APPENDIX V

SYNOPSIS

STATEHOOD FOR ARUNACHAL PRADESH

(As submitted by Govt. of Arunachal Pradesh to the Govt. of India)

1. Arunachal Pradesh is the biggest geographical constituent in the North-East. It measures 63,743 sq. km. as against Assam's area of 78,438 sq. kilometres. The remaining five constituents of North-East, namely, Manipur (22,397 sq. km.), Meghalaya (22,429 sq. km.), Nagaland (16,579 sq. km.), Tripura (18,406 sq. km.) and Mizoram (21,081 sq. km.) and upto 92,902 sq. km. In terms of population, Arunachal Pradesh (6.28 Lakhs) is bigger than Mizoram (4.94 Lakhs) and comparable to Nagaland (7.75 Lakhs). Out of the 7 constituents of North-East, 5 are already full-fledged states in the Union of India. The sixth, namely, Mizoram is about to attain statehood.

2. Till independence, there was no account on development in Arunachal Pradesh for historical reasons. Even during the first three plans, the investment was to the extent of only Rs. 15.24 crores. This level of development has left Arunachal Pradesh far behind the rest of the country in economic development indicated below -
1. Road length per 1000 sq. km.
   1978-79: 48.90 Kms
   1983-84: 8.8 Kms

2. Per capita electricity consumption:
   1982-83: 146 units
   1984-85: 29.87 units

3. Villages electrified
   1983-84: 64.68%
   1984-85: 25.39%

4. Literacy rate
   1981: 38.23%

3. The budget estimates of Arunachal Pradesh for 1986-87 are of the order of Rs. 225.38 crores. The Union Territory plan allocation for 1986-87 is Rs. 90 crores. Besides the NEC plan for Arunachal Pradesh amounts to Rs. 6.36 crores and the centrally sponsored schemes Rs. 0.20 crores. The plan allocation comes to Rs. 96.86 crores and non-plan to Rs. 129.01 crores. Of the non-plan allocation of Rs. 129.01 crores an amount of Rs. 17.95 crores relates to tax and non-tax revenue. Of the balance of Rs. 111.06 crores, an amount of Rs. 30.14 crores pertains to recoveries. Deducting the amount of recoveries, the non-plan deficit is of the order of Rs. 80.92 crores. The grant-in-aid on the non-plan side is Rs. 65.61 crores and loans account for Rs. 14.83 crores.

4. For current year's plan allocation of Rs. 90 crores, an amount of Rs. 2.69 crores is to be raised through additional resource mobilisation. This amount as also the tax recovery of Rs. 1.53 crores on the non-plan side has been raised by the
Union Territory without the benefit of any legislation so far to tap excise revenue, sales tax revenue, entertainment tax revenue, etc.

(i) In case of upgradation to statehood, Arunachal Pradesh will be entitled to its share of central taxes and statutory grants as per Finance Commission formula. Nagaland is getting about Rs. 122 crores on these two counts and Meghalaya about Rs. 88 crores.

(ii) A high level committee could be constituted consisting of officials from the Finance Ministry (including officials from the Union Finance Commission Division), the Planning Commission, the Ministry of Home Affairs and the new State Government to work out arrangements governing these items till the Finance Commission Award to the new State becomes available after 1989.

(iii) Arunachal Pradesh should be treated as a Special Category State in view of its economic backwardness, late start in planned development, difficult terrain, remoteness, for by interest repayment and repayment of principal is Rs. 21.89 crores). We are not in arrears of loan repayment.

(iv) Receipts (Tax and Non-Tax).

The receipts which fall within the revenue account involve a total tax revenue of Rs. 1.53 crores and a non-tax
revenue of Rs. 15.41 crores. This total receipt amount to Rs. 17.95 crores.

(v) Discussion on Non-Plan allocation and deficit

As already mentioned earlier, out of a total non-plan allocation of Rs. 129.01 crores as much as Rs. 17.95 crores relates to tax and non-tax revenue already being raised by the Union Territory and mentioned as receipts. Of the balance of Rs. 111.06 crores, as much as Rs. 30.14 crores relate to the category of recoveries (for example purchases made under the State Trading Scheme to supply air-fed remote administrative centres, are recovered through the sale proceeds from essential commodities to the administrative personnel posted in these places).

Deducting this amount of "recoveries" the residual amount of Rs. 80.92 crores represents the Non-Plan deficit both under revenue and capital heads taken together.

(vi) Additional Resource Mobilisation

The capabilities of the Union Territories in respect of additional resource mobilisation have been assessed during the discussions prior to finalisation of the annual plan for the year 1986-87 with the Planning Commission, and out of an amount of Rs. 90 crores in the UT Plan, 2.69 crores are to be raised through the efforts of the U.T. Government during this year. It would be relevant to mention at this stage that both
the aforementioned amounts representing the additional resource mobilisation, as also the tax revenue of Rs. 1.53 crores shown under non-plan during the discussion in the earlier paragraph, has been achieved without the benefit of any legislation as yet, to bring to the State, excise revenues, sales tax revenues, entertainment tax revenues and so on, which constitute an important part of the effort, of the other states in this regard.

(vii) Anticipated Additional Liabilities

There are certain additional financial liabilities consequent to the upgradation to Statehood which can be identified now.

(1) The recommendations of the 4th Pay Commission in respect of the employees of the Government of Arunachal Pradesh have been received, and will be implemented in due course. For over 20 years, the employees of the Government of Arunachal Pradesh have enjoyed pay-scales at par with central Government pay-scales, and this approach will have to be continued even after the revised pay-scales for Central Government employees, (consequent of the 4th pay Commission recommendation) are brought into force.

(2) There will be need for a larger legislative assembly building and for increased accommodation for the legislators.
(3) With possible expansion in the Council of Ministers increased office and residential accommodation may be necessary.

(4) The establishment of a High Court Bench.

(5) A larger building programme for housing and office accommodation.

(6) Creation of more senior posts with resultant need for housing and office accommodation.

(viii) Finance Commission Awards

The deliberations of the Eight Finance Commission were completed as far back as 1984, and as a result the resources, difficulties and requirements of Arunachal Pradesh did not come under any scrutiny by the commission being a Union Territory. The next Finance Commission will scrutinise all relevant aspects relating to the States again only in 1989. It is, therefore, necessary for an interim arrangement to be made so as to allocate to Arunachal Pradesh a suitable amount as a statutory grant (Finance Commission Award) and also work out the State's share of income tax, central excise duty and any other taxes etc. It will be entitled to benefit from our discussions with officials both in the Finance Ministry and the Finance Commission specifically indicate that a social dispensation with specially designed yard-sticks will have to be worked out to determine the requirements of Arunachal Pradesh both because (a) there are very few precedents of Union
Territories being converted to States to draw from (b) the need for Arunachal Pradesh to be treated as a special category state. Further there is need to work out on upgradation. Grant (which will form part of the above-mentioned statutory Grant) to cover all those sectors selected by the Eighth Finance Commission for upgradation and mentioned in Chapter XII of the Report of the Eighth Finance Commission.

(ix) Accommodations

(a) In case of upgradation to Statehood, it is suggested that for the year 1986-87, since the size of the annual plan has already been determined by the Planning Commission, and the Non-Plan amounts under Grants and Loans for Budget Estimates 1986-87 have been settled by the Ministry of Home Affairs, these arrangements may continue undisturbed during the course of this financial year. It will however, be necessary to evolve an arrangement to decide on the revised estimates for 1986-87 (non-plan) as the Ministry of Home Affairs will no longer be charged with this responsibility, in case Statehood precedes the revised estimates stage in October-November, 1986. Presumably this exercise will now have to be conducted in consultation with the Union Finance Ministry.

(b) A high level committee could be constituted consisting of officials from the Union Finance Ministry (including) officials
from the Finance Commission Division of the Department of Expenditure, the Planning Commission, the Ministry of Home Affairs, and the new state Government to work out arrangements governing items such as the Finance Commission Award to the new State till the year 1988-89, and other such matters of importance.

(e) The Central Government should transfer resources to the new State Government and this should include resources to cover the resource gap for this year in case an approach different from that mentioned in sub-para (a) above is to be followed. (b) Arunachal Pradesh should be treated as a Special Category State and its approved plan outlay for the year should be maintained. (c) The pattern of assistance should be in accordance with that followed for special Category States. (d) The Central Government will have to continue grant-in-aid of the revenue of the State to meet costs of the administration as well as of development of the state. While efforts will be made to increase the revenues of the State, the Government of India will have to fill the gap between revenue receipts of the new State and its expenditure for a number of years.

(x) Fresh Measures Contemplated (Resource Mobilisation)

Some of the measures which can be adopted to raise further resources in the next two to three years are enumerated below:


(i) Legislation to levy entertainment tax;

(ii) Legislation to levy excise duty on alcoholic beverages;

(iii) Consider increase in royalty on forest produce;

(iv) Nationalise power tariff presently being levied;

(v) Consider introduction of legislation to levy local sales tax;

(vi) From State lotteries.

The above levies can be imposed after upgradation to Statehood. In a longer time perspective Arunachal Pradesh is rich in hydro-electric power potential, oil, minerals such as dolomite, coal, and so on. This will give substantial revenue when exported and developed in the future. The climate of Arunachal Pradesh is suited to growing rubber, cardamom, tea and coffee, some of which being cash crops, have a high revenue yield.

A Comparative Study of Arunachal Pradesh, Meghalaya and Nagaland.

(1) Budget: The total budget (Plan plus non-plan) of Arunachal Pradesh, Meghalaya and Nagaland is ₹225.58 crores, ₹895.82 crores and ₹537.45 crores respectively. The larger budgets of Meghalaya and Nagaland are explained by the fact that being States they are entitled to have a Public Account also, in
addition to a consolidated fund and a contingency fund, whereas the Union Territory of Arunachal Pradesh is entitled only to a consolidated fund and a Contingency Fund. In case of Meghalaya it is observed that the Public Account is as high as Rs.626.34 crores of which not less than Rs.504 crores represents the deposits with the Reserve Bank. Once Arunachal Pradesh is upgraded to Statehood, the balances of the Union Territory presently maintained with the Central Government Ministry of Home Affairs) will be transferred to the Reserve Bank of India, which will thereafter serve as the Banker of the new State.

(2) Tax Revenue : Arunachal Pradesh presently has a tax revenue estimate for 1986-87 of Rs.1.53 crores, whereas Meghalaya and Nagaland have tax revenue estimates of Rs.16.93 crores and Rs.10.38 crores respectively. In case of Arunachal Pradesh, there are no legislations in existence presently to raise resources through imposition of State Excise duty on alcoholic beverages and State sales tax whereas both Meghalaya and Nagaland States have such legislation.

(3) Non-Tax Revenue : Arunachal Pradesh has a non-tax revenue estimate for 1986-87 of Rs.16.41 crores as against Rs.10.81 crores and Rs.10.56 crores for Meghalaya and Nagaland respectively.

(4) Summation of Tax Revenue and Non-Tax Revenue

It is thus seen that the Union Territory of Arunachal
Pradesh has an estimated total revenue (tax and non-tax revenue of Rs. 17.95 crores as against Rs. 27.7 crores and Rs. 20.94 crores respectively for Meghalaya and Nagaland which is not an unfavourable comparison, considering that Arunachal Pradesh does not have the benefit of raising local excise, local sales tax and entertainment tax revenue at present.

**(b) Finance Commission Award**

The States of Meghalaya and Nagaland are to receive a statutory grand (Under Finance Commission Award) of Rs. 34.3 crores and Rs. 46.17 crores respectively for 1986-87 whereas Arunachal Pradesh does not receive any such statutory grant being a Union Territory. Further, the States of Meghalaya and Nagaland will receive under Finance Commission Award, a State share of Union Excise Duty, income tax etc. totalling Rs. 54.54 crores and Rs. 72 crores respectively in 1986-87, whereas the Union Territory of Arunachal Pradesh does not receive any such benefit (A comparative statement is placed at the Annexure).
## Comparative Statement Showing Estimates of Receipt and Disbursement (1986 - 1987)

### Receipts

<table>
<thead>
<tr>
<th>Item</th>
<th>Arunachal Pradesh</th>
<th>Meghalaya</th>
<th>Nagaland</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tax Revenue</td>
<td>153.26</td>
<td>1693.05</td>
<td>1038.00</td>
</tr>
<tr>
<td>2. Non-Tax Revenue</td>
<td>1641.81</td>
<td>1081.35</td>
<td>1056.36</td>
</tr>
<tr>
<td>3. Statutory Grant Under Finance Commission Award.</td>
<td>-</td>
<td>3430.50</td>
<td>4617.00</td>
</tr>
<tr>
<td>4. State Share of Union Excise Duties</td>
<td>-</td>
<td>5083.00</td>
<td>7023.00</td>
</tr>
<tr>
<td>5. State Share of Income Tax</td>
<td>-</td>
<td>371.00</td>
<td>177.00</td>
</tr>
<tr>
<td>6. Public Account</td>
<td>-</td>
<td>62634.67</td>
<td>21656.90</td>
</tr>
<tr>
<td><strong>Total Budget</strong></td>
<td>22558.33</td>
<td>89552.04</td>
<td>55745.24</td>
</tr>
</tbody>
</table>