



# **GST REFORMS AND RURAL TRANSFORMATION: IMPLICATIONS FOR LIVELIHOODS, LOCAL ECONOMIES AND INCLUSIVE DEVELOPMENT**

**DR. JOS CHATHUKULAM, DIRECTOR, CENTRE FOR RURAL  
MANAGEMENT (CRM), KOTTAYAM, KERALA, INDIA**



# CAN GST-DRIVEN GROWTH TRANSLATE INTO INCLUSIVE RURAL DEVELOPMENT?

## **GST reforms are expected to:**

- Reduce production costs
- Improve value-chain efficiency
- Promote formalization
- Increase market integration

# FROM TAX REFORM TO RURAL TRANSFORMATION

## Next-Generation GST Reforms seek to:

- Lower costs of agricultural inputs
- Strengthen agri-value chains
- Promote rural enterprises
- Improve logistics and market access
- Enhance household welfare

Here the issue is not merely tax efficiency but development outcomes.

## GST AND RURAL LIVELIHOODS

- Lower machinery costs
- Affordable agri-inputs
- Better market access
- Expanded opportunities for MSMEs
- Increased rural entrepreneurship

However, the major concern here is that benefits may be unevenly distributed between large and small producers.

## GST AND AGRI-VALUE CHAINS



GST reforms reduce costs across multiple stages of the value chain.

### **Expected Outcomes**

- Reduced wastage
- Increased value addition
- Greater competitiveness
- Better price realization

## KERALA SCENARIO

- Strong decentralisation
- Vibrant Panchayats
- Kudumbashree network
- Cooperative institutions
- High digital literacy
- Kerala demonstrates that institutions matter while converting economic reforms into development outcomes.

## KERALA EXPERIENCE

- Kerala's decentralized planning model highlights an important lesson -Economic growth alone does not guarantee development.
- Development outcomes depend on:- Local institutions, Participatory governance, Fiscal devolution, Civil Society, Social Capital and Community Organizations.
- Kudumbashree
- Cooperatives
- Panchayats – People's Plan Campaign

# GST AND RURAL ENTERPRISES

## Key Sectors

- Coir
- Handloom
- Handicrafts
- Food processing
- Fisheries
- Rural tourism

## Potential Gains

- Wider markets
- Formalisation
- E-commerce participation

## Challenges

- Compliance costs
- Administrative burden
- Digital accessibility and inclusion gaps

# GST AND INCLUSIVE DEVELOPMENT

## **GST can support:**

- Women's entrepreneurship
- Financial inclusion
- Digital financial inclusion
- Formalization
- Rural market integration

However, for inclusive development to take place, it should be supplemented with capacity building, digital access and Institutional support

# LOCAL GOVERNMENTS AND GST: THE MISSING LINK

- GST revenues primarily accrue to:
  1. Union Government
  2. State Governments

## **Do GST gains adequately reach Panchayats and Municipalities?**

- Local Governments are not direct recipients of GST revenue.
- The spirit of cooperative federalism is not reflected in the GST, as panchayats, which number at 2,56,252 and which consist of more than 3 million elected functionaries, are excluded from a share in the same (Pal, 2018).

# CHALLENGES FOR RURAL LOCAL GOVERNMENTS UNDER GST

## 1. **Drying Up of Finances**

- GST revenues are shared between Centre and States.
- No constitutional mechanism exists for direct GST sharing with Panchayats.
- Local governments depend on state transfers.

## 2. **Limited Bargaining Power**

- States possess constitutional taxation powers.
- Panchayats derive authority from state legislation.
- Fiscal dependence weakens negotiating capacity.

# CHALLENGES FOR RURAL LOCAL GOVERNMENTS UNDER GST

## 3. Reduced Local Autonomy

Greater dependence on higher levels of government.

Reduced flexibility in local development planning.

**Can GST-led rural transformation be sustainable without strengthening the fiscal capacity of local governments?**

# **GST AND LOCAL GOVERNMENT FINANCES:A CRITICAL CONCERN**

- Urban and rural local governments already have limited own-source revenues.
- GST has further centralized indirect tax revenues at the Union and State levels.
- Local governments are not direct beneficiaries of GST revenue-sharing arrangements.
- Increasing dependence on state transfers may reduce local fiscal autonomy.
- Weaker fiscal capacity can affect infrastructure, service delivery, and local development initiatives.

**Economic growth generated through GST reforms must be accompanied by adequate fiscal devolution to Panchayats and Municipalities to ensure inclusive development.**

## COOPERATIVE LOCALISM

Should cooperative federalism extend to the third tier of government?

**For GST-led rural transformation to succeed:**

- Panchayats require adequate fiscal resources.
- Local governments must be partners in development.
- Economic gains should translate into local public investment.
- Rural transformation is ultimately implemented locally.

# WHY LOCAL GOVERNMENTS MATTER

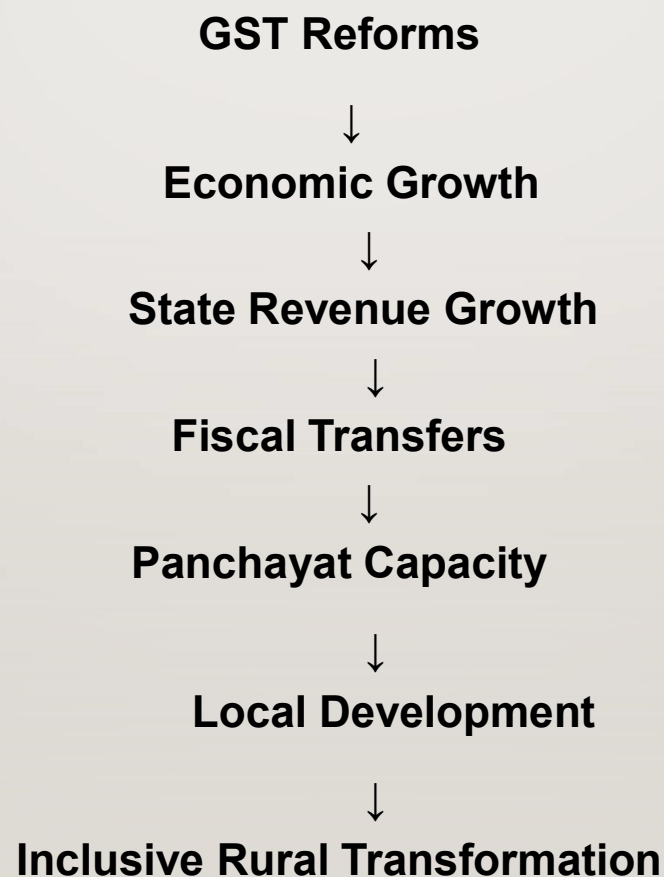
## Rural transformation requires:

- Local infrastructure
- Rural roads
- Markets
- Water systems
- Enterprise support
- Social protection

These functions are largely implemented through local governments.

**Without adequate fiscal support, GST-led growth may not translate into local development.**

# **GST, FISCAL DECENTRALISATION AND RURAL DEVELOPMENT**



# POLICY RECOMMENDATIONS

## National Level

- Simplify GST compliance
- Strengthen rural MSMEs
- Promote FPOs and SHGs

## State Level

- Enhance fiscal support for rural development
- Improve digital infrastructure

## **POLICY RECOMMENDATIONS(CONT...)**

### **Local Level**

- GST facilitation centers
- Capacity building programs
- Local enterprise promotions

# TOWARDS INCLUSIVE RURAL TRANSFORMATION

- **GST reforms can:**

- Improve productivity
- Strengthen value chains
- Promote entrepreneurship
- Increase market integration

**But Inclusive Rural Transformation Requires:**

- Strong local institutions
- Fiscal decentralisation
- Community participation
- Inclusive governance

## DISCUSSION AND CONCLUSION

- The success of GST reforms should not be assessed solely by their impact on tax collections, market integration, or economic growth.
- An equally important question is whether the benefits generated by GST are reaching the institutions that deliver development on the ground.
- If cooperative federalism remains confined to the Union and the States, while Panchayats continue to face fiscal constraints, the promise of inclusive rural transformation may remain incomplete.

