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ABSTRACT

The privileging of internal resources over external finance is not only the most democratic but also the most politically desirable option. The implications of the ADB loan for Kerala is situated against this premise by employing an empirical political economy method. The paper is divided into five sections. In section 1, along with the structure of the loan, the current status of state finance is briefly outlined. Section 11 explores two hypotheses: the Resource Mobilisation Crisis Hypothesis and the Debt Overhang Hypothesis. In section 111, the socio-political implications of the ADB loan are discussed in the context of the conditionalities imposed. In section IV, viable alternatives are analysed with special emphasis on internal resource mobilisation and section V summarises observations. It is pointed out that the debt sustainability in Kerala was foreclosed by the late 90s with the state is in debt overhang. The ADB loan would only be an attack on the fiscal health of the state. Moreover, the class bias of the state blinds it to encrypted sources of funds which in Kerala help foster social structures of accumulation, leading to what could be called a state-'augmented/patronised' fiscal crisis. If the Kerala government were to adhere to ADB-driven governance, it would culminate in social de-investment, "commodification" of critical sectors such as education and health and thereby a reversion of whatever remains of the Kerala model of social development; vulnerable social sections being the hardest hit. Although the state has accepted the first tranche, it could just as well withdraw totally from the ADB package. What is required is a concerted effort towards an internal resource mobilisation which would liberate the state from its commitment to the high-conditionality ADB loan. A mere 20 per cent or less of the locked up funds/arrears would save the state from seeking the second tranche. The state would be well advised to first stop further borrowing from the ADB and to dispense with the ADB policy package, and, second, to renounce the path of externally-driven neo-liberal reforms.

Key words: Asian Development Bank, Fiscal Deficit, Debt Overhang, Resource Mobilisation, Social Structures of Accumulation, Kerala, India

JEL Classification: G2, G38, H1, H2

Introduction

Despite the dismal record of the Asian Development Bank (ADB) in the Asia Pacific region,[1] the Government of India as part of its second generation reforms drives the various Indian states to commit themselves to an involvement with this Manila-based multilateral institution. It is difficult to comprehend to why the Government of Kerala feels compelled to opt for a high-conditionality loan from the ADB? To some, the economic argument is the paucity of internal resources, which leaves no option but to take recourse to external finance. It is also argued that the privileging of internal resources over external finance is not only the most democratic but also the politically correct option. But, Kerala, which has shown a consistently high level of social development through "public action" and democratisation of civil society (Dreze & Sen, 1995; Ramachandran 1997; Kannan 1995, Tornquist 2002; also see George 1993) is now being coerced into complying with the neo-liberal agenda of the ADB. And while the Left Democratic Front and the ruling United Democratic Front point accusing fingers at each other, two things have become clear: it was at the prompting of the present opposition that the ADB first set foot in Kerala;[2] and neither the LDF nor the UDF has had the clarity of vision to seek a peoples' mandate before opting for such a huge loan.

This paper is an attempt at an empirical political economy analysis on the (likely) implications of the ADB loan for Kerala and explores the possible alternatives to external finance. The paper is divided into five sections. In section 1, along with the structure of the loan, the current status of state finance is briefly outlined. Section 11 explores two hypotheses: the Resource Mobilisation Crisis Hypothesis and the Debt Overhang Hypothesis. In section 111, the socio-political implications of the ADB loan are discussed in the context of the conditionalities imposed. In section IV, other viable alternatives to the ADB loan are analysed and section V summarises the concluding observations.

Section I

Structure and Composition of the Loan

ADB's US$775 million loan - more than 3700 crores of rupees - as is envisaged now is meant to launch three sets of reforms: (i) the Modernising Government Programme and Fiscal Reforms (MGP) with a quota of US$ 375 million including the co-finance by the Netherlands with US$75 million (ii) the Power Sector Reforms, and (iii) the Urban Development, Environmental Improvement and Poverty Reduction Programme, each being apportioned US$200 million respectively (Table 1). The loan for Fiscal Reforms, the agreement on which has been finalised, is a cluster loan comprising two sub-programmes: the first would receive the allotted US$200 million in two equal tranches and the remaining US$100 would again be disbursed in sequence, every fresh disbursal hinging on the state's adherence to the prescribed reform programme. The first tranche of US$125 has already been accepted by the state; the requisite policy changes and alterations in governance are being implemented towards the second tranche which is expected in early 2004.

Table 1: Details of the Loan envisaged

Sl No	Name of the Programme	Amount of Loan US$ million	Year of beginning
1	Modernising Government Programme and Fiscal Reform (MGP)	**375**$^{+}$	**December 2002**
	Sub Programme 1: Tranches	125*	
		125*	**Early 2004**
	Sub Programme 2: Tranche	125*	
2	The Power Sector Reforms	**200**	**2003-4**
3	Urban Development, the Environmental Improvement and Poverty Reduction Programme	**200**	**2003-4**
	Total	**775**	

+ US$300 ADB loan + US $75 GoN

* includes US$25 million worth co-financing by GoN in three equal tranches (total US $75)

Source: ADB Documents, MGP office, GoK, Thiruvananthapuram

The loan would be received by the Government of India (GoI), which would then direct it to Kerala in a 70:30 loan-grant ratio as Additional Central Assistance. The repayment would be over a twenty-year period with a grace period of five years. The GoI would receive the finance from the ADB's London Inter-Bank Offered Rate (LIBOR)-based policy lending facility at an interest rate of less than 3 per cent, a

commitment charge of 0.75 per cent per annum and a front-end-fee of 1.0 per cent. The interest rate that the state is expected to pay to the Centre for the loan portion is as high as 10.5 per cent in rupee terms; considering the grant component, the effective incidence would be only 8.05 per cent or less, the state government asserts. As of now, it is the GoI that would bear the foreign exchange risk on the loan which would have to be paid back in dollars but the possibility of at least a partial transfer of risk to the state government cannot be ruled out.

Two sets of problems that the Government of Kerala faces, as identified by the ADB on the breakdown of the finances of the state relates to the low economic growth and the poor performance of public service systems which, the ADB asserts, mutually reinforce one another. It would seem that the ADB's reading of the state's fiscal position is first of all partial, and secondly, that its obvious agenda is the institutionalisation of neo-liberal reforms serving the interests of market capitalism. In support of the above inference, we consider two hypotheses which are developed in such a way that they would not only unravel the position of the State with respect to the ADB loan but would also help us understand the implications of the same and to seek viable alternatives, particularly, alternative sources of funds within the state.

State Finances:

Over the years, there has surely been a significant deterioration in the finances of the various states in India, particularly since the mid 1980s. There have also been wide variations in the fiscal health status across the states (Appendix 1). Though they themselves have contributed to this, had it not been for the drastic dip in Central transfers (Rao, 2002: 3261-71; Rao & Nath, 2000:2806-9; George, 2002; Pinaki 1995) coupled with the adverse effects of globalisation, many of the states would have escaped the massive fiscal imbalances that are now manifest.

The situation in Kerala is much worse than that in the other states, with the history of its fiscal deficit going back much longer than the others (George, 1999; 1998:35-40).

All the fiscal indicators with respect to Kerala – the fiscal deficit, revenue deficit and primary deficit – have shown an increasing trend as a percentage of the State Domestic Product from the mid-nineties (Table 2). The share of revenue deficit in the total fiscal deficit was as high as 80% in the late nineties, one of the highest in India. The responses of various states in India to their respective fiscal imbalances have been

Table 2: Deficit indicators as a percentage of NSDP in Kerala, 1990-1 to 2000-01

Year	RD/NSDP	FD/NSDP	PD/NSDP	RD/FD	PD/FD
1990-91	3.47	6.56	3.37	52.85	51.39
1991-92	2.41	5.32	2.12	45.35	39.83
1992-93	1.96	4.26	1.10	46.09	25.89
1993-94	1.59	4.00	1.06	39.71	26.52
1994-95	1.39	3.86	1.01	36.07	26.07
1995-96	1.15	3.71	1.08	30.92	29.06
1996-97	1.58	3.78	1.08	41.69	28.46
1997-98	2.34	5.04	2.31	46.52	45.95
1998-99	3.59	5.33	2.65	67.39	49.77
1999-00	6.17	7.27	3.94	79.89	54.25
2000-01	4.99	6.15	2.57	81.16	41.78

Note: RD = Revenue Deficit, PD = Primary Deficit, FD = Fiscal Deficit
2001-02 - Revised estimates

Source: various issues of RBI bulletins

varied, ranging from public expenditure cuts and treasury restrictions to borrowing from various sources including multilateral financial institutions. While Andhra Pradesh, Karnataka, and Uttar Pradesh have opted for World Bank loans, others like Madhya Pradesh, Gujarat and Kerala have resorted to high-conditionality loans from the ADB.

It is the mismatch between revenue expenditure and revenue receipts with the former increasing faster than their revenue that concerns us most. While the ratio of aggregate revenue to NSDP declined from 19 per cent to 13 per cent and the state's own revenue declined from 11 per cent to 9 per cent during the 1990s, the decline in revenue expenditure to NSDP is only marginal, say from 23 per cent to 20 per cent (Appendix 2). In terms of growth, the revenue expenditure grew by 17 per cent as against 14 per cent of revenue itself during the 1990s. In other words, the state has been meeting the revenue expenditure through an ever increasing volume of borrowings in which the share of low-cost loans from the Centre keeps declining making the State ever more dependant on high cost loans (Table 3). The state with its medium term fiscal reforms had aimed at wiping out of the revenue deficit by 2004-05. However, though the ratio of revenue deficit to revenue receipt came down to 28.77 per cent in 2001-02, it increased to 38.76 per cent by 2002-03. The ceiling for fiscal deficit at 2 per of the GDP as stipulated by the Fiscal Responsibility Act would remain an unattainable goal.

It seems pertinent here to pose a crucial question: what exactly has been the cause of such a 'fiscal crisis' in Kerala? Is it the negative/ slow growth of its economy as conventionally argued, or is it just a lack of mobilisation of resources/revenues leading to a liquidity squeeze? We attempt to answer these questions with the help of two hypotheses as mentioned earlier in Section 11.

Table 3: Financing/composition of fiscal deficit

Year	RD	FD	RD as % FD	Internal as % total debt	Loans & adv. From centre as % total debt	PF etc. as % total debt
1991-92	364	803	45.3	21.72	54.11	24.17
1992-93	337	732	46.1	28.51	50.94	20.55
1993-94	371	935	39.7	20.31	44.64	35.05
1994-95	400	1109	36.1	21.03	41.82	37.15
1995-96	403	1303	30.9	29.36	45.00	25.64
1996-97	643	1542	41.7	34.03	36.04	29.94
1997-98	1123	2414	46.3	39.75	33.43	26.82
1998-99	2030	3112	67.4	27.52	28.59	43.90
1999-00	3624	4536.6	79.89	19.09	21.80	59.11
2000-01	3147	3877	81.2	41.12	13.32	45.56
2001-02	1886	2812	67.0	58.44	20.47	21.10
2002-03	2200	2952	74.5	56.17	26.01	17.82

Note: 2001-02 – revised estimates, 2002-03 – budget estimates.
Source: CMIE, Public Finance, February 1999 & March 2002.

Section II

Hypothesis 1 - Resource Mobilisation Crisis Hypothesis:

We distinguish between the possible sources of fiscal crisis: the economy-augmented fiscal crisis(EaFC); Centrally-induced Fiscal Crisis (CaFC) and the state-augmented/patronised Fiscal crisis(Sa/pFC). It implies that the crisis is not necessarily uni-factorial in its genesis and sustenance. It could be multi-factorial in origin.

Economy-Augmented Fiscal Crisis?

Contrary to the trend in the early 1980s, the Kerala economy registered a revival from the early 90s, and stayed above the all-India

Table 4: Growth rates in NDP by Economic Activity, Kerala and All India

Period	All India					Kerala				
	Agri & Allied	Industry	Service	NSDP	Percapita NSDP	Agri & Allied	Industry	Service	NSDP	Percapita NSDP
(Old series, 1981-2=100)-Exponential										
1981-2 - to 1990-1	3.20	6.70	6.40	5.36	3.23	3.70	4.50	4.40	4.83	3.39
1991-2 to 1996-7	3.20	6.80	6.50	5.64*	3.80	5.90	5.00	7.90	6.05*	5.10
(New Series, 1993-4 = 100)-Exponential										
1993-4 to 2000-1	2.60	5.50	8.17	6.05	4.12	1.21	4.88	6.86	4.93	3.82
(New Series, 1993-4 = 100)-Simple Averages										
1993-4 to 2000-1	2.62	6.35	8.14	6.12	4.11	2.24	6.40	7.06	5.53	4.39
1997-8 to 2000-1	1.10	3.14	8.33	5.22	3.20	1.05	4.83	7.89	5.52	4.51

Note: Figures for the old series are adopted from Subrahmanian and Azeez 2000, Table 3, and for the new series, we have calculated both the exponential growth rates as well as simple average growth rates. However, as the number of observations is few, the exponential growth rates are calculated only for the whole period. Figures with * marks are for 1991-2 to 1997-8.

average until the mid-nineties (Table 4). Though it could not maintain this tempo, the economy has still been performing well (Subrahmanian & Azeez, 2000). This was despite the aberrations created in the cash crop sectors owing to trade agreements such as the WTO and the India-Sri Lanka free trade pact[3], the declining trend in the devolution of revenues to the state, and the successful implementation of the statutes of the revised pay commission. It may be seen from the table 4 that the growth performance of Kerala has improved significantly in the nineties, though it later showed a marginal drop in growth rates; however, it is still comparable with that of all India averages. Available evidence suggests that the Kerala economy as such is not in crisis; rather, its performance relative to certain other states is quite commendable. The origins of the liquidity crisis in the state thus lie outside the performance of the productive sectors of the economy.

Centrally-augmented FC?

Both the Central and the State governments seem to think that the states' revenue deficit is entirely of the latter's own making. A counter-factual question would be in order: what would have happened to the state's revenue deficit had the state continued to get the same level of transfers from the Centre as it had received prior to the 90s? The increase in the revenue deficit of around 3 percentage point has been more than matched by the sharp reduction in Central assistance to the state, by around 5 per cent point. More specifically, the Central assistance and current transfers to Kerala as a proportion of NSDP declined from 10.43 and 6.62 in 1991-92 to 5.91 and 4.09 respectively in 1999-2000, similar to most other states in India (Rao 2002). Within the current transfers both the tax devolution and the total grants have shown declining trends (Table 5). Further, Kerala remains far behind the rest of the States in terms of the average growth rate in total central transfers with 8.3% compared to 12.5% ; with regard to per capital central transfers, too,

Kerala has received lesser allocations than the other states from the sixth plan onwards. (George and Krishnakumar 2003: 5) Had the state been able to bargain with the Centre to get the same level of transfers, its deficit position would not have deteriorated. More than such unfavourable federal relations, to which we return later, it is the state augmented/patronised liquidity crisis that appears to have wrought greater damage to the economy and society to which we now turn.

Table 5: Central Assistance to Kerala (%)

Year	CA to NSDP	TD to NSDP	CT to NSDP	TG to NSDP	RD/ NSDP	FD/ NSDP	Trans- fers as % TRR
1991-92	10.43	3.82	3.81	2.81	2.41	5.32	33.08
1992-93	10.1	4.00	3.08	3.01	1.96	4.26	34.72
1993-94	8.08	3.21	2.55	2.33	1.59	4	31.97
1994-95	7.88	2.92	2.61	2.34	1.39	3.86	31.52
1995-96	6.38	2.96	1.87	1.56	1.15	3.71	27.76
1996-97	5.67	3.04	1.32	1.3	1.58	3.78	28.2
1997-98	6.55	2.65	1.45	2.44	2.34	5.04	29.01
1998-99	5.22	2.44	1.54	1.24	3.59	5.33	27.66
1999-00	5.91	2.62	1.83	1.47	6.17	7.27	27.91
2000-01	5.91	2.62	2.32	0.90	4.61	5.68	25.22

Source: CMIE, Public Finance, February 1999 & March 2002.
NSG= non-statutory grants, SG= statutory grants, Oth= others, CT= current transfers, CT= capital transfers, TG= total grants.

State-augmented/patronised Fiscal Crisis?

It is our contention that the origins of the liquidity crisis in the state could be traced to the weak/biased resource mobilisation therein. The powerful social structures in the state have remained more or less non-contributory to the state exchecquer. More importantly, there has

been a persistent derailment of resource mobilisation in the state, which is largely state-augmented/patronised and reflective of its class bias. In spite of an operation of a vibrant consumer market, the sales tax potential is not adequately tapped. Tax arrears continue to build up; there is also an ever increasing revenue loss owing to under-assessment of tax, incorrect computation and under valuation of items. The locked up funds in the state come up to more than Rs3000 crores of rupees, an amount almost equivalent to the ADB loan. The composition of the state is of a nature that blinds it to such potential sources of funds. Large business traders, business groups and private capital form multiple nodes in the power-chain that binds the state into inaction;the same is dealt with in detail when we examine the alternatives to the ADB loan (section IV).

Hypothesis 2: Debt Overhang Hypothesis

The probability of debt sustainability in Kerala was already foreclosed by the mid 90s and the state has already fallen into the phase of what is called debt overhang; the internal debt trap is too close for one's comfort.

The debt cycle, as conceived in this paper, passes through three phases: in the first, debt comes as a relief in the face of resource-deficiency and it remains desirable as long as it is sustainable; in the second phase, it becomes unsustainable when the debt servicing costs surpass revenue receipts leading to what is called debt overhang; the last phase ushers the state into a debt trap wherein it would not be capable of generating enough surplus even for debt servicing. The state of Kerala appears to have entered into the second phase of debt overhang.

As a concept, debt overhang has alternative formulations, and as a mechanism, it operates through several channels.[4] The essence of debt overhang is that it constraints investment in productive and social

sectors. First, it leads to an increased tendency on the part of the state to make further cuts in social expenditure. Second, in this phase, the debt servicing cost overtakes the growth in NSDP, development expenditure and the state's own revenue. Third, the acceptance of a new loan would do nothing to alleviate debt overhang, rather it would only accentuate the process of resource transfers.

If we are to grasp the true consequences of the ADB loan in Kerala, we would have to first examine the existing public debt situation of the state. Like many other states in India, the outstanding debt of Kerala too has been rising during the 1990s. In absolute terms, the total debt of the state increased from 4716 crores in 1990-1 to 23920 in 2001-02 and to 31060 in 2002-3[5] and further estimated at around Rs 36000 by the end of the current financial year of 2003-04 - with the per capita debt of more than Rs 11000. The debt indicators such as the debt-state domestic product ratio and the debt-servicing ratio show the vulnerability of the state to the extreme. The debt servicing cost went up from 483.42 crores in 1990-91 to around 3000 crores in 2002-03. The major part of the state's debt is to the Centre, though its share keeps on declining. The ratio of outstanding state debt to the NSDP is more than 34 per cent, one among the highest in India; debt servicing accounts more than one-fourth of the total revenue receipts. The proportion of debt servicing to total revenue expenditure and NSDP in Kerala is higher than the middle incomes states in India (Appendix 3). Even if there is a decline in the market interest rates for loans, the debt servicing as a percentage of revenue expenditure is expected to increase as the volume of loans/ borrowal increases sharply: within the last one year alone, the present government has increased its debt by more than 50 per cent.

The repayment capacity has not been catching up with the growth of the cost of debt servicing. The state has to take the service obligations of the debt it has to the Centre as well as those raised through other

sources such as 'Internal Debt' and Provident Funds'. It is precisely this sort of a problem that leads one to raise the question of sustainability of public debt. Debt becomes unsustainable at two levels: (I) Once the accumulated debt servicing - interest payments plus amortization - grows beyond the threshold level of around 15 per cent of the total revenue receipts/domestic budgetary revenues[6] of states including devolution and grants, debt could be considered as unsustainable and (2) Yet another indicator could be the relative growth rates in NSDP and Debt Servicing and if the latter grows at a higher rate than the former, debt could be deemed unsustainable. If we take the first norm, the possibility of debt sustainability in Kerala was foreclosed by the early 90s; by the second norm the state's debt became unsustainable by the mid 90s; in both the cases, the state had passed the level of debt sustainability by the second half of the 90s pulling the state into what is called debt overhang, particularly the high-cost debt overhang; the internal debt trap is too close for one's comfort (Table 6).

The important inferences one could draw with respect to the years since 1996-97 include (Table 7):

1. Gr of DSC > NSDP
2. Gr of DSC > DE, save 1997-98
3. Gr of DSC > OR
4. Gr of DSC > SS

So what has the ADB loan to do with the debt overhang?

Firstly, the ADB loan is no cure for the debt overhang of the state. Secondly, it would only accentuate the problem of debt overhang leading the economy into an internal debt trap. We would argue that a persistence with current fiscal policy would lead to debt unsustainability. With the acceptance of the entire loan amount of Rs 3700 crores by

Table 6: Debt Servicing Cost (DSC) as a percentage of TRE, TRR and NSDP in Kerala (Rs crores), 1990-1 to 1999-00

Year	Total Debt (TD)	TD/SDP	DSC	DSC/TRE	DSC/TRR	DSC/ OR	DSC/NSDP
1	2	3	4	6	7	8	9
1990-91	4716.79	38.75	388.21	13.74	16.16	25.41	3.19
1991-92	5466.56	36.20	483.42	15.03	16.95	25.33	3.20
1992-93	6297.13	36.66	542.51	14.84	16.35	25.04	3.16
1993-94	7198.67	30.76	687.16	16.01	17.52	25.75	2.94
1994-95	8820.87	30.74	819.67	16.18	17.57	25.65	2.86
1995-96	10113.54	28.82	924.16	15.86	17.04	23.59	2.63
1996-97	11420.91	27.98	1103.41	16.26	17.96	25.01	2.70
1997-98	12868.14	26.85	1304.78	15.83	18.33	25.82	2.72
1998-99	15700.28	27.76	1512.96	16.40	21.02	29.05	2.67
1999-00	20176.00	34.37	1952.27	16.88	24.58	34.11	3.33
2000-01	23919.00	34.29	2257.60	18.00	25.85	34.57	3.12
2001-02	26951.00	34.00	2489.00	20.36	27.48	38.50	3.13
2002-03	31060.00	34.15	2947.00	19.07	27.71	37.00	3.24

Note: 2001-02 – revised estimates. TRE= total revenue expenditure, TRR= total revenue receipts, DSC= interest payments & servicing of debt, NSDP= net state domestic product, OR= state's own revenue. Source: computed from RBI bulletins; Budget In Brief, GoK, 2004-05.

Table 7: Annual Growth rates of major expenditure indicators

Year	NSDP	GR	DSC	GR	Devt. Exp	GR	OR	GR	Edu-cation	GR	Medical	GR	SS Exp	GR
1990-91	5262		168		779		670		335		92		552	
1991-92	5365	2	172	2	699	-10	678	1	297	-11	79	-14	480	-13
1992-93	5752	7	182	6	764	9	725	7	305	3	77	-3	483	1
1993-94	7723	34	222	22	837	10	864	19	371	22	92	19	575	19
1994-95	8389	9	237	7	872	4	924	7	391	5	99	8	602	5
1995-96	8726	4	228	-4	843	-3	968	5	354	-9	83	-16	571	-5
1996-97	9075	4	246	8	903	7	984	2	360	2	82	-2	600	5
1997-98	9272	2	270	10	1039	15	1044	6	364	1	87	6	637	6
1998-99	9843	6	292	8	1088	5	1004	-4	378	4	90	4	646	1
1999-00	10521	7	350	20	1167	7	1026	2	468	24	105	16	754	17
2000-01	11245	7	372	6	1049	-10	1076	5	432	-8	96	-8	690	-8

Source: CMIE, Public Finance, February 1999 & March 2002.

2003-04, contractual debt servicing obligations would soar to not less than Rs 3300-3400 crores inclusive of pre-existing debts. Any fresh borrowing therefore would only further compromise the financial well being of the state - the annual debt servicing for the ADB loan alone would be within the range of Rs3000-3700 million for about a decade (appendix 4 and 5). This would reduce the availability of resources for capital formation and domestic investment. Considering the fact that almost the entire plan expenditure of the state has been financed through borrowings from 1997-98 onwards, the increased debt servicing on account of the ADB loan and other forms of borrowing would further compromise the state's fiscal health and as well as its future prospects. Further, the state has already been forced into unconstitutional practices of financial management such as 'memo clearance' for the day to day functioning of various departments; such practices are largely lie outside the ambit of the legislative proceedings. For the years 2003-04 and 2004-05, the ADB loan and the other Externally Aided Project has brought in a foreign fund component of around 25 per cent to the plan outlay; it was 9 per cent in the previous year and a mere 2 per cent still earlier. This would obviously work against the state interests making it ever more dependent on external finance. As the borrowed funds are not basically intended to reach the directly productive sectors, the problem is likely to be aggravated. With the state being expected to generate counterpart funds for the new governance programme, there would be a further diversion of funds away from the productive sectors. More over, the ADB touch will be only too evident in the forthcoming five-year plans and the annual budgets just as it has been with respect to the present one. Wrong prioritisation - agriculture and traditional industries on the one hand and the social sector on the other would get a low and diminishing allocation as against a substantial share for programmes like modernising governance - would characterise the subsequent

planning process. As the state has to set aside much more than one third of its own revenue for debt servicing and about one fourth of the Total Revenue Receipts and about 20 per cent of the Total Revenue Expenditure, the already shrinking social sector expenditure (Table 8) would become the first major casualty.

It must be pointed out here that the United Nations Development Programme (UNDP 1991: 44; also see Dev & Mooij 2002) considers it desirable for a country to have a social allocation ratio - the percentage of public expenditure earmarked for social services - of more than 40 per

Table 8: Social sector expenditure ratios: Kerala

Year	SE/AE	AE/NSDP	SE plus RD/AE	EDU/ AE	HEALTH/ AE
1990-91	39.69	26.44	42.61	24.09	6.61
1991-92	36.73	24.35	40.18	22.73	6.05
1992-93	35.41	23.70	38.62	22.39	5.65
1993-94	36.33	20.90	39.59	23.42	5.81
1994-95	35.90	20.21	38.83	23.29	5.92
1995-96	34.19	19.26	37.08	21.24	5.00
1996-97	34.72	18.99	38.28	20.85	4.75
1997-98	32.23	19.97	40.61	18.41	4.39
1998-99	32.59	18.17	42.10	19.05	4.53
1999-00	33.57	20.03	40.49	20.82	4.66
2000-01	32.91	18.65	39.23	20.59	4.57

Note: SE= social expenditure, AE= aggregate expenditure, NSDP= net state domestic product, RD= rural development, EDU= education.

Source: CMIE, Public finance, Various issues.

cent. Even as India sported a ratio of 34 per cent throughout the liberalisation decade of the 1990s. Kerala, however, had a commendable social allocation ratio of 41 per cent in 1990-91. But as neo-liberal reforms took root in Kerala, share of expenditure on health and education kept declining, and the social allocation ratio dwindled to 35 per cent in the mid 90's and further down to 33 per cent in 2000-01, far below the UNDP standard. If the Kerala government were to adhere ADB-led governance and prescriptions, it would ultimately lead to social de-investment, the consequences of which would tell particularly upon the vulnerable sections of the society: the ADB loan is quite obviously not the right "fiscal medicine" for the state.

Section III

The (In) human Face: Socio-Political Implications of the ADB Loan

Almost as a perfect foil to its commercial loan, the ADB has put forth specific policy conditionalities as part of its shift from "project lending" to "programme lending" which would also co-ordinate well with the Structural Adjustment Programme of the World Bank. The Government of Kerala has acquiesced in this respect too. A few of the stipulations are worth the mention. In future, all contracts or agreements or even negotiations with other financial agencies/donors would have to be discussed with the ADB, which reserves the right to insist on a cross-conditionality with respect to other foreign contracts.[7] In clearer terms, the Government loses its right to freedom of decision making in matters of finance; the state even forfeits its freedom to enter into bilateral negotiations with other financial agencies/countries. The other specifications are equally repressive: as part of restructuring of State Level Public Enterprises (SLPEs), the state would have to assure a minimum annual "net attrition rate of one per cent", approval and extension of Voluntary Retirement Scheme and Employee Separation

Scheme to all categories of workers, and successful implementation of the recommendations of the Enterprise Reforms Committee (ERC) to the effect of accepting "alternative systems of management including privatisation, disinvestment, merger, management contracts and leasing". And as for projects that are already underway, those over five years old would stand terminated, if so deemed by the ADB by December 2002, no matter how far they have progressed or how extensively their benefits accrue. The state is expected to submit reports to the ADB on its production and trade statistics from time to time; this, when seen in counterpoint to the total lack of transparency in the ADB-*GoK* discussions lucidly illustrates the unequal terms of information exchange being foisted on the state. The GoI is also required to open a "Deposit Account" with the RBI for the express purpose of operating the ADB loan; while all transactions with the ADB would be routed through this account which is to be "established, managed and liquidated" in accordance with terms and conditions satisfactory to the ADB, the state government has failed to work in a *withdrawal clause* on its own behalf.

More over, public utilities would henceforth be run on market principles with cost recovery and efficiency in delivery being pivotal points. This would most likely manifest as a cess on education, health and water and a tariff hike in the power sector; 'uneconomic' schools would be closed and the Public Distribution System, Kerala' pride, which ought to be replicated in the rest of the country (Kannan 2003, Mooij 1996) would stand curtailed to a bare minimum. The new infrastructural investments particularly in roads and water supply under the *build-operate-transfer* (BoT) scheme would foist yet another burden on the common people in the form of increased water tariffs, motorway tolls and power tariff, as has happened in countries like the Philippines and Vietnam.[8] In effect, the MGP would mean a contraction in public expenditure on the vital social sectors such as education, health and

sanitation and a fresh drive for privatisation and enclosure of the commons. It seems rather incongruous that a supposedly "desirable" policy package such as this should be hemmed in by so large an array of compulsions and pre-conditions[9].

Clearly, the multiple conditionalities that accompany the ADB loan is such that the very democratic basis of the state stands threatened. The MGP[10] which promises to be a "paradigm shift in the way Government transacts its business" would in reality translate into an enforcement of the ADB diktat; and the bottom line is that the state cabinet even surrenders its right to remove from office the bureaucrat/s assigned responsibility for the MGP. Neither does the state 'own' the reforms on the agenda nor is it capable of stemming the erosion of its sovereignty. If the state has strained itself to create an impression that the ADB bound modernisation programme would be implemented with a "human face", the very fact that hardly 4 per cent of the adjustment cost was earmarked initially for poverty eradication in the MGP - the Kerala model of the twenty first century - has brought its efforts to nought. This is notwithstanding the fact the state generated counterpart fund of US$152 is to be added to the US$375 loan. But it is the inhuman face of the ADB deal that surfaces when one watches the initial paltry allocation of 4 per cent of the adjustment cost of the MGP for poverty eradication dwindle even further in the final programme implementation structure (Table 9). And this miniscule percentage is intended for targeting, identifying, and improving the quality of poverty reduction measures, which seems quite the longest route to poverty eradication. At a time when suicides and starvation deaths among plantation workers and adivasis are on the rise[11] and has dragged the Kerala model in mud, one wonders what fresh effort is required to identify the poor. Perhaps the ADB's only contribution here would be to render redundant the Below Poverty Line survey of the Government of Kerala which puts the

poverty level in rural Kerala at a shocking 37 per cent; more likely the poverty line itself runs the risk of being re-drawn as part of the MGP.

Delivery improvements in the public utilities through "asset renewal", fiscal measures such as the preparation of Medium Term Fiscal Reforms Programme and Fiscal Accountability Bill, the intension of bringing ceilings on guarantees[12] and other measures of social security and social audit net work might give the state a face-lift; but it would take a far more comprehensive programme involving a radical redistribution of assets and sustained employment opportunities to make a tangible difference in the lives of the poor - an aspect that seems to hold no significance for the ADB.

As things stand now, the public sector restructuring envisaged would only aggravate the problems of the working class and those in the lower and middle-income groups. For instance, given the fact that nearly 98 per cent of employees of the Kerala State Cashew Development Corporation Ltd (KSDC) are workers, any attempts to restructure this concern would spell doom for them who would have no alternative employment to turn to. Such apprehensions do find a place in the ADB-supported Poverty Impact Assessment (PIA) of the loan[13] ; it points out that the curtailment of the total government expenditure would adversely affect the poor, but avers that this adverse impact would be strongly mitigated by two comprehensive initiatives as part of the MGP, namely the Local self-government Action Plan and Anti-Poverty measures. The PIA further seeks cover behind the poverty alleviation schemes, and, in particular, *Kudumbasree* and micro credit enterprise programmes, blandly ignoring the fact that women's self-help groups are well on their way to extinction in this globalised country. The fact that Kerala has always been quite the most globally integrated region in India and that the state's own initiatives – including the women's industries programme of

Table 9: Decomposition of Programme Implementation Costs ($ million)

Description in policy matrix			Programme years			
	Amount	Percent	FY 2003	FY 2004	FY 2005	FY 2006
Revenue account deficit of KSEB to be financed by Govt.	77.8	13.14	41.5	36.3	-	-
VAT system (Net CST impact)	71.3	12.05	-	27.4	23.6	20.3
Liabilities written off for KSEB and consequent loss to revenue	70.5	11.91	70.5	-	-	-
Funding social expenditure due to Treasury Public Accounts closure	65.1	11.00	65.1	-	-	-
Integrated personal and payroll management systems implemented	5	0.84	1.2	3.8	0	0
Asset renewal system	103.7	17.52	8.3	12.4	41.5	41.5
Termination of unproductive infrastructure projects	29	4.90	-	6.2	10.4	12.4
Functional review unit	1.5	0.25	0.2	0.4	0.4	0.4
Capacity building	9.7	1.64	0.4	3.1	3.1	3.1
MGP strategic implementation plan	1.5	0.25	0.4	0.4	0.4	0.4
Social audit	4.1	0.69	-	1.2	1.4	1.4
Service delivery policy cell	0.3	0.05	0.1	0.1	0.1	0.1

cont'd...

Upgradation of service standards in Primary Health Centres	16.6	2.80	1	3.1	6.2	6.2
Citizen’s character	2.1	0.35	0.1	0.7	0.7	0.7
Service delivery improvement in 3 services	9.3	1.57	-	4.1	3.1	2.1
Implementation of LSG action plan	17.3	2.92	2.1	15.1	-	-
Rehabilitation of LSG water schemes as transitional incentive	24.9	4.21	2.1	5.2	7.3	10.4
New rules for property tax assessment	1	0.17	-	1	-	-
Capacity building in financial management for LSGs and relevant community organizations	6.6	1.12	1.5	1	2.1	2.1
Poverty coordination unit	0.7	0.12	0.1	0.2	0.2	0.2
Poverty database and maintenance	4.6	0.78	-	1.9	2.1	0.6
Pilot scheme for social safety net	14.5	2.45	-	8.3	4.1	2.1
SLPE reform 10 prioritized SLPEs	54.7	9.24	12.4	17.4	12.4	12.4
Total Budget	591.9	100	207	149.4	119.1	116.1
Amount of ADB loan	300		100	100	50	50
Cofinancing from Govt. of Netherlands	75		25.00[a]	25.00[a]	12.50[b]	12.50[b]

Source: MGP strategy document, GOK Thiruvananthapuram.

KSEB = Kerala State Electricity Board, LSG = Local Self Govt., SLPE = State Level Public Enterprises, VAT = Value Added Tax

[a] Committed [b] Proposed

the 1980s - stand threatened by this is something that the PIA and the MGP willfully ignore.

When the PIA maintains that the SLPE reforms “do not have any fundamental conflict with the goal of poverty alleviation”, it grossly underplays the experiences of other countries wherein state withdrawal had led to a loss of access to food, health, education and sanitation facilities. Further, it fails to learn from the social chaos faced by the sacked public sector workers in those countries that underwent public sector restructuring.[14] Above all, when the reforms treat retrenchment/privatisation as an antidote to inefficiency, who is being punished - the inefficient bureaucracy or the working class? That workers drawing a monthly remuneration of hardly Rs 900 – as in the case of KSDC and as in some other SLPEs – could rob public sector enterprises and utilities of their profit is an argument that the enlightened public of Kerala would find difficult to accept. If it were truly so, it may be worth noting that many of the SLPEs were not meant for profit-making. And this is precisely why the public sector employees of the state have rejected the recommendations of the Enterprises Reform Committee (ERC) constituted by the Government of Kerala, for whom restructuring of SLPEs reads privatisation, disinvestment and closure.[15] Incidentally the ERC had submitted its “Approach Paper” on the 111 SLPEs in the state in exactly 36 days! Its peremptory exhortation to restructure - an euphemism for privatisation/closure - SLPEs like the Kerala State Drugs and Pharmaceuticals Ltd and the Kerala Soaps and Oils Ltd without so much an attempt to enquire into the causes of their failure, is hardly justified in a state with an intensely health/hygiene conscious populace. One can only conclude that the ERC has deliberately chosen to ignore the origins of SLPEs in Kerala and their positive role in the social development of the state, just as it glosses over the true nature of the

private sector which has exhausted the state's subsidised natural resources, damaging its ecology and draining away its wealth[16].

Good Governance as the Bail Out Package?

Yet, the state tows the ADB line that it was bad governance that bred the fiscal chaos, poor public delivery and rural/urban poverty in the state. The solution then lies in the modified Washington Consensus that the right policies - modernisation of governance in such a way that there would be cuts in social security measures including pension and retirement benefits, privatisation of strategic state enterprises and so on - would act as catalysts for economic growth and fiscal sustainability which in turn would ameliorate poverty. And in order to channel policies according to plan, aid must be accompanied by multiple conditionalities as per the lines of multilateral financial institutions. And it is for this that good governance becomes mandatory, for the ADB in Kerala. The ADB prescription for the malady of Kerala is "good governance" and it claims that its approach to governance is "economic" rather than "political" knowing fully well the political import of this economic intervention.

To this end then, the state cabinet itself was assumed the nature of an administrative reform committee of the ADB: to evaluate the progress made by the MGP and report back to the ADB. With the 10th Plan document itself being carved out of the larger agenda of the ADB, the State Planning Board thought it fit to drop the term 'self' from the earlier 'local self administration'. A senior state's spokesperson even went, as far as to say that democracy is an obstacle to development. And the government plays along with the ADB, only too willing to accept its package of conditionalities such as direct intervention in policy matters including the approval of VRS and ESS to all categories of employees - a Government that ought to be providing jobs for its educated

unemployed masses has actually agreed to pare employment opportunities down to an "efficient minimum", having already done away with many of the service benefits of the employees. More over, by redefining one of the "core functions"[17] of the state as policing, and by disciplining labour through a variety of labour regimes, the class colour of this new governance is gradually surfacing.

Secure in the knowledge that "the biggest risk comes from public action against reform",[18] the ADB pressed ahead with its "good governance" agenda. The state was prodded into instituting a massive hike in power tariff in 2002, which was to earn for it the first tranche of the ADB loan. The prophesied "public action" came in the form of a massive mobilisation of various social sections; this included the mainstream Left parties, who had bee been responsible for inviting the ADB to the state in the first place. In spite of these protests, the state succeeded in wresting a small victory, hiking up the withdrawn tariff once again, but at a lesser rate. Further, an identical situation now prevails with the state now reparing for yet another tariff hike in order to secure the second trance of the ADB loan. The agenda for the power sector reforms does not confine itself to tariff hikes alone, it further encapsulates unbundling and corporatisation - the setting up of separate companies for the generation, transmission and distribution of electricity and the formation of an autonomous Tariff Regulatory Commission - all intended to privatise the public sector giant. This is at a time when de-regulation in the power sector in most of the countries has presented a dismal picture with price gouging and hoarding. And the way in which the power sector reforms have finally evolved, even denying a meagre subsidy to the marginal farmers in Madhya Pradesh, has proved beyond doubt the hidden agenda behind externally aided policy loans.[19] What is more interesting is that no effort has been made to seek viable alternatives - such as an eco-friendly and decentralised electricity

network - to the existing pattern of electricity generation and distribution in the state.[20] The heavy bias in allocation of high-tension power in Kerala to a handful of enterprises with low levels of employment and minimal linkage effects, the continuous patronage to power-sucking units and so on are all being perpetuated while the possibility of setting up mini-hydel projects or other in-house alternatives remain unexplored (Kannan & Pillai 2002) - and that in a state which is criss-crossed with rivers. This is explicit in the experience of the APSEB, which was subjected to WB-driven reforms in spite of its satisfactory performance indicators. And even as the reform structure malfunctions, the message still fails to go home: Kerala moves blindly ahead towards the very same experience that befell Orissa and Madhya Pradesh.

Section IV:

Alternatives: Internal Resource Mobilisation

We would prefer to categorise the alternative sources of funds into two: domestic and extra-domestic sources but both as part of internal resource mobilisation from within the state and from within the country. Domestic sources would again be divided into two:

(i) **Locked Up Funds**: Mandatory sources: revenue/surplus which has already been generated in the economy but remains inaccessible to the state.

(ii) **Locked Up Potential Funds**: whose full potential is yet to be realised from within the state.

(iii) **Extra-domestic Funds** includes those resources that the state could mobilise 'from within' but through negotiation/bargaining with the Centre:

I shall explain each of these sources separately:

Domestic Sources:

1. Locked Up Funds: Arrears Plus

The major revenue raising sectors/departments of the state government include commodity taxes/sales tax (72%), state excise (8%), stamps and registration (8%), taxes on vehicle (6.8%) and land revenue (0.47%) and the forest sector (1.41%). Let us look at some of these sectors. Only two broad categories of locked up funds are taken into account here viz. the cumulative arrears and the other funds due to the state as identified by the C & AG with test cases. The total arrears from various state departments alone works out to Rs 3071 crores (Table 10)[21] . A mere 20 per cent of these arrears would suffice in place of the second tranche of the ADB loan - Rs 600 crores. Is the government truly incapable of collecting this 20 per cent? Obviously not. It is this realisation that leads us to the subterranean agenda of the Centre as well as the State - the implementation of neo-liberal reforms. What this boils down to is that fiscal defict or no, the ADB/WB/IMF-driven structural adjustments and neo liberal reforms are here to stay unless they are politically and economically countered.

In addition to this huge tax arrears, there is an ever increasing revenue loss from the various generating sectors of the economy owing to under-assessment of tax, incorrect computation of agricultural income tax, exclusion of income from assessment including those of luxury hotels and bars, non-realisation of potential value in forest produce and so on. The revenue lost on account of this during 2001-02 works out to more than Rs 500 crores; almost equivalent to the second tranche of the loan that the state hankers after. It is true that a small portion of this might have been recovered by the various departments, even so the amount lost thus would still be very high. Further, certain other taxes such as the luxury tax have not been included herein; the luxury tax fell short by 26 per cent in the year 1999-2000. It would be interesting to

Table 10: Arrears of Tax/Non-tax Revenues

(Rs. In Crores)

	PARTICULARS	ACTUALS (As on 31st March)				
		1998-99	1999-00	2000-01	2001-02	2002-03
	1	2	3	4	5	6
A.	TAX REVENUES					
1.	Land Revenue (including taxes on Commercial Crops) Agricultural Income Tax	71	60 (-15.49)	67 (11.67)	69 (2.98)	68 (-1.44)
2.	Sales Tax	1106	1312 (18.63)	1364 (3.96)	1709 (25.29)	2232 (30.60)
3.	Electricity Duties	26	13 (-50)	25 (92.31)	44 (76)	64 (45.45)
4.	State Excise Duties	73	103 (41.1)	129 (25.24)	188 (45.74)	219 (16.49)
5.	Motor Vehicles Tax/Passenger & Goods Tax	270	288 (6.67)	334 (15.97)	343 (2.69)	386 (12.54)

cont'd...

PARTICULARS	ACTUALS (As on 31st March)				
	1998-99	1999-00	2000-01	2001-02	2002-03
1	2	3	4	5	6
B. NON-TAX REVENUES					
i) General Services					
Stationery	9	9	10 (11.11)	10	11 (10)
Local Fund Audit	6	9 (50)	14 (55.56)	20 (42.86)	22 (10)
ii) Economic Services					
Forest	8	4 (-50)	6 (50)	20 (233.33)	10 (-50)
iii) Fiscal Services					
Motor Vehicles	21	23 (9.52)	36 (56.52)	37 (2.78)	55 (48.65)
TOTAL (A+B)	1593	1827 (14.69)	1988 (8.81)	2447 (23.09)	3071 (25.5)

Sources: State Finance Department, GoK; C & A G, Thiruvananthapuram. The percentage increase from the previous year is given in the bracket.

note that some of luxury hotels in the state that unfailingly collect luxury taxes from their customers/foreign tourists desist from remitting the same to the state exchequer. In addition to the above two points of leakages, the non-implementation of governmental stipulations in the plantation sector and tax evasion with respect to certain commodities like gold rob the state of its rightful due which we discuss under potential sources of funds.

The freeing of locked up funds is therefore is absolutely necessary for fiscal prudence in the state. It is uneconomic, undemocratic and unethical to aim at fiscal reform without addressing the very same factors responsible for the fiscal deficit. If we permit the sustenance of the social structures of accumulation and thereby perpetuate inequality in the society, it will undermine precisely what we are trying to achieve. This would feed back through the social structures as a whole in such a way that state becomes the most accommodating agents of accumulation.

(ii) Potential Sources of Funds:

According to the latest National Sample Survey on Consumption Expenditure, 1999-2000 (55th round), Kerala has the highest per capita consumer expenditure in India,[22] with its nearest rival being Punjab. This shows the burgeoning of the consumer market in the state over the last quarter of a century. It is also true that the state ranks top among 15 major states in India with respect to the per capita general sales tax. But here too, there is no room for complacence; in terms of tax-consumption ratio, Kerala lags behind not only Punjab, but also the neighbouring Tamil Nadu which comes only 4th as far as per capita consumer expenditure is concerned (Table 11). Interestingly, the tax-consumption ratio of Andhra Pradesh which ranks 10th in consumer expenditure is almost the same as that of Kerala. Yet, the tax-consumption ratio of Kerala has not improved commensurately with that of other states.

Table 11: Tax - Consumption Ratio, 1999-2000 (Selected states)

States	Per capita Consumer Expenditure 1999-2000	Rank	Per capita GST (Rs.)	Rank	GST Consumer Expenditure Ratio (%)	Rank
Kerala	9843.55	1	1120.1	1	11.38	3
Punjab	9682.04	2	814.06	5	12.73	1
Tamil Nadu	8696.22	4	997.27	2	11.47	2
Andhra Pradesh	6572.96	10	740.76	7	11.27	4
Maharashtra	8502.47	5	915.11	3	10.76	5
Karnataka	7780.71	7	783.65	6	10.07	6

Note:- Only those states with two digit tax -consumption ratio are taken. GST includes all components of sales tax except Central Sales Tax.

Sources: (1) National Sample Survey Organization, Report on Household consumer expenditure 55th round, (1999-2000), Government of India.

(2) A study of Budgets of States 2001-2002, Reserve Bank of India.

When worked out Kerala's potential Tax Consumption ratio in the context of efficiency standards of selected states in India, runs into crores of rupees as additional income (Table 12).

It shows that if Kerala could achieve the same efficiency standard as that of AP, it could increase its sales tax revenue by Rs 1724 crore. Even if it could bring its tax level on par with that of neighbouring TN, Kerala could generate an additional revenue of Rs500 crores per annum. Yet, commodity taxes have not yet been tapped to their full potential. Sales tax evasion is as high as 35 per cent (Rakhe, 2003) and it is obvious that the richer sections of the society stand to benefit from this. The case of specific commodities traded in the state such as gold makes for strange reading.

Gold Market

Kerala is probably the richest market for gold in the country. Yet, the sales tax revenue realised from this sector is as low as rupees 32 crores a year; it should have been five to six times this amount, had it been under stringent tax vigilance. Instead, tax evasion has reached such heights that the analysis of the returns filed by the 79 gold merchants/ dealers (registered under the provisions of the Kerala General Sales Tax Act, 1953) in Thiruvananthapuram district show sales amounting to a mere one sovereign per day in the case of 89 per cent of the merchants; the number who submit returns of less than a quarter sovereign per day is also significant (Table 13). Instead of plugging this leakage and increasing its revenue[23], the state charge the sales tax of a mere 4 per cent on new gold ornaments and only a purchase tax of 1 per cent for old gold ornaments. It is even pointed out by informed sources that if one were to consider commodity-specific tax avoidance as in the case of gold, the total tax leakage within the state would work out to a much higher than the usual assessment.[24] The state could do well to elucidate the proposed tax reforms including Value Added Tax and how they would tell upon the state economy as well as the autonomy of the state.[25]

Table 12: Kerala's Potential T-C ratio (KPTC) to the efficiency standards of selected states and the potential sales tax revenue

In relation to Kerala	KPTC (%) of Kerala	Per capita Potential Sale Tax Revenue(Rs) of Kerala	Per capita Actual Sale Tax(Rs) of Kerala	Actual Sale Tax (Rs crores) of Kerala	Per capita Balance (Rs) for Kerala	Potential Balance Sale tax (In crores) of Kerala	Total Potential (Actual + Total Balance)
Punjab (12.73)	12.94	1273.76	1120.10	3566.24	153.66	489.23	4055.48
T. Nadu (11.47)	12.98	1277.69			157.59	501.74	4067.99
A P (11.27)	16.88	1661.59			541.49	1724.03	5290.27
Maharashtra (10.76)	12.46	1226.51			106.41	338.79	3905.04
Karnataka (10.07)	12.74	1253.08			132.98	423.39	3989.63

Note: GST includes all components of sales tax except Central Sales Tax.

Sources: (1) National Sample Survey organization, Report on Household consumer expenditure 55th round (1999-2000), Government of India.

(2) A study of Budgets of States 2001-2002, Reserve Bank of India.

Table 13: Per day equivalent sales (Grams) as reported to the Government

Grams	No. of Gold Merchants / Dealers (small and medium)	Percent
Below 2	31	39.2
2 - 4	23	29.1
4 - 6	10	12.7
6 - 8	6	7.6
Above 8	9	11.4
Total	79	100.0

Total Number of days taken into account: 156 days

1 gram @ Rs. 500

Source: Computed from the records of the Sales Tax Department, GoK.

Plantation Sector:

Yet another potential source of funds is the plantation sector in the state. The non-implementation of revised lease rents in plantations leads to a loss of at least 500 crores of rupees per annum, allowing the big planters to amass huge profits; this has been repeatedly confirmed by the Assurance Committees of the State Legislative Assembly. Let us take the case of large plantations in the state with a focus on the lease rent as applied/misapplied/unapplied to the large plantation sector. Under both the Quit Rent and Lease Rent, the actual rent amount is (i) abysmally small; and (ii) there is absolutely no uniformity in rent collection across the planting companies. For instance, Tata-Tea, the largest integrated plantation in the world, with its 50,000 acre-Empire in the state, pays only Rs50 per acre; there are other estates that pay a mere Rs25 per acre; what is more, A.V.Thomas & Company is required to pay only Rs5.30!. The benevolent government, however, did not forget

to impose as high an amount as Rs1300 per acre on the state-owned Plantation Corporation (an aspect that never comes into the picture when one talks about the losses that these public sector enterprises make in their daily business).

The Government does realise the economic losses incurred due to such irregularities - and has attempted to rectify the same to a certain extent as is reflected in the Kerala Land and Leases(Modification of Right) Act, 1980. This was further modified in the year 1990. Yet the government failed to realise either a hike a hike in the lease rent or to unify the same across the corporate planting companies/estates (The law was published as a special Gazette in 1990, after a decade of lapse, that too, did not improve the situation). More than a decade later, these planting companies/estates remain untouched by the state. The State Assurance Committee chaired by Nalakath Sooppy, in their report submitted to the tenth Kerala Legislative Assembly in November 1996 worked out that due to this alone, the state loses nearly 500 crores of rupees per annum.[26] This was further endorsed by the seventh report submitted in 1997 led by Prof A.V.Thamarakshan. A genuinely concerned state Government could collect the arrears - in appropriate instalments - from 1980 onwards, which would provide the exchequer not less than Rs 11,000 crores; if the arrears are worked out from 1990 alone, the amount due to the state would work out to no less than Rs 6,000 crores. Well, what about collecting the same at least from the current year onwards?. If one were to consider these potential sources of funds along with the tax arrears mentioned earlier, the total amount would add up to more than Rs 4000 crores - more than equavalent to the total ADB loan - then a mere 15 per cent as against 20 per cent as worked out earlier of this would suffice in place of the second tranche of the ADB loan.

Extra- 'Domestic' Sources of Funds: Workers' Remittances and Market Borrowing

Other possibilities of resource mobilisation which however lie outside the purview of the state and are ruled by extraneous forces include the newly introduced services tax, Central transfers, Workers' remittances and market borrowings. With its economic performance being primarily driven by the services sector, Kerala could bargain with the Centre for the right to levy taxes on more and more services. Given the fact that the Central transfers to the state(s) are on the decline, and that the state like Kerala has been penalised for its progress [27] through an alteration in Criteria and Weightage of the Eleventh Finance Commission - Kerala loses more than Rs3600 crores for the plan period of 2000-05 - one would expect the state to be compensated by developmental/ concession loans and special grants from the Centre. But the state has been denied even this facility with the Netherlands' grant being apportioned in 70:30 loan-grant ratio. However, by recommending that the TFC "give up the criteria of backwardness", the state has deliberately overlooked specifc nature of Kerala's backwardness as reflected in its pockets of poverty - among adivasis, plantation workers and fisherfolk for instance.

The recent World Bank report, "Global Development Finance (2003) puts India at the top of list of developing countries with 10 billion US dollars of remittances from its migrant workers (Ratha 2003); Kerala's contribution to this stable source of foreign exchange could very well be significant. Earlier this amount was estimated at Rs 15,000 crores per year (Zachariah, Kannan & Rajan 2002; Kannan & Hari 2002). The state should have found ways to attract a significant portion of this foreign exchange from it had it politically negotiated with the Centre and offered an interest rate nearly as much as the state is bound to give to the Central Government loans. The domestic savings of the state -

including the foreign exchange remittances - in the scheduled banks works out to around Rs. 60,000 crores of rupees, of which around rupees 25,000 crores are given as credits to the state. The low credit-deposit ratio in the state as against a higher CD ratio in other states/metropolis is often a pointer to the route of surplus drain from the state which means "savings from the state were being used for lending and investment elsewhere in the country" as pointed out by the state government itself. It is to be acknowledged that a state/region denied of its own surplus for reinvestment can never hope to prosper. However, the state failed to work out mechanisms to incorporate such issues in developing new criteria for devolution from the Centre. Knowing quite well that the Centre's investment in Kerala keeps declining - from 3.06 per cent in 1970 to 2.33 in 1980 and further down to 1.69 in 2000 (as against an increasing contribution of malayali migrants to Indian foreign exchange) - and that it would continue to decline as and when mega investments like the Rs 54,000 crore *Golden Quadrangle*[28] - come through, the state ought to have worked out new negotiations with the TFC for favourable terms of resource transfer.

A detailed look at the market borrowing of the Government of Kerala during 2001-02, 2002-03 and 2003-04 reveals the immense possibility of internal resource mobilisation. During the fiscal year 2002-03, the State had issused KSDL six times, three times each for financing the five year plan/ 'development activities' and for swapping its debts. Altogether, the state was able to float development loans worth over 1237 crores, of which, after deducting the amount used for debt swapping worth 343 crores, the amount the state was able to direct for financing the five year plan and development activities together was Rs 894 crores.[29] During the year 2003-04, the government issued loans on eight occasions, four each for swapping debts and to finance

Table 14: Purpose-wise Market Borrowing (Rs. in crores)

Sl.No	Nomenclature	Rate of Interest	Development & Five Year Plan	Debt Swap
1	KSDL 2011 23.08.2001	9.56	289.59	______
2.	KSDL 2011 20.12.2001	8.37	138.96	______
3.	KSDL 2001 28.01.2002	8.30	276.42	______
4.	KSDL 2012 13.03.2002	8.00	61.15	______
5	KSDL 2012 (11.04.2002)	8	225.00	———
6	KSDL 2012 (19.08.2002)	7.8	251.06	———
7	KSDL 2012 (18.11.2002)	6.93	220.00	———
8	KSDL 2012 (23.12.2002)	6.8	197.39	———
9	KSDL 2013 (25.02.2003)	6.95	——-	258.00
10	KSDL 2013 (12.03.2003)	6.75	——-	85.96
11	KSDL 2013 (12.05.2003)	6.4	395.01	———
12	KSDL 2013 (12.06.2003)	6.35	———	168.01
13	KSDL 2013 (30.07.2003)	6.2%	———	192.04
14	KSDL 2013 (13.08.2003)	6.02	250.00	———-
15	KSDL 2015 (25.08.2003)	6.2	———-	192.01
16	KSDL 2015 (13.10.2003)	5.85	114.56	———-
17	KSDL 2017 19.01.2004	5.85	_______	118.98
18	KSDL 21.2.2004	5.85	300.00	______
	Total		2719.14	1015.00
	Grand Total		**3734.14**	

Sources: Department of Finance, GoK.

‘development activities’. The government was able to redirect Rs 1059 crores towards development activities out of the total loans issued worth Rs.1730.61 crores.[30] After assuming power, the present government had issued developments bonds for 18 times and of the total amount of Rs. 3734.14 crores mobilised, around 73 per cent (Rs 2719.14 crores) was spent on financing five year plans and ‘development activities’ – in effect, the major share of the same went towards the disbursal of salary and the meeting of other revenue expenditure – and the rest (Rs 1015 crores) on debt swapping. A large majority of the development bonds issued by the government were bought by none other than the state urban co-operative banks. This points to the desirability of two policy measures that could have been successfully adopted by the state vis. (I) Market borrowing within the RBI regulations as a viable strategy of internal resource mobilisation as the state has attempted to a certain extent and (2) mobilisation of loans from co-operative/commercial banks in preference to high cost loans from multilateral agencies like the ADB.

Considering the fact that the state has been issuing development bonds every two months (more specifically once in 50 days upto February 2004), and has been continually raising money from the co-operative banks it would seen appropriate that the actual use of these funds be made transparent. More importantly, the mopping up of development loans by the Co-operative and other Banks implies a deprivation of the public of their own valuable funds for directly productive activities or for disbursal towards socially desirable programmes such as rescheduling/ waiving of farmers' debts. The rationale behind such a diversion of funds is something that the public of Kerala must debate upon particularly when the state has been exhibiting a low CD ratio.

Who Stands to Gain?

At the other end of the scale, who stands to gain from all this restructuring and modernising is all too clear; the massive allocations

for capacity building, training, and computerisation speak for themselves. More over, there being a continuing emphasis on large-scale infrastructure projects and modernising government, the ADB is very particular that all procurement – engineering technologies for civil works, software and hardware, goods and related services - will be through "normal commercial practices in case of procurement by the private sector, or prescribed procedures acceptable to ADB in case of procurement by the public sector, having due regard for the principles of economy and efficiency". It would imply that the ADB contracts would be awarded through internationally advertised competitive bidding with the caveat that bidding would be confined to the powerful donor countries of the ADB such as the United States, Japan, Germany, Canada, Australia, France and Korea.[31] The past performance of ADB-tied procurements reveal that most of the procurement goes to the world's biggest corporate capital in the donor countries such as Mitsui and Co, Mitsubishi of Japan, Cooper Rolls and Raytheon Company Electronic Systems and Cargill Fertilizer of the US, Siemens of Germany and Balfour Beatty of the UK(Adams 2000:20-31). The BoT envisaged in the building of infrastructure such as express high ways would further open up the state to the machinations of multinational BoT companies.

And with respect to grant/loan-tied Technical Assistance, the beneficiaries are again a handful of the donor countries particularly the U.S., UK, Canada and Australia; it was to the PDP Australia (P) Ltd that the consultancy on fiscal reforms in Kerala went. The Australian Treasurer's report to Parliament on the ADB for 1998-99 states that "ADB-financed contracts provide sizable commercial opportunities for Australian firms and can be stepping stones to further work in developing countries in Asia and the Pacific".[32] The ADB thus plays a lucrative source of procurement of contracts for multinationals from donor countries, with local capital as junior partners. Not surprisingly, the

genesis of many of these corporate capital which have won ADB Technical Assistance contracts, may be traced back to policy-based lending with huge investments in infrastructure; and concomitantly, a new genre of comprador bureaucrats and academic consultants have been let loose in recipient countries/states like Kerala. As the class constituents of the emerging governmentality would in no way be different from the existing one, the social structures of accumulation in the state would be the other major stake holders; the marginalised sections of society would gain the least, they would instead be the hardest hit in the entire process of neo-liberal development processes.

Section V

Concluding Observations

The privileging of internal resources over external finance is not only the most democratic but also the politically correct option. And the possibilities for internal resource mobilisation in the state are many. The swelling middle and upper class income brackets in the state signal a vibrant consumer market elevating Kerala to the status of the highest per capita consumer expenditure in India. Yet, commodity taxes have not yet been tapped to their full potential. Most importantly, there is an ever increasing revenue loss in various revenue generating sectors of the economy owing to under-assessment of tax, incorrect computation of agricultural income tax, exclusion of income from assessment including those of luxury hotels and bars, non-realisation of potential value in forest produce and so on. This is in addition to the huge arrears of tax the state would have gathered in had it shown the perspicacity to vacate the numerous stay orders on them including those instituted by itself. The non-implementation of revised lease rents in plantations also leads to a loss of crores of rupees per annum. A quick estimate of such locked up funds – tax arrears of Rs 3070 crores plus other potential sources of funds

- in the state comes up to more than Rs4000 crores of rupees, an amount more than equivalent to the ADB loan. Yet, the class bias of the state blinds it to such encrypted sources of funds which in Kerala help foster social structures of accumulation constituted by groups of large business traders, owners of luxury hotels, big planters, gold merchants, liquor barons, forest contractors and so on. They form multiple nodes in the power-chain, which ultimately winds its way to the state apparatus.

As the state is inherently biased in favour of such power relations, huge amounts of accumulated funds remain frozen, their flow to the state exchequer arrested, leading to what could be called a state-'augmented/patronised' fiscal crisis. Had the state been able to find economic and democratic ways of mobilising the already generated surplus or whatever is mandatorily due to it both from the classes of accumulation as well as the public, it could have substantially expanded the productive base of its economy with sustainable fiscal balances that also without borrowing wild from the ADB. The malayali-world would do well to realise that Japan became what it is today through the mobilisation of its domestic savings in its era of post-War devastation. The transformation of China into an industrial giant in the current climate of globalisation has quite a lot to do with the money spent by the overseas Chinese diaspora – about 70 per cent of the FDI in China originates from them, particularly those in Southeast Asia. The state should also realise that the workers' remittances constitute a major share of total investment in Mexico, Egypt and in nearby Mali (Ratha 2003; Martin, Martin, and Weil 2002). But the ADB has again (and World Bank) outmaneuvered the Centre glibly walking away with permission to raise up to $250 million in rupees from the Indian debt market (*The Hindu*, Sept 24, 2002). Enron, the architect of the Maharashtra power debacle too mobilised its funds from within! At least Kerala could well have plugged the drain of its resources, resisted unfavourable conditionalities and initiated a development/reform agenda including

what this author would call "internally-driven globalisation". The development ideology of the state should read thus: previlege internal finance over external finance; organise production and exchange aiming primarily for the domestic market; strive to assure food security to the people of the state; promote redistributin of resources such as land to provide permanent livelihood to historically disadvantage communities and to improve social quality of life.

As has been pointed out earlier in the paper, debt sustainability in Kerala had become a non-viable proposition by the late 90s precipitating what is called debt overhang. It is also our contention that the ADB loan would only work to accentuate the financial strain on the state leading it blindfolded into an internal debt trap. Once the entire loan amount has been accepted, contractual debt servicing obligations would fall within the range of Rs3000-3700 million for about a decade, with the existing debt servicing cost of Rs 3000 crores taking the annual repayment rate to the range of rupees 3300-3700 crores. How the state would stand up to such a financial challenge remains to be seen. The increasing reliance on external finance (not directly productive) in preference to the mobilisation and utilisation of domestic resources would extract a hefty toll indeed particularly with respect to social sector expenditure. Kerala had a commendable social allocation ratio of 41 per cent in 1990-91 as against per cent for India. But with the neo-liberal reforms in Kerala, this ratio dwindled to 35 per cent in the mid 90's and further down to 33 per cent in 1999-2000, far below the UNDP standard. If the Kerala government were to adhere to ADB-driven governance, it would culminate in social de-investment, "commodification" of critical sectors such as education and health and thereby a reversion of whatever remains of the Kerala model of social development: what Karl Polanyi would have called "disembedding"[33]

from social bonds and civic engagements, vulnerable social sections being the hardest hit.

In addition to social de-spending and the mounting of social debt, the ADB loan is likely to strike at the very roots of democracy in the state. The MGP and Fiscal Reforms (MGP), as is broadly called, which promises to be a "paradigm shift in the way Government transacts its business" would in reality translate into an enforcement of the ADB diktat. With the imposition of its "common policy matrix", the very socio-political structure of Kerala would witness an upheaval – privatisation of PSUs, enhanced cost recovery for public utilities including health, education and water, flexibilisation of labour, retrenchment and redeployment of "excess" staff in the name of rationalisation, suspension of fresh recruitment, deregulation and increased market "openeness" are some of the radical alterations that would altogether reverse the social development model the state has thus far been proud of. Though there is no gainsaying that the "asset renewal" and "modernising governance" proposed by the ADB might bring in a few positive changes - an aspect that has not been covered in this paper - it cannot be overemphasised that it would all be at considerable social and political cost. Those bedazzled by the ADB's Poverty Impact Assessment have obviously missed these hidden costs. In practice, the ADB prescription would result in a watering down of the recently decentralised governance, whatever be its shortcomings, and in a stalling of the process of prioritised decentric development. In its haste to get the second tranche from the ADB, the state has already initiated certain policies such as passing of Fiscal Responsibility Bill and the Bill seeking to fix a cap on state guarantees, reduction in the rate of conveyance such as stamp duty, registration fee and identification and abolition/redeployment of "surplus" staff and so on. The latter has already woken the people of the state to the other side of the package;

the ADB on the other hand, continues to tighten the noose around the state's autonomy.[34]

Although the state has accepted the first tranche of Rs 600 crore, it could just as well withdraw totally from ADB package. What is required is a concerted effort towards an internal resource mobilisation which would liberate the state from its commitment to the high-conditionality ADB loan. It would take just 20 per cent or less of the locked up funds to save the stae from the ignominy of seeking the second tranche of Rs 600 crores from ADB; further, the possibility of additional internal/domestic resource mobilisation is also very high. It must be pointed out at this juncture that the Centre has actually begun to prepay certain high cost loans from multilateral agencies as part of its effort to reduce the burden of interest and to rein in the fiscal deficit. This is a direct consequence of an increase in the country's forex reserves, which rose to a record high of $103.8 billion in January 2004. The Government of India has already prepaid loans aggregating $1.67 billion to World Bank and another $1.3 billion to the ADB in the last financial year ended March 31, 2003. Yet another round of prepayment worth $1.5 billion is envisaged in the current financial year. Paradoxically enough, India may have to bear foreclosure charges imposed by the World Bank against prepayment of loans. Not having had the foresight to include an appropriate withdrawal clause India is now faced with this threat; with respect to the ADB loan too, both the Centre as well as the state failed to adopt any such safety measures. It should also to be noted that India has now become a lender-member of the Financial Transaction Plan (FTP) of the IMF to meet the Balance of Payment (BoP) needs of other countries; it has already contributed $291 million to the FTP in 2003. One would have thought that a developing country like India would use its forex reserves more judiciously - to plough it back into its domestic economy, to increase the steadily declining public investment, to correct the fiscal deficits and to bring down its huge external debt. Kerala and other ADB-focal

states such as Gujarat, Madhya Pradesh, Assam and Sikkim on their part would do well to re-examine their stand on the ADB and on Centre-State relations and to first, stop further borrowing from the ADB and not to pursue with the ADB policy package, and, second, to renounce the path of externally-driven neo-liberal reforms. Otherwise, the state would find itself 'mortgaged' for generations to come.

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Notes

1 As in the case of the power sector reforms in the Philippines (Bello 2000, 2001; Criss 2002), the transport project in Sri Lanka, Pakistan's Access to Justice Programme (Ercelawn & Nauman 2003) or the Greater Mekong Sub-regional Economic Reforms or the Klong Kan wastewater treatment project in Samut Prakan in east Thailand. One of the prime movers of the ADB, Japan also has much to answer for as far as its Overseas Development Assistance is concerned, as is evident from the violation of human rights in the case of the Sardar Sarovar Dam in lndia and the Koto Pandgjang Dam in Indonesia (Kunibert & Singer 1996:117). Probably, the ADB's most infamous involvement was with Vietnam, which it initially refused financial aid in keeping with the U.S embargo; and when it did deign to extend its policy loan to Vietnam in 1993, it only turned out to be a burden. Many such "uncivil engagements" of the ADB in the neighbouring countries and within the country have come under focus. This has consistently been brought out by the *Focus on the Global South,* a Bangkok-based NGO see, http://www.focusweb.org. The recent mass demonstration against the ADB which took place in Chiang Mai, Thailand in May 2000 during the ADB's 33rd annual conference by thousands of farmers, students and non-governmental organisations (Tadem 2003) firmly underscores the unpopularity enjoyed by the bank.

2 While in power, it was the LDF that had initiated a dialogue with the ADB in 1996 and later in 1998, accepting in spirit the neo-liberal agenda of a restructuring of public utilities based on market principles and private participation. It had also submitted a Concept Paper to the Government of India (see the document 1 of 8, dt 15 October 1998, *GoK*) on the basis of its discussions with the ADB mission in 1998 towards such reforms. Though the ADB had been keen on financing a 'communist government' it had insisted on a political consensus on the future course of action as a pre-requisite for its selection of Kerala as the focal state, just as it had selected Gujarat and Madhya Pradesh in 1996 and 1997 respectively. The opposition led by the present Chief Minister A.K Antony had been in no way averse to the ADB package, assuring the ADB mission that it recognised the need for 'pragmatism' and fully supported ADB's reform agenda in the state.

3 For the impact of Indo-Sri Lankan trade agreement on Indian economy, see K.N.Harilal and K.J. Joseph, “India-Sri Lanka Free Trade Accord”, *EPW*, May 27, 1999: 750-53.

4 For a brief survey of debt overhang in developing countries, see Jeffrey D Sachs, 1989.

5 The latest figure is taken from Memorandum presented to the Twelfth Finance Commission, GoK, 2003.

6 It is to be noted that there are no formal norms by which a debt is deemed unsustainable for it is something that varies depending on the resource position of the state. For a discussion on the various dimensions of the debt sustainability, see Raj Kumar, 1999.

7 For instance the ADB, and indeed the GoI, have succeeded in assuring such a cross-conditionality with respect to the grants from the Netherlands to Kerala, which comes through the Centre with its significant portion as a loan.

8 See Wyatt, A. 2002.

9 For an analysis of the implications of conditionalities of policy loans in other countires, see Jeffrey, 1989, Killick with Gunatilaka & Marr, 1998. It should be noted that multilateral institutions like the World Bank and the ADB are hardly open to analysis as their policies on access to information are far from democratic, see Guttal, 2002. It is also worth mentioning that even in Kerala the details regarding the terms and conditions of the loan were released only under public pressure, see K Ravi Raman 2003.

10 MGP: A Strategy Document, *GoK*, 2002.

11 Ravi Raman 2003; Bijoy & Ravi Raman 2003.

12 Contingent liabilities do not form a part of the debt burden of the states. However, in the event of default by the borrowing entity - which has of late become common - the state will be required to meet the debt servicing obligations. Though many states have taken steps to place ceilings on guarantees, Kerala, has not so far chalked out any statutory and administrative ceiling.

13 Poverty Impact Assessment of the Policy Based Loan – Kerala, ADB File, State MGP Office, *GoK*, Thiruvananthapuram, 2002:8-9

14 The public sector workers who were sacked as part of neo-liberal reforms finally had to encroach on forests as in Brazil and Peru or turned to illegal drug production as in Bolivia, see Susan George, 1992.

15 *GoK*, 2002.

16 For one such instance with respect to the former Gwalior Rayons at Mavoor, see Rammohan & Ravi Raman, 1988: 1359-64; 1989:16-17.

17 See the MGP: Strategic Implementation Plans, *GoK*, 2002.

18 ADB File, State MGP Office, *GoK*, Thiruvananthapuram.

19 The Energy Reforms Bill that has been passed in Madhya Pradesh at the instance of the ADB has meant that marginal farmers have stopped receiving electricity at concessional rates and for many poor families, this has also meant the loss of the only electricity connection in their households, see Narsalay, 2002.

20 For a pro-reform argument, see V.Santhakumar, "The impact of distribution of costs and benefits of non-reform - a case study of power sector reforms in Kerala between 1996 and 2000", *Economic and Political Weekly*, 38, 2, 147-154.

21 The amount as calculated may vary depending on the items and sectors involved; what is of significance to us is that it would take only a small portion of what is due to the Government to save the state from falling into a debt trap.

22 This is also in tally broadly with the sharp increase in the percentage of households in the Higher Income group (Rs >77,000 per year) with 21 per cent in 1995-96 as against hardly 5 per cent in 1989-90. It is also to be noted that Kerala had the highest percent of low income households in 1990 with 83 per cent of households with an income of 25,000/- per year. It, however, improved its position in 1995-96 and ranked seventh. With respect to the lower middle class (Rs 25,000 – 77,000), it improved the position with 12 per cent of households in 1989-9- to 28 per cent in 1995-96 (Natarajan, 1998:13-15).

23 With the advent of e-commerce, these gold merchants have found a way to operate incognito; reliable sources point out that hour to hour manipulation of web sites has become a new method of dodging the sales tax officials. However, it would be advisable to probe deeper into the matter before making further comments.

24 An analysis of sector-specific, commodity-centred tax leakage would surely be of much benefit for policy planning.

25 The World Bank initiated VAT has found favour with the MNCs and big capital at large. Exactly how it coincides with the interests of the state is worth examining. Moreover, the introduction of VAT would lead to a macro-integration of markets. The exact position of the state economy relative to such an integrated market would be worth analysing.

26 For details see Legislative Assurance Committee Reports, dt 14 November 1996 and 29 July 1997 submitted to the Tenth Legislative Assembly, published by the Government of Kerala.; Also see Sebastian 2002.

27 For a discussion on 11th and 12th Finance Commission, see K P Kannan and R Mohan (2003) and K K George and K K Krishnakumar (2003).

28 Golden Quadrangle is part of expanding the capacity of the National Highways connecting Delhi, Mumbai, Chennai, Kolkata. It does not mean that the author subscribes either to the proposed Golden Quadrangle or the River Inter-Linking projects which might well precipitate widespread ecological and political conflicts. What is important is that Kerala seems to be sidelined, whenever the Central Government inititates major investments.

29 These details are collected from the Department of Finance, GoK.

30 The inability often pleaded by the state in mobilising funds from the domestic market/commercial/nationalised banks holds no water as has been proved in the case of Punjab State Electricity Board, which was quite successful in issuing secured debentures.

31 Japan and the U.S are the two most influential countries in the 61-member ADB with each owning a subscription of around 16 per cent of the Ordinary Capital Reserve translating into an almost equal voting power of

13.533 and 13.105 per cent respectively. Despite the fact that Japan has a much higher share of 52.3 per cent in the cumulative fund as against 11.2 of the United States, the latter wields more power in foreign policy matters. Further, advanced countries jointly account for more than half of the total voting power. India which joined the ADB at its inception in 1966 itself, has 6.667 per cent of the ADB's total subscribed capital with a voting power of 5.718 per cent, see Kappagoda, 1995.

32 Cited in Chris Adams, op cit.

33 Polanyi 1944.

34 The resistance encountered by the two-member ADB evaluation team who came to Kerala in the second week of November 2003 for evaluation of the progress made under the MGP is only a continuation of a year long anti-ADB campaign in the state, see K Ravi Raman, 2003.

Appendix 1: State wise revenue and fiscal deficit (percent of NSDP)

	1990-91		1995-96		1999-00	
	RD	FD	RD	FD	RD	FD
Andhra Pradesh	0.46	2.79	1.03	3.36	2.34	5.16
Bihar	2.17	6.11	2.81	4.09	5.45	9.37
Gujarat	2.51	6.42	0.34	2.71	2.75	6.01
Haryana	0.16	3.04	1.35	3.84	3.02	5.76
Karnataka	0.33	2.3	-0.12	2.76	1.71	3.29
Kerala	2.67	5.06	1.15	3.71	3.88	5.49
Madhya Pradesh	0.62	3.17	0.83	2.85	2.93	4.45
Maharashtra	0.09	2.65	0.43	2.93	4.11	6.03
Orissa	0.19	5.98	3.38	5.85	6.24	9.35
Punjab	3.36	7.67	1.31	3.98	5.74	7.93
Rajasthan	-0.76	2.45	1.67	6.13	5.92	8.85
Tamil Nadu	1.74	3.55	0.44	1.79	3.09	4.16
Uttar Pradesh	2.16	5.39	2.29	4.28	4.68	7.24
West Bengal	3.03	4.85	1.86	4.02	6.71	9.06
Major states	1.33	4.18	1.17	3.5	4.06	6.34
Special category states	-0.4	8.04	-2.53	4.65	3.7	10.69
All states	0.93	3.3	0.73	2.6	2.94	4.75

Notes: RD – Revenue Deficit, FD – Fiscal Deficit, All state is the sum of 25 states, For states, major states and special states it is ratio to NSDP new series. For all states it is ratio to GDP new series.

Source: Rao, 2002.

Appendix 2: Revenue Budget of Kerala, Percentage Change over previous year, 1991-2 to 1999-2000

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000 01	2001 02	2002-03	Average
Own Tax Revenue	24.9	12.7	24.3	19.4	20.8	15.2	15.5	3.3	11.7	13.0	12.3	14.1	15.6
Own Non-tax Revenue	12.4	19.0	15.7	22.6	35.1	-4.1	7.5	1.0	-4.8	24.2	8.6	26.3	13.6
Own Revenue (1+2)	23.2	13.5	23.2	19.8	22.6	12.6	14.5	3.0	9.9	14.1	11.9	15.3	15.3
Share in central taxes	18.5	19.2	9.4	11.6	23.7	19.8	2.3	8.7	11.1	3.3	19.5	12.1	13.3
Grants from the centre	-0.1	26.8	8.0	25.8	-25.9	4.6	61.9	-23.3	12.1	-9.7	24.6	48.9	12.8
Total Revenue Receipts (3+4+5)	18.7	16.4	18.2	19.0	16.2	13.3	15.8	1.1	10.4	9.9	14.2	17.3	14.2
Revenue Expenditure	13.9	13.7	17.4	18.0	15.0	16.5	21.4	12.0	25.3	2.7	-0.2	17.2	14.4
RD as a Percentage of FD	45.3	46.1	39.7	36.1	30.9	41.7	46.3	67.4	79.8	81.1	79.7	—	51.72

Note: 2001-02 – revised estimates, 2002-03 – budget estimates.

Source: CMIE, Public Finance, February 1999 & March 2002.

Appendix 3: Debt servicing cost (DSC) as a % of TRR, OR, TRE and NSDP in middle income states (Rs. in crores)

Year	DSC	DSC/TRR	DSC/OR	DSC/TRE	DSC/NSDP
1991-1992	643.09	13.84	21.16	12.90	2.19
1993-1994	916.61	15.01	23.47	14.42	2.16
1995-1996	1320.01	16.91	25.61	15.74	2.24
1996-1997	1560.52	17.74	27.49	14.95	2.33
1997-1998	1830.24	18.03	27.52	16.27	2.41
1999-2000	2802.30	23.42	34.79	17.42	2.85

TRE= total revenue expenditure, TRR= total revenue receipts, DSC= interest payments & servicing of debt, NSDP= net state domestic product, OR= state's own revenue.

Source: computed from RBI bulletins.

Appendix 4: Consolidated Repayment in the Pipeline (Rs in million)

LOAN AMOUNT	$775 Million	Rs. 37200 Million
Rate of Interest	@ 10.5%	
Grant	30%	
Repayment }	20 Annual Instalments	

Rs. in Million

	1st Loan		2nd Loan		3rd Loan				
Year	Principal	Interest	Principal	Interest	Principal	Interest	Total Principal	Total interest	Total Annual repayable
2003	105.00	441.00	168.00	705.60			273.00	1146.60	1419.60
2004	210.00	870.98	168.00	687.96	168.00	705.60	546.00	2264.54	2810.54
2005	315.00	1289.93	168.00	670.32	168.00	687.96	651.00	2648.21	3299.21
2006	315.00	1256.85	168.00	652.68	168.00	670.32	651.00	2579.85	3230.85
2007	315.00	1223.78	168.00	635.04	168.00	652.68	651.00	2511.50	3162.50
2008	455.00	1190.70	392.00	617.40	168.00	635.04	1015.00	2443.14	3458.14
2009	595.00	1142.93	392.00	576.24	392.00	617.40	1379.00	2336.57	3715.57
2010	735.00	1080.45	392.00	535.08	392.00	576.24	1519.00	2191.77	3710.77
2011	735.00	1003.28	392.00	493.92	392.00	535.08	1519.00	2032.28	3551.28

cont'd...

Rs. in Million

	1st Loan		2nd Loan		3rd Loan				
Year	Principal	Interest	Principal	Interest	Principal	Interest	Total Principal	Total Interest	Total Annual repayable
2012	735.00	926.10	392.00	452.76	392.00	493.92	1519.00	1872.78	3391.78
2013	735.00	848.93	392.00	411.60	392.00	452.76	1519.00	1713.29	3232.29
2014	735.00	771.75	392.00	370.44	392.00	411.60	1519.00	1553.79	3072.79
2015	735.00	694.58	392.00	329.28	392.00	370.44	1519.00	1394.30	2913.30
2016	735.00	617.40	392.00	288.12	392.00	329.28	1519.00	1234.80	2753.80
2017	735.00	540.23	392.00	246.96	392.00	288.12	1519.00	1075.31	2594.31
2018	735.00	463.05	392.00	205.80	392.00	246.96	1519.00	915.81	2434.81
2019	735.00	385.88	392.00	164.64	392.00	205.80	1519.00	756.32	2275.32
2020	735.00	308.70	392.00	123.48	392.00	164.64	1519.00	596.82	2115.82
2021	735.00	231.53	392.00	82.32	392.00	123.48	1519.00	437.33	1956.33
2022	735.00	154.35	392.00	41.16	392.00	82.32	1519.00	277.83	1796.83
2023	490.00	77.18			392.00	41.16	882.00	118.34	1000.34
	245.00	25.73					245.00	25.73	270.73
Grant Total	12600.00	15545.25	6720.00	8290.80	6720.00	8290.80	26040.00	32126.85	58166.85

cont'd...

Source: Computed from the Loan details, MGP documents.

This note explains the computation of the repayment of principal and interest of the ADB loan assuming that the government would continue to borrow as specified by the original contract. The total loan is divided into three parts ie. $375 million, $200 million and $200 million. The first part is again divided into three tranches of $125 million each (see table 1). The loan comes as Additional Central Assistance with 70 per cent as loan and 30 per cent as grant under the Gadgil formula. Part of the loan tranche (50 per cent) is to be repaid in 20 equal instalments. According to the information provided by the government, there is a grace period of 5 years for 50 per cent of the principal of each sub-tranche. The second part is to be repaid after 5 years in 15 equal instalments. The interest is worked out based on the principle of charging on diminishing balance. The rupee-dollar conversion is taken at 1$ = Rs. 48/-. In the absence of clearer information, we assume that interest payment will continue during the grace period as well. The repayment as worked out above can only be taken as a broad trend as there is every possibility of a change in tranche and other regulations which would obviously reflect on repayment.

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