

Financing Human Development



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Introduction

Financing human development is a very critical aspect of ensuring that public policies become concrete realities and that the poor and other vulnerable sub-populations are supported by the state, enabling them to become empowered beings capable of realising their inherent potential in a participatory and democratic context. As the UNDP Human Development Report (1991) noted, the best strategy for human development is to ensure, through strong policies, generation and better distribution of primary incomes. In addition, government services in social infrastructure (schools, health clinics, nutrition and food subsidies) as well as physical infrastructure (roads, electricity and housing) can help the poor bridge the gap caused by paucity of incomes. However, despite sound intentions, governments do not always provide adequately for the social sectors. And, sometimes, when budgets are adequate, they may not target the core sectors of human development (e.g. primary healthcare, elementary education) and focus, instead, on other areas.

This chapter examines the trends and patterns in public expenditure on core human development sectors in Karnataka. It comprises three separate and distinct segments. **Part I** presents an analysis of fiscal trends in the context of financing human development. This is followed by an analysis of trends in expenditure on human development during the last decade. Finally, alternative strategies for raising additional resources needed to achieve the targets set for the Tenth Plan and the Millennium Development Goals are suggested. **Part II** is a case study, which analyses intra-sectoral public expenditure on education to arrive at an understanding of the state's priorities and the quantum of funding required to achieve the desired outcomes. **Part III** suggests the use of gender budget and gender audit to ensure gender equity in budgeting, expenditure and outcomes.

PART I

Financing Human Development: An Overview

Karnataka will have to ensure the provision of optimal outlays on human development and ensure efficiency in spending in order to achieve the Millennium Development Goals (MDGs)¹ as well as the targets set for the Tenth Five Year Plan.² Government spending on social services, which include education, healthcare, nutrition, drinking water, sanitation, housing and poverty reduction is a critical input that the poor and marginalised can leverage to bridge the gap between the insufficiency of their personal incomes and their basic human needs. Government resources are, however, neither infinite nor elastic. There are many competing demands on the state's resources, and a state like Karnataka, where agriculture is still primarily dry land cultivation and where recurring droughts dry up hydel reservoirs, leading to acute power scarcity, must, at all times, strive to achieve that fine balance between growth and equity, between economic development and social justice. Investments in irrigation, power and infrastructure

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¹The eight Millennium Development Goals are: (i) eradicate extreme poverty and hunger; (ii) achieve universal primary education; (iii) promote gender equality and empowerment of women; (iv) reduce child mortality; (v) improve maternal health; (vi) combat HIV/AIDS, Malaria and other diseases; (vii) ensure environmental sustainability; and (viii) develop a global partnership for development.

²The Tenth Plan Targets are: (i) reduction of poverty ratio by 5 percentage points by 2007 and 15 percentage points by 2012; (ii) all children in school by 2003 and all children to complete 5 years of schooling by 2007; (iii) increase in literacy rates to 75 per cent within the Tenth Plan period (2002-07); (iv) reduction in gender gap in literacy by at least 50 per cent by 2007; (v) reduction of IMR to 45 per 1000 live births by 2007 and to 28 by 2012; (vi) reduction of MMR to 2 per 1000 live births by 2007 and 1 by 2012; (vii) access to potable drinking water in all villages in the plan period; (viii) HIV-AIDS: 80 per cent coverage of high risk groups, 90 per cent coverage of schools and colleges, 80 per cent awareness among general rural population reducing transmission through blood to < 1 per cent, achieving zero level increase of HIV/AIDS revalue by 2007; (ix) annual blood examination rate (ABER) over 10 per cent, annual parasite incidence (API) to 1.3 or less, 25 per cent reduction in morbidity and mortality due to malaria by 2007 and 50 per cent by 2010 (NHP 2002).



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are a necessary prerequisite to economic growth, but abundant caution is necessary to ensure that these are not unduly emphasised at the cost of social investments targeting human development.

During 1990-2001 Karnataka witnessed the highest growth rate of GSDP as well as per capita GSDP in the country, growing respectively at 7.6 per cent and 5.9 per cent. This was, indeed, a command performance. Nevertheless, the state continues to be in the league of middle-income states, with per capita GSDP slightly below the all-India average (Table 3.1.1). The state ranks seventh among the fourteen non-special category states (excluding the small state of Goa and the newly created states of Chhattisgarh and Jharkhand). The relative position of Karnataka in respect of other developmental indicators such as per capita consumption and various indicators of human development is also close to the median

value. The head count measure of poverty in the state is estimated at 19.1 per cent in rural areas, which is below than 28.8 per cent estimated for the nation as a whole, although urban poverty in the state (27.1 per cent) is slightly higher than all-India average (25.1 per cent).

The Human Development Index (HDI) in Karnataka increased from 0.412 in 1991 to 0.478 in 2001 (NHDR, Government of India, 2001), which approximates the all-India average value. Despite this increase over the decade, Karnataka has held on to the seventh rank among the states in India. Although Karnataka's status with regard to HDI and its various components is broadly equivalent to the all-India average, it ranks below the neighbouring states of Kerala, Maharashtra and Tamil Nadu (Table 3.1.2). Considerable resources as well as efforts are needed to catch up with the achievements in human development in these neighbouring states.

TABLE 3.1.1
Selected developmental indicators in Karnataka

Indicators	Karnataka		All-India Value
	Value	Rank in 14 major states	
GSDP/GDP 2001-02 (Current prices) (Rs. lakh)	10565776	7 ^a	209095700 ^b
Per capita GSDP/GDP 2001-02 (Current prices) (Rs.)	19821	6 ^a	20164
Growth rate of GSDP/GDP in 1990-2001	7.56	1	6.1
Growth rate of per capita GSDP/GDP in 1990-2001	5.89	1	4.08
Per capita consumption expenditure 1999-2000 (Rs.)	639	7	591
Head count ratio of poverty (percentage) (Rural) – 1999-2000	19.1	7	28.8
Head count ratio of poverty (percentage) (Urban) – 1999-2000	27.1	8	25.1
Percentage of workers to total population 2001	44.6	3	39.26
Percentage of rural workers to rural population 2001	49.2	4	41.97
Growth in employment 1993-94 to 1999-2000	1.6	6	1.6
Unemployment rate (per cent of labour force) 1999-2000	1.4	5	2.3

Notes:

1. ^a: Ranks have been computed using GSDP data for 2000-01.
2. ^b: Provisional estimate.

Sources:

1. GSDP – Karnataka: Directorate of Economics and Statistics, Karnataka.
2. All-India GDP: Economic Survey, 2003-04.
3. Per capita consumption expenditure: National Human Development Report, 2001.
4. Poverty estimates: Sen and Himanshu (2004).
5. Other data: Inter-State Economic Indicators, Planning Department, Karnataka, 2004.

TABLE 3.1.2
Human development indicators in Karnataka and neighbouring states

Indicators	Karnataka	Tamil Nadu	Kerala	Maharashtra	Andhra Pradesh	Karnataka's rank among 14 major states
HDI (2001)	0.478	0.531	0.638	0.523	0.416	7 (0.472)**
HDI (1991)	0.412	0.466	0.591	0.452	0.377	7 (0.381)
Per capita consumption expenditure, 1999-2000 (Rs.)	639	681	816	697	550	7 (591)
Literacy rate 2001	66.64	73.47	90.92	77.27	61.11	8 (65.49)
Female literacy rate 2001	56.87	64.55	87.86	67.51	51.17	7 (54.28)
Infant mortality rate (per 1000 live births) (2003)*	52	43	11	42	59	6 (57.4)
Life expectancy at birth (LEB) (female) (2001-06)	66.44	69.75	75	69.76	65	7 (66.91)
Birth rate (per 1000) 2003*	21.8	18.3	16.7	19.9	20.4	7 (24.05)
Death rate (per 1000) 2003*	7.2	7.6	6.3	7.2	8.0	7 (7.88)
Female work participation rates 2001	35.07	34.73	24.3	35.97	37.69	5 (31.56)

Notes:

1. Figures in parentheses indicate value of indicator for the country as a whole.
2. ** indicates value of the indicator for the 15 major states of India.

Sources:

1. Data on HDI - National Human Development Report, 2001.
2. Registrar General of India, Census, 2001.
3. * Registrar General of India, Sample Registration System, SRS bulletin, volume 39 (1), April 2005.
4. National Family and Health Survey-2, IIPS, Mumbai, 1998-99.

The prevalence of inter-district variations – in levels of development generally, as well as in human development particularly – is a matter of concern. It partly explains the seeming contradiction between the high growth in GSDP and the median rank in HDI in the state. Among all the districts of Karnataka, the HDI index was the highest in Bangalore Urban district (0.753) and the lowest in Raichur (0.547).³ In general, the HDI of a district closely follows the level of development as indicated by the per capita district income with a correlation coefficient of 0.9. The HDI is high in the coastal districts, and very low in the Hyderabad Karnataka and Bombay Karnataka regions of the state.

Improving the human development indicators of the state requires considerable augmentation of investment, in both physical and human capital,

as well as improvement in the productivity of the capital invested.⁴ Any analysis of the task of financing human development in Karnataka and the options for enhancing the investment to desirable levels must take into account the condition of the state's finances and the constraints that they impose on financing human development.

The issue has gained importance for a number of reasons. First, the sharply deteriorating fiscal health of the state had posed serious difficulties in releasing resources for investment in human capital. Second, compression of expenditures as a part of the fiscal adjustment strategy, and competing claims on fiscal resources at the state level, have underlined the need for prioritising expenditures in favour of human development. Third, the Millennium Development Goals

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³These values are not comparable to the estimates of National Human Development Report (NHDR) due to differences in methodology as well as data used to estimate them.

⁴There are numerous examples of countries where social sector expenditure was given a priority in their development strategy and these priorities have paid rich dividends. Sri Lanka and Cuba are two such countries.

Significant inter-district variations in human development and the skewed distribution of historically given expenditures, in favour of districts with higher human development indicators, makes it necessary to introduce strategic changes in resource allocation.

(MDGs), which, in some sense, are reflected in the targets set for the Tenth Five Year Plan, cannot be achieved unless the social sector expenditures are augmented appreciably, and a significant increase in the productivity of social sector spending is achieved by improving the delivery systems and by harnessing private investments to complement public spending. Finally, significant inter-district variations in human development and the skewed distribution of historically given expenditures, in favour of districts with higher human development indicators, makes it necessary to introduce strategic changes in resource allocation. At the same time, poor efficiency of expenditure in districts with a low human development index (HDI) necessitates institutional changes to improve the delivery systems to achieve the goals set for the Tenth Plan by focusing on districts with significant shortfalls in HDIs.

Like several other states in India, Karnataka witnessed a sharp deterioration in its fiscal health, particularly after the state had to accommodate the severe burden of pay and pension revision in 1998-99 while meeting the rising interest costs throughout the 1990s. Increasing debt service payments, continued deterioration in power sector finances, and inefficient cost recovery from investment in irrigation systems exacerbated the fiscal problems of the state. At the same time, the decline in revenue growth, both due to a decline in Central transfers and deceleration in its own revenues in the 1990s as compared to the previous decade, put pressure on the state's ability to step up investments in human development. As a proportion of GSDP, the revenue from own sources has not shown much increase and the Central transfers under both plan and non-plan categories have declined.

The 'White Paper on State Finances' tabled in the state legislature in 2000 detailed the magnitude of the fiscal problem and identified the policy and institutional reforms needed to restore fiscal balance. Karnataka embarked on a fiscal adjustment programme with the World Bank's assistance in 2000. The 'Medium Term Fiscal Plan' (MTFP) prepared by the state government laid down the path of fiscal rectitude. These fiscal

developments had significant implications for the overall outlay position of the state government on social sectors.

Trends in state finances

The 'White Paper on State Finances' presented to the state legislature in 2000 noted the sharp deterioration in state finances during the 1990s. It identified the factors contributing to the deteriorating fiscal imbalance in Karnataka and suggested a number of policy measures aimed at redressing it. On the revenue side, the problem was attributed to deceleration in the growth rates of own revenues of the state, and even more importantly, of Central transfers during the 1990s, as compared to the previous decade. On the expenditure front, the single most important issue causing significant deterioration was the revision of salaries and pensions. Expenditures on debt servicing and implicit and explicit subsidies also contributed to a worsening fiscal outcome. Another fiscal concern was the deficit in the power sector. In the past, in fact, the revenue and fiscal deficit numbers did not fully capture the deficits in the power sector, but after the fiscal adjustment programme was undertaken, the deficit figures fully reflect the power sector losses.

Both revenue and fiscal deficits deteriorated in the state even as the state's revenue as a percentage of GSDP increased from 12.8 per cent in 1998-99 to 14.20 per cent in 2002-03. The ratio of revenue deficit to GSDP increased from 1.4 per cent in 1998-99 to 3.1 per cent in 2001-02, but declined thereafter to 2.3 per cent in 2002-03. Similarly, during the period, the fiscal deficit in the state increased from 3.5 per cent to 5.6 per cent before improving to 4.6 per cent in 2002-03, and the ratio of capital expenditure to GSDP remained just above 2 per cent (Figure 3.1.1). There are, however, indications of some improvement in the finances of the state government in subsequent years.

While the revenue receipts between 1990-91 and 2002-03 increased at the rate of 11.9 per cent per annum, the growth of revenue expenditure was much faster at 13.4 per cent. The gap between the growth of expenditures

FIGURE 3.1.1
Fiscal imbalance in Karnataka: 1990-91 to 2002-03

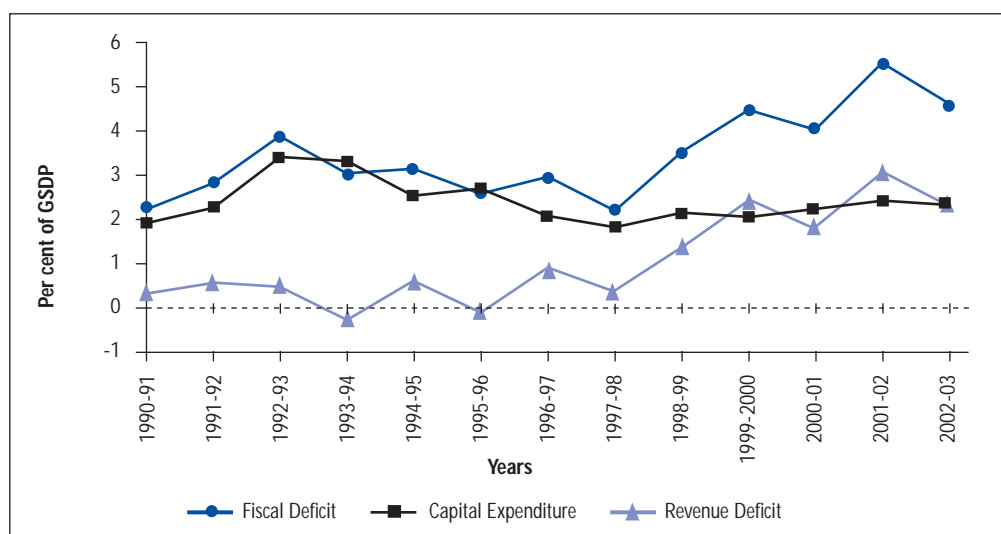
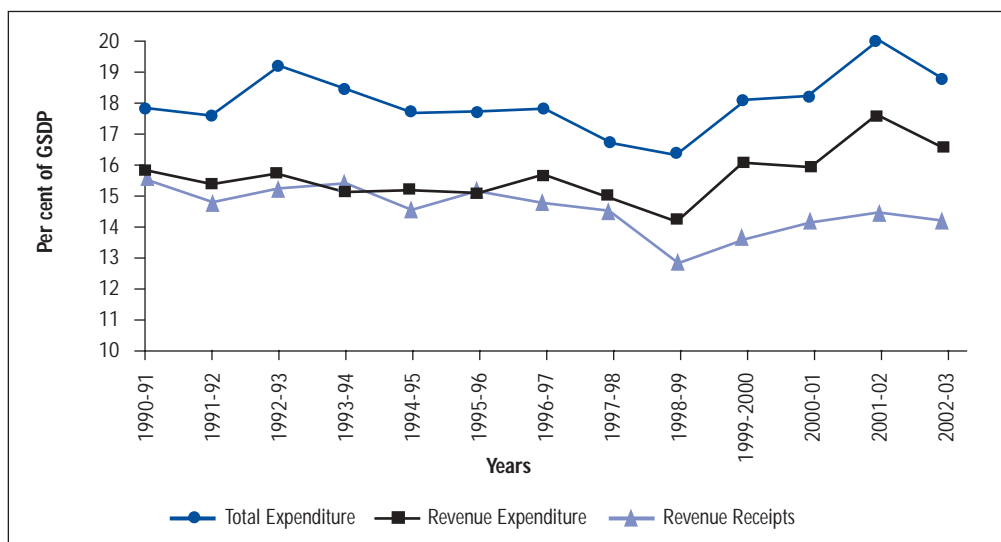


FIGURE 3.1.2
Trends in revenues and expenditures in Karnataka: 1990-91 to 2002-03



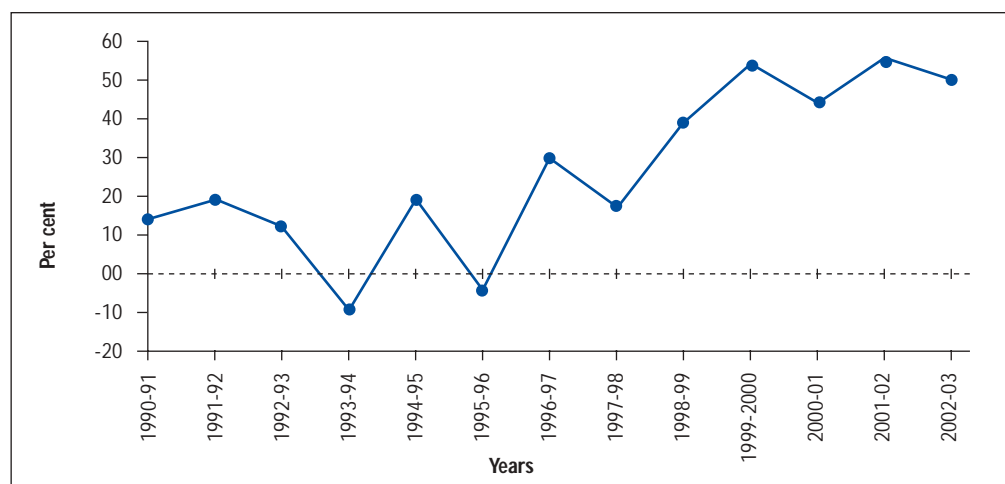
and revenues has continued, even after the programme of fiscal adjustment was put in place and the MTFP was drawn up. While the revenue receipts as a ratio of GSDP increased by 1.4 percentage points between 1998-99 and 2002-03, the ratio of revenue expenditure to GSDP increased by 2.3 percentage points, thus increasing the revenue deficit (Figure 3.1.2). As the capital expenditure to GSDP ratio remained broadly at the same level – about two per cent – the increase in fiscal deficit was mainly the result of an increase in the revenue deficit. Thus, the

share of revenue deficit in fiscal deficit increased from about 39 per cent in 1998-99 to 50.1 per cent in 2002-03 (Figure 3.1.3).

This high growth of expenditure relative to revenues has serious implications for spending on human development. This becomes evident when a disaggregated analysis of the expenditure trends in Karnataka shows that a large proportion of the increase in revenue expenditures derives from an increase in expenditure on salaries, pensions and interest payments. Increases in

FIGURE 3.1.3

Revenue deficit as percentage of fiscal deficit: 1990-91 to 2002-03



Karnataka’s plan expenditure over a six-year period (2000-01 to 2005-06) yields interesting insights about the state’s priority sectors. Investments in irrigation exceeded investments in the social sector in all years except 2001-02 and 2003-04 over a six-year period.

expenditure on salaries and pensions accounted for almost 34 per cent of the increase in revenue expenditures between 1997-98 and 2001-02. The increase in interest payments accounted for about 17 per cent of the increase in revenue expenditure between 1997-98 and 2001-02. Together, interest payments, salaries and pensions accounted for about 51 per cent of the rise in revenue expenditure between 1997-98 and 2001-02. In comparison, less than 10 per cent of the expenditure was made on physical capital outlay between the period 1997-98 and 2001-02.

The persistence of large revenue and fiscal deficits has increased the debt burden of the state. The outstanding debt of the state government as a proportion of GSDP increased from about 17.6 per cent in 1995-96 to about 25.7 per cent of GSDP in 2001-02. Correspondingly, interest payments increased from 12.35 per cent of total revenue expenditure in 1995-96 to 14.4 per cent in 2001-02. The Karnataka government has now embarked on debt restructuring by swapping high interest loans for low interest loans. The burden of debt servicing is, thus, likely to come down in the next few years. In the short and medium term this will provide some fiscal space for spending on more productive sectors.

Sectoral priorities

Plan expenditure⁵ is associated with new policy initiatives and development, while non-plan expenditure relates to maintenance of schemes that were introduced in earlier Plan periods. Karnataka’s plan expenditure over a six-year period (2000-01 to 2005-06) yields interesting insights about the state’s priority sectors. Investments in irrigation exceeded investments in the social sector in all years except 2001-02 and 2003-04 over a six-year period (Table 3.1.3). Investments in energy exceeded those in education in all six years. Since the term ‘social services’ encompasses education, health and family welfare, rural development, social welfare, and the development of women and children, to name a few sectors, the actual share of each sub-sector is quite low.

Irrigation

Karnataka is second only to Rajasthan in the extent of arid land in the state. According to the 1997 NSSO figures, the percentage of irrigated land in the state is 19.33 per cent, which is considerably less than the all-India average of 35.39 per cent. Even though the percentage of irrigated land in the state has increased since then, Karnataka still has less land under irrigation than the all-states’ average as well as the other southern states. Most of the arid land is concentrated in north and central Karnataka,

⁵ Annual Plans, Karnataka.

TABLE 3.1.3
Plan expenditure from 2000-01 to 2005-06: Main sectors by investment

(Rs. lakh)

Sl. No.	Year	Irrigation	Energy	Education	Other social services	Others	Total
1	2000-01	251903.00 <i>34.25</i>	58360.00 <i>7.94</i>	49861.00 <i>6.78</i>	185348.00 <i>25.20</i>	189923.00 <i>25.83</i>	735395.00 <i>100.00</i>
2	2001-02	247659.00 <i>29.67</i>	105011.00 <i>12.58</i>	59797.00 <i>7.16</i>	200364.00 <i>24.00</i>	221924.00 <i>26.59</i>	834755.00 <i>100.00</i>
3	2002-03	291686.83 <i>35.73</i>	86580.00 <i>10.61</i>	34108.42 <i>4.18</i>	185421.26 <i>22.71</i>	218594.49 <i>26.78</i>	916391.00 <i>100.00</i>
4	2003-04	241330.60 <i>28.00</i>	127580.40 <i>14.80</i>	58107.70 <i>6.74</i>	207101.38 <i>24.03</i>	227824.92 <i>26.43</i>	861945.00 <i>100.00</i>
5	2004-05	328246.45 <i>27.96</i>	162940.30 <i>13.88</i>	95546.23 <i>8.14</i>	225285.04 <i>19.19</i>	362098.98 <i>30.84</i>	1174117.00 <i>100.00</i>
6	2005-06	394240.63 <i>29.08</i>	185391.70 <i>13.68</i>	101201.41 <i>7.47</i>	219410.56 <i>16.19</i>	455255.70 <i>33.59</i>	1355500.00 <i>100.00</i>

Note: Figures in italics indicate percentages.

Source: Annual Plan documents for 2000-01 to 2005-06, Planning Department, Karnataka.

which, as we saw in chapters 1 and 2, have low economic and human development indicators. The irrigation potential from all sources is estimated at 55 lakh hectares and the potential created up to 2003-04 is 30.61 lakh hectares.⁶

Consequently, investment in irrigation has increased significantly since the Sixth Plan, when it was Rs.522.72 crore, to Rs.9,889.22 crore in the Ninth Plan. Over this period the investment on irrigation as a proportion of the state's plan expenditure has also steadily increased from 19.0 per cent in the Sixth Plan to 31.0 per cent in the Ninth Plan. Heavy investments in irrigation have also been driven by the need to complete projects in the Upper Krishna basin to ensure optimal utilisation of the state's share of water allocated to it by the Krishna Water Dispute Tribunal. Much of the investment in irrigation in recent times has been through market borrowings.

Energy

Karnataka pioneered hydropower development and had a comfortable surplus until the

nineteen seventies, when rapid industrialisation saw the state plunging into power scarcity. In 2003-04, the state had a power deficit of 9,656 MUs. Reducing its dependence on hydel power, which is notoriously undependable, and bridging the deficit are the two imperatives that have shaped the power policy of the state as it rapidly moves towards providing infrastructure for information technology and biotechnology-based industries. Investment in energy has increased several-fold since the Sixth Plan, when it was Rs.601.40 crore, to Rs.3,740.36 crore in the Ninth Plan.⁷ However, the investment on energy as a proportion of state plan expenditure has decreased from 26.50 per cent in the Sixth Plan to 13.50 per cent in the Ninth Plan. The government also provides subsidy to the power utilities to ensure an adequate rate of return, as stipulated by the Central Electricity Authority. The private sector is yet to play a significant role in this area. So, public investment is critical to improving the power situation. The rapid increase in irrigation pump sets places a great demand on power supply. Farmers constitute a critical set of stakeholders whose interests are



⁶ Annual Plan of Karnataka, 2005-06.

⁷ The total investment from Sixth Plan to Ninth Plan on Energy is Rs.9,812.75 crore. The total Plan investment during this period is Rs.57,309.34 crore.



Indian states have a dominant role in the provision of social services such as education, healthcare, housing, social welfare, water supply and sanitation. State governments incur over 85 per cent of the expenditure on these services.

well represented politically. In fact, a case exists for increasing public investments in energy to meet the growing gap between its demand and supply.

Overall then, the scenario is one of competing demands for financing. Human development sectors must seek space for funds in the face of compelling demands from other sectors.

Expenditure on human development

Indian states have a dominant role in the provision of social services such as education, healthcare, housing, social welfare, water supply and sanitation. State governments incur over 85 per cent of the expenditure on these services. Therefore, deterioration in states' finances and undue pressure to compress their expenditures as part of a fiscal adjustment strategy reduces the fiscal space available to state governments. Unfortunately, the constituency demanding a larger allocation to social sector expenditures is not strong, although there is now a groundswell building up at the grassroots, consequent upon the devolution of political and executive powers to local bodies, which have begun to demand improved services. Currently, however, the expenditure compression at the state level impacts adversely the resources allocated to these sectors, notwithstanding their high social value and productivity. This environment of fiscal constraint has shaped the trends in human development spending in the last decade.

Trends in investment in human development

The analysis of spending on human development is made in terms of four ratios suggested by UNDP's 1991 Human Development Report. These are (i) public expenditure ratio (PER); (ii) social allocation ratio (SAR); (iii) social priority ratio (SPR); and (iv) human expenditure ratio (HER). The public expenditure ratio (PER) refers to the total budgetary expenditures of the state government as a proportion of GSDP in the state. The social allocation ratio refers to the share of budgetary expenditures on the social sector (social services and rural development) as a proportion of total budgetary expenditures of the

state government.⁸ The social priority ratio refers to the budgetary expenditures on human priority areas as a percentage of expenditure by the state government on the social sector. Human priority areas include elementary education, health and family welfare,⁹ nutrition, water supply and sanitation and rural development. Finally, the human expenditure ratio (HER) is the product of the first three ratios and measures the expenditure by the state government in human priority areas as a proportion of GSDP in the state. The different indicators of spending on human development and their trends for Karnataka for the years 1990-91 and 2002-03 estimated from the finance accounts of the state government are presented in Table 3.1.4 and Figure 3.1.4.¹⁰

The trend in PER, the first of the four indicators presented in column 2 of Table 3.1.4 denotes the level of spending on various public services in Karnataka. The PER increased from 17.8 per cent in 1990-91 to 19.2 per cent in 1992-93 before declining to 16.3 per cent in 1998-99. Thereafter, mainly due to pay and pension revision, the PER increased to constitute more than 18 per cent of GSDP in 1999-2000. In fact, the full effect of the pay revision was seen in 2000-01 as the government had to incur substantial expenditures to pay arrears. Besides, as part of the structural adjustment condition with the World Bank, the government had to show the power sector deficit explicitly in the budget. Thus, in 2001-02, the public expenditure-GDP ratio increased to over 20 per cent. However, the fiscal adjustment programme resulted in the deceleration of expenditure, to reduce the PER to 18.8 per cent in the following year, and has stabilised at that level in subsequent years.

⁸ 'Social Services' include the following sectors: (i) Education, Sports, Art and Culture; (ii) Medical and Public Health; (iii) Family Welfare; (iv) Water Supply and Sanitation; (v) Housing; (vi) Urban Development; (vii) Welfare of SCs, STs and OBCs; (viii) Labour and Labour Welfare; (viii) Social Security and Welfare; (ix) Nutrition; (x) Relief on Account of Natural Calamities; (xi) Other Social Services; (xii) Rural Development.

⁹ Excluding Medical Education, Training and Research, Employees State Insurance Scheme and Transport and Compensation for Family Welfare.

¹⁰ For each of the indicators, expenditure has been calculated as the sum of revenue expenditures, capital expenditures and loans and advances (net of repayments).

TABLE 3.1.4
Indicators of expenditure on social sectors in Karnataka

(Per cent)

Year	Public expenditure ratio	Social allocation ratio	Social priority ratio	Human expenditure ratio
1990-91	17.78	41.22	55.45	4.06
1991-92	17.61	40.20	53.72	3.80
1992-93	19.18	36.77	52.54	3.71
1993-94	18.45	39.50	54.03	3.94
1994-95	17.70	39.19	53.83	3.73
1995-96	17.79	37.62	51.94	3.48
1996-97	17.75	36.90	51.02	3.34
1997-98	16.73	38.40	51.99	3.34
1998-99	16.33	39.49	52.55	3.39
1999-2000	18.09	37.75	54.86	3.75
2000-01	18.22	37.89	52.84	3.65
2001-02	20.06	34.96	52.29	3.67
2002-03	18.83	34.36	50.69	3.28

Note: Expenditure under different heads has been estimated as the sum of revenue expenditure and capital expenditure (including loans and advances net of repayments).

Source: Estimated from Finance Accounts of Karnataka, Accountant General, GoI.

Although the aggregate expenditure-GDP ratio showed a significant increase over the years, social sector expenditures have actually shown a marginal decline. The share of social sector expenditures in the total or social allocation ratio (SAR) declined by seven percentage points from 41 per cent in 1990-91 to 34 per cent in 2002-03. As a ratio of GSDP too, social sector expenditures declined by about 0.8 percentage point, from 7.3 per cent to 6.5 per cent. The decline in the expenditure-GDP ratio as well as the share of social sector expenditures implies that overall, the allocation to the social sector in real terms has declined, despite substantial increases in the pay and pension revision. In other words, the burden of increasing pay and pension revision, has affected social sector expenditures with serious implications for both future growth and the welfare of the population.

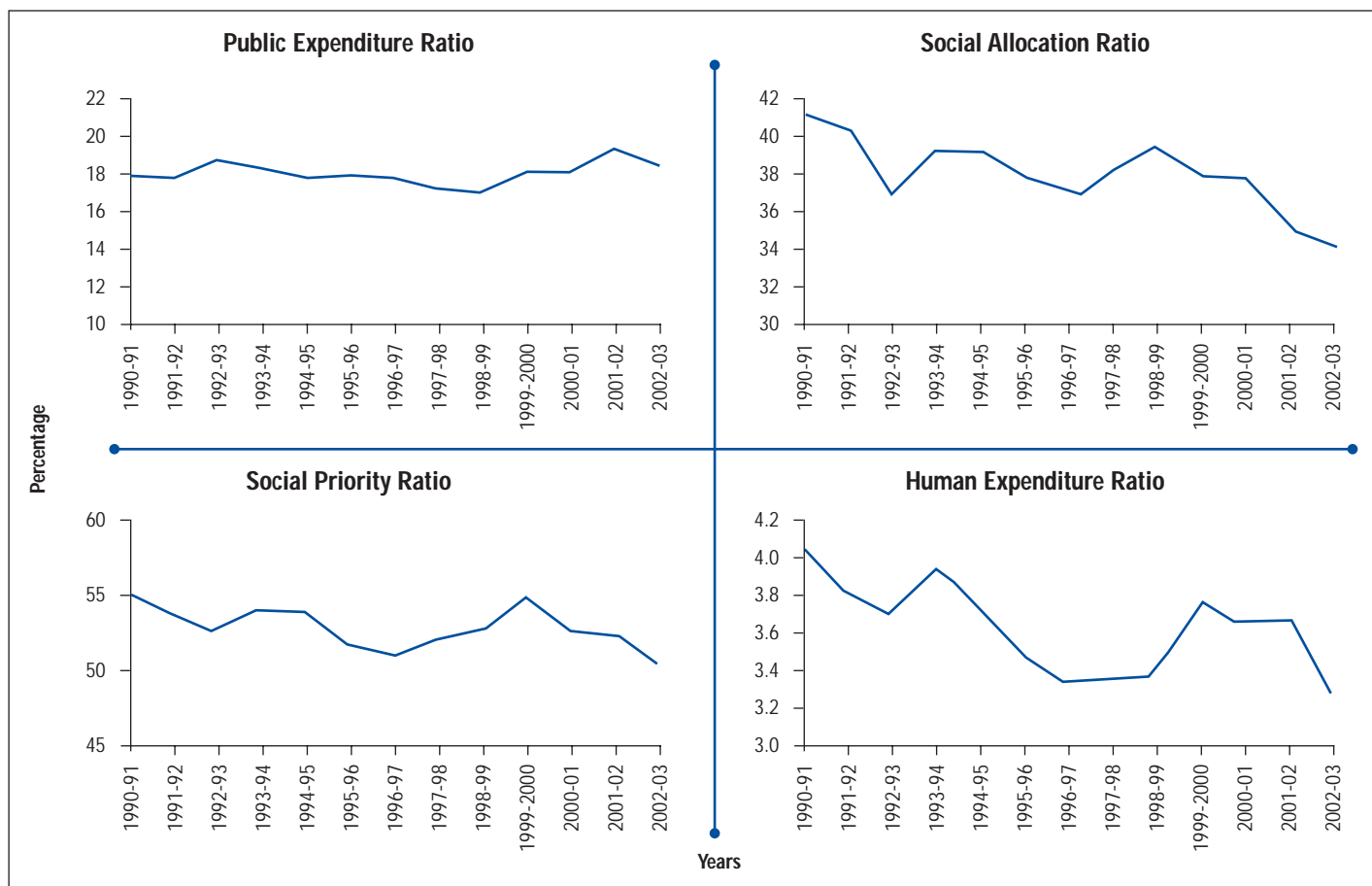
As noted earlier, expenditure on the social sector includes expenditure on social services and rural development. Within this, expenditure on primary education, basic healthcare, and poverty alleviation are priority items and their share in social sector expenditure is termed the social priority ratio

(SPR). The trend in the social priority ratio, which is a sub-set of SAR, is similar. The SPR presented in Table 3.1.4, declined from 55.5 per cent in 1990-91 to 50.6 per cent in 2002-03 or as a ratio of GSDP the decline was from 4.1 per cent to 3.3 per cent. Thus, as compared to 1990-91, both SAR and SPR in 2002-03 were lower. This shows that the expenditures on sectors that are considered to have high social priority were crowded out by the pressure of increasing expenditure on salaries, debt servicing and other implicit and explicit subsidies in the wake of stagnant revenues.

The UN Human Development Report (HDR) 1991 suggests that PER for a country should be around 25 per cent, SAR should be about 40 per cent and SPR about 50 per cent. The human expenditure ratio (HER) should be about 5 per cent. However, data reveal that PER in Karnataka has been less than the suggested norm of 25 per cent over the entire decade. SAR, even with the inclusion of rural development, has seen a steady decline throughout the 1990s. At the beginning of the decade, the SAR, at 41 per cent, was just above the norm, but during the decade, it fell to almost



FIGURE 3.1.4
Trends in human development expenditure



34 per cent in 2002-03, which is well below the suggested norm of 40 per cent. Similarly, in the calculation of SPR, due to the inclusion of more heads of expenditure than those used by UNDP, the ratio is somewhat inflated. Even with this, SPR was just around the norm of 50 per cent in 2002-03. Finally, the HER was not only lower than the suggested norm of 5 per cent in all the years, but has been steadily diverging from the norm with the decline in ratios.

A comparison of the PER, SAR and SPR for different states shows that while the relative ranking of Karnataka in terms of PER has improved in the 1990s, there has been a fall in its rank in terms of SAR (Table 3.1.5). In terms of SPR and HER however, although the ratios are lower in 2001-02 than in 1990-91, the relative ranking of Karnataka has not changed much over the decade.

Interestingly, the ranking of Bihar and Orissa in terms of PER and HER is very high relative to their human development indicators, which are low. Calculations of PER and HER by Prabhu (1999) showed that in the period 1991-94, Bihar and Orissa ranked first and third respectively in both PER and HER among the 15 major states of India. The reason for the low HDI ranking of these states despite a high PER (as well as HER) is due to their low per capita GSDP levels. In terms of per capita public expenditure, their ranking is low. As shown in Table 3.1.7, in terms of the per capita public expenditure, social sector expenditure and human priority expenditure in different states, Bihar ranked 14th (last) and Orissa 11th among the 14 major states of India in 2001-02. Ultimately, it is human development spending per capita in absolute terms that is more important than the human expenditure ratio. Karnataka has a higher per capita public expenditure/GSDP

TABLE 3.1.5
Human development expenditure in major Indian states: 1990-91 and 2001-02

(Per cent)

States	PER		SAR		SPR		HER	
	1990-91	2001-02	1990-91	2001-02	1990-91	2001-02	1990-91	2001-02
Andhra Pradesh	17.83 (6)	18.86 (7)	43.12 (6)	36.43 (7)	48.88 (10)	54.14 (7)	3.76 (9)	3.72 (6)
Bihar	20.97 (2)	24.47 (2)	43.79 (5)	35.47 (9)	66.35 (1)	69.12 (1)	6.09 (1)	6.00 (1)
Gujarat	17.52 (8)	17.69 (8)	37.01 (11)	39.80 (2)	56.36 (6)	35.46 (14)	3.66 (10)	2.50 (13)
Haryana	15.63 (12)	17.17 (10)	32.75 (13)	29.55 (13)	44.73 (13)	49.38 (11)	2.29 (13)	2.51 (12)
Karnataka	17.78 (7)	20.06 (3)	41.22 (8)	34.96 (10)	55.45 (7)	52.29 (8)	4.06 (7)	3.67 (7)
Kerala	19.42 (3)	16.18 (12)	45.57 (3)	39.33 (4)	54.86 (8)	50.88 (10)	4.86 (5)	3.24 (8)
Madhya Pradesh	15.64 (11)	17.66 (9)	43.03 (7)	39.49 (3)	59.02 (4)	55.76 (4)	3.97 (8)	3.89 (5)
Maharashtra	15.51 (13)	15.43 (14)	33.27 (12)	36.46 (6)	47.19 (12)	54.42 (6)	2.43 (12)	3.06 (10)
Orissa	24.46 (1)	25.45 (1)	39.12 (10)	34.96 (11)	54.28 (9)	55.59 (5)	5.19 (2)	4.94 (3)
Punjab	17.49 (10)	19.63 (5)	29.07 (14)	23.25 (14)	39.52 (14)	38.27 (13)	2.01 (14)	1.75 (14)
Rajasthan	17.52 (9)	19.95 (4)	44.25 (4)	42.73 (1)	63.60 (3)	61.58 (3)	4.93 (3)	5.25 (2)
Tamil Nadu	17.88 (5)	15.85 (13)	46.88 (2)	38.19 (5)	58.68 (5)	52.14 (9)	4.92 (4)	3.16 (9)
Uttar Pradesh	18.61 (4)	18.97 (6)	39.82 (9)	31.97 (12)	65.13 (2)	65.09 (2)	4.83 (6)	3.95 (4)
West Bengal	15.30 (14)	16.83 (11)	47.94 (1)	35.72 (8)	47.86 (11)	44.24 (12)	3.51 (11)	2.66 (11)

Notes:

1. Figures in brackets indicate the rank of the state with respect to the indicators.
2. Expenditure under different heads has been estimated as the sum of revenue expenditure and capital expenditure (including loans and advances net of repayments).

ratio than Bihar or Orissa. Hence, any analysis of public spending on human development must go beyond the four ratios and factor in per capita public expenditure as well. Although, in Karnataka, absolute expenditure on social sector and human priority areas as a proportion of both GSDP and total public expenditure has declined, there has been an increase in per capita public expenditure at constant prices over the 1990s level (Table 3.1.6). In fact, Karnataka has had one of the highest growth rates of per capita public expenditures in the 1990s. Between 1990-91 and 2001-02, Karnataka registered the highest percentage increase in per capita public expenditure among the 14 major states (Table 3.1.7). As a result, the state has moved up to the fourth place in 2001-02 from the ninth place in 1990-91 in terms of per capita public expenditure. Similarly, the percentage increase in per capita social sector expenditure and per capita human priority expenditure in Karnataka was next only to that of Gujarat and Maharashtra in the 1990s. Thus, Karnataka's rank improved over the decade, both in terms of per capita social

TABLE 3.1.6
Per capita real expenditure on human development in Karnataka

(Rupees)

Year	Per capita public expenditure	Per capita social sector expenditure	Per capita social priority expenditure
1990-91	1313	541	300
1991-92	1435	577	310
1992-93	1580	581	305
1993-94	1606	634	343
1994-95	1598	626	337
1995-96	1677	631	328
1996-97	1794	662	338
1997-98	1783	685	356
1998-99	1935	764	402
1999-2000	2229	842	462
2000-01	2437	923	488
2001-02	2613	914	478
2002-03	2520	866	439

Note: Expenditure under different heads has been estimated as the sum of revenue expenditure and capital expenditure (including loans and advances net of repayments).

Source: Finance Accounts of Karnataka, Accountant General, Government of India.

sector expenditure and per capita human priority expenditure (Table 3.1.7).

Composition of expenditure on social sectors

Between 1990-91 and 2002-03, social sector spending declined from 6.3 per cent of GSDP to six per cent of GSDP (Table 3.1.8). The

disaggregated analysis of expenditure, particularly in human priority areas, shows that this was caused mainly by the decline in the spending on public health, nutrition and rural development (Table 3.1.8 and Figure 3.1.5). It is important to note that a substantial part of the expenditure on rural development is not routed through the state budget (funds devolve directly to District Rural

TABLE 3.1.7
Real per capita public expenditure, social sector expenditure and human priority expenditure –
14 major states: 1990-91 and 2001-02

(Rupees)

States	Per capita public expenditure			Per capita social sector expenditure			Per capita human priority expenditure		
	1990-91	2001-02	% change	1990-91	2001-02	% change	1990-91	2001-02	% change
Andhra Pradesh	1361 (7)	2198 (7)	61.50	587 (6)	801 (7)	36.46	287 (8)	434 (5)	51.22
Bihar	1026 (13)	915 (14)	-10.82	449 (13)	325 (14)	-27.62	298 (6)	224 (14)	-24.83
Gujarat	1775 (3)	3048 (2)	71.72	657 (4)	1213 (1)	84.63	370 (3)	430 (6)	16.22
Haryana	1962 (2)	2814 (3)	43.43	642 (5)	832 (6)	29.60	287 (7)	411 (7)	42.86
Karnataka	1313 (9)	2574 (4)	96.04	541 (9)	900 (4)	66.36	300 (5)	471 (4)	57.00
Kerala	1481 (6)	1996 (9)	34.77	675 (2)	785 (8)	16.30	370 (2)	400 (8)	8.11
Madhya Pradesh	1111 (11)	1590 (12)	43.11	478 (11)	628 (11)	31.38	282 (10)	350 (9)	24.11
Maharashtra	1758 (4)	2572 (5)	46.30	585 (7)	938 (2)	60.34	276 (11)	510 (2)	84.78
Orissa	1206 (10)	1791 (11)	48.51	472 (12)	626 (12)	32.63	256 (13)	348 (10)	35.94
Punjab	2278 (1)	3246 (1)	42.49	662 (3)	755 (9)	14.05	262 (12)	289 (12)	10.31
Rajasthan	1315 (8)	1997 (8)	51.86	582 (8)	853 (5)	46.56	370 (4)	525 (1)	41.89
Tamil Nadu	1561 (5)	2364 (6)	51.44	732 (1)	903 (3)	23.36	429 (1)	471 (3)	9.79
Uttar Pradesh	1098 (12)	1295 (13)	17.94	437 (14)	414 (13)	-5.26	285 (9)	269 (13)	-5.61
West Bengal	1011 (14)	1922 (10)	90.11	484 (10)	687 (10)	41.94	232 (14)	304 (11)	31.03

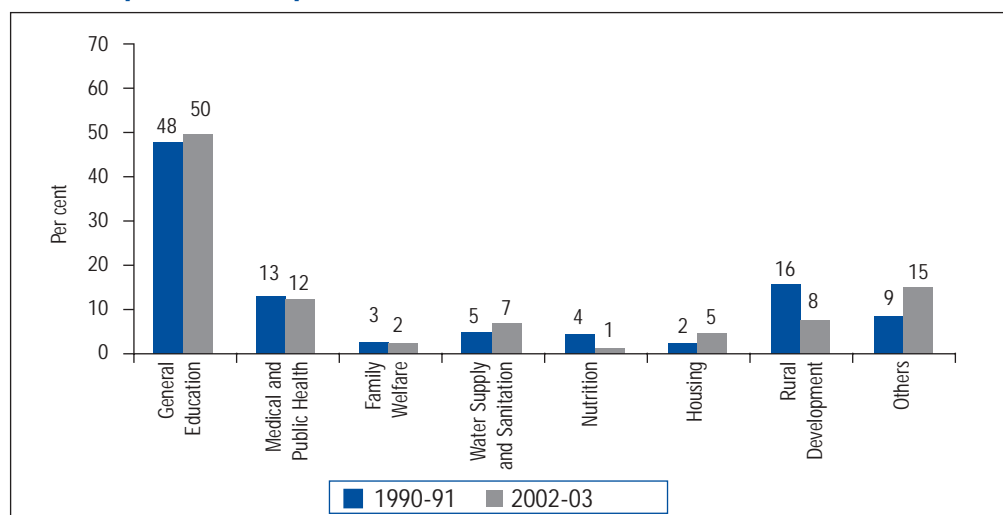
Notes:

1. Figures in brackets indicate the rank of the state with respect to that indicator.

2. Differences in the figures on Karnataka between Table 3.1.6 and 3.1.7 for the year 2001-02 are on account of use of differences in provisional population figures.

FIGURE 3.1.5

Composition of expenditure in the social sector: 1990-91 and 2002-03



Development Agencies [DRDAs]) by the Centre on Centrally Sponsored and Central Sector Schemes. To account for this, expenditure by the Centre on rural development schemes has been added to the actual expenditure incurred by the state on rural development. Even after making an adjustment to include Central transfers, the rural development expenditure as a ratio of GSDP has declined from almost 1.8 per cent in 1993-94 to about 1.0 per cent in 2002-03 (Figure 3.1.6). Water supply and sanitation and housing are two areas in which there has been some increase in expenditure, which is a welcome trend.

Options for financing human development

In order to achieve the targets set for the Tenth Plan and to reach the MDGs, the state government must make significantly higher investments and enhance their productivity by improving delivery systems. To achieve the Tenth Plan target, the head count measure of poverty should be reduced by five percentage points. In the districts of Raichur, Kolar, Bijapur, Gulbarga and Dharwad, where almost 53 per cent of the poor in the state live, the effort will

TABLE 3.1.8
Expenditure under different heads of social sectors as a proportion of GSDP: Karnataka

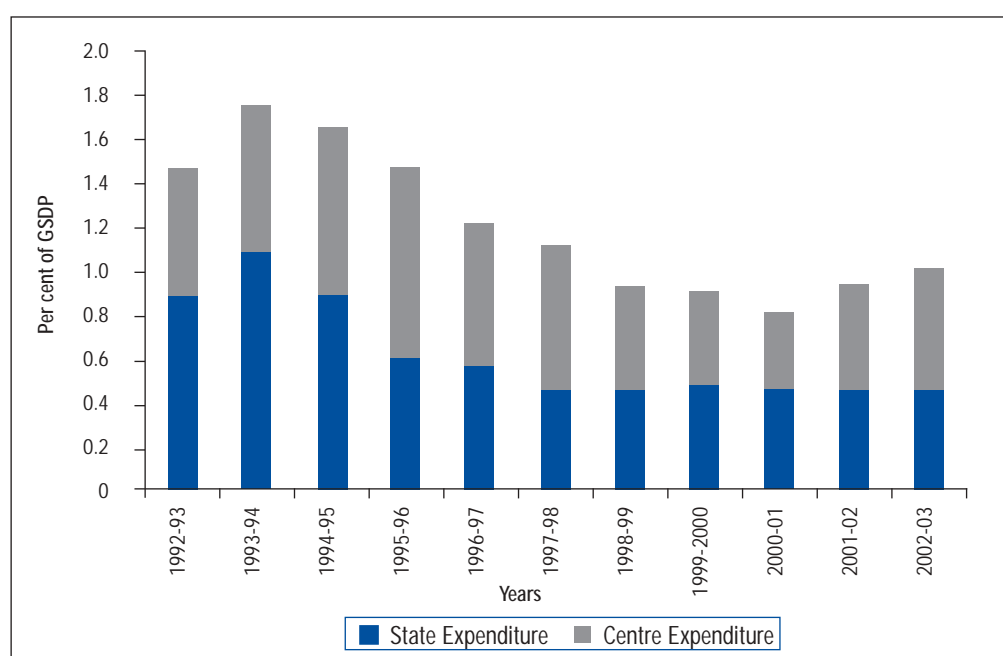
(Per cent)

Social Sector	1990-91	1998-99	2002-03
Social services	6.32	6.00	6.01
General education	3.03	2.78	2.99
Elementary education	1.63	1.48	1.58
Secondary education	0.89	0.89	0.93
University and higher education	0.45	0.35	0.42
Adult education	0.04	0.01	0.005
Health and family welfare	1.00	0.93	0.88
Urban health services	0.31	0.38	0.32
Rural health services	0.01	0.01	0.02
Medical education, training and research	0.09	0.10	0.11
Public health	0.07	0.05	0.04
Family welfare	0.17	0.13	0.15
Water supply, sanitation	0.31	0.58	0.42
Nutrition	0.28	0.09	0.08
Housing	0.15	0.21	0.28
Rural development	1.01	0.45	0.46

Sources:

1. Expenditure of Karnataka: Finance Accounts of the state government, various years.
2. Actual expenditure by the Central Government on Central Sector and Centrally Sponsored Schemes, Rural Development and Panchayat Raj Department, Karnataka.

FIGURE 3.1.6
Rural development expenditure including Central transfers in Karnataka



Sources:

1. Expenditure of Karnataka: Finance Accounts of the state government, various years.
2. Actual Expenditure by the Central Government on Central Sector and Centrally Sponsored Schemes, Rural Development and Panchayat Raj Department, Karnataka.

The state government would have to incur additional expenditure to the extent of at least 2.5 per cent of GSDP in order to be able to achieve the Tenth Plan targets.



have to be redoubled. In the case of education, although there has been a sharp decline in the percentage of out-of-school children in recent years, according to the NSSO, almost 25 per cent of the children in the age group of 6-14 did not attend school in 1999-2000. It is also likely that Karnataka might not be able to achieve the Tenth Plan literacy rate target. This issue is particularly problematic as there is a considerable gender gap, as well as gaps in the achievements of the Scheduled Castes, Scheduled Tribes and backward classes. Similarly, the state continues to have a high infant mortality rate (IMR) compared to Kerala and Tamil Nadu, and reaching the targeted IMR of 25 per thousand will mean significantly higher allocation of resources for the health and family welfare sector.

It is difficult to form any kind of a scientific estimate of the additional investments required to reach the Tenth Plan targets in human development. In part, in many cases, the existing infrastructure by itself will help to improve the human development indicators. It is estimated that universalisation of elementary education itself requires that the elementary education expenditure as a proportion of GSDP be increased from the present level of 1.6 per cent to 2.5 per cent. Similarly, financial resources for anti-poverty interventions would have to be doubled from the present level of 0.5 per cent of GSDP to reach the Tenth Plan targets. On the health and family welfare front, at present only about 0.9 per cent of GSDP is spent on this sector and this needs to be increased to 1.5 per cent of GSDP at the very least. In addition to these, it may also be necessary to increase outlay on items such as water supply and sanitation, nutrition and housing by about 0.5 per cent of GSDP. Thus, the state government would have to incur additional expenditure to the extent of at least 2.5 per cent of GSDP in order to be able to achieve the Tenth Plan targets.

At the same time, the prospect for additional resource mobilisation in the state is somewhat restricted. The three-year average tax-GSDP ratio for the period 1999-2002 at about 8.2 per cent of GSDP in Karnataka is quite high - next only to that of Tamil Nadu (8.6) among the states in the

country (Government of India, 2005). Similarly, under the Twelfth Finance Commission award, the tax devolution to the state at 4.459 per cent of the total will be lower than that under the Eleventh Finance Commission's award (4.930 per cent). However, Karnataka is likely to get Rs.4,054 crore for the period of five years or Rs.811 crore per year on an average as grants for the maintenance of roads, buildings, forests, heritage conservation, state specific needs, local bodies and calamity relief. Of this, excepting the last two items (about Rs.1,700 crore for five years), all items are additional. However, this gain from grants is only likely to offset the loss on account of lower tax devolution, and no additional resources are likely to be available.

On the plan side, however, there may be some increase in the outlay on the social sectors by way of Central assistance, which will increase the outlay on human development, though it is difficult to quantify the extent. In any case, the increased outlay to these programmes is likely to be about 0.5 per cent of GSDP on the grounds that Karnataka is an economically developed state. Such a view does not take into account the regional disparities that have resulted in the concentration of deprivation in certain regions, with adverse implications for the quantum of Central grants that Karnataka receives. Thus, the state will have to provide for an additional 2 per cent of GSDP for human development, either by raising its own revenues or by compressing expenditures in other, non-productive sectors.

As already mentioned earlier, the tax-GSDP ratio in the state is reasonably high and it has shown high buoyancy in recent years. However, the long-term gains in both, revenue and economic activity, can come about only when there is a reasonable and stable tax environment. The decision to replace the existing cascading type sales tax with value added tax (VAT) in the state from April 1, 2005 is likely to create a more stable and predictable consumption tax environment. The self-enforcing nature of the levy will hopefully bring in gains in revenue productivity in the medium and long term, making it possible to generate additional revenue. Even in the short term, the Central Government has agreed to compensate the states for any loss on revenue - 100 per cent

of the estimated loss in the first year, 75 per cent of the loss in the second year and 50 per cent of the loss in the third year. The shortfall will be determined by applying the average growth rate of sales tax revenue in the best three of the last five years on the actual collections in 2004-05. Since Karnataka has experienced an impressive growth of revenue from sales tax in recent years, the revenue-GSDP ratio from tax could increase, even in the short run.

Although a reasonable degree of stability in the tax system is necessary for the economic agents to take decisions, it must be noted that tax reform is a continuous process, particularly when the economy is in transition from plan to market. The reforms of the tax system in urban and rural local bodies in the area of property tax should substantially improve the revenue productivity, strengthen the decentralisation process and increase the fiscal independence of the local bodies. The continued buoyancy in stamps and registration and state excise duties can also help to increase the tax-GSDP ratio in the state. In addition to these, the swapping of the 'high cost-small savings' loans with newly contracted market loans and the rescheduling of the loans at a lower cost under the Finance Commission award would also provide some fiscal space to the state for allocating more funds for social sector expenditures. The improvement in revenues and the reduced interest outgo may help the state in reducing the revenue deficit, and thus, avail the performance-based debt write-off recommended by the Finance Commission. Though the amount involved in this incentive scheme is not significant, this could provide some cushion to the state government.

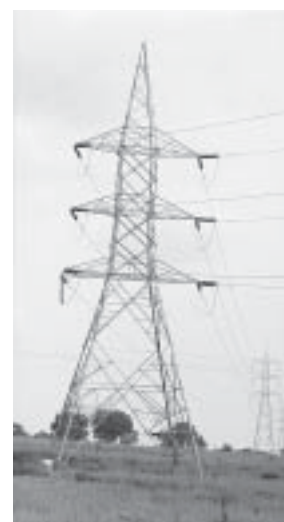
The improvement in the resources indicated above, while extremely useful and important, may not be adequate to meet the required resources to achieve the Tenth Plan targets. Therefore, it is also necessary to undertake measures to improve non-tax revenues and identify and phase out unproductive expenditures. There is considerable scope for raising revenues from sectors such as irrigation, power and transport through reforms and improving efficiency and productivity.

The state has embarked on a series of power reforms, viz. a three-year metering programme for over 60 lakh unmetered connections; unbundling distribution from transmission by forming five distribution companies on a regional basis as a first step towards privatisation, passed the anti-theft law to curb theft of power and pilferage of electricity, with stringent penal provisions and strengthened the Vigilance wing of KPTCL/ESCOMS to book cases. Power reform is a significant feature of the Medium Term Fiscal Plans prepared by the state government. The key to bringing down the state's fiscal deficit lies in reducing power subsidy, reducing T & D (transmission and distribution) losses considerably, from the present estimated level of 30.7 per cent, and billing 100 per cent installations compared to about 40 per cent at present. The gap between the cost of supplying electricity and the charges, which is currently around 70 paise, needs to be considerably bridged. The level of recovery needs to be further improved from the existing level of 80 per cent. Reduction of subsidies to the farm sector is a sensitive issue, but there is ample scope for other kinds of efficiency reforms in the sector if additional resources are to be generated for human development.

Irrigation is another area where investment is necessary to promote economic growth, but the utilisation of funds here would benefit from a more judicious and efficient deployment of limited resources. Despite substantial investments on irrigation, the return in terms of revenue from landowners by way of water rate is meagre and does not cover even the O & M (operational and maintenance) costs. Many irrigation projects are characterised by time and cost overruns. In some cases, irrigation projects exceed the estimated cost because resources are thinly spread over too many projects or because of administrative delays caused by land acquisition and rehabilitation issues, which were not anticipated in time.

Removal or reduction of subsidies in irrigation and power are sensitive policy issues which would require consultation with stakeholders, who are

Power reform is a significant feature of the Medium Term Fiscal Plans prepared by the state government. The key to bringing down the state's fiscal deficit lies in reducing power subsidy, reducing T & D (transmission and distribution) losses considerably, from the present estimated level of 30.7 per cent, and billing 100 per cent installations compared to about 40 per cent at present.





Expenditure allocation to districts is determined historically, rather than on the basis of ground level requirements.

likely to agree to changes in the subsidy pattern if there is a corresponding improvement in human development indicators in their villages.

Conclusions

Despite the recent acceleration in economic growth in Karnataka, the performance of human development in the state is just about average, and, in fact, below the achievement levels in some of the neighbouring states. The human development indicators in the northeastern districts of the state are very low. Considerable effort is required to achieve the targets set for the Tenth Plan and the MDGs. The problem is particularly challenging in respect of improving the human development indicators in the relatively backward districts of Karnataka. Improving the welfare of the people in the state requires considerable augmentation of investment, in both physical and human capital.

The analysis of human development spending in Karnataka shows that over the decade of the 1990s, there has been deterioration in the SAR, SPR and HER. This declining trend in these ratios presents the nature and magnitude of challenges in achieving the MDGs and the targets set for the Tenth Plan. The declining trend in the share of expenditure for rural development, nutrition and, to an extent, family welfare, in particular, is a matter of concern.

The analysis of human development expenditure incurred by the rural local governments in Karnataka, in particular with respect to education and health sectors, shows that the expenditure allocation to districts is determined historically, rather than on the basis of ground level requirements. In fact, there are some design and implementation problems with the decentralisation process in the state. The scheme-wise transfer of functions, functionaries and finances had resulted in lack of autonomy, flexibility and accountability of the employees to the rural local governments. This had also resulted in segmentation of expenditures. The analysis of decentralisation of expenditures shows that the local governments do not have

access to adequate resources for spending; nor do they have enough flexibility to spend on items of their choice, in the way they want to. In short, decentralisation has yet to improve the delivery systems. Recent steps to rationalise schemes and devolve more functions to Panchayat Raj Institutions (PRIs) are designed to address these issues and should impact service delivery.

Where does Karnataka stand in terms of achieving the Tenth Plan and MDGs? The major challenge appears to be in the reduction of poverty in rural areas. The declining expenditure on rural development may pose a setback to the achievement of the goal of poverty reduction in the rural areas. In addition, one of the major goals in health, i.e. the reduction in the infant mortality rate, particularly in rural areas, will be achieved only if the decline continues to occur at the past rate. The declining trend in expenditure on nutrition and poverty alleviation schemes will have to be arrested to maintain the past rate of growth. In terms of school attendance, while there has been a large improvement in the recent past, further improvements will need substantial investments, more specifically, for improving the quality of education. The projected expenditure on elementary education by the 'Departmental Medium Term Fiscal Plan' is much lower than the required amount suggested by various studies.

Ensuring adequate allocation to human development expenditures is seriously constrained by the fiscal health of the state. Additional allocation to social sectors in Karnataka will have to come by increasing the stagnant revenue-GSDP ratio, improving the power sector finances, levying appropriate user charges on irrigation, ensuring greater efficiencies in power and irrigation, rationalising grants and fees for higher educational institutions and containing unproductive administrative expenditures. It is also necessary to target expenditure on backward regions and districts and improve the delivery systems to enhance productivity of expenditure. The debt swap scheme introduced recently would provide some fiscal space to the state government to enhance spending on human development in

the next few years. Similarly, the introduction of VAT could enhance the revenue productivity of the tax system in the medium and long term.

The chapter has put forward suggestions as to how the additional resources needed to achieve human development targets set for the Tenth Plan and the MDGs can be garnered. It has also explored the fiscal space available to the state. It is estimated that in order to achieve the targets set for the Tenth Plan, the state government will have to make an additional allocation of about two per cent of GSDP. However, resource availability of this magnitude is uncertain. A major initiative in tax reform envisaged is the introduction of VAT from April 1, 2005. The tax reform initiatives taken by the governments in recent times have been unstable, sometimes with contradictory signals given in successive years. Hopefully, the introduction of intra-state VAT with the promise of imposing a full-fledged, destination-based VAT in the near future would provide a clear signal and incentives to economic agents. The proposed VAT, with its self-policing nature, is also supposed to improve the revenue productivity significantly. However, it is important to ensure that the design of the VAT levied is appropriate, it is implemented properly and that the state develops the information system and the computerisation needed to implement the tax. In order to reach the targets set for the Tenth Plan and to achieve the MDGs, it is important to increase the allocation of public investment in social sectors, target the expenditures to lagging regions and increase their productivity by improving the delivery system. Towards this end, it is necessary to initiate both policy and institutional reforms. In the wake of a constrained fiscal environment, creating the necessary fiscal space for increased financing of social sectors, changing the focus of interventions to backward regions and improving productivity in them are by no means easy tasks, but with determined effort, they are eminently feasible. The extent of success in achieving the targets will depend upon the ability of the state government in directing the policies and institutions on the lines detailed in this chapter.

PART II

Financing Education: A Case Study

Trends and patterns in financing education – Intra-sectoral priorities

The attainment of the goals and objectives of primary and secondary education and literacy is a prerequisite for the attainment of human development. This does not imply that higher education is not relevant in this context. In fact, higher education remains essential for economic growth, which sets the stage for human development. However, universal elementary education for children in the age group 6 to 14 is a Constitutional mandate, and therefore, a priority area for state investment.

This case study will analyse trends in financing education using the ratios discussed in **Part I**, i.e. the public expenditure ratio (PER) for education is equal to public education expenditure as a percentage of state income (i.e. Gross State Domestic Product at factor cost and current prices). The social allocation ratio (SAR) for education is equal to public education expenditure as a percentage of total public expenditure in the state. The study will examine the intra-sectoral priorities of the government in education, as manifested by its budgetary allocation (based on accounts data), and assess the extent to which the government is able to strike a fiscal balance between providing for salaries, infrastructure development and inputs directed to improving the quality of instruction. It will look at the outlays required to meet the MDGs and Tenth Plan goals and suggest how these resources can be raised.

PER and SAR

Table 3.2.1 presents the computed PER and SAR by types of education (i.e. general, technical, medical and agricultural education) in the state for select years from 1990-91 to 2002-03.¹¹ The ratios capture the efforts and priorities of public



¹¹ Throughout the analysis, unless stated otherwise, all budget figures before 2003-04 refer to accounts/estimates. All figures for 2003-04 (2004-05) refer to Revised (Budget) estimates.

TABLE 3.2.1
Public expenditure ratio and social allocation ratio by type of education: 1990-91 to 2002-03

Sl. No.	Type/level of education	Expenditure/ Allocation	Percentage share of total expenditure in state income			
			1990-91	1994-95	1998-99	2002-03
1	General education	PER	3.03	2.87	2.78	2.99
		SAR	15.75	15.86	16.85	15.21
1.1	Elementary education	PER	1.62	1.50	1.48	1.58
		SAR	8.45	8.26	9.00	8.02
1.2	Secondary education	PER	0.88	0.89	0.89	0.93
		SAR	4.60	4.90	5.39	4.72
1.3	University and higher education	PER	0.45	0.43	0.35	0.42
		SAR	2.33	2.36	2.13	2.14
2	Technical education	PER	0.09	0.08	0.08	0.08
		SAR	0.46	0.46	0.47	0.39
3	Medical education, training and research	PER	0.07	0.09	0.10	0.11
		SAR	0.38	0.50	0.61	0.57
4	Agricultural education and research	PER	0.07	0.09	0.06	0.09
		SAR	0.38	0.49	0.38	0.47
Total		PER	3.26	3.14	3.02	3.27
		SAR	16.97	17.32	18.30	16.64

Source: Computed using data from the Budget papers of Government of Karnataka state income data from Directorate of Economics and Statistics, Karnataka.

expenditure for promotion and development of education in the state.¹² The PER and SAR have ranged from 3.26 and 16.97 per cent in 1990-91 to 3.14 and 17.32 per cent respectively in 1994-95; from 3.02 per cent and 18.30 per cent in 1998-99 to 3.27 per cent and 16.64 per cent respectively in 2002-03.

The PER (SAR) for general education has varied from 3.03 (15.75) per cent in 1990-91 to 2.87 (15.86) per cent in 1994-95, and 2.78 (16.85) per cent in 1998-99 to 2.99 (15.21) per cent in 2002-03. During the period from 1990-91 to 2002-03, the PER for primary education ranged

between 1.62 per cent and 1.48 per cent, and from 0.93 per cent to 0.88 per cent for secondary education. SAR ranged between 8.02 per cent and 9.0 per cent (primary) and from 5.39 per cent to 4.60 per cent (secondary). This indicates that the combined PER and SAR for primary and secondary education has remained stagnant at around 2.4 per cent and 13.3 per cent respectively over these 12 years. The share of primary and secondary education in both, state income and education budget has remained static, instead of increasing significantly to meet rising needs.

Thus, in terms of the PER and SAR, from 1990-91 to 2002-03, the biggest chunk of public education expenditure went to: (i) general education among all types of education; (ii) primary and secondary education within general education; and (iii) general higher education among all types of higher education. This pattern reflects the government's priorities. The lack of increase in SAR and PER signifies the absence of noticeable hikes in expenditure over the period.

Social allocation ratio by types of education and by pattern of expenditure

The share of the education sector in the total revenue expenditure and capital expenditure of the state has remained less than 21 and 1 per cent respectively. The social allocation ratio (SAR) i.e. public education expenditure as a percentage of total public expenditure in the state, reveals the relative priorities of the government within the education sector. Table 3.2.2 presents the SAR by types of education and by revenue expenditure, capital expenditure, and total expenditure (inclusive of loans and advances).¹³ Expenditure in government is classified as revenue expenditure, which includes salaries, maintenance and grants and capital expenditure, which, in turn, includes investment in infrastructure.¹⁴ Within all

¹²This justification for PER for education is elaborated in Tilak (2003): 'Share of education in gross national product is the most standard indicator of national efforts on the development of education in a given society. This reflects the relative priority being accorded to education in the national economy. This indicator is also found to be superior to several other indicators', (p. 9).

¹³ In case of primary and secondary (or high school) education, capital expenditure reported under plan expenditure of the ZP and TP programmes are accounted in revenue expenditure at the state level. Thus, capital expenditure for primary and secondary education is not reported in the Table 3.2.2.

¹⁴ Total revenue (capital) expenditure includes both plan and non-plan expenditure.

TABLE 3.2.2
Social allocation ratio by level of education and pattern of expenditure: 1990-91 to 2002-03

(Rs. lakh)

Year	Type of expenditure	General	Elementary	Secondary	University and higher	Technical education	Medical training and research	Agricultural research	Expenditure on education	Total expenditure
1	2	3	4	5	6	7	8	9	10	11
1990-91	Revenue	75852.7	40758.3	22150.1	11182.9	2225.6	1772.0	1826.0	81676.3	397109.0
	%	92.9	49.9	27.1	13.7	2.7	2.2	2.2	20.6	
	Capital	88.5	0.8	36.6	51.0	13.6	64.0	0.0	166.1	65481.0
	%	53.3	0.5	22.1	30.7	8.2	38.6	0.0	0.3	
	Total	75959.1	40777.0	22186.7	11233.9	2239.0	1836.0	1826.0	81860.3	482364.0
	%	92.8	49.8	27.1	13.7	2.7	2.2	2.2	17.0	
1994-95	Revenue	136899.5	71656.5	42176.9	20120.8	3822.2	4303.4	4216.2	149286.3	726452.0
	%	91.7	48.0	28.3	13.5	2.6	2.9	2.9	20.6	
	Capital	656.4	NR	297.8	357.8	199.7	71.8	0.0	927.9	113681.0
	%	70.7	NR	32.1	38.6	21.5	7.7	0.0	0.8	
	Total	137555.9	71656.5	42474.7	20478.6	4021.9	4375.2	4261.2	150214.2	867386.0
	%	91.6	48.0	28.3	13.6	2.7	2.9	2.9	17.3	
1998-99	Revenue	243523.0	130378.8	77829.6	30646.3	6642.1	8254.2	5475.5	263876.9	1244561.0
	%	92.3	49.4	29.5	11.6	2.5	3.1	2.1	21.2	
	Capital	470.9	NR	238.4	232.0	169.3	510.9	0.0	1151.1	174423.0
	%	40.9	NR	20.7	20.2	14.7	44.4	0.0	0.7	
	Total	243993.9	130378.8	78068.0	30878.3	6811.4	8765.2	5457.5	265028.0	1448024.0
	%	92.1	49.4	29.5	11.7	2.6	3.3	2.1	18.3	
2002-03	Revenue	339963.9	179578.0	105426.6	47676.8	8739.9	12643.9	10556.7	371904.3	1881450.0
	%	91.4	48.3	28.4	12.8	2.4	3.4	2.8	19.8	
	Capital	344.6	NR	131.3	213.4	10.8	136.1	0.0	491.5	293600.0
	%	70.1	NR	26.7	43.4	2.8	27.7	0.0	0.2	
	Total	340308.5	179578.0	105557.9	47890.2	8750.6	12780.0	10556.7	372395.8	2237807.0
	%	91.4	48.3	28.4	12.9	2.4	3.4	2.8	16.6	

Notes:

- All expenditure figures are at current prices.
- Revenue expenditure under primary and secondary includes capital expenditure of ZP and TP schemes. Hence, capital expenditure for primary and secondary education is not reported;
- Percentage figures in (a) column 3 to 9 are percentages to column 10 i.e. to total expenditure on education and (b) percentage in column 10 is proportion of education expenditure to total expenditure (column 11) in the state;
- Total expenditure for general education in 1990-91 is inclusive of Rs.17.88 lakh under loans and advances for primary education;
- NR: not reported.

Source: Budget papers of Government of Karnataka.

Within all categories of education, one finds that revenue expenditure dominates total expenditure and is as high as 99 per cent and above. The share of capital expenditure is negligible in the education sector.

The share of primary education in the total revenue expenditure is about 50 per cent and that of secondary education is 27 per cent.



categories of education, one finds that revenue expenditure dominates total expenditure and is as high as 99 per cent and above. The share of capital expenditure is negligible in the education sector.

General education takes the lion's share (92 per cent) of the total revenue expenditure on education. Most importantly, the share of primary education in the total revenue expenditure is about 50 per cent and that of secondary education is 27 per cent: the combined share of primary and secondary education in total education expenditure is, thus, about 77 per cent, which is as it should be.

Thus, expenditure within the education sector in Karnataka is characterised by the dominant role of: (i) revenue expenditure in all types of education; (ii) general education within the education sector; and (iii) primary and secondary education within the general education.

Comparison with all-India and selected states

A comparison of the ratios and patterns of expenditure at all-India level (all states and Central Government), and with other southern states (Andhra Pradesh, Kerala and Tamil Nadu) for three years [2000-01 (Actual/Accounts), 2001-02 (Revised Estimates), and 2002-03 (Budget Estimates)] reveals the following insights for Karnataka (Table 3.2.3):

- Karnataka's PER (i.e. public education expenditure as a percentage of state income) on revenue expenditure was 3.41 per cent in 2000-01. This ratio was higher than that of Andhra Pradesh (2.86 per cent) and the Central Government (0.54 per cent), but lower than those of Kerala (4.11 per cent), Tamil Nadu (3.47 per cent) and the all states' average (4.36 per cent).
- Karnataka's SAR (i.e. public education expenditure as a percentage of total public expenditure in the state) on revenue expenditure has declined since 2000-01; it fell from 21.34 per cent in 2000-01 to 19.02 per cent in 2001-02 and to 18.96 per cent in 2002-03. These figures, too, are

higher than those of Andhra Pradesh and the Central Government, but lower than those of Kerala and Tamil Nadu.

- Karnataka's SAR on capital expenditure was about 0.1 per cent from 2000-01 through 2002-03. Kerala consistently recorded the highest SAR on capital account: 1.34 per cent in 2000-01, 2.35 per cent in 2001-02 and 2.92 per cent in 2002-03.

These figures clearly imply that revenue expenditure (or expenditure on salaries and grants) dominates education expenditure in all states and in the country as a whole. The inadequacy of funds, (as low as 1 per cent), mainly impacts the non-salary component of education expenditure, which is used for inputs such as infrastructure (construction of classrooms, providing equipment, libraries, laboratories, drinking water and toilets), teachers' training, curriculum development and instructional material – all of which contribute to improving the quality of education in state schools.

Total revenue expenditure in public education is distributed between plan and non-plan expenditure. A comparison of these expenditure patterns reveals that non-plan education expenditure is higher than plan expenditure on education in total plan expenditure, in all states and at the all-India level, in all the years. The non-plan expenditure of the Education Department as a percentage of total non-plan expenditure in Karnataka was 21.12 per cent in 2000-01, 18.18 per cent in 2001-02 and 18.22 per cent in 2002-03. These shares are lower than those of Kerala and Tamil Nadu, but higher than Andhra Pradesh, all states' average (for 2000-01) and the Central Government (for all three years). Since plan expenditure is used for developmental activities and non-plan expenditure for maintenance of assets created during earlier Plan periods, the size of plan outlays is a true indicator of improvements, either in coverage or in quality, or both, in education (Table 3.2.3).

The share of plan expenditure of the Education Department in Karnataka's total expenditure is the highest among all southern states, all states' average as well as the Central Government. Important components of plan expenditure include

TABLE 3.2.3
**Public expenditure ratio, social allocation ratio and patterns of expenditure in
 Karnataka and southern states: 2000-01 to 2002-03**

(Per cent)

Sl. No.	Indicator	Year	Karnataka	Andhra Pradesh	Kerala	Tamil Nadu	All-India/ states	Central Govt.,
1	Education and training budget (revenue) to GSDP or GDP at factor cost and current prices	2000-01	3.41	2.86	4.11	3.47	4.36	0.54
2	Education and training budget to total revenue budget	2000-01	21.34	17.39	24.17	22.5	24.57	3.67
		2001-02	19.02	17.63	24.67	22.83	21.97	3.55
		2002-03	18.96	17.71	23.68	20.8	21.14	3.82
3	Capital expenditure on education to total capital expenditure outside Revenue Account	2000-01	0.12	0.03	1.34	0.52	0.68	0.0003
		2001-02	0.08	1.59	2.35	0.19	1.03	0.0003
		2002-03	0.13	0.14	2.92	0.04	0.78	0.0012
4	Plan and non-plan revenue expenditure of Education Department in state's total expenditure							
a.	Plan expenditure	2000-01	13.92	1.39	5.82	5.63	11.74	9.49
		2001-02	12.83	3.71	5.59	7.52	11.3	9.01
b.	Non-plan expenditure	2000-01	21.12	18.17	24.59	21.86	19.6	1.36
		2001-02	18.18	16.75	24.52	21.46	19.89	1.03
c.	Total expenditure	2000-01	19.62	19.09	21.52	19.77	18.48	2.85
		2001-02	17.06	14.01	22.06	19.8	18.55	2.65
		2002-03	16.97	13.94	20.85	18.21	17.7	2.88
5	Plan and non-plan revenue expenditure of education and other depts. in state's expenditure							
a.	Plan expenditure	2000-01	16.86	4.67	9.79	10.8	17.05	11.79
		2001-02	16.24	5.61	10.41	13.95	16.59	11.4
		2002-03	14.76	7.56	7.31	5.01	14.04	12.62
b.	Non-plan expenditure	2000-01	22.52	20.25	26.98	24.22	25.82	1.84
		2001-02	19.75	20.83	26.8	24.03	22.96	1.55
		2002-03	14.76	7.56	7.31	5.01	14.04	12.62
c.	Total expenditure	2000-01	21.34	17.39	24.17	22.5	24.57	3.67
		2001-02	19.02	17.63	24.67	22.83	21.97	3.55
		2002-03	18.96	17.71	23.68	20.8	21.14	3.82
6	Plan revenue expenditure of Education Dept. in total education expenditure (Total education expenditure=expenditure of Education and other departments)	2000-01	14.8	1.69	4.42	3.65	9.02	61.19
		2001-02	15.72	5.57	3.3	4.52	9.5	69.02
		2002-03	11.71	6.41	3.29	2.24	8.22	71.74
7	Plan revenue expenditure within total education expenditure	2000-01	16.49	4.92	6.62	6.16	9.85	59.06
		2001-02	17.86	6.7	5.49	7.27	11.78	65.25
		2002-03	13.83	9.81	6.82	4.35	10.81	68.33

Notes:

- Number of states obtaining all-India average for indicator 1 and 2 is 26 (excludes Chhattisgarh and Jharkhand). These 26 states are: Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Mizoram, Nagaland, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, West Bengal and Delhi. For all other indicators, the number of states is 28, including Chhattisgarh and Jharkhand.
- Total education expenditure includes expenditure of education department and expenditure of other departments on Education.

Source: Department of Secondary and Higher Education, Ministry of Human Resource Development, Gol, 2004.

TABLE 3.2.4

Pattern of allocation and annual growth of expenditure on general education: 1990-91 to 2002-03

(Per cent)

Year	Revenue expenditure			Capital expenditure		
	Plan	Non-plan	Total	Plan	Non-plan	Total
1990-91						
Allocation	97.69	97.09	97.15	86.67	0.00	86.67
Annual growth	64.62	6.95	11.00	-32.21	0.00	6.87
1998-99						
Allocation	94.09	97.96	97.34	73.55	0.00	73.35
Annual growth	27.62	16.80	18.33	-28.86	0.00	16.63
2002-03						
Allocation	98.73	97.29	97.49	96.95	0.00	96.98
Annual growth	-32.54	10.49	1.29	52.02	0.00	10.53

Note: Allocation as a percentage of total expenditure in the Education Department.

Source: Computed by using the basic data of various issues of budget papers, GoK.

TABLE 3.2.5

Intra-sectoral allocation in general education: 1990-91 to 2002-03

(Per cent)

Year	Allocation					
	Revenue expenditure			Capital expenditure		
	Plan	Non-plan	Total	Plan	Non-plan	Total
Elementary education						
1990-91	42.22	55.07	53.73	0.93	0.00	0.93
1998-99	65.82	51.32	53.54	0.00	0.00	0.00
2002-03	72.98	49.48	52.82	0.00	0.00	0.00
Secondary education						
1990-91	31.77	28.9	29.20	41.42	0.00	41.42
1998-99	21.18	33.9	31.96	50.64	0.00	50.64
2002-03	14.6	33.74	31.01	38.09	0.00	38.09
University and higher education						
1990-91	13.54	14.88	14.74	57.65	0.00	57.65
1998-99	4.45	14.05	12.58	49.36	0.00	49.36
2002-03	2.2	15.98	14.02	61.91	0.00	61.91
Adult education						
1990-91	11.42	0.06	1.24	0.00	0.00	0.00
1998-99	0.93	0.13	0.26	0.00	0.00	0.00
2002-03	0.32	0.13	0.16	0.00	0.00	0.00
General education						
1990-91	0.42	0.67	0.64	0.00	0.00	0.00
1998-99	7.26	0.12	1.21	0.00	0.00	0.00
2002-03	9.57	0.19	1.52	0.00	0.00	0.00
Language development						
1990-91	0.63	0.42	0.44	0.00	0.00	0.00
1998-99	0.36	0.47	0.45	0.00	0.00	0.00
2002-03	0.33	0.49	0.47	0.00	0.00	0.00

Source: Computed using basic data from various issues of budget papers, GoK.

construction of primary school buildings and classrooms, construction of toilets and provision of drinking water facility, supply of free text books and uniforms, and the midday meal programme. Thus, a major part of plan expenditure is directed at improvements in infrastructure and providing incentives for students to reduce dropout rate in government primary schools. Since plan expenditure represents new policy initiatives, this suggests that Karnataka has prioritised spending on education in recent years.

Expenditure within the Education Department

The total expenditure of the Education Department is the total expenditure on general and technical education (medical and agricultural education are not included in this sector). Expenditure on general education is divided among six major heads: primary/elementary education, secondary education, university and higher education, adult education, language development and general education. The patterns and annual growth of expenditure on these major heads are described below for select years from 1990-91 to 2002-03.

It is apparent that, of the total expenditure in the Education Department, about 97 per cent of total revenue expenditure is allocated to general education (Table 3.2.4). Of the total plan revenue expenditure; the share of general education has varied from about 98 per cent in 1990-91 to 94 per cent in 1998-99 and 99 per cent in 2002-03. On the other hand, all capital expenditures incurred have been plan expenditures. Capital expenditure on general education varies from about 87 per cent in 1990-91 to 74 per cent in 1998-99 and 97 per cent in 2002-03.

The annual growth (percentage) of expenditure on general education – both plan and non-plan – reveals that there are large variations in annual growth in plan expenditure in both revenue and capital accounts. For instance, the annual growth of revenue expenditure ranges from 64.62 per cent in 1990-91 to 27.62 per cent in 1998-99 and -32.54 per cent in 2002-03. The annual growth of capital expenditure varies from -32.21 per cent in 1990-91 to -28.86 per cent in 1998-

99 to 52.02 per cent in 2002-03. This step up in 2002-03 is the result of specific policy interventions to improve infrastructure. On the other hand, variations in annual growth of non-plan revenue expenditure have been positive, if not incremental, throughout: 6.95 per cent in 1990-91, 16.80 per cent in 1998-99 and 10.49 per cent in 2002-03. However, the increase in total non-plan revenue over the years is primarily a result of accounting procedures, wherein expenditure incurred during the plan period moves into the non-plan category on the expiry of the plan period, along with some increases in maintenance amounts.

Table 3.2.5 shows that, of the total revenue expenditure on general education, about 53 per cent is spent on primary education, 31 per cent on secondary education, 13 per cent on university and higher education, and the remaining 3 per cent is shared by adult education, language development and general education. The largest proportion of revenue expenditure (plan and non-plan) in general education has been divided between primary and secondary education for all the years. Capital expenditure in plan outlays, on the other hand, is shared between secondary (and PU) education and university and higher education. However, the relative share of secondary education varies over the years: 41.42 per cent in 1990-91, 50.64 per cent in 1998-99 and 38.09 per cent in 2002-03.

The annual growth (percentage) of expenditure by 4 major heads of general education shows considerable variations in plan expenditure on both revenue and capital account, but positive growth on non-plan revenue expenditure (Table 3.2.6). Most importantly, a decline in annual growth of plan revenue expenditure is evident, except for adult education in 2002-03. However, non-plan revenue expenditure has increased in primary, secondary and university and higher education, as indicated by their positive annual growth. This huge increase in revenue expenditure is salary-related which, in a department like education, would normally comprise a substantial part of the expenditure. Nevertheless, the current bias towards revenue expenditure, caused, no doubt, by fiscal constraints,

TABLE 3.2.6
Annual growth of intra-sectoral allocation on general education:
1990-91 to 2002-03

(Per cent)

Year	Revenue expenditure			Capital expenditure		
	Plan	Non-plan	Total	Plan	Non-plan	Total
Elementary education						
1990-91	76.18	6.80	10.35	-74.05	0.00	-74.05
1998-99	40.56	13.87	18.08	0.00	0.00	0.00
2002-03	-30.77	13.19	0.62	0.00	0.00	0.00
Secondary education						
1990-91	68.15	6.88	11.48	22.05	0.00	22.05
1998-99	4.47	22.34	20.26	-15.87	0.00	-15.87
2002-03	-49.13	6.99	-0.38	7.34	0.00	7.34
University and higher education						
1990-91	48.51	4.90	7.93	-44.15	0.00	-44.15
1998-99	6.26	15.21	14.69	-21.88	0.00	-21.88
2002-03	-49.39	9.86	7.06	104.36	0.00	104.36
Adult education						
1990-91	58.96	-8.74	54.21	-100.00	0.00	-100.00
1998-99	-0.47	27.88	10.42	0.00	0.00	0.00
2002-03	16.29	23.80	21.55	0.00	0.00	0.00

Source: Computed using basic data from various issues of budget papers, GoK.

TABLE 3.2.7
Intra-sectoral allocation by level of education in Karnataka and
southern states: 2000-01 to 2002-03

(Per cent)

Sl. No.	Indicator	Year	Karnataka	Andhra Pradesh	Kerala	Tamil Nadu	All-India/states	Central Govt.
1	Elementary education	2000-01	49.73	40.00	46.28	43.69	49.50	39.35
		2001-02	50.17	42.44	46.43	44.60	51.57	44.32
		2002-03	52.53	39.66	44.49	43.35	50.77	43.96
2	Secondary education	2000-01	29.98	31.59	33.52	36.85	33.40	14.63
		2001-02	32.26	31.12	33.43	37.10	32.51	15.29
		2002-03	29.57	34.74	35.36	37.55	33.33	13.94
3	University and higher education	2000-01	16.87	24.56	15.06	11.99	12.78	28.84
		2001-02	13.29	22.11	15.28	12.36	11.87	20.45
		2002-03	13.30	21.76	14.98	13.08	11.93	17.34
4	Adult education	2000-01	0.17	0.30	0.00	0.06	0.17	1.41
		2001-02	0.17	0.82	0.00	0.03	0.23	2.20
		2002-03	0.18	0.37	0.00	0.03	0.17	2.17
5	Technical education	2000-01	1.89	2.46	4.24	3.20	2.52	13.94
		2001-02	1.91	2.26	4.10	3.10	2.36	15.42
		2002-03	2.28	2.25	3.88	2.93	2.34	14.27

Source: Analysis of Budgeted Expenditure on Education 2001-02 to 2002-03, Department of Secondary and Higher Education, Ministry of Human Resource Development, GoI, 2004.

Employee-related/salary expenditure dominates over all other types of expenditure, in both plan and non-plan expenditure. About 88 (87) per cent of total non-plan expenditure in 2000-01 (2001-02) is employee-related expenditure.

impacts adversely on providing funds for other inputs which improve the quality of education such as teachers' training and school infrastructure.

Comparison with all-India and selected states

A comparison of the intra-sectoral allocation of resources in education for Karnataka, other southern states (Andhra Pradesh, Kerala and Tamil Nadu) and all-India (all states) and the Central Government for three years: 2000-01 (actual), 2001-02 (revised estimates), and 2002-03 (budget estimates), offers some insights into state priorities (Table 3.2.7). In Karnataka, expenditure on elementary education is about 50 per cent of the total expenditure of the Education Department's outlay – the highest among the southern states, all states' average and the Central Government. However, expenditure on secondary education is the lowest in Karnataka, next only to the Central Government. The combined expenditure on elementary and secondary education, which, in Karnataka, was 79.71 per cent in 2000-01, 82.43 per cent in 2001-02 and 82.1 per cent in 2002-03, is higher than that of other states (except Tamil Nadu), the Central Government as well as the all states' average. Karnataka's expenditure on university and higher education is lower than that of Andhra Pradesh and the Central Government. As in other states, Karnataka incurs less than one per cent of the total Education Department's expenditure on adult education, depending as they all do, on Central assistance. Expenditure on technical education in Karnataka is the lowest among southern states, all states' average and the Central Government. This could be because there are few government and aided institutions in this sector.

Patterns of expenditure in primary and secondary education

The 'Departmental Medium Term Fiscal Plan' (DMTFP) of the Primary and Secondary Education Department provides a projection of plan and non-plan expenditure based on objectives. The analysis reveals that overall expenditure on employees and transfer payments dominates the total expenditure in the Department of Primary and Secondary Education.

The first DMTFP was prepared in 2002. Table 3.2.8 presents a comparison of expenditure (actual/accounts) on primary education as presented in the DMTFP in 2002 and 2003. In the DMTFP in 2002, expenditure under the revenue and capital account are separated, while, in the DMTFP in 2003, the total expenditure is classified.¹⁵ About 97 per cent of total expenditure in 2000-01 is revenue expenditure. Employee-related/salary expenditure dominates over all other types of expenditure, in both plan and non-plan expenditure. About 88 (87) per cent of total non-plan expenditure in 2000-01 (2001-02) is employee-related expenditure. Transfer payments constitute the next sizeable chunk (about 13 per cent). Transfer payments include budgetary assistance to zilla panchayats and taluk panchayats, which, in turn, have a substantial salary component.

A decomposition of expenditures in the DMTFP for secondary (high school) education in 2000-01 and 2001-02 shows certain significant patterns (Table 3.2.9). First, as in primary education, revenue expenditure constitutes about 99 per cent of total expenditure in 2000-01. Second, employee-related (or salary) expenditure is the highest component among all types of expenditure, especially under plan expenditure. For instance, of the total plan expenditure, about 66 per cent in 2000-01 and 55 per cent in 2001-02 was earmarked for employee-related expenditure. Third, next to employee-related expenditure, transfer payments account for the largest expenditure (51 per cent). Transfer payments include budgetary assistance to ZPs and TPs, which, in turn, as noted earlier, have a significant salary component.

In pre-university education, as in primary and secondary education, employee-related expenditure, transfer payments and supplies and services dominate the total expenditure (over 90 per cent).

¹⁵ In the DMTFP 2002, several expenditure items under revenue heads (especially, under 2202-01-052 and 2202-01-800) are classified as capital expenditure in state and ZP sector. Thus, in the ultimate analysis, the classification of expenditure by revenue and capital heads is subject to nature of expenditure as well.



TABLE 3.2.8
Pattern of expenditure in DMTFP for primary education: 2000-01 and 2001-02

Sl. No.	Pattern of expenditure	2000-01			2001-02		
		Plan	Non-plan	Total	Plan	Non-plan	Total
1	Employee related (%)						
1.1	State sector	30.23	0.72	8.16	25.83	0.48	7.73
1.2	Zilla panchayat sector	0.05	2.03	1.53	0.04	1.80	1.30
1.3	Taluka panchayat sector	36.31	84.97	72.69	35.99	84.29	70.48
	Sub-total	66.59	87.72	82.38	61.86	86.57	79.51
2	Transfer payments (%)						
2.1	State sector	11.75	0.31	3.20	13.08	0.38	4.01
2.2	Zilla panchayat sector	0.00	0.02	0.02	0.00	0.02	0.02
2.3	Taluka panchayat sector	1.75	11.75	9.22	1.58	12.40	9.31
	Sub-total	13.50	12.08	12.44	14.66	12.80	13.34
3	Maintenance (%)						
3.1	State sector	3.37	0.20	1.00	8.73	0.63	2.95
3.2	Zilla panchayat sector	0.00	0.00	0.00	0.16	0.00	0.04
3.3	Taluka Panchayat sector	0.36	0.00	0.09	1.19	0.00	0.34
	Sub-total	3.73	0.20	1.09	10.08	0.63	3.33
4	Supplies and services (%)						
4.1	State sector	0.94	0.00	0.24	6.07	0.00	1.73
4.2	Zilla panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
4.3	Taluka panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
	Sub-total	0.94	0.00	0.24	6.07	0.00	1.73
5	Other payments (%)						
5.1	State sector	1.58	0.00	0.40	7.33	0.00	2.09
5.2	Zilla panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
5.3	Taluka panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
	Sub-total	1.58	0.00	0.40	7.33	0.00	2.09
	Total recurring expenditure (%)	86.34	100.00	96.55	100.00	100.00	100.00
6	Capital (%)						
6.1	State sector	12.56	0.00	3.17	NR	NR	NR
6.2	Zilla panchayat sector	0.18	0.00	0.05	NR	NR	NR
6.3	Taluka panchayat sector	0.92	0.00	0.23	NR	NR	NR
	Total capital expenditure (%)	13.66	0.00	3.45	NR	NR	NR
	Total percentage	100.00	100.00	100.00	100.00	100.00	100.00
	Grand total (Rs. lakh)	44381.82	131535.9	175917.7	51033.65	127440.2	178473.9

Source: DMTFP, Department of Primary and Secondary Education, GoK, 2002 and 2003.

Note: NR refers to 'Not Reported'.

TABLE 3.2.9
Pattern of expenditure in DMTFP for secondary education: 2000-01 and 2001-02

Sl. No.	Pattern of expenditure	2000-01			2001-02		
		Plan	Non-plan	Total	Plan	Non-plan	Total
1	Employee related (%)						
1.1	State sector	1.31	3.28	3.04	4.54	3.21	3.41
1.2	Zilla panchayat sector	0.12	2.41	2.12	0.88	2.29	2.09
1.3	Taluk panchayat sector	64.13	38.88	42.11	49.58	39.98	41.35
	Sub-total	65.56	44.57	47.27	55.00	45.48	46.85
2	Transfer payments (%)						
2.1	State sector	7.51	0.41	1.32	17.66	0.37	2.82
2.2	Zilla panchayat sector	11.84	54.94	49.42	10.55	53.57	47.46
2.3	Taluk panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
	Sub-total	19.35	55.35	50.74	28.21	53.94	50.28
3	Maintenance (%)						
3.1	State sector	2.47	0.00	0.32	9.15	0.46	1.69
3.2	Zilla panchayat sector	1.35	0.00	0.17	6.15	0.00	0.87
3.3	Taluk panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
	Sub-total	3.82	0.00	0.49	15.30	0.46	2.56
4	Supplies and services (%)						
4.1	State sector	0.86	0.08	0.18	1.46	0.12	0.31
4.2	Zilla panchayat sector	0.04	0.00	0.00	0.03	0.00	0.00
4.3	Taluk panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
	Sub-total	0.90	0.08	0.18	1.49	0.12	0.31
5	Other payments (%)						
5.1	State sector	0.00	0.00	0.00	0.00	0.00	0.00
5.2	Zilla panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
5.3	Taluk panchayat sector	0.00	0.00	0.00	0.00	0.00	0.00
	Sub-total	0.00	0.00	0.00	0.00	0.00	0.00
	Total recurring expenditure (%)	89.63	100.00	98.68	100.00	100.00	100.00
6	Capital (%)						
6.1	State sector	5.10	0.00	0.65	NR	NR	NR
6.2	Zilla panchayat sector	5.27	0.00	0.67	NR	NR	NR
6.3	Taluk panchayat sector	0.00	0.00	0.00	NR	NR	NR
	Total capital expenditure (%)	10.37	0.00	1.32	NR	NR	NR
	Total percentage	100.00	100.00	100.00	100.00	100.00	100.00
	Grand total (Rs. lakh)	9814.4	66928.03	76742.43	11756.87	70972.25	82729.12

Note: NR refers to 'Not Reported'.

Sources:

1. DMTFP 2002-03 to 2005-06, Department of Primary and Secondary Education, GoK, 2002
2. DMTFP 2003-04 to 2006-07, Department of Primary and Secondary Education, GoK, 2003.

Rural local bodies and school education

Notably, almost 90 per cent of elementary education expenditure is spent at the level of local bodies.¹⁶

¹⁶ Of the total expenditure on elementary education in Karnataka, public expenditure constituted about three-quarters of the expenditure on elementary education in 1995-96, and about one-quarter by households (World Bank 2002). It may, however, be noted that this is a comparison primarily of recurrent expenditure on education and excludes annualised cost of past fixed investment (much of which is incurred by the government over the years). The study also points out that the share of private expenditure is less in case of children from relatively poor families.

An examination of the district-wise expenditure by local bodies on elementary education and the number of schools (both in terms of per-child in the age group 6-14 years), shows that the correlation coefficient between the two is very high (about 0.9). This is because these expenditures are mainly incurred for payment of salaries of school teachers and pass-through expenditures for the grants-in-aid to private institutions, which are, nevertheless, considered "local expenditures".

Table 3.2.10 presents district-wise expenditures on school education by rural local governments

TABLE 3.2.10
**District-wise block assistance per child and schooling achievements
 in Karnataka: 2000-01**

District	Expenditure per child in the age group 6-14 years (Rs.)	School attendance rate (%)	No. of out-of-school children (2003-04)	Literacy rate 2001	Male-female gap in literacy rate
1	2	3	4	5	6
Bagalkot	1579.873	86.78	37385	57.30	27.33
Bangalore Rural	2029.215	95.60	12691	64.70	19.00
Bangalore Urban	1307.839	97.28	21687	82.96	10.44
Belgaum	1716.016	91.54	51567	64.21	23.38
Bellary	1358.678	83.25	57634	57.40	23.92
Bidar	1791.658	87.59	35264	60.94	23.66
Bijapur	1775.829	82.68	59685	57.01	26.47
Chamarajnar	1744.458	90.86	13106	50.87	16.55
Chikmaglur	2788.493	93.22	11061	72.20	16.27
Chitradurga	2058.406	92.50	18205	64.45	20.89
Dakshina Kannada	1982.709	98.24	4418	83.35	12.49
Davangere	1925.148	92.30	22023	67.43	18.33
Dharwad	1817.076	91.46	19081	71.61	18.90
Gadag	1714.471	89.89	15836	66.11	26.80
Gulbarga	1576.489	75.63	136667	50.01	23.87
Hassan	2427.975	94.89	12981	68.63	19.37
Haveri	1415.211	91.60	20506	67.79	20.24
Kodagu	2463.753	91.48	6062	77.99	11.44
Kolar	1995.583	90.19	42570	62.84	20.94
Koppal	1109.969	79.05	46046	54.10	28.81
Mandya	2245.639	95.73	11101	61.05	18.97
Mysore	2039.405	90.99	29635	63.48	15.07
Raichur	1146.402	73.27	80105	48.81	25.60
Shimoga	1995.752	93.90	14911	74.52	15.13
Tumkur	2502.724	95.50	17403	67.01	19.84
Udupi	1963.855	98.90	2059	81.25	13.04
Uttara Kannada	2942.866	93.11	13874	76.60	16.07

Sources:

1. Report of the High Power Committee for Redressal of Regional Imbalances, Karnataka, June 2002.
2. Budget document 2002-03, Finance Department, Karnataka.

Transfer of responsibility from the state government to rural local bodies must bring about more equity for the underprivileged, in terms of access to elementary education services in the state.

in the state, along with the indicators of schooling requirements and achievements. There are wide variations in the expenditure per child of schooling age (6-14 years), among the districts in Karnataka. There is positive and significant correlation (Table 3.2.11) between per child expenditures and school attendance rate (0.57) as well as between per capita expenditures and the literacy rate (0.59).

Although it would be tempting to conclude from this that higher expenditure, by itself, results in better literacy rates, such a conclusion ignores the fact that the literacy rate depends on a variety of factors and not public expenditure alone. Parental education, the socio-economic environment in the region, employment avenues for the educated, availability of schools within a reasonable distance and availability of private schools are other factors that can influence the enrolment and retention rates. Another way of interpreting the significant correlation is that expenditures are lower where they are needed most, i.e. in the less literate districts which are also economically underdeveloped. Districts with high expenditures show very high school attendance rates. Thus, in the poorer districts of Bellary, Bidar, Gulbarga, Bijapur, Haveri, Koppal and Raichur, expenditure per child is substantially lower than the average and these are the districts with low literacy rates, a high gender gap in literacy and low school attendance. On the other hand, districts with high educational achievements, like Bangalore Rural, Chikmagalur, Dakshina Kannada, Uttara Kannada, Udupi and Kodagu have higher than average per-child

expenditures. However, very high expenditures are also seen in districts with median level achievements, such as Mandya, Mysore, Hassan and Tumkur. Per-child expenditures are the lowest in Hyderabad Karnataka and Bombay Karnataka regions, the highest in south Karnataka and about average in the coastal region. Interestingly, while the educational achievement in the coastal region of the state is the best among the various districts, the expenditures are about average. The reasons for this optimum cost efficiency could be the existence of a good educational infrastructure dating back to the pre-state reorganisation period, the high demand for education and the existence of strong private initiatives.

This analysis shows that even after entrusting the responsibility of school education to local bodies, the pattern of expenditures continues to be dictated by historical factors, rather than by the specific requirements of various districts. Transfer of responsibility from the state government to rural local bodies must bring about more equity for the underprivileged, in terms of access to elementary education services in the state. Educationally backward districts are also economically backward, and therefore, a large majority of the people cannot afford expensive private education. Another aspect of the scenario is that the middle-class and the rich exit the system and send their children to private schools. Since it is these groups who have the capacity to lobby effectively for improvements in the system, their absence leaves the users of state systems without strong advocacy.

TABLE 3.2.11

Correlation matrix of outcomes and expenditure on elementary education across districts

Correlation matrix	Literacy rate	School attendance rate	Female literacy gap	Expenditure per child
Literacy rate	1			
School attendance rate	0.78	1		
Male-female gap in literacy	-0.61	-0.59	1	
Expenditure per child	0.59	0.57		1

Note: Data on all the variables refers to 2001.

Assessment of financial requirements for primary and secondary education

The projected annual growth for primary education in DMTFP-2002 (Table 3.2.12) is 15.53 per cent, 16.25 per cent, and 23.13 per cent for each year from 2003-04 to 2005-06. For secondary education the annual growth projected is 8.75 per cent, 9.65 per cent and 11.80 per cent. The table also highlights the fact that different DMTFPs show different financial forecast values for the same year: for instance, the difference between the forecast values in DMTFP-2002 and DMTFP-2003 for the year 2004-05

(2005-06) is Rs.517.11 (Rs.1,012.77) crore for primary education and Rs.156.00 (Rs.262.57) crore for secondary education.¹⁷

The difference between the DMTP-2002's¹⁸ forecast and the amount provided in the Budget in 2004-05 is Rs.605.92 crore for primary education and Rs.142.4 crore for secondary education. The difference between the DMTP-2003's forecast and the Budget outlay in 2004-05 is Rs.88.81 crore for primary education and (-) Rs.13.53 crore for secondary education. The first DMTP represents the department's actual requirements commensurate with its objectives, whereas the second DMTP represents a downscaled version in accordance with the reality of the resources available to finance education. Nevertheless, even the scaled-down version has not been fully funded.

The World Bank's (2002) report provides an assessment of financial requirements for education in Karnataka. Under various assumptions of demographic and enrolment projections, and provision for infrastructure facilities, projected financial requirements for elementary education, high school education and pre-university education are estimated from 2002-03 through 2006-07, using 2001-02 as the base year.¹⁹ The

¹⁷ In principle, the DMTP is prepared as a combination of the Department's requirements and the guidelines/assumptions in the state level Medium Term Fiscal Plan (MTFP) for the Department in different years. For instance, in the state's MTFP 2003-04 to 2006-07 [Government of Karnataka (2003)], the following guidelines are relevant for primary and secondary education. First, basic salaries to grow at 2.75 per cent per annum, DA to grow at 5 per cent per annum, provision for 80 per cent of vacant posts, non-salary revenue expenditure as a percentage of salary expenditure to grow from the existing level of 18 per cent to 22 per cent in 2006-07, and capital expenditure to increase by more than 52 per cent on an average per annum. Thus, the difference in forecast values for the same year can be accounted for by a combination of these two factors. These details are available in the World Bank (2002) Report No.24207-IN.

¹⁸ In the DMTP 2002, several expenditure items under revenue heads (especially, under 2202-01-052 and 2202-01-800) are classified as capital expenditure in state and ZP sector. Thus, in the ultimate analysis, the classification of expenditure by revenue and capital heads is subject to the nature of expenditure as well.

¹⁹ The estimates of physical requirements, unit costs and total costs for these projections are provided in the Technical Annex to the report of World Bank (2002). The Technical Annex is prepared by Ms. Vandana Sipahimalani Rao of the World Bank and is available in processed form (pp.23).

TABLE 3.2.12

Financial requirements for primary and secondary education

(Rs. crore)

Year	Primary education		Secondary education	
	DMTFP 2002	DMTFP 2003	DMTFP 2002	DMTFP 2003
2002-03 (BE: base)	2045.41		1074.38	
2003-04 (BE: base)		2141.08		1088.05
2003-04 (forecast)	2363.00		1168.42	
Annual growth %	15.53		8.75	
2004-05 (forecast)	2747.00	2229.89	1281.17	1125.17
Annual growth %	16.25	4.15	9.65	3.41
2005-06 (forecast)	3382.34	2369.57	1432.36	1169.79
Annual growth %	23.13	4.47	11.80	3.98
2006-07 (forecast)		2433.34		1216.05
Annual growth %		4.45		3.95

Note: BE refers to 'Budget Estimates'.

Sources:

1. DMTP 2002-03 to 2005-06, Department of Primary and Secondary Education, GoK, 2002.
2. DMTP 2003-04 to 2006-07, Department of Primary and Secondary Education, GoK 2003.

World Bank estimates show that the base level total financial requirement would increase from Rs.2,660 crore in 2001-02 (RE) to Rs.3,382 crore in 2002-03 to Rs.4,992 crore in 2006-07, i.e. a 26 per cent increase in the first year of the projections (mainly attributed to the increased cost of transition to an eight-year elementary cycle from the present seven-year), and about 47 per cent over the next four years. There are major differences in the estimates between the World Bank and DMTP-2003. The Bank's estimates for primary and secondary education exceed the requirements projected in DMTP 2003 but its estimate for PU education is less than the DMTP 2003. This is in consonance with the Bank's policy of prioritising primary and secondary education alone, while the DMTP is more aspirational in ensuring that students are enabled to access tertiary education.

A comparison of estimates of financial requirements with the objective of universalisation of primary education is presented in Table 3.2.13. In essence, about 1.9 per cent of GSDP would be required in 2006-07 to meet the objective. In this context, the forecast of 1.3 per cent of GSDP by the DMTP seems to be woefully inadequate to meet the goal of universalising school enrolment and retention.

TABLE 3.2.13

Projected resource requirement for universalising elementary education

(Rs. crore)

Sl. No.	Estimates	2004-05	2005-06	2006-07
1	Tapas Majumdar Committee (TMC) Report	2336.98*	3426.49	4671.38*
		<i>1.6</i>	<i>2.1</i>	<i>2.5</i>
2	World Bank (with revision of teachers' pay in line with 5th Pay Commission)	3682	4021	4319
		<i>2.5</i>	<i>2.5</i>	<i>2.4</i>
3	World Bank (with rationalisation of teachers across districts)	2955	3284	3465
		<i>2.0</i>	<i>2.0</i>	<i>1.9</i>
4	Projected expenditure by DMTEP of Department of Primary and Secondary Education, Karnataka	2229.89	2329.56	2433.33
		<i>1.5</i>	<i>1.4</i>	<i>1.3</i>

Notes:

- * Estimated based on the methodology used in the TMC report.
- Figures in italics are percentages of expenditure to GSDP (projected by the Finance Department's DMTEP).

Sources:

- Tapas Majumdar Expert Committee Report, Ministry of Human Resource Development, GoI, 1999.
- India: Karnataka-Financing Education in the context of Economic Restructuring, Report No.24207-IN, Human Development Sector Unit, South Asia Region, the World Bank (Washington), 2002.
- Departmental Medium Term Fiscal Plan 2003-04 to 2006-07, Department of Primary and Secondary Education, GoK, 2003.

Resources for financing education

Given the competing demands from other growth sectors such as irrigation and power, not to mention demands from within the sector broadly classified as 'social services', combined with the constraints on resources (all discussed in **Part I**), this section will examine how resources can be generated from within the sector itself. Resource mobilisation is more broadly addressed in **Part I**.

Cost recovery from within primary and secondary education

Making resources available, even for projections in the first DMTEP, requires imaginative strategies for increasing the PER and SAR in education. Revenue and other receipts are critical inputs for an analysis of cost recovery in primary and secondary education for the state government. Broadly speaking, the composition of revenue and other receipts varies between primary and secondary education. The major components of revenue for primary education include tuition, examination and other fees from students and other receipts include contribution to buildings and income from properties. In secondary education, the main components of revenue (and other receipts) include tuition, examination and other fees from students in high schools converted

into junior colleges (and fees from managements and sale proceeds of old answer books etc.). Tuition, examination and other fees from students are the single largest component of total revenue and other receipts in primary and secondary education.

The total receipts of elementary education have declined from Rs.60.45 lakh in 1990-91 to Rs.0.10 lakh in 2002-03. As a percentage of total receipts of the education sector (general education), this decline is from 3.68 (7.59) per cent to zero per cent (Table 3.2.14). Thus, no cost recovery from the primary education sector can (or should) be expected, both at present and in future (as the Budget Estimates coincide with the accounts figures of 2002-03). This is consistent with the recent 86th Amendment to the Indian Constitution that ensures education, as a Constitutional right, for children in the age group 6-14 years.

On the other hand, total receipts of secondary education have increased over the years, from Rs.711.81 lakh in 1990-91 to Rs.1,264.01 lakh in 1998-99, and further, to Rs.3,666.55 lakh in 2002-03. As a percentage of total receipts of the general education sector, the increase has been from 43.28 per cent to 80.06 per cent. Thus, any



cost recovery in primary and secondary education will essentially be from secondary education. However, the larger issue is whether the secondary education sector should be squeezed to generate resources for primary education. As more children start completing 7 years of schooling, the demand for secondary education will burgeon and the infrastructure should be in a position to meet the demand. Hence, cutting costs here is not advisable, especially since the sector is currently under-financed as it is. Putting secondary education beyond the reach of the poor by raising costs is also not an acceptable scenario.

Budgetary subsidy to higher education

A reduction in grant-in-aid (GIA) to private higher education institutions is a fiscal policy measure often suggested on many grounds including (i) lack of budgetary resources to meet the existing needs of GIA, (ii) switching budgetary expenditure from higher education to meet the resources required for the establishment and expansion of school education in backward areas, and (iii) the assumption that some aided colleges, especially older institutions in urban centres, are now financially strong and can reduce their dependence on grants from government.

Some steps have been taken in this direction. The GIA to collegiate education has been reduced in several ways: all private degree colleges established after June 1, 1987 are treated as permanently unaided;²⁰ since 1990-91, no new courses have been brought under grant; and since 1993-94, there has been a ban on filling up vacant posts of non-teaching staff; a large number of teaching posts have remained vacant for several years and are being gradually converted into unaided posts; and an increase in student fees with a built-in provision for annual upward revisions has been put in place.²¹ In essence, these

²⁰This is relevant for institutions in secondary education as well. This is evident in the summary of the recent changes in GIA policy to secondary education in Panchamukhi et al (2004a).

²¹ Consequent upon the above measures, the amount of GIA to collegiate education has come down from what it would have been in the absence of the measures. Nevertheless, to date, no empirical evidence is available on the impact of this expenditure reduction on the quantity and quality of provisioning of education services by private aided colleges in the state.

TABLE 3.2.14
Revenue receipts from primary and secondary education

(Rs. lakh)

Sl. No.	Level of education	1990-91	1998-99	2002-03
1	Revenue receipts from elementary education	60.45	1.02	0.10
1.1	Per cent to total revenue receipts from all levels and types	3.68	0.04	0.00
1.2	Per cent to total revenue receipts from general education	7.59	0.08	0.00
1.3	Per cent to total revenue expenditure on primary education	0.15	0.00	0.00
2	Revenue receipts from secondary education	711.81	1264.01	3666.55
2.1	Per cent to total revenue receipts from all levels and types	43.28	46.28	80.06
2.2	Per cent to total revenue receipts from general education	89.39	99.92	99.92
2.3	Per cent to total revenue expenditure on secondary education	3.21	0.86	3.48
	Total revenue receipts: Primary and secondary education	772.26	1265.03	3666.65

Source: Various issues of 'Budget Papers' of Government of Karnataka.

steps aim at switching expenditure from higher education to ensuring a higher budget allocation for school education, especially primary education, in government schools. Thus, other things being the same, a reduction in GIA to higher education could generate additional financial resources for primary and secondary education in the state.

Implicit budgetary subsidy to higher education, as estimated for 1990-91, 1998-99 and 2002-03, is summarised in Table 3.2.15. The aggregate subsidy to higher education has increased from Rs.20,615.82 lakh in 1990-91 to Rs.46,137.98 lakh in 1998-99 and to Rs.74,464.83 lakh in 2002-03. Of the aggregate subsidy, the largest, but declining share goes to general education: 75.9 per cent in 1990-91, 65.38 per cent in 1998-99 and 63.06 per cent in 2002-03. Subsidy to technical and agricultural education shows a moderate increase from 8.85 and 7.79 per cent in 1990-91 to 9.63 and 11.88 per cent in 1998-99 and to 10.3 and 13.8 per cent in 2002-03.

However, the share of medical education in the total subsidy varies from 7.45 per cent in

TABLE 3.2.15
**Budgetary subsidy to higher education in Karnataka:
 1990-91 to 2002-03**

(Per cent)

Sl. No.	Aggregate subsidy	1990-91	1998-99	2002-03
1	Aggregate subsidy (Rs. in lakh at current prices)	20615.82	46137.98	74464.83
1.1	Share of general education	75.90	65.38	63.06
1.2	Share of technical education	8.85	9.63	10.30
1.3	Share of agricultural education	7.79	11.88	13.80
1.4	Share of medical education	7.45	13.10	12.83
2	Subsidy to aided institutions to total aggregate subsidy	79.74	70.91	72.92
3	Aggregate subsidy to revenue expenditure	5.19	3.71	3.96
4	Total subsidy to aided institutions as percentage of revenue expenditure	4.14	2.63	2.89
5	Aggregate subsidy to NSDP (at factor cost)	0.92	0.59	0.74
6	Aggregate subsidy to higher education to total expenditure on			
6.1	Primary education	47.71	31.81	35.04
6.2	Primary and secondary education	30.89	19.90	22.07
7	Aggregate subsidy to general higher education to total expenditure on			
7.1	Primary education	38.39	23.14	26.15
7.2	Primary and secondary education	24.86	14.47	16.47
8	Aggregate subsidy to aided institutions to total expenditure on			
8.1	Primary education	40.34	25.09	30.23
8.2	Primary and secondary education	26.12	15.70	19.04

Source: Estimated by using the framework in Narayana, M.R. 'Budgetary Subsidies of the state government to Higher Education: Evidence from Karnataka State (India)', Journal of Indian School of Political Economy, XIII, 2001, 443-470.

1990-91 to 13.10 per cent in 1998-99, and to 12.83 per cent in 2002-03. The share of aided institutions in subsidy dominates over the government institutions (in tertiary education, at least): 79.74 per cent in 1990-91, 70.91 in 1998-99 and 72.92 per cent in 2002-03. Further, aggregate subsidy as a percentage of the state's total revenue expenditure (income) varies from 5.19 (4.14) per cent in 1990-91 to 3.71 (2.63) per cent

in 1998-99 and to 3.96 (2.89) per cent in 2002-03.²²

Most importantly, subsidy to higher education ranged from 47.71 (30.89) per cent in 1990-91, to 31.81 (19.90) per cent in 1998-99 and 35.04 (22.07) per cent in 2002-03 of the total expenditure on primary (primary and secondary) education. The share of aggregate subsidy to general higher education in total expenditure on primary (primary and secondary) education varies from 38.39 (24.86) per cent in 1990-91, 23.14 (14.47) per cent in 1998-99 and to 26.15(16.47) per cent in 2002-03. The share of aggregate subsidy to aided institutions in higher education in total expenditure on primary (primary and secondary) education varies from 40.34 (26.12) per cent in 1990-91, 25.09 (15.70) per cent in 1998-99 and to 30.23 (19.04) per cent in 2002-03. These estimates indicate the extent to which aggregate subsidy to higher education in general and general higher education in particular, can finance the expenditure on primary education alone, or primary and secondary education, in the state.

As mentioned above, the Government of Karnataka has partially reduced funding to higher education, but it is generally agreed that this sector needs major reforms to: (i) improve the quality of instruction and learning; (ii) grant academic autonomy to institutions; and (iii) ensure greater private sector participation. However, merely cutting back on funding without reforms might well be counter-productive.

An alternative perspective is offered by the Task Force on Higher Education (2004) for financing education in general, and higher education in particular (Box 3.2.1).

²² This is clearly reflected in the state level MTFP 2003-04 to 2006-07 [Government of Karnataka (2003c)]: 'In higher and secondary education, there is no justification to carry on with the current grant-in-aid system, which is now, in many cases adding profit to institutions which have long broken even. Cosmetic changes to GIA will not serve the purpose due to the strong interest groups, which propel this sector. A clear policy prescription is being worked out. The approach will be to freeze GIA at current levels in all secondary and higher education institutions immediately, and the savings there from used for enhanced allocations and quality improvement in government institutions' (p.25).

BOX 3.2.1

Recommendations - Task Force on Higher Education for financing higher education

- Public expenditure on education in the state should be increased, in the first phase, to 6 per cent of the Net State Domestic Product and gradually to 10 per cent as state finances improve. Six per cent has been suggested in the Kothari Committee Report in the sixties and, with the current size of our population, it is nearer ten per cent.
- Within expenditure on education, expenditure on higher education should be increased to 20 per cent at least.
- All input funding in higher education should be considered as a form of productive human capital expenditure in the state budget and, hence, as an investment. With globalisation, increased competition and knowledge driven economies, this investment has become particularly necessary if the state is to survive in the new environment.
- Higher education should be treated as one of the 'high priority development expenditures' in the state. Without appropriate funding, the state cannot be expected to survive in a knowledge society and a competitive world economy. Hence, it should not be subjected to reduction as a subsidy, but treated as its investment for development.
- The state government may address the following methods to increase funding for collegiate education in particular and higher education in general:
 - ◆ Grant permanent affiliation to colleges and provide autonomy as funds can be accessed from the UGC on both counts.
 - ◆ Instead of loans, which have a poor history of returns in most countries, tax the educated employed over their working life taking into consideration the income earned.
 - ◆ Tax employers of those who employ graduates of the system based on the nature of the degree and the salary. Such a tax should include all employers, government and private companies.
 - ◆ Place a small tax on IT and other knowledge-based industries as they maximally employ graduates of the system.
 - ◆ Permit colleges that do not want grants, to opt out as it is done in the case of schools, which do not take grants.
 - ◆ Introduce a system of tuition fees-based on the type of school attended with a higher level of fees from those who went to high fee paying schools, next grade to those who went to middle level fee paying schools, the third level for those who went to aided schools, and the lowest fees for those who went to Government/Municipal schools. Only then we will have equity in terms of cost of education to the individual. The college admission form and the school-leaving certificate should carry the fees paid. If the school had given concession, the school and the department of education should certify this.

Source: Report of the Task Force on Higher Education, Government of Karnataka, 2004.

Conclusions

First, the state government has the right priorities in terms of allocating the lion's share of the resources in education to primary, followed by secondary education. Karnataka performs well in terms of plan expenditure on education. However, the overwhelmingly large share of revenue expenditure indicates that, in Karnataka, as in other states, not enough investment is being directed towards capital expenditure. The non-salary component is low and the expenditure on infrastructure, teaching aids, curriculum development, instructional material, laboratories, libraries, in-service teachers' training, in short all the things that contribute to the quality of education is totally inadequate.

Second, as school attendance rate is positively associated with the literacy rate, and negatively associated with the male-female gap in education, targeting expenditure towards school

attendance will also help to move towards other goals in education. This scenario must take note of increasing enrolment in school education over the years, as evinced by a commensurate increase in the number of first time entrants to collegiate education. Many of these first time entrants are girls, and students from the Scheduled Castes and Tribes and backward classes who have traditionally not enjoyed access to higher education. Government colleges and, to a lesser extent, aided colleges provide them with education with a reasonable fee structure. There is need for reforms in higher education to ensure that it teaches the vocational skills required by the job market. However, doing away with all subsidies is, perhaps, draconian, and those who least can afford it will feel its impact. High-income students in tertiary education do not need government subsidies and it is not equitable that the children of the poor should subsidise them. There can be greater economies in tertiary education and those who can afford to

While Karnataka performs well in terms of plan expenditure on education, not enough investment is being directed towards capital expenditure.

pay can and must be made to pay the real cost of higher education. This would reduce the sector's dependence on state subsidies.

Third, in the context of improving educational performance, while maximising existing resources, the educationally backward regions require special focus. Transfers to districts are not necessarily based on need and equity. Changing the pattern of devolution and sanctioning more resources to needy districts is necessary. The former would sensitise the rural local governments towards greater accountability from teachers and the latter would permit a larger allocation of resources to educationally backward districts.

PART III

Engendering Public Spending: Gender Budget and Audit

The main aim of gender budgets and gender audits is not a separate budget for women, but better analysis of the incidence of the expenditures and tax measures, as well as overall impact of a budget, improved targeting of public spending, and a clearer financial basis for counteracting any potential negative consequences of the budget. For the purposes of this discussion, we use the terms 'gender audit' and 'gender budget' interchangeably.

The first systematic audit of a government budget for its impact on girls and women was done in Australia in 1984. Since then, 'gender budget exercises', as they are called, have been undertaken in a number of countries, chief among them being South Africa, Fiji, St. Kitts and Nevis, Barbados, Sri Lanka, Canada, UK, Mozambique, Tanzania and Uganda. This growing acceptance of gender budgeting as a tool for engendering macroeconomics gained momentum after the Fourth World Conference on Women at Beijing in 1995, and after the Commonwealth Women's Affairs Ministerial meeting in New Delhi in 2000.²³

²³ <http://wcd.nic.in/chap11.htm>

To be complete, gender budgets require good quality data. In practice, of course, a number of gender audits have yet to reach sophisticated levels of analysis, not having access to the data needed to incorporate many of the elements. Many existing audits include gender-aware policy appraisal and beneficiary assessment, but other elements require either a level of sensitisation of officials (for example, budget statements) or the kind of capacity for analysis (for example, tax incidence) that are not yet available in women's development departments or ministries. However, even just beneficiary incidence is a good place to begin, and a number of insights into the gender impact of development can be obtained through this process.

Evolution of gender audits in India

The Ninth Five Year Plan (1997-2002) first proposed a Women's Component Plan under which both Central and state governments were asked to ensure that at least 30 per cent of funds and benefits were earmarked in all the women related sectors, and that a holistic approach to empowering women should be followed. After 2000, when a major conference on South Asia was held, the National Institute of Public Finance and Policy (NIPFP) was commissioned to carry out research on a project on Gender Related Economic Policy Issues. Following this, a State Budgets Workshop was held in 2001, which led to gender audit projects in different states, but the results have not yet been collated.

The NIPFP report classified public expenditure into three classes:

1. Allocations under schemes and programmes specifically targeted to women and girls;
2. Pro-women allocations as part of the composite expenditure of schemes with a component for women, e.g. in social sector ministries like health, family welfare, education, rural development, etc. where women may benefit, both from targeted schemes and also from a share in the composite expenditure;
3. Pro-women allocations in specific composite schemes in other ministries where there is typically no or very little women's component as such.



The main aim of gender budgets and gender audits is not a separate budget for women, but better analysis of the incidence of the expenditures and tax measures.

A look at most budgets will show that allocations under (1) above are a small fraction of the budget, while the relative size of (2) may vary, based on the priority given to the social sectors and to pro-women allocations within them. The bulk of public expenditure, however, is likely to fall under ministries/departments where there is not only little gender sensitivity, but which also include many public goods whose benefits cannot be specifically gender-attributed. In these latter ministries, one cannot assume that the impacts of expenditures will be gender neutral or provide equal benefits to women and men. Even seemingly neutral measures can be seen to have unequal benefits when viewed through a gender lens of differential use by women and men: for instance, road construction that leads to places where men rather than women work. Some measures may also actually be inimical to women: an example is expenditure on converting a street market where vendors (both women and men) hawk their wares, into a built set of stalls requiring leasing by small shop owners (mostly men because women often do not have access to the money needed to obtain a lease). Alternatively, by consuming the bulk of public expenditures, these sectors may crowd out other spending that more directly benefits women, e.g. the crowding out of social sector spending by other 'neutral' sectors.

Important as an analysis of such impacts may be, the current state-of-the-art of gender audits in the country is still at the level of analysing women-specific schemes and women's components under categories (1) and (2) of the NIPFP report.

Gender audit in Karnataka

Data for recent years in Karnataka allow us to look at both these categories.²⁴ The first task is to look at how the allocations for women's welfare (which accounts for a portion of the budget of the Department of Women and Child Development) have fared relative to the department as a whole. This is meaningless unless we have columns showing total plan/non-plan outlay for each year from 1999-2000 to 2002-03. Thereafter, (i) WCD (total) outlays can be shown as percentages of total state plan/non-plan outlay, (ii) for all other sub-heads e.g. 'Women's welfare', 'Correctional services' etc. outlays must be shown as a percentage of the Department of Women and Child Development (WCD) budget.

Over the period from 1999-2000 to 2002-03, total expenditure on 'Women's Welfare' in Karnataka (Table 3.3.1) went from Rs.159 crore (Rs.101 crore for plan, and Rs.58 crore for

Even seemingly neutral measures can be seen to have unequal benefits when viewed through a gender lens of differential use by women and men.

TABLE 3.3.1
Women's welfare (plan and non-plan expenditure)

(Rs. lakh)

Heads of Account	1999-2000 (A/C)		2000-01 (A/C)		2001-02 (A/C)		2002-03 (R.E.)	
	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan	Non-plan
Direction and administration	83.97	224.04	107.34	227.93	89.69	239.94	94.00	260.55
Welfare of handicapped	276.28	4039.27	325.43	3916.07	374.32	4178.67	239.00	4046.56
Child welfare	491.79	122.78	623.07	129.42	1219.89	133.3	537.83	129.74
Women's welfare	505.69	12.35	1338.55	14.02	1663.63	16.16	959.60	13.00
Welfare of aged, infirm and destitutes	1293.45	0.11	687.20	-	1046.71	-	276.00	23.80
Correctional services	140.80	880.92	196.00	876.33	218.78	946.58	151.40	832.70
Assistance to local bodies and Corporations etc.	7290.28	522.41	9420.43	404.98	9654.86	340.29	10398.46	418.98
Total	10082.26	5801.88	12698.02	5568.75	14267.88	5854.94	12656.29	5725.33
Percentage	5.02	0.21	10.54	0.25	11.66	0.28	7.58	0.23

Source: Finance Department, Detailed Estimates of Expenditure, Volume-V, various years.

²⁴This is not an entirely congruent classification. While DWCD's Women's Welfare Schemes clearly belong under the NIPFP category 1, there are also women-targeted schemes in other departments. These have been included largely under KMAV.

Karnataka was the first state to introduce a Women's Component Plan.

non-plan) to Rs.184 crore (Rs.127 crore for plan, and Rs.57 crore for non-plan). While plan expenditure has increased somewhat, non-plan expenditure has fallen in real terms, given the positive rate of inflation during the period. This stagnation of non-plan expenditure can be seen in 'Women's Welfare' as well. However, plan expenditure has seen significant fluctuation, rising from Rs.5 crore to Rs.16 crore and falling back to Rs 9.6 crore. Overall, the outlay for women's welfare ranged between 5.02 per cent and 11.66 per cent of the overall Women and Child Development plan budget, and around ¼ of 1 per cent of the non-plan budget. The bulk of the non-plan WCD budget goes to 'Welfare of the Handicapped'. The bulk of the plan budget goes as assistance to local bodies and corporations, etc. However, a look at the details makes it clear that the 'Integrated Child Development Scheme' (ICDS) accounts for most of this expenditure. Undoubtedly, girls as well as boys benefit from ICDS expenditure, but again, the relative incidence is not easily correlated with this data.

Karnataka Mahila Abhivrudhi Yojane

The budget of the Karnataka Mahila Abhivrudhi Yojane²⁵ (KMAY) that was launched by DWCD in 1995-96 would fall in NIPFP's category (2) i.e. a woman's component plan. Karnataka was the first state in the country to actually introduce a scheme earmarking one third of its resources for women in individual beneficiary-oriented schemes and labour intensive schemes of different departments. As many as 26 departments now earmark a third of the physical and financial allocations in this way over 297 different Central, state and district schemes. In 2003, a special KMAY cell was created to monitor the programme. The objectives of the KMAY were: (i) to desegregate women from the confines of the DWCD where budgetary support was low and where the approach was predominantly welfarist; (ii) to make visible the contributions of women to the economic productivity of the state economy, and thereby; (iii) ensure that line departments are enlarged.

The consolidated table (see Table 3.3.2) indicates that, over the last five years, KMAY's achievement in financial terms has risen from 81 per cent to 95 per cent and in physical terms (number of beneficiaries) from 84 per cent to 106 per cent. By 2003-04, Rs.853 crore was being earmarked for women and 95 per cent of this was spent.

The detailed table (Table 3.3.3) provides some valuable indicators for analysis. The different departments can be categorised according to the size of the allocation for women as follows (Box 3.3.2).

It is clear from the above (Box 3.3.2) that schemes in 3 departments – Housing, Rural Development, and Social Welfare department – account for a large share in the earmarked total for women. In 2003-04, out of a total expenditure of Rs.811 crore, Rs.571 crore came from just these three departments. Thus, if KMAY's effectiveness is to be improved, then these three departments will be important.

²⁵ Including both women-targeted schemes and women's share of composite schemes – again not exactly identical to NIPFP category 2.

BOX 3.3.1

Undertaking a gender budget initiative

Undertaking a gender budget initiative can include some or all of the following:

- Gender-aware policy appraisal – Designed to analyse policies and programmes from a gender perspective, and identify the ways in which these policies and the resources allocated to them are likely to reduce or increase existing gender inequalities;
- Gender disaggregated beneficiary assessment – Implemented to evaluate the extent to which programmes or services are meeting the needs of actual or potential beneficiaries, as identified and expressed by themselves;
- Gender disaggregated public expenditure benefit incidence analysis – Used to evaluate the distribution of budget resources among women and men, girls and boys by estimating the unit costs of a certain service and calculating the extent to which this service is being used by each of the groups;
- Gender disaggregated analysis of the impact of the budget on time use – To establish a link between budget allocations, the services provided through them and the way in which different members within a household spend their time;
- Gender-aware medium term economic policy framework – Designed to incorporate a gender perspective into the medium term frameworks of policy development, planning and budgetary allocations, by disaggregating variables by gender. A gender aware budget statement refers to reports generated by government agencies on the implications of their expenditure on gender equity objectives;
- Disaggregated tax incidence analysis – Used to assess the differential impacts of taxation on women and men, as well as to evaluate the level of revenue raised in relation to the needs and demands for public expenditure.

TABLE 3.3.2
Karnataka Mahila Abhivrudhi Yojane - Targets and achievements: 1999-2004

(Rs. lakh)

Year	No. of programmes	No. of depts.	Budget allocation		Earmarked for women		Progress up to March		Percentage of progress	
			Fin.	Physical (Nos.)	Fin.	Physical (Nos.)	Fin.	Physical (Nos.)	Fin.	Physical (Nos.)
1999-2000	247	24	107693	10889108	41776	5690827	34007	4802293	81	84
2000-01	251	25	130400	2018318	54982	5703682	44509	2036643	81	36
2001-02	252	26	151061	11789744	59639	132153388	54283	14177625	91	107
2002-03	256	26	145289	99660262	44057	19944703	47123	22121758	106	110
2003-04	297	26	151354	31205359	85325	13656666	81091	14433210	95	106

Source: Department of Women and Child Development.

To judge the extent to which the allocations for women were actually spent, and whether this has improved over time, the departments were classified into six classes on the basis of expenditure: A++ (over 100 per cent), A+ (between 90 and 100 per cent), A (between 80 and 89 per cent), B (between 70 and 79 per cent), C (between 60 and 69 per cent) and D (less than 60 per cent). The following conclusions can be drawn:

1. Of the three large departments, Housing had allocations only in the first and last years, the latter being the new scheme under which low income housing is being constructed with women being given titles; RDPR has been consistently above its allocation; the performance of Social Welfare has improved over time but with fluctuations;
2. There are large fluctuations in the performance of the majority of departments with swings between D and A++ being not uncommon;
3. In 2003-04, there were a few A++ performers while 5-6 departments fared rather badly; and
4. Interestingly, the expenditure performance of as many as 15 departments appears to improve in years when their overall allocation is high; in only one or two departments does performance improve when overall allocation is low; in 9-10 departments, there appears to be no correlation between increases or decreases in overall allocation and the percentage actually spent.

BOX 3.3.2

Categorisation of departments

- Category 1²⁶ (greater than or equal to Rs.100 crore): Housing, Rural Development, Social Welfare.
- Category 2 (between Rs.10 crore and Rs.100 crore): Agriculture, Backward Class Welfare Department, Employment and Training, Education, Forest, Health and Family Welfare, SC/ST Development Corporation.
- Category 3 (between Rs.1 crore and Rs.10 crore): Animal Husbandry, Horticulture, Industries and Commerce, Backward Class Development Corporation, Sports and Youth Services, Scheduled Tribes Welfare Department, Karnataka Milk Federation, Minorities Welfare Department, Watershed Development Department, Minorities Development Corporation.
- Category 4 (less than Rs.1.0 crore): Cooperation, Disabled Welfare, Fisheries, Handloom and Textiles, Sericulture.

Such performance may be related to three factors: greater effort at spending on women by the relevant department; more women-targeted schemes becoming available within a department; or simply more funds becoming available to the department overall, and this getting translated into an automatic increase in the 1/3 allocation for women. The fact that, in a large number of departments, performance appears to improve in years when the overall allocation improves lends credence to the last factor. This is disturbing, especially when one considers the converse, i.e. that in years when a department is short of funds, it cuts spending on women disproportionately. Expenditure for women appears to get crowded out in the lean financial years. Given the current

²⁶ In any of the five years considered.

TABLE 3.3.3
Karnataka Mahila Abhivrudhi Yojane - Targets and achievements (Department-wise): 1999-2004

(Rs. lakh)

Sl. No.	Name of Department	A - Actual expenditure out of 1/3rd allocation for women				"A" as % of 1/3 rd allocation for women				"A" as % of total department allocation						
		1999-2000	2000-01	2001-02	2002-03	2003-04	1999-2000	2000-01	2001-02	2002-03	2003-04	1999-2000	2000-01	2001-02	2002-03	2003-04
1	Agriculture	1180.06	761.61	992.44	658.03	809.71	90	72	70	73	100	30	24	23	24	33
2	Animal Husbandry and Veterinary Services	133.55	82.60	65.33	118.03	53.53	78	62	41	147	56	26	21	14	49	19
3	Backward Classes Welfare	1408.46	1221.99	1289.16	1213.09	1286.40	95	63	59	50	49	32	21	20	17	16
4	Cooperation	60.83	156.18	55.41	55.78	29.80	72	102	64	65	71	24	34	21	22	24
5	Disabled Welfare	61.07	65.97	24.00	66.55	27.99	79	87	30	90	73	26	29	10	30	24
6	Employment and Training	1050.33	1549.30	524.12	477.09	664.08	75	87	77	71	100	25	29	26	24	33
7	Education	2002.85	2790.07	3939.48	11645.91	9751.18	97	99	94	275	99	32	33	31	92	33
8	Fisheries	12.62	6.88	8.00	3.60	4.98	84	59	97	100	82	28	20	32	33	27
9	Forest	2863.21	1692.14	2271.52	1196.08	1624.26	107	65	116	56	81	36	22	39	19	27
10	Handloom and Textiles	11.33	22.99	24.86	19.57	23.70	35	99	59	59	61	12	33	20	20	20
11	Horticulture	149.09	184.94	276.79	288.08	180.26	29	129	48	56	95	10	43	16	19	32
12	Housing	2022.31	-	-	-	29215.09	117	-	-	-	77	39	-	-	-	26
13	Health and Family Welfare Services	3106.21	3665.55	908.82	1972.8	1145.04	75	90	52	70	68	25	30	17	23	23
14	Industries and Commerce	212.04	7902.09	14704.07	69.80	56.84	68	58	85	115	113	23	19	28	38	38

(Table 3.3.3 Contd...)

(Table 3.3.3 Contd...)

(Rs. lakh)

Sl. No.	Name of Department	A - Actual expenditure out of 1/3rd allocation for women					"A" as % of 1/3 rd allocation for women					"A" as % of total department allocation				
		1999-2000	2000-01	2001-02	2002-03	2003-04	1999-2000	2000-01	2001-02	2002-03	2003-04	1999-2000	2000-01	2001-02	2002-03	2003-04
15	Karnataka Backward Classes Development Corporation	211.65	333.71	256.52	1906.76	751.79	40	69	36	158	88	13	23	12	53	29
16	Karnataka Minorities Development Corpn.	80.41	111.54	93.28	134.49	212.8	30	33	20	32	53	10	11	7	11	18
17	Karnataka SC/STs Development Corpn.	994.33	1245.17	982.46	1137.41	5708.7	95	101	64	55	139	32	34	21	18	46
18	Municipal Administration	-	842.2	1294.29	1958.91	532.84	-	56	87	60	190	-	19	29	20	63
19	Rural Development	9257.33	9333.98	12949.04	12645.7	17658.86	102	114	156	152	188	34	38	52	51	63
20	Social Welfare (SCs)	8490.9	11431.67	12021.85	10067.7	10223.85	63	81	88	69	79	21	27	29	23	26
21	Sericulture	51.43	34.04	70.08	57.74	65.58	78	60	65	70	59	26	20	22	23	20
22	Sports and Youth Services	103.73	123.59	103.11	91.71	96.75	76	102	80	94	98	25	34	27	31	33
23	Scheduled Tribes Welfare	433.65	837.59	773.79	624.66	415.65	66	116	84	81	55	22	39	28	27	18
24	Karnataka Milk Federation	109.71	51.4	75.27	150.94	217.96	70	43	35	46	109	23	14	12	15	36
25	Minorities Welfare	-	62.69	122.08	128.28	108.92	-	77	85	92	87	-	26	28	31	29
26	Watershed	-	-	457.26	434.33	224.8	-	-	29	26	80	-	-	10	9	27
	Total	34007.1	44509.8	54283.03	47123.04	81091.38	81	81	91	107	95	27	27	30	36	32

Source: Department of Women and Child Development, Progress Reports under Karnataka Mahila Abhivrudhi Yojane.

situation of straitened fiscal circumstances for the state, this is particularly problematic in the scenario (see chapter 8) of a growing work and income crisis for women, especially in the poorer regions of the state. Thus, although overall, KMAY is a valuable beginning, its real potential is still untapped.

Recommendations

- The state must start on the process of institutionalising a gender audit unit, either in WCD department or in the Planning Department. This would mean identification of objectives, developing a gender disaggregated database for analysis and putting monitoring mechanisms in place.
- KMAY should be independently evaluated to assess the extent to which women have benefited from this initiative.
- The current monitoring system focuses almost entirely on financial and physical numbers. This may have been necessary when KMAY was first put in place, but it is now time to start looking at the quality of outcomes.
- There is little evidence to suggest that KMAY seriously looks at indicators that reflect women's socio-economic status (e.g. work participation rate, MMR and IMR, female literacy, girls' enrolment and retention in schools, women in Panchayat institutions or the specific problems of women from the minorities or SC and ST women). As the nodal department for a gender responsive administration, WCD must periodically review women's status in all sectors and motivate departments to either step up their interventions or devise new programmes to address issues that have now surfaced.