

**PATTERNS IN SOCIAL SECTOR EXPENDITURES:  
PRE- AND POST-REFORM PERIOD<sup>1</sup>**  
**S.Mahendra Dev**  
**Jos Mooij**

## **1. INTRODUCTION**

Throughout the history of Independent India, the Indian government has claimed that it works towards social development and the eradication of poverty. On the eve of Independence, Jawaharlal Nehru, addressing the Constituent Assembly, declared that Independence meant the redemption of a pledge. But he also stated that this achievement “is but a step, an opening of opportunity, to the great triumphs and achievements that await us (...) the ending of poverty and ignorance and disease and inequality of opportunity”.<sup>2</sup>

A lot has been achieved in the past half century. The incidence of poverty has declined from over 50 per cent in the 1950s to less than 30 per cent in the late 1990s.<sup>3</sup> The literacy rate has increased from less than 20 per cent in 1951 to 65 per cent in 2001. According to recent Human Development Reports published by the UNDP, India moved from the category of ‘low’ human development to that of ‘medium’ human development and its rank in 2003 was 127 (of 175 countries). Nevertheless, the performance of India in the social sector is far from satisfactory, and could have been much better (Dreze and Sen, 1995).

The claims of the government that poverty eradication/alleviation and social development generally are the main challenges and that it is fully committed to address these issues have continued over time. Today, if we have to believe the government, the prime objective of most policies is to help the poor and reduce their numbers. But how genuine is this claim?

In this chapter we analyse patterns in social sector expenditures. Our focus is on the Centre as well as the States. Both have their separate responsibilities, which are laid down in the Constitution. Health and most rural development issues are the responsibility of the States; education, welfare and employment issues come under the concurrent list –

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<sup>2</sup> Jawaharlal Nehru's speech at the Constituent Assembly, New Delhi, on 14 August 1947. Quoted from Dreze and Sen (1995), p. 1.

<sup>3</sup> There is a controversy on the estimates based on NSS data for 1999-2000.

meaning that both the Centre and the States are responsible. So, the States are much more important than the Centre when it comes to the social sector.

We define the social sector as the total of expenditure on ‘Social Services’ and ‘Rural Development’ as given in Central and State budgets. The head ‘Social Services’ includes, among other things, education, health and family welfare, water supply and sanitation. The expenditure under the head ‘Rural Development’ (which is listed under ‘Economic Services’ in the budget classification) relates mostly to anti-poverty programmes. All this social sector expenditure is of two kinds. First, there are social and economic expenditures that have the broader objective of expanding social opportunities and improving the social indicators of education, health and nutritional standards of the general population; second, there are programmes that are primarily meant to alleviate poverty. Apart from (wage and self-)employment programmes for the rural and urban poor, there are specific health and nutritional programmes for women and children which largely target the poorer segments of the population.

This chapter has the following structure. In the second section we analyse trends in social sector expenditures. The third section briefly discusses some implementation issues, while the last section summarises the main arguments and concludes the chapter.

## **2. TRENDS IN SOCIAL SECTOR EXPENDITURE**

In this section we analyse the trends in social sector expenditures, defined as the total of expenditure on ‘Social Services’ and ‘Rural Development’ as given in Central and State budgets. The trends are examined at three levels: (a) combined Centre and States (b) Centre and (c) States. The expenditures refer to both plan and non-plan.

### **2. 1. Combined Expenditure by Centre and States**

The combined social sector expenditure of Centre and States provides the best picture of India’s commitment towards the social sector.<sup>4</sup> There are different ways of examining the

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<sup>4</sup> It is difficult to get the information on combined expenditure from the budgets. Simply aggregating the expenditure by the Centre and by the States gives an inflated picture because the budget information does not adjust for central transfers to States. We used data from the *Indian Public Finance Statistics* (Ministry of Finance, Government of India), which is adjusted for transfer funds. It may be noted that the

trends in budget expenditures. One way is to look at social sector expenditures as a proportion of GDP or GSDP (Gross State Domestic Product) in the case of the States. A second way is to calculate social sector expenditure as percentage of aggregate budget expenditure. The third option is to look at the real per capita expenditures (at constant prices) for the social sector. Table 1 does all these three things for the period 1987-88 to 2000-02. India spends around 6 to 7.5 per cent of its GDP on the social sector. In 1990-91, the share in GDP was 6.78 per cent. Only in 1998-99 a higher level was reached. Throughout the 1990s, social sector expenditure, in terms of percentage of GDP, was lower than the highest value of the 1980s, which was 7.17 per cent. This percentage was, however, reached in 2000-01 and 2001-02.

As proportion of aggregate expenditure, India spends between 24 to 27 per cent on the social sector. The percentage started to increase in the middle of the 1990s. Since 1995-96, the percentage is higher than that in the 1980s. In other words, a higher percentage of government expenditure goes to the social sector now than when the reforms started or during the last years preceding the reforms.

In terms of per capita real expenditure, social sector expenditure has continued to increase after 1993-94. Per capita expenditure has risen from Rs. 623 in 1990-91 to Rs. 988 in 2000-01, an increase of 75 per cent in 11 years.

**Table 1 Social Sector (Social Services and Rural Development) Expenditure by Centre and States**

|         | Social Sector Expenditure (Revenue and Capital) |   |                                  |
|---------|---|---|----------------------------------|
|         | As % of GDP                                     | As % of Agg. Pub.<br>Exp.<br>(Rev.+Capital) | Per capita exp                   |
|         |   |   | (in Rs.)<br>In 1993-94<br>prices |
| 1987-88 | 7.26  | 25.29                                       | 564                              |
| 1988-89 | 6.95  | 25.22                                       | 585                              |
| 1989-90 | 7.17  | 25.19                                       | 635                              |
| 1990-91 | 6.78  | 24.85                                       | 623                              |
| 1991-92 | 6.58  | 24.28                                       | 599                              |
| 1992-93 | 6.38  | 24.06                                       | 594                              |
| 1993-94 | 6.46  | 24.58                                       | 622                              |
| 1994-95 | 6.39  | 25.01                                       | 632                              |

classification for major heads in this source is slightly different than that in the budget tables and RBI Bulletins.

|                   |             |              |            |
|-------------------|-------------|--------------|------------|
| 1995-96           | 6.40        | 25.95        | 674        |
| 1996-97           | 6.30        | 26.46        | 716        |
| 1997-98           | 6.41        | 26.18        | 763        |
| 1998-99           | 7.01        | 27.36        | 882        |
| 1999-00           | 7.14        | 26.75        | 951        |
| 2000-01           | 7.45        | 26.56        | 988        |
| <u>2001-02(B)</u> | <u>7.18</u> | <u>25.31</u> | <u>986</u> |

Source: Same as Table 1

On the basis of this table, different arguments can be made. Advocates of the reforms can claim that they are proved right when they say that the reforms are meant to reduce state intervention in certain sectors in order to increase expenditure on the social sector. After all, after the mid1990s, there was an increase in social sector expenditure takes as percentages of overall government expenditure. Opponents of the reforms, on the other hand, can claim that the social sector has suffered because, as a percentage of GDP, social sector expenditure after 1991 was generally less than what it was in the late 1980s.

Table 2 disaggregates social sector expenditure, and shows that education is by far the largest head.

**Table 2 Social Sector Exp. of Centre and States (%), 1990-91 and 2000-1**

| Major Heads  | 1990-91 Expenditures<br>(Rs. In billion current<br>prices) | 2000-01 Expenditures<br>(Rs .in billion current<br>prices) | Share of States in<br>total spending (%) |         |
|--|--|--|--|---------|
|  |  |  | 1990-91                                  | 2000-01 |
| 1.Education, art and culture                           | 173.8  | 690.1  | 90.3                                     | 89.1    |
| 2.Medical & public health, water supply and sanitation | 65.6   | 264.4  | 90.7                                     | 88.8    |
| 3.Family welfare                                       | 9.3  | 34.4   | 93.5                                     | 71.5    |
| 4.Housing  | 7.7  | 44.5   | 71.4                                     | 53.5    |
| 5.Urban development                                    | 7.7  | 45.0   | 85.7                                     | 94.4    |
| 6.Labour & Employment                                  | 7.3  | 22.9   | 60.3                                     | 57.7    |
| 7.Social security and welfare                          | 38.7   | 162.9  | 92.3                                     | 89.5    |
| 8.Others*  | 23.9   | 69.4   | 18.4                                     | 21.9    |
| 9.Social and Community services (1-8)                  | 334.1  | 1333.7   | 84.4                                     | 83.2    |
| 10.Rural Development                                   | 51.5   | 182.6  | 90.3                                     | 61.0    |
| 11. Total (9-10)                                       | 385.6  | 1516.3   | 85.2                                     | 80.7    |

\*Others include scientific services&research, broadcasting, information& publicity.

Note:The information given in the table relates to actual expenditures for 1990-91 and revised expenditures for 2000-1.

Source: Computed from the data available in *Indian Public Finance Statistics*, Ministry of Finance, GOI, 1995, 2002

### ***Share of States in Combined Social Sector Expenditure***

Table 2 also gives information about the share of the Centre and the States in overall social sector spending. It is clear that the States contribute the lion share. In 1990-91, the States' share for the total social sector was around 85 per cent. However, the share of the States declined for most of the major heads in the course of the 1990s. In 2000-01, the share of total social sector was 80.7 per cent, almost 5 per cent less than what it was a decade earlier. This reflects the severe fiscal crisis many States are experiencing at present (Saxena and Farrington, 2002: 17-19), but it also suggests that the commitment of the States to social development has declined during the reform period. In the area of health and family welfare, the shift from the States towards the centre is a cause for concern, as it means more emphasis on vertical disease-related interventions – which is what the Centre mainly does – and less on primary health care.

### ***Expenditure on Education and Its Components***

Table 3 provides more information on education expenditure. The table shows that in 1998-99, around Rs.50,200 crores were allocated to education from the Education Department (col.7). Out of this amount, Rs.24,500 crores (around 49 per cent) were allocated to elementary education. As proportion of GNP, the share of education declined from 3.4 per cent in 90-91 to around 3.1 per cent in the late 90s. It may be noted that other departments also spend some part of their departmental expenditures on education. If we add this expenditure, the share of education comes to around 4.1 per cent in 1990-91 (col.8). This share declined over time to 3.6 and 3.8 in the mid and late 90s respectively. This percentage is well below the international norm of 6 per cent of GNP on education

Table 3 also provides intra-sectoral percentages on education for the 1990s. These expenditures relate to the funds spent by the education department only. The table shows that the share of elementary education increased from around 46 per cent in the early 1990s to 49 per cent in the late 1990s. There has been a decline in the shares of secondary, higher and technical education during this period. As will be shown later, the shift to elementary education is mainly due to a significant increase in the share for elementary education in Central government expenditure since the mid-90s.

**Table 3 Expenditure on Education (in Rs. Crores current prices) and its Composition 1990-91 to 1998-99**

| Year                                 | Expenditure on Education (in Crores) |           |           |        |        |                                   |   | As % of GNP                        |  |
|--------------------------------------|--------------------------------------|-----------|-----------|--------|--------|-----------------------------------|---|------------------------------------|--|
|                                      | Elementary                           | Secondary | Technical | Higher | Others | Total exp. on edu. From edu. Dept | Total exp. On edu. Including other dpts | Total exp. on edu. from edu. Dept. | Total exp. On edu. Including other dpts. |
| 1                                    | 2                                    | 3         | 4         | 5      | 6      | 7                                 | 8                                       | 9                                  | 10                                       |
| 1990-91                              | 7955.5                               | 5631.1    | 753.0     | 2311.9 | 531.0  | 17182.5                           | 20491.2                                 | 3.41                               | 4.07                                     |
| 1991-92                              | 8684.3                               | 6198.8    | 809.5     | 2443.4 | 621.6  | 18757.6                           | 22593.8                                 | 3.24                               | 3.90                                     |
| 1992-93                              | 9477.3                               | 7178.1    | 907.1     | 2700.0 | 690.5  | 20953.0                           | 25030.3                                 | 3.17                               | 3.79                                     |
| 1993-94                              | 10821.8                              | 7768.6    | 1017.2    | 3103.6 | 701.9  | 23413.1                           | 28279.7                                 | 3.04                               | 3.68                                     |
| 1994-95                              | 12638.9                              | 9049.5    | 1189.3    | 3525.3 | 827.1  | 27230.1                           | 32606.2                                 | 3.02                               | 3.62                                     |
| 1995-96                              | 15217.8                              | 10344.1   | 1290.3    | 3871.3 | 783.3  | 31506.8                           | 38178.1                                 | 2.99                               | 3.61                                     |
| 1996-97                              | 17850.5                              | 11735.8   | 1450.0    | 4287.9 | 1031.2 | 36355.4                           | 43896.5                                 | 2.97                               | 3.59                                     |
| 1997-98                              | 21078.8                              | 13107.6   | 1685.2    | 5047.1 | 1408.2 | 42326.9                           | 51930.6                                 | 3.10                               | 3.79                                     |
| 1998-99                              | 24456.2                              | 15112.4   | 2130.5    | 6771.2 | 1747.8 | 50218.1                           | 60856.5                                 | 3.14                               | 3.81                                     |
| <b>Intra-sectoral Allocation (%)</b> |                                      |           |           |        |        |                                   |   |                                    |  |
| Year                                 | Elementary                           | Secondary | Technical | Higher | Others | Total exp. on edu. from edu. Dept |   |                                    |  |
| 1990-91                              | 46.3                                 | 32.2      | 4.4       | 13.9   | 3.1    | 100.0                             |   |                                    |  |
| 1991-92                              | 46.3                                 | 33.0      | 4.3       | 13.1   | 3.3    | 100.0                             |   |                                    |  |
| 1992-93                              | 45.2                                 | 34.3      | 4.3       | 12.9   | 3.3    | 100.0                             |   |                                    |  |
| 1993-94                              | 46.2                                 | 33.2      | 4.3       | 13.3   | 3.0    | 100.0                             |   |                                    |  |
| 1994-95                              | 46.4                                 | 33.2      | 4.4       | 13.0   | 3.1    | 100.0                             |   |                                    |  |
| 1995-96                              | 48.3                                 | 32.8      | 4.1       | 12.3   | 2.5    | 100.0                             |   |                                    |  |
| 1996-97                              | 49.1                                 | 32.3      | 4.0       | 11.8   | 2.8    | 100.0                             |   |                                    |  |
| 1997-98*                             | 49.8                                 | 30.9      | 4.0       | 11.9   | 3.3    | 100.0                             |   |                                    |  |
| 1998-99@                             | 48.7                                 | 30.1      | 4.2       | 13.5   | 3.5    | 100.0                             |   |                                    |  |

\*Revised estimates

@Budget estimates

Source: Tilak (2001) taken from "Analysis of Budget Expenditure on Education" (various years) (New Delhi, MHRD)

## 2.2 Trends in Central Government Expenditures

Table 4 gives an overview of Central government expenditure for pre (1980-81 to 1989-90) and post-reform periods (1992-93 to 2002-03). As a proportion of GDP, Central government expenditure for the social sector was less than 1 per cent in the early 1980s, but this increased to around 1.55 per cent in 1989-90. This percentage declined in the first three years of the reform period, but increased afterwards to about 1.6 per cent. As a proportion of aggregate expenditure, social sector expenditure increased from 5.48 per cent in 1980-81 to 8.18 per cent in 1989-90, to more than 10 per cent in the 1990s. In terms of per capita real expenditure, social sector spending increased from Rs. 48 in 1980-81 to Rs. 137 in 1989-90, to Rs.247 in 2002-03. With regard to all these three indicators, it is clear that the trend growth rate per annum was much higher in the pre-reform period than in the post-reform period. So, although social sector expenditure

continued to increase in the 1990s (as % of GDP, as % of aggregate expenditure, and in terms of per capita expenditure), it was at a much lower pace than in the 1980s.

|  | As percentage of |                      | per capita<br>93-94 prices |
|--|------------------|----------------------|----------------------------|
|  | GDP              | Agg.Exp<br>(Rev+Cap) |                            |
| 1980-81  | 0.84             | 5.48                 | 48                         |
| 1981-82  | 0.80             | 5.56                 | 49                         |
| 1982-83  | 0.89             | 5.62                 | 56                         |
| 1983-84  | 1.04             | 6.73                 | 70                         |
| 1984-85  | 1.24             | 7.33                 | 85                         |
| 1985-86  | 1.27             | 7.13                 | 93                         |
| 1986-87  | 1.52             | 7.93                 | 115                        |
| 1987-88  | 1.63             | 8.48                 | 127                        |
| 1988-89  | 1.51             | 8.03                 | 127                        |
| 1989-90  | 1.55             | 8.18                 | 137                        |
| <b>Trend growth rate per annum<br/>(1980-81 – 1989-90)</b> | <b>8.93</b>      | <b>5.41</b>          | <b>14.12</b>               |
|  |                  |                      |                            |
| 1992-93  | 1.28             | 8.62                 | 119                        |
| 1993-94  | 1.49             | 10.46                | 144                        |
| 1994-95  | 1.48             | 9.35                 | 147                        |
| 1995-96  | 1.54             | 10.23                | 162                        |
| 1996-97  | 1.55             | 10.55                | 176                        |
| 1997-98  | 1.60             | 10.49                | 190                        |
| 1998-99  | 1.68             | 10.48                | 212                        |
| 1999-2000  | 1.60             | 10.42                | 213                        |
| 2000-01  | 1.41             | 9.11                 | 187                        |
| 2001-02  | 1.59             | 10.05                | 218                        |
| 2002-03(R )  |                  | 10.76                | 247                        |
| <b>Trend growth rate per annum<br/>(1992-93 – 2002-03)</b> | <b>1.34</b>      | <b>0.82</b>          | <b>6.34</b>                |

Source: Budget Documents, GOI

#### ***Intra-Sectoral Allocations in Education, Health and Rural Development***

Table 5 provides intra-sectoral allocations for education, health& family welfare and rural development for the post-reform period. It shows that the nineties have witnessed significant shifts within these sectors.

(a) In education, there has been a sharp increase in the share of elementary education particularly since 1995-96. This share increased from about 18 per cent in 1992-93 to 40 per cent in 1995-96 and to 48 per cent in 1997-98. Since 1998-99, however, the share has declined and it was 42 per cent in 2002-03. A further disaggregation showed that this shift in favour of elementary education was due to the introduction of nutrition programmes and District Primary Education Programme (DPEP). The shift towards elementary education led to a decline in the shares of secondary, university&higher, technical and adult education.

(b) The intra-allocations for health& family welfare show that there was a sharp increase in the share of reproduction & child health from around 5 per cent in 1992-93 to 15 per cent in the late 1990s.

(c) In the case of rural development, the share of rural wage employment programmes declined drastically since mid-1990s. In 2002-03, however, the share increased again.<sup>5</sup> The share for rural housing and other programmes increased in the 1990s. In the case of the latter, there was a twelve-fold increase between 1999-00 and 2000-01, as a result of the introduction of the rural roads scheme, known as the Prime Minister's Gram Samrudhi Yojana (PMGSY).

**Table 5.Intra-sectoral Allocation (%) in Education, Health and Rural Development: Central Government Expenditures 1992-93 to 2002-03**

|                               | 92-93 | 93-94 | 94-95 | 95-96 | 96-97 | 97-98 | 98-99 | 99-00 | 2000-01 | 2001-02 | 2002-03 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|---------|
| Education                     |       |       |       |       |       |       |       |       |         |         |         |
| <u>Education Sector</u>       | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0   | 100.0   | 100.0   |
| Elementary                    | 18.6  | 20.2  | 20.5  | 39.6  | 42.0  | 48.1  | 42.9  | 39.0  | 37.8    | 44.3    | 41.7    |
| Secondary                     | 25.0  | 25.6  | 24.1  | 19.9  | 19.0  | 15.0  | 15.5  | 14.4  | 14.3    | 15.3    | 13.6    |
| University & higher           | 28.0  | 24.9  | 25.6  | 19.9  | 19.5  | 20.2  | 25.1  | 29.6  | 31.0    | 20.5    | 19.4    |
| Adult                         | 6.3   | 7.8   | 8.5   | 4.7   | 3.1   | 1.8   | 1.3   | 1.1   | 1.3     | 2.2     | 2.4     |
| Technical                     | 18.7  | 18.3  | 18.6  | 14.0  | 14.5  | 13.0  | 13.6  | 14.1  | 13.5    | 15.4    | 15.0    |
| Others                        | 3.4   | 3.2   | 2.7   | 1.9   | 1.9   | 1.9   | 1.6   | 1.8   | 2.1     | 2.3     | 8.0     |
| Health and Family Welfare     |       |       |       |       |       |       |       |       |         |         |         |
| <u>Health&amp;Family wel.</u> | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0   | 100.0   | 100.0   |
| Public health                 | 16.6  | 16.6  | 18.0  | 17.7  | 19.7  | 18.9  | 16.4  | 14.1  | 14.4    | 12.6    | 11.5    |
| Medical education             | 13.6  | 12.4  | 12.3  | 12.2  | 12.3  | 13.1  | 15.2  | 13.1  | 13.6    | 12.5    | 11.7    |
| Rural family wel.             | 17.2  | 15.8  | 13.2  | 13.7  | 12.4  | 13.9  | 15.3  | 21.4  | 15.8    | 15.5    | 25.0    |
| Maternal&child healt          | 5.4   | 6.0   | 6.3   | 11.0  | 11.9  | 13.6  | 15.3  | 13.6  | 15.4    | 16.6    | 14.6    |
| Other serv.&supplies          | 21.1  | 26.2  | 28.5  | 23.1  | 19.5  | 17.6  | 16.5  | 17.9  | 19.7    | 20.7    | 12.2    |
| Others                        | 26.1  | 23.0  | 21.7  | 22.3  | 24.2  | 22.9  | 21.3  | 19.7  | 21.0    | 22.5    | 25.2    |
| Rural Development             |       |       |       |       |       |       |       |       |         |         |         |
| <u>Rural Development</u>      | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0   | 100.0   | 100.0   |

<sup>5</sup> This increase was the result of the massive Food-for-Work programme initiated as drought relief and to get rid of the huge food stocks held by the Government of India.

|                       |      |      |      |      |      |      |      |      |      |      |      |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Water supply&sanita.  | 13.3 | 13.6 | 13.2 | 14.1 | 14.7 | 16.7 | 17.7 | 19.3 | 16.0 | 14.0 | 11.0 |
| Special programmes    | 13.8 | 14.5 | 12.9 | 10.7 | 10.6 | 10.4 | 9.6  | 12.1 | 9.9  | 9.8  | 8.8  |
| Social sec.&welfare   | --   | --   | --   | 6.6  | 7.0  | 5.8  | 6.8  | 7.6  | 6.2  | 4.9  | 0.0  |
| Rural wage emp.prog.  | 70.5 | 68.9 | 70.8 | 57.3 | 44.5 | 46.0 | 42.8 | 39.8 | 23.7 | 31.1 | 51.6 |
| Other rur.dev. prog*. | 1.0  | 1.0  | 1.2  | 4.0  | 6.4  | 5.8  | 5.3  | 1.9  | 23.2 | 20.3 | 13.6 |
| Housing               | 0.1  | 0.2  | 0.3  | 5.9  | 15.2 | 13.6 | 16.2 | 17.7 | 12.6 | 13.4 | 8.4  |
| Others                | 1.3  | 1.8  | 1.6  | 1.4  | 1.6  | 1.7  | 1.6  | 1.6  | 8.2  | 6.7  | 6.6  |

Note: (1). All the data in this table refer to revised estimates; (2). Others in health& family welfare refer to Central govt. health schemes, hospitals& dispensaries, urban family welfare. Maternal & child health was replaced by reproductive & child health in 1998-99; (3). Special programmes for rural development refer to IRDP, TRYSEM, DPAP, Desert Area dev. Programme etc. Rural wage employment programmes are JRY and EAS. Other rural dev. Programmes refer to DWCRA, rural roads, million wells scheme and training.

Source: Vol II, budget papers GOI

### ***External Aid for Social Sector***

Over time, the contribution of external aid to social sector expenditure has increased. The main donors/lenders include international organisations such as World Bank, several organs of the United Nations and DFID (the British Department for International Development). We do not have sufficient information to examine the importance of this contribution in all the major heads of the social sector, but we have information on sectoral spending on children, as shown in Table 6.

This table shows that the share of external aid in sectoral spending on children in the Union budget has increased from 0.5 per cent in 1990-91 to around 29 per cent in 1997-98. On average for the 1990s, out of every 100 rupees spent on children around 20 rupees came from external aid.<sup>6</sup> The share of external aid is the highest for children in the health sector. More than 50 per cent of child health expenditure came from external sources.

**Table 6 Share of External Aid in Sectoral Spending on Children (Union Budget) (%)**

| Year    | Health | Child Development | Education | Total |
|---------|--------|-------------------|-----------|-------|
| 1990-91 | --     | --                | 1.4       | 0.5   |
| 1991-92 | 32.2   | 16.5              | 2.5       | 13.4  |
| 1992-93 | 53.3   | 13.4              | 4.9       | 17.1  |
| 1993-94 | 50.6   | 16.7              | 10.3      | 22.7  |
| 1994-95 | 53.2   | 13.1              | 20.6      | 26.2  |
| 1995-96 | 40.6   | 12.4              | 19.6      | 21.7  |
| 1996-97 | 33.6   | 21.6              | 13.6      | 19.5  |
| 1997-98 | 56.3   | 13.0              | 26.9      | 28.6  |
| 1998-99 | 79.0   | 9.9               | 22.5      | 25.3  |
| 1999-00 | 63.6   | 15.0              | 25.0      | 25.9  |

<sup>6</sup> For more information on this see Haq (2001).

|                    |      |      |      |      |
|--------------------|------|------|------|------|
| Average            | 51.4 | 14.6 | 16.4 | 20.1 |
| Source: HAQ (2001) |      |      |      |      |

### 2.3. Trends in Expenditure by States

As mentioned above, the main responsibility for social sector expenditure lies with the States. Earlier studies by Prabhu (1997), UNDP (1997) and Chelliah and Sudarshan (1999) have shown that social sector expenditure, either taken as a proportion of GSDP (Gross State Domestic Product) or as a proportion of aggregate expenditure, started to decline for the majority of the States since the mid 1980s and that this trend continued in the early 1990s. Our data confirm this trend for the entire decade of the 1990s.

Table 7 shows trend growth rates per annum of the average level of social sector expenditure for all States during the pre- and post-reform period. The trend growth of real per capita expenditure for social sector declined from around 9 per cent in the 1980s to around 5 per cent in the 1990s. The same trends can be seen for the growth rates of social sector expenditures as percentage of total expenditure and as percentage of GDP. The only items that did relatively well in the 1992-2002 period come under the 'total others' category, and include housing and urban development, labour and employment, welfare, welfare of SC/ST.

**Table 7: Trend Growth Rates of Social Sector Expenditure of All States (% per annum)**

|                      |       |       |      |       |      |       |       |      |
|----------------------|-------|-------|------|-------|------|-------|-------|------|
| 1980-81 –<br>1989-90 | 0.94  | -6.07 | 1.82 | -0.52 | 0.28 | -6.26 | 2.46  | 5.41 |
| 1992-93 –<br>2002-03 | -0.05 | -1.38 | 0.16 | 1.37  | 0.10 | -4.48 | -0.48 | 0.82 |

Source: Calculated from the data given in Appendix Tables A1 to A3

If we compare column 7 and 8, we see that, as compared to the Centre, the performance of the States is worse in the 1980s and in the 1990s.

There are very few States that have been able to increase their social sector expenditure as percentage of GSDP. In terms of real per capita expenditure, however, the expenditure has often increased in the 1990s. Table 8 shows the inter-State differences in per capita expenditure on the social sector. The per capita expenditure is very low in UP, Bihar and Orissa and relatively high in Goa, Gujarat, Kerala and Tamil Nadu. Table 9 shows the trends in the 1990s. In this table, the States are clustered according to their per capita SDP, and divided into three categories: rich, middle and poor. The rich States did slightly better in education. The middle-income States performed better in health, and the poorer States did best in rural development. The intra-group variation is, however, considerable, which makes it difficult to draw group-wise conclusions. Uttar Pradesh, for instance, has done much worse in education, health and social services than other poor States. In the case of rural development, all except 5 States recorded a decline in the index in 1999-00 as compared to that of 1990-91.

**Table 8. Per capita Expenditure in Social Services and Rural Development at Current Prices (in Rs.): 1999-00, 2000-01**

| States | Social Services |             | Social Services and Rural Development |             |
|--------|-----------------|-------------|---------------------------------------|-------------|
|        | 1999-00         | 2000-01 (R) | 1999-00                               | 2000-01 (R) |
| AP     | 1008            | 1093        | 1150                                  | 1298        |
| BIH    | 777             | 731         | 996                                   | 883         |
| GOA    | 3502            | 4170        | 3591                                  | 4255        |
| GUJ    | 1384            | 1914        | 1498                                  | 2072        |
| HAR    | 1176            | 1325        | 1235                                  | 1390        |
| KAR    | 1129            | 1262        | 1215                                  | 1390        |
| KER    | 1355            | 1469        | 1631                                  | 1812        |
| MP     | 1051            | 1007        | 1180                                  | 1176        |
| MAH    | 1198            | 1427        | 1261                                  | 1491        |
| ORI    | 1120            | 918         | 1261                                  | 1040        |
| PUN    | 1156            | 1640        | 1175                                  | 1721        |
| RAJ    | 1077            | 1231        | 1148                                  | 1313        |
| TN     | 1288            | 1431        | 1379                                  | 1570        |
| UP     | 547             | 645         | 667                                   | 806         |
| WB     | 1061            | 1120        | 1155                                  | 1243        |

|            |      |      |      |      |
|------------|------|------|------|------|
| All States | 1009 | 1128 | 1127 | 1271 |
|------------|------|------|------|------|

Source: RBI Bulletins

**Table 9: Index of Per capita Real Expenditure on Social Services and Rural Development (at 93-94 prices) at State Level**

|                  | Education, Sport, Art and Culture |       |       | medical, health family welfare |       |       | Social Services |       |       | Rural Dev. |       |       |
|------------------|-----------------------------------|-------|-------|--------------------------------|-------|-------|-----------------|-------|-------|------------|-------|-------|
|                  | 90-91                             | 95-96 | 99-00 | 90-91                          | 95-96 | 99-00 | 90-91           | 95-96 | 99-00 | 90-91      | 95-96 | 99-00 |
| GOA              | 100                               | 94    | 149   | 100                            | 86    | 116   | 100             | 94    | 139   | 100        | 58    | 96    |
| GUJ              | 100                               | 113   | 157   | 100                            | 102   | 159   | 100             | 106   | 173   | 100        | 71    | 88    |
| HAR              | 100                               | 107   | 155   | 100                            | 103   | 136   | 100             | 135   | 146   | 100        | 55    | 71    |
| MAH              | 100                               | 117   | 177   | 100                            | 100   | 118   | 100             | 116   | 152   | 100        | 137   | 51    |
| PUN              | 100                               | 97    | 151   | 100                            | 85    | 141   | 100             | 100   | 131   | 100        | 95    | 75    |
| <b>Rich</b>      |                                   |       |       |                                |       |       |                 |       |       |            |       |       |
| <b>Sub-total</b> | 100                               | 111   | 165   | 100                            | 98    | 133   | 100             | 113   | 153   | 100        | 108   | 65    |
|                  |                                   |       |       |                                |       |       |                 |       |       |            |       |       |
| AP               | 100                               | 96    | 148   | 100                            | 104   | 159   | 100             | 124   | 158   | 100        | 70    | 101   |
| KAR              | 100                               | 119   | 165   | 100                            | 115   | 173   | 100             | 120   | 166   | 100        | 73    | 78    |
| KER              | 100                               | 106   | 155   | 100                            | 109   | 151   | 100             | 105   | 152   | 100        | 90    | 321   |
| TN               | 100                               | 99    | 157   | 100                            | 106   | 143   | 100             | 103   | 144   | 100        | 58    | 79    |
| WB               | 100                               | 80    | 158   | 100                            | 76    | 124   | 100             | 81    | 155   | 100        | 86    | 88    |
| <b>Middle</b>    |                                   |       |       |                                |       |       |                 |       |       |            |       |       |
| <b>Sub-total</b> | 100                               | 98    | 156   | 100                            | 99    | 146   | 100             | 105   | 154   | 100        | 73    | 107   |
|                  |                                   |       |       |                                |       |       |                 |       |       |            |       |       |
| BIH              | 100                               | 101   | 179   | 100                            | 126   | 165   | 100             | 103   | 169   | 100        | 81    | 290   |
| MP               | 100                               | 111   | 174   | 100                            | 108   | 171   | 100             | 114   | 179   | 100        | 126   | 108   |
| ORI              | 100                               | 115   | 186   | 100                            | 106   | 137   | 100             | 120   | 203   | 100        | 56    | 116   |
| RAJ              | 100                               | 111   | 152   | 100                            | 119   | 139   | 100             | 117   | 149   | 100        | 79    | 67    |
| UP               | 100                               | 89    | 116   | 100                            | 87    | 85    | 100             | 90    | 110   | 100        | 46    | 88    |
| <b>Poor</b>      |                                   |       |       |                                |       |       |                 |       |       |            |       |       |
| <b>Sub-total</b> | 100                               | 101   | 150   | 100                            | 105   | 126   | 100             | 104   | 148   | 100        | 70    | 121   |
| <b>Total</b>     | 100                               | 103   | 157   | 100                            | 101   | 136   | 100             | 107   | 153   | 100        | 79    | 104   |

Source: Estimates based on data from RBI Bulletins.

## 2.4. Comparisons with Other Countries and International Norms

Table 10 compares India with a) south Asia generally, b) east Asian countries, and c) all developing countries. It is clear that the total public expenditure as proportion of GDP is much higher in India as compared to the averages of the other groups. However, the share of public expenditure allocated to social services is much lower in India than in East Asian countries and all developing countries. The share for education in public expenditure is also lower than in East Asian countries (but much higher than in south Asia generally). In the case of health, India's public expenditure allocation is low, even compared to other South Asian countries. The data for India in this table are from 1992-93, but a similar picture emerges from Table 11, which is based on the 2003 Human Development Report. Education expenditure (taken as a percentage of GDP or as a percentage of overall public expenditure) was lower in India than in Malaysia, and Thailand. Health expenditure is also very low in India as compared to the other countries listed in Table 11. On the other hand, private expenditure on health is higher in India than many other countries.

**Table 10 Composition of Public Expenditure in India and Developing Countries**

| Major Heads                    | India<br>(1992-3) | All South Asian<br>Countries<br>(1985-90) | All East Asian<br>Countries<br>(1985-9) | All Developing<br>Countries<br>(1990) |
|--------------------------------|-------------------|---|---|---------------------------------------|
| Total expenditure – GDP Ratio  | 27.9              | 21.3                                      | 22.5                                    | 20.8                                  |
| Gen. Adm. and Pub. Order       | 11.6              | 17.2                                      | 17.3                                    | 15.3                                  |
| Defence                        | 11.7              | 12.0                                      | 10.9                                    | 1.0                                   |
| Economic services              | 29.8              | 30.6                                      | 30.6                                    | 21.1                                  |
| Education                      | 13.5              | 9.0                                       | 20.5                                    | 13.6                                  |
| Health and Family Welfare      | 2.9               | 4.2                                       | 7.0                                     | 5.9                                   |
| Housing and Community Services | 4.6               | 5.4                                       | 2.2                                     | 2.7                                   |
| Other Social Services          | 3.9               | 7.9                                       | 3.8                                     | 9.1                                   |
| Total Social Services          | 25.3              | 26.5                                      | 33.5                                    | 31.3                                  |
| Other Expenditure              | 21.6              | 13.7                                      | 7.5                                     | 21.3                                  |
| Total Expenditure              | 100.0             | 100.0                                     | 100.0                                   | 100.0                                 |

Source: M.G. Rao (1995) quoted in Mundale and Rao (1997)

**Table 11 Public Expenditure on Education and Health : International Comparisons**

| Countries | Education                   |  |  | Health                             |                                   | HDI rank |
|-----------|-----------------------------|--|--|------------------------------------|-----------------------------------|----------|
|           | As % of<br>GNP<br>1998-2000 | As % of total<br>govt. exp.<br>1998-2000 | Primary and<br>secondary<br>as% of all | Public exp.<br>as % of GDP<br>2000 | Private<br>exp.as% of<br>GDP 2000 |          |
|           |                             |  |  |                                    |                                   |          |

|               |     |      | <b>education</b> |     |     |     |
|---------------|-----|------|------------------|-----|-----|-----|
| India         | 4.1 | 12.7 | 79.9             | 0.9 | 4.0 | 127 |
| Bangladesh    | 2.5 | 15.7 | 89.7             | 1.5 | 2.6 | 139 |
| China         | 2.1 | 12.8 | 69.6             | 2.0 | 3.4 | 104 |
| Egypt         | 3.7 | --   | --               | 1.8 | 2.3 | 120 |
| Korea         | 3.8 | 17.4 | 78.5             | 2.6 | 3.3 | 30  |
| Malaysia      | 6.2 | 26.7 | 66.2             | 1.8 | 1.6 | 58  |
| Sri Lanka     | 3.1 | --   | 84.3             | 1.4 | 1.7 | 99  |
| Thailand      | 5.4 | 31.0 | 63.1             | 2.1 | 1.6 | 74  |
| Sweden        | 7.8 | 13.4 | 67.3             | 6.2 | 1.8 | 3   |
| Canada        | 5.5 | --   | 62.2             | 6.5 | 2.5 | 8   |
| United States | 4.8 | 12.3 | --               | 5.8 | 7.3 | 7   |
| U.K           | 4.5 | 11.4 | 79.9             | 5.9 | 1.4 | 13  |

Source: UNDP, Human Development Report, 2003

In order to facilitate cross-country comparisons and monitoring of social sector expenditure over time, the United Nations Development Programme (UNDP) has proposed the following four ratios (UNDP, 1991).

- The Public Expenditure Ratio: The percentage of national income that goes into public expenditure. The recommendation is to keep this ratio around 25%.
- The Social Allocation Ratio: the percentage of public expenditure earmarked for social services. This ratio, according to the UNDP, should be more than 40%.
- The Social Priority Ratio: the percentage of social expenditure devoted to human priority concerns. This ratio has to be more than 50%.
- The Human Expenditure Ratio: the percentage of national income devoted to human priority concerns. This ratio is the product of the above three ratios and the UNDP recommends that it should be about 5%.

Table 12 gives these ratios for India in the late 1980s and the late 1990s. It is clear that there has been some progress in the 1990s, but the ratios are still far removed from the UNDP norms.

**Table 12 Social Sector Ratios**

|                          | UNDP Norm | late 1980s | 1998-99 |
|--------------------------|-----------|------------|---------|
| Public Expenditure Ratio | 25        | 37*        | 25      |
| Social Allocation Ratio  | 40        | 20         | 27      |
| Social Priority Ratio    | 50        | 34         | 40      |
| Human Expenditure Ratio  | 5         | 2.5        | 2.8     |

Note: Social priority ratio was taken as the share of social sector allocation to elementary education, water& sanitation, public health, maternal& child health and child nutrition.

\* This is much higher than our calculation, and it may be that there is a difference in the methodologies used by the two sources.

### **3. EFFECTIVENESS OF SOCIAL SECTOR EXPENDITURES**

The discussion above on social sector expenditure suggests that expenditures are too low and should be stepped up. This, no doubt, is true. But apart from that, there are major problems in the utilization of the funds. There are two different issues that require attention, namely 1) underspending – the fact that allocated funds are not released and/or fully utilized, 2) the quality of expenditures – the neglect of infrastructural investments, and 3) the ineffective use, or even misuse, of funds.

#### **3.1 Underutilization of Funds**

An important phenomenon of social sector expenditure is underspending of the allocated resources. Underspending hardly occurs in non-Plan expenditure, but it does occur in most years in most sectors in the Plan. Labour and employment is a big underspending sector, but also the other sectors underspend most of the years (Dev and Mooij, 2002a: table 14).

The problem is even worse when one looks at mid-year utilisation rates. This has been done in a study by Rajaraman (2001a and 2001b). The study focuses on some major schemes of the Ministry of Rural Development for the year 2000-2001. The utilisation rates of these funds, for most of the schemes, were less than 50 per cent of the funds allocated for the first six months. In other words, in the first six months, less than 25 per cent of the annual allocation was used. The utilisation rate of the two major employment schemes (the Employment Assurance Scheme and JGSY, the successor of JRY) was 42 per cent (of 50 per cent). This, according to Rajaraman, is especially surprising, “since the first six months of the fiscal year from April encompass the agricultural slack season, when the demand for rural employment should be at its peak” (Rajaraman, 2001a:20). The utilization rates at the end of the year are, however, much higher “suggesting hasty, wasteful utilisation in the second half of the fiscal year” (ibid: 20). Underutilisation of funds seems to be more in the poorer States. “A simple regression shows a statistically significant rise in the mean mid-year utilisation rate of 4 per cent for every increase in the SDP of Rs. 1000 per capita. The worse-off states are also less efficient in using JGSY

funds" (Rajaraman, 2001b). So, although these schemes are meant to alleviate poverty, the poor States make less efficient use of them than the better-off States.

Several reasons may explain this underutilisation. First, new schemes bring new guidelines and require new procedures. It takes time before these State governments or local bodies are fully aware of these and are able to fulfill the criteria. Second, for some schemes, the Central government gives a grant that has to be complemented by matching funds from the States. If these matching funds are not available, the grants for the Centrally Sponsored Schemes will not be given. Third, there can be a deliberately created or unintentional delay in the Central bureaucracy, with spill-over effects for next year's allocation (which is partly based on spending figures of the previous year). Fourth, some schemes presuppose the availability of local infrastructure, such as rural primary health centres. If this infrastructure does not exist, schemes make no sense and funds are not allocated. Some Central schemes are also not relevant in each and every State. Fifth, there may be other forms of institutional disability or disinterest. State governments may not be able to get their act together and design a plan (for instance for a rural road) and can therefore not receive the money. It may also be that low priority is given by some State governments to implement the schemes. This can be the case, for instance, when the States are ruled by a party that does not participate in the Central (coalition) government. It may also be that there is hidden or open opposition (see Dev and Mooij, 2002b).

### **3.2 Quality of Expenditures**

One of the problems with social sector expenditure is the high share of revenue expenditure in overall expenditure. Revenue expenditure consists mainly of salaries, while capital expenditure refers to physical infrastructure (schools, hospitals, medical technology, etc.). Table 13 shows the upward trend of the revenue share. By the later 1990s, more than 95 per cent of overall social sector expenditure was revenue expenditure. This suggests a neglect of basic social sector infrastructure – something that is confirmed in, for instance, the PROBE report on education that reports of dilapidated schools, absence of toilets, lack of blackboards and other teaching equipment etc. It might well be that the demotivating effects of the absence or poor condition of basic

infrastructure on teachers, doctors and others is as much as the demotivating effect of low salaries.

**Table 13: Composition of Social Sector Expenditure**

| Year       | Composition of Social Sector Expenditure |         |
|------------|--|---------|
|            | Revenue                                  | Capital |
| 1986-7     | 91.05                                    | 8.95    |
| 1987-8     | 93.40                                    | 6.60    |
| 1988-9     | 94.07                                    | 5.93    |
| 1989-0     | 94.95                                    | 5.05    |
|            |  |         |
| 1990-1     | 95.09                                    | 4.91    |
| 1991-2     | 94.92                                    | 5.08    |
| 1992-3     | 95.21                                    | 4.79    |
| 1993-4     | 95.63                                    | 4.37    |
| 1994-5     | 94.70                                    | 5.30    |
| 1995-6     | 95.36                                    | 4.64    |
| 1996-7     | 95.31                                    | 4.69    |
| 1997-8     | 95.47                                    | 4.53    |
| 1998-9     | 95.20                                    | 4.80    |
| 1999-0     | 95.50                                    | 4.50    |
|            |  |         |
| 2000-1     | 94.87                                    | 5.13    |
| 2001-2 (R) | 93.75                                    | 6.25    |
| 2002-3 (B) | 93.39                                    | 6.61    |

The neglect of infrastructure is surprising in view of the widespread preference of policy makers to spend on infrastructure, rather than on salaries. In an earlier study (Dev and Mooij, 2002b), we found that both bureaucrats and technocrats in the government prefer concrete targets. Spending on physical infrastructure gives concrete results, while the results of revenue expenditure are not or much less measurable. Even when there is corruption in capital investments, at the end of the day, there is a road, a hospital or a power station. Nevertheless, despite this preference, the trend is in the other direction: revenue expenditure is going up and capital expenditure is going down. Whether there is a reversal of the trend after 2000-01 is still to be awaited.

### **3.3 Misuse and (In)Effective Use of Funds**

There is no doubt that a substantial proportion of the money meant for general social development purposes or targeted anti-poverty interventions is misused. This is even acknowledged by the Government of India itself. The mid-term appraisal of the 9<sup>th</sup> Plan

is very critical about the implementation of many schemes. In fact, the sixth chapter (on poverty alleviation programmes) reads as a long list of various kinds of failures of the government to implement the schemes properly (GoI, 2000). The Approach Paper to the Tenth Five Year Plan states that there are serious deficiencies in the capability to design viable schemes and in the delivery system on the ground, and these can be “regarded broadly as due to poor governance.” (GoI, 2001:48). On the other hand, there are also examples of States that have made considerable progress, even sometimes with limited funds.

### *Experiences of Some States*

Kerala is often mentioned as an example of a State that has been able to achieve spectacular improvements in terms of basic needs and standards of living. The differences in success rates between Kerala and other States seem to lie more in the quality of educational and health facilities and the efficiency with which they are used than in a substantially higher allocation of resources.

Some people have attributed Kerala's success to historical reasons.<sup>7</sup> There is some truth in this argument, but it may also be noted that, at the time that the Kerala State was formed, the Malabar region was very much behind Travancore and Cochin in terms of its social development. Nevertheless, by the 1980s, the Malabar region had caught up with the other regions. It was primarily well-directed state action that was responsible for this improvement. Apart from this, public participation and local leadership have also played an important role. Social movements like caste-based reform movements (e.g. the Izhava movement), missionary activities and left movements have helped in raising human development and social security for the poor. Women have also played an active role in raising the levels of social development in the State

Another positive example is Tamil Nadu, which has been a pioneer in the implementation of nutrition schemes and protective social security measures. There are two important state-sponsored special nutrition programmes in Tamil Nadu, namely, the Chief Minister's Nutrition Meal Programme (CMNMP) and the Tamil Nadu Integrated Nutrition Project (TNIP). The first programme, which is considered as the largest feeding

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<sup>7</sup> See Ramachandran (1997) for a discussion of this argument.

programmes in the world, has increased the nutritional intake of many school-going children. The TNIP experience has showed that a limited package of health-linked nutrition interventions can be successful and that it does not need to be very costly.

Apart from Kerala and Tamil Nadu, some other States have also taken important initiatives. We can refer to the Employment Guarantee Scheme in Maharashtra, primary education in Himachal Pradesh and Madhya Pradesh, public distribution in Andhra Pradesh, and land reform in West Bengal. By contrast, the less developed States like Bihar or Uttar Pradesh, seem to be characterized by apathy, rather than concerted public action. This may well be related to rather extreme forms of social inequality. As Dreze and Gazdar (1997: 106) remark in the context of Uttar Pradesh, “the high concentration of power and privileges deriving from the combined effects of inequalities based on class, caste, and gender has made for an environment that is extremely hostile to change and broad based political participation”.

### **3.4 How to Improve Effectiveness in Social Sector Policy Implementation**

A number of measures have been suggested to address recurrent problems of poor implementation and lack of political will, the most important of which are briefly discussed here. All these are, in a way, strategies to make the policy process more participatory and increase effective demand – in the political sense – for better government performance.

**(a) Decentralization:** Among the important new legislations introduced in the 1990s are the 73<sup>rd</sup> and 74<sup>th</sup> Amendment to the Constitution, devolving powers from the State government to rural and urban elected bodies. In order to empower and include women, there are provisions for reserving seats for women in the panchayats. The 73<sup>rd</sup> Amendment lists 29 subjects for devolution. These include some key social services, such as sanitation, health and primary education, which are of immediate relevance to social development.

Decentralization has been advocated for several reasons. First, it is thought that decentralization could improve governance. Reducing the distance between those who plan and those who are supposed to benefit would help in raising accountability. Second, decentralization would enhance political participation and therefore deepen democracy.

Third, decentralization would help to improve the quality and suitability of services, as programmes could become more needs-based when designed by (people close to) the target group, rather than by a State-level bureaucracy.

Based on these arguments, one would expect that decentralization would contribute to social development generally, and to poverty alleviation in particular. Mahal, Srivastava and Sanan (2000) have tried to test whether decentralization in the area of health and education has, indeed, led to improved outcomes in rural India. Their conclusion is that “indicators of democratization and public participation, such as frequency of elections, presence of non-governmental organizations, parent-teacher associations, and indicator variables for decentralized states generally have the expected positive effects, although these are not always statistically indistinguishable from zero” (*ibid*: 73). The database used in this study was the 1994 survey by the National Council of Applied Economic Research, so the study captured inter-State variation in decentralization, and not so much the impact of the 1992 Amendment to the Constitution.

In general, most scholars of decentralization in India emphasize that there are potential benefits for the poor, but that decentralization can also provide the rural rich with an additional arena in which they can assert their power (Mathew and Nayak, 1996). In his review of the literature, Johnson (2003) states that ‘[s]tudies of decentralization have consistently highlighted the fact that the 73<sup>rd</sup> Amendment and earlier attempts at decentralization have failed to prevent a local (and primarily landed) elite from controlling local *panchayats*. Micro-level studies have shown that *gram sabha* often fail to fulfil their role as deliberative bodies or as mechanism for accountability. (...) Even when there are reservations to ensure that marginal groups have a place in the *panchayat* system, there is evidence to suggest that these formal institutions have been usurped by more informal patterns of domination and power. Reservations for women, for instance, are notoriously prone to corruption by male relatives (...). Similar patterns have been observed among [Scheduled Castes and Scheduled Tribes], whose economic well being is dependent on the patronage of local elites’ (Johnson, 2003: 29). Moreover, in actual practice, decentralization has sometimes taken place only with regard to the functions the State governments were no longer willing to perform. Decentralization can become a means of shedding government responsibilities, rather than of increasing meaningful

participation. Experiences elsewhere have further shown that effective service delivery at the local level sometimes requires a strong Central government that stimulates and fosters a culture of accountability between local officials and the poor (Moore and Putzel, 2000; Tendler, 1997). Altogether these observations suggest that, while decentralization may sometimes be helpful in increasing people's participation in policy implementation and may sometimes enhance the quality of service provision, there is no *a priori* reason to assume that it will always do so. In fact, it is an empirical – and very important question – which modes of decentralization, under which conditions, have led to what kind of effects on the effectiveness of policy implementation and social development levels. Much more detailed research is necessary to shed light on this question.

**(b) Access to Information:** One way of increasing the accountability of panchayats, other local bodies and the government delivery system in general, is the right to information. This right was first demanded by the people of Rajasthan. This struggle was initiated by the Mazdoor Kisan Shakti Sangathan, a people's organization working in central Rajasthan. The struggle, which began to gain momentum in 1994 through the organisation of four public hearings stressing the need for transparency and a social audit of development expenditure, has subsequently spread to other parts of Rajasthan, and a variety of people and organizations have become involved. In recent years, the idea has also spread to some other States, and some State governments have introduced 'Right to Information' legislation.

**(c) NGOs and Public-Private Partnerships:** Non-governmental organizations and community-based organizations (CBOs) can play an important role in creating an environment for social mobilization and for sustainable human development. The main objective of social mobilization is to induce the poor or otherwise excluded categories of people to organize themselves, so that their voices become louder and can have more impact. This is absolutely necessary: several decades of poor implementation have shown that it is not sufficient to rely on the government alone to implement social development policies. There has to be an effective demand from the potential beneficiaries as well, in order to force the government to do a better job. To a certain extent, the state can play a role in creating this demand, by providing full openness about what it intends to do, but also by designing policies in such a way that they may contribute to social mobilization

and/or better governance. This requires a different set of parameters in the policy design process. Rather than desired outcomes in the conventional sense – decreasing poverty rates, increasing literacy, etc. – planners and policy makers should also plan for increased voice, knowledge and inclusion through a strategic design of the policy process. The challenge is to (re)design government programmes in such a way that the process becomes more participatory, that there is more scope for collective action, and that there is a better chance for the creation of effective countervailing power (Moore and Putzel: 2000).

An increasingly popular idea, especially in circles of international donors, is that NGOs or CBOs and governments should work more closely together. The 2004 World Development Report on ‘making services work for poor people’ is partly dedicated to this theme of ‘co-production’ or ‘public-private partnerships’. The rationale behind the idea is simple and appealing: most states suffer from bureaucratization, corruption etc. On the other hand, civil society organizations are sometimes amateuristic; their activities lack sustainability and are sometimes of poor quality. Partnerships, it is argued by the advocates, can help in overcoming the weaknesses of both. Some successful examples exist, indeed, in India, for instance, the women’s self-help groups in Andhra Pradesh, or health-focused NGOs through which the government implements its Aids campaigns. On the other hands, critics have pointed out that, in actual practice, there are often a number of difficulties.<sup>8</sup> NGOs and State bureaucracies are usually characterized by different organizational cultures, and there may be a great deal of suspicion on both sides. Moreover, successful partnerships require strong NGOs or CBOs that are able to cooperate with the government on the basis of equality. Partnerships can easily result in cleavages within the NGO/CBO world, as some organizations are selected while others are excluded. By reinforcing some activities of NGOs/CBOs, partnerships are also likely to undermine other activities that may be equally important but that are not funded, supported or appreciated by the partner–government. To conclude, there are major questions, to be addressed by those within the government who are taken in by the idea of partnerships as well as by concerned social scientists, about the conditions under which

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<sup>8</sup> See, for instance, Manor (2002)

partnerships may work well without compromising the potential of NGOs/CBOs to challenge the government from the position of an outsider.

#### **4. SUMMARY AND CONCLUSIONS**

To conclude, a number of observations can be made. First, overall (Centre and States taken together) anti-poverty and social development expenditure increased in reform era in terms of per capita expenditure. As percentage of GDP and aggregate government expenditure, the picture is mixed. The question that immediately arises is whether the expenditure levels should be considered as high or low. The answer to this question depends on the yardstick, of course, but we can nevertheless conclude that the expenditure on the social sector is low, (a) as compared with the proportion of GDP India used to spend on the social sector in the late 1980s, (b) as compared with some other developing countries, and certainly with East Asian countries, and (c) as compared with the norms/rations that are developed by the UNDP for comparing and monitoring social sector expenditure at the country level.

Second, the centre has done much better than the States. For both the centre and the States the trend growth rates in social sector spending was higher in the 1980s than in the 1990s. The tend growth rates for the centre are higher than the rates for the States. Altogether this means that the share of the States in overall (combined Centre and States) social sector expenditure continues to come down. This is a worrisome development. It may indicate a declining commitment on the part of the States to social development. In the area of health it goes together with a shift in the emphasis away from the normal (public) health services to vertical disease-related programmes.

Third, education expenditure from all departments declined as percentage of GDP from around 4.1 per cent in 1990-91 to 3.8 per cent in 1998-99. This is mainly due to a decline in expenditure at the State level. Within education, there is a shift towards expenditure on elementary education at the central level. There is no such trend at the state level. A further disaggregation shows that this increase is to a large extent (but not completely) related to the introduction and expansion of the mid-day meal scheme. Within the expenditure for health, there has been a shift towards mother and child related activities.

Fourth, there is an urgent need for stepping up social sector expenditure. At the same time, given the characteristics of the budget-making process (Mooij and Dev, 2004), it is very unlikely that this is going to happen in the near future. A substantial increase in the allocation for the social sector is only likely to happen when something changes in the budget-making process. In that respect, movements towards decentralised planning and increasing awareness among the public about budgets are to be welcomed. They can play a very important role in involving a wider group of people in the budget making process and, thereby, in changing the policy bias and the content of the allocation decisions.

Finally, there is an obvious need for a better utilization of the allocated money. As mentioned, underutilisation of funds, poor implementation, neglect of infrastructure, misuse of funds and corruption are openly acknowledged in various policy documents. We have briefly discussed three strategies that are sometimes believed to improve effectiveness of policy implementation, but have also stressed that, unfortunately, there are no magic bullets. There is, however, a challenging research agenda. There are important questions regarding the conditions under which particular forms of decentralization or partnerships produce the desired results. There are equally relevant questions about how particular designs of policies could promote social mobilization or other forms of public action. Such studies are necessary as strategic inputs in the process of policy formulation, so that policy makers can start planning not only for desired outcomes, but also for more public demand and a more inclusive policy process.

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Table A1: All State Social Sector Expenditures as per cent of GDP

|         | Edu, Sports,<br>Art&Cul etc. | Health &<br>Fam. Wel | Water Supply<br>Sanitation | TOTAL<br>OTHERS | Social<br>Services | Rural<br>Develop | Social<br>Sector |
|---------|------------------------------|----------------------|----------------------------|-----------------|--------------------|------------------|------------------|
| 1       | 2                            | 3                    | 4                          | 5               | 6                  | 7                |                  |
| 1980-81 | 2.19                         | 1.12                 | 0.00                       | 1.08            | 4.39               | 0.00             | 4.39             |
| 1981-82 | 2.16                         | 1.16                 | 0.00                       | 1.04            | 4.36               | 0.00             | 4.36             |
| 1982-83 | 2.34                         | 1.24                 | 0.00                       | 1.22            | 4.79               | 0.00             | 4.79             |
| 1983-84 | 2.31                         | 1.30                 | 0.00                       | 1.16            | 4.77               | 0.00             | 4.77             |
| 1984-85 | 2.40                         | 1.30                 | 0.00                       | 1.19            | 4.89               | 0.00             | 4.89             |
| 1985-86 | 2.49                         | 1.01                 | 0.31                       | 1.26            | 5.08               | 0.80             | 5.87             |
| 1986-87 | 2.53                         | 0.88                 | 0.49                       | 1.30            | 5.20               | 0.93             | 6.13             |
| 1987-88 | 2.58                         | 0.91                 | 0.49                       | 1.32            | 5.30               | 0.93             | 6.23             |
| 1988-89 | 2.64                         | 0.87                 | 0.43                       | 1.21            | 5.15               | 0.88             | 6.03             |
| 1989-90 | 2.85                         | 0.85                 | 0.37                       | 1.11            | 5.18               | 0.60             | 5.78             |
| 1990-91 | 2.78                         | 0.85                 | 0.35                       | 1.16            | 5.14               | 0.84             | 5.98             |
| 1991-92 | 2.66                         | 0.82                 | 0.36                       | 1.18            | 5.01               | 0.84             | 5.85             |
| 1992-93 | 2.61                         | 0.79                 | 0.35                       | 1.08            | 4.84               | 0.87             | 5.72             |
| 1993-94 | 2.55                         | 0.81                 | 0.36                       | 1.02            | 4.74               | 0.86             | 5.61             |
| 1994-95 | 2.52                         | 0.76                 | 0.38                       | 1.01            | 4.67               | 0.70             | 5.37             |
| 1995-96 | 2.47                         | 0.74                 | 0.34                       | 1.18            | 4.73               | 0.57             | 5.30             |
| 1996-97 | 2.45                         | 0.72                 | 0.34                       | 1.11            | 4.63               | 0.58             | 5.21             |
| 1997-98 | 2.48                         | 0.74                 | 0.37                       | 1.12            | 4.71               | 0.58             | 5.29             |
| 1998-99 | 2.66                         | 0.76                 | 0.40                       | 1.13            | 4.95               | 0.62             | 5.57             |
| 1999-00 | 2.92                         | 0.78                 | 0.37                       | 1.13            | 5.21               | 0.57             | 5.78             |
| 2000-01 | 2.89                         | 0.77                 | 0.41                       | 1.21            | 5.28               | 0.54             | 5.82             |
| 2001-02 | 2.84                         | 0.80                 | 0.42                       | 1.42            | 5.48               | 0.63             | 6.11             |

Table A2: All States social sector expenditures as per cent of Total Expenditures

|         | Edu, Sports,<br>Art&Cul etc. | Health &<br>Fam. Wel | Water Supply<br>Sanitation | TOTAL<br>OTHERS | Social<br>Services | Rural<br>Develop | Social<br>Sector |
|---------|------------------------------|----------------------|----------------------------|-----------------|--------------------|------------------|------------------|
| 1       | 2                            | 3                    | 4                          | 5               | 6                  | 7                |                  |
| 1980-81 | 17.48                        | 8.93                 | 0.00                       | 8.60            | 35.01              | 0.00             | 35.01            |
| 1981-82 | 17.64                        | 9.43                 | 0.00                       | 8.46            | 35.53              | 0.00             | 35.53            |
| 1982-83 | 18.37                        | 9.72                 | 0.00                       | 9.59            | 37.68              | 0.00             | 37.68            |
| 1983-84 | 18.03                        | 10.13                | 0.00                       | 9.10            | 37.25              | 0.00             | 37.25            |
| 1984-85 | 17.74                        | 9.56                 | 0.00                       | 8.81            | 36.12              | 0.00             | 36.12            |
| 1985-86 | 18.13                        | 7.33                 | 2.29                       | 9.18            | 36.92              | 5.81             | 42.73            |
| 1986-87 | 17.76                        | 6.19                 | 3.42                       | 9.14            | 36.51              | 6.55             | 43.06            |
| 1987-88 | 17.66                        | 6.26                 | 3.33                       | 9.04            | 36.29              | 6.34             | 42.64            |
| 1988-89 | 18.73                        | 6.21                 | 3.03                       | 8.62            | 36.59              | 6.27             | 42.86            |
| 1989-90 | 20.29                        | 6.08                 | 2.66                       | 7.91            | 36.94              | 4.30             | 41.24            |
| 1990-91 | 19.52                        | 5.95                 | 2.46                       | 8.14            | 36.07              | 5.91             | 41.99            |
| 1991-92 | 18.03                        | 5.54                 | 2.43                       | 8.01            | 34.00              | 5.70             | 39.71            |
| 1992-93 | 18.31                        | 5.54                 | 2.47                       | 7.58            | 33.90              | 6.13             | 40.03            |
| 1993-94 | 17.98                        | 5.70                 | 2.52                       | 7.21            | 33.41              | 6.09             | 39.57            |

|         |       |      |      |      |       |      |       |
|---------|-------|------|------|------|-------|------|-------|
| 1994-95 | 17.47 | 5.31 | 2.64 | 7.00 | 32.42 | 4.88 | 37.30 |
| 1995-96 | 17.96 | 5.41 | 2.47 | 8.55 | 34.39 | 4.14 | 38.53 |
| 1996-97 | 18.00 | 5.27 | 2.52 | 8.16 | 33.94 | 4.26 | 38.20 |
| 1997-98 | 18.00 | 5.38 | 2.72 | 8.16 | 34.26 | 4.18 | 38.44 |
| 1998-99 | 19.04 | 5.45 | 2.86 | 8.10 | 35.45 | 4.45 | 39.91 |
| 1999-00 | 19.67 | 5.26 | 2.52 | 7.61 | 35.06 | 3.87 | 38.93 |
| 2000-01 | 18.68 | 5.00 | 2.64 | 7.85 | 34.17 | 3.51 | 37.68 |
| 2001-02 | 17.63 | 4.94 | 2.57 | 8.82 | 33.97 | 3.89 | 37.86 |
| 2002-03 | 16.86 | 4.77 | 2.43 | 8.53 | 32.60 | 3.97 | 36.56 |

| Table A3 : ALL STATES<br>Per capita Real Expenditure (at 93-94 prices) on Social Sector |                              |                      |                            |                 |                    |                  |                  |
|---|------------------------------|----------------------|----------------------------|-----------------|--------------------|------------------|------------------|
|   | Edu, Sports,<br>Art&Cul etc. | Health &<br>Fam. Wel | Water Supply<br>Sanitation | TOTAL<br>OTHERS | Social<br>Services | Rural<br>Develop | Social<br>Sector |
|   | 1                            | 2                    | 3                          | 4               | 5                  | 6                | 7                |
| 1980-81   | 126                          | 64                   | 0                          | 62              | 252                | 0                | 252              |
| 1981-82   | 130                          | 70                   | 0                          | 63              | 263                | 0                | 263              |
| 1982-83   | 147                          | 78                   | 0                          | 77              | 301                | 0                | 301              |
| 1983-84   | 154                          | 86                   | 0                          | 78              | 318                | 0                | 318              |
| 1984-85   | 165                          | 89                   | 0                          | 82              | 335                | 0                | 335              |
| 1985-86   | 181                          | 73                   | 23                         | 92              | 369                | 58               | 427              |
| 1986-87   | 190                          | 66                   | 37                         | 98              | 391                | 70               | 461              |
| 1987-88   | 200                          | 71                   | 38                         | 102             | 410                | 72               | 482              |
| 1988-89   | 221                          | 73                   | 36                         | 102             | 432                | 74               | 506              |
| 1989-90   | 251                          | 75                   | 33                         | 98              | 456                | 53               | 509              |
| 1990-91   | 254                          | 77                   | 32                         | 106             | 469                | 77               | 546              |
| 1991-92   | 240                          | 74                   | 32                         | 107             | 454                | 76               | 530              |
| 1992-93   | 242                          | 73                   | 33                         | 100             | 447                | 81               | 528              |
| 1993-94   | 245                          | 78                   | 34                         | 98              | 455                | 83               | 539              |
| 1994-95   | 248                          | 75                   | 37                         | 99              | 460                | 69               | 529              |
| 1995-96   | 260                          | 78                   | 36                         | 124             | 497                | 60               | 557              |
| 1996-97   | 278                          | 81                   | 39                         | 126             | 525                | 66               | 591              |
| 1997-98   | 294                          | 88                   | 44                         | 133             | 559                | 68               | 627              |
| 1998-99   | 334                          | 96                   | 50                         | 142             | 622                | 78               | 700              |
| 1999-00   | 386                          | 103                  | 50                         | 149             | 688                | 76               | 764              |
| 2000-01   | 378                          | 101                  | 53                         | 159             | 691                | 71               | 762              |
| 2001-02   | 387                          | 109                  | 57                         | 194             | 746                | 85               | 831              |
| 2002-03   | 378                          | 107                  | 55                         | 191             | 731                | 89               | 820              |