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**Reorienting public finance with reference
to local governments- Lecture - II**

Kerala migration survey 2023

Fiscal imbalances at local level: Myth and reality

**A legal outline on initiatives towards green tax:
With special reference to India**

**Charting the course: Trends in public health expenditure across
Indian states with a focus on Kerala's steadfast commitment.**

**Explaining the transition towards knowledge economy:
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**Global shifts and India's external sector:
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Employment and unemployment in INDIA: A conundrum

**Mission LiFE: India's emphasis on individual responsibility
as a model for sustainable climate action**

GST updates

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Contents

	Page No
1. Reorienting public finance with reference to local governments- Lecture - II	3
MA Oommen	
2. Kerala migration survey 2023	20
S Irudaya Rajan	
3. Fiscal imbalances at local level: Myth and reality	29
Shency Mathew	
4. A legal outline on initiatives towards green tax: With special reference to India	42
Meenu Mohan	
5. Charting the course: Trends in public health expenditure across Indian states with a focus on Kerala's steadfast commitment.	52
Swathy Varma P R	
6. Explaining the transition towards knowledge economy: Empirics from Kerala	62
Veena Renjini K K	
7. RBI remained cautious yet sounded dovish in the October policy meet	77
Aswathy Rachel Varughese	
8. Global shifts and India's external sector: Analyzing trade, services, and stability in 2024	82
Anjalikrishna Sudhakaran and Amalu Seby	
9. Employment and unemployment in INDIA: A conundrum	85
Rhwithwik M.S and Gopika G	

10. Mission LiFE: India's emphasis on individual responsibility as a model for sustainable climate action	91
Rju Mohan A & Munawwara Zubair	
11. GST updates	97
Vidya V Devan	
12. New studies on Kerala	114
Young scholars' forum, GIFT.	
13. What is new(s) from GIFT	121
14. Call for Papers: Kerala Economy Journal	132
15. KTR Advertisement	134

Lecture II

Reorienting public finance with reference to local governments

M A Oommen

Abstract

This lecture develops the argument that Western public finance theories need significant modification to make them relevant to fit in with the decentralisation reform packages that 73rd 74th Amendments made in the Constitution of India and the institutions they have provided for. Some relevant suggestions to reconstruct public finance of India with its local finance components and make it a viable and organic part of Indian fiscal federalism is presented in this paper.

Keywords: *Market-preserving federalism, own source revenue, fiscal illusion, hard budget, union financed commission, state finance commission*

4.0. Received theories of fiscal federalism and the 73rd/74th constitutional amendments

In the last lecture we have covered a large ground. We have tried to define public finance from a wide spectrum. We have noted how the leading text books as well as the FGT and SGT have failed to walk beyond the market preserving federalism. I opened the doors of a new pathway of working public finance as tool for building a new social democracy. To be sure, Thomas Piketty's works on capital and inequality provided the motivation.

First I shall try to give a brief critique of the western theories of fiscal federalism with

special reference to the new dispensation of Indian local governments in India.

The normative theory of fiscal federalism with a small beginning in the 1950s has grown in size and substance and has considerable bearing on policy choices of several advanced countries of the world. Some indicative salience with focus on local governments are discussed. The issue of local finance was brought to theoretical literature prominently by Charles Tiebout (1956) as I have told you in the previous lecture. His model widely called 'voting-with-the feet' theory formulated under severe restrictive assumptions envisages the possibility of a consumer 'to shop' around

and choose a jurisdiction where the burden of taxes and benefits of services obtained could be matched¹. To be sure, it was the well known tripartite classification of public sector responsibility by Musgrave (1959) viz., stabilization, distribution and allocation that provided the earliest guidelines for the sharing of functions among the various levels of government. In the decentralized system, allocative efficiency and welfare gains are enhanced because residents in different jurisdictions could choose the mix of public local goods and taxes that best conforms to their preferences [Smoke (200):6]. A vast volume of literature on fiscal federalism has been built starting with Musgrave and indicatively by Tiebout three years earlier. No one can miss the contributions of Oates beginning with his 'decentralisation theorem' (1972) which argues for a geographical area that internalizes the benefits and costs of a public good including precisely the set of individuals who consume them. It is asserted that welfare is maximized if each local government provides the Pareto-efficient output for its constituency [Oates (1972):35-38]. The ideal Pareto-efficient jurisdiction of Oates cannot be achieved in practice even in developed countries, not to speak of poor countries and backward jurisdictions where many citizens simply cannot even pay taxes or user charges. Imagine a world where fiddling a Nero cannot be disturbed while Rome is burning or specifically the affluent rich of the world who cannot make sacrifices (e.g., taxation) while people die of malnutrition and hunger. Following Qian and Weingast (1997) Oates (2005) distinguishes between the first generation

theory of fiscal federalism and the emerging second generation theory of fiscal federalism. I have already noted this in the first lecture.

The first generation theory (FGT) of public economics comprises what Oates (2005) calls the Arrow-Musgrave-Samuelson (AMS) perspective which has been formalized by him in his 'decentralised theorem'.

The FGT "envisioned a setting in which governments at different levels provided efficient levels of outputs of public goods for those goods whose spatial patterns of benefits were encompassed by the geographical scope of their jurisdictions. Such an outcome was called a 'perfect mapping'(or "fiscal equivalence" to use Mancur Olson's (1969) terminology) [Oates (2005):351].

Of course FGT assigned a major role to the central government in establishing an equitable distribution of income and high level of stabilization. In FGT the assignments of functions and taxes were built largely on the Musgravian model, but it also addressed the issue of transfers including the equalizing potential of grants in the theory and practice of fiscal federalism.

The so-called second generation theory of fiscal federalism (SGT) although very wide-ranging is quint-essentially only a refined elaboration of the first. It tries to strongly lay the foundations of a market preserving federalism. It seems the presumption is that strong markets contribute to the viability of the fiscal federal structure [See Wildasin (2004)]. There is a strong emphasis on hard-

budget constraints for local governments. The pervasive phenomenon of local governments going to central governments for fiscal reliefs and bailouts are strongly discouraged in a well-functioning federalism. Can we follow this in contemporary India? The answer is a big no.

We shall now try to explain why these theories cannot be accepted without modifications in the context of the local governance system envisaged in the two CAs. One, the theories did not evolve out of the practical needs of this country. The so-called costless out-migration of 'consumers' in search of their preferred public-goods package or voting by feet as Tiebout puts it cannot be imagined for rural India tied to land. Many go out for work to the neighbouring affluent regions only to return home. The tragic picture of migrant workers with their families from Delhi moving back to their homes (say in Uttarpradesh or Bihar) at the sudden lockdown announcement in March 2020 by the central government an illustrative case to counter the fallacy of the Western theories that postulate that households can move around in search of local jurisdictions that internalize the costs of taxes and benefits of public services. . Two, these theories of federalism are market preserving. Treating government as a Leviathan [for e.g. Brennan and Buchanan(1980)] and proposing decentralisation only as a counter to correct the evils of market failures cannot be easily accepted in a social state seeking to fight poverty and want an inclusive welfare state. Governments that intervene only to contain market failures alone cannot work effectively to ensure redistribution, social

justice and common good.

Three, the vast fiscal federalism literature does not recognize the institution of panchayats, the reform for which the entire 73rd Constitutional Amendment was designed in India². Not only that, local governments in the received literature do not have such functions as 'planning for economic development and social justice'[Article 243G] or mandated to conserve natural resources, do spatial panning, prepare development plans and so on [Article 243ZD]. Given the historical and political context of Indian decentralisation the fiscal federalism approach that roots its theoretical premises entirely on market mechanism cannot appreciate the expenditure and organizational responsibilities of Indian local governments. The Left Democratic Front (LDF) government imbibing the significance of the CAs launched the famous people's plan campaign and took to a 'big bang' approach devolving 35-40% of investible resources to the local governments. A series of reforms were successfully launched to show that the two Amendments were a feasible and relevant project.

Four, as I have said two basic questions 'who should do what' and 'who should tax where and what?' have influenced the evolution of the fiscal federal literature, as well as policy options in most federal countries [Oates(1972); Musgrave(1983); King(1984); Bird(2000); Shah(1994); Litvacketal (1998); Bahl and Linn(1992), among others]. One of the serious weaknesses of fiscal federalism in India is that these questions were never asked, not even at the time of the

Constitutional Assembly debates. The time of 73rd/74th CAs was another historic occasion to raise these questions and go for a meaningful functional mapping.. No one raised them and the price for that is seen reflected in the confusion and policy inaction that followed [several papers of Oommen (2004; 2005; 2022 among others) tried to bring these issues into scholarly attentions].

Five, it is important to recognize that the microeconomic theory of consumer choice is inapplicable to the social and fiscal realities of Indian federalism. The formal theory based on a demand-driven consumer choice [FGT in general] is inapplicable to India. India's rural local governments with their three-tier system (PRIs) cannot fit into a model that would internalize costs and benefits as already noted. It is important also to stress that the role of local governments in the Indian democratic context is related to the developmental concept of the citizen in a wider community than the instrumental concept of the consumer whose voting is an expression of self-interest. (Mulgan (1997); Council of Europe(1995)]. The concept of consumer choice is also not in sympathy with the concept of citizen's participatory rights as exemplified in the institution of gram sabha where all citizens meet to discuss their development problems and priorities, the reservation of seats for women and backward classes and many others.

Six, it will be difficult to follow the hard budget discipline in the local government context in India. Even so, it is useful to note what an expert on budgets observes:

"Without budget constraints on local politicians, a decision to delegate more authority to sub-national governments in expenditure set incentives for local budgets to draw on the common national tax base to capitalize on it politically in the local political arena without bearing the costs of public expenditure and debt. One way to solve such common resource problems would consist in installing local level budget constraints". [Von Daniels(2016):45].

Indeed there is an important need to promote own source mobilization in India certainly to thwart the fiscal illusion among sub-national level politicians.

5.0. Union finance commissions and the third tier

Federal financial relations in the country have evolved through political, institutional, financial and functional changes. A major watershed in this evolutionary process as we have pointed out already is the 73rd and 74th Amendments to the Constitution that ushered in "a third tier in the federal structure"[FC-10, p.4]. We shall focus on union finance commission vis-a-vis the local governments. It is organized under three broad heads: UFC and the constitutional mandate; approach of UFCs and UFC and fiscal balance.

5.1. UFC and the constitutional mandate

The 73rd/74th Constitutional Amendments (CAs) added Part IX and Part IXA to the Indian Constitution which introduced sweeping institutional reforms in democratic decentralisation. Panchayats and municipalities which were but appendages of rural and urban

departments have been accorded a constitutional status with mandates to deliver economic development and social justice at the bottom level of governance. Although not a part of the Part IX and Part IXA, it is significant that section 280(3)(bb) and 3(c) were added as part of the decentralisation reforms. They are:

- (bb) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats in the State on the basis of the recommendations made by the Finance Commission of the State; and
- (c) the measures needed to augment the Consolidated Fund of a State to supplement the resources of the Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State;

These clauses which have invariably found a place in the ToR of UFCs since FC-11 do not seem to be adequately appreciated by the academic community as well as by the professionals and policy makers of India. Some clarification seems to be in order. One implication in the UFC's task of augmenting resources of local governments (LGs) is the question for what? [See Oommen (1998)]. Provision of certain basic services ensuring every citizen a minimum comparable quality of elementary capabilities in health, education, drinking water, shelter etc., and infrastructure at the local level has been a longstanding need of India. More than 60 years of planning and the paradigm shift to market-mediated growth under the new regime have not succeeded in ensuring this in any visible manner. The two clauses may be seen in this larger context.

Two, given the fact that the decentralisation reform process is an integrated project the two clauses have to be read along with the other complementary clauses such as 243I and 243Y, 243G and 243W along with 243ZD. Articles 243I and 243Y establishing state finance commission (SFC) use almost the same language as the UFC. Evidently the Constitution treats the LG on par with the state when it comes to sharing of financial resources and rectifying vertical and horizontal imbalances. It follows also that articles 243G and 243W mandating LGs to deliver 'economic development and social justice' and Article 243ZD to constitute a district planning committee (DPC) to facilitate 'spatial planning' and draw up bottom-up district planning are to be treated as integrated efforts. UFC and SFC complement each other in promoting territorial equity by facilitating the process of local planning and provisioning of core services. While it is for the UFC to ensure interstate horizontal equity in the allocation of local grants among the states, SFC has to carry the process forward in promoting intra-state equity by designing relevant sub-state level transfer arrangements among panchayats and municipalities within a state.

Third, some UFCs, considered the constitutional wording 'on the basis of the recommendations made by the Finance Commission of the state', unnecessary and restrictive. FC-XI wanted to abolish these words and others have recommended to modify them to 'after taking into consideration the recommendations' of SFC. While this modification may be relevant, no one can deny the fact that here the constitution is underscoring the

organic link in Indian fiscal federalism. Unfortunately UFCs have not taken the clause seriously as pertinent. They generally berate SFC reports. Some have even made sweeping statements like 'sketchy'[FC-12], 'patchy'[FC-13] and the like without any substantiation. It is easy to summarily dispose of but probably difficult to study in-depth. I think it is the bounden responsibility of a UFC to oversee from a national perspective how the existing and emerging transfer arrangements serve the constitutional mandate of decentralised democracy and equitable fiscal balance within the framework of Indian fiscal federalism.

5.2. Approach of UFCs - A critique

To study the process of fiscal decentralisation in India, it is important to critically review the approach of the UFCs since the two CAs were enacted. Although the constitution used the term local government, all the UFCs preferred to use the term local bodies, FC-15 is probably an exception.

All the UFCs implicitly or explicitly used a framework for their recommendations with reference to local government. FC-13, FC-14 and FC-15 were more explicit in their approach. While there is broad agreement on several issues there are significant differences as well. Continuity and relevant changes should be the hallmark of any reform process and this is pertinently so in regard to decentralisation reforms which do not have many political champions to take them forward.

Although FC-10 had no direct mandate with regard to LGs, they understood the

gravity of the reforms envisaged and acted *suomoto* and made direct transfers. FC-10 were of the view that the transfer of functions listed in the schedules XI and XII would also involve simultaneous transfers of functionaries and funds and therefore do not entail any extra financial commitment. That this will happen simultaneously and easily is an implausible assumption especially in the context of India's bureaucratic and highly centralized administrative set up. Several legislative hurdles also remained to be negotiated. Even so, FC-10 felt the need for supplementary resources in the transition process. It is important to note that while all the UFCs appreciated the significance of the heralding of the third tier in the Indian federal polity and sought to push the process of decentralisation reforms, there are significant difference in the priorities, strategies and policies recommended.

The five UFCs do not seem to have used SFC reports as a source of guidance in formulating their recommendations. But to dismiss them as 'sketchy', 'patchy' or sub-standard cannot be a truly professional approach. By now nearly 90 reports have been submitted,(ideally it should be over 150). Naturally they cannot be uniform in their approaches, although they cannot stray beyond the tasks assigned to them as per Articles 243I and 243Y. In the rest of this section we shall consider just two aspects (1) conditionalities and performance requirements and (2) accounts and audits in some details. This will be followed by raising certain general issues.

The approaches, relating to performance requirements associated with grants are

important because they are useful in ensuring continuity as well as change. Giving untied grants is generally viewed as democratic and encouraging autonomy. But the multi-structured third tier, with 3.2 million elected representatives to man nearly 2.5 lakh local governments and with no experience in governance and financial management grants should be with guidance and hand holding. Looking back one can say that the mechanism of award of grants by UFC was governed by conditionalities with varying degrees of emphasis. Absolute untied grants have been next to nil. That grant amounts should not be used for salaries and wages was a recommendation from FC-10 onwards and certainly unassailable. FC-11 and FC-12 recommended grants but with some stipulations regarding the expenditure of the funds. FC-11 stipulated that the first charge on the grants should be maintenance of accounts and audit, followed by the development of a financial database. The remaining amounts were to be utilised for maintenance of core services of primary education, primary healthcare, safe drinking water, street lighting and sanitation including drainage and scavenging facilities, maintenance of cremation and burial grounds, public conveniences and other common property resources. By and large grants were untied, barring the stipulation prohibiting the payment of salaries and wages. The grants were to be distributed between rural and urban local governments, on the principles recommended by the respective SFCs.

FC-12 stipulated that panchayats should use the grants to improve service delivery

relating to water supply and sanitation. In towns with a population of over a lakh, 50 per cent of the grant was to be earmarked for solid waste management schemes in public-private-partnership(PPP) mode. The urban and rural local governments were also expected to give high priority to expenditure for the creation of database on LG finances and maintenance of accounts through the use of modern technology and management systems. All the subsequent Finance Commissions systematically followed the practice of earmarking of funds for specific purposes. The choice of services differed slightly with rural and urban local governments. For example out of the total grants earmarked for PRIs by FC-15, 60 per cent is earmarked for national priorities like drinking water supply and rain water harvesting and sanitation, while 40 per cent is virtually untied at the discretion of PRIs for improving basic services. For urban LGs the same 60:40 ratio is recommended with a slightly modified earmarking of services.

A real watershed in the UFC approach to performance requirements is the recommendations of FC-13 which were avowedly meant to persuade the state governments, many of them proven laggards, to carry forward the process of decentralisation. A solid 34.6 per cent of the total grants were earmarked for performance-based grants. FC-13 stipulated six conditions for panchayats, nine for municipalities and four for the special areas excluded from Part IX and Part IXA of the Constitution. By and large the recommended conditions include a wide range of package relating to budgeting, auditing, property tax, ombudsman etc., All

these when implemented could serve as instruments for strengthening local governance and democracy in India, of course if the subsequent commissions also carry forward the reforms. This is important for sustaining change.

FC-14 and FC-15 carried forward the performance grant idea but with reduced allocations and easy conditionalities. In order to be eligible for performance grants, the FC-14 wanted LGs to show an increase in OSR (Own Source Revenue) and submit audited accounts. Municipalities, in addition, had to publish the service level benchmarks relating to basic services each year. The procedure of disbursal and the quantum of incentives were left to be determined by the concerned state government. Over and above these, the MoPR stipulated some more conditions such as the completion of the Gram Panchayat Development Plan as part of the Mission Antyodaya project launched in 2017-18³.

FC-15 also stipulated eligibility conditions for receiving grants. They are (a) that all local governments must have web-based availability of annual accounts for the previous year and audited accounts for the year before previous and (b) for urban LGs an additional condition is the notification of minimum floor rates of property taxes by the relevant state followed by improvement in the collection of property taxes in tandem with the growth rate of state's own GSDP. These eligibility conditions are really performance inducing and could be considered as a response to the long-standing problems of accounting and audit. Apart from this, direct

performance grants are confined to select areas of the urban local governments. This comprises mostly what is called Million-plus cities challenge Fund (MCF) and is linked to the performance of these cities in improving the air quality and meeting the service level bench marks for urban drinking water supply, sanitation and solid waste management.

Account, audit and financial reporting

While still on the performance-based issues it is important to note that both the PRIs and ULGs need to be significantly incentivized and a judicious mixing of reward and punishment strategy of transfers have to be followed by every state to improve the financial reporting system at the local government level. That public money should be spent with wisdom, faithfulness and efficiency is a prime tenet of accountability in any good governance. All the finance commissions beginning with FC-11 have taken up this issue only with partial success an issue that needed complete remedial action and sustained monitoring. The entry-level condition of FC-15 for being eligible for any grant assumes significance in this context. But this is only the first step. Unless the accounting, budgeting and auditing arrangements are properly streamlined the future of local government and democratic decentralisation is likely to be in jeopardy.

There are two major problems with the accounts of local governments in India: (a) the lack of accounts, including audited accounts, on a timely basis and (b) the classification of their accounts to make them amenable to consolidation with

Union and State Governments' accounts. Beginning with the pioneering recommendations of the FC-11, efforts were afoot to build a reliable data base on the finances of local governments particularly on the finances of panchayats at the district, state and union government levels which could be accessible on line. This foundational initiative still did not acquire the needed progress to have a viable financial reporting system. FC-11 recommended that the Comptroller and Auditor General (CAG) should be entrusted with the responsibility of exercising control and supervision over the maintenance of accounts and audit of all tiers of rural and urban local governments, and that its audit report should be placed before a committee of the State legislature. FC-12 recommended that the compilation of disaggregated data in the formats suggested by the CAG is necessary for State Finance Commissions to be able to assess the income and expenditure requirements of the local governments. Priority should be given to the creation of a database and maintenance of accounts through the use of modern technology and management systems. FC-12 has rightly pointed out a proper accounting system has to be put in place at the grassroots level to facilitate realistic assessment of the needs of the panchayats and municipalities for carrying forward the basic civic and developmental functions. Resource gap estimation for core services is central to the process of a fiscal transfer that would encourage equalization which is the hallmark of a successful federation. FC-13 recommended that while the CAG should provide technical guidance and supervision, a major portion of the

actual auditing would have to be undertaken by the local fund audit departments. Hence, all State Governments should strengthen their local fund audit departments through both capacity building of existing manpower as well as augmentation of personnel. FC-14 recommended that accounts prepared by the local governments should distinctly capture income from own taxes, assigned taxes, grants from the State Finance Commission grants and grants for any agency functions assigned by the Union and State Governments. In addition, it also recommended that technical guidance and support arrangements by the CAG should be continued and States should facilitate local governments to compile accounts and have them audited in time. The growing practice of following private accountants into the system can only increase the corruption practices at the local level.

On the whole there is not much amiss in saying that the approaches of FCs could have made a more striking impact if only they were consistently carried forward by the states inspired by the overarching spirit of the two decentralisation amendments. The nine guiding principles⁴ adumbrated by the FC-15 only affirm this contention. Genuine pursuit of cooperative federalism and the critical role of local governments in providing minimum primary services of standard quality irrespective of the residential location of the citizens in the most participatory manner by all tiers demand a sound principle-based approach.

Five union finance commissions have submitted reports since Part IX and Part IXA were added to the constitution. UFCs

have yet to accommodate the third tier and restructure Indian public finance. In fact the ToR of both FC-11 and FC-12 mandated them to review the finances of the union and the states and suggest ways to restructure public finances primarily to restore budgetary balance which has assumed unmanageable dimensions during the first decades of 2000. Adhering strictly to the letter of the ToR, both commissions avoided incorporating the local governments into the picture⁵. But the moot question is how can it be possible to restructure expenditure and revenue sources leaving aside the panchayats and municipalities? Since public finances reflect the collective choices of the people, omission of LGs is a serious act. UFC is the only constitutional body that has to mediate the flow of federal revenues not only to the states but also to the LGs. No restructuring can be done in isolation. To be sure the macro goals and the goals of the subunits have to be examined in an integrated fashion and in an integrated manner.

The omission of the 'restructuring of public finances' without taking the LGs has created the precedent that the third tier is a subordinate or a poor relative of sort. It is impossible to achieve the horizontal equity without addressing the imbalances in the fiscal capacities of the panchayats and municipalities.

That the Article 280 establishing the UFC has been amended along with that of the 73rd/74th amendments to endow it with the great responsibility of linking the LGs into the fiscal federal system is obvious. Given the long-standing neglect and indifferent decentralization reform of the

pre-amendment regime, considerable hand holding, incentivisation and punishment presumably should govern the approach of the UFCs. The assumption of FC-10 that the transfer of duties and functions listed in the XIth and XIIth schedules of the constitution would involve concomitant transfers of functionaries and finance was certainly unrealistic as subsequent events demonstrated. The broad principle of continuity and change (underlined by FC-14) is relevant to facilitate progress towards democratic decentralization, local democracy, economic development and social justice and building institutions of local self-government. Although India's failure to make consistent progress in achieving these goals cannot be put on the UFCs, they cannot be entirely absolved from the blame.

Lack of a reliable data base is the basis of a valid financial reporting system. All the FCs beginning with FC-11 have tried to build a reliable data base and tried to incentivize the maintenance of accounts along with proper audits but not yet succeeded. FC-11 provided the abstract of revenue and expenditures of the PRIs and municipalities. Although this was a much needed exercise, the Commission never utilized the data they collected in their analysis and discussions. Obviously this was due to the unreliability of the data presented. FC-12 and FC-13 also canvassed fiscal data of panchayats and municipalities. FC-12 also provided the data like FC-11 and even made limited use of the data in assessing the own source revenue of local governments. FC-13 did not use the data they collected but uploaded them in their website. FC-14 and

FC-15 abandoned the idea of collecting local government data leave alone analyzing them. Indeed both the commissions were deeply concerned. In the words of FC-15 "For any part of the government using tax payers money availability of accounts (including audited accounts) in the public domain on a timely basis is a primary requirement for good governments "[Report p.175]. The outcome of the eligibility condition imposed by FC-15 is awaited by the people.

Building fiscal data is closely related to the maintenance of a proper accounting system. There has been an unpardonable neglect by all concerned on this. Nearly two decades ago the FC-12 noted. "The absence of data necessary for a rational determination of the gap between the cost of service delivery and the capacity to raise resources makes the task of recommending measures for achieving equalization of services almost impossible. It is, therefore, imperative that high priority should be accorded to creation of data base and maintenance of accounts at the grassroots level"[FC-12, Report Vol.II.p.154]. Unless the LGs of India follow the precedents and practices of budget making practice pursued by the union and state governments India can never enjoy a sound public finance and financial reporting system.

FC-13 approach is ideally the most relevant compared to all others for a variety of reasons. First, they tried to respectfully accommodate the third tier into the fiscal federal polity of India. The transfer to LGs is made a share of the divisible pool of tax revenues a privilege only the states enjoyed. They were convinced that "the traditional

theology that funds and functionaries will follow functions" has not worked and could not be expected to work in the future. The FC-13 endeavoured to provide a predictable and buoyant source of revenue to the LGs. This is in line with best international practice. Second, the commission adopted an incentive-based approach in regard to maintain a comprehensive data base and in upto-dating an accounting system. We have already noted how this much-needed reform has not made progress. Third, for the first-time they introduced a comprehensive performance-based grant system to reverse the lagging course of the decentralization process. Unlike their earlier counterparts, they felt that LGs need be regularly empowered to discharge their constitutional obligations. Local government grants only recommended had two components, basic grant component and performance based components, six for panchayats and nine for urban local governments all important measures to incentivize the states to carry on and make democratic decentralization durable. For example, making devolution to the various tiers a part of the state budget under separate major and minor heads which can prevent needless interference and virement by departments. Four, FC-13 also recognized that several parastatal bodies operate in areas ear-marked for LGs under Schedule XI and XII and emasculate them "both financially and operationally"[FC-13,Report p.171]. No UFC took up this issue, although it continues to persist more vehemently disempowering the local democratic process.

Given the proverbial indifference on the

part of the states to carry forward with commitment and dedication the decentralized reform process, the monitorable conditionalities recommended of the FC-13 was a great initiative which ought to have been sustained. The principle of continuity and change which the FC-14 wanted to promote failed to take forward the initiatives of FC-13 to take democratic decentralization process forward. In fact FC-14 increased the basic grant component to gram panchayats to 90 per cent from 65 per cent recommended by the FC-13 while the performance component was reduced to 10 per cent for making available data and audited accounts and for improving own source revenues. For municipalities, the division was on a 80:20 basis. FC-15 did not use the performance component for the panchayats, but used it for incubation of new cities to be administered by the Ministry of Housing and Urban affairs.

An interesting feature of the approach of FC-15 is that they made explicit nine principles that governed their recommendations related to the LGs. (see Appendix 5A). It will be clear to any one that these are not principles or norms pertaining to democratic decentralization, role of local government in fiscal federalism or any other relevant issues. They are at best the areas of emphasis which the commission followed. The emphasis given to the challenges and dynamics of the rapid urbanization well underway is very evident in some of the principles. Given the fact that as far back as the 2011 census 55.3 per cent of the Indian population live in areas with urban-like features, this was a remarkable

emphasis, certainly in contrast to the previous commissions.

Two most important salience in the approach of these commissions that need be mentioned are (a) the emphasis on the role of state finance commission and the need to strengthen them to play a more critical role in the fiscal governance at the state-sub-state level and (b) the earmarking of funds for improving the core services at the grass roots level of rural and urban areas. However the progress made leave many things to be desired.

In sum, the constitutional role of organically linking the institution of UFC with the third tier was historical step. What comes out most prominently is the failure of various institutions particularly the intermediate tier of the state to deliberately support to decentralization reform.

5.3.UFC and fiscal balance

Fiscal balance refers to the issues relating to vertical imbalances in the resources and expenditure responsibilities and horizontal imbalances in terse distribution of the resources among the constituents. The constitutional mandate to support the consolidated fund of a state to supplement the resources of panchayats and municipalities is a task to reduce vertical gaps among the state's on an equitable basis. We address the two issues with reference to LGs under two heads: vertical balance and horizontal balance.

5.3.1.Vertical balance

Estimating fiscal gap independent of the level of government is very difficult. Quite often the needs revenue gap yawns wide. A

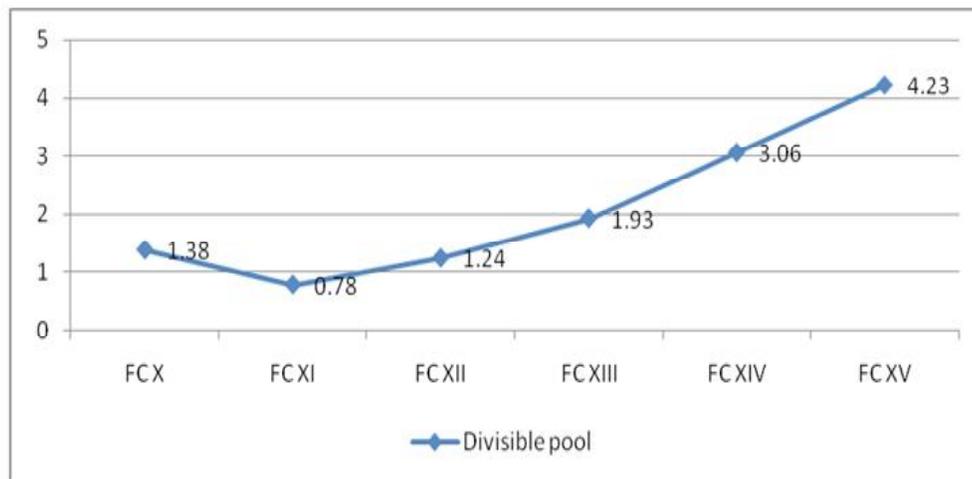
study sponsored by the FC-11 estimated that a sum of over Rs.1.42 trillion was required for the maintenance of core services by the rural local bodies, besides a total capital expenditure of the order of Rs.86000crore. The recommended transfers of FC-11 to rural local bodies work out hardly to 3.5 per cent of the estimated gap. It is probably interesting to compare the situation related to FC-15. A study initiated by the commission came up with an estimated resource gap of Rs.10 trillion crore for gram panchayats and Rs.12.27 crore for municipalities for the period from 2021 to 2025.

While the recommended amount to gram panchayats works out to over 23 per cent of the estimated gap it is only 10.5 per cent in regard to the municipalities. To be sure the provision of resources for the fast

urbanizing India seems to yawn wide (Figure 1&Figure 2).

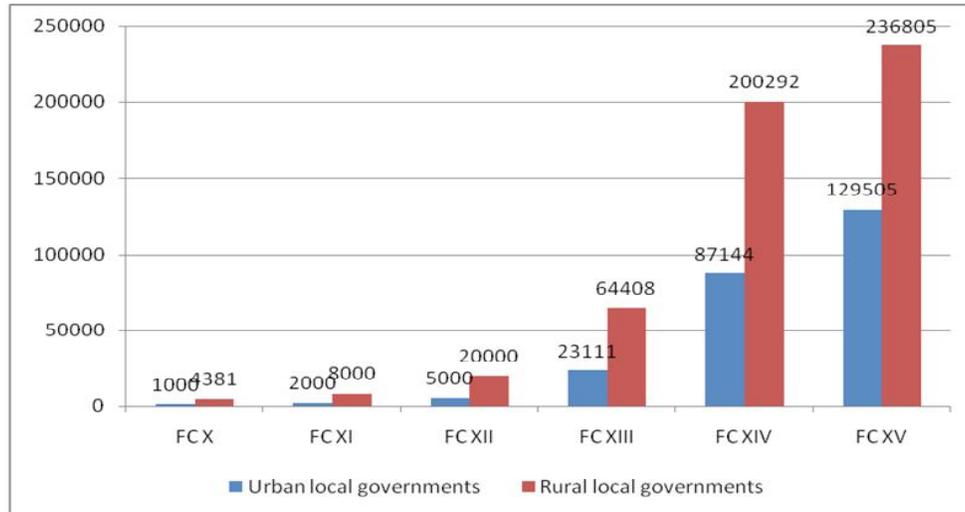
Figure 1 and figure 2 show respectively the magnitude and trend of the vertical transfers and their disaggregated into the shares for rural and urban local governments. It is evident from Fig.1 that FC-10, although had no mandate to recommend any transfers to panchayats and municipalities thought it important to do so and devoted 1.38 percent of the divisible pool. Interestingly they were more sensitive to the needs of the local level governments as could be noted from the figure. Real watershed seems to come from the critical transfers by FC-13. All those years panchayats received the larger(see.Fig.2) The impact of urbanization is well recognized by FC-15. The fundamental task of building core basic services like drinking water, sanitation, solid waste management primary health of

Figure 1: Local government grant as a percent of divisible pool (FC-10 to FC-15)



Source: FC Report XIV and and XV

Figure 2: Grants to Local Governments by various Finance commissions disaggregated to Rural and Urban local governments.



Source: As above. Note: FC-15 does not include grants for primary health sector.

standard quality to all the residential regions of the country still remains a distant goal.

5.3.2. Horizontal balance

The interse distribution of the vertical transfer is crucial because the union can act only via the states. But how much of this should go to "augment" the consolidate4d fund of a state depend on the criteria chosen for the horizontal distribution. Table 5.1. shows the criteria for grants to states.

It is clear from the table that population and area, the broad need assessment criteria were used by all the commissions FC-10 which had no constitutional mandate relating to local governments quite understandably used the widely employed criterion of population. FC-14 and FC-15 also carried that preference but with a 90 per cent weightage. Except FC-11 which used an index of decentralization (the

variables used showed a poor understanding of the letter and spirit of the two Amendments that heralded the reform process), no commission ventured to employ decentralization for incentivizing the process. That FC-11, FC-12 and FC-13 used the equity criterion of distance from the highest per capita income is equally relevant in all transfers. The index of deprivation which is based on the intra-state disparities in two core services viz., drinking water and sanitation was a prudent criterion. But subsequent commissions abandoned it. The index of utilization of local grant although with a smaller weightage was also important, but only used by FC-13. On the whole one can say that the criteria chosen were not well thought out judged from the specific purpose for which the grant-in-aid was

5.1. Table 7.2: Criteria for Distribution of Grants to States for Local Governments by Finance Commissions

(in per cent)

Criteria	FC-10	FC-11	FC-12		FC-13		FC-14	FC-15
				RLG		ULG		
Population	100	40	40		50		90	90
Census	1971	1971	2001		2001		2011	2011
Geographical Area		10	10		10		10	10
Distance from highest per capita income		20	20	10		20		
Index of decentralisation		20			15			
Index of deprivation			10					
Revenue effort		10	20					
Proportion of scheduled castes/scheduled tribes in population				10		0		
FC local body grants utilisation index					5			

Source: Report of the Fifteenth Finance Commission, Chapter 7, P.173.

intended by the constitution.

The two lectures were a *denovo* approach to integrate local government to India's public finance.

Appendix A

Nine Guiding Principles of the XVth Finance Commission

- | | |
|---|---|
| <ul style="list-style-type: none"> i. Relevant ToR and the Constitutional provisions. ii. Pre-requisite of timely online availability in the public domain of | <ul style="list-style-type: none"> both the accounts of the previous year and audited accounts of the year before the previous year for availing of grants for both rural and urban local bodies. iii. Pre-requisite of notifying minimum floor on property tax rates by States in order to increase the buoyancy of revenue of urban local bodies. iv. Inclusive and uniform approach for all three tiers within rural local bodies, Excluded Areas and cantonment areas. v. Inter se rural and urban share of |
|---|---|

devolution in the context of the evolving urban complexities and challenges.

- vi. Differential needs of urban habitations, including the special needs of emerging large urban areas as "agglomeration economies".
- vii. Air pollution in Million-Plus urban agglomerations.
- viii. Focus on national priorities related to
 - (a) strengthening of primary health care and Fifteenth Finance Commission 188 creation of diagnostics infrastructure for management of disease and epidemics at the local level;
 - (b) solid waste management;
 - (c) provisioning for drinking water and sanitation; and
 - (d) promoting and incentivising water recycling, rejuvenation and rainwater harvesting.
- ix. Importance of generation of internal resources like revenues from property taxation and tax on professions.

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End Notes

- ¹ The literature on the merits and demerits of Tiebout model also with empirical support are ably summarized in King

(1984). Wallace Oates who pointed out that this model 'involves a set of assumptions so patently unrealistic as to verge on the outrageous' [See Oates (1981):93], years later affirms that it played "a major role in the literature in local public finance"[Oates (2005):354].

- ² Anwar Shah (1994) treated India as a two tier federation although the 73rd amendment was passed in 1992.

³ On this, see Oommen (2022)

- ⁴ The need to evolve a national training policy to build the capabilities of the 3 million local governments elected representatives conspicuously remains left out. Some UFCs, prominently FC-13 strongly emphasized this.

⁵ Though two advisory groups, one for panchayats and another for municipalities were constituted for the FC-11, they never convened a meeting nor consulted them. (I was a member of the panchayat group). This is reflective of the indifference of FC-11 towards LGs.

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Kerala migration survey 2023

S Irudaya Rajan

Abstract

The Kerala Migration Survey (KMS) 2023 is in its ninth round of a long-standing series of migration monitoring studies running globally. Since 1998, K.C. Zachariah and S. Irudaya Rajan have pioneered a unique approach to study all aspects of migration from Kerala. Originally undertaken by the Centre for Development Studies (CDS) in Thiruvananthapuram, the 2023 edition of KMS was conducted by the Gulati Institute of Finance and Taxation (GIFT), with funding from the Department of Non-Resident Keralites' Affairs (NORKA), Government of Kerala with technical support from the International Institute of Migration and Development (IIMAD). The KMS 2023 was conducted in three phases. The phase 1 panel survey of 2023 covered 10000 households with 11 types of panel sets. This short paper is based on the phase 2 survey with 20000 households. The phase 3 focussed on specialized surveys targeting student migration, return migration, climate change and women, children and elderly left behind.

Keywords: *Emigration, Remittances, Kerala, Student migration, Panel data*

Since the first historic Kerala Migration Survey (KMS) conducted in 1998 by K C Zachariah and S Irudaya Rajan, there has been an increasing trend of Keralites moving abroad, from 1.4 million in 1998 to 1.8 million in 2003 and 2.2 million in 2008, reaching its peak in 2013 with 2.4 million emigrants. However, in 2018, Kerala observed a steady decline in labour migration with the number of emigrants estimated at 2.1 million. This is understood to have happened due to the

changing demographics in Kerala, stringent nationalization policies in the Gulf after the global economic crisis, economic downturns, company closures, shifts in the labour market demands and competition from countries such as those in Africa, which offer emigrants willing to work for lower wages.

After the last round of KMS in 2018, Kerala experienced unprecedented floods causing severe destruction. This was followed by the

global lockdown, due to the COVID-19 pandemic in 2020 and 2021. This led to large-scale return migration, job losses, compulsory repatriations, expired visas, increasing fear of deportations, economic disruptions, and wage theft. In his budget speech on 11 March 2022, the Finance Minister of Kerala told the assembly that 1.4 million non-resident Keralites, comprising two-thirds of 2.1 emigrants estimated by the KMS 2018, returned to the state in the aftermath of the pandemic. The Department of Non-Resident Keralites Affairs (NORKA), the Government of Kerala, initiated the ninth round of KMS in 2023 in response to the recommendations of the 3rd Loka Kerala Sabha of 2022 to examine the recent trends in migration, return migration, and remittances. The KMS 2023 was conducted by the Gulati Institute of Finance Taxation (GIFT) with technical support from the International Institute of Migration and Development (IIMAD).

About KMS 2023

The Kerala Migration Survey (KMS) commenced in 1998 with an initial sample size of 10,000 households which was later expanded to 15,000 households in 2018. The sample size of the 2023 iteration of KMS saw a further increase, reaching 20,000 households (suggested by K C Zachariah, Founder President of IIMAD) across 14 districts and 77 Taluks of Kerala, selected through a stratified multistage random sampling method. In this approach, rural and urban areas within each of the 14 districts were considered distinct strata, resulting in 28 strata.

Consequently, 500 localities were selected

statewide, and 40 households were identified within each of these localities using a systematic random sampling method at the time of the survey. This methodology ensured a truly representative sample, encompassing all taluks across the 14 districts. Covering 20,000 households, the KMS 2023 is one of the largest socio-economic surveys conducted in Kerala since the state's formation in 1956. To provide a comparison, the National Family Health Survey (NFHS-5) was conducted among 12,330 households in Kerala. Additionally, the KMS 2023 found that about 28 per cent of households surveyed were female-headed, which is 2.7 per cent more than the 2011 census figure of 25.3 per cent. Notably, the 9th round of KMS marked the transition from traditional pen and paper surveys to a digital format, utilizing the Kobo Toolbox for data collection with the help of more than 300 trained investigators throughout Kerala.

Emigration from Kerala

According to the KMS 2023, the number of emigrants from Kerala is estimated to be 2.2 million, closely aligning with the 2.1 million recorded in the KMS 2018. This stability in international migration over the last five years is interesting, given the overall declining trend observed over the past decade in the previous rounds of KMS. Although there is a slight increase of 32,388 emigrants in 2023, 9 out of the 14 districts in Kerala observed a considerable decline in the number of emigrants when compared to 2018, indicating a saturation of international migration. Despite expectations of a further decline in this round of KMS, a significant rise in student

emigration has substantially contributed to maintaining the emigration levels in 2023. From 129,763 student emigrants in 2018, the number has doubled to about 250,000 in 2023. This notable increase in student emigration underscores a significant shift in the demographics of emigrants from Kerala, wherein there has been an increase in the number of emigrants leaving at a very young age, as early as 17 years. The KMS 2023 has revealed that students constitute 11.3 per cent of total emigrants from Kerala, indicating that a growing number of younger individuals are choosing to emigrate, particularly for educational opportunities abroad.

In 2023, there has been a slight decrease in the number of emigrants per 100 households when compared to the previous years. However, despite this decrease, nearly half of the households surveyed have experienced migration in some form or the other, either through emigration or return emigration. Two out of five households in Kerala were found to have non-resident Keralites, indicating the significant presence of migration experiences within the economy and society. Of the 20,000 households surveyed, 16.2 per cent reported having at least one emigrant, which is a slight decrease from the 17.3 per cent reported in 2018. However, in 2023, the total number of Non-Resident Keralites, including both emigrants and return emigrants, is estimated to be 4 million, marking an increase from the figure of 3.41 million recorded in 2018. During the KMS 2023 data collection, many homes were found to be locked, because entire families had migrated. About 4.2 lakh (0.4 million)

cases of family migration have been identified as part of KMS 2023. The global Malayali diaspora is estimated to be 5 million, whereas the Malayali diaspora outside Kerala, within India, is estimated at 3 million.

Tirur taluk in Malappuram district continues to lead in the number of emigrants. It has maintained its lead from the previous years, with slightly more than 100,000 emigrants in 2023. On the other hand, Devikulam taluk in Idukki district has recorded the lowest number of emigrants. The northern region of Kerala remains a focal point for migration, encompassing the majority of emigrants. Malappuram was the origin of nearly 377,647 emigrants in 2023. With regards to the religious distribution of the emigrants from Kerala, Muslims lead at 41.9 per cent, followed by Hindus at 35.2 per cent and Christians at 22.3 per cent. The destination countries have also seen changes over the years, with the Gulf Cooperation Council (GCC) countries remaining the strongest corridor. There had been a shift from Saudi Arabia as the most preferred destination, to the United Arab Emirates (UAE) according to the data from the last few rounds of KMS. UAE retains the same position in 2023 as well. However, there has been a decline in the number of emigrants choosing GCC countries from 89.2 per cent in 2018 to 80.5 per cent in 2023. Simultaneously there has been a rise in the number of emigrants preferring non-GCC destination countries, from 10.8 per cent in 2018 to 19.5 per cent in 2023. The rising student migration and their preference for non-GCC countries could be responsible for this shift.

The proportion of female emigrants has increased from 15.8 per cent in 2018 to 19.1

per cent in 2023. Female migration has further seen a shift from GCC countries to Europe and other Western nations as destination countries, accounting for 40.5 per cent. However, for males, this figure stands at 14.6 per cent. In terms of education, 71.5 per cent of female migrants were found to have completed degree-level education as opposed to only 34.7 per cent of male emigrants. Male migrants continue to dominate emigration from Kerala, with the gap between male and female migrants being narrowest in Kottayam and widest in Malappuram.

Return migrants

The number of emigrants who have returned home is estimated to be 1.8 million, a significant increase from 1.2 million in 2018. This increase over the last few years had been expected due to the global health crisis-induced economic disruptions, stricter immigration policies, and a significant reduction in available job opportunities. Many migrants found themselves in an untenable position, unable to find new employment while also facing mounting pressures. A substantial number of them were thus compelled to return to their home countries, driven by the loss of jobs, compulsory resignations, and other pandemic-related challenges. The major reason for return was found to be job losses/layoffs, as reported by 18.4 per cent of return migrants. Only 4.4 per cent of the returnees had come back after accomplishing their goals for migration. UAE, the most preferred destination for emigrants, is also the country from which Kerala has the highest returnees, amounting to 36 per cent of the total returnees.

Remittances

According to KMS 2023, the total remittances to Kerala saw a significant surge after the pandemic. Total remittances reached Rs 216,893 crores in 2023 from Rs 85,092 crores in 2018, marking a 154.9 per cent increase. The total remittances of Rs 216,893 crores imply a remittance of Rs 61,118 per capita for a population of 3,549 crores. A similar trend of increased remittances to households is also captured by KMS 2023, wherein the remittances sent by the emigrants to Kerala households amounted to Rs 37,058 crores, reflecting a 20.6 per cent increase from the 2018 figures. A considerable increase is also seen in the average remittance per emigrant household, rising to Rs 2,23,729 in 2023 compared to Rs 96,185 in 2018. While remittances to Kerala have been increasing over the years, the number of households receiving these remittances has declined from 16 per cent of households in 2018, to 12 per cent in 2023. Kerala holds a steady 21 per cent share of India's NRI deposits, a figure that has remained consistent since 2019. Needless to say, these inward remittances play a significant part in strengthening the economy of the state. Remittances constituted 1.7 times the revenue receipt of the state. The share of remittances, as a per cent of Net State Domestic Product (NSDP), has seen an increase to 23.2 per cent in 2023 from 13.5 per cent in 2018. For the first time, we have estimated an outward remittance of Rs 43,378 crores which is about 20 per cent of the inward remittance, using the KMS 2023 data.

Interestingly, Kollam district surpassed Malappuram this year in terms of

household remittances. Kollam received 17.8 per cent of the remittances, compared to Malappuram's 16.2 per cent of the total household remittances. Similar to the previous years, Muslim households continued to receive the highest share of remittances, accounting for 40.1 per cent, followed by Hindu households at 39.1 per cent, and Christian households at 20.8 per cent. About 73.3 per cent of the emigrant households receiving remittances were observed to have received remittances every month. With regards to the use of remittances, it is found that 15.8 per cent of remittances were allocated for renovating houses or shops. While 14.0 per cent of remittances were used to pay off bank loans and 10.0 per cent was used for education purposes.

Internal migration

KMS 2023 estimates a total of 0.5 million out-migrants from Kerala. Like previous years, Karnataka, Tamil Nadu, and Maharashtra remain the top three states for out-migration, return-out-migration, and student migration. Palakkad records the highest number of out-migrants estimated at 55,601, followed by Ernakulam at 53,756 and Kollam with 48,330 migrants. Notably, there is a significant decline in unemployment for out-migrants; the unemployment rate declined from 15.1 per cent before migration to 2.4 per cent after migration. The majority of both out migrants and return out migrants are male, accounting for 64.4 per cent and 75.2 per cent respectively. However, student out-migration is more prevalent among females at 57.8 per cent, whereas the rate of female student return out-migration is lower at 35.8 per cent. This suggests a pattern wherein

female students prefer to migrate and remain in the destination states.

Policy prescriptions

The migration trends highlighted by KMS 2023 have significant implications for Kerala's demographic composition and economy, requiring myriad policy interventions. One notable trend is the dramatic increase in student migration, with the number of student emigrants nearly doubling in the past five years. There is an urgent need to enhance the state's educational infrastructure and provide resources that ensure safe migration pathways for future student emigrants. Ensuring the regular monitoring and regulation of language training centres and recruitment agencies is crucial for reducing instances of deceit and fraud by migration agents. It is also important to develop new policies that will encourage Malayalee international students to return home after acquiring valuable skills abroad, fostering a wave of brain gain.

Given that 76.9 per cent of Kerala's emigrants are labour emigrants, it is essential to improve and strengthen their skills to help them secure better employment opportunities and pay abroad. Programs like the Additional Skill Acquisition Programme (ASAP), focusing on imparting job-ready skills, should be expanded to include skill development for emigrants. This approach could increase the likelihood of emigrants choosing non-GCC (Gulf Cooperation Council) countries as their destinations. The prioritization of Memorandums of Understanding (MoUs) with new and emerging destination countries will also facilitate smoother

migration governance. Additionally, the growing number of return migrants necessitates comprehensive rehabilitation and reintegration measures. The dynamic nature of migration flows can only be understood by studying them at regular and frequent intervals. A smaller version of the Kerala Migration Survey (KMS), with a sample size of approximately 5,000 households, could be conducted annually to accurately track key indicators.

KMS 2023 estimates a Loka Kerala Sabha (LKS) of about 13.3 million migrants. Despite migrants constituting almost one-third of Kerala's population (38 per cent), we have not been fully successful in unleashing their true potential. With a diaspora of 5 million Malayalees, the time is ripe to think about a Migration Development bank, following the example set by the Asian Development Bank. Enhancing migration infrastructure while ensuring access to redressal mechanisms and supporting diaspora organizations, will greatly maximize the potential of Kerala's migrants and their role in Kerala's development.



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Migration estimates by districts and taluks in Kerala, 2023

	Return Emigrants	Emigrants	Return Out-migrants	Out-migrants
Chirayinkeezhu	66781	43112	4043	2611
Nedumangad	33370	10585	2334	4749
Thiruvananthapuram	48042	29478	639	1533
Neyyattinkara	37502	24741	6566	6055
Thiruvananthapuram	185695	107917	13582	14948
Karunagappally	35022	32540	8527	12272
Kunnathur	12055	16583	5132	5783
Pathanapuram	19890	46447	3686	5826
Kottarakkara	37903	56979	10808	14488
Kollam	53610	43266	8416	9961
Kollam	158481	195815	36569	48330
Thiruvalla	11801	17698	6300	5257
Mallappally	6249	9706	1541	3251
Ranni	5804	17412	0	1451
Kozhencherry	10374	29287	4909	5584
Adoor	6693	27521	1012	9003
Pathanamthitta	40921	101624	13762	24546
Cherthala	13094	13118	10031	12617
Ambalappuzha	14029	24679	12558	6098
Kuttanad	7487	12364	1138	5796
Karthikappally	16217	33630	6638	5539
Chengannur	14962	12698	2370	3952
Mavelikkara	33705	37628	10198	8299
Alappuzha	99494	134116	42932	42301
Meenachil	14245	37065	6646	6694
Vaikom	11116	32193	7333	9033
Kottayam	28809	39964	17606	18061
Changanassery	12972	17667	2972	6737
Kanjirappally	7135	16935	2704	3559
Kottayam	74277	143824	37261	44084
Devikulam	0	860	0	1146
Udumbanchola	4268	13392	905	4520
Thodupuzha	8608	7875	2974	3096
Peerumedu	596	3177	596	1788
Idukki	13472	25304	4475	10550
Kunnathunad	18527	25176	4311	9649
Aluva	15447	27793	3198	4157
Paravur	13119	18023	7628	2101

	Return Emigrants	Emigrants	Return Out-migrants	Out-migrants
Kochi	37019	30088	2599	5868
Kanayannur	50856	53572	32249	27523
Muvattupuzha	14118	18052	2210	1958
Kothamangalam	2763	14252	2499	2499
Ernakulam	151849	186956	54695	53756
Talappilly	43251	49767	17669	4739
Chavakkad	47007	54164	4992	7424
Thrissur	47810	35254	28376	15041
Kodungallur	40830	31440	3361	2475
Mukundapuram	60541	62552	12627	10193
Thrissur	239439	233177	67026	39874
Ottappalam	42791	73286	9312	18544
Mannarkad	12961	10250	1238	4102
Palakkad	17112	20314	14544	21943
Chittur	5230	7474	0	6611
Alathur	14595	12953	0	4401
Palakkad	92689	124277	25094	55601
Ernad	52589	57359	828	2210
Nilambur	63696	42470	2231	744
Perinthalmanna	22964	48747	0	2302
Tirur	70058	109133	11873	8418
Tirurangadi	122933	80379	0	0
Ponnani	18936	39559	601	2626
Malappuram	351176	377647	15533	16300
Vadakara	64949	69148	4082	12094
Quilandy	64830	59882	7412	9844
Kozhikode	80509	64667	7551	22557
Kozhikode	210288	193697	19045	44496
Mananthavady	6657	9288	2445	4084
Sulthan Bathery	8060	15966	1408	8515
Vythiri	1792	7087	2567	6578
Wayanad	16509	32341	6420	19178
Taliparamba	27232	60164	5287	9746
Kannur	25248	58717	5425	9932
Thalassery	53927	93326	8395	23866
Kannur	106408	212208	19107	43544
Kasaragod	22243	47492	1217	6161
Hosdurg	27819	37881	571	8757
Kasaragod	50062	85372	1788	14918
Kerala	1790758	2154275	357289	472426

Fiscal imbalances at local level: Myth and reality

Shency Mathew

Abstract

Local Self Government Institutions (LSGIs) play a central role in planning and implementing various development projects and schemes according to the local needs and aspirations of the people. It is more important to have enough resources to perform these expenditure responsibilities and the functions transferred to the Local bodies. But the revenue receipts are dominated by grants-in-aid, with a share of more than 95 per cent of the total receipts (Panchayat Finance Report, RBI, 2024), rather than the own source of resources. Therefore, this article examines how successful the Finance Commissions (FC) are in tackling the issue of vertical and horizontal imbalance. As the first step, it analyses the approach of the past FCs towards strengthening the fiscal base and empowering democratic decentralization process with an aim to know whether the importance of local governments is realized or generally overlooked by them.

Keywords: Local Bodies, Federalism, Fiscal Gap, Fiscal Imbalance, Grants-in-aid

Introduction

The local governments play a vital role in regional and economic development, particularly in a country like India with significant regional differences and developmental challenges. As the third tier of the Indian federal structure, after Central Government and State Governments, the Local Governments are essential for addressing local needs and promoting inclusive growth. Federalism, which underpins this

structure, primarily deals with the division of fiscal responsibilities and revenue receipts between these different levels of government. Despite their importance, discussions often focus on the higher tiers of government, raising concerns about whether we adequately prioritize the smooth functioning of local governments and recognize their significance as a form of government.

The idea of local governments was there in the country in distinct forms. But it is

recognized by the 73rd and 74th Constitutional Amendments (CA), 1992. Subsequent to this, Article 280(3) is amended by adding two sub clauses (bb) and (c) by realizing the need to strengthen the fiscal base of the third tier by transferring financial resources to boost local infrastructure growth and to improve the provision of better public good. Transfer of funds to lower levels of government can be justified on the basis that such transfers can help equalize income distribution throughout the country by reducing inter-regional service and income differences (Oommen, M A, 1995 quoted (p.7) Hrisch, W E, 1970). The constitutional mandate to augment the consolidated fund of a state to supplement the resources of panchayats (280(3) (bb)) and municipalities (280(3) (c)) is to maintain a vertical balance by reducing the gap between the resources transferred to the Local Bodies (LBs) and the expenditure responsibilities of the states on an equitable basis. Also, it is concerned about the horizontal balance in terms of the criteria adopted by the past commissions to share the resources between states. Therefore, it is important to know whether the addition of these clauses after the 73rd and 74th CAs improved the fiscal base of the local governments or not and how successful the Finance Commissions (FC) are in tackling the issue of vertical and horizontal imbalance. As the first step, this article analyses the approach of the past FCs towards strengthening the fiscal base and empowering democratic decentralization process with an aim to

know whether the importance of local governments is realized or generally overlooked by them.

Vertical and horizontal fiscal gap

Vertical fiscal gap

It is imperative that the resource requirement of the local bodies is huge compared with the assigned expenditure responsibilities. Since the local bodies are poor in mobilizing own resources, they are completely dependent on the grants transferred from the above tiers of the governments. But it is very difficult to estimate the fiscal gap of the local bodies due the lack of accurate and comparable data at the local level. To deal with this, past Finance Commissions (FC) assigned studies to different agencies or institutions. Along with this, the respective ministries such as Ministry of Rural Development (MoRD) and Ministry of Urban Development (MoUD) also used to submit their requests to the FC. Based on the reports received from these entities, FCs took decisions on the share of divisible pool to be transferred into the local level.

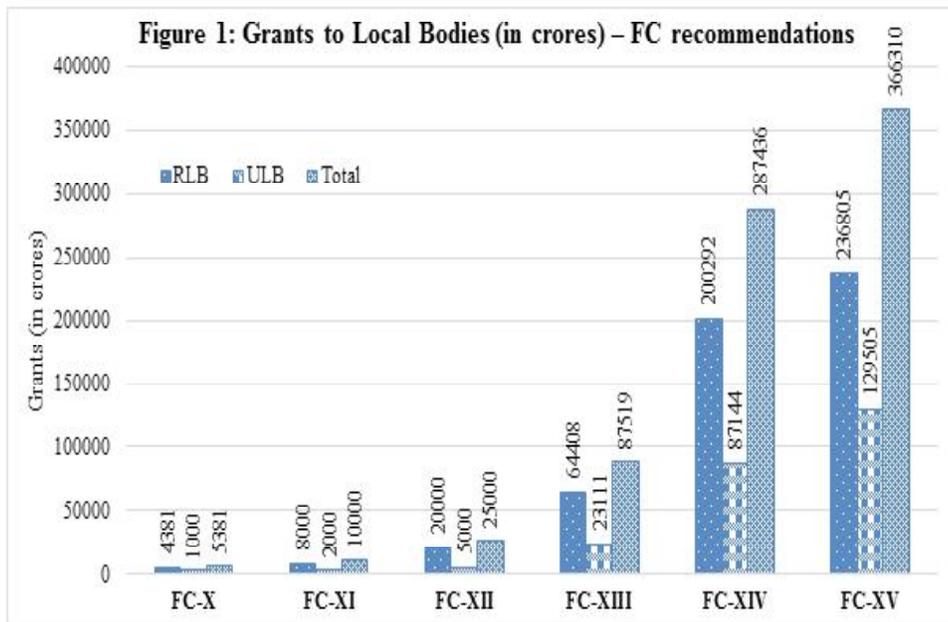
Subsequent to the CAs, so far Six Finance Commissions (FCX, FC-XI, FC XII, FC XIII, FC-XIV, FCXV) have deliberated on the critical issues related to the effective functioning of the local bodies and made a good number of recommendations. The Terms of Reference (ToR) was the same for all the Commissions except FC X.

FC-X was constituted in 1992 - a year before the 73rd and 74th Constitutional Amendments. Its ToR did not specify

considering grants for the local bodies. Even if the ToR of FC X did not specify anything regarding the grants to local bodies, it recommended Rs.5381 crores (Figure 1), which was around 1.38 percent of the divisible pool in order to enable them to discharge the new role assigned to them during its award period. The assessment of MoRD on the requirement of Rural Local Bodies (RLBs) was Rs.7500 crores, but the actual amount recommended was 58 percent of it. Likewise, without waiting on the SFC reports and other suggestions, MoUD suggested for Rs.500 crores. But an estimate of financial needs for Urban Local Bodies (ULBs) prepared by National Institute of the Urban Affairs showed that the requirement ranges between Rs.5987 crores (actual is 16.7%)

to Rs.12980 cores (actual is 7.7% of it) (FC report X, 48) (Figure - 1).

The FC XI doubled the recommendation to Rs.10000 crore. This was primarily for the maintenance of civic services which includes provision of primary education, primary health care, safe drinking water, street lighting, sanitation including drainage and scavenging facilities, maintenance of cremation and burial grounds, public conveniences, and other common property resources in rural and urban areas. Also, the commission recommended funds specifically to set the area of accounts and audit in respect of local bodies under the close supervision of the Comptroller and Auditor General of India (C&AG). The third area of the concern of FC XI was the non-availability



Source: XIV FC report, Chapter 7, Page 172

of data on the finances of the local bodies. Therefore, they recommended grants in this sake for the creation of the database relating to the local body finances.

The study sponsored by the FC XI to NIRD estimated an amount of Rs.225731 crore as the requirement of the RLBs which included capital expenditure of Rs.83603 crore. But the amount recommended to RLBs was just 3.5 percent of it, Rs.8000 crore. The study done by NIPFP estimated the requirement of ULBs in a range from Rs.6907 crore to Rs.32598 crore. But the allocation based on the recommendation was Rs.2000 crore. Likewise, the gap between the requirement submitted by the MoRD and MoUD and the actual recommendation by the FCs is huge.

FC XII recommended Rs.20000 crore to use to improve service delivery relating to water supply and sanitation in the case of RLBs specifically. Also, it is expected that the Rural and Urban Local Bodies have to give high priority to spend for the creation of databases on their finances and maintenance of accounts through the use of modern technology and management systems. The FC recommendation to ULBs was Rs.5000 crore, which was just 6.8 percent of the estimation by the study of NIPFP. Since the study by NIRD could not succeed in assessing the net additional resource flow from the states to the panchayats, it is difficult to find the gap between estimation based on the study and FC recommendation. But the MoRD and Department of drinking water supply (DDWS) together proposed an amount

of Rs.52668 crore. The amount recommended for RLBs by FC XII was 38 percent of this proposal (Table 1).

The grants transferred to LBs during FC XIII period showed a jump to Rs.87519 crore. Out of this, an amount of Rs.64408 crore was earmarked for panchayats and Rs.23111 crore was earmarked for municipalities. The amount recommended for RLBs was 24 percent of the requirement submitted by the MoRD and Department of drinking water supply (DDWS) together and the amount recommended for the ULBs was 18 percent of the submission of MoUD. This recommended grant had two components - a basic component and a performance-based component. FC stipulated six conditions for RLBs and nine conditions for ULBs to be met in each of the award period to access the performance grant. A special area grant also was provided for the areas excluded from Part IX and IX A of the Constitution. This grant also had two components - a special area basic grant and a special area performance grant. Here also, to avail the performance grants, four conditions had to be met by the States. In the cases where the States were unable to draw their performance grant and the amount not drawn was to be redistributed based on the specified conditions.

Likewise, the grants recommended by the FC XIV also had two parts - an unconditional basic grant and a conditional performance grant. For duly constituted gram panchayats, the ratio between the unconditional basic grant

Table 1: The Gap between Estimated amount and the FC Recommendation

FC	LB Type	Estimated By	Estimated amount (in crores)	Actual as % of Estimated
FC X	RLB	Ministry of Rural Development	7500	58.41
	ULB	Ministry of Urban Development	500	200.00
		National Institute of the Urban Affairs+	12980	7.70
FC XI	RLB	Ministry of Rural Development	22500	35.56
		Memoranda of 18 states	33115	24.16
		Study done by the NIRD*	225731	3.54
	ULB	Ninth plan document	50000	4.00
		India infrastructure report, 1996 (Rakesh Mohan committee)	125000	1.60
		Zakaria committee norms (1963) updated in 1997-98	72099	2.77
		Ministry of Urban Development	18500	10.81
		Memoranda of 18 states	39900	5.01
		The study done by NIPFP^	32598	6.14
FC XII	RLB	Ministry of Rural Development @	23468	37.89
		Department of drinking water supply (DDWS) \$	29200	
		Study done by the NIRD #	-	-
	ULB	Ministry of Urban Development	76896	6.50
		The study done by NIPFP	74000	6.76
FC XIII	RLB	Ministry of Rural Development!	217967	24.20
		Department of drinking water supply (DDWS)	48160	
	ULB	Ministry of Urban Development	125871	18.36
FC XV	RLB	Ministry of Rural Development &	1012000	23.40
	ULB	Ministry of Urban Development ~	1575575	8.22

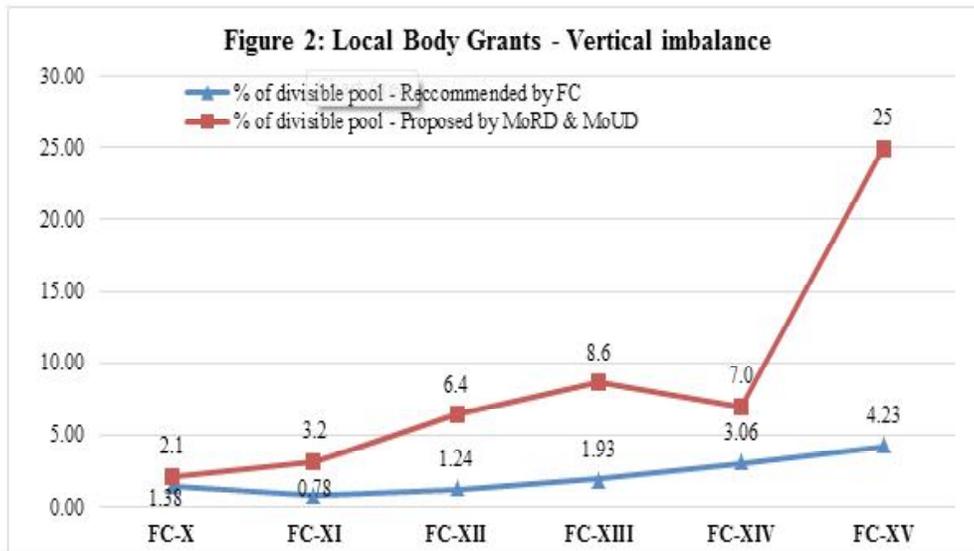
+ funds requirement ranges from Rs.5987 crores (Actual is 16.7% of it) to Rs.12980 crores
* Rs.83603 crore (capital expenditure)
^ funds requirement ranges from Rs. 6907 crores (Actual is 29.96% of it) to Rs.32598 crores
@ Rs.23468 crores at the rate of Rs.2 lakh/ gram panchayat/ annum
\$ 29200 crore (to fill gaps in water supply & sanitation)
The study could not succeed in assessing the net additional resource flow from the states to the panchayats
! Rs.122967 crores (operational infrastructure)
& Rs.12000 crores (additional grant)
~ Rs.348575 crores (devolution) and Rs.1227000 crores (bridging the gap of municipalities)

Source: Various FC reports

and conditional performance grant was 90:10 and for municipalities the ratio was 80:20. On this, the basic grant was intended to deliver basic civic services. But the performance grant was left to be determined by State Governments. For this, FC XIV recommended an amount of Rs.200292 crore for panchayats and Rs.87144 crore for municipalities.

The following FC XV provided tied grants for building basic services like sanitation, drinking water, solid waste management, to all the three tiers of panchayats as well as to areas under the Fifth and Sixth Schedules of the Constitution and Cantonment Boards in urban areas. That is, 50 percent of the grants to RLBs were tied to (a) sanitation and maintenance of ODF status and (b) supply of drinking water and rainwater harvesting. Likewise, 50 percent of the

grants were tied to (a) drinking water (including rainwater harvesting and recycling) and (b) solid waste management for ULBs in towns other than Million-Plus cities. For the Million-Plus cities, in 2020-21, the total grant of Rs. 9,229 crore was fully tied (Rs. 4,400 crores for the improvement of ambient air quality and Rs. 4,829 crores for the improvement of conservation, supply and management of water and efficient solid waste management. Therefore, the recommended amount was Rs.236805 crore for panchayats and Rs.121055 crore for municipalities. This amount recommended for the RLBs was around 23 percent of the proposal of the MoRD and the amount recommended for the ULBs was around 8 percent of the proposal of the MoUD (Figure - 2).



Source: Calculated

The wide gap between the submission or proposal of different agencies/ institutions/ ministries on the requirement of the funds to the local bodies and the actual recommendation of the past FCs, clearly states an answer to the question of the sufficiency of the amount transferred to the local bodies. Figure 2 underlines the vertical fiscal gap exists in transfer of funds to the local bodies as proportionate to the divisible pool. The recommendation of MoRD and MoUD together was 3.2 percent of the divisible pool during FC XI. But the actual recommendation was just 0.8 percent. Also, the amount released during the FC period was 84 percent of the recommendation (Table 2). The gap between MoRD & MoUD proposal and

FC recommendation is widening in the following periods also. It is the highest in the case of FC XV, where the MoRD & MoUD together proposed a share of 25 percent of the divisible pool transfer to the LBs. But the actual transfer was 4.2 percent (Table 2).

Horizontal fiscal gap

Along with the recommendation of the share of fund transfer to the local bodies, it is important that how it is shared among the States. For this, various commissions followed distinct criteria for the recommendation of resources to the States for local bodies (Table 3). The share of the resources that each States received based on these criteria in each FC period is presented in (Table 4).

Table 2: Grants to LBs (in crores)

FC	RLBs			ULBs			Total		
	Recomm ended	Released	%	Recomm ended	Released	%	Recomm ended	%	Released
FC-X	4381	3576	81.6	1000	834	83.4	5381	4410	81.96
FC-XI	8000	6602	82.5	2000	1752	87.6	10000	8354	83.54
FC-XII	20000	18927	94.6	5000	4470	89.4	25000	23397	93.59
FC-XIII	64408	58257	90.7	23111	18980	82.1	87519	77237	88.25
FC-XIV	200292	179491	89.6	87144	74259	85.2	287436	253750	88.28
FC-XV*	236805	-	-	121055	-	-	357860	-	-

* Grants for primary health sector (Rs.70051 crore), Grants for incubation of new cities (Rs.8000 crores) and Grants for shared municipal services (Rs.450 crores) are not included.

Source: XV FC report, Chapter 7, Page 172

Table 3: Criteria for Distribution of Grants to States for LGs

	FC-X	FC-XI	FC-XII	FC-XIII		FC-XIV	FC-XV
				RLG	ULG		
Census	1971	1971	2001	2001		2011	2011
Population	100	40	40	50	50	90	90
Geographical Area		10	10	10	10	10	10
Distance from highest per capita income		20	20	10	20		
Index of decentralisation		20		15	15		
Index of deprivation			10				
Revenue effort		10	20				
Proportion of scheduled castes scheduled tribes in population				10	0		
FC local body grants utilization index				5	5		
	100	100	100	100	100	100	100

Source: XVFC report, Chapter 7, Page 173

Table 4: Local Body grant - Share of States

State	FC X	FC XI	FC XII	FCXIII	FC IV	FC V
Andhra Pradesh	7.93	9.20	7.84	8.29	4.28	4.32
Assam	2.74	2.50	2.32	2.13	2.22	2.64
Bihar	10.67	8.80	7.06	6.59	8.24	8.26
Chhattisgarh			2.81	2.42	2.38	2.39
Gujarat	4.82	4.80	5.38	4.22	5.23	5.26
Haryana	1.84	1.80	1.92	1.77	2.08	2.08
Jharkhand			2.32	2.25	2.77	2.78
Karnataka	5.43	5.20	4.84	7.54	5.27	5.29
Kerala	3.80	4.00	4.54	3.11	2.67	2.68
Madhya Pradesh	7.63	8.70	8.10	6.51	6.52	6.56
Maharashtra	8.92	9.70	11.10	10.07	9.55	9.59
Odisha	4.09	3.90	3.63	3.58	3.70	3.72
Punjab	2.49	2.10	1.98	2.04	2.28	2.29
Rajasthan	4.75	5.90	5.80	5.96	6.31	6.36
Tamil Nadu	7.49	6.60	5.77	6.33	5.92	5.94
Telangana					3.05	3.04
Uttar Pradesh	16.37	15.70	13.78	14.79	16.01	16.05
West Bengal	8.43	7.80	6.66	6.68	7.25	7.26

Source: Computed based on the data from various FC reports

FC X considers rural population as per the 1971 census to devolve funds to RLBs and interstate ratio of slum population derived from the urban population figures to devolve funds to ULBs as the only criteria for the recommendation of grants (FC Report X, p.48). Based on this criterion, the most populated states such as Uttar Pradesh, Bihar, Maharashtra and West Bengal were receiving the highest share.

Population continued to be an important factor during FC XI also and allocated 40 percent of the amount to the States on the basis of rural/urban population of the State. With the view that it should not be the sole basis for State-wise allocation, they gave weight to other criteria such as index of decentralisation (20 percent), revenue effort (10 percent - by combining the average of the ratio of own revenue collection of the panchayats/municipalities with the own revenue of the State for the corresponding years (5 percent) and the ratio of own revenue of the panchayats/ municipalities for three recent years, with the SDP for the corresponding years (5 percent)), distance from the highest per capita agricultural income (20 percent) with the assumption that the States with low per capita SDP will continue to have problems in raising revenue, require additional support, and geographical area (10 percent) (FC Report XI, p.81). When these new criteria were added into the list, the states which are toppers in receiving the highest share has slightly changed. But due to the highest weightage is assigned to population, Uttar Pradesh remained in the top position, even though the share

has slightly declined. Maharashtra and Andhra Pradesh improved its position to second and third respectively with an improved share. But Bihar moved behind to these states with a lower share than the previous FC period.

FC XII also followed the general acceptance of the criteria of population and geographical area and retained the weights recommended by the FC XI: Population (as per 2001 census) - 40 percent and Geographical area - 10 percent. The commission retained the criteria of distance from the highest per capita income as evolved by the FC XI with the same weight of 20 percent. Though the commission retained the criteria of revenue effort also, its weight has increased to 20 percent in such a way that; 10 percent is for own revenues of the local bodies to the state's own revenue with an assumption that it can serve as proxy of revenue decentralization and 10 percent is for the own revenues of the local bodies to SDP. Rather than the index of decentralisation adopted by the previous commission, they constructed an index of deprivation by taking intra-state disparities on the basis of data relating to certain minimum needs of the population by using the State-wise census 2001 data with a break up between rural and urban areas on drinking water and sanitation, which are the two core services performed by the local bodies and assigned a weight of 10 percent to this criterion (FC Report XII, p.156). They have decided to drop the criterion index of decentralisation in the form that FC XI used with the assumption that almost

all states have taken effective steps for the implementation of the 73rd and 74th amendments. By dropping decentralisation index and including deprivation index, the share of resources among the states changed. Even though Uttar Pradesh maintained in the top position, its share declined from the previous two FC periods. But Maharashtra remained in the second position with an improvement in its share. Since the share of Andhra Pradesh and Bihar declined again, Madhya Pradesh came to third position in terms of share of resources to the Local Bodies.

FC XIII dropped criteria such as revenue effort and index of deprivation due to the credibility issues of the available data. But they proposed the aggregate percentage of Scheduled Castes (SCs) and Scheduled Tribes (STs) in a state as a proxy for deprivation. By considering the relevance of it in the rural areas than in the urban areas, commission proposed to allot differential weights for rural and urban areas in such a way that a weight of 10 percent has been assigned for RLBs and no weight for ULBs. They retained the criteria such as; population (50 percent), area (10 percent) and income distance (10 percent for RLBs and 20 percent for ULBs) with a slight difference in their weights. ULBs assigned with a higher weight in income distance criterion with an assumption that it dominates the caste criterion in urban areas. Along with this, FC local body grants utilization index with a weight of 5 percent also is utilized. This index is prepared on the basis of the percentage of undrawn amounts from the proposed. For computing this index, FC

confined to an examination of the grants awarded by FC-XII and the releases made to State Governments thereafter (FC Report XIII, p.177). Though there is no change with these changes in criteria, in the first and second position in the list of States on the share of resources based on the FC recommendation, Uttar Pradesh retained the first position with an improved share and Maharashtra remained in the second position with a decline in share. Andhra Pradesh came back to third position with an improvement in share. Surprisingly, Karnataka came to fourth position with a notable improvement in share.

Marking a departure from the previous commissions, FC XIV noted the practical difficulties in considering an appropriate index or indices for devolution that is uniformly applicable to all States, irrespective of their socio-political and institutional context. They were of the view that even if such an index could be designed, it would not assess the actual level of devolution due to the unavailability of accurate, reliable information of the ground position. Therefore, the commission recommended distribution of grants to the States on the basis of urban and rural population of that State using the data of Census 2011 data with weight of 90 percent and area with weight of 10 percent with the justification that the delivery of basic civic services is related to the current population to be served within the administrative jurisdiction of the local body and the area is relevant from the viewpoint of the costs of delivering such

services (FC Report XIV, p.111). FC XV also followed the same criteria adopted by FC XIV by giving 90 percent weight to population and 10 percent weight to area (FC Report XV, p.173). These two criteria are quite obvious and the position of States remains unchanged. The bigger states in terms population and size will obviously come on top. Therefore, Uttar Pradesh, Maharashtra, Bihar and West Bengal are the toppers in the receiving end as in FC X (Table 5).

In general, the position of states in receiving shares based on FC recommendation from the period of FC X to FC XV remains largely unchanged. The bigger States such as Uttar Pradesh, Maharashtra, Bihar, West Bengal and Madhya Pradesh remains in the top position in receiving LB grants mainly because of the two major criteria; population and area, commonly adopted by all these commissions. But there is

Table 5: Share Difference

	Between FC XIV and FC XII, FC XIII		Between FC XV and FC XII, FC XIII		FCXV- FCXIII
	FCXV- FCXIV	FC XIV- FC XII	FC XIV- FC XIII	FC XV- FCXII	
Andhra Pradesh	-3.56	-4.01	-3.52	-3.97	0.04
Assam	-0.10	0.09	0.32	0.51	0.42
Bihar	1.18	1.65	1.20	1.67	0.02
Chhattisgarh	-0.43	-0.04	-0.42	-0.03	0.01
Gujarat	-0.15	1.01	-0.12	1.04	0.03
Haryana	0.16	0.31	0.16	0.31	0.00
Jharkhand	0.45	0.52	0.46	0.53	0.01
Karnataka	0.43	-2.27	0.45	-2.25	0.02
Kerala	-1.87	-0.44	-1.86	-0.43	0.01
Madhya Pradesh	-1.58	0.01	-1.54	0.05	0.04
Maharashtra	-1.55	-0.52	-1.51	-0.48	0.04
Odisha	0.07	0.12	0.09	0.14	0.02
Punjab	0.30	0.24	0.31	0.25	0.01
Rajasthan	0.51	0.35	0.56	0.40	0.05
Tamil Nadu	0.15	-0.41	0.17	-0.39	0.02
Telangana					-0.01
Uttar Pradesh	2.23	1.22	2.27	1.26	0.04
West Bengal	0.59	0.57	0.60	0.58	0.01

Source: Computed from Table 3

huge change in the shares. When a state like Kerala is concerned, the share of LB grants is declining over the period and during XIVth and XVth FC periods, when population and area are considered as the criteria - the share earmarked for the state is very less as compared to the previous periods. Along with Kerala, States such as Maharashtra, Karnataka, Tamil Nadu, Madhya Pradesh and Chhattisgarh also lost their share in FC XIV and FC XV from the previous FC periods. But when criteria such as Revenue effort, Income distance and Index of deprivation taken into consideration along with population and area, States such as Kerala, Madhya Pradesh, Maharashtra and Chhattisgarh were receiving a good share during the period of FC XII. But the States such as Karnataka and Tamil Nadu were benefitting during the period of FC XIII, where the criteria such as income distance, Index of decentralisation, Proportion of scheduled castes scheduled tribes in population and FC local body grants utilization index along with population and area used. This raises the question of concern whether the criteria such as population and area alone are enough to address the fiscal needs of the local bodies.

Conclusion

With two important points, the discussion on fiscal gap at the local level can be concluded. First, the local bodies are in need of resources to perform the assigned fiscal responsibilities especially after the constitutional recognition by way of the 73rd and 74 Constitutional Amendments. Revenue mobilization at

the local level is more challenging especially in the context of the newly introduced tax system, GST in the country, which has squeezed much of the taxing powers of the sub-national governments. Therefore, FC XVI should recommend to increase the share of local body grants transferred to the states in order to perform the fundamental tasks unhindered at the local level by realising the fiscal gap between the expenditure responsibilities and resource requirement. Secondly, FC should seriously think on reinventing the criteria for distribution of the earmarked share of grants for Local Bodies among the States. We have seen the disparities in adopting population and area as the only criteria to devolve funds to States, from the past experiences. Many States were receiving lesser share than the previous periods. Therefore, the new FC should focus more on dividing fund which ensure equity, efficiency and performance by adding suitable criteria as some of the previous commissions were used (distance from the highest per capita income - used by FC-XI, FC-XII and FC-XII, index of decentralization - used by FC-XI, the index of utilization of local grant - used by FC-XIII etc.).



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A legal outline on initiatives towards green tax: With special reference to India

Meenu Mohan

Abstract

Setting right to pollution free environment as a fundamental right is not enough for the proper mitigation of carbon emission and associated air pollution. More efforts especially in the way of a fund created by the state is a necessity for adequately controlling the carbon emission and restoring environment quality. Green tax is a newly emerged concept which mandate the need for paying the pollution caused by the polluter itself. For converting the economy into green economy, recent trends show that many countries adopt the different forms green tax policies. In this paper, it is analysing the international efforts in introducing and developing this concept. And also, this gives an understanding about what all methods are currently adopted by India specifically in introducing green tax as a beginner in this.

Keywords: Carbon emission, renewable energy, Green tax, Energy Conservation Act

1. Introduction

Environmental pollution is a serious threat that the world is now witnessing. This enhances the chance for high accumulation of deadly gases including the carbon dioxide and synthetic gases. This will lead to trap the sun heat in the earth's atmosphere which is called as the greenhouse gas effect. One naturally occurring greenhouse gas (GHG) is carbon dioxide (CO₂). The carbon cycle allows the Earth to maintain a CO₂ balance within

the atmosphere. But other than the natural processes, there are lot of human activities that leads to greenhouse gas produces such as the fossil fuel burnings. Even though there are variations in the amount of carbon emission by various fuel usage, but it is well established that fossil fuels contribute a larger amount of such emissions. In this category, the coal combustion also produces a large volume of Carbon Dioxide (Spiru Paraschiv and Lizica Simona Paraschiv). Due to

industrial revolution, this carbon emission in the atmosphere is alarmingly high and affecting the earth's atmosphere in an adverse manner. The Earth has already experienced an increase in temperature of around 1 degree Celsius (°C) since the industrial revolution. This is caused directly by carbon emissions' higher-than-natural concentrations, which the Earth would take a long time to rebalance. All the possible ways to reduce the practices which make more carbon emission point towards new tax structures which aims to provide incentives for the using of green energy and to impose tax upon the use of conventional fossil fuels.

Alarmingly high carbon emission and global warming

It has been recognized that global warming poses a threat to the overall equilibrium of our planet's climate. Reducing the atmospheric level of the greenhouse gasses the only strategy to slow down the present global warming threat. This also causes threat to human and other animal health and environmental injustice to all irrespective of the country of origin and the gravity of the pollution that is caused by a specific country.

As per the Climate Change 2022 Mitigation of Climate Change¹, the energy supply sector accounted for over 34% (20 GtCO₂-eq) of the total net anthropogenic GHG emissions in 2019, followed by industry at 24% (14 GtCO₂-eq), agricultural, forestry, and other land use (AFOLU) at 22% (13 GtCO₂-eq), transportation at 15% (8.7 GtCO₂-eq), and buildings at 6% (3.3 GtCO₂-eq). 90% of these indirect

emissions are ascribed to the building and industry sectors, raising their respective relative GHG emissions shares from 6% to 16% and from 24% to 34% if emissions from the generation of heat and electricity are attributed to the sectors that use the final energy. 12% of the world's net anthropogenic greenhouse gas emissions come from the energy supply sector after reallocating emissions from the generation of heat and electricity.

Currently the global energy sector is dominated by the fossil fuels. The only way to reduce the carbon emission is to reduce the usage of fossil fuels which is currently a greater source for energy production and powering all the industries and transportation. At the same time adequate efforts should be there for the proper allocation of exploiting the remain fossil fuel resources since many countries especially the developing countries rely mostly on the fossil fuels. This needs changes in laws, policies, and institutional arrangements at both national and subnational levels. One of the possible solution emerging is to cut the subsidies given to the industries and other economic activities with conventional fossil fuels along with introducing green tax and give incentives to institutions which switch on to renewable energy resources.

India and other emerging economies must balance maintaining rapid economic growth with reducing the pollution and carbon emissions brought on by industrialization. India has to commit to sustainable solutions that both encourage economic growth and minimize pollution;

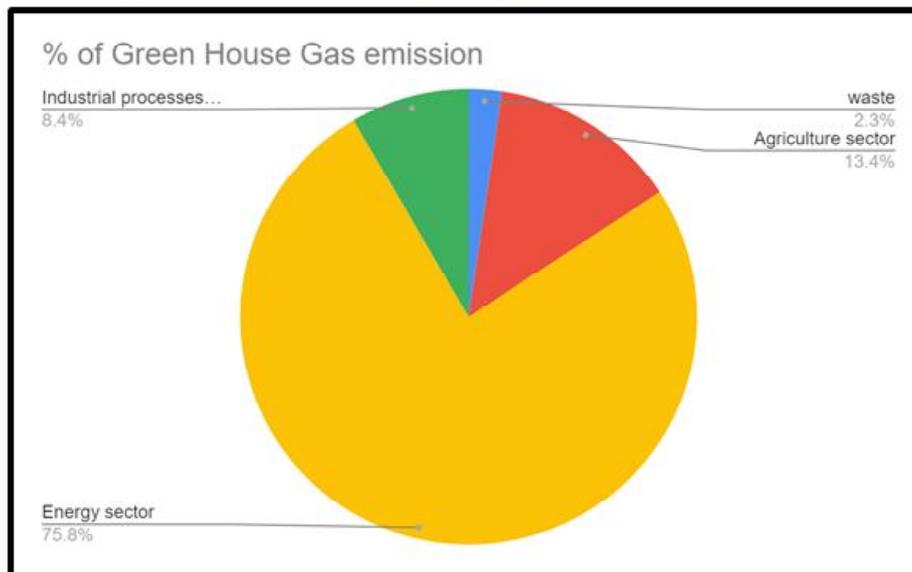
it cannot forgo economic growth by eliminating all potential sources of pollution. India is currently the world's third-largest carbon emitter. It is clear that India developed numerous legal initiatives to address pollution, starting with the Stockholm Declaration. The Government's constitutional duty to preserve the environment and forests further emphasizes the need of doing so. However, despite several years of these efforts, India's pollution level remains quite high. Therefore, in order to reduce it, drastic affirmative action and policy are required; else, the consequences would cost us dearly down the road. The green gas emission in India is 37 percent of total GHG emissions

in which the major contribution of 75.8% from energy sector (Figure 1 & 2).

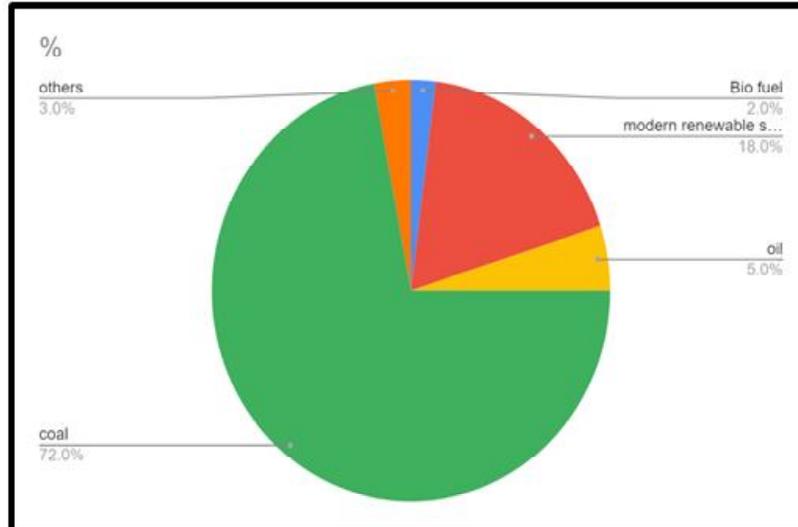
Green tax: Meaning and definition

Green tax is a newly emerging field in which it is considered as a solution for reducing the air pollution including carbon emission and a mechanism to promote environmentally healthy lifestyles. Everyone is now knowing the impact of pollution and there is substantial encouragement for the concept of sustainable development both at the international and national level. So, there should be balancing approach for both the development and environmental protection. Then only a nation can meet

Figure 1: Percentage of Green Gas Emission in India



Source: Extracted from NITI Aayog's India Climate and Energy Dashboard: Economy-wide emissions (2019) available at <https://iced.niti.gov.in/climate-and-environment/ghg-emissions/economy-wide>

Figure 2: Electricity generation by fuel type in India (2020)

Source: IMF WP 23/218 *A Framework for Climate Change Mitigation in India* available at www.imf.org.

the needs of the present generation and also to preserve the resources for the life of the future generations. Through the sustainability principles, the effort to provide alternative solutions to reduce the pollution especially by the economic and developmental activities and also to give incentives to the companies and industries who adhere to the principles of sustainability (Kazi Mohammed Kamal Uddin et. al.). So, by one way it discourages the activities that harm the environment and on other way it promotes the activities that reduces the green gas effect.

One of the new policy innovations for the sustainable development is the green tax. Its main aim is to convert the economy to the green economy. The green tax concept was firstly originated from one American economist Pigou who advocated for

implementing a tax as a punishment for doing wrong or damage to the environment or the society (Haitham Nobanee & Saif Ullah). It supports the activities that reduce the pollution. So, the economic activities that results the carbon emission or serious environment pollution will be affected by green tax.

The United Nations defines it as a compulsory, unrequited payment to the general government, levied on carbon emissions or its proxy that can confer a reduction in corresponding carbon-based (equivalent) emissions in the atmosphere and is thus characterized as having both environmental purpose and effect². IMF defines green tax as indirect taxes on production inputs or consumer goods whose use can damage the environment

(for example, excise taxes on gasoline). As per the words of the European Union, this is a tax on a physical unit which is proved having some adverse impact on the environment³.

Therefore, implementing the green tax have significant positive results for the environment protection relying on the principle that the polluter has to pay for it. This provides encouragement to adopt the technologies which help for reducing the environment damages. A shift from non-renewable energy sources to renewable energy is possible by the financial incentives to support the use of environment friendly resources. Thus, green taxes are valuable policy implementation for encouraging the sustainable development and adequately addressing the environment challenges.

International efforts for reducing carbon emission and the importance of green tax

The importance of environment protection and the concept of sustainable development is now well established in the global scenario. From 1980s onwards the concept of sustainable development reached the mindsets of international community and the United Nations World Commission on Environment and Development (the Brundtland Report, Our Common Future, 1987) which significantly raised the need to take the environment into account in formulating policies and developing specific measures in response to the challenges of climate change, pollution and resource management became a common concern, in particular in the wake of the Rio Earth Summit of 1992.

The United Nations Framework Convention on Climate Change 1992 (Rio Summit) is the first document which directly focused on preventing the dangerous anthropogenic (human induced) interference with the climate system. This urges the need to prevent such interference in a sustainable way which doesn't seriously affect the economic developments. Recalling the importance of the Stockholm Declaration, 1972, it acknowledges that steps required to understand and address climate change will be environmentally, socially and economically most effective if they are based on relevant scientific, technical and economic considerations and continually re-evaluated in the light of new findings in these areas. Making the protection of climate system as a responsibility towards the present and future generations, it set out principles for the state parties to observe and implement in their own respective jurisdictions. Accepting the difference in both responsibility and the ways to curb the pollution and take precautionary principles, this fixes different types of responsibility upon the developed and developing countries. Policy strategies for mitigating the climate change and also making the developed countries more responsible in its commitment are the key features of this 1992 Convention.

The operationalisation of the 1992 Convention especially mitigating the climate change was the main agenda for The Kyoto Protocol, 1997. This relied on 'common but differentiated responsibility and respective capabilities' principle and

make the developed nations accountable for the current high level of emission of the greenhouse gases in to the atmosphere because of their greater responsibility in such emissions. This Convention sets an Annexure 1 which consisting of industrialised countries having greater responsibility to reduce the emission within 7-year period and it further propagate two mechanisms such as Joint implementation (JI) and Clean Development Mechanism (CDM). Both addressed the mechanisms to reduce the carbon emission and to promote environment friendly policies for reducing the green gas effect and global warming.

Both these Conventions along with Doha Amendment, 2013 and the Paris Agreement, 2016 stand as the basis for implementing the sustainable development principle which deeply rooted in the polluter pay principle and the precautionary principle which urges the need to compensate for the environmental damage caused by the harmful act. Moreover, Goal 13 of the United Nations' Sustainable Development Goals creates legal obligation to mainstream climate change considerations into their policies, laws, and institutions. For implementing Goal 13, the need to reduce the usage of fossil fuels and fairly allocating the right to use the remaining fossil fuels are the concerns before the international community to implement without creating price hype in the developing countries which is largely depending on the fossil fuel energy.

The Organization for Economic Cooperation and Development (OECD),

which is dedicated to establishing global standards for a better life, has made a thorough level recommendation for the appropriate implementation of a green tax. The OECD (2010) clearly indicated that environmental taxes have been effectively utilized to address a variety of concerns, such as waste disposal, water pollution, and air pollutants, along with many other taxing goals. As a result, the majority of OECD members have implemented green taxes in their national systems. Internationally, the standard procedure is to apply a supplemental taxation after including all petroleum goods in the GST base. The amount levied as a green tax in these nations varies based on the carbon and sulphur contents included in fuels.

UN Climate Change Conference (COP21) in Paris, 2015 aimed to achieve the goal of an "increase in the global average temperature to well below 2°C above pre-industrial levels" and "to limit the temperature increase to 1.5°C above pre-industrial levels." This Conference initiated for formulating long- term ow greenhouse gas emission development strategies (LT-LEDS) in a way which further providing adequate technical and financial support to the countries who need it. For the capacity building for reducing the carbon emission under Article 6 and to take steps for taking action against global warming, the Conference identified the importance of climate fiancé which is necessary for the financial resources to mitigate climate change and financial assistance to the developing countries. The fulfilment of obligations under 2015 Conference are

periodically reviewed by the subsequent Conferences.

As per the World Trade Organisation (WTO), almost 57 members take effort to initiate internal taxes for environmental purposes. This can be mostly seen in energy sector, manufacturing sector and chemical industry. The 28th United Nations Climate Change Conference, or Conference of the Parties (COP28) analysed the state party's obligation and its fulfilment towards reducing carbon emission through the regulations such as internal taxes and carbon pricing instruments with their wider climate action plans. As agreed, upon in the Paris Climate Change Accords, COP28 represented the first 'global stocktake' to evaluate the international response to the climate problem. This assessment came to the conclusion that too little has been done to combat climate change in any of the following areas: reducing greenhouse gas emissions, enhancing resilience to its effects, and providing funding and assistance to developing countries so they can confront the issue. Countries decided how to speed up activity in all areas by 2030 in response to these findings including internal tax for non-renewable energy resources usage.

Green tax in India

India is always in forefront for making policies to preserve the environment. According to Article 48A and Article 21 of the Constitution of India, our nation has the responsibility to protect the environment and right to pollution free environment is a basic fundamental right

of the people. Through land mark decisions like *M. C. Mehta v. Kamal Nath*, (1997) 1 SCC 388; *M.C Mehta v. Union of India*, 1988 SC 1037; *Indian Council for Enviro-Legal Action v. Union of India* 1996 (5) SCC 293 etc., the Indian Judiciary also well established the principle that resources like air, water, soil etc. are the gift from nature which should be utilized in a sustainable way. For any harmful emissions, the responsible person should take all the precautions and are liable for paying the pollution caused in case of any hazardous emissions. But even though there are a number of legislations for the environment protection, many pros and cons are there at the implementation level. Green tax is a much effective way for reducing such issues. Currently the green tax policies are implemented in the 2 main regimes such as the energy sector and transportation.

The first initiative for green tax was taken by the Tax Reforms Committee of 1992. In order to encourage economy in the use of certain resources in production and consumption and to preserve and safeguard the environment, they suggested for higher tax rates on specific raw materials that could be imposed. But no later legislation was able to give significant consideration to this suggestion. Further it was highly recommended in the Thirteenth Finance Commission's proposal to impose a non-negotiable excise on all commodities that cause environmental pollution. But a definitive decision regarding the imposition of a Green Tax on natural gases was not made because of the need for heavy research for

evaluating all the aspects relating to it. In addition, the Commission proposed three specific grants for environmental protection and promotion that would increase the amount of forest cover, improve water resource management, and encourage the integration of renewable energy sources into the country's energy infrastructure. It does provide a comforting image of the future and shows that India is prepared to become one of the "environmentally sound" countries.

Green taxing system was firstly introduced in India in year 2010 in which the Union Finance Act imposed a clean energy cess on certain products like coal, Lignite and Peat. But this cess was subsumed under the GST Compensation Cess by the implementation of Goods and Services Tax in 2017 as the GST Compensation collection which was ended recently. Even before this cess implementation, the Energy Conservation Act, 2001 which was enacted for was enacted for reducing energy consumption and adopting more energy efficiency measures, has provision to fund for more energy efficiency in our country. Its Section 56 gives power to the Central Government to make rules for the formation of new schemes and its implementation aiming for energy conservation.

The Energy Conservation Amendment Act, which came into effect in 2022, focuses on potential ways to transition India's energy usage from petroleum and coal and implement a carbon credit trading scheme. Eight national tasks are enshrined in the National Action Plan on Climate Change (NAPCC), which was initiated in 2008 and

aims to effectively reduce carbon emissions, hence mitigating climate change. These eight goals, which include the Green India Mission and the National Mission for Enhanced Energy Efficiency, offer the framework for implementing integrated, multifaceted approaches to mitigate climate change.

The Energy Conservation (Amendment) Act, 2022 introduced the Carbon Credit Trading System which provide certificates of carbon credits for registered enterprises adhering to the carbon credit trading program by the Central Government or any other authorised agency. Under this the green subsidy and imposition of carbon tax which aim for reducing carbon emission and increasing the use of renewable energy sources. But the Government can only implement this by assessing the GDP cost and to analyse whether it is fiscally less expensive.

The Indian government does not now impose a green tax on automobiles in the full amount. However, due to increased carbon emissions, certain states-including AP, Telangana, Karnataka, Maharashtra, Dadar & Nagar Haveli, Uttar Pradesh, Jharkhand, etc.-are taxing older cars at higher rates. The initiatives, such as the odd-even formula and the ban on diesel cars, would aid in the reduction of air pollution. Each of these states implemented it by adding an additional levy to their Motor vehicles Tax Act for vehicles more than fifteen years old. However, the amount and the tax provision could differ from one state to another and how many states consider this amount as a fund for pollution control

is also a question. A Proposed Guidelines for Imposition of Green Tax on older vehicles by State/UT Governments in 2021 was an initiative by the central Government for regularising the use of vehicles and other energy consumption activities which causes environment pollution. One of the point that is concerned by this draft guidelines was that the revenue collected as green tax by the states from old vehicles should be used for reducing the pollution and its hazards.

As per the Report of the Working Group on Road and Road Transport of the 13th Five Year P.Lan of the Kerala State Planning Board, The transport sector is highly dependent on fossil fuels and is also the major source of air pollution, especially the greenhouse gas emissions. In order to reduce the ill effects of transportation such as air and noise pollution, policy level interventions like imposition of green tax on vehicles above 10 years of manufacturing, incentives for green technologies, use of vehicle technology and promoting switching from fossil fuels to LPG/ CNG/ Hybrid etc. are required. From 2017 onwards, Kerala introduced the green tax in case of using older vehicles on road. In Kerala, the commercial vehicles which are more than eight years old have to pay green tax for getting the fitness certificate from the Motor Vehicles Department. Normally it is 10%, but if the vehicle is more than 15 years old, then the tax will be increased to 50% by the 2022-23 Budget. Considering this as a small step towards a sustainable development policy, we have to look forward to more similar steps to be taken in future.

Way forward

India is committed for reducing carbon emission and moreover the country tries to attain the target of net zero by 2070. So, more policies and actions in the area of carbon reduction by imposing green tax and also giving incentives for using renewable energy source should be encouraged in such a way that more consideration must be given for sustainable development. This needs a clear understanding and analysis of the possible areas and ways to increase fund for protecting and recovering the environment and its impact on the GDP development and the total progress of our nation. As the Supreme Court rightly pointed out in *State of Gujarat v. Reliance Industries Ltd*, Civil Appeal No. 513557 of 2013 Dated on 26-07-2021(SC); there is no unconstitutionality in levying a tax on the generation of electricity other than from renewable sources. Because the traditional ways of creating energy ultimately causes high pollution rates which seriously affect the public health and environment, the producer of such harmful substances has the responsibility to contribute to the state for promoting and adopting the use of renewable energy resources and to restore the healthy environment.



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End notes

- 1 Working Group III, Report on Climate Change 2022 Mitigation of Climate Change https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SummaryForPolicymakers.pdf
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Charting the course: Trends in public health expenditure across Indian states with a focus on Kerala's steadfast commitment.

Swathy Varma P R

Abstract

The universal health coverage plays a crucial role in achieving the goals and sub-goals of the 3rd SDG goal of United Nations 2015. It measures the ability of countries to ensure that everyone receives the health care they need, when and where they need it, without facing financial hardship. It covers the full continuum of key services from health promotion to prevention, protection, treatment, rehabilitation and palliative care.

To achieve the Sustainable Development Goals (SDGs) and realize the vision of Universal Health Coverage (UHC), the Government of India has introduced various initiatives and schemes in the health sector. This paper explores the trends in public health expenditure (PHE) across Indian states from 2009-10 to 2022-23, highlighting Kerala's consistent dedication to healthcare financing. Public healthcare spending in India remains insufficient compared to many other countries.

Kerala, known for its robust healthcare system, demonstrates a consistent level of public health expenditure. While, most of this surge can be attributed to the states rather than the central government. The notable increases in Kerala's healthcare spending during the years of 2020-21 and 2021-22 highlight the state's proactive response to public health emergencies such as the Covid-19 pandemic, Nipah virus outbreaks, and severe flooding. Given the resource constraints, this achievement is commendable. But the scenario of out-of-pocket expenditure (OOP) in Kerala underscores the state's healthcare challenges despite significant public health investments, with many households burdened by substantial OOP costs. This situation calls for policy interventions to enhance financial protection and expand public health coverage, reducing the fiscal strain on residents. Furthermore, the trend of diminishing central assistance necessitates increased state funding, highlighting the need for strategic investment and support from both state and central governments to ensure equitable healthcare access.

Key Words: SDG 3, Universal Health Coverage (UHC), Out-of-pocket expenditure (OOPE), KASP-PMJAY.

I. Evaluating shifts in state public health expenditure:

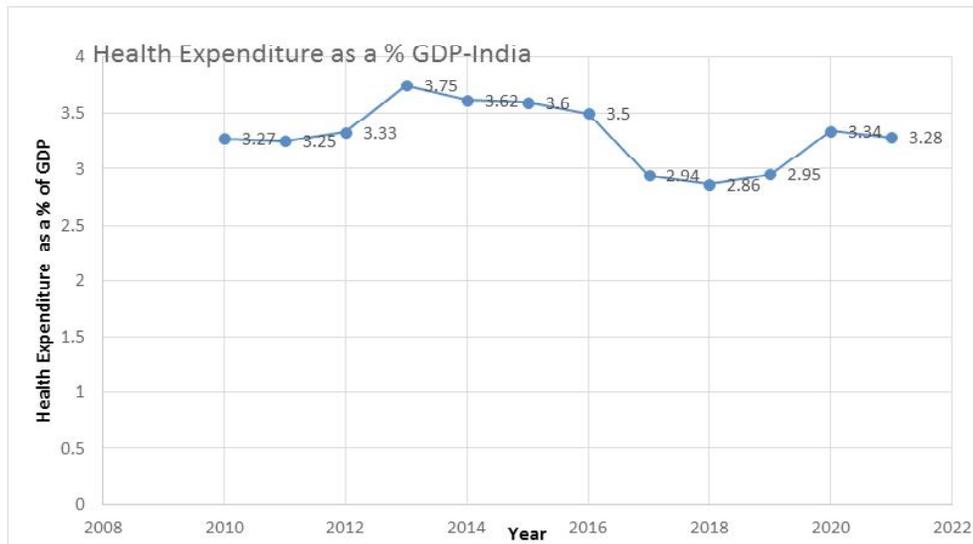
The world is moving at a rapid pace to make progress towards achieving the universal health coverage goal of SDG 3 by 2030. Progress towards this goal is monitored through two key indicators: the UHC service index and catastrophic health spending¹. Where does India stand in its pursuit of healthcare goals? Currently, India ranks 63rd in the UHC Service Coverage Index among G-20 nations and faces one of the highest levels of catastrophic healthcare spending within this group.

In India, health expenditure as a percentage of Gross Domestic Product (GDP) reflects the nation's commitment to ensuring robust healthcare

infrastructure and services for its population. Over recent years, India's expenditure on healthcare has shown varied trends (Fig 1.1) influenced by economic fluctuations, public policy initiatives and healthcare reforms. The National Health Policy of 2017 aims for "the highest possible level of health and well-being for all ages," emphasizing preventive and promotive healthcare across all development policies and ensuring universal access to high-quality healthcare services without financial hardship (Figure 1.1).

To achieve this, the Policy advocates for increasing government health expenditure from the current 1.2 percent (2023) to 2.5 percent of GDP by 2025. Similarly, the Fifteenth Finance Commission's report

Figure 1.1 - Health Expenditure as a per centage of GDP (India) 2011-2022



Source: Based on WHO, Author Compilation.

recommended a progressive increase in public health expenditure by both the Union and States to reach 2.5 percent of GDP by 2025.

The data on per capita public health expenditure from 2011-12 to 2022-23 across these Indian states reveals varied approaches and priorities in healthcare investment. The significant increases in certain years likely correspond to state-specific health initiatives, economic changes, or responses to public health crises such as the COVID-19 pandemic. Kerala shows a remarkable increase in public health expenditure over the years peaking at 4% in 2021-22 during pandemic. Kerala's consistent upward trend highlights its prioritization of public health and its efforts to ensure robust healthcare infrastructure and services. (Chart 1.1. to Chart 1.16).

The fiscal crisis which Kerala confronts today is a major factor that can affect the sustainability of the human development attainments and efforts of the state. (M. A. Oommen, Reforms and the Kerala Model, EPW 2008). Even now, this fact remains valid and relevant. These challenges are exacerbated by a declining trend in the share of Central Sector Schemes (CSS) to Public Health Expenditure (PHE).

II. Understanding catastrophic health spending:

Financial protection through health insurance schemes is crucial as it shields individuals from the economic burden of unexpected healthcare costs, ensuring access to necessary medical services without financial hardship. It is measured

as the share of the population living in households where out-of-pocket (OOP) health spending exceeds 10% or 25% of the household budget. (WHO). The global proportion of the population with catastrophic out of pocket health spending at 10% thresholds (SDG indicator 3.8.2) continuously increased from 9.6% in 2000 to 12.7% in 2015 at the beginning of the SDG era and reached 13.5% in 2019, representing over 1 billion people. The largest shares were reported in the Western Pacific Region (19.8%) and South-East Asia Region (16.1%); the lowest shares were reported in the Region of the Americas (7.8%) and the European Region (7.9%) (World Bank).

To know the efficacy in the spending of money on the health schemes, there is a need to scrutinize the out-of-pocket expenditure of the people. However, the scenario of out-of-pocket expenditure (OOP) in Kerala provides a nuanced understanding of the state's healthcare dynamics. Based on the data published in National Health Accounts 2016-17, it was found that household out-of-pocket expenditure constituted about 58.7% in Kerala which is backed up by another survey data by NSSO in the year 2004. By analysing the data, it was inferred that about 12% of the rural as well as 8% of the urban households fell into below poverty line category due to the health care expenses (Peter Berman and Rajeev Ahuja). Despite substantial public health expenditure, many residents still face significant OOP costs which can be a burden for households. This situation highlights a critical area for policy

Trends in States Per capita Public Health Expenditure from 2011-12 to 2022-23

Chart 1.1.

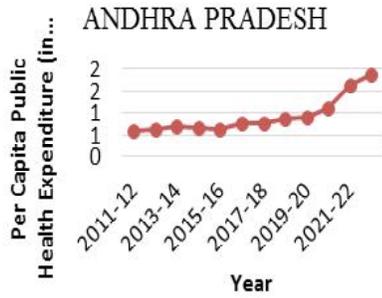


Chart 1.2.

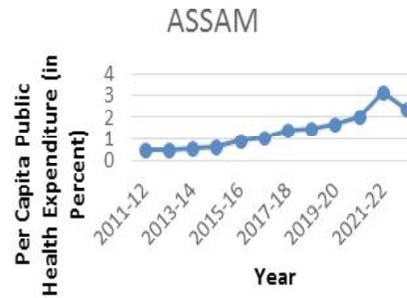


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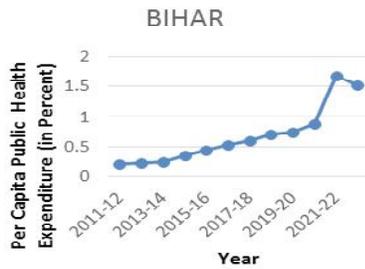


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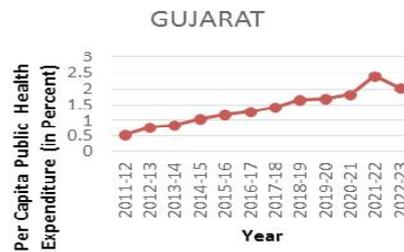


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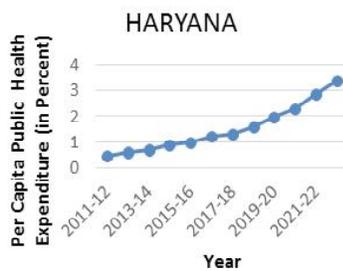


Chart 1.6.

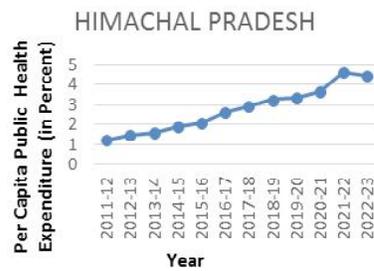


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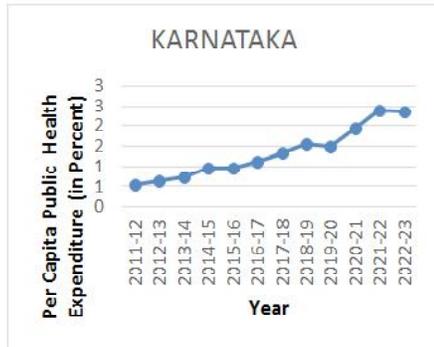


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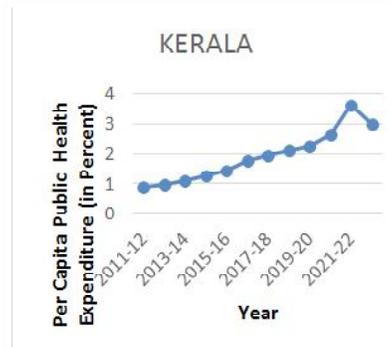


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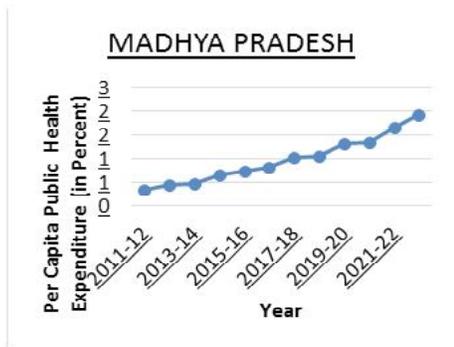


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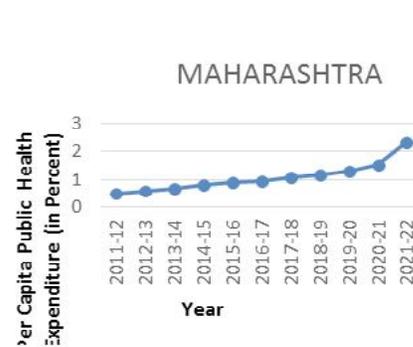


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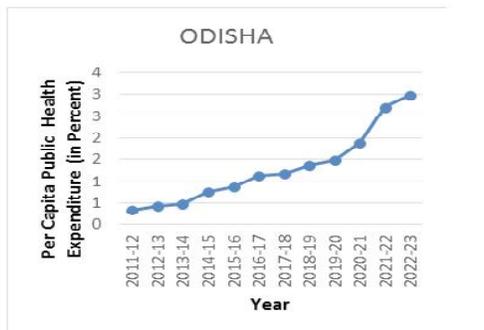


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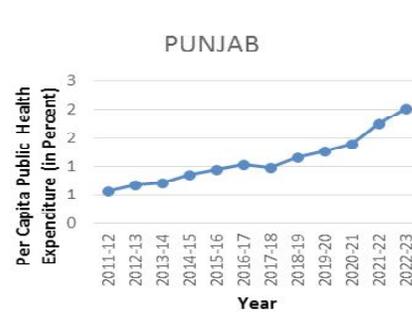


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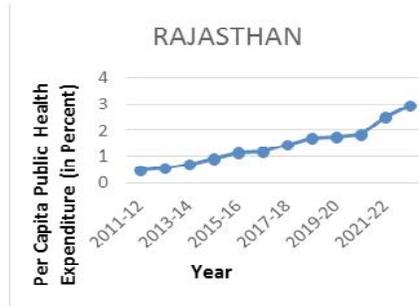


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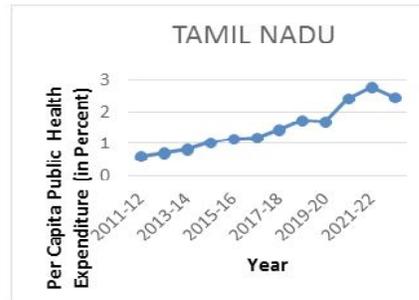


Chart 1.15.

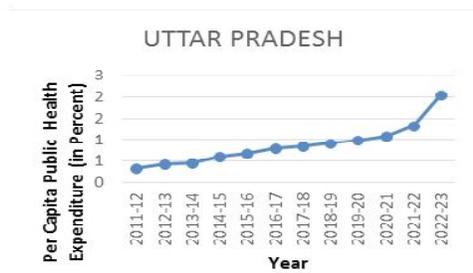
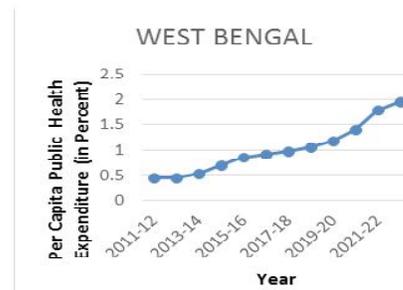


Chart 1.16.



Source: Based on CAG reports. Author calculation.

Note: Based on 2011 Census population.

intervention, aiming to reduce OOP expenses through better financial protection mechanisms and more comprehensive public health coverage. The overall trend of decreasing relative contributions from central assistance and transfers also emphasizes the increasing fiscal responsibility on state governments to fund their public health initiatives. Balancing public health expenditure and reducing OOP costs is essential to ensure

equitable healthcare access and outcomes across the country emphasizing the need for continued support and strategic investment in the health sector at both state and central levels (Table 1.1).

From the above table (1.1), we can see that there is a wide variation in out-of-pocket expenses both within categories (public, private) and across different types of care. This disparity between public and private healthcare costs highlights the financial

Table 1.1. Indicators on Healthcare Utilization and Out of Pocket Expenditures (OOPE), 2014 (current prices)²

Indicators	Kerala		All India	
	Rural	Urban	Rural	Urban
Utilization Indicators				
Proportion (per thousand) of ailing persons	310	306	89	118
% of non-hospitalized cases using public facility	35	29	25	20
% of non-hospitalized cases using private facility	62	65	64	73
% of non-hospitalized cases using Informal care (friends/relatives/	3	6	11	7
Proportion (per thousand) of hospitalized persons	117	99	44	49
% of hospitalized cases using public facility	35	33	42	32
% of hospitalized cases using private facility	65	67	58	68
Out of Pocket Expenditures on Healthcare (OOPE)				
Hospitalization Expenditure (excluding child birth) (In Rs.)				
OOPE per hospitalized case (Rs)-All	17303	13995	14473	21985
OOPE per hospitalized case (Rs)-Public	2871	2674	5369	7189
OOPE per hospitalized case (Rs)-Private	24978	19640	21034	28958
Child Birth Expenditure (as inpatient) (In Rs.)				
OOPE per child birth-(Rs)All	13624	14873	5518	11033
OOPE per child birth (Rs)- Public	1651	1510	1572	2094
OOPE per child birth (Rs)- Private	19147	20903	14727	19107
Non-hospitalized expenditure (In Rs.)				
OOPE per non-hospitalized ailing person (Rs) in last 15 days - Public	140	172	404	395
OOPE per non-hospitalized ailing person (Rs) in last 15 days - Private	425	426	649	778
OOPE on antenatal care (ANC) per pregnant woman (Rs)-Public	2856	3343	1388	1859
OOPE on ANC per pregnant woman (Rs)-Private	6744	5708	4791	5727
% of diagnostics expenditure as a proportion of outpatient medical expenditure	13%	10%	11%	12%
% of drugs expenditure as a proportion of outpatient medical expenditure	74%	75%	73%	68%
% of drugs expenditure as a proportion of outpatient medical expenditure-Public	72%	91%	76%	67%
*OOPE is net of reimbursements				

Source: Healthcare Financing Division National Health Systems Resource Centre Ministry of Health and Family Welfare, Government of India.

burden on individuals who opt for private healthcare services. Here comes the role of insurance sector. The main objective of any insurance scheme is to minimise the out-of-pocket expenditure. Health insurance schemes are vital in mitigating catastrophic health spending and offering individuals financial protection against high medical costs.

III. Kerala's healthcare transformation: consolidating coverage with KASP-PMJAY

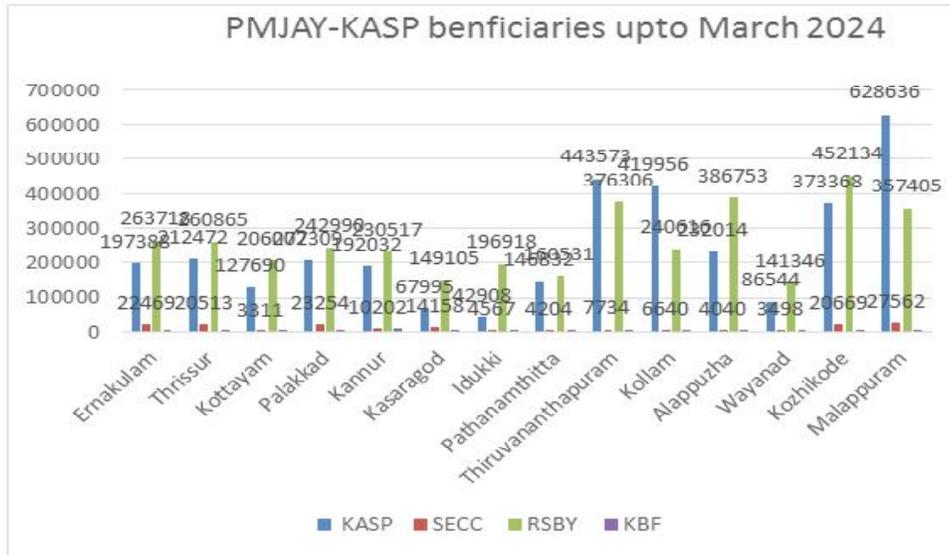
To meet UHC goals and to reduce OOPE, Govt of India launched a flagship scheme named Ayushman Bharat in 2018 with two components: Health and Wellness Centres (HWCs), Pradhan Mantri Jan Arogya Yojana (PM-JAY). PM-JAY is the world's largest health insurance scheme that intends to minimise the OOPE. It aims at providing a health cover of Rs. 5 lakhs per family per year for secondary and tertiary care hospitalization to over 10.74 crores poor and vulnerable families (approx. 50 crore beneficiaries) that form the bottom 40% of the Indian population. The households included are based on the deprivation and occupational criteria of Socio-Economic Caste Census 2011 (SECC 2011). PM-JAY is fully funded by the Government and cost of implementation is shared between the Central and State Governments. States can choose the implementation model and can implement the scheme through Trust, Insurance company or Mixed model. States can also cover a greater number of families than those defined as per SECC data. However, State will need to ensure that all beneficiaries eligible as per SECC

data are covered. For these additional families, full cost will need to be borne by the States. State of Kerala signed an agreement with NHA on 2018 and constituted State Health Agency (SHA) for implementing the scheme in the State as Karunya Arogya Suraksha Padhathi (KASP).

Kerala converged all the Government sponsored health care schemes RSBY, Comprehensive Health Insurance Scheme-CHIS, Senior Citizen Health Insurance Scheme-SCHIS and Karunya Benevolent Fund-KBF along with Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (PMJAY) and formulated Karunya Arogya Suraksha Padhathi (KASP) (Figure 1.3).

Enrolment rate under PFHI has increased in Kerala over the years. The scheme ensures free treatment up to ₹5 lakh per year for families. It benefits 41.99 lakh poor and vulnerable families. Implemented through the State Health Agency, the scheme has an annual premium of ₹1050 per family. Out of this, only 23.97 lakh families receive central assistance of ₹631.20. The state covers the remaining amount for these families. For the additional 18.02 lakh families, the state bears the entire premium cost. The scheme provides membership without considering the number of family members or age limits. Assistance can be given to all individuals in a family or just one individual. There are no priority criteria. No fees are charged for obtaining membership. The service is entirely free of cost. Currently, the scheme's services are available across Kerala in 197 government hospitals, 4 central government hospitals,

Figure 1.3 KASP-ABPMJAY Beneficiary enrolment status 2024-Kerala



Source: SHIA, Kerala.

and 364 private hospitals. Treatment is provided without charging money from any of the selected institutions, regardless of whether they are government or private hospitals. The scheme covers medicines, related materials, tests, doctor's fees, operation theatre charges, ICU charges, and implant charges.

The scheme includes 1667 packages across 25 specialties. Additionally, free treatment is available from 89 packages provided by the government. For treatments not included in the specified packages, unspecified packages can be used. Treatment costs incurred up to three days before hospital admission and medicines required for 15 days post-discharge (as per the doctor's instructions) are provided under the scheme.

For families not covered under the

Karunya Arogya Suraksha Padhathi (KASP) with an annual income below ₹3 lakh, the Karunya Benevolent Fund (KBF) scheme offers one-time free treatment up to Rs. 2 lakh. For kidney-related ailments, free treatment up to Rs.3 lakh is available. All hospitals providing KASP treatment also offer KBF benefits. So far, Rs. 226.79 crore has been distributed for 2,76,589 bills from 39,854 families under the scheme.

Despite the Center's significant emphasis on these schemes, a larger portion of the spending burden falls on the states.



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End Notes

- ¹ Proportion of population spending more than 10% of household income as out-of-pocket health care expenditure.
- ² Household Healthcare utilization and Out of Pocket Expenditure (OOPE) in in this fact sheet are produced by National Health Systems Resource Centre from a state wise analysis of the data collected in the Health and Morbidity Survey 2014, Health and Morbidity Survey 2004 and Consumer Expenditure Survey 2011 by the National Sample Survey Office (NSSO), Ministry of Statistics and program Implementation (MoSPI).

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Explaining the transition towards knowledge economy: Empirics from Kerala

Veena Renjini K K

Abstract

The paper is an effort to analyse the dynamic association that exists among the selected variables in transforming Kerala into a knowledge economy with a robust long-term growth. The concept of knowledge or innovation-led economy is one where knowledge is the key catalyst behind economic upturn and in a knowledge economy context, the necessity is the continual investment in education, health, ICT, innovation and research and a conducive institutional arrangement which utilizes knowledge in economic production accordingly resulting in a state of long-term economic growth. An econometric examination unfolds the truth that the development experience of Kerala is the result of investments in knowledge economy pillars which placed the economy in a much advantageous position with a significant leap in its economic growth. The transmission mechanism and the dynamism involved among these mutually dependent variables placed the economy towards a knowledge hub led economic development.

Keywords: Knowledge Economy, Unit root, Cointegration, Economic growth

1. Introduction

As enlightened by the endogenous growth models Romer (1986, 1990); OECD (1996), Powell and Snellman (2004) argued that the determination of the rate of economic growth is based on knowledge. Thus, genKnowledge Economy, Unit root, Cointegration, Economic growth

eration and diffusion of knowledge becomes imperative and knowledge is revealed out to be a pivotal factor of production in

economic activities. OECD (2000) put forward a new approach to compare the generation, propagation and application of knowledge to different sectors inclusive of health and education. The global economic development has prioritized knowledge rather than physical factors of production and it has become the order of the day. The economy based on knowledge will thus serve as the cornerstone for gearing up the growth process of an economy and thus enhancing global

competitiveness. This has been demonstrated by the fact that, on an average, technological advancements have resulted in approximately 70% of the current economic expansion in the US and other developed nations (Hogan, 2011). It has become the need of the day to turn the economy to a knowledge or innovation driven one. As India accounts for fifth largest youth population, this productive group are to be trained to imbibe skills so as to drive the economy in knowledge power (National Youth policy, 2021). OECD (2001) has attributed that for a sustainable growth of the knowledge economy, there should always be an increasing demand for innovation and technological change.

Dahlman et. al (2006) explained how the development of the knowledge economy positively favoured all economies irrespective of their factor endowment and stage of development. Knowledge economy has provided advanced industrialized economies with skilled labour and infrastructure a competitive edge in the manufacturing of high-tech goods and other service industries. Economies with rich natural resource base is credited with better technologies and higher valued products and ICT development provides closer customer links paving the path for sustainable development. The knowledge economy for developing countries, has made it possible to skip various stages of development, leap forward with technologies and jump into the global economy by attracting foreign investors.

The knowledge economy of Kerala has been indebted to social reformers and is rooted

on economic stability and cultural integrity. An evolution of democratic, secular, receptive and vibrant population is the hallmark of Kerala's asset. This has generated an inbuilt capacity to absorb any change and to move forward. The policies that the Government of Kerala has followed overtime; the much-applauded universal education and health care system etc set a groundwork for the road map towards economic progress (Elamkulam, P. N. K, 1970). The successive Governments which reigned Kerala is much committed to make it a knowledge hub. This farsightedness has paved the way for monotonically increasing government expenditure to meet the demands of all sectors and that too reflected in health, ICT, education sectors as well. With this base, Kerala was able to achieve reasonably higher standards in education. Thus, the entire administration procedure has been in tune with revamping radical changes, which are in fact unique. Thus, Kerala has much been accredited as a knowledge economy in the backup of social cum economic and cultural progress. All these factors positively contributed to transform Kerala into knowledgeable society and economy as well.

The building blocks of knowledge economy: The framework of world bank

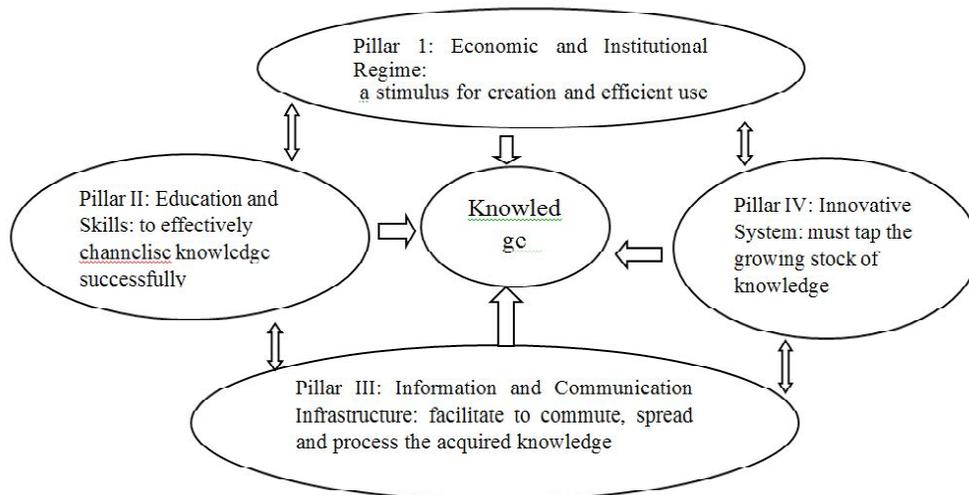
World Bank (1998) has highlighted the use and conception of knowledge as a prerequisite for the realization of sustained progress of economic growth. Economic production is realized only with the availability of knowledge base which is aided and abetted by economic institutions, innovation infrastructure and innovative technology. This has its reflections on

sustained economic growth via an uprising in total factor productivity. The World Bank has come up with what is called Knowledge Assessment Methodology to index the knowledge economy drivers. Broadly speaking, they form the building blocks of the knowledge centric economy. It is understood that all the pillars are important determinants that leads to sustained economic advancement from the dimension of the framework of knowledge powered economy (Chart - 1)

The adaptability of knowledge centric economy is evaluated grounded on the four pillars - Institutional regime and financial incentive, information and communications technologies (ICT) backbone; innovation and technological acquisition and education and training. Primarily, Economic Incentive and Institutional Regime offers enticements for the effective application of both innovative and existing knowledge as well as the growth of entrepreneurship. Secondly, a resident with

the essential education and training can harvest, distribute, and employ knowledge successfully. Thirdly, a robust innovation mechanism consisting of universities, research facilities and other think tanks which can attract the escalating body of knowledge so as to absorb and modify as per regional requirements, and produce new technology. Fourthly, easily accessible ICT infrastructure with efficient communication system to disseminate information infrastructure need to be facilitated. The Indian Innovation Index uses "Enablers" as inputs and "performance" as output for evaluation¹ to explain the concept of knowledge economy (India Innovation Index, 2020).

The four pillars that hold on knowledge economy are interconnected because an economy's ability to advance along all four of these frontiers determines its level of success. The dynamic growth of these variables will transform and elevate the economy towards higher standards of



Source: Based on World Bank, 2018

economic development led by intellectual input in production. Hence, the objective of the paper is an attempt to explain the span of contributing factors that explains the growth process of Kerala economy in a knowledge economy frame work.

Methodology and data source:

The knowledge economy index (KEI), a collective index representing an economy's overall readiness towards the knowledge economy (KE), is created by the World Bank's knowledge assessment methodology. This framework asserts requires sustained investment in these pillars so as to effectively create a conducive climate for economic production. Relying on this, the present study takes variables which are intertwined to explain the knowledge economy base pertaining to Kerala's economic development. The paper integrates the knowledge economy framework, as explained in the World Bank methodology and delve into explaining the knowledge economy of Kerala for the time span 1980-2021.

Therefore, the variables designated for the analysis are the breadth of variables relevant to explain the research objective such as Net Gross State Domestic Product (NSDP), Gross Enrolment Ratio at primary, secondary and tertiary level - higher education and technical education, the literacy rate, Government expenditure on education, ICT related variables, research output proxied by the total patent counts coming up per year and the viability of financial system measured by steady increase in bank deposits and bank branch expansion. The variables measured under different base periods has been approximated under the single base period (1995=100).

Hence, data has been collected from different secondary sources. The data related to the variables like NSDP, Gross Enrolment Ratio at primary, secondary and tertiary level - higher education and technical education and Government expenditure on education is source from Kerala Economic Review, State Planning Board, Government of Kerala. Data pertaining to literacy rate has been drawn from Census of India, Government of India and Kerala State Level Literacy Mission, Government of Kerala. The influence ICT have on the knowledge-centric economy of Kerala has been proxied by using the variable government expenditure on ICT, collected from the Plan outlay and expenditure, Plan Document, Government of Kerala. The data compiled form RBI Reports and Banking Statistics of Kerala Reported by State Level Banker's Committee on bank deposits and branch expansion measures the financial viability of the banking system.

Related literature

Romer and Lucas's seminal first-generation endogenous growth theories have also brought attention to the reputation of knowledge and human capital in the growth process, which in turn produces externalities and ever-increasing returns (Romer, 1986; Lucas, 1988). Winter (1987) in his pioneering research study on knowledge and management explained the issue of vagueness involved, lacking an appropriate terminology and conceptual construct for analysing knowledge as an input variable in the growth procedure of an economy. The paper goes on arguing that it is really cumbersome to analyse the meaning of knowledge and to measure knowledge

output and thereafter to link knowledge, production and its effect on economic development in a single framework. The epicentre of economic movement and its long term growth is based on the creation, dissemination and application of technology along with relevant information (OECD, 1999). Drucker (1998) advocates that knowledge has sidelined both capital and labour and now constitute to be important factor of production. The Government should frame effective R and D and innovation strategies that may benefit an economy from the perspective of transfer, attainment and diffusion of new knowledge and technology (ibid). Bhattacharya and Kunal (2007) make a compelling argument in favor of funding information and communication technology (ICT) in order to develop high-caliber human resource capital for Indian economy's knowledge-led development. The study has been conducted to investigate the potential of online learning and e-learning in enhancing the quality of human resources in higher education for developing countries like India. The paper makes the case that traditional institutions must invest in ICT immediately in order to provide e-instruction and use the information super highway to deliver knowledge.

Arrow (1962) made a significant contribution to the field of "learning by doing" whereby he showed the efficiency of experience-based learning leading to higher output levels by citing the case of a complex system of production unit which produces the frames of aeroplane frames. Subsequently, Rosenberg (1982) proposed "learning by using" to clarify how efficiency

of production improves overtime, by highlighting the case of airline companies even though the system of production is complex. APEC (2003) argued that accumulation and production of new knowledge in an innovative economy requires focus and attention on the development of the variables like developing business capabilities locally, modernisation of legal system, launching more research institutions, development of higher education and ICT infrastructure. Hvidt (2016) argued that the existence of a sound innovation system, as well as an institutional and economic framework that supports the upturn of the knowledge economy, are also necessary to complement the incidence of a trained and skilled labor force and a strong technological infrastructure.

Manoj and Sandeep (2017) explained that a favorable socioeconomic environment, which includes a high level of social equity and an abundance of technically qualified and skilled human resources, the State will be in an advantageous position with exceptional potential for executing ICT-led economic development, leading to rapid prosperity without experiencing a digital divide. OECD, 2001 and World Bank, 2004 highlighted the importance of ICTs and education by arguing that those who lack access to it will be marginalised by denying space for engaging in social and economic activities.

Abramovitz & David (1996) argued that the success of the knowledge economy is based on its vibrant components such as the greater dependence on capital, capacity to absorb and integrate innovations at every stage of the production process from R and D lab to the factory floor and then to consumer

interface. His argument proposes that the growing proportion of the gross domestic product can be attributed to "intangible" capital. Barro (1991) analysed the effect of school enrolment rates on growth of per capita real GDP and the results explained statistically significant positive effects. The data taken for the analysis was cross-sectional in nature and included 98 countries from 1960 to 1985. The proxy variable for initial human capital is taken to be the 1960 values of school enrolment rates.

The economy of the modern world is rapidly becoming more information-based, and advancing knowledge is essential to economic advancement. As the current economic scenario with the trend of globalization, all economies vigorously involve in the global economy, making competition the main force behind advancement. It is imperative for knowledge-based economies to have competitive environments (Barkhordari, 2019).

Framing Kerala's knowledge economy

The knowledge economy index, or KEI, is determined by averaging an economy's normalized performance scores on the four knowledge economy pillars: ICT, education and human resources, the innovation system, and institutional and economic incentives. The World Bank has referred to these components as the Knowledge Economy's pillars and

collectively, they form the bedrock or cornerstone of the knowledge economy. It is understood that all the pillars are important determinants that leads to sustained economic growth, thus lends support to the knowledge economy framework. Given the

knowledge base, it is assumed that Kerala economy is reasonably sound to analyse its economic development from the perspective of the knowledge economy pillars it has acquired overtime. The analytical question of what constitutes the knowledge base is to be seen. It is here that the education sector has a dominant part to play, to strengthen the knowledge base. Though education at all levels is important intercession or practice of knowledge along with the role of government in knowledge production requires much attention. Government policy is justified to bear the burden by either directly controlling or subsidizing knowledge production². This line of thinking has motivated public funding for universities, schools, and generic technologies such as ICT. Moreover, there is need as the creation of knowledge drives innovation and hence requires knowledge protection through patent systems.

Knowledge economy and Kerala: Empirics from selected variables

An examination of the mainstays of the knowledge economy, the founding stone established by 'enablers' and 'performers' along with the scores and the rank of Kerala as compared with other states is furnished in table 1 below. It is crystal clear that Kerala account for one among the highest scoring states in human capital with a score of 59.72 and ranked second whereas the topmost position goes to Tamil Nadu and the score being 62.80. Similarly, Kerala is ranked first for business environment with a score of 37.12. An analysis of "enablers" and "performers" reveal that Kerala ranks favourably well as compared to other states and union territories of India (Table 1).

Furthermore, Kerala is elevated to third position regarding the employability of its youth (India Skills Report, 2022). Kerala is pushed up and ranked 15 considering the criteria of "Ease of Doing Business" (DPIIT, 2022 cited by The Hindu dated Published - July 04, 2022). The state administration has avowed the year 2022-23 as the "Year of Enterprises." (GoK, 2023) with the inventiveness to open up one lakh innovative enterprises in the State throughout the year 2022-23 and was successful in its venture by achieving the target with the opening up of 1.39 lakh enterprises. Kerala retains its top position in the ladder of national health metric among other states in national health rankings with an overall score of 82.2 (Niti Ayog, 2020).

Economic and institutional regime

It is one amid the pillars of the knowledge economy. This proposes that enticements should be given to economic agents to endorse resource efficiency, which leads to the creation of knowledge unfolding the way for open competition and efficiency. A "knowledge-conducive "economic regime

expects an economy with less instances of price distortions and Barro (1991) argued for sustainable government expenditure and budget deficits with low and stable inflation. Government of Kerala has taken every effort such as setting up of the Centre for Price Research Kerala at the Commissionerate of Civil Supplies to keep track of changes in the costs of basic goods in the state so as to have a control over price and to monitor the costs of necessities.³ Moreover, the state Government directly intervenes in the public market and entrusted district collectors along with to examine and make sure that there are no arbitrary price increases. Legal Metrology and Food Safety Departments jointly squad for the inspection of public markets as per the directions of District Supply Officers. Shopkeepers who failed to display price lists received notices. Thus, an effective mechanism operates at administrative level successfully managing inflationary pressures.

The financial system should be viable enough to channelise resources to investment

Table 1: Score and ranks of "enablers" and "performers"

	Parameters	Score	Rank
Enablers	Human Capital	59.72	2
	Investment	9.18	7
	Knowledge Workers	15.34	8
	Business Environment	37.12	1
	Safety and Legal Environment	63.46	5
Performers	Knowledge Output	17.86	7
	Knowledge Diffusion	30.54	7

Source: India Innovation Report, 2021

opportunities for promising knowledge economy outcomes. Levine et al (2000). While navigating through the viability of the financial system, it is understood that Kerala has 6724 scheduled commercial bank branches, which is 4.34 percent of the total bank branches in India (GoK, 2023). Bank networking system has been very effective in Kerala as is understood from the branch expansion and increase in bank deposit. The statistical significance of the variables with their growth rate has been seen by taking the log of the respective variables and regressing against time by estimating equation (1) and the results are furnished in table 2.

The financial inclusivity analysed with respect to branch expansion and bank deposit by making use of the OLS regression result represented in equation (1) and the corresponding 't' statistics with significant 'p' value at 1 per cent tend to support the hypothesis that on an average the proportional rate of growth of bank deposit turned out to be 14.4 per cent and that of branch expansion is 2.8 per cent a year. This growth over the span of 1980-2021 tailors

the pace at which the economy has been progressing with consistent and steady growth in branch expansion and bank deposit, thus accessing financial services such as banking, credit, investment and insurance, laying the foundation for sustained economic development with economic empowerment.

Educated and skilled labour force

The knowledge economy is fundamentally made possible by education. Higher education serves as the bridge for interacting with knowledge production. Basic education is a pre-requirement for a person's capacity to learn and use the acquired information. Technical, secondary and postsecondary education in science and engineering fields are essential for technological innovation.

Cohen and Soto (2001) and Barro (1991) explained statistically significant positive effects of education on economic growth using cross-country time-series data on educational attainment or average years of school. Hanushek and Kimko (2000), discussed how economic growth is impacted by the quality of education. They find that

$$\ln(x) = \beta_0 + \beta_1t + Ut \dots \dots \dots (1)$$

Table 2: OLS regression results

Dependent Variable	Coefficient Constant	Coefficient Time	R2
Elog(Bank Deposit)	7.407*** (180.7)	0.144*** (84.95)	0.994
log(Bank Branches)	7.588*** (193.7)	0.0283*** (17.42)	0.88

Source: Author's
(figures in the parentheses are t ratio's and *** implies significance at 1% level)

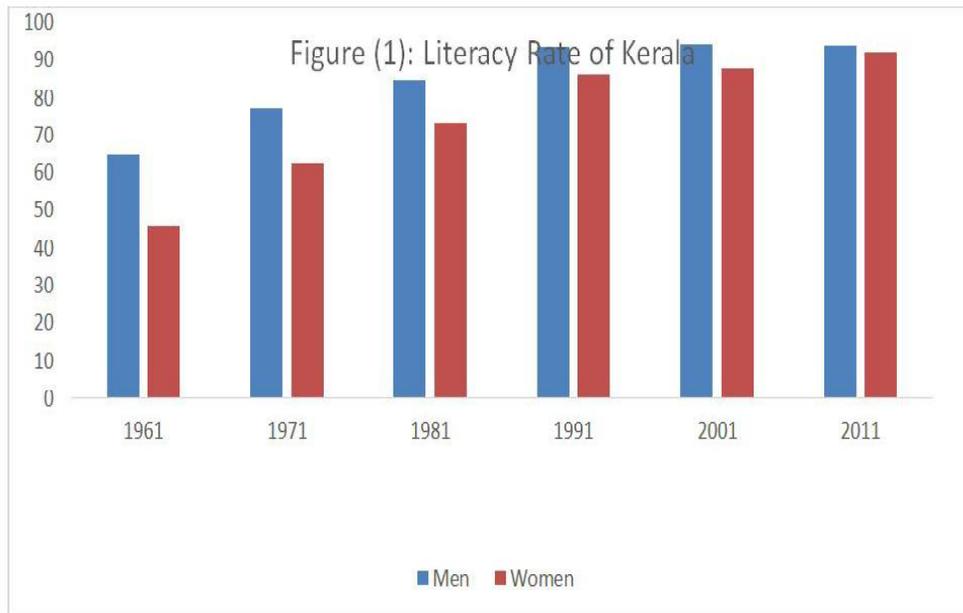
educational quality does have a positive impact on economic growth using scores from international tests as a proxy for educational system quality. The importance of education is that it acts as the builder of human capital. As human capital improves, so does the ability of an economy to innovate, create new technologies, and improve processes, leading to increased output and economic growth (Benhabib and Spiegel, 1994). The dream of universal literacy have been achieved first by the state of Kerala. The marvellous achievement in primary and secondary education the strive for excellency in the higher education are the hallmarks of our education system (Gok, 2023).

Knowledge economy is being assessed by the human capital index and it is reflection of investment in education and health care. Literacy is the most important measure of a nation's human capital quality. The

following facts add aroma to the achievement that Kerala gained in literacy. Kerala has 94 per cent literacy rate and 92.07 per cent female literacy rate and is the forerunner among other states. The male-female literacy gap has narrowed down from 22 per cent point in 1951 to 4.04 per cent in 2011 (Census of India, 2011). The literacy rate with respect to male and female since 1961 has been charted out in the figure (1) below.

The institutional set up such as Kerala State Literacy Mission Authority (KSLMA) strives to establish lifelong learning, continuing education, and literacy initiatives throughout the State.

The primary recipients of these programs are those who are illiterate, neo-literate, dropouts from school, or who are interested in lifelong learning or continuing education⁴.



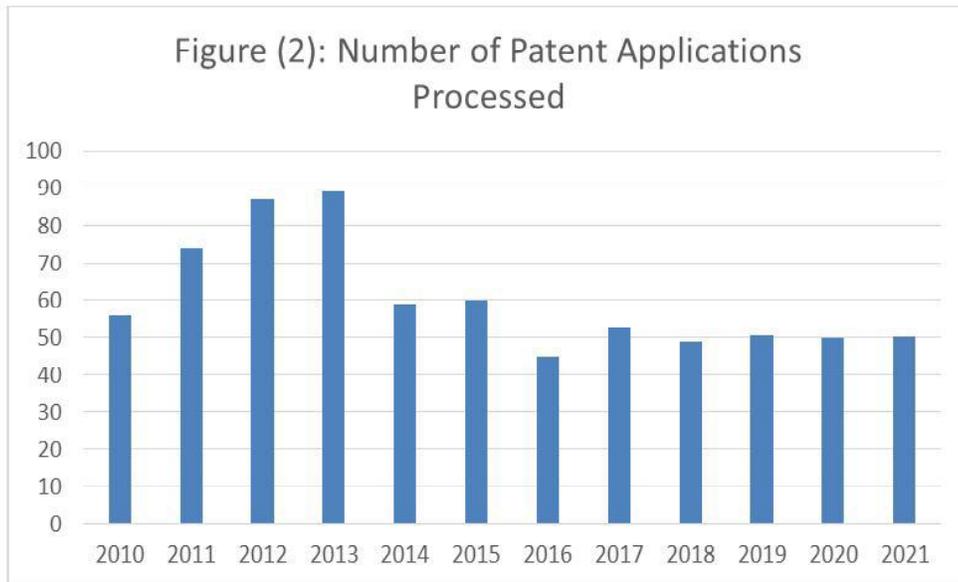
Innovation system and ICT infrastructure

The efficiency of the innovation system is prima facie knowledge workers in the creation and diffusion of knowledge, can be attributed to universities, research centres, policy think tank. The patent applications, startups, new business registrations, the ease of doing business ranking, online service transactions, internet subscribers, incubator centres⁵, common facility centres, and cluster strength.⁶ Facilitate an environment that nurtures knowledge economy. The number of applications processed since 2010 is shown in the figure (2) below.

Kerala ranked 15th in Ease of Doing Business, ranks 12th in terms of number of MSMEs and accounts for 5.62 per cent of MSME enterprises in India, force that drives entrepreneurial expansion through their innovative business practices. In the MSME

sector, Government of Kerala declared the Financial Year 2022-23 as the "Year of Enterprises" with the motto "My enterprise, Nation's pride" and took the initiatives for setting up of One Lakh Enterprises in 2022-23". Hence a positive correlation with Kerala's economic development and the growth of MSMEs (GoK, 2023)⁷.

ICT production and usage that channels for substantial productivity gains led economic growth have been substantiated with empirical evidence Pilat and Lee (2001), Jorgenson and Stiroh (2000) and Oliner and Sichel (2000). World Bank (2003) ascribed ICTs as the backbone of the knowledge economy and refers to usability, efficiency of computer's, telephone, radio and all networks that connect one another inclusive of hardware, software, image, voice and data along with storage, processing and presentation of information.



Kerala is the IT hub accomplished with the help of receptive skilled labour and the innovative initiatives implemented by the State Government. Kerala's commendable range of mobile and telephone infiltration, juxtaposing extensive attendance of broadband and mobile internet access has reached out to a larger mass⁸ (GoK, 2013).

Empirical estimation: Testing for cointegration

Stationarity test

Unit root testing is a pre-requisite to determine the order of cointegration. All the eight variables considered are found to be

nonstationary in level forms. However, the first difference I(1) of all the variables were identified as stationary. Hence, it is worth moving forward for cointegration test.

The table 3 below presents the results of stationarity test. The test results show that all the variables are stationary at its first difference.

To proceed with the cointegration analysis, so as to fix the lag length, the variables are subjected to AIC, BIC and HQC information criteria for lag selection. The result of the analysis is furnished in the table 4 below. The asterisks specify the best (that is, minimized) values of the respective information criteria,

Table 3: Unit root test: The KPSS and ADF test results

Variable	Model	Level/Differenced Series	ADF Test statistic(tau)	KPSS	Inference
log (Net State Domestic Product)	Constant	First Difference	-4.369***	0.196	I(1)
	Constant& Trend		-4.351***		
log(Bank Deposit)	Constant	First Difference	-3.831***	0.195	I(1)
	Constant& Trend		-3.739***		
log(Students Enrolled)	Constant	First Difference	-7.983***	0.413	I(1)
	Constant& Trend		-7.841***		
log(Government Expenditure on Education)	Constant	First Difference	-35.305***	0.359	I(1)
	Constant& Trend		-4.161***		
log(Government Expenditure on ICT)	Constant	First Difference	-6.593***	0.171	I(1)
	Constant& Trend		-6.654***		
log(Higher Education)	Constant	First Difference	-6.345***	0.207	I(1)
	Constant& Trend		-6.299***		
log(Engineering Graduates & Post Graduates)	Constant	First Difference	-7.609***	0.260	I(1)
	Constant& Trend		-7.819***		
log(Branch Expansion)	Constant	First Difference	-6.593***	0.394	I(1)
	Constant& Trend		-6.654***		

Source: Author's *** shows significance at 1 per cent level

AIC = Akaike criterion, BIC = Schwarz Bayesian criterion and HQC = Hannan-Quinn criterion. The results show significance at one lag with respect to BIC criteria and two lags with respect to AIC and HQC criteria. Hence, two lags have been selected to carry forward the cointegration analysis (Table - 4).

The intertwined variables that could explain the knowledge economy of Kerala has been analysed by testing for cointegration using the Johansen's Methodology subject to maximum eigen value and trace statistics test for cointegration, as the variables are empirically relevant and have same order of integration (Table - 5).

Table (5) presents the results from the cointegration test, both the tests reject the null hypothesis of zero cointegrating vectors, as the results have four cointegrating equations which is edified by the Trace test statistic and Max-Eigen value test statistic. The cointegration test results explain that since these variables are cointegrated though there may be short-run deviations from equilibrium which impact on changes in other variables so as to regain the momentum of movement towards long term equilibrium. The findings again confirm the assumption that the variables integrated of order one, I(1), having a long run relationship cannot slide away from the equilibrium, as

Table 4: Lag selection criteria and significance

Lags	Loglik	P(LR)	AIC	BIC	HQC
1	428.77127	-18.295962	-15.224772*	-17.194046
2	533.52839	0.00000	-20.386071*	-14.584933	-18.304673*

Source: Author's Estimation

Table 5: Johansen cointegration test results

Rank	Eigenvalue	Trace test	L.max test
0	0.87926	281.90 [0.0000]	82.450 [0.0000]
1	0.80913	199.45 [0.0000]	64.590 [0.0001]
2	0.74754	134.86 [0.0000]	53.684 [0.0003]
3	0.59009	81.176 [0.0040]	34.781 [0.0349]
4	0.44187	46.395 [0.0667]	22.743 [0.1895]
5	0.30071	23.652 [0.2226]	13.950 [0.3833]
6	0.17872	9.7022 [0.3100]	7.6785 [0.4211]
7	0.050566	2.0237 [0.1549]	2.0237 [0.1549]

Source: Author's Estimation. Figures in parentheses are p values

economic forces will automatically restore equilibrium. Thus, it can be observed that the eight variables explained do have a long run equilibrium relationship and will move in the same direction so as to spur effective economic growth. Thus, it may be inferred that all these variables have a co-movement in the progress of Kerala towards having a knowledge-based economy.

Conclusion

Endogenous growth theory positively correlates the increase in knowledge base with economic growth. A supply chain which is the knowledge driven information revolution paves the way for social as well as cultural change, absolutely contributes to economic growth. After delineating the key drivers that facilitated and spurred the enhancement of the knowledge economy in the Kerala context, the variables that revolve around the production, transmission and application of knowledge have been analysed for the period 1980-2021 in a time series framework. The conclusion of the empirical analysis is that the selected time series variables such as NSDP, Government expenditure for education, Gross Enrolment of students at primary, secondary, higher education, technical education proxied as students enrolled for engineering at graduate and post graduate level, ICT related variable represented by Government expenditure on ICT and financial viability of the economy being represented by bank deposits and bank branch expansion are integrated in first order I(1) and indicates long run cointegrating relationship among all these variables. It may be concluded that knowledge economy has been the driving force behind Kerala's development process by prioritizing its investment in education at all

levels such as primary, secondary and tertiary level. The attention provided for science, technology and innovation has provided the pathway for sustained economic progress. The cointegrating results assure that the interconnected and mutually reinforcing nature of relationship among the variables generate a long-lasting impact on the other. Thus, the policies targeted for any of the variables in question has generated a spillover effect on the other, transforming Kerala into a knowledge fuelled development.

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End Notes

- 1 "Enablers" pillar variables are inputs - human capital, investment, knowledge workers, business environment, safety and legal environment, for the innovation environment. "Performance" pillar variables capture the outcome, that is, knowledge output and knowledge diffusion.
- 2 Classical contributions such as Nelson's 1959 article "The Simple Economics of Basic Economic Research" and Arrow's 1962 paper "Economic Welfare and the Allocation of Resources for Invention" showed that in these kinds of circumstances, government policy has a basis for either directly controlling or subsidize knowledge production.
- 3 Starting in January 2023, a weekly price analysis report that includes the wholesale and retail prices of thirteen essential commodities is being prepared and published.
- 4 The central government kicked off the

Padna Likhna Abhiyan (PLA) project with the aim of eradicating illiteracy, which KSLMA has also carried out at the state level (GOK, 2023). The various tribal literacy programs are called Attappadi Tribal Literacy Program, Wayanad Tribal Literacy Program, Navachethana Special Literacy Program for Scheduled Castes, Changathi Special Literacy Program for Migrant Laborers, and Samanwaya Special Project for Transgender Continuing Education adds flavour to the commitment of the state government for a literate state. Moreover, there are equivalency programs at hand for dropouts. With initiatives like the "Kerala Knowledge Economy Mission" and "Vidya Kiranam," which are parts of the Nava Kerala Mission and a continuation of the "Pothu Vidyabhyasa Samrakshana Yajnam," the government commits to significantly contribute towards the requirements for both secondary and vocational education.

- 5 The credit of having incubators goes to Kerala Startup Mission. Thiruvananthapuram, Ernakulam and Malabar occupy start-up facility with 50 startups, 66 startups and 54 startups respectively as on 31.03.2022 (GoK, 2023).
- 6 KSIDC & KINFRA are nodal agencies the Government of Kerala for spearheading investment promotion initiatives for nurturing and developing medium and large scale units in the state, creating sector-specific industrial infrastructure and ecosystem, and nurturing entrepreneurship and start-ups.
- 7 The District Industries Centres (DIC) and baking system by advancing credit act as a moderator for the growth and promotion of MSME and conventional industries. It constitutes handicrafts, khadi, food processing industries, coir, wood, bamboo, garment making etc

- 8 KFON project with high-speed fibre connectivity. Kerala Infrastructure and Technology for Education (KITE) materialised schools throughout the State with the newest ICT devices backed by ultra-fast broadband internet access, the essential digital resource portals, and trained teachers, fashioning an ICT-enabled ecosystem as a whole. Department of Science and Technology by providing research and development support, incentivise science and technology to reach out towards the entire sector of the economy thus positively contributing towards Kerala's knowledge economy.

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RBI remained cautious yet sounded dovish in the October policy meet

Aswathy Rachel Varughese

Abstract

The RBI's Monetary Policy Committee (MPC) voted 5-1 to keep the policy rate unchanged at 6.5 percent, shifting its stance from 'withdrawal of accommodation' to 'neutral'. The MPC expressed confidence in domestic growth and the inflation trajectory while noting that aligning inflation to the RBI's target remains a key priority due to potential risks. These include geopolitical tensions, adverse weather conditions, and rising global prices. Given the volatility in food prices, particularly horticulture products, caution is warranted.

Keywords: Monetary Policy, inflation, growth

1. Introduction

The newly constituted MPC decided to keep the repo rate unchanged at 6.5 percent with a 5-1 vote. The committee unanimously shifted the monetary policy stance from 'withdrawal of accommodation' to 'neutral,' a change not seen since April 2022. The MPC emphasized that inflation and growth dynamics remain well balanced, reiterating the need to align inflation with the target while supporting growth. This change in stance provides the MPC with the flexibility to monitor evolving inflation risks and can be seen as a precursor to potential monetary easing.

2. Why cautious note on inflation?

Despite the shift in stance, the RBI maintained a cautious tone, highlighting the ongoing risks to the inflation outlook. Over the past two years, tighter monetary policy has significantly brought down headline inflation within the target range. However, the governor reiterated his commitment to achieving and maintaining the 4 percent inflation target on a durable basis.

Inflation has stayed well below 4 percent over the past two months, thanks to a favorable base and some moderation in food inflation. Core inflation has been benign, averaging 3.3 percent from April to

August. However, inflationary risks persist, especially with ongoing concerns about food prices. Sequential price momentum remains high for vegetables, pulses, cereals, and edible oil. Notably, vegetable prices, which constitute 6 percent of the Consumer Price Index (CPI) basket, have been the most volatile and significantly influence household inflation expectations.

Factors like uneven monsoons, pre-harvest rainfall, and rising global edible oil prices heighten food inflation risks. Although this year's monsoon was 8 percent above normal, distribution issues persisted. Kharif sowing for pulses and some oilseeds has been below the historical average, raising concerns. In addition to that, the extended monsoon season and recent pre-harvest showers increase the risk of crop damage.

In addition to food inflation, the recent rise in global commodity and Brent crude prices adds to inflationary pressures and requires close monitoring. Over the past month, industrial metal prices have increased by about 8 percent, and Brent crude prices by about 9 percent. The base effect of food inflation is also expected to turn adverse in the coming months, further contributing to the rise in food inflation.

3. Persistent inflationary pressures

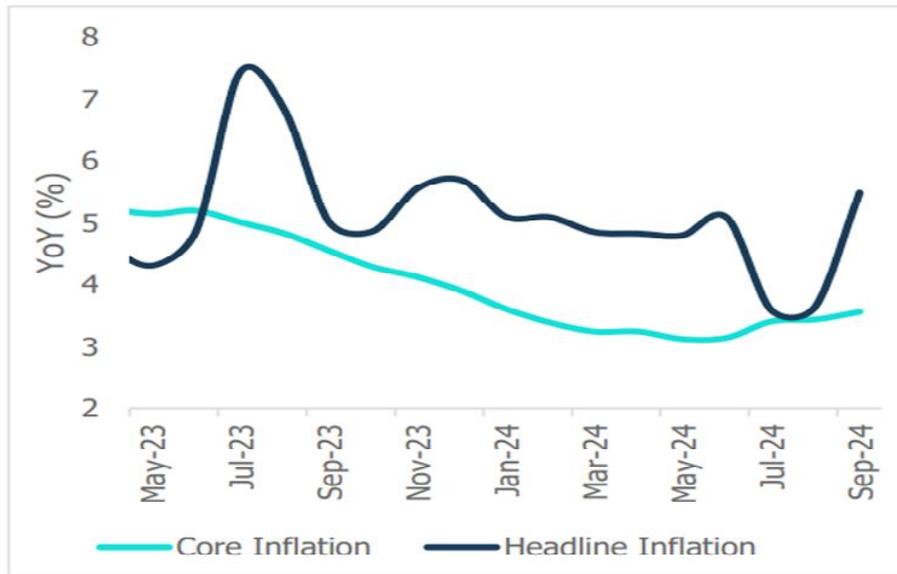
In September, CPI inflation rose to 5.5 from 3.7 percent in August. Core inflation also slightly increased by 10 bps to 3.5 percent, yet remained below the 4 percent mark for the eleventh month in a row. Inflation in personal goods stood at 9 percent in September, up from 8 percent in August. Food inflation surged to 8.4 percent from

5.3 percent in the previous month, driven by the waning favorable base effects. Vegetable inflation hit a 14-month peak, while edible oils exited deflation after 19 months. Sequential momentum remained strong in categories like vegetables (3.5 percent month-on-month (m-o-m)), edible oils (2.9 percent m-o-m), eggs (1.6 percent m-o-m), and pulses (0.6 percent m-o-m) (Figure-1).

Risks to food inflation remain and require close monitoring. Factors such as uneven monsoon, pre-harvest rainfall, and rising global edible oil prices add to these risks. Despite a monsoon 8 percent above normal, distribution issues persisted. Key agrarian regions like Punjab, Haryana, Eastern UP, Bihar, and Gangetic West Bengal experienced deficit rainfall during the sowing season. Besides, Kharif sowing for pulses and some oilseeds has been below the historical average, which is worrisome given their import dependence. The extended monsoon and recent pre-harvest showers further increased crop damage risk. Vegetable prices, which account for 6 percent of the CPI basket, have been highly volatile, significantly impacting household inflation expectations (Figure 2).

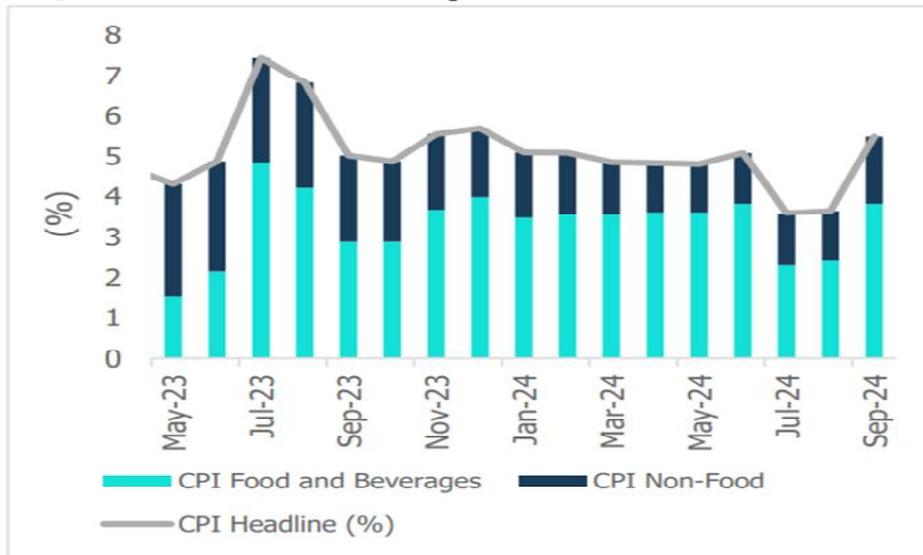
Besides food price pressures, additional inflation risks stem from the external sector. A potential escalation of conflict in the Middle East could disrupt supply chains and affect global energy prices, causing ripple effects on the domestic economy. Furthermore, China's recent economic stimulus announcement has led to a rise in global commodity prices over the past few weeks. Brent Crude oil has

Figure 1: Headline versus core inflation



Source: MOSPI

Figure 2: Food inflation keeps headline elevated



Source: MOSPI

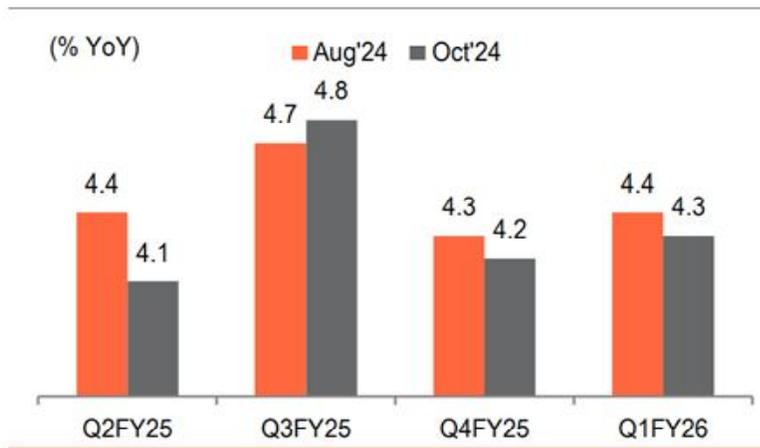
increased by ~10 percent to USD 78 per barrel since late September. Monitoring geopolitical developments is crucial, as they can significantly impact global commodity prices (Figure 3).

The RBI has retained its FY25 inflation projection at 4.5 percent. The current quarter's inflation forecast was revised lower by 30bps to 4.1 percent due to a sharp moderation in inflation in July and August 2024. The Q3 FY25 projection was revised to 4.8 percent (up from 4.7 percent) due to a negative base effect and rising vegetable prices. Projections for the next two quarters were revised lower but remain above the RBI's median target range of 4 percent. Positive factors for the food inflation outlook include a normal monsoon, higher Kharif sowing, and improved reservoir storage. However, risks remain from geopolitical tensions, climate-related challenges, and recent

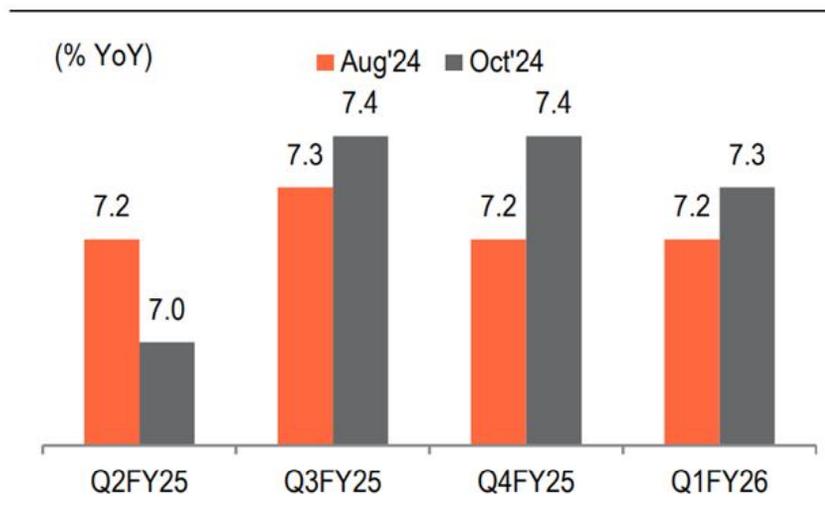
increases in global commodity prices. The MPC has adopted a cautious approach to ensure that inflation durably aligns with its 4 percent target (Figure 4).

The RBI remains optimistic about growth, maintaining its GDP growth projection at 7.2 percent for FY25. Real GDP growth for Q1 FY25 was 6.7 percent, 40bps below the RBI's projection. Notably, the growth forecast for Q2 FY25 has been lowered by 20bps. High-frequency indicators pointed to a dip in economic activity in September 2024 due to seasonal effects. However, growth is expected to recover in H2 FY25. The RBI has revised its estimates for subsequent quarters upwards by 10-20bps, supported by increased consumption demand from the festive season and a favorable monsoon. Government expenditure is also expected to rise in line with budget estimates. Overall, there is an anticipation of FY25 GDP growth to be in

Figure 3: Inflation projections



Source: RBI, Monetary Policy Statement October 2024

Figure 4: Growth projections

Source: Monetary Policy Statement, October 2024

the range of 7.3-7.4 percent, slightly higher than RBI's estimates.

Conclusion

The RBI's policy stance remains balanced, retaining growth and inflation projections for FY25. The overall tone is cautious, with dovish undertones. While the MPC acknowledges progress in controlling inflation, it remains cautious about potential risks, including an adverse base, food price volatility, geopolitical tensions, and climate shocks. Despite recent positive signs, the emphasis remains on ensuring durable alignment of inflation with the RBI's 4 percent target.

The change in stance is justified, providing RBI the flexibility to adjust its policy as it gains more clarity on inflation risks. With Q3 FY25 inflation projected at 4.8 percent, the possibility of a rate cut in December

2024 is pushed back. However, if inflation undershoots the RBI's estimates in the next three months, the scope for a rate cut may open up. Currently, a rate cut in February 2025 appears the most likely scenario.

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Global shifts and India's external sector: Analyzing trade, services, and stability in 2024

Anjalikrishna Sudhakaran and Amalu Seby

Abstract

India's external sector has demonstrated remarkable resilience amidst global challenges, with a surge in services exports, stable capital inflows and solid currency management. Despite a declining merchandise trade deficit, the country faces challenges such as the twin balance sheet deficit and potential inflationary pressures. India's strategic approach to the "China+1" policy and its reliance on remittances as a stable source of finance are crucial for maintaining its economic momentum. Consistent growth of the trade share of GDP in recent years is indicative of India's increasing competitiveness in the international market and its future prospects.

Keywords: *Deglobalization, merchandise imports, service exports, remittances, China+1 strategy*

Introduction

The global economy is currently facing numerous challenges, and we are witnessing a notable shift from globalization to deglobalization. This trend is evident in several instances, such as European economies transitioning their energy imports from Russia to Norway and the U.S., and the European Union increasing pipeline gas imports from the U.S. These developments reflect new practices in international trade, such as "decoupling" and the growing narrative of deglobalization. However, these trends are highly heterogeneous across countries.

Despite significant disruptions like the COVID-19 pandemic, the Russia-Ukraine conflict, developments in the Middle East, and the Red Sea crisis, India's external sector has remained robust. This resilience is supported by a moderation in merchandise imports and a rise in service exports. India's trade openness indicator rose from 37.5 in FY05 to 45.9 in FY24, showing the country's increasing integration into the global economy.

India's growing trade footprint

India's trade trajectory has been catching up with global trends. Despite persistent global

challenges, overall exports in FY24 grew by 0.23%, while imports declined by 4.9%. According to the Economic Survey, India now competes not only with developing economies but with developed nations in terms of trade and growth. Between 1990 and 2022, both India's and the world's trade share in GDP increased in tandem. However, in 2023, India's trade share in GDP dipped slightly from 50% to 45.9%.

The current account balance has also shown improvement, with the deficit reducing from USD 67 billion (2% of GDP) in FY23 to USD 23.2 billion (0.7% of GDP) in FY24. This improvement is largely due to rising net service exports and increased remittances, both of which have contributed to a decline in the merchandise trade deficit. However, given the global political turmoil and economic uncertainties, this improvement cannot be considered substantial, as the situation could easily reverse.

Capital account stability and challenges

On the capital account side, India has witnessed stability, with FY24 showing improvements due to foreign portfolio investment (FPI) inflows and a net inflow of foreign deposits. India has become the largest recipient of FPI among emerging economies, signalling an optimistic growth outlook. However, declining foreign direct investment (FDI) inflows remain a concern, particularly in the context of geopolitical crises, supply chain disruptions, and financial market volatility. Both the industry and service sectors' FDI ratios have fallen below pre-pandemic levels.

The rise of India's services exports

Over the past three decades, India's services

exports have grown at a compound annual growth rate (CAGR) of 14%. This consistent rise in services exports, coupled with a moderation in services imports, has led to an increase in net services receipts. India is now the seventh-largest services exporter globally, a significant rise from its 24th position in 2001. Among the top services exports, IT and software services have played a pivotal role, along with the growing prominence of business services

India's emergence as a hub for Global Capability Centres (GCCs) has further bolstered its services export. GCCs are offshore units established by multinational corporations (MNCs) to perform strategic functions, leveraging India's specialized talent, cost advantages, and operational efficiencies. Government initiatives like Digital India and policies aimed at improving the ease of doing business have facilitated this trend, with GCCs becoming an integral part of India's economic growth story.

Currency stability amid global volatility

India's currency has shown remarkable stability, especially when compared to other major currencies against the U.S. dollar in FY24. This stability can be attributed to India's sound macroeconomic fundamentals, better financial stability, and improvements in its external position. Amid rising geopolitical risks, higher interest rates, and volatile global prices, the Indian rupee was one of the least volatile major currencies.

To sustain this stability, India needs to ensure favourable exchange rate conditions to support a balanced balance of payments position. India's forex reserves, as of June 21, 2024, stood at USD 653.7 billion,

providing 10 months of import cover and further insulating the domestic economy from global spillovers.

Key challenges ahead

Despite India's strong external position, several challenges loom. The country still faces a twin balance sheet deficit and must carefully manage both external and fiscal stability simultaneously. The influence of the current account deficit (CAD) on inflation poses a challenge for the Reserve Bank of India (RBI), especially in the face of rising global uncertainties, inflationary pressures, and financial market volatility.

A well-coordinated strategy is essential to address these challenges pre-emptively, ensuring that India continues to maintain both internal and external stability.

The china+1 strategy: Balancing trade and investment

India must carefully navigate its economic relationship with China through the "China+1" strategy, which calls for reducing reliance on Chinese imports while still attracting Chinese investments. China dominates global trade, and many countries, including India, aim to diversify their supply chains to reduce dependence on China. However, India's goal of expanding its manufacturing sector and joining the global supply chain might necessitate some level of collaboration with China. Given past tensions, including trade wars and military conflicts, the Indian government must strike a balance. By allowing Chinese investments while curbing imports, India can benefit from foreign investment without becoming overly dependent.

Remittances: A more stable financial source than FDI

Remittances have proven to be a more stable source of finance than FDI, which tends to be pro-cyclical and sensitive to economic downturns. However, remittances are also influenced by the economic conditions of foreign economies, which can lead to destabilizing trends, particularly for India's current account deficit. India should capitalize on its significant remittance inflows, especially from oil-exporting countries, and take advantage of favourable exchange rate movements to manage its external position more effectively.

Conclusion

In an increasingly fragmented global economy, India's external sector remains resilient, supported by a growing services export sector, stable capital inflows, and sound currency management. However, the country must remain vigilant in managing its external and fiscal stability amidst rising geopolitical and economic uncertainties. Pre-emptive strategies and well-coordinated policies will be essential for sustaining India's economic momentum in the years to come.



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Employment and unemployment in INDIA: A conundrum

Rhwithwik M.S and Gopika G

Abstract

This paper examines the dynamics of employment and unemployment in India, focusing on key issues such as youth unemployment, female labour force participation, and the government's claims of job creation. While the government's Economic Survey paints an optimistic picture, alternative sources like the Centre for Monitoring Indian Economy (CMIE) suggest a more concerning scenario. The rise in female labour force participation, driven by rural self-employment, is scrutinized, with findings showing that much of the increase is due to unpaid work, rather than formal employment. Government's reliance on the EPFO data for claiming the increased job opportunities are not taken for granted. Also, this paper critically investigates the new announced Government schemes such as Employment Linked Initiatives in the current employment scenario.

Keywords: Unemployment, female labour force participation, EPFO , Employment Linked Initiatives.

In the run-up to the 2019 elections, the country witnessed an unusual event when the government's report on employment and unemployment was put in cold storage, despite having undergone scrutiny and receiving approval from the highest-level bodies, including the National Statistical Commission. After the report was leaked to the press, the government's own NITI Aayog presented a plethora of arguments criticizing the survey methodology and suggested that the report required further scrutiny and revision. The ostensible reason for this was that the report estimated the

unemployment rate to be the highest in 45 years, contradicting the government's job creation claims. However, the report was released without any changes as soon as the general election results came in, ushering in a second term for the government. Since then, the government has cited the report without hesitation to support claims that the economy is recovering after the adverse impacts of demonetization and the subsequent pandemic.

The International Labour Organisation (ILO) and the Institute for Human

Development (IHD) released the India Employment Report 2024, the third edition in the series, using data from the government's own surveys. This report analyzed the employment situation in great detail and highlighted the stark reality of youth unemployment. According to this report, the unemployment rate for those with secondary and higher levels of education was 18.4 percent in 2022, while for graduates, it was 29.1 percent. The report also noted that wages and earnings are stagnant or declining and that the quality of employment being generated is poor. The demand for jobs under MNREGA has consistently increased, while real wages have remained the same, indicating prevailing distress in the employment sector.

Meanwhile, the recent Economic Survey presents an optimistic view of the country's employment scenario, especially regarding youth and female participation. The Periodic Labour Force Survey (PLFS) is the source document for the government's claim that the unemployment rate is on a declining trend, while the Labour Force Participation Rate (LFPR) and workers per population are increasing. The government claims that the unemployment rate in usual status (yearly estimate) is 3.2 percent, and in the weekly status, it is 5.1 percent. The unemployment rate in daily status, according to PLFS, is 5.5 percent, while the Centre for Monitoring Indian Economy (CMIE) reports that the unemployment rate in daily status is 9.2 percent, which paints a more concerning picture. Internationally compliant definitions do not regard PLFS's employment definition, which includes unpaid household work as

'employment.' Since CMIE uses international definitions, it does not show a rise in LFPR/WPR. The LFPR in India for individuals aged 15 years and older was 55.2 percent in 2022, which was lower than the world average of 59.8 percent. We do not have the exact figure for the world average in 2023, but India's LFPR in 2022-23 remains lower than the world average in 2022.

What data say about the conundrum of the increase in the female labour force participation rate in India?

India's female labor force participation rate (FLFPR) has seen a significant decline, falling from 39.7% in 2004-05 to 22.9% in 2017-18. However, from 2017-18, it has risen again, reaching 34.1% in 2022-23. This growth, according to the Periodic Labour Force Survey (PLFS), is primarily driven by improvements in female labor force participation, particularly in rural areas. During the same period, the overall labor force participation rate (for those aged 15-59) grew from 51.5% to 58.3%, largely due to this rise in female participation.

While this trend appears positive, it may not fully capture real improvements in women's economic conditions. In earlier quinquennial Employment-Unemployment Surveys (EUS), women engaged in unpaid economic work often went uncaptured, leading to lower reported proportions of female labor participation. The recent increase in FLFPR partly reflects better measurement practices in the PLFS, particularly in the first couple of survey rounds. However, this alone cannot account for the steady increase observed over the last six years.

It is unlikely that this recent rise in rural female labor force participation is due to a sudden surge in rural job opportunities, especially since there hasn't been a corresponding increase in male labor force participation in rural areas. Instead, the growth appears to stem from a shift from women's employment. The share of rural women engaged in self-employment has risen sharply from 55.9% in 2017-18 to 70.1% in 2022-23, compared to urban women. Self-employment spans various roles, from large-scale entrepreneurs to small farmers. Within this group, the proportion of unpaid family helpers grew from 33.1% to 38.4%, while the share of own-account workers also increased.

Importantly, the share of women in casual labor has dropped from 31.3% to 19.6%, while regular wage/salaried jobs have remained stagnant at around 10%. This suggests that the rise in female labor force participation is primarily due to an increase in unpaid helpers or women working in their own enterprises, rather than formal or paid employment.

The myth that EPFO data shows rising jobs

The findings of the ILO-IHD report based on publicly available official data bringing out the precarious nature of employment, in particular that for the youth and the educated are now countered with data from Employee Provident Fund Organisation (EPFO), National Pension Scheme and the ESI. However, this data released every month by the Statistics Ministry, titled payroll reporting is neither based on payroll reporting nor has it anything to do with employment generation. These are essentially number

of subscriptions to these schemes and any increase or decrease can be easily attributed to administrative factors and has very little relation to new job creation.

The claim of new job creation is itself fallacious. The reasons are as follows:

First, a part of the increase in net enrolment comes from the enrolment of contract workers in those establishments where the EPF & MP Act 1952 becomes applicable. If you are an employer that employs 20 people or more, it is mandatory to register under EPF. All contractual employees of such establishments employed directly or through a contractor, or both, are required to be enrolled under the EPF & MP Act, 1952. This became mandatory following the judgement of the Hon'ble Supreme Court of India, in the matter of M/S. Pawan Hans Limited and Others. v. Aviation Karmachari Sanghatana and others. The judgement (January 17, 2020), under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 clarified that contractual employees, who draw wages/salary directly or indirectly, are entitled to the benefit of provident fund.

Now, over time, a part of the contract or casual workforce might be extended the benefit of an EPFO subscription. This will be seen as fresh new enrolment in EPFO data but they were already employed. In that sense, their engagement is getting formalized. Further, new establishments might be added to EPFO coverage as the number of employee engagement reaches the 20 threshold. At best, this can be seen as formalization of employment rather than new job creation.

Payroll data is not an employee list by any means, nor is it a stand-in for the creation of jobs. Within the EPFO data architecture, payroll data represents a particular type of data reorganisation. EPFO began disclosing payroll information for the period beginning in September 2017 in April 2018. The net monthly payroll is calculated using the following methods: counting members who join EPFO for the first time using an Aadhaar-validated Universal Account Number (UAN), counting members who leave the organisation but re-join, and counting members who leave the organisation but re-join. Because of this, it is challenging to fully credit the net rise in enrolment to the creation of new jobs. Reorganising within the current beneficiaries and include current contract workers are contributing to the increase in numbers.

Another matter, recent improvements in net payroll is because of the registration simplicity. Online registration is now available, cost-free, and hassle-free. There is no need to go to the EPFO office. New registrations have benefited from this. Additionally, EPFO has made EPF accounts portable, meaning that the enrolment number stays the same even if the employer changes. Even when they change jobs, EPFO subscribers are more often choosing to move money from their old PF account to their new one rather than filing claims for a final payout. This can be linked to the different e-initiatives that EPFO has implemented to ensure smooth service delivery. Once more, this is unrelated to the creation of new jobs.

Lastly, since the regular employees increase to 20 or more, the full employee count falls

under the EPFO's new payroll data. Companies with less than 20 workers were not covered by the EPF Act. Let's say a business employs 19 people; EPF will not cover this. Now that a regular employee has joined, the business is subject to EPF regulations. In EPFO payroll statistics, there would now be 20 new registrations, although there would only be one more job. Projecting a full rise in fresh enrolment as new employment is an exaggeration.

The employment linked initiatives

The parallel to the production-linked initiatives started in 2020, the government has introduced Employment Linked Initiatives as part of the budget for 2024-25. There are five major schemes, with three schemes intended for new job creation and the other schemes aligned with skill development. The Economic Survey identifies a need for 78.51 lakh jobs to be created in the non-farm sector.

Scheme A: Targeting first-time employees in the formal sector registered with EPFO, this scheme offers a one-month wage (up to Rs. 15,000) in three installments.

Scheme B: Focusing on job creation in manufacturing, this scheme incentivizes both employees and employers for the additional employment of first-time employees, offering benefits based on their EPFO contributions during the first four years of employment. Employees with salaries up to Rs. 1 lakh will be eligible.

Scheme C: Providing support to employers by reimbursing Rs. 3,000 per month for two years towards their EPFO contribution for each additional employee with a salary of up to Rs. 1 lakh per month.

The first two schemes involve direct benefit transfers to the employee, while the third scheme directly subsidizes the employer. However, all three schemes are intended to subsidize employers to hire new workers. The EPFO contributions, which are supposed to be part of the salary, will eventually lead to salary negotiations between employees and employers, potentially resulting in lower salaries paid by employers.

Will it generate new employment? The answer is no, because new employment generation is identified by EPFO registration. There are employees in the formal sector or regular/employed workers who have not been registered with EPFO. If a company enlists any unlisted worker, they will also benefit. However, by enlisting in the EPFO, there will be a sense of social security, which is also the purpose of the EPFO itself. So, there is some defence for these initiatives.

But the problem lies elsewhere. The objective or rationale behind this initiative is that the marginal cost of adding an employee is the constraint against new job creation, whether it be training costs, expertise, or labour productivity. But is that the real issue regarding job creation? It is structural.

There is inefficient demand in the economy. According to the NSSO Household Expenditure Survey, the monthly per capita consumption expenditure is Rs. 3,773 in rural India and Rs. 6,459 in urban India. Without considerable demand, production cannot take place, and there is a longstanding debate on the lack of private investment in the economy. From 2011-12 onwards, however, private investment

began to drop and hit a low of 19.6% of GDP in 2020-21. The average real monthly wage of a regular wage worker has dipped to Rs. 10,925 in 2022 from Rs. 12,100 in 2012, as calculated by the ILO using official government data.

The most harmful aspect is that companies must recruit new employees every year to avail of this scheme. This means that the workers recruited in the first year will essentially be on fixed-term contracts and thrown out after their term ends, accentuating retrenchment to avail of government subsidies.

In the past few years, the government has devised incentive schemes which encourage formalization of the informal. The Indian labour market is predominantly informal. About 90 percent of the labour force is informal. Given this reality, accounting for new job creation using EPFO is a hard task - and in future such claims should be avoided by government.

Other schemes:

Scheme D: A new centrally sponsored scheme announced for skilling 20 lakh youth over five years in collaboration with state governments and industry, along with upgrading 1,000 Industrial Training Institutes to align with industry skill needs.

Scheme E: Offering internship opportunities to one crore youth in 500 top companies over the next five years, with an internship allowance of Rs. 5,000 per month and one-time assistance of Rs. 6,000, providing exposure to real-life business and professional environments.

The problem with Scheme D is the issue of

fiscal federalism and the conditionalities as fiscal burdens due to the nature of centrally sponsored schemes. Regarding the internship scheme, there is no clarity on the 500 top firms. The government will bear the burden of the monthly stipend of Rs. 5,000 and one-time assistance of Rs. 6,000. The rest of the training cost can be taken from the company's CSR funds. In the name of skilling, companies can easily divert CSR funds towards further production.

As per the ILO India Employment report the under employment in our country is 7.5 percent. When there is underemployment then the problem not only lies in the skill. It is structural. Without addressing the structural problems mentioned above, this will create a more skilled reserve army of labour, thereby increasing the negotiation power of companies and causing real wages and effective demand to decline. Unfortunately, the Economic survey nowhere mentions the word underemployment. The ELI and internship schemes will enhance production-linked profit by increasing the unpaid labour component and providing free labour at the disposal of corporations. Employment in India is dominated by poor-quality employment in the informal sector and informal employment.

Employment is predominantly self-employment and casual employment. Nearly 82 percent of the workforce is engaged in the informal sector, and nearly 90 percent is informally employed. Due to the nature of employment growth since 2019, the share of total employment in the informal sector and/

or informal employment has increased. Even in the organized sector, more than 60 percent of employment is provided by firms with fewer than 500 employees. For job creation, there needs to be more focus on local infrastructure. Since local infrastructure is the responsibility of the state government, the issue of fiscal federalism and the uneven distribution of central resources to state governments arises.

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Mission LiFE: India's emphasis on individual responsibility as a model for sustainable climate action

Rju Mohan A & Munawwara Zubair

Abstract

This research paper critically examines the shortcomings of prevailing climate change mitigation strategies, emphasizing their lack of alignment with natural systems, failure to address overconsumption and historical emission disparities, and the negative consequences of imposing Western practices on developing nations, as presented in Chapter 13 of Economic Survey 2023-24 titled "Climate Change and India: Why We Must Look at the Problem Through our Lens". As an alternative, it presents India's Mission LiFE, which focuses on individual responsibility, mindful consumption, and sustainable living. While acknowledging the potential of Mission LiFE, the paper also discusses the challenges it faces, such as balancing individual and regulatory action, managing urbanization and economic disparities, and navigating tensions between traditional and modern practices. The paper concludes by highlighting India's achievements in reducing emissions and contributing to global climate efforts, underscoring the need for comprehensive, equitable solutions that address the root causes of climate change.

Keywords: Climate Change, Climate Action, Climate Responsibility, Mission LiFE, Sustainability

1. Introduction

India must address the challenge of climate change through its unique perspective, balancing economic growth with significant climate action. Solutions often aimed at mitigating climate issues, focus on modifying consumption patterns of market societies, but fail to recognize that, sustainable living is inherent in the Indian way of life. These principles form the backbone of Mission LiFE ("LiFEStyle For Environment"), introduced by India at the 26th UN Climate

Change Conference (COP 26) in Glasgow. It emphasizes on making eco-friendly choices and promoting individual responsibility without sacrificing quality of life.

The Economic Survey 2023-24 provides several reasons as to why the current approach to climate change is flawed. They are:

1. Little principled understandings of life: Man-made solutions and technologies alone are insufficient for environmental challenges; a holistic approach that aligns with natural systems is essential.

2. Ignores the interconnected nature of existence Current climate solutions ignore the associated potential environmental and social costs.
 3. Insufficient for ordained purpose:It appears that achieving net zero carbon emissions is very unlikely, given the massive infrastructure overhaul and insufficient timeframe.
 4. Earth has enough for needs but not for greed:The most advisable solution of transitioning from fossil fuels to renewable energy sources does not address the fundamental issues of overconsumption and the adoption of sustainable practices.
 5. Global pursuit of energy-guzzling technologies:While developed nations heavily invest in energy-intensive AI ecosystems, developing countries face pressure to meet climate commitments they may not be ready for.
 6. Pretends to be data-driven but is shy of per-person data:Energy consumption is a per-capita phenomena but current energy estimates focus on absolute metrics. India's historical emissions and per capita emissions are low despite its large population, accounting for only 4% of global cumulative greenhouse gas emissions from 1850 to 2019.
 7. Historical blind spot and a surprising lack of guilt: Given the disparities in development and resource consumption; it is unjust to set a uniform zero-emission deadline for all nations.
 8. Developed countries should acknowledge their historical environmental impact and transfer resources and technology to developing nations.
 9. Inadequate climate financing: Developing countries need USD 6 trillion by 2030 to meet their NDC targets, but developed nations have fallen short on their funding promises. Climate finance is often given as loans.
 10. Western nations propose making the New Collective Quantified Goal (NCQG) contributions voluntary and expect developing countries to contribute based on emission shares.
- It also emphasizes that adopting western practices has negative environmental implications for the developing world by giving two major examples of meat production and housing.
- Meat production:*
- Meat production process and the destruction of the food-feed balance: Increased meat demand is supported by the modern mass-scale feed industry, posing a significant threat to global food security.
 - This trend, prominent in developed countries, is now emerging in developing nations adopting Western animal husbandry methods.
 - Unsustainable practices in the feed industry, degrade soil and water quality.
 - Sustainable farming practices, like Integrated Farming Systems that recycle farm waste and use human-inedible feed, can mitigate global hunger and enhance food security.

Housing:

- As India modernizes, there is a shift from multi-generational joint families to nuclear families leading to higher demand for smaller, independent housing units.
- Nucleated living contributes to urban sprawl, leading to increased energy consumption, pollution, and traffic congestion.
- Studies show that smaller household sizes are linked to higher CO2 emissions and water usage.
- Traditional Indian homes, with features like central courtyards for natural ventilation and local materials, were more sustainable than modern concrete buildings.

2. Mission LiFE: A Unique Indian answer to climate action

In this juncture, the Economic Survey 2023-24 introduces the concept of Mission LiFE which aims to bring individual responsibility to the forefront of the global climate narrative. It also gave the following reasons as to why such an initiative is important from the Indian perspective of addressing climate-related challenges:

- Successful economic and industrial strategies require individuals, especially in developed nations, to adopt simple behavioral changes that contribute to climate and environmental mitigation efforts.
- India has a history of individual-led sustainable behaviors but are being overshadowed by capitalist trends.

- Voluntary change in consumer behavior will drive industry shifts towards more sustainable practices. Example: India's "Give It Up" LPG Subsidy Scheme.
- Individual behaviors and consumption choices are significantly shaped by surrounding norms, policies, incentives, and infrastructure.
- Governments, community leaders, and media play crucial roles in this process. Eg: Ujala Program Success
- The principle of LiFE advocates for enjoying the intrinsic value of experiences and possessions without overconsuming.
- It emphasizes mindful living, such as avoiding unnecessary waste, to ensure a sustainable future for future generations.

3. Limitations of adopting mission LiFE:

Although it is every novel and efficient way and a unique Indian way of addressing climate-related challenges, it suffers from the following limitations:

- *Regulatory Measures vs. Individual Responsibility:* Mission LiFE shifts some responsibility to individuals, promoting pro-planet choices at the personal level. This approach can complement existing policies but requires widespread public participation and commitment. (India's Nationally Determined Contributions, 2015)
- *Urbanisation and Population Density:* Urban areas are often disconnected from nature, making the reintegration of nature-based solutions challenging. The high population density in cities exacerbates this issue, limiting space for

green areas and sustainable practices. (World Economic Forum, 2020)

- *Looming Housing Problem:* Urbanization and nucleation are here to stay, whether we like it not. This is an area where limitations of traditional concepts need to be understood and modern practices need to be adopted to minimize the environmental footprint.
- *Economic Disparities:* For a significant portion of the population living in poverty, immediate survival needs often take precedence over environmental considerations. Implementing nature-based solutions may require investments that are not feasible for low-income communities. (Oxfam India, 2021)
- *Traditional vs. Modern Agriculture:* Traditional agricultural practices are often more sustainable, but modern, intensive farming methods driven by the need to increase productivity can lead to soil degradation, water scarcity, and loss of biodiversity. At the same time, transitioning back to more sustainable practices can be difficult due to economic pressures and food security concerns. (FAO, 2020)
- *Food-feed problem:* India is the fifth-largest meat exporter globally, with buffalo meat (carabeef) making up nearly 79% of its total animal product exports in 2022-2023. This segment generates significant revenue and employment. However, the question arises whether integrated agriculture, proposed as a sustainable alternative, can effectively support this sector, given its economic importance.
- *Political Will and Continuity:* The success of long-term environmental initiatives like Mission LiFE depends heavily on political will and continuity. Changes in government and policy priorities can disrupt the progress of environmental programs. Ensuring sustained commitment across political cycles is crucial for the success of nature-based solutions. (Centre for Policy Research, 2020)

4. Conclusion

The primary problem with this Chapter in the Economic Survey 2023-24 on 'looking at the climate change problem through our lens' is that it misplaces the emphasis on something of a 'general' solution for a 'particular' problem, where it should have been on something of a 'particular' solution for the 'particular' problem.

Climate change problems that we experience today are mainly anthropogenic, starting initially from the man-made land use changes, and then worsening with the industrial revolution that took off on the wings of fossil fuels. Scientific data have shown the steep and steady rise in CO2 emission from the industrial revolution period onwards. To this extent, the anthropogenic climate change problem is a 'particular problem' requiring a 'particular solution' of mitigation, that is, reducing the use of fossil fuels. If emissions are due to fossil fuel use, then emission reduction solely depends on fossil fuel use reduction; that is the particular problem and its particular solution. And India has been successful in keeping her pledge, as reported in the beginning of the chapter itself, that is,

1. India successfully reduced the emission intensity vis-à-vis its GDP by 33% between 2005 and 2019, thus achieving the initial NDC target for 2030, 11 years ahead of scheduled time.
2. India also achieved 40% of electricity installed capacity through non-fossil fuel sources, nine years ahead of the target for 2030. Between 2017 and 2023, India has added around 100 GW of installed electricity capacity, of which around 80% is attributed to non-fossil fuel-based resources.
3. India's contribution to climate action is significant through its international efforts - International Solar Alliance (ISA), Coalition for Disaster Resilient Infrastructure (CDRI), creation of LeadIT, Infrastructure for Resilient Island States (IRIS), and Big Cat Alliance.

In addition to these achievements, climate justice, defined in terms of historically cumulative emissions and per capita emissions, also favours India, with very small values of these climate justice standards. This itself is enough to counter the internationally orchestrated allegation of India being the third largest emitter.

Unfortunately, the Chapter fails to highlight these valid 'particular' aspects in their required degrees and dimensions. In its enthusiasm to uphold and market the Indian traditional dharmas (ways of living), the Chapter invents a new way of looking at the (particular) climate change problem through 'our lens' of the (general) traditional dharmas, now named as Mission Life. The Mission focuses on 7 themes, such as Saving Energy and Water, Reducing Single Use

Plastic and E-waste, Adopting Sustainable Food Systems, Reducing Waste and adopting Healthy Lifestyles. The interesting twist in the new way of looking is that the traditional way of life which the entire community had practised in totem is now interpreted as the individual responsibility. The Chapter declares that "Individual action is the core of Climate Responsibility". However, the Indian traditional dharma was rooted in the entire community, and the individuals perform lived accordingly: yadha rajah, thadhah prajah. In this light, the Chapter is a surprising example of a neo-classical twisting of the Indian traditional dharma in line with the World Bank's economic philosophy of individualism: absolving the state (community) of its innate duties and thrusting them on the individuals.

The crux of our argument is: reducing climate change problem requires reducing the use of fossil fuels, and this has more to do with the state: once the state resolves to reduce the fossil fuel use, it is done!



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GST updates

Vidya V Devan

Significant GST simplification and rationalization measures unveiled during Quarter 2 of 2024-25

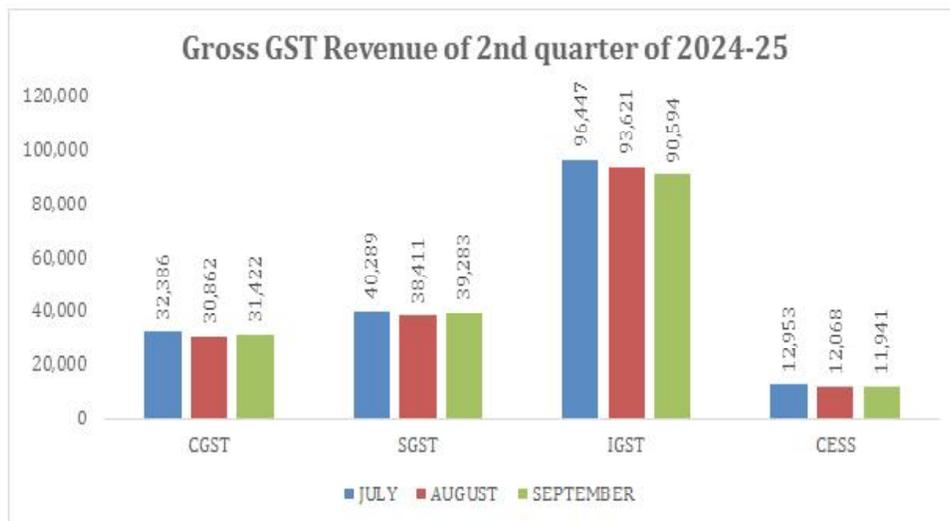
I. GST Collections during July, August, and September 2024 in India

July witnessed the highest Gross GST Revenue in this quarter i.e. Rs 1,82,075 Crore, which shows a growth of 10.2% compared to July 2023. August, 2024 has once again seen enhanced GST collections

of Rs. 1,74,962 crore, up by 10% on YoY basis. There has been a growth of 8.9% in CGST, 7.3% in SGST and 12.5% in IGST compared to August 2023. Total Gross GST Revenue of the month of September is Rs. 1,73,240 Crore (Table-1).

Table 1

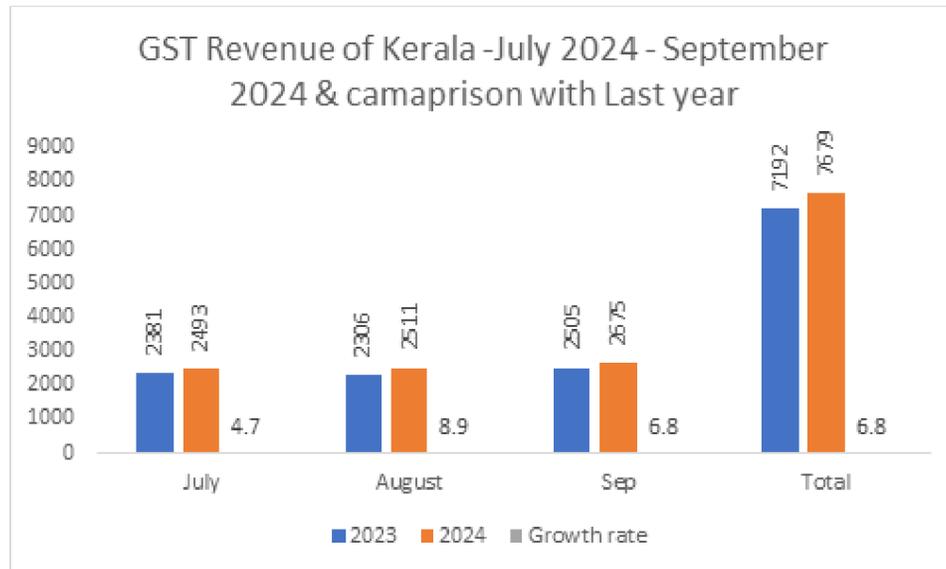
MONTHS	CGST	SGST	IGST	CESS
JULY	32,386	40,289	96,447	12,953
AUGUST	30,862	38,411	93,621	12,068
SEPTEMBER	31,422	39,283	90,594	11,941



GST Revenue of Kerala - Change from July - September 2024 over July - September 2023

Table 2

MONTHS	2023	2024	Growth Rate
JULY	2381	2493	4.7
AUGUST	2306	2511	8.9
SEPTEMBER	2505	2675	6.8
TOTAL	7192	7679	6.8



Note: Rs in crore

Source: Goods and Services Tax

<https://services.gst.gov.in/services/advisoryandreleased/read/510>

<https://services.gst.gov.in/services/advisoryandreleased/read/516>

<https://services.gst.gov.in/services/advisoryandreleased/read/527>

II. Important recommendations by 54th Meeting of the GST Council held on 9th September 2024

The GST Council inter-alia made the following recommendations relating to changes in GST tax rates, provide relief to individuals, measures for facilitation of trade and measures for streamlining compliances in GST.

A. Changes/Clarifications in GST Tax Rates:

GOODS

1. Namkeens and Extruded/Expanded Savoury food products

- The GST rate of extruded or expanded products, savoury or salted (other than un-fried or un-cooked snack pellets, by whatever name called, manufactured through process of extrusion), falling under HS 1905 90 30 to be **reduced from 18% to 12%** at par with namkeens, bhujia, mixture, chabena (pre-packaged and labelled) and similar edible preparations in ready for consumption form which are classifiable under HS 2106 90. The GST rate of 5% will continue on un-fried or un-cooked snack pellets, by whatever name called, manufactured through process of extrusion.
- To also **clarify** that the reduced GST rate of 12% on extruded or expanded products, savoury or salted (other than un-fried or un-cooked snack pellets, by whatever name called, manufactured through process of extrusion), falling under HS 1905 90 30 is applicable **prospectively**.

2. Cancer Drugs

- The GST rate on cancer drugs namely, Trastuzumab Deruxtecan, Osimertinib and Durvalumab **to be reduced** from 12% to 5%.

3. Metal Scrap

- **Reverse Charge Mechanism (RCM) to be introduced** on supply of metal scrap by unregistered person to registered person provided that the supplier shall take registration as and when it crosses threshold limit and the recipient who is liable to pay under RCM shall pay tax even if supplier is under threshold.
- A **TDS of 2%** will be applicable on supply of metal scrap by registered person in B to B supply.

4. Roof Mounted Package Unit (RMPU) Air Conditioning Machines for Railways

- To **clarify** that Roof Mounted Package Unit (RMPU) Air Conditioning Machines for Railways would be classified under HSN 8415 attracting a GST rate of 28%.

5. Car and Motor cycle seats

- To **clarify** that car seats are classifiable under 9401 and attract a GST rate of 18%.
- GST rate on car seats classifiable under 9401 **to be increased** from 18% to 28%. This uniform rate of 28% will be applicable **prospectively** for car seats of motor cars in order to bring parity with seats of motorcycles which already attract a GST rate of 28%.

Services

1. Life and Health insurance

- GST Council recommended to constitute a Group of Ministers (GoM) to holistically look into the issues pertaining to GST on the life insurance and health insurance. The GoM members are Bihar, UP, West Bengal, Karnataka, Kerala, Rajasthan, Andhra Pradesh, Meghalaya, Goa, Telangana, Tamil Nadu, Punjab, and Gujarat. The GoM is to submit the report by end of October 2024.

2. Transport of passengers by helicopters

- To **notify** GST @ 5% on the transport of passengers by helicopters on seat share basis and to regularize the GST for past period on '*as is where is*' basis. To also **clarify** that charter of helicopter will continue to attract 18% GST.

3. Flying training courses

- To **clarify** by way of a circular that the approved flying training courses conducted by DGCA approved Flying Training Organizations (FTOs) are exempt from the levy of GST.

4. Supply of research and development services

- The GST Council recommended to **exempt** supply of research and development services by a Government Entity; or a research association, university, college or other institution, notified under clauses (ii) or (iii) of sub-section (1) of section 35 of the Income Tax Act, 1961 using Government or private grants.
- Past demands to be **regularized** on '*as is where is*' basis.

5. Preferential Location Charges (PLC)

- To **clarify** that location charges or Preferential Location Charges (PLC) paid along with the consideration for the construction services of residential/commercial/industrial complex before issuance of completion certificate forms part of composite supply where supply of construction services is the main service and PLC is naturally bundled with it and are eligible for same tax treatment as the main supply that is, construction service.

6. Affiliation services

- To **clarify** that affiliation services provided by educational boards like CBSE are taxable. However, to **exempt** affiliation services provided by State/Central educational boards, educational councils and other similarly placed bodies to Government Schools prospectively. The issue for the past period between 01.07.2017 to 17.06.2021 to be regularized on '*as is where is*' basis.
- To **clarify** by way of circular that the affiliation services provided by universities to their constituent colleges are not covered within the ambit of exemptions provided to educational institutions in the notification No. 12/2017-CT(R) dated 28.06.2017 and GST **at the rate of 18% is applicable** on the affiliation services provided by the universities.

7. Import of service by branch Office

- To **exempt** import of services by an establishment of a foreign airlines company from a related person or any of its establishment outside India, when made without consideration. The council also recommended to **regularise** the past period on 'as is where is' basis.

8. Renting of commercial property

- To bring **renting of commercial property by unregistered person to a registered person** under **Reverse Charge Mechanism (RCM)** to prevent revenue leakage.

9. Ancillary/intermediate services are provided by GTA

- To **clarify** that when ancillary/intermediate services are provided by GTA in the course of transportation of goods by road and GTA also issues consignment note, the service will constitute a composite supply and all such ancillary/intermediate services like loading/unloading, packing/unpacking, transshipment, temporary warehousing etc. will be treated as part of the composite supply. If such services are not provided in the course of transportation of goods and invoiced separately, then these services will not be treated as composite supply of transport of goods.

Other changes

- To **regularize** the GST liability for the past period prior to 01.10.2021 on 'as is where is' basis, where the film distributor or sub-distributor acts on a principal basis to acquire and distribute films.

- To **exempt** supply of services such as application fees for providing electricity connection, rental charges against electricity meter, testing fees for meters/ transformers/ capacitors, labour charges from customers for shifting of meters/ service lines, charges for duplicate bills etc. which are incidental, ancillary or integral to the supply of transmission and distribution of electricity by transmission and distribution utilities to their consumers, when provided as a composite supply. GST for the past period to be **regularized** on 'as is where is' basis.

B. Measures for facilitation of trade:

- Procedure and conditions for waiver of interest or penalty or both, in respect of tax demands under section 73 of CGST Act, 2017 for FYs 2017-18, 2018-19 and 2019-20 as per section 128A of CGST Act, 2017:**

The GST Council recommended insertion of rule 164 in CGST Rules, 2017, along with certain Forms, providing for the procedure and conditions for availment of benefit of waiver of interest or penalty or both, relating to tax demands under section 73 of CGST Act, pertaining to FYs 2017-18, 2018-19 and 2019-20, as per section 128A of CGST Act. The Council also recommended to notify under sub-section (1) of section 128A of CGST Act, 31.03.2025 as the date on or before which the payment of tax may be made by the registered

persons, to avail the said benefit as per section 128A of the CGST Act. The Council also recommended the issuance of a circular to clarify various issues related to availment of waiver of interest or penalty or both as per section 128A of CGST Act. The Council also recommended that section 146 of Finance (No. 2) Act, 2024, which provides for insertion of section 128A in CGST Act, 2017, may be notified with effect from 01.11.2024.

2. Providing a mechanism for implementation of newly inserted sub-section (5) and sub-section (6) in section 16 of CGST Act, 2017:

The GST Council recommended that section 118 and 150 of the Finance (No. 2) Act, 2024, which provides for insertion of sub-section (5) and sub-section (6) in section 16 of CGST Act, 2017 retrospectively with effect from 01.07.2017, may be notified at the earliest.

The Council also recommended that a special procedure for rectification of orders may be notified under section 148 of the CGST Act, to be followed by the class of taxable persons, against whom any order under section 73 or section 74 or section 107 or section 108 of the CGST Act has been issued confirming demand for wrong availment of input tax credit on account of contravention of provisions of sub-section (4) of section 16 of the CGST Act, but where such input tax credit is now available as per the provisions of sub-section (5) or sub-section (6) of section 16 of the CGST

Act, and where appeal against the said order has not been filed. The Council also recommended issuance of a circular to clarify the procedure and various issues related to implementation of the said provisions of sub-section (5) and sub-section (6) of section 16 of CGST Act, 2017.

3. Amendments in rule 89 and rule 96 of CGST Rules, 2017 and to provide clarification in respect of IGST refunds on exports where benefit of concessional/ exemption notifications specified under rule 96(10) of CGST Rules, 2017 has been availed on the inputs:

The GST Council recommended to clarify that where the inputs were initially imported without payment of integrated tax and compensation cess by availing benefits under Notification No. 78/2017-Customs dated 13.10.2017 or Notification No. 79/2017-Customs dated 13.10.2017, but IGST and compensation cess on such imported inputs are subsequently paid, along with applicable interest, and the Bill of Entry in respect of the import of the said inputs is got reassessed through the jurisdictional Customs authorities to this effect, then the IGST paid on exports, refunded to the said exporter shall not be considered to be in contravention of provisions of sub-rule (10) of rule 96 of CGST Rules.

Further, considering the difficulty being faced by the exporters due to restriction in respect of refund on exports, imposed vide rule 96(10),

rule 89(4A) & rule 89(4B) of CGST Rules, 2017, in cases where benefit of the specified concessional/ exemption notifications is availed on the inputs, the Council recommended to prospectively omit rule 96(10), rule 89(4A) & rule 89(4B) from CGST Rules, 2017. This will simplify and expedite the procedure for refunds in respect of such exports.

4. Issuance of clarifications through the circulars to remove ambiguity and legal disputes in certain issues:

The GST Council recommended issuance of circulars to provide clarity and to remove doubts and ambiguities arising in the following issues due to varied interpretations by the field formations:

- i. Clarification on the Place of Supply of advertising services provided by Indian advertising companies to foreign entities.
- ii. Clarification regarding availability of Input Tax Credit on demo vehicles by the dealers of the vehicle manufacturers.
- iii. Clarification on Place of Supply of data hosting services provided by service providers located in India to cloud computing service providers located outside India.

5. The Council also recommended amendments in some other provisions of CGST Rules, 2017.

C. Other measures:

1. B2C E-invoicing:

The GST Council recommended roll out of a pilot for B2C e-Invoicing, following

the successful implementation of e-invoicing in the B2B sector. The Council recognized potential benefits of e-invoicing in retail, such as improved business efficiency, environmentally friendly, cost efficiency to the business, etc.

It would also provide an opportunity to the retail customers to verify the reporting of the invoice in the GST return. The pilot will be rolled out on voluntary basis in selected Sectors and States.

2. Invoice Management System and new ledgers:

The Council also took note of the agenda on the enhancements being made to the existing GST return architecture. These enhancements include the introduction of a Reverse Charge Mechanism (RCM) ledger, an Input Tax Credit Reclaim ledger and an Invoice Management System (IMS). Taxpayers would be given the opportunity to declare their opening balance for these ledgers by 31st October 2024.

IMS will allow the taxpayers to accept, reject, or to keep the invoices pending for the purpose of availment of Input Tax Credit. This will be an optional facility for taxpayers to reduce errors in claiming input tax credit and improve reconciliation. This is expected to reduce notices issued on account of ITC mismatch in the returns.

Note: The recommendations of the GST Council have been presented in this release containing major item of decisions in simple language for information of the stakeholders. The same would be given

effect through the relevant circulars/ notifications/ law amendments which alone shall have the force of law.

III. Notifications & Circulars issued during July, August & September 2024

Central Tax

- **Amendments to the CGST Rules, 2017 (Amendment 2024)**

The Central Government, based on the GST Council's recommendations, has introduced multiple amendments to the Central Goods and Services Tax (CGST) Rules, 2017, through Notification No. 12/2024-Central Tax, dated 10th July 2024. These revisions are intended to simplify processes, improve compliance, and address various operational issues related to GST like changes in application for registration, Bio metric based Aadhaar authentication, amendments in Rule 21 - Cancellation of Registration, Rule 21A - Suspension of Registration, Rule 28 : Value of Supply of Goods or Services, Rule 36 (4) : Conditions to claim ITC, Rule 37A :Reversal of input tax credit in the case of non-payment of tax by the supplier and re-availment thereof, Rule 39: Procedure for distribution of input tax credit by Input Service Distributor, Rule 40 - Manner of claiming credit in special circumstances, Rule 48- Manner of issuing invoice, Rule 59: Change in Table 5 of GSTR-1 w.e.f 1st August 2024, Rule 60: Form and manner of ascertaining details of inward supplies, Rule 62: New Date of GSTR-4, Rule 78:Matching of details furnished by the

e-Commerce operator with the details furnished by the supplier, Rule 88B: Interest on Balance in E-Cash ledger, Rule 88C:Manner of dealing with difference in liability reported in statement of outward supplies and that reported in return, Rule 89: Refund in case of Upward revision in Export Price, Rule 96: Export Refund, Rule 96A, Rule 110: Appeal to the Appellate Tribunal, Rule 111: Application to the Appellate Tribunal, Amendment in Rule 138(3), New Proviso & New Form: E way bill in case of unregistered person, Rule 142: Notice and order for demand of amounts payable under the Act, Rule 163: Consent based sharing of information, Changes notified in Forms : GSTR-1, 3B, 2A, 2B, 7,8, 9, 4, RFD-01, APL, DRC-01A, DRC 03A, DRC 04 . New Rules where inserted like Rule 95B: Refund of tax paid on inward supplies of goods received by Canteen Stores Department, Rule 113A: Withdrawal of Appeal or Application filed before the Appellate Tribunal and New GSTR-1A form notified.

Source: Notification No. 12/2024-Central Tax dated 10.7.2024

- **Seeks to rescind Notification no. 27/ 2022-Central Tax dated 26.12.2022** by Notification No. 13/2024-Central Tax dated 10.7.2024
- **Exempts the registered person whose aggregate turnover in the financial year 2023-24 is up to two crore rupees, from filing annual return for the said financial year**

In exercise of the powers conferred by the first proviso to section 44 of the Central

Goods and Services Tax Act, 2017 (12 of 2017), the Commissioner, on the recommendations of the Council, hereby exempts the registered person whose aggregate turnover in the financial year 2023-24 is up to two crore rupees, from filing annual return for the said financial year.

Source: Notification No. 14/2024-Central Tax dated 10.7.2024

- Amended Notification No. 52/2018-Central Tax, dated 20.09.2018.

As per notification No. 52/2018-Central Tax, dated 20.09.2018. in section 52(1) it was fixed that every electronic commerce operator, not being an agent, shall collect an amount calculated at a rate of half percent. of the net value of intra-State taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the said operator. Notification No. 15/2024-Central Tax dated 10.7.2024 amends the above notification and substitutes the words "half percent" with "0.25 percent.

Source: Notification No. 15/2024-Central Tax dated 10.7.2024

- Notified Sections 11 to 13 of Finance Act (No.1) 2024

As per the Notification No. 16/2024-Central Tax dated 16.8.2024

- a. sections 13 of the Finance Act (No.1) 2024 (Penalty for failure to register certain machines used in manufacture of goods as per special procedure) will be in force from the 1st day of October, 2024,
- b. and section 11 (section 2'(61) "Input Service Distributor") and section 12 (Substitution of section 20 of CGST

Act) of the said Act shall come into force from the 1st day of April, 2025.

Source: Notification No. 16/2024-Central Tax dated 16.8.2024

- Notified the provisions of Finance (No. 2) Act, 2024
- (a) sections 118, 142, 148 and 150 of the said Act shall come into force on 27th September 2024 and
 - (b) sections 114 to 117, 119 to 141, 143 to 147, 149 and 151 to 157 of the said Act shall come into force on the 1st day of November, 2024.

Source: Notification No. 17/2024-Central Tax dated 27.9.2024

- Notification of Principal Bench of GST Appellate Tribunal to hear cases of anti-profiteering.

In exercise of the powers conferred by 171(2) read section 109 (1) and second proviso to 109(5) of the Central Goods and Services Tax Act, 2017 (12 of 2017) the Central Government, on the recommendations of the Goods and Services Tax Council, empowers the Principal Bench of the Appellate Tribunal, constituted under section 109(3) of the CGST Act, to examine whether input tax credits availed by any registered person or the reduction in the tax rate have actually resulted in a commensurate reduction in the price of the goods or services or both supplied by that registered person.

2. This notification shall come into force with effect from the 1st day of October, 2024.

Source: Notification 18/2024-Central Tax dated 30.9.2024

- Notification under Section 171 of CGST Act to provide for the sunset date.

The government has notified April 1, 2025, as the sunset date for the anti-profiteering clause in the GST law by this notification and this notification shall come into force on the date of its publication in the Official Gazette i.e on 30th September 2024.

Source: Notification 19/2024-Central Tax dated 30.9.2024

Central Tax (Rate)

- Amended Notification No. 1/2017-Central Tax

An amendment is made in notification No. 1/2017- Central Tax (Rate) dated 28th June, 2017 which notifies the rate of the central tax. By Notification no. 02/2024-Central Tax (Rate) dated 12.7.2024 certain items like Cartons, boxes and cases of, -

- (a) corrugated paper or paper board; or
- (b) non-corrugated paper or paper board"; Milk cans made of Iron, Steel, or Aluminium"; Solar cookers"; etc is inserted in Schedule II which deals with items with 6% tax. And in Schedule III of the said notification which deals with items with 9% of All Goods (other than Cartons, boxes and cases of, -
- (a) corrugated paper or paper board; or
- (b) non-corrugated paper or paper board"); was added.

Source: 02/2024-Central Tax (Rate) dated 12.7.2024

- Amended notification No. 2/2017-Central Tax (Rate)

By Notification No.03/2024-Central Tax (Rate) dated 12.7.2024 the notification No. 2/2017- Central Tax

(Rate) which gives the list of exempted goods is amended. And inserted the words 'notwithstanding anything contained in the Legal Metrology Act, 2009 (1 of 2010) and the rules made thereunder, as amended from time to time, the supply of agricultural farm produce in package(s) of commodities containing quantity of more than 25 kilogram or 25 liters shall not be considered as a supply made within the scope of expression 'pre-packaged and labelled'."

Source: 03/2024-Central Tax (Rate) dated 12.7.2024

- Amended Notification No 12/2017-Central Tax (Rate) dated 28.06.2017.

By Notification no.04/2024-Central Tax (Rate) dated 12.7.2024 the notification No. 12/2017- Central Tax (Rate) which gives the list of exempted goods is amended.

Source: 04/2024-Central Tax (Rate) dated 12.7.2024

Integrated Tax

- Amended Notification No. 02/2018-Integrated Tax, dated 20.09.2018.

As per notification No. 02/2018-Integrated Tax, dated the 20th September 2018 as per the second proviso to section 20 of IGST, Act read with section 52(1) of CGST Act, it was fixed that every electronic commerce operator, not being an agent, shall collect an amount calculated at a rate of one percent of the net value of intra-State taxable supplies made through it by other suppliers where the consideration with respect to such

supplies is to be collected by the said operator. Notification No. 1/2024 Integrated Tax dated 10.7.2024 amends the above notification and substitutes the words "one percent" with "half percent".

Source: Notification No. 01/2024 Integrated Tax dated 10.7.2024

Integrated Tax (Rate)

- Amended notification No. 1/2017-Integrated Tax (Rate)

An amendment is made in notification No. 1/2017- Integrated Tax (Rate) dated 28th June, 2017 which notifies the rate of the Integrated tax. By Notification No. 02/2024 Integrated Tax (Rate) dated 12.7.2024 certain items like

Cartons, boxes and cases of, -

- (a) corrugated paper or paper board; or
- (b) non-corrugated paper or paper board"; Milk cans made of Iron, Steel, or

Aluminium"; Solar cookers"; etc is inserted in Schedule II which deals with items with 6% tax. And in Schedule III of the said notification which deals with items with 9 % of All Goods (other than Cartons, boxes and cases of, -

- (a) corrugated paper or paper board; or
- (b) non-corrugated paper or paper board"); was added.

Source: Notification No. 02/2024 Integrated Tax (Rate) dated 12.7.2024

- Amended notification No. 2/2017-Integrated Tax (Rate)
By Notification No.03/2024-Integrated Tax (Rate)dated 12.7.2024

the notification No. 2/2017-Integrated Tax (Rate) which gives the list of exempted goods is amended. And inserted the words 'notwithstanding anything contained in the Legal Metrology Act, 2009 (1 of 2010) and the rules made thereunder, as amended from time to time, the supply of agricultural farm produce in package(s) of commodities containing quantity of more than 25 kilogram or 25 liters shall not be considered as a supply made within the scope of expression 'pre-packaged and labelled'."

Source: Notification No. 03/2024 Integrated Tax (Rate) dated 12.7.2024

- Amended Notification No 09/2017-Integrated Tax (Rate) dated 28.06.2017.

By Notification No.04/2024 Integrated Tax (Rate) dated 12.7.2024 the notification No. 9 /2017- Integrated Tax (Rate) which gives the list of exempted goods is amended.

Source: Notification No. 04/2024 Integrated Tax (Rate) dated 12.7.2024

Union Territory Tax

- Amended Notification No. 12/2018-Union Territory Tax, dated 28.09.2018.

As per notification 12/2018-Union Territory Tax, dated the 28th September, 2018. in section 22(1) read with section 21 of Union Territory Goods and Services Tax Act, 2017 (14 of the 2017) and section 52(1) of CGST Act it was fixed that every electronic commerce operator, not being an

agent, shall collect an amount calculated at a rate of half percent. of the net value of intra-state taxable supplies made through it by other suppliers where the consideration with respect to such supplies is to be collected by the said operator. Notification dated No. 01/2024 Union Territory Tax dated 10.7.2024 amends the above notification and substitutes the words "half percent" with "0.25 percent.

Source: Notification No. 01/2024 Union Territory Tax dated 10.7.2024

Compensation Cess Rate

- Seeks to provide exemption from Compensation Cess on supplies under heading 2202 by URCs to authorised customers.

In exercise of the powers conferred section 11(1) of the Central Goods and Services Tax Act, 2017 read with section 11(1) of the Goods and Services Tax (Compensation to States) Act, 2017, and section 6 (1) of the Integrated Goods and Services Tax Act, 2017 read with section 11(2) of the Goods and Services Tax (Compensation to States) Act, 2017 the Central Government, on being satisfied that it is necessary in the public interest so to do, on the recommendations of the Council, hereby exempts supply of goods falling under the heading 2202 by a Unit Run Canteen (URC) to authorised customers, from the whole of the Goods and Services Tax Compensation Cess leviable thereon under section 8 of the Goods and Services Tax (Compensation to States) Act, 2017.

Source: Notification No. 01/2024-Compensation Cess(Rate) dated 12th July, 2024

Circulars

- Amendment in circular no. 1/1//2017 in respect of Proper officer for provisions relating to Registration and Composition levy under the Central Goods and Services Tax Act, 2017 or the rules made thereunder.

Consequent to the shifting of the GST back office operations of Central Board of Indirect Tax & Customs from ACES-GST to GSTN BO, it has now been decided by the Board that the functions of proper officer in relation to section 30 & Proviso to sub-section (1) of section 27 of CGST Act, as well as rule 6, rule 23 & rule 25 of Central Goods and Services Tax Rules, 2017 may be assigned to Superintendent of Central Tax instead of Assistant or Deputy Commissioners of Central Tax or Assistant or Deputy Directors of Central Tax.

Source: Circular no. 223/17/2024-GST dated 10-Jul-2024

- Guidelines for recovery of outstanding dues, in cases wherein first appeal has been disposed of, till the Appellate Tribunal comes into operation.

In cases where the taxpayer decides to file an appeal against the order of the appellate authority and wants to make the payment of the amount of pre deposit as per sub section (8) of section 112 of CGST Act, he can make the payment of an amount equal to the amount of pre deposit by

navigating to Services >> Ledgers>> Payment towards demand, from his dashboard. The taxpayer would be navigated to Electronic Liability Register (ELL) Part II in which he can select the order, out of the outstanding demand orders, against which payment is intended to be made. The amount so paid would be mapped against the selected order and demand amount would be reduced in the balance liability in the aforesaid register. The said amount deposited by the taxpayer will be adjusted against the amount of pre deposit required to be deposited at the time of filing appeal before the Appellate Tribunal.

The circular also clarifies the situations where the tax payer does not make the pre deposit or already made the pre deposit in any other manner.

Source: Circular no. 224/18/2024-GST dated 11-Jul-2024

- Circular no. 225/19/2024-GST provides clarification on various issues pertaining to taxability and valuation of supply of services of providing corporate guarantee between related persons. Circular gives answers to various representations that have been submitted by trade and industry,

Source: Circular no. 225/19/2024-GST dated 11-Jul-2024

- The mechanism for refund of additional Integrated Tax (IGST) paid on account of upward revision in price of the goods subsequent to export.

The circular lays down the procedure for claim and processing of refunds of additional integrated tax paid on account of upward revision in prices of goods subsequent to their exports.

The exporter(s) may claim refund of the additional IGST paid on account of upward revision in price of goods subsequent to exports, by filing an application of refund in **FORM GST RFD-01** electronically on the common portal under the category "**Any other**" with remarks "*Refund of additional IGST paid on account of increase in price subsequent to export of goods*" along with the relevant documents as prescribed in clause (bb) of sub-rule (2) of rule 89 of the CGST Rules. The exporter shall also upload the statements 9A & 9B as prescribed in clause (bb) & clause (bc) of sub-rule (2) of rule 89 of the CGST Rules along with the said refund claim. The exporter may also upload any other document to establish that the refund is admissible to him.

The application for refund of additional IGST paid can be filed before the expiry of two years from the relevant date as per clause (a) of Explanation (2) of section 54 of the CGST Act.

Source: Circular no. 226/20/2024-GST dated 11-Jul-2024

- Processing of refund applications filed by Canteen Stores Department (CSD).

The Canteen Stores Department (CSD) may apply for refund with the jurisdictional Central tax/ State tax authority to whom the CSD has been assigned. In terms of rule 95B of the CGST Rules, the CSD is required to apply for refund once in every quarter. The CSD will also be allowed to file the refund application for multiple quarters, clubbing multiple FYs, as per their option. The refund of the tax paid by the CSD shall be available only if the inward supplies of goods were received from a registered person against a tax invoice and details of such supplies have been furnished by the said registered person in his details of outward supply in FORM GSTR-1 and the said supplier has furnished his return in FORM GSTR-3B for the concerned tax period. The CSD while filing the refund application shall ensure that all the invoices declared by it have the GSTIN of the supplier and the GSTIN of the respective CSD clearly mentioned on them. The said refund application form shall be accompanied by the prescribed documents. The Circular also describes the procedure of processing the application by the department in detail.

Source: Circular no. 227/21/2024-GST dated 11-Jul-2024

- Clarifications regarding applicability of GST on certain services -reg.

The circular provides a detailed description of the applicability of GST on certain services like

- i) GST exemption on the outward supplies made by the Ministry of Railways (Indian Railways).
- ii) GST exemption on the transactions between Special Purpose Vehicles (SPVs) and Ministry of Railways (Indian Railways).
- iii) Applicability of GST on the statutory collections made by the Real Estate Regulatory Authority (RERA) in accordance with the Real Estate (Regulation and Development) Act, 2016.
- iv) Applicability of GST on the incentive amount shared by acquiring bank with other stakeholders in the digital payment ecosystem under the notified Incentive Scheme for promotion of RuPay Debit Cards and low value BHIM-UP1 transactions.
- v) GST liability on the reinsurance of specified general and life insurance schemes.
- vi) GST liability on the reinsurance of insurance schemes for which total premium is paid by the Government.
- vii) Applicability of GST on retrocession services.
- viii. GST liability on certain accommodation services.

Source: Circular no. 228/22/2024-GST dated 15-Jul-2024

- Clarification regarding GST rates & classification (goods) based on the recommendations of the GST Council in its 53rd meeting held on 22nd June 2024, at New Delhi -reg.

The circular provides clarification regarding GST rate on Solar Cookers,

Fire Water Sprinklers, Poultry-keeping machinery, expression 'pre-packaged and labelled' for supply of agricultural farm produce and supplies of goods made to or by agency engaged by Government,

Source: Circular no. 229/23/2024-GST dated 15-Jul-2024

- Clarification in respect of advertising services provided to foreign clients.

The circular provides the answers for the questions like

- i. Whether the advertising company can be considered as an "intermediary" between the foreign client and the media owners in terms of section 2(13) of Integrated Goods and Services Tax Act, 2017 (herein after referred to as the "IGST Act"), thereby resulting in determination of place of supply under section 13(8)(b) of the IGST Act?
- ii. Whether the representative of foreign client in India or the target audience of the advertisement in India can be considered as the recipient of the services being supplied by the advertising company under section 2(93) of CGST Act?
- iii. Whether the advertising services provided by the advertising companies to foreign clients can be considered as performance-based services as per section 13(3) of the IGST Act?

Source: Circular no. 230/24/2024-GST dated 11-Sep-2024

- Clarification on availability of input tax credit in respect of demo vehicles.

The demo vehicles are the vehicles which the authorised dealers for sale of motor vehicles are required to maintain at their sales outlet as per dealership norms and are used for providing trial run and for demonstrating features of the vehicle to the potential buyers. Normally the ITC for demo cars are blocked under clause(a) of section 17(5) of Central Goods & Services Tax Act, 2017. Circular No. 231/25/2024-GST dated 11-Sep-2024 clarifies that in what all situations the ITC is available in the case of demo cars.

Source: Circular no. 231/25/2024-GST dated 11-Sep-2024

- Clarification on place of supply of data hosting services provided by service providers located in India to cloud computing service providers located outside India.

The circular provides the answers for the questions like

- (i) Whether data hosting service provider qualifies as 'Intermediary' between the cloud computing service provider and their end customers/users/subscribers as per Section 2(13) of the Integrated Goods and Services Tax Act, 2017 (herein after referred to as the "IGST Act") and whether the services provided by data hosting service provider to cloud computing service providers are covered as intermediary services and whether the place of supply of the same is to be determined as per section 13(8)(b) of IGST Act.

- (ii) Whether the data hosting services are provided in relation to goods "made available" by recipient of services to service provider for supply of such services and whether the place of supply of the same is to be determined as per section 13(3)(a) of the IGST Act.
- (iii) Whether the data hosting services are provided directly in relation to "immovable property" and whether the place of supply of the same is to be determined as per section 13(4) of the IGST Act.

Source: Circular no. 232/26/2024-GST dated 11-Sep-2024

- Clarification regarding regularization of refund of IGST availed in contravention of rule 96(10) of CGST Rules, 2017, in cases where the exporters had imported certain inputs without payment of integrated taxes and compensation cess. The circular clarifies that if the inputs were initially imported without payment of integrated tax and compensation cess by availing benefits under Notification No. 78/2017-Customs dated 13.10.2017 or Notification No. 79/2017-Customs dated 13.10.2017, but subsequently, IGST and compensation cess on such imported inputs are paid at a later date, along with interest, and the Bill of Entry in respect of the import of the said inputs is got reassessed through the jurisdictional Customs authorities to this effect, then the IGST, paid on exports of goods, refunded to the said exporter shall not be considered to be in contravention of provisions of sub-rule (10) of rule 96 of CGST Rules.

Source: Circular no. 233/27/2024-GST dated 11-Sep-2024

Guidelines.

- Guidelines for Second Special All-India Drive against fake registrations-regarding.

The second Special All-India Drive may be launched by all Central and State Tax administrations from 16th August 2024 to 15th October 2024 to detect suspicious/ fake GSTINs and to conduct requisite verification and further remedial action to weed out these fake billers from the GST eco-system and to safeguard Government revenue.

Identification of fraudulent GSTINs:

GSTN, in coordination with Directorate General of Analytics and Risk Management (DGARM), CBIC, will identify suspicious/ high-risk GSTINs, based on detailed data analytics and risk parameters, for the purpose of verification by the State and Central Tax authorities during the said drive and share the details of such suspicious GSTINs, jurisdiction wise, with the concerned tax administration. In case of such suspicious GSTINs falling under the jurisdiction of Central Tax, the details will be shared with the Central Tax authorities by GSTN through DGARM. Besides, the State and Central Tax Authorities, may, at their own option, supplement this list by data analysis/ intelligence gathering at their end, using various available analytical tools like BIFA/ GAIN, ADAIT, NIC Prime, E-Way Bill Analytics etc., as well as through human intelligence, modus

operandi alerts, experience gained through the past detections, as well as the first special All-India drive.

The guideline also prescribe in detail the measures to be adopted when the fraud is detected.

Source: Instruction No. 02/2024-GST dated 12-Aug-2024

Applying para 2(g) of Instruction No. 01/2023-24-GST (Inv.) dt. 30-3-2024 in Audit.

Certain guidelines are issued for maintaining ease of doing business while engaging in investigations with regular taxpayers.

Source: Instruction No. 03/2024-GST dated 14-Aug-2024

Sources:

- <https://www.cbic.gov.in/entities/gst>
- <https://www.taxmanagementindia.com/>
- <https://taxinformation.cbic.gov.in/content-page/explore-notification>
- <https://pib.gov.in/indexd.aspx>
- <https://gstcouncil.gov.in/sites/default/files/Newsletter-dynamic/newsletter%20january%202024.pdf>



(Dr Vidya V Devan is Assistant Professor, GIFT)

New studies on Kerala

Young Scholars' Forum, GIFT

Led by Greeshma K S, Anand Babu A and Rhwithwik M S

Economics

Scopus Indexed

T., T., Gangopadhyay, K. and Mondal, D. (2024). Structural transformation of the Indian states: heterogeneity among them in a ten-sector economy. *Indian Growth and Development Review*, 17(2), 232-259.

This paper aims to analyse the pattern of structural transformation and productivity growth of 15 major Indian states at a ten-sector level of disaggregation from 1983 to 2017. The analysis has been carried over in a ten-sector disaggregated level through construction of the labour and output data from various micro data sets. The majority of Indian states have bypassed the stage of industrialization, wherein labour previously engaged in agriculture has transitioned directly into the modern services sector while skipping the manufacturing. There are no sign of convergence of sectoral productivities and the heterogeneity among Indian states persists throughout the time period. The growth performance of states are not positively associated with the movement of labour across sectors as measured by the structural transformation index (STI). This goes against the narrative that structural transformation help reduce the misallocation of factors. Despite an increase in educational

attainment of workers across all sectors, more than one-third of agricultural workers still remain either illiterate or lack formal schooling. Among sectors, construction (C) and trade, hotels and restaurants (THR) have absorbed the majority of workers who have left agricultural jobs. Finance, insurance, real estate and business services (FIRB), electricity, gas and water supply (EGWS) and mining and quarrying (MQ) are the three sectors that have seen significant gains in labour productivity during the study period. To the best of the authors' knowledge, this is the first attempt to analyse structural change and productivity growth in the Indian economy using Indian states as critical geographical marker. The results are new and add value to the literature.

Other Journals

KK, V.R. Service sector led growth trajectory of Kerala economy. *Kerala Economy*, 5(2), 13-27.

Kerala stands out in this context with the growth pattern of service sector oriented one as against primary sector led development process followed by secondary sector. The contribution of primary sector to state domestic product has been declining overtime and the place has been taken over by the service sector followed by the secondary sector. This paved the way for a growth trajectory validating

the hypothesis that the economy has undergone structural change. The growth of each sector at constant prices has been analysed for the period 1960-61 to 2020-21. The whole development process of the economy, the extent and change in direction is measured in terms of each sector's contribution towards Net State Domestic product which is otherwise known as 'state income'. It is inferred from the analysis that the pattern of growth and performance of the service sector in Kerala has set a magnificent mark and will also continue to be the highest contributing sector in the years to come

Rajan, S. I., & Pattath, B. (2024). COVID-19 Led Return to Kerala: A Comparative Analysis of Return Emigrants. *The Indian Journal of Labour Economics*, 67(2), 389-405.

This article concerns emigrants who returned to Kerala between May and December 2020 in the midst of the COVID-19 pandemic. We study and document the experiences of 1985 return emigrants (REM) through a quantitative survey conducted via Computer-Assisted Telephonic Interviews. The study utilises a comparative classificatory framework that categorises return emigrants into three groups: normal REM, distressed REM, and REM who returned to re-emigrate. While the REM have been a demographically, politically, and economically significant component of Kerala's population, the COVID-19 REM represent a unique case in history that has the potential to not only affect the economy, society, and psyche of Kerala for many years to come, but to also provide valuable insights into the future of global labor migration governance.

Sociology and human development

Other Journals

Devan, V. V., & Kumar, S. S. Allocation for

women-centred policies in Kerala budget 2024-2025-an analysis. *International Journal of Creative Research Thoughts*, 12(6), C960- C967.

Kerala's developmental approach is unique in India since it places equal emphasis on social justice and economic progress. Significant advancements in health, life expectancy, literacy, and women's status have been made possible by this focus on social variables. Kerala is a fascinating scenario with strong social indicators for women's health and education. Despite these advancements, the Kerala model presents a complex picture for women. While social indicators are high, economic opportunities for women remain limited. Labour force participation for women is lower compared to the national average, and they are often concentrated in informal or low-paying jobs. Furthermore, despite high literacy rates, translating education into leadership positions in government or industry remains a challenge. The paper analyses to what extent the Kerala budget 2024-25 addresses the needs and aspirations of women and how effective are its allocations in promoting women empowerment. The research article is a doctrinal work with a vivid study of the Kerala budget 2024-25 along with various research articles related to women empowerment.

Jacob, E. M., & Goveas, A. A. (2024). Diaspora of Social Exclusion: Exploring Transgender Realities in the Context of Kerala. *Journal of Social Work Education and Practice*, 9(3).

Inclusion, exclusion, discrimination and oppression of vulnerable communities and target groups have been in the discourses for decades. Social exclusion is a multi-dimensional concept that comprises

Economic, Structural, and Societal Exclusion (G. Jehoel-Gijsbers & Vrooman, 2007). Most of the studies recognize that Transgender Communities are under social exclusion. Lack of family and community support in the name of gender identity maneuvered them into social marginalization and isolation (Ayyavoo, 2022). The amendments to the Transgender Persons (Protection of Rights) Act of India enacted in 2019 address non-binary persons' constitutional rights, recognition of their gender identity, and non-discrimination laws across institutional spaces. However, the community faces exclusion that intersects with social and economic wellbeing domains. Sporadic efforts to mainstream have not yet converged to achieve a realistic goal. The inclusion of these minority groups and reduction in inequalities, envisaged in the country's Sustainable Development Goals (SDGs), proffers the importance of understanding and describing the phenomenon of social exclusion as perceived by them subjectively. The current study is a qualitative examination of the social exclusion phenomenon experienced by the transgender community in Kerala. The study explored Social Exclusion from three dimensions - resource insecurity, structural exclusion and lack of social integration. The study utilized a case study method to illustrate a picture of exclusion experienced by transgender people. The descriptions of the themes advocate for transformative paradigms in knowledge and practice.

Environment

Scopus Indexed

Meharroof, M., Yadav, V.K., Sharma, A., Anitha, V., Paul, T. T., & Paul, L. (2024). Economic

valuation of cultural ecosystem services: A case of tropical reservoir ecosystem. *Journal of Environmental Biology*, 45(5).

This study analyzes the economic value of ecotourism in the Peechi reservoir of Kerala, focusing on cultural ecosystem services (CES) provided by the reservoir. Methodology: Consumer surplus of visitors visiting the reservoir was estimated using travel cost methodology, employing both primary and secondary data collection methods. Results: Peechi reservoir attracts an average of 165,061 visitors annually, generating revenue of ₹29,03,631.88 and ₹3,35,434.38 as entry and parking fees, respectively. Applying travel cost methodology, the total economic value of ecotourism at Peechi was estimated at ₹32,39,066.25 per year. The estimated potential economic value of the Peechi reservoir was ₹120,309,765 with a consumer surplus of ₹757.58. Interpretation: The CES offered by the reservoir ecosystem have not received enough attention. Recognizing the intrinsic value of these under appreciated services can serve as a powerful catalyst for their conservation, fostering a cycle of awareness, informed decision making, and responsible tourism, ultimately paving the path towards sustainable development. Key words: Cultural ecosystem services, Ecotourism, Monetary valuation, Reservoir, Travel cost method

History and culture

Scopus Indexed

Lijo Lal, W., & Jayakumar, M. S. (2024). Enculturation and ethnic identity: the second-generation Malayalee diaspora in Ontario, Canada. *South Asian Diaspora*, 1-15.

Malayalee immigrants from Kerala, a southern

state of India, constitute an ethnic diaspora community in Ontario, Canada. Though Malayalee diaspora is smaller, compared to other diasporas in Ontario, including various Indian ethnic diasporas, it is the fastest growing one. The second generation in the Malayalee diaspora is more prone to the host culture by means of acculturation and education. To preserve their own ethnic culture, the Malayalee diasporic communities enculturate their children in multiple ways. The present article explores the process of enculturation of the second-generation Malayalee diaspora happening through family, religion, ethnic organisations, and ethnic clusters. Family is instrumental in the enculturation process for maintaining the ethnic identity of the second-generation Malayalee diaspora by preserving ethnic food, dress, language, values, and other cultural traits. Ethnic associations, ethnic clusters, and religion also make significant efforts to encourage them to maintain ethnic Malayalee identity.

Other Journals

KM, V. (2024). Memorable cultural experience at Chempai music festival Guruvayur Kerala: Scale development. *ShodhKosh: Journal of Visual and Performing Arts*, 5(1), 1161-1177.

WTTO has identified tourism as one of the major economic activities of the 21st Century. Experiences of the visitors at different purpose levels often result in multiple outcomes including revisit intention, word of mouth and so on. Memorable Cultural Experience shall dwell a new path to understand the emotional connections of the visitors with cultural events. The present study undertakes a scale development and validation of the same at the famous Chempai Music Festival held at Guruvayur Temple, Thrissur, Kerala. A

sample of 530 visitors were made part of the study, and data collected were analysed using EFA, CFA and validity measures. Visitor's perceived authenticity, novelty, emotional connections, cultural learning and values contributes to the total experience. Thus, this research endeavors to provide insights into the intricate interplay between cultural heritage, emotional engagement, and tourism dynamics, thereby enriching our understanding of visitor experiences and informing strategic initiatives for sustainable tourism development.

Chakrabarti, A., Dube, A., & Venkatraman, S. (2024). God's wealth, legal frames, and the question of material and immaterial heritage: the case of Sree Padmanabhaswamy temple in Kerala, India. *Cultural Studies*, 38(5), 794-814.

Analyzing the battle over Sree Padmanabhaswamy temple's enormous treasure, the paper documents the litigious journey of the concept of sacred possession and heritage. It shows how the evolving and complex logic of secular governance in India provides the legal categories that animate this contestation over the deity's wealth. While the enormous treasure trove housed in the six chambers of the temple's basement 'belongs' to the idol (murthi) Lord Sree Padmanabhaswamy, the royal family of Travancore has held the right for over the last two hundred and seventy years to control the wealth as the Lord's servants (dasa). Though the dispute over what is arguably the world's largest temple gold and valuables collection began in 2007, it gained widespread media attention in 2009 when a public interest litigation (PIL) was filed. Since then, the royal family, temple management, and other stakeholders have been embroiled in the

struggle for possession and control of the temple's wealth. The paper explores how legal frames of Anglo-Hindu law in their postcolonial avatars, material patrimony (gold and land), and notions of immaterial heritage (shebaitship) animated and framed this contestation. To this end, the paper maps the legal trajectory of the dispute and the public debates over the ownership and control of the astounding wealth of Sree Padmanabhaswamy temple. Further, it decodes the legal reasoning behind the courts' arguments and delves into ontological questions surrounding religious freedom and secularity. The discussion illustrates how notions of immaterial heritage anchored in ideas of kingship as well as kinship emerged as clinching evidence in the management and access to this sacred wealth. Finally, the analyses offer insights into the governance of sacred materiality through religio-legal categories in a postcolonial nation-state.

Agriculture and Rural Economy

Scopus Indexed

Preenanka, R., & Safeena, M. P. (2024). In vitro lytic potential of Streptococcus bacteriophage against multidrug resistant Streptococcus agalactiae. *Biologia*, 79(8), 2581-2590.

Streptococcus agalactiae stands out as a significant bacterial pathogen, causing substantial economic losses in the aquaculture sector. Given the challenges posed by multidrug resistance, this study explores the potential of phage therapy as an alternative to antibiotics in biocontrol strategies. The focus is on evaluating the multidrug resistance profile of *S. agalactiae* isolated from a tilapia aquaculture farm, with particular attention to the strain KSA/01, which exhibits resistance

to seven structurally different classes of antibiotics and a notable MAR index of around 0.6. In response to this challenge, the study successfully identifies and isolates the specific and lytic phage SAP-13 targeting the multidrug-resistant strain KSA/01. Transmission electron microscopy reveals that SAP-13 shares morphological characteristics with the Siphoviridae family. In a one-step growth curve, the phage demonstrates a substantial burst size of approximately 610 PFU/cell over a short burst period and the phage exhibited stability across various physicochemical parameters such as temperature, pH, and salinity. In vitro lytic ability of SAP-13 at different multiplicity of infection underscores its potential to effectively eliminate *S. agalactiae*, particularly at an MOI of 0.01. Consequently, these findings suggest that phage SAP-13 exhibits high infectivity against *S. agalactiae*, presenting a promising avenue for addressing multidrug-resistant strains in aquaculture.

Other Journals

Vikas, P. A., & Subramannian, S. (2024). Seed production of pearlspot (*Eetroplus suratensis*) The State Fish of Kerala. *Indian Farming*, 74(3), 71-73.

Pearlspot (*Eetroplus suratensis*), known as Karimeen, holds cultural and culinary significance in Kerala and is designated the 'State Fish of Kerala'. With an annual demand of 10,000 MT for 'Kerala Karimeen' far exceeding the production of 2,000 MT, there is a growing interest in pearlspot culture. However, limited availability of seeds, with an annual requirement of 40 million, poses a critical challenge. Addressing the low fecundity and unique reproductive behaviours of

pearlspot, this article introduces an innovative seed production approach in pond systems. The article emphasizes pond preparation for optimal conditions, brood fish management, facilitating breeding environments, breeding behaviours etc. are explored. Parental care, predator control, economic and marketing aspects are also discussed. The innovative pond system approach emerges as a promising solution for making quality seeds available for pearlspot aquaculture.

Nihal, D., Aneesh Kumar, K. V., Saha, P., Rajeeskumar, M. P., & Manjebrayakath, H. (2024). Length-Weight Relationships of Eight Fish Species Collected as Bycatch from Deep-Sea Shrimp Trawls Operated in the Arabian Sea. *Thalassas. International Journal of Marine Sciences*, 1-6.

This study establishes length-weight relationships (LWRs) for eight demersal fish species (*Dactyloptena orientalis*, *D. papilio*, *Minous dempsterae*, *M. trachycephalus*, *Pterygotrigla macrorhynchus*, *Rogadius asper*, *Lythrichthys longimanus*, *Sorsogona tuberculata*) for the first time. We collected fish specimens caught as trawl bycatch at depths of 200-420 m from Sakthikulangara fishing harbour, Kerala, India, between September 2021 and December 2022. Deep-sea shrimp trawl nets used had a mesh size ranging from 30 to 50 mm in the net body and 18-26 mm at the cod-end. Estimated b values ranged from 2.19 (*Minous trachycephalus*) to 3.55 (*Pterygotrigla macrorhynchus*). Most species deviated from the isometric growth value ($b=3$), except for *Dactyloptena orientalis*. High coefficients of determination (r^2) were obtained for the LWRs (0.94-0.97), indicating strong relationships. These LWR estimates are valuable for updating the FishBase database and understanding resource

characteristics of poorly studied deep-sea demersal fishery resources in the Indian Exclusive Economic Zone (EEZ).

Banking

Scopus Indexed

Pandey, A., & Murugesan, R. (2024). A universal financial inclusion index covering banking, insurance and pension services in India. *International Journal of Economics and Business Research*, 28(1), 28-43.

To create a universal social security system for all Indians, especially the poor and the under-privileged, three social security schemes namely, Pradhan Mantri Suraksha Bima Yojana, Pradhan Mantri Jeevan Jyoti Yojana, and Atal Pension Yojana were initiated by the Government of India in 2015. In the paper, a new universal financial inclusion index (FIU) covering banking, insurance, and pension parameters in India are developed. Given that all parameters used in financial inclusion index have separate units, all parameters are normalised using the min-max method of normalisation. The Euclidean distance method is used to assess the distance between any two points in an n -dimensional space. FIU is compared to the financial inclusion index covering banking parameters only. The FIU is a multi-dimensional index that captures values of various banking, insurance, and pension dimensions on the scale of 0 to 1, where 0 indicates complete financial exclusion and 1 indicates complete financial inclusion.

Education and Health

Scopus Indexed

Rosario, J., & Shanmugam, K. R. (2024). Elementary education outcome efficiency of

Indian state governments: a generalized stochastic frontier approach. *Journal of Economic Studies*.

This paper aims to analyze the technical efficiency of Indian State governments in providing elementary education (EE) and to identify the determinants of their technical inefficiency. The Generalized Stochastic Frontier Approach (GSFA) is used in the context of the Inefficiency Effects Model to simultaneously estimate the frontier production function and the technical inefficiency model. Panel data of 28 Indian States from 2009-10 to 2018-19 is used. The mean efficiency of States stands at 86%. Efficiency varied between 67 and 97%. 96% of the inter-state disparity in EE outcomes can be explained by inefficiency. Arunachal Pradesh is the least efficient State, followed by Sikkim and Tripura. Efficiency estimates were observed to change across States over the study period. Proportion of government schools, rural population, and proportion of Schedule Caste and Schedule Tribe children are the major determinants of inefficiency. This study emphasizes that efficient resource management is as important as adequate resource allocation for achieving positive EE outcomes. It distinguishes resource-poor States from inefficient ones, providing insights to enhance States' efficiency, and aiding policymakers in formulating strategies for ensuring equitable and quality EE. This is the first paper to apply GSFA (for Indian

States), providing a more robust estimation of efficiency. The Inefficiency Effects Model is employed that address the limitations inherent in the two-stage approach.

Other Journals

Indhu, T. R. (2024). Resource allocation in education schemes for marginalized communities: A comparative analysis based on centrally sponsored schemes. *Kerala Economy*, 5(2), 114-123.

The Scheduled Castes (SCs) are among the most socially and educationally disadvantaged groups in India. Scheduled Castes have different histories of social and economic deprivation, and the underlying causes of their educational marginalisation are also strikingly distinct. However, comparing educational outcomes among Scheduled Castes yields a common picture the government has sought to address through a common set of policy prescriptions. This paper examines, how the allocation from the Centrally Sponsored Scheme (CSS) for scheduled caste communities, particularly for pre-matric and post-matric scholarships, helps in reducing dropout rates and increasing the Gross Enrolment Ratio. How far does this scheme help the marginalised communities to develop their education and thereby increase their standard of living?

What is new(s) from GIFT

A. Seminars/Webinars

GIFT organised a Round Table Series on GST @ Seven: Lessons Learnt and Future Directions on 01st July 2024.

The round table discussion was chaired by Shri K M Chandrasekhar, Former Cabinet Secretary, Govt. of India and the Keynote was delivered by Dr Vijay Kelkar, Chairman, XIII Finance Commission. Mr Rahul Renavikar, MD ,Acuris Advisors Pvt Ltd India, Prof Sebastian Morris, Senior Professor, Goa Institute of Management, Shri Raghuchandran Nair, President, Trivandrum Chamber of Commerce and Industry, Shri Abraham Renn IRS, Special Commissioner Kerala GST and Dr Sattwik Santra Project Co-ordinator, CTRPFP, CSS Kolkata include the panelists. Prof. K J Joseph , Director, GIFT welcomed the participants.

Seminar on Horizontal Devolution: The Tyranny of Income Distance on 08th July 2024

Prof D Narayana, Honorary Fellow GIFT presented the paper. Prof C Veeramani, Director, Centre of Development Studies chaired the session and discussed the paper. Prof. K J Joseph, Director, GIFT welcomed the participants.

Abstract: A sound system of inter-governmental fiscal transfers constitutes the cornerstone of a strong and stable federal polity. Vertical transfers address the inadequacy of subnational governments to meet their expenditure responsibilities and horizontal transfers seek to alleviate horizontal imbalances, the disparities in the revenue capacities of the constituent units of the federation in order that all of them may be in a position to provide basic public services to their citizens at a reasonable level. In recent decades the devolution formula has largely tilted to the fiscal capacity side. Even when the XIV Finance Commission reduced the weight of fiscal capacity it continues to be 50 per cent. Unlike the indicators used to measure the fiscal needs (population) and cost disabilities (area) in the horizontal devolution formula, the indicator of fiscal capacity, namely income is an estimate based on millions of data points. As an estimate it is built on many conventions and hence suffers from many infirmities raising serious concerns regarding the fair distribution of resources to the States. Firstly, GSDP is subject to periodic base change which on its own can change the relative positions of states in terms of per capita GSDP. Secondly, the

method of computation of the distance could be a major problem. The shares of some states could be very sensitive to whether its distance is computed from the top state or an average of two top states or three top states. Thirdly, whether the absolute distance is taken or a transformation of the income or the distance is taken would affect the shares of States. Lastly, there is the issue of how good a proxy income is for fiscal capacity in a consumption tax regime. We wish to discuss these issues to throw light on the havoc the formula has played in the award of the last commission. At the current juncture, when population numbers twenty years old have to be used, migration has become very large and per capita incomes are clustering around two or three points far removed from each other, these infirmities are threatening the stability of the federal polity.

GIFT in collaboration with International Institute of Migration and Development organised Seminar on India China Growth Story since Trade Liberalisation in the 1980s on 26th July 2024

Prof Varghese A Manaloor, John P Tandberg Chair in Economics, University of Alberta, Canada presented the paper. Prof C Irudaya S Rajan, Chairperson, International Institute of Migration and Development, Trivandrum chaired the session and discussed the paper. Prof. K J Joseph, Director, GIFT welcomed the participants.

Abstract: India and China's economic growth since trade liberalisation in the 1980s has been remarkable. Starting with very similar real per capita income in the

early 1980s both countries have benefited from FDIs resulting in rapid industrial growth and are ranked 1 and 2 fastest growing economies in the world. There are similarities yet differences in the pattern and pace of economic growth as well as policy initiatives and institutional structures to encourage exports and attract FDIs. This presentation will provide a comparative analysis of the features and trends of the two countries and the correlation between trade openness, foreign direct investment and economic growth.

GIFT, Kerala Economic Association, Thiruvananthapuram chapter and Departments of Economics, Department of Political Science and Department of Commerce of Kerala University jointly organised a Daylong Seminar on Economic Survey 2023-2024 and Union Budget 2024-25 on 09th August 2024.

Hon'ble Kerala Finance minister Shri K. N. Balagopal inaugurated the seminar. Prof M A Oommen, Distinguished Professor of GIFT chaired the inaugural session. Keynote address was delivered by Dr Pronab Sen, Country Director, IGC & Formerly Chief Statistician Government of India, Shri G Vijayaraghavan, former member of Planning Board and Dr C. Veeramani, Director, Centre for Development Studies made a special address in the session. Professor K.J Joseph, Director, GIFT delivered the introductory remarks and Dr Kiran Kumar Kakarlapudi, Assistant Professor, GIFT proposed vote of thanks.

Two sessions on Macro Economy,

Sectoral Performance & the Budget and Issues Beyond the GDP Growth & the Budget were organised as part of seminar. Students and faculty of the Department of Economics, Commerce and Political Science Kerala University and GIFT presented papers on the budget in the seminar.

In the concluding Round Table Chaired by Dr Ravi Raman, Member State Planning Board, Shri C. P. John, former planning board member, Professor Alwin Prakash, Chairman, Fifth State Finance Commission, Shri R Mohan, IRS, Honorary Fellow, GIFT, Professor Lekha Chakraborty, NIPFP and Shri Adikesavan, former Chief General Manager, SBI and Dr A. V Jose, former Director GIFT shared their views on the budget and Economic Survey.

GIFT organised jointly with Kerala Shastra Sahitya Parishat and Kerala Economic Association, Trivandrum Chapter the release of a book, which is a collection of articles by Professor M A Oommen, Distinguished Fellow, GIFT on 21st August 2024.

The book was released by Dr Shashi Tharoor, Member of Parliament received by Dr J Devika, Professor, Centre for Development Studies, Thiruvananthapuram. The book release function was presided over by Prof K P Kannan, former Director, Centre for Development Studies, Thiruvananthapuram. The book was introduced by Dr K Ravi Raman, Member, Kerala State Planning Board. The function was felicitated by Prof. K N Harilal, President, Kerala Economic Association, and Shri B Ramesh, Former President, Kerala Shastra Sahitya Parishat.

GIFT organised a seminar on Kerala Fiscal Strain: Exploring Political Economy Dynamics on 30th August 2024.

Dr Shamna Thacha Paramban, Assistant Professor, GIFT presented the paper. Dr Renjith P S Assistant Professor, GIFT chaired the session and discussed the paper. Prof. K J Joseph welcomed the participants.

Abstract: All the studies on the state finances of Kerala unanimously stress the fact that the reason for the fiscal imbalance is the growing revenue expenditure and the inadequacy of government to mobilise revenue. Why does the state continue fiscal imbalance throughout the years? Why the altering government does not take fiscally prudent measures? Literature has documented a plethora of studies on the political/electoral determinants of fiscal policy. The study is confined to investigate and analyse such a relation in the Kerala context. ie, whether the state government's fiscal policy choices are tempered by electoral/ partisan considerations? So, this study is drawn from the conjecture that an analysis of the state finances of Kerala may provide an alternative justification to the empirical observation due to its peculiar pattern. Using a wider range of budgetary data with other economic and demographic data over thirty-four fiscal years since 1981, the research finds ideological differences to some extent but enduring effects of cyclical and institutional factors on fiscal policy variables in the special context of Kerala, which is entirely distinctive from preceding evidence.

Seminar Co ordinators

Dr Kiran Kumar Kakarlapudi and Dr Geetha Rani V

B. Teaching and Training programmes**1. Post Graduate Diploma in GST (PGDGST)****PGDGST 2023-24: Batch**

The result of the 2023-24 batch was published on 10th July 2024. Out of 124 candidates who appeared for the exam 102 passed. In the rankings, Sreeji Vijayan secured the first position, followed by Archana C. Pillai in second place and Jyothi Prakash in third place. 14 candidates secured distinction and 67 candidates passed with First class. Convocation of 2023-24 batch was conducted at GIFT Campus on 26th September 2024. Director Prof. K.J Joseph awarded the Rank certificates. Course Co-ordinator Dr. N Ramalingam and senior faculty members Smt. Anitha Kumary L, Dr. Thomas Joseph and Smt. Jenny Thekkeraka distributed the certificates to the candidates

PGDGST 2024-25: Batch

Classes of the 2024-25 batch commenced with the inaugural function adorned by Mr. Abraham Ren. S IRS, Special Commissioner, Kerala GST Department on 27th July 2024. Prof. K. J Joseph, Director of GIFT presided over the function. By September 19 sessions (57 hrs) have been completed.

Course Co-ordinators: Dr Vidya V Devan and Dr Akhil M P

For more details: <https://www.gift.res.in/index.php/course/detail/14/PGD-GST>

2. PhD programme

The activities of the Ph.D programme during July to September, 2024 are listed below. Following the completion of foundation course, the core courses such as Public Finance, Economy and Development (PED) and Taxation, Finance and Economy were started in January 2024 for the fifth batch of the Ph. D Scholars. The course work for economics and commerce disciplines has been completed. The bi-annual work progress seminar presentations for the first three batches were held during July-August 2024. A Ph.D Committee meeting was held on 22-08-2024 to review the Ph.D activities of all batches. Ms. Suha A.M, first batch Ph.D scholar has submitted her Ph.D thesis 'Fiscal Federal Relations in India: Lumpsum Transfer, Fiscal Space, and Sub-national Growth' on 30-09-2024.

The invited lectures organised as part of the Ph. D programme for this period include Women workers in Rural India and Public Expenditure on Agriculture and the Food Subsidy by Prof. Madhura Swaminathan on 17/07/2024 and 25/07/2024, Fundamentals of Public Finance by Prof. Lekha Chakraborty on 16/08/2024, Measuring Employment and Unemployment in India by Prof. A. V Jose on 11/09/2024 and 13/09/2024, Public Finance for Economic Development: Issues for Research in the Context of Kerala's experience by Prof. K.P Kannan on 18/09/2024 and 20/09/2024, Kerala's Development Experience and the State

Government by Prof. K.N Harilal on 23/09/2024 and 24/09/2024, Empirics of Sustainable Growth in Kerala by Prof. K. Pushpangadan on 28/09/2024 and 29/09/2024, Kerala, 1956 to the Present: India's Miracle State by Prof. K. Raviraman on 10/10/2024 and 14/10/2024.

Publications by Research Scholars

Munawwara Zubair, Ph.D scholar at GIFT, published a paper titled 'Impact of crude oil price on Indian stock market returns: A quantile regression approach' in ECONOMIC ANNALS, Volume LXIX, No. 242 / July - September 2024 UDC: 3.33 ISSN: 0013-3264, <https://doi.org/10.2298/EKA2442093M>.

Paper presentations by Research Scholars

Athira Karunakaran, Ph.D Scholar at GIFT (co-authored with Dr. Kiran Kumar Karkalapudi & Dr. Md Zakaria Siddiqui) presented a paper titled "Do Federal Transfers Stimulate Regional Economic Growth? Evidence from India" in the 80th Annual Congress of International Institute of Public Finance (IIPF) at the University of Economics and Business, Prague, Czech Republic from August 21st to 23rd, 2024.

Anuraj P.K & Shijo Thomas, Ph.D Scholars at GIFT presented a paper on 'Infrastructure: Lifting Potential Growth' in the Seminar on Economic Survey (2023-24) and Union Budget (2024-25), organized by the Gulati Institute of Finance and Taxation (GIFT), Kerala Economic Association and the University of Kerala on 09/08/2024.

Gopikalakshmi G & Rhwithwik, Ph.D Scholars at GIFT presented a paper on 'Employment and unemployment in India: A conundrum' in the Seminar on Economic Survey (2023-24) and Union Budget (2024-25), organized by the Gulati Institute of Finance and Taxation (GIFT), Kerala Economic Association and the University of Kerala on 09/08/2024.

Anjalikrishna & Amalu Seby, Ph.D scholars at GIFT presented a paper on 'India's external sector and its major challenges' in the Seminar on Economic Survey (2023-24) and Union Budget (2024-25), organized by the Gulati Institute of Finance and Taxation (GIFT), Kerala Economic Association and the University of Kerala on 09/08/2024.

Joyal P Joseph, Ph.D scholar at GIFT presented a paper on 'Monetary Management and Financial Intermediation' in the Seminar on Economic Survey (2023-24) and Union Budget (2024-25), organized by the Gulati Institute of Finance and Taxation (GIFT), Kerala Economic Association, and the University of Kerala on 09/08/2024.

Munawwara Zubair & Rju Mohan A, Ph.D scholars at GIFT presented a paper on 'Climate Action in India: Mission LiFE' in the Seminar on Economic Survey (2023-24) and Union Budget (2024-25), organized by the Gulati Institute of Finance and Taxation (GIFT), Kerala Economic Association and the University of Kerala on 09/08/2024.

Meghna Jayasankar & Surya K, Ph.D scholars at GIFT presented a paper on

'Agriculture and food Management' in the Seminar on Economic Survey (2023-24) and Union Budget (2024-25), organized by the Gulati Institute of Finance and Taxation (GIFT), Kerala Economic Association and the University of Kerala on 09/08/2024.

Arun Paul, Ph.D scholar at GIFT presented a paper on 'Industry: small and medium matters' in the Seminar on Economic Survey (2023-24) and Union Budget (2024-25), organized by the Gulati Institute of Finance and Taxation (GIFT), Kerala Economic Association and the University of Kerala on 09/08/2024.

Surrya K, Jobin George, Gopikalakshmi G & Anjalikrishna, Ph.D scholars at GIFT, attended a 10-day second summer training programme in public finance organised by the Madras School of Economics during 01/07/2024 to 12/07/2024.

Jobin George, Ph.D scholar at GIFT, attended Monsoon School on Inequality 2024 organized by the Centre for Development Studies, Economical, the Institute for New Economic Thinking, and its Young Scholars Initiative, held at the Centre for Development Studies, Kerala during 20/07/2024 to 22/07/2024.

Niveditha P S, Ph.D scholar at GIFT, participated in the IDEAs-UFRJ workshop and conference on "Rethinking International Financial Architecture" held at UFRJ (University of Rio de Janeiro) at Rio de Janeiro, Brazil during 5/9/2024 to 9/9/2024.

Rhwithwik, Ph.D Scholar at GIFT, participated in a workshop on alternative macroeconomic development policies and

practices from global and Indian perspectives organised by Inter-University Centre for Alternative Economics (IUCAE), University of Kerala in collaboration with the Kerala Economic Association (KEA) and Gulati Institute of Finance and Taxation (GIFT) at the University of Kerala during 03/07/2024 to 05/07/2024.

Rhwithwik, Ph.D Scholar at GIFT, delivered a Lecture on 'Energy Economics' at the Department of Electrical Engineering, Institute of Engineering and Technology, University of Calicut on 30/09/2024.

Course Coordinators: Dr Sumalatha and Dr Renjith P S

3. GIFT Internship programme

The GIFT summer internship program received an enthusiastic response this year, with 54 applications from various universities and colleges within Kerala and beyond. Due to the high volume of applications, we organized the interns into two batches to maximize engagement and focus. The first batch, comprising 22 students, began their internship on April 22, 2024, and concluded on May 20, 2024. Each intern was assigned a faculty mentor and worked on analyzing union finance data. Under the mentorship, each intern produced a comprehensive report on their findings and experiences. The second batch commenced on May 20, 2024, and continued through June 30, 2024. This group focused on developing state finance data using the CAG database, enriching their practical understanding of state financial analysis. The program also offered hands-on training with R software,

interactive sessions with GIFT PhD scholars, and insightful book review presentations on Poor Economics by Abhijit Banerjee and Esther Duflo, enhancing both the technical and theoretical knowledge of the interns. This year's internship not only strengthened the interns' analytical skills but also deepened their understanding of public finance.

Internship Coordinators: Dr Kiran Kumar Kakarlapudi and Dr Sumalatha

C. Publications

1. Kerala Tax Reporter (KTR)

June and July 2024 issues of KTR published Online and offline.

<https://www.gift.res.in/ktr>

2. Innovation and Development

A Routledge journal from GIFT, Volume 14, No. 2 (2024) published, Editor in Chief, K J Joseph.

For details, please visit <https://www.tandfonline.com/toc/riad20/current>

3. Weekly update on Finance, Taxation and the Indian Economy

This is an attempt by the Young Scholar' Forum in GIFT, led by Dr. Shency Mathew to update on important developments on Finance, Taxation and the Indian economy. Twelve issues of Weekly updates published during January to March 2024 which are available in GIFT Website. Latest issue: 20-26 September 2024.

For details, please visit <https://www.gift.res.in/index.php/publish/>

publish_list/14/Weekly-Updates-on-Finance

4. Monthly Content Alert from GIFT Library

The GIFT library provides a monthly content alert service, extensively designed to support the research endeavors of our PhD scholars. This attempt provides a selection of recently published journal article titles, abstracts, and links, delivering them directly to the GIFT community each month. The content alert service is more than just a monthly update and the initiative aims to be an indispensable tool for scholars, providing them with timely access to the latest research developments in their fields. It is drawn from a wide array of reputed journals.

Nine issues of the content alert service have been published, covering the period from July to September 2024 (4 issues in a month from the month of August 2024 onwards). The preparation of this content alert is led by Smt Soudhamini GS, Assistant Librarian, GIFT. Latest issue: September Vol. 9. Part 4 , 2024.

D. Faculty Publications

GIFT Discussion Paper

D Narayana

&

Amalu Seby / Gopika G / Anand Babu A / Surya K/| Anuraj P K / Jobin George / Rhwithwik M S/ Anjalikrishna Sudhakaran/ Greeshma KS/ Aadith B Nair

Forest area as an indicator in the horizontal devolution formula of XV Finance Commission: Is it a good proxy? (2024), GIFT Discussion Paper Series No.3/2024

Abstract: Since the XII Finance Commission, awards have been made to the states for conserving forests, a global public good. The measure adopted for allocating funds has been the forest area. Three arguments have been provided by the Finance Commissions for making the award, namely conservation cost, opportunity cost and cost disability. The Finance Commissions have taken forest area (very dense and moderately dense) as a proxy for capturing these costs. Consequently, around one-third of the total award goes to just three states, namely Arunachal Pradesh, Madhya Pradesh and Chhattisgarh. The paper raises the important question of how appropriate is forest area as a proxy for the costs. It is seen that conservation cost or the cost of running a forest department by the state taken as equivalent to the staff strength, or revenue expenditure are poorly related to the forest area. The opportunity cost argument is difficult to justify as the mechanism of compensatory afforestation implemented through the Compensatory Afforestation Management and Planning Authority makes available resources for afforestation. It is seen that area afforested is more than that diverted despite poor utilization of funds allocated. Thirdly, the cost disability arising from the presence of forest area too does not hold as it does

not increase in proportion to the forest area. Thus, the forest area-based award by the Finance Commissions suffers from severe infirmities and calls for a change.

https://www.gift.res.in/wp-content/uploads/2024/10/DP-20-Forest-area-as-an-indicator-in-the-horizontal-devolution-_D-Narayana-27-06-2024-Final.pdf

Nanak Kakwani, Multidimensional poverty: A new thinking on measurement (2024), GIFT Discussion Paper Series No.4/2024

Abstract: Amartya Sen's (1985, 1987, 1999) seminal work on functioning and capabilities has been the most influential in defining poverty in a multidimensional framework. It is now widely accepted that poverty is best seen in terms of capability deprivation that people suffer in many facets of life. In this paper, we make the distinction between poverty and capability deprivation. Poverty must arise when the essential capability failure is caused by inadequate command over resources through markets, public provision, or other non-market channels. The main message coming out of this paper is that by examining capability deprivation alone, we cannot always identify poor persons. All multidimensional poverty indices developed in the literature, including the UNDP's (2020) global multidimensional poverty index, reported for 110 countries, and Alkire and Foster's (2011) counting multidimensional poverty index, adopted by Mexico, Colombia, Philippines, and India, have only focused

on capability deprivation, ignoring the insufficiency of means available to individuals. An assumption is made that all persons who suffer capability deprivation are poor, which does not hold in the real world. Defining poverty from the capability perspective cannot be done independently of income or available resources to individuals. We have argued that the multidimensional poverty indices as developed in the literature do not measure multidimensional poverty. We offer a new method to measure multidimensional poverty, which takes account of the insufficiency of means available to individuals. We have also drawn the policy implications of our proposed approach.

<https://www.gift.res.in/wp-content/uploads/2024/08/DP-21-Multi-dimensional-Poverty-Nanak-Kakwani.pdf>

D Narayana, Horizontal devolution: The tyranny of income distance (2024), GIFT Discussion Paper Series No.5/2024

Abstract: A sound system of inter-governmental fiscal transfers constitutes the cornerstone of a strong and stable federal polity. Vertical transfers address the inadequacy of subnational governments to meet their expenditure responsibilities and horizontal transfers seek to alleviate horizontal imbalances, the disparities in the revenue capacities of the constituent units of the federation in order that all of them may be in a position to provide basic public services to their citizens at a reasonable level. In recent decades the devolution formula has largely tilted to the fiscal capacity side. Even when

the XIV Finance Commission reduced the weight of fiscal capacity it continues to be 50 per cent. Unlike the indicators used to measure the fiscal needs (population) and cost disabilities (area) in the horizontal devolution formula, the indicator of fiscal capacity, namely income is an estimate based on millions of data points. As an estimate it is built on many conventions and hence suffers from many infirmities raising serious concerns regarding the fair distribution of resources to the States.

Firstly, GSDP is subject to periodic base change which on its own can change the relative positions of states in terms of per capita GSDP. Secondly, the method of computation of the distance could be a major problem. The shares of some states could be very sensitive to whether its distance is computed from the top state or an average of two top states or three top states. Thirdly, whether the absolute distance is taken or a transformation of the income or the distance is taken would affect the shares of States. Lastly, there is the issue of how good a proxy income is for fiscal capacity in a consumption tax regime. We wish to discuss these issues to throw light on the havoc the formula has played in the award of the last Commission. At the current juncture, when population numbers twenty years old have to be used, migration has become very large and per capita incomes are clustering around two or three points far removed from each other, these infirmities are threatening the stability of the federal polity.

<https://www.gift.res.in/wp-content/uploads/2024/11/Horizontal-devolution->

The-tyranny-of-Distance.pdf

Anil Kumar U P, Special component plan and the educational status of scheduled castes in Kerala (2024), GIFT Discussion Paper Series No.6/2024

Abstract: This working paper investigates the effectiveness of the Special Component Plan (SCP) in improving the educational status of Scheduled Castes (SC) in Kerala. Utilizing primary data from a household survey conducted by the Gulati Institute of Finance and Taxation (GIFT), the study examines various educational indicators, including enrolment rates at different levels, dropout patterns, and challenges faced by SC communities in availing educational schemes. The analysis identifies issues like financial constraints, lack of awareness about programs, and procedural hurdles hindering access to educational opportunities. Based on the findings, the paper proposes policy suggestions to enhance the effectiveness of the SCP. These include increasing scholarship amounts, streamlining application processes, and implementing targeted awareness campaigns. The research contributes to the ongoing dialogue on educational equity in India by providing empirical evidence on the experiences of SC communities in Kerala.

<https://www.gift.res.in/wp-content/uploads/2024/09/Dr-U-P-Anilkumar.pdf>

Faculty publications

Dr Akhil M P, Assistant Professor, GIFT published a paper titled "Aligning corporate sustainability with shareholder returns: Unveiling the Dividend dynamics

under ESG imperatives" at ICSSR sponsored three day national seminar on "Navigating ESG integration for Climate Resilience & Sustainable Development" organised by Institute of Management in Kerala, University of Kerala, Trivandrum from 21st- 23rd August 2024.

Akhil M P , Contemporary Research and Practices for Promoting Financial Literacy and Sustainability , Chapter title of the Book : A Cross-Country Perspective on Initiatives and Strategies for Sustainable Green Finance in the UK and India, (Co-authored with Dileep Kumar, Lakshmi A. J., Abilash Unny, and Vinod Sharma), DOI: 10.4018/979-8-3693-0863-9.ch007,E-ISBN: 9798369308646, August 2024

Aswathy Rachel Vrugheese, Sumalatha B S & Anitha Kumary L, Faculty at GIFT, published an article titled 'Federal dhanavipachanathile asanthulithavastha' in Mathrubhumi Malayalam daily on 08/07/2024.

Sumalatha B S, Nirmal Roy V P & Anitha Kumary L, Faculty at GIFT, published an article titled 'Budget 2024-25 midhyayum yadarthiyavum: purogamana sameepanamillatha kazhchappadukal' in Mathrubhumi Malayalam daily on 25/07/2024.

Anitha Kumary L, Sumalatha B S & Nirmal Roy V P, Faculty at GIFT, published an article titled 'Budget 2024: Disconnect between promise and performance' in Policy Circle on 31/07/2024.

Paper Presentations

Dr. Vidya V Devan, Assistant Professor, GIFT published a chapter titled AI-Driven

Strategies for Tax Compliance: Unveiling the GST Landscape" in the edited book 'Artificial Intelligence, Law & Ethics' ISBN No. 9788197669804 published by Christ Academy Institute of Law. Publisher Bengaluru MPP House, July 2024

Paper Presentations/Invited Lecture

Dr. Vidya V Devan, Assistant Professor, GIFT presented a paper titled "AI-Driven Strategies for Tax Compliance: Unveiling the GST Landscape" at the International Conference on Artificial Intelligence, Law & Ethics Ad Meliora 5 organized by Christ Academy Institute of Law, Bengaluru, India in Collaboration with Globethics, Geneva on 25th and 26th July 2024.

Dr. Vidya V Devan, Assistant Professor, GIFT delivered a guest lecture on 'Introduction of GST and its Implication on Fiscal Federalism in India' for the PhD Scholars of the Department of Law, Central University of Kerala, Thiruvalla on 3rd September 2024

Smt Anitha Kumary L , Visiting Faculty, GIFT delivered a lecture (online) on 'Goods and Services Tax (GST) in India: Overview, Performance and Issues for the Tax Officers of various states organized by Centre For Training and Research in Public Finance and Policy (CTRPP), Calcutta, on September 6, 2024.

Call for Papers: Kerala Economy Journal

Dear Scholars and Researchers,

We welcome submissions for publication in the Kerala Economy Journal, an esteemed peer-reviewed quarterly publication of the Gulati Institute of Finance and Taxation (GIFT).

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Kerala Economy has been a beacon of knowledge, enlightening readers with its monthly publication since its inception in September 2020. As a testament to our commitment to accessibility, we present not only the English edition but also a meticulously translated Malayalam counterpart, ensuring that our invaluable insights reach audiences far and wide. In a world of constant evolution, we adapt and evolve. From 2022 onwards, Kerala Economy has blossomed into a quarterly journal, offering deeper analyses, fresher perspectives, and richer content.

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- Every article should carry a short abstract between 150-250 words, summarising and foregrounding the significance of the article.
- The article length shall not be more than 4000 words(excluding references).
- The manuscript shall be anonymous in nature
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- Images/Tables shall be continuously numbered and appropriately placed in the manuscript
- For initial submissions, there are no formatting requirements. However, the authors are expected to follow a uniform formatting criteria. After acceptance, the authors shall format the article as per journal requirements.
- Spelling, dates, references and footnote numbers should be checked for accuracy.
- All the works of others used for the preparation of the article should be cited appropriately
- Referencing should be done in APA format

Articles submitted for publication will be subjected to anonymous peer-review and the authors are expected to revise/respond to the comments offered by the peer-reviewer(s) in the final submission.

After Acceptance

After accepted, the authors shall format the article as per the journal requirements and submit it to the journal. Proofs of the articles in PDF format would be sent to the author who is expected to return them to the Handling Editor within a week. Substantive alterations or additions cannot be made at this stage and hence, authors should ensure that their final submissions must be thoroughly checked for accuracy.

Journal Information

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Articles shall be submitted to keralaeconomy@gift.res.in

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Gulati Institute of Finance and Taxation (GIFT), Thiruvananthapuram, Kerala, India formerly Centre for Taxation Studies (CTS), is an autonomous institute of the Government of Kerala recognized by the Indian Council of Social Science Research (ICSSR). It is conceived as a premier national institute to promote theoretically grounded empirical research with an interdisciplinary perspective to aid policy-making at the national and sub-national levels. The uniqueness of the Institute is its faculty having a background in Commerce, Economics, and Law. GIFT offers a Ph.D. program in Social Sciences focussing on Public Economics, affiliated with Cochin University of Science and Technology (CUSAT). GIFT conducts two other programs; Post Graduate Diploma in Goods and Service Tax (PGDGST) and the Research Capacity Building Program (RCBP) besides offering training for capacity building of different stakeholders including Government officials. GIFT brings out three publications; *Kerala Economy* (Quarterly) *Kerala Tax Reporter* (Monthly) and *Weekly Updates on Finance, Taxation and the Indian Economy*.

The Governing Body and Executive Committee of GIFT consist of Scholars of Eminence and Senior Administrators representing both the Central and State Governments. Shri K N Balagopal, Minister for Finance, Government of Kerala, is the Chairperson of the Institute.

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