

NIPFP

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National Institute of Public Finance and Policy

NEWSLETTER

Director's Column



There are serious question marks on the performance of Indian economy once again this year. The acceleration in headline inflation and the consequent monetary tightening by the Reserve Bank of India is adversely impacting on the manufacturing growth rate. The upsurge in oil prices has threatened to create serious macroeconomic stability question with mounting off budget liabilities. The

policy inaction in terms of not adjusting the downstream prices of oil distillates commensurate with increase in the price of crude has landed the country between the "devil and the deep sea". If the prices of distillates are adjusted now, the headline inflation will increase; if not, the deficit will burgeon. The deficit shows its ugly head through deterioration in the balance of payments. The current account deficit is likely to increase to 3.5 percent of GDP and the Indian Rupee seems to be the only currency losing against the weak US dollar among the emerging economies. Within six months, optimism has given way to serious doubts, if not despondency.

Unfortunately, there are no easy solutions and there is no alternative but to administer medicines when the patient is ill. Political parties do not have time to treat the patient and the problem is likely to prolong. Indeed, a lot of the problems have been due to escalation in oil prices, but policy inaction on the part of the government is no less a factor that must take the blame. Difficult days are ahead for the economy.

While we may not see serious reforms until the elections are over, it would nevertheless be useful to prepare ourselves for the reforms after the election. The political parties can undertake serious reforms in the first three years in office though the compulsions of coalition politics may not give them the degrees of freedom even for undertaking truncated reforms. In the environment that we are in, it would be well nigh impossible to expect implementation of a well-designed and sequenced reform agenda. The ruling party has to simply push reforms whenever it can. On the fiscal front, there is much that needs to be done to keep the deficit in check, make the system much more transparent to create a stable and sustainable environment.

The NIPFP continues to assist the government in working out the details of various reforms. The Hon'ble Prime Minister released the document, "Towards Peace, Progress, and Prosperity: Vision 2020 for the North Eastern Region", prepared by the NIPFP at the request of the North Eastern Council and Ministry for the Development of the North

Eastern Region. The report provides a blueprint for the region to catch up with the rest of the country and details the strategy for the purpose. It focuses on the issue of participatory governance, augmentation of infrastructure, and creating the enabling environment for private sector operation. I am happy to report that the NEC has adopted the document and hopefully, the strategy will be implemented to ensure progress and prosperity in the region. Another important study that was released by the Deputy Chairman of the Planning Commission is the State Development Report for Sikkim which the Institute has prepared.

A series of studies on financing human development in eight different states is underway. The studies on Tamil Nadu and Madhya Pradesh have been published. The studies on West Bengal and Orissa are complete. The remaining studies are likely to be completed by the end of July. Hopefully, this will provide guidance for the states for evolving strategies to finance human development. The collaborative programme on management of capital inflows with the Department of Economic Affairs is going on well and an international seminar was held to discuss some of the important issues in the area on 27-28 February, 2008. NIPFP has instituted an Annual Lecture Series, the first of which was delivered by Dr. Richard M. Bird on March 12, 2008. A number of studies on tax policy and reforms, fiscal management, and intergovernmental transfers are also underway.

The high points of the last six months were the Asian Tax Forum conference and the seminar on the Issues Before the 13th Finance Commission. The first one was organised in collaboration with International Taxation and Investment Centre, Washington DC, and the second at the request of the current Finance Commission. A number of very high quality papers were presented in the Finance Commission seminar and it is proposed to publish the volume containing important papers. The NIPFP continued its efforts to help the University Teachers with a month long Refresher training on "Public Finance in Theory and Practice" during May 26 – June 20, 2008.

The NIPFP will continue its dedicated efforts at contributing to research, advocacy, and capacity building in the important area of fiscal policy. Hopefully, the policymakers will find the contributions useful and implementable.

M. Govinda Rao

PROJECTS COMPLETED

- *Independent Commission on AIDS in Asia*

C. Rangarajan, and Anit Mukherjee

The Commission on AIDS in Asia was constituted to review the scientific evidence on the spread of HIV in Asia and assess its medium-and-long-term impact on economies and societies in the region. The Commission proposes practical measures to halt and reverse the spread of HIV and mitigate its impact. The Report of the Commission was handed over by the Chairman C. Rangarajan to the UN Secretary General at the UN Headquarters in New York on March 26, 2008. The Report was launched in India by the Prime Minister on June 30, 2008. NIPFP acted as the Secretariat of the Commission, and also provided research support in preparing the Report.

- *Improving the Fiscal Health of Indian Cities*

Kala Sridhar and Simanti Bandyopadhyay

The study was sponsored by the World Bank Institute. The draft report was prepared by a team led by Kala Sridhar who has since left the Institute. The study estimates fiscal capacities and needs of five urban agglomerations – Delhi, Kolkata, Chennai, Hyderabad, and Pune. The draft report was presented at the World Bank Institute, Washington D.C. on April 23-28, 2008. The final report is under preparation.

- *Cost Benefit Analysis of Small Scale Exemptions*

R. Kavita Rao

This study, undertaken for the Tax Research Unit set up at NIPFP by the Department of Revenue, Ministry of Finance, focuses on the exemptions accorded to small scale units within the central excise regime. The objective of the study is to assess the impact of these exemptions on the units. The conclusion drawn first is that, while there is agreement on the need for an exemption threshold, the form and level should be based on the rationale for providing the exemption, and second, the costs to the exchequer of this exemption clearly exceed the benefits

derived by the intended beneficiaries, although they might fall short of the benefits derived by all beneficiaries.

- *Updated Projects of Tax Receipts (CT & IT) for GY 2007-08*

A.L. Nagar, Sanjay Kumar, and Sayan Samanta

Using actual tax receipts up to Dec.31, 2007, the earlier projections of CT and IT receipts at the end of FY 2007-08, and the forecast of personal income tax and corporation tax were revised and submitted to the Ministry of Finance.

- *Rajasthan: A Report on Cost Under-recovery and User Changes in Selected Services, Part-I*

Mukesh Kumar Anand

This study funded by the Finance Department, Government of Rajasthan, presents the estimate of implicit subsidy at the aggregate (sectoral) level for four sectors, namely, drinking water, irrigation, power, and transport.

- *Strengthening Financial Management System*

M. Govinda Rao, A.K. Ghosh and Pratap Ranjan Jena

The project funded by the Administrative Reform Commission, Government of India, outlines a coherent approach to expenditure management, with a view to bring about systemic change in the process of expenditure decision making and control both at central and state levels, so that reforms in various components relating to financial management fall in place, and reinforce each other within an overarching concept and philosophy. The report contains recommendations on strengthening the budgetary process by taking programme - based approach with a multi-year perspective to become more performance oriented. The report also examines the institutional aspects relating to budgetary process, financial management systems, smooth flow of funds for programmes, internal audit and control systems, external audit systems, and recommends suitable reform measures. In this context strengthening state treasury system through use of information technology for better budgetary control in

an integrated financial management framework is also emphasised.

- *Monitoring and Tracking of the 20 JnNURM Cities*

Om Prakash Mathur

The Jawaharlal Nehru National Urban Renewal Mission (JnNURM) requires participating states and cities to enter into a Memorandum of Agreement (MoA) with the Government of India, on a time schedule for implementing a set of urban sector reforms. The NIPFP is one of the three institutions who have been entrusted with the task of monitoring progress in respect of the implementation of reforms in 20 JnNURM cities. The NIPFP has submitted reports on the current status of reforms in 18 out of 20 cities. The two cities not covered so far are Delhi and Panaji.

PUBLICATIONS

MONOGRAPHS, CHAPTERS IN BOOKS, AND EDITED VOLUMES

- Pandey, Rita and Mukesh Kumar Anand, "Andaman and Nicobar Islands Development Report". New Delhi: Academic Foundation (2008).
- Rajaraman, Indira, "An Overview of Four Case Studies on Fiscal Space" in (eds.) Roy R. and A. Heuty, *Fiscal Space: Policy Options for Financing Human Development*. UK: Earthscan, 2008
- Rajaraman, Indira and Darshy Sinha, "Functional Devolution to Rural Local Bodies in Four States" in (ed.) M.A. Oommen *Fiscal Decentralisation to Local Governments in India*. UK and USA: Cambridge Scholars Publishing (2008).
- Rao, M. Govinda and Mita Choudhury, "Inter-State Equalisation of Health Expenditures in Indian Union". New Delhi: NIPFP (2008).
- Rao, M. Govinda and Anwar Shah, (eds.) *States' Fiscal Management and Regional Equity: An Overview*. New Delhi: Oxford University Press (forthcoming)
- Rao, M. Govinda, "Fiscal Federalism in India – Trends and Reforms" in (eds.) Roy Bahl and S. Ichimura *Decentralisation Policies in Asian Development*. UK and USA: Edward Elgar (2008)
- _____, "Unfinished Reform Agendum: Fiscal Consolidation and Reform – Comments on T.N.Srinivasan" in (eds.) Bhagwati Jagdish and Charles Calomiris. *Sustaining India's Growth Miracle*. New York: Columbia Business School (2008).
- Sen, Tapas K., Anit N. Mukherjee, H.K. Amarnath, and Mita Choudhury, *Financing Human Development in Tamilnadu: Consolidating and Building Upon Achievement*. New Delhi: NIPFP (2008).

JOURNAL ARTICLES

- Anand, Mukesh Kumar and Saswata Chaudhury (2008). "Demographic and Social Changes: Some Issues for the Sixth Central Pay Commission," *Economic and Political Weekly*, 43 (7): 54-58 (February)
- Banerji, Rukmini and Anit N. Mukherjee (2008). "Achieving Universal Elementary Education in India: Future Strategies for Ensuring Access, Quality and Finance". *Margin – The Journal of Applied Economic Research* 2 (2): 213 – 228.
- Rajaraman, Indira and Debdatta Saha (2008). "An Empirical Approach to the Optimal Size of the Civil Service," *Public Administration and Development*, 28(3): 239 - 249
- Rajaraman, Indira and Alan Deardoff. (2008), "Buyer Concentration in Markets for Developing Country Exports," *Review of Development Economics* (forthcoming).
- Rangarajan, C. and D.K. Srivastava (2008), "Reforming India's Fiscal Transfer System: Resolving Vertical and Horizontal Imbalances". *Economic and Political Weekly*, 43 (23): 47 – 60 (June)

- Rao, M. Govinda (2008). "Amaresh Bagchi: Public Finance Par Excellence" *Economic and Political Weekly* (March 28).
- Rao, M. Govinda and U.A. Vasanth Rao (2008). "Expanding the Resource Base of Panchayat: Augmenting Own Revenue", *Economic and Political Weekly*, 43(4): 54-61 (January).

WORKING PAPERS/DISCUSSION PAPERS/ POLICY BRIEFS

- Shah, Ajay and Ila Patnaik. "Managing Capital Flows: The Case of India" *NIPFP Working Paper No. 52, May 2008*.
- Shah, Ajay. "New Issues in Indian Macro Policy" *NIPFP Working Paper No. 51, May 2008*.
- Patnaik, Ila and Ajay Shah. "Does the Currency Regime Shape Unhedged Currency Exposure?" *NIPFP Working Paper No. 50, April 2008*.

TRAINING PROGRAMMES/ WORKSHOPS

- Training Programme on Public Finance, IA&AS Probationers, NIPFP New Delhi. January 21-February 8, 2008.

H.K. Amarnath coordinated the programme.

- Fourth Refresher Training Programme in Public Economics for College/University Teachers, May 26-June 20, 2008.

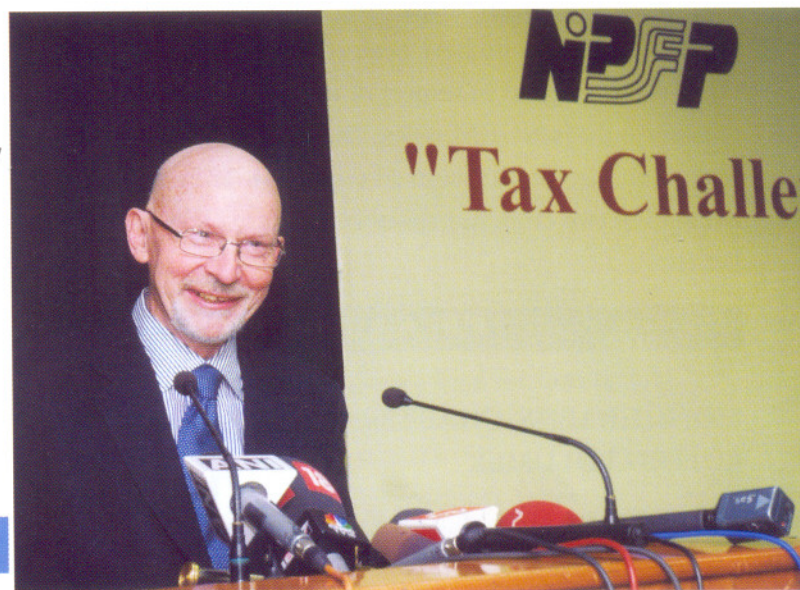
Mita Choudhury was the Programme Coordinator.

EVENTS

• Annual Lecture Series

The Governing Body of NIPFP has instituted an *Annual Lecture Series* at the Institute. The first public lecture under the series was delivered by **Richard Bird, Professor Emeritus, Department of Economics and Adjunct**

Professor and co-Director of the International Tax Programme, University of Toronto on "Tax Challenges Facing Developing Countries". The event was presided over by C. Rangarajan, Chairman NIPFP and Chairman, Economic Advisory Council of the Prime Minister at Assocham House, New Delhi on March 12, 2008. The lecture, followed by a lively interaction, was attended by civil servants, academicians, NGOs, and corporate representatives.



Richard Bird delivering a Public Lecture on *Tax Challenges Facing Developing Countries*

• NIPFP – DEA Program on Capital Flows, 2nd Meeting

The second meeting of the ongoing NIPFP-DEA program on Capital Flows was held at the India Habitat Centre on March 27-28, 2008. The meeting was attended by reputed academics and practitioners in the field of international finance. It discussed various issues related to the current management of capital flows in India, international experience in management of external sector of the economy, and emerging issues such as the growing internationalisation of Indian firms.

• Asian Tax Forum

The National Institute of Public Finance and Policy, New Delhi, along with the Ministry of Finance, Government of India hosted the Fifth **Asia Tax Forum** during May



NIPFP & Ministry of Finance hosted the *Fifth Asia Tax Forum*

11-13, 2008, at Taj Mahal Hotel, New Delhi. The forum focused on VAT, and excise taxation. This year's forum was attended by participants from governments of 12 countries and regions, in addition to experts from 4 countries, besides private sector participants from 4 industries. The areas of discussion included issues in the introduction and implementation of VAT, with dedicated focus on VAT on financial services, benchmarking and use of tax expenditures, use of petroleum excises in environmental tax policy, and use of information technology to reduce costs in indirect tax administration and enhance data collection for policy work. The Institute received partial sponsorship for the event from Asian Development Bank, Canara Bank, and Institute of Financial Management and Research, Chennai.



Seminar on Issues Before the Thirteenth Finance Commission

- Seminar on **Issues Before the Thirteenth Finance Commission**. May 23 – 24, 2008.

NIPFP organized a seminar that brought together the Chairman and Members of the Thirteenth Finance Commission, senior finance department officials at the state level, academicians, representatives of the Planning Commission and international agencies. Several presentations were made by NIPFP faculty members and other eminent researchers drawn from all over the country. An edited volume of the seminar papers is under preparation.

PRESENTATIONS BY NIPFP FACULTY AT NATIONAL / INTERNATIONAL CONFERENCES

- Amarnath, H.K. **Quality Issues in Higher Education to College and University Teachers**. National Seminar on Higher Education, sponsored by NAAC. Government Art College, Srikrishnadevaraya University, March 1, 2008.

- Bandyopadhyay, Simanti. **Improving the Fiscal Health of Selected Indian Cities: Main Findings.** International Seminar on Fiscal Health of Cities, The World Bank, Washington DC, USA., April 24-25, 2008.
- Bhattacharya, Rudrani. **Exchange Rate Pass-Through in India.** Second Research Meeting on Consequences of Capital Flows, India Habitat Centre, New Delhi, March 27-28, 2008.
- Chidambaram, Siva. **Planning and Development of Digital Library using GSDL Software at NIPFP Library.** International Conference on Information and Knowledge Management (ICIKM 2008), Kathmandu, Nepal. March 27-29, 2008.
- Chidambaram, Siva. **Revisiting Z39.50 Protocol in Digital Library Era: Need and its Necessity in the Internet World.** 9th Annual Convention of MANLIBNET on Business and Management Librarianship: The Decade Ahead, New Delhi: ICSSR
- Mathur, O.P. **Policy Review of Provincial and Local Government.** Roundtable Discussion. Stellenbosch, University of Western Cape, South Africa. March 3 – 7, 2008.
- Mathur, O.P. **Integrated Urban Reforms: Regulatory, Planning and Governance.** Conference on Liveable Cities, Goa. April 4-5, 2008.
- Mukherjee, Anit. **Estimating the Efficiency and Effectiveness of Elementary Education Expenditure: Data Constraint in Measuring Input, Output, and Outcome.** National Seminar on School Education Statistics, NUEPA. March 3-4, 2008.
- Rao, M. Govinda. **An Assessment of Indian Public Finance Policies.** Capacity-Building Programme on International Economic Issues and Development Policy. Research and

Information System for Developing Countries, New Delhi, February 26, 2008.

- _____ . **Spillovers from India's Northeast Provinces to Neighbouring Countries .** ADB-ICRIER seminar on India's Role in Asian Economic Integration, Imperial Hotel, New Delhi, March 10, 2008.
- _____ . **Indian Fiscal Federalism in a Globalizing Environment: Trends and Reform Challenges.** IEG-DSE Conference on National Income and other Macroeconomic Aggregates in a Growing Economy. IEG, New Delhi, April 30, 2008.
- _____ . **Expenditure Management at State Level in India.** Workshop on Fiscal Governance, RBI, Mumbai, May 15, 2008.

LECTURES/ SEMINARS BY GUESTS AT NIPFP

- February 1, 2008: *Credit Market Turmoil: Its Impact and Lessons for Authorities.* Sir John Grieve, Deputy Governor, Bank of England, U.K.
- March 5, 2008: *Why Do people Pay Taxes? An Application of Behavioural Decision Theory.* Sanjit Dhami, University of Leicester, U.K.



Lecture on *Fiscal Policy and Economic Reforms* by Y.V. Reddy, Governor, RBI

- March 13, 2008: **Urban Governance and Finance of Metropolitan Area.** Enid Slack, University of Toronto, Canada.
- April 1, 2008: **Role of Judiciary in the Assignment of Powers.** Prof. Albert Breton, University of Toronto.
- May 26, 2008: **Fiscal Policy and Economic Reforms.** Y.V. Reddy, Governor, Reserve Bank of India.
- June 3, 2008: **Indian Economy: An Update.** Isher Judge Ahluwalia, Chairperson, ICRIER.

- Mathur, O.P. **Urbanisation and Urban Issues and Fiscal Decentralisation and the Urban Local Bodies.** Lal Bahadur Shastri Academy, April 15, 2008.
- Mukherjee, Anit. **Decentralisation and Financing of Human Development.** Training of Trainers' Program on Human Development and District-level Planning. RBI – College of Agricultural Banking, Pune. June 17, 2008.

- _____ . **Looking Back and Looking Forward: SSA Phase – I and Lessons for the Future.** Course on Policy Development and Policy Studies, NUEPA, New Delhi. March 12, 2008.

- Rajaraman, Indira. **Talk on Overview of Taxation,** National Academy of Audit and Accounts, Shimla. March 24, 2008.

- Rao, M. Govinda. **Indian Financial Reform.** Institute of Management, Nirma University of Science and Technology, Ahmedabad, February 25, 2008.



Delegation from the Planning Commission of Pakistan

- June 25, 2008: Visit of **High-level Delegation from the Planning Commission of Pakistan** was led by its Deputy Chairman. The delegation also included High Commissioner of Pakistan to India, and senior members of the administration of Government of Pakistan.

GUEST LECTURES BY NIPFP FACULTY

- Bandyopadhyay, Simanti. **Data Collection, Data Analysis and Presentation.** Centre for Civil Society, New Delhi. May 28, 2008.

- _____ . Series of eight lectures on **Data Envelopment Analysis** to M. Phil students. Department of Economics, University of Calcutta, Spring 2008.

- _____ . Series of four lectures on **Data Envelopment of Business Economics.** University of Delhi (South Campus), New Delhi, March 15-31, 2008.

- _____ . **Fiscal Policies in South Asian Counties.** UNDP Regional Office, Colombo, March 7, 2008.

- _____ . Keynote and Valedictory Address. International Conference on “**Issues in Public Policy and Sustainable Development**”, IGNOU, New Delhi. March 26 – 28, 2008.

- _____ . **Critical Issues in Budget Management.** Talk delivered to Goa Assembly MLAs, Goa Legislative Secretariat, Panaji. June 4, 2008.

APPOINTMENT ON COMMITTEES/AWARDS/HONOURS/REVIEWER ROLES

- Rao, Kavita. Member, Task Force on GST constituted by the Thirteenth Finance Commission.

- _____ . Member of the inter-Ministerial Group on Recommendations of the Public Accounts Committee on Concessions meant for SSI Units

- Rao, M. Govinda. Chairman, Audit Committee, and non-official part-time Director of the Rural Electrification Corporation.
- _____ . Member Selection Committee for the post of Director, Institute for Social and Economic Change, Bangalore.
- Mathur, O.P. Member, National Review Committee on JnNURM headed by Prime Minister.
- _____ . Member, National Core Group Urban Poverty, chaired by the Hon'ble Minister Kumari Selja, Ministry of Housing and Urban Poverty Alleviation.
- _____ . Member, High Powered Expert Committee on Affordable Housing, headed by Deepak Parekh, Chairman, HDFC.
- _____ . Member, High Powered Expert Committee on Investment Requirements of Urban Infrastructure, chaired by Isher Ahluwalia, Chairperson, ICRIER.
- _____ . Member, UN-HABITAT Advisory Group of Experts on Decentralisation.
- _____ . Member, of the Advisory Committee of City Development Initiative for Asia (CDIA), a joint programme of the GTZ and Asian Development Bank.
- Bandyopadhyay, Simanti. Visiting Fellow, Department of Economics, University of Calcutta, Kolkata, Spring 2008.
- _____ . Visiting Faculty, Department of Business Economics, University of Delhi, South Campus.

NEW PROJECTS INITIATED

- Mathur, Om Prakash. **Size of the unassessed and under-assessed urban property market.** Commissioning Agency: Thirteenth Finance Commission.
- _____ . **In depth review and evaluation of the Reports of the Second State Finance Commission.**

Commissioning Agency: Ministry of Housing and Urban Poverty Alleviation.

- _____ . **Theory and Practice of Fiscal Decentralisation in so far as it relates to poverty alleviation and slum improvement and upgrading.** Commissioning Agency: Ministry of Housing and Urban Poverty Alleviation.
- **Inter-state distribution of central government subsidies and tax expenditures.** Commissioning Agency: Thirteenth Finance Commission
- **Fiscal Restructuring Plan 2010-15.** Commissioning Agency: Thirteenth Finance Commission

STAFF NEWS

- Debdulal Thakur joined NIPFP as Economist, w.e.f. June 19, 2008
- Kala S. Sridhar, Fellow, left the Institute on March 20, 2008.
- Jai Mohan Pandit, joined NIPFP as Secretary, w.e.f. March 5, 2008.
- Anit N. Mukherjee, joined NIPFP as Fellow, w.e.f. January 1, 2008.

OBITUARY



DR. AMARESH BAGCHI, Emeritus Professor and former Director of NIPFP, passed away on February 20, 2008. He

was serving as Member, Commission on Centre-State Relations chaired by Justice Punchhi since July, 2007. He was an outstanding scholar in the area of public finance, and a colleague who was respected and admired by the NIPFP fraternity and beyond.