

3. Sectors: profiles and issues

EDUCATION

As we have noted earlier, social sector achievements of the State are not commensurate with its income level, as exemplified in the area of education. The overall literacy rate of 56 percent in 1991 (1981: 42 percent) was below that in the States with comparable per capita incomes; female literacy rate was particularly low at about 40 percent (1981: 26 percent), below that in almost all the States with levels of per capita SDP higher than the average, against the national average of 39 percent. Even the enrolment ratio for classes I-V at 86 percent was higher than that only in Bihar among all the major States in 1995-96. A pupil teacher ratio of 47 was also relatively high, with the number reaching as high as 59 in one of the districts. This ratio also shows a rising trend. Dropout rates, however, are relatively low in the State.

Despite the status of education as key social infrastructure, broad indicators point to a non-recognition of the governmental responsibility in this area. Table A.7 shows that the share of education in total revenue expenditure was the lowest in Haryana at 12.8 percent among all the major States in India. Although it cannot be inferred from this that Haryana attached the lowest priority to education among all the States,¹ it does indicate a need for stepping up expenditure in this area. This is also borne out by table A.8, which clearly shows a fall in the share of education — every sub-category of it — in revenue expenditure (excluding those on State lotteries) between 1980-81 and 1995-96. This is not necessarily to say that the government should shoulder the entire burden of additional expenditure; the additional expenditure can be planned to be partially recovered through rearrangement of expenditure within the education sector and innovative cost recovery in appropriate areas. Given the high income levels and general willingness to pay for quality education, this should be quite feasible.

HEALTH

As in the case of education, Haryana does not compare favourably with other high income States in terms of health indicators. Infant mortality rate was 68 per 1000 live births in Haryana in 1995; only the relatively poor States (Assam, Madhya Pradesh, Rajasthan, Orissa and Uttar Pradesh) had higher infant mortality rates. Although medical facilities were substantially upgraded between 1985 and 1990, there has been little addition to them since. Diarrhoeal diseases appear to be the major cause of morbidity (despite all villages having access to safe drinking water, of which only a small

¹ Leakages from the system are widespread; also, the denominator in the case of Haryana is somewhat exaggerated due to large unadjusted expenditure on State lotteries (adjustment for which could not be carried out for each of the States).

percentage do not get the recommended 40 litres per capita daily), followed by tuberculosis. Area covered per medical institution was 14 sq. kms and there were 79 beds per lakh of population in the year 1995–96.

IRRIGATION

In the predominantly agricultural economy of Haryana boasting of large foodgrain surpluses, irrigation plays a very important role as a key economic infrastructure, and hence is also subject to a number of non-economic influences on the relevant public policy. The coverage of irrigation is 76 percent of the net sown area, which is more than double that for India and marginally lower than the neighbouring State of Punjab. The irrigation network is of uneven vintage, part of it dating back a century or more. Although the State government has built upon the available irrigation network from the time Haryana was carved out of a larger Punjab, such a network requires regular repairs and maintenance, which have not been adequate despite high levels of revenue expenditures on irrigation. This is reflected in the fact that of revenue expenditure on irrigation, the proportion assigned to goods and services, and to repairs and maintenance (these two together would broadly correspond to operation and maintenance expenditures) remained consistently less than 35 percent, declining from around 32 percent to 24 percent. Wages and salaries constitute a predominant component of these expenditures. Table A.9 provides details of expenditures on irrigation by economic categories. Adopting the spending norms of the Tenth Finance Commission (TFC) for maintenance of irrigation,² the current levels of revenue expenditure (net of interest payments) are more than twice the normative expenditure. However, if one considers only expenditure on goods and services and repair and maintenance, the level falls short of the prescribed norms. It is unlikely that the burgeoning salaries and wages, accompanied by declining operation and maintenance expenditures add much to the actually available services. This clearly builds up a case for reallocation of resources within the sector from wages and salaries to repair and maintenance, in order to achieve better maintenance of existing assets, and corresponding improvement in the existing levels of service. Further, capital expenditures account for roughly a half of the total expenditures on irrigation. Presuming that the latter are directed towards expanding the coverage of irrigation services, the effectiveness of such investments would be seriously undermined in the absence of an initiative to improve the maintenance of assets. This opens up the question of a possible tradeoff between maintenance and new investments, besides the tradeoff between wages and salaries on the one hand, and repair and maintenance on the other.

²

The norms used by the TFC lead to proposed expenditure requirements of Rs 300 per hectare of utilised potential and Rs. 100 per hectare of unutilised potential at 1995–96 prices. As of March 1997, the figures for Haryana stood at 33.09 lakh hectares of utilised potential and 3.39 lakh hectares of unutilised potential, implying a normative expenditure of Rs. 11755.2 lakh for 1997–98.

Taking revenue and capital expenditures together, the largest beneficiary of government expenditure appears to be the irrigation sector. If any dent is to be made in the growth of expenditures, it is logical to think that this sector should get a closer look. The point that needs to be noted is that recovery of only revenue expenditures has fallen from 25 percent in 1980–81 to merely 7.5 percent in 1996–97 (table A.10). Even the budget estimates for 1997–98 do not indicate a better recovery. This is an obvious area of concern. The World Bank assisted Water Resources Consolidation Project (WRCP) stipulates a recovery of operation and maintenance expenditure gradually rising to 100 percent by the year 2000–01, except in some areas of South Haryana, where deliberate subsidies are visualised. Unless this is adhered to and translates into at least 60 percent recovery with respect to revenue expenditures, it would be difficult to finance government expenditures on other services which may be equally or more deserving. Simultaneously, attempts can be made to lower the average current cost of irrigation. Table A.11 shows that revenue expenditure per hectare of irrigated area in Haryana was relatively high; only Maharashtra, Kerala and Gujarat had a more expensive irrigation system.

POWER

The accumulating losses of the State Electricity Board (SEB), arising out of an uneconomical tariff structure, large transmission and distribution losses, poor maintenance of assets and generally inefficient functioning resulted in an inadequate and uneven supply of power in the State. This has proven to be a major constraint for the economic development of the State in the recent past. To remove this infrastructural bottleneck, a comprehensive reform of this sector is now at present in progress. The objective of this programme is to ensure an adequate power supply for the State's requirements by the year 2007. Creditworthy and commercially operated power utilities are envisaged to operate in a competitive but regulated market, providing reliable and cost-effective power to the consumers, with significant private ownership and participation. Towards these ends, the SEB is being split into two smaller entities to look after generation and transmission; four other corporations (intended to be joint ventures) are expected to manage distribution in the four zones of the State. All the entities will begin with a clean slate financially; they are also expected to get some subsidies from the State government in the initial years. A regulatory authority has been appointed to monitor their functioning, including the tariffs charged. The enabling legislation (Haryana Electricity Reforms Bill) has been passed in June, 1997. The institutional reforms are to be accompanied by tariff adjustments, comprehensive financial restructuring and the implementation of a large investment programme that includes transmission and distribution rehabilitation and expansion, generation plants modernisation, demand management and improvement in efficient energy utilisation by end-users.

The direct fiscal gains of the power sector reforms are expected to be large. Without the reforms, the poor health of this vital infrastructure would, apart from the crippling impact on the growth prospects of the State, cause serious drain on the State

through mounting subsidies and ever-rising loans to the SEB. In contrast, if the entire reform package is successfully implemented, this sector is expected to require no subsidy from the year 2002–2003, and contribute substantially to the State exchequer instead. World Bank estimates (based on several assumptions regarding the no-reform and with-reform scenarios) show that the financial benefits of the reforms would start accruing as early as the year 2000–2001 (*India: 1998 Macro Economic Update*, June 1998).

TRANSPORT

The road network in Haryana is excellent with road length of 53 kms per 100 sq. kms of area. All but seven villages of the State are connected by metalled roads. It is thus not expansion but maintenance and improvement of roads that is now important.

Table A.11 compares the revenue expenditure on roads and bridges per kilometre of road length in the major States. These expenditures seem to be on the higher side in Haryana; only Maharashtra and Gujarat have figures higher than Haryana among all the major States. In case this is on account of genuine reasons like State-specific factors causing high maintenance costs or significantly better road maintenance than other States, Haryana could use tolls effectively to recover the cost of investment and maintenance of roads to the feasible extent, as is being done successfully in some States like Madhya Pradesh. However, if the higher levels of expenditures are caused by leakages or inefficiencies, these need to be examined carefully and plugged.

We are not going into a detailed discussion of the road transport sector, budgetary figures for which mainly reflect the operations of Haryana Roadways, a departmental undertaking. From all accounts, it was being run in a reasonably efficient manner until recently (table A.12); most of the efficiency indicators still compare favourably against other such undertakings. The present financial problems in Haryana Roadways can be traced to poor and falling fleet utilisation; the causes underlying the poor vehicle utilisation in recent years need to be ascertained and rectified to restore its financial health.

PUBLIC ENTERPRISES IN OTHER SECTORS

The role of public enterprises in any economy can be promotional in nature or directly related to production in the economy. While government participation in the production sphere is not considered essential (unless private investment is not forthcoming and the sector be crucial to the development of the economy), there is a definite role assigned to it in the promotional sphere. Though such promotional enterprises are not expected to fend for themselves, most public enterprises participating directly in production should function like commercial enterprises and be self-sustaining. In fact, the government should withdraw from production activities, except in the case of merit goods, unless private investment is just not forthcoming in a particular area and government participation is motivated by a promotional objective.

Our assessment of the public sector enterprises in Haryana is predicated upon the above distinction as the guiding rule. This distinction, however, becomes difficult to operationalise as the enterprises that the Government of Haryana has invested in can be classified into three broad categories: those involved in active production; those involved in clearly promotional activity; and a fairly large number in between.³ To give a few examples, the first set includes Haryana State Electricity Board⁴ and Haryana Roadways Engineering Corporation, while in the second category figure *Haryana Harijan Kalyan Nigam*, Haryana Backward Classes *Kalyan Nigam*, etc. In the intermediate category are a number of companies which are all related to the promotion of production in the State and actually participate in the production process either directly or indirectly through the joint ownership of producing companies. Here the companies range from financial corporations to companies directly promoting some specific sector like Haryana Dairy Development Corporation, Haryana Seed Development Corporation and Haryana State Industrial Development Corporation. Extending the argument of the need for production related public enterprises to be commercially viable to these companies, it would be fair to expect that operations of these companies should be commercially viable too.

A look at the summary table of government investments and the declared dividends (table 3.1) shows rather poor performance of these concerns. A number of these companies run on significant losses accumulating over time. Separating what we have called the promotional companies from the rest does not improve the picture significantly. The other dimension of concern is the extent of dependence of these enterprises on government support. The support is broadly in two forms: equity/loans and explicit subsidies. Of these two, being a short term measure, subsidies are likely to be more *ad hoc*, used for bailing out enterprises in trouble. The break-up of total budgetary outgo to these enterprises is summarised in table 3.2, where explicit subsidies emerge as a significant proportion of the total outgo. The figures in the table however, also point to Haryana State Electricity Board as the major beneficiary of these subsidies.

Given the classification of the public enterprises above, it is possible to argue that the subsidy accruing to promotional enterprises should not be treated as bail-outs. Information on the explicit subsidies for the years 1994–95 and 1995–96, however, suggests that the major recipients of these subsidies are production-related enterprises. For the year 1994–95, the recipients include Haryana State Minor Irrigation and Tubewells Corporation (Rs. 33.93 crore and Rs. 51.88 crore in 1994–95 and 1995–96, respectively), Haryana State Industrial Development Corporation (Rs. 0.82 crore in 1994–95 and Rs. 2 crore in 1995–96), Haryana Land Reclamation and Development Corporation (Rs. 3.95 crore in 1995–96), Haryana Seeds Development Corporation (Rs. 2.56 crore in 1995–96), and Haryana State Handloom and Handicrafts (Rs. 0.21

³ Here we consider only non-departmental undertakings. Further, since investments in joint stock companies are small in magnitude and date back to the pre-1990–91 period, they are not taken up for analysis here. In any case, the reason for the government making investments in these companies is not clear.

⁴ The ongoing restructuring of the power sector in Haryana removes it from the ambit of this exercise.

crore in 1994–95). Several production-related companies continue to figure among recipients of subsidies,⁵ although their accumulated losses have eroded the entire capital invested.

Table 3.1: Government Investment in Public Sector Enterprises :
Haryana

	(Rs. lakh)		
	Amount Invested	Dividends Credited	Investment Retired
1995–96	33384.08	314.59	207.26
1994–95	27374.84	701.93	187.85
1993–94	25493.88	94.74	154.06
1992–93	23764.91	84.98	225.65
1991–92	21570.31	67.44	71.02
1990–91	20400.37	38.57	104.60

Source: CAG, relevant years(a).

Table 3.2: Budgetary Transactions with Public Sector Enterprises

	(Rs. lakh)			
	1992–93	1993–94	1994–95	1995–96
Equity capital	81232	1527	1426	2492
Loans	19773	23206	30386	32983
Subsidy	6215	18390	15028	27781
Share of subsidy in total outgo	5.8	42.65	32.08	43.92
Total outgo	107220	43123	46840	63256
Electricity subsidy	3527	7178	11507	21005
Loan repayment written off	-	7995	-	-
Interest waived	-	-	20	256
Total waiver	-	7995	20	256

Source : CAG, 1995; 1996.

While these problems with State level public sector enterprises are almost generic, these are particularly acute in Haryana, as a comparison across States (table 3.3) shows. Haryana has one of the lowest rates of recovery from public sector enterprises

⁵ Production-related public enterprises, where losses have completely eroded the capital base include: Haryana State Handloom and Handicrafts Corporation (102.42%), Haryana Dairy Development Corporation (124.8%), Haryana State Minor Irrigation and Tubewells Corporation (366.71%), Haryana Matches (100%), Haryana Tanneries (521.83%) and Haryana Concast(151.41%)

(only better than Orissa), and one of the highest levels of investment (next only to Gujarat). These figures indicate an urgent need for significant reforms in this area. While the importance of the government stepping out of non-essential direct production cannot be emphasised enough, it is the companies in the intermediate category which need more attention. There is a need to either separate the production activities from the promotional activities, which would permit limiting the latter, or ensure that the profits from the former cross-subsidise, to the extent feasible, expenses on the latter.

Table 3.3: Comparative Performance of Non-Departmental Public Enterprises

State	(per cent)	
	Amount Invested/ SDP	Recovery Rate
Gujarat	9.20	6.48
Kerala	4.05	4.43
Rajasthan	4.75	4.23
Tamil Nadu	1.64	0.98
Orissa	6.80	0.51
Haryana	7.91	0.57

Source: Srivastava *et. al.*, 1997.

SPENDING GAPS

Education

Going by the low literacy rates, major importance in the area of education must be attached to primary education. We have estimated the costs of raising the present enrolment ratio in a phased manner to over 100 percent by 2001–02 (table A.13). Comparing these costs to the projected expenditures on primary education yields a spending gap of Rs. 15.34 crore, Rs. 29.92 crore, Rs. 47.23 crore and Rs. 67.85 crore in the years 1998–99 to 2001–02 respectively. These are the spending gaps that are incorporated in our subsequent projections. It may be pertinent to note that keeping the low female literacy in mind, the TFC had recommended additional spending of Rs. 3.5 crore per annum on special schemes for female education in Haryana; it also recommended further expenditures of Rs. 73 lakh and Rs. 2.12 crore in the State, for toilet facilities for girls in upper primary schools and drinking water facilities in primary schools, respectively.

Roads

Using norms obtained from the Ministry of Surface Transport, we have estimated the required maintenance expenditures (including wages and salaries of the maintenance staff) for the different types of roads that exist in the State. Comparing these with the projected expenditures on this function yields the spending gap in this area. These are estimated to be Rs. 50.04 crore, Rs. 53.54 crore, Rs. 57.29 crore and Rs. 61.30 crore during the years 1998–99 to 2001–02, respectively. These spending gaps have been additionally provided for in our projections. It may be recalled that earlier in this chapter we had highlighted the relatively large revenue expenditures on roads and bridges in Haryana. The TFC attempted to estimate normative expenditures for various States using norms similar to those used by us, but had to abandon the attempt due to the high level of implied expenditures. Because Haryana already has one of the highest revenue expenditures on roads and bridges, the spending gaps are within reasonable limits; the situation may be quite different in other States with much lower present levels of revenue expenditure on roads and bridges.

Irrigation

We have estimated normative expenditures on major, medium and minor irrigation together, based on the norms utilised by the TFC, suitably adjusting them for inflation. Different norms were used by the TFC for utilised and unutilised potential, and we follow the same method, with the relevant data for the State obtained from the Planning Commission as discussed in the earlier section. Since the normative estimates are actually less than half of the actual/projected expenditures, even if the interest payments of the department are kept aside, there are no grounds to argue for any further step up in actual spending. On the contrary, this would advocate compression of revenue expenditure. However, the fact that the expenditure on repair and maintenance and on goods and services falls short of the prescribed norms calls for action in the form of reallocation away from wages and salaries and in favour of repair and maintenance.