



MEMORANDUM TO GOVERNMENT OF RAJASTHAN DURING PRE-BUDGET CONSULTATIONS ON 12TH JUNE, 2014

Vision: *To raise the GSDP from the current level of Rs. 4.8 lakh crores to exceed Rs. 10 lakh crores by 2018 and per capita income from the current level of Rs. 60,000 to more than Rs. 1,50,000 considering the population growth rate.*

Basic Mantras: *More governance and less government with an inclusive approach; involving the Opposition parties in all endeavours through proactive involvement; carrying out governance and administrative reforms which are the bane of much of the ills in our country; and critically, building trust and confidence between and among people through transparency and multi stakeholder engagement, and ushering in administrative responsiveness and glasnost. This is not an exclusive list, but few critical mantras.*

Background

The Bharatiya Janta Party returned into power in the state with a thumping majority late last year. The party also won all the Lok Sabha seats of the state in the national elections, paving way for strong BJP-led governments at the centre as well as the state of Rajasthan.

Having acquired absolute majority at the centre as well as state, the government must ensure that such golden opportunity does not go waste. The central government has already pledged to work proactively with States for development and growth. Consequently, the government of Rajasthan must encash this opportunity and lay out a target-oriented focused agenda to work with relevant stakeholders to address critical barriers to growth and development of the state.

In terms of specific suggestions, CUTS International, an independent think and action tank involved in policy research and advocacy, having global presence with headquarters in Jaipur, has identified the following few critical issues which must be addressed through the forthcoming budget. These are not exclusive and there are various other issues which will need to be addressed to raise the living standards of citizens of Rajasthan.

1. Adoption and implementation of Road Safety and Maintenance Policy and removing barriers to competition in road transport
2. *Increasing taxation on tobacco and alcoholic products*
3. Enhancing employability as well as livelihoods
4. *Fixing fiscal management practices*
5. Working with stakeholders for adoption of GST
6. *Ensuring implementation of policies beneficial to MSMEs*
7. Empowering local bodies with adequate capacity building and fixing accountability
8. *Enabling information flow between and among States to learn about successful and unsuccessful practices*

1. Adoption and implementation of Road Safety and Maintenance Policy and removing barriers to competition in road transport

The Motor Vehicles Act (1939 and 1988) has several provisions that empower state authorities to avert competition from private bus operators. A CUTS study found that certain measures adopted by the Rajasthan State Road Transport Corporation resulted in prohibition on private bus operators to provide services on the Nathdwara route. While the state is not providing any services on the said route, mushrooming of illegal private operators, that give free pass to security and often ply overloaded vehicles, has put security of commoners at risk, while charging exorbitant rates.¹ Thus, there is an urgent need to systematically identify and remove such barriers to competition that have direct adverse impact on consumers.

In addition, the state of Rajasthan is also suffering from poor conditions of roads, which often need repairing, resulting in huge traffic jams and accidents. States like Bihar have implemented a Road Maintenance Policy, which include measures such as road ambulances to maintain district roads and highways. Rajasthan needs to follow suit.

Action desired: Review and do away with anti-competitive practices in the road transport sector, and develop and implement a Road Safety and Maintenance Policy.

2. Increase taxation on tobacco and alcoholic products

The consumption of cigarettes, bidi and zarda (chewing tobacco) in Rajasthan has declined drastically in the past few years after the state government increased tax rate on tobacco products from 20 percent to 50 percent. While in terms of value, cigarette sale was worth Rs 413.55 crore in 2010-11, it dipped to Rs 349.67 crore in the following year, while in the first six months of next financial year the total sale of cigarettes was just Rs 160.28 crore. Similarly, bidi industry registered a decline in sale by more than 50 per cent from Rs 73.45 crore to Rs 25.10 crore and chewing tobacco sale dropped from Rs 31.54 crore to Rs 14.56 crore.² Such positive impact to health as well as exchequer of the increased tax on tobacco products must result in further increase of taxes on tobacco and alcoholic products.

Action desired: Decision to increase the tax rate on tobacco and alcoholic products to 100 percent.

3. Enhancing employability as well as livelihoods

Rapid industrial transformation in Rajasthan has resulted in an unprecedented human resource requirement of approximately 7-8 lakh persons annually across a few high-priority sectors like information technology, auto engineering, banking and financial services, gems & jewellery, etc. A recent report published by the ICRA Management Consulting Services Private Limited highlighted gaps such as inadequate infrastructure, training, publicity, fund utilisation, etc., in addressing such human resource requirement.

¹CUTS Policy Options note on anti-competitive provisions in the Motor Vehicles Act, available at http://www.cuts-ccier.org/pdf/Anticompetitive_Provisions_in_the_Motor_Vehicles_2011.pdf

²Kundan Pandey, *Rajasthan, Jammu and Kashmir hike VAT on tobacco products*, Down to Earth, 07 March 2013

The situation of rural non-farm livelihood is no better. While Rajasthan has well drafted Rural Non-Farm Policy since 1997 and a dedicated agency named as Rural Non-Farm Development Agency (RUDA), these have been neglected since years. There are several agencies and departments working on the cause of rural non-farm livelihoods in particular and livelihoods in general. However, there is no convergence in these departments resulting in duplications at all levels. Moreover, a study conducted by CUTS on the status of MGNREGA in Rajasthan highlighted the need for information and awareness generation amongst employment seekers, and improvement in physical and human infrastructure of the Gram Panchayats, amongst other measures.³

Consequently, there is a need to create decentralised working groups and plugging information gaps that have led to mismatch in demand and supply in relation to employment. There is no single platform where all the line departments and agencies can come together to discuss and share their successful and no so successful experiences, neither there is a single portal to capture all job requirements from both government and private sectors. This needs to be fixed. Employment Exchanges require modernisation and must use information technology in their processes. Industrial Training Institutes must be diversified and modernised so that requisite number of jobs can be created annually.

Action desired: Decision to strengthen and modernise RUDA, Employment Exchanges, and creation of state livelihood portal for all the related issues especially job capturing, placement, capacity building, convergence, and sharing of intrastate successful not so successful lessons.

In addition, decision to design 'employment manifesto' for each MLA to inform legislators of aspirations of the youth in their constituency. Further, decision to constitute a working group amongst MLAs, industry chambers, skill development agencies and civil society organisations, to implement the employment manifesto.

4. Fixing of fiscal management practices

The previous government has been accused of under-budgeting and preparing a revenue surplus budget for the fiscal 2013-14, which actually turned out to be revenue deficit one, upon taking into account implications of expansion of pension schemes for widows and elderly. It was also announced in the interim budget (early this year) that the fiscal deficit for the current year is likely to exceed the limit of 3 percent of gross state domestic product set by the fiscal responsibility legislation.

As a result, the state government is going to lose concession on interest rates on its National Small Savings Fund loans, for which it would have been eligible had its fiscal deficit been within the limits set by the fiscal responsibility legislation.⁴ Accordingly, there is a need to check such unhealthy practices of under-budgeting (and over-budgeting), and setting up of a specialised body to provide advice on setting budgetary targets, and monitoring and reviewing compliance with the targets.

³ http://www.cuts-international.org/cart/pdf/Final_Report_NREGS.pdf

⁴ Summary analysis of interim budget prepared by Budget Analysis and Research Centre, available at <http://www.barcaipur.org/>

A possible start could be establishment of State Legislative Budget Office, an independent fiscal watchdog, to provide research and review support for budget, and adoption of international best practices in budgetary planning, such as the ‘balanced budget’ principle.

Action desired: Decision to fix fiscal management practices by establishment of State Legislative Budget Office, adoption of international best practices in budgetary planning, and reduction of non-merit subsidies.

5. Working with stakeholders for adoption of GST

Adoption of the Goods and Service tax (GST) is expected to usher simplicity in taxation process, and its efficient application will result in widening of tax base and increase in income of centre as well as the state. Accordingly, the state must work with the central as well as other state governments to ensure seamless transition to GST. In addition, it is absolutely essential to undertake awareness generation and capacity building programmes for stakeholders within the state with respect to GST. In this process, awareness must also be generated about the importance of billing of transactions, and the same should be made mandatory. This also has an impact on grievance redressal of the consumers.

The government must ensure that the stakeholders are comfortable with using the GST platform, adequate monitoring mechanism is in place to ensure compliance, and most importantly, it is ensured that benefits of simplified taxation mechanism are transferred to the customers, and the customers are not subjected to unreasonable and unnecessary price rises.

Action desired: Decision to adopt and implement a GST facilitation policy, providing for training and capacity building of relevant stakeholders and putting in place a monitoring mechanism to ensure that benefits of GST are passed on to the consumers, and the prices remain in control.

6. Ensuring implementation of policies beneficial to MSMEs

A large part of gross state domestic product of the state is generated by the micro and small enterprises. While the state government has in the past adopted various policies to benefit the MSME sector, they are awaiting implementation in letter and spirit.

Such policies relate to easier registration for MSMEs, access to credit, ensuring time-bound payments from debtors, facilitating operational MSME council, et al. Owing to lax implementation of such policies, MSMEs having been facing liquidity crunch and are unable to grow. In addition, cumbersome labour policies are pushing registered MSMEs back to operating as unregistered entities. Consequently, there is an urgent need to review and strengthen the implementation of facilitative policies for MSMEs and constantly engage with MSMEs to evaluate impact of such policies.

Action desired: Decision to set up a platform to directly and continuously engage with MSMEs and ensure that policies beneficial to MSMEs are efficiently implemented and effectively monitored. In addition, decision to relax certain cumbersome labour provisions in relation to MSMEs.

7. Empowering local bodies with adequate capacity building and fixing accountability

It is increasingly been realised that in order to achieve real and inclusive development, planning and implementation must happen at local/panchayat level, and the local level plans and requirements must feed into planning at the higher levels, such as the districts, and thereafter the states.

In order to achieve such true federalism, mere devolution of funds to local bodies is not sufficient but such bodies must be empowered by providing adequate training and capacity building services to enable them to undertake proper planning and management of funds. Equally important is to ensure adequate monitoring and supervision on utilisation of funds for fixing responsibility. Currently, there exists a critical skill gap amongst local bodies to formulate, implement, and effectively monitor plans for development of the region, as a result of which significant resources are getting wasted.

Action desired: Decision to formulate a detailed policy to identify skill gaps amongst local bodies and undertaking capacity building programmes to address the same. In addition, implementing effective monitoring mechanism in relation to utilisation of funds by establishing a Municipal Finance Commission.

9. Enabling information flow between and among States on successful and unsuccessful practices

If India has to grow, then the parts of the sum, i.e. States will have to grow. Many policy issues decided by the Union Government have to be implemented by the States. States also *suo moto* implement certain policies to tackle similar problems, such as the labour law reforms proposed by Rajasthan. Such implementation is carried out by States in varying manner, and there is much scope of learning from each other. Such exchanges can be facilitated by a States-led platform, which does not exist. Such a project has been advocated by Shri Atal Behari Vajpayee, when he was the Prime Minister of India.

Similar state forums exist in many federal countries such as USA, Nigeria, Canada, Australia, Germany, Switzerland etc.

29 States can be laboratories for policy making, as they provide 29 settings as opposed to just one, allowing a greater diversity of ideas to be tried out with least risks. Admittedly, there is great diversity among states' political leadership and thus the outcomes will vary from state to state. Most importantly, the locus of political accountability is shifting to States, which provides a competitive spirit to states to innovate and emulate good ideas.

Action desired: The creation of an apolitical Indian Chief Ministers' Governance Forum⁵ with the initiative of Mrs Vasundhara Raje would lead to better coordination among States which can ultimately result in sharing, replication and up-scaling of innovative governance and developmental practices.

⁵ http://www.cuts-ccier.org/pdf/Indian_Chief_Ministers_Governance_Forum-Project_Brief.pdf