The consultants will prepare an inception report, including a time-bound work plan for TA implementation, within 4 weeks of the start of consulting services. An interim report will be submitted within 4 months of the start of consulting services. A draft final report will be submitted 4 weeks before the end of consulting services, to be discussed in a meeting of the consultants, GOA, and ADB before being finalized. The final report will contain all the necessary information and analyses including recommended policy changes (the policy matrix) and implementation arrangements. TA will be implemented over 7 months, expected to start in February 2008 and be completed by September 2008.

## IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 to the Government of India to be financed on a grant basis by the Japan Special Fund for preparing the Assam Governance and Public Resource Management Subprogram II, and hereby reports this action to the Board.

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<sup>13</sup> The steering committee should have representation from the Finance Department, Planning and Development Department, Administrative Reforms and Training Department, Department of Public Enterprises, and other key line departments. The steering committee will be responsible for TA coordination and will meet to review TA reports and resolve any issues regarding TA implementation.

## DESIGN AND MONITORING FRAMEWORK

<b>Design Summary</b>	<b>Performance Targets/Indicators</b>	<b>Data Sources/Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
<p><b>Impact</b> Further improve development management in Assam by designing a policy matrix for Subprogram II, against the backdrop of reforms undertaken under Subprogram I</p>	<p>State finances reforms towards revenue augmentation and better debt management</p> <p>Fiscal governance reforms implemented to strengthen fiscal discipline, improve resource allocation, and enable better operational management</p> <p>The role of the state reorients from being a provider of services to a facilitator of services through public management; reforms enhance cost-effective, sustainable, and high-quality public services and limit public sector enterprises to playing an appropriate role.</p>	<p>Specially coordinated joint monitoring of technical assistance (TA) by the Government of India and the Asian Development Bank (ADB)</p> <p>Steering committee and Fiscal Management Unit (FMU)</p> <p>TA review missions</p> <p>Tripartite review</p> <p>TA inception, interim, and final reports</p>	<p><b>Assumption</b> The government of Assam (GOA) remains committed to continued fiscal and governance reforms</p> <p><b>Risk</b> Political forces may resist measures toward consolidation, efficiency, and rationalization</p>
<p><b>Outcome</b> Agreed design of a program loan with a policy matrix governing areas of state finance reforms, fiscal governance reforms, state reorientation, and capacity building to implement the policy matrix.</p>	<p>Key reform measures successfully identified, prioritized, and sequenced into an agreed policy matrix</p> <p>Agreement by GOA on suggested reforms for revenue augmentation and better debt management to be achieved by incorporating them in the policy matrix for the Subprogram II loan</p> <p>Agreement of GOA for simplifying procedures for investment promotion proposed by consultants</p>	<p>Steering committee and FMU</p> <p>TA review missions</p> <p>Tripartite review</p> <p>TA inception, interim, and final reports</p>	<p><b>Assumptions</b> GOA remains committed to continued fiscal and governance reforms</p> <p>Administrative departments cooperate and support the TA team toward achieving the tasks</p> <p><b>Risk</b> Political forces may resist measures toward consolidation, efficiency, and rationalization</p>

<b>Design Summary</b>	<b>Performance Targets/Indicators</b>	<b>Data Sources/Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
	Agreement by GOA, as incorporated in the policy matrix for the Subprogram II loan, of suggestions for improving public service delivery through better management of assets and increased fee-based and other revenue raised through the provision of those services		
<p><b>Outputs</b></p> <p><b>Reform of state finances</b></p> <ol style="list-style-type: none"> <li>1. Guidelines for auditing returns under a value-added tax (VAT) and capacity building of officials to undertaking effective and efficient audits</li> <li>2. System for electronic filing of tax returns</li> <li>3. Identification of technology options to upload data from paper tax return forms</li> <li>4. Dealer education strategy</li> <li>5. Identified process of reengineering the possibilities of administering VAT, excise and stamp duties, and registration fees</li> <li>6. Identified options for integrating systems of excise, transport, forest departments at check gates linked to the Tax Information Management System (TIMS)</li> <li>7. Report on establishment of a dedicated debt-management office</li> </ol> <p><b>Fiscal governance reforms</b></p> <ol style="list-style-type: none"> <li>1. Procedures for the introduction of results-based budgeting, including definitions of departmental outcomes and outputs on a pilot basis</li> <li>2. Mechanisms for capturing data and providing expenditure estimates for the operation and maintenance of asset-</li> </ol>	<p>Inception report within 4 weeks of the start of consulting services</p> <p>Interim report 4 months after the start of consulting services containing draft guidelines, strategy, and options for reform in the output areas</p> <p>Draft final report 4 weeks before the end of consulting services containing finalized guidelines, strategy, and options for reform in the output areas</p> <p>Agreement by GOA to implement the outputs as incorporated in the policy matrix</p>	<p>Specially coordinated joint monitoring of TA by the national Government and ADB</p> <p>Steering committee and FMU</p> <p>TA review missions</p> <p>Tripartite review of TA inception, interim, and draft final reports</p>	<p><b>Assumptions</b></p> <p>Consultants are competent.</p> <p>Counterpart staff are available and committed to the reform process.</p> <p>GOA provides adequate resources and support.</p>

<b>Design Summary</b>	<b>Performance Targets/Indicators</b>	<b>Data Sources/Reporting Mechanisms</b>	<b>Assumptions and Risks</b>
<p>creating projects in the budget</p> <ol style="list-style-type: none"> <li>3. Action plan for creating physical asset registers</li> <li>4. Internal audit policy and an outline internal audit manual</li> </ol> <p><b>Reorienting the role of the state</b></p> <ol style="list-style-type: none"> <li>1. Detailed mechanisms for operationalizing the State Renewal Fund</li> <li>2. Mechanisms to improve disclosure and transparency systems in public sector enterprises (PSEs)</li> <li>3. Feasibility report on transferring commercial undertakings under administrative departments as public-private partnerships (PPPs) or PSEs</li> <li>4. Action plan for developing management and disbursement mechanisms for the voluntary retirement scheme (VRS)</li> <li>5. Identification of emerging skills demand in the job market in Assam</li> <li>6. Functional review of selected departments to identify opportunities for retraining and redeploying employees</li> <li>7. PPP framework including model concession agreements for sectors in which PPPs would be more effective in Assam</li> <li>8. Business plan for operationalizing the single window mechanism for investment promotion</li> <li>9. Strategy for the tourism sector and facilitation of PPPs to promote tourism</li> </ol>			

Activities with Milestones	Inputs
<ul style="list-style-type: none"> <li>▪ Prepare guidelines for auditing returns under VAT within 4 months of commencing TA.</li> <li>▪ Prepare the design of a system for electronic filing of tax returns within 4 months of commencing TA.</li> <li>▪ Identify technology options to upload data from paper tax return forms within 2 months of commencing TA.</li> <li>▪ Draft a dealer education strategy on VAT within 4 months of commencing TA.</li> <li>▪ Identify a process of reengineering possibilities in administering VAT, excise and stamp duties, and registration fees within 6 months of commencing TA.</li> <li>▪ Identify options for integrating systems of excise, transport, and forest departments at check gates linked to the TIMS within 4 months of commencement of TA.</li> <li>▪ Prepare a report on the feasibility of establishing a dedicated debt management office within 6 months of commencing TA.</li> <li>▪ Draft detailed mechanisms for operationalizing the State Renewal Fund within 6 months of commencing TA.</li> <li>▪ Design mechanisms to improve disclosure and transparency systems in PSEs within 4 months of commencing TA.</li> <li>▪ Prepare a feasibility report on transferring commercial undertakings under administrative departments as PPPs or PSEs within 6 months of commencing TA.</li> <li>▪ Develop an action plan for management and disbursement mechanisms for the VRS within 2 months of commencing TA.</li> <li>▪ Identify emerging skills demand in the job market in Assam within 6 months of commencing TA.</li> <li>▪ Complete a functional review of selected departments to identify opportunities for retraining and redeploying employees within 6 months of commencing TA.</li> <li>▪ Develop a PPP framework including model concession agreements for sectors in which PPPs would be more effective in Assam within 4 months of commencing TA.</li> <li>▪ Develop a business plan for operationalizing the single window mechanism for investment promotion within 6 months of commencing TA.</li> <li>▪ Present the draft strategy for the tourism sector and facilitating PPPs to promote tourism within 6 months of commencing TA.</li> </ul>	<ul style="list-style-type: none"> <li>▪ TA resources (\$500,000)</li> <li>▪ Consultants (7 person-months of international consultancy and 49 person-months of national consultancy)</li> <li>▪ Equipment (\$3,000)</li> <li>▪ Contract negotiations (\$5,000)</li> <li>▪ Contingency (\$145,000)</li> </ul>

## SUMMARY INITIAL POVERTY AND SOCIAL SECTOR ANALYSIS

### A. Linkages to the Country Poverty Analysis

<b>Is the sector identified as a national priority in country poverty analysis?</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<b>Is the sector identified as a national priority in country poverty partnership agreement?</b> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<p><b>Contribution of the sector or subsector to reducing poverty in India:</b></p> <p>According to provisional results from the Census of India 2001, the population of Assam stood at 26.64 million. The literacy rate in Assam is 64.28%, which is a bit lower than the national average of 65.38%. Thirty-five percent of Assam's population lives below the poverty line of Rs400 per capita per month, which is a rate higher than the national average.</p> <p>The growth of Assam's economy looked encouraging in FY2004/2005 and is likely to register an upward trend in the coming years. Over the past few years, Assam has endured lots of constraints such as a stringent financial position, an insurgency problem, and recurrent natural calamities in the form of floods, erosion, and drought. Despite these constraints, Assam has been able to achieve considerable progress in diverse fields, as reflected in the growth of state domestic product over the last several years.</p> <p>Subprogram II of the Assam Governance and Public Resource Management Reform Program (AGPRM) will contribute to poverty reduction in Assam in several ways. From the macroeconomic perspective, efficient revenue administration and continuing PSE reform under the AGPRM will improve the fiscal balance and reduce the vulnerability of Assam's economy to external shocks. Reducing the downside risks to macroeconomic instability will mitigate the risk of disorderly adjustment and so limit adverse effects on people's living standards and on the vulnerable poor. Moreover, increased transparency and efficiency in resource allocation through the result-based budget and expenditure initiative, will reduce fiscal leakage and free up resources that can be used for poverty reduction through investments in social infrastructure and expanding the social safety net. Furthermore, through identifying opportunities for retraining and redeploying employees, vulnerable and poor people will have more opportunities to be trained and financed under poverty relief program.</p>	

### B. Poverty Analysis

**Targeting Classification:** General intervention

<p><b>What type of poverty analysis is needed?</b></p> <p>The Planning Commission of India has been estimating the incidence of poverty nationally and statewide, both rural and urban, since the 6<sup>th</sup> Five Year Plan and making projections of minimum needs. If needed, a poverty impact assessment for the program loan may be done.</p>
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### C. Participation Process

<p><b>Is there a stakeholder analysis?</b>      <input checked="" type="checkbox"/> Yes      <input type="checkbox"/> No</p> <p>Consultations will need to be identified during project design. The general public, government, representative assemblies, civil society organizations, and the private sector will be stakeholders.</p>
<p><b>Is there a participation strategy?</b>      <input checked="" type="checkbox"/> Yes      <input type="checkbox"/> No</p> <p>Stakeholder participation will be needed to implement PSE reforms. A consultation and feedback process will be considered. Moreover, workshops and seminars will be held to facilitate result-based budgeting and to enhance government officials' capacity toward undertaking efficient tax audits and electronic tax return filing.</p>

### D. Gender Development

<p><b>Strategy to maximize impacts on women:</b></p> <p>The program is expected to be gender neutral in its impact.</p>
<p><b>Has an output been prepared?</b>      <input type="checkbox"/> Yes      <input checked="" type="checkbox"/> No</p>

**E. Social Safeguards and Other Social Risks**

<b>Item</b>	<b>Significant/ Not Significant/ None</b>	<b>Strategy to Address Issues</b>	<b>Plan Required</b>
<b>Resettlement</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Not applicable. No resettlement is expected under the program.	<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
<b>Affordability</b>	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The subsidy policy envisaged under the program could raise the prices of utilities to improve cost recovery, but the implications of this on affordability may not be significant with effective targeting of subsidies.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None
<b>Labor</b>	<input checked="" type="checkbox"/> Significant <input type="checkbox"/> Not significant <input type="checkbox"/> None	The state-owned enterprise restructuring envisaged under the program is likely to have significant implications for labor. These issues will be addressed under the restructuring plan and will be designed to mitigate impacts on labor.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> None
<b>Indigenous Peoples</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Not applicable. The program is not expected to have any negative impact on indigenous peoples.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None
<b>Other Risks and/or Vulnerabilities</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None	Not applicable. However, social risks and vulnerabilities will be monitored in the course of implementing the AGPRM.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> None

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Total
<b>A. Asian Development Bank Financing<sup>a</sup></b>	
1. Consultants	
a. Remuneration and Per Diem	
i. International	140.0
ii. National	200.0
b. International <sup>b</sup> and Domestic Travel	40.0
2. Communication and Reports	2.0
3. Equipment	3.0
4. Workshops/Seminars	0.0
5. Contract Negotiations	5.0
6. Contingency	110.0
<b>Subtotal (A)</b>	<b>500.0</b>
<b>B. Government Financing</b>	
1. Counterpart Staff	40.0
2. Office Accommodation and Supplies	20.0
3. Local Transportation	5.0
4. Workshop and Training	23.0
5. Preparation of Reports	2.0
6. Contingency	35.0
<b>Subtotal (B)</b>	<b>125.0</b>
<b>Total</b>	<b>625.0</b>

<sup>a</sup> Financed by the Japan Special Fund, funded by the Government of Japan.

<sup>b</sup> For international airfares, including miscellaneous travel costs, budgeted at \$5,000 per roundtrip.

Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. International Consultants

#### 1. Team Leader and Public Sector Restructuring Specialist (4 person-months)

1. As team leader, the consultant will do the following:
  - (i) Coordinate the inputs of all the consultants towards providing sufficient information to the Asian Development Bank (ADB) for designing Subprogram II and producing all reports.
  - (ii) Participate in discussions with ADB missions visiting Assam.
  - (iii) Organize workshops and/or seminars in consultation with the government of Assam (GOA) on the policy recommendations and action plans for governance and fiscal reform.
  
2. As international public sector restructuring specialist, the consultant will do the following:
  - (i) Undertake a holistic review of the public sector enterprise restructuring exercise undertaken under Subprogram I.
  - (ii) Design, in consultation with GOA, a program for further restructuring public-sector enterprises (PSEs) under Subprogram II.
  - (iii) Examine relevant international and national best practices in PSE restructuring, with a view to incorporating lessons from these experiences into the program for Assam.
  - (iv) Guide the national public sector enterprise restructuring specialist in conducting a critical review and evaluation of (a) public enterprises under review, (b) financial and corporate governance issues, and (c) services and functions in the public sector.
  - (v) Prepare policy matrix conditions, a strategy, and action plans, along with an estimation of appropriate adjustment costs, as part of the overall fiscal consolidation program of the Assam Governance and Public Resources Management (AGPRM) program.
  - (vi) For swapping high-interest loans with low-interest credit, estimate and analyze its fiscal impacts in the medium-term fiscal framework and incorporate the impacts in the medium-term expenditure framework.

#### 2. Public Finance and Budget Specialist (3 person-months)

3. The specialist will do 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 results-based budgeting.
  - (iii) Define departmental outcomes and outputs on a pilot basis covering four departments to be selected in discussion with GOA and ADB.
  - (iv) Outline a mechanism for data capture over time for monitoring identified outcomes and outputs.
  - (v) Develop mechanisms for capturing data and providing expenditure estimates for the operation and maintenance of asset-creating projects in the budget.
  - (vi) Assist in initiating pilots for operation and maintenance data capture and provisioning in budget, on a pilot basis, for one key works department.

## **B. National Consultants**

- 1. TA Coordination Specialist (4 person-months)**
4. The specialist will do the following:
  - (i) Help the team leader coordinate inputs from all consultants to provide sufficient information to ADB for designing Subprogram II and help prepare all reports.
  - (ii) Participate in discussions with ADB missions visiting Assam.
  - (iii) Assure the quality of outputs from the team's functional specialists toward public finance reorientation.
  - (iv) Assist ADB missions in documenting the various inputs toward finalizing the report and recommendation from the President.
- 2. Revenue Administration Specialist (3 person-months)**
5. The specialist will do the following:
  - (i) Assist in developing a system for electronic filing of tax returns and exploring the technological options for uploading data from paper tax return forms.
  - (ii) Devise dealer education strategies.
  - (iii) Identify a process of reengineering possibilities in administering VAT, excise and stamp duties, and registration fees.
  - (iv) Support the strengthening of excise administration through an organizational study of the Excise Department.
- 3. Management Information System Specialist (2 person-months)**
6. The specialist will do 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 Tax Information Management System.
  - (iii) Support other team members in identifying possibilities for automation that would improve procedural efficiencies in their respective fields.
- 4. Debt Management Specialist (2 person-months)**
7. The specialist will do the following:
  - (i) Study of the implications on debt portfolio and debt management responsibilities devolved to states following recommendations of the Twelfth Finance Commission.
  - (ii) Undertake a study of the current processes for debt management in Assam.
  - (iii) Assess capacity-building requirements for efficient debt management.
- 5. Accounting and Internal Audit Specialist (3 person-months)**
8. The specialist will do the following:
  - (i) Undertake a feasibility study and prepare an action plan for creating registers for GOA's physical assets in preparation for a move toward accrual-based accounting.
  - (ii) Support the development of internal audit policy.
  - (iii) Prepare an outline for an internal audit manual.
  - (iv) Assess capacity for internal auditing and identify capacity-building requirements.
  - (v) For public enterprises selected for restructuring under GOA ownership, prepare a financial restructuring plan after considering recommendations on business and

administrative restructuring. The financial measures should include restructuring of debt, capital restructuring, and financing investment plans. Based on business and administrative restructuring recommendations, develop financial projections comprising profit and loss accounts, balance sheets, and cash flow statements for the next 3 years to show the impact of the recommended measures on the future performance of the enterprises, along with underlying assumptions.

- (vi) For public enterprises identified for privatization or public offering, recommend financial restructuring measures, including measures to restructure debt and capital to increase the attractiveness of the enterprises to prospective investors.
- (vii) For public enterprises identified for closure, recommend (a) processes and procedures to be followed for the disposal of assets, (b) prioritization for settling liabilities including creditors utilizing sale proceeds, (c) GOA financial support for settling liabilities not covered by proceeds from the sale of assets, and (d) procedures to be followed for winding up PSEs.

#### **6. Public Sector Restructuring Specialist (4 person-months)**

9. The specialist will do the following:

- (i) Undertake a holistic review of the public sector enterprise restructuring exercise undertaken under Subprogram I.
- (ii) Design, in consultation with GOA, a program for further restructuring PSEs under Subprogram II.
- (iii) Examine relevant international and national best practices in PSE restructuring, with a view to incorporating lessons from these experiences into the program for Assam.
- (iv) Undertake a critical review and evaluation of (a) public enterprises under review, (b) financial and corporate governance issues, and (c) services and functions in the public sector.
- (v) Undertake a feasibility study for transferring commercial undertakings under administrative departments as public-private partnerships (PPPs) or PSEs.
- (vi) Prepare policy matrix conditions, a strategy, and action plans, along with estimates of appropriate adjustment costs for the overall AGPRM fiscal consolidation program.

#### **7. Legal Specialist (1 person-month)**

10. The specialist will do the following:

- (i) Guide GOA and the public sector restructuring specialist on risk mitigation measures to be adopted in transactions, including advice on transaction safeguards to be built into transaction documents.
- (ii) Advise GOA on necessary policy actions and regulatory changes required for the PSE reform process.
- (iii) Prepare such transaction documents as share-purchase agreements, shareholders agreements, etc.
- (iv) Help the national PPP and investment facilitation specialist design and develop the assigned tasks, including enabling a legislative environment to promote PPPs, and assist other specialists as required under this TA.

#### **8. Social Safety Net and Labor Retrenchment Specialist (3 person-months)**

11. The specialist will do the following:

- (i) Advise GOA on formulating an early retirement scheme for employees to be displaced on account of public enterprises 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 AGPRM progress and ensuring necessary interventions where necessary.
- (iii) Advise GOA on necessary policy actions required for institutionalizing the Social Safety Net Program.
- (iv) Work in close coordination with the public sector restructuring 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 nodal 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*.
- (vii) Work in close coordination with the tourism sector specialist and PPP and investment specialist to enhance the involvement of the private sector and civil society in preparing the reform process.

**9. Capacity Building and Public Administration Specialist (3 person-months)**

12. The specialist will do the following:

- (i) Identify emerging skills demand in the job market in Assam based on a study of the labor market and rising industries in Assam.
- (ii) 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.
- (iii) Undertake a functional review of several departments, to be selected jointly by GOA and ADB, whose main functions will be rendered redundant.
- (iv) Assess human resources needs and create a human resources development plan.
- (v) Identify new skill requirements for staff in the changing socioeconomic scene.
- (vi) Identify opportunities for retraining and redeploying employees.

**10. PPP and Investment Facilitation Specialist (3 person-months)**

13. The specialist will do the following:

- (i) Develop a PPP framework including a model concession agreement for sectors in which PPPs would be effective in Assam. This will include (a) identifying major sectors and sectoral developmental requirements, (b) short-listing developmental requirements based on the possibility of PPP, limited to a maximum of four sectors, (c) identifying 2–3 priority projects in the short-listed sectors, (d) preparing a PPP framework for each of these sectors, and (e) preparing a model concession agreement for each of these sectors.
- (ii) Prepare a business plan for operationalizing the single window mechanism for industrial facilitation and investment promotion. This will include (a) reviewing the current mechanism for industrial facilitation and investment promotion in terms of the agencies involved, their roles and responsibilities, and current organization structure and capacity; (b) reviewing the role of the Industries Department at the state and district levels; (c) taking stock of the number and variety of proposals received in the last 4–5 years; (d) evolving the structure of the single window mechanism based on stakeholder consultations; and (e) developing the business

plan and proposed institutional structure, roles, and responsibilities of key agencies involved; the proposed organizational structure at the state and district levels; and a broad estimate of funding requirements.

#### **11. Tourism Sector Specialist (3 person-months)**

14. The specialist will do the following:

- (i) Undertake a demand-side analysis of tourism using secondary information. Some of the indicative parameters for analysis (if possible) include (a) tourism traffic and spending, (b) Assam's share of national tourism, (c) tourist traffic destinations, (d) country or Indian state of origin, (e) change in composition of national and international tourists, (f) trends in average duration of stay and spending per day, (g) the composition of tourism spending, and (h) tourist segmentation on the basis of socioeconomic parameters, primary interest, etc.
- (ii) Undertake a marketing analysis including (a) communications and positioning, (b) a media plan, (c) sales and distribution channels, (d) participation in travel fairs and marts, (e) other marketing tie-ups, and (f) a total marketing budget.
- (iii) Undertake a product analysis including (a) key assets and destinations, (b) categorizing assets into themes, (c) creating products around assets, and (e) classifying each asset by state, national, and international importance.
- (iv) Undertake analyses of PPP issues and options including strengths, weaknesses, opportunities, and threats and benchmark them under following heads: (a) policy, (b) institutional structure and capacity, (c) budget and financing, (d) marketing, (e) private participation, and (f) infrastructure.
- (v) Prepare a strategy and action plan for the tourism sector for facilitating PPPs based on the analyses above.
- (vi) Assess the environmental impacts of the proposed tourism strategy. The assessment will need to review planning and control instruments that GOA currently has or should have to ensure the adequate planning and control of future tourism activities in Assam (e.g., land-use plan or zoning regulations on land use, resource inventory and carrying capacity analyses, enforcement of environmental regulations and standards, and monitoring, etc.).

#### **12. Support Consultants (3; 6 person-months each)**

15. The tasks for the support consultants are to generally support the key international and national consultants as they undertake data collation and analyses to enable the completion of the envisaged tasks within stipulated timeframes. The support consultants will also conduct fieldwork when the key international and national consultants are not present in the field.

16. The support consultants will do the following:

- (i) Collate primary and secondary information and provide necessary research and analytical support to the key international and national consultants.
- (ii) Carry out tasks entrusted to them by the specialists when they are not in field.
- (iii) Provide support for conducting workshops and focus group meetings.

17. 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.