

FISCAL DEVELOPMENT AND STATE FINANCES

The State of Karnataka's finances is good as gauged from the performance of broad fiscal indicators and has largely been within the fiscal rules prescribed. Driven by various fiscal consolidation measures, Karnataka has managed its expenditure well, even while enhancing its revenues. The State's fiscal deficit declined marginally from 2.98% in 2013-14(RE) to 2.92% of GSDP in 2014-15(BE), while the capital outlay has increased marginally from 99.02% in 2013-14(RE) to 99.86% of Gross Fiscal Deficit in 2014-15(BE). The State's revenue receipts have revealed further gains with their share increasing to 16.21% of GSDP in 2014-15 from 15.67% in 2013-14(RE). Further it is encouraging to note that the growth in Revenue receipts is primarily due to the growth of tax revenue. The State continues to have an overall revenue surplus, albeit at reduced levels. In 2014-15 development expenditure increased by about 15% compared to 2013-14(RE). However, non-tax-revenues continued to remain at low levels. Education, Water resources, Agriculture and Allied Services are significant components to the State's

development expenditure. Although, capital outlay has increased in its absolute size, decline in its share to Gross State Domestic Product is a matter of concern.

3.1 FISCAL CONSOLIDATION

The State's fiscal consolidation efforts have continued to be effective with all the fiscal indicators contained within the stipulated limits of the Karnataka Fiscal Responsibility Act, 2002 (KFRA). The State has chosen on its own volition to bring in fiscal discipline in the management of its finances. The Government has been maintaining revenue surplus since 2004-05, as mandated by the KFRA. Over the last few years, the fiscal deficit could also be maintained within 3% of GSDP as mandated by the KFRA, except in 2008-09 and 2009-10 when it went up to 3.2%, as a result of additional expenditure for economic stimulation prompted by the Government of India.

Time trends in fiscal and revenue deficits for the period 2004-05 to 2014-15 are presented in **Figure 3.1**.

Figure 3.1: Revenue Deficit/Fiscal Deficit as a % GSDP



3.2 KARNATAKA VIS-A-VIS-OTHER STATES

Over the years, the State's major fiscal indicators have compared well with the 'All states' average. This is reflected in the information on various fiscal indicators presented in **Table 3.1**. The State has achieved revenue surplus consistently. Further, the State has a capital outlay of 101.03% in the GFD as compared to 110.52% of all States average in 2013-14(BE). The fact that the entire fiscal deficit is devoted to capital Expenditure is welcome as it helps sustain rapid growth. However, the State has a challenging task of restoring the larger revenue surpluses achieved in the recent past to enable higher infrastructure investments. Other important expenditure indicators such as proportion of State tax revenue in the revenue expenditure and non-development expenditure in aggregate disbursements place Karnataka in a better position.

A comparative perspective of Karnataka's fiscal deficit with other Southern states is presented in **Figure 3.2**.

3.3 STATE FINANCES

The state's fiscal consolidation efforts have been largely revenue led owing to tax reforms and toning up of tax administration that have yielded buoyant revenue since the enactment of the FRA. The State's revenue receipts, as a percent of GSDP has increased marginally from 15.23% in 2007-08 to 16.21% in 2014-15 (**Table 3.2**). The global economic meltdown has a considerable negative impact on the State's tax revenues during 2008-09 and 2009-10 bringing down the share of revenue receipts to GSDP to 14.07% and 14.26% respectively. However, the State's revenue resources are showing signs of recovery from 2010-11 (15.28%) and further estimated to increase to 16.21% in 2014-15.

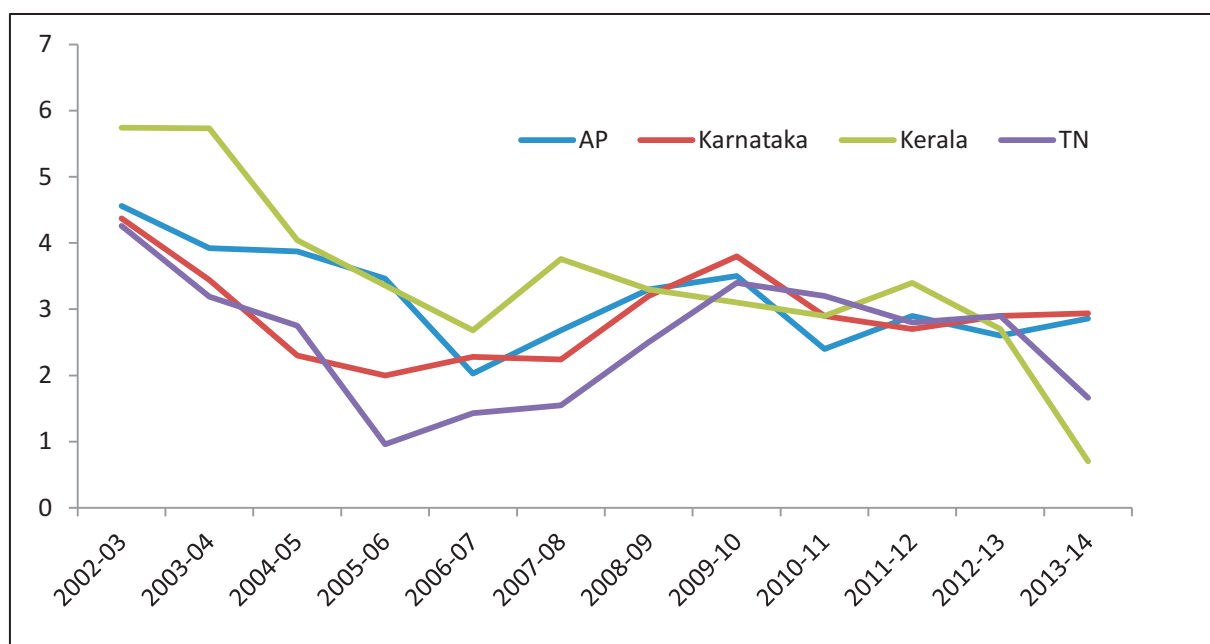
On the expenditure front, capital (net) outlay as percent of GSDP has decreased from 3.11 in 2007-08 to 2.91 in 2014-15. This poses a great challenge and is a matter of concern for Karnataka due to the

Table 3.1: Major Fiscal Indicators of Karnataka

Fiscal Indicators	2008-09 (Accounts)		2009-10 (Accounts)		2010-11 (Accounts)		2011-12 (Accounts)		2012-13 (RE)		2013-14 (BE)	
	KAR	All States	KAR	All States	KAR	All States	KAR	All States	KAR	All States	KAR	All States
RD/GFD	-18.70	-9.4	-14.90	16.40	-39.00	-1.90	-38.13	-14.23	-6.17	-8.41	-3.44	-19.48
Capital Outlay/ GFD	113.00	106.00	111.60	79.00	125.00	94.10	126.10	101.72	97.64	99.23	101.03	110.52
Non-devpt. Expenditure/ Aggregate disbursement	23.60	28.90	21.10	30.30	20.20	30.80	20.00	29.70	21.00	28.10	22.00	28.90
STR/RE	66.40	47.20	64.3	45.40	71.20	49.40	88.38	75.66	78.62	72.41	79.60	74.95

RD = Revenue Deficit; GFD = Gross Fiscal Deficit; STR =State Tax Revenue Source: RBI-Study of budget, 2013-14, Statement 4.

Figure 3.2: Karnataka's Fiscal Deficit (as a % of GSDP) Compared with the Southern States



infrastructure inadequacies prevailing in the State. In this context, the Expenditure Reforms Commission (ERC) constituted by the Government of Karnataka has recommended that capital outlay needs to be insulated from revenue adversities.

Revenue receipts and Composition:

The composition of revenue receipts from 2007-08 to 2014-15, accounts for the State's remarkable performance in its own tax collections (**Table 3.3**). The State's own tax revenue constitutes the largest share, it has increased from 9.62% of GSDP in 2007-08 to 10.20% of GSDP in 2014-15 (BE). There is a slight decrease in the share of central taxes from 2007-08(2.51%) to 2014-15 (2.42%). Share of grants from the central Government has increased 1.86% of GSDP to 2.94% of GSDP, during the reference period. However, non-tax revenue revealed a decline and warrants attention.

Liabilities

The total liabilities of the State Government increased from Rs.75286 crore in 2008-09 to Rs.157681 crore in 2014-15BE growing at a CAGR of 13.11%. The total liabilities are however, within the limit of 25% of GSDP prescribed by the 13th Finance Commission (**Figures 3.3 & 3.4**).

3.4 BUDGETARY DEVELOPMENTS IN 2014-15

3.4.1 Highlights

Owing to a recovery in the macroeconomic situation, the State has been in a position to enhance revenue collection in 2014-15. Receipts are expected to be Rs.133573.34 crore in 2014-15BE, comprising Rs.111038.62 crore (83.13%) of revenue receipts and Rs.22534.72 crore (16.87%) of capital receipts. As compared to 2013-14, revenue receipts are expected to increase by 17.79% and capital receipts are expected to

Table 3.2: Receipts and expenditure of Karnataka (Rs. crore)

Items/Years	2007-08 (Accts)	2008-09 (Accts)	2009-10 (Accts)	2010-11 (Accts)	2011-12 (Accts)	2012-13 (Accts)	2013-14 (RE)	2014-15 (BE)
Revenue receipts	41151.14	43290.68	49155.70	58206.23	69806.27	78176.22	94270.37	111038.62
Revenue expenditure	37374.76	41659.29	47536.92	54033.84	65115.07	76293.26	94205.82	110757.34
Capital receipts	6029.69	9285.18	12942.68	12143.83	15228.35	16845.47	20297.35	22459.72
Capital Disbursements (net)	9948.03	11364.92	14310.68	16865.67	19259.41	18663.49	20352.08	22767.54
Capital outlay (net)	8403.16	9689.15	12066.89	13283.36	15416.47	15445.43	17721.70	19938.79
% to GSDP								
Revenue receipts	15.23	14.07	14.26	15.28	16.07	14.96	15.67	16.21
Revenue expenditure	13.83	13.54	13.79	14.19	14.99	14.60	15.66	16.16
Capital receipts	2.23	3.02	3.76	3.19	3.51	3.22	3.37	3.28
Capital outlay (net)	3.11	3.15	3.50	4.43	3.55	2.96	2.95	2.91
Capital Disbursements	3.68	3.69	4.15	3.49	4.43	3.57	3.38	3.32

Source:(i) Government of Karnataka, Accounts Reckoner, 2002-13(ii)Annual Financial Statement 2014-15(iii) Medium Term Fiscal Plan, Finance Department, GoK 2014-18.

Table 3.3: Composition of revenue receipts (% of GSDP)

Year	2007-08 (Accts)	2008-09 (Accts)	2009-10 (Accts)	2010-11 (Accts)	2011-12 (Accts)	2012-13 (Accts)	2013-14 (R.E)	2014-15 (B.E)
State taxes	9.62	8.99	8.87	10.10	10.70	10.28	10.23	10.20
Share of central taxes	2.51	2.33	2.14	2.50	2.55	2.42	2.32	2.42
Grants from Center	1.86	1.73	2.29	1.80	1.88	1.49	2.48	2.94
Non-Tax Revenue	1.24	1.03	0.97	0.88	0.94	0.76	0.64	0.65

Source :(i) Economic Survey, Planning Department, GoK 2013-14 (ii) Medium Term Fiscal Plan, Finance Department,GoK,2014-18

Figure 3.4: Share of total liabilities to GSDP

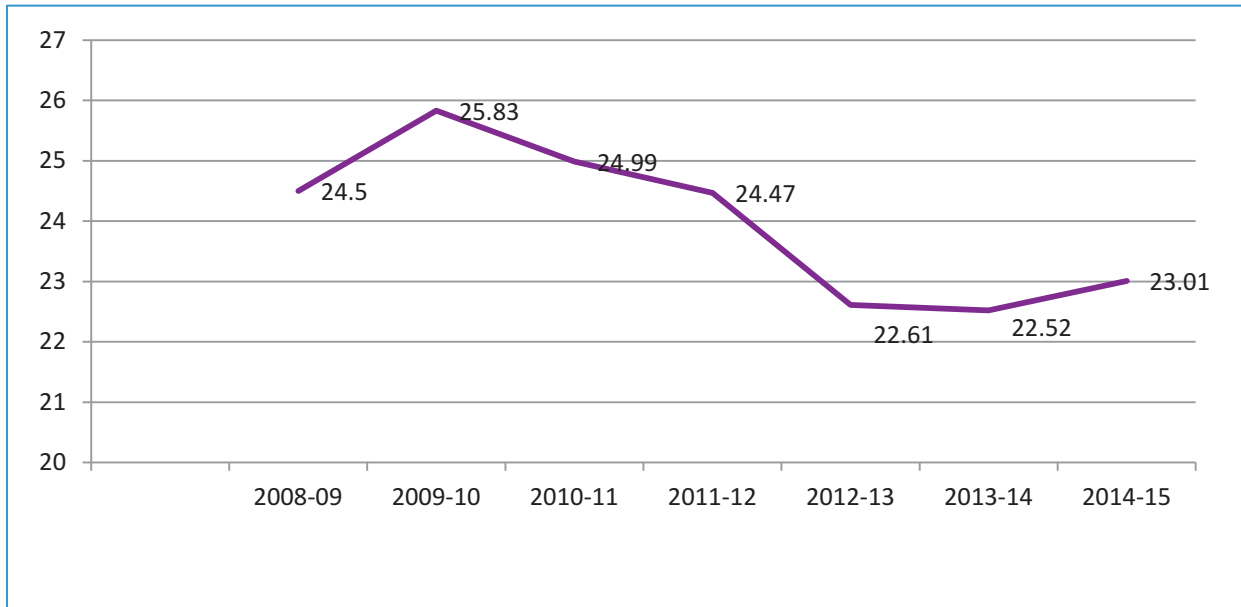
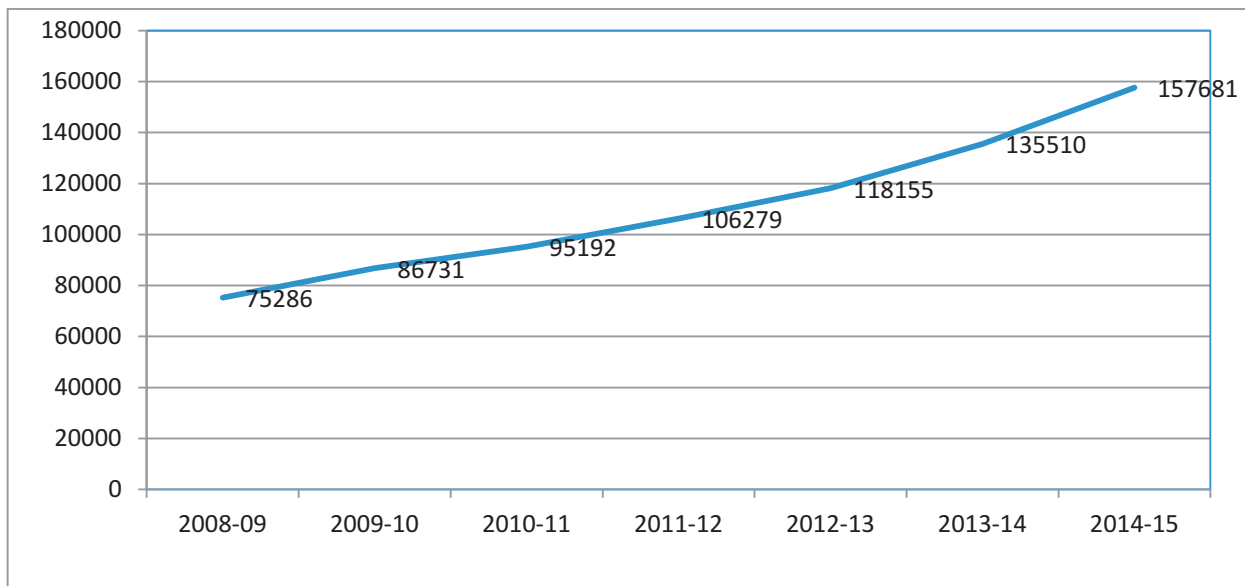


Figure 3.3: Total liabilities of State Government

(Rs.crore)



increase by 10.70%, resulting in an overall anticipated increase of 16.53%. The State budget for 2014-15 envisages an expenditure of Rs.133599.87 crore comprising Rs.110757.34 crore (82.98%) of revenue expenditure and Rs.22842.53 crore (17.02%) of capital expenditure. Expenditure during the year 2014-15 is expected to grow by 16.56% over the

previous year, with revenue expenditure growing at a higher rate than that of capital expenditure. In addition, despite the sharper growth in revenue expenditure over revenue receipts, the State has managed to maintain a revenue surplus: however, on a reduced magnitude. The overall budgetary position of the State is reflected in **Table 3.4.**

Table 3.4: Overall Budgetary Position (Rs.crore)

	Receipts and Disbursements	2012-13 (Accts)	2013-14 (R.E.)	2014-15 (B.E.)	%variation (2014-15 over 2013-14)
A.	Receipts				
1	Revenue Receipts	78176.22	94270.36	111038.62	17.79
2	Capital Receipts	16878.51	20357.35	22534.72	10.70
	Total A: (1+2)	95054.73	114627.71	133573.34	16.53
B.	Disbursement				
1	Revenue Expenditure	76293.26	94205.82	110757.34	17.57
2	Capital Disbursements	18696.53	20412.08	22842.53	11.91
	Total B : (1+2)	94989.79	114617.90	133599.87	16.56

A/C: Accounts, R.E.: Revised Estimates, B.E.: Budget Estimates

Note: Ways and means of advances from RBI which have not been included in the Capital receipts and expenditure.

Important budgetary indicators for 2014-15 Budget are presented in **Table 3.5**. The per capita State's own tax revenue has increased from Rs.9782.26 in 2013-14 (RE) to Rs.10985.81 in 2014-15(BE). Revenue from Sales tax/VAT is expected to increase from Rs.32849.81 crore in 2013-14 to Rs.37250 crore in 2014-15, thus indicating a growth rate of 13.39%.

On the expenditure front, it is interesting to note that development expenditure and some key development sectors such as education, health, social security and welfare have had an increase in percapita terms implying an enhanced per-head financial outlay. Development expenditure budgeted for 2014-15 is of the order of Rs.94133.19 crore against Rs.81454.10 crore in 2013-14(RE), a clear increase of 15.57%.

3.4.2 Receipts

Aggregate receipts are likely to increase considerably by about Rs.18945.62 crore (BE) i.e. by 16.53 % in 2014-15. Revenue receipts are expected to increase by Rs.16768.26 crore and capital receipts are expected to increase by Rs.2177.36 crore. Revenue receipts account for 83.13% of total receipts. Details of revenue and capital receipts are presented in **Table 3.6**.

3.4.2.1 Revenue Receipts

Revenue receipts comprise of four major components viz. own tax revenue, nontax revenue, devolution from GOI and GIA & contributions. The State's own tax revenue in 2014-15 is anticipated to increase by 13.55% and non-tax revenue by 15.92%. The share of tax revenue in the total revenue receipts is of the order 77.83% in 2014-15BE.

Table 3.5 Important Budgetary Indicators: Karnataka

Indicator		Unit	2013-14 (R.E.)	2014-15 (B.E)
1.	Aggregate Receipts (Revenue + Capital)	Rs. crore	114627.71	133573.34
2.	Revenue Receipts	Rs. crore	94270.36	111038.62
3.	State's Own Tax Revenue	Rs.crore	61530.40	69869.75
4.	Per Capita State's Own Tax Revenue	Rupees	9782.26	10985.81
5.	Sales Tax / VAT Collection	Rs. crore	32849.81	37250.00
6.	Share of Sales Tax /VAT in the State's Own Tax Revenue	%	53.39	53.31
7.	Non-Tax Revenue including Grants from the Centre	Rs. crore	18764.97	24608.86
8.	Share of Non-Tax Revenue in Revenue Receipts	%	19.91	22.16
9.	Debt Receipts	Rs.crore	17978.85	25042.26
10.	Share of Debts Receipts in Aggregate Receipts	%	15.68	18.75
11.	Per Capita Receipts	Rupees	18223.80	21002.10
12.	Aggregate Expenditure (Revenue + Capital)	Rs. crore	114617.90	133599.87
13.	Developmental Expenditure	Rs. crore	81454.10	94133.19
14.	Per Capita Development Expenditure	Rupees	12949.78	14800.82
15.	Share of Developmental Expenditure in Total Expenditure	%	71.07	70.46
16.	Per Capita Expenditure - Social Security & Welfare	Rupees	1488.87	1730.58
17.	Per Capita Expenditure on Health, Family Welfare, Water Supply and Sanitation	Rupees	1195.21	1365.95
18.	Per capita Expenditure on Education, Sports, Art and Culture	Rupees	2807.59	3290.89

R.E.: Revised Estimates, B.E.: Budget Estimate

Per capita are calculated on projected population of 2013 and 2014 which is based on 2001&2011 population census

a) Tax Revenues: Karnataka's Tax to GSDP ratio (tax effort), has been good and compares well with other Indian States. The State's own tax revenues (SOTR) increased from Rs.27646 crore in 2008-09 to

Rs.69869.75 crore during 2014-15 at a CAGR of 16.71% (**Figure 3.5**).

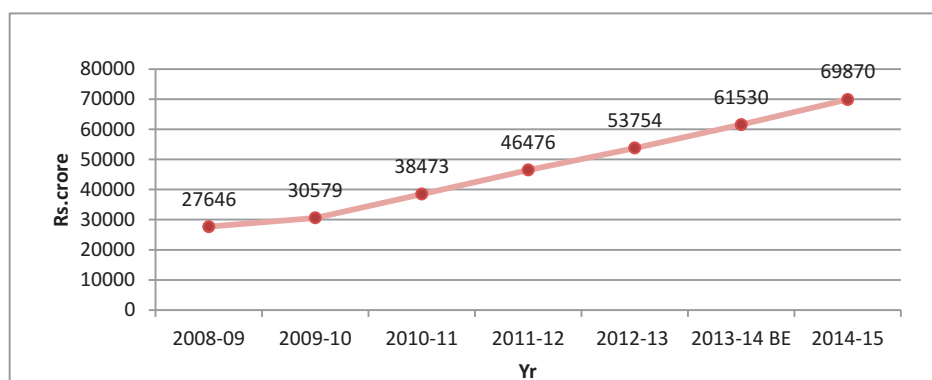
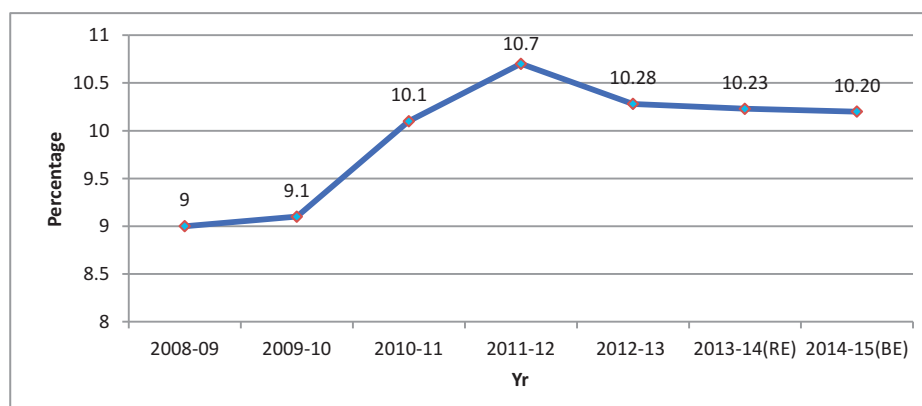
Composition of the revenue receipts as described earlier reveals that the State's own tax revenue has performed very well

Table 3.6: Revenue and Capital Receipts, Karnataka 2012-13 to 2014-15**(Rs.crore)**

Category of Receipts	2012-13 (Accts)	2013-14 (RE)	2014-15 (B.E)	% Variation 2014-15 over 2013-14	2012-13	2013-14	2014-15	
					(Accts)	(R.E)	(B.E)	
L	Revenue Receipts				% to total Revenue Receipts			
A.	State's Tax Revenue	66400.70	75505.40	86429.76	14.47	84.94	80.09	77.84
(i)	Taxes on Income and Expenditure	715.15	850.00	973.00	14.47	0.91	0.90	0.88
(ii)	Taxes on Property & Capital Transactions of which	53038.40	60680.40	68896.75	13.54	67.84	64.37	62.05
	(a) Sales Tax / VAT	28414.44	32849.81	37250.00	13.39	36.35	34.85	33.55
	(b) Taxes on vehicles	3829.52	3800.00	4350.00	14.47	4.90	4.03	3.92
	(c) State Excise	11069.73	12600.00	14430.00	14.52	14.16	13.37	13.00
	(d) Taxes on Goods & Passengers	2180.71	2525.00	2890.00	14.46	2.79	2.68	2.60
	(e) Others	7544.00	8905.59	9976.75	12.03	9.65	9.45	8.98
	State's Own Tax Revenue(i+ii)	53753.56	61530.40	69869.75	13.55	68.75	65.27	62.93
(iii)	Tax Devolution from Centre	12647.14	13975.00	16560.01	18.50	16.18	14.82	14.91
B.	Non-tax Revenues	3966.11	3859.03	4473.43	15.92	5.07	4.09	4.03
C.	Grants - in - aid from Central Government	7809.42	14905.94	20135.43	35.08	9.99	15.81	18.03
	Total I: Revenue Receipts (A+B+C)	78176.22	94270.37	111038.62	17.79	100.00	100.00	100.00
II.	Capital Receipts							
(i)	Loans from Govt. of India	1348.98	1227.85	1729.93	40.89	7.99	6.03	7.68
(ii)	Internal Debt (Net of W & M & MB)	10504.31	15156.39	18904.04	24.73	62.23	74.45	83.89
(iii)	Public A/c (Net)	4834.06	3799.97	1733.02	-54.39	28.64	18.67	7.69
(iv)	Recovery of Loans & Advances	157.61	113.14	92.73	-18.04	0.93	0.56	0.41
(v)	Contingency Fund (Net)	0.51	0.00	0.00	0.00	0.00	0.00	0.00
(vi)	Misc. Capital Receipts	33.04	60.00	75.00	25.00	0.20	0.29	0.00
	Total II: Capital Receipts(i) to (vi)	16878.51	20357.35	22534.72	10.70	100.00	100.00	100.00
	AGGREGATE RECEIPTS: I+II	95054.73	114627.72	133573.34	16.53			
	CONSOLIDATED FUND OF RECEIPTS	91831.53	112422.35	136248.61	21.19			
	Total Tax Revenue as per cent of Total Receipts	69.90	65.90	64.70	-1.77			

A/C: Accounts, RE: Revised Estimates. BE: Budget Estimates, W & M = Ways & Means, MB =Market Borrowings

Source: Annual Financial Statement 2014-15

Figure 3.5 State's own tax revenue**Figure 3.6: Tax effort (Tax/GSDP)**

during the period under reference. Tax revenue mainly includes taxes on income & expenditure, entry tax, property and capital transactions, VAT, sale of goods, commodities & services, State excise, motor vehicle taxes and the State's share in central taxes. The budgeted tax revenue is anticipated at Rs.86429.76 crore in 2014-15 as against Rs.75505.40 crore in 2013-14. Sales tax/VAT is the main source of tax revenue comprising about 53.31% of own tax revenue in 2014-15, with a growth rate of 13.39%. Revenue from State excise is expected to increase by 14.52%. Taxes on income and expenditure will be 14.47% high as compared to the previous year. Taxes on goods and passenger services have increased by 14.46%. The increase in overall revenue receipts is 17.79%.

b) The State's share in central taxes is budgeted to increase by Rs.2585.01 crore i.e. by 18.50%.

c) Non - tax Revenues: Non-tax revenue includes receipts from social, economic and general services, interest and dividends. The budget for 2014-15 has revenue from the above three services is Rs.4473.43 crore as against Rs.3859.03 crore in 2013-14(RE) (indicating an increase of 15.92%). This is an important fiscal challenge faced by the State which warrants necessary measures to recover user charges at optimal levels. The ratio of non-tax revenue to total receipts has been continuously declining over the years. Further, the State has one of the lowest non-tax revenues to the GDP ratios in the country. It hovered around the 1% mark over the past two to three years.

This is due to low recovery of costs. In many departments, the revision of user charges, fees, fines and other such non-tax receipts have not taken place for many years. Even with revision of rates and better collection mechanisms, increase in revenues from this avenue may not be large due to existing low base. Expenditure Reform Commission has made a number of recommendations to enhance revenues from user charges.

d) Grants from the Government of India:

Grants are expected to increase from Rs.14905.94 crore in 2013-14(RE) to Rs.20135.43 crore in 2014-15(BE)(an increase of 35.08%). The GoI has initiated the process in 2014-15 to route all the central grants of CSS/CPS through State Plan.

Table 3.7: Expenditure Indicators in Karnataka

(Rs. crore)

Particulars	2008-09 Accts	2009-10 Accts	2010-11 Accts	2011-12 Accts	2012-13 Accts	2013-14 (R.E)	2014-15 (B.E)
Revenue Receipts	43290.68	49155.70	58206.23	69806.27	78176.22	94270.37	111038.62
Revenue Expenditure	41659.29	47536.92	54033.83	65115.07	76293.26	94205.82	110757.34
Development Expenditure	27009.63	32300.57	51626.38	60929.69	68067.53	81454.10	94133.19
Social Services	15872.99	19118.86	22107.82	29413.15	34151.07	39526.30	47095.96
Economic Services	11136.64	13181.71	14892.44	31516.54	33916.47	41927.79	47037.23
General Services	12275.57	12762.34	14055.09	17070.97	20770.32	24577.14	30341.16
Interest Payments	4532.00	5213.00	5641.00	6061.85	6833.00	7800.00	9700.00
Wage Bill	9927.00	10296.00	11086.00	11543.00	15700.00	16757.00	23315.00
Pensions	4113.00	3408.00	4070.00	5436.00	7227.00	8100.00	9350.00
Capital Expenditure	9870.29	12136.68	13355.16	15505.65	15478.47	17781.70	20013.78
Total Expenditure (RE+CE)	51529.58	59673.60	67388.99	80620.72	91771.73	111987.52	130771.12
Consolidated Debt	71410.00	83482.00	91943.00	103030.00	116767.00	133432.00	153447.00
Total Consolidated Fund	60178.38	62963.51	71934.07	85756.15	96601.16	116212.51	138008.16

3.4.2.2 Capital Receipts

Capital receipts include loans from Government of India, internal debt - ways and means, open market loans (net), public account, recoveries of loans and advances and contingency funds (net). Capital receipts of Rs.22534.72 crore in 2014-15(BE) accounts for an increase of 10.70% over 2013-14(RE) level. Loans from the Government of India account for Rs. 1729.93 crore i.e. 7.68% of the capital receipts and are expected to increase by 40.89% as compared to the previous year. There is an increase in internal debt-open market loans (Net) by 24.73% in 2014-15 as compared to the previous year whereas recovery of loans and advances has decreased by 18.04%.

3.4.3 Expenditure

Expenditure indicators (**Table 3.8**) reveal that the State's total expenditure under Consolidated Fund as a proportion of the GSDP has marginally declined from 22.44% in 2008-09 to 20.14% in 2014-15 B.E. The share of expenditure on social services has increased from 5.92% of GSDP in 2008-09 to 6.87 % in 2014-15 while the share of capital expenditure decreased from 3.68% of GSDP to 2.92% of GSDP during the same period which is a matter of concern. The share of development expenditure has significantly increased from 10.07% to 13.74% while the share of interest payments has declined from 1.69% to 1.42%.

3.4.3.1 Functional Categories of Expenditure

Services provided by the Government are categorized broadly under three functional categories-General, Social and Community and Economic services and reflect the priorities of the Government by its various functions performed. The trends and composition of the functional categories of expenditure from 2008-09 reveal that the focus on social services covering the sectors such as education, health, housing, water supply etc., has significantly increased as

reflected in the share of expenditure from 5.92% of GSDP in 2008-09 to 6.87% of GSDP in 2014-15. The share of expenditure on economic services has sharply increased from 4.15% of GSDP to 6.86% of GSDP while that of general services has declined from 4.58% of GSDP to 4.43% of GSDP during the reference period. The increase in social and economic services is a welcome development given the human development and infrastructure concerns of the state.

3.4.3.2 Development Expenditure: An Inter-State Comparison

The State has a larger size of per capita development expenditure as compared to the National average and that of many other States. Development expenditure comprises of spending incurred by the Government on programs relating to the social and economic services which, in turn, contribute to the social and economic development of the State. The per capita development expenditure in Karnataka during 2011-12, 2012-13(RE) and 2013-14(BE) was Rs.9972, Rs.11853 and Rs.13246 respectively as compared to all State's average of Rs.7044, Rs.8778 and Rs.9535. Karnataka has the highest level of per capita development expenditure compared to major states as can be seen in **Table 3.9**.

3.4.3.3 Expenditure Highlights: 2014-15

Sector wise break-up of development and non-development expenditures is presented in **Table 3.10** and the corresponding revenue, capital and loan accounts are given in **Appendix 3.3**. The broad trends in development and non-development expenditure are depicted in **Figure 3.7**.

The expenditure on social services is anticipated to increase by 19.15 %with a net increase of Rs.7569.66 crore, from Rs.39526.31 crore in 2013-14 to Rs.47095.96 crore in 2014-15. Expenditure on economic services is expected to increase by 12.19% from Rs.41927.79 crore in 2013-14 to

Table: 3.8: Expenditure Indicators in Karnataka (%of GSDP)

Particulars	2008-09 Accts	2009-10 Accts	2010-11 Accts	2011-12 Accts	2012-13 Accts	2013-14 (R.E)	2014-15 (B.E)
Revenue Receipts	16.14	14.64	15.28	16.07	14.96	15.67	16.20
Revenue Expenditure	15.54	14.16	14.19	14.99	14.60	15.66	16.16
Development Expenditure	10.07	13.38	13.55	14.03	13.02	13.54	13.74
Social Services	5.92	5.69	5.80	6.77	6.53	6.57	6.87
Economic Services	4.15	3.93	3.91	7.26	6.49	6.97	6.86
General Services	4.58	3.80	3.69	3.93	3.97	4.08	4.43
Interest Payments	1.69	1.55	1.48	1.40	1.31	1.30	1.42
Wage Bill	3.70	3.07	2.91	2.66	3.00	2.79	3.40
Pensions	1.53	1.02	1.07	1.25	1.38	1.35	1.36
Capital Expenditure	3.68	3.61	3.51	3.57	2.96	2.95	2.92
Total Expenditure (RE+CE)	19.22	17.78	17.69	18.56	17.56	18.61	19.08
Consolidated Debt	26.63	24.86	24.14	23.72	22.34	22.18	22.39
Total Consolidated Fund	22.44	18.75	18.89	19.75	18.48	19.31	20.14

Rs.47037.23 crore in 2014-15. Development expenditure on social security and social welfare in 2014-15 is anticipated to go up by 17.53%; housing and urban development has increased by 44.50% over the previous year. Water and power development followed by agriculture and allied services have large share in the economic Services, while in social services, education sector followed by Social security and welfare gets the largest share.

Non-development expenditure is expected to increase to Rs.39466.69 crore in 2014-15 from Rs.33163.80 crore in 2013-14, accounting for 19.01% increase. Repayment of loans to Government of India and discharge of internal debt

account has increased to Rs.2352.15 crore in 2014-15 compared to Rs.2216.27 crore in 2013-14. Interest payments in the current year have increased to Rs.10200.00 crore compared to Rs.7800 crore in 2013-14. Expenditure on administrative services is anticipated to increase by 30.81%, while on pension and miscellaneous general services, an increase of 15.30% is seen as compared to 2013-14. Expenditure on the organs of the State has increased marginally by 3.84% over the previous year.

3.4.3.4 Plan and Non-Plan Expenditure

Plan and non-plan expenditure details are presented in **Table 3.11**. Of the aggregate expenditure of Rs.133599.87 crore

Table 3.9: Per- Capita Development Expenditure in select states (Rs.)

State	2011-12 (Accts)	2012-13 (R.E)	2013-14 (B.E)
Andhra Pradesh	9308.51	11282.51	12895.59
Assam	5434.08	8911.35	10062.42
Bihar	3741.35	5605.68	5688.22
Gujarat	8600.33	11064.52	11857.83
Karnataka	9972.18	11853.30	13246.12
Kerala	8120.12	10210.21	12086.04
Madhya Pradesh	7987.59	7991.61	8607.73
Maharashtra	8687.44	9940.83	10544.17
Orissa	6625.30	7701.79	8851.89
Punjab	6151.62	10228.05	10867.24
Rajasthan	6224.49	8589.15	9307.64
Tamilnadu	9553.40	11303.40	11884.88
Total: All States	7044.13	8778.48	9534.56

Note: Per- capita development expenditure is calculated using the projected population of 2011, 2012 and 2013

Source: RBI-A Study of Budget 2013-14, Statement 11

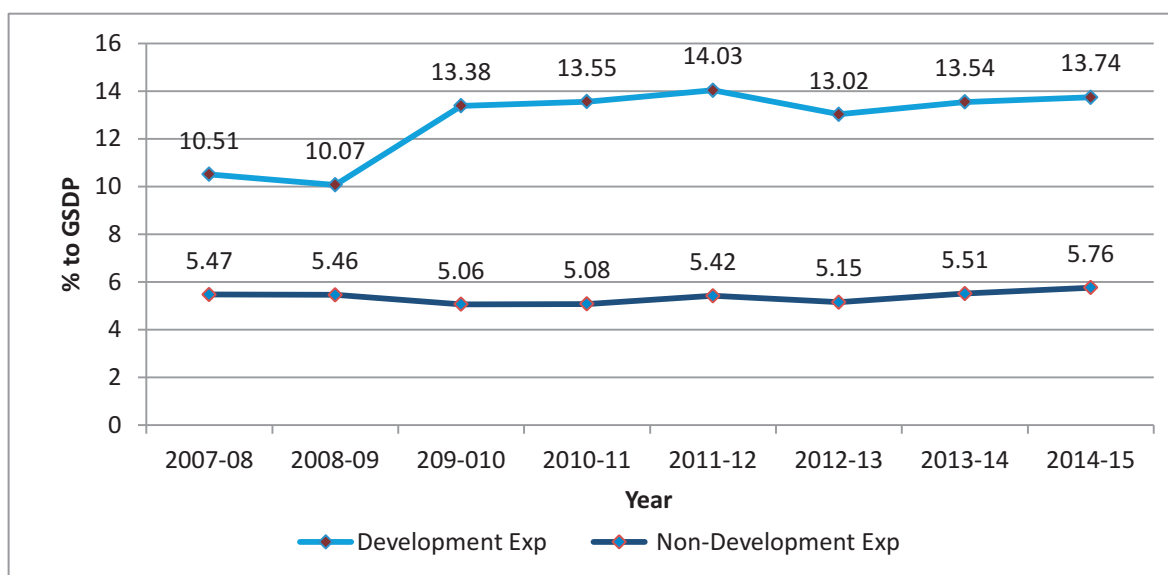
Figure 3.7: Development and Non Development Expenditure

Table 3.10: Trends in Key Expenditure Components (Rs.crore)

Category of Expenditure	2012-13 (Accts)	%	2013-14 (R.E)	%	2014-15 (B.E)	%	Percent Variation (2014- 15over 2013-14)	
I	Developmental Expenditure							
A	Economic Services (of which)	33916.46	49.83	41927.79	51.47	47037.23	49.97	12.19
1	Agriculture & Allied Services	8214.44	12.07	14634.02	17.97	14190.27	15.07	-3.03
2	Rural Development	2377.75	3.49	3229.00	3.96	5143.74	5.46	59.30
3	General Economic Services	1346.55	1.98	1669.10	2.05	2002.25	2.13	19.96
4	Water & Power Development	14188.39	20.84	13116.10	16.10	17008.51	18.07	29.68
5	Industry and Minerals	919.27	1.35	1374.62	1.69	1420.82	1.51	3.36
6	Transport and Communication	6707.24	9.85	7638.56	9.38	6895.98	7.33	-9.72
7	Others	162.82	0.24	266.39	0.33	375.66	0.40	41.02
B	Social Services (of which)	34151.07	50.17	39526.31	48.53	47095.97	50.03	19.15
8	Education, Sports, Art and Culture	14985.70	22.02	17659.77	21.68	20930.09	22.23	18.52
9	Medical & Public Health, Family Welfare, Water supply & Sanitation	6461.50	9.49	7517.86	9.23	8687.45	9.23	15.56
10	Social Security & Welfare Including SC & ST Welfare	7800.32	11.46	9365.02	11.50	11006.46	11.69	17.53
11	Housing and Urban Development	2404.08	3.53	2679.21	3.29	3871.36	4.11	44.50
12	Information and Publicity	76.97	0.11	84.95	0.10	91.86	0.10	8.13
13	Others	2422.50	3.56	2219.50	2.72	2508.75	2.67	13.03
	Total Development Expd. (A+B)	68067.53	100.00	81454.10	100.00	94133.20	100.00	15.57

Contd....

Category of Expenditure		2012-13 (Accts)	%	2013-14 (R.E)	%	2014-15 (B.E)	%	Percent Variation (2014- 15over 2013-14)
II	Non-developmental Expenditure							
(a)	Revenue Expenditure under General services	20180.84	74.96	23988.05	72.33	29570.19	74.92	23.27
(i)	Organs of the State	779.10	2.89	1174.49	3.54	1219.57	3.09	3.84
(ii)	Fiscal Services	820.77	3.05	1073.74	3.24	1183.36	3.00	10.21
(iii)	Interest payment & servicing of debts	6833.43	25.38	7800.00	23.52	10200.00	25.84	30.77
(iv)	Administrative Services	4455.93	16.55	5769.42	17.40	7546.95	19.12	30.81
(v)	Pension & Miscellaneous General Services	7219.62	27.08	8170.40	24.64	9420.32	23.87	15.30
(b)	Compensation & Assignment to Local Bodies and PRIs	4018.42	14.93	6330.44	19.09	6671.60	16.90	5.39
(c)	Capital Expenditure	2722.99	10.11	2845.31	8.58	3224.89	8.17	13.34
(i)	General Services	589.47	2.19	589.09	1.78	770.97	1.95	30.87
(ii)	Discharge of Internal Debt (Net)	1419.16	5.27	1534.52	4.63	1577.72	4.00	2.82
(iii)	Repayment of Loans to G.O.I.	696.53	2.59	681.75	2.06	774.43	1.96	13.59
(iv)	Loans & Advances to Govt. Servants	17.83	0.07	39.95	0.12	101.77	0.26	154.74
	Total non- development Expenditure	26922.26	100.00	33163.80	100.00	39466.69	100.00	19.01
	Aggregate Expenditure I + II	94989.79		114617.90		133599.89		16.56
	Developmental Exp as % of total Exp	71.66		71.07		70.46		-0.85
	Per Capita Development Expenditure (Rs)	10978.63		12949.78		14800.82		14.29
	III. Ways & Means & Market Borrowings	1611.37		1594.61		4408.29		22.64
	Consolidated Fund	96601.16		116212.51		138008.16		18.75

R.E: Revised Estimates, B.E.: Budget Estimates

Note: Per capita is based on the projected population of 2012, 2013 and 2014

Source: Appendix 3.3 based on Budget Documents: 2014-15

Table No. 3.11: Plan and Non-plan Expenditure, Karnataka (Rs.crore)

Sl.No.	Items	2012-13(Accts)	2013-14(RE)	2014-15 (BE)
I.	Plan			
1	State Plan	39764.00 (74.64)	48450.00 (86.99)	65600.00 (97.80)
2	Centrally Sponsored Schemes (including Central sector)	3208.00 (6.02)	7243.00 (13.01)	1477.00 (2.20)
	Total Plan Outlay	53272.00	55693.00	67077.00
II.	Non-Plan Expenditure	59148.00	68179.00	80389.00

Note: values in the bracket indicate percentage to grand total. R.E: Revised Estimates, B.E: Budget Estimates

budgeted for 2014-15, plan outlay amounts to Rs.67077.00 crore. There has been a significant increase in the State plan outlay by Rs.17150.00 crore from Rs.48450.00 crore in 2013-14(RE) to Rs.65600.00 crore in 2014-15B.E. The central Plan component has decreased by Rs.5766.00 crore from Rs.7243.00 crore in 2013-14 (RE) to Rs.1477.00 crore during the current year. This is because all central assistance to CSS/CPS schemes got transferred to State Plan under Central Assistance to State Plan. Non-Plan expenditure is expected to increase by 17.91% from Rs.68179.00 crore in 2013-14 to Rs.80389.00 crore in 2014-15. While the relevance of plan and non plan categorization is being increasingly questioned, the composition in the current context helps understand the distribution of expenditure between fresh programs and past commitments.

Trends in the share of plan and non-plan expenditure in the GSDP during 2007-08 to 2014-15 are presented in **Figure 3.8**. It can be seen that there has been a gradual increase in the plan expenditure of the State. Restricting the non-plan expenditure has been possible due to the austerity measures adopted by the Government from time to time such as restrictions on fresh recruitment, vehicle purchases, foreign

tours and training, holding Government functions in star hotels and total ban on travel in business class in flights. However, the State government still has a fairly large amount of expenditure locked up under “committed expenditure” category discussed below.

3.4.3.5 Committed Expenditure

Committed expenditure on salaries, pensions, interest, subsidies, administrative expenditure, devolution to PRIs and ULBs, etc constitute about 94 percent of the total uncommitted revenue receipts i.e. total revenue receipts less tied grants from Government of India, during the year 2013-14(BE) (**Figure 3.9**). The graph below traces the trends in the share of committed expenditure to the uncommitted receipts. As is evident from the graph, approximately 94% of uncommitted revenue receipts in 2013-14(RE) are committed. Hence, only 6% of uncommitted revenue receipts are available for new initiatives and meeting existing capital expenditure commitment of the Government. With such limited fiscal space available for manoeuvrability, containing the committed expenditure which is largely revenue in nature via-a-via capital expenditure would be one of the key challenges currently faced by the state.

Figure 3.8: Plan and Non Plan Expenditure as a Percent of GSDP

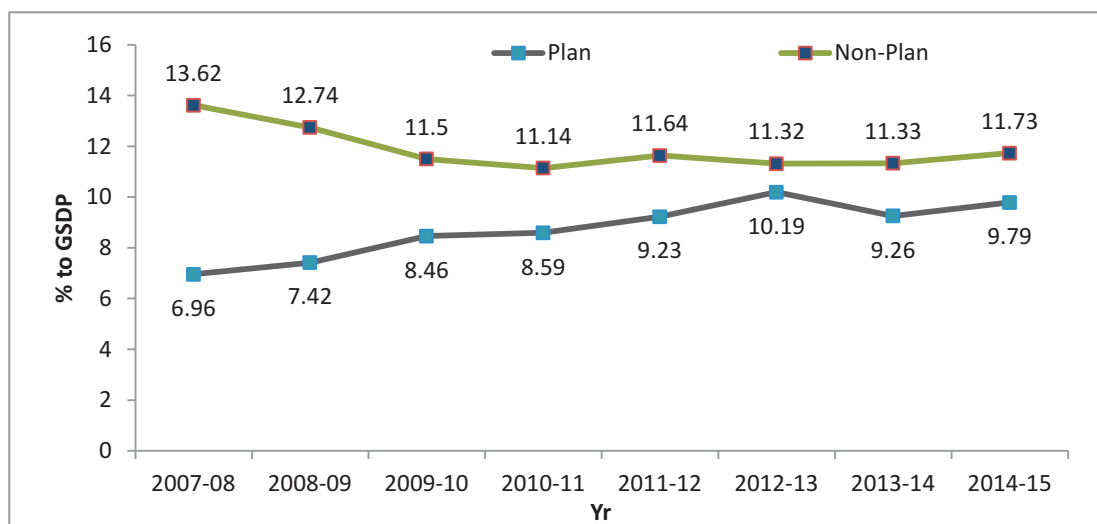
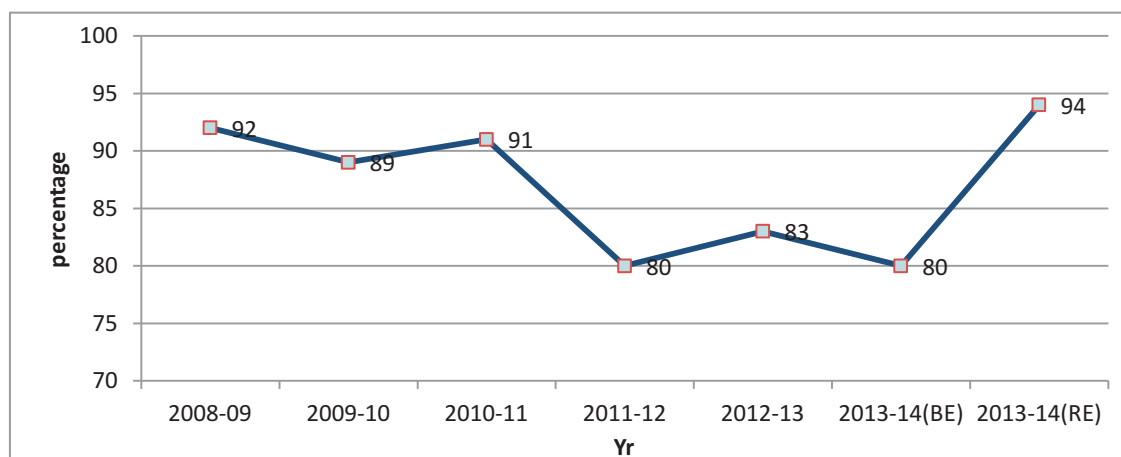


Figure 3.9 Committed Expenditure as % of Uncommitted Revenue Receipts



3.4.3.6 Economic Classification of Expenditure

Under the guidelines from the Central Statistical Organization, the Directorate of Economics and Statistics classifies Government expenditure by economic categories in the annual budget. This is useful for analyzing the economic significance of the budgetary transactions of the State Government. It throws light on the extent of capital formation out of budgetary resources, savings of the Government, drawals of the Government on various resources of the State's economy

and contribution of the Government to State income.

A summary of the total expenditure by economic classification for 2014-15 in comparison with the preceding two years is presented in **Table 3.12**. In 2014-15, in the final outlays, the Government's consumption is anticipated to increase by 29.50% over 2013-14. The capital formation has increased by 11.17%. Consumption expenditure forms 23.96% of the total expenditure during the current year. Transfer payments to the rest of the economy are anticipated to go up by 10.84%

Table 3.12: Economic Classification of Expenditure of Karnataka State Budget for 2014-15 (Rs.crore)

Sl. No.	Description	2012-13 (Accts)	2013-14 (R.E)	2014-15 (B.E)	Percent Variation (2014-15 over 2013-14)
1	Final Outlays	32581.34	42998.53	52194.69	21.39
(a)	Government consumption Expenditure	18755.89	24031.07	31119.34	29.50
(b)	Gross Capital Formation	13852.51	19018.56	21142.09	11.17
(c)	Acquisition of Fixed Assets	(-)27.06	(-)51.10	(-)66.74	30.61
2	Transfer Payments to the Rest of the Economy	53198.01	64018.73	70961.18	10.84
(a)	Current Transfers *	52261.41	63019.10	69632.28	10.49
	Capital Transfers	936.60	999.63	1328.90	32.94
3	Financial Investments and Loans to the rest of the Economy	6084.80	5671.23	6685.78	17.89
Total Expenditure (1+2+3)		91864.15	112688.49	129841.65	15.22

* Includes interest and subsidy also R.E.: Revised Estimates, B.E.: Budget Estimates

Source: An Economic-cum-Purpose Classification of the Karnataka Government Budget 2004-05 to 2014-15, Directorate of Economics and Statistics, Government of Karnataka.

during the current year. The share of transfer payments to the rest of the economy in total expenditure is 54.65%. Within transfer payments, current transfers, which include interest and subsidies, are a major component (98.12%). Financial investments and loans to the rest of the economy that amounted to Rs.5671.23 crore in 2013-14 have increased to 6685.78 crore in 2014-15.

3.5 CAPITAL FORMATION BY GOVERNMENT

Details of capital formation by the Government are presented in **Table 3.13**. Gross capital formation by the Government is expected to increase by 12.18% in 2014-15. The value of assets anticipated to be created in 2014-15 is Rs.22404.25 crore of which Rs.18322.96 crore will be created by departmental commercial undertakings and Rs.4081.29 crore by the Government.

3.6 INVESTMENT UNDER PLAN: STATE BUDGETARY SUPPORT (SBS) FOR PLAN

Karnataka's plan SBS (excluding IEBR/CESS) has increased from Rs.22844 crore to Rs.56096 crore during the period (2009-10 and 2014-15) growing at a CAGR of 19.68 % (**Figure 3.10**). The plan SBS as a percentage of the budget increased from 36.30% to 40.65% during the same period (**Figure 3.11**). Relative to the GSDP, the plan SBS increased from 6.8 % to 8.2% during the period (**Figure 3.12**).

a) Twelfth Five Year Plan (2012-17): The State's plan spending has been growing significantly. The outlay for the 12th Five Year Plan is at Rs. 255250.00 crore. Out of this around 40% is from Borrowings (net), 36% is from own resources, 13% from IEBR and remaining 11 % is from central assistance to State Plan. In respect of %

Table 3.13: Capital Formation by the Government of Karnataka: 2014-15 (Rs.crore)

Sl.No.	Description	2012-13 (Accts)	2013-14 (R.E)	2014-15 (B.E)	Percent Variation (2014-15 over 2013-14)
1	Value of Assets Created	14762.05	19967.09	22404.25	12.21
(a)	By Departmental Commercial Undertakings	12298.16	17009.36	18322.96	7.72
(b)	By Government Administration	2463.89	2957.73	4081.29	37.99
2	Change in Stock in (a) & (b) above	(-)0.79	(-)20.04	(-)28.62	42.81
	Total: Gross Capital Formation	14761.26	19947.05	22375.63	12.18

Source: An Economic-cum-Purpose Classification of the Karnataka Government Budget 2004-05 to 2014-15, Directorate of Economics and Statistics, Government of Karnataka

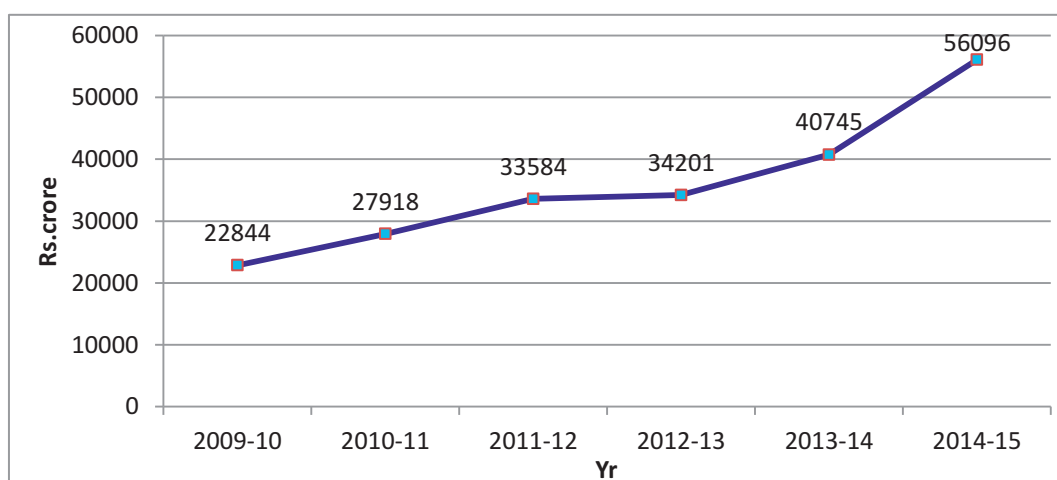
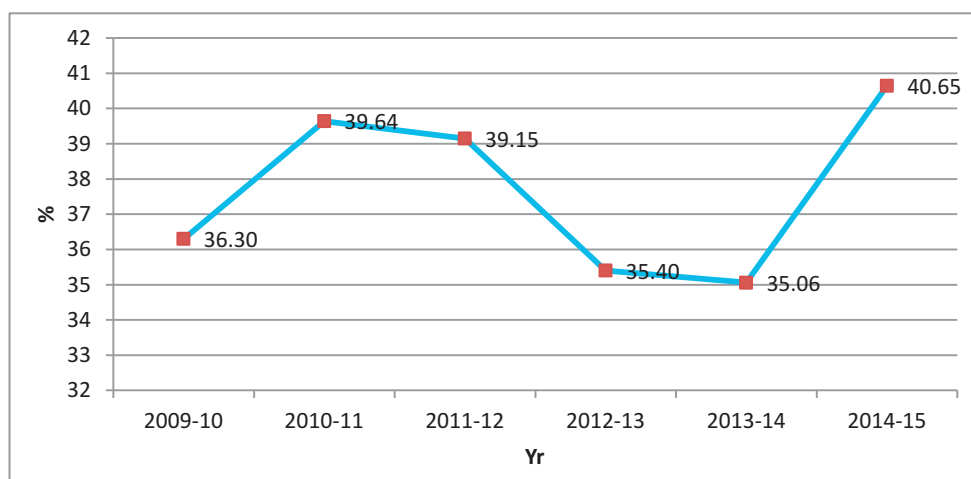
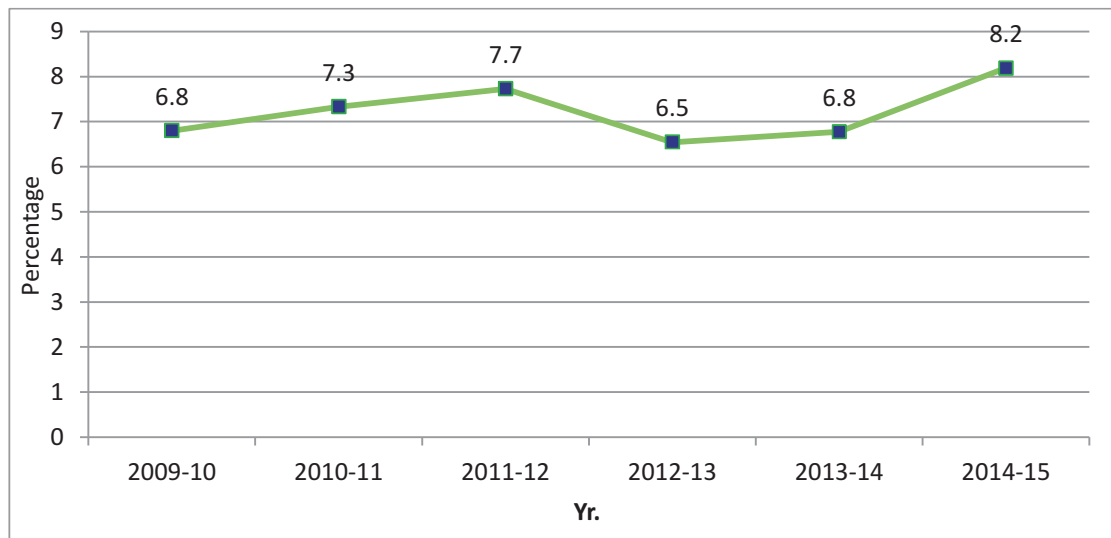
Figure 3.10: Plan State Budgetary Support**Figure 3.11: Share of plan SBS in Budget**

Figure 3.12: Share of plan SBS to GSDP

anticipated utilisation of resources in the first 3 years, it is high in Central Assistance (74.76%) followed by State Own Resources (71.55%), IEBR (57.93%) and State Borrowings (net) at 46.80% (**Table 3.14**). The State has one of the highest per-capita plan expenditure among major states in the country at Rs.7472 in 2013-14.

b) Inter-sectoral Outlays: The sectors which have performed well in eleventh plan including Agriculture and Allied Activities,

Irrigation and Flood Control, Energy, Industries and Minerals, Transport, Science, Technology and Environment, General Economic Services, Education, Health, Information and Publicity, Welfare of SCs, STs and OBCs, Labour and Employment and Social Security. The plan performance by the major sectors during the eleventh five year plan and approved outlays in the Twelfth plan 2012-17 outlay at current prices are presented in **Table 3.15**.

Table 3.14: Financial Resources of Twelfth Plan, Karnataka

(Rs.crore)

	Items	Twelfth Plan Target (at Current prices)	Anticipated Achievement in 2012-13 to 2014-15	% Utilisation
1	State Borrowings(net)	101654.00(39.83)	47573.22(30.92)	46.80
2	State Own Resources	92095.00(36.08)	65898.38(42.84)	71.55
3	IEBR	33486.00(13.12)	19398.00(12.61)	57.93
4	Central Assistance	28015.00(10.97)	20943.49(13.61)	74.76
	Total	255250.00	153813.09	60.26

Figures in bracket indicate % to total
Source: Finance Department, GoK

Table 3.15: Plan Outlays and Expenditure by Major Sectors**(Rs.crore)**

Sl. No	Sectors	Actual Expenditure in the Eleventh Plan	Twelfth Plan 2012-17 Outlay (At Current prices)	% increase in the 12 th Plan Out lay over the 11 th Plan Expenditure
A.	Economic Services			
1	Agriculture & Allied Activities (incl.	9204.15	20939.11	127.50
2	Rural Development	5666.83	8396.35	48.17
3	Special Area Programme (including HKDB, MADB & BADP)	2086.74	4086.11	95.81
4	Irrigation and Flood Control	18975.85	41157.22	116.89
5	Energy	16740.12	26779.38	59.97
6	Industry & Minerals	2950.39	4777.25	61.92
7	Transport	19010.15	33224.38	74.77
8	Science, Technology, Forestry, Ecology & Environments	1504.48	2945.97	95.81
9	General Economic Services	3441.78	6739.46	95.81
	Total - A : Economic Services	79580.49	149045.23	87.29
B.	Social Services			
10	Education. Sports, Art & Culture	11799.85	21348.66	80.92
11	Health	4587.55	8983.05	95.81
12	Water Supply, Housing & Urban Development			
	a) Water Supply	5493.12	13009.70	136.84
	b) Housing	3680.39	9102.57	147.33
	c) Urban Development	13246.45	20964.36	58.26
13	Information & Publicity	105.20	206.00	95.81
14	Welfare of SCs, STs & OBCs	7095.41	12893.75	81.72
15	Labour & Labour Welfare	786.84	1540.74	95.81
16	Social Welfare &	7057.80	12439.89	76.26
	Total - B : Social Services	53852.61	100488.72	86.60
C.	General Services	2919.13	5716.05	95.81
	Grand Total - State Plan	136352.24	255250.00	87.20

Source: Draft Annual Plan 2013-14 documents, Planning Department, Revised Twelfth five year plan document, Planning DepartmentGoK.

Sectoral breakup of plan outlays by major sectors for the last three years is presented in Table 3.16.

Table 3.16: Developmental Outlays by Major Sectors (Rs.crore)

Sl. No.	Sectors	2012-13 (Accts)	% to Total	2013-14(RE)	% to Total	2014-15(BE)	% to Total
A.	State Plan						
L	Economic Services						
1	Agriculture & Allied Activities (Including Co-operation)	3834.06	7.16	7534.31	13.46	6007.52	8.96
2	Rural Development	1266.50	2.37	1215.66	2.17	3227.81	4.81
3	Special Area Programme (including HKDB, MADB & ADP)	485.29	0.91	996.16	1.78	1377.52	2.05
4	Irrigation and Flood Control	5154.17	9.63	7470.97	13.35	10454.14	15.58
5	Energy	4383.55	8.19	4365.93	7.80	4980.87	7.43
6	Industry and Minerals	590.39	1.10	893.29	1.60	922.15	1.37
7	Transport	5668.44	10.59	6308.18	11.27	5461.23	8.14
8	Science, Technology & Environment	438.53	0.82	540.76	0.97	727.75	1.08
9	General Economic Services	770.15	1.44	837.14	1.50	1113.90	1.66
	Total - I: Economic Services	22591.08	42.19	30162.41	53.90	34272.89	51.09
II.	Social Services						
10	Education, Sports, Art & Culture	3583.66	6.69	3681.75	6.58	8052.55	12.00
11	Health	1292.04	2.41	1917.94	3.43	3095.16	4.61
12	Water Supply, Housing & Urban Development						
	(a) Water Supply	2225.78	4.16	1640.81	2.93	2501.46	3.73
	(b) Housing	1103.26	2.06	1434.01	2.56	2042.57	3.49
	(c) Urban Development	2732.86	5.10	4402.13	7.87	5272.35	7.86
13	Information and Publicity	33.31	0.06	32.13	0.06	35.21	0.05
14	Welfare of SCs, STs & OBCs	2867.01	5.35	1936.63	3.46	4949.03	7.38
15	Labour & Labour Welfare	211.53	0.40	290.53	0.52	473.02	0.71
16	Social Welfare & Nutrition	2311.31	4.32	2093.59	3.74	3076.26	4.59
	Total - II: Social Services	16360.76	30.55	17429.52	31.15	29797.61	44.42
I.	General Services	811.76	1.52	858.50	1.53	1529.27	2.28
	Total - A : State Plan	39763.59	74.26	48450.42	86.58	65599.77	97.79
B.	Irrigation Projects Pending Approval (Non-Plan)	276.79	0.52	265.48	0.47	3.58	0.01
C.	Centrally Sponsored & Central Plan Schemes (GOI Share)	13508.00	25.23	7243.00	12.94	1477.00	2.20
	Grand Total	53548.38	100.00	55958.90	100.00	67080.35	100.00

Source: 1) Annual Plan (Volume-2)2014-15 2) Details of Estimates of Irrigation, 2014-15BE: Budget Estimates, RE: Revised Estimates and AC: Accounts

c) Centrally Sponsored Schemes:

Government of India has restructured major Centrally Sponsored Schemes into 66 schemes. From 2014-15 onwards, Central Assistance for these schemes will be through the State Plan. As a result, these resources will also be a part of the State Plan in future. An amount of Rs 14847.44 crore is budgeted in the annual plan 2014-15 as Central assistance to state plan.

d) Fourteenth Finance Commission recommendations:

The Fourteenth Finance Commission recommendations have been approved in toto by the Government of India. Extracts of some important recommendations are reproduced in **Appendix 3.9**.

3.7: NEW SCHEMES IN 2014-15 BUDGET

In all, 97 new schemes were announced in the 2014-15 budget. The Kannada, Culture & Information sector has sixteen schemes, Social Welfare has ten, Commerce and Industries sector has eight new schemes followed by UDD, and Women and Child development sectors with seven new schemes each. Distribution of other new schemes across the departments is presented in **Table 3.17**.

3.7.1: Description of Major New Schemes for the year 2014-15

Krishibhagya: Implementation of "Krishibhagya" scheme for improving livelihood of rain dependent farmers community thereby benefiting 53 lakh farmers. Rs.500 crore is provided under this scheme in 2014-15.

Niramaya: Health insurance scheme for the children belonging to BPL families and suffering from Autism, Cerebral Palsy, mental retardation and multiple disabilities. It is proposed to cover 45000 beneficiaries under this scheme at an estimated outlay of Rs. 1.12 crore in 2014-15.

Yashaswini: The highly successful "Yashaswini" Health Scheme has been

confined so far to rural areas only. For extending the scope of the scheme to urban areas, Rs.10 crore has been reserved in 2014-15.

Priyadarshini: In order to enrol more women in Co-operatives, Rs. 1 crore share capital assistance is provided to Women Co-operative Associations in 2014-15.

Ashakiran: It is proposed to establish Co-operative Societies exclusively for physically challenged persons. An amount of Rs. 1.00 crore is provided in 2014-15.

Akshara Ganitha kits: To facilitate teaching of mathematics in simple way to enable the 4th and 5th standard students to understand mathematics Akshara Ganitha kits are proposed to be provided to students of Government schools in Hyderabad-Karnataka area in 2014-15.

Gnana Kendras: It is proposed to establish Gnana Kendras in 2014-15 in 250 Grama Panchayats in Hyderabad - Karnataka area, by constructing Library Buildings.

Sneha Shivira: Under this programme, 12-day residential training programmes will be conducted in clusters of 4-5 anganwadi centres, for mothers and care givers of moderate to severely malnourished children, to impart skills in preparation of cost effective nutritious food, feeding practices and health and hygiene. An amount of Rs. 4.23 crore is provided in 2014-15.

Jaladhara: Under this scheme drinking water facility through tap connection is proposed to be provided to 5 lakh houses belonging to SC & ST and wherever needed, 1000 separate overhead tank will be constructed in SC/ST colonies

3.8 DISTRICT SECTOR PLAN OUTLAYS FOR THE YEAR 2014-15

District sector plan outlays from 1991-92 to 2014-15 are given in **Appendix 3.1**. The total outlay of the district sector plan programmes for the year 2014-15 is Rs.10480.70 crore, of which Rs.9676 crore is the State's share and Rs.805 crore is the

Table 3.17: Department wise New Plan Scheme for the year (2014-15)

Departments	No of schemes
Agriculture	1
Animal Husbandry and Fisheries	4
Co-operation	3
Social welfare	10
Backward Classes	1
Minorities Welfare	2
Rural development and Panchayat Raj	5
Food and Civil Supplies	1
Commerce & Industries	8
Higher Education	6
Primary Education	4
Health & Family Welfare	4
Medical Education	2
Revenue	2
Kannada, Culture & Information	16
Labour	5
UDD	7
Women and Child	7
E-Governance	1
Home	1
Sports & Youth Services	4
Tourism	3
Total	97

Source: PMI division, PlanningDept

share of the Government of India. This constitutes around 16% of the total State's plan size, in the district sector outlay, the corresponding share of the State and the centre being 92% and 8% respectively. District wise break-up of the plan outlay is presented in **Table 3.18**.

3.9 EXTERNALLY AIDED PROJECTS

There are fifteen external aided projects under implementation with assistance from the World Bank and other external agencies during the year 2014-15. Of these, four are in Urban Development, three in Public Works Department, two in Rural Development and Panchayat Raj department, two in Water Resources and

one each in Health and Family Welfare, Forest, Energy and Finance departments. Another project, namely, Sujala III is being implemented by both Agriculture and Horticulture departments. It is proposed to implement Karnataka Integrated and Sustainable Water Resource Management – Urban Development Sector, Karnataka Integrated and Sustainable Water Resource Management – Irrigation Sector, Karnataka Urban water Supply Modernization Project and Dam Rehabilitation and Improvement Project for the current year. Expenditure incurred on these projects since inception up to 30.09.2014 is Rs.10762.39 crore. Project wise details are presented in **Table 3.19**.

Table 3.18: District Plan Outlay for the year 2014-15**(Rs.lakh)**

District	State	%	Central	%	Total	%
Bangalore Urban	26612.50	2.54	3265.00	0.31	29877.50	2.85
Bangalore Rural	11195.00	1.07	1699.30	0.16	12894.30	1.23
Bagalkote	25518.62	2.43	2192.51	0.21	27711.13	2.64
Belgaum	53126.76	5.07	7796.24	0.74	60923.00	5.81
Bellary	27262.07	2.60	2335.68	0.22	29597.75	2.82
Bidar	20313.85	1.94	1788.12	0.17	22101.97	2.11
Bijapur	29959.73	2.86	3253.06	0.31	33212.79	3.17
Chamarajanagar	12570.89	1.20	1810.85	0.17	14381.74	1.37
Chikkaballapur	15468.60	1.48	1499.00	0.14	16967.60	1.62
Chickmagalore	16795.52	1.60	2207.50	0.21	19003.02	1.81
Chitradurga	21885.81	2.09	2127.48	0.20	24013.29	2.29
Dakshina Kannada	17585.20	1.68	2839.96	0.27	20425.16	1.95
Davangere	20937.08	2.00	2896.61	0.28	23833.69	2.27
Dharwad	17842.66	1.70	2950.67	0.28	20793.33	1.98
Gadag	13171.56	1.26	1203.14	0.11	14374.70	1.37
Gulbarga	36341.47	3.47	2521.67	0.24	38863.14	3.71
Hassan	20805.37	1.99	3000.87	0.29	23806.24	2.27
Haveri	19788.03	1.89	2337.80	0.22	22125.83	2.11
Kodagu	7138.42	0.68	1208.68	0.12	8347.10	0.80
Kolar	17199.55	1.64	1523.43	0.15	18722.98	1.79
Koppal	18768.18	1.79	2159.48	0.21	20927.66	2.00
Mandya	20310.56	1.94	2782.87	0.27	23093.43	2.20
Mysore	26708.62	2.55	3488.96	0.33	30197.58	2.88
Raichur	27270.18	2.60	3561.00	0.34	30831.18	2.94
Ramanagar	12694.24	1.21	1841.93	0.18	14536.17	1.39
Shimoga	22644.49	2.16	2541.31	0.24	25185.80	2.40
Tumkur	31216.42	2.98	3984.40	0.38	35200.82	3.36
Udupi	10329.81	0.99	1517.05	0.14	11846.86	1.13
Uttar Kannada	23749.61	2.27	3192.88	0.30	26942.49	2.57
Yadgir	14610.93	1.39	1119.61	0.11	15730.54	1.50
Lump sum – ZP	327786.05	31.28	3816.00	0.36	331602.05	31.64
Grand Total	967607.78	92.32	80463.06	7.68	1048070.84	100.00

Table 3.19: Externally Aided Projects under implementation (2014-15) (Rs.crore)

Sl. No	Name of the project & Department	Name of the aiding Agency	Project cost	Year of Commencement/ Closing	Expenditure Since Inception up to end of 30-09-14	Outlay for 2014-15
1	<u>Forest</u> Karnataka Sustainable Forest Management & Bio-Diversity	JICA	841.49 (Revised)	2005-2015 (Revised)	739.63 (Revised)	12.40
2	<u>Water Resources (MMI)</u> National Hydrology Phase-II	World Bank	29.05 (Revised)	2006-2014	18.10	11.60 (includes Ph.I)
3	Dam Rehabilitation & Improvement	World Bank	Project is yet to be signed			20.00
4	Karnataka Integrated & Sustainable Water Resource Management	ADB	Project is yet to be signed			15.00
5	<u>Agriculture & Horticulture</u> Sujala - III	World Bank	471.30	2013-2018	11.10	103.97
6	<u>Health and Family Welfare</u> Karnataka Health Systems Development & Reforms(including additional finance)	World Bank	1455.70	2007-2016	1102.79	166.00
7	<u>Urban Development</u> Cauvery Water Supply Scheme- Stage IV - Phase II	JICA	3383.70*	i. 2005-2015 ii. 2006-2016	3740.60	300.00
8	Karnataka Municipal Reforms	World Bank	1364.00	2006-2015 (Revised)	1053.19	330.00
9	North Karnataka Urban Sector Investment Programme	ADB	1980.00	2008-2016	847.05	300.00
10	Karnataka Integrated & Sustainable Water Resource Management	ADB	Project is yet to be signed			52.00
11	Karnataka Urban Water Supply Modernization Project	World Bank	Project is yet to be signed			30.00
12	Bus Rapid Transit System-Hubli-Dharwad	World Bank	705.00	2013-2015	86.87	200.00
13	<u>Public Works</u> i. Karnataka State Highways Improvement Phase-II	World Bank	4522.50	2011-2016	636.64	446.73
14	ii. Karnataka State Highways Improvement Phase-II	ADB	2150.40	2011-2016 (Revised)	674.96	547.98
15	Sustainable Coastal Protection & Management	ADB	911.00	2011-2018	33.35	55.70
16	<u>Rural Development and Panchayat Raj</u> JalNirmal -A.F	World Bank	939.83 (Revised)	2010-2014	835.18	50.00
17	Karnataka Panchayat Strengthening-Gram Swaraj	World Bank	674.14 (Revised)	2006-2014 (Revised)	671.22	5.86**
18	<u>Energy</u> Bangalore Distribution Up gradation	JICA	563.70	2007-2015 (Revised)	310.08 (including BESCOM Share)	100.00 (JICA Share)
19	<u>Finance</u> Karnataka Public Financial Management & Accountability System	World Bank	2.40	2011-2014	1.63	1.50
	Total				10762.39	2748.74

Note: * - Project Cost is to be revised.

** - Project has been completed during 2013-14, Amount allocated for 2014-15 is for committed Expenditure.

3.10 CURRENT FISCAL CHALLENGES AND WAY FORWARD

Despite the State's broad successes in its fiscal consolidation efforts, the State government faces several fiscal challenges arising from a limited potential for enhancing tax revenue given the current levels of high tax / GSDP ratio, rigidities in the form of committed expenditure, and weak linkages between expenditure and development outcomes as detailed below.

1. Tax effort plateau: Having already achieved the highest tax to GSDP ratio, any further increase in the tax effort is fairly challenging. Similarly, achieving a higher level of tax buoyancy is difficult as the marginal increase in the taxes from a high base is likely to be lower. As a result, until the economy as a whole grows at an accelerated rate, the tax collections will not see a quantum jump like in the past.

2. Low non-tax revenue: While the State has one of the highest own taxes to GSDP ratio, the ratio of non-tax revenue to total receipts has not been increasing over the years on anticipated lines. Apart from enforcement and monitoring of own tax efforts, special emphasis needs to be given for mobilizing non tax revenues during the coming years. Government is committed to rationalizing user charges and reviewing the same regularly. Further, Government is also guided by the recommendations of Expenditure Reform Commission.

3. Low recovery of loans and advances: The State's borrowings are more expensive than the loans advanced by the government. The recipient boards and corporations are unable to service the loans given to them by the State government in view of low recovery of cost of their services from the consumers.

4. Committed expenditure: Committed expenditure on salaries, pensions, interest, subsidies, administrative expenditure, devolution to PRIs and ULBs etc., constitute about 94% of the total uncommitted

revenue receipts during 2013-14(RE). Containing the committed expenditure in light of the ever-expanding demands for welfare programmes, an increase in the employee strength vis-a-vis capital expenditure is one of the key challenges.

5. Non-Plan Expenditure: A large part of non plan expenditure of State consists of Development expenditure, which is primarily spent on Social and Economic Services. The Government strategy is to effectively control non-essential, non developmental expenditure so as to ensure adequate resource allocation for development activities in various sectors.

6. Linkage between expenditure and outcomes: In spite of maintaining one of the highest per capita plan expenditure, the State has been able to achieve economic growth at all-state average level only. Ensuring the desired levels of outcome from ever increasing outlays for the development mandate is one of the key governance challenges. Karnataka continues to be behind Maharashtra, Haryana, Tamil Nadu, Uttarakhand, Gujarat and West Bengal. District Human Development reports for all the 30 districts are expected by March 2015 which could be the basis for framing policies for equitable resource allocation which in turn helps in achieving inclusive growth in terms of human development indices. While there is a need for focused investment in these sectors, ensuring effective implementation machinery and monitoring the outcomes closely and equitable resource allocation to districts/blocks based on the District Human Development Reports is a challenge.

7. Goods and Services Tax (GST): The State has supported the introduction of GST but has endeavored to ensure that the fiscal autonomy of the States in mobilizing revenue is not compromised in the proposed GST scheme.

The following initiatives have been taken by the State:

Major Policy Announcements in the 2014-15 budget

New Industrial Policy

The State Government has implemented new Industrial Policy 2014-19 in 2014-15. The Objective of this policy is to build a prosperous Karnataka through inclusive, sustainable and balanced industrial development thereby creating large employment opportunities. The policy aims to maintain an Industrial growth rate of 12 % per annum and enhance the contribution of manufacturing sector to the State GDP from present level of 16.87% to 20% by end of policy period and spread industrial growth to nook and corner of the State.

Minor ports policy:

The State Government has implemented Minor Ports Development Policy 2014 in 2014-15. The objectives of the policy are. (i) to increase the share of Karnataka state in the export and import sector, in National and international Trade and commerce, in the post-liberalisation and globalization era ;(ii) to cater to the needs of increasing traffic of Karnataka and its neighboring states by providing efficient facilities and services and to support the country's domestic and international trade;(iii) to create sufficient infrastructure facilities by both Government and private efforts to handle 5-10% of India's total cargo in Karnataka maritime waters in the days to come ;(iv) to enhance the potential of ports, with public and private participation

State's Oral Health Policy:

Under this Policy free dentures to Senior Citizens above 60 years belonging to BPL category will be provided.

a. Comprehensive Decision Support

System: The state is implementing a Comprehensive Integrated Decision Support System in a time bound manner for the transparent resource allocation, better decentralized monitoring and improved implementation of all the plan schemes and programmes. This system would capture information on the progress of the State Government's Schemes directly from the implementation points.

b. Result Framework Document: Frame Work Document (RFD) is designed for the departments in the State to set out Vision, Mission and Objectives wherein it requires defining and disclosing quantifiable indicators for measuring the success of the stated activities. During 2014-15, 38 departments have uploaded their RFD in the website. With a view to enable the

departments for rationalization or merger of schemes/programmes related to outcomes leading to better implementation, resource allocations to outcomes, RFD guidelines have been revised and communicated to all the departments.

c. SCP/TSP Allocations: For the first time in the State, on the basis of 2011 Census, out of the plan allocation, to be met out of State's internal resources, 17.15 % and 6.95 % have been reserved for SC and ST category respectively. Rs.15,834 crore has been provided in the 2014-15 budget for SCP and TSP.

d. Khajane II: An Integrated Financial Management System is proposed to implemented during 2014-15 at a total cost of Rs.90 crore, to provide a single electronic platform to Government officials, banks

and public, to carry out all financial transactions pertaining to the State Government.

e. Article 371 (J): The inclusion of Article 371 (J) in the Constitution of India for the development of Hyderabad-Karnataka area is a matter of pride. In this regard, action has been taken for providing reservation to the people of this area in employment, higher education, vocational education and to constitute Area Development Board.

f. Delegation of Fund release powers to Administrative Departments: With a view to improve the pace of implementation of

schemes and thereby improve plan expenditure, Finance Department has delegated powers of release of funds to concerned Administrative Secretaries for the first three quarters of the Financial Year up to 75 per cent of the budget provision for almost all the major schemes of departments (except for a few schemes). It is expected that this delegation would improve the pace of plan expenditure incurred by Departments.

