Kerala Finances

2002-03 to 2011-12

An Evaluation

Submitted to

Fourteenth Finance Commission, Government of India

August 2014

GULATI INSTITUTE OF FINANCE AND TAXATION

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Study Team

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Contents

List of Tables

Preface

This study on Kerala finances for the ten year period 2002-03 to 2011-12 covering 10th and 11th Plans has been entrusted to Gulati Institute of Finance and Taxation (GIFT) by Fourteenth Finance Commission, Government of India. The draft report of the study was submitted in October 2013. I am happy that the team has completed the study in time incorporating the comments based on the draft report and I am sure that these findings will be useful to the Commission.

I congratulate the team members Dr. Jose Sebastian, Smt. L. Anitha Kumary and Smt. R.Shyama Nair for their earnest efforts.

Needless to say, the views and opinions expressed in this Report are solely that of the authors.

Jose Jacob
Director

CHAPTER I
Introduction

The present study on Kerala finances for the ten year period 2002-03 to 2011-12 covering 10th and 11th five year Plans has been entrusted by Fourteenth Finance Commission (FFC), Government of India. The terms of reference of the study as contained in the communication received from the office of FFC are the following:

1. Estimation of revenue capacities of state and measures to improve the tax-GSDP ratio during the last five years. Suggestions for enhancing the revenue productivity of the tax system in the state;
2. Analysis of the state's own non-tax revenues and suggestions to enhance revenues from user charges and profits from departmental enterprises and dividends from non-departmental commercial enterprises;
3. Expenditure pattern and trends separately for non-plan and plan, revenue and capital, and major components of expenditure there under. Measures to enhance allocative and technical efficiency in expenditure during the last 5 years. Suggestions for improving efficiency in public spending;
4. Analysis of deficits-fiscal and revenue along with balance of current revenue for plan financing;
5. The level of debt-GSDP ratio and use of debt (i.e. whether it has been used for capital expenditure or otherwise). Composition of state's debt in terms of market borrowing, Central government debt (including those from bilateral/multilateral lending agencies routed through the Central government), liabilities in public account (small savings, provident funds etc.) and borrowings from agencies such as NABARD, LIC etc.;
6. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate;
7. Analysis of the state's transfers to urban and rural local bodies in the state. Major decentralisation initiatives. Reforms undertaken under JNNURM conditionalities;
8. Impact of state public enterprises finances on the state's financial health and measures taken to improve their performance and /or alternatives of closure, disinvestment etc;
9. Public Expenditure and Financial Management (PEFM) reforms implemented in the state;
10. Impact of power sector reforms on state's fiscal health. In case reforms have not been implemented, the likely outcome on the state's fiscal health;
11. Analysis of contingent liabilities of the state; and
12. Subsidies given by the states (other than Central subsidies), its targeting and evaluation.

It has been specified that the study is expected to critically analyse the overall state's finances over the ten year period with reference to the above and the Terms of Reference of the FFC. As per the communication received from FFC, the dates for submission of the draft report and final report were October 31, and November 30, 2013 respectively. The study team submitted the draft report in October 2013. The draft report was considered by the Commission. Vide letter D.O No.11015/02/2013-FEC (Kerala) dated 11-4-2014, the Commission directed the study team to submit the final report incorporating the comments on the draft report.

This report incorporates the comments on the draft report. Efforts have been made to update some data and incorporate fresh details wherever relevant.

Methodology and data source

The study broadly follows the methodology suggested in the literature on state finances and uses the standard tools and techniques. The basic approach is to analyse the trends in revenue, expenditure and deficit of Kerala for the ten year period from 2002-03 to 2011-12 and compare the same with that of two sub-periods which cover 10th and 11th five year Plans. Wherever relevant, we have compared the trends with that of other South Indian states. Though efforts have been made to cover all the items in the Terms of Reference, the focus of the study is on the options and sources before the state to overcome the fiscal stress the state has been undergoing for quite some time. The study team has put forwarded a set of suggestions towards this end.

The study team collected the relevant data from various sources and wherever relevant, held discussions with government officials and knowledgeable persons. The major sources of data are relevant issues of Reserve Bank of India publication 'State Finances: A Study of Budgets', budget documents and other publications of Government of Kerala and Kerala State Planning Board. Since final figures for 2011-12 in the case of Kerala are available in the budget documents, we have used it whereas in the case of other South Indian states, the corresponding figures are revised estimates taken from the Reserve Bank of India publication. We have also collected data and information from other published sources, government circulars, orders and websites. Gross State Domestic Product figures are taken from Central Statistical Organisation. Population figures are projections brought out by Census of India.

Plan of the report

The report slightly deviates from the order in which items are outlined in the Terms of Reference though all items are covered in one place or the other. Chapter II analyses the trends in revenue receipts, expenditure and subsidies. Trends in deficits, debt and liabilities and its impact on the underlying economy are focused in chapter III. Chapter IV analyses the trends in state's transfers to urban and rural local bodies, major decentralisation initiatives and the reforms undertaken under JNNURM conditionalities. Chapter V reviews the performance of public sector enterprises including State Electricity Board and its impact on the fiscal health of the state. The measures taken to improve the tax-GSDP ratio and enhance the allocative and technical efficiency in expenditure during the last five years are discussed in chapter VI. This chapter also discusses the implementation of FRBM Act in the state. Chapter VII examines the various dimensions and implications of Kerala's fiscal stress. Chapter VIII explores the various options and sources before the state for fiscal consolidation. The scope for additional resource mobilisation through tax and non- tax resources is examined in detail and suggestions are put forwarded for increasing the productivity of tax and non-tax resources. This chapter also explores the scope for enhancing the efficiency of public expenditure by curtailing unproductive and wasteful expenditure. Chapter IX presents the summary and conclusions.

Chapter II

Trends in Revenue Receipts, Expenditure and Subsidies

The Thirteenth Finance Commission had proposed a different roadmap for Kerala along with Punjab and West Bengal as these states could not achieve the deficit targets. The fiscal maladies of the state date back to the early eighties. From 1983-84 onwards, Kerala has been experiencing revenue deficits. The state has been under pressure to mobilise additional resources and curtail expenditure as mandated by the Fiscal Responsibility and Budget Management Act of 2003. By analysing the trends in revenue receipts, expenditures and subsidies for the period 2002-03 to 2011-12, we have tried to examine to what extent the state has been successful in managing the fiscal stress.

Revenue receipts: The overall picture

Table 2.1 presents major components of state's revenue in relation to Gross State Domestic Product (GSDP) at current prices.

Table- 2.1 Major components of Kerala's revenue in relation to GSDP

(In per cent)

Particulars	2002-03 to 2011-12	Tenth Plan	Eleventh Plan
Own tax-GSDP	7.87	7.84	7.90
Own non- tax-GSDP	0.74	0.72	0.76
Own total revenue-GSDP	8.61	8.56	8.66
Central transfers-GSDP	3.16	3.20	3.13
Total revenue-GSDP	11.77	11.76	11.79

Source: Worked out using data from *State finances: A study of budgets* by Reserve Bank of India, relevant issues and *Budget in brief 2013-14*, Government of Kerala.

Table 2.1 shows that all components of Kerala's revenue in relation to GSDP except Central transfers to GSDP registered an improvement during the Eleventh Plan period compared to the Tenth Plan period.

How Kerala's performance compares with that of other South Indian states is presented in table 2.2.

Table 2.2 Revenue -GSDP ratio of South Indian states- 2002-03 to 2011-12)

(In per cent)

Particulars	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu
Own tax-GSDP	7.66	9.46	7.87	8.66
Own non- tax-GSDP	1.93	1.45	0.74	1.05
Own total revenue-GSDP	9.59	10.90	8.61	9.72
Central transfers-GSDP	4.53	4.09	3.16	3.26
Total revenue-GSDP	14.12	14.99	11.77	12.98

Source: Same as table 2.1

Table 2.2 shows that Kerala is lowest in total revenue-GSDP ratio among South Indian states during the ten year period. While Kerala is marginally above Andhra Pradesh in tax-GSDP ratio, in non-tax GSDP ratio Kerala is much below that of other South Indian states. It may be noted that Central transfers-GSDP ratio of Kerala is lowest among South Indian states. This factor together with the sluggish growth of non-tax revenue sources worked behind the comparatively low total revenue-GSDP ratio of Kerala.

Rate of growth of various sources of revenue during the period presented in table 2.3 provides another dimension.

Table 2.3 Rate of growth of various components of Kerala's revenue

(Per cent per annum)

Particulars	2002-03 to 2011-12	Tenth Plan	Eleventh Plan
Own tax revenue	15.94	15.22	16.66
Own non- tax revenue	17.50	11.98	23.03
Own total revenue	16.02	14.92	17.12
Central transfers	14.61	15.78	13.45
Total revenue receipts	15.50	15.00	16.01

Source: Same as table 2.1

Table 2.3 confirms our earlier finding about the role of Central transfers in keeping Kerala's total revenue-GSDP ratio below that of other South Indian states. The higher rate of growth observed in the case of non-tax revenue during the 11th Plan period did not impact on the overall rate of growth of total revenue presumably due to its small contribution to total revenue.

Table 2.4 presents a comparative picture of the rate of growth of various components of revenue in South Indian states.

Table 2.4 Rate of growth of revenue in South Indian states 2002-03 to 2011-12

(Per cent per annum)

Particulars	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu
Own tax revenue	15.86	16.85	15.94	16.74
Own non- tax revenue	16.85	16.92	17.50	15.60
Own total revenue	15.90	16.57	16.02	16.44
Central transfers	18.12	16.43	14.61	17.65
Total revenue receipts	16.39	16.41	15.50	16.54

Source: Same as table 2.1

Rate of growth of own revenue of Kerala is slightly above that of Andhra Pradesh but significantly lower than that of Karnataka and Tamil Nadu. Again, the rate of growth of Central transfers in the case of Kerala stands in sharp contrast with that of other South Indian states.

Change in the relative shares of various components of revenue

The changes in the relative shares of various components of total revenue are presented in Appendix 2.1. In the case of all South Indian states, share of own revenue in total revenue has fallen in 2011-12 compared to 2002-03. In the case of other South Indian states, it is attributable to the fall in the share of non-tax revenue. But in the case of Kerala, the marginal increase in the share of non-tax revenue could not compensate the fall in the share of tax revenue. The increasing share of Central transfers points towards the growing dependence of states on the Centre for their revenue requirements. Next to Tamil Nadu, Kerala is the second lowest in the share of Central transfers to total revenue receipts.

Level and composition of own revenue: A disaggregated analysis

The factors contributing to the relatively low Own revenue/GSDP ratio of Kerala during the reference period need to be probed in detail. In Appendix 2.2 we have presented the level of taxation in South Indian states in 2002-03 and 2011-12. It is seen that in 2002-03, Kerala was highest in per capita tax revenue and lowest in per capita non-tax revenue and this pushed Kerala down to second position in per capita own revenue. Though Kerala improved her position in non-tax revenue to second in 2011-12, the position in per capita own revenue has remained the same as the contribution of non-tax revenue in total own revenue is meager. It may be noted that the relatively comfortable position of Kerala in per capita figures is also due to the comparatively low rate of growth of population. Coming to individual taxes, Kerala was top among South Indian states in per capita sales tax in 2002-03. Kerala continues to be in the top position in 2011-12. One tax source in which all other South Indian states outperform Kerala is state excise. While the per capita state excise in the case of Kerala more than doubled during the ten year period, that of other South Indian states registered three to four fold increase. In the case of motor vehicle tax also, other South Indian states are fast catching up with Kerala. The composition of the tax structure of South Indian states shows that Kerala is more dependent on commodity taxes than others.

Though Kerala improved her position in non-tax revenue, it is largely due to the contribution of lottery. The percentage share of lottery in non-tax revenue increased from 18.88% in 2002-03 to 49.50% in 2011-12. Both in 2002-03 and 2011-12, Kerala is lowest in per capita non-tax revenue from social and economic services.

Non-tax revenue: A closer picture

The factors contributing to the poor performance of non-tax revenue in Kerala demand closer analysis. In Appendix 2.3 we have presented the per capita figures for all non-tax sources for South Indian states. It is seen that Kerala is lowest among South Indian states in per capita interest receipts both in 2002-03 and 2011-12. Though Kerala is top in dividends and profits, it has to be read along with the fact that the number of public sector enterprises in Kerala is much higher than that of others. While other South Indian states have almost stopped running lotteries, Kerala's dependence on lotteries has in fact gone up. In per capita revenue from social services, Kerala is above Andhra Pradesh and Karnataka but much below Tamil Nadu. Both in 2002-03 and 2011-12, Kerala is below others in per capita non-tax revenue from economic services. However, Kerala is much ahead of others in per capita revenue from forest and wild life.

It would appear that Kerala does not put in much 'effort' in mobilising non-tax revenue. As we shall see in a subsequent chapter, this equally applies to tax revenue sources.

Rate of growth of various sources of revenue

Rate of growth of various sources of revenue is presented in table 2.5.

Table 2.5 Rate of growth of various sources of own revenue of Kerala

(Per cent per annum)

Particulars	2002-03 to 2011-12	Tenth Plan	Eleventh Plan
1. Own tax revenue	15.94	15.22	16.66
Stamps and registration	23.61	31.51	15.70
Sales Tax of *which*	15.77	14.20	17.34
a. State sales tax/VAT	16.59	14.58	18.61
b. Central sales tax	19.91	17.84	21.98
State excise	13.48	12.23	14.72
Motor vehicle tax and taxes on goods and passengers	13.54	9.49	17.59
Agricultural income tax	51.14	63.31	38.98
Land revenue	5.78	6.17	5.38
Taxes and duties on electricity	8.84	12.19	5.49
Other taxes	14.75	15.90	13.61
2. Own non- tax revenue	17.50	11.98	23.03
Forest	8.63	10.13	7.12
Lotteries	30.92	15.51	46.33
Social and economic services	12.85	10.71	15.00
Others	41.26	41.33	41.20
3. Own total revenue	16.02	14.92	17.12

Source: Same as table 2.1

Table 2.5 shows that the rate of growth of major sources of tax and non-tax revenue registered an improvement during the 11th Plan period compared to the 10th Plan period. The comparatively better growth performance of sales tax, state excise and lottery during the 11th Plan period is the major factor behind the overall all growth performance during the reference period.

Comparison with other South Indian states however presents a different story (table 2.6).

Table 2.6 Rate of growth of major sources of own revenue in South Indian states- 2002-03 to 2011-12

(Per cent per annum)

Particulars	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu
Stamps and registration	19.36	20.33	23.61	20.17
Sales tax of *which*	16.78	16.85	15.77	16.38
a. State sales tax/VAT	17.05	18.11	16.59	18.03
b. Central sales tax	15.62	2.95	19.91	8.78
State excise	19.31	17.24	13.48	18.48
Motor vehicle tax and taxes on goods and passengers	11.88	15.73	13.54	17.53
Other taxes and duties	5.09	15.69	25.93	21.26
Own tax revenue	15.86	16.85	15.94	16.74
Forest	12.72	9.20	8.63	15.49
Lotteries	0.00	125.49	30.92	-18.72
Social and economic services	14.58	16.51	12.85	21.61
Others	19.54	26.78	41.26	17.80
Own non- tax revenue	16.85	16.92	17.50	15.60
Own total revenue	15.90	16.57	16.02	16.44

Source: Same as table 2.1

Table 2.6 shows that both Tamil Nadu and Karnataka are ahead of Kerala in the rate of growth of tax revenue. Kerala is only slightly above that of Andhra Pradesh. In sales tax and VAT, Kerala has registered the lowest rate of growth during the reference period. The comparatively higher rate of growth of Kerala in the case of non-tax revenue seems to be due to its low level in 2002-03. This has only marginal impact on the overall rate of growth as non-tax revenue sources contribute only a small share of the total own revenue.

Foregoing analysis shows that in whatever way the revenue performance of Kerala is looked at, the conclusion is inescapable that the state has lagged behind in resource mobilisation. This together with the sluggish growth of Central transfers is the principal factor behind the fiscal stress that Kerala is at present confronted with.

Public expenditure: The overall picture

The overall picture of different components of public expenditure during the study period is presented in table 2.7.

Table 2.7 Share of various components of expenditure in total expenditure- 2002-03 to 2011-12

(Per cent)

Particulars	2002-03 to 2011-12	Tenth plan	Eleventh plan
Revenue expenditure	85.82	85.44	86.19
Capital expenditure	14.18	14.56	13.81
Capital outlay	5.00	3.70	6.30
Development expenditure	40.77	41.37	40.16
Non-development expenditure	39.54	39.92	39.17
Non- plan expenditure	81.83	81.11	82.55
Plan expenditure	18.17	18.89	17.45
Non -plan revenue expenditure	73.72	71.28	76.17
Plan revenue expenditure	12.10	14.17	10.02

Note: Development expenditure and non-development expenditure do not add up to 100% as we have excluded the grants-in-aid and contributions to local bodies.
Source: same as table 2.1.

Table 2.7 shows that while the share of revenue expenditure and non- plan revenue expenditure registered an increase, that of development expenditure and plan expenditure registered a decrease during the 11th Plan period compared to the 10th Plan period. What stands out in the overall picture is the sharp increase in the share of capital outlay and steep fall in the share of plan revenue expenditure during the 11th Plan period.

The distinguishing feature of Kerala's public expenditure is sharply brought out when we compare it with other South Indian states (table 2.8).

Table 2.8 Share of various components of expenditure in total expenditure in South Indian states- 2002-03 to 2011-12

(Per cent)

Particulars	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu
Revenue expenditure	74.22	76.26	85.82	78.39
Capital expenditure	25.78	23.74	14.18	21.61
Capital outlay	13.59	16.30	5.00	11.64
Development expenditure	47.06	47.95	40.77	43.41
Non-development expenditure	26.75	24.76	39.54	29.49
Non- plan expenditure	66.67	65.70	81.83	73.70
Plan expenditure	33.33	34.30	18.17	26.30
Non- plan revenue expenditure	56.50	58.89	73.72	64.20
Plan revenue expenditure	17.72	17.37	12.10	14.19

Note: Development expenditure and non-development expenditure do not add up to 100% as we have excluded the grants-in-aid and contributions to local bodies.
Source: Same as table 2.1

Table 2.8 shows that compared to other South Indian states, the proportion of revenue expenditure, non-development expenditure and non-plan revenue expenditure in total expenditure is high in the case of Kerala. While the share of capital expenditure is as high as 25.78% in the case of Andhra Pradesh, it is only 14.18% in the case of Kerala. The share of capital outlay which is below one third of that of Karnataka is especially disturbing.

Level of public expenditure: A disaggregated picture

Only a disaggregated analysis can throw light on the nature of public expenditure. As we have seen, the single largest component of total expenditure is revenue expenditure. A comparative picture of the level of revenue expenditure in South Indian states is presented in Appendix 2.4. A summary of this is presented in table 2.9.

Table 2.9 Per capita revenue expenditure in South Indian states

(₹)

Particulars	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
Revenue expenditure	3375.26	11383.12	3510.26	10679.87	4611.25	13785.63	4077.3	11791.4
a) General services	1400	3570.48	1326.87	2863.01	2086.88	6077.84	1570.63	3957.84
% to total	41.48	31.37	37.80	26.81	45.26	44.09	38.52	33.57
b) Social services	1112.18	4802.83	1180.41	4238.79	1574.38	4857.44	1265.71	4720.25
% to total	32.95	42.19	33.63	39.69	34.14	35.24	31.04	40.03
c) Economic services	829.15	2966.12	895.9	2859.41	931.88	1835.83	993.81	2075.45
% to total	24.57	26.06	25.52	26.77	20.21	13.32	24.37	17.60
d) Grants-in-aid and contributions	33.93	43.69	107.08	718.66	18.11	1014.52	247.15	1037.86
% to total	1.01	0.38	3.05	6.73	0.39	7.36	6.06	8.80

Source: Same as table 2.1

As can be seen from the table, both in 2002-03 and 2011-12, Kerala occupied the top position in per capita revenue expenditure. But this macro picture conceals the glaring inequities in Kerala's public expenditure. Both in 'general services' and 'social services', Kerala was top in absolute and relative terms in 2002-03. During the ten year period, Kerala's expenditure on ' general services' grew much faster than others. While in the case of other South Indian states, the share of 'general services' in total revenue expenditure registered significant fall, in the case of Kerala it is just marginal, from 45.26% to 44.09% only. Though per capita expenditures on all components of 'general services' are significantly higher in the case of Kerala, it is the expenditure on 'interest payment and debt servicing' and 'pension' that contributed to the sharp increase in 'general services'. It would appear that the savings in 'general services' enabled other South Indian states to spend more on 'social services'. While all of them could increase the share of expenditure by 6 to 10 percentage points, in the case of Kerala, it is just 1.1% only. The gap that existed between Kerala and other South Indian states in per capita expenditure on 'social services' in 2002-03 has become very narrow in 2011-12.

But what is alarming is Kerala's dismal performance in 'economic services'. Kerala was second only to Tamil Nadu in per capita expenditure on 'economic services' in 2002-03. In 2011-12, Kerala occupies the lowest position among South Indian states. Both Andhra Pradesh and Karnataka whose per capita expenditures were lower than that of Kerala in 2002-03 have overtaken Kerala with wide margins. As Appendix 2.4 shows, there is absolute fall in per capita expenditure on such crucial sectors as rural development and power.

Evidently, the options before Kerala were, raising additional resources and curtailing expenditure on 'general services'. Considering the peculiar nature of public expenditure in Kerala, the first option was more feasible. As we have already seen, compared to other South Indian states, the share of non-plan revenue expenditure is much higher in Kerala. The predominance of 'social and community services' over 'economic services' has been a distinguishing feature of Kerala's public expenditure. Compared to most Indian states, Kerala had spent more on these services in the successive plans. The root cause of Kerala's fiscal maladies is the non-plan commitments emanating from this expenditure pattern (George, 1993, p.78). The paradox is that this expenditure pattern has landed up the state in a situation where in the state is now finding it difficult to spend adequately on these services.

Non-plan revenue expenditure: A closer picture

The level of non-plan revenue expenditure in South Indian states is presented in Appendix 2.5. The share of non-plan revenue expenditure in revenue expenditure of major expenditure heads is worked out in Appendix 2.6. In the case of other South Indian states, the sharp fall in the share of non-plan revenue expenditure in 'social services' reflects the increasing share of plan expenditure. On the other hand, in the case of Kerala, the share of non-plan revenue expenditure increased from 78.74% to 79.03% indicating the slower rate of growth in plan expenditure. The expenditure head-wise rate of growth of non-plan revenue expenditure of Kerala is presented in table 2.10.

Table 2.10 Rate of growth of non-plan revenue expenditure of Kerala - 2002-03 to 2011

(Per cent per annum)

Particulars	2002-03 to 2011-12	Tenth Plan	Eleventh Plan
General services	**13.98**	**11.37**	**16.60**
Organs of state	14.61	11.85	17.36
Fiscal services	15.51	12.97	18.06
Interest payment and debt servicing	9.79	11.05	8.53
Administrative services	14.45	10.94	17.96
Pension	18.13	12.57	23.69
Others	27.74	14.06	41.41
Social services	**14.46**	**9.94**	**18.98**
Education	14.59	9.99	19.19
Health	14.56	8.92	20.19
Other social services	16.85	14.82	18.88
Economic services	**20.15**	**16.37**	**23.94**
Agriculture and allied activities	19.43	13.24	25.63
Rural development	55.87	83.29	28.44
Irrigation and flood control	17.63	18.68	16.58
Energy of which power	0.00	0.00	0.00
Industry and minerals	12.80	3.62	21.98
Transport and communications	28.26	21.54	34.98
Other economic services	17.66	14.95	20.38
Total non - plan revenue expenditure	15.43	13.4	17.46

Source: Same as table 2.1

Table 2.10 shows that the rate of growth of almost all components of expenditure has gone up during the 11th Plan period compared to the 10th Plan period. The expenditure on 'general services' which was already high in 2002-03 registered a growth rate of 13.98% per annum during the ten year period. Except 'interest payment and debt servicing', all components of 'general services' registered very high rates of growth. In the case of 'social services', the rate of growth almost doubled during the 11th Plan period. The comparatively high rate of growth of 'economic services' is perhaps due to low level of expenditure in 2002-03 as reflected in the per capita expenditure which was the lowest in South Indian states.

It would appear that the state was almost on the path of fiscal consolidation during the 10th Plan period. While revenue receipts grew at the rate of 15% per annum, non-plan revenue expenditure grew only at the rate of 13.40%. On the other hand, during the 11th Plan period, non-plan revenue expenditure grew at the rate of 17.46% where as the rate of growth of total revenue receipts was only 16.01%. One of the reasons was the implementation of Sixth Pay Commission recommendations and the implementation of 'one rank one pension' scheme. While the state could not have avoided these two, the fact should be admitted that there did exist some scope for expenditure rationalisation under 'general services'.

Trends in salary, pension and interest payments

The predominance of social and community services with its high non-plan revenue content implies that the expenditure on salary and pensions will be comparatively high. This, together with interest payments account for lion's share of Kerala's public expenditure. The trends in salary, pension and interest payments during the period under study are presented in table 2.11.

Table 2.11 Trends in salary, pension and interest payments-2002-03 to 2011-12

(₹ in crores)

Items	Revenue expen-diture	Salary	Pen-sion	Inte-rest payments	Salary, pension and interest payments total	Salary, pension and interest payments as a % of total revenue expenditure	Salary, pension and interest payment as a % of total own revenue	Salary , pension and interest payment as a % of total revenue
2002-03	14756	4679	2283	2947	9909	67.15	124.16	93.18
2003-04	15496	5067	2409	3328	10804	69.72	121.45	91.44
2004-05	17170	5346	2601	3613	11560	67.32	118.16	85.63
2005-06	18424	5608	2861	3799	12268	66.59	114.48	80.21
2006-07	20824	6585	3295	4190	14070	67.57	109.24	77.37
2007-08	24892	7694	4925	4330	16949	68.09	113.91	80.30
2008-09	28223	9064	4686	4660	18410	65.23	104.91	75.11
2009-10	31132	9800	4706	5292	19798	63.59	101.65	75.83
2010-11	34666	11068	5767	5690	22525	64.98	95.23	72.68
2011-12	46045	16083	8700	6293	31076	67.49	109.77	81.76
Average for 2002 -03 to 2011-12						**66..77**	**113.30**	**81.35**

Source: *Budget in Brief*, Government of Kerala, various issues.

Table 2.11 shows that the expenditure on salary, pension and interest payments as a percentage of revenue expenditure, own revenue and total revenue exhibits a falling trend.

Subsidies and its targeting

Due to paucity of time, the study team could not undertake a rigorous estimation of subsidies on the lines of Srivastava and Sen (1997). However, we have attempted a crude estimate of subsidies and cost recoveries in the case of 'social services' and 'economic services'. For this purpose, the revenue expenditure on the particular service is taken as the cost of providing it and the revenue receipts as the cost recovery. The difference between the two is taken as a measure of subsidy. Cost recovery is worked out as the ratio of revenue receipt to revenue expenditure.

While the subsidy arrived at by this method would vary from the estimate on the lines of Srivastava and Sen (1997), the difference is only in degree. From the policy point of view, the question is whether total subsidies are increasing or decreasing. Viewed from this angle, our estimate, despite its obvious limitations, serves the purpose. The estimate of subsidy for 2002-03 and 2011-12 is presented in table 2.12.

Table 2.12 Per capita subsidy and recovery rate in the case of social services and economic services in Kerala - 2002-03 and 2011-12

Items	2002-03		2011-12	
	Subsidy (₹)	Recovery rate (%)	Subsidy (₹)	Recovery rate (%)
1. Social services	**1541.17**	**2.11**	**4776.13**	**1.67**
Education, sports, art and culture	907.68	2.14	2772.47	1.75
Medical and public health	228.37	3.72	812.81	2.35
Housing	20.08	2.67	31.18	1.33
Urban development	68.15	0.42	81.59	0.53
Labour and employment	19.96	6.09	117.01	8.38
Social security and welfare	106.92	0.54	452.15	0.01
Water supply and sanitation	60.10	1.37	114.68	0.00
Others	129.91	0.78	394.24	0.20
2.Economic services	**849.35**	**8.86**	**1688.47**	**8.03**
Crop husbandry	55.08	6.75	258.87	1.32
Animal husbandry	26.58	7.54	99.43	1.21
Fisheries	15.47	4.81	60.39	3.04
Forestry and wild life	-2.68	106.09	21.14	75.75
Co-operation	13.60	36.01	34.94	36.93
Other agricultural programmes	-0.01	0.00	-0.03	0.00
Major and medium irrigation projects	20.11	5.37	29.78	12.14
Minor irrigation	17.18	1.86	40.25	3.57
Power	72.55	0.00	16.47	0.00
Village and small industries	30.23	1.28	74.61	0.33
Industries	0.05	99.21	1.86	88.73
Ports and light houses	6.23	4.00	-3.56	136.96
Road transport	140.00	0.00	14.07	0.00
Tourism	20.08	2.67	42.66	3.74
Others	434.90	2.82	997.60	1.87
3. Total (1+2)	**2390.52**	**10.97**	**6464.61**	**9.70**
% share of social services in total subsidy	**64.47**		**73.88**	
% share of economic services in total subsidy	**35.53**		**26.12**	

Source: Same as table 2.1

Table 2.12 shows that the share of 'social services' in total subsidy was 64.47% in 2002-03 and this has gone up to 73.88% in 2011-12. This means that the relative share of subsidy in 'economic services' has come down. In both services, the recovery rate has come down during the ten year period. For purposes of comparison, we have estimated the subsidy and recovery rates for the South Indian states in Appendix 2.7 and 2.8 respectively. It is seen that in 'social services', Kerala is top in per capita subsidy both in 2002-03 and 2011-12. Except Tamil Nadu, in the case of all South Indian states, the recovery rate has come down. In the case of 'economic services', Kerala was second highest in 2002-03, the first being Tamil Nadu. In 2011-12, Kerala has the lowest recovery rate from 'economic services'. In total subsidy Kerala is third, but in overall recovery rate Kerala stands at the lowest position both in 2002-03 and 2011-12.

In Kerala, subsidies are enjoyed by all classes of income earners. Though the poorer sections are given fee concessions in educational institutions and lower service charges in government hospitals, the rich are not denied the subsidies. A significant proportion of subsides in higher education, particularly in professional courses goes to the richer sections of the society. Both in health and education, the declining quality of public services has prompted an increasing section of upper middle class and rich to depend on private providers.

References

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Chapter III

Trends in Deficits, Debt and Liabilities

The analysis of the trends in revenue, expenditure and subsidies in the last chapter has shown that the root cause of Kerala's fiscal maladies is not high level of expenditure *per se* but sluggish growth of revenue and comparatively high subsidies. While the level of expenditure in 'general services' is quite high, the same on 'social and economic services' is not so when compared to other South Indian states. In this chapter, the issues arising from the resultant deficits and its impact on the underlying economy are analysed in greater detail.

Table 3.1 presents the trends in various forms of deficits/surpluses for the period under study.

Table 3.1 Trends in budgetary deficits/surpluses

(₹ crores)

Year	Primary deficit/surplus	Revenue deficit/surplus	Overall budgetary deficit/surplus	Gross fiscal deficit/surplus
2002-03	2047	4122	268.17	4994
2003-04	2211	3681	124.25	5539
2004-05	839	3669	-106.98	4452
2005-06	252	3129	-163.30	4182
2006-07	-368	2638	-146.67	3822
2007-08	1770	3785	78.26	6100
2008-09	1686	3712	84.46	6346
2009-10	2580	5023	-20.24	7872
2010-11	2240	3674	-0.49	7730
2011-12	6521	8034	588.85	12815

(+) Deficit/ (-) Surplus

Source: Worked out using data from *State finances: A study of budgets* by Reserve Bank of India, relevant issues and *Budget in brief 2013-14*, Government of Kerala.

Table 3.1 shows that Kerala has been having primary deficit in all except one year but revenue deficit throughout the period. While revenue deficit has been consistently coming down during the 10th Plan period, it registered a fluctuating but rising trend during the 11th Plan period. As a consequence, gross fiscal deficit which was exhibiting a decreasing trend during the 10th Plan period grew at an alarming rate during the 11th Plan period.

The fiscal health of the state is better reflected in the deficit indicators in relation to GSDP which is a proxy measure of the capacity of the state to service debt created to finance the deficits. This is presented in table 3.2.

Table 3.2 Major indicators of fiscal health of Kerala

(Per cent)

Year	PD/GSDP	RD/GSDP	GFD/GSDP	RD/TRR
2002-03	2.36	4.74	5.75	38.76
2003-04	2.29	3.81	5.73	31.16
2004-05	0.70	3.08	3.73	27.18
2005-06	0.18	2.29	3.06	20.46
2006-07	-0.24	1.72	2.49	14.50
2007-08	1.01	2.16	3.48	17.93
2008-09	0.83	1.83	3.13	15.14
2009-10	1.11	2.16	3.39	19.24
2010-11	0.76	1.36	2.87	11.86
2011-12	2.07	2.55	4.07	21.14
Tenth Plan	1.06	3.13	4.15	26.41
Eleventh Plan	1.16	2.01	3.39	17.06
2002-03 to 2011-12	1.11	2.57	3.77	21.74

(+) Deficit/ (-) Surplus
Source: Same as table 3.1

Table 3.2 shows that the indicators exhibit year to year fluctuations. Generally, all indicators exhibit improvement during the 11th Plan period compared to the 10th Plan period. There is sharp reduction in the ratio of revenue deficit to total revenue receipts partly due to the comparatively better performance of the state in resource mobilisation during the 11th Plan period.

How Kerala's GFD/GSDP ratio compares with the major South Indian states is presented in Table 3.3

Table 3.3 Major indicators of fiscal health in South Indian states - 2002-03 to 2011-12

(Per cent)

States	PD/GSDP	RD/GSDP	GFD/GSDP	RD/TRR
Andhra Pradesh	0.55	0.25	3.03	1.94
Karnataka	0.83	-0.55	2.73	-3.39
Kerala	1.12	2.57	3.77	21.73
Tamil Nadu	0.48	0.21	2.31	1.75

Source: Same as table 3.1

Table 3.3 shows that in all indicators of fiscal health, Kerala is below other South Indian states. The RD/TRR ratio reflects the alarming rate at which revenue deficit is increasing.

Perhaps a more important question is the manner in which borrowed funds to cover deficits are utilised. Table 3.4 gives the purpose-wise use of borrowings to cover GFD.

Table 3.4 Uses of borrowings to cover gross fiscal deficit

(Per cent)

Year	RD/GFD	Capital outlay/GFD	Net lending/GFD	Capital outlay + net lending /GFD
2002-03	82.54	14.00	3.46	17.46
2003-04	66.46	11.55	22.01	33.56
2004-05	82.41	15.32	2.27	17.59
2005-06	74.82	19.54	5.64	25.18
2006-07	69.02	23.63	7.40	31.03
2007-08	62.05	24.18	13.90	38.08
2008-09	58.49	26.73	14.94	41.66
2009-10	63.81	26.16	10.67	36.83
2010-11	47.53	43.52	9.31	52.83
2011-12	62.69	30.07	7.24	37.31
Tenth Plan	75.05	16.81	8.16	24.96
Eleventh Plan	58.91	30.13	11.21	41.34
2002-03 to 2011-12	66.98	23.47	9.69	33.15

Source: Same as table 3.1

Table 3.4 shows that the ratio of RD/GFD is exhibiting a falling trend. It has come down from 75.05% during the 10th Plan period to 58.91% during the 11th Plan period. Correspondingly, capital outlay and net lending have gone up from 24.96% to 41.34%. This shows that borrowed funds are increasingly being utilised for investment purposes and this indeed is a positive trend.

Table 3.5 presents the trends in outstanding liabilities to GSDP ratio for the ten year period.

Table 3.5 Outstanding liabilities as a percentage of GSDP

Year*	Total outstanding liabilities (₹ in crores)	GSDP at current prices (₹ in crores)	Total outstanding liabilities as a percentage to GSDP
2003	34310	86895	39.48
2004	39150	96698	40.49
2005	43690	119264	36.63
2006	47880	136842	34.99
2007	52320	153785	34.02
2008	58500	175141	33.40
2009	67010	202783	33.05
2010	75450	231999	32.52
2011	83960	269474	31.16
2012	94450	315206	29.96
Tenth plan			37.12
Eleventh plan			32.02
2003 to 2012			34.57

*At the end of March
Source: Same as table 3.1

Table 3.5 shows that the ratio of outstanding liabilities as a percentage of GSDP for the period 2003-2012 is 34.57%. The ratio has come down from 37.12% during the 10th Plan period to 32.02% during the 11th plan period.

Table 3.6 presents the composition of Kerala's outstanding liabilities.

Table 3.6 Composition of outstanding liabilities of Kerala

(Per cent)

Year*	Total internal debt to outstanding liabilities	From Centre to outstanding liabilities	Small savings, PF etc. to outstanding liabilities	Miscellaneous# to outstanding liabilities
2003	32.28	21.27	38.24	8.21
2004	39.12	19.20	37.08	4.60
2005	45.56	16.74	33.40	4.30
2006	53.50	11.32	30.99	4.19
2007	57.34	10.28	27.81	4.57
2008	58.15	9.46	27.11	5.29
2009	58.01	8.97	27.53	5.49
2010	57.56	8.36	28.23	5.86
2011	57.79	7.58	28.33	6.31
2012	59.21	6.99	27.88	5.94
Tenth Plan	45.56	15.76	33.5	5.17
Eleventh Plan	58.14	8.27	27.82	5.78
2003-2012	51.85	12.02	30.66	5.48

*At the end of March; # Reserve fund, deposits and advances and contingency fund.
Source: Same as table 3.1

The composition of outstanding liabilities shows that the share of Internal Debt has been steadily increasing. Over the years, the share of Loans and Advances from the Centre has declined partly due to the debt relief and debt rescheduling granted by the Eleventh and Twelfth Finance Commissions. The Twelfth Finance Commission had decided that the loans from the Centre should gradually be replaced by market borrowings. The share of Small Savings and Provident Fund has come down from 33.5% during the 10th Plan period to 27.82% during the 11th Plan period.

It has been argued that the decreasing share of Small Savings and Provident Fund should be viewed as a welcome trend considering the fact that these items forming part of the Public Accounts should not be treated as an alternative to Consolidated Fund (CSES, 2011).

Yet another measure of the debt stress is the ratio of total outstanding liabilities to total revenue receipts. This is presented in table 3.7.

Table 3.7 Ratio of total outstanding liabilities to total revenue receipts

Year	Outstanding liabilities (₹ in crores)	Total revenue receipts (₹ in crores)	Col. 2 as a percentage of col. 3
(1)	(2)	(3)	(4)
2002-03	34310	10634	322.64
2003-04	39150	11815	331.36
2004-05	43690	13500	323.63
2005-06	47880	15295	313.04
2006-07	52320	18187	287.68
2007-08	58500	21107	277.16
2008-09	67010	24512	273.38
2009-10	75450	26109	288.98
2010-11	83960	30991	270.92
2011-12	94450	38010	248.49
Tenth Plan			315.67
Eleventh Plan			271.78
2002-03 to 2011-12			293.73

Source: Same as table 3.1

Table 3.7 shows that the ratio has fallen from 315.67% during the 10th Plan to 271.78% during the 11th Plan.

Table-3.8 presents the debt/GSDP ratio of South Indian states.

Table 3.8 Debt - GSDP ratios of South Indian states

(Per cent)

Year	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu
2001-02	27.11	24.07	34.59	21.96
2002-03	29.97	26.08	35.81	24.72
2003-04	30.89	27.90	38.64	27.27
2004-05	29.55	24.88	35.04	22.87
2005-06	28.40	24.02	33.53	22.24
2006-07	25.73	21.84	32.43	19.38
2007-08	22.64	19.00	31.64	18.43
2008-09	21.95	19.14	31.23	18.64
2009-10	22.68	19.72	30.57	18.51
2010-11	21.10	17.55	29.19	17.32
2011-12	20.46	17.46	28.19	17.34
Tenth Plan	28.91	24.95	35.09	23.30
Eleventh Plan	21.77	18.57	30.16	18.05
2002-03 to 2011-12	25.34	21.76	32.63	20.67

Source: Same as table 3.1

Table 3.8 shows that compared to other South Indian states, Kerala's debt/GSDP ratio has been higher during the ten year period and the two Plan periods. However, it may be noted that during the 11th Plan period, there was a 5% point decrease in debt/GSDP ratio.

One widely used indicator of debt sustainability of a country or state is Domar gap. It is the difference in the rate of growth of GSDP at current prices and the average rate of interest. Domar gap for the period 2005-06 to 2011-12 is presented in table 3.9.

Table 3.9 Domar gap for Kerala

(Per cent)

Year	Rate of growth of GSDP at current prices	Interest rate	Domar gap
2005-06	14.74	8.70	6.04
2006-07	12.38	8.80	3.58
2007-08	13.89	8.23	5.66
2008-09	15.78	7.85	7.93
2009-10	14.60	7.89	6.71
2010-11	15.96	7.60	8.36
2011-12	16.97	7.49	9.48

Source: For interest rate, *Medium Term Fiscal Policy and Strategy Statement with Medium Term Fiscal Plan for Kerala*, Finance Department, Government of Kerala, various years.

Table 3.9 shows that the gap is positive and is exhibiting an increasing trend. This suggests that the capacity of the state to service debt is increasing. It may be noted that the observed increase in Domar gap is partly due to the high growth rate of GSDP and partly due to the interest rate relief on Central loans and debt swaps of earlier loans. On the basis of past trends, it may be too early to conclude that Kerala's debt burden is sustainable. Perhaps a better measure of the debt stress of the state is the ratio of interest payments to total revenue receipts. This is presented in table 3.10.

Table 3.10 Ratio of interest payments to total revenue receipts of Kerala-2001-02 to 2011-12

Year	Interest payments (₹ in crores)	Total revenue receipts (₹ in crores)	Interest payments as a % of revenue receipts
2001-02	2489	9056	27.48
2002-03	2947	10634	27.71
2003-04	3328	11815	28.17
2004-05	3613	13500	26.76
2005-06	3930	15295	25.69
2006-07	4190	18187	23.04
2007-08	4330	21107	20.51
2008-09	4660	24512	19.01
2009-10	5292	26109	20.27
2010-11	5690	30991	18.36
2011-12	6294	38010	16.56
Tenth Plan			26.28
Eleventh Plan			18.94
2002-03 to 2011-12			22.61

Source: Same as table 3.1

Table 3.10 shows that interest payments account for 22% of revenue receipts during the ten year period. The ratio has registered an almost consistent fall since 2006-07.

Contingent liabilities

One of the ways adopted by states to overcome the ceilings on fiscal deficits and revenue deficits set by the Fiscal Responsibility Act is by giving guarantees to the borrowings of public sector undertakings and other institutions instead of funding them directly through the budget. These contingent liabilities do not form part of debt but in the event of default of borrowing entities, state government will have to meet the debt service obligations. Table 3.11 presents guarantees as a percentage of GSDP for the ten year period.

Table 3.11 Outstanding guarantees of Kerala

Year *	Amount guaranteed (₹in crores)	Amount outstanding (₹in crores)	Amount guaranteed as a percentage to GSDP	Amount outstanding as a percentage to GSDP
2003	14922.61	12623.38	17.17	14.53
2004	15612.67	14009.19	16.15	14.49
2005	14783.36	12315.96	12.40	10.33
2006	13751.80	11934.69	10.05	8.72
2007	12646.70	9405.33	8.22	6.12
2008	14871.08	8317.33	8.49	4.75
2009	11385.55	7603.32	5.61	3.75
2010	10225.78	7495.00	4.40	3.23
2011	12625.07	7425.79	4.69	2.76
2012	11332.00	8277.00	3.60	2.63
Tenth Plan			12.80	10.84
Eleventh Plan			5.36	3.42
2002-03 to 2011-12			9.08	7.13

* At the end of March

Source: *Report of the Comptroller and Auditor General of India on State Finances*, Government of Kerala, various issues.

Table 3.11 shows that the ratio of guarantees to GSDP and guarantees outstanding to GSDP have been exhibiting a consistently falling tend. This is partly due to the ceiling on guarantees fixed at 14% by the Kerala Ceiling on Government Guarantees Act, 2003.Though the present ratio is much below the ceiling, government cannot afford to stand guarantee for more borrowings without considering the financial status of the entities involved in the outstanding guarantees. As we shall see in chapter V, most of the public sector undertakings are incurring losses for years together.

Impact of deficits on state's economy

The recurring revenue deficits have meant that the balance from current revenue is negative and state plans are entirely financed through borrowing. This has caused consistent fall in capital outlay[1]. Capital outlay consists of direct expenditure on capital projects by the state government and investments in public sector undertakings, joint ventures, and cooperatives and rarely in private sector companies. The size of capital outlay is a major determinant of future revenue generation through its impact on the development of the economy.

Table 3.12 presents the ratio of capital outlay and loans and advances by state government to GSDP for the ten year period.

Table 3.12 Ratio of capital outlay to GSDP

(₹ crores)

Year	Capital outlay+loans and advances by state governments (₹ crores)	GSDP at current prices (₹ crores)	Col. 2 as a percentage of col. 3
(1)	(2)	(3)	(4)
2002-03	949	86895	1.09
2003-04	1932	96698	2.00
2004-05	878	119264	0.74
2005-06	1104	136842	0.81
2006-07	1252	153785	0.81
2007-08	2368	175141	1.35
2008-09	2680	202783	1.32
2009-10	2936	231999	1.27
2010-11	4126	269474	1.53
2011-12	5523	315206	1.75
Tenth Plan			1.09
Eleventh Plan			1.44
2002-03 to 2011-12			1.27

Source: Same as table 3.1

Table 3.12 shows that the ratio has registered an improvement from 1.09% during the 10th Plan period to 1.44% during the 11th Plan period.

The implications of the fiscal crisis the state is undergoing are more sharply brought out by the falling plan expenditure of the state. Table 3.13 shows the per capita plan outlay/actual expenditure of South Indian states for the ten year period.

Table 3.13 Per capita plan outlay of South Indian states

(₹)

Year	Andhra Pradesh	Karnataka	Kerala	Tamil Nadu
2002-03	1077.07	1523.13	1232.50	927.14
2003-04	1377.59	1590.22	1123.60	1114.47
2004-05	1450.25	2138.62	1093.83	1292.67
2005-06	1682.10	2280.58	1193.85	1359.13
2006-07	2256.51	3252.22	1394.50	1947.77
2007-08	3329.66	3028.12	1551.83	2167.68
2008-09	3716.02	3840.28	1890.91	2458.40
2009-10	3532.45	4462.20	2340.36	2677.18
2010-11	3839.29	5280.61	3012.01	2995.52
2011-12	5076.74	6230.77	3595.81	3264.91

Source: Same as table 3.1

Table 3.13 shows that during the 10th Plan period, Kerala's per capita plan outlay was lower than that of South Indian states in most of the years. The gap between Kerala and Karnataka is the highest. The gap between Kerala and South Indian states further widened during the 11th Plan period. However, during the last two years of the 11th Plan there is a remarkable improvement in Kerala's Plan outlay.

Notes

[1] There is a perspective that Kerala's capital outlay is much more than what is reflected in the budget documents since a significant proportion of Plan transfers to local bodies goes for capital expenditure. Nearly 30% of annual plan outlay is devolved to the local bodies but as per the accounting standards of Comptroller and Auditor General (A &AG), this is revenue grant. This practice tends to underestimate capital expenditure and in turn overestimate revenue expenditure. If the devolution to the local bodies is considered part of state's capital expenditure, Kerala's revenue expenditure and revenue deficit would have been less to that extent. For a detailed discussion, see CSES, 2011.

References

CSES: Centre for Socio-economic and Environmental Studies (2011), *Trends in Kerala State Finances-1991-92 to 2010-11: A Study in the Backdrop of Twenty Years of Economic Reforms in India*, Kochi.

Chapter IV

Transfers to Local Bodies and Major Decentralisation Initiatives

The decentralisation initiatives of Kerala as part of 73rd and 74th Constitutional amendments are considered to be path breaking. It is generally held that no other Indian state has deepened decentralisation to the extent of Kerala. The decentralisation process in Kerala was started in a campaign mode known as 'People's Plan Campaign'. This campaign progressed with institutionalisation at different levels. As part of this, powers were decentralised and the responsibilities of planning at local level were transferred to the LGs (LGs). During the 10th Plan (2002-03 to 2006-07) the decentralisation programme was rechristened as 'Kerala Development Plan'. 'People's Planning' mode was reintroduced during the 11th Plan thereby further strengthening the decentralisation process.

Plan transfers to local governments

Kerala took the path breaking of step of devolving 33% of the plan outlay to local bodies as part of the 'People's Plan Campaign'. But over the years, the devolution to the local bodies has been coming down as table 4.1 shows.

Table 4.1 Trends in state plan outlay and transfers to local bodies

(₹ in crores)

Year	State plan outlay	Transfers to local bodies	Col.3 as a percentage of col.3
1	2	3	4
2002-03	4026.00	1342.00	33.33
2003-04	4430.25	1317.00	29.73
2004-05	4800.00	1350.00	28.13
2005-06	5369.81	1375.00	25.61
2006-07	6680.62	1400.00	20.96
2007-08	6950.00	1540.00	22.16
2008-09	7700.47	1694.00	22.00
2009-10	8920.00	1863.00	20.89
2010-11	10025.00	2050.00	20.45
2011-12	11030.00	2750.00	24.93

Source: *Economic Review*, Kerala State Planning Board, various issues.

Table 4.1 shows that devolution to local bodies exhibits a falling trend. The average devolution during the period 2002-03 to 2011-12 works out to 24.82%.

Category-wise allocation of transfers

The details regarding the category-wise allocation of transfers are presented in Appendix 4.1. Less than 15% of the allocation has gone to urban local bodies. Around 56% of transfers has gone to gram panchayats.

Trends in expenditures of local bodies

Break-up of the expenditures of local bodies for the period 2007-08 to 2011-12 is presented in table 4.2.

Table 4.2 Trends in sector- wise expenditure of local bodies 2007-08 to 2011-12

(₹ in Lakhs)

Year	Productive sector		Service sector		Infrastructure		Expenditure on projects excluded from sectoral ceilings		Total
	Amount	% to Total	Amount	% to Total	Amount	% to Total	Amount	% to Total	
1	2		3		4		5		6
2007-08	25703.43	18.66	68041.31	49.39	15775.59	11.45	28229.06	20.49	137749.39
2008-09	27754.23	19.25	53621.36	37.20	13786.69	9.56	48981.05	33.98	144143.33
2009-10	31475.90	18.00	59891.27	34.24	18572.73	10.62	64959.63	37.14	174899.52
2010-11	26728.11	13.94	57106.88	29.79	39281.72	20.49	68587.63	35.78	191704.30
2011-12	35873.34	13.51	93679.42	35.29	92702.37	34.92	68300.39	25.73	265468.11

Source: Same as table 4.1

Table 4.2 shows that the orientation of the expenditures of local bodies is increasingly getting shifted from productive sectors to infrastructure. As we shall see below, lacklustre performance of the agricultural sector during the decentralisation years is a direct consequence of this shift.

An overview of the devolution by State Finance Commissions

The discussion in this section is limited to the award period of two State Finance Commissions (SFC), i.e. SFC-II and SFC-III which more or less corresponds to the study period 2002-03 to 2011-12.

The first State Finance Commission (SFC-I) had only modest contribution to the decentralisation process of the state. Besides continuing the existing practice of devolving the surcharge on duty of transfer of property, basic tax and a portion of motor vehicle tax, SFC-1 recommended for the creation of Urban and Rural Pools and for providing 1% of State's Own Tax Revenue (SOTR) as non-plan grant. Plan devolution did not attract the attention of SFC-1. The decentralisation process in the state received a boost with the path breaking recommendations of the second State Finance Commission (SFC-II). The vertical devolution package recommended by SFC-II involved not only larger devolution but an improvement in the devolution package as well. There were two components in the vertical share viz., general purpose transfers to meet the traditional civic functions, maintenance transfers and plan grants. The share of the first two was fixed at 3.5% and 5.5% of the state tax revenue and the latter at one-third of the state plan outlay. According to the estimate of SFC-II, the total transfers in 2000-01 would be 23.3% of SOTR. The state government however did not act on the recommendations of SFC-II for 3 years and in effect the recommendations of SFC-I continued till 2003-04. The recommendations of SFC-II were operational only for 2004-05 and 2005-06.

Devolution during the period 2006-07 to 2010-11 has been based on SFC-III recommendations. Following the recommendations of SFC-II, SFC-III arrived at a total figure of ₹ 2050 crores for the first year, i.e. 2006-07. For the subsequent years, they recommended a 10% increase per annum. A major change introduced by SFC-III was delinking General Purpose and Maintenance Grants from SOTR and plan grants from State Plan Outlay. The Fourth State Finance Commission (SFC-IV) observed that this resulted in a loss of transfers to local bodies.

Major decentralisation initiatives

Over the years, Government of Kerala have transferred a large number of functions relating to economic activities, public services and human development and transferred the assets thereon to the local bodies as part of functional devolution. Some of the major functions thus transferred are:

1. School education upto higher secondary
2. Primary health care
3. Micro watershed development
4. Dairy development
5. Minor irrigation
6. Inland fisheries
7. Animal husbandry

The functions relating to public services and human development and assets transferred thereon are:

1. Anganwadis
2. Schools from lower primary to higher secondary including vocational stream
3. Primary health centres and community health centres
4. Taluk hospitals and district hospitals (Allopathy)
5. Hospitals at the district level and below in the case of Ayurveda and Homeo
6. Veterinary institutions at the district level and below
7. Selected farms belonging to agricultural and animal husbandry departments

In addition to these institutions, offices of the transferred departments are also vested with the LGs. Selected roads including those constructed and maintained by Public Works Department and Other District Roads are made part of assets of LGs. Kerala Water Authority has taken a policy decision to transfer single Village Panchayat Rural Drinking Water Supply Schemes to the concerned gram panchayats.

Managing the assets of the LGs including those of transferred institutions has become a major function of the local bodies. Government continued to provide funds for maintenance through non-plan heads of respective departments in the initial years after transfer of responsibilities. In the case of roads and hospitals, the funds were passed on to LGs by PWD. PWD continued to maintain schools. The own assets of LGs are maintained utilising the own revenue. The successive State Finance Commissions have recommended larger devolution for maintenance. SFC-II recommended to set apart 5.5% of State's Own Tax Revenue divided normatively into non-road maintenance grant and road maintenance grant to be devolved to LGs based on appropriate formulae and accorded freedom to LGs to decide their allocation to different assets on the basis of need as assessed by them. Recommendation of SFC-III was for fixed maintenance grant for the first year 2006-07 with 10% annual increase for the next four years. SFC-IV has restored the recommendation of SFC-II. The strong demand from the LGs and public has prompted SFC-IV to fix the road maintenance fund as 2/3rd of total maintenance fund.

Functioning of the transferred institutions: Findings of a study

The findings of a study undertaken by Rajeev Gandhi Institute of Development Studies, Thiruvananthapuram show that the functioning of the transferred institutions is far from satisfactory [1]. Lower primary schools transferred to grama panchayats from government are facing a continuous fall in the number of students owing to poor facilities and teaching. The study revealed that 13% of hospitals transferred over to panchayats did not have enough stocks of medicine. Majority of veterinary hospitals were not doing enough to prevent the spread of communicable diseases. The performance of other civic functions such as mosquito control, maintenance of burial grounds, construction and maintenance of slaughter houses and control of stray dogs was also found to be not satisfactory.

Institutionalisation of decentralisation process in Kerala

A notable feature of the decentralisation process of Kerala is that it has provided for a few institutions which are meant to strengthen the autonomy of LGs and reduce government control over them. They are briefly described below.

1. Delimitation Commission

This is an independent body under the State Election Commission to carry out delimitation of wards of the local bodies for election.

2. State Finance Commission

As required by the Constitutional amendment, Kerala has been appointing State Finance Commissions in regular intervals. So far four State Finance Commissions have submitted their reports and the fiscal transfers to local bodies are by and large based on their recommendations.

3. Ombudsman

Ombudsman manned by a High Court Judge with vast powers has been instituted to check corruption and malpractices at the local body level.

4. Appellate Tribunal

This is a state level judicial set up with a District Judge as Tribunal to decide on the appeals of citizens against decisions of LGs taken in exercise of their regulatory functions like issue of licenses, grants of permits etc.

5. State Development Council (SDC)

Patterned on National Development Council, SDC is headed by the Chief Minister and consists of the cabinet, leader of opposition, vice-chairman of the State Planning Board, Chief Secretary, District Planning Committee chairpersons and representatives from LGs.

6. District Planning Committees (DPC)

The main objective of DPC is to co-ordinate the preparation of plans by LGs, approval of local plans, providing suggestions to LGs and monitoring plan implementation. DPC consists of 15 members headed by the District Panchayat President with District Collector as Member Secretary. Of the 15 members, 12 are elected representatives from District Panchayat and urban LGs.

Major problems facing decentralisation process in Kerala

Though the decentralisation process in Kerala is path breaking from several angles, it faces several problems and challenges. This section reproduces selected observations and findings of the Committee for Evaluation of Decentralised Planning and Development (GOK, 2009) and SFC-IV (GOK, 2011a and 2011b).

- The Plan expenditure pattern of LGs reflects high service sector orientation. It has been pointed out that out of the total expenditure; only 17.6 % in 2006-07 and 18.7 % in 2007-08 was spent on the productive sectors by the LGs as against the prescribed minimum of 40 per cent. In the case of district panchayats, service sector spending was 64% and 58.2% respectively in 2006-07 and 2007-08 against the ceiling of 30%. The same for municipal corporations was above 60% (GOK, 2009, p.165).

- One of the major objectives of decentralisation was to raise production and productivity in agriculture and allied sectors. It has been pointed out that production of most of the agricultural crops registered an absolute fall during the years of decentralisation (Sebastian, 2011). However, the blame cannot entirely be attributed to local bodies as the major responsibility of increasing agricultural production lies with the state government.

- Local bodies are increasingly becoming dependent on higher tiers of government for their needs. The Fourth State Finance Commission observed that while the expenditures of the LGs increased at the rate of 15.4% per annum, the own resources increased only at the rate of 11.3% (GOK, 2011a, p.136). The urban local bodies are already under increasing fiscal strain. The major source of revenue of LGs is property tax. SFC IV noted that while expenditure of LGs increased at the rate of 15.4% per annum, property tax increased only at the rate of 4.5% per annum (Op.cit., p.136). Though the statute envisages quinquennial revision of property tax, revision which was proposed long back is yet to be implemented fully.

- The accounting and record keeping standards of local bodies leave many things desired. To quote SFC-IV "…the experience of the Commission, to put it mildly, was absolutely disappointing and shocking. The figures furnished by the LGs from GPs to City Corporation were hugely inconsistent and every request for clarification brought out entirely different set of figures" (Op.cit., p.172).

- The local bodies are lacking in professional expertise in project formulation and as a consequence, the projects formulated are often repetitive and are of questionable quality (Op.cit., p.168).

- The local bodies tend to take small projects/schemes resulting in resources getting thinly spread across projects. Lack of integration has meant that better and larger projects cannot be implemented (GOK, 2012, p.293).

- There is bunching of expenditure in the last quarter of the financial year in all categories of LGs. The SFC- IV found that more than 80 percent of maintenance expenditure of both road and non-road were made in the last quarter by urban local bodies. Gram panchayats also spent almost 80 percent of their maintenance expenditure in the last quarter (GOK, 2011b, p.339).

- The enthusiasm shown by the people in the initial years is steadily getting waned over the years. This is reflected in the poor participation in Gram Sabhas/Ward Sabhas.

Reforms undertaken under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) conditionalities

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been launched by Government of India under the Ministry of Urban Development. This is a massive city-modernisation scheme aimed at improving the quality of life and infrastructure in the cities. The time frame of the scheme was seven years from 2005 which was extended to March 2014.

In Kerala, 11 projects-6 in Kochi and 5 in Thiruvananthapuram- are being taken up as part of JNNURM. The status of the project implementation is presented in Appendix 4.2. Our discussions with the officials in charge of JNNURM have revealed that the reforms envisaged in the scheme are being implemented but the progress is rather slow.

Notes

[1] "Poor show by schools run by panchayats", *The Hindu* (Thiruvanathapuram edition), October 3, 2013, p.5.

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Chapter V

Performance of Public Sector Enterprises and Fiscal Health of Kerala

Profits and dividends from State Level Public Enterprises (SLPEs) are one of the sources a state can bank upon for meeting its expenditure, especially plan financing. Kerala is a state with maximum number of public sector enterprises in the country. In this chapter we attempt to review the performance of PSUs in Kerala during the 10th and 11th plan period with a view to analyse its impact on the fiscal health of the state. The chapter also discusses the issues relating to power sector reforms in Kerala.

Sector-wise classification of SLPEs

The total investment in SLPEs is ₹24859.23 crores as on March 2012. A few SLPEs are defunct or inactive for various reasons. According to the information furnished by the Bureau of Public Enterprises, the active enterprises are only 89. Sector-wise classification of these SLPEs is presented in table 5.1.

Table 5.1 Sector-wise classification of SLPEs in Kerala

Sector	No. of enterprises	% to total
1. Development and infrastructural agencies	19	13.48
2. Ceramics and refractories	2	2.25
3. Chemical industries	10	11.24
4. Electrical industries	4	4.49
5. Electronics	3	3.37
6. Engineering and manufacturing	9	10.11
7. Plantation/ agro based and livestock	12	13.48
8. Textiles	2	2.25
9. Traditional industries	7	7.87
10.Trading	3	3.37
11.Welfare agencies	10	11.24
12. Public utilities	6	6.74
13.Others	2	2.25
Total	**89**	**100.00**

Source: *A Review of Public Enterprises in Kerala 2011-12*, Bureau of Public Enterprises, Government of Kerala, March 2013.

Financial performance of SLPEs

The trends in profits and losses of SLPEs for the period 2002-03 to 2011-12 are presented in table 5.2.

Table 5.2 Trends in profits and losses of SLPEs-2002-03 to 2011-12

(₹ in crores)

Year	No. of enterprises reporting profit	Amount of Profit	No. of enterprises reporting losses	Amount of loss	Overall net profit/loss
2002-03	33	277.97	56	498.49	-220.52
2003-04	40	288.02	49	504.99	-216.97
2004-05	39	290.65	49	501.50	-210.85
2005-06	32	308.35	54	431.03	-122.68
2006-07	50	816.13	38	360.05	456.08
2007-08	53	520.45	32	435.06	85.39
2008-09	53	827.82	33	336.12	491.70
2009-10	60	990.94	21	312.39	678.55
2010-11	57	1077.88	28	611.40	466.48
2011-12	51	996.19	33	713.05	283.14

Source: *A Review of Public Enterprises in Kerala*, Bureau of Public Enterprises, Government of Kerala, various issues.

Table 5.2 shows that the overall profit of SLPEs is showing an increasing trend though with wide year to year fluctuations. The number of loss making enterprises is definitely on the decrease. But it may be noted that the increasing trend of profits is largely attributable to trading enterprises like Kerala Beverages Corporation. This is revealed by the profit earned by top ten public enterprises in 2011-12 (table 5.3).

Table 5.3 Top ten profit making public enterprises as on March 2012

Name of the enterprise	Amount of profit (₹ in crores)
1. Kerala State Electricity Board	240.72
2. The Kerala Minerals and Metals	154.08
3. Kerala State Beverages(M&M) Corporation Ltd.	80.91
4. Kerala State Financial Enterprises Ltd.	68.72
5. Kerala Financial Corporation	62.64
6. Malabar Cements Ltd.	50.81
7. Kerala State Industrial Development Corporation	39.33
8. The Plantation Corporation of Kerala Ltd.	37.19
9. Rehabilitation Plantation Ltd.	25.43
10.The Kerala State Farming Corporation Ltd.	23.93
Total	**783.76**

Source: Same as table 5.1

Table 5.3 shows that of the total profit of ₹ 996.19 crores earned by 51 enterprises in 2011-12, ₹ 783.76 crores, i.e. 78.68% is accounted by 10 enterprises. This shows that the profit earned by 41 enterprises is just ₹ 212.43 crores, i.e. 21.32%.

A closer look at the profile of these 10 enterprises will show that there are only two enterprises undertaking manufacturing activity. Three each are in the financial sector and agricultural sector. While Kerala Electricity Board is a public utility, Kerala State Beverages Corporation is a trading concern. In other words, the vast majority of manufacturing SLPEs are either running at a loss or are making insignificant amounts of profit.

Loss making SLPEs: A closer picture

The details of the top ten loss making SLPEs are presented in table 5.4.

Table 5.4 Top ten loss making SLPEs as on March 2012

Name of the enterprise	Amount of loss (₹ in crores)
1. Kerala State Road Transport Corporation	349.77
2. Kerala Water Authority	251.99
3. Kerala State Textile Corporation Ltd.	21.76
4. Kerala State Housing Board	15.31
5. The Travancore Cements Ltd.	8.43
6. Kerala State Handloom Development Corporation	7.70
7. The Kerala State Civil Supplies Corporation	6.85
8. Kerala State Electrical and Allied Engineering Company Ltd.	6.30
9. Kerala Automobiles Ltd.	5.71
10. Steel Complex Ltd.	4.71
Total	**678.53**

Source: Same as table 5.1

Table 5.4 shows that of the total loss of ₹783.76 crores incurred by 33 enterprises, ₹678.53 crores, i.e. 86.57% is accounted by these 10 enterprises. Two public utilities - Kerala State Road Transport Corporation and Kerala Water Authority - account for 84.39% of losses. This shows that the remaining 31 enterprises account for only 15.61% of total losses.

The losses of SLPEs, however, are a continuing phenomenon. Different dimensions of the losses are presented in table 5.5.

Table 5.5 Trends in SLPEs with accumulated losses, cash losses and those having negative net worth

Year	Enterprises with accumulated losses		Enterprises making cash losses		No. of enterprises with negative net worth
	No.	Accumulated losses (₹ crores)	No.	Amount of cash losses (₹ crores)	
As on March 2003	57	4183.22	51	422.54	42
March 2004	56	4665.42	44	411.40	30
March 2005	53	5133.03	43	408.22	28
March 2006	54	5706.96	52	345.06	32
March 2007	55	5815.13	37	276.83	34
March 2008	54	5222.73	31	343.53	31
March 2009	47	4763.71	24	242.51	25
March 2010	49	5247.71	16	199.01	19
March 2011	45	5397.16	25	575.78	21
March 2012	43	6326.65	29	572.20	23

Source: Same as table 5.1

Table 5.5 shows that though the number of SLPEs with accumulated losses is coming down, the accumulated losses exhibit a rising trend. In the case of enterprises making cash losses, both the number as well as amount involved show a decreasing trend. Same is true in the case of enterprises with negative net worth.

Budgetary support to SLPEs

The trends in budgetary support to SLPEs is presented in table 5.6

Table 5.6 Trends in budgetary support to SLPEs 2002-03 to 2011-12

Year	Budgetary support (₹ crores)
2002-03	44.69
2003-04	84.06
2004-05	75.00
2005-06	50.00
2006-07	40.00
2007-08	15.42
2008-09	50.00
2009-10	50.00
2010-11	55.00
2011-12	Nil

Source: Same as table 5.1 for years from 2002-03 to 2007-08. Budget speeches for 2008-09 to 2011-12.

As table 5.6 shows, despite the fact that a good number of SLPEs are making losses, successive governments have been extending support to them through budget. The amount of such assistance however has been showing a decreasing trend presumably due to the fiscal stress the state is undergoing.

Reform measures taken with regard to SLPEs

The United Democratic Front government that came to power in 2001 constituted Enterprises Reforms Committee (ERC) in November 2001 to recommend restructuring/reform option for the ailing PSUs in the state. The major issues identified in governance and management of SLPEs in Kerala are presented in Box-1.

Box-1

Major issues identified in governance and management of SLPEs in Kerala

- Lack of direction and commitment in managing the enterprises, primarily due to the diffused nature of ownership
- Lack of synchronisation of critical events and efforts by support systems (this leads to duplication of efforts resulting in contradictions)
- Non-participation of support agencies due to lack of trust citing unpleasant experiences in the past
- Enormous time delays mainly due to poor knowledge management in implementing agencies
- Conflicting objectives (commercial vs. social) which is often advocated by organised trade unions that prevail in the decision making process
- Lack of clarity in authority and responsibilities
- Lack of exposure of Governments to commercial business practices
- Lack of state of the art technical expertise in SLPEs
- Low incentives for management
- Poor management of working capital and pendency in audit
- Lack of timely capital upgradation
- Delayed decision making at times paralyzed by laisse-faire attitudes towards state's business
- Redundancy of manpower mainly due to lack of clear norms for recruitment and upgradation of skill sets (this leads to improper person-task fit)
- Absence of safety nets to take care of displaced labour
- Learned helplessness among the critical mass
- High gearing of projects
- Absence of clear cut strategies and legislations leading to adhocism in SLPEs and challenge in courts later on
- Absence of performance monitoring and management audit
- Absence of comprehensive approach for ensuring competitiveness of the state as an investment destination

Source: Approach Paper for State Level Public Enterprise Reforms in Kerala, Enterprise Reforms Committee, Government of Kerala, 2002, pp. 9-10.

In June 2002, ERC recommended reform measures in 38 SLPEs engaged in manufacturing activities and government took decision on 23 of these enterprises. Based on the recommendations of ERC, a social safety net programme that consisted of a financial compensation package and a welfare and economic sustainability package for employees was also approved by government. Subsequently, six SLPEs were recommended for closure and in the case of five SLPEs, advertisement was released inviting expression of interest for takeover. In the case of 21 SLPEs, steps were taken for inviting expression of interest.

The Left Democratic Front (LDF) government that came to power in May 2006 had an altogether different perception and approach to SLPEs. The thrust of the policy was on protecting and strengthening the SLPEs and therefore, the reform measures recommended by the ERC were not acted upon. The major steps initiated by the LDF government are outlined below.[1]

1. Professionalisation of management

A beginning was given to select top level executives of SLPEs through open advertisement and interviews. Search Committee was formed to make the selection objective.

2. One time settlement of dues

Through a one-time settlement scheme, the dues of selected SLPEs were settled and this ensured smooth relationship with their financiers.

3. Monitoring performance

The performance of SLPEs was monitored on a monthly basis in a meeting in which Minister for Industries and top officials of the Industries Department participated.

4. Better budgeting and auditing

The process of annual budgeting and auditing was strengthened to ensure more accountability.

5. Harnessing synergy

The synergy of PSUs was harnessed by organising their operation so as to benefit mutually. Combined sourcing of raw materials, providing technical support and avoiding competition with each other were some of the strategies adopted.

6. Recognising performance

From 2006-07 onwards, CEOs have been given recognition for exemplary performance.

7. Business collaboration with Central PSUs

For revival and modernisation, arrangements were put in place for collaboration with Central PSUs.

As part of this, the selection of top management for SLPEs was made more objective and a new team of top management was brought in. They were given more autonomy and performance based appraisal system was introduced. SLPEs were encouraged to do business between themselves so as to complement each other. As a result of these efforts, several loss making enterprises were turned into profit making.[2]

The United Democratic Front government that came to power in 2011 has taken a policy of protecting the SLPEs. Some reform measures are underway in the case of 21 manufacturing enterprises as can be seen from Appendix 5.1.

Power sector reforms

The promulgation of Electricity Act 2003 marks the beginning of path breaking reforms in the power sector of India. This legislation superseded all the previous electricity related legislations and created a more open environment for investment and competition in the sector. Salient features of the Act are the following.

- More competition in the power sector by unbundling of State Electricity Boards (SEBs) into generation, transmission and distribution utilities;
- De-licensing of thermal and captive generation;
- Non-discriminatory open access in transmission to all generators to ensure fairness;
- Mandatory metering, stringent punishment of electricity theft and multi-year tariffs to curb financial losses of SEBs; and
- Purchase obligation of renewable based electricity by SEBs.

Power sector reforms envisaged in the Electricity Act 2003 mandated trifurcation of SEBS into generation, transmission and distribution entities.

Power sector reforms in Kerala: A status report

Though Government of Kerala signed an MOU with Government of India on 20-08-2001, the state has not gone ahead with some of the reforms implemented in other Indian states. An extract from the Annual Administration Report of Kerala State Electricity Board 2012-13 sums up the power sector reforms implemented in the state.

> "After enactment of Electricity Act, 2003, KSEB has been functioning as the State Transmission Utility (STU) and a licensee w.e.f. 10-12-2004 under Section (172(a) of the Electricity Act, 2003 with mutual agreement between the State Government and the Central Government.
>
> The Central Government agreed for such continuation of KSEB as a State Transmission Utility and Licensee only up to 24-09-2008. Hence, in exercise of the powers conferred under sub-sections(1), (2), (5), (6) and (7) of Section 131 of the Electricity Act 2003, the Government of Kerala issued a notification vide G.O. (MS) No.37/2008/PD dated 25th September 2008 for the vesting of functions, properties, interests, rights, obligations and liabilities of the Kerala State Electricity Board in the State Government and re-vesting thereof by the State Government in a corporate entity and for determining the terms and conditions on which such transfers and vesting shall be made. Accordingly, with effect from 25-09-2008 all functions, properties and all interests, rights in properties,

> all rights and liabilities of the Board were vested in the State Government. All these functions and undertakings of the Board as vested in Government had to be re-vested in a Company to be incorporated as a fully owned Government Company under the Companies Act, 1956. A company named 'Kerala State Electricity Board Limited' has been incorporated on 14th January 2011 for re-vesting the assets and liabilities of KSEB. Steps are being taken for obtaining Certificate of Commencement of Business for the company"(p.7).

Subsequently the KSEB appointed a Government of India undertaking as consultant for assisting it in the restructuring process. The draft transfer scheme for re-vesting prepared by the consultant is under consideration of the government. It is proposed to create three separate Strategic Business Units within the Company for Generation, Transmission and Distribution functions (See KSEB, 2014, p.7).

Power sector reforms: Why Kerala has taken a different route?

A question may be asked in this context: why Kerala has taken a different route with regard to power sector reforms? In the particular socio-political context of Kerala, it is not easy to push through the kind of power sector reforms implemented in states like Odisha for a variety of reasons. It has been pointed out:

> "… Thus socio-political situation is such that the KSEB may continue to be bundled state controlled department-like entity. Under this condition pressure on the Board to improve efficiency and service delivery has to come through political route or 'voice option'(and not through competition or privatisation)…. What is evident from a study of support towards privatisation in different states is that people are more willing to try a privatisation and competition route as the tariff that they pay becomes closer to the perceived cost……… Thus one can hypothesise that once significant section of Kerala society start paying near- cost tariff, they would be more willing to drastic reforms in the sector" (Santhakumar, 2007, p.155).

But as of now, there is no such pressure on the people of Kerala. Majority of consumers get electricity at highly subsidised rates and the level of subsidy is one of the highest in the country. 'Rent' from hydro power and cross subsidy from industry and commerce are used for providing the subsidy to residential consumption. It has been pointed out that only 15% of the people have responded positively to privatisation (Santhakumar, Op.cit.).

Within KSEB also, there is no pressure to go in for privatisation. There is strong resistance on the part of trade unions of KSEB against trifurcation which is perceived as synonymous with privatisation. The 'threat of privatisation' seems to have forced employees to be more efficient and put up with certain cost cutting measures taken by management like abolition of posts and denial of certain benefits. Under normal circumstances, these measures would have been resisted by unions (Santhakumar, 2003). The functioning of Electricity Regulatory Commission has put pressure on KSEB to be more efficient. Transmission loss has been brought down to 15.6%. Hydroelectricity accounts for 50% of power generated in Kerala. Price reforms at the national grid, especially Availability Based Tariff have helped to improve the financial position of KSEB. It may be noted that domestic and commercial tariff are comparatively low in Kerala. Experiences of some of the states which implemented power sector reforms also justify Kerala's 'wait and watch' approach.

The objective conditions obtaining in the state also question the rationale of privatization. Power generation options like thermal, solar and wind have their limitations in the context of Kerala. As a state located in the southernmost tip of the country, logistics is a factor that adds to the cost of power generation. There is acute scarcity of land in Kerala. This together with the high price of land makes power generation in the private sector a costly proposition[3]. The fragile environment of the state is another factor adding to the cost of power generation. This seems to be the prime reason for not going ahead with some of the power sector reforms envisaged in the Electricity Act 2003.

Power sector reforms and fiscal health of the state

In the above scenario, it may not be logical to relate power sector reforms and fiscal health of the state beyond a point. Irrespective of the fact whether the state opts for drastic reforms (like unbundling of SEB and privatization) or not, the fiscal risk arising from power shortage remains. If the power situation worsens due to a drought like situation, KSEB will have to depend on costly sources like thermal power. State government will be called upon to provide subsidy to KSEB. This cannot be done without making the fiscal situation of the state further worse. If KSEB is not permitted to pass on the burden to consumers, it will land up the company in financial crisis. The only option before the state is to make KSEB more efficient by optimizing hydroelectricity generation and preventing transmission loss.

Concluding observations

The forgoing analysis shows that SLPEs have not helped much in easing the fiscal stress of the state though the situation has not worsened during the period under study. Compared to the huge investments in SLPEs, the profits earned are meager. There is no continuity in the policy with regard to loss making SLPEs. Though the United Democratic Front government (2001-06) initiated some steps towards reforming and restructuring the loss making SLPEs, the Left Democratic Front government (2006-11) was in favour of protecting and strengthening them and accordingly took a series of measures. Most of the SLPEs are in need of modernisation but the fiscal situation of the state does not permit government to infuse fresh capital. As a consequence, the valuable assets of many SLPEs are getting ruined causing heavy losses to the public exchequer.

Notes

[1] This is based on *Economic Review 2010*, Kerala State Planning Board, pp.172-174.

[2] There were unconfirmed reports that some of the enterprises turned 'profitable' were not making profit strictly going by the principles of commercial profit. Some of them sold their assets and showed the sales proceeds as part of sales turnover. Similar window dressing instances have been reported in the print media. Though this is quite plausible, the study team could not verify it.

[3] Discussion with Mr. Anil Kumar. P, Assistant Executive Engineer, Corporate Planning, Kerala State Electricity Board, Thiruvananthapuram.

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Chapter VI

An Overview of the Steps Taken by the State to Tide over the Fiscal Crisis

As required by the terms of reference, this chapter attempts an overview of the steps taken by the state government to improve the tax-GSDP ratio and enhance allocative and technical efficiency in expenditure during the last five years. The chapter also discusses the implementation of FRBM Act in the state.

Measures taken to improve revenue-GSDP ratio during the last five years

The study team held discussions with senior officers of departments entrusted with the task of revenue mobilisation and gathered information on the major steps taken to improve revenue- GSDP ratio during the last five years. Publications like Finance Act and budget speeches have also been referred to. The major steps taken during the last five years are presented in table 6.1.

Table 6.1 Measures taken to improve revenue-GSDP ratio during the last five years

Reference year	Details of measures taken
2009-10	**Non-tax revenue** 1. Mining of sand from dams and selling in the open market 2. Revision of lease rent on government land used for plantation purposes 3. Penalty for illegal conversion of paddy fields **Tax revenue** 1. One time settlement of commercial taxes arrears
2010-11	**Tax revenue** 1. Stamp duty on agreements raised from ₹50 to ₹100 2.Rate of stamp duty relating to power of attorney raised 3.Stamp duty payable on instruments relating to equitable mortgages raised 4. Fair value on land introduced 5.E-filing of return and e-payment of tax under VAT and KGST introduced 6.Rate of motor vehicle tax on select category of motor vehicles raised 7.One time settlement scheme introduced in the Motor Vehicles Department 8.Luxury tax base widened to include DTH service providers **Non-tax revenue** 1.Number of draws in state lottery increased from once in a week to daily

Reference year	Details of measures taken
2011-12	**Tax revenue** 1.Electronic filing and payment introduced in the case of tax payers falling under Kerala Money Lenders Act, Kerala Tax on Luxuries Act and Kerala Agricultural Income Tax Act 2.Impostion of cess on luxury cars above ₹20 lakhs at the rate of 2% on the motor vehicle tax paid 3. Imposition of cess on building tax on residential buildings above plinth area of 4000 square feet 4.Rate of tax on pan masala and other manufactured tobacco products increased to 20%
2012-13	**Tax revenue** 1.Kerala Stamp Act on gift modified 2.Land tax rates increased from ₹ 1, ₹ 2 and ₹ 4 to ₹ 2, ₹ 4 and ₹ 8 respectively in panchayat, municipality and corporation areas 3.Tax on motor vehicles and service vehicles for personal use raised at progressive rates 4.VAT rates increased from 4% to 5% and 12.5% to 13.5% 5.Pan masala and other manufactured tobacco products raised from 20% to 22.5% 6. Social security cess on the tax paid on Indian made foreign liquor increased from 6% to 10% 7. Medical cess at the rate of 1% on the tax paid by Kerala State Beverages Corporation
2013-14	**Non-tax revenue** 1.Rate of registration fee under Charitable Societies Act raised 2.Mangalya nidhi cess on wedding celebrations taking place in three star hotels and auditoriums above 500 seating capacity **Tax revenue** 1.Rationalisation of stamp duty rates 2.Stamp duty on stocks and securities to be on the basis of value 3.Fair value system made applicable to the purchases by promoters and developers 4.Scheme to incentivise new registration under KVAT 5.Rate of VAT increased from 13.5% to 14.5%

Other measures

During the last five years, substantial investments have been made to improve the physical infrastructure of Commercial Taxes Department. Commercial taxes complexes have been constructed in districts where the offices were functioning in rented premises. Three computer centres have been established with 25 computers each in Thiruvananthapuram, Kochi and Kozhikkode. The Commercial Taxes Department has added to its vehicle fleet and this has considerably strengthened the intelligence work.

Several measures have been taken to rationalise and simplify the procedures and formalities. Interest relief scheme, one time settlement, e-filing of returns, simplified procedure for registration are some of the more important among them. In order to complete the pending assessments under KGST, special *adalats* have been organised.

Public Expenditure and Financial Management (PEFM) Reforms

We have seen that it has been extremely difficult for government of Kerala to contain revenue expenditure during the study period though several measures were taken in this direction. The study team attempted to identify the major PEFM reforms implemented in the state to contain revenue expenditure by interacting with senior officials of the Finance Department and also by referring the relevant government orders. It is found that government had taken certain concrete measures as early as 2002. Some of the measures are outlined below.

- G.O(P) No. 56/2002/Fin. dated 16-1-2002 whereby new recruits in government service and in public sector undertakings/autonomous institutions were sanctioned only basic pay for the first two years of service.
- Contributory pension was also introduced in the case of new recruits.
- Some of the service benefits like surrender leave, commutation etc. were partially reduced to overcome the acute fiscal crisis in 2002.
- Vide G.O (P) No.161/2005/Fin. dated 5-4-2005, the maximum number of local calls in the case of official residential telephone chargeable to government account was fixed as 750.

But government could not persist with these measures. Vide G.O(P) No. 328/2003Fin. dated 19-06-2003, government restored dearness allowance and other allowances including arrears thereon to all new recruits with effect from 1-06-2003. Vide G.O (P) No. 86/2006/Fin. dated 23-02-2006, government extended these benefits even to the provisional employees recruited through employment exchanges. Government however did not make any change in the contributory pension scheme. But the Left Democratic Front government that came to power in 2006 dropped this measure.

Economy measures with marginal impact on state finances were reintroduced in 2010. Some of these measures are outlined below.

- Vide G.O(Ms.) No.96/2003/GAD dated 5-4-2003, mobile phone facility was sanctioned to the Additional Chief Secretaries, Principal Secretaries, Secretaries, Special Secretaries and Heads of Departments with permission to purchase handsets limiting the cost to ₹7000. By G.O(P) No.90/2011/Fin. dated 1-3-2011, government ordered that officers eligible for reimbursement of mobile phone call charges from government will not be provided with handset.
- Vide G.O(P) No. 251/2011/Fin. dated 3-06-2011, residential telephone/mobile phone reimbursement was disallowed in the case of officers who are under suspension.
- Vide G.O(P) No. 363/2011/Fin dated 25-8-2011 government officials and all other officers eligible for air journey were required to travel in economy class. Executive class journey was permitted in the case of selected officials under stringent conditions.

The urgency of fiscal consolidation was recognised in the G.O (P) No.441 and 442/2012/Fin. dated 8-8-2013. G.O(P) No. 441 assigned the task of preparing and submitting to the Council of Ministers a comprehensive report on the surplus posts in government departments. This order also mentions the possibility of new posts being met from the surplus posts identified. The order also proposed to undertake a study on the projects, commissions, agencies, institutions etc. which have lost relevance, but still functioning in the state. It was also decided in principle that the new pension scheme shall be introduced with effect from 1st April 2013 which shall be applicable to all appointments made thereafter.

G.O(P) No. 442 initiated a number of steps towards fiscal consolidation and expenditure management. Major measures are outlined below.

Administrative measures

- It was announced that non-plan expenditure during the current year shall be limited to budget allocations;
- Expenditure on travel, electricity, telephone and fuel for 2012-13 shall be limited to the level of previous year's budget estimates;
- To quote from the government order, "while conducting auction of confiscated vehicles, it shall be ensured that they are allotted to government departments and institutions, as per requirements. No new vehicle shall be purchased except under unavoidable circumstances and as far as possible vehicles shall be engaged on contract basis. Old

vehicles found to have excess fuel consumption shall be condemned. This will be made applicable to all government departments and public sector undertakings."

Resource conservation measures

The measures proposed are reproduced below.

1. Special efforts shall be made by all government departments and public sector undertakings to reduce electricity and water consumption.
2. Incandescent bulbs in government offices shall be replaced with CFL/Tube/ LED lights.
3. Electric lights, appliances, etc. should be switched off every time officers leave their rooms. Electrical wiring may be done with master switch/sensor switch facility for each room to facilitate centralised control. Thermostat of room air conditioners shall not be set below 26 C to ensure efficiency in energy consumption.
4. Public sector undertakings and autonomous bodies shall not print diaries for the ensuing calendar year. If necessary, on submission of prior indent, government will print and supply diaries and suitable price shall be charged for them.
5. No working arrangement staff shall be allowed except in Health and Family Welfare Departments.
6. Bank deposits of public sector undertakings should be deposited with treasury savings bank only.
7. Higher energy consuming appliances, if any may be replaced with energy-efficient appliances.
8. Water connections should be checked regularly to detect leakage, if any. All the faulty and leaking taps should be replaced urgently.
9. Effective action should be taken to prevent power theft and water theft by KSEB and KWA respectively.
10. Fuel efficient vehicles shall be selected for purchases in future. Mileage test of vehicles should be conducted at the appropriate time according to standing instructions.
11. Wastage of stationery shall be avoided. While taking copies of documents, letter etc. both sides of the paper shall be used as far as possible. Documents, which can be circulated through electronic means, shall not be printed. All departments shall take care to discontinue the practice of printing unnecessary documents.

The study team could not assess to what extent these measures are implemented and their effectiveness for want of reliable data. These cosmetic changes, even if implemented, are unlikely to make any significant dent in the revenue expenditure of the state.

Factors contributing to inefficiency in public spending

1. Unscientific budget estimates

The process of budget preparation is the prime source of inefficiency and corruption in public spending. Though the Budget Manual prescribes several norms and thumb rules in estimating expenditure as close as possible to the actual expenditure, they are largely ignored. To quote from the Report of the Comptroller and Auditor General (CAG) of India:

> "An avoidable extra provision in an estimate is as much a budgetary irregularity as an excess in the sanctioned expenditure. The budget procedure envisages that the sum provided in an estimate of expenditure on a particular item must be that sum which can be expended in the year and neither in excess nor lesser. A saving in an estimate constitutes as much of a financial irregularity as an excess in it" (Government of Kerala, 2012, p.41).

CAG observed an overall savings of ₹9856.73crores in 33 Grants and 19 Appropriations under Revenue Section and 24 grants and 10 Appropriations under Capital Section in the financial year 2011-12 (Op.cit., p.42).Unscientific budget estimates is the starting point of inefficiency in public spending. It also opens up umpteen avenues of misappropriation of public resources. Following are some of the typical *modus operandi* observed by CAG.

- Unnecessary/excessive/inadequate supplementary provision
- Excessive/unnecessary/insufficient re-appropriation of funds
- Unreconciled expenditure
- Unnecessary supplementary grants
- Delay in furnishing utilization certificates
- Transfer of funds to personal deposit accounts

2. Inadequate budgetary allocation

Fiscal stress has caused drastic reduction in allocations for repairs and maintenance, machinery and equipment and materials and supplies (more details are provided in chapter VII). This is the single most important factor contributing to inefficiency in public spending. As a consequence, the assets created under different plan periods are left without proper maintenance. The life span of costly machinery and equipment gets shortened. The human resources in government service (doctors, nurses and paramedical staff in the health sector and teachers in government schools and colleges) are generally considered to be far superior to that of private sector as they are recruited through Public Service Commission through a competitive process. But unless they are adequately supported by machinery and equipment and consumables, the quality of services they are called upon to render will suffer. In the process, the purpose for which the state incurs these expenditures gets defeated in part or full. Of late, fiscal crisis has forced the state to postpone permanent appointments in government departments. While teachers in schools and colleges are paid on hourly basis, doctors are appointed on contract basis (for a detailed discussion, see chapter VII). This has further added to the deterioration of quality of public services.

3. Bunching of expenditure in the last quarter of the financial year

Due to paucity of funds and competing claims on limited resources, government is unable to allocate funds in a time bound manner. Much of the expenditure is incurred in the last quarter of the financial year as Appendix 6.1 shows. In the case of 20 departments, 81.37% of expenditure was incurred in the last quarter of the financial year. Of this, 74.34% was incurred in the month of March.

Our discussion with senior officials of the Public Works Department revealed that one of the reasons for the high cost of government constructions is the inflated rates at which competitive tenders are awarded to contractors. The difficulty in getting payments and the associated transaction costs make contractors to inflate the quoted rates. It is said that contractors very often take loans at exorbitant interest rates to complete the works and therefore this cannot be avoided altogether. The study team could not verify the veracity of these claims. At the same time, the fact cannot be denied that if payment is ensured in time, much of the malpractices and corruption can be avoided. This will also go a long way towards ensuring the quality of the works undertaken.

4. Time and cost over-run in project execution

Inadequate funding and the resultant time over-run and cost escalation are best illustrated by the case of irrigation projects presented in table 6.2.

Table 6.2 Cost escalation in irrigation projects

(₹ in lakhs)

Name of the project	Year of starting	Original estimate	Revised estimate	Year of revision	Cost escalation %	Expenditure up to December 2012
1	2	3	4	5	6	7
Muvattupuzha	1974	4808	93900	2011	1953	82615.92
Idamalayar	1981	904	69400	2011	7677	36798.36
Karapuzha	1979	760	44150	2010	5809	28962.14
Banasurasagar	1999	1137	18550	2010	1631	4231.60

Source: *Economic Review 2012 (vol.2)*, Kerala State Planning Board, p.103.

5. Thin spread of resources across projects

The inefficiency arising from thin spread of resources across projects is best illustrated by the budgetary provision for ongoing projects and the number of projects without administrative sanction. In 2013-14 budget, government has allocated just ₹4.82 crores for the ongoing project of constructing quarters for government employees at different parts of the state with an estimate of ₹ 230.33 crores. There are 5223 road projects in 2013-14 without administrative sanction. Each of these is allocated a token provision of ₹100.

Suggestions for improving efficiency in public spending

One basic problem underlying the inefficiency in public spending is 'fiscal illusion' created by the heavy reliance on indirect taxes for resource mobilization. This has caused the citizens to demand public services without realising the true cost of providing it and the associated inefficiencies. The state is under pressure to accommodate so many development projects and launch several public institutions without adequate budgetary provision. The resulting thin spread of resources across projects is the root cause of inefficiency in public expenditure. Some of the other causes of inefficiency in public spending are inadequate budgetary control, lack of systems and procedures for timely reporting and audit, cumbersome procedures and formalities and lack of transparency. The annual audit reports of the Accountant General are replete with instances of inefficiencies arising from all these. Following are some of the suggestions for improving efficiency in public spending.

1. Deepening peoples' understanding of public finances

The long term solution to the inefficiencies in public spending is freeing the tax payers from 'fiscal illusion' by deepening peoples' understanding of public finances. The potential of print and electronic media should be harnessed effectively for inculcating deeper consciousness in society about the manner in which public resources are mobilised and expenditure incurred. Informed debates and discussions on these should be encouraged at different layers of civil society.

2. Greater transparency through the adoption of information and communication technology

Inefficiency and corruption in public spending can be curbed to a large extent through intensive use of information and communication technology. Budgetary allocations, tender process, purchase/sale details and month-wise appropriation etc. in each government department should be made available online for public scrutiny.

3. Doing away with the practice of 'token provision'

The practice of 'token provision' in the budget should be done away with. The process of giving 'administrative sanction' should be reviewed and necessary changes should be introduced.

4. Incentivising public vigil

In the execution of public works, public vigil should be encouraged. Members of the general public should be incentivised to keep a vigil on the use of sub-standard materials and poor workmanship. Towards this end, awards and prizes can be instituted for individuals and institutions.

5. New asset creation without adequate provision for maintenance of existing assets to be discouraged

The practice of creating new assets without adequate budgetary provision for maintenance of the existing assets should be arrested by creating deeper awareness among general public and legislators about the huge wastage of scarce public resources on this count.

6. Replicating best practices

Best practices in efficient public spending, simplified procedures and formalities and systems and procedures which augment transparency are to be documented and replicated.

7. Incentivising officials

Awards/incentives should be instituted for officials who take administrative steps to save cost/prevent inefficiencies/ corruption in public spending.

8. Renting and leasing instead of purchase to be encouraged

A major source of inefficiency in public spending is construction of premises for government offices and purchase of vehicles, costly machinery and equipments. Steps should be taken to encourage use of rented and /or leased premises for government offices. Similarly rented/leased vehicles and equipments in government departments should be encouraged (discussed in details in page 117).

Implementation of FRBM Act and related issues

Kerala passed the Fiscal Responsibility Act 2003 (29 of 2003) and in exercise of the powers conferred by sub-section (1) of section 9 have framed the rules thereon vide gazette notification No. 102119/FRC-2/2003/Fin dated 1-3-2005. The study team held discussions with the senior officials regarding the implementation of FRBM Act. It was revealed that the state has been strictly following the requirements as stipulated by the Act and has been tabling the Medium Term Fiscal Policy (MTFP) statement along with the state budget every year. To the question whether there is department-wise MTFP target, it was revealed that there were no department-wise targets.

Regarding the implementation of FRBM Act and commitment towards target, the performance of the state has not been very satisfactory. The targets and actuals for the years 2007-08 to 2010-11 are presented in table 6.3.

Table 6.3 Fiscal targets and outcome as per the FRBM Act 2003 of Kerala

(In per cent)

Indicator	2007-08	2008-09	2009-10	2010-11
Revenue deficit/GSDP				
Target	3.40	2.04	1.49	1.37
Actual	2.30	1.83	2.16	1.36
Difference	1.10	0.21	-0.67	0.01
Fiscal deficit/GSDP				
Target	4.80	3.41	2.81	3.22
Actual	3.80	3.13	3.39	2.87
Difference	1.00	0.28	-0.58	0.35

Source: *Medium term fiscal policy and strategy statement with medium term fiscal plan for Kerala*, Finance Department, Government of Kerala, various issues.

As table 6.3 shows, Kerala could achieve the revenue and fiscal deficit targets in 2007-08 and 2008-09. In the subsequent years however, the state has been finding it difficult to achieve the targets.

An observation in a government order **(**G.O (P) No.441 and 442/2012/Fin. dated 8-8-2013) is a frank admission of the government's failure in this regard. To quote from the government order:

> "After the fiscal consolidation efforts have been put in place through monitorable fiscal indicators, many states including some of the backward ones have managed to achieve zero revenue deficits in compliance of their Fiscal Responsibility Legislations. But Kerala apart from making some improvements in the revenue collection front, has achieved little in terms of its fiscal responsibility legislation targets. Reduction in revenue deficit is eluding the State, affecting the much needed space for capital expenditure for infrastructure creation for facilitating conducive environment for industrialisation and job creation".

Kerala Fiscal Responsibility (Amendment) Act, 2011 was promulgated through gazette notification No. 21057/Leg.A1/2011/Law dated 8th November 2011. The revised revenue/GSDP, fiscal deficit/GSDP and debt/GSDP for the four year period 2011-12 to 2014-15 as per the amendment are presented in table 6.4.

Table 6.4 Fiscal targets as per the amended FRBM Act of Kerala

Indicator	2011-12	2012-13	2013-14	2014-15
Revenue deficit/GSDP				
Target	1.4	0.89	0.50	0.00
Actual	2.55	0.94*		
Fiscal deficit/GSDP				
Target	3.5	3.5	3.0	3.0
Actual	4.07	3.12*		
Debt/GSDP				
Target	32.30	31.70	30.7	29.8
Actual	28.37	27.87*		

*Revised outcome for the year 2012-13
Source: Same as table 6.3.

Going by the present state of Kerala finances, it appears that it will be a herculean task for the state to achieve the revised fiscal targets.

References

Government of Kerala (2012), *Report of the Comptroller and Auditor General of India on State Finances for the year ended March 2012*, Thiruvanathapuram

Chapter VII

Kerala's Fiscal Stress: Its Dimensions and Implications

The analysis and discussion in the previous chapters have shown that the root cause of Kerala's fiscal stress is inadequate growth of revenue. While sluggish growth of own revenue is the principal factor, the slower rate of growth of Central transfers has also played a role. After meeting the huge committed expenditures, the state is now left with little fiscal space. This chapter goes deeper into the dimensions and implications of this fiscal predicament.

Dimensions of Kerala's fiscal stress

The pressure to achieve targets set by the FRBM Act has forced Kerala to give priority to committed expenditures like salary, pension and interest payments. The shrinking size of the state plans and small size of the capital outlay are just one dimension of the fiscal stress that the state is undergoing. This has forced Kerala to reduce or not to incur expenditure in several fields where a modern state should be actively intervening. The decreasing expenditure on economic services may not cause much of a concern so long as the private sector is coming forward to provide them. This however is not the case with pure public goods like protection of art and culture, indigenous technology, architecture, cultural artifacts, flora and fauna and environment. The state is not able to spend sufficiently on these and this is causing irreparable damage to the posterity. Some of the specific dimensions of Kerala's fiscal stress are outlined below.

1. Inadequate expenditure on repairs and maintenance

Inadequate maintenance of existing assets is a major area of concern. The state has created a massive infrastructure in the form of buildings, dams, irrigation canals, bridges and culverts, water tanks and so on under successive plans. The life span of these assets is compromised due to inadequate repairs and maintenance. This is best exemplified by the decreasing share of expenditure on minor works, repairs and maintenance in the revenue expenditure on medical and public health as table 7.1 shows.

Table 7.1 Break-up of revenue expenditure in medical and public health 2002-03 to 2011-12

(₹ crores)

Year	Minor works, repairs & maintenance	Machinery and equipment	Materials and supplies	Total of col. 2 to 4	Others	Total revenue expenditure
1	2	3	4	5	6	7
2002-03	5.5(0.83)	9.21(1.38)	99.68(14.97)	114.44(17.18)	551.56(82.82)	666.00
2003-04	4.57(0.63)	10.74(1.49)	101.27(14.07)	116.58(16.19)	603.42(83.81)	720.00
2004-05	8.25(1.05)	11.86(1.51)	119.87(15.27)	139.98(17.85)	644.02(82.15)	784.00
2005-06	8.13(0.97)	25.62(3.06)	115.56(13.81)	149.31(17.84)	687.69(82.16)	837.00
2006-07	9.79(1.00)	17.83(1.82)	122.08(12.46)	149.70(15.28)	830.30(84.72)	980.00
2007-08	4.53(0.42)	29.10(2.67)	135.03(12.39)	168.66(15.47)	921.34(84.53)	1090.00
2008-09	8.05(0.60)	22.52(1.67)	160.22(11.87)	190.79(14.13)	1159.21(85.87)	1350.00
2009-10	5.99(0.41)	30.85(2.12)	169.32(11.63)	206.16(14.16)	1249.81(85.84)	1456.00
2010-11	9.75(0.56)	38.90(2.22)	183.94(10.52)	232.59(13.30)	1516.41(86.70)	1749.00
2011-12	7.72(0.32)	3.79(0.16)	231.07(9.66)	242.58(10.15)	2148.42(89.85)	2391.00

Notes : 1. From 2007-08 onwards, Kerala Medical Services Corporation (KMSC) under the Health Department is entrusted with the task of purchasing and distributing machinery and equipment and materials and supplies for government hospitals. The steep fall in allocations for machinery and equipment in 2011-12 is due to this arrangement. Though the allocations for KMSC are available in the budget documents, it is not known what proportion of the allocations is used for this purpose. What we have done in this table is to add the budgetary provisions of KMSC to the allocations on materials and supplies.

2. Figures in the bracket show percentage to total revenue expenditure.

Source: Worked out from *Demands for Grants*, Finance Department, Government of Kerala, relevant issues.

2. Insufficient expenditure on machinery and equipment and materials and supplies

The decreasing quality of public services in health and education is yet another fall out of fiscal stress. Though the state has a good network of health infrastructure from primary health centres to taluk and district hospitals and medical colleges with a highly qualified team of doctors and paramedical staff, their potential is not adequately tapped due to inadequate expenditure on machinery and equipment and materials and supplies. As table 7.1 has shown, the percentage share of expenditure on these items in revenue expenditure has been consistently coming down during the study period. The exponential growth of private health providers all over the state is a direct consequence of this.

Though not as acute as that of the health sector, the education sector of the state is equally affected by fiscal stress. The state has a good network of government and government aided schools. But these schools seem to have not kept pace with the changing demands and expectations of parents and students. As a consequence, the student strength has been consistently coming down as table 7.2 shows.

Table 7.2 Trends in school enrolment in Kerala: 2002-03 to 2011-12

Year	Government schools	Government aided schools	Unaided schools	Total
2002-03	1708358(34.16)	3028989(60.56)	264414(5.29)	5001761
2003-04	1628591(33.38)	2995765(61.22)	269649(5.51)	4894005
2004-05	1565121(32.32)	2948273(60.89)	328621(6.79)	4842015
2005-06	1503963(31.49)	2919960(61.13)	352383(7.38)	4776306
2006-07	N.A	N.A	N.A	N.A
2007-08	1413768(30.56)	2845866(61.51)	366777(7.93)	4626411
2008-09	1377341(30.30)	2801825(61.64)	366660(8.07)	4545826
2009-10	1337480(30.00)	2755436(61.81)	364840(8.18)	4457756
2010-11	1264659(29.86)	2597379(61.33)	372822(8.80)	4234860
2011-12	1200594(30.12)	2410719(60.48)	374875(9.40)	3986188

Notes: 1. Figures in the bracket show percentage to total. 2. NA denotes not available
Source: *Economic Review*, Kerala State Planning Board, various issues.

In the higher education sector, the state has a fairly large network of arts and science colleges in the government and government aided sector. But their infrastructure in terms of modern laboratories and teaching aides is woefully inadequate to offer state of the art courses and curricula. Though there is growing demand for professional courses from parents and students, government is not able to start new institutions in government and aided sector. The professional education sector is hugely dominated by self-financing institutions as can be seen from table 7.3.

Table 7.3 Share of government, government aided and self-financing institutions in the professional education sector of Kerala

Course and agency	Institutions		Sanctioned strength	
	No.	% to total	No.	% to total
MBBS				
Government	5	25.00	900	36.00
Government controlled	2	10.00	200	8.00
Self-financing	13	65.00	1400	56.00
Total	20	100.00	2500	100.00
BDS				
Government	3	13.64	140	10.37
Government controlled	1	4.55	60	4.44
Self-financing	18	81.82	1150	85.19
Total	22	100.00	1350	100.00
BAMS				
Government	3	18.75	160	17.58
Government aided	2	12.50	90	9.89
Unaided	11	68.75	660	72.53
Total	16	100.00	910	100.00
B.Tech				
Government	9	5.88	3236	6.61
Aided	3	1.96	1566	3.20
Unaided	141	92.16	44186	90.19
Total	153	100.00	48988	100.00

Source: *Economic Review 2012*, Kerala State Planning Board and website of the Commissioner of Entrance Examinations.

3. Stunted growth of public institutions

Several of the state's services- administration of justice, enforcement of law and order, collection of taxes to give a few examples demand urgent modernisation and refurbishment. But due to paucity of resources, they are delayed or postponed. At the same time, the compulsions of electoral politics have forced successive governments to start new institutions which involve future commitments in the non-plan account. A list of universities and autonomous institutions started or announced during the 10th and 11th Plan periods is given in Appendix 7.1. Government has not been able to provide adequate budgetary provisions to these institutions. A good many of them function in rented premises with skeletal staff. Several of these institutions are facing stunted growth.

4. Inadequate manpower for public services

As we have already seen, salary and pensions constitute the single most important item of revenue expenditure. However, it may be incorrect to arrive at the conclusion that government departments are overstaffed. While there may be departments with excess staff, shortage of staff is a major factor behind the declining quality of public services. Resource crunch has forced government to resort to *ad-hoc* appointments on daily wage or contract basis. The study team could not make an estimate of the extent of manpower shortage in government departments. But cursory evidences point towards huge shortage in major public services like education, health and law and order. The number of daily wage teachers in the education sector is the highest. We do not have figures on the number of teachers working in schools on daily wage basis and hourly basis but they are not inconsiderable. Of the 10684 teachers in Arts and Science colleges, 1757 i.e. 16.45% are guest lecturers who are paid salary on hourly basis[1]. There are 152 vacancies in government medical colleges[2]. The Home Minister of the state is reported to have stated that there is acute shortage of manpower in the police force of the state[3]. While the ratio of police personnel to population is 1:500 in the country as a whole, it is 1:750 in Kerala.

Who bears the brunt of Kerala's fiscal stress?

It may be incorrect to come to the conclusion that the fiscal crisis of the state has resulted in the complete break-down of public services or it has affected vast majority of state's populace. The fact is that remittances which started flowing into the state since the late 1970s have created a sizeable population of middle class. This together with the government servants and employees of the formal sector constitute a section which is not immediately threatened by the fall in the quality of public services. This section can afford the services of private providers. Thus, government employees and teachers of government and aided educational institutions whose salary and pension are part of committed expenditures are less likely to be worried about the fall in the quality of government and government aided educational institutions or for that matter, government hospitals. The unaided schools and self-financing professional educational institutions and private hospitals that galore cater to their needs. The gradual decay of the public transport system has not affected them as indicated by the exponential growth of private vehicles. The retreat of the middle class has contributed in no small measure to the gradual decay of public services in Kerala.

It is the poorer sections- daily wage earners, workers in the informal sector, marginal farmers and petty traders- that are mostly bearing the brunt of Kerala's fiscal stress. The volume of public resources flowing to them has been consistently falling. One telling instance is the erosion in the real value of farm worker's pension (table 7.4).

Table 7.4 Real value of farm worker's pension

Year	Pension per month(₹)	Open market price of rice (₹/kg)	Quantity of rice purchasable with the monthly pension (kg.)
1981	45	3.21	14.02
1987	60	4.34	13.82
1991	70	5.96	11.74
1991	80	5.96	13.42
1996	100	11.01	9.08
2000	120	13.50	8.89
2007	130	15.58	8.34
2008	200	18.86	10.60
2009	250	20.52	12.18
2010	300	24.58	12.21
2011	400	26.52	15.08

Source: Worked out using the data from *Economic Review*, Kerala State Planning Board, various issues.

As table 7.4 shows, the real value of welfare pensions has remained stagnant during the last 30 years. It may be noted that Kerala was the pioneer in welfare pensions when farm workers pension scheme was introduced in 1982. At present, the old age pensions in some of the poorer states are much higher than that of Kerala as can be seen from table 7.5.

Table 7.5 Old age pensions in selected states

States	Pension per month (₹)
Kerala	500
Punjab	450
Rajasthan	500
Karnataka	525
Maharashtra	600
Hariyana	700
West Bengal	1000
Goa	1000
Delhi	1000
Tamil Nadu	1000

Source: Websites of the relevant states and the answer given to a question in Rajya Sabha on 28-08-2012.

On the other hand, the public resources siphoned off from them in various forms are not insignificant as we shall see shortly.

Is Kerala making adequate fiscal effort ?

Apparently, the solution to Kerala's fiscal maladies is not across the board reduction in expenditure but mobilising more public resources. This is the only way to sustain the famed 'Kerala model of development' which is essentially the creation of public investment in health and education. As we have seen, the share of Central transfers has come down over the years. Unless future Finance Commissions recognise Kerala's demand for 'development maintenance grant' as some scholars have argued out, this scenario will continue as Kerala has long become ineligible for allocations meant for backward states. The FRBM Act has put severe restrictions on state's borrowings. The state is left with no option other than mobilising more own resources. The pertinent questions in this context are whether the state has the fiscal capacity and whether it is putting in adequate effort to tap it.

Coming to tax revenue sources, the conventional approach to measuring relative tax efforts of states is to compare the tax performance of an individual state to the average performance of a group of states or to compare its own performance to that of an earlier period or point in time. Almost all studies undertaken on these lines have found Kerala to be among the states making high tax effort. The successive Finance Commissions including Thirteenth Finance Commission have classified Kerala among the states making high tax effort.

Our findings show that even going by conventional indicators of relative tax effort like tax/GSDP ratio, Kerala lags behind most of the South Indian states during the study period. But conventional indicators of tax effort have their limitations in the particular context of Kerala. As a state hugely dependent on remittances, the relevance of Gross State Domestic Product (GSDP) as a proxy measure of fiscal capacity of Kerala was questioned as early as 1989 (see Sebastian, 1989). Consumption taxes like sales tax and state excise contribute more than 75% of the own tax revenue of the state. It was argued that consumer expenditure is a better indicator of tax potential of the state in so far as it captures the influence of income originating within the state as well as income accruing to the state. This line of argument seems to be all the more relevant today considering the fact that Kerala ranks top among major states in per capita consumer expenditure since 1999-00. The rankings of major states in 8 thick sample (quinquennial) surveys on household consumer expenditure presented in Appendix 7.2 bear ample testimony to this[4]. Another distinguishing feature of Kerala is the high proportion of non-food items in consumer expenditure as Appendix 7.3 shows. Since non-food items attract sales tax/ VAT at higher rates, this factor also adds to the tax potential of the state.

While a detailed discussion on the methodological soundness of this approach is beyond the scope of the present study, the fact has to be admitted that Kerala cannot remain complacent with the present level of tax effort whatever way it is measured. The target level of tax effort for Kerala may have to be redefined as one that meets its fiscal requirements.

The basic question to be probed in this context is whether the state is tapping the potential of available tax handles. A major weakness of the revenue system of the state, as we have seen, is the heavy dependence on a few revenue sources. A closer look at the revenue structure will reveal that just three items-petrol, liquor and lottery- contribute nearly 42% of the total own revenue of the state as table 7.6 shows.

Table 7. 6 Contribution of petrol, liquor and lottery in the own revenue of Kerala-2002-03 to 2011-12

(₹ crores)

Year	Petrol	Liquor		Lottery	Total of col. 2 to 5	State's own total revenue	Col. 6 as percentage of col. 7
		Excise	Sales tax				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
2002-03	1474.81	663.00	1006.80	128.00	3272.61	7981	41.01
2003-04	1625.06	656.00	1125.43	134.00	3540.49	8896	39.80
2004-05	1918.15	746.00	1257.87	151.00	4073.02	9783	41.63
2005-06	2028.88	841.00	1422.13	230.00	4522.01	10716	42.13
2006-07	2337.88	953.00	1694.06	236.00	5220.94	12880	40.53
2007-08	2341.29	1169.00	1976.26	325.00	5811.55	14879	39.06
2008-09	2670.01	1398.00	2509.01	481.00	7058.02	17549	40.22
2009-10	2903.20	1515.00	3000.16	624.00	8042.36	19477	41.29
2010-11	3550.52	1700.00	3800.76	571.00	9622.28	23653	40.68
2011-12	4109.23	1883.00	4733.00	1283.00	12008.23	28311	42.42

Source: Commercial Taxes Department, Government of Kerala and *State Finances: A Study of Budgets* by Reserve Bank of India, various issues.

It may be noted that despite fiscal stress and FRBM conditionalities, the state could not shed its dependence on these three items. There is no much 'effort' involved in realising this revenue. While petrol is being dealt by public sector oil companies, liquor and lottery are managed by Kerala State Beverages Corporation and Lottery Department respectively. This suggests that the revenue contribution of other commodities within commercial taxes and other sources of tax revenue has not registered any appreciable growth. This aspect is examined in greater detail chapter VIII.

Perhaps a more disturbing aspect of Kerala's revenue structure is its equity implications. The heavy taxation of liquor at 105% coupled with arrack ban would mean that the tax burden on the poorer sections has become heavier. The introduction of VAT system with fewer rate categories must have already made the tax system more regressive. It can be presumed that bulk of the revenue from lottery flows from the poorer sections of the society. Thus, while the volume of public resources flowing to the poorer sections is increasingly getting dried up, the tax burden on them keeps on rising. This issue demands deeper study and research.

Coming to non-tax revenue sources, we have seen that Kerala's performance is far from satisfactory. In 2011-12, 49.5% of non-tax revenue flows from lottery. Non-tax revenue from social and community services contributes a meager sum though the state spends a sizeable portion of its revenue on social services. A significant portion of the subsidies involved in these services goes to the better off sections of the society. The scope for mobilising additional resources from non-tax sources is examined in detail in chapter VIII.

Will Goods and Services Tax (GST) save Kerala ?

An impression is gaining ground that the proposed GST regime is a panacea to the fiscal woes of Kerala. The basis of this impression is that Kerala is a service sector oriented economy. The study team made a preliminary assessment of this (Appendix 7.4 at the end of this chapter)**.** Though Kerala's share of service sector in GSDP is one of the highest among major states, from the taxation point of view, what matters is the presence of taxable services and size of the service providers. Kerala is a rural urban continuum but there are no metropolitan cities in the state. The limited evidences based on the state-wise distribution of Central service tax collection and the share of manufacturing in GSDP suggest that states having metropolitan cities and higher share of manufacturing in GSDP are more likely to benefit in the GST scenario. In 2009-10, Maharashtra, Delhi, Tamil Nadu and Karnataka together account for 74.02% of service tax revenue. Kerala accounts for just 1.70%. The vast majority of service providers in Kerala are likely to fall below the proposed threshold limit of ₹ 10 lakh under GST. It seems that except a few more hundred crores of additional revenue, Kerala is not going to benefit much in the GST scenario.

The political economy of public finances in Kerala

While the need for mobilising more resources cannot be overemphasised, the question may be asked why in a state like Kerala, resource mobilisation for public purposes becomes an unpleasant task. There is near consensus that public expenditure on health and education over the years paid rich dividends in the form of high human development and physical quality of life. Large scale emigration and the resultant flow of remittances owe a great deal to this social investment. It has considerably enhanced people's capacity to contribute for public purposes. As such, one would expect that in a high literate, politically conscious and media saturated society as that of Kerala, it would be easier for the political authority to mobilise public resources. But reality belies such expectations. Resource mobilisation proposals by coalition governments of either ideological persuasion face stiff resistance from the public.

One possible explanation for this apparent paradox is fiscal illusion created by heavy reliance on indirect taxation. Since the real cost of public services is camouflaged, the inexorable demands for more public services are espoused by political parties numbering 25 or so which have rallied behind two competing fronts. During the last 35 years, Left Democratic Front and United Democratic governments have been coming to power almost alternatively and elections are won and lost on thin margins. While resource mobilisation is often a politically unviable proposition, whatever revenue resources available will have to be thinly spread across innumerable schemes and programmes to satiate the competing claimants. As we have already pointed out, to a large measure, this explains the inefficiency in public expenditure in the state.

It is against this backdrop that the study team has explored the potential of various tax and non-tax sources of revenue and put forwarded suggestions for additional resource mobilisation and expenditure rationalisation. We do admit that only through a societal consensus it is possible to implement them. The whole Kerala society will have to be freed from fiscal illusion by deepening people's understanding of public finances. This calls for a massive campaign and it is essentially a political project.

Notes

[1] *Economic Review 2012*, Kerala State Planning Board, p.229.

[2] Letter No.B1/23653/2013/DME dated 19/8/2013.

[3] "Staff shortage in police: Minister", *The Hindu* daily (Thiruvananthapuram edition), August 18, 2013, p.7

[4] It may be noted that recently Raghuram Rajan Committee to suggest ways to identify indicators of the relative backwardness of states has accepted per capita consumer expenditure estimates of National Sample Survey Organisation as one of the indicators for computing composite index of backwardness. See report, *The Hindu* (Thiruvananthapuram edition), September 27, 2013.

References

Sebastian, Jose (1989), Tax *Performance: A Case Study of Sales Tax in Kerala*, Ph.D thesis submitted to University of Kerala.

Appendix 7.4

Revenue impact of Goods and Services Tax (GST): A preliminary assessment

There is a general impression that Kerala will be benefitted substantially under the GST regime as the share of service sector in Gross State Domestic Product (GSDP) is higher than major Indian states. The underlying assumption is that under GST regime, the state will be able to bring under tax net the service sector which is at present outside the tax net. This note is a preliminary examination of the empirical basis of this impression. We begin with an inter-state comparison of the percentage share of service sector in GSDP presented table-1.

Table-1 GSDP and share of services in major states-2009-10

State	GSDP at current prices (₹ in crores)	GSDP of service sector at current prices (₹ in crores)	Service sector as a percentage of GSDP (%)	Per capita GSDP of service sector ₹
Andhra Pradesh	475267	241441	50.80(8)	28777.23(9)
Assam	92472	45950	49.69(10)	15215.23(14)
Bihar	168603	102863	61.01(2)	10670.44(18)
Chattisgarh	109823	38239	34.82(18)	15999.58(13)
Gujarat	429356	192750	44.89(15)	33118.56(5)
Haryana	216287	110466	51.07(7)	44186.4(2)
Jharkhand	106358	39883	37.50(17)	12865.48(16)
Karnataka	335747	181401	54.03(6)	30850.51(7)
Kerala	**230316**	**141643**	**61.50(1)**	**41055.94(4)**
Madhya Pradesh	216958	100025	46.10(13)	14068.21(15)
Maharashtra	901330	530793	58.89(4)	47776.15(1)
Orissa	162327	74290	45.77(14)	18388.61(12)
Punjab	199459	83979	42.10(16)	30649.27(8)
Rajasthan	255440	125794	49.25(11)	18831.44(11)
Tamil Nadu	464009	282153	60.81(3)	421112.39(3)
Uttar Pradesh	519899	244695	47.07(12)	12402.18(17)
Uttarkhand	62214	31370	50.42(9)	32010.20(6)
West Bengal	400561	231688	57.84(5)	26120.41(10)
Average			**50.20**	

Note: Figures in the parenthesis show the ranks
Source: Worked out from *National Income Statistics*, Centre for Monitoring Indian Economy, July 2011.

Table-1 shows that Kerala stands top among major Indian states in the contribution of service sector in GSDP. But in terms of per capita GSDP from service sector, Kerala stands only 4th.

It may be premature to arrive at any conclusion about the potential of GST on the basis of table-1. From the revenue point of view, what matters is the presence of taxable services and the size of the service providers. Between two states with equal share of service sector in GSDP, the state with higher proportion of taxable services will have a higher potential for mobilising resources from the service sector. Similarly, the size of the service providers is another determinant. Where the service providers are small in size, the likelihood of them being within the threshold limit is higher. The Task Force on GST has recommended a threshold of ₹ 10 lakhs. It is not the total number of service providers but the number of service providers above the threshold limit that is going to determine the potential for resource mobilisation.

Already 119 services have been brought under Central service tax. What is the share of these services in Kerala's service sector ? We do not have disaggregated data on this. However, comparable data on the sectoral composition of service sector GSDP is available for major states and this can be taken as an indicator of the service tax potential of the state. They are 'Trade, Hotels and Restaurants' (sub-sector-1), 'Transport, Storage and Communication' (sub-sector-2), 'Finance, Insurance, Real Estate and Business Services' (sub-sector-3) and 'Community Services and Personal Services' (sub-sector-4). Of the 119 services already under tax net, sub-sector 2 and 3 account for most of the taxable services. State-wise percentage shares of these sub-sectors are presented in table-2.

Table-2 Percentage shares of sub-sectors in the service sector of states-2009-10

(In per cent)

States	Trade, hotels and restaurants (%) (sub-sector-1)	Transport, storage and communication (%) (sub-sector-2)	Finance, insurance, real estate and business services (%) (sub-sector-3)	Community services and personal services (%) (sub-sector-4)
Andhra Pradesh	27.48(12)	14.91(7)	33.43(4)	24.17(12)
Assam	27.51(11)	14.39(8)	12.66(17)	45.44(1)
Bihar	50.57(1)	8.29(17)	13.96(16)	27.18(11)
Chattisgarh	25.30(17)	14.17(9)	24.25(12)	36.28(2)
Gujarat	42.78(2)	14.17(9)	24.25(12)	36.28(2)
Haryana	37.04(4)	17.44(4)	20.01(5)	16.50(18)
Jharkhand	33.64(6)	19.28(2)	18.19(13)	28.88(10)
Karnataka	25.77(15)	12.06(15)	40.80(2)	21.37(15)
Kerala	**34.37(5)**	**15.29(5)**	**27.74(7)**	**22.59(13)**
Madhya Pradesh	28.54(9)	12.36(13)	27.22(8)	31.88(8)
Maharashtra	26.91(13)	12.34(14)	40.96(1)	19.79(16)
Orissa	26.75(14)	21.05(1)	17.76(14)	34.44(3)
Punjab	29.47(7)	13.66(11)	24.57(11)	32.29(6)
Rajasthan	27.88(10)	11.44(16)	27.76(6)	32.91(5)
Tamil Nadu	29.20(8)	13.88(10)	35.44(3)	21.47(14)
Uttar Pradesh	25.74(16)	17.56(3)	24.57(11)	32.13(7)
Uttarkhand	38.75(3)	13.41(12)	16.95(15)	30.89(9)
West Bengal	25(18)	15.16(6)	26.74(9)	33.10(4)
Average	**31.26**	**14.49**	**25.96**	**28.28**

Note: Figures in the parenthesis show the ranks.
Source: Same as table-1.

Table-2 shows that in the case of Kerala, sub-sector 2 and 3 together contribute only 43. 03% of the total. In the case of Maharashtra, it is as high as 53.3%.

Percentage shares however reflect the orientation of the economies of the state only. From the revenue point of view, the size of the sectors is more important. Sub-sector-wise per capita GSDP gives a better insight into the capacity of states to mobilise more resources. This is presented in table-3.

Table-3 Per capita GSDP of sub-sectors-2009-10

(₹)

States	Trade, hotels and restaurants (sub-sector-1)	Transport, storage and communication (sub-sector-2)	Finance, insurance, real estate and business services (sub-sector-3)	Sub-sectors (2+3)	Community services and personal services (sub-sector-4)
Andhra Pradesh	7909.30(9)	4289.99(7)	9621.22(6)	13911.20(6)	6956.73(8)
Assam	4186.09(15)	2189.40(14)	1925.83(17)	4115.23(17)	6913.91(9)
Bihar	5395.54(11)	884.44(18)	1489.73(18)	2374.17(18)	2900.73(18)
Chattisgarh	4047.28(16)	2266.95(13)	3879.92(12)	6146.86(13)	5805.44(14)
Gujarat	14167.53((2)	4691.41(5)	8389.18(7)	13080.58(7)	5870.27(13)
Haryana	16367.60(1)	7707.60(1)	12819.20(3)	20526.80(3)	7291.60(7)
Jharkhand	4328.39(14)	2480.97(12)	2340.00(16)	4820.97(16)	3716.13(17)
Karnataka	7951.02(8)	3721.60(11)	12586.22(4)	16307.82(5)	6591.84(10)
Kerala	**14111.59(3)**	**6278.26(2)**	**11390.72(5)**	**17668.99(4)**	**9275.36(4)**
Madhya Pradesh	4015.61(17)	1738.40(17)	3828.83(13)	5567.23(14)	4485.37(15)
Maharashtra	12854.28(4)	5897.84(3)	19569.31(1)	25467.15(1)	9454.73(3)
Orissa	4918.56(13)	3871.04(10)	3265.84(14)	7136.88(12)	6333.17(11)
Punjab	9031.75(7)	4187.96(8)	7531.75(8)	11719.71(8)	9897.45(1)
Rajasthan	5250.60(12)	2155.09(16)	5227.69(11)	7382.78(11)	6198.05(12)
Tamil Nadu	12298.51(6)	5847.16(4)	14923.58(2)	20770.75(2)	9043.13(5)
Uttar Pradesh	3192.60(18)	2177.90(15)	3047.44(15)	5225.34(15)	3984.29(16)
Uttarkhand	12405.10(5)	4291.84(6)	5426.53(10)	9718.37(10)	9887.76(2)
West Bengal	6531.34(10)	33959.41(9)	6984.10(9)	10943.52(9)	8645.43(6)

Note: Figures in the parenthesis shows the ranks.
Source: Same as table-1

Table -3 shows that in terms of per capita SDP from sub-sector 2 and 3, Kerala's position is only 4th among major states.

Though the share of services in Kerala's GSDP is one of the highest among major states, in terms of the potential for service tax, Kerala is below states like Maharashtra, Tamil Nadu and Haryana.

How much service tax Kerala is collecting now ?

The data on state-wise collection of service tax and percentage share of manufacturing in GSDP, further strengthen this evidence as can be seen from table-4.

Table-4 State-wise service tax collection and share in GSDP from manufacturing-2009-10

States	Service tax collection (₹crores)	Percentage to total	Rank	Percentage share of GSDP from manufacturing	Rank
Andhra Pradesh	2853.37	5.35	6	10.50	9
Delhi	9895.07	18.57	2	5.57	12
Gujarat	2938.55	5.51	5	26.40	1
Karnataka	3779.49	7.09	4	17.95	4
Kerala	**907.12**	**1.70**	**10**	**9.33**	**11**
Madhya Pradesh	1046.25	1.96	9	12.34	8
Maharashtra	21665.73	40.66	1	21.42	2
Orissa	784.5	1.47	12	15.97	5
Rajasthan	817.14	1.53	11	12.68	7
Tamil Nadu	4100.97	7.70	3	18.65	3
Uttar Pradesh	1787.35	3.35	8	13.03	6
West Bengal	2712.79	5.09	7	9.44	10
Total	**53288.33**	**100.00**			
Large Taxpayer Units(LTU)	3202.84				
Others	1636.30				
Grand total	**58127.47**				

Note: (1) State-wise collection has been worked out assuming that the total collection from zones within a state belongs to the state in which the zones are located. Discussions with the officials of the Central Excise and Service Tax revealed that this assumption may not be correct in the case of some states but may not substantially alter the overall picture.

(2) Large Tax Payer Units (LTU) are tax payers who have presence in different states. They usually make their remittances in the state where their head office is located. Since the state-wise share of LTUs and the states included under 'others' are not known, we have excluded both in working out state-wise percentage shares.

Source: **1.**Service tax collection figures are taken from the website of the Central Excise and Service Tax Department; **2.** Share of manufacturing has been worked out using National Income Statistics, Centre for Monitoring Indian Economy, July 2011.

Table-4 shows that Kerala accounts for only 1.70% of total service tax collection and among 12 major states, Kerala's rank is 10. Only Orissa and Rajasthan are below Kerala. Though there are notable exceptions, by and large states having higher share in manufacturing in GSDP have higher share in service tax. This could be due to the fact that manufacturers demand more services from service providers like legal, financial, insurance and similar services than economic agents in primary and tertiary sectors. Table-4 also indicates the states which are going to benefit in the GST scenario, despite the fact that the manner in which GST will be levied and collected is likely to alter this picture in a substantial way.

Maharashtra and Delhi together account for 59.23% of service tax. Maharashtra, Delhi, Tamil Nadu and Karnataka together account for 74.02% of service tax collections. Gujarat, Andhra Pradesh and West Bengal also make relatively high contribution to service tax. Generally, the states which have large metropolitan cities and having higher share in manufacturing have an edge over others in service tax.

Assessees under service tax

The number of assessees under service tax is another indicator of the potential of service tax. State-wise picture about assessees under service tax is presented in table-5.

Table-5 State-wise number of assesses under service tax-2009-10

States	No. of assesses	Percentage to the total no. of assesses	Rank	Service tax collection per assesse (₹ lakhs)	Rank
Andhra Pradesh	76957	0.30	7	3.71	7
Delhi	156811	2.85	2	6.31	2
Gujarat	104229	0.54	4	2.82	9
Karnataka	101125	8.28	5	3.74	6
Kerala	**24158**	**1.98**	**11**	**3.75**	**5**
Madhya Pradesh	53346	4.37	10	1.96	10
Maharashtra	328633	26.92	1	6.59	1
Orissa	18986	0.56	12	4.13	4
Rajasthan	56370	4.62	9	1.45	12
Tamil Nadu	134761	11.04	3	3.04	8
Uttar Pradesh	100328	8.22	6	1.78	11
West Bengal	64996	0.32	8	4.17	3
Total	1220700				
Large Taxpayer Units(LTU)	516				
Others	86070				
Grand Total	1307286				

Note: (1) State-wise collection has been worked out assuming that the total collection from zones within a state belongs to the state in which the zones are located. Discussions with the officials of the Central Excise and Service Tax revealed that this assumption may not be correct in the case of some states but may not substantially alter the overall picture.

(2) Large Tax Payer Units (LTU) are tax payers who have presence in different states. They usually make their remittances in the state where their head office is located. Since the state-wise share of LTUs and the states included under 'others' are not known, we have excluded both in working out service tax per assessee.

Source: Same as table-4

Table 5 shows that Kerala accounts for 1.98% of the total service tax assesses in the country. But in terms of collection per assesses, Kerala's rank is 5.

Explanations for the low potential for revenue from services

As we have seen, despite the high share of services in Kerala's GSDP, the state is below most of the major states in service tax collection. At present most of the important services are within the service tax net. In the GST scenario, a few more services may be added to the list but this is unlikely to alter the findings we have arrived at. Our discussions with the officials of the Central Excise and Service Tax Department have revealed that lion's share of the revenue is accounted by public sector enterprises like BSNL and State Bank of Travancore. The PSUs do not have any reason to evade tax. This would suggest that in the GST scenario additional revenue from taxation of services will have to come from private service providers.

As already noted, the potential for service taxation also depends upon the size of the service providers. It is here that Kerala's weakness lies. Kerala is a rural- urban continuum. One would find service providers of the following type almost in every small town of Kerala.

1. Courier agencies
2. Travel agents
3. Tour operators
4. Man power recruiting agencies
5. Pandal shamiana contractors
6. Real estate agents/consultants
7. Cable operators
8. Beauty parlors
9. Dry cleaning services
10. Internet café
11. Outdoor caterers services
12. Cleaning services

All these services are taxable as per Central service tax. Assume that in the GST scenario, Kerala will be able to tax these services. How many service providers of these services will come above the proposed threshold limit of ₹10 lakhs ?[1]

The size of service providers even in the case of above type of services is big in metropolitan cities. In the case of Kerala, the state as a whole is urban, but the size of most of the service providers in small towns is likely to be below the threshold.

Is GST scenario going to alter this picture in a substantial way ?

It may be argued that the service tax scenario and GST scenario are fundamentally different. As of now there is lack of clarity about the rate of GST and the manner in which GST will be levied. Going by the GST paper brought out by the Union Finance Ministry, both Centre and states will be levying GST on the same base. If Kerala will be able to levy and collect GST on telecommunication, banking and insurance services consumed by Keralites, it would appear that Kerala would benefit as the contribution of these sectors to the economy is fairly high. But a lot depends on the manner in which it is levied. While GST may increase Kerala's tax revenue by a few hundred crores, going by the available evidences, it is unlikely that it is going to be a panacea for Kerala's fiscal woes.

Notes

[1] There is an unconfirmed report that the Empowered Committee of State Finance Ministers has proposed a threshold limit of ₹25 lakhs.

Chapter VIII

Fiscal Consolidation: The Options and Sources for Kerala

The analysis and discussions in the foregoing chapters have clearly shown that Kerala is left with no option other than mobilising more public resources. Though the scope for across the board cut in expenditure is limited, there are a few areas where there is scope for rationalising expenditure without causing significant welfare loss. This chapter enquires into the options and sources on both these fronts. The chapter is divided into two sections. In the first section we have tried to identify the potential for additional resource mobilisation from major tax and non-tax sources and also through effective utilisation of the assets with the government. In the second section, we have identified a few areas for expenditure rationalisation. We have put forwarded a set of suggestions on both.

Section I

Tax revenue sources

1. Sales tax and value added tax

Sales tax and value added tax (VAT) together contribute almost 70% of own tax revenue of the state. The effort put in by the state to tap the potential of these two taxes is the determining factor in the overall fiscal performance of the state. As already pointed out, GSDP may not adequately capture the real potential of commodity taxes as the level of consumption in the state is hugely dependent on remittances. As we have already seen, Kerala is top among major Indian states in household consumer expenditure. With the introduction of VAT and set off provision on the tax paid on inputs and capital goods, it is more logical to relate the performance of commodity taxes to consumer expenditure than to GSDP. In table 8.1 we have presented a crude estimate of the relative commodity tax effort of major Indian states for the year 2009-10 based on the consumer expenditure data of National Sample Survey Organisation.

Table 8.1 Consumer expenditure and tax-consumption ratio of major states- 2009-10

States	Per capita consumer expenditure (₹)	Rank	Per capita VAT and sales tax* (₹)	Rank	Tax-consumption ratio in % (col.4/ col.2)	Rank
1	2	3	4	5	6	7
Andhra Pradesh	19101.1	5	2630.2	5	13.77	6
Assam	13493.8	12	1034.0	14	7.66	13
Bihar	10120.7	17	251.6	17	2.49	17
Chattisgarh	11975.8	15	1188.7	11	9.93	11
Gujarat	17643.0	7	2591.3	7	14.69	2
Haryana	21805.9	3	3126.9	2	14.34	4
Jharkhand	12259.1	14	1251.5	10	10.21	10
Karnataka	17261.7	8	2437.9	8	14.12	5
Kerala	**25680.7**	**1**	**3735.0**	**1**	**14.54**	**3**
Madhya Pradesh	13549.1	11	985.4	15	7.27	15
Maharashtra	21091.3	4	2684.2	4	12.73	7
Orissa	11439.3	16	1173.0	12	10.25	9
Punjab	22159.5	2	2622.5	6	11.83	8
Rajasthan	15814.1	9	1411.30	9	8.92	12
Tamil Nadu	18754.2	6	2910.7	3	15.52	1
Uttar Pradesh	12768.3	13	973.3	16	7.62	14
West Bengal	15514.9	10	1056.7	13	6.81	16

* VAT and sales tax include all components sales tax except Central sales tax.
Source: Worked out based on the data from National Sample Survey Organisation report *Household Consumption of various Goods and Services in India*, NSS 66th Round, NSS Report No. 541(66/1.0/3) and 'State finances: A study of budgets 2011-12', Reserve Bank of India.

Table 8.1 shows that Kerala is top among major states both in per capita consumer expenditure and per capita sales tax and VAT. But when commodity tax revenue is expressed as a percentage of consumer expenditure, Kerala's rank is only third. It may be noted that Tamil Nadu which is much below Kerala in per capita consumer expenditure occupies the first position. The tax- consumption ratios of Andhra Pradesh and Karnataka are also not very far from that of Kerala. Even Gujarat which does not realise any revenue from liquor is able to have a higher tax-consumption ratio than Kerala.

Sales tax and VAT potential: Insights from commodity-wise revenue data

From the policy point of view, macro estimation of tax potential does not serve much of a purpose. A policy maker is more likely to be interested in the commodities susceptible to tax leakage and the extent of leakage. This however is not an easy task. In order to estimate the potential of sales tax/VAT commodity by commodity, disaggregated data on production and/or consumption are required. Due to paucity of time and resources, the study team could not undertake such studies. Instead, we have tried to identify the broad areas where there is considerable potential for additional resource mobilisation by analysing the commodity-wise revenue data brought out by the Commercial Taxes Department.

The erstwhile Sales Tax Department of Kerala had the practice of publishing detailed commodity-wise revenue data for state sales tax and Central sales tax covering some 120 to 150 commodities till 1980-81. This practice was discontinued since then. From 1985-86 to 1988-89, data of 26 commodities are made available by the Department. From 1991-92, the Department has commodity-wise data for 30 to 36 commodities. These data, it should be pointed out, suffer from serious limitations arising from the manner in which they are maintained. No uniform method of classification of commodities is followed throughout and no distinction is made between state sales tax and Central sales tax. It is indeed possible that collection includes arrears of past years. In the case of commercial crops like rubber and arecanut, the revenue data may include collection from agricultural income tax (AIT) also as the Commercial Taxes Department is administering it. In the case of 26 commodities only, data are available for all years. The unclassified commodities grouped under 'others' contribute more than quarter of the total revenue. Despite these limitations, some broad inferences can be drawn from these data.

Considering the limitations of the data, year to year percentage share of each commodity in total revenue may not make much sense. What we have done in table 8.2 is to work out the average percentage share for four periods. The percentage shares of these commodities for 1980-81 are also given for purposes of comparison.

Table 8.2 Commodity composition of sales tax and VAT

No.	Commodity	Percentage Share in 1980-81	Average share (Per cent)			
			1991-92 to 1995-96	1996-97 to 2000-01	2001-02 to 2005-06	2006-07 to 2011-12
1	Aluminium	0.28	0.23	0.21	0.15	0.14
2	Arecanut	1.09	0.55	0.38	0.18	0.14
3	Bakery products	0.22	0.15	0.14	0.12	0.08
4	Biscuits	0.02	0.25	0.22	0.29	0.28
5	Cardamom	0.47	0.17	0.23	0.13	0.12
6	Cashew	1.15	2.91	0.38	0.18	0.17
7	Cattle feed	0.04	0.55	0.44	0.24	0.01
8	Cement	1.49	3.79	3.93	3.46	3.68
9	Chemicals	0.05	1.79	1.67	0.73	0.38
10	Cooked food	0.00	0.33	0.29	0.23	0.31
11	Electrical goods	2.34	1.36	1.41	0.96	0.86
12	Electronic goods	0.04	1.43	2.35	1.54	0.47
13	**Indian made foreign liquor (IMFL)**	**3.41**	**7.66**	**16.75**	**19.98**	**22.53**
14	Iron and steel	0.96	0.82	0.75	0.81	1.20
15	Jewellery	0.34	0.65	0.69	0.66	1.73
16	Machinery	0.05	0.22	0.35	0.34	0.11
17	medicines	2.74	2.10	1.83	1.60	1.29
18	**Motor vehicles**	**2.79**	**3.73**	**4.09**	**6.18**	**8.43**
19	**Petroleum products**	**6.14**	**26.39**	**28.59**	**28.39**	**23.77**
20	Paint	0.45	1.12	0.98	0.96	1.04
21	Readymade garments	0.09	0.54	0.84	0.51	0.40
22	Rice	0.00	4.77	3.25	1.35	0.32
23	Rubber	0.99	4.00	2.96	2.76	2.07
24	Soap	0.72	0.53	0.77	0.55	0.40
25	Tea	4.06	1.45	0.71	0.34	0.16
26	Tyres and tube	5.15	1.21	1.83	0.96	0.45
27	**Others**	**66.34**	**31.31**	**23.94**	**26.41**	**29.47**

Source: Commercial Taxes Department, Government of Kerala.

Table 8.2 shows that the share of three commodities- IMFL, motor vehicles and petroleum products is consistently increasing over the years. In 1980-81 these three commodities contributed only 12.34%. The share of other commodities including the unclassified items was 87.66%. The percentage share of these three commodities increased to 37.78%, 49.43%, 54.55% and 54.73% respectively in the first, second, third and fourth period. The percentage share of 'other commodities' has drastically come down over the years.

A closer look will show that these three are less evasion prone commodities. The need to get vehicles registered ensures that sales tax/VAT on motor vehicles is paid. As pointed out earlier, IMFL and petroleum products are dealt by Kerala Beverages Corporation and oil companies respectively. Both are public sector enterprises and therefore are less likely to evade/avoid tax. Sharp increase in the percentage share of IMFL is also due to arrack ban in 1996 and the increase in the rate of tax in stages from 50% in the 1970's to 105% with effect from 1-04-2013.

Assuming that the level of tax evasion if any, in the case of these three items remains the same throughout, the observed sharp increase in the relative share of these commodities or the steep fall in the case of 'other commodities' points towards the fact that tax leakage in the case of the latter has increased over the years. The observed sharp increase in the relative share of these commodities cannot entirely be attributed to the increase in their consumption or rate increase but to the relatively slower rate of growth of revenue in the case of 'other commodities'. Considering the fact that Kerala is top in household consumption in general and non-food items in particular, the observed fall in the relative share of 'other commodities' could not have happened without large scale leakage in revenue.

Though the above evidences point towards tax leakage of a high order, it may be incorrect to classify it as tax evasion. The fact is that in the case of several commodities, new avenues of tax avoidance have opened up in recent years. There are a host of factors that make it difficult for Kerala to bring under the tax net the consumption taking place within the state. In the case of life style goods, electronic commerce has emerged as a major challenge for the state. High literacy and connectivity even in the remote villages are factors that facilitate electronic commerce. Of late, an array of modern household gadgets are delivered at doorsteps through electronic commerce.

The geographical specificities of Kerala also make tax evasion and avoidance easier. Kerala being an industrially backward state, almost all modern consumer goods are imported into the state by road, rail and sea. There are 188 railway stations within the state and it is almost impossible to monitor the flow of goods through them. Mahe, a Centrally administered enclave within the state is working almost like a tax haven. While all-out measures should be taken to prevent tax evasion and avoidance, the fact should be admitted that the state should shed its extreme dependence on commodity taxes and that too on a few less evasion prone commodities. There is thus an urgent need to tap the potential of other sources of tax and non-tax revenue.

Suggestions

Following are our suggestions for tapping the potential of commodity taxes.

a. Increasing the probability of detection and penalty rate

Theoretically, two factors that determine tax evasion are probability of detection and penalty rate. Other things remaining the same, tax evasion will be high if either of them is very low. It is generally held that an optimum combination of probability of detection and penalty rate can reduce tax evasion.

An efficient information system is the single most important determinant of probability of detection. The realisation that the administrators are equipped with facts and figures relating to his/her business transactions makes a tax payer to comply voluntarily. Kerala has made rapid strides in computerisation of Commercial Taxes Department. But to what extent the voluminous data generated at various levels are utilised for detecting tax leakage is doubtful. One reason is that the sales tax/VAT legislation is extremely complicated. There are over 100 different Forms under the VAT Act of Kerala and these contain information about the business transactions of tax payers. Though the major check-posts are computerised, they are not fully integrated with the offices of Commercial Taxes Department. In order to take full advantage of computerisation, the voluminous data flowing from various sources should be analysed comprehensively. We feel that the officers should be given thorough ongoing training to identify and use key data that are crucial from the point of view of tax administration.

There is an impression that in a computerised environment of tax administration, conventional methods of detecting tax leakage like shop inspection, search, seizure etc. have become less important. We have been told that of late, these methods are sparingly resorted to. Part of the reason is that the trading community in Kerala is highly organised and there is stiff resistance against these methods.

It is a fact that in the context of a fully integrated and technology driven tax administration these methods are archaic. But in the context of Kerala and for that matter most Indian states, this is not the case. There is thus a strong case for resorting to these methods albeit on a selective basis. In fact, the availability of firm data and evidences from check-posts and e-returns should immensely facilitate this process.

Though the Acts and Rules of sales tax and VAT have provided for stringent punishment for tax evasion like jail term, there has not been any case of a tax evader going to jail. Penalty is the main mode of punishment. As Appendix 8.1 shows, the penalty rates are not high enough to have a deterrent effect as they are not revised periodically.

There is a strong case for raising the penalty rate taking into account the inflationary price rise over the years. A few tax evaders should be given exemplary punishment so as to send a strong message to others.

b. Inculcating a culture of paying tax

From the point of view of success of a tax system in the long run, tax consciousness should be inculcated in the society. Collecting bills/receipts with evidence of having paid tax is the first step in this direction. There is need to inculcate such a culture in Kerala society. This will force the traders to collect tax against sales and account it.

In 2006-07, the then Finance Minister, Dr. T.M Thomas Isaac introduced 'Lucky VAT', a variant of the lottery method prevalent in some of the Latin American countries to incentivise consumers to collect bills/invoice from traders (Budget speech 2006-07, p.68). This was based on a feasibility study undertaken by Centre for Taxation Studies (presently Gulati Institute of Finance and Taxation). This experiment however was dropped due to faulty implementation.

Mobile phone technology and its wide penetration all over the state have now offered an opportunity to revive this experiment in a cost effective and efficient manner. A scheme of lottery can be announced wherein the consumers will be required to SMS the Tax Information Number (TIN), bill/invoice number and the amount of purchase to the Commercial Tax Department. The Department, using a web-enabled programme can instantaneously announce prizes which can be either cash or e-coupons for additional purchases.

This method while helping to inculcate tax consciousness in the society will go a long way towards enhancing the probability of detection.

c. Promoting a culture of voluntary tax compliance

Voluntary tax compliance is considered to be the heart of VAT. However, little is done to promote voluntary tax compliance. The image of tax administration as positive, compassionate and helpful can considerably enhance the morale of honest tax payers. There should be some mechanism of making things easier for tax payers who have a track record of crime free tax compliance like green channel entry through check-posts.

The facilities provided to tax payers who visit Commercial Tax Offices in the state are appalling. Many offices do not have adequate seating arrangements let alone furnished reception rooms. Toilet and drinking water facility with a committed officer for tax payer services can go a long way towards increased voluntary compliance.

d. Simplifying the laws and procedure

VAT is supposed to be a simple tax to administer and comply with. It is a system in which tax administrators are vested with minimum of discretionary powers. However, when VAT was implemented in India, most of the cumbersome procedures and formalities of the erstwhile Sales Tax Act were retained. These provisions vest considerable discretionary powers with the officers. They require a tax payer to provide so much information and keep several books of accounts for years together (Sebastian, 2011). While this has increased the compliance cost of honest tax payers, it has opened up umpteen avenues for tax evaders. It is not known whether the high compliance cost is a major factor behind high level of tax leakage.

There is an urgent need to simplify the Act and Rules considering the easy availability of information from e-returns and other electronically filed forms and declarations.

e. Fiscal counselling

Fiscal counselling, a concept developed by GIFT is a tool to send the message to the trader in a non-confrontational way that the Commercial Tax Department is closely monitoring the details of his/her transactions and is in possession of facts and figures (Appendix 8.2 given at the end of this chapter). GIFT has proposed a training programme for the officers and this will equip the officers to engage the trader and convince him/her about his/her fiscal responsibilities. The concept seems to be particularly relevant in the context of VAT as retail traders try to avoid the tax net claiming that their turnover is below the threshold limit.

f. Replacing check-posts with on the road random checking

As pointed out earlier, vast majority of consumer goods are imported into the state through road, rail and sea. The state has been trying to monitor the flow of commodities through 43 border check-posts and 37 internal check-posts. There are 188 railway stations within the state. All these make monitoring commodity flow an extremely difficult task. Willful tax evaders find so many ways to enter the state.

While the role of check-posts in preventing tax evasion is yet to be established, it is widely accepted that they have turned into havens of corruption and harassment. So long as the check-posts and Commercial Taxes Offices are not integrated through online communication, the declarations furnished at the check-posts do not serve any useful purpose. Walayar, a major check-post on the Tamil Nadu- Kerala border through which 75% of goods enter into the state has become a point of huge traffic congestion. It has been alleged that "congestion at Walayar had seen lorries idling at the check-post sometimes for 24 hours costing time and money and upsetting delivery schedule".[1]

Application of Information and Communication Technology in tax administration has rendered check-posts almost obsolete. States like Rajasthan have altogether done away with check-posts. West Bengal is also in the process of abolishing check-posts.[2] One possible reason for the high degree of tax leakage in Kerala could be the high overall compliance cost which includes the transaction cost at the check-posts.

For these reasons, Kerala should consider doing away with check-posts and introducing random checking of vehicles on their way to destination within the state. The present rate of penalty should be raised so as to serve a deterrent effect.

g. Commodity-based organisation of commercial taxes administration

The Commercial Taxes Department is at present organised district-wise and circle-wise. Our discussion with the officials of the Commercial Taxes Department revealed that almost 80% of revenue is contributed by a handful of dealers. They are the importers of commodities into the state. It is better to organise the Commercial Taxes Department commodity-wise. Accordingly, all the officers handling the files of dealers of a particular commodity across the state may be treated as a unit which should be placed under the administrative control of a senior official. There should be constant interaction and exchange of information between the officers under the unit. The trends in sales turnover and various forms of evasion/avoidance noticed by individual officers should be shared between members of the unit. Special E-platforms can be created for this purpose. This will help better monitoring of the trends in business of a particular commodity and may go a long way towards checking tax leakage.

h. Commodity-wise and dealer-wise revenue data

One major factor behind the large scale leakage of revenue is the failure of the Commercial Taxes Department to maintain commodity-wise and dealer-wise revenue data. It may be noted that till 1980-81, the Department has been bringing out detailed commodity-wise data covering some 125 commodities. Data were separately available for general sales tax and Central sales tax. This practice was subsequently discontinued for some reasons. With the introduction of VAT, the tax payers are not furnishing commodity-wise details. We have been told that this is due to certain inadequacies of the software of the Commercial Taxes Department. The Commercial Taxes Department is paying dearly for this as it has become almost impossible to identify the commodities susceptible to tax leakage. This has turned out to be a major lacuna for the Intelligence and Investigation Wing of the Commercial Taxes Department. The advantages of Information and Communication Technology in tax administration are virtually nullified in the process. This has also prevented institutions like GIFT from undertaking detailed commodity studies. There is an urgent need to rectify this failure.

2. State excise

Kerala has the dubious distinction of being the state with the second highest expenditure on liquor in the country as table 8.3 shows.

Table 8.3 Per capita consumption of liquor in major states-2009-10

State	Toddy		Arrack		Beer		IMFL		Liquor total	
	Quantity in ltrs.	Value (₹)	Quantity in ltrs.	Value (₹)	Quantity in ltrs.	Value (₹)	Quantity in ltrs.	Value (₹)	Quantity in ltrs.	Value (₹)
A.P	3.67	44.16	0.74	58.76	0.32	30.89	0.66	230.87	5.40	364.68
Assam	0.05	1.03	4.38	100.00	0.05	3.06	0.11	22.16	4.59	126.25
Bihar	2.15	19.76	0.44	23.64	0.44	2.49	0.33	4.74	2.66	50.64
Chhattisgarh	0.11	5.60	1.98	172.06	0.03	3.36	0.06	12.71	2.18	193.73
Gujarat	0.08	2.50	0.29	10.15	0.01	0.90	0.01	1.84	0.39	15.39
Haryana	0.00	0.00	1.41	120.65	0.33	12.80	0.26	70.56	2.00	204.01
Jharkhand	1.17	21.45	3.01	87.67	0.08	13.05	0.07	21.27	4.33	143.44
Karnataka	0.06	0.86	0.35	39.95	0.13	14.69	0.29	82.08	0.82	137.58
Kerala	**1.19**	**48.69**	**0.36**	**29.02**	**0.13**	**10.81**	**0.75**	**266.92**	**2.43**	**355.43**
M.P	0.10	5.64	1.82	130.19	0.05	5.36	0.07	18.21	2.03	159.40
Maharashtra	0.10	1.40	0.72	64.30	0.11	11.68	0.08	37.96	1.00	115.34
Odisha	0.10	2.86	1.79	44.53	0.32	4.38	0.06	11.36	2.28	63.13
Punjab	0.00	0.00	1.74	191.65	0.04	3.12	0.34	87.09	2.12	281.86
Rajasthan	0.05	2.10	0.77	71.49	0.15	11.61	0.15	29.70	1.11	114.90
Tamil Nadu	0.08	4.89	0.18	21.68	0.16	17.06	0.40	131.51	0.82	175.15
U.P	0.08	2.86	0.29	29.70	0.01	1.57	0.03	6.32	0.40	40.44
West Bengal	0.26	5.52	0.98	41.64	0.02	1.24	0.05	14.78	1.30	63.18

Source: Worked out using the data from National Sample Survey Organisation report *Household Consumption of various Goods and Services in India*, NSS 66th Round, NSS Report No. 541(66/1.0/3).

The state has been trying to discourage liquor consumption by banning arrack and levying perhaps the highest rate of 105% tax on Indian made foreign liquor (IMFL). This has turned out to be a blessing in disguise as liquor is the second biggest contributor to the state exchequer. As we have pointed out earlier, this has serious equity implications as the tax burden on the lower income sections can be much higher.

The high taxation of foreign liquor coupled with arrack ban has resulted in arrack being brought into the state through illegal channels as table 8.3 clearly indicates. Arrack contributed ₹ 16.38 crores of revenue in 1988-89. There is also a strong case for offering beer and wine as alternatives to hard liquor. With low alcoholic content, these drinks should be promoted by levying lower rate of tax.

In the case of IMFL, there is large scale tax evasion through Mahe, the Centrally administered small enclave within Kerala. Mahe has turned out to be a tax haven as far as Kerala is concerned. The rate of tax on IMFL in Mahe is kept low presumably to attract consumers from Kerala. This is causing revenue loss in two ways. Keralites visit Mahe in large numbers to consume liquor. Liquor supposed to be moving to Mahe as per records is unloaded in Kerala.

Suggestions

1. Evidences suggest that arrack ban has not served the intended purpose. By lifting arrack ban, government can regulate the trade in arrack and mobilise substantial additional revenue also. Arrack was taxed at 62.5% prior to its ban.
2. Rate of tax on beer and wine may be reduced to 40% from the present rate of 60%.

3. Agricultural income tax

The contribution of agricultural income tax (AIT) to the total own tax revenue of Kerala decreased from 3.36% in 1980-81 to 0.17% in 2011-12. The base of AIT suffered considerable erosion over the years due to wide exemptions as can be seen from Appendix 8.3.

A proviso has been added by the Kerala Finance Act, 2013 in the AIT Amendment Act 15 of 1991 which reads as follows:

> "Provided that no tax shall be charged on any person other than a company registered under the Companies Act, 1956 (Central Act of 1956) with effect from April, 2013."

With this amendment, individual tax payers are totally exempted from AIT. One reason behind this across the board exemption was the wide fluctuations in the prices of crops like rubber, coffee, tea and cardamom and consequent farmer suicides in the early years of the last decade. At present, only big companies pay AIT. The fact that not much attention is paid to raise revenue from this source is evident from the casual manner in which budget estimates of revenue from AIT are made (table 8 .4).

Table 8.4 Budget estimate and actual in the case of agricultural income tax – 2003-04 to 2011-12

(₹ crores)

Year	Budget estimate	Actual
2003-04	3.0	8.74
2004-05	4.43	4.93
2005-06	10.9	6.15
2006-07	6.24	9.63
2007-08	6.56	22.05
2008-09	7.39	11.97
2009-10	8.52	27.73
2010-11	12.00	46.97
2011-12	14.49	42.86

Source: *Budget in brief*, Government of Kerala, relevant issues.

Across the board exemption to individual tax payers has deprived the state the opportunity to mobilise resources from individual agricultural crops. While agricultural commodities like coffee, tea and cardamom were having a bad phase due to fall in prices, rubber prices were consistently rising since 2000. Between 2002-03 and 2011-12 rubber prices registered fivefold increase. Rubber production also responded to this price stimuli. The state had collected ` 9.16 crores as AIT from rubber in 1987-88 when the value of output was ₹387.86 crores. Taking this as a base, we have estimated the potential AIT from rubber for the years 2002-03 to 2011-12 in table 8.5.

Table 8.5 Estimated potential of agricultural income tax from rubber

Year	Price of rubber@ (₹/100 kg)	Production in tonnes	Value of rubber output (₹ crores)	Estimated potential AIT from rubber (₹ crores)	Total AIT collection from all crops (₹ crores)
2002-03	3919	594917	2331.48	49.05	6.40
2003-04	5040	655134	3301.88	69.47	8.74
2004-05	5570	590778	3290.63	69.23	4.93
2005-06	6699	739225	4952.07	104.18	6.15
2006-07	9204	780405	7182.85	151.12	9.63
2007-08	9085	753135	6842.23	143.95	11.97
2008-09	10112	782685	8697.20	182.98	22.05
2009-10	11498	745510	8571.87	180.34	27.73
2010-11	19003	770580	14643.33	308.07	46.97
2011-12	20805	788940	16413.90	345.32	42.86

@ Average market price of rubber (RSS-4) in Kottayam reported by Rubber Board, Kottayam.

Source: Worked out using data taken from *Economic review*, Kerala State Planning Board, and *State finances: A study of budgets* by Reserve Bank of India, various issues.

Table 8.5 shows that had the state avoided liberalising the exemptions, it would have been possible to mobilise ₹1600 crores during the ten year period. As data on AIT collection from rubber are not separately available, we could not compare estimated revenue to the actual collection.

Suggestion

While there is a valid case for exempting agricultural crops which are facing adverse price and production conditions, we feel that there is no rationale for across the board exemptions. Considering the acute fiscal crunch the state is undergoing, AIT should be levied on crops whose price and production conditions have resulted in substantial increase in the income of farmers. The failure to mobilise resources when prices rule high can be costly for the state as there will be clamor for price support and other incentives when prices fall. An independent agency may be formed to estimate scientifically the cost of cultivation and net income of farmers on a regular basis and recommend the modalities of AIT levy to the government.

4. Motor vehicle tax

Motor vehicle population has been growing at an alarming rate in the state as can be seen from table 8.6.

Table 8.6 Growth of motor vehicles in Kerala

(No.)

Type of motor vehicle	Year 1980-81	Year 2010-11	Annual average growth rate (%)
Goods vehicle	24682	411661	9.94
Stage carriers	9159	46594	5.73
Contract carriages and omni buses	1041	119150	18.58
Cars including taxis and jeeps	83832	1297968	10.13
Three wheelers	9682	511802	14.67
Two wheelers	59601	3611855	14.82
Others	6600	65989	11.00
Total	194597	6072019	12.31

Source: Worked out using data taken from *Economic Review*, Kerala State Planning Board, relevant issues.

Table 8.6 shows that the rate of growth varies between different types of motor vehicles. While stage carriers registered the lowest rate of growth, contract carriages and omni buses had the highest rate of growth. Private vehicles like two wheelers and three wheelers also registered appreciable rate of growth. Apparently, the slow rate of growth of stage carriages is the principal reason for the high rate of growth of private vehicles.

The need to register vehicles ensures that there is no substantial evasion and avoidance in motor vehicle tax. The main form of tax evasion/avoidance is through misinterpretation of the provisions in the Act. For example, leakage of tax in the case of luxury vehicles like caravans through misinterpretation of certain provisions in the Act was reported recently.[3]

From the policy point of view, growth of motor vehicle population in a densely populated state like Kerala needs to be discouraged. The social costs of environmental pollution and congestion justify this. It seems that as in the case of liquor, in the case of motor vehicles also, a tax policy aimed at discouraging the use of private vehicles will serve the twin objective of reducing the social costs and revenue mobilisation. Here the experiences of countries like Singapore have considerable learning value for Kerala.

An efficient public transport system is the main pillar of transport policy in Singapore. In Kerala, stage carriages registered the lowest rate of growth. The main reason behind this is the state policy that discourages private stage carriages. During the early 1960's, a total road length of 5090 kilometers were nationalised for the benefit of state public utility, Kerala State Road Transport Corporation (KSRTC). As the number of buses with KSRTC was woefully inadequate to cater to the growing transport needs of the people, temporary permits were issued to private transport operators in several nationalised routes. By G.O(P) No.20/2008/Trans. dated 6th May, government introduced severe restrictions on the private sector. To quote from the said government order:

> " …The regular and temporary permits issued in the private sector or prior to 9-5-2006 alone will be allowed to continue for the time being. Such permits will be renewed only if the STU is not willing to provide substitute bus in its vacancy. New permits will be issued in favour of State Transport Undertaking only. Permits issued after 9-5-2006 shall not be renewed at any circumstance" (p.2).

> "…Right to operate any new service and to increase number of trips in the above routes will be reserved exclusively for Kerala State Road Transport Corporation. KSRTC will be free to replace any existing private permit in the above route on its expiry on the basis of last come first go"(p.4).

According to Economic Review 2012 of Kerala State Planning Board, only 11% of passengers depend on KSRTC. It may noted that KSRTC is one of the biggest loss making PSUs in Kerala [4].

Suggestion

The feasible policy option in this context is to end the monopoly of KSRTC and to open up the transport sector for open competition. The fact that contract carriages and omni buses registered the highest annual average rate of growth during the last 30 years shows that the private sector is quite capable of catering to the public transport needs of the state. What stands in the way is the nationalisation of routes to perpetuate the inefficiencies of KSRTC. Private sector should be encouraged to operate modern stage carriages which use environment friendly fuel like compressed natural gas (CNG). Once an efficient public transport system is put in place, the state can pursue a policy of discouraging the growth of private vehicles. This can be done by raising the base motor vehicle tax. A punitive rate of tax can be levied on the second and third motor vehicle registered in the name of a person or in the same address. Parking fee in public places can also be raised substantially. This will serve the twin objective of reducing the social cost of pollution and congestion while augmenting the resources of the state.

5. Stamps and registration

Scarcity of land coupled with the inflow of remittances has pushed up land prices in Kerala by leaps and bounds. Land has become almost a tradable commodity and there is high degree of speculative transactions in land. But this is not reflected in the revenue from stamps and registration presumably due to the wide spread practice of undervaluation. Government of Kerala fixed fair value on land with effect from 01-04-2010. Vide G.O (P) No. 107/2006/RD, land is divided into 15 categories for the purposes of fixing fair value. It has been stated that fair value is fixed as 50% of market value. As per Section 6 of the Kerala Stamp (Fixation of Fair Value of Land) Rules 1995, the fair value will be revised once in 5 years.

It should be admitted that this is a major step towards arresting undervaluation. It has been a herculean task on the part of the government to fix fair value for 15 categories of land and make the same available in the official website of the Registration Department. However, on a perusal of fair values in various parts of Thiruvananthapuram city, the study team felt that fair value in several localities is much lower than the market value. The study team undertook an exercise to get a feel of the market value of land so that the fair value can be compared to the market value. The methodology of the exercise is given at the end of this chapter (Appendix 8.4). We found vast difference between fair value and the market value as table 8.7 shows.

Table 8.7 Fair value and market value of land in selected villages in Thiruvananthapuram city

(₹ in lakhs)

Village	Maximum Fair value per are	Maximum reported offer price per are
Menamkulam	1.80	8.65
Vengannur	3.75	11.12
Thiruvallom	2.34	12.38
Thirumala	5.00	11.12
Pangappara	4.50	17.29
Nemom	4.00	11.02
Manacaud	10.00	24.70
Kawdiar	15.00	44.46
Kazhakkuttom	5.00	13.83
Kalliyur	2.25	6.18
Airooppara	1.35	3.70
Vattiyurkavu	10.00	12.97
Ulloor	15.00	30.36
Thycaud	15.00	37.05
Sasthamangalam	15.60	32.11
Pettah	12.00	37.05
Peroorkada	10.00	12.35
Pattom	15.00	24.70
Vanchiyoor	15.00	37.05

Note: one are is 1087.24 square feet.

Source: For fair value, the official website of Registration Department. For offer price, see Appendix 8.4.

Table 8.7 shows that fair value is far below the market value in most places. In some places, it is just a quarter of the market value.

Suggestion

Subsequent to the implementation of fair value, stamp duty rates were reduced by 2%. Now the rates are 5% within panchayats, 6% within municipalities/townships/cantonments other than corporations and 7% within corporations. As we have seen, fair value fixed is very low and with reduced rates, revenue is bound to come down. It has been reported that revenue from stamps and registration has experienced 33% reduction in 2013-14 till October[5]. There is a strong case to revise the fair value with immediate effect. One problem in this context is the extreme difficulty in getting the actual market value of land. The Registration Department should maintain a close watch of the trends in land market. The 'offer prices' appearing in news paper advertisement is a source of information which if used judiciously can serve useful purpose. Similarly, there are circumstances that necessitate the purchasing party to reveal the actual price. Purchases for public purposes and private purchases with bank finance are cases in point. The Registration Department can make use of these sources to revise the fair value on a regular basis.

One of the reasons for undervaluation is that stamp duty is entirely borne by the purchaser of land. Considering the high land prices in Kerala, this becomes a heavy burden to the purchaser. Since the benefits of increase in land prices go entirely to the seller, there is a case for sharing the stamp duty between seller and buyer. Such a suggestion has been made by the association of document writers. This suggestion appears to be well founded but its legal implications will have to be studied in detail.

Non-tax revenue sources

We have seen that a major problem with the revenue structure of Kerala is the meagre contribution of non-tax revenue. This section presents our suggestions towards augmenting non-tax revenue.

1. Public sector enterprises

In chapter V we have seen that most of the public sector enterprises are running at a loss and a good many of them are remaining closed. Even in the case of profit making enterprises, the profit earned is a meagre sum when compared against the huge investments. In the particular socio-political context of Kerala, it may not be feasible to privatise all loss making public sector enterprises in one go. Such a proposal may not be acceptable to Kerala society. At the same time, it may not be possible to revive the public sector enterprises which are remaining closed for years together. Even in the case of profit making enterprises, there is need to pump in substantial capital for modernisation of plant and machinery. Under the present fiscal situation, government cannot afford this.

Profit making enterprises which can be further strengthened through infusion of fresh capital may be permitted equity participation by private sector. This will help them to be more competitive in the market. In the case of loss making and closed units, there is considerable scope for putting their assets to more productive use. A good many of these enterprises have prime properties worth crores of rupees. Government can give this land on long term lease to private builders on the condition that a certain portion of the building constructed by them should be made available free of cost for the use of government offices. Now government is spending huge amount for constructing own buildings for government offices which are functioning in rented premises.

Another option is leasing out the plant and machinery of closed down units to private players. This will save these assets from getting completely ruined over the years.

2. Raising the fee in education sector

A crude indicator of the extent of subsidy in higher education sector is the difference between the fee charged in government and government aided institutions and the same in self-financing institutions. Table 8.8 presents such a comparison.

Table 8.8 Tuition fee structure in government and government aided institutions and self-financing institutions in 2013

Courses	Tuition Fee in government and government aided institutions (₹)	Tuition fee in self-financing institutions (₹)
B.A, B.com, B.B.A, B.S.W	1000	9,000 per semester@
B.Sc	1000	11, 250 per semester
B.C.A, B.Sc computer science, electronics, information technology, Agriculture etc.	3000#	18,750 per semester
B.Sc Microbiology, biotechnology, biochemistry, fashion technology, food technology, interior decoration etc.	3000*	19,500 per semester
M.A, M.Com, M.S.W, M.T.A, M.C.A, M.Sc Maths	1800	18,750 per semester
M.Sc computer science, electronics, information technology, chemistry, physics, zoology, botany, psychology, home science, geography, geology, actuarial science etc.	1800	22,500 per semester
M.L. I.Sc, M.Sc microbiology, bio-technology, bioinformatics	1800	42,000 per semester
B.Tech	6000 per year	65,000 + Interest free refundable deposit of ₹1,25,000
M.Tech	6000 per semester	45,000 per semester
M.B.B.S	27200 per year	7 lakhs + interest free refundable deposit of ₹ 5 lakhs
B.D.S	23,000 per year	1.5 lakhs

Note: 1. @ B.A not included 2. # For B.Sc Electronics and Computer Science only 3. * For biotechnology only.

2. In the case of self-financing institutions, a certain percentage of seats are set apart for meritorious students admitted through common entrance examinations. In their case, the fee charged is slightly lower. A certain percentage of seats is set apart for Non-Resident Indian Students. The fee structure in their case is much higher than that of other students. The fee structure in minority institutions is different from the above.

Source: G.O (Rt) No. 539/2012/Higher Education dated 15-03-2002 and website of the Commissioner of Entrance Examinations.

Table 8.8 shows that the tuition fee charged in government and government aided higher education institutions is a negligible amount. What is more, the fees are rarely revised periodically. As table 8.9 shows, only marginal increase is effected after 11 years.

Table 8.9 Fee structure in government and government aided arts and science colleges and medical colleges

Particulars	Tuition fee in government and government aided institutions in 2002 (₹)	Tuition fee in government and government aided institutions in 2013. (₹)
Tuition fee		
B.A/B.Sc/B.Com (Except electronics)	660	1000
B.Sc Electronics, Computer Science and Biotechnology	2250	3000
M.A/M.Sc/M.Com	1200	1800
B.Ed	1200	2000
M.Ed	1500	3000
Laboratory fee		
B.Sc Main	180 per subject	250 per subject
B.Sc sub	100 per subject	150 per subject
M.Sc	900 per subject	1200 Per subject
Medical students		
Tuition fee	8750	20000
Miscellaneous fee	1000	1500
Van fees	1000	1500
Caution deposit	400	2000
University fee	395	2200

Source: G.O (MS) No.5/2002/ Higher .Education dated 15.01.02

G.O (Rt) No. 539/2012/Higher Education dated 15-03-2002 Letter No.B1/23653/2013/DME dated 19/8/2013.

It is a widely known fact that the huge subsidies in the higher education sector of the state are flowing to the better off sections. There is no economic rationale for subsidising merit goods like higher education which provide substantial private benefits. The responsibility of the government at the most is to subsidise the truly deserving sections of the society. Through a scientific system of targeting, it is possible to mobilise substantial resources from the higher education sector of Kerala. The introduction of AADHAR has greatly facilitated this process.

3. Raising the service charges in the health sector

As in education, in the health sector also, there is no system of targeting. As we have seen in Chapter VII, the expenditure on repairs and maintenance, machinery and equipment and consumables and supplies in government hospitals and medical colleges has been consistently coming down. With decreasing quality of services, it is becoming increasingly difficult for the government to raise the fee in government hospitals. Our discussions with the officials revealed that the proposal for revising the fee in government hospitals after a gap of 12 years is under the active consideration of the government.

A better option will be to target the subsidies to the truly deserving sections. At present no system of targeting exists and as a consequence, the better off sections make use of the facilities in government hospitals and medical colleges whenever the services are better. When quality of service deteriorates, the very same people will opt out to private providers. As a result, the poorer sections are increasingly forced to depend on private providers. A system of targeting health services to the deserving sections should be put in place. The introduction of AADHAR has greatly facilitated this process.

4. Tapping the potential of government land

Kerala is a state experiencing acute scarcity of land. This coupled with inflow of remittances has resulted in exponential rise in land prices over the years. Scarcity of land, particularly in urban areas is a major problem facing the construction sector in the state. It is in this backdrop that the issue of efficient use of land under the possession of government assumes importance.

Though firm figures are not available, it can be surmised that as a proportion of the total land area in a state, land under the possession of government of Kerala may be one of the highest among states in India. There is no comprehensive data on the total area of land under the possession of government. The data available with the Kerala Land Bank do not cover the entire land under government possession. As table 8.10 shows, even going by this figure, government possesses 75,645 hectares of land spread over 14 districts.

Table 8.10 District-wise details of government land in the possession of Revenue Department

District	Total cases reported from the district	Extent of land in hectares
Thiruvananthapuram	1851	1480.14
Kollam	8661	4050.08
Pathanamthitta	1402	1685.55
Alappuzha	798	1418.88
Kottayam	2055	4035.40
Idukki	2550	52167.30
Ernakulam	4126	2461.16
Thrissur	1499	3708.88
Palakkad	955	808.32
Malappuram	1404	2478.52
Kozhikode	640	467.39
Wayanad	473	357.08
Kannur	320	278.33
Kasaragod	291	248.89
Total	**27025**	**75645.92**

Source: Collected from Kerala Land Bank.

Though this includes the premises of government offices, it can be presumed that government is in possession of large tracts of vacant land in various parts of the state. But the manner in which government puts to use the land under its possession lacks any economic rationality. We therefore propose three ways of putting government land to optimum use and mobilise additional resources.

a. Raising the lease rent rates

The high price of land in the state means that the asset value of government land is also high. The lease rent levied on government land should reflect this and it should be periodically revised. As can be seen from Appendix 8.5, the lease rent levied does not reflect the asset value of government land. Though G.O (P) No. 126/04/RD dated 14-5-2004 had provided for revision of these rates in every three years, it was not revised till 2012. Though the value of land in Kerala skyrocketed during the last 9 years, it is not reflected in the revised lease rent rates. It may also be noted that there is no significant difference in the rate of lease rent applicable for public, charitable and commercial purposes. Government land is made available to unaided educational institutions and private hospitals at rates comparable to the rates on charitable institutions. Apparently, there is no justification for subsidising these institutions which make huge profits. The *bona fides* of several so called charitable institutions are in suspect as some of them are commercial establishments masquerading as charitable institutions.

Another issue relates to the lease of government land made free of rent or at concessional rates or without fixing any rate. As a case in point, the study team analysed the distribution of prime government land leased out to various organisations in Thiruvananthapuram city. Typical cases of lease are presented in Appendix 8.6. It is seen that religious/communal organisations and secular organisations have taken on long term lease prime government land worth crores of rupees paying no lease rent or paying negligible amount of rent.

Table 8.11 presents the distribution of leased government land in prime locations within the city. The locations selected are Thycaud, Vanchiyoor, Pettah, Peroorkada, Pattom, Sasthamangalam and Kawdiar.

Table 8.11 Distribution of government land in prime locations leased freely, or at concessional rates or rates not fixed, in Thiruvananthapuram city as on March 2013

Lease holder	Area of land in cents	Average no. of lease years	Annual lease rent realised (₹)	Lease rent per cent of land (₹)
Public purpose	2498.32 (51.55)	48	672556 (86.54)	269.20
Communal/ religious organisations	845.16 (17.44)	50	3122.20 (0.40)	3.69
Secular organisations	1437.54 (29.66)	51	101520.12 (13.06)	70.72
Commercial/industrial/ private purpose	65.00* (1.34)	70	3.14 (0.00)	0.05
Total	4846.02	--	777201.46	---

Notes: 1 cent=434.6 square feet; *this is a single case of lease
Source: *Explanatory Memorandum on the Budget for 2013-14*, Finance Department, Government of Kerala, pp.412-421.

Table 8.11 shows that while 51.55% of government land is used for public purposes, communal/religious organisations and secular organisations have occupied 47%. But almost 87% of lease rent is realised from land leased out for public purposes. This shows the tremendous potential for additional resource mobilisation by revising the lease rent taking into account the sharp increase in the price of land.

b. Permitting private construction in prime government land

Government possesses hundreds of acres of land in prime locations all over the state. Uneconomic government schools and closed public sector enterprises have large area of land in prime locations. Several government offices function in single storied buildings in large plots of land. Some of these were constructed years back and will have to be demolished sooner or later. Constructing new buildings in its place may not be advisable for three reasons. First and foremost, government is facing acute resource crunch. Secondly, buildings constructed by Public Works Department happen to be of questionable quality. This coupled with insufficient and irregular allocations for periodic maintenance, their life span is bound to be short when compared to private buildings.

At the same time, several government offices function in rented premises. Government expenditure under the head 'rent, rates and taxes' can be taken as an indicator of the expenditure on rent. Revenue expenditure incurred by various government departments under this head during 2011-12 is presented in table 8.12.

Table 8.12 Revenue expenditure incurred by government departments under the head 'rent, rates and taxes' during 2011-12

Department	Amount ₹ in lakhs
State legislature	100.67
Administration of justice	253.36
Agricultural income tax and sales tax	152.01
Land revenue	55.07
Excise	73.23
Police	169.15
Stationary and printing and other administrative services	135.43
Education, sports, arts and culture	197.97
Medical and public health	96.23
Labour, labour welfare and welfare of non-residents	124.11
Agriculture	67.76
Tourism	176.96
Food	52.32
Social security and welfare	507.22
Others	469.19
Total	**2630.68**

Source: *Demands for grants (volume I to III) - 2013-14*, Finance Department, Government of Kerala.

Table 8.12 shows that government spends substantial amount of money on rent. Given the precarious fiscal situation, the question of saving the expenditure under this head by constructing own buildings does not arise. One way to reduce this item of expenditure is to permit long term lease of government land in prime locations for constructing private commercial buildings on the condition that a portion of the building should be made available free of cost for functioning government offices. This approach can be adopted in the case of government buildings which will have to be demolished in the near future. Considering the scarcity of land particularly in the urban areas, private builders may be allowed to construct multi-storied buildings in such plots. This way government can save capital expenditure on construction and revenue expenditure on maintenance.

c. Selling government land: Thinking the unthinkable

As we have already seen, the rates of lease rent on government land is abysmally low. A bigger problem is that there is high degree of alienation of government land leased out for long periods. There are cases of government lease land being sold through clandestine transactions. The alienation of government land in Nelliaampathy is a case in point[5]. Encroachment on government land is also widespread.

There is no economic rationale for the inefficient utilisation of land under the possession of government in a state facing acute scarcity of land. The argument that government will require land for public purposes does not justify vesting large volume of land with government so long as government is empowered to acquire any private property for public purposes. There is thus a strong case for mobilising resources by selling unused government land in a transparent manner. This is likely to spur economic growth by reducing the open market price and increasing the availability of land for private purposes. Since government land has always been an emotive issue in Kerala, there is need to mobilise public opinion before taking any step in this direction.

5. Revising the service charges and rates of saleable items in various departments

Though not a significant source of revenue, almost all government departments have some avenue of mobilising non-tax revenue. Fee for specific services/forms and saleable items are examples. The study team held discussions with the Non-Tax Revenue Cell of the Finance Department in this regard. It was revealed that rates have been revised selectively in almost all departments. In the case of some services/saleable items, decision is yet to be taken. Cabinet meeting held on 22-10-2012 resolved for a general rate revision. Accordingly, several government departments initiated action. The details are presented in Appendix 8.7. It may be noted that these rate revisions are effected after several years.

Suggestion

The Heads of Departments should be given powers to revise the fee on services and prices of saleable items every year taking into account the inflationary price increase and the cost of providing the service or the cost of the saleable item**.** The present practice of obtaining prior government permission in this regard is causing delay and red tape. Government intervention should be limited to cases wherein the rate revision *prima facie* is unreasonable and is causing resistance from the general public. The Non-Tax Revenue Cell should monitor the volume of non-tax resources mobilised by departments. One yard stick for assessing the performance may be the ratio of non-tax revenue to the total revenue expenditure of the department.

Section II

Suggestions for expenditure rationalisation

The predominance of social and community services over economic services has been the hallmark of public expenditure in Kerala. This expenditure pattern is one of the factors that has landed up the state in the present fiscal predicament. A dispassionate analysis will show that the circumstances that necessitated Kerala to invest heavily in social and community services no longer exist. Kerala's economy and society have undergone a transformation during the last three decades. A sizeable section of Kerala society can afford the services of private providers in health and education. This suggests that Kerala's expenditure priorities have to change with changing times. It seems that Kerala's fiscal woes are attributable in part to the failure of the state to recognise this fact. In this section we have identified a few areas where the state needs to rethink on its present expenditure policy.

1. Reforms in the school education sector

One sector which is causing considerable wastage of public resources is the school education system. As we have seen in chapter VII, the number of students in the government and government aided schools has been coming down over the years. In addition to the demographic factor, the increasing preference for unaided schools among parents is also an important factor. This is making government and government aided schools increasingly 'uneconomic' as table 8.13 shows.

Table 8.13 Trends in uneconomic schools in Kerala

Year	Uneconomic Govt schools No.	Col. 2 as a percentage of total no. of Govt. schools	Uneconomic Govt. aided schools No.	Col. 4 as a percentage of total no. of Govt. aided schools	Total uneconomic schools No. (col.2+ 4)	Col. 6 as a percentage of total no. of Govt. and Govt. aided schools.
1	2	3	4	5	6	7
2002-03	1284	28.58	1338	18.37	2622	22.77
2003-04	1284	28.55	1338	18.36	2622	22.25
2004-05	1284	28.55	1338	18.36	2622	22.25
2005-06	1457	32.39	1462	20.05	2919	24.76
2006-07	N.A	N.A	N.A	N.A	N.A	N.A
2007-08	1721	38.24	1694	23.26	3415	28.98
2008-09	1839	40.86	1822	25.01	3661	31.06
2009-10	1974	43.86	1988	27.32	3962	33.64
2010-11	2147	47.67	2133	29.31	4280	36.33
2011-12	2271	49.16	2343	32.72	4614	39.16

Source: *Economic Review*, Kerala State Planning Board, various issues.

Table 8.13 shows that government schools are becoming 'uneconomic' faster than government aided schools. It may be noted that the definition of 'uneconomic school' has been liberalised to reduce the number of such schools. In 2011 the definition of 'uneconomic school' was a school having a class average below 25 students. Subsequently, the definition was changed to include schools having class average below 15 students. At present there are 3393 schools with less than 60 students.

Added to this is the grave problem of 'protected teachers'. Teachers who have been rendered excess due to fall in strength in government and aided schools are either 'protected' by giving appointments in government schools and aided schools or are simply given salary. Table 8.14 presents the trends in protected teachers.

Table 8.14 Trends in protected teachers -2002-03 to 2011-12

Year	Total protected teachers No.	Protected teachers retained in parent school No.	Protected teachers deployed in other aided schools	Deployed in government schools	Not deployed
2002-03	3738	N.A	N.A	N.A	N.A
2003-04	3506	895	238	1808	565
2004-05	3148	840	210	1630	468
2005-06	3715	1048	312	1831	525
2006-07	3257	997	166	1546	548
2007-08	3133	1028	247	1641	217
2008-09	3083	987	339	1456	301
2009-10	2918	899	359	1189	471
2010-11	2957	826	412	1282	437
2011-12	N.A	N.A	N.A	N.A	N.A

NA denotes not available
Source: *Economic Review*, Kerala State Planning Board, various issues.

Teacher appointment in aided schools is a typical case of inefficient use of public resources. It is an open secret that the managements take lakhs of rupees for appointment of teachers. The number of teaching vacancies is proportionate to the number of divisions in a school. Though government has been trying to prevent the tendency to inflate the number of divisions in aided schools by organising the head count all over the state on a single day, managements used to manipulate it by transporting students from one school to another during head count. Recently, an 'AADHAR' based estimate is reported to have found that nearly 3 lakh students are 'fake' and 7000 teachers are 'excess' [7].

School voucher system: The inefficiencies involved in the present system can be reduced to a considerable degree by reforming the school education system. At present there are severe restrictions on starting unaided schools presumably to reduce the fall in divisions in government and government aided schools so as to protect the teacher jobs. By removing these restrictions and opening up the sector for private investment, government may encourage healthy competition between government and government aided schools on the one hand and unaided schools on the other. 'Educational vouchers' prevalent in some of the developed and Latin American countries seem to be a viable option in the context of Kerala. Parents should be given the freedom to send their wards to the schools of their choice. A system of targeting the subsidy to the economically weaker sections can be incorporated through AADHAR. Government may adopt a policy of promoting government and aided schools in those areas where private entrepreneurs are not coming forward to open unaided schools. All appointments in the aided schools should be compulsorily transferred to Public Service Commission to cleanse the whole system.

Effective use of assets of uneconomic schools: The land and infrastructure of existing 'uneconomic schools' and those that are likely to be rendered 'uneconomic' in the foreseeable future should be put to effective use. In the case of land and infrastructure of 'uneconomic' government schools, government can permit private construction on the lines suggested earlier.

2. Reforms in the health sector

As already pointed out, Kerala has a good network of public health care starting from primary health centres to medical colleges. The staff of the government health care system is well qualified as they are recruited through Public Service Commission. As we have seen in chapter VII, their services are not put to effective use as they are not adequately supported through machinery and equipment and supplies and consumables. The expenditure on repairs and maintenance has also come down steeply during the study period.

Considering the acute fiscal stress the state is undergoing, it is unlikely that the situation will improve in the near future. Over the years, the private health care system in the state has made rapid strides. There are private hospitals of varying standards all over the state. There are 13 medical colleges and 18 dental colleges in the state in the self-financing sector. This suggests that the objective of providing quality health care to the poor and vulnerable sections can be done through private hospitals as well. The policy option here is to widen the existing health insurance scheme to include people of varying income levels and disease profile. Another option is introducing 'health vouchers'. Through these ways, it is possible to target the subsidies to the really deserving sections.

3. Reforms in Public Works Department

Rented and leased premises for government offices: A major source of inefficiency in public expenditure is construction of own buildings for government offices. As Appendix 8.8 shows, the thin spread of resources over a large number of construction projects not only results in time over-runs and cost escalation, but poor quality of construction also. Added to these are the inadequate allocations for repair and maintenance.

This vicious circle can be broken by adopting a policy of renting or leasing private premises wherever possible for housing government offices. Government can adopt a policy of long term lease or rent on attractive terms so as to encourage private builders. This can save capital expenditure on construction and revenue expenditure on repairs and maintenance. In almost all parts of Kerala, good quality unoccupied buildings are available as expatriates have invested heavily in real estate.

4. Use of rented/leased vehicles and equipments in government departments

Another major source of wastage and corruption is government purchase of machinery and equipments and vehicles. Often, government ends up purchasing low quality goods due to the practice of going for lowest quotations in government tenders. In the face of fiscal stress, adequate resources may not be forthcoming for periodic repairs and maintenance. The wastage arising from all these can be reduced by adopting a policy of renting/leasing instead of purchasing. Government officials who are permitted government vehicles should be encouraged to use own vehicles for which monthly reimbursement can be introduced. Alternatively, government departments can be allowed to lease vehicles. In the case of office equipments like computers, photocopiers and costly diagnostic equipments in health sector and heavy machinery in Public Works Department, this policy can be adopted. This way government can save both capital and revenue expenditure.

5. Extending private public partnership (PPP) to more areas of infrastructure

One way to tide over the fiscal crisis facing the state is extending PPP model to more areas of infrastructure investment. There is need to create awareness about the rationale of PPP model among the people in Kerala. Steeped in fiscal illusion, people cannot easily digest the prices to be paid for services rendered under PPP model. This is revealed by the strong opposition to some of the PPP projects in transport infrastructure. There is also need to execute PPP models in a transparent and competitive manner.

Notes

[1] " Lorries to stop service through Walayar", *The Hindu* (Thiruvanathapuram edition), July 21, 2013, P.5.

[2] *Budget Speech of Finance Minister, West Bengal 2010-11*, p.71.

[3] "Aadambara caaravanukalude nikuthi vettippinu kadinjaan" (End to tax evasion by luxury caravans), *Mathrubhoomi* daily (Malayalam*),* July 5, 2013, p.13.

[4] The recent Supreme Court decision disallowing supply of diesel at concessional rates to state transport undertakings has threatened the very existence of KSRTC. Again, Government of Kerala is trying to salvage it by extending financial assistance.

[5] Editorial, *Mathrubhoomi* daily (Malayalam), October 10, 2013, p.4.

[6] In Nelliyaampathy, there are 41 estates which have violated the lease agreement on government land. Of this, 24 estates have illegally taken crores of rupees by mortgaging the leased land in nationalised banks. An enquiry by Central Bureau of Investigation is going on in this connection. See report " *Nelliyaampathiyile Vaaypaathattippu: annweshanaparidhiyil randu estatukalekkoodi ulpeduthan supaarsa*(Loan fraud in Nelliyaampathy: Recommendation to include two more estates within the purview of enquiry), *Mathrubhoomi* daily (Malayalam), August 21, 2013, p.13.

[7] " *Samsthaanathu moonnu laksham 'kalla' kuttikal; 7000 adhyaapakarum adhikam*"(Three lakh 'fake' students in the state; 7000 excess teachers) *Mathrubhoomi* daily (Malayalam), August 2, 2013, p.5.

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Appendix 8.2

Fiscal Counselling: A Concept Note

Introduction

Revenue productivity of value added tax (VAT) system and for that matter any tax system depends on the extent to which tax leakage is prevented and new tax payers are brought into the tax net. VAT is a system relying heavily on voluntary tax compliance. In most developed countries, the tax administration provides a variety of services to promote voluntary tax compliance. This note explores the rationale and practicability of 'counselling' as a form of tax payer service and argues that it can considerably help to augment VAT revenue.

Rationale of fiscal counselling

The heart of VAT system is voluntary tax compliance. There is a misconception that voluntary compliance means expecting the tax payers to come forward willingly and enthusiastically to pay taxes. The fact is that voluntary compliance does not provide an option to pay or not to pay tax. It only means that the tax payers are given an option to pay voluntarily but if they fail to pay, they will be forced to pay and that too often with a penalty. A variety of factors- social consciousness, religiosity and fear of detection and penalisation, to name a few - make the tax payers to pay taxes voluntarily. The most important among them is the realisation that tax administration is equipped with facts and figures relating to their business transactions and therefore it is futile to evade/avoid tax.

Modern approach to tax enforcement is to motivate tax payers to comply with tax laws. Studies have shown that a system of taxation relying on punishment and penalty will generate high degree of alienation and tax payer resistance. Psychology reinforces this approach and has even spawned its own branch of 'fiscal psychology' [1]. This approach is based on the premise that majority of tax payers comply with the tax laws. It is therefore better to assist tax payers to meet their fiscal obligations than spending more resources in pursuing the minority of non-compliers. Based on this approach, tax administrations of most developed countries spend substantial resources for providing tax payer services [2].

There seems to exist a general impression among the members of the trading community in India that the information base of the Commercial Taxes Departments of states is not well equipped. This is not altogether wrong considering the fact that only a small portion of the information gathered by the Commercial Taxes Departments is actually put to any effective use. There is thus an urgent need to strengthen the information base and also to send the message that the administration is in possession of information that immediately matters for tax potential change and is closely monitoring the trends in the market.

There is also a general reluctance on the part of traders to be part of the VAT network as they feel that it involves hassles. There may not be a deliberate intension to evade/avoid the tax in all such cases. There is a felt need to counsel traders that it is not at all cumbersome to be a VAT dealer and that being a VAT dealer is in fact beneficial to them. Such an approach will build mutual trust and will contribute to better tax compliance in the long run.

Identifying potential tax payers/traders for fiscal counselling

The first step towards fiscal counselling is identifying the potential tax payers. For this purpose the officers may have to undertake street survey. Shops with sizeable stocks, or which have expanded the floor area or opened new branches but have remitted lower amount of taxes or avoided the tax network altogether are potential candidates for fiscal counselling. Once such dealers are identified, the tax administrator can invite each one over phone in an informal manner for a counselling session. A mutually agreeable time and date can be fixed for counselling.

Fiscal counselling in practice

Two imaginary sessions of fiscal counselling are presented below.

1.Counselling session to prevent false claims

Mr. Mohan, a tax payer, reports lower turnover in his monthly returns on the pretext of recession. The tax administrator invites him for a counselling session and skillfully engages him with facts and figures and thus sends the message that the administration is closely monitoring the trends in the market.

CTD official	Response of the dealer	Remarks
" How come, Mr. Mohan, your turnover has actually fallen in this fiscal ?"	"As if you are not aware of the recession that has hit my business"	The CTD official tries to engage the dealer.
" Of course I am aware…. But to tell that your line of business is affected…. I don't know ….."	" Why not Sir? Recession affects all businesses… and my business is no exception…"	CTD official conveys the message that he is closely observing the market trends.
" See Mohan, the impact of recession is not uniform across businesses…"	"Sorry, I did not follow."	CTD official conveys the message that his knowledge is not peripheral.
" I will explain. Whether it is recession or not, people will have to eat. Children will have to be fed and dressed up. I mean recession will not affect businesses dealing in essential goods that much…."	" You are talking theory.. I am speaking from my experience."	The CTD official tries to engage the dealer more closely.

CTD official	Response of the dealer	Remarks
" Come on Mohan, Don't tell me. Check- post records show that you have brought more quantity than last year…"	" But that is remaining there only. Sales have come down Sir. I made a mistake…."	CTD official conveys the message that he has been closely observing the dealer and is in possession of facts and figures.
" But if sales have been poor, how come you have been bringing loads almost every month…"	"That's as a practice, we have to have stocks. Sir….	CTD official takes a more assertive posture.
" See Mohan, don't try to bluff. I am closely monitoring the business. Almost all dealers in your line of business have actually shown higher turnover during this period. So let us be honest. Please revise your return"	"Okay Sir, let me see…."	CTD official takes a more conciliatory tone.

2. Counselling session to bring traders into the tax network

Mr. Sekhar, a medium sized trader of electrical goods has been avoiding the tax network claiming that his turnover is below the threshold limit. In a counselling session, the tax administrator engages him and almost convinces him that becoming a VAT dealer is in fact in his best interest.

CTD official	Response of the dealer	Remarks
" How is your business running, Mr. Sekhar ?"	"Going on, Sir"	The CTD official tries to win the confidence of the dealer.
" Generally the situation is really encouraging. Isn't it ? Lot of construction activity is going on…."	" That's true. But new shops have come up in the area. Trade got divided…"	CTD official conveys the message that he is closely observing the market trends.
"Come on Sekhar, then how come you have expanded your floor area. I noticed that you have considerably added to the stocking capacity…"	… " I made a mistake sir,…. Stock is not moving now… ".	CTD official takes a more assertive posture.
" See, I am not telling that you are evading tax or doing something illegal. We have the VAT system now. This means the state is trying to bring under	" Sir, my turnover is well below the limit as per law. When I cross it, I will pay tax, Sir".	CTD official takes a more conciliatory tone and invokes the moral rectitude of the tax payer.

CTD official	Response of the dealer	Remarks
taxation the value created at the retail level. You know, unless everybody contributes, government cannot carry out its responsibilities….”		
“ No doubt about it. See, as per records you have been in business for the last 10 years…	“ But many shops have come up in between”.	CTD official conveys the message that he has been closely observing the dealer and is in possession of facts and figures.
“ That is correct. But volume is not the only factor behind trade turnover. See, we have been closely monitoring the trends in prices. In your product, the price rise for the last six months is around 20%....	“But there is no sales”.	CTD official tries to refute the argument of the dealer.
“Come on Sekhar, without sales, how can you remain in business for long…...”	“ What to do sir. Just because you are suffering losses, you cannot close down all on a sudden….”	CTD official takes a more assertive posture.
“ See, being a VAT dealer has several advantages. You will be eligible for input tax credit. Being a VAT dealer adds to your prestige as a honest and reliable business man….”	“ But the hassles of complying with the procedures and formalities is so cumbersome…….”	CTD official takes a more conciliatory tone.
“ This is a mistaken notion. It is all computerised and you can go for e-filing. We will provide all help to you. You come with the records and I will see to it that you get the best services from this office”	“But my turnover is still below the limit….;	CTD official tries to win the confidence of the dealer
“ Let us be honest, you know your turnover and we also know it. For us it is very easy to force	“Okay, Sir, let’s see what can be done about it. If you can help me with the procedures	CTD official without mincing words conveys the message that it is better to

CTD official	Response of the dealer	Remarks
you to pay. You know it. But we don't want to do that. We want a cordial relationship with you people. It is better to come forward voluntarily……."	and formalities, we can work it out."	pay voluntarily. Otherwise they will be compelled in law to comply with.

The major objective of couselling session is to convey the message that the CTD is closely monitoring the developments in the trade sector. The other objective is to build confidence between the tax administrators and tax payers and thereby bring about attitudinal changes. Tax administration should keep a close watch on counselled traders and be in touch with them either personally or over phone.

Training for counselling

The proposed fiscal counselling aims at exerting pressure on tax payers/traders in an informal manner. It is therefore suggested that officers should be given special training on fiscal counselling. It can be a one day training programme. It should have sessions on the theoretical and practical aspects of counselling technique. Professional counsellors should engage the sessions on the theoretical part of counselling. There should be a session on systematically and scientifically engaging the tax payer/trader with facts and figures. This session should outline what kind of data and figures are available for tax payers/traders dealing in different kinds of commodities.

Counselling as a criteria for incentives and promotion

The officers who successfully undergo the training may be given targets for conducting counselling sessions. The number of traders who have been counselled and the number of dealers who have been newly brought under the tax net over a period of time may be taken as one of the criteria for incentives and promotions to officers.

References

[1] Schmolders. G (1959), "Fiscal Psychology: A New Branch of Public Finance", *National Tax Journal*, Vol.12.

[2] Simon James and Ian G. Wallschutsky (1995), "The Shape of Future Tax Administration", *International Bulletin for Fiscal Documentation*, May, pp. 210-18.

Appendix 8.4

The Concept of 'Offer Price'

It is extremely difficult to get the actual price at which land transactions take place for a variety of reasons. In most private transactions of land, price is understated in the sale deed. There are situations that necessitate revealing the actual price. Transactions involving formal financing by banks or financial institutions are a case in point. Similarly, when government purchases land for public purposes, the actual price will be recorded in the sale deed. But it is extremely difficult to document the prices in these kinds of transactions. It is here that the 'real estate' columns of news papers serve a useful purpose. To a large extent, the prices appearing in sale offers of property in real estate advertisements reflect the market trends. A party releasing an advertisement bases his/her price on the price at which the latest transaction was executed in the particular locality. This price includes a 'negotiation space' which varies between individuals and between localities. But distress sale can complicate the whole picture. Another problem is that vast majority of advertisements are without any 'offer price'. The available 'offer prices' relating to a locality will have to be taken as representing that particular locality. Though not without limitations, news paper advertisements are a useful source of data to gauge the price movements in the land market over a period of time.

Based on this premise, the study team collected the real estate advertisements in *Mathrubhoomi* daily, Thiruvananthapuram edition. *Mathrubhoomi* publishes real estate advertisements mostly on Saturdays. By going through each advertisement from January 2011 to December 2011, the 'offer prices' appearing in the advertisements were first documented. The 'offer prices' thus obtained were arranged village-wise. The 'offer prices' in the villages within Thiruvananthapuram Taluk was selected for detailed study as price increase is higher in the case of properties within the city. The fair values of different types of property under each survey number are given in the official website of the Registration Department.

The Registration Department has classified land under the following categories.

1. Commercially important plot
2. Residential plot with national highway/PWD road access
3. Residential plot with corporation/municipal/panchayat road access
4. Residential plot with private road access
5. Residential plot with vehicular access
6. Garden land with road access
7. Garden land without road access
8. Coastal belt
9. Water logged land

10. Rocky land
11. Waste land
12. Wet land
13. Hill tract with road access
14. Hill tract without road access
15. Government land

From the advertisements, it was possible to identify the nature of the plot, but it was difficult to pinpoint whether a particular plot was located near National High way or PWD road. This however did not pose a problem as we are interested in the extent to which fair values are understated. For this purpose, the highest fair value in a village and the corresponding highest 'offer price' alone are required. From the advertisements and the websites of the Registration Department, we could obtain both these data for selected villages in Thiruvananthapuram Taluk. What is presented in table 8.7 is the end product of this exercise.

Chapter IX

Summary and Conclusions

The overall conclusion that emanates from the study of Kerala finances during the 10th and 11th Plan periods is that the fiscal situation of the state continues to be precarious. Kerala's fiscal stress however is not a new phenomenon; it dates back to the mid-eighties. Revenue deficit became a continuous feature of Kerala finances from 1983-84 onwards. The Fiscal Responsibility and Budget Management Act (FRBM) 2003 has further restricted the fiscal space available to the state. Along with sluggish growth of own revenue, the decreasing share of Central transfers has also played a role in exacerbating the fiscal situation of the state. Though it may appear that this is due to high level of public expenditure, a closer look reveals that the state is not able to spend adequately in several areas where a modern state should be actively intervening. After meeting the huge committed expenditures, the state is left with little resources for productive investment. The resultant decreasing plan size and capital outlay have serious implications for the quality of public services and economic development of the state.

It seems that the state cannot entirely be blamed for this fiscal predicament. The high non-plan revenue content of Kerala's public expenditure is the fall out of high level of expenditure on social and community services in successive Five Year Plans. It is this pattern of expenditure that made possible what is internationally known as 'Kerala model of development'. The state has attained most of the Millennium Development Goals of United Nations which are also enshrined in the Directive Principles of Indian Constitution. In order to consolidate and sustain these achievements, the state has to continue these expenditures in the non - plan account. Given the limited revenue raising powers and the geographical specificities of the state, it would appear to be an insurmountable task to tide over the fiscal crisis even if the state puts in best of her efforts. It is here that some kind of development maintenance grant from Centre through Finance Commissions, as suggested by some scholars assumes relevance.

At the same time, the importance of mobilising more own resources cannot be over emphasised. Evidences suggest that state's investment in social sectors over the years has immensely raised the capacity of the people to contribute for public purposes. Findings of the study reveal that the fiscal effort of the state has not been adequate enough to tap this potential. Non-tax revenue sources of the state remain largely untapped. There is also considerable scope for pruning unproductive expenditure and revising the expenditure priorities of the state.

The major conclusions of the study are the following.

I. All components of Kerala's revenue in relation to GSDP except Central transfers to GSDP registered an improvement during the 11th Plan compared to the 10th Plan. Kerala is lowest in total revenue-GSDP ratio among South Indian states during the study period. Central transfers-GSDP ratio of Kerala is lowest among South Indian states. This factor together with the sluggish growth of non-tax revenue worked behind the comparatively low total revenue-GSDP ratio of Kerala.

II. All components of Kerala's revenue except Central transfers registered higher rate of growth during the 11th Plan compared to the 10th Plan. In the rate of growth of own tax revenue and non-tax revenue, Kerala is third and first respectively among South Indian states.

III. In the case of all South Indian states, the share of own revenue in total revenue has fallen in 2011-12 compared to 2002-03. This indicates the growing dependence of states on the Centre for their revenue needs.

IV. Compared to other South Indian states, the proportion of revenue expenditure, non-development expenditure and non-plan revenue expenditure in total expenditure has been higher in the case of Kerala. Kerala is lowest in the proportion of capital expenditure and capital outlay to total expenditure during the study period.

V. During the study period, Kerala's revenue expenditure on 'general services' grew much faster than others. While in the case of other South Indian states the share of 'general services' in total revenue expenditure registered significant fall, in the case of Kerala it is just marginal-from 45.26% in 2002-03 to 44.09% in 2011-12.

VI. While other South Indian states could increase the share of expenditure on 'social services' by 6 to 10 percentage points, in the case of Kerala it is just 1.1% only. The gap that existed between Kerala and other South Indian states in per capita expenditure on 'social services' in 2002-03 has become very narrow in 2011-12.

VII. In per capita expenditure on 'economic services', Kerala occupies the lowest position among South Indian states in 2011-12. Both Andhra Pradesh and Karnataka whose per capita expenditures were lower than that of Kerala in 2002-03 have overtaken Kerala with wide margins.

VIII. The level of non-plan revenue expenditure of Kerala is significantly higher than that of other South Indian states. This is the direct consequence of the high priority given to social and community services in successive plans.

IX. The state was almost on the path of fiscal consolidation during the 10th Plan period. While revenue receipts grew at the rate of 15% per annum, non-plan revenue expenditure grew only at the rate of 13.40%. On the other hand, during the 11th Plan period, non-plan revenue expenditure grew at the rate of 17.46% whereas the rate of growth of total revenue receipts was only 16.01%.

X. Salary, pension and interest payments together account for 66.77% of revenue expenditure, 111.30% of total own revenue and 81.35% of total revenue during the ten year period. All these however exhibit a falling trend.

XI. The share of 'social services' in total subsidy has gone up from 64.47% in 2002-03 to 73.88% in 2011-12. Both in 'social services' and 'economic services', the recovery rate has come down during the ten year period. In 'social services,' Kerala is top in per capita subsidy both in 2002-03 and 2011-12. In the overall recovery rate, Kerala stands at the lowest position both in 2002-03 and 2011-12. In Kerala, there is no systematic mechanism to target subsidies.

XII. While revenue deficit has been consistently coming down during the 10^{th} Plan period, it registered a fluctuating but rising trend during the 11^{th} Plan period. As a consequence, gross fiscal deficit which was showing a decreasing trend during the 10^{th} Plan period grew at an alarming rate during the 11^{th} Plan period.

XIII. All indicators of fiscal health exhibit an improvement during the 11^{th} Plan period compared to the 10^{th} plan period. However, Kerala is below other South Indian states in all indicators of fiscal health.

XIV. While 75.05% of borrowed funds was utilised to finance revenue deficit during the 10^{th} Plan, the same during 11^{th} Plan was 58.91%.

XV. The ratio of outstanding liabilities to GSDP decreased from 37.12% during the 10^{th} Plan to 32.02% during the 11^{th} Plan. The share of internal debt in outstanding liabilities has been steadily increasing.

XVI. The ratio of outstanding liabilities to total revenue receipts fell from 315.67% during the 10^{th} Plan period to 271.78% during the 11^{th} Plan period.

XVII. Compared to other South Indian states, Kerala's debt/GSDP ratio has been higher during the ten year period and the two Plan periods.

XVIII. The increasing Domar gap shows that the capacity of the state to service debt is increasing.

XIX. Ratio of interest payments to total revenue receipts is 22% during the study period. The ratio has registered a consistent fall since 2006-07.

XX. Ratio of guarantees to GSDP and guarantees outstanding to GSDP have been exhibiting a consistently falling tend.

XXI. The ratio of capital outlay plus loans and advances to GSDP has registered an improvement from 1.09% during the 10^{th} Plan period to 1.44% during the 11^{th} Plan period.

XXII. In per capita plan outlay, Kerala has been below other South Indian states in most of the years during the study period. During the last two years of the 11th Plan, significant improvement is observed in this regard.

XXIII. The devolution to local bodies exhibits a falling trend. From 33.33% in 2002-03, it has fallen to 24.93% in 2011-12.

XXIV. The orientation of expenditures of local bodies is increasingly getting shifted from productive sectors to infrastructure.

XXV. As part of functional devolution, Government of Kerala have transferred a large number of functions and transferred the assets thereon to the local bodies.

XXVI. Production of most of the agricultural crops registered absolute fall during the years of decentralization.

XXVII. The local bodies are increasingly becoming dependent on higher tiers of government for their needs. Local bodies do not put in much effort to mobilise own resources.

XXVIII. The accounting and record keeping standards of local bodies are not satisfactory.

XXIX. There is bunching of expenditure in the last quarter of the financial year in all categories of local bodies.

XXX. Though the profits of State Level Public Enterprises are showing an increasing trend, it is largely attributable to trading establishments like Kerala Beverages Corporation. While 78.68% of profits is accounted by 10 enterprises, 41 enterprises account for only 21.32% of profits.

XXXI. Two public utilities-Kerala State Road Transport Corporation and Kerala Water Authority- account for 84.39% of losses.

XXXII. The budgetary support for SLPEs has been exhibiting a falling trend. Both governments that were in power during the study period have made efforts to close down or revive loss making and closed SLPEs. However, these efforts have not made much progress.

XXXIII. Kerala has not implemented trifurcation of KSEB as proposed in the Electricity Act 2003. Certain measures like formation of Electricity Regulatory Authority have been taken. KSEB appointed a Government of India undertaking as Consultant for assisting it in the restructuring process. The draft transfer scheme re-vesting prepared by the Consultant is under consideration of the Government. It is proposed to create three separate strategic business units within the company for generation, transmission and distribution functions.

XXXIV. There is general opposition to privatisation of KSEB. Domestic and commercial rates are comparatively low in Kerala as hydroelectricity accounts for nearly 50% power generated in the state. So long as electricity consumers in Kerala are getting power at subsidised rates, they are unlikely to opt for radical reforms. There is no pressure from within KSEB or outside for privatisation.

XXXV. Both governments that were in power during the study period have taken steps to raise the revenue -GSDP ratio. Rationalisation of stamp duty, imposition of cess, increase in the rate of tax of VAT commodities attracting tax at the rate of 4% to 5% and those attracting tax at the rate of 12.5% to 13.5% and subsequently to 14.5% are the major tax revenue measures. Revision of lease rent on government land, sand mining from dams, increasing the number of draws in state lottery are the major non-tax revenue measures.

XXXVI. The measures taken to enhance allocative and technical efficiency in expenditure seem to have had only marginal effect on revenue expenditure of the state.

XXXVII. Unscientific budget estimates, inadequate budgetary allocation, bunching of expenditure in the last quarter of the financial year, time and cost over-run in project execution and thin spread of resources across projects are the major factors contributing to inefficiency in public spending.

XXXVIII. The state has been strictly following the requirements of FRBM Act and has been tabling the Medium Term Fiscal Policy (MTFP) statement along with budget every year. However, the state has been finding it difficult to achieve the FRBM targets.

XXXIX. The fiscal stress that the state is undergoing has different dimensions and implications. Inadequate expenditure on repairs and maintenance, insufficient expenditure on machinery and equipment and materials and supplies, stunted growth of public institutions and inadequate manpower for public services are some of them.

XL. The poorer sections are increasingly bearing the brunt of the fiscal stress. While the tax burden on them keeps on rising, the public resources flowing to them is increasingly getting dried up.

XLI. In fiscal effort, Kerala has lagged behind other South Indian states. The state is heavily dependent on commodity taxes and lottery for revenue. A closer look reveals that petrol, liquor and lottery contribute nearly 42% of total own revenue of the state. There is no much ‘effort’ involved in realising this revenue.

XLII. The manner in which the state mobilises revenue has serious implications for equity. The heavy reliance on liquor and lottery points towards this.

XLIII. State’s investment in health and education in the successive Five Year Plans has considerably enhanced the capacity of the people to contribute towards public purposes. The state is top in per capita consumer expenditure and also in the proportion of non-food items in total consumer expenditure. The fiscal effort of the state has not been adequate enough to tap this potential.

XLIV. The proposed goods and service tax (GST) regime is unlikely to be a panacea for Kerala's fiscal woes. Evidences suggest that states having metropolitan cities and higher share of manufacturing in GSDP are likely to benefit in the GST scenario.

XLV. The state is increasingly becoming dependent on a few less evasion prone commodities for its revenue needs. This points towards the possibility that substantial leakage in revenue is taking place in the case of other commodities.

XLVI. It may be incorrect to classify the tax leakage as tax evasion. There are objective conditions that make tax avoidance easier in the particular context of Kerala. The onslaught of electronic commerce and the geographical specificities of Kerala are some of them.

XLVII. Increasing the probability of detection and penalty rate, inculcating a culture of paying tax, promoting voluntary tax compliance, simplifying the laws and procedure, fiscal counselling, commodity based organisation of commercial taxes administration and maintenance of commodity-wise and dealer-wise revenue data are some of the measures suggested to tap the potential of commodity taxes.

XLVIII. Evidences suggest that arrack ban has not served the intended purpose. By lifting arrack ban, government can regulate the trade in arrack and mobilise substantial revenue. Rate of tax on beer and wine may be reduced to 40% to promote light drinking.

XLIX. Both governments that were in power during the study period were lax in tapping the potential of agricultural income tax. There is scope for resource mobilsation from individual agricultural crops whose production and price conditions substantially enhance the income of farmers. Had the state avoided liberalising the exemptions under agricultural income tax, it would have been possible to mobilise ₹ 1600 crores during the ten year period from rubber alone.

L. The public transport sector should be opened for private investment. Considering the social costs of growing vehicle population, a tax policy designed to encourage the use of public transport and discourage the use of private vehicles should be pursued. This will serve the twin objective of resource mobilisation and reducing the social costs of pollution.

LI. As evidenced by the 'offer price' concept, the fair value fixed by Stamps and Registration Department is much below the actual market prices. The fair value should be periodically revised taking into account the actual increase in land prices. The possibility of stamp duty being shared by the seller and buyer should be explored.

LII. Profit making public sector enterprises should be strengthened through infusion of fresh capital through private equity participation. Government should permit construction of multi-storied commercial complexes in the prime land owned by closed public sector units on the condition that a portion of the building should be set apart for use as government offices free of cost. Plant and machinery of closed public sector units may be leased out to private sector.

LIII. The fee in all government and government aided educational institutions should be revised. The subsidies should be targeted to the really deserving sections with the help of AADHAR.

LIV. The service charges in government hospitals and medical colleges should be revised without any further delay. A scientific system of targeting the subsidy to the really deserving sections should be put in place.

LV. The potential of government land for resource mobilisation should be explored by raising the lease rent rates, permitting private construction in prime government land and even by selling unused government land (which is susceptible to encroachment) through a transparent process.

LVI. The heads of government departments should be given the freedom to revise periodically the fee on services rendered and the price of saleable items taking into account the inflationary price increase.

LVII. Uneconomic schools and 'protected teachers' are a huge source of wastage of public money. The school education system should be opened for private investment. The system of 'school vouchers' may be introduced to target the subsidies in the school education system. The assets of uneconomic schools should be put to effective use.

LVIII. The existing health insurance scheme may be widened to include people of varying income levels and disease profile. The scope of 'health vouchers' should be explored for targeting subsidies in the health sector.

LIX. The capital expenditure involved in constructing own buildings for government offices and the revenue expenditure on repairs and maintenance thereon can be avoided by renting or leasing private buildings.

LX. Instead of purchasing, government should explore the possibility of renting/leasing vehicles and office equipments in government offices and diagnostic equipments in government hospitals and medical colleges and heavy machinery in Public Works Department.

LXI. Public Private Partnership should be encouraged in more areas of infrastructure development.

Appendices

Appendix 2.1 Relative shares of various components of total revenue in South Indian states – 2002-03 and 2011-12

(In per cent)

Particulars	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
Own tax revenue	54.85	54.94	64.57	66.92	68.68	67.66	68.83	70.05
Own non tax revenue	15.34	12.58	7.90	4.66	6.38	6.82	8.93	6.48
Own total revenue	68.02	67.53	72.47	71.59	75.05	74.48	77.76	76.53
Central transfers	29.80	32.48	27.53	28.41	24.95	25.52	22.24	23.47
Total revenue	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Same as table 2.1

Appendix 2.2 Per capita tax and non-tax revenue in South Indian states - 2002-03 and 2011-12

(₹)

Particulars	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
1. Own tax revenue	1634.46	6304.60	1947.76	7491.82	2282.19	7700.30	2276.51	8312.34
Stamps and registration	129.53	488.78	208.02	777.41	152.19	894.31	171.27	897.09
Sales tax/VAT	1077.98	4250.30	1021.27	3980.36	1669.69	5670.36	1522.22	5191.82
State excise	240.41	1064.23	390.67	1554.83	207.19	563.77	335.56	1371.84
Motor vehicles tax	120.34	330.58	126.12	482.82	160.31	475.15	118.41	445.21
Other taxes	66.19	170.72	201.68	696.40	92.81	96.71	129.05	406.38
2. Own non- tax revenue	457.12	1444.04	238.43	521.93	211.88	776.05	295.40	768.79
Forest	9.20	13.46	19.03	26.19	46.88	65.87	24.92	21.91
Lotteries	0.00	0.00	25.93	0.00	40.00	384.13	19.05	0.00
Social and economic services	211.66	520.78	163.99	376.60	115.63	278.74	139.37	412.21
Others	236.27	909.80	29.48	119.15	9.38	47.31	112.06	334.67
3. Own total revenue	2091.58	7748.64	2186.19	8013.75	2494.06	8476.35	2571.90	9081.14
4. Central Transfers	888.21	3726.56	830.41	3180.69	829.06	2904.19	735.56	2784.74
5. Total Revenue	2979.66	11475.09	3016.60	11194.44	3323.13	11380.24	3307.46	11865.88

Source: Same as table 2.1

Appendix 2.3 Per capita non- tax revenue in South Indian states - 2002-03 and 2011-12

(₹)

Particulars	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
1. Interest receipts	222.46	880.33	6.41	67.92	11.21	40.87	90.27	248.61
2. Dividends and profits	0.17	2.96	2.79	9.98	3.00	20.19	4.13	6.69
3. General services	**22.94**	**39.96**	**65.16**	**67.45**	**81.86**	**486.39**	**61.58**	**101.20**
of which state lotteries	0.00	0.00	25.93	0.00	40.03	384.05	18.97	0.00
4. Social services	**42.10**	**43.47**	**34.73**	**56.08**	**33.21**	**81.31**	**41.52**	**225.43**
Education, sports, art and culture	19.13	24.03	8.08	23.26	19.82	49.39	14.21	82.63
Medical and public health	5.01	10.51	10.80	16.18	8.82	19.52	13.32	40.70
Housing	3.11	0.32	12.51	3.10	0.55	0.42	3.53	7.69
Urban development	1.69	1.74	0.21	0.45	0.28	0.44	0.21	79.94
Labour and employment	1.77	3.54	1.24	5.48	1.29	10.71	3.49	5.72
Social security and welfare	1.75	0.75	1.10	5.73	0.58	0.05	4.19	7.35
Water supply and sanitation	2.12	1.44	0.21	0.15	0.84	0.00	1.31	0.03
Others	7.52	1.14	0.57	1.72	1.03	0.78	1.26	1.36
5. Fiscal services	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
6. Economic services	**169.50**	**477.30**	**129.29**	**320.43**	**82.53**	**147.35**	**97.84**	**186.81**
Crop husbandry	0.46	2.72	3.54	2.11	3.99	3.46	9.88	16.55
Animal husbandry	0.17	0.34	1.36	0.82	2.17	1.22	1.01	1.35
Fisheries	0.33	0.31	0.80	1.67	0.78	1.89	2.02	0.88
Forestry and wild life	9.21	13.51	18.94	26.19	46.74	66.02	24.99	21.85
Plantations	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Co-operation	3.67	5.79	5.13	8.21	7.65	20.46	2.94	3.68
Other agricultural programmes	0.01	0.01	0.02	0.09	0.01	0.03	2.93	4.83
Major and medium irrigation projects	1.10	18.94	3.90	3.68	1.14	4.12	1.51	14.86
Minor irrigation	0.17	1.60	0.66	3.71	0.33	1.49	0.50	0.21
Power	4.60	4.37	5.08	7.72	0.00	0.00	0.01	0.00
Petroleum	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Village and small Industries	1.88	0.29	3.22	7.70	0.39	0.25	5.71	1.55
Industries	101.08	306.61	30.08	206.13	5.89	14.61	28.77	108.01
Ports and light houses	3.87	12.34	0.92	0.92	0.26	13.19	0.00	0.69
Road transport	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	1.64	2.73	1.37	0.87	0.55	1.66	0.19	0.42
Others	41.31	107.74	54.26	50.63	12.63	18.97	17.38	11.93
Total non- tax revenue	**457.18**	**1444.02**	**238.37**	**521.87**	**211.80**	**776.10**	**295.34**	**768.73**

Source: Same as table 2.1

Appendix 2.4 Per capita revenue expenditure in South Indian states- 2002-03 and 2011-12

(₹)

Particulars	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
General services	**1400.00**	**3570.48**	**1326.87**	**2863.01**	**2086.88**	**6077.84**	**1570.63**	**3957.84**
Organs of state	31.87	103.90	43.47	118.82	40.63	164.33	30.32	151.87
Fiscal services	48.70	141.79	67.35	131.26	89.06	283.78	58.25	110.54
Interest payment and debt servicing	794.17	1347.34	614.18	982.00	920.94	1887.30	656.03	1240.08
Administrative services	219.04	718.54	244.78	699.02	264.38	842.50	274.60	718.45
Pension	306.22	1258.80	330.78	959.08	713.44	2604.79	528.10	1722.19
Others	0.00	0.12	26.31	0.00	58.44	295.14	23.33	14.70
Social services	**1112.18**	**4802.83**	**1180.41**	**4238.79**	**1574.38**	**4857.44**	**1265.71**	**4720.25**
Education	521.37	1993.74	664.93	2071.19	927.50	2821.86	657.94	2118.86
Health	174.35	604.49	177.80	491.33	237.19	832.34	150.79	578.50
Other social services	416.45	2204.60	337.69	1676.27	409.69	1203.25	456.98	2022.88
Economic services	**829.15**	**2966.12**	**895.90**	**2859.41**	**931.88**	**1835.83**	**993.81**	**2075.45**
Agriculture and allied activities	112.95	487.96	200.93	953.85	230.00	927.86	181.59	597.36
Rural development	135.23	483.83	97.57	320.79	337.19	124.06	96.67	169.49
Irrigation and flood control	228.37	1042.15	38.62	166.78	47.50	108.43	77.14	128.16
Energy of which power	212.95	520.78	354.66	844.84	72.55	16.47	317.62	227.32
Industry and minerals	24.61	106.97	58.77	118.00	40.63	94.57	47.62	84.74
Transport and communications	76.68	213.11	73.88	241.41	146.25	398.40	58.25	130.51
Other economic services	38.34	111.33	71.46	213.75	57.77	166.04	214.92	737.86
Grants- in- aid to local bodies	**33.99**	**43.63**	**107.04**	**718.60**	**18.14**	**1014.69**	**247.16**	**1037.85**
Revenue expenditure	**3375.26**	**11383.12**	**3510.26**	**10679.87**	**4611.25**	**13785.63**	**4077.30**	**11791.40**

Source: Same as table-2.1.

Appendix 2.5 Per capita non- plan revenue expenditure* in South Indian states-2002-03 and 2011-12

(₹)

Particulars	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
General services	**1390.41**	**3545.81**	**1324.07**	**2840.26**	**2062.50**	**6055.99**	**1566.67**	**3948.13**
Organs of state	30.83	102.24	43.47	113.42	40.63	146.24	29.68	148.40
Fiscal Services	48.70	132.59	65.67	129.30	87.81	282.40	56.67	109.15
Interest payment and debt servicing	794.17	1347.34	614.18	982.00	920.94	1887.30	656.03	1240.08
Administrative services	210.62	704.84	243.66	683.63	260.00	797.75	272.86	713.59
Pension	306.22	1258.80	330.78	959.08	713.44	2604.79	528.10	1722.19
Others	0.00	0.00	26.49	5.56	39.69	337.51	23.33	14.84
Social services	**795.60**	**2693.74**	**838.81**	**2302.45**	**1239.69**	**3838.92**	**1014.29**	**2582.52**
Education	457.25	1532.47	570.15	1527.50	883.13	2648.80	630.16	1812.48
Health	116.06	367.65	122.39	287.73	194.06	658.20	135.56	370.60
Other social Services	222.28	793.62	146.27	487.23	162.50	531.92	248.57	399.45
Economic services	**470.47**	**2145.93**	**634.89**	**1843.37**	**336.56**	**1281.24**	**800.32**	**1536.06**
Agriculture and allied activates	79.92	164.11	138.06	418.99	140.94	618.37	133.02	267.82
Rural development	82.12	315.35	18.28	164.32	23.44	73.95	18.73	51.46
Irrigation and flood control	203.24	929.28	25.75	57.45	34.69	103.13	61.75	120.53
Energy of which power	9.84	519.48	344.22	844.52	0.05	16.47	311.59	227.32
Industry and minerals	7.64	20.66	28.36	44.84	11.25	32.69	20.63	35.09
Transport and communication	76.68	164.34	61.38	181.51	110.31	373.13	44.60	128.16
Other economic services	11.01	32.70	18.84	131.75	15.89	63.50	210.00	705.69
Non- plan revenue expenditure*	**2690.41**	**8429.04**	**2904.85**	**7443.70**	**3656.88**	**12190.72**	**3605.56**	**9008.04**

*Non- plan revenue expenditure excluding grants-in-aid to local bodies.
Source: Same as table-2.1

Appendix 2.6 Share of non-plan revenue expenditure in revenue expenditure in South Indian states – 2002-03 and 2011-12

(In per cent)

Particulars	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
General services	**99.32**	**99.31**	**99.79**	**99.21**	**98.83**	**99.64**	**99.75**	**99.75**
Organs of state	96.75	98.41	100.00	95.45	100.00	88.99	97.91	97.72
Fiscal services	100.00	93.51	97.51	98.50	98.60	99.51	97.28	98.75
Interest payment and debt servicing	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Administrative services	96.16	98.09	99.54	97.80	98.35	94.69	99.36	99.32
Pension	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Others		0.00	100.71		67.91	114.36	100.00	100.94
Social services	**71.54**	**56.09**	**71.06**	**54.32**	**78.74**	**79.03**	**80.14**	**54.71**
Education	87.70	76.86	85.75	73.75	95.22	93.87	95.78	85.54
Health	66.57	60.82	68.84	58.56	81.82	79.08	89.89	64.06
Other social services	53.37	36.00	43.31	29.07	39.66	44.21	54.39	19.75
Economic services	**56.74**	**72.35**	**70.87**	**64.47**	**36.12**	**69.79**	**80.53**	**74.01**
Agriculture and allied activities	70.76	33.63	68.71	43.93	61.28	66.64	73.25	44.83
Rural development	60.73	65.18	18.74	51.22	6.95	59.61	19.38	30.36
Irrigation and flood control	89.00	89.17	66.67	34.45	73.03	95.11	80.04	94.05
Energy of which power	4.62	99.75	97.05	99.96	0.06	100.00	98.10	100.00
Industry and minerals	31.05	19.32	48.25	38.00	27.69	34.57	43.33	41.41
Transport and communication	100.00	77.12	83.08	75.19	75.43	93.66	76.57	98.19
Other economic services	28.72	29.37	26.37	61.64	27.51	38.24	97.71	95.64
Grants-in-aid to local bodies	100.00	100.00	100.00	63.67	100.02	100.00	90.80	90.69
Non-plan revenue expenditure	**79.71**	**74.05**	**82.75**	**69.70**	**79.30**	**88.43**	**88.43**	**76.40**

Source: Same as table-2.1

Appendix 2.7 Per capita subsidy in South Indian states - 2002-03 and 2011-12

(₹)

Particulars	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
1. Social services	**1070.08**	**4759.37**	**1145.68**	**4182.71**	**1541.17**	**4776.13**	**1224.19**	**4494.82**
Education, sports, art and culture	502.24	1969.71	656.84	2047.93	907.68	2772.47	643.73	2036.23
Medical and public health	169.34	593.98	167.00	475.14	228.37	812.81	137.48	537.80
Housing	18.52	115.15	22.19	175.62	20.08	31.18	6.31	83.71
Urban development	53.75	392.71	15.84	123.94	68.15	81.59	26.14	99.94
Labour and employment	6.91	33.06	10.89	53.60	19.96	117.01	14.60	36.02
Social security and welfare	57.70	429.12	63.27	599.51	106.92	452.15	95.33	942.45
Water supply and sanitation	21.46	85.46	56.32	39.94	60.10	114.68	33.13	32.42
Others	240.15	1140.18	153.35	667.02	129.91	394.24	267.47	726.24
2. Economic services	**659.64**	**2488.81**	**766.61**	**2538.98**	**849.35**	**1688.47**	**895.97**	**1888.64**
Crop husbandry	26.87	250.53	42.73	316.06	55.08	258.87	75.52	251.00
Animal husbandry	19.91	76.99	23.64	87.40	26.58	99.43	16.45	74.93
Fisheries	2.00	8.78	2.56	17.16	15.47	60.39	3.06	38.51
Forestry and wild life	16.83	36.20	27.70	134.53	-2.68	21.14	-11.18	11.43
Co-operation	15.76	30.10	2.34	61.35	13.60	34.94	22.14	76.07
Other agricultural Programmes	-0.01	-0.01	-0.02	-0.09	-0.01	-0.03	-2.93	-4.83
Major and medium irrigation projects	202.79	939.26	8.97	34.94	20.11	29.78	62.46	93.18
Minor irrigation	14.34	67.35	14.64	23.62	17.18	40.25	4.89	12.00
Power	208.35	516.41	349.58	837.13	72.55	16.47	317.61	227.32
Village and small industries	14.96	71.85	45.66	73.48	30.23	74.61	33.98	73.76
Industries	-93.44	-273.44	-20.75	-169.30	0.05	1.86	-23.70	-98.71
Ports and light houses	10.12	15.87	11.96	43.76	6.23	-3.56	0.16	3.05
Road transport	62.69	185.01	61.01	196.56	140.00	14.07	58.10	126.91
Tourism	2.63	-0.49	1.80	14.68	20.08	42.66	1.72	4.30
Others	155.84	564.40	194.80	867.70	434.90	997.60	337.70	999.72
Total (1+2)	**1729.72**	**7248.18**	**1912.29**	**6721.69**	**2390.52**	**6464.61**	**2120.16**	**6383.46**
% share of social services in total subsidy	**61.86**	**65.66**	**59.91**	**62.23**	**64.47**	**73.88**	**57.74**	**70.41**
% share of economic services in total subsidy	**38.14**	**34.34**	**40.09**	**37.77**	**35.53**	**26.12**	**42.26**	**29.59**

Source: Same as table-2.1

Appendix 2.8 Recovery rates in social services and economic services in South Indian states

(Per cent)

Items	Andhra Pradesh		Karnataka		Kerala		Tamil Nadu	
	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12	2002-03	2011-12
1. Social services	**3.79**	**0.91**	**2.94**	**1.32**	**2.11**	**1.67**	**3.28**	**4.78**
Education, sports, art and culture	3.67	1.21	1.22	1.12	2.14	1.75	2.16	3.90
Medical and public health	2.87	1.74	6.07	3.29	3.72	2.35	8.83	7.04
Housing	14.37	0.28	36.06	1.74	2.67	1.33	35.92	8.42
Urban development	3.05	0.44	1.30	0.36	0.42	0.53	0.80	44.44
Labour and employment	20.37	9.66	10.22	9.28	6.09	8.38	19.31	13.71
Social Security and welfare	2.95	0.17	1.71	0.95	0.54	0.01	4.21	0.77
Water supply and sanitation	8.98	1.65	0.38	0.38	1.37	0.00	3.81	0.09
Others	3.04	0.10	0.37	0.26	0.78	0.20	0.47	0.19
2. Economic services	**20.44**	**16.09**	**14.43**	**11.21**	**8.86**	**8.03**	**9.84**	**9.00**
Crop husbandry	1.69	1.07	7.65	0.66	6.75	1.32	11.57	6.18
Animal husbandry	0.86	0.44	5.43	0.93	7.54	1.21	5.80	1.77
Fisheries	14.17	3.45	23.78	8.85	4.81	3.04	39.69	2.24
Forestry and wild life	35.37	27.17	40.61	16.29	106.09	75.75	180.97	65.65
Co-operation	18.91	16.14	68.68	11.80	36.01	36.93	11.72	4.61
Other agricultural Programmes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Major and medium irrigation projects	0.54	1.98	30.33	9.53	5.37	12.14	2.36	13.75
Minor irrigation	1.19	2.32	4.32	13.57	1.86	3.57	9.32	1.68
Power	2.16	0.84	1.43	0.91	0.00	0.00	0.00	0.00
Village and small industries	11.18	0.40	6.58	9.49	1.28	0.33	14.38	2.06
Industries	1322.58	924.20	322.46	559.75	99.21	88.73	566.50	1162.27
Ports and light houses	27.68	43.75	7.13	2.07	4.00	136.96	0.00	18.52
Road transport	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	38.36	121.84	43.24	5.60	2.67	3.74	9.75	8.82
Others	20.95	16.03	21.79	5.51	2.82	1.87	4.90	1.18
Total (1+2)	**24.23**	**17.00**	**17.37**	**12.53**	**10.97**	**9.70**	**13.13**	**13.78**
% share of recovery rate by social services in total subsidy	**15.62**	**5.32**	**16.93**	**10.56**	**19.24**	**17.26**	**24.99**	**34.67**
% share of recovery rate by economic services in total subsidy	**84.38**	**94.68**	**83.07**	**89.44**	**80.76**	**82.74**	**75.01**	**65.33**

Source: Same as table 2.1

Appendix 4.1 Category-wise transfers to local bodies

Year	Gram pancha-yaths	% to Total	Block pancha-yaths	% to Total	District pancha-yaths	% to Total	Munici-palities	% to Total	Corpora-tions	% to Total	Total
1	2	3	4	5	6	7	8	9	10	11	12
2002-13	760.84	56.69	179.94	13.41	180.94	13.48	122.60	9.14	97.68	7.28	1342.00
2003-04	741.70	56.32	179.60	13.64	185.01	14.05	117.44	8.92	93.25	7.08	1317.00
2004-05	759.17	56.23	185.02	13.71	190.79	14.13	119.91	8.88	95.11	7.05	1350.00
2005-06	777.05	56.51	192.25	13.98	198.21	14.42	115.12	8.37	92.37	6.72	1375.00
2006-07	787.89	56.28	199.85	14.28	205.83	14.70	114.44	8.17	91.99	6.57	1400.00
2007-08	864.32	56.12	219.33	14.24	226.41	14.70	125.40	8.14	101.19	6.57	1540.00
2008-09	953.34	56.28	241.82	14.28	249.05	14.70	138.49	8.18	111.31	6.57	1694.00
2009-10	1046.67	56.18	266.00	14.28	273.96	14.71	152.24	8.17	122.14	6.56	1863.00
2010-11	1154.17	56.30	292.53	14.27	301.29	14.70	167.70	8.18	134.32	6.55	2050.00
2011-12	NA		NA		NA		NA		NA		NA

NA denotes not available

Source: *Economic Review*, Kerala State Planning Board, various issues.

Appendix 4.2 Status of projects implemented under JNNURM in Kochi and Thiruvananthapuram as on 24-05-2013

Project title	Approved cost (₹in lakhs)	Utilisation as per March 2013 (₹in lakhs)	% utilised against approved cost	% of work completed (Physical progress)	Expected date of completion
Water supply system to Kochi Part-1	20117.00	11154.60	55	60	December 2013
Solid waste management for Kochi	8812.00	3435.29	39	25	NA
Upgrading surface water drainage system of Central area of Kochi	978.00	653.68	67	50	March 2014
Sewerage scheme for Central zone covering six divisions and wards of Kochi	7841.00	12.50	0	0	March 2014
Road improvement and bridge construction at Kochi	10964.00	2594.88	24	25	March 2014
Broadway and Ernakulam market heritage and urban renewal project	2210.00	NA	0	0	March 2014
Kochi total	**50922.00**	**17850.95**	**35**	**NA**	**NA**
Improvement in water supply in Thiruvananthapuram	8716.00	6630.84	76	60	March 2014
Improvement of storm water drainage in zone II are of Thiruvananthapuram	4.39.00	708.85	18	10	March 2014
Improvement of sewerage scheme for Thiruvananthapuram Municipal Corporation	21541.00	7027.08	33	45	March 2014
Extension of sewerage system F&G Block, southern area of Thiruvananthapuram and rehabilitation of the sewerage systems, procurement of sewer cleaning machine, sewerage system for Attukal area, STP for Govt. medical college, Thiruvananthapuram	12115.00	105.47	1	33	March 2014
Solid waste management in Thiruvananthapuram	2456.00	1152.29	47	50	March 2014
Thiruvananthapuram total	**99789.00**	**33475.48**	**34**	**NA**	**NA**

NA denotes not available.
Source: Website of JNNURM.

Appendix 5.1 Enterprises transferred/merged/closed/inactive as on 2012

Name of Enterprise	Status
1.Kerala Hitech Industries Ltd.	Handed over to BrahMos Aerospace
2. Kerala Soaps and Oils Ltd.	Transferred to Kerala State Industrial Enterprises Ltd.
3.Kerala State Industrial Products Trading Corporation Ltd.	Merged with Titanium Products Ltd.
4.Keltron Crystals Ltd.	Merged with Keltron Component Complex Ltd.
5.Keltron Magnetics Ltd.	Merged with Keltron Component Complex Ltd.
6.Keltron Resistors Ltd.	Merged with Keltron Component Complex Ltd.
7.Keltron Power Devices Ltd.	Taken over by Keltron
8.Keltron Rectifiers Ltd.	Taken over by Keltron
9.Trivandrum Spinning Mills Ltd.	Taken over by KSTC
10.Kerala State Salicylates and Chemicals Ltd.	Transferred 25 acres of land to SIDCO for setting up a telecom city
11.The Metropolitan Engineering Company Ltd.	Transferred 1.26 acres of land to KSIE to establish a hyper super Market cum office complex
12.Keltron Counters Ltd.	Winding up in progress
13.Kerala Construction Corporation Ltd.	Liquidation in progress
14.Scooters Kerala Ltd.	Winding up in progress
15. Kerala State Rural Development Board	Dissolved in July 2003
16.Kerala Garments Ltd.	Applied for Easy Exit Scheme on 18-01-2011
17.Kerala State Wood Industries Ltd.	No activity
18.Travancore Plywood Industries Ltd.	No activity
19. Kerala State Detergents and Chemicals	No activity
20. Astral Watches Ltd.	No activity
21. Trivandrum Rubber Works Ltd.	Unit closed

Source: Same as table 5.1.

Appendix 6.1 Major heads in which rush of expenditure is noticed towards the end of the financial year 2011-12

(₹ in crore)

Sl. No.	Item	Total expenditure during the year	Expenditure during the last quarter of the year		Expenditure during March 2012	
			Amount	Percentage of total expenditure	Amount	Percentage of total expenditure
1	Housing	105.55	79.81	75.61	73.29	69.44
2	Urban development	273.98	209.16	76.34	148.89	54.34
3	Hill areas	33.97	33.35	98.17	29.51	86.87
4	Power	54.87	54.87	100.00	54.60	99.51
5	New and renewable energy	43.26	40.81	94.34	40.43	93.46
6	Ecology and environment	12.98	10.50	80.89	10.04	77.35
7	Capital outlay on water supply and sanitation	90.82	58.18	64.06	48.00	52.85
8	Capital outlay on housing	19.52	12.45	63.78	11.92	61.07
9	Capital outlay on urban development	87.28	87.28	100.00	87.28	100.00
10	Capital outlay on information and publicity	0.92	0.92	100.00	0.92	100.00
11	Capital outlay on welfare of scheduled castes/scheduled tribes and other backward classes	49.09	40.13	81.75	26.85	54.70
12	Capital outlay on soil and water conservation	13.63	9.94	72.93	8.45	62.00
13	Capital outlay on other rural development programmes	29.05	25.95	89.33	25.95	89.33
14	Capital outlay on telecommunication and electronic industries	136.25	127.91	93.88	91.75	67.34
15	Capital outlay on consumer industries	12.21	12.21	100.00	12.21	100.00
16	Capital outlay on industries and minerals	137.49	127.60	92.81	75.00	54.55
17	Capital outlay on ports and light houses	214.07	160.25	74.86	109.24	51.03
18	Capital outlay on civil aviation	82.21	59.40	72.25	59.40	72.25
19	Capital outlay on inland water transport	15.40	14.01	90.97	12.76	82.86
20	Capital outlay on tourism	122.30	84.22	68.86	70.78	57.87
	Total	**1534.85**	**1248.95**	**81.37**	**997.27**	**74.34**

Source: *Report (No. 1) of the Comptroller and Auditor General of India on State Finances* for the year ended March 2012.

Appendix-7.1

Public institutions started/ announced through the budgets during 2002-03 to 2013-14

A. Universities already started

- Fisheries University
- Kerala Veterinary and Animal Sciences University
- Kerala University of Health and Allied Sciences
- National University of Advanced Legal Studies
- Thunchathu Ezhuthachan Malayalam University

B. Universities announced in the budget

- Ayurveda University
- Technical University

C. Autonomous institutions announced through the budgets

- Larry Baker Heritage Centre
- Bio Technology Park
- Ambedkar Centre
- Kerala Remote Sensing and Environmental Centre
- Chemical Emergency Response Centre
- Freedom Struggle History Museum
- Regional Institute of Ophthalmology
- National Institute of Handloom Development
- National Institute of Fashion Technology
- International Institute of Aesthetics
- Vaikkam Muhammed Bahseer Cultural Centre
- Institute of Pharmaceutical Drugs Research
- Kerala Institute of Retail Management
- Folklore Academy
- Kerala State Housing Development Finance Corporation
- Centre for Public Policy Research
- International Research and Training Centre for Below Sea Level Farming
- Academic city
- Knowledge city
- Indian Institute of Technology
- Integrated Institute of Science and Technology
- Science City
- Mural City
- Art Village
- Centre for Budget Studies
- Malabar Cultural Village
- Malayinkeezhu Madhavakavi Sanskrit Centre
- Dr. Benjamin Baily Study Centre and Museum
- Modern Museum/UNESCO Heritage Centre

Source: Budget speeches of Finance Ministers of Kerala for the relevant years.

Appendix 7.2 Per capita consumer expenditure of major states as per different rounds of NSSO surveys

(In rupees)

State	27th round (1972-73)	32nd round (1977-78)	38th round (1983)	43rd round (1987-88)	50th round (1993-94)	55th round (1999-00)	61st round (2004-05)	66th round (2009-10)
A.P	522.95	902.88	1512.08	2147.29	3904.79	6572.96	8562.42	19101.06
Rank	12	7	9	8	9	10	9	5
Bihar	524.30	730.23	1208.56	1737.33	2871.38	4961.57	5430.12	10120.69
Rank	11	13	14	13	14	14	14	14
Gujarat	649.11	959.93	1647.28	2260.93	4323.46	8254.51	9612.05	17642.96
Rank	4	5	5	6	5	6	6	7
Haryana	852.11	1141.71	1940.05	2710.47	4950.73	9389.20	11481.83	21805.87
Rank	2	3	2	2	3	3	3	3
Karnataka	581.30	857.10	1569.65	2034.86	3855.90	7780.71	8356.36	17261.71
Rank	6	8	8	10	10	7	10	8
Kerala	**545.05**	**919.83**	**1837.65**	**2697.72**	**5082.06**	**9843.55**	**13203.93**	**25680.69**
Rank	**8**	**6**	**3**	**3**	**2**	**1**	**1**	**1**
M.P	537.37	790.55	1332.48	1959.48	3506.23	5832.62	6837.67	13549.12
Rank	9	12	12	11	12	12	12	11
Maharashtra	631.77	1062.15	1658.69	2462.19	4527.81	8502.47	9904.55	21091.28
Rank	5	4	4	4	4	5	4	4
Orissa	453.37	673.71	1277.01	1691.51	2971.72	4987.06	5506.86	11439.32
Rank	14	14	13	14	13	13	13	13
Punjab	917.29	1412.74	2124.10	3057.74	5547.64	9682.04	12280.36	22159. 52
Rank	1	1	1	1	1	2	2	2
Rajasthan	657.93	1294.99	1629.44	2317.40	4207.31	7380.47	8250.02	15814.13
Rank	3	2	6	5	6	8	11	9
Tamil Nadu	518.77	854.50	1571.97	2256.04	4173.48	8696.22	9884.86	18754. 20
Rank	13	9	7	7	7	4	5	6
U.P	531.96	844.85	1338.97	1957.46	3609.54	6242.92	8710.81	12768.31
Rank	10	10	11	12	11	11	8	12
West Bengal	557.48	835.13	1482.93	2144.00	4045.00	6937.76	8749.99	15514.90
Rank	7	11	10	9	8	9	7	10

Note : All rounds are quinquennial surveys.
Source: Worked out from various National Sample Survey Organisation publications.

Appendix 7.3 Proportion of food and non-food items in the consumer expenditure of Major states -2009-10

States	Per capita consumer expenditure (₹)	Per capita food expenditure (₹)	Proportion of food to total (%)	Per capita non- food expenditure (₹)	Proportion of non-food to total (%)	Rank
1	2	3	4	5	6	7
Andhra Pradesh	19101.06	9882.13	51.74	9218.93	48.26	9
Assam	13493.84	8437.84	61.45	5293.80	38.55	16
Bihar	10120.69	6348.32	62.73	3772.48	37.27	17
Chhattisgarh	11975.75	6294.77	52.56	5680.97	47.44	10
Gujarat	17642.96	9042.64	51.25	8600.31	48.75	8
Haryana	21805.87	10705.85	49.10	11100.07	50.90	6
Jharkhand	12259.09	7034.08	57.38	5225.01	42.62	14
Karnataka	17261.71	8387.82	48.59	8873.93	51.41	4
Kerala	**25680.69**	**10992.49**	**42.80**	**14688.15**	**57.20**	**1**
Madhya Pradesh	13549.12	6766.66	49.94	6782.42	50.06	7
Maharashtra	21091.28	9648.76	45.75	11442.52	54.25	2
Orissa	11439.32	6657.36	58.20	4781.96	41.80	15
Punjab	22159.52	10303.89	46.50	11855.63	53.50	3
Rajasthan	15814.13	8325.29	52.64	7488.93	47.36	11
Tamil Nadu	18754.20	9144.72	48.76	9609.48	51.24	5
Uttar Pradesh	12768.31	6899.52	54.04	5868.80	45.96	12
West Bengal	15514.90	8525.24	54.95	6989.66	45.05	13

Source: Worked out using the data from National Sample Survey Organisation report *Household Consumption of various Goods and Services in India*, NSS 66th Round, NSS Report No. 541(66/1.0/3).

Appendix 8.1 Penalty provisions envisaged in the sales tax / VAT Acts of Kerala at different points in time

Penalty provisions	1977	1996	2001	2013
Imposition of penalty by officers and authorities*	**₹50** or twice the amount of sales tax or other amount evaded or sought to be evaded, whichever is higher	An amount not exceeding **₹50000** or twice the amount of sales tax or other amount evaded or sought to be evaded	An amount not exceeding **₹10000** or twice the amount of sales tax or other amount evaded or sought to be evaded	An amount not exceeding **₹10000** or twice the amount of tax or other amount evaded or sought to be evaded
Penalty for submitting untrue return etc.	1. Fine upto **one thousand rupees**, 2. Simple imprisonment which may extend to six months or fine not less than the tax or other amounts due but not exceeding **two thousand rupees,** or to both	1.Fine which may extend to **twenty five thousand rupees**, 2.Simple imprisonment which may extend to six months or fine not less than the tax or other amounts due but not exceeding **fifty thousand rupees,** or to both	1.Fine which may extend to **twenty five thousand rupees**, 2.Simple imprisonment which may extend to six months or fine not less than the tax or other amounts due but not exceeding **fifty thousand rupees**, or to both	1.Fine which may extend to **twenty five thousand rupees**, 2.Simple imprisonment which may extend to six months or fine not less than the tax or other amounts due but not exceeding **fifty thousand rupees**, or to both
Penalty for illegal collection of tax	Punishable with imprisonment for a term which shall not be less than **six months but which may extend to two years** , and with fine which shall not be less than **five thousand rupees** but which may extend to **twenty five thousand rupees**	The person shall be liable to pay penalty not exceeding **five thousand rupees** and any sum collected by the person by way of tax, **No prosecution for an offence under this Act** shall be instituted in respect of the same facts on which a penalty has been imposed or forfeiture has been ordered under this section	The person shall be liable to pay penalty not exceeding **five thousand rupees** and any sum collected by the person by way of tax, **No prosecution for an offence under this Act** shall be instituted in respect of the same facts on which a penalty has been imposed or forfeiture has been ordered under this section	The person shall be liable to pay penalty not exceeding **five thousand rupees** and any sum collected by the person by way of tax, **No prosecution for an offence under this Act** shall be instituted in respect of the same facts on which a penalty has been imposed or forfeiture has been ordered under this section

Composition of offences	(a)Where the offence consists of the evasion of any tax recoverable under the Act, in addition to the tax so recoverable, a sum of money not exceeding **one thousand rupees** or double the amount of the tax recoverable, whichever is greater and (b) in other cases, a sum of money not exceeding **one thousand rupees**	(a)Where the offence consists of the evasion of any tax so payable under the Act, in addition to the tax so payable, a sum of money equal to the amount of tax so payable subject to a minimum of **rupees one hundred and a maximum of rupees one lakh** (b) in other cases, a sum of money not exceeding **Fifty thousand rupees**	(a)Where the offence consists of the evasion of any tax so payable under the Act, in addition to the tax so payable, a sum of money equal to the amount of tax so payable subject to a minimum of **rupees one hundred and a maximum of rupees two lakh**s (b) in other cases, a sum of money not exceeding **ten thousand rupees**	(a)Where the offence consists of the evasion of any tax so payable under the Act, in addition to the tax so payable, a sum of money equal to the amount of tax so payable subject to a minimum of **rupees five hundreds and a maximum of rupees Eight lakhs**; Provided that the maximum compounding fee collectable against a single offence spread over several return periods in a financial year shall be **two lakh rupees**, (b) in other cases, a sum of money not exceeding **ten thousand rupees**
**** Imposition of penalty by authorities**.*				
(a) being a person required to register himself as a dealer under this Act, did not get himself registered; or				
(b) has failed to keep true and complete accounts; or				
(c) has failed to submit any return as required by the provisions of this Act or the rules made there under; or				
(d) has submitted an untrue or incorrect return; or				
(e) has made any bogus claim of **1** [input tax credit, special rebate or refund] or				
(f) has continued the business during the period of suspension of registration; or				
(g) has failed to return the unused statutory Forms and Declarations under this Act after the cancellation or suspension of the registration; or				
(h) has not stopped any vehicle or vessel when required to do so; or				
(i) has failed to comply with all or any of the terms of any notice or summons issued to him by or under the provisions of this Act or the rules made thereunder; or				
(j) has acted in contravention of any of the provisions of this Act or any rule made thereunder, for the contravention of which no express provision for payment of penalty or for punishment is made by this Act; or				
(k) has abetted the commission of the above offences, or				
(l) has abetted or induced in any manner another person to make and deliver any return or an account or a statement or declaration under this Act or rules made thereunder, which is false and which he either knows to be false or does not believe to be true, such authority may direct that such person shall pay, by way of penalty, an amount not exceeding twice the amount of tax or other amount evaded or sought to be evaded where it is practicable to quantify the evasion or an amount not exceeding ten thousand rupees in any other case:				

Source: Sales tax and Value added tax Acts, Relevant issues of Finance Acts, Government of Kerala.

Appendix 8.3 Amendments in agricultural income tax rate and levy

Slab System - 1.4.1991	1.4.2005	1.4.2013
Person - Total Agricultural Income upto22000 exempted) Total Agricultural Income exceeds 22000 to 30000 - 20% 30000 to 5000 - 30% 5000 to 1 Lakh - 40% Above lakh - 50%	**Person: Total Agricultural Income** Up to 40,000 - Nil 40000 to 60000 - 10% 60,000 to 1 lakh - 20% Above 1 lakh - 30%	No tax shall be charged on any person other than a company registered under the companies Act, 1956 (Central Act 1 of 1956) with effect from 1st April, 2013.
Domestic Co. & Co-operative Society Up to 25,000 - 45%	**Domestic Co. & Co-operative Societies** Total Agricultural Income does not exceed ₹ 25,000 35% total Agrl. Income	**Domestic Company** Total Agricultural Income does not exceed ₹ 25,000 35% total Agrl. Income
25000 to 1 Lakh 50% 1,00,000 to 3 lakh 55%	Exceeds ₹ 25,000 but does not exceed 1 Lakh 40% Between 1 Lakh 3 lakhs 45%	Exceeds ₹ 25,000 but does not exceed 1 Lakh 40% Between 1 Lakh 3 lakhs 45%
31 lakh to 10 Lakh 60% Above 10 lakhs 65% Foreign company 85%	Above 3 lakhs 50% of total Agrl. Income Foreign company 80%	Above 3 lakhs 50% of total Agrl. Income Foreign company 80%

Before 1.4.2001	1.4.2001	1.4.2013
Persons upto 3 hectare income exempted from tax Agricultural Tax (basic exemption) other than company and firm	Persons upto 5 hectares were exempted from tax at the rate specified except company and firm200-01 SRO 293/2000	
	Rubber and coffee cultivators having landed property below 20 hectares (2000-01) exempted from tax **2006-07** Coffee, tea, pepper, cardamom assesses exempted from tax during the year2006-07 Tea & Coffee 2003-04, 2004-05 exempted	No tax shall be charged on any person other than a company registered under the companies Act, 1956 (Central Act 1 of 1956) with effect from 1st April, 2013.

Source: Kerala Agricultural Income Tax Act and relevant issues of Finance Acts, Government of Kerala

Appendix 8.5 Selected cases of annual lease rent rates of government land leased out for various purposes

Lease rent rates in 2004		Lease rent rates in 2012	
Purpose	**Rate per annum**	**Purpose**	**Rate per annum**
Land leased out to individuals or institutions purely of commercial nature Land involved in existing long tern lease for 99 years to individuals and social and charitable institutions at nominal lease rent Land leased to co-operative societies and institutions under the co-operative societies Land leased out to educational institutions and hospitals etc. 1.For minimum extent required for the essential functioning of the institution 2. Beyond for the essential functioning and used for commercial purposes	10% of market value 5% of market value 5% of market value 2% of market value 5% of market value	Land leased out to: 1. individuals or institutions purely of commercial nature and occupying up to 40Sq.M 2. Institutions purely of commercial nature and occupying from 41 to 400 Sq.M 3. Institutions purely of commercial nature and occupying above 400 Sq.M 4. Individuals or institutions for non-commercial purpose 5. Land leased out to setting up of mobile communication towers Land leased out to: 6. Individuals or institutions for social and charitable purposes with less than 40 Sq.M 7. Individuals or institutions for social and charitable purposes over and above 400 Sq. M 8. Institutions for cultural activities including press clubs	2% of market value or minimum ₹5000 5% of market value or minimum ₹15000 5% of market value 2% of market value 5% of market value 0.5% of the market value 2% of the market value 2.5% of the market value
Land leased out to public sector institutions, institution of Central and state governments 1. When used for non commercial purposes 2. When used for	 2% of market value 5% of	Land leased out to co-operative societies and institutions under Co-operative Societies Act Land leased out to: 1. Aided educational institutions	2% of the market value 2% of the market value

commercial purposes	market value	2. Unaided educational institutions 3. Hospitals	5% of the market value 2% of the market value
		Land leased out to institutions having license as per Kerala Foreign Liquor Rules 1963 including those for promotion of tourism etc.	5% of the market value
		Land leased out to: 1. Public sector institutions of the state governments 2. Central government or public institutions of other state governments	 2% of the market value 3% of the market value
		Land leased out to: 1. Institutions like libraries and reading rooms affiliated to the Kerala Library Council of Sports Clubs occupying up to 40 Sq. M 2. Institutions like libraries and reading rooms affiliated to the Kerala Library Council of Sports Clubs occupying up to 40 Sq. M	 0.5% of the market value 5% of the market value

Source: Respective government orders of the Revenue Department, Government of Kerala.

Appendix 8.6 Typical cases of prime government land within Thiruvananthapuram Corporation leased freely or at concessional rates or without fixing any rate

Location and area of land in cents	Years of lease	Annual rate of lease rent (₹)	Purpose and beneficiary	Market value per cent as per 'offer price' in 2011 (₹ Lakhs)	Estimated value of the land (₹ in lakhs)
Vanchiyur village 20	Since 1966	Not fixed	Pettah S.N.D.P for philosophical work	14.82	296.4
Sasthamangalam village 130	30 years from1979	10.30	For running Sisuvihar School	12.84	1669.72
Sasthamangalam Village 427	50 years from 1975	Not fixed	Tennis club	12.84	5484.39
Pattom village 11	10 years from 24-04-2010	1100	Sankar memorial	9.88	108.68
Vanchiyur village 78	99 years from17-01-1999	Not fixed	Y.M.C.A for commercial purposes	14.82	1155.96
Kawadiar 45.37	30 years from 3-08-2010	12000	For constructing a timber factory by Ex-service men co-operative society	17.78	806.68
Thycaud 55	30 years from 8-10-2009	Not fixed	Educational purpose by Institution of Engineers	14.82	815.10

Note 1: 1 cent=434.6 square feet

Source: *Explanatory Memorandum on the Budget for 2013-14*, Finance Department, Government of Kerala, pp.412-421.

Appendix 8.7 Dates of revision of rates of non-tax revenue sources in various government departments

Department	Date of latest revision
Public works	21-12-2010 19-01-2013
Home	13-08-2009 30-08-2010 23-05-2011 18-04-2013
Planning and economic affairs	07-10-2009
Forest and wild life	03-09-2009
Health and family welfare	17-05-2010 01-10-2012
Forest and wild life	11-02-2011 31-12-2012
Higher education-printing	07-06-2011
Fisheries and port	18-10-2010 13-07-2011 31-03-2012 06-02-2013 23-05-2013
Revenue	22-11-2011
Cultural affairs	04-01-2012 31-07-2012
Agriculture and animal husbandry	15-03-2012 05-12-2012
Survey and land records	23-05-2013
General education	20-05-2013 08-07-2013
Power department	31-12-2012 05-04-2013
Water resources	22-12-2012 12-03-2013
Police	07-01-2013
General administration-Coordination	06-06-2013
Finance (Establishment)	22-02-2013

B. Revision proposed and awaiting orders
Co-operation
Motor vehicles
Industries and commerce
Taxes
Port
Public works
Archeology
Industrial training
Labour commissionerate
Irrigation-administration
Archeology-Pashasikudeeram project museum
Tourism
Excise
Mining and geology
Registration
Land revenue
Technical education
Food and civil supplies
Factories and boilers
Health and family welfare
Medical education
Ombudsman for LSG institutions
Commercial Taxes Department
Vocational higher secondary

C. Awaiting detailed proposals from Heads of Departments
Water appellate authority
Department of agriculture
Animal husbandry
Irrigation designs and research board
Public works-national highway

Source: Non-tax Revenue Cell, Finance Department, Government of Kerala

Appendix 8.8 inadequate budgetary provision for construction projects in selected departments

(₹ in lakhs)

Department	No. of construction projects	Estimated project cost	Budgetary provision during 2013-14	Col.4 as a percentage of col.3
1	**2**	**3**	**4**	**5**
Administration of Justice	5	198.50	50.00	25.19
Land revenue	55	767.42	100.0	13.03
Stamps and registration	44	1411.95	250.00	17.71
State Excise	9	4633.68	200.00	4.32
Commercial taxes	3	1120.50	100.00	8.92
Public Service Commission	3	700.00	50.00	7.14
Secretariat general service	8	580.00	200.00	34.48
Treasury and accounts	23	2661.80	50.00	1.88
Civil works	64	51525.52	1092.50	2.12
Jail	8	265.50	50.00	1.88

Source: *Detailed Budget Estimates 2013-14-Appendix-2* (details of public works having administrative sanction)