KERALA ECONOMY
2020, VOL.1, NO. 3. pp 15-18.

ISSN : 2583-4436

Kerala LSGs play pivotal role in the battle against COVID -19 : RBI report

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Kerala's efforts in the last two and a half decades to empower local self governments [LSGs] through devolution of financial resources and political and administrative power has strengthened the resource base of these institutions and this leaves them in a better position to deal with Covid 19 pandemic, as per the recent Reserve Bank of India [RBI] report. A special box item in the report, 'COVID-19 - The Kerala Model of Containment - The Role of Local Self-Government' gives a vivid account of how Kerala had effectively engaged LSGs in fighting the pandemic. The report also praises the timely devolution of funds to LSGs that played a pivotal role.

The report titled 'State Finances: A Study of Budgets of 2020-21' (RBI 2020) stated that Kerala was the first state in India to report a case of COVID 19. Given the high global migration of its residents and being an international tourist destination, it was feared that Kerala would develop into a hotspot. The state, however, successfully managed to contain the spread of the pandemic in the first wave of infections. The state witnessed a second wave of infections with the arrival of non-resident Keralites from outside the state along with easing of restrictions. However, Kerala reports a lower death rate at 0.3 per cent compared to the all India average of 1.5 per cent. In the face of rising cases, Kerala has set up, 101 COVID First Line Treatment Centres [FLTCs] across the state and is focusing on intense contact tracing, testing and quarantine to minimise the community spread of the disease. With the resurgence in new cases, Kerala is actively roping in the services of LSGs in its fight against the pandemic. LSGs have been entrusted with the task of collecting information, spreading awareness, identifying the vulnerable sections, ensuring quarantine and lockdown guidelines being followed, cleaning and disinfecting the public places and ensuring the supply of essential services to those under quarantine.

Kerala's efforts in the last two and a half decades to empower LSGs through devolution of both financial resources and political and administrative power has strengthened the resource base of these institutions and this leaves them in a better position to deal with COVID 19. Kerala's 1200 strong LSGs worked in tandem with the state government to create effective interventions during the crisis. LSGs managed to create this system with the help of health workers, Kudumbasree members, Anganwadi staff, local authorities and the state police. The state also set up a 300,000 strong volunteer force for working with their respective local government bodies. Substantial and timely devolution of funds to LSGs by the state government over the years has helped to strengthen these institutions, the report reiterated.

COVID poses serious threat to state’s finance

The report also brings light to the alarming status of state's finance along with the spread of the epidemic. It said that the sharp increase in indebtedness of states owing to the COVID-19 pandemic poses a risk to their finances.

States have budgeted their consolidated gross fiscal deficit (GFD) at 2.8 per cent of GDP in 2020-21, however, the COVID-19 pandemic may alter budget estimates significantly. The report stated the average GFD for states that presented their budgets before the pandemic is 2.4 per cent of GSDP, while the average for budgets presented post-lockdown is 4.6 per cent.

States may see a massive cut in capital expenditure in 2020 -21 due to the revenue impact of the pandemic. The report reveals that states drastically cut their capex by Rs 1.26 trillion, or nearly 0.6 per cent of the country's GDP, in the previous fiscal year 2019-20. This is the sharpest cut in last two decades and it happened before the pandemic hit the economy.

"Sustaining the recovery from the pandemic will reshape state finances, entailing boosting investment in healthcare systems and other social safety nets in line with the states' demographic and co-morbidity profiles," it said.

State governments' finances have taken a body blow in the first half of 2020-21 and their gross fiscal deficit is projected to widen beyond 4 per cent of GDP in 2020 -21. States have been at the forefront in the fight against the corona virus pandemic which spawned a public health crisis and the biggest migration in the world, report added.

To that extent, the dual impact of the compression in tax receipts and higher expenditure has generated unprecedented pressures on fiscal positions at sub-national levels. States had to deal with a massive wave of reverse migration during the pandemic, especially at the peak of the nationwide lockdown.

"Indian states had to contend with reverse migration from abroad as well as across states, with large-scale implications for underlying activity, conditional upon the extent of dependence of states on migrants for factor income, employment and performance of micro, small and medium enterprises (MSMEs). This had implications for state finances as well," it indicated.

Moreover, states' outstanding debt, largely dominated by market borrowings, is expected to reach 75 per cent of GDP by the end of March 2021. According to the report, there is a compositional shift towards market borrowings after the recommendation of the Fourteenth Finance Commission to exclude states from National Small Savings Funds (NSSF) financing facility.

Capex was also hit due to sudden changes in the prioritisation of spending. During April-June period (Q1) of FY20, revenue spending rose 12 per cent when revenue receipts were down by 21 per cent. This links to one more risk factor for capital spending this year: Rising debt to GSDP (gross state domestic product) ratio of states. To keep revenue expenditure at budgeted levels when revenue receipts are falling, states are borrowing more from the market this year. For 19 states, debt-GSDP ratio is expected to exceed 25 per cent in 2020-21 which may force curtailment of capital expenditure, the report observed. Nevertheless, it is important to note that Kerala's capital expenditure increased to 21.8 per cent in the first quarter of 2020 compared to 2019 [Singh and AnithaKumary 2020].

Further, the loans from the Centre to partially make good shortfall in Goods and Services Tax compensation will add to interest outgo of states, putting a new pressure point on state finances. To drive capex, the centre recently announced a special interest free 50-year loan to states for capital expenditure of Rs 12,000 crore to be spent till March 2021. "It represents a small fraction of budgeted capex of Rs 6.5 trillion," RBI report stated.

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