

GOVERNMENT OF KERALA

BUDGET SPEECH 2007-08

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PART ONE

INTRODUCTION

Sir, The year 2007-08 will lay the foundation for bringing the financial position of Kerala to normalcy. I stand here to present the budget with this confidence. A higher amount could be provided for development activities this year when compared to last year. I am confident that in the coming years, it will be possible to substantially raise further, the public investment.

2. There is a reason why the above is to be stressed. The Budget for the year 2007-08 is being presented at the end of an year of severe financial strain. This situation was not unexpected. While presenting the revised budget eight months ago, I had stressed that such a situation would arise. This situation became inevitable in the background of the additional commitments due to pay revision and arrear payments. Nevertheless, financial stringency of such a severe magnitude was not expected. The shortfall of Rs.1500 crore on loans from small savings scheme could not have been anticipated.

Improving Financial Position

3. Sir, It is not only the financial position of the Government but also the general economic situation of the State that is expected to improve. The data regarding the State Domestic Product till 2005-06, is given in the Economic Review. From the late eighties our economic growth has changed course to a high-growth trajectory, above the national average. This continues even now. But this growth has a fundamental weakness. The adverse impact of globalisation has destroyed the agricultural and traditional sectors. These sectors have completely stagnated for the last 6-7 years. That this scenario is changing is auspicious.

4. Clear figures are yet to emerge. However, an appreciable change is clearly visible in respect of agricultural prices. In the current year, the prices of several commodities such as rubber, cardamom, pepper, coffee, tea, arecanut, etc have started

increasing fairly substantially. Compared to the average price in 2005-06, the price as on 01.03.2007 of pepper has increased by 91%, arecanut by 64%, coffee by 56%, rubber by 41% and cardamom by 36%. If this situation further improves, along with a strong support from the Government, agricultural production will increase. Indications are that in other traditional sectors also, the production has increased. It is expected that the production from public sector undertakings will increase from Rs.1579 crore in 2005-06 to over Rs. 2000 crore in the current year. It is also estimated that the high tension power which is consumed by the medium and large undertakings will increase from 136 crore units in 2005-06 to around 180 crore units in 2006-07. In spite of the dark shadow of 'Chikun Guniya', this tourist season is better than last year. Steps have been taken in the 2007-08 Budget to strengthen and stabilise this new found vigour.

New Development Agenda

5. Sir, This is the centenary year of the agitation organised by the great Ayyankali for educational rights. We are also heading towards the 70th anniversary of the general strike in Alappuzha for industrial re-organisation and labour rights. This is also the 50th anniversary year of the Communist Ministry of 1957 led by E.M.S, which formulated a development agenda for unified Kerala by carrying forward the above traditions. Sir, In history, there are continuities and discontinuities. This should be the guiding principle to be followed while formulating the new developmental agenda for Kerala in 2007. Most of the agenda which was put forward in 1957 has now become a reality. As a result, so many changes have taken place in Kerala. The world also has changed. An action plan has to be developed for a changed Kerala in this changing world. The main components of such a programme are as follows:

- i) Protection of agricultural and traditional sectors;
- ii) Upgradation of the general standard of public amenities in education, health, etc;
- iii) Switching over to sectors like I.T, tourism, light engineering, etc, where we have good competitive advantage.

- iv) Providing physical infrastructural facilities for the aforesaid growth sectors;
- v) Removing the backwardness of outliers such as Scheduled Tribes, dalits, fishermen, etc, ensuring gender justice and protection of the environment.
- vi) Democratic decentralisation of power, other administrative reforms and eradication of corruption.

6. In short, our agenda is equitable, sustainable and rapid economic growth. I would like to underline "rapid economic growth" as the new factor in this composition. Based on such a developmental approach, a broad consensus of opinion can be evolved in the State. The basic differences of opinion in respect of globalisation policies and the general framework of development of the Central Government cannot be concealed. This will also influence the practical stand on developmental schemes. After all, it is on this basis that two different political fronts exist in Kerala. Without concealing these differences of opinion, we should be trying to forge a broad unity of people to practically implement the above mentioned development strategy.

Obstacles before the Development Agenda

7. The State Government will have a major role in implementing the new development strategy. The Government should not be withdrawing but should intervene strongly. But there are two hurdles. Firstly, ours is a rusted administrative machinery. The decentralisation of power is only half-way through. To complete it, the attitude and practices at the top level should change. The recommendations of the Administrative Reforms Committee were almost in oblivion.

8. The second weakness is the financial constraints of the Government. The officially approved alternative at the national level as a remedy is not acceptable to us. Government has no intention of reducing the deficit, either by weakening interventions in developmental areas or by curtailing expenditure on social welfare. At the outset, let me state that the deficit this year will be higher than that of the

previous year. Arrear payments due to contractors, DA arrears, arrears in welfare schemes, etc are proposed to be cleared this year itself. To ensure fiscal discipline, it is essential to clear these liabilities. A stage is being reached where there is practically no budgetary control over public works. Whatever be the hurdles, one time clearing up is inevitable to overcome this situation.

9. Plan cut is not going to be resorted to as a short cut to tide over financial crisis. The Plan outlay for the year 2006-07 was Rs. 6681 crore. Owing to the shortcomings in the implementation of externally aided projects like Japan Drinking Water Project, World Bank assisted road projects, Sustainable Urban Development Project, Modernisation in Government Programme, etc the anticipated plan expenditure on these items would be considerably less in 2006-07. It has to be mentioned that the shortfall in the anticipated expenditure of these projects is not due to the resource constraints. Problems in implementation of the projects are the reasons. The experience till date can be considered as practical lessons on how not to formulate and implement projects. The Plan outlay of Rs.6950 crore for the year 2007-08 is Rs. 269 crore higher than the revised plan outlay for the year 2006-07.

10. The revenue receipts in the year 2007-08 will be Rs.21446 crore. The revenue expenditure will be Rs.26697 crore. The reluctance to compress expenditure in an anti-people manner as in the early years of the UDF rule is the reason why there is increase in deficit in the year 2007-08, despite ensuring growth in revenue receipts higher than that expected in 2006-07. The revenue deficit for the year 2007-08 is Rs.5251 crore. This is 20% of the revenue expenditure and 3.41% of State Domestic Product. Fiscal Deficit is Rs.7425 crore. The proportion of State Fiscal Deficit to State Domestic Product is 4.84%.

Elimination of Revenue Deficit in 2010-11

11. There is no need for grave concern on the deficit figures. The Government has a clear fiscal vision. It is targeted to bring down the revenue deficit considerably from the next year onwards and further down below 1% by 2010-11. 2010-11 will be the first year of the 13th Finance Commission. Steps have already been taken to

ensure a more legitimate share from the Finance Commission. If we are able to rectify even partially the awful setback meted out by the 11th and 12th Finance Commissions, we will be able to eliminate revenue deficit by 2010-11. A substantial increase in Central receipts is a pre-condition for the elimination of revenue deficit. A political consensus in the State is expected on this issue.

12. The main point of action to eliminate revenue deficit is to ensure a substantial increase in revenue receipts. Financial assistance from the Centre has already been mentioned. Our own revenue receipts has to increase by about 20% per annum. Proposals for achieving this in 2007-08, are being brought out in detail in Part III of my Speech. Thus, the revenue receipts of the State will increase to more than 16% of the State Domestic Product by 2010-11. In 2006-07 this was only 13.5%. At the same time, the expenditure in 2006-07 and 2007-08 is at record levels due to implementation of pay revision and arrear payments. This comes to more than 19% of the State Domestic Product. If we are cautious against new additional revenue expenditure, the above rate will naturally come down to 17% by 2010-11.

13. The main way out to reduce expenditure is to check corruption and profligacy. It was announced at the time of presentation of the revised budget that the Comptroller & Auditor General would be requested to look into the irregularities in the Public Works sector. The report received accordingly from the Comptroller & Auditor General will be tabled in the Assembly. The C&AG points out shocking instances. As per the 3 year sample study conducted by the Controller & Auditor General, in my calculation, works amounting to around Rs.500 crore were awarded without inviting tenders. Administrative Sanction has been accorded for projects for more than 8 times the budgeted amount. There were even instances of encashing bills even without executing the works. When we read these, one will only wonder in which 'banana republic' we are living. Let me make one thing clear, 'as we sow, so shall we reap'.

14. Thus, it is intended to eliminate revenue deficit by 2010-11, by matching revenue receipts and expenditure. To achieve this objective, it is not intended to reduce the revenue deficit mechanically at a uniform rate each year. For reasons

already mentioned, this fall can be perceived only after 2007-08. In such a context, when there is no revenue deficit, a slight increase in fiscal deficit is not a matter of concern.

Approach of the Central Government and Debt

15. But the perspective of the framework of the fiscal reforms approved by the Government of India is different. Even if more time is required for eliminating revenue deficit, they are adamant in sticking to the target of fiscal deficit at any cost. It is worth remembering that although the Planning Commission is in favour of extending the period for achieving the target for eliminating revenue deficit for effective implementation of the Plan Schemes of the 11th Five Year Plan for two or three years, they are not in favour of taking such a stand in the case of fiscal deficit. Once revenue deficit is eliminated, then the borrowings would go towards capital expenditure for creating assets. Then what is the problem if new assets are created against these borrowings? What is the significance of fixing a mechanical ceiling for fiscal deficit at 2% of the State Domestic Product, as was done in Kerala or 3% as suggested by the Central Government? For ensuring the giant leap in the development of Kerala, large scale investment in infrastructure, etc, is essential. Only the neo-liberal doctrine, that leaves all these to market forces, cutting down the role of Government in the economy, can uphold such a mechanical ceiling as an eternal truth.

16. Sir, one of our major disputes with the Central Government is about the right to borrow. Our understanding was to borrow Rs. 7,500 crore this year. The stand of the Union Finance Ministry was that our eligibility is only Rs.4,500 crore. After protracted discussions, considering the special circumstances of this year, the Planning Commission had approved Rs.7200 crore for 2007-08. The Centre however was not willing to raise our borrowing limit for 2007-08 from that of the previous year. There is also the threat of reduction in future. The Central Government has to approve not only the size of the borrowings but also the sources from which to borrow. As believed by a few, the State has no right to borrow as desired, from any source. One of the main demands raised by the State is to allow public borrowings

having more freedom in its utilisation, instead of external loans and domestic loans for specified purposes. The Central policy has to be corrected to reduce the dependency on external loan. However, it is necessary to elucidate one thing unequivocally. There is no question of accepting any loan against the best interest of the State or declared policies of the Left Democratic Front.

Absurd Drama on Treasury Balance

17. I would like the House to remember the major dispute which occurred at the time of presentation of the Revised Budget last year. One of the main allegations against the Budget was that there was surplus in the treasury when the UDF left power and this Government transformed it into a deficit one, within just a few months of assuming power. This is a glaring example of the frivolous manner in which economic issues are discussed in the State. Sir, everybody will agree that severe financial strain is being experienced in the current year i.e, 2006-07. If this year also ends with a treasury balance, would it be indicative of the excellent state of the State's finances? No. The surplus will again become deficit next year, when the payment of arrears commence. We can continue as a surplus State, if arrears and welfare benefits are not paid. This is what is happening now in most States in India. In the last Budget Speech I had referred to this surplus of Rs. 31,700 crore in the treasuries of the various States of India. Now, this has risen to Rs. 57,000 crore. Are the State Governments struggling to spend money after fulfilling the basic needs of the people of our country? This treasury surplus is an unwanted child of the view that whatever be the welfare and development needs of the people, expenditure should be cut down, even if there is sufficient fund, so as to eliminate revenue deficit as laid down in the Fiscal Responsibility Act.

18. Kerala does not wish to follow this path. There is no dispute as regards the need for bringing down the revenue deficit considerably or its elimination altogether. For this, a realistic time schedule has to be prepared. But there should be freedom to take decision to borrow for capital expenditure according to the requirements of each occasion. On this perspective and considering the recommendations of the Finance

Commission, it is intended to amend comprehensively the Kerala Fiscal Responsibility Act and the Kerala Ceiling on Government Guarantees Act.

Faulty Central Policies

19. In the context of the alarming situation created by globalisation in the field of agriculture and traditional sectors, which has become a major political issue, the Central Government is now prepared to take some relief measures. But Kerala, which is severely affected by the crisis in agriculture, has not received due consideration in these programmes. Our cash crops are not under the purview of the Ministry of Agriculture but under the Ministry of Commerce. The Ministry of Commerce, on the other hand, has become aware of the problems of the cash crop farmers only recently.

20. The globalisation based agricultural policy has resulted in crash in prices and stunted food crop production. It is an irony that along with the failure of the public distribution system, this agricultural crisis has paved the way for spiralling prices. Today's inflation is a creation of the policies of the Central Government. But the burden of enhanced Dearness Allowance, a fair price public distribution system, etc all rest with the State Government.

21. Our national economy is more and more dependent on foreign finance capital. The health of the stock markets, money markets and the futures markets in agriculture commodities is closely linked to the arrival of the foreign capital investment. One among the main Central economic policies is to gain the confidence of these speculative market forces. The logic behind several of the reforms in the financial sector is the appeasement of this foreign capital investment.

Left Alternative

22. In the above mentioned chaotic situation, the State Government is taking a stand supporting the efforts for alternative policies being formulated at the national level. At the same time, we have to keep away from power those communal forces endangering our nation's secularism and democracy. There are few role models to follow on these extremely complex responsibilities. Sir, I am not saying this,

forgetting the new global enthusiasm for the anti-imperialist movement. West-Asia is defying the American hegemony. Movements for ushering in a new world order in Latin America have resulted in electoral victories for the left. Each of these Governments is a laboratory to test how the left can engage the realities of globalisation. But the stand of the Left Governments in Bengal, Tripura and Kerala is different from these sovereign nations. Alternatives have to be devised within the national policy framework that is in tune with globalisation policies. At the same time, these Governments have to try to extend relief measures to people and attain the developmental goals within the existing concrete circumstances. Fleeing from realities and shouting from an imaginary world will not take us forward. It is based on this conviction that we are trying to interact with the reality of globalisation.

23. Sir, in the 20th century, Kerala has treaded a comparatively better development path for the welfare of the people, from within a capitalistic developmental structure. Despite all the limitations of capitalism, this provided to the people of Kerala a standard of living, that similarly placed people of other areas were deprived of. The so called 'Kerala Model of Development' has evolved through agitations, including that for civil liberties during the colonial era. Even within the colonial frame work, the imperialistic forces could not totally ignore this peoples' movement. In the post-independent era, the alternate Governments that came to power in Kerala kept up this tradition even within the capitalistic framework. As pointed out already, the first Government of unified Kerala was a decisive milestone in this process. Though basic changes could not be brought about to the resistance and the agitation of the people and the State Governments responses to these, our experience shows that we could create a situation for providing more welfare to the people. Sir, it is imbibing the spirit of this tradition, on the occasion of the 50th anniversary, that this Government is taking steps to commence and implement a new developmental agenda. As a prelude to this, I am presenting before this House, the main features of the development proposals in the Budget of 2007-08.

PART TWO

DEVELOPMENT PROGRAMMES

24. 2007-08 marks the first year of the Eleventh Five Year Plan. An increase of 60% in Plan outlay is targeted over a period of five years. The estimate is structured in such a manner that the Plan outlay will increase considerably in the coming years. A number of new schemes have been drawn up in the Eleventh Plan. Out of them, the major ones have been identified as the flagship programmes. I shall only try to mention in general the main development proposals of this year.

PROTECTION OF AGRICULTURAL AND TRADITIONAL SECTORS

Agriculture

25. The agriculture sector in Kerala has been recovering from its worst collapse after the 1930s. On the one side, the activities started last year for providing relief to the distressed farmers have to be completed. On the other side, strong measures should be taken to increase the agriculture production. For this, it is intended to lay the foundation for watershed based planning, along with some crop based packages. The amount of Rs.100 crore included in the previous year under plan for debt relief commission is again included in current year as a non-plan item. In addition to this, an amount of Rs.60 crore has been included under Plan. The State share for the agricultural packages announced by the Central Government will also be made available from this budget head.

26. The main programme envisaged in the agricultural sector is a package to increase paddy production.

One: Implementing scientific method of cultivation on group basis is how this is organised. Special schemes have been included for providing good seed and manure.

Two: Agriculture loans at subsidised rate of interest will be provided to those farmers who cultivate in this manner. Funds are provided under Plan for interest subsidy.

Three: Steps for procuring the produced paddy at the rate of Rs.8.50 per kg. will be extended to other Districts.

Four: A special scheme has been devised to ensure subsidiary employment for paddy cultivators.

27. A total amount of Rs.45 crore will be expended for this in 2007-08. The package being formulated by the Ministry of Commerce will be the basis for the development of plantation crops. The Coconut Development Board will spend Rs.25 crore in Kerala during 2007-08. A special package will be introduced for the arecanut farmers affected by the Yellow Leaf Disease.

28. Special emphasis has been given for market intervention in agriculture sector. Rs.15.5 crore has been earmarked under Plan for the procurement programmes and Rs.10 crore is earmarked for producer-marketing companies.

29. The Central agricultural package for Wayanad, Palakkad and Kasaragod Districts is Rs.765 crore. Out of the Rs.360 crore earmarked for write off of interest, Rs.180 crore has to be given by the State Government. It is expected that one third of this package will be available in the next year. It is in addition to this, that the Central package for plantation crops is being prepared. Considering all these, an amount of around Rs. 1000 crore, including the share of the Local Self Government Institutions, is expected to be spent for agricultural development activities during 2007-08.

Watershed Development

30. Even though the importance of watershed based planning is widely accepted, the programmes now being carried out in the State in the name of watershed programmes are highly unscientific. The most important agency for the watershed development programme is the Soil-Water Conservation Department. An amount of

Rs.24 crore is provided to this Department for watershed development in this year. In addition to this, more than Rs.200 crore has been earmarked by the Agriculture Department, Planning Board and Irrigation Department for various schemes. In the Central package for three districts, Rs. 180 crore is for watershed development. But there is no co-ordination between these programmes. Above all, watershed development programmes are implemented as a ploy for arranging some construction works. There must be a thorough change to this situation.

31. As part of the 11th Five Year Plan, Local Self Government Institutions aim to develop comprehensive watershed programme by scientifically reviewing each small watershed through peoples' participation. Panchayat level resource mapping will be extended to all Panchayats by this year. Irrigation Department has decided to formulate river valley projects by integrating small watersheds into large watersheds. Funds are provided for river valley authorities in the current year's plan. It is proposed to convert the watershed programme into a massive public movement by lining up farmers, agricultural labourers and volunteers. It will be beneficial only if the above mentioned different schemes are integrated and implemented based on such a blue print.

32. National Employment Guarantee Scheme is the most effective scheme to implement the watershed development programme. This scheme has already been started this year in Wayanad and Palakkad Districts. As part of the watershed development programmes, soil-water conservation activities can be implemented in private property also. As per this, farmers willing to work on land can also be given employment. We should be able to utilize this opportunity in Kerala, where farmer's movement and agriculture worker's movement are both very strong. This scheme will be extended to Idukki District also in the current year. Through this scheme, it is targeted to invest at least Rs.200 crore in the agricultural sector this year. Palakkad and Wayanad Districts are included in the Backward Region Grant Fund Scheme. An amount of Rs.30 crore will be available through this scheme for watershed based farming and allied activities and to promote agricultural processing.

Irrigation

33. An amount of Rs.215 crore is provided for major and medium irrigation projects. The amount set apart for Karapuzha Project is Rs.8.9 crore, for Edamalayar Rs.11 crore, for Banasura Sagar Rs.8 crore and for Palakappandy Scheme Rs. 5 crore. An amount of Rs. 14.9 crore is earmarked this year to complete the Muvattupuzha Project. An amount of Rs.32 crore will be received from the Accelerated Irrigation Benefit Programme this year. Besides this, more funds will be allocated on the basis of the approval received from the Centre.

34. It has been decided to carry out the work of Chamravattom Regulator-cum-Bridge directly, by the Irrigation Department. An amount of Rs. 10 crore is set apart for this in the Annual Plan. An understanding has been reached to consider this as a special scheme in the next year's Rural Infrastructure Fund Scheme. An amount of Rs. 1 crore is set apart for the re-construction of the Beeyam Regulator-cum-Bridge.

35. The costal protection activities of Kerala can be substantially completed in the 11th Five Year Plan. During 2007-08, it is targeted to construct 52 km of new sea wall and 60 km of reformation at a cost of Rs. 43.75 crore.

36. We have already demanded construction of a new dam in Mullapperiyar. Directions have already been given for carrying out the preliminary investigation for this. As soon as this is received, steps will be taken to prepare a detailed project report. The primary concern of this Government is the safety of the people of Kerala.

Animal Husbandry

37. Animal Husbandry sector is a silver lining amidst the total dismal picture in the agricultural sector. But in the recent past, there have been setbacks. Here also, to compensate this drawback and to enhance the momentum of growth, special attention will be given in the 11th Five Year Plan. More emphasis has been given for the expansion and the modernisation of veterinary services. For this, around Rs. 16 crore has been set apart this year. An amount of Rs. 6 crore is earmarked to enhance the quality of cross bred cattle and Rs. 7.5 crore for a new scheme to bring down the age

of puberty and to reduce the duration between two conceptions. An amount of Rs. 4.9 crore is set apart for a new scheme this year for the promotion of commercial dairy farms and milk sheds. An amount of Rs. 2.8 crore is provided to increase egg production.

Fisheries

38. Government gives special importance to coastal area development. In the previous budget, it was announced that a project of Rs.3000 crore would be implemented for coastal area development. This comprehensive programme will be formulated by integrating the programmes of Local Self Government Institutions, Tsunami rehabilitation assistance, financial institutions and various Government Departments. Planning Board will complete this scheme on priority.

39. Fishing harbours play an important role in the development of coastal areas in Kerala today. What Kerala has done in this direction is viewed as a model by the nation today. For the development of ports, schemes with 50 % Central assistance will be implemented. Muthalapozhi and Kayamkulam will be completed in 2007-08. An amount of Rs.3.8 crore is set apart as State share in the Budget for Koyilandy, Kottappady, Ponnani, Thalai and Kasaragod ports. In addition to this, the functioning of the ports at Arthungal, Chellanam, Chethi, Chettuva, Cheruvathur and Parappanangadi will begin this year. For this Rs. 3 crore is provided additionally. More funds will be made available for this from the Tsunami fund and RIDF. This year, inland fish landing centres will be started at Sampranikodi, Muhamma and Bekal on an experimental basis. For this Rs. 1 crore is being provided.

Co-operation

40. Of late, certain harmful tendencies are being noticed in the democratic nature, self reliance and the financial base of the cooperative movement. The activities of the cooperative societies will be freed from this and strengthened. Schemes will be implemented to activate weak co-operative societies and to revive defunct apex co-operative societies. Steps will be taken to improve the functioning of scheduled

caste, scheduled tribe and women co-operative societies. Financial assistance will be made available from KSIDC to 2 industrial units being set up by RUBCO.

Traditional Industries

41. Coir is the most important traditional industry in Kerala. The existence of primary societies will depend upon the effective functioning of Coirfed, the apex body. The re-organisation of Coirfed will be the main activity this year. For this, Rs.8 crore is additionally allocated. For the implementation of purchase price scheme, Rs.2.25 crore is also provided. As part of product innovation, a factory each will be set up for the production of jute-coir hybrid yarn and coir composite boards. A total of Rs.46 crore is earmarked in the annual plan for the coir sector.

42. For handloom sector Rs.25 crore is provided. The most important of this is the inclusion of Rs.15 crore as State share for Deen Dayal Project. For branding Kerala handloom, Rs.1 crore is earmarked.

43. In cashew industry, Rs. 30 crore will be provided as annual instalment for the one time settlement with banks. On the basis of this, Cashew Corporation and Capex should formulate a project for availing working capital and running on profitable lines. In addition to this, an amount of Rs.8 crore is earmarked in the Plan. For strengthening the Cashew Special Office, Rs.50 lakh is provided additionally. A system will be formulated to co-ordinate and implement, with the participation of Cashew Special Officer, the existing and new schemes to increase domestic production of cashew.

44. The State share included for Khadi and Village Industries is Rs.5 crore. The unauthorised diversion of Central assistance for administrative expenses owing to the accumulation of huge arrears of assistance to be given to Khadi Board by State Government has now created a serious problem. Considering this, a special financial assistance of Rs. 2 crore is set apart for the State Khadi Board. An amount of Rs.50 lakh is provided for beedi industry. An amount of Rs.2.50 crore is earmarked for sericulture. An amount of Rs.50 lakh is earmarked for the Bamboo Corporation.

45. The amount provided for the handicrafts sector under Plan is Rs.1 crore. I am providing Rs.1 crore for starting new handicraft promotional schemes under the aegis of the Artisans Development Corporation.

46. A total amount of Rs.6 crore has been set apart for other small scale industries. An incentive scheme for starting allied industrial institutions is the new scheme to be started in the sector. An amount of Rs.1.79 crore is earmarked for investment subsidy.

QUALITY IMPROVEMENT OF SERVICES

Public Health

47. One of the most important announcements in this year's budget is a comprehensive health care programme which ensures free treatment to the poor and treatment at reduced rate to others in Government hospitals. For this, the following measures are being adopted :

- i) Expansion of facilities and integration of standards in health sector is the most important. Of this, Rs.36 crore has been made available from the National Rural Health Mission for the expansion of building facilities. The construction works utilising this, has just started. More funds will be allotted next year also.
- ii) Rs.34 crore will be expended through National Rural Health Mission for starting hospitals for women and children in Districts where there are no such hospitals and also to improve the facilities in the existing hospitals.
- iii) For the purchase of equipments in General Hospitals, Rs.2 crore is earmarked in the name standardisation of facilities. Apart from this funds will be made available from the Rural Health Mission. A public health laboratory will be started in Kannur.

- iv) Making available medicines and other essential items in hospitals is most important. As usual, non-plan provision of Rs. 168 crore has been provided for these. In addition, Rs.33.50 crore is also provided under Plan in the current year. A new system will be formulated during the year for procurement and distribution of quality medicines at the lowest rate. In addition to this, the Local Self Government Institutions can spend up to 20% of the maintenance grant for this.
- v) In hospitals where in-patient facilities are idling, necessary staff will be posted. Urgent steps will be taken to fill up vacant posts. Speciality cadre will be introduced for doctors. Legislation will be enacted to make it mandatory for the MBBS graduates and P.G Degree and Diploma holders who pass out from Medical Colleges in Kerala to undergo one year compulsory public health service. One year government service will be introduced for nurses who pass out from nursing colleges.
- vi) In the current year, Rs.10,000/- each has been given for strengthening sub-centres under Primary Health Centres. This will be provided next year also. Ward level health sanitation committees will be formed under the sub-centres and Rs.10,000/- each will be provided for their activities. A sum of Rs.50,000/- for maintenance and untied grant of Rs.25,000/- has been given to the Primary Health Centres in the current year under the National Rural Health Mission Programme. This will continue in the ensuing year. It is proposed to conduct a massive peoples' campaign for health immunisation and sanitation utilising this comprehensive health network.
- vii). Health insurance will be implemented linking it with such a comprehensive upgraded public health system. For this, tenders will be invited from public sector insurance companies, stipulating new conditions. Those who have already been registered in the Panchayath insurance scheme will also be included in the new scheme. The new scheme now announced will strengthen the public health system whereas

the insurance scheme introduced by the previous Government would have destroyed the public health system.

Medical Education

48. For the development of Thiruvananthapuram Medical College a sum of Rs.100 crore has been announced under the Prime Minister's Swasthya Suraksha Programme. State Government will give a matching grant of Rs. 20 crore. A sum of Rs.50 crore has been sanctioned as special Central assistance to the Mother and Child Health Centre in Kozhikode Medical College. In 2007-08, a plan allocation of Rs.11.70 crore is provided for Medical education institutions. In addition to this, Rs.20 crore from RIDF will be utilised for the expansion of building facilities of Medical Colleges. For meeting the additional expenditure in connection with the shifting of Alappuzha Medical College to Vandanam and also for improving the facilities of Alappuzha General Hospital, an additional amount of Rs. 5 crore is being provided.

49. Central assistance of Rs. 10 crore is expected in the current year to develop the Virology Institute at Alappuzha as an apex body of national standard. For this, an amount of Rs. 3.50 crore is allocated under Plan fund. An amount of Rs.10 lakh is earmarked for the Clinical Epidemiology Research and Training Centre functioning at Medical College, Thiruvananthapuram.

50. Priority will be given for the expansion of facilities in the newly established Nursing Colleges. It was announced in the last Budget Speech that Medical University would be established. Doubts had been raised from several corners as to whether the establishment of such subject based Universities is proper. It is to be remembered that even the concept of University is changing rapidly. The present trend is to upgrade even individual institutions to the status of University. Excess expenditure for a new University can be reduced if it is ensured that the obesity in the existing university system is not replicated. Taking into account the importance of raising the standard of research in medical education in Kerala and the need for

moving on to new areas, the activities of the Medical University should commence immediately. For this, an amount of Rs.3 crore is provided additionally. The dearth of teachers in Medical Colleges is an acute problem. To solve this, a comprehensive package is under consideration. It is proposed to introduce the residency system along with the Medical P.G studies in the Medical colleges in Kerala. Besides, teaching posts as per the norms of Medical Council will be created in the Medical colleges taken together.

Ayush-Other Medical Branches

51. Kerala is the land of Ayurveda. Medical tourism has given a new vigour to this sector. However, commercialisation may lead this sector to catastrophe, if urgent steps are not taken to ensure quality. A committee will be set up to frame suggestions for the comprehensive development of Ayush sector. Rs.2.25 crore has been provided for Ayurveda colleges. Rs.65 lakh is provided for starting new Ayurveda dispensaries and to improve the existing facilities.

52. For the purchase of land for the expansion of Homoeopathic Co-operative Pharmacy at Alappuzha, an amount of Rs.1 crore is additionally provided. A sum of Rs.8 lakh is provided for the development of Sidha, Unani, Naturopathy, Holistic Medicine, etc. An amount of Rs.50 lakh is provided additionally.

Public Distribution

53. It is needless to stress the importance of Public Distribution System in the background of inflation. After completing the survey on BPL families the process of preparing new ration cards is in progress. The importance of Maveli Stores which supply consumer goods at fair price and the Neethi Stores under the auspices of the Consumer Federation is increasing. A system, which is comparatively effective, for procurement, distribution and supply now exists in Supplyco. For making the non-profit market intervention effective, the financial support of the Government is inevitable. The loss sustained by Civil Supplies Corporation and Consumer Fed on account of market operations will be completely compensated.

Drinking Water

54. In the context of change in life style, the number of tap water users has increased. Environmental degradation also intensifies the scarcity of drinking water. An amount of Rs.3 crore is set apart for renovation of the existing schemes. An amount of Rs.6 crore is earmarked as State's matching grant for the schemes assisted by Central Government, LIC and HUDCO.

55. The drinking water projects at Meenad, Chettuva, Pattuvam, Kozhikode and Thiruvananthapuram areas with the assistance of Japan Bank is the largest project being implemented by the Department. Owing to various reasons the implementation of the project was lagging behind till now. So many controversies were arised about this project in this House itself. Action is being taken to complete the project at the earliest. An amount of Rs.800 crore is set apart for meeting the expenditure towards Japan Drinking Water Project in 2007-08.

56. Another important project is the World Bank assisted Drinking Water-Sanitation Project. An amount of Rs.35 crore is earmarked in the plan for the completion of ongoing drinking water projects. Two drinking water projects will be implemented at Alappad and Arattupuzha areas, utilising Rs.39 crore from the Tsunami Fund. Drinking water projects with NABARD assistance at a cost of Rs.5 crore will be implemented.

57. The drinking water supply in Alappuzha town is in a serious crisis. There is even a Court decree against the delay in the implementation of the scheme known as of "HUDCO Scheme". It has been decided to implement the project linking it with the Medium and Small Town development scheme. For starting the activities, Rs.10 crore is being given. The share from Plan funds of Alappuzha Municipality and the beneficiary Panchayats will also be available for these schemes. An amount of Rs.1 crore is earmarked for the Cheekkode drinking water project.

Sanitation

58. It is intended to coordinate at the level of Local Self Governments, 'Total Sanitation Mission' and 'Clean Kerala Mission', the agencies working in the field of sanitation. Total sanitation programme will be implemented through LSG Institutions. An innovative campaign model for sanitation activities is being planned with Doordarshan as the main publicity agency. Other interested members of the media can also participate as sponsors of this campaign. A total amount of about Rs.14 crore, including Central assistance, is being expended for sanitation programmes.

59. In urban areas, utilising the services of Ayalkoottam for collecting segregated waste and various technologies such as composting, anerobic decomposition, pellatisation etc are to be adopted, keeping in mind the quantity of waste and its convenience for collection. As per the suggestions of the Honourable President of India, for experimenting the production of energy using pellatisation technology, a plant will be set up in Thalassery Municipality. An amount of Rs.1 crore is provided in the budget for this as State share.

Housing

60. In Kerala, house for all is an aim not too distant. It is also quite practical, considering the trends in present day demographic transition. A comprehensive scheme called 'EMS Housing Scheme' has been formulated. The Local Self Government Institutions will play a major role in this. The activities of all agencies in this regard have to be coordinated. The Kerala State Housing Board is the main agency of the Government in the field of housing. But the failure in the implementation of the Housing schemes in the past has plunged this organisation into a financial Gordian knot. While attempts to untie these knots will continue, early action is being taken to recover arrears and to complete construction of such works as revenue towers, started on a commercial basis.

School Education

61. It is intended to implement comprehensive programmes to ensure the quality of general school education. The funds from Sarva Siksha Abhiyan is the main source for the activities of primary education. An amount of Rs.200 crore is expected in this regard during 2007-08.

62. It has been decided to introduce a new scheme in association with Sarva Siksha Abhiyan. Based on guidelines, up to Rs.5 lakh will be provided for a local school complex. The complexes should be established linking it with any High School or Higher Secondary School. An amount of Rs.10 crore is set apart for extending the scheme for providing free mid-day-meal programme to deserving students of High Schools also.

63. An amount of Rs.43 crore has been set apart for Higher Secondary and Vocational Higher Secondary Schools. Out of this, Rs.25 crore is for establishing laboratories and libraries with minimum standards in all Government schools. For constructing necessary buildings, an amount of Rs.15 crore will be made available from RIDF. If the Honourable M.L.As ensure priority for computers and Edusat linkage required in High Schools and Higher Secondary Schools, it will result in a giant leap in the facilities of High Schools and Vocational Higher Secondary Schools.

64. The new scheme that will be started is for giving scholarship to students. An amount of Rs.5 crore has been set apart for giving scholarships at the rate of Rs.10,000/- each for 5000 students of Higher Secondary Schools. Another Rs.5 crore is set apart for giving scholarships to graduation/Post-Graduation students at the rate of Rs.20,000/- each per year. An amount of Rs.60 lakh has been set apart for scholarships to research students.

65. A scheme has been envisaged with the help of NCERT and the Institute of Foreign Language System, Hyderabad in order to break the barriers of digital divide and English divide. A mission system will be formed to improve the quality of English education.

66. In order to utilise the benefit of total literacy which we have attained years ago, Government will take the initiative to reorganise non formal education.

Higher Education

67. An amount of Rs.163 crore has been set apart under plan and non plan for Kerala, Calicut, Mahatma Gandhi, Sanskrit and Kannur Universities. Urgent steps will be taken to fill up the vacant posts in the Departments. The problems of the teaching staff of affiliated colleges are in a chaotic condition. Steps are being taken to solve the problems, step by step, after examining all issues.

68. An amount of Rs.1.25 crore is set apart for construction of college hostel buildings at Kottayam, Kasaragod, Kalpetta, Munnar, Kozhinjampara, Nedumangad and Attingal. An amount of Rs.60 lakh is set apart for libraries and laboratories in colleges. An amount of Rs.2 crore is additionally provided for the conservation of Maharajas College, Ernakulam, University College, Thiruvananthapuram, Victoria College, Palakkad and Thalassery Brennan College, which can be included in the list of heritage colleges. This fund will also be utilised for maintaining the originality of the old Kochi Legislature building, housing the present Law College. An amount of Rs.1 crore is earmarked for starting on an experimental basis an education cluster, centered at Maharaja's College.

69. Higher Education Council is a newly introduced reform in the Higher Education Sector. This system will be helpful for the integration of the activities of the Universities, for suggesting much needed reforms in the Higher Education sector and for continuous evaluation of research activities. For the activities of the Council an amount of Rs.1.50 crore is earmarked.

Technical Education

70. An amount of Rs.20.86 crore is earmarked for Kochi University. For Engineering Colleges at Thiruvananthapuram, Thrissur, Kannur and Kottayam and for IHRD a total amount of Rs.34 crore is earmarked. Another Rs.2 crore is set apart for newly started Engineering Colleges. An amount of Rs.15 crore will be expended as a

part of the World Bank assisted Project for upgrading the standard of technical education. An amount of Rs.3.25 crore is set apart for polytechnics. An amount of Rs.25 lakh is earmarked for the construction of building for the polytechnic at Meppady. An amount of Rs.25 lakh is set apart for constructing a community auditorium in the Kannur Engineering College.

Advanced Research Institutions

71. An amount of Rs.2.25 crore is set apart under Plan for Science, Technology and Environment Council. An amount of Rs.1.25 crore for the Council, Rs.8.68 crore for science promotion publicity activities under the aegis of the Council and Rs.30 crore for the scientific institutions under the Council have been set apart. An amount of Rs.9.5 crore for RCC, Rs.5 crore for Malabar Cancer Centre and Rs.1.70 crore for Pollution Control Board have been provided. It is felt that recognition of Rajiv Gandhi Centre for Bio-Technology as a national research institution, will provide a new dimension to the prospects of bio-technology in Kerala.

Art and Culture

72. An amount of Rs.1.12 crore is set apart for various academies. A grant of Rs.1 crore will be given to the State Library Council. An amount of Rs.1 crore will be given during this year to Kerala Kalamandalam, which has been declared as a Deemed University. For giving award for comprehensive contributions made in the field of drama under the auspices of the S.L. Puram Foundation, an amount of Rs.20 lakh is allotted to Sangeeta Nataka Academy as a corpus fund. An amount of Rs. 10 lakh is earmarked for N.Krishna Pillai Foundation. An amount of Rs.25 lakh is set apart for the construction of an auditorium in memory of poet P.Bhaskaran at Kunjhukuttan Thampuran College, Kodungallur. A total amount of Rs.1 crore is allotted for Children's Literature Institute, Encyclopaedia Institute and Language Institute. An amount of Rs.176 lakh is provided for Kerala Council for Historical Research, Archaeology Department, Kerala State Archives, Museums and Zoos etc. An amount of Rs.25 lakh is provided to Institute of Children's Literature to start a special book

series for Kudumbasree and school libraries. This year is the birth centenary of Vaikom Mohammed Basheer. An amount of Rs.25 lakh is allotted during this year as corpus fund for establishment of a chair in his name in the Malayalam Department of Calicut University. A grant of Rs.20 lakh is allotted to Tirur Thunjan Memorial which is a symbol of communal harmony and Eranadan culture. An amount of Rs.10 lakh is provided this year also towards the health insurance scheme for journalists. An amount of Rs.20 lakh to the Press Academy as a one time special grant and Rs.10 lakh for the journalism course conducted by the Thiruvananthapuram Press Club are being provided. An amount of Rs.50 lakh is granted for the construction of pilgrims' camp site at Sivagiri. An amount of Rs.15 lakh is allocated for the developmental activities of Panmana Ashram. Rs.20 lakh is being provided for starting a Tulu Academy in the Manjeswaram Govinda Pai College.

73. Thiruvananthapuram International Film Festival has already received national acclaim. An amount of Rs.50 lakh is allotted for establishment of a permanent film festival centre. An amount of Rs. 5 lakh is allocated for conducting short feature documentary festival. An amount of Rs.10 lakh is allocated for the organisation of the International Education Congress marking the finale of the Golden Jubilee Year Celebrations of Kerala.

Sports

74. Sports lottery was introduced to create a quantum jump in the sports facilities. It has not succeeded as per expectations. However, we have decided to actively proceed with the aim of conducting the National Games 2010 in Kerala. An amount of Rs.3 crore is set apart for the Sports Council. In addition, an additional allocation of Rs.10 crore is set apart for initiating new facilities and to complete the activities of the Sports Centres under construction. From the above provision, an amount of Rs.25 lakh will be given to Usha School of Sports during this year for the construction of Synthetic Track as was done last year. An amount of Rs.1.24 crore is set apart for Kerala State Youth Welfare Board. An amount of Rs.50 lakh is specially earmarked to form Youth Welfare Fora for voluntary activities at Panchayat level.

Labour and Labour Welfare

75. Our social security schemes will be integrated after a comprehensive evaluation. In the Eleventh Plan, Rs.50 crore is set apart for this sector. This year, an amount of Rs.6 crore is being earmarked. An amount of Rs.162 crore is earmarked to disburse agricultural workers pension and to clear the entire arrears. An amount of Rs.6 crore for Coir Workers' Welfare Fund and another Rs.6 crore for other Welfare Funds is earmarked under Plan. The arrears of agriculture workers pension itself is Rs.75 crore. In the circumstances, a substantial enhancement of pensions is not feasible. However, considering the representations from the labourers the amount will be increased by Rs.10 per month. For the activities of Agricultural Workers' Welfare fund, a sum of Rs.3 crore is specially earmarked.

76. An amount of Rs.2.2 crore is set apart for upgradation of the courses in the ITIs and for starting new ITIs. An amount of Rs.4 crore including Central assistance will be expended for upgrading 13 ITIs as centres of excellence. A new programme will be implemented this year to form self employment clubs by skilled unemployed labourers of various trades in small groups. An amount of Rs. 1 crore is set apart as first instalment for this. An amount of Rs.3 crore is set apart for starting finishing schools.

THE NEGLECTED TO THE MAINSTREAM**Scheduled Castes/Scheduled Tribes**

77. Though the social status of the Scheduled Castes is backward when compared to the general sections, their position is better than those in other States of India. However, if one considers the financial and professional positions, their status will be seen to be not too different from other States. Major change can be brought about in the situation, if we can effectively utilise the Special Component Plan fund for Scheduled Castes. Education is considered as the main ladder for achieving this. This year Rs.30 crore will be spent for education related activities. Priority has been given

for model residential schools and improvement of hostel facilities. The amount set apart for students of self financing colleges is Rs.7.5 crore. An amount of Rs.1 crore is allotted for the Centre for Excellence in Kozhikode for improving its institutional facilities. In this year, more importance is given for Employment Generation Schemes. The Scheduled Castes Corpus Fund for this year is Rs.68 crore.

78. Priority is given to education in the Tribal Sub Plan also. An amount of Rs.15 crore is provided for this item. On the basis of experience that the residential schools are a big success, an amount of Rs.11 crore is exclusively set apart for this. 66 percent of the Special Component Plan and 50 percent of the Tribal Sub Plan have been transferred to the Local Self Government Institutions. This reallocation of fund has been made on the basis of the realisation that the SC /ST can decide on their requirements and can involve more effectively at the lower level of administration. But so many defects can be pointed out in the utilization of this fund. This problem can be solved only by ensuring the active participation of the SC/ST in the planning and implementation process, in addition to strict supervision and review. Necessary publicity campaign for this will be organised.

79. An amount of Rs.3.4 crore is set apart for the Kerala State Converted Christian Corporation. An amount of Rs.4.4 crore is set apart as share capital contribution to the Backward Classes Development Corporation. In addition to this, funds from RIDF will also be made available to the Corporation.

Women's Development

80. Social Welfare Department will be renamed as Social Welfare & Womens' Development Department. A gender advisory committee will be formed under this Department and a consultant will be appointed as full time co-ordinator. For this, an amount of Rs. 25 lakh is earmarked. Two important women empowerment programmes will be commenced this year. Extensive activities connected with Domestic Violence Act is the first one. A major scheme with an outlay of Rs. 5 crore has been formulated for gender awareness. A finishing school for women is the

second one. For this, Rs. 2 crore is earmarked. An amount of Rs.20 lakh is additionally provided for Women's Commission in addition to the plan allocation. An amount of Rs.1.19 crore is earmarked for Women's Development Corporation. To clear the existing liabilities of Social Welfare Board a one time grant of Rs.20 lakh is provided. A one time grant of Rs. 25 lakh is provided for the completion of the short stay home and hostel of Abhaya at Thiruvananthapuram.

81. Considering the leadership of womens' representatives, Women Component Plan Fund amounting to Rs.154 crore and the massive people's participation through Kudumbashree, the Local Self Government Institutions play a leading role in women's welfare and empowerment programmes. There is enormous scope for effective intervention in this field, for womens' organisations and those who are interested in the progress of womens' status. A special allocation from Kudumbashree fund is earmarked for formulating programme for women's status studies, utilising the Kudumbashree network under the auspices of Local Self Government Institutions.

Kudumbashree

82. Organisation through neighbourhood groups, participation of Local Self Government Institutions, integration of poverty alleviation programmes, possibilities of coordination between Regional Planning and Grama Sabhas etc. are the special features which distinguish Kudumbashree from other self help groups in India. A very detailed action plan, including improvement of small savings loan schemes, ensuring market access to entrepreneur, strengthening of co-ordination with Panchayats, emphasis on the activities for empowerment of women, has been prepared by Kudumbashree. Based on this, training programmes have already started. An amount of Rs. 26 crore is provided for the activities of Kudumbashree. An amount of Rs. 30 crore disbursed to the lower levels in the previous years is still left as balance at the District level. If additional fund is needed for the programmes connected with the activities this year, it will be sanctioned later.

83. I would like to use this opportunity to express my disagreement with to the provisions in the proposed new Micro Finance Act of the Central Government. This

Act will weaken the traditions of democratic decentralisation of power, collective approach and self-reliance that Kudumbasree is upholding. The Act must be passed only after detailed discussions.

Social Welfare

84. The most important activity of the Social Welfare Department is 'Anganwadis'. The Central Government will bear only the honorarium of the employees and the share of diet charges. So, the entire responsibility for construction of Anganwadis should be borne by the interested Panchayats. Central assistance of Rs.74.85 crore will be received for Total Nutrition Programme this year. Rs.10 lakh is being provided for Child Welfare Society.

85. An amount of Rs. 1.30 crore is included under plan scheme for the differently abled (physically and mentally). Special schools are functioning under the Education Department. Local Self Government Institutions' plan share is what is most effectively utilised in this sector now. They are receiving only a small support from the State Government. In order to protect the children of such institutions, the 'Karunya' deposit scheme will be launched. If Rupees 1 lakh is deposited in the treasury at least for a period of one year, in order to sponsor the education and up keep of the child identified by them, Government will pay an amount of Rupees 15,000 per annum to the institution concerned. The depositor will not get interest. However the deposits can be withdrawn at any time in one year multiples. The philanthropists from Gulf etc, will contribute to this scheme, it is hoped. Half percentage of the deposits thus mobilised will be given to the NRI organizations who take initiative for this. For the implementation of this scheme, Rs. 5 crore is set apart. A new scheme will be formulated to give annual grant to one institution in each District from out of this amount. A system to ensure personal attention for the development of 57,000 differently abled children will be evolved, selecting three Special Schools as lead schools in each Educational District, linking them at the State level with institutions like NISH, SIDA-K, etc to handle the problems of visually impaired, physically disabled and mentally challenged children. This innovative programme will be

implemented by Education, Social Welfare and Local Self Government Departments jointly, by utilising Rs.1 crore provided for the QEPR programme of the Education Department.

Environment

86. The most important scheme in the environment sector is to sustain the ecological balance of wet land areas. An amount of Rs. 1 crore is earmarked for this. For the preparation of Periyar Action Plan, a sum of Rs. 2.4 crore is allocated.

Forest

87. In Kerala protection and regeneration of natural forests has great environmental importance. For the development of this sector an amount of Rs. 14 crore is earmarked in this Budget. An amount of Rs. 6.35 crore is set apart for the activities of bio-diversity conservation, eco-tourism and protection of national parks and sanctuaries. With the participation of Local Self Government and Forest Department, an integrated energy park programme for tree plantation to meet fuel needs would be formed in forest areas, its outskirts, catchment areas of projects, Government owned plantation lands, waste lands and in the 'purampoku'. NREGP, BRGF etc funds will be utilised for this programme. A new scheme will be started for the conservation of Silent Valley Forest Areas. An amount of Rs.1 crore is earmarked for this.

AREAS OF NEW QUANTUM JUMP

88. It will be a great blunder if the thrust given in the Budget for the protection of the agriculture-traditional sectors and social welfare is perceived by anyone as slackness towards the driving force of new growth areas. Special emphasis has been given in the Budget for I.T, Tourism, Light Engineering, Value Added Agricultural Industries etc. The growth in the Tourism sector is noteworthy.

Tourism

89. Around Rs.100 crore is being invested in the tourism sector in the year 2007-08. An amount of Rs.41.5 crore is set apart for the extension of facilities in tourist centres and for giving incentives to new tourism products. In addition to this, an amount of Rs.2 crore is set apart for the development of eco-tourism and Rs.3 crore for heritage, cultural and environmental protection activities. As matching grant for financial assistance from Central Government an amount of Rs.2 crore is earmarked. If needed, more funds will be made available. For tourism publicity and marketing, an amount of Rs.15 crore and for District Tourism Promotion Councils an amount of Rs.2 crore is earmarked.

90. Eco-tourism project will be implemented in Pathiramanal Island in Alappuzha District. In this uninhabited island, a botanical park consisting of flora in the Karappuram, Kuttanad Eco-sphere, a bird sanctuary and a fish breeding protection zone will be developed. The visitors will have controlled access to this for enjoyment and study purposes. No construction will be permitted in the island. The project formulated by a commission appointed by the Muhamma Panchayat in this regard and submitted to Kerala Government by the Tourism Department has been approved with suitable modifications. An amount of Rs.5 crore is expected as Central assistance for the implementation of this project. Rs.50 lakh is earmarked as State share.

91. Special thrust will be given for the development of Malabar Tourism centres. Special schemes for the centres like Ranipuram in Kasaragod district, Muzhappilangad, Dharmadam beaches in Kannur district, Thusharagiri and the adjoining places in Kozhikode district, Nila and Thirunavaya areas in Malappuram district and places like Pookkode in Wayanad have been submitted to the Tourism Ministry at the Centre. An amount of Rs.30 crore is expected as assistance. An amount of Rs.4 crore is earmarked as special State share. Approval of the Central Government has been received for Thalassery Heritage Project. As the first phase of Alappuzha Heritage Project, a part of the pier at Alappuzha will start functioning this year. An amount of Rs.2 crore is earmarked as State's financial assistance to KTDC's resort at Muzhappilangad.

92. Final shape has been given to the 'Musiris Heritage Project' announced last year. The renovation of Kottappuram Fort and protection of Vypeenkotta Seminary, Kovilakoms etc will be undertaken immediately. An amount of Rs.4 crore is specially set apart for this. The project is envisaged in such a manner that the visitors will get a cross section of the history of Kerala in one or two day's study programme. Academic support for this is being given by the Kerala Council for Historical Research. Archaeological Research has begun with Central assistance at Pattanam under the auspices of the Council. This would be a novel tourism project even in India.

93. The Tourism Department, in association with Industries and Commerce Department, the Local Self Government Institutions, Taxes Department and Department of Culture is launching a massive project in the current year. A shopping festival from the 3rd week of October to the 3rd week of January will be organised. The project will become full fledged in a period of five years. This festival will be organised giving due consideration to market centres, traditional industrial centres, tourism centres, etc who are willing to accept the norms of sanitation, hospitality amenities and business standards. The festival will commence with the international coir festival beginning from the 3rd week of October at Alappuzha. Similarly, market festival of different commercial products in Kerala, like cashew, marine products, spices, handloom, handicrafts products etc will be held in related centres. Foreign delegates will be invited to this trade fair. Facilities will be provided to tourists to purchase products from production centres according to need. Not only foreign tourists but also a majority of those who visit Sabarimala, etc can be made participants in the fair. A special Festival Authority will be formed for this. An amount of Rs.15 crore is newly allocated this year. Thus, a massive programme to be completed in five years to promote the trade in Kerala will be launched in 2007-08.

Information Technology Sector

94. There is no difference of opinion that knowledge based industries is most suited to our State. But the fact is that today we are lagging behind in this field at the national level. Firm steps should be taken to come to the forefront at the earliest. The

main agency in this sector is Kerala State I.T. Mission. Diversified programmes viz. business promotion, Human Resource Development, providing I.T. services are intended. It is proposed to reorganise the implementation of Akshaya Project with the participation of Local Self Government Institutions. An amount of Rs. 43.74 crore is provided for all the above projects. An amount of Rs.13 crore is earmarked for the third phase expansion of Techno Park and for construction of the new building with an area of 4 lakh square feet in Info Park. As announced in the I.T. policy, an international centre for free software will be set up. For this Rs. 50 lakh is allocated. For the Indian Institute of Technology and Management in Techno Park, an amount of Rs.51 lakh is provided.

95. A new company will be formed this year for the development of I.T. infrastructure facilities. This company will be formed aiming investment from Non Resident Malayalis. For its preliminary expenses, Rs. 10 lakh is set apart. The prospects of small I.T. Parks outside Thiruvananthapuram and Kochi will be explored. At any rate, this is inevitable. For this new scheme, Rs. 10 crore is earmarked.

96. It is intended to complete the accreditation process immediately in order to raise the standard of post graduate courses to the international level in various Universities of the State. It is proposed to start a four year integrated bio-technology course of national standard in the Kerala Agricultural University. This multi institutional course will be conducted with the cooperation of Bio-Technology Departments of other universities, research institutions, etc. An amount of Rs.3 crore is set apart for starting this course in 2007-08 and for its accreditation procedures.

Public Sector Industries

97. Quite a few will reasonably doubt whether it is appropriate to view sick PSUs as a source for the new leap planned. However, the relevance of my assessment will be clear if one examines the transformation taking place in Public Sector Undertakings after the LDF Government assumed power. As a result of the measures taken by the Government so far, the number of companies that have been in operating profit has risen to 22 from 12.

98. Reorganisation package is only going to be implemented. A programme has been prepared taking into account each industry, its products and the specialities of its technology. The most important factor in this is to ensure necessary working capital. A huge amount is to be given to the banks as arrears. An understanding has been reached for one time settlement of this. Amount will be given in three instalments to the Banks from the Budget. In turn, the banks will make available working capital to the public sector undertakings. An additional amount of Rs.25 crore is provided for the one time settlement to the banks based on the understanding reached in my presence as well. Government is keeping its word. Let us hope the banks will also reciprocate in the same manner.

99. Conscious approach has been taken by Government to cooperate with Central public sector undertakings in order to ensure market, new technology and capital investment for public sector institutions. The positive result of this is already evident. The MoU reached by TELK with NTPC is an example of this. NTPC is investing money for technical modernisation of the company which was put up for sale to the multi national monopolists in the name of technological modernisation. Formal announcement has already been made in the Railway Budget for converting Autocast, earlier identified for privatisation, as a joint venture with Railways. Autocast is growing as the biggest industry in Alappuzha District. In association with ISRO, KMML is establishing a pilot plant for titanium sponge. The defence industry has reached an MOU with Hi-tech company. Discussions are on for the development of KELTRON. Based on this tie-up, at least Rs.300 crore will be newly invested in the above mentioned public sector institutions.

100. As a part of privatisation of PSUs, the previous Government has extensively and indiscriminately implemented VRS. In fact, the main obstacle for the revitalisation of TELK and Autocast is that many skilled workers have left this industry. An amount of Rs.16 crore is still pending for payment to those who opted for VRS. For this, I set apart Rs.10 crore.

101. An amount of Rs.17 crore is earmarked under plan for public sector undertakings. This will be utilised for their capital upgradation. An amount of Rs.76 crore is estimated for the modernisation. If additional amount is necessary in the current year, it will be made available later. Steps for registering Infrastructures Kerala Limited, which was announced in the last budget, as a company with paid up capital of Rs.100 crore, is in the final stages. The company having 26 % of Government share will accept balance share from Non Resident Malayalees. An amount of Rs. 9.5 crore is earmarked for KINFRA.

102. SIDCO will start preliminary activities this year, for a telecom city at Thiruvananthapuram in association with Indian Telephone Industries, Spices Park at Idukki with Spices Board and an electronic hub at Kochi. The policy of the Government is to utilise scientifically, the mineral sand deposits in Kerala. Production and export of value added products from mineral ore is being promoted. The public sector will be allowed for the mining of mineral sand. Steps will be taken to establish Titanium Metal Factory as a joint venture. We are trying to establish a new metal factory by protecting the existing two titanium factories. To prepare a business plan for this, an amount of Rs.1 crore is provided to Kerala Mineral Development Corporation.

NORKA

103. The pre-departure orientation programme started under NORKA will be conducted in more centres. The foreign employment opportunities will be further increased by utilising the permission received for foreign recruitment to NORKA-Roots. The construction of NORKA Centre in the capital will be completed this year. A welfare scheme will be formulated to those who deposit Rs.50,000/- or more in the treasury. An additional amount of Rs. 25 lakh will be given in 2007-08 for the construction of the Hajj House.

Other Medium-Large Industrial Undertakings

104. There are 727 large and medium industrial undertakings in Kerala. Out of this, excluding 22 Central, State PSUs and Co-operative Institutions, 590 numbers are in the private sector. KSIDC and KINFRA have conducted 5 investor meets and signed 70 MoUs amounting to Rs.2388 crore. Effective steps will be taken to make Kerala attractive for private entrepreneurs. Many suggestions are under consideration of the Government to set up private industrial parks.

105. Large scale investments coming up are centred on Kochi. Kochi is on the threshold of an unparalleled leap, through the LNG Terminal, Vallarpadam Transshipment Centre, Expansion of Shipyard, new investment in refineries, Kochi Smart city, Kochi Metro, etc. In addition to taking effective steps so that these projects materialise, to expand the infrastructure facilities of Kochi and other cities and to speed up the transportation and communication network with other District centres, extensive and urgent arrangements have to be made. We have reached a new phase of growth, unfamiliar to Kerala. If we fail to carefully intervene to set up these infrastructure facilities, we will not be able to utilise the growth possibilities and this will result in the aggravation of regional imbalances. To undertake the preliminary activities of Kochi Metro, an amount of Rs. 4 crore is provided.

INFRASTRUCTURE FACILITIES**Urban Development**

106. An amount of Rs.196 crore is provided for the development of Kochi and Thiruvananthapuram cities under the auspices of the Jawaharlal Nehru National Urban Renewal Mission. Funds will start becoming available once the MoU is signed with the Centre. An amount of Rs.250 crore is available from Sustainable Urban Development project to implement another scheme for the development of urban infrastructure facilities. For this, projects will be formulated by 5 Municipal Corporations. Another important development regarding urban development is the formation of the Kerala Urban Rural Development Corporation. An amount of

Rs.71 lakh is set apart for its share capital. It is intended to provide a part of the Sustainable Urban Development Project to other Municipalities through this Corporation. Rs.2 crore is earmarked for Kochi, Kozhikode and Thiruvananthapuram Development Authorities. An amount of Rs.1 crore for the land acquisition of Manamchira-Vellimadu Kunnu road renovation in Kozhikode city and Rs.50 lakh for Vanchikulam Project in Thrissur Municipal Corporations are provided. Thiruvananthapuram-Attukal Development scheme will be implemented under JNNURM Project. Kodimatha-Nagampadam fly over will be constructed on BOT basis.

Development of Ports

107. At a time when the importance of International Cargo Transshipment increases day by day, the development of ports has to play a crucial role in regional economic growth. The importance of coastal navigation has also increased. In the next year, Beypore, Thankassery, Azheekkal and Alappuzha ports will be taken up on a priority basis. An amount of Rs. 4.85 crore is set apart for this purpose. To avoid the delay in the development of Vizhinjam Port, it is decided to re-tender by increasing the time span of BOT and, if required, to avoid the need for viability gap funding. Rs.5 crore is set apart to strengthen the share capital of VISL company, which provides infrastructure facility to Vizhinjam harbour. Steps have been taken to prepare the master plan for the modernization of other minor ports including Ponnani.

Transportation Facilities

108. In this Budget, priority is given to clear arrears and complete ongoing works. It is targeted to clear the entire arrears at the beginning of next year itself. Considering the pendency of bills, if the contractors are willing to discount the amount, that amount will be paid immediately. Those who are not interested in joining this scheme will be given the arrear after the normal waiting period. The scheme will be implemented after getting the approval of the Court. In this way,

along with the complete wiping out of arrears in public works, the following strict steps will be taken to bring to an end the prevailing anarchy :

- i) Schedule of rates will be published at the beginning of each financial year. With this, the tender excess phenomena will come to an end.
- ii) Administrative Sanction will not be issued under any circumstances to works in excess of 150% of budget provision in each year. All contract works will be awarded in a transparent manner.
- iii) Around Rs.500 crore is expended each year for maintenance. The Comptroller & Auditor General's report indicates that the lion's share of this money is wasted. Within 4 year's time, road maintenance will be on long term contract basis. Therefore, in the current year, 500 kms of road will be brought under long term maintenance contract.
- iv) Encashment of bills will not be allowed without letter of credit under any item. The practice of expending arbitrarily any balance amount in the letter of credit will also be stopped.
- v) The delegation of power given to the lower levels to issue Administrative Sanction and approve tender excess will be revised. Based on the report of the Comptroller & Auditor General, the Public Works Department will prepare other proposals to reform the existing procedures thoroughly.

109 In 2007-08, Rs.320 crore is earmarked for maintenance of PWD roads. Out of this, Rs.160 crore will be utilised for long term maintenance contract. For the development of State Highways Rs. 3.50 crore and for major District roads Rs.11.50 crore have been earmarked. World Bank assisted Kerala State Transport Project is the most important project implemented by Kerala Public Works Department. It is aimed to expend an amount of Rs.575 crore in 2007-08. The Ist and IVth phase of KSTP is in re-tender stage. It is expected that the Public Works

Department will get Rs.85 crore from NABARD and Rs.45 crore from the Tsunami Fund this year.

110. The construction of national water ways with Central assistance has now slowed down. The State Government has to provide land for the rehabilitation of those living on the banks. Rs. 1 crore is set apart for this.

111. With a view to improving the water transport facilities in Kuttanad and other areas, new boats will be purchased, old boats repaired and if necessary, boats will be hired.

Kerala State Road Transport Corporation

112. Kerala State Road Transport Corporation is on the verge of collapse. An amount of Rs.73 crore has to be disbursed as MACT claims. Pension arrears come to Rs.350 crore and petrol arrears is around Rs.137 crore. The accumulated loss comes to Rs.1800 crore. To save this institution, certain questions have to be answered. Can a commercial institution survive by paying more pension than salary? How much minimum amount per k.m. should be collected in order to run a bus in a route? What can be done to commercially utilise the land and buildings of KSRTC? How to put an end to the illegal parallel services in the nationalised route? There are many such questions.

113. It is aimed to introduce a package to reduce the loss. A package is being implemented comprising refresher training to drivers, speed control, store inventory evaluation, over checking and mileage improvement programmes. It is intended to bring down monthly loss from Rs.17 crore to below Rs. 5 crore. An amount of Rs.10 crore is additionally provided to KSRTC to implement this package. An amount equivalent to the reduction made in the monthly loss will be given as a special incentive grant. For this also, Rs.10 crore is earmarked. In addition to this, Government will extend guarantee to the bank loan for the purchase of 1000 new buses. These buses, purchased on Escrow account system, shall not operate in any

route where collection is less than Rs.20 per kilometre. For clearing the MACT claims, Rs.1/- will be levied as cess on tickets above Rs.25/-.

Power Sector

114. Lower Meenmutti Mini hydro electric project is the only hydel generation project completed in the last financial year. In the next financial year, the major projects such as Kuttiyadi tail race, Kuttiyadi Additional Augmentation, Neriyamangalam Extension and Kuttiyar diversion will be completed. By these projects, 128.75 M.W installed capacity and 35.03 crore units will be generated. In the 11th Five Year Plan, 12 new projects have been envisaged. Through these projects, it is intended to produce an installed capacity of 336.90 M.W and generation of 92.61 crore units. Rs.182.45 crore is set apart by the Board for this. Athirapally Project will be implemented as and when the final environmental clearance is obtained. With the Cauvery Tribunal Award, the hurdles in starting Kerala Bhavani, Mananthavadi and Pambar Projects have been cleared. Besides challenging the flaws in the Tribunal award, steps are proposed to be taken to implement these projects within the framework of the Tribunal award.

115. The Board intends to expend an amount of Rs.14 crore for modernisation of existing projects and Rs.201.20 crore for strengthening transmission net work. Rs.180 crore will be expended for strengthening the power distribution network. 5 lakh service connections will be given.

116. An amount of Rs.168 crore, including Central share, is earmarked in the Budget for Accelerated Power Development and Reforms Programme, in order to strengthen urban electric transmission network and to ensure effective services to the people.

117. This year marks a notable intervention in Kerala's Power sector. This is a flagship project known as total energy security mission. This novel project will be implemented with the joint participation of Electricity Board, Local Self Government Institutions, ANERT and EMC. This project will be integrated with Rajiv Gandhi Vidyudhikaran Yojana and the non-conventional energy development projects of

Central Government. To conduct energy survey and power line mapping in all Local Self Government Institutions, to complete electrification of 5 lakh houses, to establish 1 lakh smokeless hearths and to replace 5 lakh electric bulbs by compact fluorescent lamps are the main objectives this year.

118. The master plan for mini-hydel project, bio-energy project, generation of energy from wind and demand side management will be completed within one year. Rs 2 crore is set apart for the mission activities. Besides, an amount of Rs.3.5 crore for ANERT, Rs.1.5 crore for IREP, Rs.63 lakh to Energy Management Centre, Rs.3.5 crore for Ramakkalmedu project and Rs.120 crore for Rajiv Gandhi Vydhyuthikaran project will be available.

Bio-diesel

119. Central assistance in bio-diesel sector will be completely utilised. Non-conventional energy activities such as utilisation of rubber seed oil as bio-diesel, production of gas from coconut pith through bio methenation, exploring the feasibility of gasahol production etc will be taken up. These activities will be implemented through total energy security mission.

ADMINISTRATIVE REFORMS AND GOOD GOVERNANCE

120. The perspective in the budget can materialise only thorough revamping the rusted administrative machinery. We have already decided what to do for this; non-implementation is the problem. There will be initiative this year to implement the suggestions of the Administrative Reforms Commission. Government will take an uncompromising stand against corruption at all levels. As a part of this, Finance Inspection will be further strengthened.

121. Practically, in 2007-08, the emphasis will be on bringing back decentralisation on the track of People's Plan. In Kerala, decentralisation was not implemented as part of a departmental programme but as part of democratising the administrative system at lower levels. The administrative systems of all lower level developmental Departments will primarily function under the Local Self Government

Institutions. This approach which has evolved as Kerala's general conscience during the people's campaign period was sabotaged in the last five years. It is difficult to correct this, but, this has to be done. It is intended to formulate a system of functioning, co-ordinating Local Self Government Institutions and State Government. Needless to mention the financial devolution should be in line with this.

Grama Panchayats and Municipalities

122. Local Self Government Institutions are giving priority to implement the following items of Administrative Reforms in 2007-08 :

- i) The redeployment of employees will be completed as decided. I am to inform the House that the Cabinet has already taken a decision in the case of engineers.
- ii) Upto date accounts of Local Self Government Institutions will be prepared and computerised. The freedom to purchase computer will be given to Local Self Government Institutions. Computerisation will be completed in a time bound manner by engaging the services of Data Mechanics.
- iii) Rules for Budget, accounts, public works, stores purchase will be given final shape and submitted to the Legislative Subject Committee. New rules will come into force from next year onwards.
- iv) Action will be taken to increase peoples' participation in plan implementation process and Grama Sabhas.
- v) As contemplated in the Kerala Municipal and Panchayat Acts, the system of levying building tax based on plinth area will be started.
- vi) List will be prepared by inviting application on the basis of clear criteria for the preparation of comprehensive list for house, sanitation, house maintenance and other important personal benefits. This will be the priority list for all Government schemes and in all tiers of local

self government. The present system of preparing beneficiary list every year will be stopped.

- vii) District statistical division and DPI office have already been handed over to the District Planning Committee. A section of DRDA is functioning under DPC. To enable them all to work together, Head Quarters at District level is being constructed. For this purpose, permission is being given to the Local Self Government Institutions to remit a fixed amount from this year's plan allocation to the special account of the District Collector, who is the Secretary of the District Planning Committee as well.

123. The 11th Five Year Plan of Local Self Governments will be known as Peoples' Plan Programme. It is intended to conduct a wide campaign, based on watershed development programmes and health and sanitation on the model of People's plan programme. While formulating Five year Plans from the lower level based on watershed development schemes, District planning will also be formulated under the auspices of DPC with the help of experts. The function of District planning is to evaluate the approaches to be followed in each sector for the comprehensive development of the District, by analysing the lower level projects in the District. District plans will be formulated in a participatory manner. Intensive training programmes will be conducted this year under the leadership of KILA and District Planning Committee. For planning campaign activities, an amount of Rs.3 crore is allotted to KILA for training and other allied planning programmes.

Administrative / Service Departments

124. So far, I have spoken mainly about development Departments. Now let us go on to the Administrative Service Departments.

Home, Jail and Fire & Rescue Departments

125. The Police modernisation programme carried out utilising Central assistance will be implemented by collecting more funds. The setting up of video conferencing

facilities in selected jails will be completed this year. Action will be expedited to provide sufficient equipments and human resources to those newly started fire stations, which started without these.

Computerisation of Courts

126. Computerisation will be implemented in courts in a phased manner by availing Central assistance.

Revenue Department

127. New mini civil stations will be started at Koduvally, Chalakkudy, Udumbanchola, Kadakkal and Kottarakara. 4752 acres of land has already been distributed to tribals. Urgent steps will be taken to distribute more land. Considerable progress has been achieved at district level for computerisation in the Revenue Department as a part of Modernisation of Government Programme. This will be utilised completely. Steps will also be taken for connecting the districts with the capital. Action will be taken to make available NABL accreditation to the labs functioning under the Legal Metrology Department.

Registration

128. An amount of Rs.3 crore is additionally provided to Registration Department for the speedy supply of digital copy of documents.

Excise

129. The functioning of Excise Department has already been intensified by providing new vehicles, establishing 11 new range offices and strengthening the check posts. I am confident that this has resulted in considerable improvement in the performance of Excise staff.

Pension Revision, Disbursement of Arrear DA

130. Sir, even though this Government is not directly responsible, I take moral responsibility of not having granted the revised pensionary benefits fully to the State

service pensioners. To grant this, the procedural arrangements in the office of the Accountant General will be speeded up. To avoid any further hardships to pensioners due to delay, those who retired prior to 1.7.2004 will be given 8% interest on arrear amount consequent on pension revision with effect from 1.4.2007 till the date of disbursement. Also, the entire Dearness Relief withheld (total 15%) will be given to all pensioners within a period of 4 months from 1.4.2007. For this, Rs.462 crore will be required. At the time of retirement, the entire arrear Dearness Allowance till date, will be disbursed to each Government employee.

131. Sir, four instalments of arrear Dearness Allowance are due to Government employees also (total 15%). For this, Rs.1710 crore is required. 3 % will be released from 01.04.2007, 4% from 01.10.2007 and the remaining 8% Dearness Allowance from 01.03.2008. Arrears will be credited to Provident Fund. The additional expenditure due to 15% enhancement on Dearness Allowance is Rs.674 crore per annum for Government employees and Rs.326 crore per annum for pensioners.

Financial Institutions

132. It is intended to take up timely reformation of the functioning of Government Insurance Department. The State Insurance Department is now confined to a safe business. For changing this situation and to expand this activities on commercial basis, a committee will be set up to furnish a report in six months.

133. A detailed study has been conducted by Finance Department about the necessity of starting new treasuries. An average of Rs.190 crore is expended through a treasury in India. This is Rs.105 crore in Kerala. In India, one treasury is operating for a population of 3.5 lakh in 1038 square kilometres, whereas in Kerala one treasury is operating for a population of 1.65 lakh in 201 square kilometres. Therefore, it is not intended to start new treasuries. But treasuries already agreed upon and announced will be started. This will be at Mukkom, Pulamanthol, Cherpu, Palluruthy and Ranni-Perunadu. Priority will be given to convert all treasuries in Kerala as banking treasuries and make them more active through computerisation.

134. Government has already taken a decision to re-organise the Lottery Department. Intensive legal steps are going on to ban illegal lotteries. At the same time, steps have been taken to considerably increase in the lottery market of Kerala, the sale of State lottery. The re-organisation package will include specific purpose super bumper lotteries, attractive prize structure, intensive publicity campaigns and more facilities to agents and sellers. In order to get registration in the welfare fund, the lottery sellers will have to sell ticket of Kerala Lottery worth at least Rs.10,000 per month. Government will contribute one percent of the sale proceeds of lottery to this welfare fund.

135. At present, there are wide spread complaints about KFC in the State. This institution is not performing the functions of a developmental agency. This institution can be made as a catalyst for State's development only through a thorough revamping. It is intended to complete the reorganisation by March-April.

136. Kerala State Financial Enterprises is one of the most profitably running institutions of State Government. This institution with an investment of just Rs.10 crore is remitting a sum of Rs.184 crore to Government as dividend, service charge, etc. In addition, Rs.800 crore is deposited in the treasury as security on chitty and other deposits. Considering the importance of this institution, it is intended to revamp the functioning of KSFE. It is aimed to raise the present business of Rs.180 crore sala per month, to Rs.500 crore. In addition to the monthly chitties, daily and weekly chitties and non-resident chitties, targeting gulf Malayalees will be started. A regional office will be opened in the Gulf. In 2007-08, 25 new branches and 100 satellite units will be opened in Kerala..

137. Sir, two declarations made in the last budget could not be completed. The preparation of a detailed gender audit of State budget is the first one. Only its preliminary report was received. A detailed report will be made shortly and the governance will be made more women friendly. Preparation of impact budget announced also could not be completed. Preliminary analysis of public works, health sectors, etc will be completed and placed in the Legislature at the time of passing of full Budget.

138. The main obstacle in implementing these activities is the shortage of able persons in Government. In academic institutions also, there is shortage of financial experts. In the backdrop of the constitution of the 13th Finance Commission, a team which can make in-depth analysis of finances is very important. It is intended to elevate the Centre for Taxation Studies under Taxes Department into an autonomous research and training institution. This institution will be known in the name of Prof. I.S.Gulati who has rendered great service in Kerala since 1957 and steered the State Planning for a decade. An amount of Rs.5 crore is being set apart for Gulati Institute of Finance and Taxes (GIFT). I am happy to announce that the Central Finance Ministry has assured necessary financial assistance for this institution. A grand conference of Finance Ministers and experts will be organised during the month of August 2007 on Centre-State Financial relations under the aegis of Gulati Institute of Finance and Taxes.

139. Sir, This budget, while protecting the employment and welfare achievements of the poor, gives equal attention for providing physical and social infrastructure to the areas of new found vigour. If the change is to succeed, there must be an inevitable factor - we should be able to recognize and encourage excellence. There is much limitation for this in the Government set up - especially when highly creative intellectual and scientific ability is to be encouraged. To this end, a special fund and for this 'Prathibha Council' is being formed as a memorial of the 50th anniversary. This Council will consist of eminent persons from various areas of knowledge, nationally and internationally reputed scholars and persons representing administrative and entrepreneurial excellence. The council will have the full freedom to identify talented students and their experiments and give them financial assistance and advice. The funds for this will be collected by the Council itself from the generous people who are interested in the well being of Kerala. Amount equivalent to fifty percent of the donation thus collected by them will be given as grant by the State Government. An amount of Rs.5 crore is earmarked as first instalment for this.

PART THREE

Resource Mobilisation

140. I now propose to touch upon how I will raise the resources for meeting the expenditure Rs.28,950 crore. We have targeted an increase of about 20 % in the revenue receipts anticipated at the end of 2007-08. The average increase in the last decade has been only around 12%. The most significant factor in the planned increase in revenue is VAT. When this Government came to power, VAT Revenue was only Rs.2,946 crore as per the Accountant General's figures. In 2 years we are endeavouring to increase this to Rs.6,000 crore. This will be an all time record in tax collection in the State. We plan to achieve this increase in growth rate not through force or by hiking the tax rates, but by fostering cordial relations with the trading community of the State. Before the Budget, I had held consultations with the trading community and the trade associations at the regional level regarding the approach that should be taken in the Budget. I am happy to say that I have incorporated most of the suggestions that they have made during these discussions.

Dealer-Friendly Approach

141. I had stressed in my last Budget Speech that this Government proposes to adopt a dealer-friendly approach. Sir, I do not want to repeat them all here. Let me just enumerate some of the steps that I propose to implement in 2007-08 :

- a. Awards will be arranged for the best taxpayers in the State. It is proposed to give awards to three persons each in eight categories. The selection criteria will be tax payment (50% weightage), increase in tax payment over the previous year (25% weightage) and tax procedure compliance (25% weightage).
- b. The cut off for the Green Card facility will be reduced from Rs.50 lakh to Rs.20 lakh.

- c. The District Level Grievance Cells will be reconstituted by including more representatives from the trade. The State VAT Council will be reconstituted. The Executive of the Council will function as the State Level Grievance Cell.
- d. Helplines will be established in all major check posts.
- e. 1% of the VAT Collection exceeding Rs.5,300 crore will be allotted to the Traders' Welfare Fund.

Lucky VAT

142. The Lucky VAT Scheme introduced in 2006-07 was a success. The expenditure incurred on this scheme so far, is below Rs.5 crore. This entire amount has been given as grant by the Central Government. Some of the other States are implementing this scheme from this year. We propose to continue this scheme this year even more vigorously by rectifying the shortcomings in the light of our experience. Rs.10 crore is set apart for this scheme this year. Modification of the prize structure, inclusion of special prizes by dealers in the scheme, public campaigns for encouraging bill compliance and appointment of three promoters in each district are the new steps proposed to be taken.

Assessment Adalats

143. Around 63,000 assessments under KGST Act are still pending completion even after two years of VAT. Even after strenuous efforts, only about 36,000 cases could be disposed off this year. Almost all cases with revenue potential have been disposed off already. It is not possible to indefinitely carry forward the remaining assessments. Although only nominal amounts are likely to be realized from these cases, Government cannot write off these cases. Hence it is proposed to launch an intensive drive to clear off all these cases in six months. It is proposed to launch adalats in each office for this purpose.

- i. Under this scheme, the assessment will be completed by a 'team' of officers which shall be constituted by the Commissioner of Commercial

Taxes. All crime files and enquiry files pending with the Intelligence Wing will be clubbed with the assessment file and assessed. No file disposed by these teams shall be ordinarily re-opened later on. However, cases may be reopened with the prior sanction of the Commissioner.

- ii. The team will be authorized to offer concessions on estimates of suppression of turnover, penalties and on interest within pre-specified limits, in cases where assesses offer ready payment. However, this benefit will be available only if the assessed tax is paid in full as per schedule indicated in the assessment order.
- iii. If the assesses do not turn up, the assessment will be done '*ex-parte*'. Any appeal against such assessments will lie only on payment of the full tax assessed in such assessment.
- iv. Orders by the team at such proceedings shall only be issued through unanimous decisions, signed by all team members. Officers on the team will be absolved from personal liability.

Simplification of Procedures

144. The trading community has put forward a number of suggestions for simplifying procedures. Given below are the suggestions that have been accepted:

- i. The law as it stands today does not permit presumptive dealers dealing in packaged goods to collect tax. This results in an anomalous situation whereby tax paid on purchase by the dealers is also not permitted to be recovered. Attempt to enforce the law as it stands has led to protests from traders. It is proposed to amend the statute to permit recovery by these dealers to the extent of tax paid by them.
- ii. Variations in turnover and input tax credit claimed come to notice only at the time of filing the audited accounts. It is therefore proposed to give an additional opportunity to assesseees to file revised returns at the time of filing audited accounts and to pay tax with interest and settlement fee.

- iii. Contractors undertaking only Government works who have opted for compounding need hereafter file returns only once every year.
- iv. It is proposed to permit all types of dealers to use the same format for issuing bills. The provisions will be amended accordingly to change the format of such bill and to simplify it.
- v. In case of sales returns by consumers other than dealers, debit notes of the dealer will be accepted on the basis of acknowledgement by the consumer.
- vi. It is proposed to amend the Kerala Value Added Tax Act to permit filing appeals under section 22 as in the case of section 24, where only the admitted amount of tax needs to be paid before filing an appeal.

145. The Finance Act, 2006 had brought phenol under the 4% tax category; similarly, the entry for bamboo and its products was brought into the exempted category last year. However, there is some ambiguity in the existing entries, which will be rectified this year.

146. It is proposed to ratify the administrative direction given extending the last date for filing claims for refund of VAT to 28-2-07. It is also proposed to ratify another administrative direction given, extending the last date for filing audit certificate till 15-3-07.

147. VAT Refund is in huge arrears. As VAT Returns scrutiny and VAT Audit are yet to be effective, assessing authorities are hesitating to dispose off the refund claims, fearing the responsibility. It will take more time for the VAT system to stabilize. But Government does not intend to delay disposal of claims. So adalats will be conducted to urgently dispose off these refund claims.

148. Some confusion regarding the applicable tax rate and tax for some commodities have created difficulties for the trade. The statute does not permit the subsequent dealers to claim input tax credit against the debit notes issued by their suppliers on account of the enhanced tax paid by them. This will be permitted. This will be given legal validity and will be applicable up to 31-3-07.

149. As per existing provision no discounts other than those passed through sale bills/invoices are admissible, but certain cement companies had issued credit notes on account of discounts subsequently given. This led to a situation of having to assess the subsequent dealers by adding back the amount covered under the credit notes as their turnover, since the sales were effected at a rate lower than the purchase value; consequently the subsequent dealers had to remit more tax than what they had collected. This created a problem in the cement sector. So in order to tackle the problem I propose that the turnover subsequently allowed as discount will be admitted as a one-time settlement provided the company and subsequent dealers will not claim any refund on account of the credit notes issued for the period 2005-06.

150. Complaints persist regarding inordinate delay in granting registration for dealers. It is proposed to amend the provisions for giving effect to the registration from the date of filing valid application.

151. All registered dealers who have submitted complete data in their application will be issued registration certificate within three months. Special arrangements will be made at the regional level for this purpose.

152. Time limit for completing all assessments, including modified and remanded cases, pending as on 31/3/2007 shall be extended up to 31/3/2008.

153. The ambiguity regarding the facility offered for compounding in section 7 of the Kerala General Sales Tax Act in respect of bar-attached hotels will be rectified by giving legal validity to the circular issued by the Department.

154. At present assesseees are effecting tax payment by means of outstation cheques, which delays crediting payments to Government account. It is proposed to amend the rules in the matter to stipulate that only local cheques in the headquarters of the assessing authority will be accepted. Further, it is proposed to facilitate payment of taxes through selected nationalized banks.

155. It is proposed to make it compulsory for all first sellers in the State with output tax liability of Rs.25 lakh or more, to electronically file their returns as well

as purchase and sale lists. This will give us data on purchases of subsequent sellers for purposes of monitoring their sales and tax performance.

156. A large number of transactions escape the tax net by avoiding banking channels. Hence it is proposed to amend provisions like in the Income Tax Law to stipulate that all transactions above Rs.20,000 should be done only by Cheque/DD.

157. The statute as it stands provides for re-opening of assessments in cases of detection of turnover suppression. However there is ambiguity on whether this can be done only at the end of the relevant financial year or at the end of the return period, which under Kerala Value Added Tax Act is one month. I propose to amend the provisions to clarify that re-opening can also be done immediately at the end of the return period.

158. Planters have exemption from tax on the basis of broker certification of their product sales at the auctions. This facility under KGST will be extended to bought leaf factories also, as they service small growers and reach their products to the auctions.

Tax Concessions

159. The 20% tax rate imposed last year on nine categories of goods evoked massive protest from trade. Almost all items in Kerala used to be taxed at 22-24% under Sales Tax. It is this tax rate that was reduced in the VAT system to 12.5%. It was in these circumstances that I had argued that a 20% tax rate was justifiable. I acknowledge that higher tax rates would lead to trade diversion to Mahe and neighbouring States once the protection of Entry Tax for the Kerala market is gone. Government does not intend to collect taxes at such high rates by weakening trade in the State. Only minor variations in tax rates are possible with other States; so, excepting for aerated soft drinks, marble and granite, tax rate on all other items will be reduced to 12.5%. I do not think that people will go to other States to consume bottled soft drinks. A separate compounding formula is proposed to be declared for marble and granite. Dealer associations in other items have promised in discussions

to cooperate and increase tax revenues in the coming year at least by 20%; I hope they will keep their promise.

160. It had been proposed in the last year's budget to fix the VAT on bunker for foreign going vessels, excepting for fishing vessels, at 0.5% to help Kochi to capitalize on its locational advantage as a bunkering port. This could not be given effect to as the Central Government did not issue certain clarifications. It is proposed to give effect to this proposal from 1st April this year.

161. The exemption from Agricultural Income Tax given last year for all assesseees other than in the corporate sector will be continued for one more year.

162. The exemption from tax I gave to coconut last year is being continued for one more year.

163. It was to help the match industry that the rate of tax of softwood was reduced to 4%. But this was misused by large scale dealers to evade tax; it was for this reason that this concession was withdrawn for softwood excepting for rubber wood. This has affected the match industry in the State adversely. It is therefore proposed to reduce the tax rate on common local varieties of softwood, such as *kattadi*, *vatta*, *pala*, *matti*, and *elavu* to 4%. As per the existing provisions, manufacturers in the State are liable to remit purchase tax even if they consume such goods in the month of purchase itself. I now propose to exempt them from paying purchase tax if such goods are consumed in the month of purchase itself provided the manufactured product suffers tax either under KVAT Act or CST Act.

164. No tax concessions can be given under VAT. The lack of adequate preparation for switching over to VAT has created certain difficulties. Concessions under the Kerala General Sales Tax Act could not be extended to certain industrial units on account of technical reasons. When the arrear collection drive was intensified, several units became liable to pay huge amounts for no fault of their own. If these amounts are forcibly collected, most of these units will have to shut down; Government does not wish this. Hence the following reliefs are offered as part of our pro-industry policy:

- a. The Empowered Committee had permitted continuance of concessions granted to industrial units under industrial policy of the State in existence as on 1-4-05. However, inadvertently all the notifications granting concessions were rescinded and deferment of only revenue under VAT was given. In the process CST concessions were also rescinded but no corresponding benefit was given. It is proposed to continue the concessional 2% CST rate for eligible industrial units for the remaining period from 1-4-2005, as undertaken in the industrial policy, provided that tax if any paid shall not be refunded. The loss of revenue from this measure is estimated at Rs.7 crore.
- b. I also propose to settle another long pending issue from the past. Block board and block board frames were inadvertently excluded from the category of wood-based products like plywood, splints & veneers, etc which were granted tax exemption on purchase turnover of softwood for the period 1.4.94 to 31.12.99; although this sector was given this benefit in the subsequent period, the gap still remains. I now propose to rectify this omission, provided that tax if any paid shall not be refunded. The loss of revenue on this account is Rs.2 crore.
- c. Tax exemptions were available to the Khadi & Village Industry Units. But Government had restricted the available exemption by stipulating that from 1-4-2000, K&VI Units in only twenty-one sectors would be eligible for exemption. Later, on the basis of a Court verdict, the exemption was extended to K&VI Units in all sectors up to an annual turnover of Rs.50 lakh, but this was given effect only from 1-4-2004. But prior to this period they have neither collected nor remitted tax, and any attempt to collect tax during this period may result in the closure of such units. Hence protect this sector I propose to give retrospective effect to the concessions granted for the period 2004-05 from 1-4-2000. The loss of revenue from this measure is estimated at Rs.2 crore.

165. I had granted basic exemption to dealers under presumptive taxation up to Rs.10 lakh in Finance Act, 2006; this took effect only from 1-7-06. I now propose to give retrospective effect to this provision from 1-4-2005.

166. I propose to bring micro cellular rubber sheets, mainly used for manufacturing footwear for leprosy patients, under the 4% tax category.

167. At present there exists a disparity in the rate of luxury tax on rooms and convention halls/ kalyanamandapams when compared to the neighboring states. Taking into account the tourism promotion policy of Government of Kerala, it is proposed to rationalize the rates of tax as under:

<u>Tax on Hotel Room Tariffs per day</u>			<u>Tax on Convention Halls/ Kalyanamandapams</u>	
<u>Room Tariffs per day</u>	<u>Tax Rate</u>		<u>Tariffs per day</u>	<u>Tax Rate</u>
Upto Rs.200	Exempted		Upto Rs.3000	Exempted
Rs.201-Rs.500	10%		Rs.3001-Rs.10,000	10%
Above Rs.500	15%		Rs.10,001-Rs.20,000	15%
			Above Rs.20,000	20%

168. The existing provisions require levy of Luxury Tax on all services provided in a hotel other than food and liquor. It is proposed to exempt services rendered outside the hotel premises, such as vehicle hire, boat hire and trekking, from the services subjected to Luxury Tax, because if they are arranged outside the hotel, they attract no Luxury Tax, and this places hotels at a disadvantage.

169. I have explained that we are taking steps to revive our sick Public Sector Units. Unit-specific revival packages are being formulated. The treatment of outstanding tax dues of those PSUs who are promptly paying their current tax dues will be decided as part of their revival package; till a decision is taken in specific cases recovery action will be kept on hold.

170. I propose to take a similar attitude in respect of the tax arrears of Industrial Co-operative Societies.

171. I had announced in my last Budget that Beneficiary Committees would be made eligible for payment of tax at 4% on works up to Rs.10 lakh even without taking VAT registration; I now propose to give retrospective effect to this provision from 1.4.2005.

172. I had announced in last Budget that input tax credit would be allowed to those manufacturers of medicines who have opted for compounding. I now propose to give retrospective effect to this provision from 1.4.2005.

173. I had brought petroleum bitumen to the 4% tax category in the Finance Act, 2006. I now propose to give retrospective effect to this entry from 1.4.2005 as otherwise the oil companies will collect this impost from the State Government Departments and Local Bodies.

174. The cashew industry, which is one of our most important traditional industries, is in crisis. Almost all cashew dealers have been transacting with other States illegally for quite some time now. They have been showing interstate sales as stock transfer to their depots or agents to evade Central Sales Tax. Even though this is a criminal offence, Government have not launched prosecution against these dealers. These dealers should have been charged 10%/12.5% tax with interest for the failure to file valid statutory forms. There have been representations not only from this industry but also from all-party delegations and Trade Union representatives that these heavy payments would destroy these industrial undertakings. Hence, considering the interest of the labour, I am taking a lenient view. It is because of my desire to be transparent in deals such as this that I am bring this up in this House. I offer to waive the penalty and all amounts in excess of 4% and interest thereon on all transactions up to 31-3-06 provided the dealers pay the amount in full before 30-6-07. If the dealers accept the offer necessary orders will be issued subject to concurrence of the Central Government. The sacrifice of revenue involved is Rs.25 crore.

175. The Rice Mill Owners of this State are facing a problem regarding purchase tax assessment. I also propose to offer the Rice Mill dealers in the State who have been assessed to purchase tax liability a facility to remit the principal amount in sixty equal monthly instalments without interest. Interest and penalties imposed on these dealers on this account will be waived if they make payments as per the scheme.

176. The Sales Tax exemptions being enjoyed by industrial undertakings were withdrawn with effect from 1-1-2000. However, it was decided to continue to grant these concessions to new units in the pipeline subject to certain stipulations. Unfortunately because of certain technical reasons some units did not get this benefit; they had not collected tax in the hope of getting that concession. If tax arrears are forcibly collected from these units they will have no option other than to close down. I propose to offer a one-time settlement for these units; all interest and penalties will be waived if these units remit the principal amount from 1-1-2000 to 31-3-2005 in 36 equal monthly instalments.

177. Tax had been exempted for manufacturers of edible oil under section 10 of the Kerala General Sales Tax Act. Dealers who purchased products of these units and sold the same under their own brand name have been assessed to tax for the reason that they had sold the item under their brand name. This practically resulted in the denial of tax exemption granted to the industrial units. Since the second sellers were retailers they did not collect nor remit the tax. It is not possible to collect the tax from these dealers now. Hence it is proposed to exempt dealers who purchased edible oil from manufacturers in Kerala and sold the same under their own brand name from their tax liability, provided that remitted tax shall not be refunded.

178. Small dealers who purchased edible oil from importers also face a similar problem. I propose to exempt them also subject to the condition that the goods have suffered tax at the first point and further that tax remitted shall not be refunded.

179. Footwear dealers in the State are experiencing some difficulty regarding the classification of footwear in view of the different tax rates. To help them I had fixed the tax on footwear up to Rs.200/- at 4% in the Finance Act 2006; this was to be in

force from 01-07-2006; I now propose to make this effective from 1-4-05 on condition that tax if any paid at higher rate will not be refunded. However, moulded plastic and rubber footwear excluding deemed plastic footwear in the period up to 30-6-06 will continue to be taxed at 4% regardless of their value on condition that tax if any paid at the higher rate shall not be refunded. Further, it has come to notice that price cannot be embossed on some kinds of footwear; I now propose to limit this stipulation to moulded plastic footwear alone. Other footwear should be indelibly marked with the price upto Rs.200 to enjoy the lower rate of tax. I also propose to fix the tax rate on moulded plastic uppers at 4%. I further propose to clarify that the tax rate on rubber hawai sheets and straps will continue to be 4% with effect from 01-04-2005. The loss of revenue from this measure is estimated at Rs.1 crore.

180. Splints and Veneers manufactured by Khadi and Village Industries Units are not eligible for tax exemption on their interstate sale. Because of certain ambiguities in the law these units were not collecting the tax amount. These units do not have the financial capacity to remit the huge tax arrears now. Therefore, as a measure of support to these units I propose to waive the CST amount due on manufactured goods of these units sold interstate for the period from 1-4-2005 to 31-3-2007. However, they shall be obligated to remit CST from 1-4-2007 onwards.

181. The tax rate on environment friendly recycled lubricating oil, energy saving devices like *choodarupettis* and Compact Fluorescent Lamps (CFL) will be reduced from 12.5% to 4%.

182. While the tax rate on all types of pipes is 4% the tax rate on cement concrete pipes is 12.5%. I concur to the demand of the industrialists in Kerala to reduce the rate of tax from 12.5% to 4% on this item.

183. Following the introduction of VAT tax was imposed on handloom cloth and handloom products such as bed sheets and pillow covers which were traditionally exempt from tax. There have been complaints that this has been adversely affecting our handloom industry. There is some substance to this complaint. So I propose to

exempt handloom cloth and handloom products such as bed sheets and pillow covers with retrospective effect from 1-4-2005.

184. Sir, I wish to reiterate what Kautilya said, that tax collectors should be like bees – they should draw the honey without destroying the flower. That is why in spite of the tough financial position of the Government we are offering concessions worth Rs.71.56 crore to promote trade and industry.

Rationalizing Tax Rates

185. The argument that tax rates on Marble and Granite is quite high compared to the rates in the neighbouring States has some substance. However it is equally correct that tax payment on Marble and Granite is low because of rampant under-weighment and under-valuation. Hence it is proposed to fix standard values of various varieties of stone as well as standard weights for different models of trucks. I know this may create problems for honest tax payers; hence I am offering a compounding formula for this sector. Dealers in this sector will be permitted to compound at 130% of the tax paid or payable as per the Act in any of the last three consecutive years. Dealers accepting this option will be exempted from paying Advance Tax. They will also be permitted to collect tax at a rate not exceeding 20%.

186. In the case of gold we have collected tax of Rs.70 crore this year as against Rs.21 crore collected last year. This shows that the compounding system that we had brought in last year in this sector was successful. However, some big dealers are still showing reluctance to compound. If these dealers also compound and if dealers who have already adopted compounding remit taxes as per the formula, the tax collection will exceed the targeted Rs.100 crore. I give dealers, who have not compounded so far one more opportunity to compound till 15th March, 2007. I hope they will use this opportunity. Action will be taken to assess and collect tax at 4% on all transactions against major dealers who still refrain from compounding.

187. The intention of Government was to allow compounding facility for all gold dealers who had started business till 30-9-2006. But some dealers who started business last year accumulated input tax credit in excess of output tax payable on account of purchases from local registered dealers, thus becoming ineligible to opt for compounding. I propose to bring those dealers also under compounding. I propose to extend the facility given to dealers who started business in the period 01-04-2006 to 30-09-2006 to these dealers also with retrospective effect. I had touched upon the rate of compounding for 2007-08 for dealers who had adopted compounding in 2006-07 in the last year's Budget; that had been fixed at 115%. However, some apprehensions have been expressed by some gold dealers regarding this offer; I wish to dispel those apprehensions. Dealers will be liable to compound for 2007-08 at 115% of the compounded tax paid in 2006-07 irrespective of tax payable as per return or accounts. However, in the case of dealers adopting compounding between 1-12-06 and 15-3-07 the compounded tax payable for 2007-08 would be 115% of the compounded tax fixed or tax collected as per accounts, whichever is higher. Sir, My effort has always been to get as many dealers under compounding as possible. Hence I now offer dealers who have started business in the period 1-10-06 to 28-2-07 compounding at 150% of the average tax paid, i.e. Purchase Tax under Section 6(2) + Net Tax, as in other cases, in this period.

188. Instances have come to note of dealers at the second and subsequent stages evading tax on their purchases from distributors and wholesalers by suppressing details of their TIN, names and addresses. This practice is becoming widespread. Hence, to improve tax compliance and to preserve the VAT chain, it is proposed to make first sellers liable for remitting tax on MRP in case where TIN of the purchaser is not mentioned correctly. The Distributors' Associations have been objecting to this proposal. In view of this situation it is proposed to offer a facility to first sellers in the State dealing in commodities under the Packaged Commodities Order to compound tax at MRP; in case of goods suffering tax at first sale point at MRP, subsequent sales will be exempted from tax. This measure is estimated to fetch additional revenue of Rs.20 crore.

189. I propose to amend the statute to clarify that a person cannot take multiple registrations. This is to prevent persons from splitting up their turnover to avoid tax.

190. There is already a facility for exemption of tax on handmade soaps if they are manufactured by Khadi and Village Industries Units. There is also a concessional rate of 4% on handmade soaps by other units, which has been misused by some large manufacturers. To prevent tax evasion I propose to limit the concessional rate of 4% to dealers whose turnover does not exceed Rs.25 lakh at their point of sale. This measure is estimated to fetch additional revenue of Rs.5 crore.

191. A number of cosmetic items that would normally have been taxable at 12.5% are being taxed only at 4% because they are produced under a Drug License which permits them to claim the status of medicines taxable at 4%. It is proposed to plug this loophole by amending the schedule entry appropriately.

192. Kerala is the only State that has exempted life saving drugs from tax. However, from October 2006 the Central Government changed the rules and made MRP on drugs tax inclusive; as all other States are levying tax, MRP has been fixed by the companies inclusive of tax. The State is losing revenue through the exemption but the consumer is not getting the benefit. Hence it is proposed to levy tax on them at 4% as in the case of other medicines. This measure is estimated to fetch additional revenue of Rs.8 crore. This amount is earmarked for purchase of medicines for Government Hospitals.

193. We have stipulated in Kerala Finance Act 2006 that awarders where value of work excluding value of materials supplied exceeds Rs.1 crore should be liable for payment of tax for purchases from unregistered suppliers. For widening the tax net it is proposed that the limit of Rs.1 crore be computed by including value of materials supplied by the awarders.

194. All works contracts will henceforth be subject to strict controls on the quantity of material brought into the State under the concessional rate so that there is no tax loss to the State by trading in the items by the contractor.

195. Builders were eligible for compounding under KGST at 2.3%; this facility was allowed to be continued for works which were ongoing as on 1-4-2005. However, some contractors have misused this facility by depicting new works taken up after that date as phase II & III of the original work; this is proposed to be stopped by clarifying that this transitional provision will apply only to contracts which have opted for compounding before 31-3-2005, on which payment is received up to 31-3-2007.

196. Major dealers from outside the State come and trade during festival seasons here under the garb of casual traders. It has come to notice that this has caused difficulties for our regular traders. To control this tendency it is proposed to limit the validity of a casual dealer registration to three months, and further, to increase registration fees from Rs.1500/- per quarter to Rs.2500/- per month.

New Tax Proposals and Increases in Tax Rates

197. Sir, I will now take up proposals for new taxes and increases in existing taxes. There has been an understanding with the Central Government that in return for reducing the rate of CST by 1%, tobacco and tobacco products will be taken out of the list of declared goods and that the State Governments can tax them. It is proposed to impose 12.5% tax on all tobacco, tobacco substitutes and tobacco products such as cigarettes, pan masala, excepting beedi, beedi tobacco, and *cheroot*. This rate will come into force as and when the Central Government issues a notification excluding tobacco from the list of declared goods; till then the above items will be taxed at 4%. This measure is estimated to fetch additional revenue of Rs.50 crore.

198. It has been a long standing demand of successive Governments in the memoranda submitted before the different Finance Commissions that the State

should be permitted to tax the goods under Additional Excise Duty. The Central Government is now ready to compensate the States for the reduction in CST rates. It is as a part of this package that the proposal to exclude tobacco and tobacco products from the list of declared goods has been agreed to by the Centre. Against the background of the additional resources that are additionally required to implement the Integrated Health Care Programme I propose to impose a tax of 1% on all textile goods excluding Khadi and Handloom cloth. This measure is estimated to fetch additional revenue of Rs.20 crore.

199. The tax on an ordinary draw under The Kerala Tax on Paper Lotteries Act, 2005 will be increased to Rs.5 lakh and that for a bumper draw to Rs.15 lakh. This measure is estimated to fetch additional revenue of Rs.40 crore.

200. The rates for compounding tax for quarries has not been changed since 2001. Consequently, Government is getting very low revenue from dealers under compounding compared to the tax payable by them if they were to be assessed on the basis of even conceded turnover. At the same time I cannot be oblivious to the real estate boom in the State. Considering all these factors I propose to double the existing rates. Units opting for compounded assessments will not be assessed on m sand separately. I further propose to tax all quarry products including m sand at 12.5%. This measure is estimated to fetch additional revenue of Rs.3 crore.

Modernization of the Commercial Taxes Department

201. The cost of collection of taxes has been going down steadily; in 1990 it was 1.35% and while in 2006 it has declined to 0.79%. I propose to increase the spending on tax collection to 1% and to maintain it at that level. Our effort will be to increase efficiency. However, I do not intend to create any new posts. I had declared earlier that offices which exceed their collection target would be rewarded with modernization of their offices. Similarly I had promised in the last Budget that officers who render meritorious service would be rewarded suitably. The Commercial Taxes Department performed exceedingly well in the last year. Modernization of various offices will be taken up on the basis of their performance

with the additional allotment of Rs.10 crore that I propose to allot to the Department; this will be given to their own administrative control. I had also announced grant of cash awards to individual officers who exceed their target; this will be operationalized this year.

202. The Legislative Committees are currently studying the Check Posts in detail. The Committees have already visited Walayar and Amaravila Check Posts. The recommendations of the Committees will be implemented on top priority. Steps to install weighbridges at nine Check Posts are proceeding apace accepting the recommendations of the Committees. The acquisition of land for the integrated check post in Walayar will be completed in 2007-08, and the tender for the works there will also be finalized.

203. There is no way we can efficiently run the VAT system without computerizing the Department. The Department will be completely computerized by 2007-08. The intensive training required for the purpose has already started. An expert committee will be set up under the Commissioner for evaluating and taking forward the computerization.

204. Very little of the data in the Commercial Taxes Department gets tabulated and analyzed. The process of computerization will aid in a better understanding of the data generated in the Department. A systematic database will be created on the basis of the available data. As part of this exercise the data from the Check Posts will be consolidated; I set apart Rs.25 lakh for this purpose.

Stamp Duty

205. Multiple transactions taking place on the strength of irrevocable powers of attorney need to be arrested to avoid further loss of revenue to Government. Hence it is proposed to impose stamp duty at conveyance rate on power of attorney executed conferring authority on the agent to transact immovable property. The prevailing rate of stamp duty on a General Power of Attorney is Rs.150/-. This rate is proposed to be revised as six rupees for every Rs.100 and eight rupees fifty paise for every

Rs.100 or part thereof respectively of the amount or value of the consideration for such conveyance or part thereof of the property to be transacted in Panchayats and Municipalities and Municipal corporations. Hence I propose to amend Article 44 in the schedule to the Kerala Stamp Act, 1959. This amendment is expected to mobilize additional revenue to the tune of Rs.50 Crore. The rate of stamp duty payable on powers of attorney executed for purposes other than transacting immovable property will remain unchanged.

206. At present trading in stocks and shares is very active in Kerala. But Government gets no revenue from share transfers by agents or brokers. De-mat transactions are the order of the day. As of now no broker remits any money on this count to the Government. Hence I propose to insert a new Section 10A to the Kerala Stamp Act, 1959 and impose stamp duty on de-mat transactions as was done in Maharashtra by amending Article 40 in the schedule to the Act. Amendments will be made to make licenses compulsory for stock exchange members and other agents involved in de-mat transactions. It will also be stipulated that stamp duty on broker notes for transactions will have to be deducted at source and remitted to Government.

207. The proposal is to impose stamp duty on broker notes : If relating to sale and purchase of Government securities, fifty rupees (0.0005%) for every Rs.1 crore or part thereof of the value of security subject to a maximum of Rs.500. If relating to purchase or sale of goods or non-Government stock or securities:

- i. in case of delivery, one rupee for every Rs.10,000 (0.01%) or part thereof subject to a maximum of Rs.250.
- ii. in case of non-delivery, one rupee for every Rs.50,000 (0.002%) or part thereof subject to a maximum of Rs.250.
- iii. if relating to futures and options trading, one rupee for every Rs.50,000 (0.002%) or part thereof subject to a maximum of Rs.250 and
- iv. if relating to forward contracts of commodities traded, one rupee for every Rs.1,00,000 (0.001%) or part thereof subject to a maximum of Rs.250.

This amendment is expected to generate additional revenue to the tune of Rs.10 crore.

208. The Indian Stamp Act, 1899 stands amended incorporating a new definition to the “Stamp”. Since the Kerala Stamp Act does not contain such a definition the State cannot collect stamp duty as is being done by other States who have adopted the Indian Stamp Act, 1899. Hence I propose to amend the Kerala Stamp Act, 1959 appropriately.

209. When a premises/apartment/flat is transferred by the developer the value/consideration of the apartment is not set forth in the transfer/sale deed. Though the developer is transferring a fully built apartment to the transferee by the sale deed the consideration/value shown in all cases is only that for the undivided interest/share in the land in which the premises/apartment/flat is built. The value/consideration of the premises/apartment/flat that is complete in all respects is made out to appear in the transfer/sale deed as one built by the funds provided by the transferee under a contract for construction with the transferor. I propose to make necessary amendments for this purpose to effectively check this practice. This amendment is expected to generate additional revenue to the tune of Rs.25 Crore.

210. It has been a long standing demand of the Stamp Vendors’ association to enhance the upper limit for selling denomination of stamps by licensed stamp vendors. I am very happy to inform you that the request has been accepted. Hence I have decided to raise the upper limit of Rs.10,000/- to Rs.20,000/-.

211. To levy and collect service charges on the foreman’s commission and other charges earned by the foremen on chitties run by them at such rates as may be fixed from time to time has been a long felt need. Since Kerala State Financial Enterprises is the major player in conducting chitties in the State it is proposed to levy service charge on the commission and other charges earned by them. I propose to amend the Kerala Chitties Act 1975 accordingly.

212. These days used vehicles market is booming. Introduction of stamp duty on transfer instruments relating to transfer of vehicles will bring in more revenue to the

coffers of the State. I propose to impose stamp duty on transfer of registered motor vehicles. I propose to amend the schedule to the Kerala Stamp Act, 1959 and insert Article 56.A to give effect to the proposal. The proposal is to impose stamp duty of Rs.100/- on two wheelers, Rs.250/- on Light Motor Vehicles and Rs.500/- on Heavy Duty Vehicles. This amendment would bring in additional revenue of Rs.2.50 crore to the State.

Motor Vehicles

213. In Kerala, the number of motor vehicles as well expensive luxury cars is growing fast. The Motor Vehicles Tax structure at present is based on engine capacity in respect of two-wheelers and on Unladen Weight (ULW) in respect of motor cars. As a result, there is no difference in the existing tax rate between expensive luxury motor cars and ordinary cars. This has to change; tax has to be fixed on *ad valorem* basis to make it more scientific. The rates of tax on motorcars were last revised in 1997. The same rate has continued now for almost ten years. Hence, as in neighbouring States, I propose to rationalize and introduce an *ad valorem* rate based on the purchase value of motorcars. It is proposed to levy a uniform rate of 6% *ad valorem* for two-wheelers, motorcars and omni-buses for private use at the time of registration of all new vehicles. It will take effect from 1st of April 2007. For all other two-wheelers, motorcars and omni-buses for private use there will be an increase of 10% from the existing rate. This proposal will yield an additional revenue of Rs.80 crore.

214. Tax rates in respect of educational institution buses, contract carriages, private service vehicles and other goods carriers, including Trailers and articulated vehicles, were last increased last ten years back. Hence it is proposed to increase the tax rate by 10% on contract carriages, private service vehicles and Goods carriers including Trailers and Articulated vehicles. Considering the cascading effect on passenger fares I do not propose to make any increase on Stage Carriers though the tax rate for Stage Carriers was last revised only in 2001. The existing rate will

continue for Stage Carriers and Educational Institution buses. The above measures will give an additional revenue of Rs.20 crore.

215. Autorikshaws and Motor Cabs being common man's means of transport, no increase in tax is proposed, and they will continue to enjoy the existing tax rate. Tractors used for agricultural purpose and Ambulances owned by hospitals will continue to enjoy tax exemption.

216. The rate of tax on construction equipments such as JCB, Road Roller, Excavator, Cranes and Bulldozer will be increased by 10% from the existing rate.

217. In order to give effect to the above revision of taxes, necessary amendments will be brought in the schedule to Kerala Motor Vehicles Taxation Act.

Non Tax Revenue

218. Non Tax Revenue has been falling in Kerala compared to other States in India. Recommendations for reforming the means of Non Tax Revenue have been around for some years now. In the light of the financial crisis the Cabinet had also discussed this issue. I am not taking the lead for implementing the suggestions through this Budget. It is better that the concerned Departments take decisions in this matter and implement them. I am only putting forward a suggestion to give an impetus to this process. The additional revenue generated by Development Departments by raising their fees, fines and other charges would be earmarked for development activities of those Departments.

PART FOUR

219. As highlighted in the preceding paragraphs, the effort of this Government is to strike a balance between expenditure on social sector and on other sectors which are more directly productive. At the same time attempt has also been made to adhere to

the rigidities of Fiscal Policy Frame work already set. Now I present the summary of the estimates of financial transactions for 2006-07 and 2007-08.

Revised Estimates 2006-07

		(Rs. in crore)
Revenue Receipts	-	18967.05
Revenue Expenditure	-	24883.53
Revenue Deficit	-	(-) 5916.48
Capital Expenditure	-	1612.50
Loans and Advances (Net)	-	(-) 802.38
Public Debt (Net)	-	5752.79
Public Account (Net)	-	2011.60
Overall Surplus/Deficit	-	(-) 566.97
Carry over Surplus/Deficit	-	146.72
Cumulative Deficit	-	(-) 420.25

Budget Estimates 2007-08

		(Rs. in crore)
Revenue Receipts	-	21445.76
Revenue Expenditure	-	26696.92
Revenue Deficit	-	(~) 5251.16
Capital Expenditure	-	1319.61
Loans and Advances (Net)	-	(~) 854.44
Public Debt (Net)	-	5346.94
Public Account (Net)	-	1939.83
Overall Surplus/Deficit	-	(~) 138.44
Carry over Surplus/Deficit	-	(~) 420.25
Announced	-	212.13
Additional Resource Mobilisation	-	248.69
Cumulative Deficit	-	(~) 522.13

CONCLUSION

220. Sir, I am concluding. As stated in the beginning, the Kerala State is at the cross roads of history. It is in this context that budget for 2007-08 is being presented.

221. From a past era of socio economic justice with its emphasis on redistribution, Kerala is moving towards a future of rapid economic growth and modernisation. A bridge has to be built between these two worlds. A new Kerala model is to be evolved, combining economic justice and rapid economic growth. The achievements of the 20th century have to be closely guarded while conquering the heights of the 21st century. With this perspective, the budget is presented giving equal importance to agricultural and traditional sectors, service sectors such as education, health etc and other new growth sources like Tourism, IT and modern industries.

222. The main hurdle in achieving these objectives is the financial position of the Government. We have tried to progress through a balanced economic development path, even though there is temporary increase in deficit. In this regard, Kerala has chosen a path of economic reform different from other States. Revenue deficit should be eliminated; necessary loans for rapid economic growth have to be ensured. I am confident that these objectives will be achieved by the end of this decade.

223. Another special feature of this budget is the focus it gives on improving the efficiency of expenditure. The reforms in the Public Works sector is just a beginning. This will be completed with the finalisation of the Impact Budget process in 2007-08 and when the administrative reforms process progresses further.

224. Finally, a strong emphasis has been given for resource mobilisation. This budget has started the biggest resource mobilization effort in the recent history of the State. This has been done by minimizing the difficulties of the common people to the extent possible.

225. There is sufficient time for discussion on the above said approaches in the House and outside. I heartily welcome all criticism and suggestions. I submit this budget for the approval of this august House.

/// JAI HIND ///

