Financing Human Development in Kerala: Issues and Challenges

Pinaki Chakraborty
Lekha Chakraborty
Amar Nath H.K.
Sona Mitra

National Institute of Public Finance and Policy
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Preface

This study on Kerala's Human Development Financing is a part of the larger programme titled, Strengthening State Plans for Human Development, executed by the Planning Commission and sponsored by UNDP India. The research team for this study was led by Pinaki Chakraborty, and the other members of the team were Lekha Chakraborty, Amar Nath H.K. and Sona Mitra.

The Governing Body of the Institute does not take any responsibility for the contents of this study, it belongs to the authors only.

M. Govinda Rao
Director

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Pinaki Chakraborty
Lekha Chakraborty
Amar Nath H.K.
Sona Mitra

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EXECUTIVE SUMMARY

1. Kerala has had a unique development experience when compared to the rest of the country. High levels of social indicators comparable with the level of indicators in the developed countries, which came about without the usual 'rapid' economic growth in per capita GSDP and simultaneous increases in the output has in fact attracted a lot of attention to this developmental process and gradually started being referred to as the 'Kerala model of development'.

2. The human development index (HDI) for Kerala is highest in India. The intra-state analysis of HDI across districts also revealed a remarkable feature that the deviation between the HDI of the low per-capita income district, viz., Malappuram (which also has the lowest HDI) and Ernakulam where it is the highest is minimal, that is, HDI is between a range of 0.75 and 0.81. The male and female literacy at 94.2 and 87.8 percent respectively by census 2001 is the highest in the country. Kerala also has the lowest infant mortality rates, 15 per thousand live births as per the latest NFHS estimates and the highest life expectancy of 75 years at birth, compared to the rest of the states. It is the only state in India where the female population outnumbers the male population, the current sex ratio being 1058 females per thousand males. However, declining juvenile sex ratio (sex ratio of cohort 0-6) in Kerala is a matter of concern.

3. It is against this backdrop of sustaining the high levels of human development within the state that the Report is pitched. The rationale gets further strengthened when one analyses the striking contradiction between the macro indicators of performance and the social indicators of human development, which is often noted as the most important paradox of the Kerala model of development. The macro indicators for the state show that the GSDP growth rate for 2007-08 has been 10.4 percent at constant 1999-00 prices and the per capita state income growth rate has been 9.4 percent. The growth of GSDP is directly linked with the growth of the service sector in the state. When we look at the sectoral shares for 2007-08, it appears that the tertiary sector contributes 58.2 percent to the GSDP, while the primary and secondary sector contribution is only 15 percent and 26.8 percent respectively. Further, the annual average growth rate of GSDP between 1999-00 to 2007-08 is approximately around a moderate to high level of 7 percent. As we look at the growth rates of the sectors over the same period, the service sector shows the highest rate of growth of almost 9 percent and the average growth rates for agriculture and manufacturing has been 2.0 and 4.9 percent respectively. Although the growth rate of the manufacturing sector seems moderate, yet when the employment growth is analysed, it becomes evident that such growth rate of the sector has not been able generate

adequate employment in the state. While the employment growth rate in the state given by the NSSO estimates, between 1999-00 and 2004-05 stands at 1.29 percent, which is dismal, the employment elasticity in the state that determines the employment generating capability of the growth rate for the same period is nearly 0.2. The rate of growth of GSDP has been mostly led by the service sector.

4. Yet another significant matter of urgent concern is the intra-regional inequality in Kerala. Apart from the debate on the levels of poverty (according to different estimates discussed in this report), the poverty ratio is 8 fold higher when compared between the districts with highest and lowest incidence of poverty. This brings out the issue of regional disparities within Kerala, in relation to incidence of poverty, which is not as sharply evident when we look at the district level per capita income or the decline in aggregate poverty in the state. This is also to emphasize that even though Kerala's overall outcome in social and economic achievements is far better compared to many other states and national average, there exist pockets of deprivation, be it incidence of poverty or in terms of achievements in human development, when compared with Kerala's own achievements.

5. Sustainability of the high human development indicators of the state given the fiscal constraints is the most challenging task which was brought to light by the analysis of Kerala's human development process. Evolving a strategy to address the second generation human development challenges of Kerala is a matter of concern. It has become clear in the course of our discussion that the problems of human development that are being currently faced by the state are completely different in nature than the rest of the country. The problems pertain more to the nature of quality of services of basic amenities extended to the people than those of the quantity issues. In terms of health and education, the problems being faced by Kerala have been referred to as the 'second generation problems' indicating the next stages of concerns after the achievement of the specific goals in literacy, school attendance, reduced fertility and mortality rates and other health related indicators. Also there is a serious concern on how to maintain the vast network of publicly supported institutions catering to the various social and economic needs and priorities. These would have to be sustained in the long run without putting a strain on the states' fiscal situation.

6. Judicious mix of public policy stance and public action remain the basic path followed by Kerala in achieving success in resolving the basic human development issues. The development process in Kerala is more of *public policy-led* rather than *growth-led*. Also, given the nature of 'public' good of these commodities the state budget would remain one of the major sources of these expenditures in future as well. However, under

the present circumstances with large fiscal imbalance, sustaining such levels of social and human development indicators would require provisioning of adequate budgetary resources and the real challenge is making provision for that in the era of fiscal controls and reforms with rigid targets and ceilings on deficits. A detailed review of state finances is done in this report to understand the specific problems of Kerala state finances to delineate strategies to create adequate fiscal space for spending to address the second generation problems of human development and is also to find resources to be able to maintain the large network of public services in social sector.

7. As a prelude to analyzing the plausible mechanisms of financing human development in Kerala, a quantification of existing human development components of public expenditure has been done, primarily in three key ratios, viz., human development expenditure ratio (HER), social priority ratio (SPR) and human development expenditure as a percentage of total expenditure. All the three ratios have declined sharply in Kerala as well as other major states of the country. One of the major reasons is the rising share of committed expenditures in total expenditure, especially interest obligations on debt and rising pension liabilities. Analysis of the state finances further revealed that despite very high tax effort, the state continues to have large fiscal imbalances because of very high revenue expenditure largely driven by committed expenditures. On the expenditure side, while there has been a high priority given to the social sector spending, the share of total social sector spending to total plan spending has declined since the 10^{th} Plan period. There has also been a decline in the share of plan expenditure in total expenditure. The productive capital expenditure to GSDP ratio declined steadily over the years. The trend seems to have reversed in the last few years, although the improvement in the ratio is marginal. In aggregate, if we look at, the share of social sector spending in total has declined over the years.

8. Burgeoning debt-GDP ratio for Kerala is creating strain on state finances by higher interest obligations. Although the ratio has been declining along with a simultaneous decline in the effective rates of interest on the debt, which in turn has the potential to reduce interest payment obligations of the state in the medium term, yet the composition of debt remains very high cost in nature. One of the major reasons is the high share of NSSF liability in the total debt stock, where the states do not have any choice but to subscribe to high cost borrowing from NSSF.

9. Declining central transfers to the state of Kerala is a major concern, highlighted in the Report. Apart from decline in Kerala's share of tax devolution recommended by successive Finance Commissions, aggregate grants as a percentage of GSDP remained stagnant during the last two decades. Also, the composition of grants underwent a significant

change with a sharp decline in the statutory and formula based grants. Also among the discretionary grants, the share of CSS grants in total declined sharply in recent years. This is primarily due to large scale transfers under CSS in recent years are taking place bypassing the state budgets directly to the district level implementing agencies. Most of the flagship big-ticket centrally sponsored schemes come under this category. This has implications for state finances and intergovernmental fiscal relationship.

10. In the specific context of Kerala, if one looks at, the '*one size fits all'* approach of the CSS schemes do not benefit Kerala, an issue we discussed in detail in the Report. As these big-ticket CSS are mostly for social sector spending, this has implications for human development in Kerala. If we compare the per-capita grants to Kerala compared to other states, it shows that Kerala's rank in terms of grants in aid is one of the lowest. The growth of per-capita grant to Kerala remained much below compared to many of the middle income states. When we look at the CSS transfers directly going to the districts, Kerala clearly remains at the bottom in terms of receiving any benefits from these schemes. One of the major reasons for Kerala not getting the benefit of these schemes is the design of these schemes. The 'one size fits all' approach does not benefit Kerala. For instance, the mission statement of SSA clearly states that main aim of SSA pertains to clear time frame for universal elementary education and providing quality elementary education to all children in the 6-14 age group. Given an almost universal literacy in Kerala, the SSA programme with such a goal does not hold much importance for the state.

11. In the health sector of Kerala, second generation problems of increases in lifestyle diseases and geriatric problems, which require untied funds from the centre to be dealt with effectively rather than CSS designed specifically to improve the basic health indicators. However, the major goals set for NRHM have been mainly to reduce IMR and MMR, universal access to public health services for women and children, population stabilization, gender and demographic balance and promotion of healthy lifestyles. As analysed in the Report, Kerala's health indicators have already achieved desired rates. The Kerala Eleventh State Plan recognizes such aspects and has already made provisions to ensure universal health insurance scheme for the underprivileged and marginalized section of the population and Cancer Suraksha Fund for children. But such initiatives clearly require a continued flow of funds for effective implementation and achievement of desired results. Instead of CSS, availability of united funds for these schemes will be extremely beneficial for Kerala.

12. Employer of Last Resort policy of national government also turned out to be based on homogeneity assumption that 'employment needs of all

spatial units are equal" and lacks spatial mapping of needs and constraints in terms of labour force participation. Given the topography and the climate pattern in Kerala, the kind of work that could be generated under NREGA scheme guidelines in the earlier years of its implementation, like water harvesting and water conservation, minor irrigation, drought proofing, afforestation and tree plantation, and construction of roads were found to limit the options in Kerala. The flexibility introduced recently in terms of generating jobs under the scheme has in fact helped the state to develop its own requirement based initiatives. All these reasons therefore points out to the reason why Kerala's fund utilization pattern remains at a low to medium rate compared to the other states.

13. Does fiscal decentralisation spur human development? The study noted that there has been substantial increase in the devolution of funds to the local bodies with an objective of decentralized development with the rationale that it would incorporate local needs and preferences. The big-bang approach to decentralization in Kerala has resulted in local level planning in a big way and the only experience in the country of planning from below in such a huge scale. However, the analysis of the devolution of plan fund reveals that the share of plan resources devolved to the local bodies has come down sharply over the years. There is a monotonic decline in the share of grants-in-aid as percent of state plan outlay from 29.29 percent in the Ninth FYP period to 26.81 percent in Tenth FYP period. In the initial years of Eleventh FYP period, the decline in the share of grants-in-aid for local bodies further plummeted to 22.16 percent in FY 07-08 and 22.00 percent in FY 08-09.

14. Fiscal marksmanship (observed as the significant deviation between budgeted and actual expenditure) is a matter of concern at decentralised governance units of Kerala. Higher plan devolution per se does not ensure higher expenditure at local level. The utilization pattern of development funds at the local level revealed that utilization ratio (expenditure/allocation ratio) was only around 80 percent at the aggregate level. Sectoral disaggregation of E/A ratio showed that the utilization was lowest in productive sector (74.32 percent). The rural-urban disaggregation further revealed that utilization of development funds varied across local bodies. For instance, the utilization of development funds was the lowest in Gram Panchayats (which was only 46.41 percent) in infrastructure sector. Among the rural local bodies, the utilization of funds was comparatively better at Block Panchayats in all sectors except for productive sector.

15. Disaggregation of specific sector plans and projects unraveled that human development components of devolution; viz., women component plan, allocation for aged, children and disabled, anti poverty sub plan

component and nutrition programme, Akshaya, Ashraya and within that the distribution of specific sector plans and projects at local level revealed that Anti Poverty Sub Plan had the single largest element in specific sectoral plans (48.93 percent) followed by women component plan (19.29 percent). However, as mentioned the fund utilization ratio remains a major concern and it is lowest in case of *Gram Panchayats* in many of the schemes. However, if we look at the overall development funds utilization ratio, it is 82.38 percent for *panchayats* which is lower than that of district panchayats but higher than the block panchayats. In case of corporations and municipalities the fund utilization ratio is even lower.

16. One of the most interesting aspect of the process of decentralization observed in the state is feminization of governance at local level. Out of the 14173 elected representatives, of whom 75 percent belonged to the Gram Panchayats, 5078 were women representatives. This constitutes almost 36 percent of the total elected representatives. At the Gram Panchayat level also the percentage of women representatives is 36 percent approximately. This has strong link with human development as research show that with feminization of governance, third tier could change the types of public expenditure at local level more corresponding to the revealed preferences ('voice') by women. A MIT study by Chattopadhyay and Duflo (2001) has measured the impact of feminization of governance at local level on the outcomes of decentralisation with data collected from a survey of all investments in local public goods made by the village councils in one district in West Bengal. They found that women leaders of village councils invest more in infrastructure that is relevant to the needs of rural women, like drinking water, fuel and roads, and that village women are more likely to participate in the policymaking process if the leader of their village council is a woman. Thus placing women in leadership position in governance at the local level can change the expenditure decisions of the local bodies and in turn changes the types of public good investments at local level more corresponding to the revealed preferences.

17. Though the process of decentralization has taken deep roots in Kerala, but lower fund utilization ratio remains a major challenge. However while the vision of Kerala remains to be one of people's planning from below, yet one has to examine that aspect in the plan. In the earlier experiences, the LSGIs have remained essentially as users of funds devolved from the state government, rather than planners in their own right. It has been observed that one of the major reasons is the lack of submission of proper accounts in time. The second is the tendency of the LSGIs to simply replicate small local projects. The vigour of decentralized planning should show itself in imaginative schemes where more than one panchayat come together to implement supra-panchayat level projects. In such a case there would be a plethora of schemes, local schemes, supra-

local schemes, and even more ambitious schemes, all planned from below. This unfortunately has not yet happened, which is an issue that remains a concern for the planners and the scholars of Kerala.

18. The analysis flags the following dual fold as the matter of immediate concern in terms of financing human development in Kerala.

    I. Paucity of financial resources in the state for sustaining high human development levels attained in the state. The proposed financing pattern of 11th Plan is also a clear reflection of this impending financial requirement. The balance from current revenues (BCR) is estimated to be negative during the 11th Plan. The borrowing intensity of the state plan also is very high. If we look at the Central assistance, normal central assistance is estimated to be only around 40 percent of the plan assistance from the Centre to the States. The rest of the plan assistance is in the form of various externally aided projects and other assistance outside the Gadgil formula. The composition of borrowing is also heavily skewed towards high cost debt and has implications for increasing debt servicing liabilities at a faster rate. Thus, for faster growth and creation of fiscal space, own revenue mobilization has to improve.

    II. Homogenous 'one size fits all' type of national level flagship centrally sponsored schemes cannot address the human development challenges faced by Kerala in terms of tackling the "second generation problems of human development". The state of Kerala requires provisioning of resources to tackle its own problem which is typically different than the rest of the country.

I. Human Development Challenges and Priorities

1.1. Introduction

The state of Kerala ranked first among the major Indian states in human development index (HDI) at the three time points of 1981, 1991, and 2001 despite the fact that its per-capita income remained much below the national average. Kerala's human development not only outweighs the achievements made by other states including the high income states in India but also many countries at equal levels of development.[1] The major concern in Kerala thus is not meeting a huge gap in literacy and health outcomes as in the case of many other states, but to sustain these development outcomes achieved through huge social sector investment made over the years, primarily by the government. Thus, Kerala's human development challenges and financing needs for human development have to be seen in light of its own development challenges and fiscal constraints, which are different than rest of India.[2]

To start with, a disturbing aspect of Kerala's development pattern is that the expectation of acceleration of economic growth has not been realized along with human development until recently. There was serious deceleration in the economy from the mid 1970s and through the 1980s generating apprehension about a possible trade-off between equity and growth. Such apprehensions have proved to be unfounded with growth picking up in 1990s. Yet, the present phase of economic growth is not sufficient to provide quality employment to the rapidly growing educated workforce of the state or generate sufficient revenues of the state government for the upkeep of the social infrastructure already created. The state has the dubious distinction of open unemployment rate of 25 percent[3] nearly three times the national average and also has a very high fiscal imbalance. The recent years have also seen decline in the share of social sector expenditure in total budgetary expenditure of the state government. Therefore, the foremost development challenge before the state today is achieving significant acceleration in economic growth and achieving fiscal balance and also to sustain the high level of human development with adequate social sector spending.

The Approach paper for Kerala's Eleventh Plan highlights that the plan outlay in Kerala over the last quinquennium has been abysmally low and even

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[1] Kerala's per capita income stands at Rs 41,814 cr. for 2007-08, as per the latest CSO estimates. It ranks sixth among the major states in terms of per capita income.
[2] NIPFP has undertaken a series of studies on the financing options for human development in various states and a review of those studies does reveal that the problems of financing human development in Kerala is particularly different from these states (Sen et. al., 2008a; Sen et. al., 2008b and Sen et. al., 2007a).
[3] NSSO – 2004-05.

declining, relative to GSDP. The Approach paper further observed that "such meager plan outlays, if sustained over several years, will impinge adversely, if not on the rate of growth of GSDP itself, then at least on the quality of the social services whose excellence constituted the core of the so-called Kerala-model". In other words, the process of 11th Plan formulation has been conscious of fiscal constraints and need for creation of sufficient fiscal space for the sustenance and enhancement of the social infrastructure of the state to continue to improve the high level of human development achieved in the state.

However, the challenges are many and possibly very different than the rest of India. To start with, the vast network of public supported educational and health institutions, effective public distribution system, rural connectivity, and social security measures that have been created over the years possess different type of challenges for Kerala from the rest of India. Maintenance of these assets require huge recurrent cost and impose very heavy recurring expenditure on the exchequer. Meanwhile additional investments in social and physical infrastructure are required for improvement in the quality of services to keep up with the rising expectation of the people. Just for example, it is widely recognized in Kerala that the quality of public school education has been deteriorating and the diversification and expansion of higher education facilities are also required (Prakash, 1999). How to tackle these problems without compromising equity and quality is the new challenge. The health transition in the state has generated new geriatric health and social problem. There has also been a shift in morbidity pattern raising the need for specialised health care system (Kannan, et.al., 1991; Kumar, 1993). It is also felt that there is an urgent need for overhauling the social security system in the state to make it more comprehensive and efficient (Rajan, 2006). Many of these problems are termed as the second generation problems of Kerala's human development. Thirdly, there is a challenge of the outliers where certain marginal groups such as dalits, fisher folk, adivashis lagged behind in the development process (*Kerala Economic Review*, 2008). There are many such social and regional groups with absolute poverty and deprivation, which the aggregate human development index cannot capture. However, there has been a significant fall in the proportion of population below poverty line in the state. The challenge today is to eradicate or at least drastically reduce absolute poverty in the state. The fourth development challenge is related to gender equality in the development process. While condition of women in Kerala in terms of education, health and other indicators of socio-economic development are much superior to rest of the country, the status of women in terms of economic and social participation is not different from the rest of the country (Eapen & Kodoth, 2005). Finally, there is the issue of ecological sustainability of the development process within the state. The economic processes have been highly resource depleting causing serious crisis in marine and forest sectors and disruption of the water cycle in the state. The modern industrial development has also been highly energy intensive. How to built environmental concern into the developmental process so that sustainable development is achieved is of critical importance. More importantly, in the context of the decentralization programme in Kerala, many of the functions that are directly related to human development have been devolved to Panchayats. Proportionate resources have also been devolved. Therefore, local level strategy of development and interventions would play a vital role for furthering future human development and one needs to examine how that has been integrated in the local level planning.

Given the development challenges for Kerala discussed above including the fiscal constraint, we try to examine financing of human development in Kerala keeping in mind these challenges faced by the state in the context of 11th Plan. As highlighted above, one of the major challenges of Kerala's human development is the maintenance and the upkeep of the social infrastructure created over the years through large scale social sector spending. Kerala's fiscal imbalance needs to be seen in the perspective of high social sector spending and social sector policy stance of the government. One also needs to critically examine the issue of state level fiscal reforms and its impact on social sector spending in Kerala with special focus on the plan for human development. It needs to be emphasised that like most other states in the country, Kerala also in the past has undertaken large scale fiscal reforms including multilateral adjustment based fiscal reform programme in the state. How the policy of fiscal reform impacted on development finance of the state is important in deciding appropriate policy and creation of fiscal space for human development. Also one needs to examine the issue of large scale decentralization in Kerala and corresponding devolution of funds for the purpose of local level planning and development.

Based on the issues discussed above, this report has been divided into following chapters. In Chapter II, we examine the human development achievements in Kerala in relation to other states and critically evaluate the approach paper of the 11th Plan of Kerala and compare it with national plan priorities with respect to social sector and human development. Chapter III analyses the issues related to state finances in Kerala and the challenges there in for human development and financing of plan. In Chapter IV, we discuss in detail the changing nature of transfers to the states from the centre and its impact on Kerala finances and for human development with special reference to the flagship centrally sponsored schemes which are targeted towards social sector. In Chapter V, we discuss the process of decentralization and its role in local level human development. Chapter VI discusses the gender issues in human development and how budgetary policy tool can help in furthering gender equality in Kerala, be it work participation rate, or indicators of social and economic wellbeing from gender equality perspective   Chapter VII summarises the findings and draws conclusions.

II. Status of Social Indicators in Kerala and Eleventh Plan Priorities

The state of Kerala for more than a decade now, has received attention from world over for its remarkable achievements in human development. The human development and the social indicators have placed Kerala not only among the top performers within the country but the indicators are also comparable to those of the developed countries. Such achievements have often been attributed to a long history of social sector spending by the successive state governments and a simultaneous process of initiatives taken by governmental and non-governmental agencies, based on a system of public action that triggered the process of education reforms, access to health care and land reforms within the state. In this chapter we discuss the status of social and human development indicators of Kerala vis-à-vis other states. It needs to be mentioned here that despite high achievements in human development, there are pockets of deprivation within Kerala and the issue of intraregional inequality thus becomes important (Chakraborty, 2009). So this chapter also discusses the intra-regional dimension of Kerala's social and economic development. Finally, the chapter looks at the plan priorities for human development in Kerala in the context of 11^{th} Plan.

Kerala has been the first and only state in India that has been declared as fully literate. The male and female literacy at 94.2 and 87.9 percent respectively by census 2001 is the highest within the country. The school attendance rate[4] is also the highest among states and way above the all India average. Remarkably, the school attendance rate in Kerala is more for women as compared to men which is also an exception. Table 1 below also provides with the median number of years of schooling completed which again puts Kerala at the top with Goa for the males. As for the females, again Kerala is way ahead than the rest of the country. All these indicators therefore work towards the high female literacy and overall literacy within the state as shown in T*able 2.1*.

[4] The NFHS-3, 2005-06 defines school attendance rates as participation in schooling at any level, from primary through higher levels of education. It estimates the percentage of de facto household population age 6-17 years attending school in the current school year.

Table 1: Literacy Rates and Other Education Indicators, by States

State	Literacy Rates (%)*		School Attendance Ratio 2005-06 (%)$		Median Number of Years of Schooling Completed 2005-06#	
	Male	Female	Male	Female	Male	Female
Andhra Pradesh	70.9	51.2	76.7	66.1	4.4	1.4
Bihar	60.3	33.6	65.0	48.7	2.5	0.0
Chattisgarh	77.9	52.4	76.6	66.6	4.1	0.1
Goa	88.9	75.5	86.6	82.8	8.0	6.8
Gujarat	80.5	58.6	75.2	65.8	6.0	3.4
Haryana	79.3	56.3	78.5	72.0	6.3	3.0
Jharkhand	67.9	39.4	71.2	56.5	4.0	0.0
Karnataka	76.3	57.5	77.0	69.7	5.8	3.4
Kerala	94.2	87.9	89.0	90.4	8.0	7.5
Madhya Pradesh	76.8	50.3	73.4	67.4	4.3	0.1
Maharashtra	86.3	67.5	80.7	74.7	6.9	4.2
Orissa	76.0	51.0	70.5	60.0	4.3	1.6
Punjab	75.6	63.6	77.1	75.1	6.1	4.4
Rajasthan	76.5	44.3	77.2	57.2	4.3	0.0
Tamil Nadu	82.3	64.6	87.5	82.5	6.3	4.5
Uttar Pradesh	70.2	43.0	74.2	64.2	4.3	0.0
West Bengal	77.6	60.2	70.1	68.7	4.2	2.6
India	76.0	54.2	75.4	66.4	4.9	1.9

Source: *Census 2001, $NFHS-3, 2005-06, #NFHS-3, 2005-06

In terms of the health indicators, Kerala has the highest life expectancy of 76 years at birth, compared to the rest of the states (see table 2). The state has also experienced a faster decline in the mortality rates than its other counterparts. The crude death rate measured as the absolute number of deaths per thousand population per annum stands at 6.3 for the state compared to the all India average of 8.7. In terms of the infant mortality rates, the state registers a number of 15 per thousand live births as per the latest NFHS estimates. This estimate again is similar to Goa. In terms of the number of live childbirths per 1000 people per annum (CBR), the state ranks among the top performers along with Goa and Tamil Nadu. The total fertility rates (TFR) for women aged 15-49 years is among the best within the country signifying better health indicators for women in the country.

Table 2: Life Expectancy, Fertility and Mortality Indicators, 2005-06

	Life Expectancy at Birth (2001-05)	Crude Birth Rate	Total Fertility Rate for Age Group15-49	IMR	Crude Death Rate*
Andhra Pradesh	65.2	17.1	1.79	53.5	8.1
Bihar	-	32.4	4.0	61.7	7.9
Chhattisgarh	-	22.7	2.62	70.8	8.7
Goa	60.1	16.7	1.79	15.3	8.3
Gujarat	65.0	21.7	2.42	49.7	7.7
Haryana	-	22.1	2.69	41.7	7.1
Jharkhand	66.0	26.8	3.31	68.7	7.9
Karnataka	66.9	19.6	2.07	43.2	7.2
Kerala	76.3	16.4	1.93	15.3	6.4
Madhya Pradesh	57.5	24.9	3.12	69.5	9.7
Maharashtra	68.1	18.8	2.11	37.5	7.3
Orissa	59.2	22.1	2.37	64.7	9.8
Punjab	70.1	18.6	1.99	41.7	7.1
Rajasthan	62.2	25.7	3.21	65.3	7.7
Tamil Nadu	67.1	16.4	1.80	30.4	7.7
Uttar Pradesh	59.3	29.1	3.82	72.7	9.7
West Bengal	65.5	21.2	2.27	48.0	6.7
All India	63.9	23.1	2.68	57.0	8.7

Source: SRS, Registrar general of India and NFHS-3, 2005-06,
* CDR for year 2002, Directorate General of Health Services, MOHFW.

In terms of the sex ratio, Kerala is by far the only state in India where the female population outnumbers the male population (*Figure 1*). The current sex ratio stands at 1058 females per thousand males in Kerala compared to 933 for all India as per Census 2001. However, the same trend does not apply when we look at the child sex ratio in the age group 0-9 years, within the state- an issue that requires attention (see *Table 3*).

Figure 1: Sex Ratio by States, 2001

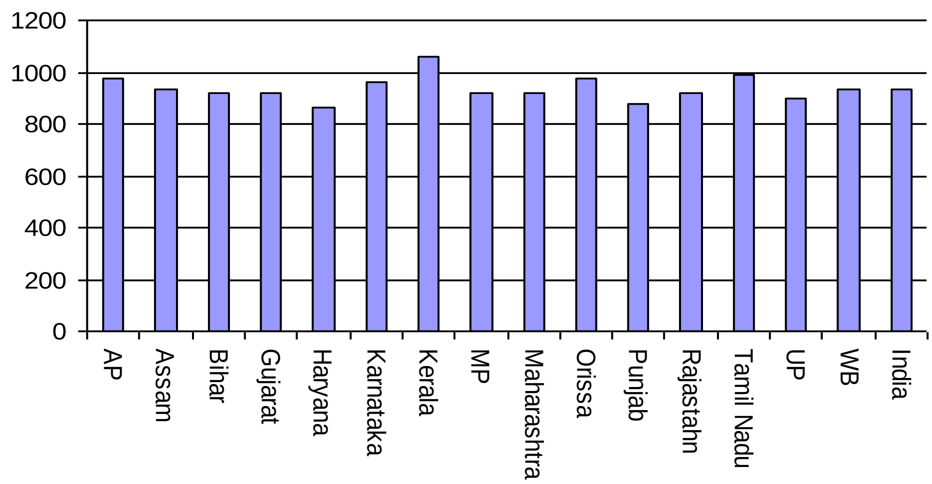


Table 3: Age Group Wise Sex Ratio in Kerala and India, 2001

Age Group	**Kerala**	**All India**	***Age Group***	**Kerala**	**All India**
0-4	962	939	***45-49***	1023	881
5-9	964	920	***50-54***	984	896
10-14	960	898	***55-59***	1087	970
15-19	1010	888	***60-64***	1149	1040
20-24	1072	930	***65-69***	1257	1043
25-29	1148	983	***70-74***	1245	1012
30-34	1122	986	***75-79***	1299	874
35-39	1136	946	***80+***	1472	1083
40-44	1032	901	***All***	1058	933

Source: Population Census 2001.

In terms of housing facilities, a look at table 4 reveals that Kerala has one of the highest number of electrified houses and the best sanitation facilities. It also shows that maximum percentage of people living in pucca houses are in Kerala. However, Kerala does not fair well in terms of provisioning improved source of drinking water. It lags behind almost all the states in this respect. Moreover, the percentage of household using solid fuel for cooking is also fairly on the higher side. Smoke from solid cooking fuels is a serious health hazard. Solid cooking fuels include coal/lignite, charcoal, wood, straw, shrubs, grass, agricultural crop waste and dung cakes. Such variations in the housing characteristics in Kerala require adequate policy attention and improvement.

Table 4: Housing Characteristics by States, 2005-06

State	Percentage of households with			Households Using Solid Fuel for Cooking	Percentage Living in Pucca House
	Electricity	Improved Source of Drinking Water	Toilet Facility		
Andhra Pradesh	88.4	94.0	42.4	66.3	56.3
Bihar	27.7	96.1	25.2	89.7	20.4
Chhattisgarh	71.4	77.9	18.7	86.7	21.7
Goa	96.4	80.1	76.0	33.3	73.6
Gujarat	89.3	89.8	54.6	52.3	67.3
Haryana	91.5	95.6	52.4	69.1	61.1
Jharkhand	40.2	57.0	22.6	89.1	28.3
Karnataka	89.3	86.2	46.5	63.8	55.1
Kerala	91.0	69.1	96.1	71.4	85.1
Madhya Pradesh	71.4	74.2	27.0	80.3	26.2
Maharashtra	83.5	92.7	52.9	48.1	59.0
Orissa	45.4	78.4	19.3	88.6	31.9
Punjab	96.3	99.5	70.8	54.9	68.9
Rajasthan	66.1	81.8	30.8	77.2	50.1
Tamil Nadu	88.6	93.5	42.9	60.5	69.9
Uttar Pradesh	42.8	93.7	33.1	81.7	28.8
West Bengal	52.5	93.7	59.6	79.2	39.5
All India	67.9	87.9	44.6	70.8	45.9

Source: National Family Health Survey (NFHS-3), 2005-06.

Employment and Poverty Profile of Kerala

A lot of research has already taken place on the fast pace of decline in poverty in Kerala, specifically that of rural poverty. Although the official poverty estimates given by the Planning Commission show that poverty ratio in Kerala is 11.4 percent (2004-05) as compared to the all India level of 21.7 percent based on the mixed recall period estimates, and also shows a drastic decline in poverty for both rural and urban areas, yet the incidence of regional poverty within the state still remains. For the sake of comparison, if we consider the uniform recall period estimates of the Planning Commission, in rural Kerala, the poverty ratio declined from 25.73 percent in 1993-94 to 13.2 percent in 2004-05, which is a major decline. It has been widely argued that Kerala has overcome rural poverty and such rapid decline in poverty has been as a consequence of building up human capabilities in terms providing better health and education facilities and effective public distribution system.

Although the official poverty estimates provided by the Planning Commission has met with a lot of criticisms in the past, a recent revised version of the poverty estimates have been provided by the Planning Commission as estimated by an expert committee led by S.D. Tendulkar. The revision has been made on the basis of the new poverty lines that meet not just the food expenditure requirements, but also the education and health expenditures. The table 5 below gives both the earlier and the recent estimates of poverty.

Table 5: Percentage of Population Below Poverty Line by States - 2004-05

States/U.Ts	Planning Commission Estimates (Based on MRP-Consumption)			Tendulkar Committee (RE)		
	Rural	**Urban**	**Total**	**Rural**	**Urban**	**Total**
Andhra Pradesh	7.5	20.7	11.1	32.3	23.4	29.9
Bihar	32.9	28.9	32.5	55.7	43.7	54.4
Chhattisgarh	31.2	34.7	32.0	55.1	28.4	49.4
Goa	1.9	20.9	12.0	28.1	22.2	25.0
Gujarat	13.9	10.1	12.5	39.1	20.1	31.8
Haryana	9.2	11.3	9.9	24.8	22.4	24.1
Jharkhand	40.2	16.3	34.8	51.6	23.8	45.3
Karnataka	12.0	27.2	17.4	37.5	25.9	33.4
Kerala	9.6	16.4	11.4	20.2	18.4	19.7
Madhya Pradesh	29.8	39.3	32.4	53.6	35.1	48.6
Maharashtra	22.2	29.0	25.2	47.9	25.6	38.1
Orissa	39.8	40.3	39.9	60.8	37.6	57.2
Punjab	5.9	3.8	5.2	22.1	18.7	20.9
Rajasthan	14.3	28.1	17.5	35.8	29.7	34.4
Tamil Nadu	16.9	18.8	17.8	37.5	19.7	28.9
Uttar Pradesh	25.3	26.3	25.5	42.7	34.1	40.9
West Bengal	24.2	11.2	20.6	38.2	24.4	34.3
All India	21.8	21.7	21.8	41.8	25.7	37.2

Source: Planning Commission, (www.planningcommission@nic.in), Report by Expert Group on Methodology for Estimation of Poverty, GOI, 2009.

The above table shows that by the official estimates of poverty, Kerala is among the low poverty states with only 9.6 percent rural poverty. But the Tendulkar Committee revised estimates show that while all India poverty figures have increased to 37.2 percent after revision, Kerala's poverty has increased to 19.7 percent. Significantly, while the urban poverty level in Kerala has increased by approximately 2 percent, there has been a significant increase in rural poverty, which is almost 20 percent according to the revised estimates. While these estimates are far below the all India average figures, yet even in these figures there is a paradox.

Although official estimates report Kerala to be a state with very low levels of nutritional deprivation, yet if we go by the calorie intakes, Kerala traditionally had been a state with lower intakes of calorie as compared to the rest of the states (Report 513, NSSO, 2004-05). In the present circumstances, the amount of calories accessed in Kerala at the official state rural poverty line of Rs. 430/- per capita per month is only 1480 calories per person per day.[5] This figure not only flouts the 2400 and 2100 calorie norm set for rural areas and highlights the amount of nutritional deprivation prevailing within the state; it also shows gross underestimation of the poverty figures in the state. If we consider Patnaik's direct poverty estimates based on calorie intakes, the proportion of rural population accessing less than 2200 calories per person per day, the figure stands at 64 percent for rural Kerala. These estimates have also been quoted by the Approach Paper of the 11th Plan of Kerala.

Therefore, given such divergent estimates, the argument that Kerala has overcome rural poverty may not be completely true. Moreover, recent studies have also shown the existence of increased intra-regional inequalities within the state (Chakraborty, 2009). Therefore while discussing human development, it is important to examine poverty and inequality in the state, which is not evident from the state level macro data.

The employment situation of Kerala is also precarious. The state is marked by increasing unemployment and low work participation rates, especially for the women. Figure 2 clearly shows that Kerala falls among the low WPR states for the usual status workers. The current estimates reveal that the male and female work participation rates by the latest NSSO large sample estimates for Kerala stand at approximately 55 and 20 percent (Employment and Unemployment in India, 2004-05, NSSO, GOI) respectively. While for the men, the rates are at par with the all India level, for women it is far below than the all India FWPR at 32.7 percent. So far as the unemployment rates are concerned, Kerala has the highest rural and urban unemployment within the country at 15.8 and 19.9 percent respectively. The urban female unemployment rates stands at a level as high as 42.9 percent (Employment and Unemployment in India, 2004-05, NSSO, GOI). Given the high education indicators, especially for women, there is a high incidence of educated unemployment within the state. Educated unemployment in Kerala is the highest in the country at 26.8 and 25 percent for the rural and the urban areas respectively.

The urban and rural unemployment for both men and women workers within the state given by figures 3a and 3b show starkly high rates, specifically for the women workers. While male unemployment also remains high, but the incidence of female unemployment surpasses every state level. While rural unemployment for women workers stands at around 30 percent, urban unemployment is as high as almost 43 percent for the women. Such high rate of unemployment of course is a serious concern as we look into the issue of human development within the state. Such situation calls for creation of employment opportunities within the state. It calls for productive investments within the state and adequate demand creation.

[5] Patnaik, Utsa (2007), Neoliberalism & Rural Poverty in India, *EPW*, July 28.

Figure 2: Principal and Subsidiary Status Work Participation Rates by States, 2004-05

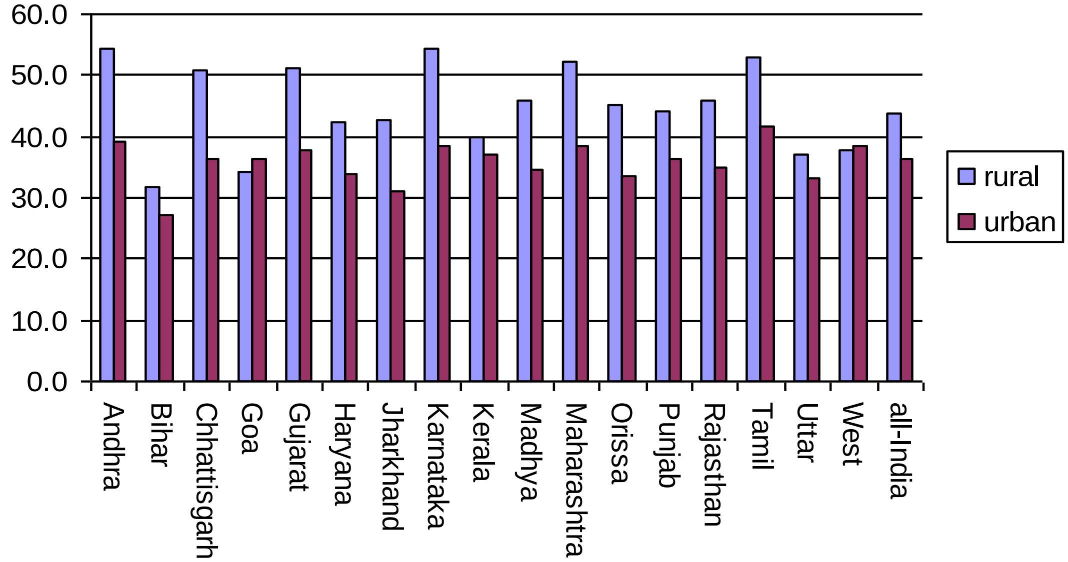


Figure 3a: Urban Unemployment Rates by States, Principal Status (2004-05)

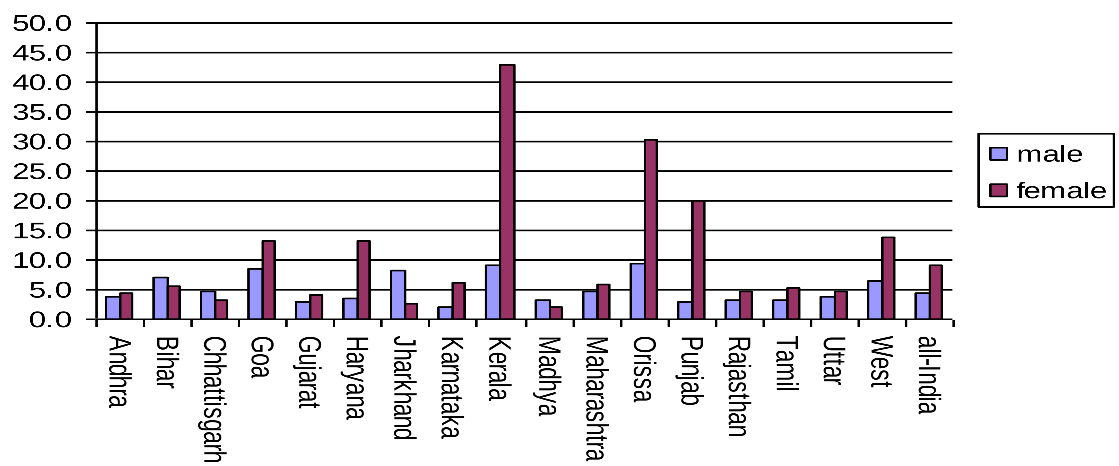
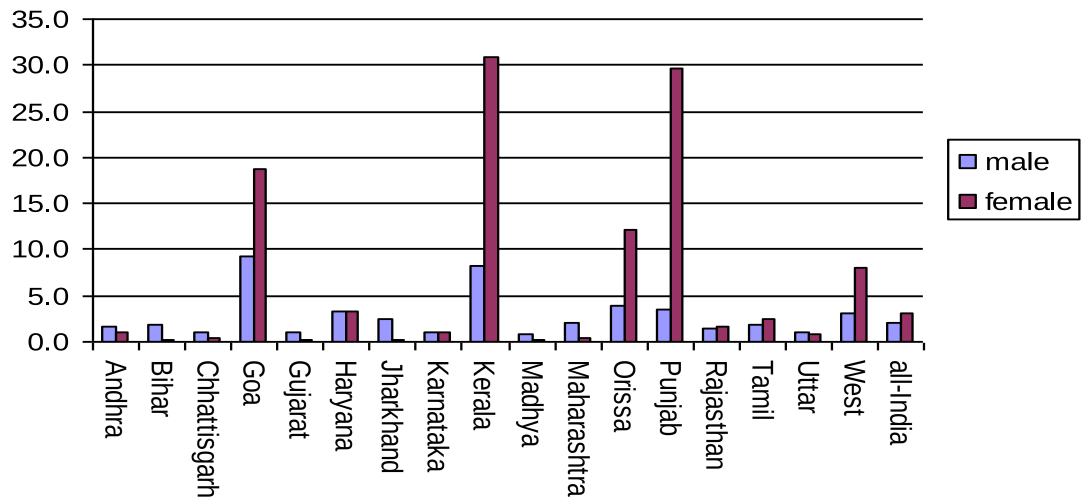


Figure 3b: Rural Unemployment Rates by States, Principal Status (2004-05)



Intraregional Dimension of Development & Public Policy Stance

Kerala has fourteen districts. As evident from table 6, out of 14 districts, the real per-capita income in 8 districts falls below the state average. But the real per-capita income in lowest per-capita income district of Kerala is higher than many of the low and middle income states of the country. The average real per-capita income growth has also been quite impressive at more than 6 percent between 2005-06 and 2006-07.[6] If we compare the district level real per-capita income of Kerala with that of the real per-capita NNP of Rs. 22553 for the year 2006-07, only the district of Malappuram falls below the average NNP per-capita. Also, if we look at district level poverty, the district with highest incidence of poverty is Kassargode with 26.4 percent of the population below the poverty line and the lowest is Kollam at 3.5 percent. In other words, the poverty ratio is 8 fold higher when compared between the districts with highest and lowest incidence of poverty. This brings out the issue of regional disparities within Kerala, in relation to incidence of poverty, which is not as sharply evident when we look at the district level per capita income or the decline in aggregate poverty in Kerala. This is also to emphasize that even though Kerala's overall outcome in social and economic achievements is far better compared to many other states and national average, there exist pockets of deprivation, be it incidence of poverty or in terms of achievements in human development, when compared with Kerala's own achievements. Also, if we compare the real per-capita income growth in Kerala, the districts with low level of per-capita income continued to grow at a low rate during the last one decade from 1997-98 to 2006-07 leading to increase in intraregional disparities in income (see Figure 4) in recent years. The

[6] Recent high growth performance of Kerala economy is called the 'virtuous cycle' of growth due to the high human development in the earlier years of development by many scholars (see Kannan, 2005).

consumption expenditure inequality also has increased in recent years (see tables 7 and 8) and it remained consistently higher than the all India level.

Table 6: Ascending Order of District-wise Per Capita Income in Real Term

(In Rs.)

	2005-06	2006-07	Growth Rate		Poverty ratio
Malappuram	18024	19124	6.10	Kasaragod	26.5
Kasaragod	22549	23928	6.12	India	26.1
Kollam	23154	24580	6.16	Wayanad	24.7
Palakkad	23518	24903	5.89	Kannur	24.7
Alapuzha	24198	25686	6.15	Alappuzha	20.3
Kozhikode	24691	26238	6.27	Kozhikode	19.9
Kannur	24874	26412	6.18	Malappuram	19.7
Wayanad	25213	26694	5.87	Ernakulam	13.8
State	**25657**	**27284**	**6.34**	Palakkad	13.4
Thrissur	26599	28301	6.40	Thrissur	11.3
Trivandrum	26726	28526	6.74	Pathanamathitta	10.5
Pathanamthitta	27131	28979	6.81	Trivandrum	6.3
Idukki	28983	30605	5.60	Kottayam	5
Kottayam	28840	30626	6.19	Idukki	5
Ernakulam	36520	39034	6.88	Kollam	3.5

Source: *Kerala Economic Review,* 2007.

Figure 4: Real Per Capita Income Growth: 1997-98-2006-07

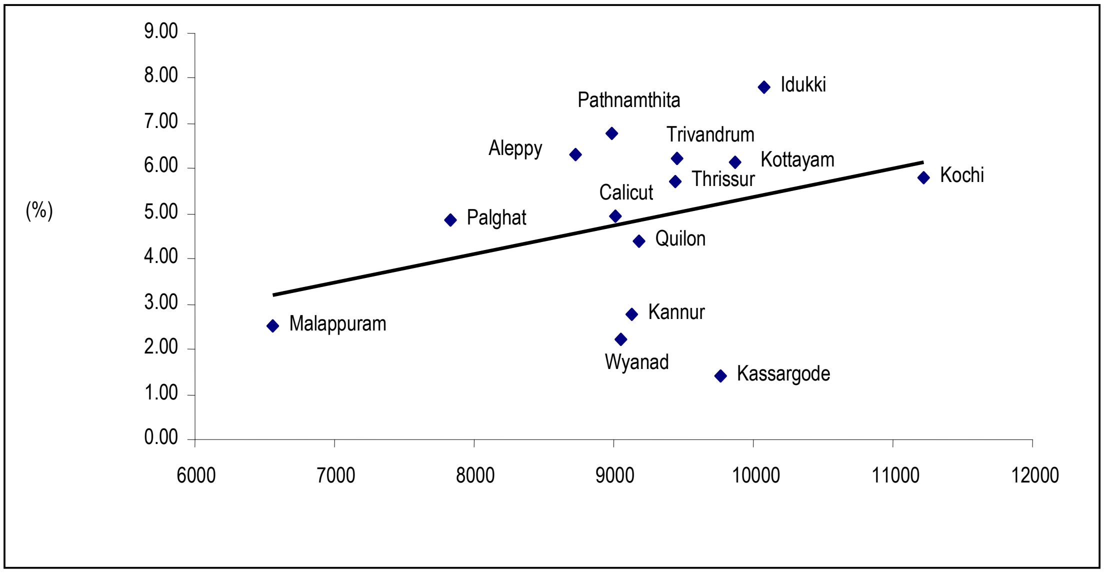


Table 7. MPCE Decile-wise Distribution of Total Consumption Expenditure

Deciles	1993-94 Rural	1993-94 Urban	2004-05 Rural	2004-05 Urban
1	2.81	3.11	2.41	2.15
2.	4.56	4.75	3.95	3.94
3.	5.59	5.84	4.90	5.07
4.	6.56	6.90	5.82	6.11
5.	7.37	7.96	6.72	7.16
6.	8.52	9.15	7.77	8.27
7.	9.82	10.50	9.03	9.61
8.	11.53	12.38	11.05	11.55
9.	14.35	15.37	14.04	14.76
10.	28.90	24.05	34.31	31.37
All deciles	100.00	100.00	100.00	100.00

Source: Subramanian and Shyam Prasad (2008).

Table 8. Trends in Consumption Inequality (Gini coefficient) in Kerala and India

	38th Round 1983	43rd Round 1987-88	50th Round 1993-94	55th Round 1999-2000	61st Rround 2004-05
Kerala urban area	0.390	0.381	0.343	0.374	0.410
Kerala rural area	0.320	0.312	0.301	0.329	0.382
Kerala (U+R) combined	0.352	0.343	0.319	0.348	0.392
India urban area	0.341	0.332	0.343	0.374	0.375
India rural area	0.308	0.300	0.286	0.311	0.305
India (U+R) combined	0.321	0.313	0.311	0.339	0.336

Source: *Ibid*.

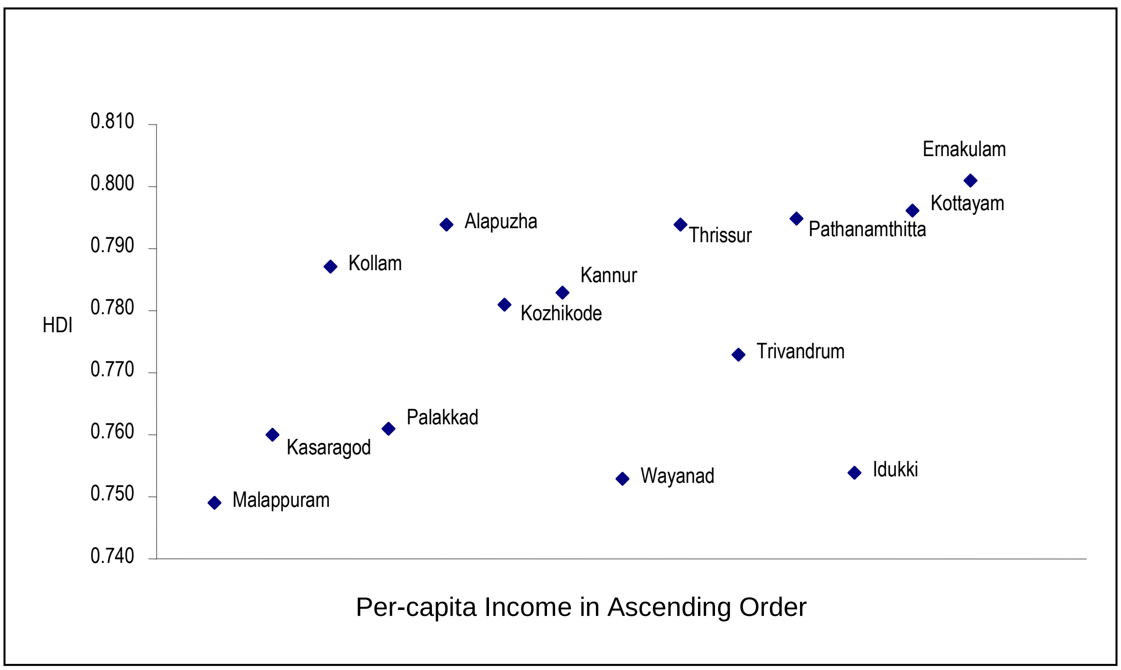
In the backdrop of growing inequality, when we look at the district level health and educational outcome, we do find differences in achievements across districts (see table 9). Again in this case, the worst performing districts is much above the national average in all these indicators. The district level human development index when plotted against the district level per-capita income, we find that except two districts in central Travancore and two other districts of North Kerala, the district level HDI is an increasing function of district level per-capita income. As evident from the Figure 5, the low per-capita income district, viz., Malappuram has the lowest HDI, while that of Ernakulam is highest. However, the deviation in HDI is between a range of 0.75 and 0.81.

Table 9: Achievement in Health and Education: A District Level Comparison

	Infant Mortality Rates	Life Expectancy at Birth	Number of Beds per 100, 000 Population	Literacy Rate	Student Teacher Ratio	Schools Having Pucca Building
Malappuram	10	75.6	71	88.6	31	
Kasaragod	10	75.7	77	85.2	28	72.8
Kollam	8	77.1	92	91.5	31	85.8
Palakkad	11	76.1	94	84.3	30	87.9
Alapuzha	8	77.1	207	93.7	28	84
Kozhikode	12	75.4	210	92.5	26	79.3
Kannur	12	75.6	127	92.8	24	80.6
Wayanad	22	73.5	122	85.5	30	59.4
Thrissur	9	76.4	154	92.6	30	90.7
Trivandrum	11	75.2	238	89.4	30	60.3
Pathanamthitta	8	76.7	97	95.1	25	97.3
Idukki	20	72.4	96	88.6	27	75.8
Kottayam	12	75.6	189	95.9	26	93.2
Ernakulam	11	75.9	150	93.4	28	99.2

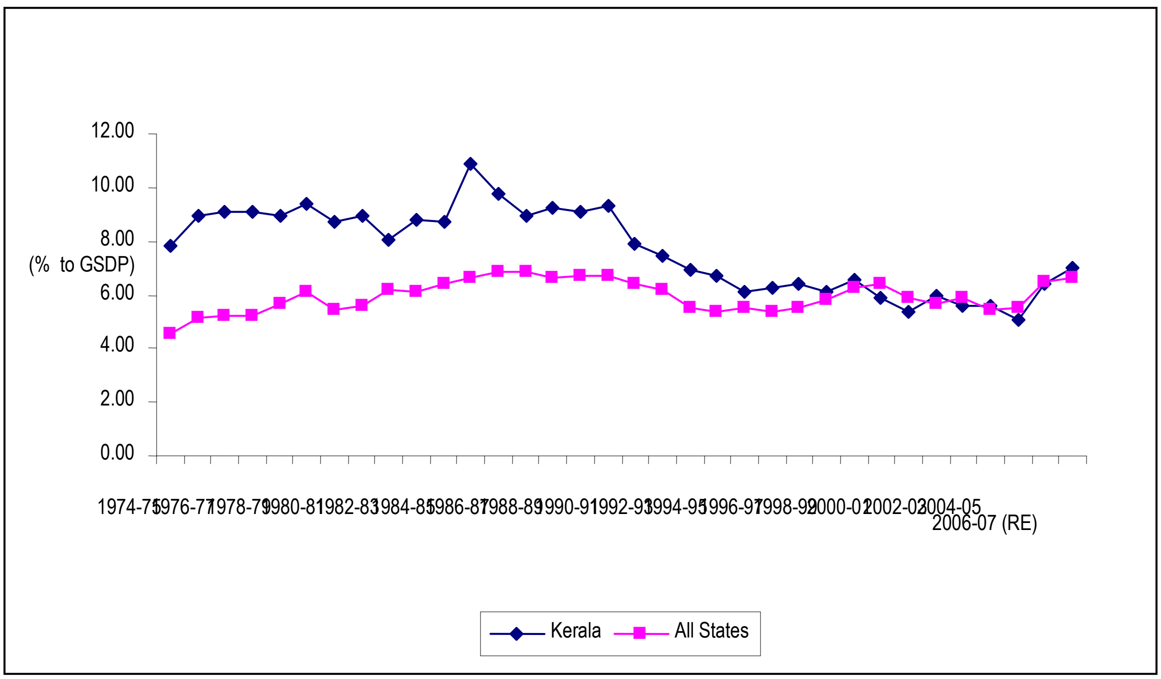
Source: Kerala HDR-2005.

Figure 5: District Level HDI in Kerala



Despite differences in achievements across regions, Kerala's overall success story in social sector, particularly in health and education has been a due to active state intervention.[7] One way to look at public policy stance in social sector in Kerala is to look at the government expenditure in social sector after the formation of the Kerala state. As we do not have such a long time series data on state government expenditure, we have compared Kerala's social sector spending vis-à-vis other states from 1974-75 to 2007-08 BE, i.e, government spending in social sector for over last three decades. It shows an interesting pattern. As evident from Figure 6, until the mid 1990s', Kerala's social sector spending as a percentage of GSDP remained much higher than all state spending, but the same started declining and reached to the all-state level ratio in recent years. It is also to be noted that gap in spending between Kerala and all other states came down sharply over the years. Large spending on education and health, though remained the main focus of fiscal policy and has been very high during the early 70s and during the 1990s, Kerala has been able to reduce it in recent years.

Figure 6: Social Sector Expenditure to GSDP Ratio: 1974-75 to 2007-08 BE



Even though Kerala's spending in relation to GSDP has declined, the per-capita social sector spending has increased sharply and it is the third highest among the fourteen major states in the country. If we look at the 2005-06 data,

[7] See for details Thomas Isaac T. M. and Michael Tharakan P. K. (1995).

the states that are spending marginally higher than Kerala in social sector are Maharashtra and Tamil Nadu. High spending in social sector is also one of the major reasons for high revenue deficit and resultant fiscal imbalance in the state an issue we discuss in the next chapter. It is to be noted that even during the 1970s, and first half of the decade of 1980s' the state had revenue deficit when the revenue account of all states showed a surplus. The state continues to have high deficit in the revenue account compared to other states and in turn high fiscal deficits in recent years.

Eleventh Plan & Human Development: A Comparison of Kerala with National Plan

In the backdrop of a successful and consistent high growth path followed by the Indian economy in the 10th Plan period, the central approach to the 11th Plan has been to focus on a faster rate of growth with an inclusive approach of all round development. It focuses on a growth process which yields broad-based benefits and ensures quality of opportunity for all in terms of poverty reduction, employment generation, increase in per capita income, infrastructure development and access to basic amenities like health, education, etc. especially to the poor, SCs/STs, other backward castes (OBCs), minorities and women. The National Development Council (NDC) endorsed a target of 9 percent GDP growth for the country as a whole, and a per capita GDP growth rate of 7.5 percent per annum, which has been sought to be achieved in an environment in which the economy is much more integrated into the global economy.

The inclusive growth approach of the 11th Plan therefore emphasizes on a rapid economic growth with strong focus on human development. It also recognizes that in terms of the indicators of human development, viz., literacy rates, education enrolments, maternal and infant mortality rates, life expectancy at birth, gender equality and other indicators of deprivation like malnutrition, child labour, etc. India lags behind its other Asian counterparts and needs rapid improvement. In fact, the 11th Plan also takes into account that to reach the targets set by the millennium development goals (MDGs), there is a need to increase the pace of such improvements.

The strategy hence adopted by the 11th Plan has been an inter-related process of a faster growth that would reduce poverty and create adequate employment opportunities and provide access to health and education facilities. Apart from this, the inclusive approach takes into account other important factors such as the provisioning for empowerment and participation of all marginal groups namely, the Scheduled Castes, (SCs), Scheduled Tribes (STs), Other Backward Castes (OBCs), minorities and women through measures of social justice. Environmental sustainability and measures to achieve gender equality also constitute one of the core human development achievements. Good governance principle envisions cooperation from the state governments in implementing several flagship centrally sponsored schemes (CSS) targeted towards social sector. While, in launching the CSSs like the National Rural Employment Guarantee Act (NREGA), Bharat Nirman, National Rural Health Mission (NRHM), Sarva Siksha Abhiyan (SSA), and other similar infrastructure, housing and employment generation programmes, the centre has acquired the larger responsibility of providing for the social infrastructure and human development in the states, especially in the backward states, it desires to engage with the states with respect to the non plan expenditures as well.

Given this two way approach of the central plan of creating employment through rapid growth and reducing poverty by providing access to basic public services, primarily education and health, several state plans have also adopted a similar approach towards prioritizing human development. In the light of the central plan, if we look at the Kerala state plan, although in essence and vision, includes the basic necessity of reducing poverty and creating employment, yet given the alternative development pattern that the state has experienced, the Eleventh FYP of Kerala has identified a two-pronged approach to the entire issue of development. A comparison of Kerala's plan priorities with that of national plan priorities is presented in Box 1.

Box 1: Plan targets: Comparison of Kerala and National Plan

Goals	National Plan	Kerala Plan
Poverty	Reduce poverty (HCE) by 10 percentage points by 2012	The **Working Group on Poverty and Employment** rejected the Planning Commission's methodology and estimates of poverty in Kerala as it is found to be a gross underestimation of nutritional deprivation in the state. The aim remains to alleviate poverty and provide adequate calorie to the nutritionally deprived sections of the state that constitute around roughly 60 percent of the population going by the norm of 2100 calorie intake per person per day.
Unemployment	• Create 58 million new jobs between 2007-2012 • Reduce educated unemployment to below 5 percent • 20% increase in real wage of unskilled workers	Reduce unemployment by extending adequate training for skill upgradation to educated youths lacking desired skill levels

Education	• Achieve 85 percent literacy by 2012 • Reduce gender gap in literacy by 10 percent • Dropout at primary level to be eliminated completely and at the elementary level, to be reduced from 50% to 20% by 2011-12. • Revision of pupil-teacher ratio from 40:1 to 30:1 under SSA • Achieve 100% training for all teachers and para-teachers under SSA	• Quality improvement of higher education • Extension of SSA to secondary education • Eliminate illiteracy among the rest 25 lakh persons of which 18 lakh are women.
Health	Time bound goals to: • Reduce IMR to 28 per 1000 live births • Reduce MMR to 1 per 1000 live births • Reduce TFR to 2.1 • Reducing malnutrition in children of age group 0-3 to half its current level	Universal health security in the state through the provision of free health care to the bottom 30 percent of the population and at affordable prices to the rest.
Women and Children	• Raising the sex ratio for age group 0-3 to half its current level • Ensuring that at least 33% of the direct and indirect beneficiaries of all government schemes are women and girl children	• Achieving Gender equity in a non-conventional manner in terms of improving social status
Drinking Water	Providing clean drinking water for all by 2009	• Adoption of advanced techniques to minimize losses and attain maximum efficiency in drinking water distribution • Provision of drinking water to all rural schools.

Electricity	Provide electricity to all un-electrified villages (1,25,000) and to connect 23 million households below the poverty line	• Provision of electricity to all villages and households including remote areas well before the completion of national target of 2012. • Installed capacity addition of 610.15 MW in the 11th Plan • Construction of 118 numbers of sub stations. • To provide 23.50 lakhs new service connections
Housing	Construct 60 lakh houses for rural poor	Provide sustainable houses for the poor and landless, the projected demand being 4 lakh new houses.

Given the fact that the state suffers from one of the highest unemployment rates in the country and is also a food insecure state, marked by a recent spate of farmers' suicides, the plan seeks to address the problem in the agrarian economy and provide relief via generation of adequate employment through various centrally sponsored and states schemes. Accordingly, this should also help to reduce the Kerala's vulnerable position in terms of food security issues.[8] On the other hand, the plan simultaneously seeks to address the problem of low industrial growth by an expansion of the secondary and tertiary sectors, specifically the IT and biotech sectors, such that it would help in tackling the educated unemployment. The state plan has proposed an almost 50 percent higher plan outlay in real terms than the actual size of the 10th Plan. Given the weak fiscal situation, resource mobilization for attaining the plan targets is a real challenge.

The priority sectors so identified by the state has been agriculture, health, education, tourism, industry and IT, development of traditional activities and development of the marginalized and deprived sections. Apart from the regular centrally sponsored schemes of Indira Awas Yojana (IAY), Jawaharlal Nehru National Urban Renewal Mission (JNNURM), SSA, NRHM and employment generating schemes of EGS, Sampoorna Grameen Rozgar Yojana (SGRY), Swarna Jayanti Swarozgar Yojana (SJSY), etc. the state has proposed 12 flagship programmes to deal with the problems identified in the different sectors.

As evident from the Box 2, the major programmes among them have been the food security programme that has been launched to augment food

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[8] The area under food production in Kerala has remained perennially low due to its cropping pattern biased more towards the production of cash crops like rubber, cashew, tea, coffee, coconut, cardamom and other spices. Out of a gross cropped area of 30.38 lakh ha. in 2005-06, (Economic Review, 2008) food crops comprising rice, pulses, minor millets and tapioca occupied only 12.5 per cent.

production in the state. Certain additional schemes of employment generation have been taken up apart from the existing centrally sponsored employment generation schemes. Apart from this, universal health security programme, several new scholarship schemes for providing quality education, EMS flagship programme on housing, separate from the CSS of IAY, and programme of gender awareness to reduce the existing gender inequality in employment and wages. The plan also emphasizes on putting special efforts to be taken on power situation and development of small scale traditional industries apart from the initiatives to develop the IT sector.

Box-2: Flagship Programme of the State of Kerala

Flagship Programs in the Eleventh State Plan, Kerala (2007-2012)

- State Food Security Program
- Agriculture and Debt relief Program
- Universal Health Security
- Cancer Suraksha Fund for Child patients
- Nutrition Program for Adolescent girls
- Suvarna Jubilee Merit Scholarship Scheme for UG and PG students belonging to BPL families
- Noon Meal Scheme for High School students
- EMS housing Scheme for the poor
- Gender Awareness Programme
- Finishing School for women
- Flagship project on Rural Energy aiming at promoting rural electrification and non-conventional energy resources
- Flagship Program for IT development, promotion of free software and extension of ICT to underprivileged and development of small industries
- Social Security Coverage for workers in traditional industries (coir)

The plan targets a real GSDP growth rate of 8 percent, which is the growth rate actually experienced over the previous plan period. While the plan targets its own tax revenue at base (2006-07) prices to grow at 9.2 percent per annum during the eleventh plan, the share of the state in central tax revenue is accordingly projected to grow at 8.8 percent. The non-tax revenue has been projected to grow at the modest rate of 1 percent, with devolution to local bodies under non-plan revenue expenditure (outside of the development fund) projected to grow at 5 percent, interest payments at 5 percent and salaries and pensions at

2 and 4 percent respectively. Based on such targets, the plan size for the eleventh plan has been put at approximately or Rs.35000 crores at base (2006-07) prices, which is around 50 percent higher in real terms than the actual size of the tenth plan. The targets have also been set on the assumption that net market borrowings (SLR based), negotiated loans and normal central assistance remain unchanged in absolute terms at the same level as in 2006-07, and that no new externally-aided projects come to the state.

As evident from the above discussion on the priorities of the state plan, it remains fundamentally different from the approach of the trickle-down-effect-of-growth as portrayed in the central plan. The approach of the state plan is to address the issues of poverty reduction and employment generation directly by addressing the issues at the grassroots levels. Such an approach is reflected as we compare the central Plan financing pattern and the state plan financing pattern. Although historically Kerala has been a state with a high incidence of social sector spending, these spendings as already discussed have shown a steady decline since 2004-05 to rise only in the last few years. This had happened due to the reduced plan outlay in the tenth plan period which has due to strict fiscal regulations due to the passage of the FRA and other fiscal contracts. In the eleventh plan however, the approach has been different in terms of increased plan outlay.

Table 10: Plan Financing Pattern of Kerala

	Total Exp. (Rs. lakhs)	Total Plan Exp. (Rs. lakhs)	Social Sector Plan Exp. (Rs. lakhs)	Share of Plan Exp. in Total Exp. (%)	Share of Social Sector Plan Exp. in Total Plan Exp. (%)
1996-97	768756	185776	63078	24.5	33.5
1997-98	953207	253627	70654	26.8	27.6
1998-99	1021032	277168	77794	27.3	27.9
1999-00	1247836	270071	83962	21.8	30.8
2000-01	1260865	252151	77953	20.2	30.7
2001-02	1232579	231229	71893	18.9	30.9
2002-03	1562743	373292	115530	24.0	30.8
2003-04	1735442	300158	91780	17.4	30.5
2004-05	1795242	376310	119317	21.4	31.0
2005-06	1947625	421517	126481	21.6	30.0
2006-07	2201044	524458	114602	23.8	21.9
2007-08	2721452	600108	147320	22.1	24.5

Source: State Finance Accounts, various years.

The table 10, clearly depicts the incidence of plan expenditure in total government expenditure and in the share of social sector plan expenditure in total plan expenditure of Kerala. From the table it is evident, the high priority given to the social sector plan spending. However, since the ninth plan period, the share of plan expenditure in total government expenditure has declined, with a simultaneous decline in the share of social sector plan spending to total plan spending. One has to take note of this development while analyzing and providing policy options for future financing of human development. However as the state of Kerala has moved towards the decentralized planning process, one-third of the plan funds are devolved to the local level bodies, which needs further analysis and taken up in Chapter V from the perspective of human development. This could possibly be one reason for the decline in budgeting plan spending.

III. Issues in State Finances: Fiscal Imbalance in Kerala and Social Sector Spending

If we look at the recent fiscal history, Kerala has taken various fiscal restructuring measures including sub-national adjustment lending based fiscal correction through assistance from Asian Development Bank in 2002. The state has enacted Fiscal Responsibility Act in 2003 with numerical ceiling on fiscal deficit at 2 percent of GSDP.[9] It has been noted that quality of fiscal adjustment since the FRA legislation was through a cut in development spending and postponement of various committed expenditures, particularly the implementation of the New Pay Commission Report (Isaac, 2007). In 2006-07, the revenue and fiscal deficit went up sharply when the new government came to power and adhered to these commitments.

The new fiscal strategy in the face of growing imbalance from 2006-07 appears to be more on increasing the fiscal space through higher revenue mobilization without across the board cut in expenditure. The new medium term fiscal adjustment programme as delineated (Isaac, 2007) intends to raise revenue receipts from 13.5 percent of GSDP to 16 percent of GSDP by the end of 2010-11 and bring down the revenue expenditure from its current level of 19.5 to 17 percent. The new fiscal consolidation strategy is also averse to the idea of numerical ceiling on fiscal deficit as with the elimination of revenue deficit, borrowing will be used for productive expenditure purposes and that will be self-liquidating. The state also continues to use the Public Accounts receipts extensively to finance government expenditure to augment infrastructure. However, Kerala continues to have very high fiscal imbalance compared to other states, which also raised serious doubts about the long run fiscal sustainability of finances. In the next section, we compare Kerala's finances viz-a-viz other states and also compare Kerala's social sector spending in terms of three key spending ratios, viz.; (i) human development expenditure ratio, (ii) social priority ratio, and (iii) human development expenditure to total expenditure ratio. The first ratio reflects the level of human development expenditure normalized by state income. The second ratio reflects the share of key items of social sector expenditure in total social sector expenditure. The third ratio reflects the intensity of social sector expenditure in total expenditure. As evident from table 1, the human development expenditure ratio declined in Kerala from 7.99 percent in 1987-88 to 5.44 percent in 2007-08, which is the trend observed in many other states as well during this period. It is also important to note that the social priority ratio also declined sharply from 43.3 percent in 1987-88 to 36 percent in 2007-08 in Kerala.

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9 This is a much more rigid target than what is proposed by the 12th Finance Commission. Also other states have a FRA target of deficit at 3 per cent of respective GSDP.

The human development expenditure as a percentage of total expenditure also declined sharply during this period. The reason for such decline in the context of Kerala needs further investigation. However, one of the main reasons could be the rising committed liabilities and corresponding decline in the share of development spending. The other issue which is particularly relevant for Kerala is the large scale devolution of state resources to local bodies for decentralized planning in form of 'People's Plan' from 1996 onwards, which might have reduced budgetary spending by the state on social sector and are being spent by the local bodies.

Table 1: Human Development Expenditure and Social Priority Ratio in Major States

	1987-1988	1990-1991	1995-1996	1999-2000	2004-2005	2005-2006	2006-2007	2007-2008
Human Developmental Expenditure* as % of GSDP								
Andhra Pradesh	8.71	7.44	6.55	6.79	6.56	6.30	6.80	7.82
Bihar	12.89	13.21	12.15	13.85	8.30	10.88	11.15	12.04
Goa	10.16	12.65	8.31	7.35	6.96	6.63	6.61	6.52
Gujarat	8.54	6.47	5.00	6.83	5.34	5.00	5.14	-
Haryana	6.06	4.88	5.58	4.95	3.91	4.42	4.30	4.73
Karnataka	8.21	7.27	6.62	6.42	5.88	5.96	6.96	7.39
Kerala	**7.94**	**8.11**	**6.21**	**7.55**	**6.62**	**6.02**	**4.93**	**5.44**
Madhya Pradesh	9.35	8.98	8.85	8.90	6.70	7.58	7.89	8.58
Maharashtra	5.75	5.09	4.84	4.89	5.23	5.44	5.47	4.96
Orissa	8.14	8.48	6.96	10.64	6.34	6.72	6.49	7.62
Punjab	5.87	4.65	4.01	4.16	3.94	3.73	3.86	3.60
Rajasthan	10.88	7.40	7.88	7.69	8.43	8.51	8.48	8.69
Tamil Nadu	7.02	7.94	6.03	6.45	6.37	5.84	5.70	6.25
Uttar Pradesh	6.88	8.13	6.25	6.69	6.51	7.34	8.01	8.62
West Bengal	5.71	7.03	5.26	6.94	4.80	5.15	5.11	5.49
Note: Expenditure on Social Services and Rural Development								
Social Priority Ratio								
Andhra Pradesh	34.59	30.23	49.03	44.24	33.83	35.62	33.50	30.02
Bihar	48.95	52.77	59.34	59.80	50.47	55.21	54.32	51.83
Goa	36.47	34.27	37.48	35.90	31.72	31.33	30.50	29.78
Gujarat	45.32	43.04	44.39	40.97	41.31	40.67	40.28	39.99
Haryana	36.57	34.93	33.25	43.59	45.34	42.41	43.66	41.43
Karnataka	41.02	37.94	37.36	40.63	40.87	38.44	34.37	34.58
Kerala	**43.30**	**42.81**	**39.38**	**38.49**	**30.83**	**32.43**	**34.61**	**36.06**
Madhya Pradesh	44.66	44.08	43.83	42.22	44.00	42.80	43.92	42.15
Maharashtra	37.54	32.54	35.57	28.02	35.68	33.32	32.24	32.20
Orissa	44.98	41.87	45.62	42.92	43.24	44.44	41.39	44.78
Punjab	26.23	30.37	29.68	31.32	29.25	30.19	26.22	27.48
Rajasthan	52.10	51.58	55.77	53.99	51.18	54.30	52.35	54.65
Tamil Nadu	43.53	45.66	41.47	41.38	36.77	30.71	31.32	30.78
Uttar Pradesh	40.33	48.65	46.14	45.67	41.82	44.71	42.53	41.51
West Bengal	29.24	29.39	28.60	24.78	30.45	32.22	31.86	31.74

Note: Expenditure on elementary education, rural health, public health, family welfare, water supply and nutrition as percent of total expenditure on social services

Human Developmental Expenditure as % of Total Expenditure								
Andhra Pradesh	46.32	43.12	43.96	40.32	37.36	34.47	35.37	35.17
Bihar	43.75	43.79	40.68	41.72	36.05	40.21	42.62	46.17
Goa	37.34	41.97	28.20	29.66	33.72	31.74	32.53	32.21
Gujarat	39.80	37.24	35.21	36.26	34.89	35.05	35.69	36.65
Haryana	34.84	32.75	29.04	32.20	29.72	33.35	33.33	34.45
Karnataka	44.04	41.43	37.73	37.83	30.86	32.58	33.07	36.98
Kerala	**47.96**	**45.79**	**39.29**	**41.86**	**40.66**	**38.43**	**31.92**	**32.44**
Madhya Pradesh	40.05	43.03	42.34	41.68	27.27	35.20	36.18	36.52
Maharashtra	34.60	33.40	37.49	32.79	33.88	36.11	37.74	38.17
Orissa	39.72	39.12	39.57	47.42	34.25	36.97	35.20	39.29
Punjab	32.49	29.26	26.00	26.21	21.25	20.64	22.10	20.93
Rajasthan	46.86	44.48	38.49	41.99	41.35	42.12	42.72	43.19
Tamil Nadu	45.67	47.20	42.28	39.89	37.89	37.88	35.15	37.23
Uttar Pradesh	39.92	42.51	35.93	35.95	32.01	36.70	35.35	36.00
West Bengal	47.55	49.00	41.10	42.96	32.85	35.50	36.51	40.11

Kerala's Fiscal Position vis-à-vis Other States

With the FRA in practice, all the states including Kerala have experienced certain improvement in their respective fiscal position in terms of a reduction in the fiscal deficit to GSDP ratio. This improvement in fiscal health is not only an intertemporal reduction in fiscal imbalance measured in terms of all-state fiscal deficit to GDP ratio but also a sharp reduction in the revenue deficits of the states. Higher own tax revenues of the states, increased central devolution due to buoyant central taxes and containing of revenue expenditure to GSDP ratio through reduction in discretionary development expenditure and decline in interest burden due to the softening of interest rate have achieved this improvement in fiscal position (Chakraborty, 2008). However, states such as Bihar, Kerala, Uttar Pradesh and West Bengal still report high fiscal deficit to GSDP ratios. However, as evident from the table, the fiscal deficits in most of the states have increased in the period of global recession beginning from 2008-09 with a simultaneous increase in the revenue deficit-GSDP ratio (table 2) and that has happened with the fiscal deficit target of central government as well.

Table 2: FD & RD as % of GSDP

	FD as % of GSDP			RD as % of GSDP		
	Average 2005-06 to 2007-08	2008-2009 RE	2009-2010 BE	Average 2005-08	2008-2009 RE	2009-2010 BE
Andhra Pradesh	2.8	3.0	3.0	-0.36	-0.59	-0.32
Bihar	3.1	5.7	2.4	-2.22	-2.60	-3.93
Gujarat	2.3	3.2	2.0	-0.42	-0.08	-0.02
Haryana	0.1	2.1	4.0	-1.27	-0.03	1.58
Karnataka	2.2	3.5	2.8	-1.64	-0.29	-0.38
Kerala	3.3	3.5	2.7	2.23	2.04	1.45
Madhya Pradesh	2.7	3.5	3.1	-2.05	-2.06	-1.36
Maharashtra	2.3	3.3	4.5	-0.60	-0.64	0.94
Orissa	0.0	3.7	4.3	-2.34	-0.62	1.68
Punjab	2.1	4.3	4.2	0.74	2.40	2.34
Rajasthan	2.9	3.4	3.4	-0.30	0.15	0.42
Tamil Nadu	1.2	2.7	3.1	-1.09	0.00	0.27
Uttar Pradesh	3.6	5.2	5.2	-0.71	-1.03	-0.35
West Bengal	4.1	3.8	6.0	1.22	-3.77	-4.70

Among the states with high fiscal deficit to GSDP ratio, Kerala's situation shows that the high fiscal deficit is a result of an equally high revenue deficit. In fact the table shows that Kerala's revenue deficit has been the highest among all states during this period. The increase in fiscal deficit in Kerala to 3.5 percent in 2008-09 from an average of 3 percent between 2005 to 2008, is evidently driven by a high revenue deficit in the state to the extent of 2.04 percent in 2008-09. High fiscal imbalance has raised questions over the long run fiscal sustainability and therefore many times questions have been raised on the sustainability of the developmental process in the state that has historically been driven by heavy social sector expenditures.

If we look at the trends in social sector spending in Kerala, while Kerala has been among the top ranking states, in recent past that trend seem to be changing. Since 1987-88 till 2006-07, if we look at, the share of social sector spending in total government expenditure shows a secular decline. However, the trend seems to have started reversing from 2006-07 onwards, although marginally. Rural development expenditure as a percentage of total expenditure has also declined drastically in the last few years (Figure 1b) in the state. After 2006-07, it has once again started rising but is still much less compared to major states averages. From the detailed table provided in the appendix, the trends show that such expenditures have increased in recent years in states like Rajasthan, Tamil Nadu, Maharashtra, Punjab and even in states with poor human development indicators like Orissa and Bihar.

Figure 1a: Social Services Expenditure as Percentage of Total Expenditure

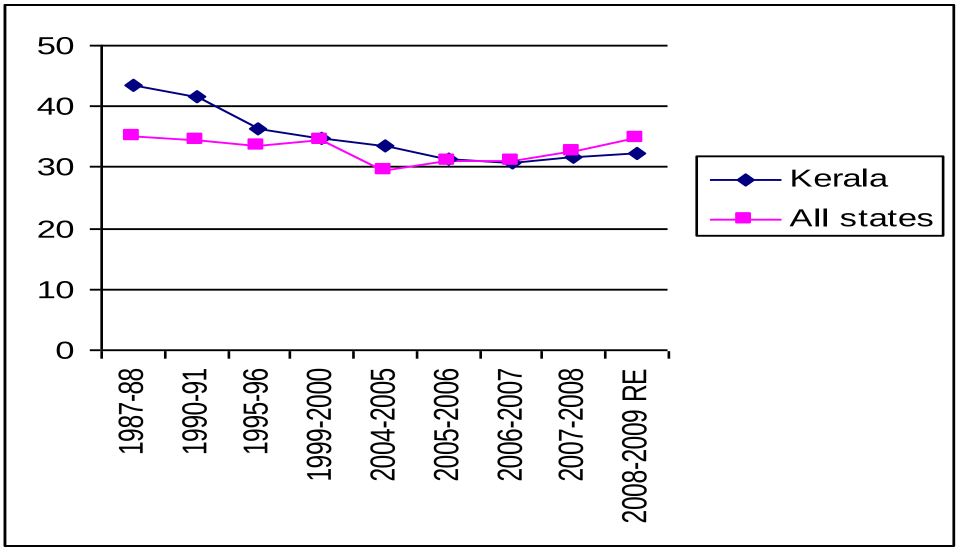
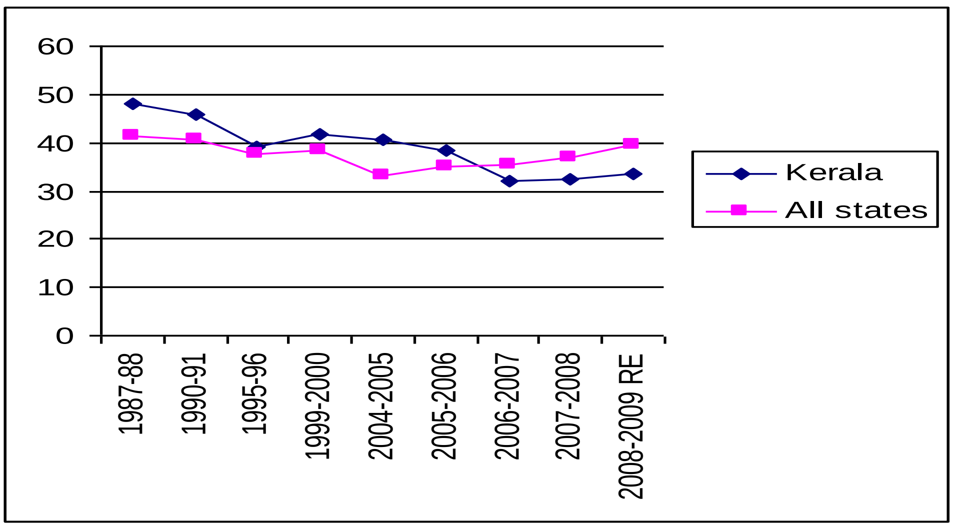


Figure 1b: Social Services and Rural Development as percentage of Total Expenditure



It needs to be mentioned that decline in the share does not necessarily mean decline in the social sector expenditure. As mentioned earlier, one of the major reasons for relative decline in the share of development spending in many states has been the increase in the share of committed expenditures. Thus, it is important also to compare per-capita social sector expenditure of Kerala with other major states in India in recent years. We look at the per capita expenditure under social services in all the states and compare Kerala with the rest of the states since 1999-00. Although Kerala was once placed among the top performers in per capita allocation of social sector expenditures and still maintains its position in the top 5 states, the growth of per-capita social sector expenditure for period between 1999-00 and 2008-09 RE was around 15 percent, which is much lower than many of the high and middle income states in the country. Also Kerala's ranking in per capita spending slided over the years (see table 3). Kerala's ranking does not change even when we take social services and rural development expenditure together and compare per capita spending across states.

Table 3: Per Capita Social Services Expenditure

(in rupees)

States	1999-00	2004-05	2005-06	2006-07	2007-08	2008-09 RE	Trend growth rate (1999-2009)' % per annum
Andhra Pradesh	1024	1510	1600	1954	2613	3495	25.62
Bihar	703	557	797	929	1146	1688	21.09
Gujarat	1409	1722	1861	2179	2432	2984	15.18
Haryana	1191	1544	1916	2227	2757	3517	23.21
Karnataka	1168	1526	1811	2212	2758	3178	22.07
Kerala	1382	1813	1836	2001	2518	2932	14.80
Madhya Pradesh	1082	950	1116	1244	1407	1794	11.52
Maharashtra	1214	1748	2046	2335	2579	3204	19.21
Orissa	1122	1059	1237	1388	1826	2745	19.46
Punjab	1147	1394	1494	1661	1755	2963	17.16
Rajasthan	1090	1434	1571	1798	2030	2589	17.03
Tamil Nadu	1310	1848	1922	2163	2612	3610	19.46
Uttar Pradesh	556	764	925	1162	1340	1856	25.47
West Bengal	1066	1048	1196	1379	1647	2130	15.22
Max	**1409**	**1848**	**2046**	**2335**	**2758**	**3610**	
Min	**556**	**557**	**797**	**929**	**1146**	**1688**	
AVG	**1105**	**1351**	**1523**	**1760**	**2101**	**2763**	
CV	**21.1**	**30.2**	**26.6**	**26.4**	**27.3**	**23.9**	

Table 4: Per Capita Social Services and Rural Development Expenditure

States	1999-00	2004-05	2005-06	2006-07	2007-08	2008-09 RE	Trend Growth Rate (1999-2009)' % per annum)
Andhra Pradesh	1164	1736	1851	2255	2978	3960	25.46
Bihar	872	689	960	1214	1484	2153	22.33
Gujarat	1529	1878	2011	2358	2633	3219	15.01
Haryana	1251	1617	2038	2365	2999	3914	24.63
Karnataka	1257	1660	1980	2464	3006	3401	22.06
Kerala	1662	2207	2239	2081	2587	3043	10.29
Madhya Pradesh	1216	1105	1344	1535	1788	2221	14.01
Maharashtra	1285	1970	2290	2632	2727	3469	18.97
Orissa	1263	1181	1369	1544	2042	3066	19.37
Punjab	1172	1464	1528	1734	1816	3120	17.58
Rajasthan	1168	1629	1771	2006	2305	2968	18.12
Tamil Nadu	1405	2002	2113	2411	2893	3933	20.01
Uttar Pradesh	726	908	1118	1339	1570	2190	23.35
West Bengal	1192	1197	1394	1586	1920	2443	15.80
Max	**1662**	**2207**	**2290**	**2632**	**3006**	**3960**	
Min	**726**	**689**	**960**	**1214**	**1484**	**2153**	
AVG	**1226**	**1517**	**1715**	**1966**	**2339**	**3079**	
CV	**19.0**	**29.4**	**24.9**	**23.7**	**23.9**	**20.7**	

Source: Tables 3 & 4, State Finance Accounts.

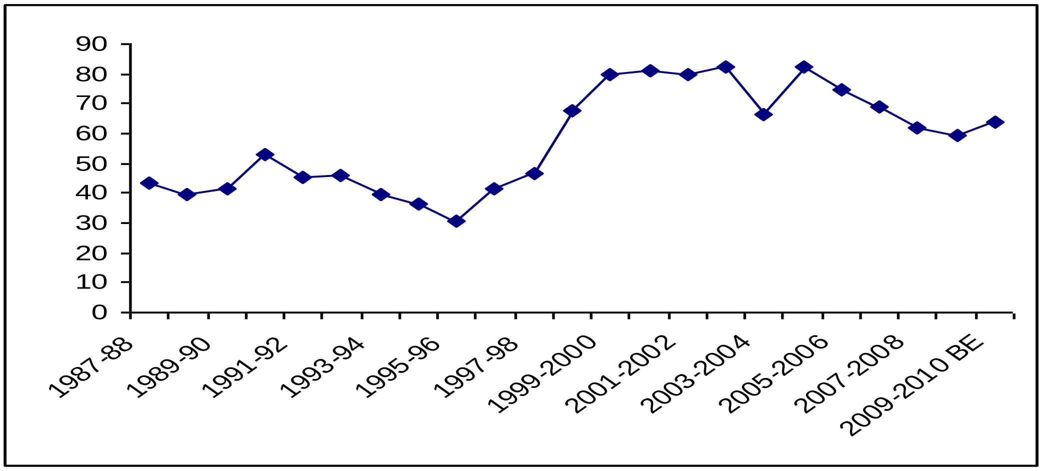
In this context, it becomes imperative to analyse in detail the fiscal situation of Kerala, examine the fiscal stress emanating due to rising committed liabilities and also the revenue position in terms of own revenue and central transfers of the state. We also examine the alternative fiscal adjustment strategy adopted by the state government from the FY 2006-07 and also examine how the concerns of Kerala's unique human development priorities are incorporated within the overall fiscal constraint and also required fiscal space to address those priorities effectively during the Eleventh Plan period.

Fiscal profile of Kerala: A Disaggregated Analysis

As it has already been pointed out that Kerala falls among the high fiscal deficit states and that the fiscal deficit is largely due to the high revenue deficits. In fact, revenue deficit constitutes almost 64 percent of the gross fiscal deficit.

The fiscal deficit estimated to reduce upto 2.3 percent in 2009-10 BE, is determined by the decline in the revenue deficits to 1.5 percent.

Figure 2: Revenue Deficit as percentage of Fiscal Deficit: 1987-88 to 2009-10BE



If we look at the fiscal profile of the state, own revenues to GSDP ratio have increased in recent years. As per the latest Medium Term Fiscal Plan (MTFP), the state government of Kerala wants to eliminate the revenue deficit by 2010-11. Thus, given the fiscal constraints and the target of revenue deficit elimination, by 2010-11, the main burden of adjustment will fall on the revenue side as revenue receipts to GSDP ratio has to match with the revenue expenditure by 2010-11. As evident from table 5, the own tax revenue buoyancy has been phenomenal in recent years. Yearly buoyancy shown in table 5 reveals that own tax buoyancy increased sharply. This has become possible due to various tax reform measures initiated by the state government.

Table 5: Tax Buoyancy: Kerala

Year	Tax buoyancy
1999-2000	1.06
2000-2001	5.51
2001-2002	0.15
2002-2003	1.71
2003-2004	1.06
2004-2005	0.89
2005-2006	0.64
2006-2007	1.60
2007-2008	1.21
2008-2009 RE	1.34

2009-2010 BE	1.07
Average	**1.48**

It needs to be highlighted that own tax revenues have grown at an annual average rate of growth of 18.3 percent between 2006-07 and 2007-08. This has happened primarily due to the introduction of VAT and various other tax reform measures introduced by the government to check tax evasion/ avoidance and also by providing incentives and campaign for payment of taxes in taxable purchases and sales in the state. As highlighted in the Kerala Public Expenditure Review Committee (KPERC Report 2007-08), the comparatively better performance of Kerala in tax effort in recent years is due to a series of measures taken by the Government especially in the area of sales tax and VAT and they are: a. Human Resource Development b. Improving the Physical Infrastructure c. Promoting Tax Compliance Culture d. Rationalization and Simplification and e. Measures to Arrest Tax Evasion. The details of each of these measures as delineated in the KPERC-2007-08 are given in Box 1.

Box 1: Measures to Improve VAT Collection in the State

a. Human Resource Development

As part of the implementation of VAT, the state of Kerala invested in human resource development and physical infrastructure. Intensive training on VAT Laws and Procedure was imparted to officers at all levels. Special efforts have been made to impart computer training to officers and supporting staff.

b. Improving the Physical Infrastructure

Investments have been made to improve the physical infrastructure. Sales tax complexes have been established in districts where the offices were functioning in rented premises. Three computer centres have been established with 25 computers in Thiruvananthapuram, Kochi and Kozhikkode. The Commercial Taxes Department has added to its vehicle fleet and this has considerably strengthened the intelligence work.

c. Promoting Tax Compliance Culture

An emerging pattern in tax compliance the world over is the emphasis laid on voluntary tax compliance. In order to inculcate a habit of collecting sales bills while making purchases, the Commercial Taxes Department introduced Lucky VAT Scheme for the first time in the country. Schemes have been introduced to reward exemplary tax compliance behavior by giving awards to traders. It is proposed that honest dealers who comply with the procedures and formalities will be provided green channel facilities at the check-posts.

d. Rationalisation and Simplification

Measures have been taken to rationalize and simplify the procedures and formalities. Interest relief scheme, one time settlement, e-filing of returns, simplified procedure for registration are some of these measures. In order to complete the pending assessments under KGST, special adalaths have been organized.

e. Measures to Arrest Evasion

An effective measure to arrest tax evasion is the single most important step towards additional resource mobilization. A major initiative in this direction was the Walayar

Campaign. Social audit programme by eminent persons along with stake-holders at Walayar was an important step towards eradication of corruption. Through the Walayar to Ernakulam Campaign, the declarations submitted at the check-posts are being processed properly and used as a tool for detecting tax evasion. More and more tax evasion prone commodities have been brought under the tax net by including those commodities in the notified goods list. Special efforts are now being taken to prevent tax evasion through railways. As part of this initiative, it is proposed to reward officers who detect evasion and penalize the offenders.

Source: *Kerala Public Expenditure Review Committee Report: 2007-08.*

Table 6: Fiscal Profile of Kerala: An Overview (as % of GSDP)

Major Heads/Years	**1987-88**	**1990-91**	**1995-96**	**1999-2000**	**2004-2005**	**2005-2006**	**2006-2007**	**2007-2008**	**2008-2009 RE**	**2009-2010 BE**
Own revenue	12.8	13.2	12.6	11.5	12.2	12.3	12.8	13.0	13.7	13.6
Own tax	**7.5**	**7.4**	**7.9**	**7.5**	**8.1**	**7.9**	**8.4**	**8.4**	**8.7**	**8.8**
of which:										
Stamps and registration fees	0.5	0.7	0.8	0.4	0.7	0.9	1.1	1.2	1.3	1.3
State excise	1.2	1.0	1.0	0.9	0.7	0.7	0.7	0.7	0.7	0.7
Sales tax	4.8	4.9	5.3	5.6	6.1	5.7	6.0	5.8	6.0	6.1
Taxes on vehicles	0.4	0.3	0.1	0.1	0.1	0.0	0.0	0.0	0.5	0.5
Other taxes	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.2	0.2
Non tax revenue	1.5	1.1	1.2	0.8	0.7	0.8	0.7	0.7	0.7	0.7
Central transfers	3.8	4.7	3.5	3.2	3.4	3.7	3.7	3.8	4.3	4.1
Grants in aid	1.5	2.0	1.1	1.0	1.7	1.7	1.5	1.3	1.7	1.5
Tax devolution	2.3	2.7	2.4	2.2	2.0	2.0	2.3	2.5	2.6	2.6
Revenue exp.	**14.4**	**15.5**	**13.6**	**16.7**	**15.6**	**14.8**	**14.6**	**15.3**	**15.8**	**15.0**
of which:										
General services	5.1	5.5	5.5	7.3	7.3	7.1	6.9	7.5	7.1	6.8
Social services	7.2	7.3	5.7	6.3	5.4	4.9	4.7	5.3	5.9	5.9
Economic services	4.1	4.6	4.3	4.4	3.6	3.6	2.5	2.6	3.0	2.5
Compensation & assignments to local bodies and PRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Capital exp.	**2.0**	**2.1**	**2.1**	**1.3**	**0.7**	**0.8**	**0.8**	**1.4**	**0.9**	**0.8**
Capital outlay	1.4	1.4	1.3	0.9	0.6	0.7	0.6	0.9	0.9	0.8
Net lending	0.7	0.7	0.8	0.4	0.1	0.2	0.2	0.5	0.0	0.0
Revenue deficit	1.6	2.3	0.9	5.2	3.3	2.5	1.9	2.3	2.0	1.5
Gross fiscal deficit	3.6	4.4	3.0	6.6	4.0	3.4	2.7	3.8	3.5	2.3
Primary deficit	1.9	2.5	0.9	3.7	0.8	0.2	-0.3	1.0	0.6	-0.4

Source: Finance Accounts and Budget documents, 2009-10.

The overview of Kerala state finances given in table 6 reveals that the state revenue to GSDP ratio has increased from 12.3 percent in 2005-06 to 13.70 percent in 2008-09 and is expected to remain at almost similar level in 2009-10 BE despite the slowdown in the economy. It needs to be mentioned that during the second half of 2000, the state also has benefited from higher central transfers mainly due to tax devolution due to higher growth of central revenues. This is a general phenomenon and is not peculiar to Kerala. However, the grant-in-aid contributions from the centre show a stagnation. Total grants in aid to states as a percentage of GSDP remained on an average at around 1.5 percent of GSDP between 1987-88 to 2009-10 BE. State's own tax revenue to GSDP ratio remained at around 8.7 percent of GSDP, while own non-tax to GSDP ratio steadily declined between 1987- 88 and 2009-10 (BE). As mentioned earlier, own tax revenue to GSDP ratio increased in the last few years and is expected to be 8.8 percent of state GSDP by the end of 2009-10 BE. The increase in the own tax revenue has been largely due to the increase in the sales tax and the stamps and registrations fees.

Central Transfers to the State of Kerala

Declining central transfers to the state of Kerala is a major concern. Apart from decline in Kerala's share of tax devolution recommended by successive Finance Commissions,[10] aggregate grants as a percentage of GSDP remained stagnant during the last two decades. Also, the composition of grants underwent a significant change with a sharp decline in the statutory and formula based grants. Also among the discretionary grants, the share of CSS grants in total declined sharply in recent years. This is primarily due to large scale transfers under CSS in recent year are taking place bypassing the state budgets directly to the district level implementing agencies. Most of the flagship big-ticket centrally sponsored schemes come under this category. This has implications for state

[10] Kerala's share in total tax devolution was 3.5 per cent during the award period of the 10th Finance Commission, declined to 3.06 per cent during the award period of the 11th Finance Commission and further to 2.67 per cent during the award period of the 12th Finance Commission.

finances and intergovernmental fiscal relationship. In the specific context of Kerala, if one looks at, the 'one size fits all' approach of these schemes do not benefit Kerala an issue we discuss in the next chapter. As these big-ticket CSS are mostly for social sector spending, this has implication for human development as Kerala does not receive much of these grants.

The trend rates of growth of grants given in table 7, shows that grants in aid to Kerala grew at the rate of 11.5 percent during 1990-00 to 2007-08 and growth of state plan schemes remained at around 11 percent, The rate of growth of grants for central plan schemes have been negative. If we compare the per-capita grants to Kerala compared to other states, it shows that Kerala's rank in terms of grants in aid is one of the lowest. The growth of per-capita grant to Kerala remained much below compared to many of the middle income states.

Table 7: Changing Structure of Grants to Kerala

	1987-88	1995-96	2001-02	2006-07	2007-08	TGR 1990-2008
Grants-in-aid from central government	100	100	100	100	100	11.48
of which:						
Non-plan grants	10.8	16.8	15.9	52.1	34.4	24.92
Grants for state/union territory plan schemes	38.5	30.6	27.4	30.1	44.9	11.28
Grants for central plan schemes	16.4	8.2	2.2	0.9	1.7	-2.47
Grants for centrally sponsored plan scheme	34.3	44.4	42.0	16.8	19.0	4.70
Grants for special plan scheme	0.0	0.0	12.5	0.0	0.0	0.00

Table 8: Grants as Percentage of GDP/GSDP, India and Kerala

	Grants to all states as % of GDP	Grants from central government as percent of GSDP, Kerala		Grants to all states as % of GDP	Grants from central government as percent of GSDP, Kerala
1987-88	2.84	1.48	1997-98	2.12	1.45

1988-89	2.61	1.55	1998-99	1.55	0.98
1989-90	1.96	1.17	1999-2000	1.62	0.99
1990-91	2.56	2.02	2000-01	1.91	0.85
1991-92	2.64	1.62	2001-02	1.98	1.25
1992-93	2.62	1.81	2002-03	1.86	1.08
1993-94	2.63	1.73	2003-04	1.86	0.94
1994-95	2.17	1.79	2004-05	1.83	1.19
1995-96	1.97	1.09	2005-06	2.20	1.66
1996-97	1.84	1.00	2006-07	2.35	1.47

Table 9: Per Capita Allocation of Grant-in-Aid to Major States by Centre

Major States	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-2009 RE**
Andhra Pradesh	267	289	433	327	558	337	498	611	865	1492
Bihar	182	132	125	163	186	319	370	573	627	1031
Goa	305	494	425	537	356	475	426	551	898	1998
Gujarat	235	353	290	575	347	371	484	570	668	829
Haryana	229	229	239	249	302	240	482	482	580	702
Karnataka	274	294	328	309	363	388	649	848	875	858
Kerala	217	194	305	290	277	397	617	621	638	906
Madhya Pradesh	286	254	244	299	279	376	445	667	838	1009
Maharashtra	155	152	172	152	225	263	382	809	699	1310
Orissa	475	390	335	480	453	613	689	805	1161	1813
Punjab	218	340	218	269	224	232	835	830	768	795
Rajasthan	275	461	365	376	421	478	473	603	769	981
Tamil Nadu	225	248	220	251	332	411	465	508	991	1013
Uttar Pradesh	162	168	195	135	142	233	295	424	455	681
West Bengal	195	395	364	273	228	270	666	511	557	749
Max	475	494	433	575	558	613	835	848	1161	1998
Min	155	132	125	135	142	232	295	424	455	681
Avg	247	293	284	312	313	360	518	627	759	1078
SD	77.5	111.1	91.7	131.9	109.6	108.0	144.1	136.2	184.1	401.8
CV	31.4	37.9	32.3	42.2	35.0	30.0	27.8	21.7	24.3	37.3

Expenditure Profile of the State

For Kerala, the revenue expenditure to GSDP ratio increased sharply over the last two decades due to the sharp increase in spending in general services that comprise of committed liabilities, viz. interest payment and pension obligation. The share of rest of the components of revenue expenditure have thus suffered i.e. expenditure on development sectors like social and economic services which include education, health, rural development have declined. The capital expenditure to GSDP ratio declined sharply till 2005-06 and showed a marginal increase in 2007-08 and declined again in 2009-10 (BE).

The committed non-developmental expenditure, i.e., expenditure in general services as a share of total expenditure has been increasing and although it has declined in the last two years, yet the ratio is quite high. It has been mainly due to the interest payments and other general services which include administrative expenses and also large pension payment. The share of development expenditure, namely, on education, elementary education, health, rural development, welfare programmes, etc. have all experienced a decline in the share till 2005-06. In the last few years these sectors have again been experiencing an increase in their respective shares. There has been a consistent increase in the share of expenditure by the Kerala government on roads and bridges. However welfare programmes, that include social security benefits, welfare for SC, ST and other backward castes and labour welfare and other security benefits , has also shown a decline in their shares in total expenditure. Although, the share of some of these components increased as per the 2009-10 BE, yet the figures barely match the 1987-88 shares. The economic services sector has experienced a major reduction in its share to total expenditure, which is an outcome of reduced rural development expenditure by the state government.

Table 10: Sectoral Expenditure in Kerala: A Detailed View (as share of Total Expenditure)

	1987-88	1990-91	1995-96	1999-2000	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009 RE	2009-2010 BE
1.General services	31.21	31.18	35.12	40.26	43.77	45.44	45.84	43.32	42.35	42.57
a)Interest payments	10.48	10.64	13.74	15.65	19.70	20.23	19.67	16.11	16.93	17.00
b)Pensions	10.32	10.45	11.85	15.22	15.63	16.44	17.17	18.98	15.69	15.23
c)Other general services	9.95	9.83	9.19	9.02	8.22	8.41	8.81	8.03	9.59	10.24

2.Social services	43.54	41.64	36.22	34.81	32.70	31.60	31.73	30.40	35.21	37.00
a) Education	25.57	24.83	21.68	21.04	17.88	18.01	18.56	16.15	18.20	19.13
i)Elementary	12.73	12.52	10.04	9.90	7.25	7.19	7.66	6.58	8.05	7.37
b)Health, Family welfare and nutrition	7.82	7.16	6.83	5.89	5.04	5.17	5.38	4.64	5.10	5.11
c)Welfare Programmes	5.68	5.12	3.53	3.71	4.34	4.04	4.64	4.69	4.96	5.60
d)Other Social Services	4.47	4.53	4.20	4.17	5.43	4.37	3.15	4.93	6.96	7.16
3.Economic services	25.20	26.17	27.54	24.29	21.43	23.24	16.81	15.16	17.93	15.77
a)Rural development	4.41	4.16	3.05	7.05	7.10	6.94	1.26	0.84	1.25	1.28
b)Roads and bridges	3.78	3.38	3.78	3.56	4.14	5.49	4.68	5.28	5.18	4.14
c)Transport	0.64	0.80	0.45	0.23	0.15	0.26	0.44	0.38	0.81	0.66
d)Other economic services	16.36	17.82	20.26	13.45	10.04	10.56	10.43	8.66	10.68	9.68

Source: State Finance Accounts and Budget Documents 2009-10.

Given the overall trend and pattern of government spending, it becomes clear that over the period since 1987-88, the share of development expenditure has faced reductions at the expense of increasing non-development expenditures. The rule based fiscal control also had its own contribution in reducing state level expenditures with rigid targets of time bound deficit reduction in place. Also, one of the major contributory factors of the current high levels of fiscal deficit has been rising committed liabilities which in turn has affected the discretionary development spending. Such trends do give rise to questions on the sustainability of the success story of Kerala which has historically been made possible by active state intervention in terms of heavy social sector spending and the plan needs to have a clear approach towards creating fiscal space for human development by reducing the relative incidence of committed liability; in total spending.

Table 11: Plan Targets and Plan Financing of Kerala

Sl. No.	Major heads of development	Expenditure as % of outlay						
		Ninth Plan				Tenth Plan		
		1997-98	1998-99	1999-2000	2000-01	2002-03	2002-03	2003-04
I.	Agriculture & allied Activities	105.1	112.5	88.0	107.7	120.6	82.2	88.7
II.	Rural development	63.9	94.6	73.6	124.1	80.5	15.5	9.9

III.	Special area programme	-	100.0	103.1	100.2	82.4	28.5	30.4
IV.	Irrigation & flood control	98.6	122.1	92.9	106.6	123.8	52.6	64.5
V.	Energy	85.5	101.5	86.2	106.6	123.8	52.6	64.5
VI.	Industry & mineral	109.4	101.7	91.2	106.6	90.9	96.2	56.4
VII.	Transport	199.0	176.0	170.2	106.6	138.7	121.0	131.9
VIII.	Science, technology & environment	86.0	100.6	95.9	106.6	94.8	79.1	67.7
IX.	Economic service	96.7	89.6	98.5	66.5	790.5	52.4	32.6
X.	Social services	102.0	110.7	85.9	136.4	96.3	54.1	51.0
XI.	General services	98.5	167.5	155.5	128.8	2.0	4015.1	3222.9
XII.	Plan assistance to local bodies	99.0	100.0	84.4	100.0	-	-	-
	Grand total	100.6	108.2	90.7	109.2	98.0	81.7	73.0

Debt Profile and Fiscal Space

Debt as a percentage of GSDP, started declining gradually from 2005-06 from a peak of 39.1 percent in 2004-05. In 2007-08, the debt GSDP ratio declined to 37.3 percent. The effective rates of interest on debt also declined during recent years, which in turn is reflected in lower interest payment obligations.

The composition of debt has tilted towards internal debt by increasing its share in the total debt stock to 61.4 percent by the end of 2007-08. Within internal debt, the share of NSSF has incased from 2.8 percent in 1999-00 to 21.6 percent in 2007-08. The share of central loans declined sharply from 29.3 percent to 10 percent during the same period. This is primarily due to the changes in the accounting classification of Small Savings to NSSF and also due to the recommendations of the Twelfth Finance Commission, according to which states need not borrow from the centre starting from 2005-06.

Table 12: Debt Profile: Structure, Magnitude, Interest Rate

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Internal debt	5735	7627	9342	11747	17421	21676	25671	29969	34019	38590
Of which NSSF	571	1012	1475	2306	4577	7048	9698	11876	11982	14432
Loans from centre	5903	6102	6347	6535	5628	5410.8	5417	5372	5533	5928
PF, fixed deposits	8538	10190	11262	12778	14403	14791	14841	14534	15858	17135

Total (Rs. Crore)	20176	23919	26951	31060	37452	41878	45929	49875	55410	61654
Structure of Debt (In %)										
Internal debt	28.4	31.9	34.7	37.8	46.5	51.8	55.9	60.1	61.4	62.6
of which NSSF	2.8	4.2	5.5	7.4	12.2	16.8	21.1	23.8	21.6	23.4
Loans from centre	29.3	25.5	23.6	21.0	15.0	12.9	11.8	10.8	10.0	9.6
PF, fixed deposits	42.3	42.6	41.8	41.1	38.5	35.3	32.3	29.1	28.6	27.8
Total debt	100	100	100	100	100	100	100	100	100	100
Debt/GSDP (%)	32.3	34.3	37.3	36.0	39.0	39.1	38.6	37.6	37.3	37.3
Interest rate (%)	10.88	10.24	9.79	10.16	9.72	9.11	8.67	8.75	8.22	8.34
GSDP	62520	69770	72349	86275	96012	107054	118998	132739	148485	165477

It is to be noted that the debt structure has to a significant extent become high cost in nature because of the high cost NSSF debt, which carries a rate of interest of 9.5 percent. The decline in interest rate as we see in recent years, would have been more had the share of NSSF borrowing been lower. As the provident fund has a high share in the total stock of debt and the interest rate is now 8 percent, this would also help in softening the average cost of debt releasing resources for discretionary developmental expenditure.

Table 13 : Instrument Specific Rates of Interest

(%)

	2004-2005	2005-2006	2006-07	2007-08
Provident Fund	8.50%	8.50%	8.00%	8.00%
Market borrowings (average)	6.40%	7.51%	7.96%	8.29%
NABARD-RIDF	6.50%	6.50%	6.50%	6.50%
LIC	8.50%	8.50%	8.50%	9.10%
NCDC	8.50%	8.50%	9.12%	9.75%
GIC & others	9.00%	9.00%	9.00%	9.10%
Govt. of India loans	9.00%	9.00%	9.00%	9.00%
NSSF	9.50%	9.50%	9.50%	9.50%
Treasury fixed deposits (average)	7.33%	6.67%	6.86%	8.34%
Treasury savings bank	5.50%	4.50%	4.58%	5.00%

The maturity period of market loans as seen in table 14 reveals that although average cost of market loans is 8.1 percent, in the shorter end of the maturity Kerala, still has some high cost debt. But overall bunching securities seems to be on the longer end of the maturity profile in the year 2015-16, 2016-17, 2017-18 and 2018-19.

Table 14: Maturity Period of Market Loans

(Percent)

	Maturity period of market loans	**Weighted average rates of interest**	**Distribution of loans against maturity period**
2009-10	746	12.0	4.3
2010-11	802	11.2	4.6
2011-12	966	9.1	5.5
2012-13	1005	7.3	5.7
2013-14	1205	6.2	6.9
2014-15	1423	6.1	8.1
2015-16	2114	7.3	12.1
2016-17	2614	7.8	14.9
2017-18	4297	8.3	24.5
2018-19	2335	8.6	13.3
Total	17507	8.1	100.0

Finally, the achievement of the state in bringing down contingent liabilities has been remarkable throughout the FRA period. The statutory guarantee limit still remains at Rs.14,000 crore. The total outstanding guarantees of both principal and interest, which stood at Rs. 12316 crore as on 31.3.2005, declined to Rs. 11935 crore as on 31.3 2006, and is expected to be below the legislative ceiling of Rs. 14000 crore in 2007-08.

Plan Financing within Overall Resource Constraint

Based on the fiscal constraints discussed above, in this section we critically evaluate the pattern of plan financing proposed for the Eleventh Plan and compare it with the financing pattern of tenth plan. As evident from the table 15, the balance from current revenues (BCR) is estimated to be negative during the 11^{th} Plan. The borrowing intensity of the State Plan also is very high. If we look at the central assistance, normal central assistance is estimated to be only around 40 percent of the Plan assistance from the centre to the states. The rest of the plan assistance is in the form of various externally aided projects and other assistance outside the Gadgil formula. The composition of borrowing is also heavily skewed towards high cost debt and has implications for increasing debt servicing liabilities at a faster rate.

Table 15: Financing of State Plan: Kerala
(As % of Actual Outlay on State Plan)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1. State's Own Resources, of which,	-115.6	-63.0	-34.2	-17.4	-1.1	12.5
BCR	-125.7	-59.1	-39.7	-24.1	-8.5	5.3
2. State's Borrowings, of which,	129.3	113.6	84.0	68.0	55.8	46.0
Net State provident fund	36.6	33.3	14.4	6.7	5.7	4.9
Net Small savings	41.5	37.8	34.3	30.8	24.5	19.5
Net market borrowings	18.4	11.1	11.1	10.4	8.8	7.5
3. Central assistance, of which,	34.1	11.0	9.0	7.6	6.8	6.0
Normal central assistance	15.7	3.2	3.5	3.6	3.3	3.1
ACA for EAP	7.6	4.7	1.8	0.4	0.3	0.0
Others	10.8	3.1	3.8	3.7	3.2	2.9
A : State government resources (1+2+3)	47.7	61.6	58.8	58.2	61.6	64.5
B : PSEs (1+2+3)	19.0	12.7	12.9	12.8	11.4	10.2
C : Local bodies (i + ii)	33.3	25.8	28.2	29.0	27.0	25.3
Aggregate plan resources (A+B+C)	100.0	100.0	100.0	100.0	100.0	100.0
Aggregate plan resources (in Rs Cr.)	4210.50	6950.00	6959.03	7437.69	8771.51	10303.78

Chapter IV

Centrally Sponsored Schemes and Human Development: Challenges for Kerala

One of the major focuses of the Eleventh Plan is on providing access to health, education, clean drinking water and other basic amenities.[11] These essential public services not only impact directly on welfare in the short run, they also determine economic opportunities for the future. The eleventh plan recognizes that the access to these services is not necessarily assured even when growth leads to rising income levels. It is also determined by the efficiency of the government at different levels. Improved levels of health and education are in fact critical inputs that determine the growth potential in the longer term through improvement in human capital. The eleventh plan also emphasizes on the necessity to include the marginalized sections of the society such as the SCs, STs, OBCs and other primitive tribal groups, minorities, women and children[12]. It is evident from the Plan document that all these priorities appeared to be achieved with heavy reliance on the centrally sponsored schemes.

The other major emphasis of the plan has been on equitable growth with increased focus towards the health and the education sectors again through large scale centrally sponsored schemes. The major flagship programmes continuing from the Tenth Plan with increased allocation are the NREGA, SGRY, SJSY and Bharat Nirman for the rural and infrastructure development, SSA for extending primary education and NRHM for providing better health facilities. All these constitute 22.43

[11] The Eleventh Plan notes that since access to these services for the majority of the population depends not only upon their income levels but also upon the delivery of these services through publicly funded systems, the Eleventh Plan's vision of poverty reduction includes major expansion in the supply of these services. It however notes that good governance and more cooperation from the states in terms of implementation of the flagship programmes in these areas like the NREGA, SSA, etc. would be necessary for the success of these schemes.

[12] The Eleventh Plan notes: 'In the Eleventh Plan, a tentative outlay of Rs 13043 crore has been earmarked for the Ministry of Social Justice and Empowerment for the development of SCs, OBCs and other vulnerable groups. Similarly, tentative allocation of Rs 3709 crore and Rs 7000 crore have been made to the Ministry of Tribal Affairs and MMA, respectively for the welfare and development of STs and minorities. The allocation indicated for the Ministry of Tribal Affairs does not include SCA to TSP and grant-in-aid under Article 275(1) of the Constitution. In addition to this, social welfare programmes receive Plan financial support from the State sector also' (pp.136, Inclusive Growth, Eleventh Five Year Plan, vol.I, Planning Commission, GOI).

percent of the total central plan outlay and the resources under these schemes are directly going to the district level implementing agencies bypassing the state budgets. These CSS have become a major channel through which large scale resources are also transferred to the states, where states have to make matching contributions, which in a way reduces the flexibility of spending at the state level.

If we look at the central transfers to the states, as per the budget estimates 2009-10, the aggregate resource flow from the centre to the states, constituted more than 7 percent of GDP (see table 1); resources that are going directly to districts and other implementing agencies accounted for 1.63 percent of GDP. This is higher than any other components of grants transfers and constituted 54.3 and 58.1 percent of tax devolution to the states in the year 2008-09 and 2009-10 respectively. It is important to examine what constitutes these flows. As evident from the table 2, around 93 percent of this flow is through three central ministries, viz. Ministry of Rural Development (57 percent), Ministry of Human Resource Development (22 percent) and Ministry of Health and Family Welfare (13 percent). Out of this, transfers on account of Sarva Sikshya Aviyan and rural development for the year 2009-10 (BE) together constituted more than 90 percent of the total transfers (table 2).

Table 1: Flow of Resources to States: The Aggregate View

	2007-08 (Rs. Cr.)	**2008-09 (BE) (Rs. Cr.)**	**2008-09 (RE) (Rs. Cr.)**	**2009-10 (BE) (Rs. Cr.)**	**2008-09 (RE) (As % of GDP)**	**2009-10 (BE) (As % of GDP)**
States' share of taxes and duties	151800	178765	160179	164361	3.25	2.81
Non plan grants	35769	43294	38421	48570	0.78	0.83
Central assistance for states & UT plans	49943.5	55990	67674	75631	1.37	1.29
Assistance for central and centrally sponsored schemes	22138.39	25462	21977	22136	0.45	0.38
Total grants through state budgets	259650.9	303511	288251	310698	5.84	5.31
Direct transfer of central plan assistance to state/district level autonomous bodies/ implementing Agencies	54776	59272	87054	95567	1.76	1.63
Total Grants	314427	362783	375305	406265	7.61	6.94

Source: Union Government Budget Document 2007-08.

Table 2: Direct Transfer of Central Plan Assistance to State/District Level Autonomous Bodies/Implementing Agencies

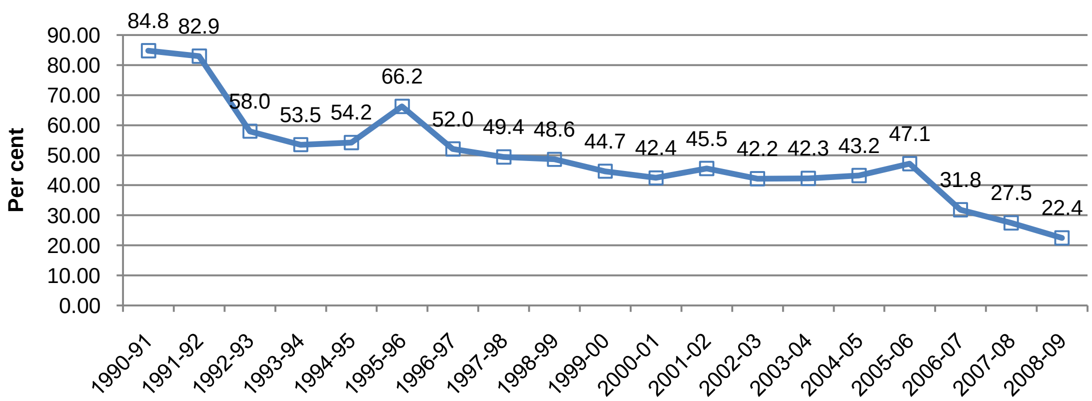
(in Rs crores)

		2007-08	**2008-09 RE**	**2009-10 BE**
1	Ministry of Agriculture	2420.49	3082.65	3459.11
2	Ministry of Environment & Forests	392.93	290.62	290.62
3	Ministry of Health & Family Welfare	6642.95	7586.41	9008.12
	of which:			
	NRHM	6065.71	6945.39	8267.74
	Share of NRHM in Total transfers from MoHFW	91.3	91.6	91.8
4	Ministry of HRD	11760.47	12078.98	13525.37
	of which:			
	SSA	11480.76	11939.98	11933.90
	Share of SSA in Total transfers from MoHRD	97.62	98.85	88.23
5	Ministry of women & Child Development	0.00	0.00	0.00
6	Ministry of New & Renewable Energy	104.86	138.50	167.00
7	Ministry of Rural Development	32812.36	61547.59	68264.45
	Of which:			
	NREGS	12661.22	30000.19	37778.64
	Share of NREGS in Total transfers from MoRD	38.6	48.7	55.3
8	Ministry of Food Processing Industries	0.00	16.00	160.00
9	Ministry of Social Justice & Empowerment	0.00	0.00	0.00
10	Ministry of Tourism	53.00	58.00	102.00
11	Ministry of Statistics & Programme Implementation	0.00	1649.62	0.00
12	Ministry of Commerce & Industry	568.96	570.00	570.00
13	Ministry of Social Justice & Empowerment	20.00	20.00	20.00
14	Ministry of Statistics & Programme Implementation	0.00	15.38	0.00
	Total	**54776.02**	**87053.75**	**95566.67**
	Share of NRHM, SSA & NREGS in total direct central transfers	**91.9**	**92.4**	**92.6**

Source: Expenditure budget, 2009-10, GOI

If we look at the distribution of these transfers, they are largely progressive (table 3) as per capita transfers to low-income states have been several fold higher than the middle and high income states. Though, these transfers have the inherent problem of central discretions both with regard to the allocation and quantum, the data reveals a positive discretion in favour of the low-income states. But the larger question is can these transfers be justified on the ground of progressivity bypassing the authority of the state! If the authority of the states is bypassed on the functions that are primarily in their domain, the accountability will be lost. As mentioned by Rao (2007, p. 1253), this kind of transfers have been "undermining the role of systems and institutions in the transfer system. In fact, even under the transfers for state plans, normal assistance, which is given according to the Gadgil formula, constituted less than 48 percent. Thus, we have a situation where the grants system has become predominantly purpose specific with a cobweb of conditionalities specified by various central ministries. Furthermore, quite a considerable proportion of grants which used to be given to the states now directly goes to autonomous agencies. This raises questions about the capacity to deliver public services by these autonomous agencies, mechanisms to augment the capacity and as the funds do not pass through states' consolidated funds, of accountability." It may be mentioned here that in the case of plan financing of Kerala the normal central assistance constituted only 42 percent of the total central assistance during the 11th Plan. It is also evident from the Figure, the share of normal central assistance in total plan assistance has steadily declined from 1990-91 to 2008-09.

Figure 1: Share of Normal Assitantce to States in Total Plan Assistance



The per-capita CSS allocation under major CSS is given in table 3. The per capita allocation of these schemes in the major states substantiates the earlier arguments that they are by and large progressive. Kerala clearly remains at the bottom in terms of receiving any benefits from these schemes. One of the major reasons for Kerala not getting the benefit of these schemes is the design of these schemes. The 'one size fits all' approach does not benefit Kerala.

Table 3: Per Capita Allocation of CSS in Major States, 2007-08

(in Rs.)

Major States	**NRHM**	**SSA**	**NREGS (PC release)**	**Total allocation**
Andhra Pradesh	72.86	151.87	158.41	383.15
Bihar	73.14	358.80	48.47	480.42
Goa	80.94	101.63	-	182.57
Gujarat	67.43	67.73	12.60	147.76
Haryana	56.99	147.90	23.67	228.56
Karnataka	68.89	121.35	117.30	307.53
Kerala	64.06	46.77	25.39	136.22
Madhya Pradesh	79.55	262.92	405.10	747.57
Maharashtra	62.46	83.32	46.33	624.36
Orissa	86.93	274.09	263.34	136.71
Punjab	58.94	67.27	10.50	560.09
Rajasthan	85.55	249.70	224.84*	278.68
Tamil Nadu	65.71	106.60	106.36	873.88
Uttar Pradesh	77.19	182.02	614.68	327.60
West Bengal	62.22	165.73	99.65	383.15

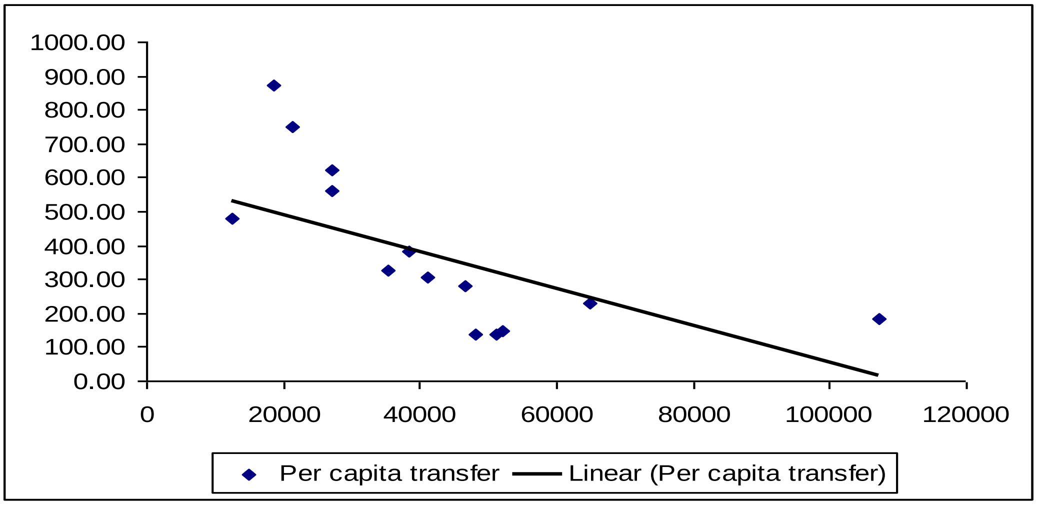
Note: * Figures are for 2008-09.

For instance, the mission statement of SSA clearly states that main aim of SSA pertains to clear time frame for universal elementary education and providing quality elementary education to all children in the 6-14 age group. Given an almost universal literacy in Kerala, the SSA programme with such a goal does not hold much importance for the state. The '*Akshara Keralam*' project with a similar aim had been effectively introduced and implemented in Kerala since the early nineties. The major problem of Kerala in terms of education lies in the field of higher education. The quality imparted has low employability and there remains a dearth in skill development and hence such problems need to be dealt in a different manner and schemes should be given in a manner so that Kerala also get benefit from these assistance. The other alternative is to make united funds available to the state for taking care of its own spatial needs instead allocating resources for major CSS schemes which does not help those states which have already achieved the objectives of those schemes.

Similarly, the major goals set for NRHM have been mainly to reduce IMR and MMR, universal access to public health services for women and children, population stabilization, gender and demographic balance and promotion of healthy lifestyles. As noted in chapter II, Kerala's health indicators have already achieved desired rates. The problems of health in Kerala lies in the second generation problems of increases in lifestyle diseases and geriatric problems, which require untied funds from the centre to be dealt with effectively. The Kerala Eleventh State Plan recognizes such aspects and has already made provisions to ensure universal health insurance scheme for the underprivileged and marginalized section of the population and Cancer Suraksha Fund for children. But such initiatives clearly require a continued flow of funds for effective implementation and achievement of desired results. Instead of CSS, availability of united fund from higher level of governments for these schemes will be extremely beneficial for Kerala.

In terms of NREGS, given the topography and the climate pattern in Kerala, the kind of work that could be generated under scheme guidelines in the earlier years of its implementation, like water harvesting and water conservation, minor irrigation, drought proofing, afforestation and tree plantation, and construction of roads were found to limit the options in Kerala. The flexibility introduced recently in terms of generating jobs under the scheme has in fact helped the state to develop its own requirement based initiatives. All these therefore points out to the reason why Kerala's fund utilization pattern remains at a low to medium rate compared to the other states for these big-ticket CSS. The per-capita transfers under these major schemes does point to progressivity but Kerala seem to have received hardly anything compared to many other states, when the state is in need of funds to address its second generation problems of human development.

Figure 2: Per Capita CSS Transfers to Major States: 2007-2008



However, regarding the allocation of these funds, an element of uncertainty continues and it is well known that these transfers have worked as an impediment in achieving horizontal equity and prudent management of state finances. Since these tendencies have increased over time and states are also accepting these deviations from what the Constitution of India has envisaged without resistance, central intervention on state subject would continue to grow. N. C. Saxena, as Member of the National Advisory Council in an insightful paper on CSS, observed that "GoI has increased its control over the state sector in three ways, firstly through substantial funding of CSS, the budget for which is about 60 percent of the Central Assistance; secondly much of it goes straight to the districts, thus bypassing the states and placing district bureaucracy directly under the supervision of the GoI; and thirdly more than half of Central Assistance is given in the form of ACA, which is often not formula based but where the GoI Ministries have a great deal of control over the state allocations and releases."

In this context it is worth mentioning that the most worrisome aspects of the TOR of the TFC having the potential to further strengthen the proliferation of CSS is the inclusion of the gross budgetary support to the central and state plan as the committed expenditures of the central government and demand on resources of the centre for the first time in the TOR of the Finance Commission. As commented by Reddy (2007), 'by including the GBS in the needs of the centre, there is a danger that the finance commission transfers to the states would become residual, given the deficit reduction targets mandated under the Fiscal Responsibility and Budget Management (FRBM) legislation and the indicative amount of overall transfers to states to be fixed at 38 percent of central gross revenue receipts as recommended by the Twelfth Finance Commission and accepted by the central government.' As we know, GBS of the central government consists of central plan and central assistance to state and UT plan and the GBS to central plan comprises of central sector plan and CSS. This in turn means that consideration of GBS as committed central expenditure is in a way an effort towards institutionalising this kind of centralising tendencies in the flow of resources through GBS. This becomes clear when we look at the Eleventh Plan Document.

As mentioned earlier, the Eleventh Plan envisages a significant step up in the outlay, the resources of the central plan rising from 5.3 percent of GDP during the 10th Plan to 7.99 percent of GDP during the 11th Plan. The central assistance to states and union territories rises only by 0.21 percentage point from 0.99 percent to 1.2 percent during the two plan periods respectively. In contrast, GBS for central plan is expected to rise by 1.2 percentage points from 2.77 to 3.97 percent of GDP during the same period. The GBS for the central plan, which was 73.6 percent of the total GBS during the 10th Plan, is expected to rise to 77 percent in 11th Plan. The consequence for the state plan has been summed up in the plan document as follows:

> "The share of projected grant component of central assistance to States/UT plan in the total GBS for Eleventh plan has decreased slightly than what has been realised in the 10th plan (from 26.4 percent to 22.8 percent) primarily because of much higher allocation has been made to centrally sponsored schemes. The allocation to centrally sponsored schemes has increased from 1.4 percent of GDP for the 10th Plan to 2.35 percent of GDP in the Eleventh Plan" (Planning Commission: 2008, p.53).

The projected central assistance to the states/UTs for 11th Plan under various schemes is Rs. 324851 crores. Of this allocation, normal plan assistance for states including special category states is just Rs. 111053 crores. In other words, CSS constitute Rs. 213798, i.e., nearly double the allocation for state development plan. Finance Commission needs to take a fresh look at this, especially estimates of GBS in the 11th Plan and use this opportunity to bring consolidation of CSS to few programmes of national importance where specific purpose transfers are necessary and divert rest of the resources under GBS for CSS as part of the unconditional transfers to the states to ensure greater fiscal autonomy and effective utilisation of resources. This will benefit states like Kerala whose problems of human development are typically different than rest of the country.

Table 4 gives the details of fund utilization for the major flagship schemes of the central government for the year 2007-08 to compare Kerala's performance with other states. The table shows a more or less effective utilization by most of the states barring a few for the NRHM and the SSA programmes. So far as the NREGS is concerned the figures are less satisfactory due to the demand based nature of the programme and hence do not provide a correct situation of fund utilization for the scheme.

Table 4: Fund utilisation of CSS schemes, 2007-08

	Major States	Expenditure as percentage of Release for:		
		SSA	NRHM	NREGS
1	Andhra Pradesh	66.0	80.3	0.00
2	Bihar	80.5	92.6	0.28
3	Goa	65.3	74.6	
4	Gujarat	87.2	90.5	18.63
5	Haryana	127.5	80.3	5.53
6	Karnataka	107.0	105.1	56.04
7	Kerala	81.1	75.0	25.57
8	Madhya Pradesh	80.8	102.6	55.92
9	Maharashtra	96.0	74.2	37.98
10	Orissa	56.6	74.2	66.28
11	Punjab	37.5	93.7	2.17
12	Rajasthan	88.6	85.1	102.54
13	Tamil Nadu	57.3	67.2	73.65
14	Uttar Pradesh	62.7	70.9	0.03
15	West Bengal	52.4	81.9	15.84

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The fund utilization for the CSS as evident from the table above shows a medium rate for Kerala as compared to other states. This is due to the sheer fact that Kerala's social sector problems are different than the rest of the country. As has been discussed in detail in the earlier chapter (Chapter II), Kerala ranks among the top performers in terms of social indicators within the country. In terms of the health and education indicators it is way forward than most of the states. Therefore the centrally sponsored flagship schemes which are designed to improve basic social indicators have a reduced importance in Kerala. Kerala's social sector problems are 'second generation problems' that relate more to quality issues than quantity issues. For instance, the state already has a literacy rate above 90 percent and therefore the flagship SSA programme for providing universal primary education does not have much to offer in Kerala. Similarly, the NRHM aimed at improving access to basic health facilities also fails to support Kerala in its health related issues. Both in education and health sectors the current requirement of Kerala is improvement of quality of the services provided. But given the tied nature of funds transferred on account of the Flagship schemes fails to achieve the required results. However, the Kerala Plan has taken note of such disadvantages associated with central transfers and have accordingly floated new schemes to improve quality of education, especially higher education and have also launched universal health insurance schemes taking note of the existing problems an issue discussed in Chapter II. But the issues of fiscal restraint and the current state of finances in Kerala acts as a limitation and hurdle for such initiatives. Therefore it seems important for the Centre to take cognizance of such facts and provide resources and more autonomy to the state of Kerala so that Kerala receives central grants to address its own specific problems, particularly in social sector.

Chapter V

Fiscal Decentralization, Local level Planning and Human Development

Theoretically fiscal decentralisation is neither good nor bad for efficiency and equity in terms of human development. The effects of fiscal decentralisation on human development depend on the institutional mechanism design, which relates to the degree of decentralization and how decentralization policy and institutions interact. Despite the growing recognition of fiscal decentralisation in human development in the policy realms, there have been relatively few attempts across globe to translate it into reality. Kerala's democratic decentralisation is a unique experiment in such a rare gamut of global examples.

From the *principle of subsidiarity* perspective, the local governments, which are closer to citizens, should be more efficient in the provisioning of public services than the higher levels of government as they have better information on spatial needs and preferences. It is particularly relevant in the context of India with the 73rd and 74th Constitutional Amendments conferring the third tier of government comprising the *Panchayati Raj* Institutions and urban local bodies the constitutional recognition as *local self governments*. In this context, Kerala's decentralization experience is particularly interesting characterized by large scale devolution of untied funds to the local bodies for local level planning and development. Before we analyse the process of decentralization and human development we discuss the state of local finances in Kerala. This is important as local level fiscal autonomy is critical for local development.

Revenue and Expenditure of PRIs

The own resource base of local bodies in Kerala is relatively better than many other states in the country. Several tax and non-tax revenue sources are assigned to Panchayati Raj Institutions (PRIs) for collection. The Gram Panchayat chooses the rate relevant to each tax within the broad rate band set out by the statutes, and administers the tax and non-tax revenue. Tax revenue has an own source component and a state component, the latter consisting of assigned taxes (basic tax on land and a four- percent surcharge on stamp duty collected under the provisions of the Kerala Stamp Act) and shared tax (the share for GPs called vehicle tax compensation). The assigned and shared taxes are officially referred to as ‘statutory grant’. Own taxes of the GP include property tax, profession tax, entertainment tax, advertisement tax, service tax and show tax, with the last three adding up to insignificant amounts. The structure of revenues of the PRIs is presented in table 1. As evident from the table own revenues of the PRIs constitute around one-fourth of the total resources of the local bodies. If we take the assigned taxes which are entitlement in nature, the local resources constitute more than one-third of the total revenues.

Table 1: Distribution (%) of Revenue of PRIs in Kerala

	1998-99	1999-00	2000-01	2001-02	2002-03
Own tax	9.40	10.52	13.92	13.63	12.82
Own non tax	8.54	14.52	12.44	9.44	10.70
Own revenue	**17.95**	**25.04**	**26.35**	**23.07**	**23.53**
Assignment + devolution	15.70	17.96	7.39	16.58	15.87
Grants-in-aid	63.42	54.09	62.71	57.11	57.48
Others	2.94	2.91	3.55	3.24	3.12
Total other revenue	**82.05**	**74.96**	**73.65**	**76.93**	**76.47**
Total revenue	100	100	100	100	100
Total revenue (Rs crores)	*938.84*	*952.57*	*833.51*	*839.94*	*960.69*

Source: *Report of Twelfth Finance Commission* (2004).

Apart from the statutory grants, the GP’s receive non-plan state grants, plan grants and central grants. As can be seen from table 2, which gives the expenditure profile of PRIs in Kerala, revenue expenditures of PRIs constituted around 81.54 percent of their expenditure budget in 1998-99 and increased to 89.37 percent in 2000-01 before it declined to 86.08 percent in 2002-03. Needless to mention, capital expenditure was only 13.92 percent in 2002-03. Because of the non-availability of data on local finances, we could not extend the analysis beyond 2002-03, but would like to see the state of local finances if the latest data is made available to us.

Table 2: Expenditure Profile of PRIs in Kerala

Item	1998-99	1999-00	2000-01	2001-02	2002-03
Revenue expenditure	81.54	86.99	89.37	87.26	86.08
Capital expenditure	18.46	13.01	10.63	12.74	13.92
Total expenditure	100	100	100	100	100
Total expenditure (Rs crores)	*3089.89*	*4178*	*4522.47*	*4202.43*	*4095.89*

Source: *Ibid*.

Process of Local Level Decentralisation

Widespread literacy, sharply reduced deprivation and absolute poverty, good health performance, successfully carried out land reforms, powerful class and mass organisations have acted in synergy for Kerala as an ideal state for introduction of participatory local democracy.

Kerala's unique development pattern also is a precedent in terms of local level participation and planning. The experiment in democratic decentralization envisioned a transfer of around a third of the plan funds to the Local Self-Governing Institutions during the ninth plan period (1997-2002). This decision to devolve 35-40 percent of the state plan expenditure in Kerala was not based on the First SFC recommendations. The fiscal devolution was made outside the purview of SFC initially. Though the first SFC of Kerala did recognize the importance of large-scale devolution of plan grants to LSGs, it preferred to leave the determination of the share to the judgment of planning authorities. The second SFC of Kerala tried to institutionalize the ongoing plan devolution and given a statutory basis to the devolution. The second SFC took an integrated view of both plan and non-plan requirements, after a detailed exercise of the non-plan requirements arising from plan devolution.

The reversed sequence of fiscal decentralisation in Kerala — financial devolution prior to functional devolution — though have reduced the issues related to *unfunded mandates,* it has created an initial disequilibrium at the local level due to the non re-deployment of functionaries to sustain or make full utilization of resource potential so devolved. The quantum leap forward in the Kerala experiment of fiscal decentralisation is the decision to devolve around one-third of the plan funds to the Local Self-Governing Institutions during the ninth plan period (1997-2002). However it was initially outside the purview of Kerala State Finance Commission.

The First State Finance Commission submitted its report in 1996 – prior to the great leap forward in terms of democratic decentralisation in Kerala, with the historic decision of the newly constituted government in 1996 to earmark 35- 40 percent of the State Plan outlay for financing the plans at the local level. What it meant in terms of quantum of devolution is worth to recall here – the financial devolution to the local level has increased from Rs.212 crores in 1996-97 to Rs.1025 crores in 1997-98. It is to be noted that around 70 percent of the financial devolution (in absolute terms, it was Rs.749 crores) was in the form of untied grants.

The remaining share of the devolution was in the form of state sponsored schemes.

The fiscal devolution of such a magnitude has happened outside the purview of First State Finance Commission. The context was such that the First State Finance Commission was unable to visualize how to decode the amendments in the legal fiat – 73rd and 74th constitutional amendments – in terms of devolution of functions, functionaries and finance. However, the First SFC dichotomized the recommendations in terms of the traditional functions of the local bodies (prior to 73rd and 74th Amendments) and additional developmental functions assigned to the local bodies after the constitutional amendments.

The traditional (prior-Amendment) functions of the local bodies continued to be financed through channel of the traditional grants (the grants prior to Amendment), tax share as well as own resources of local bodies, while the new developmental function assigned at the local level required new grants in terms of additional Plan and Non-Plan devolution from the state government. The First SFC recommendations were broadly confined to the *traditional* grants (Amendment-prior Non-Plan Grants) and also made some marginal recommendations for "new grants" (ex-post Amendment grants) for maintenance of old assets transferred to the local bodies and new assets created by them. In other words, nothing significant in terms of local level development priorities could have been achieved if the incremental approach adopted by the first SFC was followed.

However, rationalization of the prevailing non-Plan non-statutory grants is yet another major step of First SFC. Around 20 different existing grants of non-Plan non-statutory nature were abolished and in their lieu, one percent of the state revenue was to be distributed between urban and rural local bodies in proportion to their population. This general purpose grant of one percent of the state revenue was to constitute the core of the rural and urban pools proposed by integrating a share of the basic tax and stamp duty.

The First SFC also undertook detailed analysis of requirements related to physical infrastructure, in particular road infrastructure. At normative levels, the Commission identified the revenue gap for the maintenance of roads after taking into consideration the existing grants and the expenditure assigned for maintenance from the own revenue of the local bodies. They recommended that 50 percent of the revenue gap was to be met by funds from CSS and the remaining from the state government. However, ex-post to the submission of report by First SFC was the real democratic decentralisation process in Kerala as mentioned above, with the decision for fiscal devolution – devolution of finance prior to functions in the form of one-third devolution of Plan fund to the local bodies as united grants.

However, it was the second SFC which institutionalized the process of financial devolution. The second SFC reduced the adhocism and arbitrariness in the process of devolution of statutory grants. To quote the second SFC report:

> *"….allocation of 35-40 percent of the Plan funds to the local Plans had a symbolic significance; since it was this move which really gave the big push to decentralisation. Participatory planning has been used as the entry point to make decentralisation genuine. Therefore it is necessary to continue the practice of sharing Plan funds in this ratio, for some more time, until the institutions of local self-government have struck firmer roots."*
>
> *Government of Kerala (2000), Second SFC Report.*

The Second SFC recommended that exclusive of the centre and state sponsored schemes, a minimum threshold of 33.33 percent of the state's plan outlay should be transferred to the local bodies as grants. The Commission also recommended that <u>5.5 percent of the aggregate own tax revenue</u> of the state government would be equivalent to the cost of maintenance of assets under the control of local bodies including the transferred assets. This quantum jump in the non-plan grants specifically assigned for the maintenance of assets was arrived at through an extensive analytical base.

The 'Non-Plan Non-Maintenance Grants' constituted yet another significant category for second SFC recommendations. This new category of Non-Plan fiscal transfers is further trichotamised into the following components:

(a) *"191: Assistance to Local Bodies and Municipalities"* : which meant for meeting the expenditure related to pension scheme for physically and mentally handicapped, destitute pension, agricultural workers pension, old age pension etc.,

(b) "Operational Cost Transfers": which are meant for meeting the operational costs – in particular the salaries and material input costs - of the transferred assets to the local level.

(c) “Assigned and Shared Taxes and Minor Grants: which are the statutory grants received by the local bodies in continuum (even prior to Amendment).

Based on the rationale of transparency and scope for revenue buoyancy, the second SFC recommended a general-purpose grant of 3.5 percent of the aggregate own tax revenue of the state government in lieu of assigned taxes, shared taxes and statutory and non-statutory grants.

The recommendations of third SFC were in continuum to the second SFC. The major digression of third SFC from the former was related to the nuances of quantum of fiscal devolution to local government for (i) the traditional function (ii) maintenance of assets and (iii) developing and expanding services and institutions transferred to local bodies.

The third SFC recommended that during 2006-2007, an amount of Rs. 2050 crore may be transferred to Local Self Governments, as their share of state tax revenues. Out of this amount, Rs. 300 crore will be for expenditure on their traditional functions, Rs. 350 crore for expenditure on maintenance of assets and Rs. 1400 crore for expenditure on developing and expanding services and institutions transferred to them by the state government. During each of the four subsequent years, amounts derived by applying annual growth of ten percent. The total amount to be so transferred during the five years 2006-07 to 2010-11 will be Rs. 12515 crores. The Commission also recommended the *inter-se* distribution pattern that the funds meant for expenditure on traditional functions and maintenance (e.g. Rs. 300 crore and Rs. 350 crore respectively in 2006-07) will be distributed among the local bodies following the same ratios as applied to the distribution of 3.5 percent and 5.5 percent of state tax revenue (final audited figures) recommended by the Second SFC. The funds meant for expenditure on development (eg. Rs.1400 crore in 2006-07) will be distributed among the local bodies, following the ratio applied for distributing plan funds.

Fiscal Devolution to the Local Bodies in Kerala: The Trends

The Second and Third State Finance Commissions have made the fiscal devolution to the local bodies mandatory, despite the resource constraints at the state level for plan financing. The problem related to ‘unfunded mandates’ is hardly the case of local bodies in state of Kerala due to the reversal of sequence of devolution that *finance preceded functions* at local level. The analysis of intertemporal trends in the fiscal devolution to the local bodies showed that over the years, the grants-in-aid has significantly increased from Rs 749 crores in 1997-98 to Rs 1694 crores in 2008-09 (table 3). However, the point to be noted is that there has been huge variations in grants-in-aid as percent of state plan outlay over the period under review. Further, intertemporally, the aggregate grants-in-aid as percentage of state plan outlay has monotonically declined from 33 percent in 2002-03 to 20.96 percent in 2006-07 and a marginal increase to 22 percent in the subsequent two years. Prior to 2002-03, though an increase from 26.23 percent in 1997-98 to around 30 percent in the subsequent three years, only to decline to 28 percent in 2001-02 before it rose again to 33 percent in 2002-03. Overall, the analysis showed a decline in the percent of grants-in-aid as percent of state plan outlay from Ninth FYP period to Tenth FYP period.

Table 3: Distribution (%) and Growth Rate of Plan Grants to Local Bodies

Year	State plan outlay (Rs cr.)	Plan grants-in-aid to local govts. (Rs cr)	% of plan grants to state outlay
1997-98	2855.00	749.00	26.23
1998-99	3100.00	950.00	30.65
1999-00	3250.00	1020.00	31.38
2000-01	3535.00	1045.00	29.56
2001-02	3015.00	850.00	28.19
2002-03	4026.00	1342.00	33.33
2003-04	4430.25	1317.00	29.73
2004-05	4800.00	1350.00	28.13
2005-06	5369.81	1375.00	25.61
2006-07	6680. 62	1400.00	20.96
2007-08	6950.00	1540.00	22.16
2008-09	7700.40	1694.00	22.00

Source: Government of Kerala (2008), *Economic Review.*

The intertemporal analysis also revealed that the proportionate increase in the grants-in-aid to local bodies is less compared to the increase in the size of state plan outlay (table 3). However, the analysis of recent years revealed that annual growth rate of grants-in-aid during FY 06-07 to FY 07-08 as well as FY 07-08 to FY 08-09 has been substantial by 10 percent compared to the corresponding annual growth rate of grants-in-aid during FY 05-06 to FY 06-07 and FY 04-05 to FY 05-06 which was only 1.8 percent (table 4).

Table 4 : Growth Rate of Plan Grants to Local Bodies

Year	Annual growth rate of plan grants-in-aid to local bodies (%)

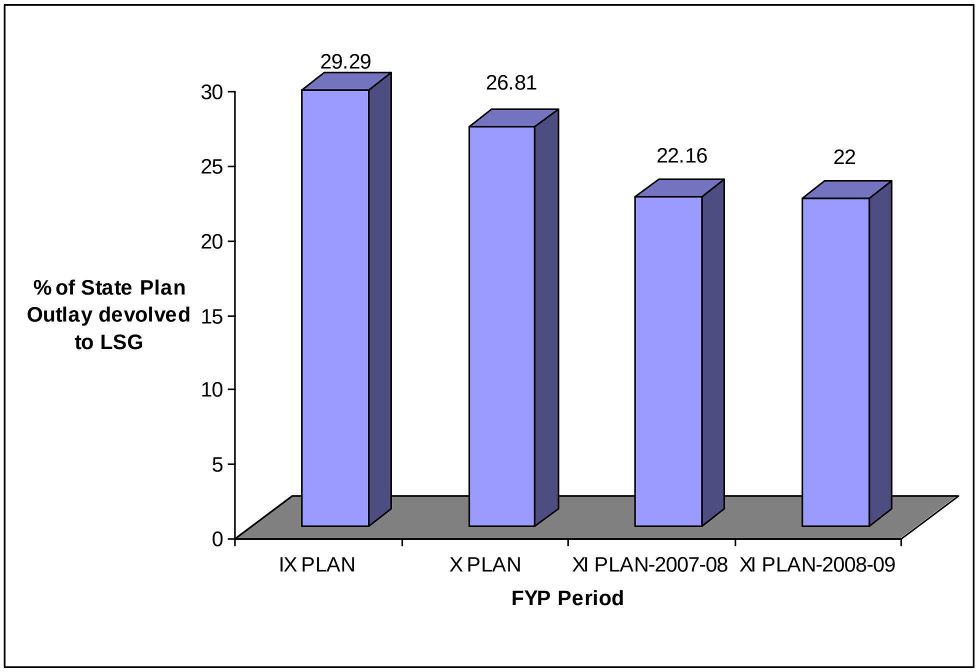
1998-99	26.84
1999-00	7.37
2000-01	2.45
2001-02	-18.66
2002-03	57.88
2003-04	-1.86
2004-05	2.51
2005-06	1.85
2006-07	1.82
2007-08	10.00
2008-09	10.00

Source: (Basic data), Government of Kerala (2008), *Economic Review.*

The trends in financial devolution to the local bodies based on periodisation in terms of Five Year Plans (FYP), it is revealed that there is a monotonic decline in the share of grants-in-aid as percent of state plan outlay from 29.29 percent in the Ninth FYP period to 26.81 percent in Tenth FYP period. In the initial years of Eleventh FYP period, the decline in the share of grants-in-aid for local bodies further plummeted to 22.16 percent in FY 07-08 and 22.00 percent in FY 08-09 (figure 1).

While the fiscal devolution to local bodies in terms of plan grants-in-aid has doubled from Rs 740 crores to Rs 1400 crores over the period under review (table 5), it is to be noted that devolution in the non-plan assistance has increased by almost five times from Rs 177 crores to Rs 1089 crores in same period. The Non-Plan assistance constituted the salary and allowances of the transferred functionaries of various Departments to the local bodies, ex-post to Constitutional Amendments.

Figure 1: Trends in Financial Devolution: FYP Periodisation



Source: *Ibid.*

Table 5: Financial Devolution to LSG: Plan Grants, Centrally Sponsored and State Sponsored Schemes and Non-Plan Assistance to LSG (in Absolute terms)

(Rs cr.)

Year	Grant-in-aid to local bodies (i)	CSS (state share) and other state schemes (ii)	Non plan transfers (iii)	Total (i) + (ii) + (iii)
1997-98	749	362	177	1288
1998-99	950	227	229	1406
1999-00	1020	123	243	1386
2000-01	1045	97	253	1395
2001-02	850	121	265	1236
2002-03	1342	34	351	1727
2003-04	1317	117	326	1760
2004-05	1350	114	294	1758
2005-06	1375	198	1015	2588

2006-07	1400	277	1089	2766

Source: *Ibid*.

The effect of this large scale fiscal devolution to local bodies on the State Finances has been tremendous, especially since 2006-07 in the backdrop of the substantial increase in the non plan revenue expenditure due to the pay revision and payment of welfare arrears. It is interesting to recall here a specific issue relates to the transition process in the quantum of devolution which happened over the three State Finance Commissions of Kerala. The experiment in democratic decentralization envisioned a transfer of around a third of the plan funds to the Local Self-Governing Institutions during the Ninth Plan period, which was outside the purview of first SFC. The second SFC has tried to institutionalize the ongoing plan devolution and given it statutory basis. However, when the plan outlays got squeezed during the Tenth Plan, which led to a corresponding squeeze on devolutions to the local bodies, the third SFC stipulated absolute amounts that had to be devolved each year to the local bodies (devolution to grow annually at the rate of 10 percent) in addition to the maintenance and other local grants. This recommendation of the Third SFC had effectively reduced the share of local bodies' plan grant-in-aid from the total plan outlay from 33 percent (in FY 02-03) recommended by the Second SFC to 22 percent (in FY 08-09).

The trends in specific purpose grants (the Centrally Sponsored and State Sponsored Schemes) showed that it has increased in quantum terms from Rs 34 crores in FY 02-03 to Rs 117 crores the subsequent year and then further rose to Rs 277 crores in 2006-07. The trends of increase in the proportion of specific purpose grants in the fiscal devolution pool of local bodies through CSS may reduce the flexibility of finance at the local level.

Inter-Local Distribution of Development Funds

The distribution of devolved development funds across local bodies revealed that out of total devolution in FY 07-08, funds devolution of rural local bodies constituted 84.69 percent while urban bodies constituted the rest 15.31 percent. The Gram Panchayats alone received 55.95 percent of the total funds devolved, in the period under review.

Table 6: Distribution (%) of Development Funds by Rural and Urban Local Bodies (in %): FY 07-08

Sectors	Rural	Urban

	District panchayats (i)	Block panchayats (ii)	Gram panchayats (iii)	Total (i)+(ii)+(iii)	Corporations (iv)	Municipalities (v)	Total (iv) +(v)
Productive	15.98	12.36	65.85	94.19	2.24	3.57	5.81
Service	17.28	11.39	53.82	82.49	8.70	8.81	17.51
Infrastructure	12.88	12.63	49.33	74.84	9.03	16.13	25.16
Others	7.65	23.98	55.16	86.79	6.71	6.50	13.21
Total	14.80	13.94	55.95	84.69	7.09	8.22	15.31

Source: *Ibid*.

The sectoral disaggregation revealed that in the productive sector, 94.19 percent of development funds went to rural local bodies, within which Gram Panchayats received 65.85 percent in FY 07-08 (see table 6). This share is marginally higher than that of devolution in service and infrastructure sectors. In the service sector, while the urban local bodies received 17.51 percent of development funds (around 9 percent each for corporations and municipalities), the rural local bodies received 82.49 percent (table 6). The urban local bodies received relatively higher share of development funds in infrastructure as compared to their share of development funds in other sectors.

Table 7: Sector-wise Share of Development Funds at Local Level

	2006-07	2007-08
Productive	19	20
Service	56	50
Infrastructure	18	12
Others	7	18
Total	100	100

Source: *Ibid.*

The sector-wise share of development funds at the local level revealed that earmarking was highest in service sector (50 percent) followed by productive sector (20 percent) in FY 07-08. The allocation in infrastructure has reduced from 18 percent in FY 06-07 to 12 percent in FY 07-08.

Utilization Pattern of Development Funds at the Local Level

The utilization pattern of development funds at the local level revealed that utilization ratio (expenditure/allocation ratio) was only around

80 percent at the aggregate level. Sectoral disaggregation of E/A ratio showed that the utilization was lowest in productive sector (74.32 percent).

The rural-urban disaggregation further revealed that utilization of development funds varied across local bodies. For instance, the utilization of development funds was the lowest in Gram Panchayats (which was only 46.41 percent) in infrastructure sector. Among the rural local bodies, the utilization of funds was comparatively better at Block Panchayats in all sectors except for productive sector.

Table 8: Sectoral Utilization (E/A) Ratio of Devolved Development Funds: FY 07-08

Sectors	Rural			Urban		Total
	District panchayats	Block panchayats	Gram panchayats	Corporations	Municipalities	
Productive	76.87	73.48	74.01	70.02	74.13	74.32
Service	77.23	82.61	78.53	79.41	79.1	78.90
Infrastructure	67.11	81.42	46.41	77.86	82.82	77.01
Others	97.54	96.48	92.14	99.61	92.04	94.09
Total	77.94	85.02	79.58	81.92	81.33	80.41

Source: *Ibid.*

Table 9: Utilization Ratio of Development Funds at Local level: Intersectoral Disaggregated Analysis: FY 07-08

Sectors	Allocation (Rs in lakhs)	Expenditure (Rs in lakhs)	A/E ratio (Fiscal Marksmanship)
PRODUCTIVE SECTOR			
Agriculture and allied sectors	19213.76	15170.1	78.95
Soil & water conservation, irrigation	8382.72	5271.4	62.88
Industries	6770.24	5115.44	75.56
Environment	219.18	146.49	66.84
Total	**34585.9**	**25703.43**	**74.32**
SERVICE SECTOR			
Education, culture, arts, youth welfare and sports	8643.26	7665.40	88.7
Health and allied services	10234.12	7854.56	76.7

Social welfare	61581.59	47887.46	77.8
Women and children development	3090.06	2337.78	75.7
Labour and labour welfare	290.26	233.22	80.3
General economic services	2402.70	2062.89	85.9
Total	**86241.99**	**68041.31**	**78.9**
INFRASTRUCTURE SECTOR			
Energy	1534.78	1369.86	89.3
Transportation	1782.84	13061.07	75.6
Public building	1667.65	1344.66	80.6
Total	**20485.27**	**15775.59**	**77.0**

Source: *Ibid*.

The intersectoral disaggregated analysis revealed that within productive sector, the utilization of funds related to soil and water conservation including irrigation was the lowest (62.88 percent). The service sector disaggregation showed that the utilization ratio of development funds for health, women and child development and social welfare was as low as 76-77 percent. No sector has utilization ratio close to 100 percent; or even above 90 percent. The broad inference thus is the poor utilization of funds at the local level. Higher devolution to local bodies *per se* does not ensure higher expenditure at local level. The reasons for the significant deviation between allocation and expenditure across sectors (between sectors and within sectors) need further analysis.

Human Development Components of Devolution

The disaggregation of specific sector plans and projects unraveled the human development components of devolution; viz., women component plan, allocation for aged, children and disabled, anti poverty sub plan component and nutrition programme. Akshaya, Ashraya.

The distribution of specific sector plans and projects at local level revealed that Anti Poverty Sub Plan is the single largest element in specific sectoral plans (48.93 percent) followed by women component plan (19.29 percent).

Table 10: Distribution (%) of Specific Sector Plans and Projects at Local level: FY 07-08

Women component plan	19.29
Aged	3.50
Children	6.96
Disabled	2.56

Anti poverty sub plan	48.93
Ashraya	3.20
Solid waste management	1.50
Slum development	2.11
Akshaya	1.12
Nutrition programme	10.82
Total	100 (114517.03 cr)

Source: *Ibid.*

Table 11: Utilization Ratio of Development Funds (Specific Sector Plans & Projects) at Local Level : FY 07-08

	District panchayat	**Block panchayat**	**Gram panchayat**	**Corporations**	**Municipalities**
	%				
Women component plan	78.39	88.41	76.60	78.65	72.79
Aged	59.72	80.43	83.40	76.00	87.20
Children	62.53	93.13	92.70	98.17	93.65
Disabled	84.68	83.27	77.59	95.52	83.35
Anti poverty sub plan	79.87	88.89	78.94	69.92	36.33
Ashraya	96.11	91.40	81.65	98.51	83.35
Solid waste management	0.00	46.34	47.52	83.01	49.39
Slum development	0.00	0.00	75.09	8.16	0.00
Akshaya	100.00	99.81	97.98	98.85	99.56
Nutrition programme	0.00	99.36	99.16	99.33	97.82
Total	**78.81**	**90.15**	**82.38**	**68.20**	**66.71**

Source: *Ibid.*

However, as mentioned the fund utilization ratio remains a major concern and it is lowest in case of *Gram Panchayats* in many of the schemes. However, if we look at the overall development funds utilization ratio, it is 82.38 percent for *panchayats* which lower than that of district panchayats but higher than the block panchayats. In case of corporations and municipalities the fund utilization ratio is even lower.

As women component Plan has a large share in the local plan it is important to understand and examine the women component plan in detail and the human development component of the plan. Although CSS forms a predominant portion of the Plan, in social sector women development programme has the second highest share after the Swarna Jayanti Shahari Rozgar Yojana.

Apart from the development functions and WCP, the feminization of governance at the third tier could change the types of public expenditure at local level more corresponding to the revealed preferences (‘voice’) by women. A MIT study by Chattopadhyay and Duflo (2001) has measured the impact of feminization of governance at local level on the outcomes of decentralisation with data collected from a survey of all investments in local public goods made by the village councils in one district in West Bengal. They found that women leaders of village councils invest more in infrastructure that is relevant to the needs of rural women, like drinking water, fuel and roads, and that village women are more likely to participate in the policymaking process if the leader of their village council is a woman. Thus placing women in leadership position in governance at the local level can change the expenditure decisions of the local bodies and in turn changes the types of public good investments at local level more corresponding to the revealed preferences (‘voice’) by women (Stern, 2002). The study however has confronted a few criticisms. Bardhan (2002) noted that without direct evidence on the nature of women’s preferences relative to men’s and since women’s reservation in the leadership positions in local government was not linked to the distribution of women in the village, this study does not quite address how local democracy affects the underrepresented groups in the village to implement their desired outcomes.

However, the process of democratic decentralization in Kerala has contributed significantly in feminization of governance at local level. Table 12 gives a distribution of the elected representatives in the Local Bodies in Kerala for 1997. It shows the distribution of elected representatives disaggregated by gender and class in the local level bodies. Out of the 14173 elected representatives, of whom 75 percent belonged to the Gram Panchayats, 5078 were women representatives. This constitutes almost 36 percent of the total elected representatives. At the Gram Panchayat level also the percentage of women representatives is 36 percent approximately.

Table 12: Distribution of elected representatives of local bodies in Kerala, 1997

(%)

Type of local	Number	Number of representatives

bodies	of local bodies	Male	Female	Total	SC	ST
Gram panchayat	990	6842 (63.8)	3878 (36.2)	10720 (100)	981 (9.1)	96 (0.9)
Block panchayat	152	1002 (64.9)	541 (35.1)	1543 (100)	147 (9.5)	11 (0.7)
District panchayat	14	196 (65.3)	104 (34.7)	300 (100)	18 (6.0)	3 (0.1)
Municipalities	58	1055 (65.3)	555 (34.7)	1610 (100)	78 (4.8)	3 (0.0)
Total	1214	9095 (64.2)	5078 (35.8)	14173 (100)	1224 (8.6)	113 (0.08)

Source: Reproduced from Chakraborty, 2007.

There is also growing recognition that fiscal policy can redress intrahousehold inequalities in terms of household division of labor by supporting initiatives that reduce the time allocation of women in unpaid work. Examples of such government intervention are improved infrastructure in water sector, rural electrification, sanitation services and better transport infrastructure. The public infrastructure deficit in rural areas may enhance rural poverty due to the time allocation across gender skewed towards unpaid work, which is otherwise available for income-earning market economy activities. The women component plan of Kerala does indicate allocations in some of these sectors, which may have long run benefit in terms of time use and household division of labour and thereby human development through greater involvement of women in paid economic activity (see table 13).

Table 13: Utilization Pattern of Women Component Plan

(in Rs '000)

		Actual	Anticipated expenditure		Proposed outlay
		2005-06	**2006-07**	**2007-08**	**2008-09**
I	**Agriculture and Allied Activities**	**402.00**	**353.10**	**91.30**	**96.00**
1	Women Development Programme under Macro management Mode (SS 10%)	36.50	30.00	0.00	5.00
2	Participatory Development Model of KHDP/VFPCK merged	120.00	120.00	18.00	18.00
3	Poultry Farms and Expansion of Poultry Production	82.50	40.00	23.00	23.00
4	Support to Training & Employment of Women (STEP) (SS 10 %)	0.00	0.00	15.30	10.00
5	Assistance to Women Groups for Milk Products Manufacturing and Marketing	75.00	33.10	0.00	0.00
6	Self Help Groups for Fisherwomen/Micro enterprises	80.00	100.00	5.00	10.00
7	Miscellaneous Co-operatives Assistance to Women Co-operative Societies	8.00	30.00	30.00	30.00
II	**Rural Development**	**11444.61**	**3938.20**	**3457.60**	**2431.00**
8	SGSY	1366.00	515.20	257.60	320.00
9	IAY	4721.53	2667.00	1000.00	1451.00

10	SGRY	5357.08	756.00	2200.00	660.00
III	**Industry and Minerals**	**384.09**	**408.50**	**606.00**	**211.00**
11	Seed capital loan to Small Scale Entrepreneurs [a]	149.00	100.00	10.00	30.00
12	Infrastructure Development	27.00	10.00	0.00	0.00
13	Intensive Industrialisation Programme	24.00	24.00	12.00	10.00
14	Development of Women Enterprises	0.00	0.00	0.00	0.00
15	Handicrafts	43.00	48.00	10.00	20.00
16	Coir Industry	87.09	171.50	215.00	108.00
17	Khadi and Village Industry	26.00	30.00	189.00	13.00
18	Sericulture	28.00	25.00	20.00	30.00
19	Cashew Industry [b]	0.00	0.00	150.00	0.00
IV	**Social Services**	**1139.73**	**675.00**	**681.00**	**928.00**
20	Swarna Jayanthi Shahari Rozgar Yojana	69.27	300.00	300.00	300.00
21	Welfare to SC/ST : Assistance to marriage of SC/ST girls	12.10	70.00	185.00	260.00
22	Kerala State Women Development Corporation	120.00	170.00	119.00	150.00
23	Women Development Programme	47.85	60.00	42.00	80.00
24	Kerala Women's Commission	19.19	25.00	18.00	70.00
25	Development of Anganwadi Centres as Community Research Centre-A lifecycle Approach	871.32	50.00	17.00	68.00
V	**WCP to local bodies [c]**	**9847.73**	**14000.00**	**17900.00**	**18774.50**
	TOTAL WCP	**23218.16**	**19374.80**	**22735.90**	**22440.50**
	TOTAL PLAN	**387843.31**	**621000.00**	**695000.00**	**760547.00**
	Share of WCP in Total Plan Budget	**5.99**	**3.12**	**3.27**	**2.95**
	WCP Excluding CSS under Rural Development	11773.55	15436.60	19278.30	20009.50
	Total Plan Outlay Excluding CCS Under Rural Development	376398.7	617061.8	691542.4	758116.0
	Ratio of WCP in total plan excluding CSS under Rural Development	**3.1**	**2.5**	**2.8**	**2.6**

Source: Plan Documents (Various years), State Planning Board, Kerala

Note: [a] Of the total number of 193302 SSI units in Kerala as on 31.3.2006, 40495 units by women entrepreneurs. page 173, volume 1, Annual Plan 2007-08 [i.e. 21 percent units are women-run]. (B). Out of total outlay 7000, Tenth Plan allotted 1400 for women-run enterprises. , page 307, Annual Plan 2007-08, page 307). [i.e., 20 percent of allocation]; [b] No WC in Tenth Plan for Cashew Industry; [c] Local Body WCP is 10% of Local Plan Assistance

To summarise, decentralized planning, pioneered by Kerala, marks a point of departure for the country as a whole. It has made the composition of plan projects much more attuned to the wishes of the people. And even though it may not have noticeably achieved the required results, it has perhaps had a favourable impact. However it is too early to comment on the impact of such decentralization. One needs to analyse the plan structure and the nature of spending at the local level to the outcome achieved through these spendings.

However while the vision of Kerala remains to be one of people's planning from below, yet one has to examine that aspect in this plan. In the earlier experiences, the LSGIs have remained essentially as users of funds devolved from the state government, rather than planners in their own right. Though the process of decentralization has taken deep roots in Kerala, but lower fund utilization ratio remains a major challenge. It has been observed that one of the major reasons is the lack of submission of proper accounts in time. The second is the tendency of the LSGIs to simply replicate small local projects. The vigour of decentralized planning should show itself in imaginative schemes where more than one panchayat come together to implement supra-panchayat level projects. In such a case there would be a plethora of schemes, local schemes, supra-local schemes, and even more ambitious schemes, all planned from below. This unfortunately has not yet happened on issue that remain a concern for the planners and the scholars of Kerala.[13]

[13] For a more interesting discussion on this issue of local level planning refer to Issac and Tharakan (1995).

Chapter VI

Fiscal Policy, Gender & Human Development

As mentioned earlier, one of the major concerns of Kerala's human development is the status of women. Despite high levels of human development, the status of women is not very different from the rest of the country in terms of their social and economic participation. The immediate question is can fiscal policy play any role in bringing gender equality in development. It is well known that gender budgeting is emerging as a significant socio-economic tool to analyze the budgetary policies to identify its effect on gender equality and development and Government of Kerala also has taken steps to institutionalize gender budgeting in the state. In this chapter we discuss in detail the pro-gender fiscal policy of the government of Kerala and its implications for human development.

Analysis of gender budgeting is neither making separate budgets for women nor an analysis of the earmarking of funds for programmes exclusively targeted for women in budgets. It is an analysis of the entire budget through a gender lens to identify the gender differential impacts and to translate gender commitments into budgetary commitments. It enhances the transparency of and accountability for public expenditure. Prima facie budget appears to be gender neutral. But the budgetary policies have differential impacts across gender due to the differences in the socially determined systemic roles played by man and woman. In other words, *gender neutrality* of budgetary policies can turn to *gender blindness* due to the fact that the man and woman are at asymmetric levels of development in the socio-economic scale and that can lead to unequal human development.

Backdrop of Gender Responsive Fiscal Policy in Kerala

In the Budget Speech 2006, the Finance Minister, Government of Kerala has announced that the Government shall be entrusting the work of state level gender audit to the 'Research Unit on Local Self Governments' set up at the Centre for Development Studies. Against this backdrop, CDS has prepared the first report on 'Gender Sensitive Budget Auditing of Kerala State Budget 2006-07' and submitted last year (Eapen Report, 2007). Eapen report (2007) has analyzed the Kerala State Budget 2006-07 through a gender lens, and identified the plausible gender related public expenditure allocations and suggested policy suggestions.

The second in the series was prepared by CDS for the subsequent Kerala State Budget, 2007-08 (Chakraborty Report, 2008). Chakraborty Report (2008) not only attempts an ex-post analysis of Kerala State Budget 2007-08 through a gender lens, it also provides policy recommendations for institutionalizing the gender budgeting at Ministry of Finance, Government of Kerala.

The analytical framework for the process of institutionalization of gender budgeting is deliberated in Chakraborty report (2008) in tantamount with the pioneering efforts at the national level. At the national level, gender budgeting has been institutionalized in India since 2005-06. Against the backdrop of the recommendations by the Expert Group on '*Classification of Budgetary Transactions'*, Government of India, the Finance Minister has introduced a **Statement on Gender Budgeting** in the Union Budget 2005-06, covering 10 *demands for grants* highlighting the gender sensitivities of budgetary allocations (Statement 19, Expenditure Budget (Vol. I)). Over the years, statement has been enlarged to include over 50 *demands for grants* (Statement 20, Expenditure Budget (Vol. I) in 2009-10.

In a three-tier federal set up, an ideal way of conducting gender-sensitive analysis of budgets is to analyse the expenditure and revenue policies of all the three levels of government at the centre, states and local bodies. In the backdrop of democratic decentralization, Kerala has been a pioneer state in India in moving towards gender responsive planning and budgeting at local level. The simultaneous occurrence of *feminization* of political governance at the third tier along with the *Women's Component Plan* (WCP) by earmarking 10 percent of State's Plan Outlay created a new fiscal space to incorporate gender in public expenditure decisions. However, the WCP covers only the plan expenditure of the Government and thus partial. The concept of gender budgeting for analyzing the whole budgetary process through a gender lens (rather than a partial confinement to WCP alone) gathered momentum in Kerala only since 2006-07.

Rationale for Gender Budgeting

Given the limited scope of *trickledown effects* of economic growth-promoting strategies, the role of fiscal policy stance in gender sensitive human development proceeds from market failures of one kind or another. Fiscal policy stance, is a key policy instrument to ensure human development and in particular gender development, which rest on the fact that the functioning of the market cannot, by itself, activate the signaling, response and mobility of economic agents to achieve efficiency in both static (allocative efficiency) and dynamic (shift in the production frontier) terms. This is all the more relevant at the subnational levels of fiscal policy stance, where as the provisioning of *merit goods* like education and health are vested with. The rubric of gender budgeting in this chapter owes its roots to these analytics.

Technically, the process of gender budgeting involves threefold procedure. First, an analytical matrix is developed to analyze the gender intensity of existing budgetary allocations; second, whether these budgetary allocations being translated into specific results and outcomes that can be traced; and third, necessary modifications being made in budgeting classification and procedures to accommodate the changes, if any. This process assumes a cross-sectoral policy dimension, which requires specific budgetary tools for gender mainstreaming; and monitor and quantify the desired outcome in terms of gender. This process also transcends the national level to subnational levels, especially in the context of growing fiscal autonomy at the local level across Asian countries with effective feminization of women in governance at lower levels. The gamut of gender budgeting experiences across Asian nations reveal that it ranges from apportioning a specific percent of budgetary allocations for women; building budgets from below ex-post to identifying the local needs to attempts to change the budgetary accounting classification to mainstream gender in budgets. Gender auditing has also been on board across countries.

Integrating gender perspective into budgetary policy has dual dimensions: an equality dimension and an efficiency dimension. Apart from the basic principle of promoting equality among citizens, gender equality can benefit the economy through efficiency gains. From the *efficiency* consideration, what is important is the social rate of return of investment in women, and in cases, this can be greater than the corresponding rate for men. There is a growing awareness that *gender inequality is inefficient* and costly to development.[14]

[14] Empirical literature draws attention to these efficiency dimensions of integrating gender perspective into macroeconomic policies. For example, the striking *good mother thesis* noted that women tend to have a higher marginal propensity to spend than men on goods that enhance the capabilities of children. Evidence suggests that the likelihood of children being enrolled in school goes up with their mother's educational level, and the mother's extra income has more positive impact on household investments in nutrition, health and education of children than extra income accruing to fathers. Also, literature on gender inequality in the labour market shows that eliminating gender discrimination in

Analysis of gender sensitive budget auditing does not assume that there is deliberate gender bias intrinsic to the formulation of budgets. However, as women and men are at the asymmetric levels of socio-economic development, the existing gender neutrality of budgets can lead to many unintentional negative consequences and this gender neutrality of budgets can in turn translate into gender blindness. Considering this, it is time that one of the highest policy making authorities in the state provide a clear indication that they care for it and what Ministry of Finance can do to redress this acute capability deprivation.

Can all public expenditure be gender partitioned? While it is a debate whether public goods and services - which are non-rival and non-excludable in nature- like defense be amenable to gender partitioning, many other public expenditure have differential impact on the two sexes. It is all the more relevant to note that the issues of non-rival and non-excludable is an issue not just for gender, but also for other disadvantaged sections of the population like aboriginals/tribals, dalits that cannot be segregated on a 'geographic area' basis. On the other hand, immunisation has a public good aspect, but can be segregated individually-girls and boys immunised. In the same sense, poverty alleviation services may also have the characteristics as a public good. It is generally held that all or most individuals across countries derive utility from less poverty; in that sense, benefits from poverty alleviation expenditure are fully non-excludable and non-rival, with gender differential impacts. Yet another point to be noted is that the public expenditure on infrastructure such as roads, irrigation, energy, water and sanitation, science and technology etc has intrinsic gender dimensions. It is important to examine the infrastructure budgets such as energy, technology and transport that are assumed to be "gender-neutral". An analysis of infrastructure budgets not only reveals the differing needs of and constraints on women's and men's lives and productive roles, but would also help to reveal the inefficiency of existing allocations which may not be adequately reaching the women and men. An IFPRI study showed that public expenditure on road infrastructure has the largest impact on poverty reduction.[15] This generates debate on 'specifically targeted programmes for poor' versus 'infrastructure programmes'; particularly in terms of gender responsive budgeting. However, it is to be noted that women have *practical needs*

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occupation and wages could increase not only women's income, but also national income.

[15] Fan, Hazell and Thorat (1999)

and *strategic needs.*[16] Investment in infrastructure can catalyze the fulfilment of *practical needs* of women; however specifically targeted programmes for women are required for addressing the *strategic needs* of women.

Yet another example is that the outlays for augmenting the supply of safe drinking water can benefit women more than men in the *care economy* by cutting down on the time spent in fetching water from the river or ponds. The existing practice of budgeting across countries may not pay any special attention to the impact of budgets on women in the *care economy*.

The Systems of National Accounts (SNA) 1993 recognises unpaid work in the care economy as 'productive' and as 'work', however kept outside the purview of calculations of GDP and kept as satellite accounts. The point to be noted is that despite the recognition of care economy by SNA 1993, the policy makers and economists have not yet satisfactorily integrated care economy into macro policy planning. In many ways, the government budgets are 'subsidised' by unpaid care economy work. For instance, when government cuts back public expenditure on health, it is women (care givers) in households who bear the brunt of it. Yet another example is that to cope with the increasing demand for services generated by HIV/AIDS, many countries are opting for Home-based Care systems, where voluntary or low paid care givers provide care to the patients rather than them being cared for in hospitals. This can reduce the public expenditure on health to considerable amount. However, the point to be noted is that when a public expenditure policy on health is designed in any country, the policy makers take into consideration only the 'users' of health services, not the health providers (the care givers at household level). The implications of this example on gender budgeting are tremendous.

Last, but not the least, the case for gender budgeting is based on the premise to ensure transparency in the budgetary allocation for women and it protects these provisions from reappropriation and thereby

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[16] *Practical gender needs* do not entail to the strategic goal such as women's emancipation or gender equality. Practical gender needs include food, shelter, community-level requirements of basic services or basic infrastructure like roads, water and sanitation etc, which are required by all the family, not the women alone. *Strategic gender needs* are identified to overcome women's subordination, which in turn depends on particular cultural and socio-political context. Strategic needs include abolition of sexual division of labour, alleviation of the burden of domestic labour, child care, removal of institutional forms of discrimination such as rights to own land or property, access to credit, measures against domestic violence, establishment of political equality etc.

enhances accountability ('voice'). The degree of accountability ('voice') in integrating gender in a federal fiscal setup is based on dual conjecture. First, the accountability of subnational government to higher tier of government and second, to the electorate. The former limits the latter, especially in cases where financial decisions are centralized, but the provision of public goods is decentralized. The dichotomy of finance from functional assignment can lead to inefficiencies, the most oft-cited problem being of *unfunded mandates*. On the other hand, the real autonomy of the feminisation of governance - Elected Women Representatives (EWR) - in playing a crucial role in integrating gender specific needs in the fiscal policies and their accountability to the electorate gets constrained if the flow of funds is through *deconcentrated* intermediate levels with accountability to the Central government. However, fiscal policy in a federal setting promotes government accountability, particularly in geographically or demographically large nations (Stern, 2002). However, the phenomenon of 'elite capture' can lead to aberrations in 'voice'.

Specifically Targeted Expenditure on Women

The public expenditure analysis of Kerala through a gender lens revealed that only fifteen Ministries/Departments have specifically targeted programmes for women in Kerala.[17] Moreover, Government of Kerala does not have a separate Department for Women with specific budgetary allocations for women as in the case of Central government. The specifically targeted programmes are spreaded across the expenditure budgets under the demand for grants for Police; Education, Sports, Arts and Culture; Medical and Public Health; Family Welfare; Housing; Labour and Labour Welfare; Social Welfare including SC/ST/OBC; Cooperation; Agriculture; Food; Animal Husbandry; Dairy; Fisheries; Community Development and Industries. The aggregate figures of specifically targeted programmes across these Ministries/Departments are given in table 1.

The problem of proliferation of *too many programs with too little money* for gender related allocations continued over the years. Despite the proliferation of women specific programmes at around 50 schemes spreaded across fifteen Ministries/ Departments, it is surprising to note

[17] Gender sensitive budget auditing begins with the identification of three categories of public expenditure: (i) specifically targeted expenditure to women and girls (100 per cent targeted for women), (ii) pro-women allocations; which are the composite expenditure schemes with a women component (that is, a scale of 100> exp. ≥ 30; at least 30 per cent targeted for women) and (iii) residual public expenditures that have gender-differential impacts (that is, a scale of 0 ≥ exp. > 30).

that the amount allotted to specifically targeted programmes for women in Kerala State Budget 2007-08 is Rs 343 crores, which is only 1.19 percent of total public expenditure of Kerala (Rs 28871 crores). However, it constituted 3.10 percent of total public expenditure of the identified 15 Ministries/ Departments of the same year (Rs 11065.78 crores). In the year 2008-09, the specifically targeted programmes for women (Rs 325.15 crores) constituted 1.03 percent of total budgetary allocation in Kerala. In terms of only Plan Outlay, the allocation for specifically targeted programmes for women constituted 5.42 percent of Plan outlay (Rs 6005.63 crores).

Table 1: Budgetary Allocation for Specifically Targeted Programmes for Women: Ministry/Department-wise Aggregates

(in Rs crores)

Demand No.	**Dept/Ministry**	**2005-06**	**2006-07**	**2006-07**	**2007-08**	**2008-09**
GENERAL SERVICES						
XII	General services (Demand XII-police)	0.00	0.00	0.00	0.25	0.11
SOCIAL SERVICES						
XVII	Education, sports, art & culture	6.11	8.09	9.09	8.40	1.30
XVIII	Medical and public health	12.27	20.87	23.54	13.93	7.40
XIX	Family welfare	18.29	40.65	40.65	48.13	42.26
XXI	Housing	0.00	0.46	0.46	0.63	0.00
XXIV	Labour and labour welfare	0.46	0.69	0.69	0.79	3.60
XXV	Social welfare incl. SC/ST/OBC	109.06	134.56	145.57	236.78	205.02
XXVII	Co-operation	0.29	2.50	2.50	0.50	0.60
ECONOMIC SERVICES						
XXIX	Agriculture	2.86	3.00	3.00	0.00	0.50
XXX	Food	0.15	0.35	0.35	0.61	0.00
XXXI	Animal husbandry	0.00	0.77	0.77	1.53	3.50
XXXII	Dairy	0.75	0.33	0.33	0.10	0.00
XXXIII	Fisheries	0.80	1.15	0.86	0.20	0.10
XXXVI	Community development	50.00	60.49	60.49	25.02	58.81
XXXVII	Industries	4.27	4.12	4.12	6.00	1.95
	Total	**205.30**	**278.02**	**292.41**	**342.87**	**325.38**

Source: *Ibid.*

Categorizing the gender specific allocations into general, social services and economic services, it is revealed that social services constitute the significant share of allocations and the share has been increasing over the years, from around 70 percent in 2005-06 to 90 percent in 2007-08 and further declined to 80.02 percent in 2008-09. However, the share of economic services in specifically targeted programmes for women has been declining from 27 percent in 2006-07 to less than 10 percent in 2007-08 and then increased to 20 percent in 2008-09, while the share of general services has been negligible (table 2).

Table 2: Categorizing the Gender Specific Allocations: Specifically Targeted Programmes

Expenditure category	2005-06	2006-07	2006-07	2007-08	2008-09
General services	0.00	0.00	0.00	0.07	0.03
Social services	72.74	75.83	77.12	90.17	80.02
Economic services	27.26	24.17	22.89	9.76	19.95
Total	100.00	100.00	100.00	100.00	100.00

Source: (Basic Data), *Budget Documents,* Government of Kerala, 2007-08 and 2008-09.

The budgetary allocation of these identified fifteen departments constitutes 4 percent of total expenditure of the state. The percent of aggregate budgetary outlay for specifically targeted programmes for women in total allocation of identified fifteen sectors in 2007-08 is marginally higher than the revised estimates of 2006-07 at 2.79 percent; but much higher than the budgetary allocation of 2005-06 at 0.21 percent (table 3). However, analysis revealed that prima facie gender neutral demands like Police (Demand XII), Co-operation (Demand XXVII) and Industries (Demand XXXVII) also have gender specific allocations.

Table 3: Distribution (%) of Budgetary Allocation for Specifically Targeted Programmes for Women in Total Budget of Each Ministry/Department

Demand No.	% Share	2005-06 (Accounts)	2006-07 (BE)	2006-07 (RE)	2007-08 (BE)
XII	Police	0.00	0.00	0.00	0.03
XVII	Education, sports, art and	0.17	0.16	0.18	0.15

	culture				
XVIII	Medical and public health	1.36	1.61	1.78	1.10
XIX	Family welfare	17.18	35.66	35.66	32.09
XXI	Housing	0.00	0.66	0.65	1.29
XXIV	Labour and labour welfare	0.31	0.46	0.45	0.47
XXV	Social welfare incl. SC/ST/OBC	15.33	13.73	14.08	21.26
XXVII	Co-operation	0.15	3.02	2.95	0.58
XXIX	Agriculture	0.56	0.41	0.38	0.00
XXX	Food	0.24	0.23	0.21	0.66
XXXI	Animal husbandry	0.00	0.51	0.51	0.94
XXXII	Dairy	3.71	1.25	0.93	0.34
XXXIII	Fisheries	1.31	1.05	0.76	0.18
XXXVI	Community development	27.52	21.41	22.68	11.09
XXXVII	Industries	1.71	1.32	1.10	2.73
	Total (15 demands)	0.21	2.59	2.79	3.00

Source: Chakraborty (2008).

Among the fifteen identified Demands, Family Welfare (Demand XIX), Social Welfare (Demand XXV) and Community Development (Demand XXXVI) have relatively greater share for specifically targeted programmes for women than other sectors. Within Family Welfare, the allocation for Rural Family Welfare Centres and Postpartum Centres constitute around 70 percent of total allocation of specifically targeted programmes of this Department in the last two years. Within Social Welfare, the allocation of centrally sponsored schemes (CSS) has been much more than the state-specific schemes. The total allocation of CSS within social welfare constitutes 80 percent of total specifically targeted programmes for women; wherein ICDS forms the major chunk. Within Community Development, Kudumbasree is the only identified specifically targeted programme for women; and the point to be noted here is the decreasing share of the allocation for Kudumbasree from 27.52 percent of total allocation of Community Development budget in 2005-06 to 22.68 percent in 2006-07(RE) and further to 11.09 percent in 2007-08 (BE). (see table 3).

No significant deviation between the budget estimates and the revised estimates has been noted in general. The deviation of RE from BE, broadly measured through the ratio of RE to BE across sectors are reported in table 4.

Table 4: Deviation of Revised Estimates (RE) from Budget Estimates (BE): Specifically Targeted Programmes for Women , 2006-07

		RE/BE
XVII	Education, Sports, Art and Culture	1.12

XVIII	Medical and Public Health	1.13
XIX	Family Welfare	1.00
XXI	Housing	1.00
XXIV	Labour and Labour Welfare	1.00
XXV	Social Welfare incl. SC/ST/OBC	1.08
XXVII	Co-operation	1.00
XXIX	Agriculture	1.00
XXX	Food	1.01
XXXI	Animal Husbandry	1.00
XXXII	Dairy	1.00
XXXIII	Fisheries	0.75
XXXVI	Community Development	1.00
XXXVII	Industries	1.00

Source: *Ibid*.

Note: No specifically targeted programme for women is reported for Police in 2006-07, hence excluded.

The significant deviation of revised estimates from the budget estimates is noted only for fisheries sector, in turn due to the decline in the allocation from BE to RE for Self Help Group for Fisherwomen and Micro Enterprises. The sectors of education, health, social welfare and food showed an increase in allocation in RE when compared to BE.

Public Expenditure with Pro-Women Allocations

Public expenditure with pro-women allocations refer to those public expenditure schemes with intrinsic gender allocations with at least 30 percent, though not exclusively targeted for women. Prima facie, it is difficult to identify these pro-women shares from Budget documents. Union Budget of Government of India began to provide the information of this category of expenditure under the *Statement of Gender Budgeting* since 2005-06. Absence of such statement of gender budgeting in subnational government budgets make the analysis difficult unless the each individual Ministry/Department provide information on the pro-women share of all relevant schemes, which is beyond the scope of this chapter.

The accurate pro-woman share of each of the schemes is not readily available with Government of Kerala, which makes it difficult to undertake such an analysis. The data on pro-woman share needs to be collated by each Ministry/Department at least based on the beneficiary data and made it available, which has not yet done so far in Government of Kerala. This data limitation thwarts the analysis to a almost impossible at this point of time. At the national level, the data on pro-woman allocation has been collated since 2005-06 and has been published in Expenditure Budgets, Volume 1. A similar exercise can be attempted at subnational levels and details of analytical matrix for these data collation are discussed in Chakraborty (2008) submitted to Department of Finance, Government of Kerala in February 2008, prior to the 2008-09 budget.

While collating the pro-woman share, care should be taken by the Ministries/ Departments to calculate the share on the basis of *ex-post pro-woman share* of the public expenditure rather than ex-ante share. For instance, ex-ante share designed by certain schemes may not be equivalent to ex-post beneficiary levels of the scheme (say, 40 percent is the pro-woman share in SGSY at the ex-ante policy making level, but it does not ensure that the money spent on women from SGSY is equivalent to 40 percent at the ex-post level).

Policy Recommendations for Institutionalizing Gender Budgeting in Kerala

The policy recommendations related to institutional mechanism design and analytical matrices for conducting gender budgeting has been elaborated in Chakraborty (2008) Report submitted to Department of Finance, Government of Kerala in February 2008. This Report was second in series prepared by Centre for Development Studies, subsequent to Eapen Report in 2006-07. Chakraborty (2008) report provided the framework for the process of institutionalization of gender budgeting in tantamount with the pioneering efforts at the national level, which were the following ninefold.

(i) Gender Budgeting Secretariat (GBS) in Ministry of Finance

Gender Budgeting Secretariat aims to integrate gender budgeting in mainstream budgets in co-ordination with other relevant departments, collate the gender disaggregated data and establish appropriate interdepartmental mechanisms to advance implementation. At the national level, Gender Budgeting Secretariat is located in Department of Expenditure, Ministry of Finance, Government of India. This Secretariat is created in 2005 as sequel to the recommendations of Expert Committee on Classification of Budgetary Transactions under the Chairmanship of Chief Economic Advisor, Government of India. The GBS serves as the focal point for the co-ordination of gender budgeting activities across relevant Ministries/Departments.

(ii) Gender Budgeting Units (GBUs) in Identified Departments

Gender Budgeting cells have been established at national level since 2005 in identified Departments, under an identified Joint Secretary to supervise the formulation of the process of gender budgeting within the Ministry; support to integrate the framework into policies, programmes and work plans of the Ministry and also to identify and initiate research on specific gender aspects related to the work of the Ministry. It is reported in Union Budget Speech 2007-08 that 50 Ministries/Departments have set up Gender Budgeting cells and there is growing awareness of gender sensitivities of budgetary allocations.

(iii) Interdepartmental Steering Committee (ISC) on Gender Budgeting

In the process of mainstreaming gender in budgetary policies across Ministries, GBUs can form an Interdepartmental Steering Committee (ISC) on Gender Budgeting. The affiliation of identified departments with institutions working on issues related to 'gender development' may be attempted to make the GBUs and ISC more effective in terms of direction and thrust.

Certain issues related to gender budgeting cut across sectors. Identification for complementary fiscal policies for women is an important area of concern. For instance, a World Bank study noted that easy accessibility to drinking water facilities might lead to an increase in school enrolment particularly girls. Public expenditure in water and fuel can have positive social externalities in terms of educating the girl child and improving the health and nutritional aspects of the household. ISC can deliberate on these intersectoral linkages in gender budgeting. ISC can also be a platform for the gender budgeting cells to discuss the sector-specific issues and also the cross-sectoral issues related to gender budgeting. ISC's task is to develop an overall time bound programme for gender budgeting in identified Ministries and also to monitor and review the progress.

(iv) Collation of Gender Disaggregated Data in Ministries

The proposed Gender Budgeting cells in the identified Ministries/Departments may collate gender-disaggregated data to obtain the gender-wise relevant statistical database, targets and indicators. A gender audit of plans, policies and programmes of various identified Ministries should be conducted for evaluation of the progress. Ministry of Finance could be the nodal department for this process and also to organize periodical in-house gender audit assessments in the identified Departments/Ministries.

(v) Preparing Analytical Matrix for Gender Budgeting

It is important for this effort to be led by Ministry of Finance in developing the matrix for gender budgeting and disseminate the matrices to identified Departments/ Ministries. Collation of gender disaggregated data across Ministries within the framework of these developed matrices is the next significant step.

Within the analytical framework of gender budgeting, five matrices (as designed by the Expert Group on '*Classification of Budgetary Transactions'*, Government of India) can be developed to categorize the financial inputs from gender perspective. The first three analytical matrices for categorizing public expenditure through a gender lens would be as follows: (i) specifically targeted expenditure to women and girls (100 percent targeted for women), (ii) pro-women allocations; which are the composite expenditure schemes with a significant women's component (that is, a scale of ; 30 <= E < 100; at least 30 percent targeted for women) and (iii) residual public expenditures that have gender-differential impacts (that is, a scale 0 <= E < 30). Last two matrices compile the *economic classification* of gender specific expenditure programmes of specifically targeted programmes and programmes with pro-women allocations respectively. These two matrices aim at understanding the structure of gender specific programmes; whether a major part of these allocations is committed expenditure in the form of wages and salaries or a considerable part is discretionary component. The formats of analytical matrices are given in detail in Chakraborty (2008).

(vi) Open a Budget Head on 'Women Component Plan'

The tribal sub-plan (TSP) for scheduled tribes and special component plan (SCP) for scheduled castes, which were launched in 1974 (Fifth Plan) and 1979 (Annual Plan), respectively, have some relevance for opening a Women's Component Plan or "Gender Development' in its conception. The state governments show the expenditure on TSP and SCP distinctly under relevant functional heads in their Budget and Accounts. On the pattern of Tribal sub-plan and Special component plan for scheduled castes, “Women’s component plan” could also be opened as a separate account head (say, a programme minor head) under the relevant functional expenditure head of account.

This is to segregate the provisions for women in the composite programmes under education, health, social welfare etc, which target girls/women as the principal beneficiaries. This segregation of the provisions is important for transparency of budgetary allocations and also to protect these provisions by placing restrictions on their reappropriation for other purposes. It is necessary to ensure that the funds so earmarked are spent on intended purposes.

(vii) Consolidation of Schemes

Gender analysis of budget revealed that certain pro-woman allocations in the budget are more of the nature of *token provisions*. It is doubtful that given the size of the state, its population and the magnitude of the problems, schemes with small provisions have much practical significance in the overall context, except perhaps for demonstrative or experimental reasons. Such schemes should be reviewed, merged or consolidated, to secure a meaningful impact.

(viii) Monitoring Output as well as Financial Input

Gender budgeting needs to be linked to outcome budgets. Linking ‘*resources to results*’ is a significant element of gender budgeting. It is therefore necessary to tighten the system and closely monitor implementation of each scheme, against the stated goals. Focusing on how much money has been allocated for schemes benefiting women can be counter-productive if the outcome of schemes depart substantially from the objectives that they were designed to serve.

(ix) Gender Budgeting at the third tier of Government

Against the backdrop of 73rd and 74th Constitutional Amendments, with the devolution of powers, functions and finance to the third tier of government, viz., urban and rural local bodies, it is equally important to initiate studies on gender budgeting at third tier. At the first juncture, paucity of data is recognized to be the major impediment to conduct such studies. Unlike other states of India, Kerala has comparatively better collation of data on public finance statistics and gender indicators at the local level. An innovative project that evolved under People's Plan Campaign and was not followed up in last five years was the *Local Women's Status Report* programme. This report can provide roadmaps for designing WCP incorporating the identified gender needs at the local level and can be the basic document for gender budgeting at the third tier.

The broad conclusion of the Chakraborty (2008) study was that institutionalizing gender budgeting within Ministry of Finance and opening a *Statement on Gender Budgeting* in the Kerala State Budget document is a significant prelude to conduct gender auditing exercises. Lack of transparency of budget numbers in terms of gender in the existing budget is a serious impediment to conduct gender auditing in Kerala. At the national level, opening of Gender Budgeting Statement in Expenditure Budget since 2005-06 has increased the transparency in the budgetary allocations for women. Adopting a similar approach at the subnational levels is the impending step towards ensuring gender budgeting in India in a federal setting. Kerala, given the experience at the third tier on WCP, can be the pioneer in institutionalizing gender budgeting as well.

Actions Taken for Institutionalizing Gender in Budgetary Policy by Government of Kerala in 2008-09 Budget

The actions taken by Finance Minister to integrate gender in budgetary policy announced in Kerala State Budget Speech 2008-09 were related to (i) institutional mechanisms, (ii) analytical matrices to provide fiscal data , gender disaggregated and (iii) opening a 'Statement of Gender (Budget)' in budget documents of Government of Kerala as done in case of Central government.

The specific actions taken to institutionalize gender budgeting are the following fivefold.

1. The budgetary announcement in 2008-09 that a mechanism to collate gender disaggregated fiscal data within Department of Finance, Government of Kerala.
2. Gender Board was created in 2008-09 with sectoral linkages to integrate gender in the budgetary policy making of the state.
3. The budgetary announcement in 2008-09 to prepare 'Statement of Gender (Budgeting") done by the Centre Government (in Expenditure Budget Volume 1).

4. Initiation for a separate Department for Women and Child Development as in case of Centre.
5. Draft preparation of **Statement of Gender Budgeting** of Kerala State Budget 2008-09 under the analytical matrices identified for specifically targeted programmes for women (Part A) and public expenditure with pro-woman allocations (Part B).

Preliminary Findings of Statement of Gender Budgeting in Kerala

Against the backdrop of budgetary announcement on the preparation of Statement for Gender Budgeting in 2008-09, a draft Report [Eapen (2009) Report] has been prepared incorporating Part A and Part B categories of gender budget mentioned above. The preliminary findings of the Eapen (2009) Report on Gender Budgeting in Kerala are the following.

1. **Statement A of Gender Budgeting**
   (i) A little over 5 percent of the budgetary plan allocation was on women specific programmes.
   (ii) Most of the Part A category were concentrated in Social Welfare of SC/ST/OBC (28.6 percent of its Demand for Grants); Family Welfare (75%) and Community Development (34 percent).
   (iii) Single largest women specific programme in the State Plan was 'Kudumbasree" which was under Community (Rural) Development.

2. **Statement B of Gender Budgeting**
   (i) Gender disaggregated analysis of 11 Demand for Grants; viz., Education, Medical and Public Health, Labour and Labour Welfare, Social Welfare, Agriculture, Animal Husbandry, Dairy, Fisheries, Industries and Minerals, Community Development and Economic Services.
   (ii) These 11 Demand for Grants constitute only 40 percent of total budget outlay.
   (iii) The preliminary findings of Part B revealed that only 4.83 percent of total budgetary plan outlay was with pro-woman component. In terms of 11 Demand for Grants, it was 13.37 percent.

Way Ahead

Gender disaggregated data set needs to be build-up in sectoral Ministries. Part B of Gender budgeting (based on ad hoc assumptions and notional figures) can be misleading. Gender budgeting cells could be formed under sectoral Ministries to build-up the data set as well as identifying the gender issues and priorities of the sector.

1. Monitoring and Evaluation of Gender Budgeting is significant, which Gender Budgeting Secretariat at Department of Finance can be vested with.
2. Identification of gender issues which cut across sectors could be elaborated in an inter-sectoral forum.
3. Opening a Head of Account in budget documents on “Gender Development’ can lead to transparency and hence accountability.
4. Periodic Benefit Incidence Analysis (gender disaggregated) of selected schemes help to analyse the distributional impact of public expenditure across gender. Benefit Incidence Analysis requires two components: (i) Unit Cost and (ii) Unit Utilized.

Chapter VII

Kerala's Human Development Priorities: Resource Mobilization and Challenges Ahead

Kerala has had a unique development experience when compared to the rest of the country. The human development and the social indicators for more than decades now have placed Kerala among the top performers. The male and female literacy at 94.2 and 87.8 percent respectively by census 2001 is the highest in the country. Kerala also has the lowest infant mortality rates, 15 per thousand live births as per the latest NFHS estimates and the highest life expectancy of 75 years at birth, compared to the rest of the states. It is the only state in India where the female population outnumbers the male population, the current sex ratio being 1058 females per thousand males. Such high levels of social indicators comparable with the level of indicators in the developed countries, which came about without the usual 'rapid' economic growth in per capita GSDP and simultaneous increases in the output has in fact attracted a lot of attention to this developmental process and gradually started being referred to as the 'Kerala model of development'.

The macro indicators for the state show that the GSDP growth rate for 2007-08 has been 10.4 percent at constant 1999-00 prices and the per capita state income growth rate has been 9.4 percent (Kerala Economic review, 2008). The growth of GSDP is directly linked with the growth of the service sector in the state. When we look at the sectoral shares for 2007-08, it appears that the tertiary sector contributes 58.2 percent to the GSDP, while the primary and secondary sector contribution is only 15 percent and 26.8 percent respectively. Further, the annual average growth rate of GSDP between 1999-00 to 2007-08 is approximately around a moderate to high level of 7 percent. As we look at the growth rates of the sectors over the same period, the service sector shows the highest rate of growth of almost 9 percent and the average growth rates for agriculture and manufacturing has been 2.0 and 4.9 percent respectively. Although the growth rate of the manufacturing sector seems moderate, yet when the employment growth is analysed, it becomes evident that such growth rate of the sector has not been able generate adequate employment in the state. While the employment growth rate in the state given by the NSSO estimates, between 1999-00 and 2004-05 stands at 1.29 percent, which is dismal, the employment elasticity in the state that determines the employment generating capability of the growth rate for the same period is nearly 0.2. The rate of growth of GSDP has been mostly led by the service sector. However, such a contradiction between the macro indicators of performance and the social indicators of human development is perhaps the most important paradox of the Kerala model of development.

The other important issue is the issue of intra-regional inequality in Kerala. Apart from the debate on the levels of poverty (according to different estimates discussed in this report), the poverty ratio is 8 fold higher when compared between the districts with highest and lowest incidence of poverty. This brings out the issue of regional disparities within Kerala, in relation to incidence of poverty, which is not as sharply evident when we look at the district level per capita income or the decline in aggregate poverty in the state. This is also to emphasize that even though Kerala's overall outcome in social and economic achievements is far better compared to many other states and national average, there exist pockets of deprivation, be it incidence of poverty or in terms of achievements in human development, when compared with Kerala's own achievements

The discussion on Kerala's human development has brought to light several other important issues, the most challenging among them being the sustainability of the high human development indicators of the state given the fiscal constraints and also evolving a strategy to address the second generation human development challenges of Kerala. It has become clear in the course of our discussion that the problems of human development that are being currently faced by the state are completely different in nature than the rest of the country. The problems pertain more to the nature of quality of services of basic amenities extended to the people than those of the quantity issues. In terms of health and education, the problems being faced by Kerala have been referred to as the 'second generation problems' indicating the next stages of concerns after the achievement of the specific goals in literacy, school attendance, reduced fertility and mortality rates and other health related indicators. Also there is a serious concern on how to maintain the vast network of publicly supported institutions catering to the various social and economic needs and priorities. These would have to be sustained in the long run without putting a strain on the states' fiscal situation.

As we know that the path followed by Kerala in achieving success in resolving the basic human development issues has been primarily in the form of state funding and a consequence of a legacy of public action, state intervention remained the key in enhancing the basic issues of human development. Also, given the nature of 'public' good of these commodities the state budget would remain one of the major sources of these expenditures in future as well. However, under the present circumstances with large fiscal imbalance, sustaining such levels of social and human development indicators would require provisioning of adequate budgetary resources and the real challenge is making provision for that in the era of fiscal controls and reforms with rigid targets and ceilings on deficits. A detailed review of state finances is done in this report to understand the specific problems of Kerala state finances to delineate strategies to create adequate fiscal space for spending to address the second generation problems of human development and is also to find resources to be able to maintain the large network of public services in social sector.

Analysis of the state finances revealed that despite very high tax effort, the state continues to have large fiscal imbalances because of very high revenue expenditure largely driven by committed expenditures. On the expenditure side, while there has been a high priority given to the social sector spending, the share of total social sector spending to total plan spending has declined since the tenth plan period. There has also been a decline in the share of plan expenditure in total expenditure. The productive capital expenditure to GSDP ratio declined steadily over the years. The trend seems to have reversed in the last few years, although the improvement in the ratio is marginal. In aggregate, if we look at, the share of social sector spending in total has declined over the years. The three key ratios, viz., human development expenditure ratio, social priority ratio and human development expenditure as a percentage of total expenditure declined sharply in Kerala as well as other major states of the country. One of the major reasons is the rising share of committed expenditures in total expenditure, especially interest obligations on debt and rising pension liabilities.

Very high debt-GDP ratio for Kerala is also creating strain on state finances by higher interest obligations. Although the ratio has been declining along with a simultaneous decline in the effective rates of interest on the debt, which in turn has the potential to reduce interest payment obligations of the state in the medium term, yet the composition of debt remains very high cost in nature. One of the major reasons is the high share of NSSF liability in the total debt stock, where the states do not have any choice but to subscribe to high cost borrowing from NSSF.

The study noted that declining central transfers to the state of Kerala is a major concern. Apart from decline in Kerala’s share of tax devolution recommended by successive Finance Commissions, aggregate grants as a percentage of GSDP remained stagnant during the last two decades. Also, the composition of grants underwent a significant change with a sharp decline in the statutory and formula based grants. Also among the discretionary grants, the share of CSS grants in total declined sharply in recent years. This is primarily due to large scale transfers under CSS in recent years are taking place bypassing the state budgets directly to the district level implementing agencies. Most of the flagship big-ticket centrally sponsored schemes come under this category. This has implications for state finances and intergovernmental fiscal relationship. In the specific context of Kerala, if one looks at, the 'one size fits all' approach of these schemes do not benefit Kerala, an issue we discussed in detail in Chapter-IV. As these big-ticket CSS are mostly for social sector spending, this has implications for human development in Kerala. If we compare the per-capita grants to Kerala compared to other states, it shows that Kerala's rank in terms of grants in aid is one of the lowest. The growth of per-capita grant to Kerala remained much below compared to many of the middle income states.

When we look at the CSS transfers directly going to the districts, Kerala clearly remains at the bottom in terms of receiving any benefits from these schemes. One of the major reasons for Kerala not getting the benefit of these schemes is the design of these schemes. The 'one size fits all' approach does not benefit Kerala. For instance, the mission statement of SSA clearly states that main aim of SSA pertains to clear time frame for universal elementary education and providing quality elementary education to all children in the 6-14 age group. Given an almost universal literacy in Kerala, the SSA programme with such a goal does not hold much importance for the state. Similarly, the major goals set for NRHM have been mainly to reduce IMR and MMR, universal access to public health services for women and children, population stabilization, gender and demographic balance and promotion of healthy lifestyles. As noted in chapter II, Kerala's health indicators have already achieved desired rates. The problems of health in Kerala lies in the second generation problems of increases in lifestyle diseases and geriatric problems, which require untied funds from the centre to be dealt with effectively rather than CSS designed specifically to improve the basic health indicators. The Kerala Eleventh State Plan recognizes such aspects and has already made provisions to ensure universal health insurance scheme for the underprivileged and marginalized section of the population and Cancer Suraksha Fund for children. But such initiatives clearly require a continued flow of funds for effective implementation and achievement of desired results. Instead of CSS, availability of united funds for these schemes will be extremely beneficial for Kerala.

In terms of NREGS, given the topography and the climate pattern in Kerala, the kind of work that could be generated under scheme guidelines in the earlier years of its implementation, like water harvesting and water conservation, minor irrigation, drought proofing, afforestation and tree plantation, and construction of roads were found to limit the options in Kerala. The flexibility introduced recently in terms of generating jobs under the scheme has in fact helped the state to develop its own requirement based initiatives. All these reasons therefore points out to the reason why Kerala's fund utilization pattern remains at a low to medium rate compared to the other states.

The study also noted that there has been substantial increase in the devolution of funds to the local bodies with an objective of decentralized development with the rationale that it would incorporate local needs and preferences. The big-bang approach to decentralization in Kerala has resulted in local level planning in a big way and the only experience in the country of planning from below in such a huge scale. However, the analysis of the devolution of plan fund reveals that the share of plan resources devolved to the local bodies has come down sharply over the years. There is a monotonic decline in the share of grants-in-aid as percent of state plan outlay from 29.29 percent in the Ninth FYP period to 26.81 percent in Tenth FYP period. In the initial years of Eleventh FYP period, the decline in the share of grants-in-aid for local bodies further plummeted to 22.16 percent in FY 07-08 and 22.00 percent in FY 08-09.

The utilization pattern of development funds at the local level revealed that utilization ratio (expenditure/allocation ratio) was only around 80 percent at the aggregate level. Sectoral disaggregation of E/A ratio showed that the utilization was lowest in productive sector (74.32 percent). The rural-urban disaggregation further revealed that utilization of development funds varied across local bodies. For instance, the utilization of development funds was the lowest in Gram Panchayats (which was only 46.41 percent) in infrastructure sector. Among the rural local bodies, the utilization of funds was comparatively better at Block Panchayats in all sectors except for productive sector. The disaggregation of specific sector plans and projects unraveled that human development components of devolution; viz., women component plan, allocation for aged, children and disabled, anti poverty sub plan component and nutrition programme, Akshaya, Ashraya and within that the distribution of specific sector plans and projects at local level revealed that Anti Poverty Sub Plan had the single largest element in specific sectoral plans (48.93 percent) followed by women component plan (19.29 percent). However, as mentioned the fund utilization ratio remains a major concern and it is lowest in case of *Gram Panchayats* in many of the schemes. However, if we look at the overall development funds utilization ratio, it is 82.38 percent for *panchayats* which is lower than that of district panchayats but higher than the block panchayats. In case of corporations and municipalities the fund utilization ratio is even lower.

As women component Plan has a large share in the local plan it is important to understand and examine the women component plan in detail and the human development component of the plan. Although CSS forms a predominant portion of the Plan, in social sector women development programme has the second highest share after the Swarna Jayanti Shahari Rozgar Yojana. One of the most interesting aspect of the process of decentralization observed in the states is feminization of governance at local level. Out of the 14173 elected representatives, of whom 75 percent belonged to the Gram Panchayats, 5078 were women representatives. This constitutes almost 36 percent of the total elected representatives. At the Gram Panchayat level also the percentage of women representatives is 36 percent approximately. This has strong link with human development as research show that with feminization of governance, third tier could change the types of public expenditure at local level more corresponding to the revealed preferences ('voice') by women. A MIT study by Chattopadhyay and Duflo (2001) has measured the impact of feminization of governance at local level on the outcomes of decentralisation with data collected from a survey of all investments in local public goods made by the village councils in one district in West Bengal. They found that women leaders of village councils invest more in infrastructure that is relevant to the needs of rural women, like drinking water, fuel and roads, and that village women are more likely to participate in the policymaking process if the leader of their village council is a woman. Thus placing women in leadership position in governance at the local level can change the expenditure decisions of the local bodies and in turn changes the types of public good investments at local level more corresponding to the revealed preferences.

However while the vision of Kerala remains to be one of people's planning from below, yet one has to examine that aspect in the plan. In the earlier experiences, the LSGIs have remained essentially as users of funds devolved from the state government, rather than planners in their own right. Though the process of decentralization has taken deep roots in Kerala, but lower fund utilization ratio remains a major challenge. It has been observed that one of the major reasons is the lack of submission of proper accounts in time. The second is the tendency of the LSGIs to simply replicate small local projects. The vigour of decentralized planning should show itself in imaginative schemes where more than one panchayat come together to implement supra-panchayat level projects. In such a case there would be a plethora of schemes, local schemes, supra-local schemes, and even more ambitious schemes, all planned from below. This unfortunately has not yet happened, which is an issue that remains a concern for the planners and the scholars of Kerala.

Finally, the proposed financing pattern of Eleventh plan is a clear reflection of paucity of resources in the state. The balance from current revenues (BCR) is estimated to be negative during the 11^{th} Plan. The borrowing intensity of the State Plan also is very high. If we look at the Central assistance, normal central assistance is estimated to be only around 40 percent of the Plan assistance from the Centre to the States. The rest of the Plan assistance is in the form of various externally aided projects and other assistance outside the Gadgil formula. The composition of borrowing is also heavily skewed towards high cost debt and has implications for increasing debt servicing liabilities at a faster rate. Thus, for faster growth and creation of fiscal space, own revenue mobilization has to improve. Also, given the challenges faced by Kerala in terms of tackling the "second generation problems of human development", they cannot be addressed by flagship centrally sponsored schemes. The state of Kerala requires provisioning of resources to tackle its own problem which is typically different than the rest of the country.

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Appendix Table 1: Social Services Expenditure as Percentage of Total Expenditure

States	1987-88	1990-91	1995-96	1999-2000	2004-05	2005-06	2006-07	2007-08	2008-09 RE
Andhra Pradesh	38.6	35.6	39.2	35.4	32.5	29.8	30.6	30.8	34.1
Bihar	34.8	35.0	35.2	33.6	29.1	33.4	32.6	35.7	36.5
Goa	35.7	40.1	27.3	28.7	32.2	30.1	30.9	30.9	32.4
Gujarat	34.8	31.9	31.6	33.4	32.0	32.4	33.0	33.8	34.2
Haryana	31.0	29.7	28.1	30.7	28.4	31.4	31.4	31.7	34.0
Karnataka	38.4	35.5	34.3	35.2	28.4	29.8	29.7	33.9	35.3
Kerala	43.5	41.6	36.2	34.8	33.4	31.5	30.7	31.6	32.2
Madhya Pradesh	34.6	35.8	34.6	37.1	23.4	29.2	29.3	28.7	31.1
Maharashtra	31.7	30.8	33.2	31.0	30.1	32.3	33.5	36.1	35.3
Orissa	33.7	32.1	35.9	42.1	30.7	33.4	31.7	35.1	37.5
Punjab	31.2	28.3	25.2	25.7	20.2	20.2	21.2	20.2	27.8
Rajasthan	34.6	38.6	34.8	39.2	36.4	37.4	38.3	38.1	41.3
Tamil Nadu	40.4	41.6	39.5	37.2	35.0	34.5	31.5	33.6	37.1
Uttar Pradesh	30.0	31.4	29.3	27.4	26.9	30.3	30.7	30.7	33.9
West Bengal	41.5	41.5	34.3	38.4	28.8	30.4	31.7	34.4	35.0
Max	**43.5**	**41.6**	**39.5**	**42.1**	**36.4**	**37.4**	**38.3**	**38.1**	**41.3**
Min	**30.0**	**28.3**	**25.2**	**25.7**	**20.2**	**20.2**	**21.2**	**20.2**	**27.8**
CV	**11.4**	**12.9**	**12.6**	**13.5**	**14.1**	**12.0**	**11.2**	**12.9**	**9.0**

Source: State Finance Accounts.

Appendix Table 2: Social Services and Rural Development as Percentage of Total Expenditure

	1987-88	1990-91	1995-96	1999-2000	2004-05	2005-06	2006-07	2007-08	2008-09 RE
Andhra Pradesh	46.3	43.1	44.0	40.3	37.4	34.5	35.4	35.2	38.6
Bihar	43.7	43.8	40.6	41.7	36.0	40.2	42.6	46.2	46.6
Goa	37.3	42.0	28.2	29.7	33.7	31.7	32.5	32.2	34.0
Gujarat	39.8	37.2	35.2	36.3	34.9	35.1	35.7	36.6	36.9
Haryana	34.8	32.8	29.0	32.2	29.7	33.3	33.3	34.4	37.9
Karnataka	44.1	41.4	37.7	37.8	30.9	32.6	33.1	37.0	37.8
Kerala	48.0	45.8	39.3	41.9	40.7	38.4	31.9	32.4	33.4
Madhya Pradesh	40.1	43.0	42.3	41.7	27.3	35.2	36.2	36.5	38.5
Maharashtra	34.6	33.4	37.5	32.8	33.9	36.1	37.7	38.2	38.2
Orissa	39.7	39.1	39.6	47.4	34.2	37.0	35.2	39.3	41.9
Punjab	32.5	29.3	26.0	26.2	21.3	20.6	22.1	20.9	29.3
Rajasthan	46.9	44.5	38.5	42.0	41.3	42.1	42.7	43.2	47.4
Tamil Nadu	45.7	47.2	42.4	39.9	37.9	37.9	35.2	37.2	40.4
Uttar Pradesh	39.8	42.4	35.7	35.8	32.0	36.7	35.4	36.0	40.0
West Bengal	47.5	49.0	41.1	43.0	32.8	35.5	36.5	40.1	40.1
Max	**48.0**	**49.0**	**44.0**	**47.4**	**41.3**	**42.1**	**42.7**	**46.2**	**47.4**
Min	**32.5**	**29.3**	**26.0**	**26.2**	**21.3**	**20.6**	**22.1**	**20.9**	**29.3**
CV	**12.3**	**13.7**	**14.7**	**15.1**	**15.3**	**13.9**	**13.6**	**15.5**	**11.9**

Source: *Ibid*.