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Public Finance Newsletter

May 2018

Editorial

Dear readers,

In today's rapidly changing world, we recognise that knowledge is the key to growth and in our endeavour to share knowledge in the public finance and economics domain, I present to you the 14th edition of PwC's Public Finance Newsletter.

In the 'Pick of the season' of this edition, we have covered the debate on the change in the population reference year to 2011 from 1971 in the terms of reference (ToR) of the current 15th Finance Commission. We have then estimated the impact of this change on inter-governmental fiscal transfers ceteris paribus, with the author's point of view presented in the end. The 'Potpourri' section highlights the ministries and departments that have explicit budgetary provisions for gender representation as reflected in Part A and Part B of the Gender Budget Report 2018-19. 'Round the corner' provides news updates in the area of government finances and policies across the globe and key paper releases in the public financial management domain during the recent months, along with reference links. The 'Our work' section showcases one of our recently concluded development impact assessments for an export financing institution.

I would like to thank you for your overwhelming support and response. Your contributions have helped in making this newsletter an effective medium for sharing information.

To share your experiences in the public sector and governance space with us, please write to me at *ranen.banerjee@in.pwc.com* or to our editorial team.

You may also read this newsletter on the go by downloading the PwC 365 app on your iOS and Android devices. The app is available on iTunes and Google Play. For more about PwC 365™, please visit ***http://www.pwc.in/publications/pwc-365-app.html***

Happy reading!

Sincerely,

Ranen Banerjee
Partner
Public Sector and Governance


‘An investment in knowledge pays the best interest.’
– Benjamin Franklin

Pick of the season

Census conundrum for the 15th Finance Commission

The Finance Commission (FC) of India is the constitutional embodiment of tax devolution from the Centre to the states. It is appointed every five years to provide recommendations on three major aspects of this devolution:

(i) the distribution of divisible net tax revenue between the Union and the states (vertical devolution), and the respective shares of the states in the same (horizontal devolution);

(ii) the principles governing the allocation of grants-in-aid of the states' revenues out of the Consolidated Fund of India; and

(iii) based on the recommendations of the State Finance Commissions, recommend measures for augmenting the Consolidated Fund of a state for supplementing resource allocation to rural and urban local bodies (panchayats and municipalities).

The recommendations of the 14th FC have been in effect since FY 2015–16. The 15th FC (FFC), which was constituted in November 2017, is expected to submit its report by 30 October 2019, based on which tax devolution would be determined for a period of five years with effect from 1 April 2020.

The terms of reference (ToR) of the FFC have sparked much controversy due to their significant deviation from the ToR of previous FCs. One of the crucial aspects relates to the replacement of census data of 1971 with that of 2011 for inter-se allocation of resources among the states. The source of the debate lies in the fact that while this would better reflect the current expenditure needs of states, it would also imply lower allocation to states that have been successful in curbing population growth over the 1971–2011 period.

This article elaborates on this debate while reviewing the arguments both for and against the change. It then presents a ceteris paribus analysis of its impact on horizontal devolution, i.e. all other determinants remaining unchanged, how would the change in census data from 1971 to 2011 impact the revenues allocated to each state? The author's point of view is presented in the end.

The debate

The importance of population in the FC criteria

Population has been an important constituent of the criteria used by the FCs to devolve resources to the states. Relative to any other criteria, population is the most neutral in the distribution of grants among the states. It is not only one of the factors comprising the criteria but also used as the scaling factor for other considered parameters having significant weights, such as 'income distance'. As has been suggested in the report of the 13th FC, population is an objective, transparent and stable measure of the expenditure needs of a state that ensures predictability.

In the past, FCs were mandated to use the 1971 population for undertaking the required calculations. The freeze on the 1971 population census considered by the FCs is often compared to the freezing of Lok Sabha seats based on the 1971 population, to be continued till 2026. The determination of Lok Sabha seats based on the population of 1971 used the rationale of maintaining political equity. Extending a similar argument for FCs and using the 1971 population to ensure economic equity is slightly illogical, given that the country has undergone a massive transition over the last 46 years. Thus, the use of outdated population figures by FCs has often been questioned by the academic and policy fraternity.

In light of the above, the ToR of the 14th FC allowed the theme of 'demographic changes' to be incorporated into the formula (apart from considering the population of 1971). Thus, the 14th FC assigned a weight of 17.5% to the population of 1971 and 10% to the population of 2011 (on account of migration and age structure)—with the latter being done for the first time by any FC. Further, as a major departure from all the past FCs, the ToR of the 15th FC have mandated that the population of 2011 be considered for all its calculations for determining horizontal distribution of net tax revenue.

States' concerns over the use of 2011 population census

The usage of the 2011 population (instead of the 1971 population) has led to concerns among certain states, especially those that have undertaken measures to reduce the growth rates of their population and have nearly achieved the replacement rate of population growth. Additionally, these states would have taken measures to improve the social outcomes like improving education and health indicators, which would have also contributed to a control on the population growth.

Hence, these states fear that they would be penalised not only for controlling population, but also for improving important human development indicators. Some of the states that have voiced their concerns on these lines are southern states like Kerala and Tamil Nadu. There are also concerns that devolving greater resources to states with a higher population (as is envisaged if population data for 2011 is used) would be against the National Population Policy Statement that aims at population control as a long-term goal.

2011 census data – a much-needed change

The past FCs have been using the 1971 population figures because it was mandated by their ToR (as observed in the 13th and 14th FC). The excerpt below highlights the views of the 14th FC on the population issue:

'We have taken the view that the weight assigned to population should be decided first and an indicator for demographic changes be introduced separately. Although we are of the view that the use of dated population data is unfair, we are bound by our ToR and have assigned a 17.5% weight to the 1971 population. Based on the exercises conducted, we concluded that a weight to the 2011 population would capture the demographic changes since 1971, both in terms of migration and age structure. We, therefore, assigned a 10% weight to the 2011 population.' (Source: 14th Finance Commission Report)

A similar concern was also raised by the 12th FC. Hence, although the 1971 population has been used by FCs in the past, they themselves have not been in favour of using such an outdated population figure.

Although states that have controlled population are likely to lose out, the move is intuitively in line with the constitutional mandate for FCs to address horizontal inequalities among states, which in this context would imply devolving greater resources to states with a high population since their expenditure requirements and governance costs would be higher.

Possible options for compensating states

It is noteworthy that the ToR of the 15th FC do suggest that the commission could explore options of providing performance-based incentives to states for 'efforts and progress made in moving towards replacement rate of population growth'. Thus, it is hoped that this aspect shall be duly factored in the grant equalisation effort of the FC, thereby addressing the fears of certain states on the matter.

Analysing the impact of the change

The factors considered by FCs for determining inter-se state allocations in their bid to correct horizontal imbalances in revenue-raising capacities and expenditure needs have mostly focused on three broad categories of indicators, viz. factors indicating needs of the state such as population and income, cost disability indicators like area and infrastructure distance, and factors indicating fiscal efficiency levels such as tax effort and fiscal deficit. The factors recommended specifically by the 14th FC for devolution of net tax proceeds are presented in the table below.

Table 1: Factors comprising the tax devolution criteria of the 14th FC

Factors	Description
Population and demographic change	As mandated in the ToR of the 14th FC, the base population to be considered for the determination of tax devolution was as per the 1971 census. Additionally, in order to factor in demographic changes that may have occurred over the 40-year period, population figures of 2011 were also assigned weightage.
Income distance	Income distance is computed by taking the distance from the state having the highest per capita gross state domestic product (GSDP). Income distance represents a measure of the fiscal/taxable capacity of the state. Three-year average (2010–11 to 2012–13) GSDP and population were considered by the 14th FC for the computation of income distance (per capita GSDP was calculated by the 14th FC using the respective year's estimated population).
Area	Area is taken as one of the indicators of cost disability because a state with a larger area would need to incur greater expenditure to provide comparable services to its residents. The 14th FC, recognising that the relationship between area and cost is non-linear, assigned a floor limit of 2% to states having an area smaller than 2% of the total area of the country.
Forest cover	As mandated by their ToR the 14th FC used forest cover as an indicator of ecological balance and sustainable development, as well as an indicator of cost/fiscal disability in terms of the opportunity cost of economic activities forgone for environmental conservation.

Source: 14th Finance Commission Report

A ceteris paribus analysis was carried out on the weighted average criteria formula used by the 14th FC for tax devolution to determine the impact of changing the weights assigned to population and demographic change (**Table 2).**

Table 2: Comparative weights and criteria for horizontal distribution of net tax proceeds

Criteria	Weight (%)	
	Fourteenth FC	Current analysis
Population (1971 census)	17.5	0
Demographic change (2011 census)	10	27.5
Income distance	50	5o
Area	15	15
Forest cover	7.5	7.5

Source: 14th Finance Commission Report

Key assumptions of the analysis

- Annual growth in the tax revenue is assumed at 14% using the annual average growth for the past 10 years (2009–10 to 2018–19).
- The raw data on population, area, GSDP/ per capita gross state domestic product (PCGSDP) and forest cover is taken as given in the 14th FC report.
- The divisible pool includes total tax revenue of the government's net of cesses and surcharges.
- No changes have been made to the 14th FC methodology except the change in the population reference year to 2011.

Table 3 presents the results of the analysis, highlighting the top gainer and losing states as per the changed criteria. The table clearly shows that the northern states of **Uttar Pradesh, Bihar, Rajasthan**, and **Madhya Pradesh** would be the major gainers from the change, whereas the southern and eastern states of **Tamil Nadu, Kerala, Andhra Pradesh, Odisha** and **West Bengal** would lose out on their share of the divisible pool.

Table 3: Impact of change in the population reference year on horizontal distribution

State/union territory	Impact (percentage point change in share in divisible pool)	Amount (crore INR)[1]
Uttar Pradesh	0.89%	56321
Bihar	0.81%	51320
Rajasthan	0.65%	40789
Madhya Pradesh	0.37%	23599
Jammu and Kashmir	0.13%	8458
Jharkhand	0.07%	4486
Haryana	0.07%	4431
Nagaland	0.05%	2989
Meghalaya	0.04%	2424
Gujarat	0.03%	1764
Mizoram	0.02%	1087
Arunachal Pradesh	0.01%	877
Tripura	0.01%	703
Manipur	0.01%	686
Maharashtra	0.01%	548
Sikkim	0.00%	208
Uttarakhand	0.00%	131
Goa	-0.01%	-436
Telangana	-0.01%	-550
Himachal Pradesh	-0.02%	-1158
Chhattisgarh	-0.04%	-2350
Punjab	-0.09%	-5425
Assam	-0.13%	-8226
Karnataka	-0.21%	-13410
Odisha	-0.47%	-29700
West Bengal	-0.51%	-32066
Kerala	-0.51%	-32488
Tamil Nadu	-0.57%	-36031
Andhra Pradesh	-0.62%	-38981

Source: PwC analysis

1. The impact has been estimated for the 15th FC period, i.e. 2020–21 to 2024–25.

Conclusion

As is evident from the above analysis, some states would gain, while others would experience a loss from the shift to the 2011 population for horizontal devolution. The Government of India has requested the 15th FC to also provide performance-based incentives to states on their efforts and progress made in moving towards the replacement rate of population growth. However, given the loss estimated above, the scope for compensation to losing states based on performance-based incentives may be limited.

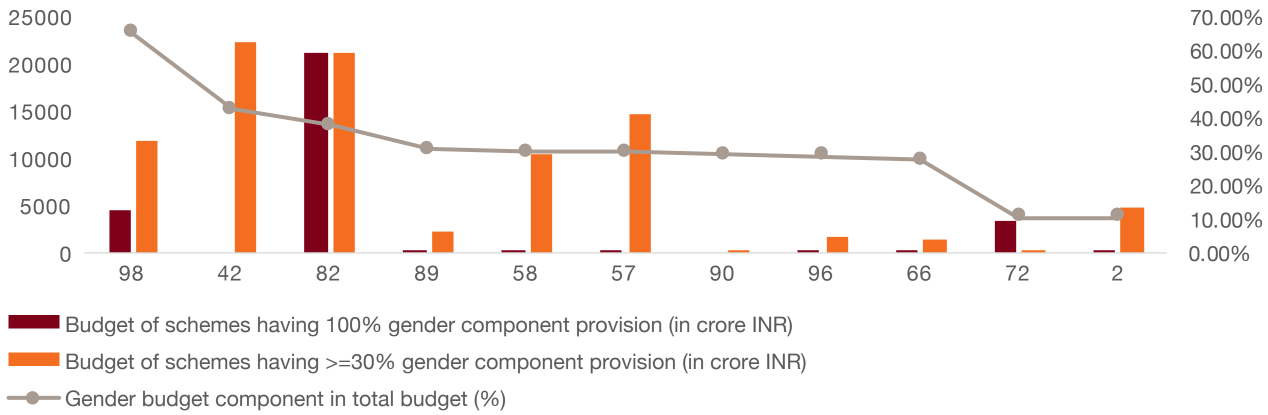
Further, there are other guiding principles in the ToR apart from the reference to the 2011 population census data that would have a significant impact on the total inter-se state allocations in tax devolution among states. For example, the ToR recommend the 15th FC to assess whether revenue deficit grants, which are provided to address the post-devolution resource gap, should be provided at all. It is true that not many states currently are facing revenue deficits; however, actual revenue expenditure may not be the same as the required revenue expenditure. Many of the states constrained by borrowing limits have limited public expenditure on critical services. The 15th FC should, therefore, estimate the resource gap based on normative revenue expenditure.

If the resource gap is not estimated and provided for adequately to the extent possible by the 15th FC, the recommendations are likely to go against the principles of equity. The 15th FC would need to ensure that, on an overall basis, the recommendations do not lead to undue revenue losses to state(s) either through appropriate horizontal devolution criteria or through grants (revenue deficit grants). Providing for the normative revenue expenditure based resource gap is a possible way to compensate the states for losing out on devolutions owing to the change in the reference year for the population.

Potpourri

Gender sensitivity in allocation of budgetary resources started in India with the Seventh Five Year Plan (1987–1992). Formal earmarking of funds for women, however, began with the introduction of the Women's Component Plan (WCP) in 1997–98. After experimenting with several other initiatives like the formation of gender budget cells in select ministries, a separate gender budget statement (GBS), as part of official budget documents, was published for the first time for FY 2005–06. This was followed by a modified publication of the GBS in FY 2006–07, a format that continues until today. The current GBS has two parts, namely PART A capturing schemes in which 100% budgetary provision is for women and PART B that reflects schemes where the allocations for women constitute at least 30% of the provision. In FY 2018–19, there are 32 government ministries/departments that have explicit budgetary provisions for the gender component, as reflected in Part A and Part B of the GBS, and which amounted to around 19.18% of their total budgetary allocation for the year. The graph below depicts provisions for 11 such ministries/departments whose gender component in budgetary provisions stands at least 10% in FY 2018–19.

Gender component in budgetary provisions (FY 2018–19)



Demand number	Ministry/Department
98	Ministry of Women and Child Development
42	Department of Health and Family Welfare
82	Department of Rural Development
89	Department of Social Justice and Empowerment
58	Department of Higher Education
57	Department of School Education and Literacy
90	Department of Empowerment of Persons with Disabilities
96	Ministry of Tribal Affairs
66	Ministry of Minority Affairs
72	Ministry of Petroleum and Natural Gas
2	Department of Agricultural Research and Education

Round the corner

News bytes

GST data reveals 50% increase in number of indirect taxpayers

Ministry of Finance, press release: 29 January 2018

A preliminary analysis of the Goods and Services Tax (GST) data reveals a 50% increase in the number of indirect taxpayers besides a large increase in voluntary registrations, especially by small enterprises that buy from large enterprises and want to avail of input tax credits (ITC). As per the Economic Survey 2017–18, there were 9.8 million unique GST registrants, which is slightly more than the total indirect tax registrants under the old system (where many taxpayers were registered under several taxes). Therefore, due to the adjustment in the base for double and triple counting, GST has led to an increase in the number of unique indirect taxpayers by more than 50%, a substantial 3.4 million.

Source: http://pib.nic.in/PressReleaseIframePage.aspx?PRID=1518077

Government eMarketplace (GeM) 3.0 launched

Ministry of Commerce and Industry, press release: 30 January 2018

GeM strives to keep pace with the ever-evolving technological challenges and stakeholder aspirations. In line with this endeavour, GeM has introduced a scaled-up third version. GeM 2.0 was launched as a pilot in August 2016 and its success led to the massive transformation programme, GeM 3.0, which would offer standardised and enriched catalogue management, a powerful search engine, real-time price comparison, template-based bid and reverse auction (RA) creation, demand aggregation, e-EMD, e-Performance Bank Guarantee (PBG), user rating, and advanced MIS and analytics. Some of the notable enhancements in version 3.0 are market-based generic requirements across all government agencies; standardisation of specifications of both products and services enabling empirical price comparability; completely transparent transactions across all ranges; and an open and dynamic marketplace with rating based on the performance of users on the website.

Source: http://pib.nic.in/PressReleseDetail.aspx?PRID=1518366

Cabinet approves the establishment of National Financial Reporting Authority

Government of India, press release: 1 March 2018

The Union Cabinet, chaired by the Prime Minister Shri Narendra Modi, has approved the proposal for establishment of the National Financial Reporting Authority (NFRA) and the creation of one post of Chairperson, three posts of full-time members and one post of Secretary for NFRA. This decision aims at establishing the NFRA as an independent regulator for the auditing profession, which is one of the key changes brought in by the Companies Act, 2013. The decision is expected to result in improved foreign/domestic investments and enhanced economic growth, to support the globalisation of business by meeting international practices, and assist in further development of audit profession. The jurisdiction of the NFRA for investigation of chartered accountants and their firms under section 132 of the Act would extend to listed companies and large unlisted public companies, the thresholds for which shall be prescribed in the rules. The Central Government can also refer to such entities where public interest would be involved for investigation.

Source: http://pib.nic.in/newsite/PrintRelease.aspx?relid=176918

Centralised General Provident Fund (GPF) module of Public Financial Management System (PFMS) launched

Ministry of Finance, press release: 1 March 2018

The Union Finance Minister inaugurated the centralised GPF Module of PFMS for all Central Government Employees and ePPO module of PFMS for complete end-to-end electronic processing of pension cases. The centralised GPF module meets a long-standing demand of Central Government employees for a mapping of GPF accounts with the unique Employee ID, thereby facilitating online application for GPF advances and withdrawals with online access to the employee's current GPF balances. The module will streamline GPF accounting and transfer of balances.

Source: http://pib.nic.in/newsite/PrintRelease.aspx?relid=176908

E-way bill must for intra-state goods movement from 1 June 2018

Ministry of Finance, press release: 6 March 2018

All states have joined the government's centralised e-way bill system for inter-state transport of goods by road under the GST regime. However, in view of the difficulties faced by trade in generating e-way bills due to initial technological glitches, it was decided by the GST Council to extend the trial phase for the generation of e-way bills, both for the inter-state and intra-state movement of goods. As per the decision of the GST Council, the states may choose any date before 1 June 2018 for implementing the national e-way bill system for the intra-state movement of goods but all states shall implement it latest by 1 June 2018.

Source: http://pib.nic.in/newsite/PrintRelease.aspx?relid=177036

Data analytics may be used on GST data to track tax evaders

Ministry of Finance, press release: 10 March 2018

The GST Council has been apprised of the fact that the Central Board of Excise and Customs (CBEC) and Goods and Services Tax Network (GSTN) have started detailed data analytics across a number of data sets available with them. The outcome of preliminary data analysis has revealed interesting insights like variance between the amounts of IGST and compensation cess paid by importers at customs ports and input tax credit of the same claimed in GSTR-3B, and major data gaps between self-declared liability in FORM GSTR-1 and FORM GSTR-3B. It was deliberated in the meeting that this information may be further analysed and adequate action may be initiated accordingly.

Source: http://pib.nic.in/PressReleseDetail.aspx?PRID=1523711

Indian Railways to complete GPS mapping of its assets by December

Ministry of Railways, press release: 23 March 2018

Indian Railways have a large number of assets, including land assets that need to be effectively monitored, managed and maintained. As railway operations have wide spatial coverage, GIS mapping of assets on Indian Railways can be used for better management. All assets of the Indian Railways are to be mapped and these will be subsequently used to develop the GIS portal for Indian Railways. Work is in progress for GPS-based mapping of the assets of the Indian Railways, including land assets on the GIS platform likely to be completed by December 2018. An MOU has been signed with the Centre for Railway Information System (CRIS) to this effect and CRIS is developing this application.

Source: http://pib.nic.in/newsite/PrintRelease.aspx?relid=177841

Paper releases

Demonetisation – a golden opportunity for widening the taxpayer base

ICRIER, Working paper no. 351, January 2018

The demonetisation exercise announced on 8 November 2016, aimed to tackle the problems of black money, fake currency, corruption, and terror funding. With time, more targets were added such as the creation of a cashless economy, curbing real estate prices, and broadening the taxpayer base. The demonetisation of 2016 is expected to yield better results since there is almost 100% banking coverage; the introduction of a taxpayer identification number (PAN) and a citizen identification number (Aadhaar); and more digital transactions, extensive computerisation in the banking sector and in government departments, especially the Income Tax department. The latter is equipped with the latest hardware and software and supported by competent officers. The authors feel that the Department should use technology to compile 360-degree profiles of all citizens based on: (i) all transactional data received since November 2016, and (ii) the large amount of historical data and third-party information available.

Source: http://icrier.org/pdf/Working_Paper_351.pdf

Back in business: Industrial policy for emerging economies in the new globalization

Asian Development Bank, Economics working papers, 20 February 2018

This paper explores the potential roles of industrial policy in the transition from middle-income to high-income status, and the actual experience of industrial policy in emerging economies. Today's emerging economies face a dual structural transformation challenge: (i) to move closer to the current world technology frontier (traditional catch-up), and (ii) to adjust to technological change in advanced economies and increasingly binding environmental and social constraints. They must do so subject to their available state capacity. The paradox of industrial policy is that it is most straightforward when state capacity is the most constrained. In this paper, the authors suggest that emerging economies still should explore sector-based horizontal policies addressing market and state failures in individual industries.

Source: https://www.adb.org/publications/industrial-policy-emerging-economies

Measuring the equilibrium impacts of credit: Evidence from the Indian microfinance crisis

The National Bureau of Economic Research, Working paper no. 24329, February 2018

In October 2010, the state government of Andhra Pradesh, India issued an emergency ordinance, bringing microfinance activities in the state to a complete halt and causing a nation-wide shock to the liquidity of lenders, especially those with loans in the affected state. The paper uses this massive dislocation in the microfinance market to identify the causal impacts of a reduction in credit supply on consumption, earnings, and employment in general equilibrium. Using a proprietary, hand-collected district-level data set from 25 separate, for-profit micro-lenders matched with household data from the National Sample Survey, it finds that district-level reductions in credit supply are associated with significant decreases in casual daily wages, household wage earnings, and consumption. The paper also reveals that wages in the non-tradable sector fall more than in the tradable sector (agriculture), suggesting that one important impact of the microfinance contraction was transmitted through its effect on aggregate demand.

Source: http://nber.org/papers/w24329

Fiscal policy, as the 'employer of last resort': Impact of MGNREGS on labour force participation rates in India

NIPFP, Working paper no. 210, 28 February 2018

Using unit record data of the latest 68th round of NSS Employment-Unemployment survey, the paper examines gender differential impacts of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) on labour force participation rates across States in India. The results, based on the survey enumerating 2,80,763 individuals in rural areas, revealed that there is a striking heterogeneity in the gender impacts of job guarantee programme across States of India. The probit estimates show that MGNREGS job cardholder's labour force participation rates were higher than that of the non-card holders and the result was more pronounced for women. The analysis of the time-use patterns and the unpaid care economy statistics of job guarantee cardholders obtained from the unit records also show that augmenting public investment in care economy infrastructure is significant for the job guarantee programme to function at its full potential in India.

Source: http://www.nipfp.org.in/media/medialibrary/2018/03/WP_2018_210.pdf

The growth slowdown and the working of inflation targeting in India

IGIDR, Working paper, February 2018

The paper presents a variety of indicators to show that demand constrained output during the period of growth slowdown 2011-17. It also draws on research to show the macroeconomic structure of the economy is such that a policy induced demand contraction affects output more than it affects inflation. In this context, it evaluates the application and working of inflation targeting. The framework agreed to was flexible inflation targeting but it was too narrowly and strictly implemented initially, although there are signs of moderation in 2018. There was too much emphasis on a weak aggregate demand channel to reduce inflation. Since inflation forecasts were biased upwards, the more effective expectations anchoring channel of inflation targeting was under-utilised. Space available due to positive commodity shocks was not made use of so that the negative output gap further widened, even as potential output itself fell. The output sacrifice imposed was therefore higher than necessary. Finally, possible mechanisms to ensure IT is implemented flexibly as required in the Indian context are discussed.

Source: http://www.igidr.ac.in/pdf/publication/WP-2018-007.pdf

Challenges before the Fifteenth Finance Commission

Economic and Political Weekly, vol. 53, issue no. 10, 10 March 2018

The Fifteenth Finance Commission (XV-FC) has been appointed with the terms of reference (ToR) notified in a presidential order dated 27 November 2017. The ToR of the XV-FC is significantly different from those of earlier finance commissions, important among them being the use of Census 2011 data for population figures. Some of these changes appear to urge the commission to asymmetrically treat a group of states. The paper examines the issues arising out of these changes and reviews the challenges the XV-FC will face while addressing them.

Source: http://www.epw.in/journal/2018/challenges-fifteenth-finance-commission.html

Open Budget Survey 2017

The Open Budget Survey (OBS) was launched in 2006, and it is the world's only independent, comparative assessment of the three pillars of public budget accountability, i.e. transparency, oversight, and public participation. The 2017 survey was the sixth round of this biennial assessment. It evaluated 115 countries across six continents. According to the results of the Open Budget Survey 2017, many governments around the world are making less information available about how they raise and spend public money. After ten sustained improvements, the 2017 survey shows a slight decline in average global budget transparency scores. This is in stark contrast to the average increase of roughly two points documented among comparable countries in each round of the survey between 2008 and 2015. The reversal of transparency gains is particularly discouraging given roughly three-quarters of the countries assessed do not publish sufficient budget information, seriously undermining the ability of citizens worldwide to hold their government accountable for using public funds efficiently and effectively.

Source: https://www.internationalbudget.org/open-budget-survey/

Does the political resource curse affect public finance? The vulnerability of tax revenue in resource-dependent countries

Journal of International Development 30(2):323–344, March 2018

This paper explores the extent to which government revenue is affected by external shocks, and whether the effects are different for resource-dependent (RD) countries as compared with non-resource-dependent countries. It focuses on the fate of poorer countries, assuming that these countries will find it more difficult to implement the policies needed to offset the effect of shocks. Based on data from the International Centre for Taxation and Development (ICTD), Government Revenue Dataset for 1980–2010, it measures the elasticity of tax revenue with respect to terms-of-trade shocks. The paper finds that revenue in resource-dependent countries is more vulnerable to such shocks. It is above all the richer countries that appear to be adversely affected, compared to their non-RD counterparts. In contrast, the difference between RD and non-RD countries is less pronounced in the group of poorer countries.

Source: https://www.researchgate.net /Does_Political_Resource_ Curse_Affect_Public_Finance

Comparative financing of megacities in multi-level BRICS states

International Journal of Public Sector Management, March 2018

The BRICS states are based on multi-level government's architecture whose megacities have an outstanding role in their respective states – not only in terms of population and economic power, but also in terms of local own-tax revenue collection, which implies a very strong administration. At the same time, megacities are facing increasing public expenditures because of infrastructure needs, housing shortage, growth of social inequality, and environmental degradation. In order to outweigh the urban advantages associated with urbanisation, reconsidering the fiscal framework is of urgent need. Findings reveal that megacities are at the forefront of national economic growth, that they have an above average tax base, an excellent administration, and therefore, face above average yields of property tax revenues. Rethinking the fiscal framework could considerably improve local finances.

Source: https://www.researchgate.net/Comparative_financing_of_ megacities_in_BRICS_states

PwC updates

Our work

Development Impact Assessment for a development finance organisation

Source: PwC

Training workshop on 'Development Impact Assessment' conducted for staff of a development finance organisation in India

PwC was engaged by the Department for International Development (DFID) to provide support to a financial institution (FI) for enhancing the learning of its staff on development impact (DI) assessment of its projects and instruments. The eventual objective was to support the embedment of this learning in the FI with a view to enhancing the development impact of the FI's operations.

Among the various outputs, including a manual on how to carry out DI assessment for the FI's staff, a key deliverable constituted trainings for the FI's staff on DI assessment. The training was conducted for 5 days and a total of 55 officers attended the training programme.

Various topics such as the definition of DI, different standards for measuring DI (like Development Outcome Tracking System (DOTS), Results Measurement (ReM), and Impact Grid), and indicators of DI and the M&E framework were discussed in the training. Further, advanced counterfactual methods such as randomised controlled trial (RCT), difference in difference (DID) and propensity score matching (PSM) were covered in the training.

A mixed approach of lectures and practical exercises was followed for the training. The training content included lectures, practical exercises and an illustration of DI assessment of a dummy project using R programming packages. In addition, participants were given hands-on training on R-packages and the manner in which 'R' can be used to assess DI. For practical exercises, participants were divided into various groups, each group having four to five members. Tasks like drawing a log frame/theory of change, conducting a Delphi survey, constructing an index and scorecard were performed by each group throughout the training programme.

Our trainers included staff with practical experience of conducting DI assessment and using the statistical programming language R for data analysis.

The training workshop was well appreciated by the participants, and the feedback received from them and various officials of the FI indicated that the training programme was effective and successful.

Our people

Dr Tapas Kumar Sen

Education:

- PhD from University of Pune, India, awarded in January 1983. Work on dissertation entitled 'Shifting of corporate income tax in India' carried out at Gokhale Institute of Politics and Economics, Pune.
- MA (Economics) from Sambalpur University, India, in 1976 (First class – 1st Rank).
- BA (Hons. in Economics) – First class from Sambalpur University, India, with distinction in all other subjects in 1974.

Work experience:

33 *years*

Worked in:

India, Canada, Ethiopia, Nigeria, and Sri Lanka

Dr Tapas Kumar Sen was a professor at the National Institute of Public Finance and Policy (NIPFP). His projects spanned a wide variety of topics in public finance, as evidenced by a large number of research reports, several published papers and a few books he has authored (or co-authored). These include his studies on corporate income taxation, sales tax, taxation of petroleum products, stamp duty, motor vehicle taxation and profession tax on the revenue side; and studies on overall government expenditures, government subsidies, plan expenditures, and public expenditure on human development on the expenditure side. Besides working on topics at the national as well as sub-national levels within India, his international experience includes work assignments in Canada, Ethiopia and Sri Lanka. He has prepared several reports for international organisations like UN-ESCAP, UNDP, World Bank, Asian Development Bank (ADB), Conference Board of Canada and the European Commission on behalf of NIPFP as well as an individual consultant. He was in charge of the State Finance Unit at NIPFP and was responsible for developing a computerised database on state-level budgetary data in India there.

Dr Sen has worked for and with various government committees, study groups and task forces in India, both at the national and sub-national level, on policy issues covering a wide area within public economics. He has occasionally contributed to the preparation of official documents in states like Odisha, Rajasthan, Sikkim and Meghalaya, working closely with the respective governments. He has regularly contributed to the training programmes organised at NIPFP as well as in other institutions at the national and sub-national level. As a resource person, he has conducted a number of sessions on various topics in fiscal federalism, government expenditure and taxation, such as sales tax/VAT, mineral taxation and stamp duty. He has an abiding interest in the areas of fiscal federalism and state-level government finances. Dr Sen has also been a Member of the State Finance Commission of Punjab.

At PwC, he has been advising states on tax and non-tax revenue issues. He is presently also a member of the Academic Committee of the School of Social Sciences at Rajasthan Central University, and a member of the Governing Body and Academic Review Committee of Centre for Excellence in Fiscal Policy and Taxation (CEFT), Xavier University, Bhubaneswar. He has also been teaching a compressed module of Indian Public Finance to the post-graduate students of the Indira Gandhi Institute of Development Research (IGIDR), Mumbai for several years now. His work was recognised by the Indian Economic Association during its last annual conference, where he was invited to deliver one of the keynote addresses.

About us

The Public Sector and Governance (PS&G) practice of the Government Reforms and Infrastructure Development (GRID) SBU of PwC in India has been working closely with clients in the public sector and at all levels of the government, as well as key donors such as DFID, JBIC, World Bank and ADB. It comprises a large team of full-time dedicated professionals and associates that provide services to governments and multilateral and private sector clients in the areas of public finance, economics, and urban infrastructure development.

In public finance and economics, the work has broadly included budget reforms, revenue augmentation strategies, performance improvement, institutional strengthening, accounting and financial management systems, debt management and automation or computerisation. In addition, the team has gained traction in the public expenditure and financial accountability (PEFA)/fiduciary risk assessment (FRA) areas with assignments across South Asia. Our Economics sub-group focuses on applied economics services related to macro- and microeconomics, competition, impact assessment, and business forecasting.

In urban infrastructure development, our team provides advisory services from planning to implementation, including programme management, business plans and strategies, institutional strengthening, financial management and accounting, and municipal project development, including through PPP, transaction advisory, and contract management.

Most of our projects include training and capacity building of government counterparts working with the project team on specific modules.

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