

Budget Comparison Between the Southern States in India

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Abstract: Karnataka is one of the progressive states at the all India level in general and Southern India in particular, but still when it comes to the extent of the budget it is lower than Tamilnadu and more or less on par with Kerala state. Therefore, in this paper an effort is made to identify some of the lacunas, which are not contributing to the extent possible, which they could have. The paper based on the secondary data analysis reveals that strengthening the agriculture sector by providing irrigation facilities can go a long way in enhancing the contribution of the agriculture sector from the present 15 per cent to 25 per cent of the budget. Hence the paper suggests that intensive irrigation facilities have to be provided to enhance the contribution of agriculture to the state GDP.

Key Words: Agriculture, Industry, Tertiary Sector, Performance, Southern States, Karnataka, Budget, Enhancement and Development

INTRODUCTION

Much like the Union Budget, State budgets, too, are typically associated with the State Finance Minister presenting the Budget in the State Assembly/*Vidhana Sabha*. While that exercise is the public presentation of the State budget, there is a lot of work that goes on in the background to draw up the budget, as well as to execute it. At the outset, it is critical for a State Government to get a sense of where it can raise money for its Receipts and how much. simultaneously, the government also needs to assess where the money raised will be spent, to draw up its Expenditure Budget. In addition to receipts and expenditure, the State Budget will need to include a few other key documents, such as the Detailed Demand for Grants, Gender Budget Statement and Statement on the Welfare of Children, etc. Given all these factors, it is crucial to gain an understanding of the multi-dimensional aspects of State budgets and the various steps involved in finalizing them. By keeping these in mind, the present paper has tried to answer the following questions.

1. Where do the State Governments raise resources from ?
2. Where do the State Governments allocate the resources ?
3. What are the main budget sources?
4. How can Karnataka state raise revenue compared to any other state in the country and increase its budget ?

1. What are the Major Revenue Sources of the State Government?

State Governments have a number of sources to raise resources. The list given below contains the list of sources from which State Governments raise money:

States' Share of Central Taxes:

States' Own Tax Revenue

There are many taxes that are either levied by the State Governments, or where the collection goes directly to State Governments. Except Goods and Services Tax (GST), the rates of such taxes are determined by State Governments, and hence there is a variance across States. The main taxes that contribute to state governments' revenue are:

- Goods and Services Tax (GST): While GST is levied at the national level and the decisions regarding GST are taken by the GST Council, components of the total GST collection, known as State GST (SGST) and part of integrated GST (IGST) goes directly to State Governments.
- State Excise Duty: As with Union excise duty, this is levied on the production of goods that are not under GST. After the introduction of GST, the main item on which State excise duty is applied is alcohol.
- Sales tax and VAT: There are certain items whose sale is not covered by GST. The sale of such items falls under the State sales tax or State Value Added Tax (VAT).

- Stamps and Registration Duty: This is generally levied on the sale of land and/or immovable properties such as flats/houses/buildings.
- Vehicle Registration Tax: As the name suggests, this tax is applied on the registration of new vehicles or in the case of a change in the ownership of a vehicle.
- Entertainment Tax: This levy is generally applied on the sale of movie tickets, etc.

States' Non-Tax Revenue

Apart from tax revenue, States also have other sources to raise revenue from. The most important among them are:

- Lease/sale of natural resources – states can either sell or lease out natural resources for the economic purposes for which they receive receipts. Lease of minerals is a major source for many states, such as Odisha, Jharkhand and Chhattisgarh, among others.
- Economic services: there are certain services provided by the government for which it charges the user, such as - irrigation, health, education, forestry and wildlife, etc. The user charges are not done with the purpose of profit, and are generally much lower than the charges by the private sector. Nonetheless, they do provide some revenue to the government.
- Sale of lotteries – some states engage in the activity of selling lotteries, and the net proceeds from these goes to the State government funds.
- Interest Receipts – state governments can provide loans to certain entities like public sector undertakings (PSUs), local bodies, etc. The interest received on such loans also one of the sources of revenue.

State Borrowings:

Like the Central Government, the State Government also borrows the resources when the expenditure of a State Government exceeds the receipts (Deficit Budget), it borrows money to bridge the gap. This borrowed money, however, needs to be repaid with interest.

2. Heads of Expenditure:

The Constitution of India mentions the areas/items for which State Governments are responsible, either fully or jointly, with the Union Government.

The State list refers to those areas for which State Governments are solely responsible, while the Concurrent list contains items that are the joint responsibility of both State and Union Governments. These responsibilities decide where the State Governments spend their resources.

Similar to the Union Government, State governments also required by constitution to present a few essential documents for the budget process. These are –

1. Annual Financial Statement: Under Article 202 of the Constitution of India, a statement of the estimated receipts and expenditure of the State for each financial year has to be laid before the State Legislature. This Statement is known as the “Annual Financial Statement” (AFS) or “Budget”. It is the core budget document that presents the estimated receipts and expenditure of the State Government for the forthcoming financial year. This document also provides revised estimates of the current fiscal year as well as actual receipts and expenditure made during the last fiscal year.
2. Demands for Grants - Article 203 of the Constitution mandates that the estimates of expenditure from the Consolidated Fund of the State are voted by the Legislature. The statements of these expenditures are to be presented to the legislature in the form of Demands for Grants. Generally, one Demand for Grant is presented for a Ministry or Department. However, in case of large Ministries or Departments, more than one Demand can also be presented. Each Demand for Grants classifies the total expenditure into 'voted' and 'charged' and 'revenue' and 'capital' heads of account. Generally, there are two documents associated with 'Demands for Grants' - one summary and a detailed one. In the summary document, the total for each ministry/department is given with the breakup into voted and charged. In the detailed documents, further breakup of expenditure into the level of minor head is given.
3. Financial Bill – This is the document with proposals from the government regarding changes in the tax regulation of the state. This is to be voted by the legislature, and passing of it is essential for the proposals to come into effect. The Finance Bill is a money bill and the requirement to present a finance bill in the budgetary process

is mandated in the Articles 198, 199 and 207 of the constitution of India.

4. Appropriation Bill – this is the document presented to the legislature for voting that provides the state governments necessary legal authority to spend money from the consolidated fund of the state. The requirement for presenting an Appropriation Bill is given under article 204 of the constitution of India, while according to the articles 205 and 206, no expenditure can be incurred from the state’s consolidated fund without the passing of such Appropriation Bill by the state assembly.
5. Supplementary Grants – Sometimes state governments feel the need to spend more money than approved in the annual budget. In such cases, Article 205 of the Constitution allows the State Government to present the proposal for extra spending to the state assembly in a format similar to ‘Demand for Grants’. These proposals are known as ‘Supplementary Grants’. It is not compulsory for a state to present Supplementary Grants. States do present them when they feel the need to incur expenditure over and above the amount authorized in the annual budget. A state can present a maximum of three Supplementary Grants in a financial year.

1. Budget Documents:

While these five documents are constitutionally required, due to the expansive nature of budget, State Governments also present a number of other documents which helps explain the budget, as well as can be used to highlight specific details of the budget.

- Budget Speech: A word transcript of the speech that the finance minister makes while presenting the budget in the State legislature or *Vidhana Sabha*.
- Budget Summary: A summary of the main features of the budget. Sometimes it is also called ‘Budget at a Glance’ or ‘Budget in Brief’.
- Key to Budget Documents: Provides a brief introduction to all the other budget documents, and explains what information they contain.
- Receipts Budget: Provides detailed information of how the Government intends/expects to raise money from different sources. It gives the estimated amount with corresponding sources.
- Expenditure Budget: Provides detailed information about all the expenditure that the

Government plans to incur during the year. It provides the amount corresponding to different ministries/ departments and further breakup.

- Expenditure Profile: A summary of the total expenditure of all ministries. It also presents expenditure according to different categories of interest, that is, the summary of funds allocated to schemes for women, children, scheduled castes, scheduled tribes and religious minorities.
- Economic Survey - It is a document prepared by the ministry of finance which provides details of the state of economy of the ongoing year. The entire document is generally divided into two parts, where the first part presents the analytical/qualitative description of economy and country in general, second part provides the statistical data of all major sectors, as well as any other important economic data.
- Memorandum: This supplementary document to the Finance bill explains the various legal provisions of the Finance Bill.
- Documents Under Fiscal Responsibility and Budget Management (FRBM) Act – FRBM act was passed by the Union Government in 2003, and State Governments also enacted their own FRBM acts with a view to manage debt. The Act requires publication of documents. While the actual title of the documents may differ across state, most common titles are - Macro-Economic Framework Statement, and Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement. These documents combined to provide the government estimates of near future growth, its estimates about debt and few other macroeconomic indicators.
- Gender Budget Statement: This statement refers to schemes and programmes prepared and implemented under the gender budgeting framework. It generally contains details about schemes that have 100 percent allocation for women, or at least 30 per cent allocation for women.
- Child Budget Statement: Refers to schemes and programmes prepared and implemented under the child budgeting framework. It generally contains details about schemes that have 100 percent allocation for children, or at least 30 per cent allocation for children.

- **Outcome/Performance Budget Statement:** Outcome Budgeting is a framework for goal setting for a particular policy or department, as well as evaluation of the performance of policy/department against those goals. These goals are defined quantitatively and generally the time period is also given. The Outcome Budget Statement presents the details of such goals for each policy/department, as well as state's performance in achieving last year's goals.
- **Statement on Allocation for Welfare of Scheduled Castes:** Given the lagging development status of scheduled castes, many state governments make plans/schemes which are aimed at the welfare specifically of scheduled castes. This document provides the allocation for schemes which are either fully or partially aimed at welfare of scheduled castes.
- **Statement on Allocation for Welfare of Scheduled Tribes:** Similar to 'schedule caste', the scheduled tribes also lag in the development indicators relative to the general population. To correct this, many state governments make specific plans/schemes for scheduled tribes. This document provides the allocation for schemes which are either fully or partially aimed at welfare of scheduled tribes.
- **Agriculture Budget Statement:** This document refers to the policies/schemes meant specifically for agriculture. The document provides the details of the policies as well as the corresponding allocations.
- **Nutrition Budget Statement:** Many states have prioritized the goal of improving the nutrition level. Such states make specific policies aimed at improvement of nutrition. This document provides the details of such policies and the corresponding allocations.
- **Citizen Budget:** while the budgets are made for the welfare of common citizens, traditionally they have no role in the preparation of the budget. Some states have taken initiative where the citizens can provide feedback or make demands regarding the budget. This can be done either in physical form, such as public meetings of government officials with citizens, or through other means such as online responses. A budget prepared taking the views of common citizens is known as Citizen Budget. This document

generally provides the initiatives the government took to get the views of the citizens, as well as how many demands/feedbacks were put to use in the actual budget.

Since State Governments have freedom with regard to formulating their budgets, not all State Governments present all the documents mentioned above. In fact, variance in the documents presented across states, especially the documents which are aimed at specific policy/group, like gender budget statement, child budget statement, etc. can be used to gauge the differences in the policy priority of the different State Governments.

4. How the Karnataka State Raises Revenue Compared to any Other State in the country:

There are number ways on how the budget can be increased in the state, to increase the budget of the state;

1. Revenue of the state needs to be enhanced
2. corruption needs to be stopped
3. Government should stop investing in loss making businesses
4. Improve the government business sectors which are under loss
5. Government Policies needs to be strict
6. Agriculture, Industries and Service sectors in the state need to be improved to a greater extent to increase the budget and revenue of the state.

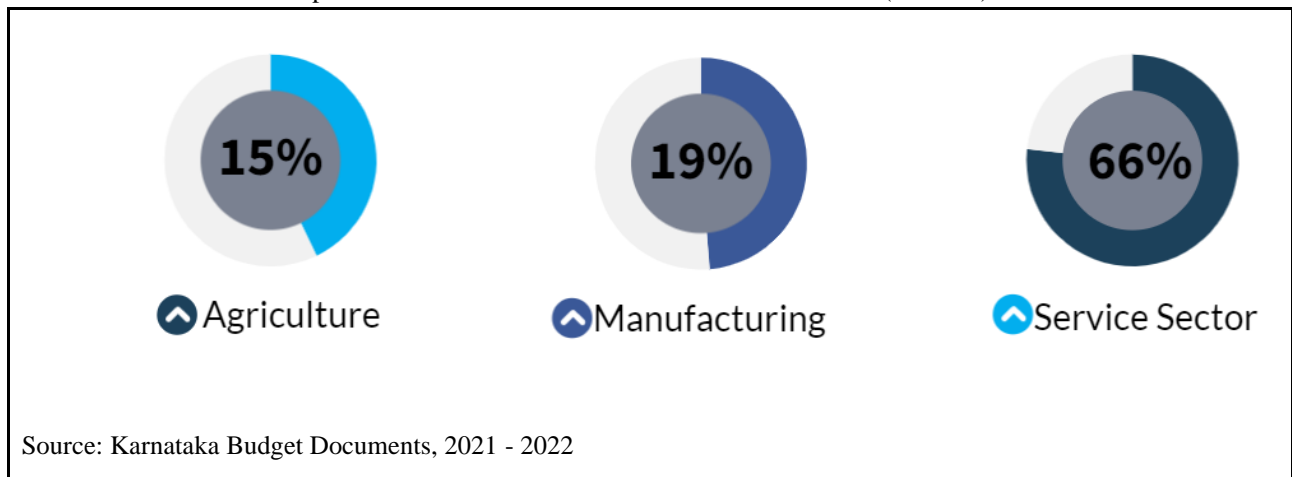
These are the glimpse of the sectors where the state can perform better and increase the budget and revenue which enables a better development in Karnataka state, further the topics are explained in detail where the areas can be focused more to increase the revenue. Table-1 presents the total budget in crores of the southern states viz., Andhra Pradesh, Karnataka, Kerala, Telangana and Tamilnadu states. The table clearly reveals that the total budget of Tamilnadu state has been more compared to all the four states. And interestingly the state of Kerala is the second highest though the land area and industrial activities are less. The existing literature reveals that the foreign remittances of Kerala are much more compared to others states. Graph-1 presents the sectoral contribution to GDP, which reveals that the contribution of tertiary sector is extraordinary though there is lot of potential in the agriculture sector it is not fully tapped therefore, it is very much lower.

Table-1: Budget of the Corresponding States to Karnataka

Southern States	Financial Year	Budget in Rs. Crores
Karnataka	2023-2024	3,09,182
Kerala	2023-2024	312,000
Andhra Pradesh	2023 -2024	2,79,279
Telangana	2023-2024	2,90,396
Tamil Nadu	2022 - 2023	3,60,379

Source: Budget Documents of Various States.

Graph-1: Sectoral Contribution to the GDP in Karnataka (2021-22)



Agriculture Sector:

Table-2: Extent of Population and Agricultural Land Available Across Four Southern States

State	Total Population in Crores	Total cultivable land available	Extent of the area irrigated (in Lakh Hectares.)	% of Irrigated Area to the Total Area Cultivated
Karnataka	6.60	128.0	40.32	31.50
Kerala	3.57	38.86	25.79	66.37
Andhra Pradesh	5.29	100.10	38.13	52.33
Telangana	3.50	232.00	53.51	23.06
Tamil Nadu	7.66	130.33	45.44	34.87

Source: Various Reports of the Economic Survey of the Respective States

The Table-2 clearly indicates that in Karnataka State out of the total cultivable land 31.50 per cent only consists of the irrigated area. By observing the same Table-2, we can infer that Tamil Nadu and Karnataka

have a population and also similar land area, but they have been cultivating land with the water source from Karnataka river Kaveri, whereas in Karnataka we have about 1.28 crore hectare of cultivable land with water

source available nearby. With irrigated land of just 31.50 per cent, agriculture sector has been contributing about 15 per cent of the revenue which is about Rs. 45,000, if the irrigated areas is increased to around 60 per cent the GDP from the agriculture sector can be enhanced to about Rs. One lakh crore consisting about roughly about 28 per cent. When we have a large part of land which is suitable for agriculture but not cultivated and not provided the irrigation facilities its contribution is less, if this can be improved the

Table-3: Major Crops Grown Across Southern States.

contribution of the agriculture sector to the GDP definitely it is more so that the level of the total budget definitely more.

The Table-3 contains the major crops grown in various southern states. All these states are progressive states producing very good number of commercial crops. Except Kerala all the other four states balance is remained between commercial crops and food grain crops. The Kerala state cultivates mostly spices and rubber crop.

Karnataka	Kerala	Tamil Nadu	Telangana
Rice	Coconut	Coconut	Rice
Maize	Rice	Cashew Nut	Maize
Pulses & Oil Seeds	Pepper	Tea	Red Gram
Sugarcane	Cashew	Coffee	Green Gram
Cashews	Plantation Crops	Arecanut	Jowar
Cardamom	Rubber	Cocoa	Sesame
Chillies	Coffee	NA	Castor
Coarse Seeds	NA	NA	Cotton
Coffee	NA	NA	Groundnut
Silk	NA	NA	SoyBean
Peanuts	NA	NA	Black Gram

Source:Safalta, 2022

Manufacturing Sector:

The Annual Survey of Industries (ASI) 2016-17 presents the detailed statistics on the manufacturing sector of the organized industrial sector. Table-4 presents ASI statistics for registered factories for 2016-17 and 2017-18 for Karnataka State. The eight industry groups mentioned in the table together accounted for more than 72% of the total value of output of registered factories of Karnataka in 2017-18. Karnataka compares favorably with all India in terms of all the indicators – per factory employment, output and gross value added. Though registered factories of Karnataka, on an average are more capital intensive than that of all-India, they are also more employment-intensive and generate more value added as well as output.

The Annual Survey of Industries (ASI) 2016-17 presents the detailed statistics on the manufacturing sector of the organized industrial sector. As per the document ASI statistics for registered factories for 2016-17 and 2017-18 for the Karnataka and All-India. Karnataka accounted for 5.69 per cent of the total registered factories in 2017-18 in the country. The contribution of registered factories of Karnataka stood at 5.79 per cent of total fixed capital, 6.55 per cent of total output and 6.97 per cent of Gross Value Added in the same year. The share of Karnataka in total registered factories has marginally increased in 2017-18 as compared to 2016-17. However, the relative contribution of Karnataka's registered factories to the national industrial performance in terms of working capital, total input and output, gross and net value

added and profits has marginally decreased, fixed capital has been increased during the same period. According to ASI 2017-18 with NIC-2008, the major industrial groups in the registered factory sector of Karnataka in terms of value of output are:

Table-4: Contribution of Major Manufacturing Sectors for the total Industry Sectors.

Sl.No.	Industry	Percentage
01	Manufacture of Food Products	16.75
02	Manufacture of Basic Metals	13.33
03	Manufacture of Coke and refined petroleum products	11.75
04	Manufacture of Motor vehicle, trailers & semi-trailers	9.04
05	Machinery and equipment	5.85
06	Manufacture of Electrical Equipment	4.46
07	Manufacture of Other manufacturing materials	4.34
08	Manufacture of Wearing Apparels	4.02

MICRO, SMALL & MEDIUM ENTERPRISES:

Micro, Small & Medium Enterprises (MSMEs) form an important and growing segment of Karnataka's industrial sector. As per the MSME amended Act, Micro, Small and Medium Enterprises (MSMEs) are classified based on two factors - investment and annual turnover as follows: 97232 MSME Units have been registered in the State during 2019-20 with an investment of Rs.1859727 lakhs by providing employment to 702325 persons. Registration of Small Scale Industrial units in Karnataka (Cumulative). As compared to 2018-19, there is a 40% increase in the number of units registered, 25% increase in investment and 20% increase in the number of persons employed during 2019-20. Out of 97232 units that were registered in Karnataka during 2019-20, about 9.03% (i.e. 8782 units) of the units were related to manufacturing of Food Products which occupied the top position followed by Manufacturing of Textiles 6.50% registration. During 2019-20 - Manufacturing of Food Products, Other manufacturing, Textiles, Machinery and Equipment and Other professional,

¹The manufacturing units to be increased with the help of government MSME scheme, wherein few products where we are importing from china and other neighboring states and countries, these products to be increased so that imports

scientific and technical activities have occupied the top five positions in terms of investment. Manufacturing of Food Products being the first among top 10 is accounting for about 11.21% of the total investments followed by other manufacturing being 8.41% of the total investment. In terms of employment Manufacturing of Food Products, Wearing Apparel, Textiles, Other manufacturing and other professional, scientific, and technical activities are in top 5 positions. Manufacturing of Food Products being in first position is generating about 8.39% of the total employment and is closely followed by Manufacturing of Wearing Apparel with about 6.83 % employment¹.

A significant pillar for Karnataka's substantial services economy is the IT industry and the accelerating startup ecosystem. Indian software exports in the current FY is pegged to be USD 170 billion, of which Karnataka's share is an estimated 38%. More than 21 lakh people are employed in the software industry with high paying jobs, centered mostly in Bengaluru city. Further, the state has more than 40 unicorns². About 42% of India's total of 95 unicorns. It has 13,000+ startups today, many of whom proved invaluable in the country's fight against the COVID-19 pandemic. Karnataka received more than USD 16 billion in FDI in the pandemic struck FY 21, signifying the potential of its technology-based growth engines.

Since Karnataka is a state having more youth compared to other states, youths should be given an opportunity to start new production units in the area of products where we are importing, with these production units we can stop the imports and use the local manufacturers for a better revenue. With the production units employment and GDP will be increased over a period of time. Government needs to invest in start-ups and these start-ups to be monitored by a committee to enhance the productivity of the idea which is being invested by the government.

Tertiary Sector:

Tertiary Sector also is being performed better in Karnataka, to be continued by keeping few major points in mind they are;

can be reduced to increase the states revenues which can be directly proportional to the increase in the states budget.

² Companies with valuation of more than USD 1 billion—

1. Tertiary Sector constitutes from commerce to administration
2. Loan waivers by the government have to be canceled and monitored strictly. Through this kind of scheme a lot of Non Performing Assets will be created in the state.
3. Populist Programmes need to be reduced and people need to be empowered with income generating activities like Non-Farm Employment Activities, etc.
4. Accountability in terms of tax payment needs to be prominent. All the transactions of the government and the people have to be through banks only. All business transactions need to have the bills Even today with all reforms the GDP accounting is not done properly. Therefore, the financial planning is poor and hence, the returns will be less.
5. Income and the consumption expenditure of the government and the public need to be streamlined.

Loss Making Public Sectors Units Karnataka:

The Karnataka government invested Rs 66,518 crore in 140 companies in 2018-19 for negligible returns and 59 per cent of the investment was in companies which had reported significant losses, a CAG report said, the state incurred cumulative losses of Rs 8,274 crore. The report by the comptroller and auditor general tabled in the legislative assembly on Tuesday said the government invested Rs 38,949 crore in loss making companies, including north western Karnataka road transport corporation, north eastern Karnataka road transport corporation and Karnataka road development corporation (Times of India, 2020). The KSRTC Staff and Workers Federation Wednesday said that the four road transport corporations (RTCs) in Karnataka have collectively made losses of Rs 4,540 crore as on March 2021 with the dues owed to employees touching Rs 1,717.24 crore (Indian Express, 2022).

CONCLUSION

Karnataka's budget can be increased from the existing 3,50,000 to 4,50,000 crores if each sector of government performs better compared to the present, when it comes to the agriculture sector only 1/3rd of the available land is being cultivated under irrigated conditions and crops are produced, if we focus on the other available land and help farmers to grow good

crops by providing irrigation facilities Karnataka's revenue from agriculture sector can be raised from 15 per cent to 25 per cent which constitutes about 90,000 crores.

Industries and manufacturing sectors also plays a major role in increasing revenue of the state, new manufacturing units under MSME should be promoted and also close inspection and resources like mentors need to be allocated for upcoming manufacturing units to enable the performance better avoiding losses and non performing assets in this sector. The Non Performing Assets in this sector cutdown for good profits, which directly adds to revenue of the state. Tertiary sector plays a major role in attaining revenue in the state, transport, service and government businesses needs to be running under profit, so that a great jump in the numbers can be expected as an outcome, some loss running business of the state government needs to be scrutinized to enable profits in this sector.

When it comes to tertiary sector, Karnataka is being performed good in the areas like Banking, Software, health, etc. Whereas the areas like Industries, Transport, financial and real estate needs to be given more importance and policies have to become a bit strict with protocols, some transactions are not known by the government in these areas where the tax is being not paid to the government, this is known as systematic corruption, which has to be erased gradually for the development of the state and country. Comparison to other neighboring states, Karnataka has a huge resources in the areas like cultivable land, human power, natural resources and mines, all the resources needs to be utilized in a programme and focusing on few districts where they lack behind in generating income streamlined for better growth. States like Kerala with less human power and less land, still have the budget which is on par with Karnataka, due to their policies and streamlining of their businesses and hard working nature of the people. When it comes to Tamil Nadu, with similar population and similar land availability, they don't have proper water source compared to that of Karnataka, but their budget is about Rs. 50,000 crore more than Karnataka, with their increased numbers in manufacturing units and also agriculture through the source of Karnataka's rivers, we as a state need to focus on Manufacturing Units and also make all the cultivable land and produce crops so that the states revenue can be

enhanced and also employment will be increased parallel.

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