

Economic Development of the North East: Some Reflections

Ladies and Gentlemen,

It is a matter of great pleasure to be here with you to deliver the keynote address on this occasion of the 8th anniversary of North Eastern Development Finance Corporation (NEDFi). As a central banker, the NEDFi is close to my heart. Indeed, as a financial institution the NEDFi is unique, given the challenging domain of the North Eastern Region (NER) that it endeavours to promote. In my earlier role as an industry and infrastructure economist, I have often contemplated on the special challenges of this Region. Like many of you I have often wondered why the growth and development performance of this richly endowed Region has been well below its potential; indeed disappointing in many ways. While the reasons could be many - some of which we are going to discuss today, I am a firm believer in what Robert Frost once said, "The only way around is through!" I am truly delighted therefore, to have this opportunity to join you in collective introspection and to do some loud thinking on the future course of action.

To begin with, I propose to highlight the role of the NEDFi in the development of the Region. I shall then review the major policy initiatives by the Government - both Central and States. Against that backdrop, I would then proceed to take a stock of things in respect of economic growth and development of the Region. My endeavour would be to present a framework for SWOT analysis - assessing strengths, weaknesses, opportunities and threats or challenges. In this regard, I would like to give special attention to the issues relating to infrastructure, which in my view, are the key to growth and development of the Region. I shall conclude by highlighting key areas for policy action in the near future.

Let me start with the NEDFi itself and the role it has been playing in promoting growth and development of the Region.

I. The Role of North Eastern Development Finance Corporation Ltd. (NEDFi) in the Economic Development of NER

The setting up of the NEDFi was an important element in the development strategy for the NER. In the early 1990s, it became evident that the traditional development banking was falling short of meeting the requirements of the NER. The all-India financial institutions (AIFIs) were too large and diversified to focus upon the specific needs of the Region. On the other hand, fragmentation of the NER into many States had rendered the State-level financial institutions too small to adequately meet the requirements of the NER. A secular decline in the financial assistance to the NER by all types of financial institutions and widespread failure of industrial projects in the NER were also becoming more evident. The consequent setting up of the NEDFi in 1995 thus, reflected the adoption of a completely new institutional framework dedicated for the Region for the techno-economic appraisal, identification and financing of projects.

I am happy to note that within the short span of time since its initiation, and despite daunting constraints, the NEDFi has emerged as the premier financial institution of the NER. The Corporation has comfortably been able to meet the target of a minimum disbursement of Rs. 50 crore per annum in 2000-01 and 2001-02 as was visualised in the Prime Minister's announcement of a Special Package for the NER in 2000. There are several other activities and achievements of the NEDFi which I would like to highlight.

First, as a leader and think tank in innovative financing, NEDFi has already made its mark by way of a slew of proactive initiatives. Its mandate i.e., the Articles of Association was amended to include agriculture and allied services keeping in view the profile of the NER. A micro credit scheme as also a equity fund scheme for small local entrepreneurs has been successfully launched. Further, NEDFi's innovative initiatives such as Cane and Bamboo Technology Centre with

UNDP sponsorship, and Design Centre for Handloom and Handicrafts, are expected to help the rural artisans by way of exports. R&D Centre for Patchouli at Guwahati is extending marketing, technical and financial support for production of medicinal and aromatic oil.

Secondly, with respect to the 'new economy' initiatives, NEDFi's IT Park at Guwahati has motivated other States for setting up of similar ventures. The Corporation has devised an appropriate scheme for financing of IT industries in the NER. It has also made some successful headway in the area of bio-technology financing.

Thirdly, in view of the great potential for tourism, the Corporation has initiated a multi-pronged strategy – preparing a master plan and embarking on a big private sector project mainly for adventure tourism followed by several others. In addition, the Corporation has sponsored a number of techno-economic feasibility studies under the Techno Economic Development Fund for national and international funding.

Most promoters in the NER are first generation entrepreneurs. As such, it is interesting to note that close to 90 per cent of cumulative disbursement by NEDFi has been allocated to new ventures. Food products, services, infrastructure, cement, basic metals and chemicals have turned out to be the major sources of deployment of funds. The State-wise profile of NEDFi's cumulative disbursement indicates the dominance of Assam (63 per cent) followed by Meghalaya (16 per cent) with Mizoram at the bottom (2 per cent).

There are some disquieting features as well, especially in the financial performance of the Corporation. These include its growing NPA: NEDFi's net NPA as per cent of net loan assets was placed higher than that of IDBI (i.e., the representative financial institution) as at end-March 2002. The earning per share

(EPS) for NEDFi has remained all through below Rs. 2 as against that of Rs. 6.5 for IDBI in 2001-02, the lowest since 1997-98. Moreover, operating expenses as per cent of total expenses (excluding interest expenses) were placed at 67 per cent for NEDFi as against 55 per cent for the representative institution in 2001-02.

Needless to say that the performance of NEDFi would have to be judged in the context of the economic environment in which it operates. Over the last few years, conscious efforts have been made by the Government, both the Centre and States, to make the macroeconomic environment in the Region more conducive to higher growth and development.

As a prelude to our discussion of the contemporary issues in growth and development of the Region, it would, therefore, be worthwhile to briefly review the major policy initiatives in the recent period, to which I turn next.

II. Government Policy Initiatives in the NER: A Overview

Development of the NER has remained high on the agenda of both the Central and the respective State Governments. The North Eastern Council (NEC) which was set up in 1972 has been playing a major role. As a regional planning body it has taken up a series of projects for the balanced development of the Region. The approved outlay for the NEC was increased by around 31 per cent over the Eighth Plan outlay to Rs.2,450 crore in the Ninth Plan. The actual expenditure was, however, slightly less than 80 per cent of the approved outlay. The Tenth Plan outlay for the NEC has been placed at Rs.3,500 crore. The focus now is on the improved implementation, completion of existing (priority) projects and initiation of *some* major projects to have a better impact.

The projected Plan outlays for the NER States have been enhanced substantially in the Tenth Plan (2002-07) over their respective actual outlays in the Ninth Plan. The share of the Plan outlays of the seven NER States as a whole in the aggregate Plan outlay for all States, is, however, projected to decline to 4.6 per cent from 5.3 per cent in the Ninth Plan. In fact, the shares of the Plan outlays of all the States in the NER (except that of Tripura), are projected to decline in the Tenth Plan, from their respective levels in the Ninth Plan. However, as the Tenth Plan document reiterates, even among the Special Category States, per capita levels of Central assistance to State Plans in the NER are among the highest in the country; the average per capita Central assistance for State Plans in the NER was placed at Rs.1,546 in 2001-02 as compared with Rs.356 at the all-India level. The Government of India has also been providing special Central assistance in respect of some of the States in the NER for special area programmes such as the Hill Area Development Programme (with the main objectives of eco-preservation and eco-restoration with a focus on sustainable use of bio-diversity keeping in view local needs and aspirations) and the Border Area Development Programme (to

take care of special needs of people living in remote, inaccessible areas situated near international borders).

The other Government policy initiatives have mainly taken the form of announcement of a new industrial policy for the NER (December 1997) which encompassed a comprehensive incentive package to stimulate industrial development; creation of a non-lapsable Central Resources pool (1998-99) to ensure speedy development of infrastructure in the NER; the Prime Minister's Special Package of over Rs.10,000 crore for the socio-economic development of the North-East (January 2000); and the setting up of the Department of North Eastern Region (DONER) by the Government of India in September 2001. This Department is expected to act as a nodal Department to deal with matters pertaining to the socio-economic development of the NER as also to synergise the efforts of Central/State Governments/other stakeholders for the balanced development of the Region.

The total amount released from the non-lapsable Central pool as on April 1, 2003 amounted to Rs.1,869 crore as against the approved projects cost of Rs.3,104 crore. The PM's Special package covered 28 programmes/schemes relating mainly to the development of the power sector, border trade, horticulture, rural infrastructure, road and air-links, medical education and industrial training institutes. As on January 1, 2003, 7 schemes have been completed and 17 are under implementation. A sum of Rs.3,864 crore has been released out of the sanctioned amount of around Rs.10,000 crore under this Special package..

It is thus, clear, that there has been no general let-up in Government efforts to foster economic development in the NER. To what extent these policy initiatives have impacted on the socio-economic characteristics of the NER? We should couch this question in the context of the overall SWOT analysis that I mentioned earlier, and to which, I turn next.

III. A Profile of the North-Eastern Region (NER)

The NER presents a picture of opportunities amidst challenges. I shall first highlight the strengths of the Region and then go on to discuss its infirmities.

There are at least four striking areas of strength. These include:

- Fairly high literacy rates and human development levels as compared to the rest of the country;
- Abundant natural resource endowment;
- Potential for the development of the tourism industry; and
- Potential for exports and scope for regional cooperation.

Let's take a closer look.

Literacy rates in the NER for 2001 were quite high, ranging from 64.3 per cent (Assam) to 88.5 per cent (Mizoram) as compared with the country's average of 65.4 per cent; only Arunachal Pradesh at 54.7 per cent falls well short of the national average. Importantly, female literacy in all the NER States except Arunachal Pradesh (44.2 per cent) is also placed substantially higher than the national average (54.2 per cent). According to the Planning Commission's National Human Development Report 2001, the Human Development Index (HDI) --- which we all know, captures economic, educational and health attainments --- in respect of Manipur and Mizoram in particular, as also for Nagaland and Tripura, was placed higher than the national average in 1991. The Gender Disparity Index which captures the proportion of female attainments to that of male for a common set of variables was also placed higher than the national average in respect of these four States. Studies have shown that while the NER as

a whole, ranks on the lower side in respect of economic development, and to some extent, in the case of health attainment, the rankings in terms of educational development and rural infrastructure and amenities are quite high [Kundu, Shariff and Ghosh (2002)].

The NER also boasts of rich natural resources such as oil and natural gas and agro and forest-based products. The Region is a major producer of tea, and possesses one-third of the country's hydro-power potential. The scenic surroundings also provide an ideal setting for the promotion of the tourism industry.

The Region has great potential for exports and there is also considerable scope for regional co-operation. In this context, a major issue confronting the NER is the prevalence of 'informal' border trade. This assumes special significance because of the length of its international borders with Myanmar, China, Bhutan and Bangladesh. India's official foreign trade with neighbouring countries in the North-East (barring Bhutan) hovers around only 4 per cent of India's total foreign trade. On the other hand, available estimates show that the volume of informal trade is quite substantial. Several factors have been identified which compel traders to use the informal channel. These include: lack of infrastructure and banking facilities for official trade at borders, shortages of essential commodities at borders, inclusion of limited items in the bilateral/Free Trade Agreements between bordering countries, quantitative restrictions, higher tariffs and higher transaction costs (e.g. delay in realisation of payments, procedural delays, etc.) and exchange rate or price differentials. Strict *Rules of Origin* requirements also restrict formal trade flows and encourage informal trade. Harnessing of such exports lost through the informal channel provides an important opportunity to step-up the development of the Region. At the same time, building bridges with

neighbouring countries under the aegis of Regional cooperative frameworks can also provide a further boost to the exports from the Region.

As against these strengths and opportunities, there are weaknesses and threats to be sure, emanating to a large extent from the difficult terrain of the Region ---- 70 per cent of the NER is hilly, with forests covering between 42 and 76 per cent of the area of each of the States. This poses one of the greatest constraints to rapid economic development.

(i) Even though the average rate of growth of NDP (at 1993-94 prices) of the NER (excluding Mizoram, for which data are available at current prices) placed at 6.0 per cent during 1996-97 to 2000-01, was slightly higher than that of 5.7 per cent for the country as a whole, it masked marked fluctuations in the growth rates over time in different States as well as the sharp disparities in growth rates across the States. Moreover, except in the case of Nagaland, the average per capita incomes of other States in the NER were below the all-India average (Rs.9,643) over the period 1995-96 to 2000-01.

(ii) The growth rate of employment for all the States in the NER (except Assam) declined over the period 1993-94 to 1999-2000 as compared to the period 1983-84 to 1993-94. The incidence of unemployment was also higher than the all-India average of 2.3 per cent during 1999-2000 in respect of Assam (4.6 per cent), Manipur (3.5 per cent) and Nagaland (3.5 per cent).

(iii) Even though the incidence of poverty in the NER has registered a downward trend over the years, the poverty ratio was placed lower than the all-India average (26.1 per cent) only in respect of one State i.e. Mizoram (19.5 per cent) in 1999-2000. This is an issue for concern since in 1983, the poverty ratio was placed lower than that of the all-India position (44.5 per cent) in respect of *all*

the States in the NER, indicating that there has been a sharper decline in the incidence of poverty outside the Region, over the years.

(iv) The extent of inequality in per capita consumption expenditure as reflected by the Gini coefficient has, with the exception of Meghalaya, worsened in the NER over the period 1993-94 to 1999-2000.

(v) Agricultural performance of the Region remains sluggish on account of a number of factors. For one, the ratio of irrigated area to total area under all crops in the NER has generally remained much lower than the all-India figure of 39.2 per cent (in 1998-99). Moreover, the total area in the NER covered under HYV seeds formed only around 0.25 per cent of the all-India total in 1996-97. Availability of fertilisers is another acute problem; in the absence of transport subsidy, cultivators have to bear large costs for obtaining fertilisers. Nationalised banks seem to have shown a lukewarm response towards financing crop loans particularly in view of the paucity of updated land records. The State level Cooperative Bank which provides credit to Primary Agricultural Credit Societies is also experiencing resource constraints.

(vi) The industrial scenario is also not very encouraging as the number of factories as well as the shares of fixed capital, invested capital, net value-added and the number of workers in the industrial sector of the NER vis-à-vis the all-India position, have declined over the period 1995-96 to 1999-2000. The power situation in the NER which had improved to a surplus during 1999-2000 and 2000-01, also deteriorated subsequently to a deficit of 2.4 per cent during 2002-03. I would subsequently take a more detailed look at the infrastructure scenario in the NER.

(vii) The financial sector scenario of the NER indicates that much more remains to be done. As at end-March 2003, the total number of bank branches of

SCBs (excluding RRBs) in the NER accounted for only 2.4 per cent of the all-India level. Outstanding deposits of SCBs in the NER as at end-March 2003 formed only 1.5 per cent of all-India level. The share of bank credit to industry showed a modest rise in some States but noticeable declines in Mizoram and Meghalaya. The share of bank credit to SSI also declined gradually in most States in the NER. The share of bank credit to agriculture declined in all States except Manipur. Strikingly, the C-D ratios of SCBs (excluding RRBs) in the NER varied between 14 per cent (Arunachal Pradesh) and 29 per cent (Meghalaya), much lower than the all-India level of around 60 per cent as at end-March 2003. The assistance provided by All Financial Institutions (AFIs) to the NER has been an exceedingly small proportion of total assistance to all States. The share of each State in the NER in total sanctions and disbursements by AFIs is less than 1 per cent of the all-India level. The system of co-operative credit dispensation remains limited in the NE with only 27 offices of urban co-operative banks (as against 7,479 at the all-India level) and 18 branches of district central co-operative banks (as against 12,580 at the all-India level) as at end-March 2001. Even though the NER has the largest network (215 branches) of State co-operative banks next only to the Northern Region, in terms of deposits mobilised by these banks, NER's share stood at a meagre 3.5 per cent of all India outstanding in 2001. On the whole, deposits mobilised by all co-operative banks in the Region accounted for less than 1 per cent of the all-India level mobilised by co-operative banks. The number of NBFCs accepting public deposits has also dwindled steadily in recent years in the Region. While the NBFC sector has undergone a shake-up in the recent past at the all India level, no public deposit-taking NBFCs were in operation in the Region as at end-March 2001.

(viii) The fiscal position of the States in the NER has been under strain in recent years. The GFD of the NER increased to Rs.4,897 crore in 2002-03 and is budgeted to rise further to Rs.5,026 crore in 2003-04, mainly reflecting the sharp

increase in expenditures (particularly non-developmental expenditures such as salaries, pensions, interest payments, etc). Low and declining buoyancies of both tax and non-tax revenues and losses of State PSUs have added to the financial strain. Notably, the revenue account of many of these States which were in surplus in 1997-98 turned into a deficit in 2001-02. I am, however, happy to note that several States in NER have initiated measures towards revenue augmentation, expenditure containment, restructuring of PSUs and investment in growth enhancing sectors. Some of the States have already prepared a Mid-Term Fiscal Reform Programme in consultation with the Government of India while others are in the process of preparing/finalising the same. Some States have also emphasised the need for institutional reform. For example, Assam has constituted a Committee on Fiscal Reforms (COFR) and has engaged the NIPFP to undertake a study on the prevailing fiscal scenario. Meghalaya has proposed to strengthen power transmission and rural electrification. Arunachal Pradesh and Manipur have emphasised/initiated economy measures. Such measures need to be strengthened in order to make a credible difference to the fiscal situation.

While the list of infirmities and difficulties is virtually unending, I think the most crucial one is the lack of infrastructure. Let me now dwell at some length on the issue of lack of adequate infrastructure, which is often posed as the basic impediment in the way of development of the NER.

IV. Infrastructure in the NER

Poor infrastructure base has long been identified as a binding constraint on the growth process. The state of infrastructure, more often than not, influences the direction of private capital flows and investment. Not surprisingly, the NER, on account of its poor infrastructure base, is yet to gain from the emerging private-public partnership in the growth process. I am convinced that the vast potential of natural and human resources in the NER can be tapped and utilized towards the build-up of an industrial base only by way of developing a sound infrastructure network.

The extent and magnitude of the infrastructural problem appears to be much more severe and entrenched in the NER vis-à-vis the rest of the country. This is clear from the State-wise infrastructure index, devised by the 11th Finance Commission (available for the year 1999). Based on availability of physical, social and institutional infrastructure, all the North-Eastern States were placed at the bottom. Mizoram topped the list, followed by Assam, Nagaland, Meghalaya, Manipur, Tripura and Arunachal Pradesh. Arunachal Pradesh was found to have the lowest infrastructure index in the country. A recent Economic Times-Centre for Monitoring Indian Economy (ET-CMIE) State Infrastructure Survey further confirms the dismal position for the NER.

While the macro picture of infrastructure is certainly not encouraging for the NER, it would perhaps be useful to take a sectoral review. This could help unravel the missing links and bring out the priorities sharply for policy action. Towards this direction, let's take a disaggregated look at infrastructure in the NER beginning with telecom.

(A) Telecommunications

It is heartening to note that the NER has been the first in the country to switchover to a system of electronic telephone exchanges. Although the overall teledensity - rural and urban - of NER continues to be lower than the all-India average, the Region has witnessed a sustained improvement in tele-density for all the States in the recent period. Mizoram has even surpassed the all India tele-density while Arunachal Pradesh hovers around the national average. The demand supply gap in telecom has narrowed for the NER, except Assam and Arunachal Pradesh.

While these positive developments are welcome, there are laggards in telecom penetration. States like Manipur and Assam, need to do lot of catch-up to reach the all-India average. More worrisome is the widening demand-supply gap in States like Assam and Arunachal Pradesh particularly when such gaps have dramatically eased at the all-India level and elsewhere in the Region. Access to telecom facilities for villages in the NER remains the lowest, with the exception of Assam.

The difficult topography of NER has impeded expansion of the terrestrial telecom network so far. The future, therefore, lies increasingly in satellite terminals for covering the remote and isolated villages in the Region, which are otherwise not amenable to the terrestrial technology. While the private basic operators are currently not functioning in the NER, they can now take advantage to operate the WLL system, the permission for which was accorded in August 2002. Cellular services also clearly turn out to be the most-suited for the Region. Although the Region remains far behind the rest of the country in cellular services, there are definite signs of potency as evident in NER's improving share in all-India cellular mobile subscription. Cellular services, however, were so far

restricted only to Guwahati and Shillong for security reasons. It is heartening to note that very recently the Government has decided to lift these restrictions. Relaxation of such restrictions would, in course of time, change the telecom profile of the NER as is happening in the rest of the country. As is being contemplated, the spread of cellular services in the NER could, to begin with, be attempted by the Public Sector as is being experimented in the State of Jammu & Kashmir.

Given the strategic importance of the NER, a strong foundation for connectivity is needed. It is imperative that the State capitals are covered by all the three independent transmission routes/media, viz., microwave, satellite and optical fibre cable. Finally, the digital divide between the NER and the rest of the country could be bridged by effectively utilising the Universal Service Obligation (USO) to the advantage of the Region.

Let us next take a look at the Civil Aviation sector.

(B) Civil Aviation

It is now increasingly recognized that aviation is no longer confined to being a mode of transportation for a small elite group. Effective civil aviation is essential for development of trade, commerce and tourism. The difficult terrain of this Region enhances the significance of aviation travel. Although the NER boasts of as many as 18 airports, only 12 are presently operational. The coverage of air-link is also partial. For instance, only half of the eight State capitals (including Sikkim) are air-linked. The States, which are not air-linked, however, have helicopter services except Nagaland.

It needs to be highlighted that growth in domestic passenger traffic of the Region compares well with the all-India trend and has broadly maintained its share

at 3.5 per cent in all India domestic passenger traffic. There have been some recent initiatives to spruce up the air-facilities in this Region. As you would all know, Guwahati has recently become the 12th international airport on Air India's network with the launching of Guwahati-Bangkok flight in April 2002. There are also efforts to expand both airfleet as well as network across the NER. Recently Alliance Air (a subsidiary of Indian Airlines) has come out with a plan to induct four ATR 42-32 aircraft on dry lease basis for the NER. This is expected to double the capacity offered from 2125 seats to 4177 seats for the NER. In fact, two out of the four aircrafts have already started operations since January 2003.

While these developments augur well for passenger traffic in the NER, the dwindling share of NER in all-India cargo traffic is indeed a cause for concern for further expansion of air network. This has been the case despite a lower air-fare charged in the NER *vis-a-vis* the rest of the country. Also, the cost of air operations in the NER remains high due to a variety of reasons such as pay-load penalties, short haul sectors, frequent landings, shorter runway, no night landing facilities and sunset restrictions. As a consequence, all the airports in the NER are making losses.

The poor coverage and growth of aviation in the NER has much to do with the shortage of small aircrafts, which are well suited for the NER. To redress this, a favourable policy ambience for small aircrafts is now in place in terms of sale of aviation turbine fuel at international prices and sales tax ceiling of 4 per cent on such fuel. Besides, all routes in the NER have been exempted from air travel tax of 15 per cent announced as part of the Prime Minister's Special Package, 2000. In this context, the recent induction of small aircrafts by Alliance Air could open up a new chapter in civil aviation services for the NER.

The Tenth Five Year Plan has earmarked an amount of Rs. 250 crore for construction, expansion and augmentation of airports in the NER. Besides,

construction of the first airport in Sikkim at Pakyong is proposed with a provision of Rs.150 crore. While these plans are sure to spur the aviation sector in the NER, imaginative initiatives are needed to strengthen the viability of airports by tapping possible non-traffic sources of revenue. Towards this end, I feel that finances from the North-Eastern Council, which are now largely by way of grants, could be fruitfully utilised for innovative airport projects with an eye on non-traffic sources of revenue.

Alongside, every effort needs to be directed towards boosting the core aviation business. In fact, some or all air supply and passenger sorties provided by Indian Air Force could be returned to civil aviation. Besides, the case for international flights to Dhaka, Chittagong, Mandalaya and Yangon with the NER as base, could be explored for enhancing the air traffic in the NER.

Let us now bring our feet firmly on the ground, so to speak, by turning our attention to the Railways.

(C) Railways

Historically, Railways have played an important catalytic role in the socio-economic development of the country. However, it cannot be said to have held the same sway over the NER given the difficult and hilly terrain. The NER accounts for only about three per cent of the rail network of the country and its share in broad gauge network stands at a meagre one per cent. The development of rail network remains extremely skewed in the NER with Assam alone accounting for about 97 per cent of the network. Barring Assam, rail density is negligible in the NER and the network does not even cover Meghalaya and Sikkim. Not surprisingly, Dispur (Guwahati) is the only State capital connected by rail. The intra-regional disparity in the spread of railway network is amply demonstrated by the fact that the rail density of Assam is the third highest in relation to population

in the country and is also very high in terms of area covered. Nevertheless, the current status of railway network in the Region as a whole remains far from satisfactory.

The inadequate expansion of railways network in the Region is largely due to disappointing project execution. Despite a fixed proportion (around 10 per cent) of budgetary support being currently stipulated for development of rail network in the NER, utilisation of the budgetary support remains very low in the NER. Perhaps there is a need for fresh look in respect of attracting additional traffic to the railway network in the Region. In this context, the capitals of all the NER States need to be connected by rail network in the least.

As part of the renewed emphasis to improve railways support in the NER, a three-pronged strategy has been put in place recently: introduction of new lines and extension of routes, conversion to broad gauge network and improvement in passenger services such as computerised reservation system. The recent thrust on gauge conversion in the Region is expected to facilitate the development process by linking the remote areas to the national broad gauge network. The impact is set to be widespread. While all the State capitals in the NER are already on the network of computerised passenger reservation system (PRS), more centres are being brought into the network. All these measures are expected to improve railway services in this Region.

Let us now turn to the road sector

(D) Roads

NER presently accounts for around 11 per cent of national highways in the country. It is heartening to note that there has been a steady improvement in road density for all States in the NER over 1971-72 to 1996-97. Within the NER,

Tripura, facilitated by its topography, has the highest road density followed by Nagaland and Assam. Interestingly, all these three States have a density higher than the all India average. While the road density in other States is lower than the all-India average, the state of affairs has slipped since early 1980s especially for Manipur. Given the negligible railway network and fledgling aviation services in the NER barring, of course, Assam, it is a matter of concern that the road density in the States like Arunachal Pradesh, Mizoram, Meghalaya, Sikkim and Manipur continues to be one of the lowest in the country.

Against this backdrop, the launching of the National Highway Development Project (NHDP) is set to initiate a sea change in the coverage and quality of roads in the country, including the NER. As part of the East-West Corridor, around 753 kms of national highways in Assam are slated to be four/six-laned, which would connect Silchar in Assam to Porbandar in Gujarat. Indeed, more than one-fifth of the East West Corridor network falls in Assam. Although the schedule for completion of the Corridor has been advanced to 2007 from 2009, work for the East-West Corridor is yet to begin in Assam.

NER's share in development and maintenance funds for national highways has indicated improvement in the recent period. As of now, 10 per cent of budgetary support for the Ministry of Roads is allocated for national highway works in the NER. In the Central Road Fund, the share of NER stood at about 4 per cent in 2000-01 for development and maintenance of State roads. In recent years, stringent monitoring and direct payment system has helped to improve utilisation of Central funds by State governments in the NER, in sharp contrast to railways.

Our discussion of infrastructure will not be complete without making a foray in the power structure to which I turn next.

(E) Power

After witnessing power surplus in 1999-2000 and 2000-01, power supply in the NER turned into a deficit of 1.4 per cent in 2001-02. The gap further widened to 2.4 per cent in 2002-03 but remains far lower than the all-India gap of 8.8 per cent. The unmet demand was particularly wide in respect of Tripura and Assam. The demand-supply gap was less than one per cent in all other States of the NER. The lower demand-supply gap in the Region, however, emanates from the lowest per capita consumption of power in the country over the last 25 years (1974-75 to 1999-00).

The NER accounts for one-third (i.e., 58,971 MW) of the total hydro-power generation potential of India. Arunachal Pradesh, which accounts for 85 per cent of the total hydro-power potential of the NER has so far tapped only one per cent of the potential while the NER as a whole has tapped only two per cent of hydro-power generation capacity. The inability to realise the potential in hydro-power could be partly explained by the fact that in the NER, the initiative has been mainly come from the Central sector, whereas elsewhere in the country, such capacity additions have come primarily from the State sector. Moreover, there has been no private participation in hydro-power capacity build up in the NER. The huge gap in utilisation of the hydro potential needs to be corrected preferably with private participation. Even in respect of thermal power, private sector's contribution to capacity turns out to be a meagre 24.50 MW as against the all-India position of 9408.92 MW.

Productivity performance of the power sector in the NER also remains low in comparison to other regions. For instance, thermal plant load factor in the NER

remains much lower than elsewhere in the country. More disquieting is the fact that it is indicating a declining trend. Transmission and distribution losses in Arunachal Pradesh, Mizoram, Assam and Manipur are particularly of a higher order in comparison to the all-India level. Besides, cost of power supply, barring Meghalaya and Tripura, remains far higher in the NER than the all India average.

Since 1976, the North-East Electric Power Corporation Limited (NEEPCO), a dedicated company for the NER, has been entrusted with the task of capacity addition, optimum utilisation of commissioned projects and generation of adequate internal resources for re-investment. During the Ninth Five Year Plan, NEEPCO was able to achieve its capacity addition target. The targeted capacity addition during the Tenth Plan has been set at 585 MW. A Unified Load Despatch and Communication scheme was instituted in 2001-02 to operate, monitor and control the Regional power system in a unified, well coordinated and integrated manner.

A host of other initiatives have been taken by the Government to improve the power position in the Region. The power projects in the NER are eligible for multiple benefits and subsidies from various sources. The Power Finance Corporation has given special attention to develop power projects in the NER. The Central Electricity Authority has formulated a scheme in 2000-01 for the development of sub-transmission and distribution network, to be financed from non-lapsable pool of resources at an estimated cost of Rs. 453 crore. A concessional rate of interest of 8.25 per cent was extended in 2002-03 to all schemes sponsored by NE States/SEBs. A Kutir Jyoti Programme (i.e., a single point light connection) and electrification of 500 tribal villages announced in the Prime Minister's Special package are also currently on.

As part of power sector reforms, NE states, barring Tripura and Manipur, have signed Memorandum of Agreement (MoA) with the Central Power Ministry

to achieve agreed benchmarks under Accelerated Power Development and Reform Programme (APDRP). Under the APDRP, the entire cost of projects is met in the form of 90 per cent grant and 10 per cent loan to the NER States from the Central Government resources. NER has so far obtained around 12 per cent of the total disbursement under APDRP. In order to further step up the disbursement, it is imperative that Tripura and Manipur also sign the MoA.

In keeping with the rest of the country, institutional reforms in the power sector have been initiated in Arunachal Pradesh and Assam by setting up State Electricity Regulatory Commissions (SERCs). The SERC for Assam also serves three other states viz., Mizoram, Manipur and Nagaland. Thus, Tripura and Meghalaya are the only NER States which are yet to set up their SERCs. Assam SEB is also set to get a major relief with the Assam Cabinet approving the Centre's scheme of securitisation of SEB dues in June 2002.

With the help of Government of Assam and NEEPC the Central Government has decided to initiate steps towards increased availability of power during the next five years by facilitating the completion of power generation projects such as Kathalguri gas-based power project, Amguri gas based power project, KARBI-Langpi Hydro electric power project and lower Kopili hydro electric power project. Once these projects are commissioned, the State of Assam as well as the NER could indeed be a major power surplus region, which may be transmitted elsewhere in the country, cashing on the new Electricity Act, 2003.

On the whole, the infrastructure picture of the North East presents a mixed bag. While the set-up in telecom, power and civil aviation appears to be at least comparable with the rest of the country, the situation is not so satisfying in respect of rail or road transport. While in the present scenario, the Central Government has to continue to act as the principal agent for infrastructure development, the

major challenge for the future lies in devising ways and means to harness private potential to the advantage of the Region.

V. The Way Ahead: Key Areas for Policy Action

Nature has endowed the North Eastern Region bountifully and in many respects uniquely. It is rich in bio-diversity; its hydro-potential is unparalleled; it has petroleum and natural gas along with other minerals as also forest wealth. Besides, it has rich human resources, which are well educated and technically proficient. Moreover, the socio-economic fabric is well balanced in terms of gender equality. However, the development of the Region remains muted particularly in the absence of adequate physical infrastructure and enterprise. A breakthrough demands concerted efforts on all fronts. In summing up, I would like to offer a few suggestions.

One option is to develop a Common Economic Zone for the Region, on the lines of the successful SEZs/EPZs in China and elsewhere. This could be achieved by extending a gamut of fiscal and financial incentives (in the form of tax holidays, etc, on the lines of those prevalent for SEZs/EPZs in India) for export processing within the Region and allowing the sale of final goods both for international markets as well as for the domestic area. This would not only provide a much needed boost to existing industrial production and 'official' exports of the Region but also serve to harness the exports that are presently channeled through the 'informal' route. Large size zones such as the one contemplated could also invoke economies of scale within the Region, facilitate linkages within the economy and accelerate employment generation. The Zone would provide the necessary exports thrust to activities such as horticulture, floriculture and handloom, where the Region has a comparative advantage.

The proposed Zone would also assume special significance in the context of enhancing Regional cooperation under the BIMST-EC. (Bangladesh, India,

Myanmar, Sri Lanka, Thailand Economic Cooperation). In this connection, of the six sectors of cooperation identified under the arrangement viz., the 'trade and investment', 'energy', 'fisheries', 'tourism', 'technology' and 'communication and transportation', the first four sectors, could certainly propel the envisaged cooperation to new heights. Possibilities could also be explored for developing a port in Myanmar in order to cater to trade with the proposed Zone. Greater cooperation with Myanmar and Thailand could also be viewed as a bridge to the ASEAN in the future.

As far as the problem of informal border trade is concerned, it would be appropriate to take speedy action on the major recommendations of the Committee on Informal Border Trade. This would involve tightening of procedures for monitoring the flow of such trade at different customs points, simplification of procedures for registration of exports, lowering of duties and transaction costs, creation of adequate transport and transit infrastructure and reviewing the differential tariff structure of SAARC countries.

Development of infrastructure in the NER over the medium to long term should remain the basic focus of all Government policy initiatives. While a great deal of efforts have been made over the years, a definitive thrust to the process would necessitate multi-pronged action. Both Central and State Government policies would need to ensure a conducive environment for private entrepreneurship by eliminating cumbersome, anomalous and outdated regulations. At the same time, there is a need for improvement in the finances at all levels of Government so that resources could be channelised towards productive activities including infrastructural development. A broad-based and renewed push towards fiscal reforms in the NER would be important in this regard. More importantly, a benign and stable law and order situation would encourage private business and create a virtuous cycle by bringing marginalized

sections of society into the mainstream. Appropriate land acquisition and labour policies would also need to be designed to foster the development of infrastructure.

Within the infrastructure sector, I have argued that the cellular services are well suited for the Region. Such services could be spread out beyond Guwahati and Shillong, to begin with by the Public Sector Units, given the security concerns. The viability of aviation operations in the NER should be improved by way of induction of small aircrafts and focus on non-traffic sources of airport revenue. All the State capitals need to be on the rail network to absorb additional traffic demand in the Region. An early launching of the East West Corridor work in the NER as part of the on-going National Highway Development Project (NHDP) would promote trade and transport facilitation in a big way. Besides, tapping of hydro power potential should be high on the agenda particularly with private initiatives.

The development of Small Scale Industries (SSIs) in the NER also needs to be encouraged not only to exploit the opportunities provided by the Region's intrinsic natural resource endowments and available local/traditional expertise but also in view of the difficult terrain and weak infrastructure that could prove to be a more severe constraint for the development of larger industries in the short to the medium term. The development of SSIs would be particularly advantageous in respect of agro-based industries such as horticulture, food-processing, spices, rubber plantation, handloom, sericulture, poultry and livestock based industries and agro-industrial waste based industries. The abundant availability and variety of medicinal, aromatic and oil plants and herbs need to be exploited more fully for the development of pharmaceutical products, perfumes, cosmetics and oils. Mineral deposits provide opportunities for the development of small cement plants, potteries and glassware. Similarly, the handicrafts sector has great potential

for exports given the availability of local natural resources such as bamboo, cane, wood and clay. Deposits of crude oil, natural gas and coal would, however, need to be more fully harnessed by larger industries.

From the point of financial development, given the focused attention of various training agencies like Weavers' Service Centre (WSCs), Indian Institute of Handloom Technology and National Handloom Development Corporation in the Region, a new clan of skilled entrepreneurs can be encouraged through venture capital funding. This would definitely spread the industrial base of the Region.

The Region stands out as an ideal candidate for financing of knowledge-based ventures. One of the greatest assets of the Region is a large educational infrastructure both for primary as well as for higher education. There is a critical mass of English speaking, technically qualified pool of youthful manpower which could be effectively harnessed to either promote or participate in knowledge-based industries like software development, consultancy, pharmaceuticals, financial services, engineering services and biotechnology. Towards this, a dedicated venture capital agency like the ICICI backed Technology Development and Information Company of India Ltd. (TDICI) of Bangalore, as suggested by a study group set up the Planning Commission, may be thought of for financing knowledge-based enterprises in the NE.

While the NEDFi has ushered in a new era in the pursuit of development in the Region, the process needs to be strengthened by way of wider participation by all layers in financial intermediation. At the grass root level, the importance of co-operative credit institutions can hardly be over-emphasised. Regrettably, however, such institutions and practices are yet to take a firm root in the Region. While every effort should be directed towards spread of such institutions in the Region,

the existing network could be expeditiously revamped with recapitalisation funds as has been recommended by the Patil Committee on co-operative banking.

The network of non-banking financial companies has turned out to be extremely weak in the Region with dwindling activities over the years. The process needs to be arrested and corrected at the earliest as these institutions play a critical role in mobilising and purveying resources particularly for the informal and unorganised sector, which appear to be dominant in the Region. Perhaps, the interface and linkage of the NBFCs with the mainstream financial system needs to be improvised and strengthened towards channelising funds from the commercial banks into the Region.

While the NEDFi has taken a lead in the Region I do not think it was ever intended to be a substitute for the role and functions of the all-India and State level financial institutions in the Region. Given the enormity and intensity of the financing requirements, it requires a multi-channel operation at all levels of financial institutions. It is, therefore, essential to effect a resurgence in activities of these institutions in the Region.

Needless to say, all these efforts in respect of the financial sector need to be strengthened and integrated into an overall blueprint of development for the Region. The path-breaking New Industrial Policy for the North East has already created a favourable environment for investment in the Region. While the governments at all layers have to continue their role as the principal agent of development, the private and foreign investors also need to seize the emerging opportunities which would, in fact, make the much-needed difference to the development profile of the Region over the longer-term.

In sum, we must keep trying and learn to be patient. The fruits of our developmental efforts will take some more time to deliver, given the difficult terrain. But we cannot afford to buy time or lose the momentum of our reform initiatives. Only a concerted, continuous and consistent policy efforts along with broad-based public-private participation can ensure a prosperous and vibrant NER in the near future.

Let me conclude with a story:

"The great French Marshall Lyautey once asked his gardener to plant a tree. The gardener objected that the tree was slow growing and would not reach maturity for 100 years. The Marshall replied, 'In that case, there is no time to lose; plant it this afternoon!'"

Let's get on with it.

Thank You.

