

*Planning Commission - UNDP sponsored*  
*"Strengthening State Plans for Human Development"*

# Training of Trainers Workshop on Human Development

## **MODULE: 6**

*Financing Human Development*

**15<sup>th</sup> January 2007 - 19<sup>th</sup> January 2007**



*Administrative Training Institute*  
*Government of West Bengal*  
*FC Block, Sector – III, Salt Lake*  
*Kolkata – 700106*  
*[www.atiwb.gov.in](http://www.atiwb.gov.in)*

## **Module 6**

### **Financing for Human Development**

#### **Time – One and half Hours**

Interactive Session – 70 Minutes

Exercises- 20 minutes

#### **Learning Outcomes**

Knowledge acquired through this module will allow the participants to

- Define Social Sectors
- Discuss the fiscal constraints for financing for development in an Indian context.
- Define the ratios to analyse the public spending
- Discuss the various sources for mobilizing resources

Several commentators have pointed out that it is the lack of political commitment, not lack of financial resources, that is the real cause of human neglect. This is the main conclusion of Human Development Report 1991- the second in a series of annual reports on the subject. The Report points to an enormous potential for restructuring of both national budgets and international aid allocations in favour of human development. But the plea for greater allocative efficiency and more effective spending does not mean indifference to the need for economic growth, or for increased resource mobilisation. The Report's position is that a more efficient and effective public sector will help strengthen the private role in human development. And the best argument for additional resources is that the existing funds are well spent.

To analyse how public spending on human development can be designed and monitored, four ratios have been suggested in the Human Development Report 1991.

- a. The public expenditure ratio - the percentage of national income that goes into public expenditure.
- b. The social allocation ratio - the percentage of public expenditure earmarked for social services.
- c. The social priority ratio - the percentage of social expenditure devoted to human priority concerns.
- d. The human expenditure ratio - the percentage of national income devoted to human priority concerns.

The **human expenditure ratio** is the product of the first three ratios. It is a powerful operational tool that allows policy-makers who want to restructure their budgets to see existing imbalances and the available options.

If public expenditure is already high (as in many developing countries), but **the social allocation ratio** is low the budget will need to be reassessed to see which areas of expenditure could be reduced. Military spending, debt servicing and loss-making public enterprises are often likely candidates.

If the first two ratios are high, but the ultimate human development impact, as reflected in human development indicators, is low the social priority ratio must be increased. For the poorest countries, this is likely to involve seeking a better balance between expensive curative hospitals and preventive primary health care, between universities and primary schools and between focusing greater attention on the cities and on the rural areas, where most poor people live.

The human expenditure ratio should increasingly become one of the principal guides to public spending policy. When resources are tight, greater attention must be paid to allocation priorities and efficiency in spending. It is wrong, however, to confuse a plea for greater efficiency with indifference to the mobilisation of additional resources. The best argument for mobilising more resources is spending existing resources well.

The United Nations Millennium Declaration Goals (MDGs) in September 2000 is a set of International Development Goals (IDGs) to be attained by 2015. The Millennium Declaration heralded a new international response to tackling development issues and also acknowledged the importance of developing a strategy for raising resources to fund the attainment of development goals.

## **MILLENNIUM DEVELOPMENT GOALS TO BE ACHIEVED BY 2015**

### **1. Eradicate extreme poverty and hunger**

Halve the proportion of people living on less than \$ 1 a day.

Halve the proportion of people suffering from hunger.

### **2. Achieve universal primary education**

Ensure that children everywhere – boys and girls alike – complete a full course of primary education.

### **3. Promote gender equality and empower women**

Eliminate gender disparities in primary and secondary education preferably by 2005, and in all levels.

### **4. Reduce child mortality**

Reduce infant and under-five mortality rates by two-thirds.

### **5. Improve maternal health**

Reduce maternal mortality ratios by three-quarters.

### **6. Combat HIV/AIDS, malaria and other diseases.**

Halt and begin to reverse the spread of HIV/AIDS

Halt and begin to reverse the incidence of malaria and other major diseases.

### **7. Ensure environmental sustainability**

Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources.

Halve the proportion of people without sustainable safe drinking water.

Achieve by 2020, a significant improvement in the lives of at least 100 million slum dwellers.

### **8. Develop a global partnership for development.**

Taking the cue from the MDGs or goals for development and poverty eradication set at the UN General Assembly in 2000, to which India is a signatory, the Tenth Plan lists monitorable targets that include the reduction of poverty ratio, providing gainful and high-quality employment, all children in school, reduction in gender gaps in literacy and wage rates, reduction in the decadal rate of population growth, increase in literacy rates, reduction of Infant mortality rate (IMR) and Maternal mortality ratio (MMR), increase in forest and tree cover, all villages to have sustained access to potable drinking water and cleaning of all major polluted rivers.

In July 1996, the Conference of State Chief Ministers made a commitment to achieve the following seven human development objectives by the end of the century:

- a. Safe drinking water for all
- b. Access to primary health care for all
- c. Universal primary education

- d. Public housing assistance for the homeless
- e. Extension of mid-day meal scheme
- f. Road connections to all villages and habitations
- g. Food security through the public distribution system for families below the poverty line.

The successful achievement of these objectives is dependent on the availability of human and financial resources as well as improved efficiency of existing resource use. The other factors that affect implementation and outcome of programmes are population changes, community awareness and community involvement in development programmes, the pattern of economic development, the efficiency of the administrative infrastructure, the status of women and other social and cultural factors, which differ from State to State.

#### **Tenth Five-Year Plan (2002-2007)**

The Government's development strategy is spelt out in the Tenth Plan (2002-2007), emphasizing that development must be defined not just in terms of increased GDP, but more broadly in terms of human well-being, i.e., reduction in income poverty and also human poverty. As proportion of GDP, expenditure on social services constituted less than 6% of GDP whereas the recommended level for both education and health alone is 6% of GDP. In the light of these recommendations the allocation to social services (includes eleven heads such as medical and public health, water supply and sanitation, housing, urban development, welfare of SCs, STs, and OBCs, social security and welfare, nutrition, and relief on account of natural calamities) is inadequate.

While acknowledging the resource constraints at the Union and State levels, the Tenth Plan document recognizes the complementary role that the private sector and civil society can play with the public sector in the provision of infrastructure and social services, as well as in developing financial innovations to widen access to financing for all segments of society. The NHDR 2001, does stress on the fact that mere allocation of sufficient public resources for furthering human development is not enough. It is equally important to use them efficiently and effectively.

State governments are basically responsible for developing the social sectors. Health care, urban development, housing and water supply are under the exclusive jurisdiction of the State governments, while education, family welfare, social security and labour welfare are under the concurrent jurisdiction of the Centre and States. The Central government through its central sector schemes provides grants to the States to cover programmes like those for poverty alleviation, women and child development, income generating schemes, and programmes for developing tribal population. This also helps the government to provide leadership in terms of focusing on critical issues in the development process. Overall, *expenditure on education forms the largest component of the social sector, followed by public health and water supply.* Labour, social security and welfare is another important

crucial expenditure head. Financing of the social sector has primarily occurred on the basis of domestic resources.

Social sector expenditure as a percentage of GDP has not increased if the Centre and the States are taken together. The Union budget for 2003-04 reveals that the year 2002-03 will end with Central Government expenditure on Plan programmes in the social sector about 5 per cent less than the budgeted Rs. 26,823 crores<sup>1</sup>. The deficit cuts across all social sectors. Spending, according to the revised estimates, has been less than budgeted in the areas of elementary and secondary education, health, drinking water and sanitation and tribal welfare. Unfortunately, elementary education is where the gap between budgeted and actual spending is the largest in the current financial year.<sup>2</sup> The decline in the share of developmental expenditure is also significant. Plan expenditure as a ratio of aggregate disbursements declined from over 30% in 1991 to 26-27% in mid 1990s and even lower levels of 22-24 % in the last three years of the 1990s. The implications of this fiscal stress for social services expenditure have been adverse.

Pronab Sen<sup>3</sup> point out “Although, India has large investible resources and reasonably good performance on poverty reduction and social development there are still considerable challenges especially in the context of regional and interstate disparities and disparities between social groups and classes.”

A high public expenditure ratio is neither a virtue nor a necessity. Public policy and public spending must facilitate, encourage and complement private spending to ensure that human development needs are met. If a government is to allow for sufficient spending in priority areas, a public expenditure of 20-25% is desirable. A study done in 1988 found that private spending often exceeds public spending. Today, the ratio between private and public spending on human development is in most countries approximately 1:1. It is most important for developing countries to increase the overall level of human development spending. Needless to say, the creation of an enabling policy framework for private sector development would not only help unleash the capacity of people at large, as well as that of domestic entrepreneurs. It would also be critical to attracting foreign investors and the employment and income they could help generate, and thus open up new avenues for human development.

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<sup>1</sup> The Hindu, 2003, ‘Short Shrift to Social Sector’, March 4; URL: <http://www.hinduonnet.com/thehindu/2003/03/04/stories/2003030400971000.htm>

<sup>2</sup> *ibid.*

<sup>3</sup> HDRC Discussion Series Paper “ Financing For Development”