



# INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE

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An All-India Institute for Inter-disciplinary  
Research and Training in Social Sciences

# ISEC

## STATE MACRO SCAN - SMS KARNATAKA

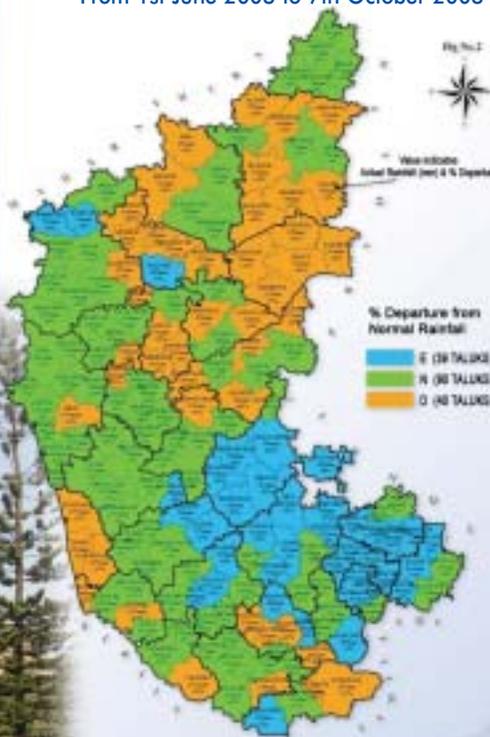
# SMS

**K**arnataka has a unique distinction among the states of India: On the scale of economic performance, Karnataka has always stayed around median level but when one considers the constraints faced by the State, the achievements are worth heralding in the face of these challenges. The State has great potential for growth and development in several areas and it has proved this beyond doubt. Over the last five decades, its strides in development have been exemplary and the State has always taken a lead in many sectors. These include: Land Reforms, Computerization of Land Records (**Bhoomi**), Decentralized Governance, Promotion of IT Sector, Administrative Reforms, Promotion of Sun-rise Sectors, Infrastructure Development, Human Development, Literacy, Foreign Trade, and Science & Technology. The development potential of the State is quite visible and needs to be enhanced.

This is the first issue of State Macro Scan (SMS) prepared at ISEC with inputs from faculty members which intends to cover a few important aspects of development of Karnataka. We propose to bring this out periodically to provide policy alerts as well as analysis of the best practices undertaken in the State. Contributions will be largely from the faculty of the Institute and cover all sectors of the economy, polity and society. Needless to add, our endeavour is to improve the coverage and style of the SMSs and therefore, your suggestions will enhance effectiveness.

R S Deshpande

### KARNATAKA CUMULATIVE RAINFALL PATTERN From 1st June 2008 to 7th October 2008



Karnataka State Natural Disaster Monitoring Centre

1. Bangalore (08-2870) 2. Mysore (08-2870) 3. Shimoga (08-2870) 4. Channarayana (08-2870) 5. Srirangapatna (08-2870) 6. Srirangapatna (08-2870) 7. Srirangapatna (08-2870) 8. Srirangapatna (08-2870) 9. Srirangapatna (08-2870) 10. Srirangapatna (08-2870)

Thanks are due to V S Prakash, Director, KSNDMC, for help.

### AGRICULTURE SECTOR

Karnataka is an agriculture dependent economy and the presence of large share of rainfed areas makes it reliant on monsoon. The break monsoon condition during 3<sup>rd</sup> week of June to 4<sup>th</sup> week of July 2008 led to 37% deficit rainfall (the second lowest in the corresponding period of last 38 years). The situation warranted declaration of 84 taluks as "Drought affected" and GoK submitted memorandum seeking central assistance of Rs. 2019.55 crores.

The monsoon revived during 1<sup>st</sup> week of August 2008 and by the end of September 2008 the South West Monsoon rainfall was deficit by 5% from normal. The state has established 600 Telemetric rain gauges and satellite linked weather stations monitored on nearly real time basis by Karnataka Natural Disasters Monitoring Centre (KSNDMC). During Kharif 65.58 lakh hectares have been sown (as compared to 74.73 lakh targeted). During rabi season 34.31 lakh hectares is sown. On the basis of this we expect a growth rate of around 3 percent per annum(2008-09) in the agricultural sector of the State.

- R S Deshpande

The State of Karnataka , the 8<sup>th</sup> largest state in India in terms of geographical area comprises a total area of 190 lakh hectares. Out of this 16.1% is under forest cover and 55.17% is the net sown area. The state has 10 agro-climatic zones and red soil is the predominant soil type.

## DEMOGRAPHIC FEATURES

Karnataka has achieved considerable progress in terms of reduction in birth and death rates. Most importantly, the population growth has been contained in the state and the state has seen consistent improvements in life expectancy at birth. An across-the-State comparison, however, brings forth a few concerns, which if addressed, the position of Karnataka can be improved further. A closer look at the demographic profile of the state reveals that the position of Karnataka is below some of the neighbouring states (Table 1). There is 6 percentage point difference between gross infant mortality rate and rural female infant mortality rate in the state. This difference is 1% for Kerala and 4% for Tamil Nadu. However, in terms of selected indicators, Andhra Pradesh lies below Karnataka. In terms of Human Development Index the state ranks 7<sup>th</sup> and in terms of Gender Development Index the state ranks 6<sup>th</sup> amongst Indian states (2001). Here too there is scope for further improvement.

Table1: Selected Demographic Indicators (per '000 population)

States	Birth Rate	Death Rate	Infant Mortality Rate	Rural Female Infant Mortality Rate
Kerala	14.7	6.8	13	14
Tamil Nadu	15.8	7.2	35	39
Maharashtra	18.1	6.6	34	42
Karnataka	19.9	7.3	47	53
Andhra Pradesh	18.7	7.4	54	61

Source: Sample Registration System Bulletin Oct, 2008.

## INCOME AND GROWTH

During 2007-08 the State Directorate of Economics and Statistics estimates put the anticipated real growth rate at 7% as against the all India growth of 8.7%. According to the projected estimates for 2007-08 the contribution of primary sector to the state's GSDP is 19.13%, followed by the secondary sector contributing 25.16% with the tertiary sector contributing 55.72%. The contribution of the Services Sector to the overall GSDP is quite impressive but needs to be carefully monitored to hedge to the extent possible from external economic shocks such as the recent global financial crisis. It is heartening to observe that the anticipated growth rate in the agriculture sector is 4.4% in the state which is higher than the all India figure of 2.6%.

It is necessary to highlight a few concerns in the context of income distribution in the state which may be of relevance to the policy makers. As per the most recent district level data (collected by the authors for the period 2000-2006) over the years, income inequality measures show an increasing trend in the state. Bangalore urban is one district primarily responsible for this phenomenon.

Table 2: Gini Coefficients of Real Per capita Income Inequality across All Districts of Karnataka

Year	'00-'01	'01-'02	'02-'03	'03-'04	'04-'05	'05-'06
Per Capita Income inequality	0.140	0.158	0.176	0.190	0.194	0.221

Source: Computed by authors

Computation of Gini coefficient excluding Bangalore Urban district reveals an inequality measure of 0.164 for 2003-04; this figure rises to 0.187 in 2005-06. Thus an increasing trend is evident but interestingly a lower increment in income inequality is also noticed compared to what is given in Table 2. Therefore, to ward-off widening regional inequalities, Government's endeavour in diversification of economic activities to different parts of Karnataka needs to be further strengthened with emphasis reduction in concentration of economic activities in a few urban areas.

## SECTORAL PERFORMANCES: A DISTRICT LEVEL ANALYSIS

### PRIMARY SECTOR

An analysis of the district level data for the most recent year (2005-06) (collected by the authors) reveals that though the share of the state in the primary sector is 21.86 % , 16 out of 27 districts have recorded primary sector share in the district income above 30%. Five districts show strong dependence on primary sector; these are: Kodagu (49%), Chickmagalur (45%), Mandya (37%), Hassan (36%) and Kolar (36%). Districts with low shares of primary sector income are: Bangalore-U (1.65%), D. Kannada (16%), Dharwad (16.98%), Udupi (22%) and Mysore (22.36%). Income inequality arising out of primary sector income across districts does not show any systematic increase or decrease. In the year 1998 the Gini coefficient was 0.22 which increased to 0.24 in 2003-04 only to come down to 0.22 in 2005-06.

### SECONDARY SECTOR

The share of income generated through secondary sector in the total income of the state is 22.68 % for 2005-06 and among the districts it is the highest for Koppal (31.03) followed by D. Kannada (29.8) and Bangalore-U (28.81) . Kodagu district has the lowest share of secondary sector in its total district income (6.55%) followed by Chickmagalur (9.75%) and Hassan (12.69%). This is somewhat on expected line as these districts have a high share of primary sector income.

Though there are some ups and downs, inequality across districts in terms of income from secondary sector has declined between 1998-2006.

Within the secondary sector, in the SME segment, textile and apparel manufacturing have the highest share in terms of investment and the number of units. This trend is visible from 2007-08 data and also from the figures for Oct, 2008. This segment being export oriented, needs prioritized support from the state government as well in view of the present global economic meltdown.

Within the manufacturing sector, the Small and Medium Enterprises (SME) sector plays a critical role. An analysis of the most recent data collected from the Department of Industries and Commerce, Government of Karnataka, shows that in the micro-small and medium enterprises (MSME) sector, 14984 units got registered during 2007-08 with an total investment of about Rs 1127 crores and generating additional employment opportunities for 122571 persons. Bangalore-U account for most number of units (2652), followed by Belgaum (1021) and Gulbarga (882). The critical sectors for Karnataka in terms of number of units and investments are manufacturing of apparel and textile products, followed by wood products.

An analysis of quarterly data (for 2007-08) shows that it was during the forth quarter (Jan-Mar, 2008) that the maximum number of units got registered. The most recent data for the month of October also show a similar trend with regard to sectoral inclination towards textile and apparel manufacturing (an additional 479 units were registered in these two segments during Oct. 2008).

**Table 3: Projects Approved by State Level Single Window Clearance Committee**  
(Project cost above Rs 3 crores and below Rs 50 crores)

Year	No. of Projects Approved	Investment in Crores Rupees	Employment in Numbers
2006-07	881	11923.65	731750
2007-08	728	10309.92	349665
2008-09 (up to Sep 2008)	167	2468.22	71367

Source: Udyog Mitra

Within the large industries sector approved projects in the so called 'mega units' segment (with investment above Rs. 50 crores), show an increasing trend. In 2006-07 a total of 65 projects were approved which went up to 108 in 2007-08. Since there is some gestation period between approval and actual commencement of the work, it is not clear what percentage has actually commenced their operation in Karnataka. According to the most recent data from Udyog Mitra, a total of 19 new mega projects have been cleared between April and September, 2008. An analysis of the data on mega projects approved from March to August 2008, reveals that the highest share in terms of investment is from the IT/ITES sector (30%) followed by iron and steel sector (22%), and energy production (22%).

A few areas of concern regarding the large projects are: (i) approval of comparatively smaller projects (investment level below Rs 50 crores) shows a decline between 2006-07 and 2007-08; and (ii) potential employment generation has come down by about 50% (Table 3).

An important observation from the analysis of these data is that IT/ITES sector is expected to generate employment for 25 persons (on an average) per crore rupee of investment, whereas, iron and steel or energy production generates employment for one person only, for the same level of investment. While the importance of the manufacturing sector cannot be undermined, this employment generation capability of the IT/ITES sector needs to be kept in mind while formulating policies for the sector.

## TERTIARY SECTOR

The state has been able to generate significantly larger share of income from the services sector (55.45% in 2005-06) and also to contribute to the forex earnings of the nation. Importance of tertiary sector (in the income of a district) naturally varies across districts. As is expected, Bangalore-U accounts for the highest share (70% in 2005-06) followed by Dharwad (61%). On the other hand Koppal has the lowest share (39), followed by Kodagu (44) and Bellary (44).

It is observed that the income inequality created by secondary sector has declined over time while primary sector has remained more or less stagnant. It is the tertiary sector that has shown an increasing trend in terms of income inequality (Gini coefficients show an increase from 0.42 in 1998-99 to 0.46 in 2005-06).

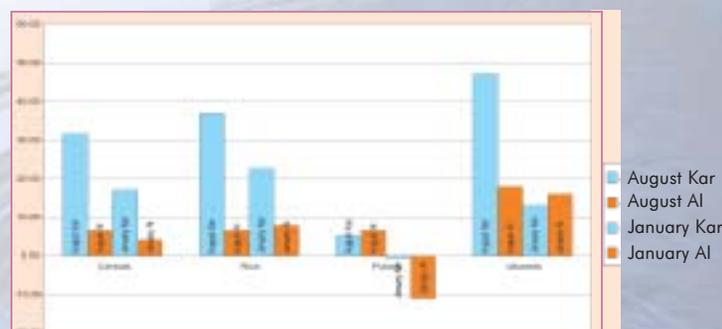
Further, an analysis of the 'Mega projects' approved in 2008 (March to August) reveals that the projects within the services sector (in particular falling in the IT/ITES sector) constitute the largest share in terms of investment in the state. Consequently Bangalore -U attracts highest share of investment (including mega projects from all sectors across districts). In particular, if we consider the potential for employment generation from all approved mega projects in 2008 (March to August) across all districts, the share of Bangalore Urban and Rural together is as high as 95%. This observation is of relevance to the policy makers of the state. Given the strain on infrastructure in the bigger cities and the escalating costs, it is high time that the investments are diverted to other regions within the state by making these destinations infrastructure-wise more attractive to the investors.

## PRICE SITUATION

Inflation rates in Karnataka of essential food articles are higher than that of the all India average.

As far as inflation rates pertaining to the state are concerned, certain areas need priority attention. A recent (unpublished) study by the staff of the Central Statistical Organisation reveals that price margins (between producers' price and wholesale or retail price) are the highest in Karnataka for several essential commodities like rice and wheat. Such features may have caused higher levels of inflation in the state. A comparison of inflation rates based on the most recent data on wholesale price indices for food articles for the state of Karnataka with the All India level shows that inflation rates in Karnataka are higher than that of the all India figures.

**Fig1: Comparison of WPI-Based Inflation Rates for Selected Commodities: All India (AI) and Karnataka (Kar), 2008**



Source: Computed by the authors using recent data

Authors' analysis of the most recent data reveals the following: During August 2008, cereal price rise in Karnataka was 31% which was much higher than the Indian average of 6.5%. Other commodities also reveal similar trends (see Fig.1). Since high inflation hits the poor hard, for enhancing social welfare Government needs to carefully devise policy on these pointers.

## POVERTY SITUATION

As far as poverty ratios are concerned, Karnataka is a middle performing state and better placed compared to the other states like Maharashtra and Uttar Pradesh. In terms of rural poverty, Karnataka has lower 'Head Count Ratios' than Tamil Nadu. There are certain important dimensions of poverty in Karnataka, which if mitigated, can enhance social welfare and reduce disparity.

**Table4: Percentage of Households Below Poverty Line (Selected Groups)**

	Rural	Urban
All Households	20.67	32.61
Male headed households	20.02	31.01
Female headed households	25.59	43.00
Widow headed households	27.17	47.99
Other female headed households	14.64	16.03
Child poverty	28.00	42.00

Source: Computed by Authors using Unit Record data of NSSO, 61<sup>st</sup> Round, 2004-05.

Poverty amongst female headed households is comparatively higher in Karnataka and the rural-urban differences are rather wide. Significant rural-urban disparity is also seen in regard to for child poverty measures. In the poverty eradication programmes these groups need to be targeted with specially devised packages.

## INFRASTRUCTURE

Development of infrastructure is pivotal to development activities. To examine the status of infrastructure across districts, two different indices are constructed for the year 2006-07. These include 'Economic Infrastructure Index' comprising various indicators that capture the status of agriculture, roads and transport, communication, banking and finance, power etc., and the 'Social Infrastructure Index' capturing the status of education and health infrastructure provided by the state (as data on such infrastructure provided by the private sector are not consistently available).

In terms of economic infrastructure, as expected, Bangalore-U ranks first followed by Kodagu and Mandya. The districts with low scores are Gulbarga, Raichur and Bidar and these districts therefore need priority attention.

In terms of social infrastructure, Hassan tops the list followed by Kodagu and Chickmagalur. Bangalore ranks 15<sup>th</sup> as the state sponsored services here are less compared to the size of its population. Needless to say, Bangalore has the maximum number of private educational institutions as well as health care facilities. The three districts with lowest scores in terms of social infrastructure index and therefore in need of special attention are, Raichur, Koppal and Bellary.

Since infrastructure plays crucial role in attracting investment as well as in enhancing income of the poor, the status of districts in Karnataka especially the ones with low infrastructure facilities need to be augmented to ensure inclusive growth.

It is expected that in the forthcoming budget the issue of regional imbalance arising out of such indicators will be adequately and effectively addressed by the State Government.

Prepared by *Meenakshi Rajeev and B P Vani*  
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## Karnataka's Fiscal Scenario 2008-09

Karnataka state finances have experienced a noticeable improvement consequential up on introduction of rule based Fiscal Correction Mechanism by the state government. The fiscal targets, fiscal and revenue deficits have been achieved well with in the stipulated time frame. The fiscal recovery is largely influenced by revenue side. The state has experienced satisfactory fiscal recovery.

The global slowdown has not spared Karnataka and the economy has experienced a slight slow down in the real estate market, registration of vehicles; the mid term fiscal review reveals that there will be a shortfall in the state's own tax revenue to the tune of Rs 2362 crore over the budgeted estimate of 2008-09. The shortfall in the revenue would disturb the budgeted fiscal targets- the fiscal deficit is likely to increase by at least one percentage points from 2.88 percent points to 3.85 percent points of GSDP

The mid term review rightly proposes, in the light of the current revenue shortfall, to contain non-development expenditure and step up development expenditure. In this regard, Government of Karnataka also deserves appreciation for the launch of budget reform initiatives that focus on outcomes as opposed to the much controversial 'outlays'. Quality of expenditure needs utmost attention to maintain the state's fiscal position in order and promote growth.

Although the GOK has rightly identified education, health etc as thrust sectors and has been making enhanced allocations, these are still lower than the levels achieved prior to the initiation of reforms. Given the State's not so rosy position in human development compared to neighboring states with better results in the field – these states were on par with Karnataka until a few years back – there is an imperative to review the Social Service schemes to weed out the redundant ones so as to release resources for urgent development purposes. Promoting economic infrastructure is also an important need of the hour to sustain the high growth trajectory currently experienced by the state.

*K. Gayithri*