

4. Social and Economic Sectors: Profiles and the Ninth Plan

EDUCATION

With a literate male population of 93.62 percent, and literate female population of 86.17 percent, Kerala stands tall among the Indian States. The average teacher-pupil ratio in Kerala schools is 1:30.

There is now excess capacity in schools as the age structure in Kerala is changing towards the higher age groups, given the low birth rate and improvement in life expectancy. Many existing schools have become uneconomic. Enrolment in schools is also falling (table 4.1).

Table 4.1: Education: Enrolment and Uneconomic Schools

(Lakhs)

Enrolment in Schools - Stage-Wise									
Stage	1995			1996			1997		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
Lower primary	11.53	10.99	22.52	11.24	10.74	21.98	10.94	10.46	21.40
Upper primary	9.48	8.92	18.4	9.35	8.78	18.13	9.22	8.68	17.9
Secondary	8.01	8.25	16.26	7.97	8.19	16.16	7.91	8.13	16.04
Total	29.02	28.16	57.18	28.56	27.71	56.27	28.07	27.27	55.34
Uneconomic Schools(Numbers)									
	Government Schools			Private Schools			Total		
1997	625			782			1407		

Source: GoK, SPB, 1997(a).

Total expenditure (including sports, arts, culture) on education has also fallen. In 1996-97, it was 5.09 percent of GSDP, having declined from 5.64 percent in 1990-91. Table 4.2 gives a summary of the number of educational institutions in Kerala. The number of primary schools has fallen from 6767 in 1990-91 to 6726 in 1996-97. The share of expenditure on primary education in total expenditure on education has also declined (55.85 percent in 1992-93, 41.17 percent in 1996-97). The vast infrastructure of educational institutions needs to be sustained by devoting attention to non-salary maintenance expenditure. The pattern in Kerala is that after secondary education, students move to polytechnics and other technical institutions for acquiring such qualifications as would facilitate their employment in the Gulf countries or elsewhere in India. As such, most students do not opt for higher education. This tendency is reinforced by the fact that Kerala has one of the highest incidence of unemployment of

educated youth. Potential areas where new technologies may offer absorption of educated youth in large numbers must be tapped.

It is suggested that Kerala should now shift its attention to higher education. Having a large base in the educational pyramid, Kerala is eminently suited for this purpose. In particular, it should aim at developing a manpower base for industries based on information-technology.

Table 4.2: Educational Institutions and Expenditure on Education in Kerala

Educational Institutions	(Numbers)						
	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Primary institutions (LP)	6767	6783	6779	6702	6694	6728	6726
Middle institutions (UP)	2915	2935	2931	2920	2912	2964	2968
High schools	2452	2472	2472	2475	2486	2573	2580
Colleges for general education ¹	172	173	174				211
Professional education ²	83	86	89				92
University							7
Expenditure on education							
Education Total expenditure (Rs. lakh)	79501.30	85385.40	93467.60	117137.30	137274.00	145760.90	164283.80
Share in GSDP	5.64	4.87	4.69	5.20	5.09	4.85	4.92

Source: 1. GoK, SPB, 1997(a); CAG, relevant years.

Notes: 1. Includes Arts and Science Colleges both in government and private sectors.
2. Includes engineering colleges, polytechnics and technical high schools.

HEALTH

Achievements in the health sector are exemplary. High life expectancy at 67.2 years for men, and 72.4 years for women (all-India figures are 60.6 and 61.7 years respectively), low birth rate (17.7 per thousand population against the all-India figure of 28.8), and distinctly low IMR (16 per '000 against 74 for all-India) put Kerala way ahead of most other Indian States.

A vast health care infrastructure has been put in place with 1310 allopathic medical institutions, 43,165 beds, and 956 primary health centres (PHCs). In the government sector, availability of beds per lakh of population is 147 as compared to 97 for all-India.

However, expenditure on health as a percentage of GSDP has also been on the decline. It fell from 1.57 percent in 1991-92 to 1.36 percent by 1996-97. People have been increasingly looking towards the private sector for better services. There is a clear case for increasing user charges for individualised health services accompanied by an improvement in the quality of services. The State Planning Board's task force on tax and

non-tax revenues [GoK, SPB, 1997(c)] has observed that 'good infrastructure facilities created in government hospitals are deteriorating for want of proper maintenance and upkeep'.

Table 4.3: Health Infrastructure and Expenditure on Health

Rural Health Infrastructure		1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
Primary health centres (numbers)		908	907	918	924	940	961	956
Community health centres (numbers)		54	54	54	51	52	60	80
Sub-centres (numbers)		5094	5094	5094	5094	5094	5094	5094
Expenditure on health								
Health	Total expenditure (Rs. lakh)	22199.10	23180.40	23922.90	29845.10	35661.40	41720.80	45341.30
	Share in GSDP	1.57	1.32	1.20	1.33	1.32	1.39	1.36

Source: 1. GoK, SPB, 1997(a); CAG, relevant years.

The per capita total revenue expenditure on health services (including medical and public health services) has always been higher than the corresponding per capita expenditure for all States. The percentage difference has, however, steadily narrowed down over the years.

The structure of expenditure in the health budget shows increasing predominance of pay and allowance at the expense of medicine and construction. The expenditure on hospital accessories has also not increased adequately. As such the structure of health expenditure has been changing in an adverse way (table A4.4).

Table 4.4: Per Capita Health Expenditure: Kerala and All States

	(Rupees)						
	1960-65	1965-70	1970-75	1975-79	1980-85	1985-90	1991-95
All states	2.61	4.56	7.33	13.39	26.04	47.88	95.47
Kerala	3.46	6.05	8.67	19.06	31.85	48.98	113.18

Source: Sadanandan, 1992.

The relative shares of institutions in health budget of Kerala also show increasing bias towards medical college hospitals where sophisticated tertiary medical services in urban areas are provided. This is an area where the private sector could have played a greater role leaving budgetary resources for attention to the poorer sections of the society and the rural areas (table A4.5).

IRRIGATION

Kerala has 1.18 percent of land area of India and 4.8 percent of the water resources of the country. With limited land available for agriculture, and abundant water, a near complete irrigation cover appears both desirable and feasible. Yet, owing to slippage in achieving targets, the State has fallen way behind the required coverage. The irrigation department puts the figures for gross and net area irrigated at 6.76 and 4.19 lakh hectare respectively, whereas the Directorate of Economics and Statistics puts these figures at 4.65 and 3.43 lakh hectare (for 1995-96). Unanticipated cost escalation and resource shortage has placed targets considerably out of reach. At the beginning of the Eighth Plan, the average cost per hectare was worked out at Rs. 5770. Recent estimates put this figure at Rs. 81,093 per hectare, i.e., a fourteen-fold increase [GoK, SPB, 1997(a)]. So far, major and medium irrigation has been emphasised and due weightage has not been given to minor irrigation which suits the State rather well. Water rates are extremely low. More recoveries can be made and more resources need to be put in this vital sector.

Table 4.5: Physical and Financial Performance of Kerala State Electricity Board

Physical	1992-93	1993-94	1994-95	1995-96
Share of power sector outlay in total outlay (percent)	20.08	20.43	23.81	29.03
Outlay on renovation and modernisation (Rs. crore)	8.30	1.00	5.00	7.00
Transmission and distribution losses as percentage of availability	21.00	20.17	20.09	19.00
Power supply position: surplus (+)/deficit (-) (percent)	-3.70	-1.90	-0.80	-14.30
Gross generation (MKWH)	6192.70	5822.30	6571.10	6700.00
Net generation (MKWH)	6158.00	5789.30	6547.20	6467.00
Purchase of power (gross, MKWH)	1232.50	2020.00	2247.00	2540.00
Financial				
Sales revenue as ratio of cost (percent)	84.71	82.79	87.38	77.14
Commercial loss (-) (with no subsidy from the State government) (Rs. crore)	-65.40	-75.80	-110.80	-172.40
Subsidy to sales revenue ratio (with cross subsidisation) (percent)	18.10	19.80	23.90	28.80
Cross subsidy from other users (crores)	-2.00	-1.00	-11.00	-27.00
Rate of return on capital (without subsidy)	-11.40	-9.40	-12.30	-17.50

Source: GoI, 1997(a).

FORESTRY AND WILDLIFE

The forest area in Kerala constitutes 10,336 sq. kms. in 1995, which is 26.5 percent of the geographical area of the State (data from INSAT). The forest department controls an effective area of 9,400 sq. kms. (24.2 percent of the geographical area) out of the total forest area. The forests in Kerala contain wet evergreen, deciduous, and shoal

trees and grasslands, and plantation areas (table A4.6). The plantation area, which has shown an increase from 1,58,682 hectares in 1996 to 1,60,036 hectares in 1997, mainly contains softwoods. Nearly 5.79 percent of the total forest area of the State has been put under the wildlife protected area compared to the national average of 4 percent. Major forest products in Kerala are timber, firewood, honey, bamboo, and reeds. The quantity of timber, bamboo and reeds have shown higher production in 1996–97 compared to the earlier period, whereas the production of cardamom and honey has declined. The programme of social forestry has slowed down after completion of the World Bank aided project during the Seventh Plan. Other programmes undertaken by the State government for conservation and promotion of forests include compensatory afforestation programme, participatory approach in resource management and involving local bodies in homestead and agro-based forestry.

Revenues from forests amounted to about Rs. 43 crore in 1985–86. They fell during the late 1980s to Rs. 33 crore in 1989–90. Since then, they have been increasing. A significant increase has been experienced in the early 1990s. These are now around Rs. 160 crore although the revised and budget estimates for 1997-98 and 1998–99 respectively indicate that the forest revenues would again fall to about Rs. 135 crore. We think that the forest sector has a revenue potential of about Rs. 200 crore in the near future. The rise in forest revenues are attributed to the increase in extraction of forest products as well as rise in the price of timber. There is considerable additional revenue potential in this sector. The prices for various forest-based raw materials (like bamboo, eucalyptus, and acacia) for industry are much below their market prices. The forest department is the main supplier of industrial raw materials to paper, newsprint and other industries. However, this department continues to supply raw material to these industries on the basis of earlier contracts for which the prices have remained lower than the market prices. Such contracts between the forest department and industries should be revised in view of the escalated market price. The subsidised sale of timber to industries amounts to a major loss for the State government.

The Supreme Court directive to undertake felling of trees only on a scientific and sustainable basis according to approved working plans seems to have temporarily arrested forest-based activities in Kerala. There has also been a significant adverse effect on processing industries dealing with forest produce. This is causing an unemployment problem. As such, it is important for the government to prepare the necessary working plans and restore as much of forest-based activities as possible.

POWER

Kerala is as richly endowed with hydro-potential as it is poorly placed with respect to other major sources of energy, *viz.*, coal, oil and gas. But even the full use of its hydro-potential has been curbed since the mid-eighties due to environmental issues and inter-State disputes. Its distance from the major coal-bearing regions make coal an expensive proposition. Oil and gas explorations off the Kerala coast have also not shown much promise.

Power is a critical input both for industry and via irrigation, for agriculture. Any long-term shortfalls in the availability of power would not augur well for the economy. Kerala was a power surplus State till 1987. Since then, it has become power-deficient. Presently, there is load-shedding during peak hours. It now draws heavily from the central sector power plants and, to some extent, it also depends on the neighbouring States. In 1996–97, 3298 Mu. of energy was purchased from the central sector whereas the total sale of energy in the State was 7021 Mu. Its per capita consumption of electricity, at 224.18 Kwh. (1996–97), is the lowest among the neighbouring southern States and significantly below the national average of 314 Kwh.

As the State moves towards greater dependence on non-hydel sources of energy, and as it draws more from the central sector, the average cost of electricity would go up in the State.

Not unlike other State Electricity Boards (SEBs), Kerala State Electricity Board (KSEB) is also running into financial losses. It has depended on large subsidies from the government. In 1995–96, the subsidy and grants received by KSEB amounted to Rs. 58 crore. The government has now initiated a system of automatic ten percent increase in tariff every year although applicable to a specified list of consumers. The system now covers all High Tension (HT), Extra High Tension (EHT) & Low Tension (LT) consumers other than domestic, agricultural and street light consumers. The system of administering subsidies has also been changed. These are now being given directly to the departments so that KSEB can charge the full relevant rates. Coordinating with the State government, the KSEB manages the power supply in the State through a suitable combination of own generation, drawal from the central sector, and imports from other (notably, the eastern) grids. It also follows a policy for encouraging captive generation of power, so as to reduce demand on the general supply. KSEB is now reducing its dependence on hydro-electricity by undertaking several thermal projects (table 4.6).

The profile of cross-subsidisation between different categories of consumers indicates that relative to the maximum tariff paid by the commercial users, agricultural users are charged only 15 percent, and domestic users, 43 percent. We think that the gap across users should be narrowed.

Kerala government has brought out a power policy statement in 1998. It has stated that "government disapproves the idea of privatising the Electricity Board ... Government also rejects the proposal to convert generation, transmission and distribution sectors into separate companies" (Kerala Power Policy, 1998, document issued by Government of Kerala). However, the government has agreed to reorganise the working of the electricity boards into three 'profit centres' for generation, transmission and distribution, each being looked after by one **member** of the board. The generation centre will sell electricity to the transmission unit and maintain separate accounts. Similarly, the transmission sector will sell electricity to the distribution sector with separate accounts.

Table 4.6: Power Scenario by 2000 AD

Projects	Installed Capacity (MW)	Availability (Percent)	Availability (MW)	Year
Kakkad	50	90	45	1998
Kuttiyadi extension	50	90	45	1999
Small hydro	50	90	45	2000
Kozhikode diesel plant	128	80	102.4	2000
Kayamkulam Thermal Project (NTPC)	350		Commencement of generation	December 1998
BSES-Kerala Power Project, Kochi	160		Completion of the work	End of 1998
Kasargod (1)	107			2000
(2)	60			2000
Kannur Power Project	513		Obtained fuel linkage	
Cochin Refinery and KSEB Project	500		Received preliminary clearance	
Athirappilly HE	163		Received final clearance	

Source: GoK, 1998(a).

Although, these individual accounts would reflect only book adjustments, they will make apparent the sources of losses so as to make formulation of remedial action easier. It is further proposed that distribution should itself be divided into three profit centres with headquarters at Thiruvananthapuram, Ernakulam, and Kozhikode.

It is becoming apparent that power sector reforms in Kerala are moving in a direction where KSEB would continue to remain a central and nodal public sector undertaking but its activity would be divided into three separate segments both functionally and in terms of accounts. The scope of privatisation would remain limited to generation and KSEB is looking for augmentation of supply through private sector participation.

The transmission and distribution loss in Kerala is in the range of 18-19 percent which compares favourably with other States although it is still quite high. Earlier transmission losses were attributed to the fact that most of the supply sources were physically located in just one region and transmission was required through long distances. However, with extensive drawal from central sector supply sources, and better geographical spread of power plants, transmission losses have been significantly reduced. Most of the remaining losses are in the distribution sector. Kerala is in for electronic metering in a phased manner, and even rural agricultural supply is metered in Kerala. It has also formed anti-power theft squads. While these initiatives would help, Kerala should seriously look at the privatisation efforts being undertaken by some other States in India as far as distribution is concerned, as international experience clearly shows the potential for privatisation of distribution to greatly and quickly reduce losses.

States in India as far as distribution is concerned, as international experience clearly shows the potential for privatisation of distribution to greatly and quickly reduce losses.

The financial position of KSEB is close to achieving a breakeven status and it has been able to wipe out even carry forward losses as per the latest information obtained from KSEB. This situation is primarily based on some recent innovations. One, subsidisation of selected groups of consumers is now being handled directly through the concerned ministries. For example, subsidy to agriculturists is given by the department of agriculture whereas KSEB charges the relevant tariff fully. The second innovation is the provision for automatic revision of tariffs for industrial and commercial uses without reference to the State government.

We would suggest that, a provision of automatic revision of tariff should be extended to the domestic consumers too. The rate of revision, however, may be less than what is allowed for industrial and commercial users which is 10 percent per year. But, these should be periodically reviewed by a regulatory authority after every five years so that tariffs can properly reflect justified cost-escalation.

TRANSPORT

The average road length, at 3.74 kms. per sq. km. is higher than the all-India average. However, poor maintenance and congestion, has reduced the utility of the road network in the State. Kerala is well-known for its inland waterways. Several public sector agencies are involved in inland water transport like Departmental Water Transport Services and the Kerala Shipping and Inland Navigation Corporation. Together, 88 boats are owned by them.

Table 4.7: Fleet Strength and Financial Position of Kerala State Road Transport Corporation

Particulars	1992-93	1993-94	1994-95	1995-96
Number of vehicles held (fleet strength)	3456	3511	3511	3511
Percentage utilisation	82.00	79.00	81.00	80.70
Net profit (+)/loss (-) per km. (paise)	-28.27	-27.70	-18.29	-22.37
Contribution to plan (Rs. crore)	-26.07	-24.83	-18.36	-21.32
Trend of operating ratio	88.81	85.79	82.14	81.82
Fleet purchased by KSRTC	267	407	600	N.A.
Vehicle productivity (revenue earning kms. per bus held per day)	244	245	250	N.A.
Staff-bus ratio on fleet operated	10.50	10.23	9.73	6.68

Source: GoI, 1995; GoK. SPB. 1997(a).

The Kerala State Road Transport Corporation (KSRTC), divided into 56 transport units, has a fleet strength of 3,750 buses. It operates on 4,068 routes. Nearly 50

average of 47.36 (GoI, 1995). It is one of the highest among States in India (except those of Goa, Jammu & Kashmir, Mizoram and Orissa).

The physical and financial performance of KSRTC is shown in table 4.6. Though the fleet strength of KSRTC has remained at 3,511 for three years, the percentage of utilisation has declined (80.7 percent in 1995–96 against 82 percent in 1992–93). Net loss by KSRTC has shown a decline from Rs. 28.27 crore in 1992–93 to Rs. 22.37 crore in 1995–96. The operating ratio (ratio of operating expenditure to operating revenue) has declined from 88.81 percent to 81.82 percent. The rise in vehicle productivity (revenue earning kms., per bus held per day) implies better utilisation of the existing fleet. At the same time, staff-bus ratio has marginally declined from 10.50 in 1992–93 to 9.73 in 1994–95 and further to 6.68 in 1995–96. Though fuel efficiency has shown a marginal improvement, the fuel cost has also increased. KSRTC has been incurring massive losses and it is in bad financial health. The capital investment of government (loans as also accrued interest) was converted into equity shares in 1991–92 amounting to Rs. 102 crore. In 1996–97, the State government did not make any contribution to the finances of KSRTC. In this year, the corporation suffered a financial loss of Rs. 28.03 crore.

As per the latest information, regular employees on the role of the corporation were 27512 in number as on 31.3.1997. With the number of buses being 3750, the overall staff to bus ratio was 7.34. This however understates the staff bus ratio as *ad-hoc* employment from the employment exchanges and the extensive utilisation of services of drivers and conductors placed on panels are not included. If these are also included, the staff bus ratio works out close to 11 which is extremely high as compared to other States. This implies that the number of staff on maintenance, repairs and administration is also unduly high.

Apart from a high staff bus ratio, other reasons for poor financial performance of KSRTC may be listed as follows:

- ◆ a relatively high share of uneconomic routes;
- ◆ several categories of passengers are allowed to travel free on KSRTC buses (like State freedom fighters);
- ◆ extremely low and rigid fare structure on which KSRTC has little control; and
- ◆ a high rate of depreciation and other maintenance costs due to extremely bad maintenance of roads.

In order to improve the financial position of KSRTC, it is important to permit upward flexibility in bus tariffs so as to better reflect increasing costs of operation and maintenance. In this context, it is suggested that a regulatory commission may be set up for periodic review of costs, tariff and selection of routes for KSRTC. On its own side, however, KSRTC has to exercise a total freeze on further recruitment and keep regular vacancies unfilled even when people retire, while continuing to make use of empanelled staff.

As far as different categories of travellers who are allowed to travel free are concerned, it is possible to administer subsidies through the respective departments (just like the case of KSEB), so that the KSRTC receives the full fare and the beneficiary receives the reimbursements from the concerned departments. This will also reduce frequency and unwarranted utilisation of the facilities by the concerned beneficiaries.

KSRTC has been experimenting with some incentive schemes. At present a scheme called 'collection bata' is in vogue which provides for fixing a minimum route-wise collection and giving 10 percent of the excess collection over this minimum to the driver and the conductor. However, this scheme has not worked effectively. At present, the crew/bus ratio is more than five, but crew is not attached to any bus. A scheme has been suggested which would assign a group of five persons to a specified bus and it would be their responsibility to maximise earnings by managing fuel efficiency, stores consumption and maintenance. In return for improving the earnings they would be entitled to a share in the earnings as an incentive. This scheme has been called the 'Panchali concept'. While any dramatic results are not expected from the incentive schemes, we think that the staff-bus ratio is too high in KSRTC and must be brought down by ensuring that no new recruitments are done and by introducing an attractive VRS.

The corporation should also look at the possibility of diversifying its activity and introducing more effective incentive schemes. For example, the strategy of the corporation to buy chassis from outside and build bodies on these chassis in its own workshops has been proving successful with an incentive scheme.

Further, better shop management aimed at improving fuel efficiency as also proper maintenance of the existing road network would lead to improvement in productivity.

STATE LEVEL PUBLIC ENTERPRISES

According to the latest information provided by the Kerala State Bureau of Public Enterprises, there are 110 State Level Public Enterprises (SLPE), out of which, 5 are in various stages of merger/liquidation leaving 105 enterprises in operation. These enterprises, cover a wide range of activities. They include production units, infrastructural units, as also enterprises in the field of plantation, traditional industries, welfare agencies, as also public utilities. The funding pattern of the SLPEs is tilted towards long term borrowing (42.0 percent in 1996-97) and other liabilities (33.65 percent in 1996-97) as compared to only 18.50 percent of share capital.

Total investment in the SLPEs amounted to Rs. 6994.24 crore at the end of 1996-97. Total turnover during the year was Rs. 3242.20 crore. Among the SLPEs, 42 enterprises reported profits aggregating to Rs. 130.94 crore. Another 43 enterprises have incurred losses to the extent of Rs. 254.18 crore. The net loss by SLPEs in 1996-97 was Rs. 123.25 crore as against a profit of Rs. 34.48 crore during 1995-96. The number of

employees in SLPEs during 1996-97 stood at 1,30,918. During the same year, nearly 33 enterprises are reported to have negative net worth (paid up capital plus reserves and surplus minus preliminary expenses, accumulated loss, miscellaneous expenditure not written off and tangible assets).

In 1996-97, only 12 enterprises paid dividends (10 in 1995-96) aggregating to an amount of Rs. 5.92 crore as against Rs. 3.18 crore in 1995-96. Fifty five enterprises carried forward losses and the total accumulated loss amounted to Rs. 1684.27 crore by the end of 1996-97. A large number of public enterprises in the State are incurring losses and as many as 53 units have been carrying forward the accumulated losses. Leaving KSEB and KSRTC, the SLPEs have incurred a loss of Rs. 119.21 crore in 1996-97 as against a profit of Rs. 1.60 crore in 1995-96 (loss in 1994-95 was Rs. 27.89 crore). As a result, the contribution of SLPEs to the State exchequer has increased from Rs. 208.80 crore to Rs. 397.48 crore.

Table 4.8: Performance of Public Enterprises in Kerala*

	(Amounts Rs. crore)		
	1994-95	1995-96	1996-97
Number of units	101	103	108
Total employment (numbers)	81761	79436	78010
Paid up capital	156691.50	1710.02	2037.37
Capital invested	357033.27	4186.49	4578.53
Number of units making profit	41	43	40
Number of units making loss	41	40	41
Net profit (+)/loss (-)	-27.89	1.60	-119.21
Dividend earning units (numbers)	10	10	12
Contribution to Central exchequer	18429.75	164.63	128.86
Contribution to State exchequer	20880.04	283.47	397.48

Source: GoK, BPE, relevant years.

Note: * The statistics given excludes KSEB and KSRTC.

The Public Sector Restructuring and Internal Audit Board has the responsibility of preparing project reports for the revival, restructuring and modernisation of sick public sector units. During 1996-97, an amount of Rs. 100.17 crore was allotted for the revival, restructuring and modernisation of 24 units. But a case to case study of each unit needs to be carried out to determine its viability. One problem concerning the viability of SLPEs in Kerala is the multiplicity of companies in the same area of activity. Thus, there are more than one enterprise in the areas of rubber plantations, wood-based industries, handicrafts and development of weaker sections.

Considering the social and economic sectors together, it is evident that while the strategy of active government participation paid off in the social sectors, the same strategy did not work in the economic sectors where large amount of resources produced negligible returns. It is imperative that leaving infrastructure and irrigation, the government should slowly withdraw from other economic sectors.

A comprehensive reform strategy for the SLPEs should aim at weeding out unproductive and continuously loss making enterprises, reducing the number of enterprises as also the number of employees and introducing professional management in running these enterprises. An attempt should be made to increase the stake of managers and workers in the productivity and profitability of the enterprises. Keeping in view these overall objectives, some steps should be undertaken.

- ◆ Identify and wind up enterprises that are not likely to be viable even in future.
- ◆ Wherever possible, public enterprises in the same sector and undertaking similar activities should be merged. Some of the sectors where this possibility should be explored are ceramics, cement, chemical-based industries, and plantation-based enterprises.
- ◆ A decision should be taken not to create any new public enterprise except in the infrastructure sector.
- ◆ There should be complete freeze on fresh employment.
- ◆ The terms of voluntary retirement scheme should be made more attractive and surplus employees should be encouraged to proceed on long leave for taking up alternative employment.

The electronic sector needs to be completely restructured so as to provide for a strong research and development base and framework of inter-relationship among different public sector enterprises operating within the electronic sector so that exchange of knowhow can be facilitated and economies of scale can be obtained in selected activities.

EXTERNALLY AIDED PROJECTS

Kerala has had a relatively small share of externally aided projects (EAPs). The allocation of EAP funds to Kerala has been less than 5 percent in recent years. A related problem is about the terms and conditions on which this assistance will be passed on to the State. Since most projects are welfare oriented, the original terms and conditions are likely to be highly concessional. However, under the existing arrangements, 70 percent of these will be converted into loans with an interest rate of 13 percent per annum.

The State government has under implementation 12 projects aided by various external agencies (see A4.8 for details). The externally aided projects are in the area of agriculture and allied activities, education, water supply, irrigation and poverty alleviation. The implementation of these projects has been perceived to be poor. A high powered committee was formed in 1996 to expedite action and timely decision on new externally-aided projects and a project cell was opened to formulate new projects. Various new projects have been identified in sectors such as roads, ports, tourism, agriculture, health, forests, urban poverty reduction, irrigation and water supply. For these projects the potential donor agencies include the World Bank (WB), Overseas Development Agency (ODA), Overseas Economic Cooperation Fund (OECF) and the Italian government. The cost of identified projects amount to Rs. 5500 crore, as against the total cost of about Rs. 1000 crore for all externally-aided projects under implementation.

CONTOURS OF THE NINTH FIVE YEAR PLAN

Kerala is embarking upon an ambitious Ninth Plan. As per existing estimates, the size of the Ninth Plan has been fixed at Rs. 16,100 crore at 1996–97 prices (annexure 4). For the year 1998–99, the tentative Plan outlay is fixed at Rs. 3100 crore (at current prices). This may be compared with the annual Plan outlay of Rs. 2200 crore in 1996–97 (last year of Eighth Plan) and Rs. 2710 crore in 1997–98 (first year of the Ninth Plan). Another significant feature of the new Plan is the allocation of a large portion of Plan funds (35-40 percent) to various tiers of local bodies. Kerala's attempt to involve the local bodies in the preparation of projects and plans as also in the administration of Plan funds for these projects in such a massive way is the first of its kind among the Indian States. A vigorous process of fiscal decentralisation has been initiated in Kerala in 1996–97 in the form of decentralised planning/planning from below by empowering the local bodies to formulate schemes for local development (discussed in Annexure 5). This process of decentralised planning has demanded more resources from the State government in the form of untied grants and in the first two years (1996–97 and 1997–98), the State government has devolved Rs 212 crore and Rs. 749 crore respectively as Plan grants to local bodies (these figures exclude devolution made under State sponsored schemes).

The relatively large Plan would correct the ratio of Plan to non-Plan and developmental to non-developmental expenditure, already noted in paras 3.12 and 3.13. Furthermore, the attempt to revive the economy by focusing on the local level in urban, semi-urban and rural areas would also make the growth process more autonomous, thereby reducing the impact of the inherent volatility of the economy, as noted earlier in *Chapter 1*.

This strategy has at least two associated risk elements. One, as indicated by the experience of the first two years of the Plan, lack of resources has already forced a reduction in the annual plans as compared to what was originally envisaged. Apart from additional resource mobilisation (ARM), resources would much depend on the growth

performance. The second concern is with the high and growing fiscal deficit throughout this period. The fiscal deficit would remain in the range of 5-7 percent. If there is a slowing down of the growth process (recessionary trends are already visible), there would be a fiscal crisis at hand, reflected in an unsustainable increase in the debt-GSDP ratio. With funds already assured for the local bodies, the State would find it difficult to curtail the size of the Plan, should circumstances warrant it. As such, the strategy will only succeed if it is matched by adequate economic growth.