

**GOVERNMENT OF KERALA**

**REVISED BUDGET 2006-2007**

**BUDGET SPEECH**

By

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## **Part 1**

1. Sir, I am presenting the revised Budget for 2006-07
2. It pains me to begin my maiden budget with a narration of the appalling state of our State's Finances. Truth, however has to be told. The financial crisis has further deteriorated during the U.D.F rule.
3. The collapse of the State Budget within the first three months of the financial year itself is visible proof of this. The concerns raised by the opposition during the presentation of the previous budget and discussions on the vote on account have proved to be true. The budget equations were balanced by exaggerating borrowing limits and hiding expenditure. The treasury has come under tremendous pressure during the very first month of the payment of revised salary etc. Now, once the payment of earlier arrears and expenditure of announced development schemes commence, the much touted treasury balance will turn into a deficit. If we do not remove the defects in the equations of the budget presented by the U.D.F three months ago, the State will come to a complete fiscal standstill. Hence, Sir, some corrections are inevitable.
4. I know that the people of Kerala want a major overhaul and not just small corrections in the budget. That is clear from the outcome of the people's verdict in the recent elections to the Assembly. But for various reasons, such an overhaul is not possible at this juncture.

5. Three months of the financial year are already over. Another two months would be required to complete the full budget process. In order to fully incur the Government expenditure fully, the budget process has to be completed. Until then the Government expenditure will be incurred on the basis of vote-on-account. I am afraid that a major revamp at this juncture would create delays and obstructions in implementation.
6. Another major obstacle to a comprehensive revamp of the existing budget is the acute financial crisis faced by the State Government. Inevitable expenditure, not included in the last budget is already around Rs 2000 Crore. This has put severe pressure on the Plan. The approved Plan is for Rs. 6450 crore. But the Central Planning Commission has given approval for an Annual Plan of only Rs. 6210 crore. Thus, the already bloated Annual Plan Outlay ceiling sanctioned by the Central Planning Commission cannot be further substantially enhanced. Announcing new development projects is therefore very difficult. Above all, the decision taken by the Central Ministry of Finance to curtail the loans to the State has already created a big uncertainty in plan implementation.
7. Those of us who were in the opposition had opposed tooth and nail the budget which was introduced in the House three months ago. The concerns we had expressed then have become a reality. We had criticized that the approach of the budget was to ignore the agricultural and traditional sectors. However, in the present situation it is not possible to revamp the budget totally. That is why we have to satisfy ourselves with a revised budget now. But

efforts have been made through this correction to give a clear sense of direction reflecting the policy approach of the LDF. In order to bring out clearly the comprehensive revamp of the fiscal policy and development strategy of the LDF the State has to wait till the next full budget and the draft of the Eleventh Five Year Plan. By then, the present serious fiscal uncertainty would have been overcome to a certain extent.

8. Sir, I am trying to give a clear sense of direction to the Government's fiscal policy through this budget. The present situation of depending on loans even for the day to day expenditure of the State has to be changed. In other words, we should be able to eliminate the revenue deficit or reduce it drastically. But this is not to be achieved by compressing expenditure indiscriminately and stopping all welfare measures for the poor and benefits for the employees which is what UDF tried to do. That is why it has been decided to implement the Pay Revision Commission Report fully whatever be the financial difficulties. The new Government is committed to clear the arrears of welfare pension and to increase the benefits as stated in the manifesto. More funds will be found for the protection of the education, health and other social sectors. Therefore, which is not our intention to curtail expenditure, we shall endeavor to limit it to average growth rates of the last ten years. If we take the average of the last ten years, the State's revenue expenditure is 16.9% of the Gross State Domestic Product. It is expected that in the current year this will register a sharp increase to 19.5%. However, within 2-3 years when the impact of additional

expenditure for payment of arrears on account of salary and pension expenditure neutralised, the ratio of revenue expenditure of the State to the Gross State Domestic Product is expected to come down to 17% by 2010.

### **Financial Crisis and Treasury Balance**

9. The critics have approached the statements on fiscal crisis in two ways. The first one is the stand taken by the Hon'ble Opposition Leader. Is it not ridiculous to accuse that we have, in a few days of assuming power, destroyed the financial position of Kerala which had been secured with a large treasury balance?. Therefore his charges are that the statements on financial crisis are a strategy to avoid disbursement of salary arrears. In short, the argument of Opposition, including the former Finance Minister, is that there is no serious financial crisis in the State.
10. They have reached such a desperate state that they have to depend on the day to day treasury balance as an index of financial stability of the State. The argument that financial management is efficient when there is a treasury balance is a hollow one. A State that depends on huge borrowings, shows a treasury balance by permanently keeping a portion of the high cost borrowings in the treasury without spending it. Can there be any greater folly than this? More than that, this treasury balance is made up by imposing cuts in plan outlay and by deferring expenditure on welfare measures. The U.D.F was following such an anti-people policy. The Central Government is also trying to force the States to accept such an approach.

11. Recently, the phenomena of treasury balance has appeared in most of the States in India. Nobody will say that the States in India are struggling to spend these funds because all the primary needs of their citizens are fulfilled. It is notable that all State Governments in India are borrowing at interest rates of 8-9% per annum. Figures of R.B.I show that surplus of all States at the end of the previous financial year ( 31-3-2006) was Rs.31,744 crore. The State Governments deposit this amount in treasury bills of the Central Government. The interest rate on such deposits is 5%. While the Government of India manages to obtain huge amounts at a low interest rate, it has imposed borrowings to the tune of some Rs.90,000 crore at the rate of 9.5% on State Governments. I have purposefully used the word 'imposed'. Most State Governments (not Kerala) have taken the stand that at present they do not need the high cost loan from NSSF, instead they be allowed to borrow from the open market at a lower cost. But the stand of the Centre is that State Governments should necessarily borrow from the NSSF at high interest rates. Thus, the money that the Centre lends to States at 9.5% per annum goes back to the Centre itself in the form of deposits in treasury bills, for which the Centre gives only 5% interest . The fact is that as a result of this new dispensation the Centre was able to improve its fiscal position at the expense of the State Governments. This is clearly mentioned in a recent study of RBI on State Government finances: "Had the State Governments not deposited their cash balances in the treasury bills for 14 days, the Centre would have been in WMA" (RBI: State Finance; A study of State Budgets 2005-06, page 52). It is

now customary for the Centre to point to this 'bursting wallet' of States, when States request for additional funds from the Centre. Unfortunately, the U.D.F in Kerala was also parroting the same tune. I appeal to my friends in the U.D.F to have a rethink on the anti- people politics and stand united in the interest of the State.

12. I do not wish to give a detailed account on how this phenomena of treasury balance emerges. As I stated earlier, it is clear that this is achieved by depriving people of their basic requirements and by cutting down developmental expenditure. It is when we ask how a democratically elected Government can show such an obvious anti-people attitude, that the role of 'Fiscal Responsibility Legislation' imposed by the Central Government as part of globalization becomes very clear. Their commitment is not towards people who elected them but to certain targets fixed by experts who framed the fiscal responsibility laws, which are then enacted by some State Governments, knowingly or unknowingly. This is truly anti-democratic. The Centre has been thrusting targets related to income, expenditure, Revenue Deficit and Fiscal Deficit on states in such a way that it would be applicable even to future Governments. The Finance Commissions have been made a tool for this. Governments, which come to power giving a lot of promises, are forced to swallow them quoting these conditions.

13. The RBI Reports referred to earlier indirectly endorse this situation. It says that one major reason for the phenomena of cash surplus is that "the States strictly restrict expenditure,



particularly non interest Revenue expenditure and capital outlay" (ibid, pp 50-51). On the following page 52, the same report also points out that "States are compelled to do so to become eligible for cash assistance due as per the recommendations of the TFC. The cash surplus phenomena appearing even in States facing very acute financial crisis is the unfortunate child of this anti people policy.

14. But Sir, Kerala cannot even claim the achievement of cash surplus. A summer drizzle does not make the monsoon. Data reveals that the treasury surplus is a rare phenomenon for us. May I give the figures on how many times the State depended on Ways and Means Advances during the previous U.D.F. regime. It was 136 days in 2001-02, 161 days in 2002-03, 328 days in 2003-04, 338 days in 2004-05 and 195 days in 2005-06. During this period, except in 2002-03, plan outlays were cut . Only around 75 % of the plan outlay approved by the Legislative Assembly was spent. By the end of 2005-06, despite the much publicised cash balance of Rs. 147 crore on 31<sup>st</sup> March, the unspent plan provision was around Rs. 1400 crore. Arrears to contractors amounted to Rs. 1200 crore. Arrears on welfare schemes was around Rs. 200 crore . For PSUs, assistance was given only for retrenchments. Needless to add, no funds were granted to the traditional and co-operative sectors.
15. It is frivolous that the debate on financial crisis is an excuse to deny salary and arrears to employees. I wish to ask one question to these critics. Did the UDF Government allocate funds to clear the arrears of pay revision in their budget presented in

February?. The note on the estimates of the amount required for pension and salary during 2006 – 07, including arrears from 1.4.2005, most of which were to be deposited in the Provident Fund, that the Finance Department submitted to the then Cabinet is with me. I am ready to give this to the Hon'ble Opposition Leader to refresh his memory. Can he deny the fact that only Rs. 1600 crore was provided additionally for revision of pay in the budget for 2006-07 when around Rs. 3000 crore was actually required? What would have been the state of the revenue deficit if the full amount was actually provided?. How the budget estimates would have been turned upside down!. Sir, I must find answers to these questions now.

16. There are other issues to which answers have to be found. Was sufficient provision made in the budget for 2006-07 for the populist promises liberally announced before the elections? The discount in power tariff was declared without the consent of the Finance Department or even the Council of Ministers. Then promises made to compensate the loss KSEB would incur by all this. Is there even a token provision to meet this liability? Is there any allocation for the scheme to provide rice at Rs. 3 per kilo? Did those who declared the disbursement of welfare pension every month provide amounts to clear the arrears? Was there adequate provision for welfare fund pensions? Was there any allocation for payment of arrears due to contractors? What about huge additional requirement like that for KSTP? Was there any provision to repay the arrears due to Co-operatives? Where is the money for the much publicised 'Health Insurance Scheme'?

My predecessor prepared this budget hiding such inevitable expenses.

17. I had earlier mentioned another reaction to my statements on the financial crisis which goes some what like this "Both UDF and LDF are alike. The new Finance Minister's tone is the same as that of the UDF Finance Minister five years ago". But for the LDF, the financial crisis is not a phenomenon that disappears when it is in the opposition and reappears when it comes to power. It is an inevitable facet of a capitalist path of development based on Government intervention.
18. The UDF Government that came to power cited financial crisis as a reason for declaring war on every section of society including employees, workers in PSUs, workers in co-operative societies and the poor beneficiaries of the Social Security Schemes. The white paper released by the UDF was only a smoke screen to accept the conditionality of the ADB agreement and clauses in the Fiscal Responsibility Bill. It is the resultant backlash which the UDF faced in various by-elections, Lok Sabha elections, elections to the Local Self Government elections and lastly in the elections to the Assembly. In order to escape from the people's wrath they swallowed all their previous announcements. They then made a lot more populist announcements in the last years as if it was "deluge after us". But the people of Kerala who know about your doings did not take these at face value.
19. The difference of opinion between the LDF and the UDF is not on whether there is a financial crisis or not. The UDF policy

was to squeeze the people to overcome the financial crisis. They are now suffering because of implementing this policy. As against this, the approach of the LDF is that the people should get full relief while attempting to overcome the financial crisis and accelerating economic growth. The corner stones of our development strategy are social justice and economic growth. We will strive to ensure economic security and growth, while retaining the social welfare gains of the past.

### ***Reduced Borrowal Ceiling***

20. Sir, I would like to share with the House a matter of serious concern following the presentation of the 2006-07 budget in the Assembly in February 2006. In the discussions between the Central Planning Commission and the State Government it had been agreed that the State should be allowed to borrow Rs. 7246 crore. The annual plan of Kerala was approved on the basis of this assumption. In the fiscal. Once the Planning Commission has approved the resource plan there has never been any modification to it. But for the first time, the Union Ministry of Finance has unilaterally enforced a cut in the borrowal ceiling allowed by the Planning Commission. They have estimated that during 2006-07 the borrowing limit of Kerala would be only Rs. 4672 crore. The Ministry of Finance has made this modification without consulting the Central Planning Commission. It is understood that, similar modifications have been made in the case of many other States as well. Such a stance by the Union Ministry of Finance following the presentation of the budget and

passing of Vote on Account, and approval of the Central Planning Commission after due deliberation, is highly objectionable.

21. Sir, this approach of the Central Government is a heinous attack on the federal set up. The Central Government which swears by the Twelfth Finance Commission has neither constituted the Inter State Loan Council, as recommended by the same Finance Commission nor discussed this issue there. The Central Government is not even prepared to discuss this new approach in the Sub Committee of Chief Ministers formed by the National Development Council, constituted to discuss the debt burden of States. This unilateral stand has to be corrected.
22. The fact which came to light on enquiry as how the Union Ministry of Finance fixed the borrowing ceiling of Kerala as Rs. 4672 crore is very strange. In the memorandum submitted by Kerala Government to the Twelfth Finance Commission, it has been made clear that the goals settled in the Kerala Fiscal Responsibility Act are impractical and that cannot be achieved. The Union Ministry of Finance requested to forward a revised fiscal adjustment programme in accordance with the recommendations of the Twelfth Finance Commission and the Fiscal Responsibility Act. Thus, the loan limit of Rs. 4672 crore for 2006-07 is the result of Kerala Government's own actions ! I can only say that the UDF Government is so stubborn that it will learn from past mistakes.

23. Any way, I wish to make one thing clear categorically. The borrowing limit in the budget under consideration cannot be revised based on the unilateral instructions of the Union Ministry of Finance. I request that in order to protect the rights of the State all of us rise above party politics and take a united stand. I hope that the UPA Government will withdraw from its path of confrontation with the State.

### **Strict Financial Discipline**

24. It is necessary to enforce strict financial discipline in order to achieve the objectives of this Budget. The Hon' ble Chief Minister has already given instructions on certain measures related to Traveling expenses etc. These instructions will be further extended on the basis of a comprehensive review. It is equally important to impose strict control over creation new posts. There will be no restrictions on filling up existing vacancies through the PSC or the employment exchange. However, new employees are required for running new schemes and institutions newly announced by Government. This would have to be found through redeployment of existing posts. The Administrative Reforms Commission has recommended such redeployment. It may be recalled that in the Governor's address, a policy announcement has been made that this Government is committed to implement the recommendations of the Administrative Reforms Commission

25. Sir, even when we say that strict financial discipline will be enforced, there are some sectors which have not been adhering to such disciplines over the past few years. There is a state of utter financial indiscipline in departments involved in construction activities. The audit report of C & AG is testimony to the ways in which the State is being looted by the nexus of contractors, some corrupt officials and some politicians. As chairman of the PAC, I was witness to the way in which cases of corruption were weakened due to delay in finalizing the PAC report. Very often, criminal negligence in deliberately not furnishing replies is the chief cause of this delay. What we face here is the failure to incur Government expenditure in the proper manner. When I talk of adhering to financial austerity I see it as my prime responsibility to end this chaos in the construction works sector.

26. Sir, when the UDF Government came to power a major allegation against the LDF was that an amount of Rs. 873 crore was due to contractors. What my friends in UDF claim is that this liability has been discharged. Then how is it that when UDF Government left office, the dues to contractors stood at about Rs. 1200 crore?

27. Sir, in the last 5 years Government have fully spent the budgeted outlays earmarked for construction works. Government have in addition sanctioned almost equal amounts as Supplementary Demands for Grants each year. Then how is it that dues to contractors almost equal the total budgeted outlays? This is the puzzling question. There are a number of practices

that lead to such a situation: It has become intended practice to give administrative sanction of 150 per cent over the actual budget outlay each year to invite tenders for amounts higher than in the administrative sanction, to sanction works based on administrative sanctions issued 25 years ago, allow tender excess just below the sanctioned limit to allow tender excess upto 35 per cent without Government sanction, to award works without inviting tenders, etc.,. In the case of non plan expenditure there are allegations that the powers delegated to lower levels are being misused while giving administrative sanction and tendering works.

28. Sir, in order to maintain financial discipline we have to review the procedures in the construction works sector. We intend to request the C & AG to do a comprehensive review in order to facilitate the above and suggest ways to avoid such misuse of funds. The Finance (Inspection) Wing will also conduct a comprehensive examination of non plan expenditure of previous years. On the basis of these reports we will take a decision on the reforms to be introduced in this sector.

**Substantially raise revenue income.**

29 Till now I have discussed ways to stabilise the ratio of Revenue Expenditure to the Gross State Domestic Product. As I intend to limit this ratio to the average levels of the last ten years, there is only one way to reduce the revenue deficit. This is to considerably increase revenue receipts. The average ratio



of revenue receipts to Gross State Domestic Product of Kerala for the last 10 years was 13.2 percent. This would need to be raised to 16% by the year 2010. To attain this target there must be a substantial increase in central grants. The total amount received from the Central Government, including grants, accounts for 29% of our revenue income. We can, at best, expect the rate of growth of grants from the Central Government to remain at the same level as in previous years. This means that we can ensure the economic security of the state, only through a steep increase in tax and non tax revenue. The first years proposal in this regard are mentioned in Part 3 of the Budget Speech.

30 This is the basic difference between the fiscal adjustment programme of the U.D.F and that of the L.D.F. The policy of the U.D.F lay emphasis on the expenditure side. The Central Government also insists on bridging the revenue deficit by reducing expenditure. We are not willing to do that. Our approach is to solve the financial crisis by increasing revenues. While doing so care would be taken to ensure that additional resource mobilization does not impact the poor adversely. I

would like to feel you that, this is the challenge that I intend to take up as Finance Minister.

31. There is another factor which distinguishes the neo-liberal fiscal adjustment from the programme of the LDF, and that is the attitude towards debt. There is no merit in the argument that the fiscal deficit should be brought down once the Revenue Deficit is removed. It is true that borrowing even for day to day expenditure will lead to financial crisis. But I do not understand on what ground the borrowing for developmental expenditure can be opposed, especially capital expenditure. Government intends to borrow for creating more infra structure facilities that would go a long way to enhance the State's economic growth. Strong interventions are increasingly seen to bring these type of borrowings under the control of the Centre. This would weaken the Federal structure. This takes away the power of the State to set its own priority, while remaining within the framework of the federal structure.

32. The Government intends to amend the existing Kerala Fiscal Responsibility Act and the Kerala ceiling on Government Guarantees Act keeping in view the spirit of the above cited

policy approach and also considering the recommendations of the Twelfth Finance Commission.

## **Part 2**

33. The budget is not merely a statement of Government revenues and expenditure. These revenues and expenditure deeply impinge on the State's economy. Hence, it is necessary to comment briefly on not just the Government's financial position but also on the State's economy. As the discussion in this Assembly on the previous budget have revealed that there are inherent contradictions in the figures of the State's income, especially in the recent years. The State Planning Board will comprehensively analyse the basis of the data-base relating to the State's economy and correct it. In spite of these limitations certain important tendencies can be delineated.

34. The State's economy began to grow rapidly from the late 1980s at rates above the national average. In recent years too, this phenomenon is continuing. But while analysing the nature of this growth process, certain limitations come to the fore. The most important among these is the collapse of the agrarian sector from the end of the 1990s. Even though there has been a recovery in the price of rubber recently, Kerala is yet to recover from the severe agrarian crisis. The agricultural income of Kerala, which

was Rs.7017 crore in 1999-2000 fell to Rs.5586 crore in 2004-05(at 1993-94 constant price). The data also indicates an acute stagnation in the traditional sector. It is a paradox that at the time of economic progress in Kerala, the traditional sector where the majority of the people make their livelihood, is crumbling. This is the result of globalization. Economic progress, despite severe recession in the productive sector is because of remittances from people employed abroad. The Gulf money has helped us to enhance our average level of consumption and savings. But the expanding indigenous market and savings do not create ripples in the productive sectors. To overcome this is the core of the developmental strategy of Kerala. Economic growth based predominantly on the growth of the services sector does not generate ample employment opportunities. Growth without employment results in the unemployment situation aggravating and becoming more complex

35.In the said situation, the intention of Government intervention is very clear. We should be able to raise investments to enable more acceleration in economic growth. In order to achieve 10% growth in a sustainable manner, the investment rate in the State should rise from the present 22% to more than 35%. This means the capital investment in the State should be 50-75% more than the present rate of capital mobilization. Looked from this angle, it is imperative to have a quantum leap in private investment. It should be possible to substantially attract the earnings of the Non-Resident Keralites and the

savings in Kerala itself to productive sectors. An atmosphere conducive for this will be created and foreign investment which helps in creation of new technologies and employment opportunities will be welcomed.

36. It is essential to have more public capital investment in social-physical infrastructure sectors in order to create a conducive situation. It is necessary to revive the public sector also. Ensuring of healthy labour relations and enhancing transparency and efficiency of Government are also required.

37. But the benefits of these measures should not be restricted to some new development sectors. It should be possible to ensure growth in agriculture and traditional sectors which are the means of livelihood of majority of the people. This is the crucial missing link in the development strategy for the last five years. . This is where the most important corrections is intended in this budget. More emphasis is given to agriculture and traditional sectors by providing additional funds in the Non-Plan and by modifying certain existing schemes.

### **Agricultural Sector**

38. In order to find a solution to the crisis ridden farm sector, changes need to be brought about in the import and procurement pricing policies. We need to undertake three fundamental responsibilities in the agricultural sector; Firstly, giving some urgent relief to the farmers who are deep in debt. Secondly, the main reason for the crisis in the agricultural sector is the steep fall in the prices of agricultural products.

Therefore, measures need to be taken to bring about price stability. Thirdly, raising productivity and production and consequently generating supplementary income.

39. To tackle the first two issues, two Commissions namely, the "Agricultural Debt Relief Commission and the Agricultural Commission" will be set up. For the activities of these Commissions, an additional sum of Rs. 100 crore is provided, over and above the already budgeted outlay of Rs. 56 crore.

40. The Agricultural Debt Relief Commission will have the power to declare an area or a crop in a region as calamity affected and to give proposals to the Government and financial institutions regarding debt relief. The Commission can after detailed examination can also suggest measures relating to One Time Settlement and rescheduling of loans, reducing the burden of principal and interest under special circumstances, and giving moratorium on loan repayments after detailed examination. The Government also intends to enact a law that would give the Commission powers for one time settlement of exorbitant rates of interest charged by private money lenders. The Commission would thus be a quasi judicial body also.

41. There is no such arrangements anywhere in India that is by suicides of farmers continue in States even though Governments have come out with promises of debt relief. The Government of Punjab had a plan to set up such a debt relief commission, but pressure from those who protect the interests of private money lenders stood in the way of such legislation. Hence, Kerala would be the first state to bring about this kind

of legislation. With the implementation of this election promise, the LDF in Kerala will be showing the way to the rest of the nation.

42. The responsibility of the second Commission, namely, the Agricultural Commission would be to ensure price stability and make proposals to Government regarding measures to increase investment in the agricultural sector. Likewise, proposals in respect of fixing the floor price of crop procurement, crop insurance, etc. will also be addressed by the Commission. The Commission will formulate details for the setting up of a price stabilization fund, integrating it with the price stabilisation fund of the Central Government. There is tax exemption for crops like tea and coffee presently. It need not be reiterated that when the price situation improves, this tax will be reintroduced. The Agricultural Commission can propose such changes from time to time. An amount of Rs. 56 crore is provided for schemes that will be proposed by the Agricultural Commission.

43. Farmers are facing a severe crisis due to the fall in prices of coconut. The price has fallen from Rs.6500 to Rs.4250 per thousand. A package for coconut farmers is declared against this backdrop. Coconut will be exempted from tax for one year. It is hoped that taking into account this serious crisis being faced by the coconut farmers, the Central Government will allow this to be included when computing VAT compensation.

44.A Centrally aided revised scheme targeting coconut trees affected by root wilt disease will be introduced which will be part of comprehensive scheme for development of coconut cultivation. Schemes of Agricultural Department, LSGs and Central Government Institutions relating to coconut cultivation will be implemented in an integrated manner. Product diversification will be promoted through the activities of co-operatives and micro enterprises. Product diversification will also be undertaken on a cluster based approach. Based on the recommendations of the Agricultural Commission, steps will be taken to introduce price stabilization. For the development of coconut cultivation, an amount of Rs. 36.25 crore is provided under Central and State Government Projects. In order to provide more money for coconut cultivation, a scheme of additional Central assistance has been submitted to the Planning Commission. The Coconut Development Board has also assured more assistance.

45. Along with the development of technology oriented paddy cultivation, methods like water conservation, dissemination of disease resistant and productivity oriented paddy seeds, development of indigenous technology, application of artificial manure based on soil structure, cultivation of items like spice, paddy medicinal paddy etc will also be promoted. The paddy cultivation scheme of the Agriculture Department, LSGIs and Padasekara samithis will be implemented in a coordinated manner. An amount of Rs. 16 crore is provided for paddy cultivation. Besides this, an amount of Rs. 12.14



crore from the Macro Management Programme, and a sum of Rs. 25 crore from RIDF, will be provided additionally. An amount of Rs. 7.69 crore towards expenditure on paddy procurement is also provided. For the renovation of rice mills at Thakazhi, Vechoor and Alathoor an amount of Rs.2.50 crore is provided.

46.The Ministry of Commerce has shown active interest in commercial crops. New packages with the assistance of the Centre would be formulated for replanting, coffee, tea and pepper and for increasing productivity and ensuring stability.

47.In order to revitalize our agricultural sector, an integrated programme shall be formulated taking into consideration the agro ecological peculiarities of each region. The foundation for this programme will be laid by Local Self Government institutions as part of the 11th Five Year Plan. In the last year's Peoples Plan Programme, there were serious discussions in Gramasabhas on watershed based development projects, based on documentary information available in watershed maps . The watershed based plan programme will be rejuvenated. The mass appeal of the Eleventh Plan would be ensured through participation of farmers' organizations, agricultural labour organizations and other mass organizations. For the implementation of this project and training I am earmarking Rs. 3 crore for the Local Self Government Department. I expect the Eleventh Five Year Plan will be a turning point in the revitalization of the agricultural sector in Kerala.

48. For the formulation of watershed based projects, the National Rural Employment Guarantee Scheme of Government of India will be put to full use. Government of India has already included Wayanad and Palakkad districts in this scheme. Under the watershed based land development programme, the NREG scheme can be utilized to create asset and to develop lands of small and marginal farmers. Under this scheme, employment can be provided to as many families as required for 100 days in year at a wage of Rs. 125 per day. I earmark Rs. 20 crore for the implementation of this scheme. We have requested the Government of India to include two more Districts under the NREG Scheme. I expect that within three years, entire Kerala will come under this scheme.

49. This Government has submitted a comprehensive package known as the "Wayanad Package" to the study team of the Central Planning Commission. Under this package, we have requested Rs. 501 crore additionally from the Centre, apart from recommendations regarding debt relief and price support policies. This package includes debt relief measures for each household and also funds for restructuring existent liabilities as grants and loans. This major scheme aims at giving Rs. 5000 as grant from the backward district development fund and Rs. 10000 as loan from different Centrally Sponsored Schemes and other additional new loans. The State Government's share for this scheme will be provided as soon as the Planning Commission approves this package. Without waiting for the approval of the Central Planning Commission,

the Wayanad package will be implemented by integrating it with the existing central NREG Scheme.

50. We have requested the Central study team to extend similar packages for Idukki, Palakkad , Kasargod Districts and other Districts affected by the agricultural crisis. We have also requested inclusion of Idukki and Kasargod District as backward regions. We have to prepare watershed based projects for these Districts also.

51. Finally, I would like to refer to the agricultural marketing and agro processing sectors. These two sectors have been totally ignored in the Planning process of Kerala. We are now facing the repercussions of this. An amount of Rs. 6 crore has been earmarked under the President's Special Mission Scheme for encouraging Value added Units through the State Horticultural Mission. Moreover, Rs. 5 crore from RIDF has been earmarked for infrastructure development.

52. NABARD is the main source for Agricultural and Rural Development Loans. An amount of Rs. 253 crore has already been sanctioned by NABARD for various projects during 2006-07. We plan to request NABARD to sanction another Rs. 100 crore. Laxity in utilising NABARD loans however remains a hurdle for availing more loans. During the last 7 years NABARD has sanctioned an amount Rs. 1365 crore, but the amount utilised so far is only Rs. 625 crore. A special cell shall be constituted for monitoring NABARD loans .

### **Animal Husbandry and Dairy Development**

53. In the Livestock and Dairy sector, we will lay emphasis on calf rearing, fodder development and poultry development in house sheds. I set apart Rs.3 crore for the calf rearing scheme. We will initiate rapid steps to convert Kerala into a cattle disease-free State. I earmark Rs. 20 crore from the RIDF for the development of farms in the livestock sector and for the development of the Veterinary College at Pookode.

54. The Livestock and Marine Products testing laboratory at Ernakulam will be upgraded to international standards. The Biological Production Complex at Palode will be upgraded to satisfy with G.M.P standards. The farm at Mattupetti will also be utilized for farm tourism.

### **Fisheries Sector**

55. Fisheries is another neglected sector. This year an amount of Rs. 184 crore will be spent in coastal areas as part of the Tsunami Rehabilitation Project. Utilising the financial assistance expected in this project, from the Rs.175 crore allotted by the XII Finance Commission for the construction of sea walls and funds that can be earmarked for coastal areas from schemes operated by various departments, LSGIs etc., we are going to prepare an integrated comprehensive coastal area Development Project at a cost of Rs. 3000 crore. This scheme aims at ensuring shelter for all families, water supply, electricity and toilet for all houses. Similarly, this scheme includes infrastructural development like coastal

roads, fish landing centres, harbours as well as social forestry. We also need to design schemes to promote occupational diversification in coastal areas and shift to value added production. I am providing Rs. 50 lakh to the State Planning Board for preparing a comprehensive plan in this regard.

56. The construction of fishing harbours at Muthalapozhi, Ponnani and Kayamkulam are now in progress. Besides, the Central Government have allocated Rs. 14.58 crore for Thottappally Harbour and Rs. 35.45 crore for the Koyilandi Harbour. I earmark Rs. 1 crore each as State share for this project. More assistance shall be given if required. Similarly, I am setting apart Rs. 5 lakh for the Kasargod Fishing Harbour (for which Central assistance is expected) and Rs. 10 lakh to undertake a feasibility study on other fishing harbours.

57. The Central Government has currently provided only 2500 kilo litres of kerosene for fisher folk at subsidized rates although the actual requirement is 15000 kilo litres. This is a burning issue among the fishing population in Kerala. Government will take efforts to distribute kerosene at subsidized prices by importing kerosene through the State Trading Corporation and Matsyafed. I earmark Rs. 2 crore for the distribution of kerosene at subsidized prices.

### **Traditional Industries**

58. The LDF had promised the Kerala electorate that we would take urgent steps to protect the crisis ridden traditional

industries. To fulfill the promises we made to the poor people of Kerala we intend to take some new measures.

59. Coir industry is our oldest major traditional industry. A new edition of the reorganisation carried out in the 1960s has become essential. We will implement this industrial reorganization in the 11<sup>th</sup> Five Year Plan. As a forerunner, on the basis of assurances made in the election manifesto, we will implement the following new schemes. I am setting apart Rs. 14 crore for the rejuvenation of Coir Industrial Cooperatives. "Mahila Coir Yojana" which is a Centrally Sponsored Scheme will be implemented in association with the above cooperatives. Rs. 2 crore is set apart for the rejuvenation of coir mat and matting societies. Immediate reorganization will be carried out in the coir manufacturing sector eliminating depot owners. In order to achieve this objective, a coir purchase price scheme will be introduced and I am setting apart Rs. 2 crore for the purpose. This amount can also be used to strengthen the small scale coir manufacturing cooperative societies and coir common facility centers under the aegis of Panchayats as an alternative to the existing depot systems. One of the major problems faced by the coir industry is the shortage and increasing price of fibre. In this budget we will initiate steps to keep the promise that 50% of our domestic husk will be processed for providing fiber for industrial purposes. Rs. 5 crore is set apart for establishing mills for processing raw husk outside the traditional coir sector. For the procurement of husk by mills Rs. 5 crore will

be taken from the provision earmarked for Kudumbasree. This should be made use of as a matching grant in association with the Panchayats.

60. The second most important traditional industry after coir is cashew processing. With the blessing of the UDF Government, an entire unorganized sector without an approved service-wage conditions has grown up in the State. In this situation, protection of the public sector that provides all wages and welfare benefits to workers is essential for labour welfare. Keeping this in mind, the plan outlay earmarked for CAPEX and Cashew Corporation is increased to Rs. 15 crore from the existing provision of Rs. 2 crore. Besides, Rs 20 crore has also been set apart on the Non Plan side for discharging the outstanding debt of the cashew corporation as a one-time settlement basis. Further, a Cashew Special Officer will be appointed to prevent the violation of labour laws and to supervise developmental activities.

61. It was a promise of the LDF to establish a special rehabilitation package for beedi workers in Kannur. I am setting apart a special allocation of Rs. 4 crore for diversification programmes of the Dinesh Beedi Co-operative Society which was once the pillar of pride of the labour co-operative movement.

62. Apart from the Rs 15.6 crore set apart for the existing schemes of the handloom sector Rs5 crore will be given as additional plan outlay. Government will provide sufficient funds as well as 10 acres of land for the establishment of a National Institute

of Fashion technology in Kannur. Rs1crore is set apart for this. I also set apart Rs. 2 crore as a special allocation for the Bamboo Corporation. A separate scheme for this would be prepared and got approved by the State Planning Board. The integrated Textile Park announced by the Central Government would be established in Palakkad.

63.I set apart Rs 50 lakh for making live kilns in selected lime shell co-operative societies.

64.A detailed programme for all these schemes announced in the traditional industrial sector would be prepared by the concerned agencies and got approved by the State Planning Board.

#### New Growth Sectors

65.Earlier, it was pointed out that along with taking steps to revive traditional industries, emphasis has to be given to new growth sectors which have the potential to drive rapid economic growth. For this, we have to create adequate infrastructural facilities and make use of investments from non-residential Keralites. I am providing an allocation of Rs. 20 crore for creating a company, on the model of the Cochin International Airport Ltd, with substantial share participation by KSIDC and KINFRA . One of the important tasks of this company would be to prepare a hi-tech corridor along the National Highway between Thiruvananthapuram and Kollam. This company would try to construct small and big industrial



parks and offer them to interested investors as a package with all infrastructural and necessary back up facilities.

66.The TECHNOPARK in Thiruvananthapuram and other related parks in the state are moving towards the full capacity utilization. Keeping this in view, I am setting apart Rs. 20 crore for purchasing land and initiating preliminary work for the TECHNOCITY Project.

67.A major food processing Industrial Park will be started by KINFRA this year in Wayanad District in association with the Central Ministry of Food Processing. An industrial township authority (under the Kerala Industrial Single Window Clearance Board and Industrial Township area Development Act) spread over 13 panchayats of Palakkad district will be started.

68.Another important growth sector is Tourism. The total annual plan allocation for this sector is Rs. 77.57 crore. Schemes have been designed to link different tourist sectors and to develop special tourist sectors with emphasis on new ideas like health tourism, adventure tourism, plantation tourism and eco-tourism. The tourism development projects have given special attention to utilizing the possibilities of the Malabar region. More funds will be sanctioned for training required for the tourism sector.

69.Alappuzha, Thalasserry and the Fort area in Thiruvananthapuram are suitable to be developed as heritage towns like Fort Kochi. Master plan for these projects will be

prepared. I am setting apart Rs. 10 lakh for the annual expenditure on renovation of the Alappuzha Canal. A special allocation of Rs. 1 crore is provided for completing the Municipal Stadium at Alappuzha. Kodungalloor is our area of historical importance. I am allocating Rs. 50 lakh for giving shape to the Musiris Heritage Project that aims to develop areas of ancient historical importance such as Kodungalloor Bhagavathi Temple, Cheraman Masjid, Azhikkode Mosque, Kodungalloor Kovilakom, Kottappuram Fort, archeological area of Pattanam and the Jewish synagogue in Chendamangalam. Technical advice for this historical project would be given by the Kerala Council for Historical Research.

70. Urgent steps will be taken to complete the comprehensive Development Master Plan for the Sabarimala Pilgrim Centre. I am setting apart Rs. 5 crore for this purpose.

71. I provide Rs. 5 crore additionally for the Bakel Tourism Project

72. I provide Rs. 10 lakh for the Tourism Corridor Project around Thiruvampadi and preparation of project report for the Kadambayar Tourism Project in Ernakulam District. Also, the Kerala State Council for Science, Technology and Environment has already sanctioned Rs. 10 lakh to Muhamma Panchayat for preparation of a project report for developing Pathiramanal as a bio park

**Public Sector**

73. The protection and revival of the public sector is the core of our industrial development policy. Our PSUs should be economically viable. We should spend our limited budgetary allocation only after making a case to case study of PSUs.

74. If the management and Unions commit themselves to prepare and implement a scientific time bound revival package, it will help revive many of our PSUs with comparatively lower budgetary support, I do not intend to make an analysis of each PSU. However, for those who are doubtful, let me explain the case of KSDP, the public sector pharmaceutical company in Alappuzha. There was no production in the company during the last five years. The salary of workers is in arrears for the last two years. The revival scheme prepared by the workers union clearly indicated that if Government placed an order for purchase of medicine for Government hospitals for an amount of Rs. 15 crore and provided a loan of Rs. 5 crore, the company could run profitably. The above revival scheme has got the approval of experts. However, the former Government was not willing to spend money except for VRS. Also, they have withdrawn the sanction to place priority orders on PSUs. In the end on the eve of the elections they were kind enough to release Rs. 2.50 crore as advance for the purchase of medicines. Because of various complications only a portion of the amount could be utilized so far. It may be noted that this sad state of affairs in KSDP occurred at a stage when protection of pharmaceutical companies has found a place

even in the common minimum programme of the UPA Government.

75. In this context, we are taking up the issue of revival of KSDP as the first challenge of our PSU revival programme. The Hon'ble Minister for Health has agreed to give priority to KSDP as a seller while purchasing medicines for the Health Department. Advance amount will also be allocated for the wholesale purchase of raw material. I am setting apart Rs. 3 crore in this budget for meeting the criteria for preparing antibiotics, necessary maintenance and to meet a part of statutory liabilities. The unions have agreed to wait for upto 4 years for their salary arrears. They have also agreed to make appropriate changes in the work and work distributions as per the revival plan. An MOU to this effect will be signed between the management, the union and the Departments of Health and Industry. We expect to make this company profitable from this year itself.

76. In the previous budget, plan allocation of Rs. 5 crore only was provided for all public sector units. I am raising this to Rs. 40 crore. I know even this is insufficient. But each public sector enterprise has to be separately examined and a reorganisation scheme is to be formulated as has been done in the case of KSDP. By this, the debt of Public Sector Enterprises would to be converted into securities and their loans from banks repaid in two or three years as part of one time settlement. Efforts will be made to raise more funds for the purpose. RIAB will

be strengthened to provide technical advice for this and the service of other management experts will also be sought.

77. In order to professionalize the management of public enterprises, a Public Enterprises Selection Board will be formed.

78. The Government is preparing a scheme to revive KELTRON as an institution capable of leading the electronic industry of the State. The scheme envisages rehabilitation of non functioning units. For this, I set apart Rs. 10 crore.

### **Power**

79. The policy of the Government is to retain the KSEB in the public sector. In the current year, it is targeted to enhance the installed capacity by 143 MW by the completion of five projects, upgradation of another two and improving the distribution net work. It is also aimed to reduce transmission loss by 2%. Five lakh new connections will be given this year. Connections will be given free to applicants below the poverty line. Efforts to generate . 50 MW power from wind will be intensified. The Meenvallom Micro Hydro Electric Project will be implemented with RIDF assistance.

### **Transport**

80. Considering the growing demand of the transport sector, besides improving road transport, deliberate attempts will be made to increase the share of other modes of transport in the transport system. Water transport is an area where

Government can make direct intervention in this regard. The allocation made on the recommendations of the Twelfth Finance Commission is to be spent in this sector. These funds will be utilized for the construction activities of the canal network from Kovalam to Nileswaram having a width of 12 meters and depth of 1.5 meters. Minor ports will be developed so as to help coastal cargo movement and for fishing. Top priority will be given to Vizhinjam, Beypore and Azhikkal.

81. Beypore and Azhikkal Ports will be developed addressing the needs of passengers and cargo movement to Lakshadweep. In order to build a passenger terminal at Beypore an amount of Rs. 20 lakh is provided. I also sanction Rs. 20 lakh for the Thankassery harbour. Rs. 10 crore is already allocated for the Vizhinjam Deep Water International Transshipment Terminal. More funds will be provided once the work on this is started after getting clearance from the Central Government.

82. Cochin International Airport Limited has become a model of successful infrastructural development at the national level. As part of the company's expansion the Board of Directors has decided to go in for a right issue of shares. For this, an amount of Rs. 26.34 crore is allocated in this budget. Active steps will be taken for the acquisition of land for Kannur Airport.

83. The largest ongoing road development project in the State is underway as part of KSTP. Priority will be given to complete the first phase of this project without any additional expenditure. Steps will also be taken to complete the Capital

Road Development Project at the earliest. Time bound completion of rail over-bridges will be taken up on priority. In order to ensure that the development potential of Kochi Metro is not stranded in traffic congestion, a comprehensive multi mode strategic option study will be conducted by a national level agency within six months. A time bound, long term action plan will be prepared for the construction and development of roads by designing a State level master plan.

84.The allocation for PWD is Rs. 216 crore under Plan (excluding the 575 crore provided for KSTP) and Rs. 467.65 crore under Non-Plan (excluding the Rs. 139 crore for road maintenance by LSGIs). Apart from all this in spite of the huge financial commitment, the PWD will be provided additional funds this year itself over and above what is provided in the budget for completing ongoing works

85.KSRTC is in a very serious financial crisis.The situation is such that the oil companies have to be provided tax deferment continuously. They can move forward only by finding a solution to this problem. Works on the Modern Bus Terminal Complex in Thiruvananthapuram will start in the current year itself. Steps to buy more buses will be taken up based on the requirement and availability of funds.

86.A project will be prepared to convert KSRTC to petroleum gas fuel system in a couple of years. Under a comprehensive renovation plan, a package will be formulated to ensure that functioning of KSRTC will be economically viable. The new Planning Board will prepare recommendations in this regard. I

am allocating Rs. 10 crores for buying new buses in the current year with the assistance of financial institutions. In this regard, specific assurances are also required to ensure prompt repayment of loans.

## **URBAN DEVELOPMENT**

87. Even though the urban area covers only 8% of the territory of Kerala, 17% of the State population live there. Almost half the State's income is also generated there. The indications given by the development of the Kochi Metro City is that this centralization would strengthen further.
88. Kochi is fast becoming a Metro City. This is a new chapter in the development of the State. The Vallarpadam Terminal, LNG Terminal, International Bunkering facility, Port based special economic zone, Submarine Cable Gate Way, Petro-Chemical Complex etc are attracting large scale investments to this area. Seeing the infrastructure constraints faced by Bangalore one can fathom the gravity of the crisis that is going to envelop Kochi.
89. The funds required for Kochi Metro will be made available on priority basis.
90. Similarly, special focus will be given to Thiruvananthapuram as the Capital City. The projects already commenced will be completed in a time-bound manner. The works for the construction of a Court Complex in Thiruvananthapuram will start in the current year. For this I allocate Rs. 1 crore. For the



acquisition of land required for the Thiruvananthapuram Air Port I set apart Rs. 10 crore.

91. For improving the transport infrastructure and beautification of Kozhikode City, I specially allocate Rs. 3 crore . It is impossible to find the huge amounts required for the development of our cities from the State budget alone. Therefore private investment including financial assistance from other agencies are inevitable. We have not been able to submit even a single project to the National Urban Renewal Mission so far. These will be prepared urgently. For this purpose, a State level Special Cell will be formed. Sustainable Urban Development Project will be implemented from the current year onwards. Based on past experience, Government will take care to complete the project in time, without time and cost overruns and ensure supervision by Local Self Government Institutions.

### **IRRIGATION AND DRINKING WATER**

92. Completion of the existing medium and large scale Irrigation Projects are being extended indefinitely. The expenditure on them is being bloated in a manner that violates all socio principles of financial prudence. Therefore an approach to complete the existing projects on a priority basis is required. In this manner, efforts will be taken to complete the Muvattupuzha and Karappuzha projects at the earliest. Proposal for new projects and extensions can be considered only after this. Apart from Palakkad and Pathanamthitta, efforts will be made to include other Districts also under the

Centrally Sponsored Scheme. I allocate Rs.5 lakh for preparing a Master Plan for regional reservoirs.

93. Priority will be given to complete the drinking water projects already taken up by the Kerala Water Authority in a time-bound manner. Action will be taken to start the second phase of the Japan Drinking Water Project in a time bound manner after completing the first phase. The Kerala Water Authority has been purchasing PVC pipes on a large scale for this project from outside. A new factory will be opened on the premises of the Primo Pipe company in Chavara for producing PVC pipes.

### **Food**

94. Due to the withdrawal of the Central Government from the distribution functions, the whole public distribution system in our State is in a mess. Our financial position makes it an affordable for us to provide subsidized ration to all citizens. I am making allocation in the budget to continue the scheme to supply rice at Rs.3 per kg. till September, which was announced before the last election. I am allocating Rs.60 crore for this. If needed, this scheme will be redesigned based on detailed studies. For making available necessary commodities to consumers at reasonable prices, the network of Maveli Stores, Labham Markets, Sabari Supermarkets and Neethi Medical Stores etc will be strengthened. For this Rs.30 crore has been provided to Civil Supplies Corporation. The Civil Supplies Corporation will procure paddy from farmers and

process it for distribution through the public distribution system. For this purpose Rs.15 crore has been earmarked.

### **Housing**

95."House for all' is a universal in Kerala, where the population growth rate is decreasing rapidly. Various agencies such as Local Self Government Institutions, SC-ST Development Department etc are all very active in this sector. However, the most important agency functioning at the State level is the Housing Board. The housing sector is fast becoming characterized by competitive subsidization. This is a tendency that needs to be corrected urgently. A comprehensive housing scheme will be prepared by evaluating and linking the works of all these agencies. The renovation of houses constructed under the One Lakh Housing Scheme is an election promise of the LDF. I am allocating Rs.2.88 crore additionally to the Housing Board for this purpose. This scheme will be implemented integrating the efforts of LSGIs and voluntary organizations. A socio-economic study of the One Lakh Housing Scheme, which was the first housing scheme implemented three decades ago, will also be conducted. The Centrally assisted Working Women's Hostel scheme will be implemented in 10 centres in the current year. The Housing Board is in great financial crisis. A comprehensive reorganization has become essential. This organization should become self-sufficient and seen on commercial lines. In order to improve the financial position of the Housing Board, steps will be taken to sell unsold houses, flats, rooms in commercial

complexes etc urgently. Efforts will also be made to collect arrears. The One-Time Settlement scheme will be made more attractive as part of this initiative.

### **Welfare Funds**

96. Welfare funds will be started for private hospital workers, shop workers, gold workers, parcel service workers, small-scale plantation workers, and shell collecting workers during the current year. Arrears for one year from the welfare funds have been disbursed. I am allocating Rs 36.17 crore to ensure prompt disbursement of Agricultural Workers' Pension every month. The Government will ensure availability of fund for the prompt disbursement of pensions from other welfare funds. Additional financial assistance will be given only after studying the financial position of each fund in detail. While taking into account one year's arrears already disbursed, around 10 lakh workers have received double the amount of pension than what they received last year. We expect to clear the arrears completely by next year. Thereafter, the increase in pension as promised in the LDF manifesto will be implemented.

### **Health**

97. Two factors are given priority for enabling the health sector to take up new challenges. The first one is the availability of medicines in the hospitals. The second is ensuring adequate doctors and nurses in the hospitals. Permission will be given to Local Self Governments to utilize a fixed portion of the

maintenance grant given to them for making available medicines in hospitals. To encourage this, the Government will give a matching grant for procuring medicines to hospitals separately. For this, I allocate Rs.15 crore additionally. PSC will be requested to take urgent steps to fill vacant posts of doctors and nurses . Efforts will be made to make available more funds from Central schemes, particularly from the Rural Health Mission. As part of the 11<sup>th</sup> Plan, an elaborate people's health movement will be framed by integrating related schemes for drinking water, sanitation, nutrition, disease prevention etc based on Primary Health Centres. An approach paper for the same will be prepared in the current year.

98. Due to the inadequacy of facilities in Kottayam, Thrissur and Alappuzha Medical Colleges, great difficulties are being faced in increasing the number of seats. For developing the facilities of these Medical Colleges Rs.17.5 crore is allocated for them. The medicine wing of the Alleppey Medical College will be shifted to the new building complex at Vandanam. I set apart Rs. 4 crore for this. The people of North Kerala depend on the Kozhikode Medical College. Rs.4 crore is allocated for improving the facilities there. The allocation for nursing education, which was Rs.1.6 crore has now been raised to Rs.8 crore. Rs. 5 crore received from the Centre is allotted to Malabar Cancer Centre.

99. I am allocating Rs.2 crore for the development of Panchakarma Research Centre at Poojappura as a part of Thiruvananthapuram Ayurveda College. I am also allocating

Rs.50 lakhs for starting a unit of Oushadhi at Pariyaram. In order to strengthen the Holistic Medicine Unit in the Medical College, Thiruvananthapuram Rs.25 lakh is allocated.

100.Rs.1 crore is allocated for the development of Kerala State Homeopathic Co-operative Pharmacy Ltd, Alappuzha, the major co-operative institution in the field of Homeopathic Medicine manufacturing.

101. I also allocate Rs.5 crore for establishing a trauma care unit and Rs.1.5 crore for establishing a spine surgical unit in Medical College, Thiruvananthapuram, Rs.5 crore for improving the hostel facilities in the Medical colleges. Rs.2 crore is allotted this year for installing C.T Scanners in Kottayam, Alappuzha and Thrissur Medical Colleges.

### **Education**

102. Improving standards is the major challenge in sectors like Education and Health. Major complications have arisen as a result of the retreat of the public sector from the services sectors. Schemes for teacher training, which is an inevitable continuation of curriculum revision and expanding educational facilities in schools, will be strengthened. A time bound plan will be formulated for fixing the minimum facilities required in every school and provide them wherever these are not available. I am allocating Rs. 5 crore for these scheme for fixing minimum standards. This fund will be used by utilizing sources available through other schemes of Local Self Governments also.

103. Even though the grading system is prevalent at the SSLC level, the Department has listed 104 schools where learning standards and pass percentage are low (less than 33 percent). Based on the criteria used to evaluate educational standards of these schools, a special programme is being designed to upgrade their general standard to the average State level. A committee consisting of parents, teachers and educational advisors will be formed in every school under the aegis of Local Self Governments, which will prepare time bound plans with monitorable targets. An expert committee will examine and approve these plans and funds will be provided for implementation of the projects. For this purpose, the Local Self Governments will make use of existing Departmental and RIDF schemes. I am providing Rs. 5 crore for the "Educational Minister's Special School Programme". For renovation of school libraries, I am providing Rs.2 crore.

104. I am not changing the amount of Rs. 25 crore allotted for expansion of educational facilities in the higher education sector. However, I am enhancing the amount allocated for purchase of computers from Rs. 5 crore to 10 crore.

105. The status of Medical College, Thiruvananthapuram would be elevated to the AIIMS level . Urgent steps will be taken to establish one more IIT in the State. I am providing Rs. 1 crore for the purchase of land for this proposed IIT. And more funds will be made available according to necessity. Central Assistance will be utilized to expand educational facilities in polytechnics in the State to ensure AICTE recognition.

106. For subject specialisation in affiliated colleges, a time bound programme will be prepared. 200 colleges will be connected into the INFLIBNET network of the UGC. Technical Schools/ Educational Institutions will implement the EDUSAT programme. I am providing a sum of Rs. 3 crore as special allocation for the expansion of University Central library. Funds will be made available from the State Budget, in accordance with the Central assistance received, to the Continuing Education Centres after evaluating their performance and re-assessing their objectives. I am providing Rs. 1 crore for the improvement of facilities at the Student's Centre , Thiruvananthapuram.

107. I am providing Rs. 50 lakh for the construction of a building for the Government College, Chavara, which is now celebrating its Silver Jubilee. I am providing Rs. 25 lakh for the Govinda Pai College, Manjeswhar, where the majority of Kannada Minority students are studying.

108. I am providing Rs. 10 lakh for preparation of a project proposal for setting up a university for Medical Education.

### **Culture**

109. The activities of the Archeological Department, Archives and Kerala Council for Historical Research will be intergraded. An amount of Rs. 50 lakh has been set apart for Kerala Council for Historical Research under Plan Projects to be used to identify and protect the historically important buildings and places and for writing local history.



110. Necessary facilities will be made available in the Kerala Kalamandalam to enable it to become a deemed University. Kunjan Nambiar Smarakam in Killikkurissimangalam will be upgraded as a Thullal Teaching Centre under this university. I am providing Rs. 20 lakh for this. Sree Chitra Art Gallery will be renovated in connection with the death Centenary of Raja Ravi Varma and develop Thrippunithura hill palace and Napier Museum will be developed. The award amount from the 12<sup>th</sup> Finance Commission will be utilized for this purpose. We will take charge the Sreepadam Palace, Thiruvananthapuram this year. I am providing Rs. 10 lakh to convert the Haleyon Palace at Kovalam into a Museum. Preliminary activities on the K.R. Narayanan International Institute of Aesthetics will be initiated. I am providing Rs. 10 lakh for the Punnapra – Vayalar Memorial Museum in Alappuzha. For purchase of Sakthan Thampuran Palace, I am providing Rs. 11.78 crore.

111. I am allocating Rs. 25 lakh each to Kumaranasan National Institute of Culture, Thonnakkal and Sree Narayana International Study Centre, Chempazhanthy.

112. I am sanctioning Rs. 10 lakh as State share for the 'Kerala Working Journalists' Health Welfare Scheme. This will be considered as a continuing scheme.

113. At present, the State Government is giving pension to 1600 artists in indigent circumstances. For giving pension to 400 more such artists, I am sanctioning a sum of Rs. 25 lakh.

## **Sports**

114. Though our State has won a lot of laurels in sports at the national level, our standard is very low when compared to international levels. Through the Sports development activities our aim is to improve the peoples health culture as a whole and not simply to improve individual brilliance. In order to enhance people's awareness and interest in this field the Sports Association of India will be requested to conduct a Mega National Sports event in Kerala in the year 2010. The fund required for this purpose will be made available to the Kerala Sports Council. A sum of Rs. 20 lakh is included for this.

115. The Budget session is taking place while the World Cup Football is in progress. This is an occasion which also makes us realize our pathetic standard in football. I am sanctioning Rs. 25 lakh to the Kerala Football Association to conduct National level league football matches in Kerala. I am announcing a price of 25 lakh to those football clubs which secure the status of I<sup>st</sup> division club from Kerala. I am sanctioning a sum of Rs. 10 lakh for giving cash awards to winners at school, college and University levels and also the Keralolsavam competitions. I am providing a sum of Rs. 3 crore as matching grant to Local Self Government Institutions for construction of play grounds and installation of other facilities.

116. I am sanctioning a sum of Rs. 15 lakh to the Usha School of Athletics.

## **Local Self Government**

117. Devolution of funds to Local Government is the most crucial element in the process of decentralization of powers. Any statement on decentralization without this is hollow talk. It was the Peoples Plan campaign that rescued decentralization from the paradox of being worshipped through praise and kicked through action. The people's plan campaign revolutionised our traditional understanding of decentralization. Instead of devolution of funds to lower levels after developing necessary skills and favourable conditions, the approach of the people's plan campaign was to give the funds, first and create necessary skills and favourable conditions through peoples participation at the time of implementation. While this approach has great advantage, it also has certain problems which are to be solved. The major problem in the financial area is to ensure that the funds evolved are spent efficiently and without corruption. We will institutionalise decentralized financial management to achieve this objective based on our past experience; for this necessary changes will be made immediately, in the rules. Necessary continuous training has to be given to people's representatives and employees in programme implementation . Audit , inspection and financial management will be made stricter. It will be ensured that the prescribed preparation of citizens charter and social auditing are conducted as per rules.

118. The entire financial assistance as recommended by the third State Finance Commission will be provided to Local Self Government Institutions. There will not be any treasury

restriction on withdrawing such funds except on salary days. However, financial assistance including loans to Local Self Government Institutions, will be made available based on utilization of funds, implementation of Plan Programme, efficiency and transparency in addition to conditions set by the Finance Commission.

119. We now solve certain major complaints of financial devolution being voiced by LSG representatives and their associations over the last two or three years. The first of these relates to the condition that the grants which could not be utilized before 31<sup>st</sup> March would lapse. This is a very mechanical approach. Even in Central sector schemes, there is provision to carry over 20% of the allocation to the next year. A similar approach was adopted under the People's Plan Campaign. Now, we are returning to this approach. Even if, the allocations are not spent completely an amount equivalent to 20% of the grant will be additionally provided in the next year. This amount should be spent in the first three months of the next financial year. In the case of general purpose grant, the earlier approach of vesting the right to spend the amount without time limit will be continued. The Finance Department's aim will be to help in usefully spending the money and not to take back the funds devolved.

120. Under the peoples plan campaign, the amounts under Central schemes and RIDF were provided to LSGIs as additional assistance, apart from plan assistance. This was done considering the difficulties in linking the Central schemes having centralised guidelines with local projects. But during the last Government,

amounts under RIDF were given to Block Panchayats and District Panchayats as part of their Plan grant. This approach has not only created problems in their plan preparations but also created shortage of money for their plan programmes. We are pulling out RIDF amounts from plan grants. The amount awarded to LSGIs under the 3rd State Finance Commission recommendations will be made fully available to them as grant. Necessary amendments have been incorporated in Appendix 4 to the detailed Budget Estimates. The LSGD will issue necessary guidelines for making appropriate changes in the plan documents.

121. To ensure that RIDF projects are completed in time, we are not changing the amount allocated from RIDF to Block Panchayats and District Panchayat, during 2006-07. But from the next year onwards, RIDF loans will be allowed only for selected projects prepared by LSGIs and approved by the District Planning Committee. The most important criteria for prioritisation of LSGIs, will be the efficiency of utilization and transparency of LSGIs. RIDF loans will be sanctioned as incentives for well functioning LSGIs. More funds can be provided in PMGY. The problem is that land is not available eight meter roads.

122. The 11<sup>th</sup> Five Year Plans of the District LSGIs, have to be formulated on the basis of the District Plan and watershed based master plan. The guidelines of the Planning Commission for the formulation of District Plan projects have to be revised keeping in mind to Kerala conditions and passed down urgently by the Local Self Government Department. For Kerala, this document

will be a continuation of the District Plan prepared in 2000-01. At the same time the lessons gained from District planning will have to be taken into account. I have provided funds for the LSG Department for training and preparation of the peoples movement for watershed based master plans, as already indicated.

123. Micro Finance associated with Self Help Groups (SHGs) is becoming wide spread across India. Most of these initiatives have come up under the aegis of Non Governmental Organisations (NGOs) as an alternative to official poverty alleviation programmes. In some States, these institutions have been intentionally used to weaken LSGIs. But the Kudumbasree scheme initiated under the people's plan campaign was envisaged as a totally different approach. A rare model of Self Help Group (SHG) has emerged through Kudumbasree. Experiences gained through Kudumbasree will lead to women empowerment, integrated development and participatory activities in LSGIs.

124. Kudumbasree units treating as a sub unit of Grama Sabhas will be made partners to increase transparency in beneficiary selection for social auditing. Necessary amendment will be made in this regard .To encourage Micro enterprises under Kudumbasree I plan to exempt selected commodities from tax, which I shall declare later. We plan to make women's studies and awareness creation that aims at women's empowerment as one of the important activities of Kudumbasree.

125. I provide Rs. 1 lakh for the Kerala Institute of Local Adminsitration (KILA) in Thrissur.

126. To provide common office facilities for the Departmental officers and institutions under the Rural Development Department and the Local Self Government Department, under the name of Swaraj Bhavan, I provide Rs. 1 crore.

### **Scheduled Caste and Scheduled Tribes Development**

127. Our Government is earmarking funds for the development of Schedule Caste and Scheduled Tribes based on their share in the population. Also, Government is spending more on education and other non plan schemes of SC/STs than other States. Therefore, it is very important to spend this amount fully and effectively. The most important aspect is to make available benefits to students on a timely basis; currently Rs. 38 crore is due by way of payment to students from SC/STs and other weaker sections. We will take urgent steps to distribute this amount urgently. Similarly, it is also important to ensure efficiency in planning and implementation of projects through LSGIs under SCP and TSP by the active participation of SCs and STs. This year, we are going to initiate a project to ensure basic amenities to 18,000 Tribal households. Our Government is committed to provide land to adivasis. We will provide housing facilities as well as assistance for farming to adivasis as a package. Existing schemes will be integrated for this purpose. We have prepared a time bound plan for providing houses for all homeless SC/STs and for providing land and houses for all landless SC/STs.

128. The suicide of Rajani, a student of a self financing college, was an incident that shook the conscience of our democratic polity. No student should meet such a fate due to insufficiency of

stipend for the payment of hostel fee and due to non-receipt of educational benefits in time. The existing scheme for meeting educational expenses of SC/ST students studying in self financing colleges, is quite inadequate. I earmark Rs. 5 crore for formulating a new scheme for this purpose. The centre for excellence under the IIM, Kozhikode is conducting short term courses for training new SC ST professional graduates to qualify for competitive exams and get employment. This is a notable achievement to expand the activities of this centre I provide Rs. 50 lakh.

129. The mess allowance of SC/ST students in pre-metric hostels will be enhanced from Rs. 500/- per month to 700/- per month. New post metric hostels will be constructed by the Department at Kayamkulam and Thrissur. Where hostels are functioning in rented buildings, the Department shall construct own buildings. The facilities in model residential schools and industrial training centers will be expanded.

130. Rehabilitation of SC/ST Co-operative Societies is another sector to which priority is given during this year. Financial assistance for self employment ventures has been enhanced this year.

### **Welfare of women.**

131 Marginalisation of women in development activities is another major challenge that Kerala faces. Even though the achievement of women in the field of education and health is



comparatively better, the status of women in Kerala is the same as in other States. Without underestimating the socio – political dimensions of womens status, we need to understand its strong association with their economic conditions. Based on this understanding we have to consciously try to raise the status of women through developmental policies. Whenever a development programme is designed and implemented, we should examine the importance given to women and how it influences the status of women. If such an examination is conducted continuously, it will ensure adequate importance to womens' needs in developmental activities. Such an evaluation conducted by an agency outside the Government would be more sharp and realistic. I am entrusting the responsibility of conducting gender auditing to a unit for research its decentralisation of powers, to be formed at the Centre for Developmental Studies, Thiruvananthapuram. The gender auditing report will be published every year.

132. Adequate funds will be provided for the smooth publication of the report of the Women's Commission. "Women's Jagratha Samithis" will be formed under Women's Commission at the level of Panchyath and Municipalities . Various projects can also be prepared under the schemes of Local Self Government Institutions. Likewise, detailed guidelines will be issued to undertake women's status studies through Kudumbasree and special financial assistance released through the Kudumbasree Mission.

133. Even though arts and sports clubs have a large presence in the State, female participation in these institutions is very poor. In order to promote such clubs for women's exercise and sports training, special financial assistance will be given through the Sports Council. Rs. 1 crore is being set apart for this purpose.

134. This year, 3258 new Anganwadies will be started with central assistance. To improve the quality of nutrition in Anganwadies, the services of voluntary organisations through Kudumbasree units of the locality will be utilized. Based on such co-operation, special financial aid will be provided to Local Self Government Institutions for preparing projects with the objective of creating "Sampoorna Poshakahara Keralam". We will try to get more plan assistance for this purpose.

135. The previous L.D.F Government had sanctioned Rs.100 for Anganwadi teachers and Rs.50 for helpers for carrying out additional duty in connection with decentralisation of power. While the State Government cannot take responsibility of paying the eligible remuneration of Anganwadi workers covering under the Centrally Sponsored Scheme, the Government will give some financial assistance for this purpose despite its financial constraints. An additional amount of Rs.150 for Anganawadi Teachers and Rs.75 for Helpers will be allowed. Rs.7.5 crore is earmarked for this purpose.

#### **Forest and Environment.**

136. Adequate resources will be mobilised to implement the New Forest policy to be evolved taking into account the

environmental, economic and cultural importance of forests with the help of peoples participation. Funds will be mobilised in order to utilize the National Rural Employment Guarantee Scheme.

137. Kuttanad is the land which has suffered most on account of misguided development policies. An environmental Restoration Project will be formulated giving emphasis to the Kuttanad area coming under the Vembanad Lake region which has been declared as a 'Ramsar' site. To start with, shutters will be constructed in the middle of the Thaneermukkkom Bund. Financial assistance from NABARD is expected for this. The State government's share of Rs.5 crore is allotted in the budget. Also as part of the measures to prevent pollution of Vembanad lake Rs. 10 lakh is provided for scientifically maintaining the levels of pollution. Action will be taken to get the Integrated Kuttanad Development Project sanctioned as a 'Special Umbrella Project' on the lines sanctioned to Andhra Pradesh.

138. The endo-sulphan episode in Kasargod is an environmental disaster which has attracted nation wide attention. Rs.50 lakh is allotted for a special package formulated by the Kasargod District Panchayat for the rehabilitation of the victims of the endo-sulphan disaster.

### **Revenue**

139. A pitiable feature of the Relief and River management Funds is the diversion of funds. A large part of this amount was spent on construction of roads. A huge amount is in arrears to contractors.

It is clear that the nature of works executed has no direct relationship with relief or river management. The Revenue Department is preparing a detailed review of these malpractices.

140. There may be many reasons for the above situation, but the important one is lack of awareness of disaster management. A scientific approach has to be evolved in this regard. With this objective in view the Institute of Land Management under the Revenue Department will be upgraded to a Disaster Management Institute. The objectives of the Institute will be to impart training in natural disaster prevention and relief activities, to propose and submit projects to funding agencies and to conduct studies and related activities.

141. A time bound programme will be prepared to complete the computerization of Village offices by next year. Urgent steps will be taken to complete occupancy survey of migrant farmers and give pattayams to those who started cultivation before 1 January, 1978. New Mini Civil Stations will be started.

#### **Backward area Special Projects.**

142. Special attention would be given for the improvement of physical cultural and infrastructure facilities of Malappuram. To improve the facilities for Haj Pilgrims, I am allocating Rs. 25 lakh for construction of a Haj House near Karipoor Air Port. Financial constraints will not be a problem for completing the construction. For the promotion of Mappila Art, a special centre would be started at "Moinkutty Vydier Memorial Centre". I allocate Rs. 10 lakh for this purpose. A feasibility study will be

conducted for opening a tourism zone, centering Thirunavaya in Malappuram District. Perinthalmanna is fast developing as a medical city in Malabar. The Municipality will prepare a master plan with this perspective. As part of this, construction of a Bye pass road will commence this year. Rs. 25 lakh has been earmarked for this . The construction of the Chamravattom Regulator cum Bridge connecting Ponnani and Tirur will be started this year on B O T Basis. A start up advance of Rs. 3 crore is earmarked for this purpose.

143. I am allocating a sum of Rs. 40 lakhs to Agricultural College, Padannakkad for completing the building being constructed.

144. A scheme costing Rs.3 crore will be implemented for the labourers of Tea and Cardamom plantations of Idukki district.

### **Co-operation**

145. A severe agricultural crisis has shaken the economy of the co-operative sector in Kerala. At the national level, a package which is not suitable for Kerala has been approved. The co-operation Department will face up to new challenges and find out ways to reorganise the co-operative sector as a strong agency for resource mobilization, loan distribution and development administration.

146. The co-operative sector has been in the forefront of the efforts to provide debt relief to the farmers of Kerala. More steps have to be taken in the agricultural sector where prices continue

to fall. It is hoped that the Debt Relief Commission will consider this aspect also while formulating its far sighted suggestions.

147. The provision of new loans to farmers is as important as Debt relief. Loans under the NABARD scheme carry interest @7%. But the National Commission for farmers or the Swaminathan Commission has demanded that crop loans be given @ 4 %. Government will explore this possibility. Assistance will be provided by Government to farmers as an incentive for the prompt repayment of loans. A detailed scheme will be prepared and orders issued shortly. The existing Agricultural Production Cost Input Subsidy Scheme is not serving any useful purpose. The new scheme will substitute the existing scheme

#### **Non Resident Keralites (NORKA)**

148. The Department of Non Resident Keralites has started a finishing school at Kochi to polish the skills and impart training to improve the employment opportunities of Keralites seeking employment abroad. Given the increasing demand, two new finishing schools will be started at Thiruvananthapuram and Kozhikode. A survey will be conducted to prepare a data base on Non Resident Keralites. During this year, the survey will be in the Gulf Region. I set apart Rs. 50 lakh for this purpose.

### **Police, Jail and Fire Force**

149. The policy approach on reforms in Police Force was indicated in the Governor's Address. I will not go into that in detail. We will try to address the issue of the fall in Central assistance for Kerala Police Reforms due to changes in the sharing criteria. A high tech police head quarters will be established to tackle cyber-crimes. A new regional forensic laboratory will be started at Thrissur. The modernisation programme in jails will be strengthened with Central assistance.

150. Two New Divisional Offices for the Fire Force Department will be started at Kottayam and Palakkad.

### **Administrative Reforms**

151. The State Wide Area Net Work will be completed by March, 2007 at a cost of Rs. 209 crore. It will be a mile stone in the progress of e-Governance. All offices connected to Block Panchayat Offices will get high-speed broad band connectivity through the wide area net work. We expect that 3000 Akshaya IT Centres will become operational by the end of this year.

### **PART 3**

152. We now come to the resources side.

153. Sir, this Government will not cut Plan expenditure. Instead, I have chosen to increase the outlay on new developmental

schemes. I shall mobilise the necessary resources with the co-operation of the people. We will seriously evaluate each and every available possibility and do our best to raise the necessary resources.

154. This is the second year of the implementation of VAT in Kerala. Revenues under VAT have grown less than the rate guaranteed by the Central Government last year, and consequently we got Rs.692.7 crores compensation as against our claim of Rs.707 crores; the balance was disallowed because of certain deviations that we had made from the rates agreed upon by the Empowered Committee of State Finance Ministers. Compensation this year will be at the rate of 75 per cent of the loss of revenue, and we must use this time to act together and stabilize our systems under VAT, so that by the time we are out of the compensation scheme, we would have regained our revenue buoyancy.

155. But there are several challenges ahead. The Central Government has made domestic LPG a declared good with effect from 18<sup>th</sup> April 2006, making it thereby liable to tax @ 4 per cent as against 12.5 per cent before. Kerala's tax revenue from LPG last year was Rs.152 crore; we stand to lose heavily on this account because of the unilateral rate reduction effected by the Central Government. There is also the looming merger of KRL with BPCL, consequent on which interstate sales will become stock transfers, and hence non-taxable; Kerala will lose around Rs.130 crore unless we are successful in negotiating a mutually acceptable agreement. There is then the looming challenge to our



State's law on Entry Tax in the Supreme Court; we could lose up to Rs. 200 crore in case we fail.

156. Yet another major cause for worry is the growing tendency towards tax evasion. Even though Kerala ranks on top in terms of tax-SDP ratio, Kerala's level tumbles to below national average if modified state income (inclusive of remittances) is considered. Enquiries have also revealed that tax collection from the major commodity sectors is much lower than the tax potential, as revealed by the turnover. To give a startling example, my estimate of the turnover of gold jewellery shops in Kerala would be around Rs.10,000 crores. Total tax collected last year was only Rs 21 crores. The present environment is such that even a normal law abiding citizen does not consider it ethically wrong to purchase a commodity without collecting the bill nay it is the normal state of affairs. There has also been a growing tendency for organized resistance to any attempt to enforce the tax laws. The protestors perhaps have some genuine grievance against corruption and degeneration in the tax collection machinery, which makes the situation even worse.

157. There is undoubtedly great slack in revenue collection. But it cannot be tapped by making traditional enforcement measures more rigorous. It is necessary to change the societal attitude towards tax compliance, which requires political will and popular participation. This is precisely what we intend to do. We shall initiate a programme for administrative reforms, changes in taxation procedures, incentives for traders and attitudinal changes

in consumers so that there is greater tax compliance leading to a boost in tax collection.

158. Sir, I am inspired by the reports on the popular movement for tax compliance in Venezuela that succeeded in raising the tax-GDP ratio in about 5 years. We shall also introduce certain changes in the tax rates, whose impact would fall up on mostly the better off sections

### **Participation of tax payers**

159. VAT is a multi-stage tax and it is important that our dealers write bills at each and every stage, so that we can tax the value addition. Unfortunately, post-VAT, very few dealers write bills. Sir, we need to reverse this tendency. We will launch a campaign to educate both consumers and dealers of the need to write bills for their transactions.

160. VAT can succeed only if we write bills and the bills get accounted for tax purposes. Consumers can play a major role here by insisting to shop keepers that they want bills. Keeping bills not only helps consumers to enforce accountability of shopkeepers and manufacturers in matters of warranty and quality of goods, but also helps the State to realize taxes.

161. Lotteries have been used in many Latin American countries and even China to incentivate consumers to insist on bills; we will try to do the same here. Consumers who make purchases of Rs1,000 or more will get a lottery ticket at the rate of one ticket for every Rs1,000 and multiples thereof, and will participate in a draw every quarter at the district level for prizes; the details will

be issued separately. I intend setting apart ten crores rupees for this purpose.

162. With successful decentralization and availability of funds with our Local Bodies, a lot of locally important road works have been taken up. Unfortunately for tax collection, this has made our borders more porous. It is not viable for us to set up check posts on all these roads. Hence the participation of Local Bodies on the borders is vital for us to stop interstate smuggling of goods. To incentivate them I will give 10 per cent of the additional revenue generated from seizures from both vehicles as well as godowns pointed out by the Local Bodies to them; the details will be issued separately.

### **Trader friendly approach**

163. We will reward tax compliant dealers meeting certain pre-specified criteria with a green card for speeding up clearances at the check posts and preferential treatment in offices.

164. We will set up District Level Grievance Cells to sort out problems of the trading community. There will also be a State Level Committee to attend to major issues.

165. As an incentive for voluntary tax compliance by the trading community, I intend to contribute a share of additional revenues mobilised from VAT for their welfare. We have set for ourselves a collection target of Rs4,000 crores from VAT this year. I will give 1 per cent of the amount we collect in excess of this amount this year to the Traders Welfare Fund.

166. I intend to make an explicit provision for adjusting any refund due to a dealer under the KGST Act towards any amount due from him under the KVAT Act.

167. I intend to remove any ambiguity on our commitment to spare small traders from tax by explicitly providing that dealers opting for payment of presumptive tax will be liable to tax only if their annual turnover is ten lakh rupees or more.

168. I further propose to make it clear that a dealer who takes voluntary registration will be not be liable to tax if his annual turnover is less than ten lakh rupees.

169. Sir, I intend to make suitable amendments to give effect to the announcements made by my predecessor allowing time up to 31-1-2006 for dealers to file application to claim input tax credit on opening stock held on 1-4-2005 and time up to 15-2-06 for dealers liable for registration to get registered under the Kerala Value Added Tax Act, 2003 without penalty.

170. Contractors have the option to pay compounded tax in respect of some works contracts and VAT in respect of other contracts. For contracts where VAT is payable, I intend to permit them to avail of input tax credit.

171. Contractors undertaking works for Government/Local Bodies have long been demanding a separate dispensation considering that they are paid their dues only after deduction of tax at source. I agree with them. I propose to exempt contractors who do not have CST registration undertaking works for Government and Local Bodies from producing any certification

from Commercial Taxes Department and from their tax liability under section 6(2) in respect of each works contract for Government/Local Bodies if they compound their tax liability at the rate of 3 per cent.

172. I propose to exempt from tax the sale of medicines and drugs held as opening stock on 1-4-2005 for which tax had been paid under the KGST Act and simultaneously deny input tax credit for the tax paid under the KGST Act in respect of such opening stock.

173. I propose to allow time till the 15<sup>th</sup> day of April every year for applying for the renewal of the salesman permit issued under the KVAT Act.

174. I intend to make orders imposing penalty under the KVAT Act appealable with the Commissioner of Commercial Taxes being empowered to exercise the power of suo moto revision against the orders of the Deputy Commissioner (Appeals).

175. Complaints abound unfortunately about harassment at our check posts. I intend giving some relief to the dealers by allowing them to remit Entry Tax in advance at their assessment office, instead of at the check posts.

### **Plugging Loopholes**

176. The Railways have for long been a major conduit for interstate smuggling because they generally do not insist on correct address of the consignor or consignee of the goods and see whether taxes due have been paid. A specific provision will

now be incorporated in the KVAT Act for checking of goods transported through the Railways to effectively curb tax evasion.

177. Rooting out corruption at the check posts is a priority area for action. I am happy to announce that we are inducting scanners for goods at the Walayar check post on a trial basis, and that these should be in place by September 2006. If the experiment proves successful, we will proceed to induct scanners at all the major check posts in the State.

178. I propose to include evasion-prone commodities like cement, timber, chicken, plywood, glass and rubber products in the list of notified goods.

179. The rate of tax on softwood was fixed at 4 per cent; but this provision is being misused by camouflaging hardwood as softwood. In order to prevent misuse, I propose to allow purchase of only rubberwood at 4 per cent VAT for use in the manufacture of packing cases, matchwood splints and veneers.

180. Where an assessee under the Agricultural Income Tax Act opts for payment of compounded tax on acreage basis, the closing stock held on the date of change over escapes assessment to tax. In order to avoid this, I propose to amend the Act to provide for assessment of closing stock held on the day previous to the date of switching over to the compounding system

***Safeguards.***

181. Transport of lottery tickets without certificate of registration and proof of payment of fee under the Kerala Tax on Paper

Lotteries Act, 2005 will be made a specific offence under the Act, punishable with imprisonment for a term not exceeding five years and Police Officers not below the rank of Sub Inspector will be empowered to take cognizance of the offence for the purpose of filing prosecution.

182. We will be pragmatic with our laws; we will amend the law so that bills need not be compulsorily written for amounts less than Rs 100/-, but will be mandatory for transactions above that amount; failure to write bills will be punishable with a penalty of double the amount of tax sought to be evaded or Rs 1,000/-, whichever is higher.

183. Sir, I think we need a lot more transparency on State finances and taxation. The people have a right to know. And I intend ushering in transparency in a time-bound manner. I will amend the statute to permit us to display the tax paid and the tax defaulted by the dealers on the website of the Department.

184. Banks and other financial institutions will be required to furnish information regarding business loans advanced to dealers on receipt of requisition from the Taxes Department officers.

185. Sir, many dealers doing substantial business evade registration under the VAT Act by not maintaining accounts. Officers of the Commercial Taxes Department will now be empowered to register suo moto such dealers and to require them to maintain accounts and file returns under the Act.

186. Sir, there is a virtual boom in the real estate sector in the State. Unfortunately, the State has not been able to get a fair share

of this prosperity. It is seen that substantial revenue is lost since the awarders in the private sector do not keep proper accounts for the works contracted out. In order to prevent evasion of tax, awarders in the case of works contract will now be required to keep proper accounts, where the total estimated cost of the contract is Rs 1 crore or more.

187. Sir, we need to keep a strict watch over input tax credit as this a potential area for overstating claims and reducing revenue from VAT.

188. Input tax credit is being allowed to dealers in order to ensure that the burden of cascading does not affect the consumers But this House will recall that there were complaints that dealers in medicines, cement, consumer goods etc are not passing on the benefit to the consumers; the trader's associations have specifically alleged that the major multinational in consumer products increased their basic prices to the extent of shortfall in tax, so that the consumers have not been benefited. When dealers get such input tax credit, it becomes unjust enrichment. Input tax credit will now be denied to dealers where it is found that the dealer had fixed the selling price taking into account the tax paid on inputs also.

189. Similarly, the practice of charging VAT on the entire sale value and taking a discount subsequently is rampant in cement and in the consumer durables trade. This will be curbed by specifically providing that in cases where discount is allowed,



VAT should be charged on the price less discount, and that no input tax credit will be allowed on the portion of the tax relating to the discount allowed. Dealers who have claimed input tax credit wrongly will be made liable for reverse tax.

190. Further, to prevent excessive refunds of input tax on interstate stock transfers, it will be specifically provided that dealers will be permitted to claim input tax, special rebate of purchase tax and entry tax paid only in excess of 4 per cent so as to prevent refunds of the full amounts paid as input tax.

191. I further propose to make an explicit provision to disallow input tax credit on goods included in the negative list of capital goods like air conditioners, buildings, cars etc.

192. I propose to make explicit provision for advance collection of tax on evasion-prone commodities like hill produce in the KVAT Act as in the Kerala General Sales Tax Act before.

193. Sir, we have traditionally been mindful of maltreatment of borrowers at the hands of moneylenders and have adequate legislation for the purpose. But these days, trusting depositors who entrust their hard-earned money to unscrupulous operators, seem to need the protection of law. With this objective I propose to bring a legislation for the protection of depositors.

#### **Departmental efficiency**

194. There will also be a scheme for officers who render exemplary service and help detect tax evasion. One advance increment will be given to officers who detect cases from which

fifty lakh rupees or more is realized by way of additional assessment and penalty. Targets will be set for offices, and those exceeding the target will be rewarded by a grant to the office concerned to improve the facilities there.

195. I propose to extend the time limit for completion of assessments under the KGST Act pending as on 31-3-2002 to 31-3-2007. Similarly, the time limit for completion of assessments under the KGST Act for all remanded cases and modified assessments pending as on 31-3-06 will be extended to 31-3-07.

196. However, such extensions cannot go on endlessly. We must dispose off all the pending assessments under the KGST Act within a fixed time period so that we can concentrate all the energies of the Department on VAT. Around 34,000 cases under section 17(4) were disposed last year. By their very nature they failed to yield even one rupee by way of additional revenue. Sir, I gather courage from this fact and make bold to propose that the about 94,000 pending assessments under section 17(4), in respect of which no offence has been booked during the period in question, will be deemed to have been completed, by making a specific provision in the KGST Act. I will also provide sufficient safeguards to re-open such cases of these as may be necessary to safeguard revenue.

197. Nearly Rs.800 crores of tax is involved in stay by Courts. Efforts will be taken in consultation with the Chief Justice of the High Court to get a Special Bench constituted for the disposal of the cases on priority basis. Each of the major cases of arrears

from private sector is being examined and a road map is being chalked out for their collection.

### **Changes in the rates**

198. A major reason for the fall in revenue under VAT is that tax rates were reduced across the board in line with the decisions of the Empowered Committee of State Finance Ministers. Kerala society had come to accept higher tax rates here; as such there was no reason why they should have been reduced. With VAT, tax rates on 170 items were reduced and tax rates of only 34 items raised. The Centre for Taxation Studies has reported that Kerala's weighted average tax rate under KGST on 31-3-2005 was 17.39 per cent. Not surprisingly, Kerala's tax revenues under VAT have declined because of the fall in tax rates. Hence we have taken the position in the Empowered Committee of State Finance Ministers that the VAT rates adopted by them should be treated only as floor rates, and that the States should be permitted to charge higher rates depending upon local conditions. In our view this flexibility is vital to maintaining the vitality of fiscal federalism. Hence I propose to amend section 93 of the KVAT Act 2003 to remove any doubts in the matter.

199. Accordingly, I propose to create a new schedule of goods taxable at 20 per cent, and include within this schedule this year consumer durables for household use such as dishwashers, microwave and other ovens, refrigerators, vacuum cleaners, and washing machines, building materials such as floor and wall tiles of all varieties, marble and granite slabs, paints, lacquers, polishes, enamels, sanitary equipments and fittings including CP

fittings, Health Drinks such as Boost, Bournvita, Complian, Horlicks and similar other items and mineral water and aerated soft drinks like Pepsi and Coca-Cola.

200. The Empowered Committee of State Finance Ministers has decided that States may tax Textiles, Sugar and Tobacco & Tobacco products covered by the Additional Duties of Excise (Special goods of Importance) Act, 1957, only from 1-4-2007. Since the Central Government has clarified that taxing any of these items will cause the State Government to lose its share of 1 per cent devolution, I propose to stop taxing silk saris and embroidered items forthwith till 1-4-2007.

201. The rate of tax on jewellery was 4 per cent under the KGST Act, which was reduced to 1 per cent under VAT, but the trade has not reciprocated by showing sufficient growth in turnover. Consequently, tax revenue has fallen substantially from Rs.51.48 crores in 2004-05 to Rs.21.26 crores in 2005-06. Hence I propose to raise rate of tax on jewellery from 1 per cent to 4 per cent; however, they will enjoy input tax credit. I also propose to introduce a compounding scheme for jewelers. They may compound at 200 per cent of the maximum tax paid, whether under the KGST Act or under KVAT Act, in any of the last three years, provided the dealer was in existence in all three years; they will be permitted to collect tax. If all the bigger dealers opt for compounding, we expect revenue of Rs.100 crores. Hon'ble Members would be noticing the advertisements from prominent jewellers through the media every day; this is truly a vibrant sector in Kerala, with gold prices reaching record highs. As such,

it is only just that they share their prosperity with the Government. Even though I have raised the tax rate to 4 per cent, given my earlier estimate of the turnover of the gold trade, the effective rate of interest will be only around 1 per cent if all the traders accept the compounding system.

202. If necessary, I also intend posting officials in jewellery shops who do not opt for compounding to monitor compliance with provisions of VAT.

203. I further propose to make certain changes in the Schedules to tax gum paste, insect repellents and glass fibers and articles thereof @ 12.5 per cent, and plastic rope other than fish net taxable @ 4%.

204. However, I propose to exempt hearing aid systems from tax and to reduce the tax on dialysers, blood tubing, AV Fistulers, and needles for Peritoneal Dialysis from 12.5 per cent to 4 per cent.

205. After a long time of declining prices rubber has revived and its prices have reached high levels. But as against the earlier 12.65% tax on rubber, the rate under VAT is only 4%; tax revenue has therefore declined from Rs.298 crores to Rs.182 crores. I have no intention of increasing the tax on rubber. But if the price of rubber remains above Rs.100 per kg for the next 3 months, then I would propose an annual cess on acreage basis on rubber. The revenue so obtained will be set apart for a price stabilization fund. I will discuss the details with rubber cultivators and give shape to an appropriate scheme.

### **Luxury Tax**

206. There is a veritable boom in the tourism sector and it is only fair that the State gets a fair share of the prosperity. Unfortunately, revenues from Luxury Tax have not risen in keeping with the potential from this sector. I therefore propose to thoroughly overhaul the Act with a view to reduce the paper work while at the same time increasing revenue. It will be specified that all manner of income from hotels, clubs, resorts, house boats, kalyanamandapams/auditoria and convention centres excepting from cooked food and liquor will be taxable. However they will be exempted if their annual total turnover is less than five lakh rupees. I further propose to unify the rates at 15 per cent. I further propose to levy a per head annual tax of Rs.100 per member in the clubs. I will also improve enforcement in this sector to ensure that the intended increase in revenue does happen.

207. I further propose to extend the time limit for completing assessments under the Kerala Tax on Luxuries Act for the period up to and including the year 2001-2002 up to 31-3-2007.

208. Hotels have the facility to compound the tax under the Luxuries Act. I propose to give a similar facility to House Boats also at the following rates:

<u>Type</u>	<u>Compounded amount per year</u>
One bed	20,000
Two bed and above	30,000
AC one bed	35,000
AC two bed and above	50,000

209. As a method of raising resources for the Plan, I propose to impose a Luxury Tax of 5 per cent on the income of cable operators, as has been done in West Bengal and Karnataka.

210. Two star bar hotels and below have an option to compound turnover tax at 10 per cent of the turnover of liquor calculated at 140 per cent of the purchase value of liquor in the case hotels situated in corporation/municipal areas and at 135 per cent of such purchase value in respect of hotels situated in other places; since this has led to a fall in revenue in some cases, I propose to amend this scheme by adding the stipulation that they may do so at the present compounding rate or at 125 per cent of the highest of the turnover tax paid or payable for any of the previous three years, whichever is higher.

211. Since in the case of cooked food the hoteliers are first sellers, they will not be eligible to opt for presumptive tax in respect of the goods other than cooked food even if they are second or subsequent sellers in respect of such goods. This will make the procedure relating to assessment of such dealers complex. In order to avert this I propose to permit hoteliers other than bar-attached hotels or star hotels to pay tax at the compounded rate on the goods other than cooked food also sold by them. I further propose to accept statements of these hoteliers accepting compounding in respect of cooked food regarding their purchases from unregistered dealers without further scrutiny.

212. Bar-attached hotels upto two star are now permitted to compound their tax liability in respect of cooked food at 15 per cent of the turnover of liquor sales. We have lost revenue as several bars used to return much higher turnover of cooked food; hence I propose to amend the compounding scheme by stipulating that they may continue to do so at the present compounding rate or at 125 per cent of the highest of the tax paid or payable for any of the previous three years, whichever is higher.

213. Sir, introduction of fair value of land has been engaging our attention for quite some time. Our neighboring States have introduced this system and it has benefited the people there and also increased tax buoyancy. Its great merit is that it is a transparently notified system where everyone knows the value of the land. In Kerala, the cases of under-valuation are increasing. As of now, we have booked more than 10 lakh cases which are at various stages of disposal. Hence there is immediate need to have a transparent system of fair value of land to aid administration of stamp duty. Hence Government intend implementing a system for fixing the fair value of land in a time-bound manner, and after that is in place, I will consider lowering stamp duty.

#### **Non-tax revenues**

214. Even though it does not directly affect the revenues of the present budget, I want to emphasise the utmost urgency in carrying out the reform of property taxes collected by the LSGs as is mandated by the Municipal Act and recommended by the



Second Finance Commission. Such a measure would greatly enhance the own income of the LSGs.

215. Substantial area of revenue land is under the occupancy of various institutions, such as clubs, individuals, companies and other institutions on nominal lease rent. It is also noticed that many of the leaseholders have been sub-leasing or renting out the facilities on the leased land in violation of the contracts. It is also found that there are huge arrears on even this nominal lease rent. All the cases will be systematically reviewed, arrears collected and lease rates rationalized.

### **Simplification**

216. However, I propose to remove any ambiguity regarding allowing input tax credit on capital goods like delivery vehicles to non-manufacturing dealers by explicitly providing for the same.

217. Similarly, I intend to make it clear that input tax credit as well as refund of input tax paid on the purchase of Duty Entitlement Pass Book scheme entitlements and similar licences for the purchase of goods will be available by explicitly providing for the same.

218. Departmental officers are often required to demand security deposits from dealers, which may have to be refunded under certain circumstances. I propose to make a specific provision for refund of such security amounts.

219. I further intend to explicitly provide for assessment proceedings after payment of the compounding fee for any offence, clarifying that the present bar is only in respect of penal proceedings.

220. I also propose to effect certain amendments to validate the changes effected from 1.4.2005 through notifications in the first and third schedules to the Act as dealers have already acted on the basis of the notification.

221. I propose to specifically define “used motor vehicle” to mean only vehicles used for a minimum period of fifteen months to remove any ambiguity in the matter.

222. However, I propose to allow deduction for the purchase value of vehicles originally registered in the State with certificate of registration of the vehicle as proof of payment of tax on the original purchase, only if the payment for the purchase of the used motor vehicle is made through crossed cheque or demand draft or, in the case of old vehicles sold in exchange for new vehicles, where the price is paid by deduction from the price charged in the bill for the new vehicle.

223. I also intend to amend the KGST Act, 1963, KVAT Act, 2003 and The Kerala Tax on Luxuries Act 1976 to empower Government to make rules with retrospective effect.

224. I further propose to amend Entry 9 of the Schedule to the Kerala Tax on Entry of Goods into Local Areas Act, 1994 to align the description of iron and steel in tune with that under section 14 of the CST Act, since second schedule to the KGST Act had been omitted on the introduction of VAT.

#### **Incentives and concessions**

225. To encourage new investments in the State I propose to allow input tax credit on capital goods for new units to be taken in twelve months, instead of thirty-six months as at present.

226. Sir, we need to build up Kudumbashree as a self-sustaining movement. This can happen only if the products that they make can sell in the market. We will build up Kudumbashree as a brand, complete with advertising. On the taxes side I propose to encourage Kudumbashree by exempting from tax handmade soap, squashes and pickles sold under the registered Kudumbashree brand. It is found that the mortality rate among the micro-enterprises is very high these days. The proposed measure is intended as a direct incentive for development of brands for micro-enterprise products.

227. In line with the commitments made in the State's policy on SEZs, I propose to extend the exemption available on sale to units in the special economic zones to sales to developers in such zones.

228. Sir, we have always supported the efforts to keeping FACT afloat. We have always striven to support the Public Sector. In line with their long-standing demand I propose to reduce the tax on naphtha from 12.5 per cent to 4 per cent.

229. Sir, we have at Kochi a unique business opportunity for refueling of ships traveling on the international maritime highway. This highway is only 11 nautical miles from Kochi and these ships would be willing to refuel, or bunker, as it is called, at Kochi provided we offer them a viable tax regime. I propose to waive tax on bunkering of foreign-going vessels to encourage the activity. However, I shall levy a 0.5 per cent charge on this activity.

230. However, I wish to make it clear that this facility will not be available to trawlers. Sir, we strongly oppose any moves from any quarter to throw open fishing in Indian waters of our coasts. A major allegation of the fishermen's movement has been that the foreign trawlers poach in the coastal waters providing such vessels with tax free fuel while even concessional kerosene is denied to majority of the fishermen. This is socially unacceptable.

231. I intend levying entry tax on copra, coconut oil, plastic and PVC pipes and pipe fittings.

232. I also propose to grant exemption in respect of Entry Tax payable on paper imported by Government Departments for their direct use, and for equipment imported by Public Sector Airlines

for their use in the State. Goods imported into the State for temporary use will be permitted refund of entry tax paid if they are sent back from the State within a period of one month, with the permission of the Commissioner, Commercial Taxes.

233. Sir, some sectors of our plantation industry are still doing badly. As a measure of succor, I propose to exempt coffee, tea, pepper and cardamom farmers other than companies from Agricultural Income Tax for one year.

234. I am mindful of the problems of the coconut growers too. Sir, considering the low prices I propose to exempt coconut from VAT for one year.

235. I also intend to amend the KVAT Act, 2003 to extend the benefit of lower rates to military canteens.

## **Part 4**

236. The original budget estimates presented in February 2006 had indicated a Revenue deficit of Rs.4731.71 crore and fiscal deficit of Rs.6834.55 crore for 2006-07. But this gave an unrealistic picture which ignored many unavoidable liabilities. It is quite clear to everybody that the Revenue Expenditure for 2006-07 will rise substantially when such additional liabilities are also reckoned. Even when the expectation is that through

stringent measures revenue receipts can be enhanced to a certain extent, the fact remains that the gap between revenue receipts and revenue expenditure will be more than what was anticipated. Naturally, this will force Government to resort to borrowing so as to fill in the resource gap. The Government's strategy will be to minimize the impact of borrowing through strict enforcement of financial discipline.

237. The summary of the Revised Budget Estimates for the fiscal year 2006-07 is as follows:

Item	<b>Revised Budget Estimate</b> 2006-07 (Rs. in crore)
Revenue Receipts	<b>19140.04</b>
Revenue Expenditure	<b>24554.82</b>
Revenue Deficit	<b>(-) 5414.78</b>
Capital Expenditure	<b>1398.95</b>
Loans & Advances (Net)	<b>(-)720.81</b>
Public Debt (Net)	<b>5678.69</b>
Public Account (Net)	<b>1743.89</b>
Overall Deficit	<b>(-) 111.96</b>
Carry over Deficit	<b>(-)481.32</b>
Additional Expenditure now announced	<b>228.28</b>
Additional Resource Mobilisation (ARM)	<b>105.00</b>
Overall Deficit	<b>(-) 716.56</b>

## CONCLUSION

238. I have presented the first budget of Left Democratic Front Governemnt led by Com. V.S Achuthanandan. It is the Golden Jubilee year of the formation of Kerala. The Ministry led by Com. E.M.S Namboothiripad had come to power by giving a new democratic direction to the development of Kerala. The speech of Shri. C. Achutha Menon, the first Finance Minister of Kerala, while presenting the first budget is still relevant: "The issue of wiping out the revenue deficit is a subject that should attract our serious attention. It is known to all that the deficit, which is mounting every year in the State budget is a threat to the fiscal sustainability of the Nation...that is why...this Government has bravely introduced new tax proposals. It should be underscored that this Government has taken such a step when most other State Governments have presented deficit budgets....Care has been taken to see that no heavy burden is placed on any one sector of the society while more tax proposals are being introduced. It is hoped that the public will bear this burden pleasantly. Because they know that their contributions will be used in schemes that would be beneficial to the whole society."

239. A lot of progressive scholars like Satyabroto Sen, Ashok Mitra and Ikbal Singh Gulati had come to Kerala in aid of the first Communist Government. Young Prof. Gulati pointed out three things in an article 'Behind the Coir Curtain' written in the Economic Weekly, after the budget: 'a realistic approach to the complex developmental issues of Kerala, claim for special consideration of the Central Government, along with steps to increase its own income'. The approach of the budget in this golden jubilee year is also the same.

240. As E.M.S Namboothiripad emphatically stated in his presidential address in the first International Kerala Study Congress, the challenges faced by Kerala are diverse. In this era of globalization, a new agenda is required to take the development process of the State forward by facing these new challenges. The Government in power has a vivid vision in this respect. The revised budget is the first step towards the realization of that vision.

241. Sir, I submit the revised budget for the financial year 2006-07 before this august House. I also present the vote on account for the next three months. I request the wholehearted support and approval of the House for the same.

**JAI HIND**