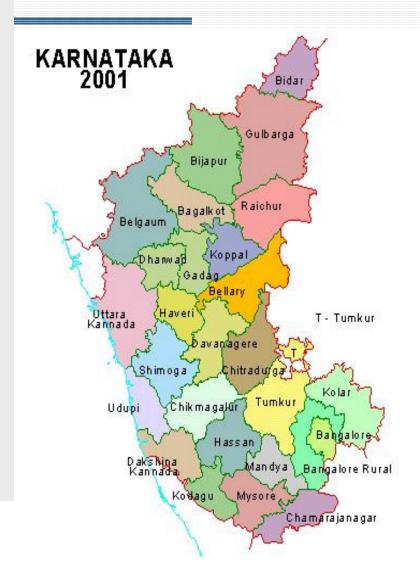


Karnataka economic restructuring overview; piloting sub-national loans

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



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



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- Free power for agricultural pumpsets was withdrawn.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
- KLAFRA 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

