

Strategies for Financing Human Development

There are two major policy issues relating to the promotion of human development: strategy for, and financing of, human development.

Financial Position of Orissa and its Implications for Financing Human Development

Orissa is in a disadvantageous position due to the severe financial crunch faced by it. Not only is it facing increasing revenue and fiscal deficits, but it has also accumulated a huge debt to finance the revenue deficit and the state plans. The financial position of the state has now become unsustainable. The revenue deficit as a share of Gross State Domestic Product (GSDP) has steadily increased from 0.18 per cent in 1990–91 to 4.98 per cent for the fiscal 2000–01. The fiscal deficit has also risen sharply. But the real worry is the massive outstanding debt, which has increased at a steady rate.

Table 9.1
Fiscal Scenario of Orissa

(in Rs crore)

	1990–91	2000–01
GSDP at Current Prices	10,904	38,779
Total Expenditure	3,091.25 (28.35)	11,047.37 (28.49)
Revenue Deficit	19.59 (0.18)	1,931.97 (4.98)
Fiscal Deficit	656.23 (6.02)	3,325.27 (8.57)
Outstanding Debt	4,538.58 (41.62)	21,001.90 (54.16)

Note: Figures in brackets represent percentage share of GSDP.

Thus, the finances in Orissa are under severe strain in terms of both the size and structure of the deficit. The state government is now resorting to curtailment of the state budget, which can make it difficult to increase expenditure for social sectors in general, and basic social sectors in particular. In such a situation, the importance of prioritisation of public expenditures cannot be overemphasised.

Trends in Expenditure in Basic Social Sector and Social Priorities

In Orissa, social needs remain staggeringly high as is evident from the state's social attainment indicators. Orissa has always lagged behind the national average in terms of literacy rate, life expectancy rate, and infant/child mortality rate. Greater investment in these sectors can improve distributional outcomes in the economy as well as the productive capabilities of the people.



Within the educational sector, elementary education is the priority area. This is because the literacy rate continues to be lower as compared to the all-India level. Besides, Government of India is endeavouring to provide free elementary education to all, and has implicitly recognised the public good and merit good nature of elementary education. This implies that elementary education is to be fully financed by the government. Further, there is a great deal of evidence which shows that not only is the economic return to elementary education positive, it is also higher than returns to secondary and higher education.

In the health sector, the priorities should be rural health services for basic curative care, and on public health and maternity and child health under preventive health care. Hence, both the preventive health and basic curative care should be treated as priorities under the health sector.

Elementary education, preventive health, and basic curative care (RHS, PH, M&CH), nutrition, rural water supply and sanitation are human or social priorities in the context of Orissa.

Allocations to basic social services increased from Rs 653.38 crore in 1990-91 to Rs 2,469.17 crore in 2000-01 – at a compound annual growth rate (CAGR) of 5.68 per cent (at 1993-94 prices) as against 4.16 per cent growth rate in total expenditure for the same period. This implies that basic social services have got favourable allocations during this period.

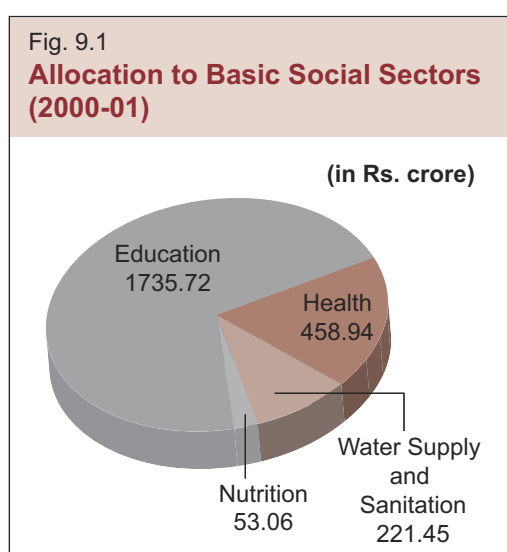
The share of health sector in total expenditure fluctuated within a narrow range of 4.66 to 5.27 per cent, and its share in NSDP remained less than 1.5 per cent, which is well short of the recommended expenditure of 6 per cent of income. Both nutrition and water supply and sanitation together received less than 1 per cent of the state income.

Intra-sectoral Allocation of Resources

Intra-sectoral allocation of resources gives an insight into distributional aspects of budget expenditure, which may be useful for policy purposes.

Though elementary education, the priority area under education, received the major share of the total education expenditure, and grew at 6.68 per cent (at 1993-94 prices), a rate higher than the growth rate of total education expenditure, yet it remained lower than the two-third norm.

Within the health sector, the medical component had the highest share in health expenditure, i.e. more than 60 per cent for all years. However, within this sub-sector, urban health services (UHS) received a higher allocation in comparison to RHS except for the two years 1991-92 and 1994-95. The second largest component under health is family welfare, where expenditure under maternal and child health varies between one to three per cent for most of the years. The third largest component under health is public health, which has a low share of below



15 per cent for most of the years (i.e., since 1993–94). The allocation towards preventive health and basic curative care (RHS, PH, M&CH), which is the priority under health, is around 41 per cent in most of the years under consideration.

The share of water supply and sanitation in total expenditure moved within a narrow range of two to three per cent. However, out of the total allocation made to this sector, the share of water supply is more than 95 per cent for all the years, except for the year 1995–96 and 1996–97 when it was below 90 per cent.

The priority area (rural water supply and sanitation) under this sector received less than 50 per cent of total expenditure for most of the years during 1990–91 to 2000–01. While the growth of expenditure on water supply and sanitation was 6.22 per cent, the CAGR of the priority area under this sector was less than 1 per cent (0.96 per cent at 1993–94 prices).

Allocation to nutrition sector rose steadily from Rs 12.69 crore in 1990–91 to Rs 94.10 crore in 1996–97, but then declined to reach Rs 53.06 crore in 2000–01 (Table 9.2). The annual growth rate of 10.98 per cent (at 1993–94 prices) was achieved during the period from 1990–91 to 1996–97.

Relation between Public Expenditure and Human Development

In order to develop a relationship between public expenditure and human development, the UNDP's *Human Development Report 1991* introduced four government expenditure ratios, viz., the Public Expenditure Ratio (PER), the Social Allocation ratio (SAR), the Social Priority Ratio (SPR), and the Human Expenditure Ratio (HER) as indicators of the extent of political commitment of the government to the social sector. The PER is the proportion of state income that goes into public expenditure. The SAR is the percentage of public expenditure earmarked for social services. The SPR is the percentage of social expenditure devoted to human priority concerns, which is taken as elementary education, public health, maternal and child health and nutrition, and rural water supply and sanitation. The HER is the percentage of state income devoted to human priority concerns. Hence, by definition, HER is the product of the other three ratios.

The UNDP report (1991) suggested that HER of 5 per cent is essential if a country was to do well on the human development front. In 2000–01, Orissa had a HER of 4.43.

Restructuring Present Expenditure Pattern for Human Development

The state government can restructure its present expenditure pattern in the medium term for promoting human development. The possible avenues for restructuring are briefly discussed below.

A high PER is neither a virtue nor a necessity. In the case of Orissa, the public expenditure is high, but the social allocation ratio is low. Therefore, there is a need to restructure the pattern of expenditure in favour of the social sector. While a high SAR does not guarantee a good human development performance, it does make an important contribution. Hence, increasing SAR is desirable, by switching resources from other areas of government expenditure. But increasing SAR should not be at the cost of diverting resources from the spending on economic sector, as widespread cut-backs



of public spending on economic services could be a hindrance to potential economic growth of the state. The restructuring of the budget should be such so as to curtail its non-developmental expenditures.

The government has to find out suitable alternatives so as to re-allocate resources in favour of elementary education vis-à-vis others. It has to look for ways to release more resources for preventive and basic curative care vis-à-vis tertiary health institutions. There is an urgent need for the government to give more importance to rural health services in comparison to urban health services. The government also has to take similar steps regarding rural water supply.

Under the existing financial crunch, the government has to look for cost effective alternatives without compromising quality of, or reducing access to, basic social services. Moreover, appropriate user charges can be applied so as to recover some real cost of services. The state government has already taken some welcome initiatives in this area and it should continue to do so by identifying more areas.

The involvement of local non-governmental organisations (NGOs) in the provision of basic social services for the poor can improve the availability of these services as well as their quality.

Finally, expenditure programmes must be target oriented and specific. Prioritisation and rationalisation of expenditure along with mobilising additional resources for higher levels of spending in priority areas are highly desirable.

However, it needs to be emphasised that prescriptions for allocation/reallocation of resources according to certain standardised norms need to take into account the problem of leakages and misutilisation of resources, which affect efficiency and effectiveness of public expenditures in general and social sector expenditures in particular.

Strategies for Human Development: Some Key Issues

In the context of Orissa, public policy for promoting human development has to contend with the fact that a low level of human development is accompanied by a very high poverty ratio and rather poor growth performance. In such a scenario, it may be suggested that the optimal policy objective should be to forge strong links between growth and human development so that both become mutually reinforcing.

Links from Growth to Human Development

Growth acts on human development through two main routes: (i) the influence of household activity and spending on human development, and (ii) the influence of government policies and expenditures.

Household activities—which are unpaid and done mostly by women— contribute directly and significantly to human development. Households also contribute to human development by using their income to purchase food, medicines, schoolbooks, and other means for improving capabilities.



Studies have shown that increased household income results in improved educational attainment and health indicators. Income is more likely to be spent on human development when women have control over decisions regarding household expenditures. This suggests that the positive impact of increased household income on human development is mediated by women's decision-making power and education.

By contributing to economic growth, government action can have at its disposal a greater pool of resources for human development even if a constant share of GDP is allocated to public and private spending on health, education, and other human development concerns.

However, increased spending in social sectors is not enough by itself; equally important are selecting priorities and using resources effectively. Decentralisation of public services to local governments, efficient allocation of available resources, and provision of appropriate complementary inputs (for example, safe water needs to be complemented by education) are some factors that can lead to more effective utilisation of resources.

It is, therefore, clear that for growth to positively impact human development, mediating role of well-directed policy actions on the part of the government is absolutely essential.

Links from Human Development to Growth

The main link in the chain running from human development to growth is the increased productivity of workers, especially poorer workers, on account of improved nutrition, health, and education.

Increased calorie intake is known to lead to gains in labour productivity of up to 47 per cent. As regards child nutritional supplements, it has been shown that these generate productivity benefits six to eight times the cost of the original intervention. Similarly, the impact of health and education on growth has been shown to be significant.

In short, two major factors are involved in strengthening the links from human development to economic growth: first, accumulation of human capital – through investments in health and nutrition, education and skill training, and research and development; and second, accessible opportunities for people to contribute to economic development – through social, political, and economic participation.

