

# **Financing Elementary Education in India through *Sarva Shiksha Abhiyan:***

## **Challenges in recent times**

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### ***Abstract***

This paper analyses recent trends in elementary education financing in India and in that context, the implication of the Planning Commission's decision to implement the new funding pattern of 50:50 (against 75:25 so far) between the Centre and the states for *Sarva Shiksha Abhiyan* (SSA). The analysis shows that SSA has been contributing additional amounts to overall and 'per child' education expenditures in all states, especially for new investments to expand provision and improve infrastructure and manpower in the first stage and now to increasingly focus on quality issues. The obligation of providing for these new investments was more on Centre than on states so far, but changing the funding pattern seems to affect the funding of programme. Contrary to the assumptions of Planning Commission that states are flushed with funds and have already been contributing more for the program, states are constrained by increasing budget provisions for non-developmental expenditures and decreasing shares of social sector expenditures on the one hand, and the Fiscal Responsibility regime and weak resource mobilization capacity on the other. Since most of the lagging states have not been able to commit for the year 2007-08 in their state budgets more than what they were already contributing to SSA in the past, the plan size of these states get severely reduced as the Centre would only provide matching share. Even other wise, the burden of providing the matching counterpart funds have been heavier on economically and educationally backward states compared to that on the better off states on account of uniform formulas. Any decision on funding (any) Centrally Sponsored Scheme, instead of adopting a uniform norms for financial and physical targets for all states should take into account (a) the differences in states' current level of provision and outcomes, (b) differential financial requirements to fill the provision gaps, and (c) the fiscal situation in states and their ability to contribute to the program. The Planning Commission, in the case of SSA, should either go back to 75:25 sharing pattern, or should devise a differentiated funding formula applicable to states based on their outcomes, gaps and fiscal capacity. Thus, the incidence of financing SSA should fall differently on states that have already met certain milestones (and hence funding for new plans is limited) and for those states that are lagging behind others in provision as well as in outcomes.

## **Financing Elementary Education in India through Sarva Shiksha Abhiyan: Challenges in recent times**

### **Introduction**

Conventionally, issues related to the adequacy of financing, efficiency and efficacy of the expenditures and the equity and fairness in the distribution of benefits of these expenses have dominated the debates on public financing of elementary education in India. These concerns have become all the more relevant in recent times as the focus of public interventions shift from outlays to outcomes. Apprehensions about the efficiency, efficacy and equity become all the more serious if resources are not adequate. This analysis aims to examine the recent developments in financing elementary education in India, given the varied status of outputs and outcomes across states, districts and sub-districts.

The most recent challenge to financing elementary education in India is posed by the Planning Commission's decision to change the financing arrangements for *Sarva Shiksha Abhiyan* (SSA). SSA is one of the most important flagship programme of the Government of India, implemented in a mission mode to realize the Universal Elementary Education (UEE) goals by 2010. Till the end of 10<sup>th</sup> Plan, Centre government put up with 75 percent of the SSA financial outlays (resources allocated to Centre from Planning Commission) while the rest 25 percent was provided by the states (as additional resources in their budgets, after maintaining the states' 1999-2000 expenditures on elementary education in current prices). However, Planning Commission has taken the decision to implement the 50:50 sharing of SSA allocations between Centre and States from 11<sup>th</sup> Plan onwards (as envisaged in the SSA Framework for the 11<sup>th</sup> Five Year plan period). This change would mean that the state governments are required to double their share in allocations for SSA and increase the total budgets for elementary education to reflect this change. This decision has also come at a time when states' budget decisions are increasingly coming under the scanner of Fiscal Responsibility regime and fiscal prudence measures, which put a downward pressure on states' overall (revenue) expenditures. In this scenario, often states may cut down on their overall budget for SSA, thus affecting the implementation of the programme that gained a real impetus a couple years ago with evidence based planning on focus areas, or the states may find funds for the sector by diverting funds from other social sectors, which is also not desirable.

Why is it important to sustain the higher allocations for SSA? Why is it necessary for Centre to be the major provider of SSA funds? And what could be the best ways of financing arrangements for SSA? This paper is an attempt to address these issues. The evidences for addressing these issues were derived from the analysis of various data on education financing as well as SSA project sources. These include: (a) Analysis of Budgeted Expenditure on Education by MHRD; (b) Annual Work Plan and Budgets (AWP&B) of SSA program of different states/ districts; (c) State Finances: A Study of Budgets 2006-07 published by Reserve Bank of India; (d) various documents brought out by National University of Education Planning and Administration (NUEPA) and (e) estimates of educational outcomes using National Sample Survey Organization (NSSO)'s 61<sup>st</sup> round for the year 2004-05.

This paper is organised in the following sections: In section 1, a brief review of the policy framework that governed the financing of elementary education is provided. Section 2 describes how evidence based planning and allocation of funds under SSA in recent times has focused on those laggard states and districts, with huge gaps in access, infrastructure and teachers and with high social and economic inequalities. In section 3, we look at how SSA funds have altered the overall elementary education expenditures of states with its various dimensions. In Section 4, states' overall fiscal scenario is looked at to see whether they will be able to provide more for the SSA. Section 5 discusses the role of Central funding and the need for differentiated funding arrangements with different states.

### **Section 1. Policy Developments with major implications for Education Financing**

The role of education in developing human capital is well established by theoretical and empirical research world wide<sup>i</sup>. The need to invest in education arises not only because it is an investment in human capability building and hence an investment for future economic growth, but also because of its features as a public good or a merit good. In more recent times, financing elementary education is imperative from the 'rights' perspective, as elementary education is recognized as a fundamental human right in most of the modern societies. The welfare states across the world have recognized elementary education as one of the global public goods as reflected in their inclusion in the Millennium Development Goals (MDGs). Providing enough funds to the sector is important not only for creating the necessary access, infrastructure and educational ambience, but also for sustaining the outcomes.

Though elementary education is a subject in the concurrent list of the constitution, traditionally, the onus of financing (and delivering) elementary education services had been mainly on the state governments till the mid -1990s<sup>ii</sup>. The States' allocations for elementary education depended on (i) the economic growth of the states and its fiscal capacity, (ii) the status of education development in the states and equity with which provision of services were spread across regions within the states; and (iii) the degree of priority assigned to the elementary education sectors by the political leaders. The disparities in financing elementary education also led to disparities in educational outcomes.

The national level attempts to improve the financing of elementary education included various policy directives as well as major direct interventions.

*(a) National Education Policies:* Originally the Directive Principles of the Constitution of India, in Article 45 insisted on the provision of free and compulsory education for all children below 14 years. The Kothari Commission (National Education Commission, 1966) also suggested gradually increased allocation for education sector. Subsequently the National Policy of Education (1968) promised to raise the investment in education to be at least 6 percent of GDP. Though the subsequent Five Year Plans also mentioned about the need to invest in the sector for UEE goals, it was only in 1986, with the introduction of the New National Education Policy that UEE got next best push. The NEP (1986) and the subsequent Plan of Action (1992) restated the need to invest at least 6 percent of GDP in education sector. However, most of these policy recommendations remained mere rhetoric than reality.

*(b) Opening up of elementary education sector for external financing:* For long, elementary education was a 'protected' sector and was not open for external aid. However, the fiscal crisis in early 1990s compelled India to go for structural adjustment measures which had implications for budget allocations for social sector allocations. International assistance was sought as part of the measures taken to shelter susceptible sectors including education from harsh effects of such structural adjustment measures. Starting with Uttar Pradesh Basic Education Project (UPBEP) in early 1990s supported by the World Bank, the external agencies started providing their financial assistance to the sector, though they accounted for a small share in total elementary education expenditure.

*(c) Efforts to plan the UEE in India:* In the new millennium, financing of elementary education in India was guided by diverse factors. The Tapas Majumdar Committee (1999) estimated that the country would require Rs.1,370,000 million in constant 1993-94 prices (Rs.2,030,000 million in current 1998-99 prices) between 1998-99 and 2007-08. The Working Group on 10<sup>th</sup> Five Year Plan estimated that Rs.522,800 million was required for elementary education during the 10<sup>th</sup> Plan period. The 86<sup>th</sup> Amendment Act of the Constitution (2002) made elementary education a fundamental right, raising its status from being in the Directives of the State Policies. The internal pressure was there much before this, in the form of the States' Education Ministers' meet which recommended a UEE program in mission mode way back in 1998. The international pressure was also evident in the form of MDGs to which India was committed to achieve. In early 2000s, the efforts towards making Elementary Education a 'Fundamental Right'<sup>iii</sup> was also to make state responsible for providing the education services and increased financing of the sector.

*Centrally Sponsored Schemes:* In the first 50 years of Indian independence, the State governments decided how much to invest in elementary education and how to expand. This was in accordance with the Constitutional division of duties, which placed elementary education in the concurrent list later. However, different states invested differently in the sector depending on their fiscal capacities and priorities. The fiscal capacities of states varied, and the capacity of all states to mobilize resources also differed considerably from the Centre. All these led to vertical and horizontal disparities in education financing and resultant outcomes. To correct the vertical imbalances in fiscal capacity and investments in social sectors, considerable volume of funds needed to be transferred to the states from the Centre's pool. This transfer of resources also could be used as a powerful tool to rectify the horizontal imbalances across states for specific programs. Centre's grants-in-aid assistance to states took the shape of Centrally Sponsored Schemes (CSS) and there were several of them during the late 1980s and early 1990s. However, many CSSs in education sector which existed in the late 1980s and early 1990s were mainly aimed at infrastructure provision and teacher training (such as Operation Black Board and Teacher Education) and did not really envisage the Central assistance as "additionalities". As a result, in many states they just "crowded out" the states' own education allocations, which were diverted by states for other uses. In mid-1990s, the District Primary Education Projects (DPEP) were introduced, with major funds coming from Centre, with financial support from external donors (states were to provide only 15 percent of overall DPEP outlays as counterpart funding). The DPEPs also initiated district based planning and implementation, with funds flow from Centre to

State Implementation Societies (SIS) and then to the district and blocks and finally, school management structures. The success of implementing DPEP for creating infrastructure and increasing the basic outcomes at primary level encouraged the Centre to plan expansion of same for the whole elementary cycle, to be implemented in a mission mode.

## **Section 2: Focus on lagging states and regions: Emergence of evidence based planning under SSA**

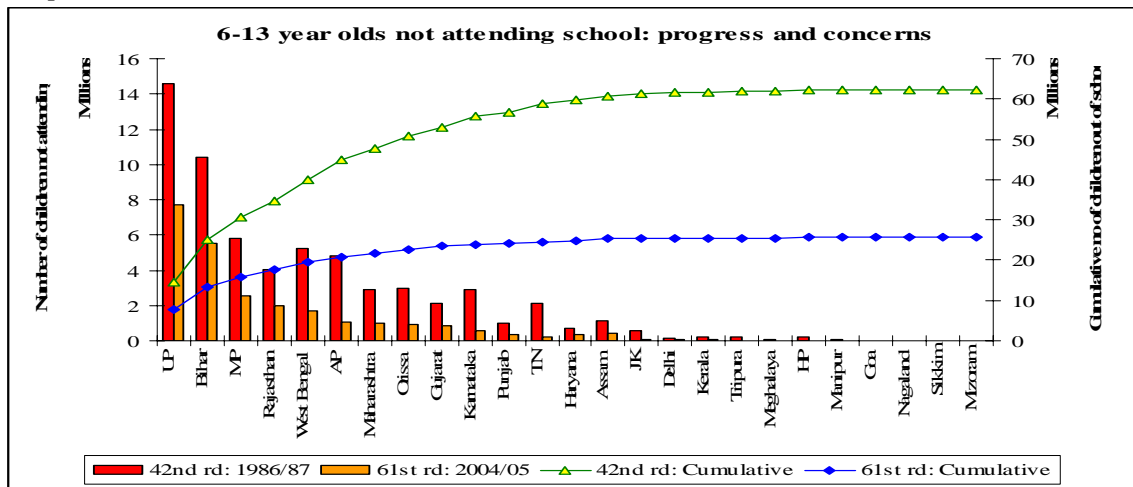
*Sarva Shiksha Abhiyan:* The Government of India (GOI) launched *Sarva Shiksha Abhiyan* (SSA) as its flagship program in 2001-02, covering the entire elementary cycle and applied to all districts of the country. SSA was conceptualized as additional finances over and above the existing state expenditures for elementary education to invest in various components of education infrastructure, quality improvement and capacity building. Hence the states participating in the SSA program were expected to maintain their elementary education expenditures at the level of the expenditure in the financial year (FY) 1999/2000 (in current prices). While Centre contributed 85 percent of the allocations for DPEP, with the state governments expected to pitch in the rest 15 percent, under SSA, during the 10<sup>th</sup> Plan period, the sharing arrangements between Centre and State was of 75:25 ratio. One of the main features of SSA allocations is that if the released amounts were not spent in a particular year, they do not lapse; rather this amount is carried over to the next year's AWP&B. The allocations for both DPEP and SSA were based on certain norms (with a ceiling on the overall share of expenditures on civil works in total at 33 percent), and based on district level Annual Work Plan and Budgets (AWP&B), thus enabling states and districts to access additional central funds. In the initial years, the better off states and within states, better off districts were able to get more funds under SSA while states/ districts that lacked capacity lagged behind, thus resulting in divergence in educational development across states and districts<sup>iv</sup>. However, MHRD's efforts to identify 'Special Focus Districts' using various criteria<sup>v</sup> and giving them preferential treatment in funds allocation has helped the Plans (and hence allocations) to become more 'evidence based' and 'needs driven'.

'Evidence based' planning involves identifying divergences in outcomes, gaps in provisions and processes that result in low outcomes, and funding to accommodate the real needs of lagging regions/ states/ districts. As a first step, it involves identifying gaps in outcomes. The evidences from various sources (MHRD's household survey undertaken as part of SSA and NSS rounds) suggest that the children (of 6-13 years) 'out of school' schools are concentrated in a few states and regions within that. See Graph 1 for the reduction in overall decline in the number of children 'not attending' and the concentration of still out-of-school children in a few states as evident from NSS rounds. SSA's household survey data showed that there were 48 districts in the country in 2004 that had more than 50000 children out of school. The attendance rate were below national average in the lagging states of north and Central India (graphs 2 & 3), and the burden of providing for "gross" enrolments – in terms of overage children attending lower grades (a result of backlog) was also more on these states compared to better off states (graphs 4 & 5). Similarly, primary/ upper primary completion rates and transition rates were the lowest in laggard states<sup>vi</sup>. The Annual Status of Education Report (ASER, 2006) for rural India by *Pratham* also indicates that the states that have huge provision gaps also

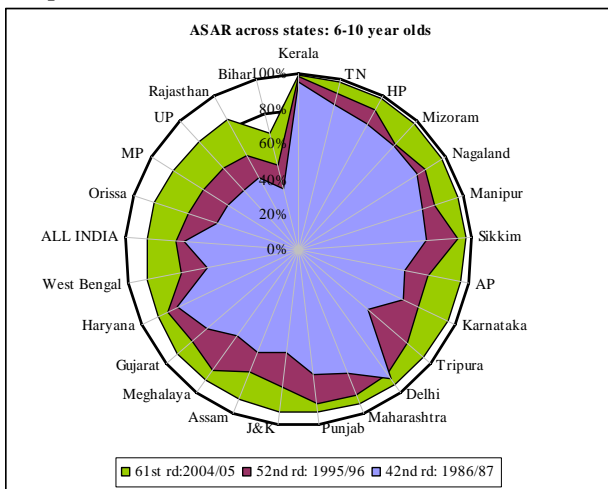
have large share of children who do not master in basic learning skills. Interestingly, the private sector has also not penetrated in these lagging states as much as in developed states, thus making the provision and educational outcomes more and more a government responsibility. See graph 6.

One of the major impediments for the lagging states / districts not reaching the desirable levels of participation and outcomes is their still persistent inadequacy in terms of facilities. Access to schooling facilities, schools with adequate rooms for instructional purposes, enough teaching and learning materials (like blackboard, books etc) and adequate number of teachers are essential for education and learning outcomes. An analysis of educational inputs and outcomes using district level input and outcome indices for 500 districts in the major states in India by Jhingran and Sankar (2006)<sup>vii</sup> showed that the input indices and outcome indices were highly correlated. An analysis of ‘gaps’ in physical and human infrastructure in early 2000s by Ministry of Human Resource Development (MHRD, 2003) showed that the states which performed poorly in educational outcomes also lagged behind the better off states in providing basic enabling inputs, and in allocating more resources for the same.

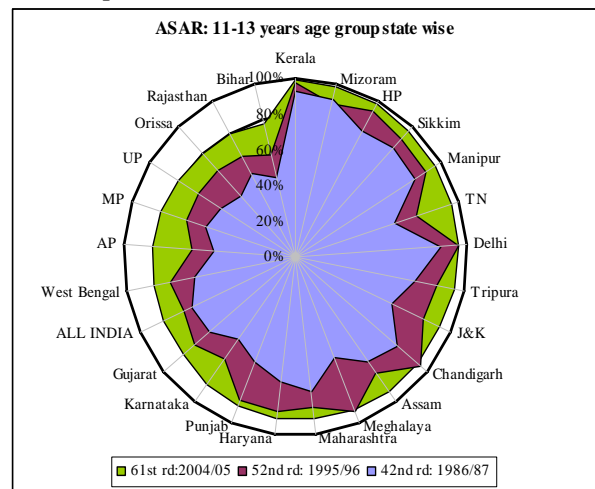
Graph 1.



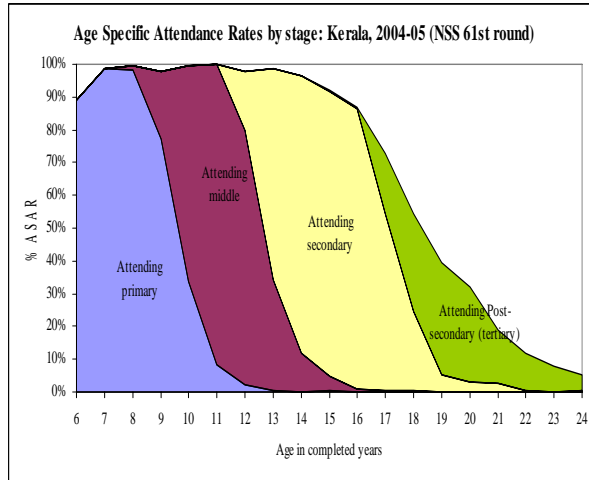
Graph 2



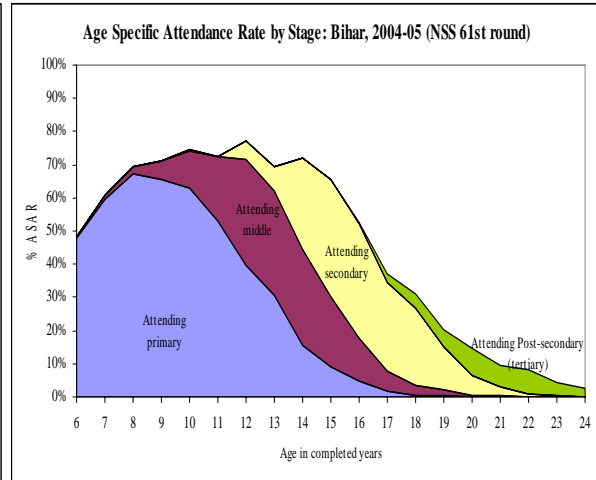
Graph 3



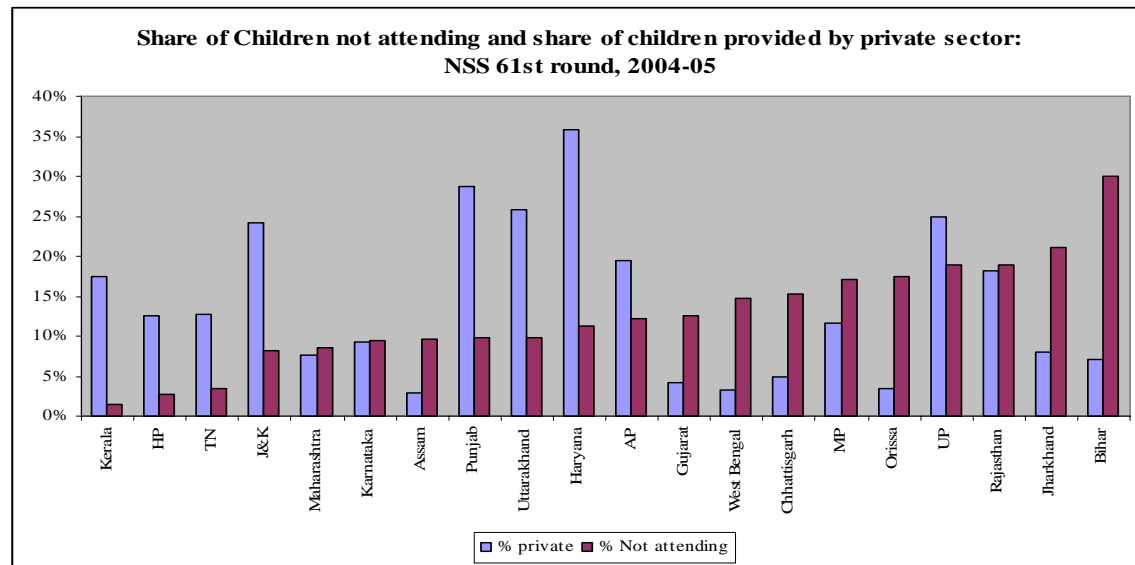
Graph 4



Graph 5



Graph 6



Source: Author estimates from various NSS rounds

Why some states and districts need preferential treatment and focused attention? And how could this emerge from evidence based planning? The disparities in the status of provision and outcomes of states and districts and the (per child) allocations and expenditures under SSA in the initial stages pointed towards the discriminatory nature of certain norms of SSA with respect to educationally backward states and districts. In such states/ districts, straight jacketed, normative activities do not yield results that converge on the developmental goals of elementary education. Hence, these states/ district needs somewhat differentiated approach and given their capacity issues, focused interventions. Now, with a couple of years of evidence based planning and focused targeting, these states/ districts are on a better development trajectory. In fact, many of these states / districts would have been even worse without the interventions initiated during the last 3-4 years. This only establishes the need to support the momentum created towards closing the provision and outcomes and gaps and provide for further investments in these states/ districts.

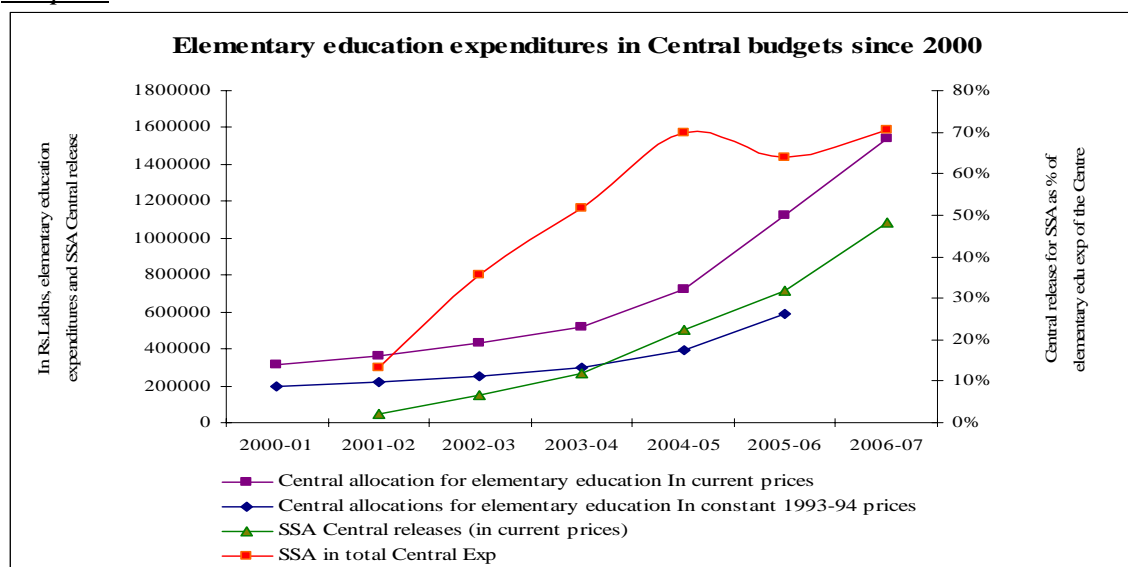
### Section 3. Trends in Elementary Education outlays and expenditures with SSA contributions

The allocations (and expenditures) under Elementary Education sub-sector consists of (a) capital expenditures and (b) revenue expenditures. Capital expenditures are incurred for asset creation and currently it accounts for less than a percent in overall elementary education expenditures in the country. Revenue expenditures consist of both Plan and non-plan expenditures. Plan expenditures are significant as they are spent for new investments while non-plan expenditures are functioning costs on a day today basis and include mostly salaries and maintenance charges. SSA as a Centrally Sponsored Scheme (CSS) mainly provides for new investments and activities, and is hence ‘plan’ expenditures. The grants transferred from Centre to states through CSS are mainly plan expenditures, though it may also contain certain items that are generally classified as non-plan expenditures under state budgets. For example, the teacher salaries for teachers appointed under the SSA program is provided by SSA and hence classified as plan expenditures while the teacher salaries of those teachers paid by the state governments are classified as non-plan expenditures. The criticality of plan expenditures where access and infrastructure is not adequate also could be attributed to the fact that the capital expenditures in typical budgets of Indian states are less than 1 percent.

The Central allocations are mainly Plan allocations and non-plan expenditures account for very minimal share in central finances for education. On the other hand, almost 85-90 percent of state allocations for elementary education have been non-plan expenditures, which are basically the “running costs”.

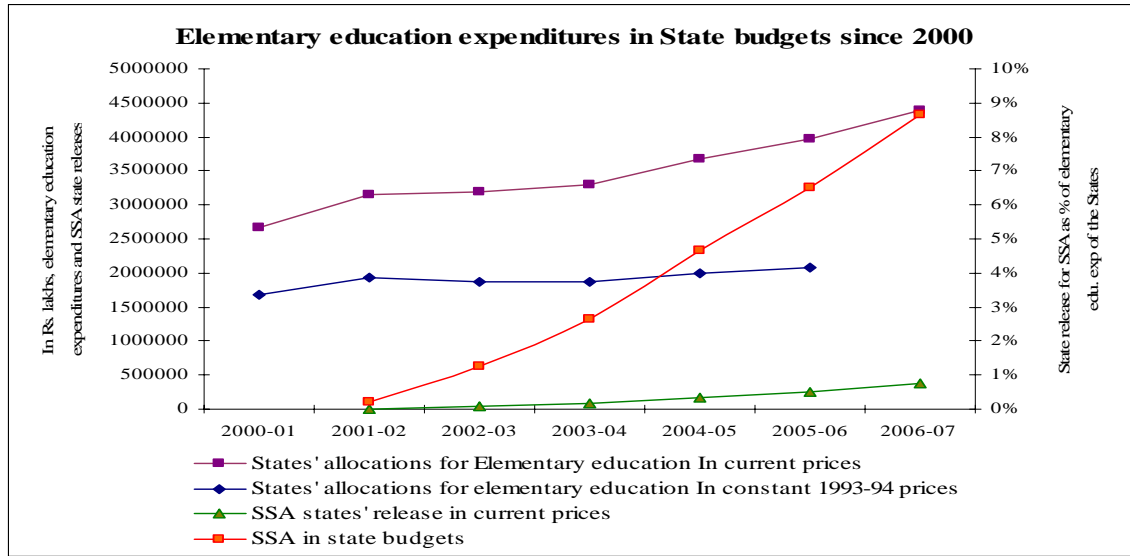
The overall Central allocations for elementary education increased by 22 percent (Compound Annual Growth Rate) between 2001-02 and 2005-06 in real terms (in 1993-94 constant prices). At the same time, the overall states’ allocations for elementary education also increased, but only by 4 percent. See graphs 7 and 8. Annex 1 provides state level expenditures on elementary education.

*Graph 7*



Source: Analysis of Education Expenditure, MHRD, various years

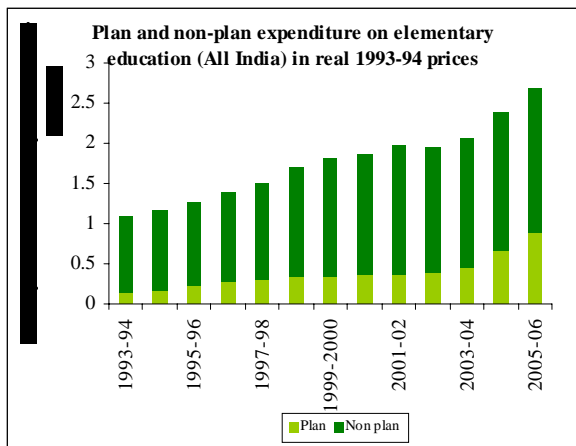
Graph 8



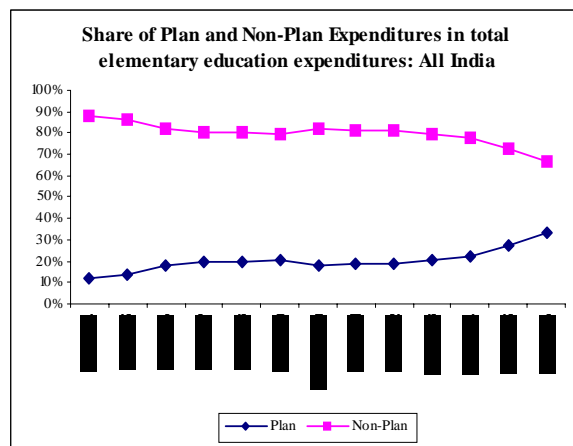
Source: Analysis of Education Expenditure, MHRD, various years

These increased budgets of Central and (various) state governments were on account of the SSA outlays. During the last three years, SSA release by Centre accounts for around 70 percent of the Centre's allocations for elementary education. On the other hand, the SSA release accounted for less than 10 percent of the overall states' budget for elementary education, thus putting lesser burden on states. The Centre budgets for elementary education is 99.98 percent plan expenditures while for the States, it is less than 15 percent – that too gradually risen from around 8.75 percent in 1993-94 to 14 percent in 2005-06. Also, Centre was bearing 3/4<sup>th</sup> of the financing burden of SSA while states were required to provide only 1/4<sup>th</sup> of the SSA budgets. For the country as a whole, while the non-plan expenditures dominated the elementary education expenditures, the share of plan expenditures have been improving since 2000-01 due to SSA funds. On an average, the plan expenditures accounted for around 7-8 percent of the total elementary education in India prior to SSA and improved to 33 percent now (including both Central and state allocations). See graphs 9 and 10.

Graph 9

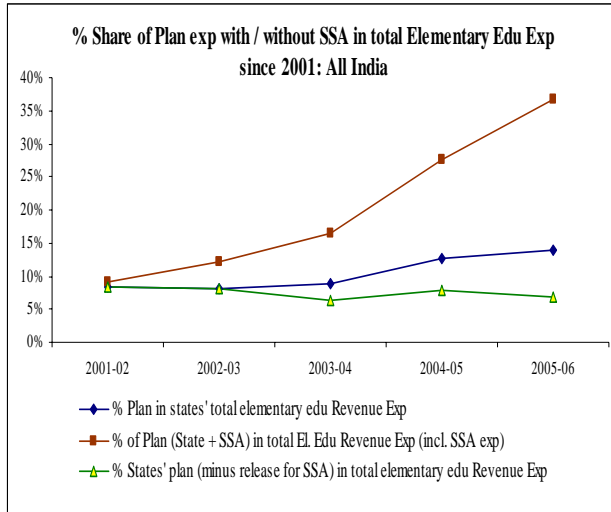


Graph 10

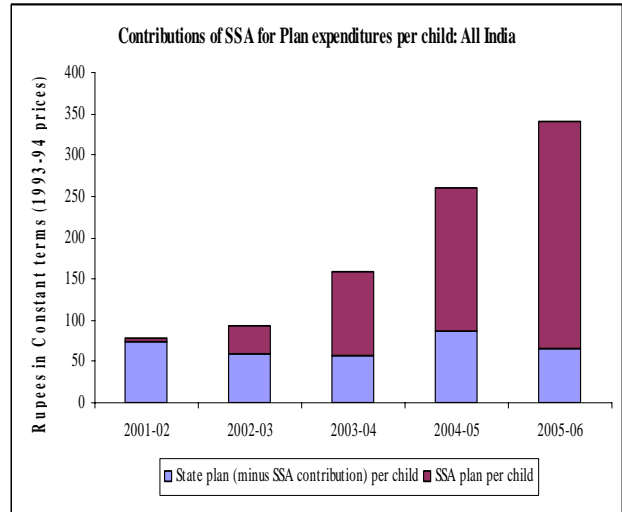


3.1 More than 80 percent of the Plan expenditures in the country now emerge from SSA funds. Or, in other words, the plan expenditures are 4 times more now. More than 2/3<sup>rd</sup>s of the plan expenditures of the states (including SSA) are contributed by Central allocations through SSA. So overall, SSA contributed to the overall allocations for elementary education in the country, especially the planned expenditures. See graphs 11 and 12. See Annex 2 and 3 for state level details.

**Graph 11**



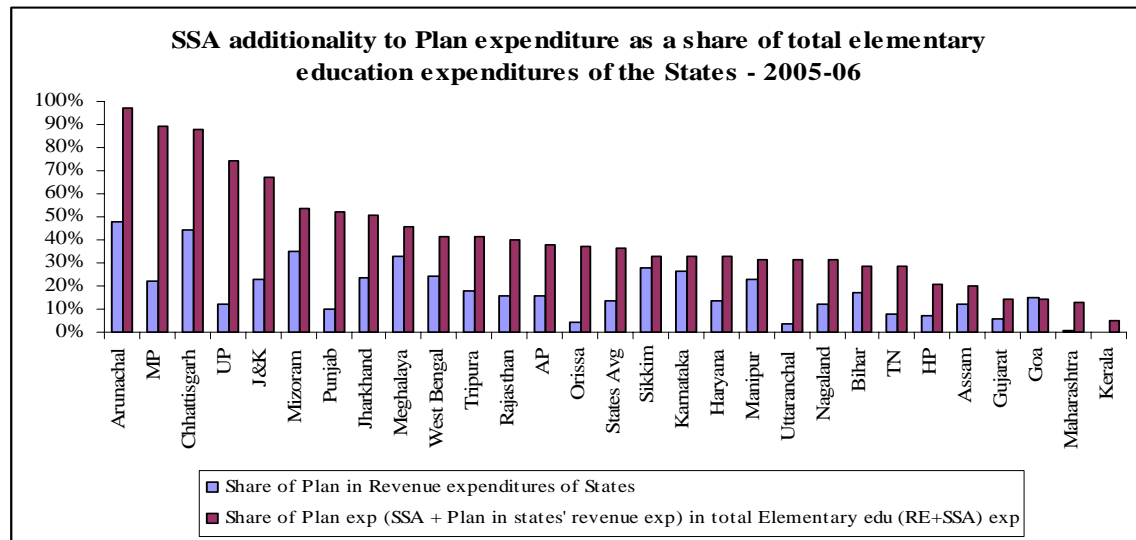
**Graph 12**



Source: MHRD

Among the states, the share of contributions from Central allocations for SSA varied from very high shares in Chattisgarh and MP to very low share in HP and Kerala. In states like Orissa and UP, the share of plan expenditures went up due to the contributions from SSA Central allocations. See graph 13.

**Graph 13**



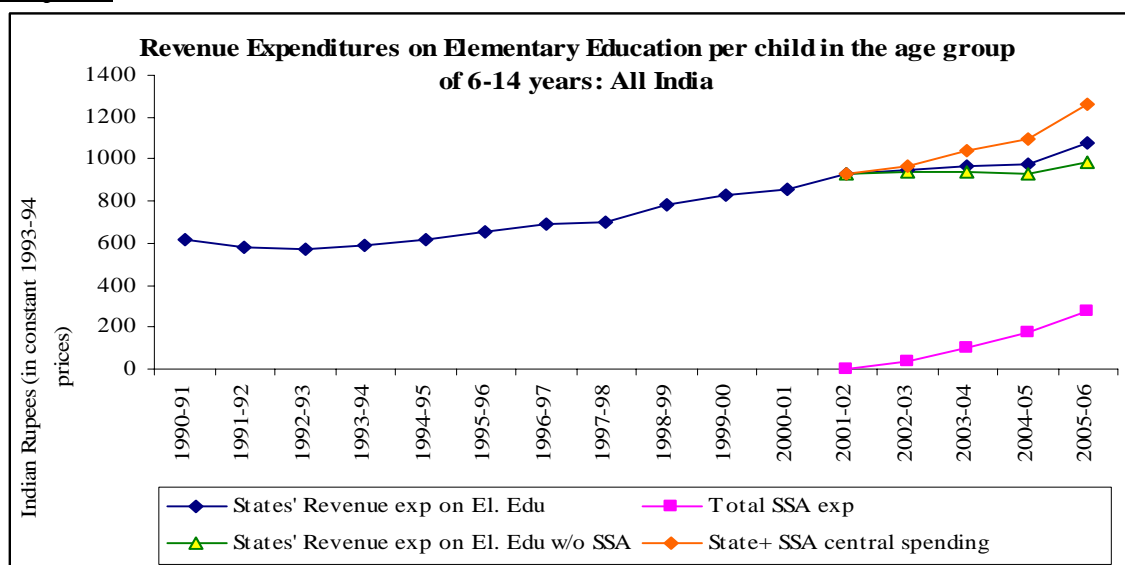
Source: MHRD

So the analysis so far shows a mixed picture – some of the laggard states have higher shares of plan expenditures (including SSA) as required since in these states there is a

need for more investment to meet the access and infrastructure facilities requirements. In 2005-06, the overall allocations for plan expenditures (including SSA funds) exceed more than half of the investments in backward states like Chattisgarh, MP, UP and Jharkhand. West Bengal, Rajasthan and Orissa also spent more than 40 percent of their overall elementary education allocations for plan expenditures during the same time. However, Bihar spent only around 28.6 percent of their overall elementary education allocations for Plan expenditures in 2005-06, a year when it got increased funds from Centre, with even relaxations for Civil Works spending category<sup>viii</sup>.

3.2 Thus while the Centre’s transfers to states through SSA enabled them to invest more on new activities, the spending as a share of overall elementary education expenditures do not provide the accurate picture, in terms of how states performed in terms of providing for each child in the age group of 6-14 years, and how states used SSA for new activities in the sector. The analysis shows that country wide ‘per child’ expenditures on elementary education improved from Rs.580/- in 1991 to around Rs.650 in 1995-96, to Rs.860 in 2001 and to Rs.1275 in 2005-06 (all amounts reported in comparable constant terms in 1993-94 prices). The ‘per child’ contribution of SSA is significant in terms of maintaining the growth trail continuously as the per child allocations from states’ revenue expenditures stagnated since 2001-02. See graph 14. During the last five years, the additional investments per child amounted to Rs.590/- in 1993-94 prices (Rs.1120/- in 2005-06 prices). More than 1/10<sup>th</sup> of the ‘per child’ expenditure on elementary education since 2001-02 was provided by SSA (from both Centre share as well as the state share), and every year, the contributions have been increasing. In 2005-06, 22 percent of all elementary education spending per child was contributed by the SSA programme. See Annex 4 for state level details.

Graph 14

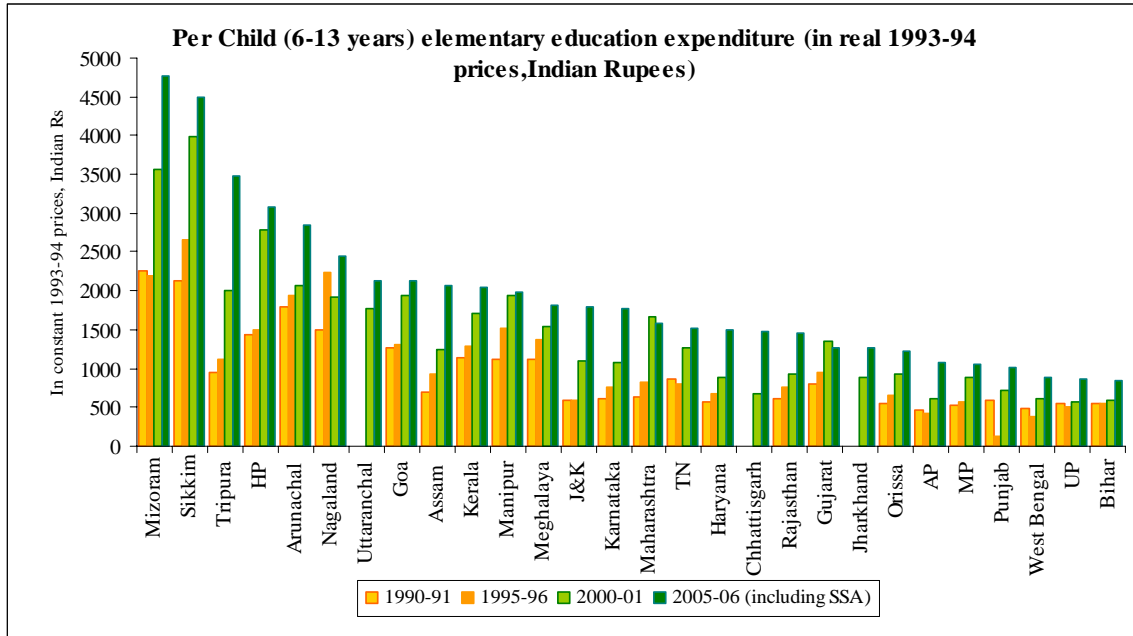


Source: Analysis of Elementary Education Expenditures (MHRD)

While the overall picture is quite satisfactory, the situation differed from state to state. The additional Rupees brought in by SSA in 2005-06 per child varied from Rs. 120/- (in constant 1993-94 prices) in Kerala to Rs.1160/ per child in Mizoram and Rs. 607/- in Chattisgarh. As a share of total public expenditure on elementary education per child,

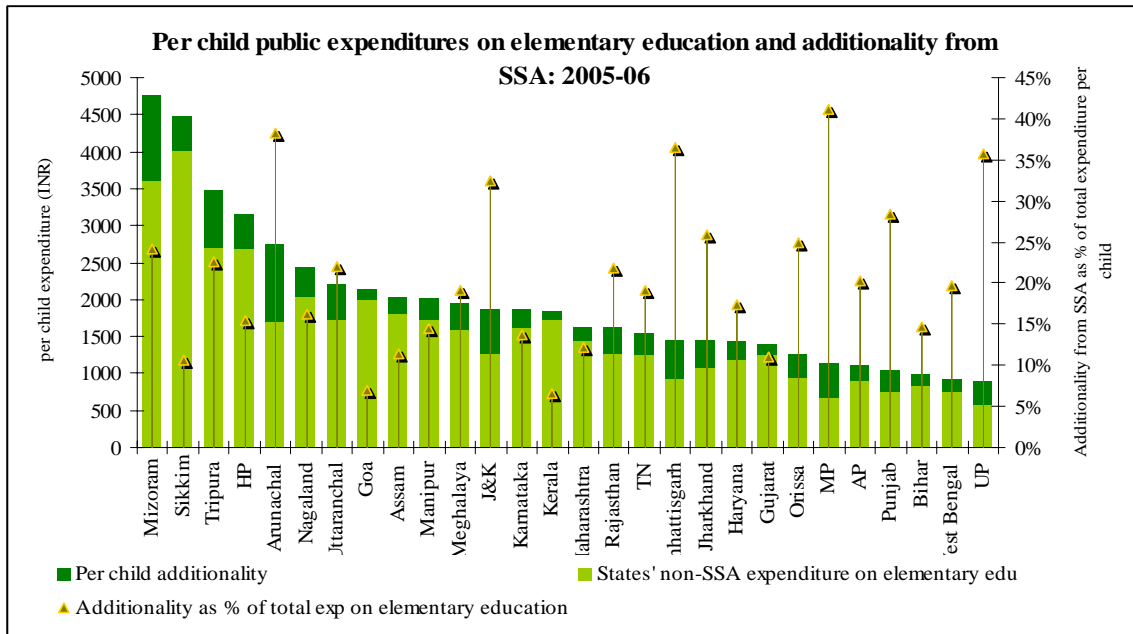
SSA's contribution varied from 6.5 percent in Kerala to 41 percent in MP and 36 percent in UP. The contribution of SSA to the overall plan expenditures on elementary education varied from around 4.7 percent in Kerala to around 90 percent in MP in 2005-06. See graph 15 and 16.

Graph 15



Source: MHRD (SSA and Analysis of Education expenditures)

Graph 16



Source: MHRD (SSA and Analysis of Education expenditures)

In absolute terms, the per child additional resources contributed by SSA were still low compared to educationally better off states like TN and Kerala and the states in North –

East and hill areas. However, the growth in per child allocations, and hence the share of additional funds contributed by SSA in total elementary education expenditures of the states improved tremendously in the lagging states. The 'per child' spending were highest in hill states like those in North East region and HP and Uttarakhand. This was expected given the scattered population to be provided with elementary education facilities and the difficult terrains of the states. These states were already spending high amounts 'per child' (without SSA) and the contributions by SSA were also quite high. On the other hand, the laggard states were spending quite low per child prior to SSA. Hence even a relatively small increase in amount (compared to the hill states or even the southern states) in these states would amount to a huge increase in terms of the additional resources. For example, MP spent less than Rs.1200 per child in 2005-06 for elementary education as a whole (in real terms, in constant 1993-94 prices). However, Rs. 470 out of this came from SSA spending (41 percent). Within plan expenditures, SSA spending accounted for 72 percent in the state as the states' per child plan allocations were less than Rs.200.

Thus, SSA as additional resources benefited all states, it benefited the laggard states more in terms of the increase in resources given its low spending prior to SSA, but in Rupee terms, it benefited those states more which were already spending more. SSA as evidence based planning program should have benefited the backward states more as they require more investments per child, given their comparatively poorer facilities and outcomes.

Why is it not showing that incremental investments in laggard states? Two reasons could be given in this context.

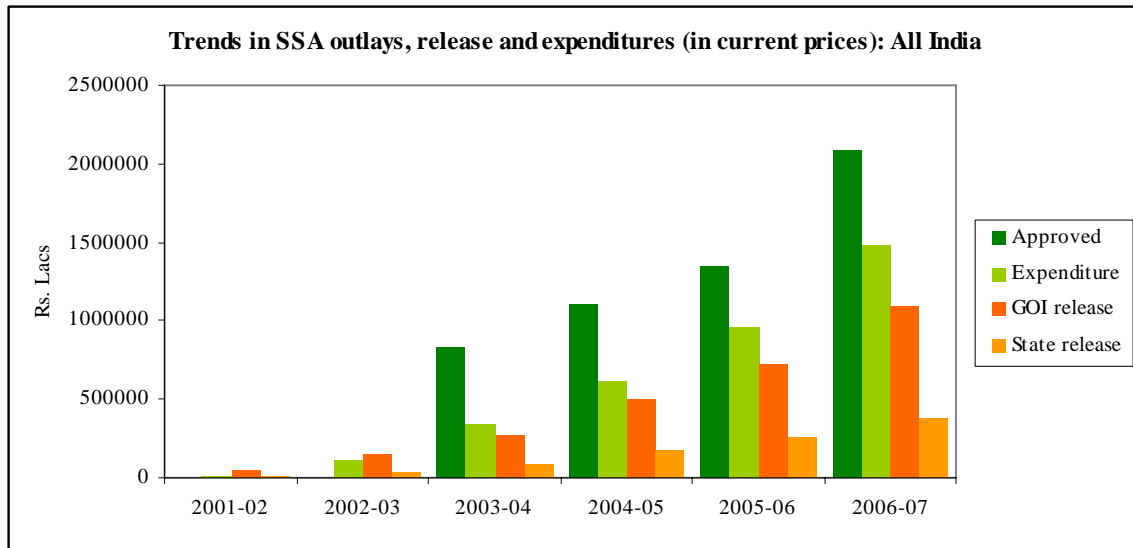
(a) Laggard states still have huge gaps to fill in terms of provision of facilities and teachers. The recent expansions of facilities in laggard states, even under SSA were through low cost measures of improving access and recruiting teachers. Most of the expansion of access in backward states like UP, MP, Bihar and other states have been made possible by opening new Education Guarantee Schools (EGS) and Alternative Centres rather than by opening new schools. Similarly, instead of regular teachers paid according to the Pay Commission (5<sup>th</sup> Pay commission was the latest) recommendations, these states appointed para-teachers on *ad hoc* basis and paying almost 1/5<sup>th</sup> of the costs of regular teachers. As a result, the laggard states could expand elementary education sector without incurring as much expenditures as some of the more advanced states;

(b) Laggard states' per child expenditure could have been better, especially per child SSA expenditures, had they been utilizing the allocations made to them under SSA fully. As the analysis by Jhingran and Sankar (2006) shows, the educationally backward states and districts planned less and spent even lesser as they initially did not use the opportunities provided to them by the evidence based planning norms due to various constraints. They also lacked capacity to plan for the requirements, and even once given the lower outlays, even spent the resources fully.

However, there has been a considerable improvement during the last five years in this regard and further improvements are possible in future, provided there are enough resources to keep up with the momentum created.

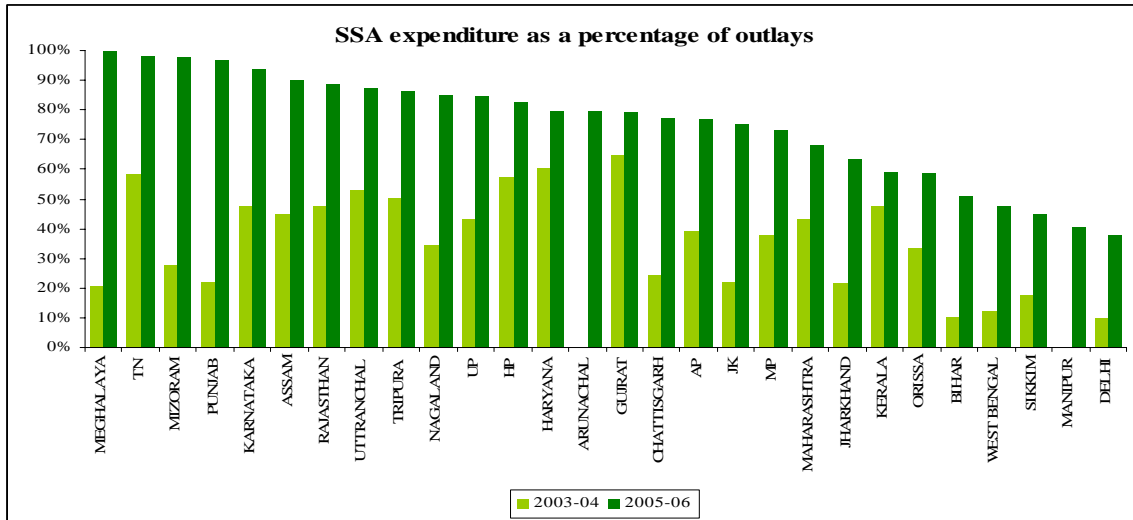
It is to be also kept in mind that while the SSA allocations and expenditures improved over the last five years, the states were not able to spend all of the outlays as planned. But the expenditure as percentage of outlays improved in spite of the increased allocations, which indicates that the states and districts were improving in their planning and use of funds. For example, in 2003-04, only 41 percent of all outlays were spent. By 2006-07, this has improved to almost 3/4<sup>th</sup>. See graph 17 and 18. Though the laggard states also improved their spending from around 30 percent in 2003-04 to 72 percent in 2005-06, per child allocations have been low in these states compared to educationally better off states. See Annex 5 for state level details.

Graph 17



Source: MHRD

Graph 18



Source: Author estimates using MHRD's SSA data

### Summary of Section 3 Analysis

- The overall allocations for elementary education in the country increased during the last five years. The increased allocations came from Central government contributions through its CSSs, mainly SSA.
- As a result of Central transfers to states for plan expenditures through SSA, the new investments in elementary education sector of all states improved. The overall allocations for plan expenditures increased in real terms as well as the share of elementary education expenditures during the last five years.
- The allocations / expenditure per child (6-14 years) in real terms have increased tremendously during the last decade and especially since 2001. At the same time, the states' own elementary education expenditure (minus the contributions to SSA) per child were stagnating or increasing at marginal rates. Hence the actual increase in per child allocations was contributions of SSA funds.
- In spite of the overall increase in funds in absolute terms as well as per child, the inter-state divergences are quite high. The laggard states seem to be spending much less per child compared to better off states. This is in spite of the fact that these laggard states need to spend more per child to guarantee comparable access and quality provision.

The analysis of current trends in contributions to SSA through counterpart funds show that the states have just managed to provide their share of counter part funds in most of the states. The plan investments in states were mainly guided by the CSS, the major contribution of which emerged from Central transfers. This is more so in the case of states with huge access and infrastructure gaps. The CSS has even taken care of the costs of new teachers' salaries, and thus relieving states off partly from their increasing non-plan expenditures in education. However, there are states that still need to provide for the provision of infrastructure and teachers – like Bihar. The states, especially laggard states need more funds in the next 4-5 years to ensure provision parity with other states, and even more to act upon quality improving interventions. In other states, while the need for basic provision and infrastructure may come down, but the requirements of funds to improve their service delivery and quality. As a result, different states' requirements for funds in the coming years may vary depending on their needs. With respect to non-plan expenditures, most of these are inflexible and very limited chance of being reduced. The 12<sup>th</sup> Finance Commission has provided for education specific grants to the laggard states to meet the gaps in non-plan expenditures in education.

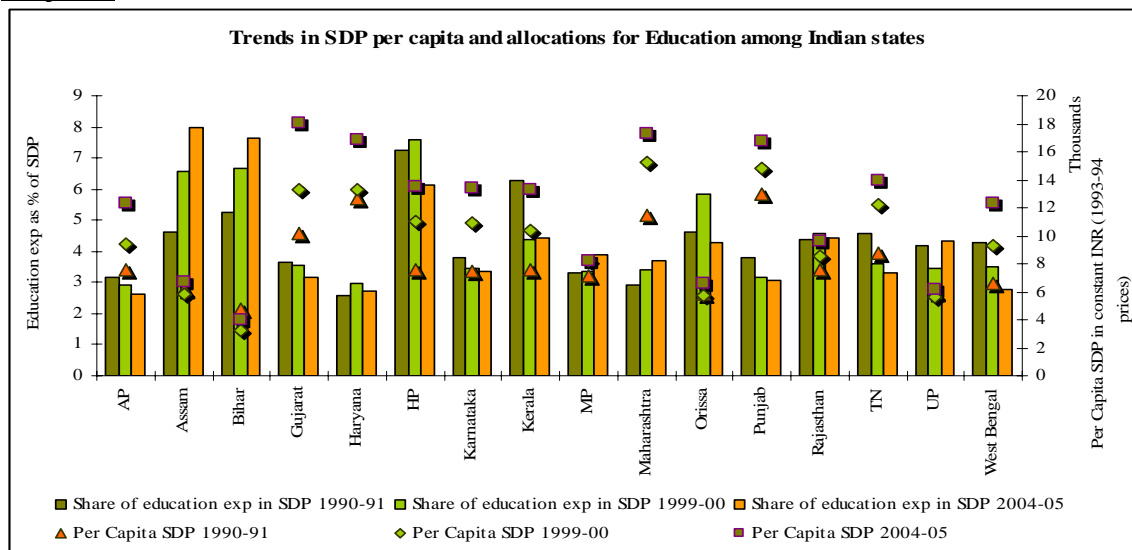
### **Section 4. Current Challenges in Financing Elementary Education in Indian States, especially SSA**

*Changes in the financing arrangements between Centre and States for SSA in the 11<sup>th</sup> Plan:* One of the major developments in financing SSA in 2007-08 is the change brought in the sharing arrangements between Centre and states by Planning Commission. As envisaged in the SSA framework, the sharing arrangements of providing for SSA has changed from the ratio of 75:25 between the Centre and States during the 10<sup>th</sup> Plan period to 50:50 from 2007-08 onwards. This is change has brought about as the Planning Commission and Ministry of Finance firmly believe that the states have enough funds to

finance elementary education of large magnitude. However, this argument often falls apart if we analyse the states' budget allocations over the years.

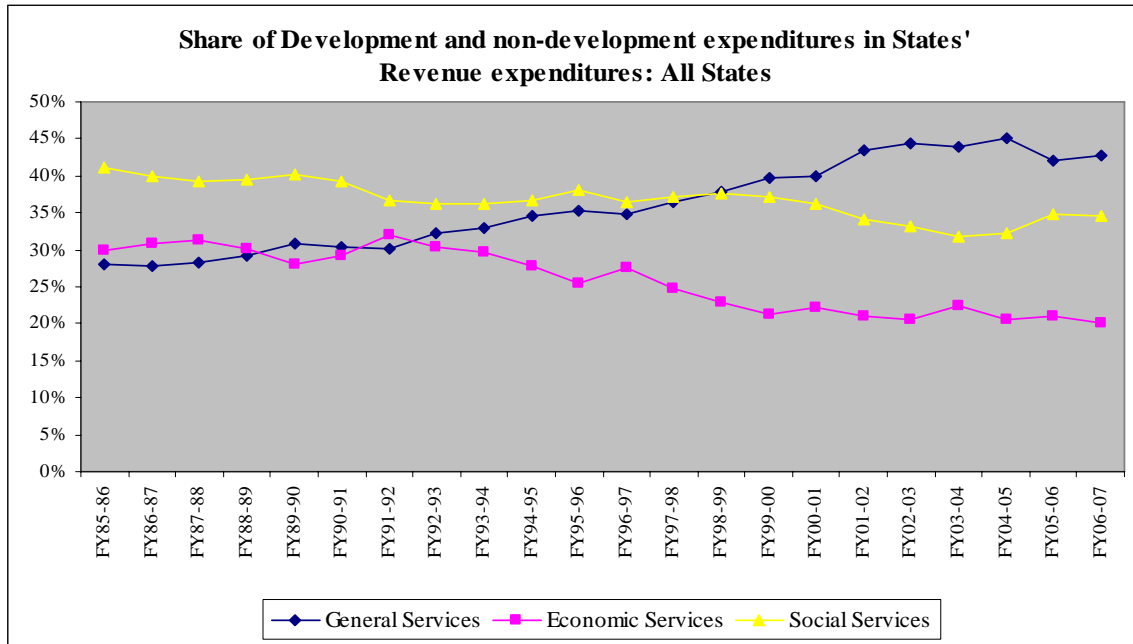
Education spending in overall GSDP of the states: Traditionally in public finance, the commitment to a particular sector is expressed through the share of GSDP allocated to that sector. Educationally backward states like Bihar and Assam have been providing more than the NEP stipulated 6 percent of SDP for education, much larger shares than that provided by the richer states like Punjab, Gujarat and Haryana. However, precisely for the economic status of states, such measures (as percentage of SDPs) camouflage the variations in the denominator, the SDPs. The level and growth of SDPs vary across states. In fact, the economically better off states were allocating less of its SDP in education while economically poorer states have been providing slightly better shares for education. **Thus poorer states were already paying proportionately more of their resources for education.** See Graph 19.

Graph 19



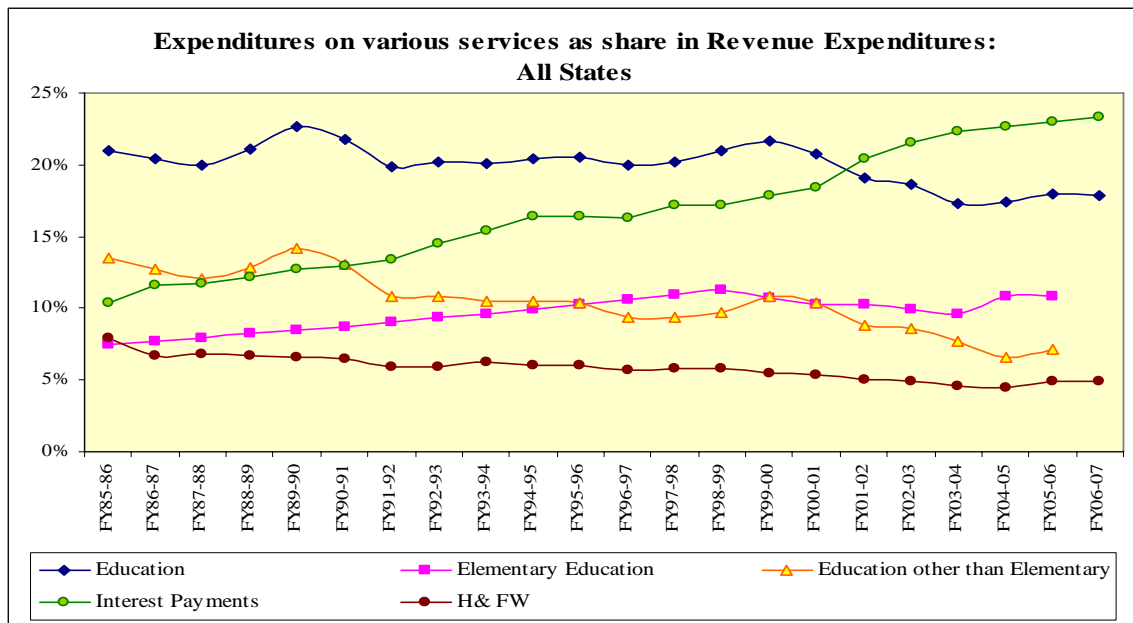
Education Spending in State budgets: States' priorities for the sector get reflected in their budgets. Providing social services have traditionally been in the domain of states and their share have been relatively high in state budgets. The share of elementary education in total revenue expenditures of all states together remained around 10-11 percent most of the years. However, to see whether states will be able to provide more of their budget allocations for elementary education (and for SSA) depends on the inter and intra-sectoral allocation dynamics. For example, an analysis of all states' revenue expenditure analysis shows that share of expenditures on economic and social services were on the decline while that of general services were increasing over the last two decades<sup>ix</sup>. The overall social sector shares in revenue expenditures have declined from 41 percent in mid 1980s to less than 35 percent in 2005-06. At the same time, the shares of general services increased from less than 30 percent in total revenue expenditures to around 45 percent now. See graph 20. However, the elementary education shares in total revenue expenditures of states remained stagnant thanks to SSA stipulation that the expenditures should be maintained at 1999-2000 levels and SSA allocations should be over and above that.

Graph 20



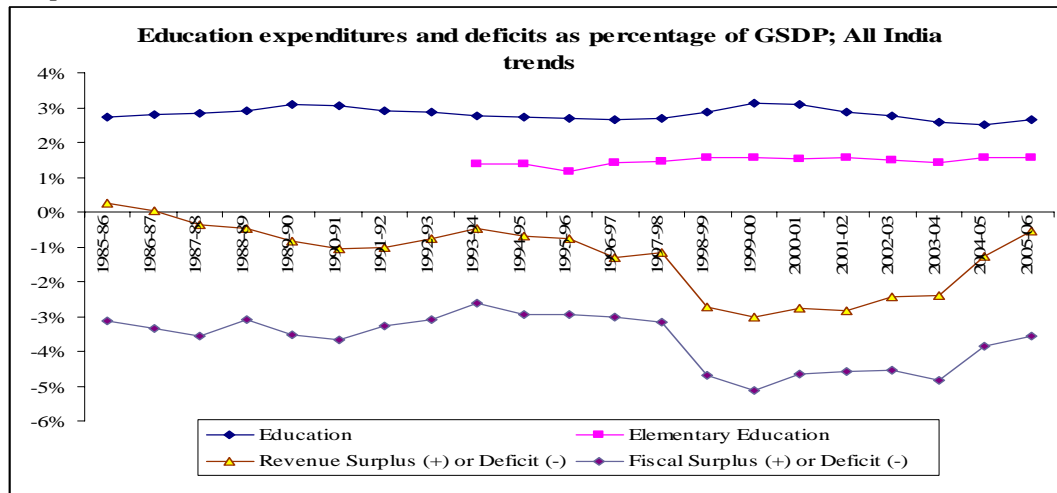
While elementary Education expenditures were maintained, the shares of other social sectors declined during the last two decades – for example, the shares of education sectors other than elementary and the shares of Health and Family Welfare. In real terms the Compound growth rate of health expenditures during the last two decades amounted to only 5 percent. However, all the increase in revenue expenditures was increasingly absorbed by the interest payments burden of states. The share of interest payments in total revenue expenditures of states increased from around 10 percent in mid-1980s to close to 25 percent in recent times. See graph 21. See Annex 6 for state level details.

Graph 21



Why can't the states increase their overall expenditures so that the expenditures in elementary education could also be increased without harming other sub-sectors of education or other social and economic sectors that are developmental in nature? The fiscal crisis and correction measures leave very limited space for increasing overall expenditures. Given the low GSDPs, the resources available with the states to spend is also limited. The increased expenditures in the context of limited resources led to revenue deficits (RD) and fiscal deficits (FD) which reached a crisis level in early 1990s, and improved later, but again went up in the late 1990s, spilling over to the early years of 2000s. In those years when the RD and FD were high, the share of education came down. See graph 22.

Graph 22



The fiscal crisis was the result of inadequate resource mobilization to match with the increasing expenditure requirements, thus increasing debt-GDP or debt-budgets ratios. Some of the factors that caused the fiscal crisis include increased salary burden<sup>x</sup>, increasing interest payment burden, reduced central plan transfers<sup>xi</sup> and variations in non-plan transfers<sup>xii</sup> along with various economic policies. The analysis shows that fiscal and revenue deficits peaked around 1999-2000, and thereafter, it started declining, though they still remain at relatively higher levels. This prompted the FRBM Acts in many states and measures to adhere to the Act.

*Fiscal Responsibility and Budget Management Act, 2003:* At the macro-economic context, the most important challenge for spending in elementary education comes in the form of fiscal crisis that the nation faces. In early 1990s, the country went through a fiscal crisis and there were fears of education expenditures being affected. The crisis did affect all states, irrespective of their growth trends. The fiscal crisis forced several states to increasingly rely on the CSSs to finance elementary education programs and also to expand their provision using low-cost, non-formal methods (for example, Education Guarantee Schools and para-teachers). Stepping up resources for elementary education in states is also a challenge in the context of the Fiscal Responsibility and Budget Management Act (FRBMA). The FRBMA was tabled before the Parliament for discussion in 2000 (initially a recommendation of the 11<sup>th</sup> Finance Commission), but was passed in August 2003. The Act is based on the premise that fiscal prudence requires

reduction in fiscal deficits as fiscal deficits adversely affect other macroeconomic variables and that the lower fiscal deficits are better for higher and sustainable economic growth and for reducing inflation and debt burden. As per the FRBMA, the central government was required to reduce the fiscal deficits in the annual budgets.

In order to bring down the fiscal and revenue deficits, the states and central governments could resort to a three-way strategy: (i) by mobilizing more resources by taking measures that increase the tax and non-tax revenue; (ii) by curtailing expenditures that are not productive; and (iii) a combination of both. Often the state governments find it difficult to increase the tax coverage (and in some states, in spite of SDP growth rates, due to popular pressures), and the most convenient way is to cut down on public expenditures. However, there are certain elements in governments' revenue expenditures that are "inflexible downwards". These include expenditures on interest payments, salaries and pensions etc as these are long term commitments. So when the government decides to cut down on expenditures, it is the non-committal expenditures such as the social sector spending, including education that suffer.

So given the "inflexible downwards" trends in non-developmental expenditures, the allocations for plan expenditures in development and social sectors could be increased only by either substituting funds within these sectors (for example, diverting funds from health to education or vice versa) or by increasing overall revenue expenditures (for which finances need to come either from borrowing or from increased mobilization, which in the short run is inflexible upwards). Any action that causes further increase in revenue and fiscal deficits is now not feasible with the FRBMA regime. So if the scope for overall increase in elementary education allocation and that for SSA cannot happen within state finances, then the Central assistance, especially for laggard states is inevitable.

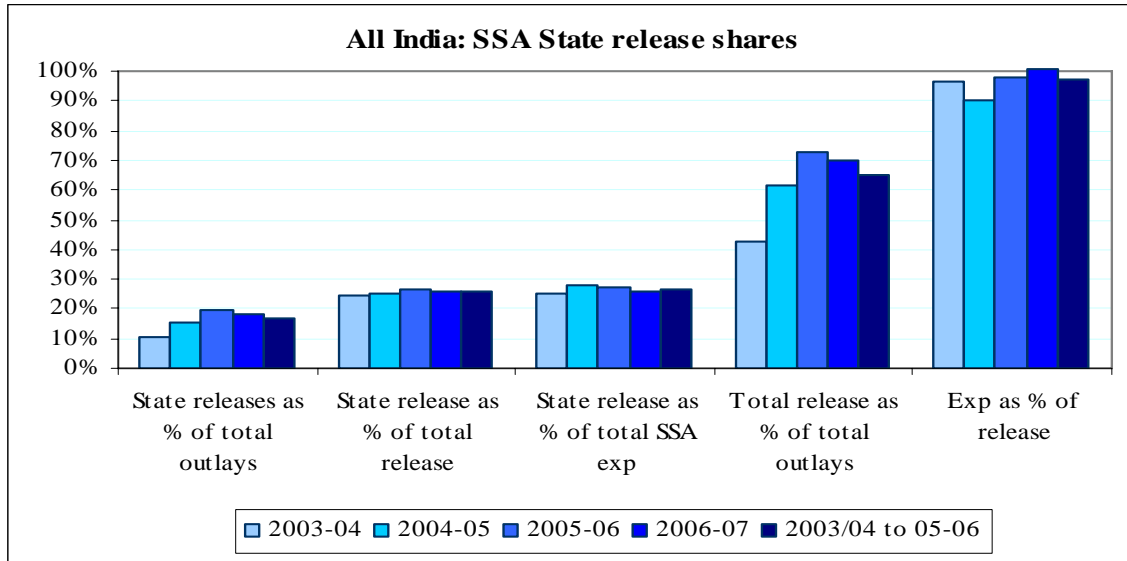
### **Section 5. Implications of increased shares of states for SSA financing**

The 11<sup>th</sup> Plan Working Group Report on Elementary education projected that the SSA would require around Rs.2007750 million (200775 crores) during the 11<sup>th</sup> Plan period. This means that every year, on an average, SSA should spend at least 40000 crores. However, in 2007-08, the total AWP&B amounts to only 21087 crores, half of what was projected by the 11<sup>th</sup> Plan. Of these 21087 crores, as per the new agreement, 50 percent is state governments' share – which amounts to Rs.10540 crores. As described earlier, Planning Commission has taken the decision to change the shares that the states need to provide to 50 percent of total outlays with the view that the states have enough funds now to provide increased resources for the sector. However, of the total outlays since 2003-04 till 2006-07, the total release of funds by all states together have not exceeded 17 percent, though as a share of total releases and expenditures, states have contributed a total 25-26 percent. In 2006-07, state governments released only around Rs.3790 crores (a part of the 25 percent of the total outlays and 25 percent of the expenditures till March 2007). See graph 23. Even if the states were to release double of what they had released in 2006-07, the release would amount to only 7000 crores – much less than the amounts states have been asked to release.

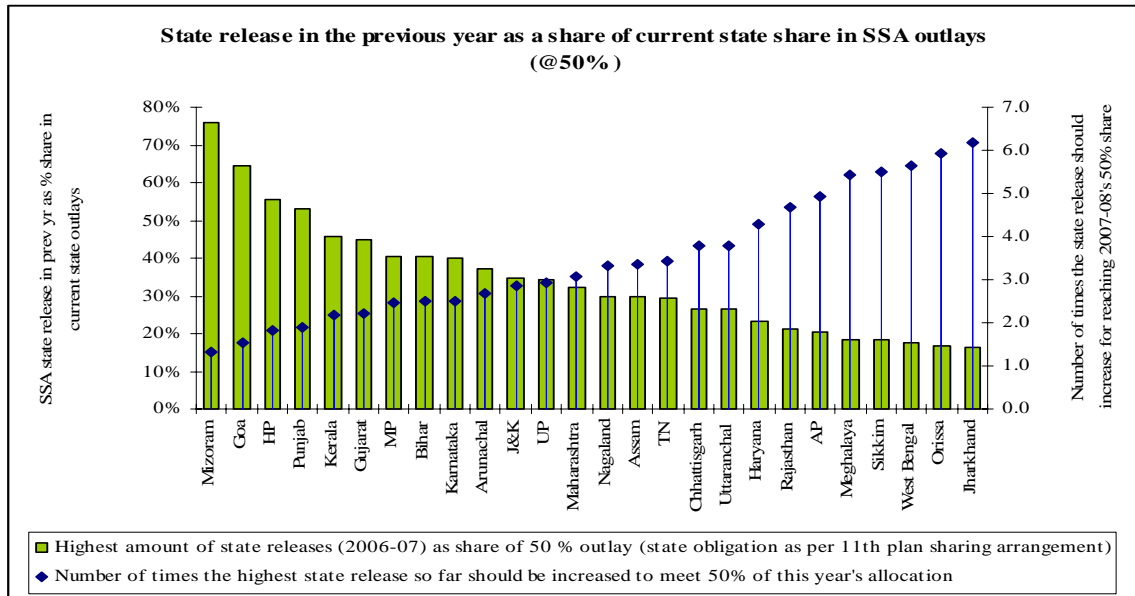
An analysis of 2007-08 approved SSA allocations throws more insights into the situation. The highest release of funds for SSA by laggard states till 2006-07 amounted to less than 1/3<sup>rd</sup> of the required amount of state releases as per 2007-08 outlays. For example,

Jharkhand's 2006-07 release of funds for SSA amounts to 16 percent of the total state obligations of the 2007-08 outlays (8 percent of total outlays). So to meet the 50 percent share of SSA funds as per the new norms for 2007-08, Jharkhand needs increase their release / commitments for SSA by 6 times. All the laggard states need to double their funds for SSA to meet the requirements. See graph 24. The increase in overall elementary education budgets of the states required for meeting the requirements in 2007-08 varied from 2.5 percent increase in Mizoram to 47 percent in Jharkhand. See graph 25.

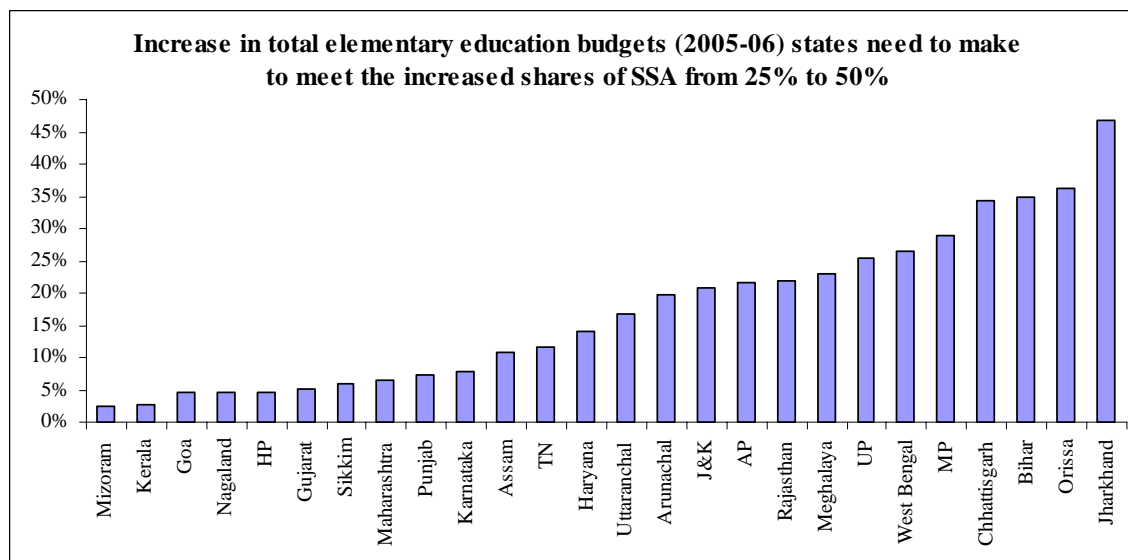
Graph 23



Graph 24



Graph 25



Are economically laggard states like Jharkhand in a position to increase their allocations for SSA by 6 times? Or is Bihar in a position to double its allocations? The Planning Commission and Ministry of Finance have decided to implement the 50:50 sharing of SSA outlays between Centre and states in the assumption that the states are now flushed with funds and they can afford to spend 50 percent of SSA outlays. If this assumption is true, what is the cause of concern here?

As explained above, states have been only able to release 25 percent of the total outlays till 2006-07. The widely held belief that states have been “pumping the program with more money than the 25 percent expected of them” holds good only in cases of low expenditure states as the state release then becomes more than the 25 percent in expenditures. In those states where the provision requirements have been met reasonably could resort to reduced overall outlays and budgets. Second, the argument that “the states have enough resources now to increasingly spend on SSA program” needs to be reviewed in the context of overall macro economic context, the budgetary allocation trends and in FRBM measures.

### **Role of Central funding**

Some states have already improved their provision and infrastructure during the last five years. These states’ SSA requirements may come down during the next few years. In the context of the reductions in overall SSA funds required for such states, even with the current levels of allocations and state releases, these states may be able to meet more than 25 percent of the SSA requirements. For example, states like Kerala, HP, Tamil Nadu etc. However, only states like Gujarat, Uttarakhand, Haryana and Kerala have pledged the required amount, and allocated more than what was expected of them.

On the other hand, the laggard states like Bihar, Jharkhand, West Bengal, UP, MP and Orissa are still struggling with basic provision and infrastructure gaps. Most of these states are economically laggards too. For such states, providing 50 percent of the outlays (which is already well below of what is actually required) will be difficult, and they might resort to reducing overall outlays by pledging less than the amounts required for SSA. Since the Centre would only providing matching releases to maintain the 50:50

shares, the overall funds made available to the projects get reduced. This will affect the implementation of SSA badly, and the planned investments in the states, as the states would even resort to divert the states' plan expenditures for SSA with the hope of getting better counterpart funds from Centre.

The laggard states are a concern not only in terms of the physical targets, but also financial targets. During the latest AWP&B, laggard states were able to provide much less than 50 percent of the total requirements. For example, MP has provided only 65 per cent of the requirement, Rajasthan 31 per cent, Bihar 45 per cent, Jharkhand 40 per cent, Orissa 64 per cent and West Bengal 37 per cent. This would amount to the reduction in total outlays also.

For example, in 2007-08 AWP&B, Bihar's approved outlays amount to Rs. 3307 crores. As per the new sharing formula, the state should provide Rs.1654 crores. However, as per Bihar's state revenue budgets, the provision is only Rs.1088 crores. If the Centre releases funds as equal matching grants, then the total funds for Bihar would be reduced to Rs.2176 crores, less than 2/3rds of the original approved outlays, with the plans for Rs.1100 crores not realized. Similarly, another backward state, Rajasthan came up with plans worth Rs.2000 crores initially. Later, taking stock of their capacity, the plan was reduced to Rs.1600 crores, with the promise that the states will be contributing Rs.800 crores. Finally, Rajasthan realized that the state was not in a position to contribute more than Rs.250 crores from the state budgets, thus reducing the overall size of the outlays to 500 crores due to the new matching scheme. See table 1.

	SSA allocation 2007-08	50% of SSA outlays 2007-08	SSA state release 2005-06	Allocations provided in state budgets for SSA 2007-08	State provision as % of state share in outlays: 2007-08
AP	124607	62304	12605		
Arunachal	6000	3000	1115		
Assam	62138	31069	9300	3900	12.5%
Bihar	330775	165388	66573	74424	45.0%
Chhattisgarh	78478	39239	10397		
Goa	1802	901	581		
Gujarat	37970	18985	8510	18985	100.0%
Haryana	35707	17853	4171	17853	100.0%
HP	12198	6099	3381		
J&K	32151	16075	5604	5200	32.3%
Jharkhand	132192	66096	10672	26438	40.0%
Karnataka	69746	34873	13926	70000	200.7%
Kerala	16015	8008	3662	16100	201.1%
MP	179824	89912	36469	58443	65.0%
Maharashtra	89523	44762	14520	27708	61.9%
Manipur			649		
Meghalaya	8843	4422	813		
Mizoram	2606	1303	988	750	57.6%

Nagaland	2000	1000	300		
Orissa	109329	54665	9198	34985	64.0%
Punjab	18489	9244	4895		
Rajasthan	160000	80000	17048	24800	31.0%
Sikkim	1100	550	100		
TN	70271	35136	10301	37500	106.7%
Tripura	3032	1516	2192		
Uttaranchal	25284	12642	3334	709	5.6%
UP	356417	178208	60933		
West Bengal	133788	66894	11841	24751	37.0%
Total	<b>603801</b>	301901	325349		

### So what is the solution?

Financing social sectors through Centrally Sponsored Schemes should address two levels of contextualization: (a) within the programme to make norms more need based and allowing for flexibility to accommodate the needs of specific vulnerable and marginal groups and geographic areas that need preferential treatment; and (b) using financial transfers through CSS as a tool to correct vertical and horizontal imbalances across states in their fiscal capacity and capability.

The analysis above indicates that the burden of providing funds for the increased share of the states in SSA outlays has fallen differently on different states. One of the major factors that need to be addressed while dealing with the provision of elementary education services is the diverse needs of the states with respect to education provision, their diverse fiscal capacities and competing priorities. While there are very well laid out norms to take care of the educational needs and hence provision, the sharing norms of the fiscal burden is uniform for all states – 75:25 till the 10<sup>th</sup> Plan period and 50:50 from 11<sup>th</sup> Plan onwards. This uniform sharing format goes well to support the arguments against CSSs that it favors better off states by design. The unequal incidence of fiscal burden with such “equal” formula is very much in contrast to the transfer of funds to assist non-plan expenditures of the states. For example, the Finance Commission transfers follow a formula that adjusts for differential socio-economic backwardness, and tax and non-tax revenue mobilization capacities<sup>xiii</sup>.

The contribution of a CSS like SSA is evident not only in terms of the improvements in outcomes, but also in terms of outlays that helped to put the provision in place. Given the gaps in milestones yet to be achieved by educationally laggard states, there is a need to invest more in elementary education, either through SSA or through state finances. Over the years, states seem to be struggling with finding additional resources for their plan expenditures. The implementation of SSA and the counterpart contribution by states forced some states at least in some years to substitute their plan expenditures or funds for SSA contribution. The assumption (by PC) that the states have enough capacity to allocate more funds to elementary education seems quite unrealistic given the fiscal trends and fiscal responsibility regime. There is also a need to review the sharing formula, especially the nature of uniformity of the shares across states that are at different levels of educational development and fiscal health. The differential sharing formula aimed at distributing the onus of financing “equitably” across states is better than the one

wherein they are “equally” distributed (and unequally burdened) by imposing uniform sharing formulas.

The Centre (and Planning Commission) can consider multiple options to solve this fiasco.

- One, go back to the 75:25 sharing arrangement for all states. This is a simple method and already tried and tested during the last five years. However, this method would perpetuate the heavier burden on economically and educationally backward states compared to a lesser burden on economically and educationally better off states.
- Second, keep 50:50 sharing between Centre and states, but continue the 10<sup>th</sup> Plan sharing formula of 75:25 for economically and educationally laggard states (Bihar, Jharkhand, UP, MP, Chattisgarh, Orissa and West Bengal). This would ensure that these laggard states are relieved off the burden of providing more of their budgets and reduce any fears about states cutting back their allocations, allowing the gaps in provision to continue.
- Third, following the Finance Commission’s method of devising a transfer formula that give higher weightage to economic and educational backwardness based on a thorough analysis that estimate the requirements of funds and the state capacities and arrive at differential sharing arrangement for different states (for example, for Kerala, HP or Punjab could be made to provide more than 50 percent of SSA outlays while Bihar and Jharkhand could be given preferential treatment by Centre providing more than 80 percent of all SSA allocations)
- Fourth, Centre could also resort to a formula by which a definite share is grants-in-aid, but the states could be given a part of its allocations in loan; and.
- Fifth, while continuing the 50: 50 formulas for districts that are better off, Centre could provide for more than 3/4ths of the outlays of the districts that have been classified as Special Focus Districts (SFD) by the MHRD.

In conclusion, it is evident that while the states’ overall elementary education spending is improving, the states’ capacity to finance elementary education is constrained by various factors, including the FRBMA regime, and varies from state to state. The momentum created by CSSs like SSA needs to be sustained and improved to achieve the optimal outcomes in the sector. Continuous and improved financing of the sector (along with improvements in capacity and service delivery aspects) is an important factor for attaining such goals. There is a need to continue the higher involvement of Centre in SSA, not only by continuing the financing arrangements, but also by institutionalizing differential state contributions by differentiating the needs of different states and their fiscal capacities. There is a need to review the current policy of uniform increase in states’ shares to the SSA funds and Centre should (and Planning Commission should comply to) adopt a differential formula that burdens economically and educationally laggard states less and ensure maximum funds for implementing SSA (and elementary education).

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## End Notes

<sup>i</sup> Some of the theoretical and empirical studies that contributed to the knowledge of the role of additional years of education on economic growth include Schultz (1961), Becker (1962), Mincer (1974) Acemoglu and Angrist (1999), Barro (1991 and 1997), Barro and Lee (1994), Benhabib and Spiegel (1996), Hall and Jones (1999), Hanushek and Kimko (2000), Jenkins (1995), Jorgenson and Fraumeni (1992), Judson (1998), Krueger and Lindhal (1998), Moretti (1999), Murphy *et al* (1991), Psacharopoulos (1995) and Lewin, K M (1995). World Bank (1995) review has also documented the evidence of the effects of education on development. Duraisamy's (2000) study is perhaps one of the pioneer attempts that have looked at the returns to education in India.

<sup>ii</sup> Apart from the Centre and States' elementary education ministries, provisions also came from other Centre/ state departments, for example, from social welfare departments, in the form of allocations for scholarships and residential schools for children from marginalized groups.

<sup>iii</sup> 86<sup>th</sup> Constitutional Amendment Act added Article 21A affirming that every child between the age of 6 and 14 years has the right to free and compulsory education. The Right to Education Bill seeks to give effect to this Amendment.

<sup>iv</sup> See Jhingran and Sankar (2006) mimeo "Orienting Outlays towards outcomes: An Evidence based, Equity Focused Approach for SSA"

<sup>v</sup> The criteria used include: (a) districts where the number of out of school children are more than 50,000; (b) districts where the concentration of SC population is more than 25 percent; (c) districts where ST concentration is more than 50 percent; and (d) districts with Minority (Muslim) population concentration is more than 20 percent.

<sup>vi</sup> For detailed analysis of educational outcomes using NSS rounds, see Sankar, Deepa (2007) "Analysis of Elementary Education Participation using NSS rounds", SASHD, mimeo.

<sup>vii</sup> Jhingran, Dhir and Sankar, Deepa (2006): "Orienting Outlays towards Needs: An evidence based, equity focused approach for Sarva Shiksha Abhiyan", mimeo.

<sup>viii</sup> As per DPEP and SSA guidelines, the maximum the states can devote to Civil Works from the funds is upto 33 percent. However, MHRD relaxed this for some of the backward states in 2005-06, to enable them to plan more for ensuring access and infrastructure.

<sup>ix</sup> Revenue expenditures on Economic services consists of those expenditures on Agriculture and allied activities, Rural Development, Irrigation and flood control, Energy, Industry and minerals, Transport, Science, Technology and Environment and some other services. The Social Sector expenditures consist of those expenditures on education services, Health and Family Welfare, Water Supply and Sanitation, Housing and Urban Development, Welfare of SC, ST and OBCs, Labour and Labour Welfare, and Social Welfare and Nutrition. General Services include running expenditures of the organs of the state, fiscal services, Interest payments and servicing of debt, Administrative services, and pension payments. While the economic and social sectoral activities are developmental in nature, those in general services are non-developmental by nature.

<sup>x</sup> Especially after the 5<sup>th</sup> Pay Commission awards, and now further expected to go up with the forthcoming 6<sup>th</sup> Pay Commission's pay revisions

<sup>xi</sup> While the Central assistance for state plans were in the form of 70 percent loans and 30 percent as grants, the Centrally Sponsored schemes were grants-in-aid assistance and the burden on states involved only the small share that they were supposed to provide as counterpart funds.

<sup>xii</sup> The **12<sup>th</sup> Finance Commission** came out in early 2005, with its recommendations on Centre- State fiscal transfers for non-plan expenditures. The 12<sup>th</sup> FC assigned greater role for grants in overall FC transfers. Based on the assessment of needs and development concerns of the states, grants in aid of the revenues of the states for the award period 2005-06 was recommended (12<sup>th</sup> FC, Chapter 10, page 174-75). Education sector was allocated Rs.10, 172 crores, mainly to those states that require such grants to meet the non-plan expenditure requirements in education sector. The 12<sup>th</sup> FC states: "even though considerable funds are

made available by the central government to the states on the plan side, the availability of funds still fall short of the requirements in view of the magnitude of the problem. In many plan schemes in these two sectors (health and education) the inability to meet the requirements of counterpart funding by the state governments also becomes a handicap in fully utilizing the funds. To cite an example, under the scheme of *Sarva Shiksha Abhiyan* (SSA), the states required to provide 25 percent of the scheme outlay from their resources in order to avail of the central grant fully. Many states have been unable to meet this requirement. It was, therefore, felt that we should provide specific grants-in-aid for these two sectors to those states which are unable to spend adequately in these sectors because of deficiencies in fiscal capacity” (12th FC, 2005, page 179). The TFC also specified that the grants were provided for the education and health sectors as additionality, over and above the normal expenditures by the states in these sectors, for their non-plan expenditures. As a result, the laggard states were expected to gain considerably.

<sup>xiii</sup> See Sen and Trebesh, 2003, Paper for the Conference on the Issues Before the 12th FC, India, Finance Commission website for a description of FC sharing formulas.