

Karnataka economic restructuring overview; piloting sub-national loans

Deposition by
Karnataka state

Introduction

- Kar looked upon as “model” for piloting reform by WB and GoI, but
 - States 73 % popln based on agri economy
 - Very high income disparity (rural/urban and rich/poor)
 - Skewed focus on Bangalore and subsidising the IT / BT sectors to the detriment of rest of state
 - Growth in rural and urban employment lower than other southern states 1998 - 2005

KARNATAKA
2001



World Bank loans to Kar state in some key sectors

Project	Sectors affected	Amounts and dates
KN Economic Restructuring Loans (KERL) I & II	Structural adjustment of state economy, power sector, fiscal spending, private sector	\$ 250 mil. (2001-2002)
KN Urban Water Sector Improvement Project (KUWASIP)	Drinking Water privatisation, sanitation, flood protection	\$39.5 mil. (2004-2008)
KN Municipal Reforms Project (KMRP)	Municipal services: water, sanitation, drainage, roads + governance reforms	\$216 mil. (2006-2012)
Social Forestry Project	Agriculture, fishing, forestry	\$27 mil. (1983-1992)

Increased Rural & Urban Poverty

- From 64 lakh BPL families in 2000-01 reduced to 42.7 lakh in 2004-05
- Reduced food subsidies from Rs.295 crores in 2000-2001 to Rs.170 crores in 2003-2004
- Decrease in food grains quantity and criteria from per person to per family
- Food subsidy expected to be Rs 800 cr /year
- Increase in total urban and rural poor, no of BPL ration cards issued 86 lakh families in Sept 2007 out of total 1.16cr in state
- Above data shows 70-80% BPL families



Very high agri-rural distress

- **More farmers suicides than Vidarbha from 2000-2005 - 8600 farmers**
- **Reduction shown in GoK figures but 2004 onwards increased**
- FRA 2002 - no flexibility in dealing with farmer debt crisis
- Many years of flooding since 2004 and same situation

KERL impact : Farmers suicides

- Spread over a wide geographical area
- Small farmers deep in debt to money lenders were the majority
- Power tariff hikes had a drastic impact
- Monthly costs (/ horsepower /month) rose from Rs 10 to Rs 30.
- Free power for agricultural pumpsets was withdrawn.
- Several cases of suicide reported in media were farmers suddenly confronted with a payment burden by Hubli ESCOM.

Policies and tariff increases

- IT policy “Mahiti” 2000
- State Water Policy 2002
- Drinking water policy 2003
- Increase in property tax rates and collection, Infrastructure levy
- Water and electricity tariff hikes
- Land values increase

Funding diverted for high end infrastructure

- The KMRP loan funds road infrastructure in Bangalore
- Roads selected in earlier IT/ BT packages were also repeated in NURM and KMRP
- Funding for a Rs 700 cr 10 km flyover was tied up in a short without adequate basic amenities expenditure for slum rehabilitation being available

Perverse economics of Fiscal Responsibility Acts

- Due to cash balance surplus by Sept 2006 23 states had invested over Rs 66,659 crs in treasury bills of RBI GoI
- States are resistant to this
- Stagnation if not a decline in the ratio of revenue expenditure to GSDP
- The FRAs were a neo-liberal response to the fiscal crisis of states in 1990s but in Karnataka it was a direct result of KERL

Outcomes of KERL I & II

- Country's first Fiscal Responsibility Act (02-03)
 - Creates a cash surplus with no flexibility to spend on social priorities
- Industrial Facilitation Act (2003)
 - Closure / sale of public enterprises + enabling private business and investment

Outcomes of KERL I & II (cont'd)

- Reduction in food grain and subsidies
- Power sector reforms (indirect outcome)
 - Reduced subsidies for agriculture
 - Inadequate public participation in tariff setting
 - Rise in tariffs
 - Does not support social spending for poor

KERL 3 did not come through because GoK did not carry out all power sector reforms (e.g. privatize distribution)

Power sector privatisation consultants for KERL

- GoK engaged NM Rothschild, Deloitte Touche
- Tohmatsu and CMS Cameron McKenna as consultants for its power sector reform programme, cost around 280 million rupees (US\$6 million) in 2003

Trial ground for many other pilots

- The Bangalore agenda task force BATF was formed in 1999 and drew support from the world bank as did
- Janaagraha
- E-governments foundation etc
- All the above three have elements which are part of NURM

BATFs multi city impact

- Other city task forces
- Mysore
- Coastal
- Hubli dharwad etc

E-governments now works in Delhi,
North east, Punjab, Pondicherry

KERL impact governance and fiscal reforms including legislation

- Governance Strategy and Action Plan
- Right to Information Act 2001
- Mostly neglected and ignored by GoK and civil society
- COGA 1999 (trigger condition)
- Transparency Public Procurement Act 2000
- FRA 2002
- KLA FRA 2003
- IFA 2003 and others

The Bank's role in urban infrastructure & water sector

- Along with other IFIs, Bank has pushed commercialisation and cost recovery in the water sector through
 - Disconnection of public taps
 - Willingness to pay studies (inherently flawed)
 - User contributions in GBWASP
- Through KUWASIP, demonstrating PSP models for O & M in 4 N. Kar towns with plans to scale up to all other towns

The Bank's role in urban infrastructure & water sector cont'd

- “Good governance” urban reforms agenda in KMRP (overlaps with Nirmala Nagara and JNNURM)
 - Techno-managerial strategies prioritised (e.g. e-governance, GIS, MIS)
 - Emphasis on increased property tax collection
 - Double-entry accounting
 - Forcing ULBs to borrow from the market

The IFI + line up just in GBWASP

- WBG
- DFID
- JBIC
- USAID
- GoI
- BBMP
- BWSSB
- Private sector WSUP
- Thames water
- Halcrow
- CARE
- WWF-I
- Water Aid
- Unilever etc

Problems lending to urban sector to date

- Bureaucratic/technocratic reign – Powerful role of SPVs like KUIDFC
- Undemocratic processes – elected reps and councils not included in decision-making
- Information not accessible nor in Kannada

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We welcome your comments and questions on this Working Paper

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