

3. Sectors: profiles and issues

Focus: The focus in the examination of sectoral issues in this chapter will be on performance shortfalls, and on the measures that could be implemented towards enhancing the effectiveness of existing expenditures in each sector. The possible impact of the measures suggested is not quantified since even an underlying model for each sector would be calibrated to past outcomes. A final section examines whether expenditure shortfalls can be identified by application of sector-specific norms.

Services are provided either through a department of the Government (as in education, health, irrigation), a departmental enterprise [Punjab Roadways (PR) in transport], or a non-departmental enterprise Punjab State Electricity Board (PSEB). The difference between departmental and non-departmental enterprises in their relationship with the State exchequer has been detailed in *PSUs and the State exchequer*, chapter 2. Departmental enterprises are found in sectors where cost-recovery is expected (such as transport) as distinct from sectors where it is not (such as social sectors). Thus, a reform programme which enhances user costs in departmental enterprises is in line with the *raison-d'etre* of creating these enterprises in the first place, and should in principle meet with less opposition than enhanced charges on services provided through government departments.

EDUCATION

Primary school enrolment is close to universal in rural areas, 60 percent in urban (table B.2), but drop-out rates upto class VIII, although lower than the all-India level, are high relative to neighbouring Haryana and of course Kerala (table B.3). Beyond class VIII, however, the incremental drop-out rate is lower than in Haryana and even Kerala, surprisingly.

Because of the drop-out problem, no change is suggested here to the present structure of free school education for all students upto class VIII, and free education upto class XII for girl students and students from scheduled and backward castes and tribes (50 percent of all seats are reserved for scheduled/backward castes/tribes and children of ex-servicemen). In general, however, the replacement of caste-based by income-based concessions would better serve the purpose for which they are intended.

Student-teacher ratios are more favourable in Punjab than in the reference states of Haryana and even Kerala for all levels with the exception of secondary education in Kerala,

where there is a well-known teacher redundancy problem resulting from the demographic transition (table E.2). Within the State, as elsewhere, student-teacher ratios are lowest at secondary level. Growth in staff strength (table E.3) has in recent years been the highest at secondary, particularly senior secondary level. A staff freeze of the kind imposed in scenario #1 would do no damage at this level. Staff growth at primary level has actually been negative in recent years. Reform scenario #2 allows for an increase in staff strength **in primary education alone.**

Even without expansion of staff, there is considerable scope for reducing spatial unevenness in the quality of education and thereby improving the effectiveness of expenditure on education. Table E.4 shows the student-teacher ratios in the state by district. The variations across districts show considerable room for reallocation of teachers away from currently favoured districts, especially at primary level. Transfers can only be executed within each level of education.

Provision of additional staff is merely an enabling condition for improved educational outcomes. Ultimately, success is a matter of the institutional arrangements in place for correction of teacher absenteeism, a major contributory factor towards poor outcomes and high dropout rates. Legislative transfer of the education monitoring function to the local level of governance, and in particular of primary education to the lowest tier within the three-tier *panchayat* structure, is a necessary first step (Rajaraman et.al., 1996). Prescription of curricula and textbooks can remain in the hands of the state-level department of education.

The phenomenon earlier referred to (chapter 1) whereby rural girls migrate to urban schools at upper primary level suggests the need for measures other than a mere evening-out of the teacher-student ratio if the gender gap in school attendance is to be closed. Because this may require additional expenditure on physical infrastructure, such as, separate toilets for girls, it is recommended that some of the additional capital outlay made possible by fiscal correction be earmarked for gender-specific upgradation of school facilities. It must be added that other factors, such as hooliganism in rural schools could cause out-migration of girl-children. Correction of teacher absenteeism is a first but not sufficient step towards making the rural school environment favourable for the girl-child.

HEALTH

Of all health status indicators, the crude birth rate alone, at 24.7 per thousand in 1995, falls short of the year 2000 national target of 21.0 per thousand (tables B.4, B.6). To quote the Draft Ninth Five Year Plan of the Government of Punjab: "the state has achieved and even surpassed most of the goals laid down in the National Health Policy" (p.32).

A Punjab Health System Corporation was set up in 1996-97 covering 150 hospitals at the level of community health centre and above. The Corporation upgrades facilities with the aid of a soft World Bank loan (70 percent), State government grants (30 percent) and loans (10 percent). User charges in the 150 hospitals are levied at the same rate as in other hospitals in the State. Collections have improved because of the upgradation of facilities, but are retained entirely by the hospitals concerned, unlike collections from hospitals not covered by the Corporation, which accrue to the State exchequer. **Thus the burden of servicing the World Bank loan (after a five-year loan moratorium) will be borne by the State government, to which the charges levied on beneficiaries of the loan do not at present accrue.** It is thought that five years hence, user charges on all improved facilities could be enhanced. At that stage, there could perhaps be an earmarking of a portion of the enhanced charge for servicing of the loan.

AGRICULTURE

The decline in the agricultural growth rate post-1985 has been discussed (under *Sectoral performance*, chapter 1). There is a need for infrastructure development on storage facilities and feeder roads into the hinterland so as to enable a supply-side response to the new post-reform export opportunities. The 4 percent market fee at present levied on sale of agricultural produce in designated market yards is intended for rural infrastructure development and bypasses the State exchequer (see section J.3, appendix J). This arrangement should remain undisturbed since the expenditure break-up provided by the SFC Report shows fairly low percentages devoted to establishment costs. The State Finance Commission (SFC) recommendation that *panchayats* should have a greater say in the choice of rural development schemes is endorsed here (see *Lack of transparency*, chapter 2).

Input subsidies: Agriculture accounts for 28 percent of all explicit subsidies, but these are linked to Central subsidies. A unilateral phase-out or even freeze of State-level subsidies is not possible without a parallel development at the Centre. The recent zero-pricing of irrigation water and electricity for farmers, is discussed in the following three paragraphs.

IRRIGATION

Even prior to the 1997 abolition of irrigation charges, the irrigation department in Punjab was incurring losses (table J.1) due to low, infrequently revised rates; the department denies that arrears are a contributory factor. The reform scenarios project a rise in irrigation charges going beyond mere reversal of the 1997 zero-rating of irrigation water.

INDUSTRY

Industrial growth rates showed a revival after 1991/92 (see *Sectoral performance*, chapter 1), but even this buoyancy will suffer if reforms do not increase expenditure on infrastructure development. Industrial subsidies account for 46 percent of total explicit subsidies in Punjab and must be phased out to yield resources for infrastructure development, but this will require inter-State coordination (see *Subsidies: explicit and implicit*, chapter 2).

POWER

The financial health of the PSEB has been critical during the nineties. "Gross internal resources" (defined as retained surplus plus net change in inventories, which may be positive or negative) has been negative throughout the nineties. In 1997/98, this deficit amounted to as much as Rs. 638 crore, including the impact (Rs. 207 crore) of the 1997 decision to give free power to agriculturists (see table H.1). It is important to note that all of the deficit cannot be wiped out by the reversal of that decision alone. Interest due to the State government is not included in this figure, since the rural electrification subsidy is adjusted notionally against it (see para after next). **When it is included, the total loss amounts to over Rs.1000 crore annually.**

Denial of compensation for the 1997 giveaway is merely the most egregious example of lack of autonomy in tariff setting. The PSEB average tariff of Rs. 1.38/kwh (before the 1997 decision to give away electricity free to farmers) is below the national average of Rs. 1.49/kwh by 11 paise (table H.2). The average tariff paid by industrial consumers in the State, who account for 40 percent of total sales, is as much as 19 paise per Kwh below the national average (table H.7). PSEB is not at liberty to raise these tariffs without state government approval.

As part of an attempt to make transparent the operating losses of PSEB on account of rural electrification, an undertaking in April 1977 commits the State government to an annual explicit subsidy to PSEB. The subsidy was to be either the difference between operating expenses and operating revenue in respect of rural electrification operations, or the amount required (if lower) to achieve a stipulated 9.5 percent return on assets. Since PSEB does not maintain a separate account of operating expenses and revenue relating to rural electrification, it is the rate of return basis on which the subsidy necessarily has to be estimated. Starting 1995/96, the PSEB has unilaterally moved to a 15 percent rate of return instead of 9.5 percent, and so the subsidy figure for 1995/96 remains in dispute.

This subsidy never results in an actual expenditure outflow in any year because it is adjusted against interest due from the PSEB on State government loans, with a periodic routing through the budget of accumulated subsidy against a notional interest receipt of the same amount, ignoring the excess of interest over subsidy due. The excess of interest dues from PSEB over the subsidy commitment, which is never paid or formally restructured, afforded room for denial of compensation for the Rs. 207 crore loss to PSEB resulting from the 1997 zero-rating of electricity for agriculturists, which was adjusted against unpaid interest dues (see *Fiscal misgivings*, chapter 2).

The thermal plant load factor (plf) in Punjab has fallen after 1993/94 below the average for the northern region, which in turn is below the national average (table H.4). The share of operations and maintenance (O&M) in total cost has declined from 3.10 percent in 1992/93 to 2.69 percent in 1996/97 (table H.5). In terms of absolutes per unit output, O&M expenditure has risen over the period per unit of sale, but remains below the national average and below levels in all the sample states (table H.7).

No additional equity investments have been made by the State government in PSEB after 1991/92. The total equity stake in PSEB is reported at Rs. 1617 crore as on 31 March 1996, of which as much as Rs. 1117 crore was supplied in 1991/92 alone. There is no return to the State government on this equity.

TRANSPORT

There are two State road transport undertakings in Punjab. Punjab Roadways (PR) is a departmental undertaking and Pepsu Road Transport Corporation (PRTC) is non-departmental. The losses of these undertakings amounted in 1996/97 to Rs. 48.59 (PR) and Rs. 16.73 crore (PRTC). The loss is partially covered by converting the depreciation provision into a notional entry. This is reflected in the age structure of their fleets; overaged buses constituted 47 percent (PR) and 36 percent (PRTC) of their respective fleets in 1996/97. Appendix I examines the available options for reform of this situation.

Grant of autonomy in setting fares is a necessary pre-condition for reform in this as in other sectors. The government-prescribed bus fare on PSU buses, at 25 paise/km, compares unfavourably with fares in neighbouring States of 37 paise (Haryana); 32 paise (Himachal Pradesh); 31 paise (Rajasthan).

Large arrears of tax remain unpaid because the tax payable per bus either approaches (PRTC) or actually exceeds (PR) the gross operating surplus. Thus, PSU reform will feed back into the State exchequer.

POLICY TOWARDS PSUS

The stated policy towards non-departmental PSUs is that they will be required to cover all losses themselves. This arm's length relationship might be justifiable if it is extended to all spheres. But in conjunction with denial of autonomy in tariff-setting, PSUs simply do not have the latitude they need to turn themselves around. While the State exchequer cannot possibly meet the financial restructuring needs of PSUs, which can only be worked out as part of a package with assistance from financial institutions and privatisation components, it is difficult to see how the recent decision not to extend any further loans from the State government to the PSU starting 1997/98 can be sustained. The baseline scenario assumes that the percentage to GSDP of net loans and advances in the base period 1994-97 will have to continue into the immediate future because of the critical financial situation in the power and other sectors. **No other contribution from the State government towards PSU restructuring is either necessary nor indeed feasible. The grant of complete autonomy in tariff-setting will be a sufficient contribution.** In the case of PSEB, previous experience in Orissa and Haryana can serve as guideposts for the design of financial restructuring.

SPENDING GAPS

Operation and maintenance (O&M): The focus in this chapter has been on identifying reforms that can improve the effectiveness of present levels of expenditure. Although these should undeniably be the immediate focus of reform efforts, there is also an expenditure shortfall that needs to be rectified. It is clear that capital expenditure has borne the brunt of fiscal accommodation, and needs to be restored. This is frontally addressed in reform scenario #1 (see next chapter). In addition, there has also been a squeeze on maintenance, which cannot readily be unearthed from reported categories of current expenditure. Rectification of these (current) spending gaps will be added on in reform scenario #2.