

CESS-RSEPPG Research Brief #1

Public Expenditure on Education in India

**Contributions of Centre and State Governments
during the last three Decades**

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Research Cell on Education

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Public Expenditure on Education in India: Contributions of Centre and State Governments during the last three Decades

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Abstract

Education as a public good necessitates state expenditure, more so in the context of developing countries like India. Education, listed as a concurrent subject requires co-sharing on the fronts of financial, regulatory and developmental functions in a federal polity. India is spending around 4 percent of GDP on education but it is also evident from the analysis that only one percent is borne by the Centre while three percent is borne by States together. Even as a percentage of their total budget expenditure Centre spends less than 10 percent and states are spending more than 20 percent. Of the total public expenditure on education the Centre's contribution is only 20 to 25 percent on education. The long pending raise in the education spending to six percent of GDP, also proposed by the NEP 2020 needs to be equally shared by both Centre and States lest the development of education remains a lofty ideal.

Key Words: Education, Expenditure on Education, Public Expenditure, India

I Context

Public good nature of education desires and demands public finances or expenditure for educational development in a country or state. But inadequacy or insufficient budget allocation along with inefficiency in public expenditure on education is a well-established fact in developing (middle and low income) countries like India. Such an under-investment in education is keeping the educational development in these countries at a lower level than at expected or desired level. Moreover, in a federal political structure like India, the financial relations among the union and the states' along with their contributions to expenditure on education development has also been a cause of concern, especially in higher education. The National Education Policy (NEP) 2020 of India proposes to raise allocation to education from 4 percent to 6 percent but is silent about the way it is to be borne by Centre and States.

In this backdrop the present paper examines the situation of public expenditure on education in India and carries time-trend analysis for the past three decades. The focus of this note is on the Centre-State contributions in financing the education in the country. Major sources of data for the following analysis are: Budget documents of Union Government, Reserve Bank of India's

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(RBI) State Finances, and Ministry of Education's (MoE, Government of India) Analysis of Budgeted Expenditure on Education (ABEE).

II Public Expenditure on Education: Methodological issues and Trend

Public expenditure on education in India consists of budgeted expenditures of both the Union Government as well as the respective State Governments. Further, although Education Ministries and Departments at the Centre and in States are major sources of expenditure on education in India, other Ministries and Departments as well are having increasingly varied spending on education. Other departments like the welfare departments (of SCs/STs/OBCs and Minority) also incur certain part of their expenditure on education related programmes and activities especially in terms of scholarships and school buildings and hostels. *Budget Accounts or Estimates* of both the Centre and States, classifies expenditure on education under the *Major Heads* with codes 2202 & 2203 (revenue a/c), and 4202 & 6202 (capital and loans a/c). The functional classification of education in the budget accounts cover expenditure on education including the sports and youth services, and art and culture. Reserve Bank of India (RBI) consolidated figures related to expenditure on education represents the same. Although this budget major head (BMH) covers the educational expenditure of education department as well as few others, somehow it does not cover many other departments which spend certain amounts on education related programmes and activities.

To rectify such under-reporting of expenditure on education, the concerned MoE (Govt of India) has undertaken an annual exercise to compile all the expenditures incurred on educational programmes and activities by various other Ministries and Departments at the Centre and at State level, and made it available for public use (research and policy purposes). It was published as *Analysis of Budgeted Expenditure on Education* (ABEE). This ABEE indeed provides more comprehensive coverage of expenditure on education. Such MoE (GoI) exercise of annual budget expenditure on education covered the period from 1999-2000 to 2017-18.

For illustrative purpose, Table 1 presents the expenditure on education by the reporting sources or accounts: Education Department, Budget Major Head (2202, 2203, 4202 and 6202) and the ABEE data as reported by MoE covering expenditure on education by Education and Other Departments. The expenditure on education as reported by Education Department is less than what is reported under the Budget Major Head classification representing education which also covers few other departments but which is still not comprehensive. Both these reporting sources have expenditure on education considerably lower than that of expenditures of Education Department combined with Other Department as reported by MoE (GoI). Such differences are explicit in not only absolute amount of expenditure on education but also observable for education expenditure as a percentage of GDP (Table 1). Expenditure on education by Budget Major Head (BMH) as a percentage of GDP was hovering little above 3 percent whereas the combined expenditure on education by Education and Other Departments was nearly 4 percent. There is nearly 0.6 to 0.8 percentage points difference between these two reporting figures.

The data inconsistency matters while analysing public expenditure on education as it has implication for the final expenditure figures, which also has been debated often by researchers and policy makers. Having a comprehensive account of all the expenditure on education in the country across Ministries and Departments at the Centre and in the States helps in this context. Similarly, the classification of revenue or/and capital account also is important to assess the public expenditure. Further the series of GDP estimates also matters while deriving the percentage of expenditure, as the new series would result in a lower figure vis-à-vis older series.

Table 1: Public Expenditure on Education in India

Year	Education Department			Budget Major Head: 2202, 2203, 4202 & 6202			Education and Other Departments		
	States	Centre	All	States	Centre	All	States	Centre	All
<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>
Rupees in Crores									
2011-12	209831.0	60260.8	270091.8	220724.2	61702.0	282426.2	247855.9	86074.5	333930.4
2012-13	233124.9	66087.6	299212.5	251211.6	68118.0	319329.6	278375.3	89757.6	368132.9
2013-14	261737.1	71494.8	333231.9	280897.4	74492.0	355389.4	318249.8	112629.0	430878.8
2014-15	318267.7	70555.0	388822.7	324212.6	70865.5	395078.1	386798.2	113330.2	500128.3
As a percentage of GDP									
2011-12	2.4	0.7	3.1	2.5	0.7	3.2	2.8	1.0	3.8
2012-13	2.3	0.7	3.0	2.5	0.7	3.2	2.8	0.9	3.7
2013-14	2.3	0.6	3.0	2.5	0.7	3.2	2.8	1.0	3.8
2014-15	2.6	0.6	3.1	2.6	0.6	3.2	3.1	0.9	4.0

Notes: Current Prices; Budget Major Head 2202, 2203, 4202 and 6202 under revenue and capital account covers education, sports and youth services, and art and culture; GDP of 2011-12 Series.

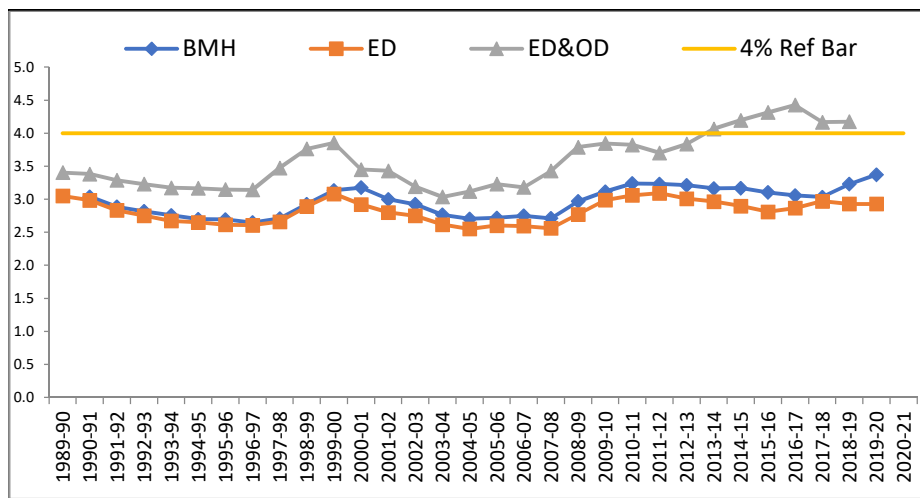
Sources: RBI and MoE, Govt of India.

The present note is based on the data sourced from Reserve Bank of India (RBI) and Ministry of Education (MoE, Govt of India) anchored to the 2011-12 GDP series. The RBI compiles the consolidated state budgets and builds the time-series values. RBI figures for education include expenditure on education (2202, 2203, 4203 and 6202) along with sports, youth services, art and culture. To reiterate the data sources used, the state-level public expenditure on education in all states by budget major head (BMH) is sourced from the RBI; the Union Government expenditure on education on this BMH is compiled from its budget documents and MoE's *Analysis of Budgeted Expenditure on Education* (ABEE) annual series is used to obtain expenditure on education by Education Department and Other Departments.

With an intention to examine the situation and make a trend analysis for the last three decades, RBI compiled expenditure on education (based on BMH) from 1990-91 to the latest (2018-19). However, as mentioned earlier, the MoE (GoI) compilation of more comprehensive coverage of expenditure on education is available for all sectors (states and centre combined) from 1951-52 to 2017-18. Separately for states and centre, it is available from 1999-2000 to 2017-18. This later series is extended for the period for which RBI data for state sector BMH is available (1990-91 to 2018-19), through a simple linear estimation using RBI data (BMH) points/values and MoE (GoI) all sectors combined values to make separate comparable series for state and central sectors.

It is evident from the Figure 1, that the comprehensive nature of expenditure on education made by the Education as well as Other Departments, as a percentage of GDP is in the range of 3 to 3.5 percent during the previous two decades (1990s and 2000s) and is in the range of 3.5 to 4 percent for the present decade starting from 2010 (Figure 1). The expenditure on education based on BMH as a percentage of GDP is considerably lower compared to the MoE (GoI) compiled expenditure on education covering more broadly all education related expenses. The expenditure on education solely by Education Department as a percentage of GDP is far below that of comprehensive expenditure; and only marginally different from that of BMH. The small difference observed in this respect between BMH and that of Education Department are on two accounts. Firstly, BMH based account covers not only education but also expenditure on sports and youth services along with art and culture. Strictly speaking they may not represent education, especially the art and culture. Expenditure on these activities is, however, very small. Secondly, BMH on education covers beyond education department but does not cover expenditures by all other Ministries and Departments which are also spending a part of their budgets on educational programmes or activities. Despite these differences, all the three reporting sources or accounts have, unsurprisingly, followed similar trend during the last three decades.

Figure 1: Total Expenditure on Education (States and Centre together) in India as percentage of its GDP



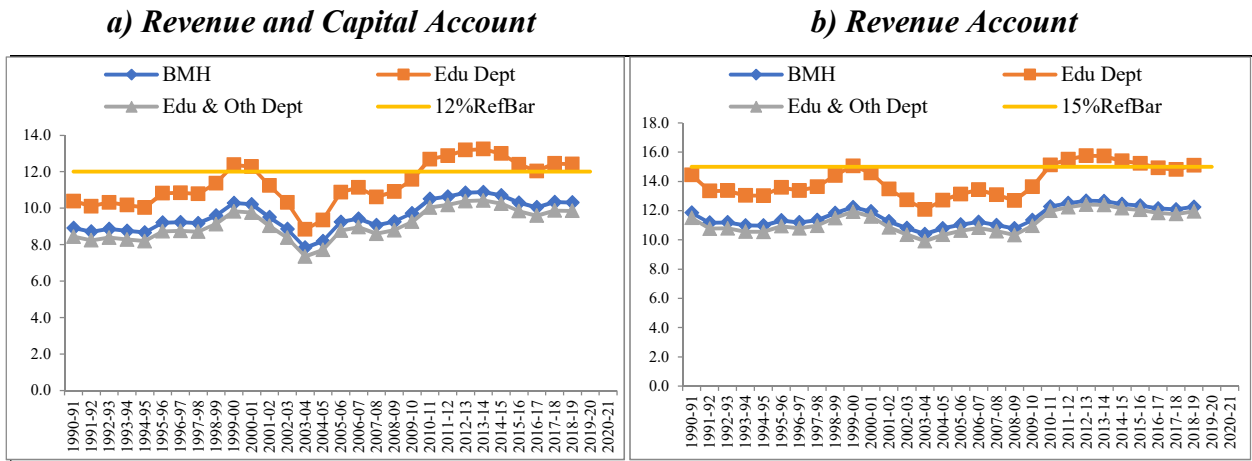
Notes: Expenditure on Education of States and Centre combined; **BMH** – Budget Major Heads (2202, 2203, 4202 & 6202); **EDs** – Education Departments; **EDs&ODs** – Education and Other Departments together.

Source: Authors' estimates based on RBI and MoE (Govt of India) data.

The trend in expenditure on education as a percentage of total budgeted expenditure (of both Centre and State combined) is presented in Figure 2. It was 10 to 12 percent of total budgeted expenditure combined of revenue and capital, during the previous decades (1990s and 2000s), and increased to 12 percent or above during the present decade (2010s) (Figure 2a). Education share in the total budget expenditure is little higher in the revenue account when compared to its share in the total of revenue and capital expenditure. In the Revenue Account expenditure,

education share was less than 14 percent during the previous two decades, it increased to 15 percent or above (Figure 2b).

Figure 2: Share (%) of Expenditure on Education in the Total Budgeted Expenditure in India: State and Centre Combined



Notes: Expenditure on Education of States and Centre combined; **BMH** – Budget Major Heads (2202, 2203, 4202 & 6202); **EDs** – Education Departments; **EDs&ODs** – Education and Other Departments together.

Source: Authors’ estimates based on RBI and MoE (Govt of India) data.

Union Government Share

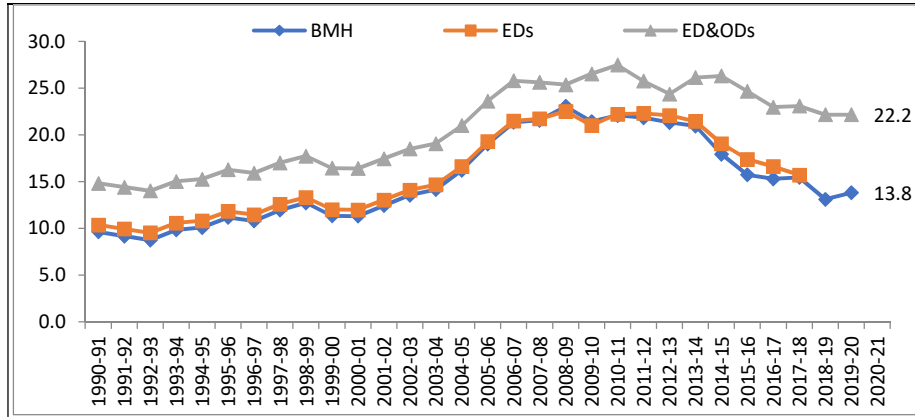
Then it is interesting to know the share of Centre (Union Government) in the total public expenditure on education in India given the fact that education is listed as a concurrent subject in the Constitution of India which implicates equal responsibility of both Centre and States in educational development in the country. The share of the Centre in all the three reporting sources or accounts on expenditure on education shows that it increased throughout previous two decades (1990s and 2000s) from 10 to 15 percent (varied by reporting sources or account) to its peak of 20 to 25 percent at the end of first decade of this century (Figure 3). Thereafter a declining trend is observed; for the latest year it is at 15 to 23 percent in 2017-18¹ (see Figure 3). A similar trend is found in the other data sources of Education Department and the BMH. But Centre’s share shows an improved trend in the comprehensive data source of the MoE (Govt of India) over that of the budget major head (BMH) source.

Then what is the expenditure made by Education Department (i.e. MoE, Govt of India) as a percentage of the total public expenditure on education? The expenditure made by the department under the Central Government is hovering around 60 to 70 percent (Figure 4b), while the same for state governments is around 80 percent (Figure 4a). That means between 30 to 40 percent of total public expenditure on education of the Central Government is incurred by Ministries and Departments other than the Education (MoE, Govt of India) Department.

¹ The trend shows that share of Central Govt in expenditure on education grew consistently from 1990s to 2010-11 during which period it increased from 15% to a peak of 27.5%! It declined from 26.3% in 2014-15 to 22.2% in 2019-20. The declining trend is prominent in the recent past.

Due to the combined expenditure of education and other departments the share of the Centre constitutes a higher percentage in the total public expenditure on education. (Figure 3).

Figure 3: Share (%) of Centre in the Total Expenditure on Education (States and Centre together) in India

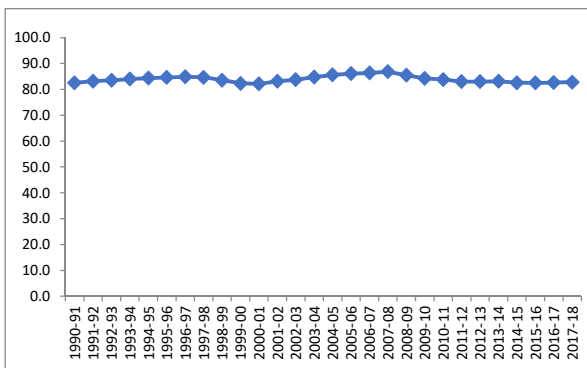


Notes: Share of Centre is taken in Expenditure on Education of States and Centre combined; **BMH** – Budget Major Heads (2202, 2203, 4202 & 6202); **EDs** – Education Departments; **EDs&ODs** – Education and Other Departments together.

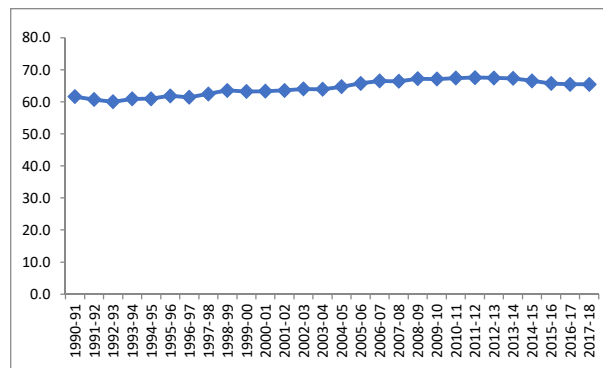
Source: Authors’ estimates based on RBI and MoE (Govt of India) data.

Figure 4: Percentage of Education Department in the total Public Expenditure on Education in India

a) Budget of All States



b) Budget Union Government



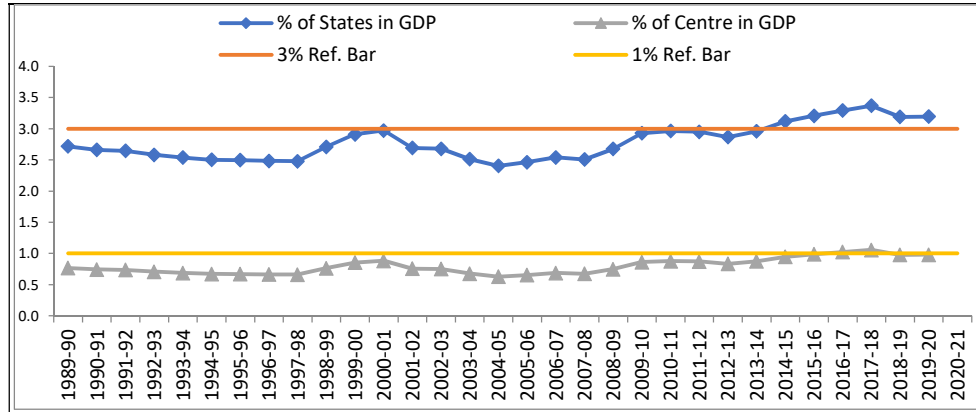
Notes: Numerator is expenditure of Education Department; Denominator is Expenditure on Education that is combined expenditures of Education and Other Departments; Separately for expenditure on education in All the States and that in the Union Government.

Source: Authors’ estimates based on RBI and MoE (Govt of India) data.

The public expenditure of the Centre and the States on education as percentage of GDP shows startling findings. The Central Government expenditure on education is well below one percent whereas the State Governments’ stake is in the range of 2 to 3 per cent. It is appropriate to mention here that the Central Government expenditure on education as a

percentage of GDP has constantly been around 0.5 percent till mid-2000s and reached one percent during late 2010s (Figure 5).

Figure 5: Total Expenditure on Education (by Education and Other Departments) by States and Centre in India as percentage of GDP



Notes: Expenditure on Education by Education and Other Departments combined as a percentage of GDP;

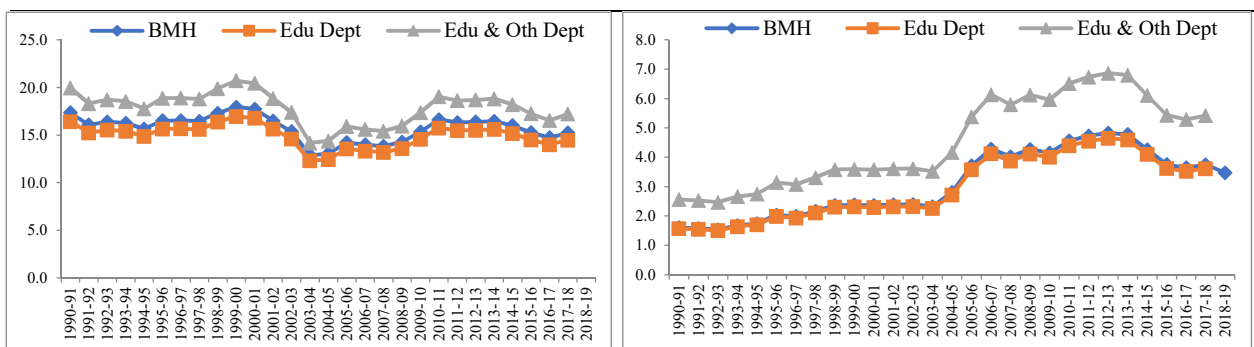
Source: Authors' estimates based on RBI and MoE (Govt of India) data.

It is also important to look into expenditure on education by Centre and States (of education and other departments combined) as a percentage of their total budget expenditures. While the states' expenditure on education as a percentage of their total budget expenditure (revenue and capital combined) is in the range of 15 to 20 percent (Figure 6a), while the Centre's expenditure on education as a percentage of its total budget expenditure has been less than 7 percent. It was around 3 percent till early 1990s and shown a steady increase till early 2000 (around 3 percent) then exhibited a jump reaching to 6 percent (Figure 6 b).

Figure 6: Expenditure on Education as a percentage of Total Budgeted Expenditure (Revenue and Capital combined) of Union Government and States

a) Budgets of All States

b) Union Budget



Notes: BMH – Budget Major Heads (2202, 2203, 4202 & 6202); EDs – Education Departments; EDs&ODs – Education and Other Departments together.

Source: Authors' estimates based on RBI and MoE (Govt of India) data.

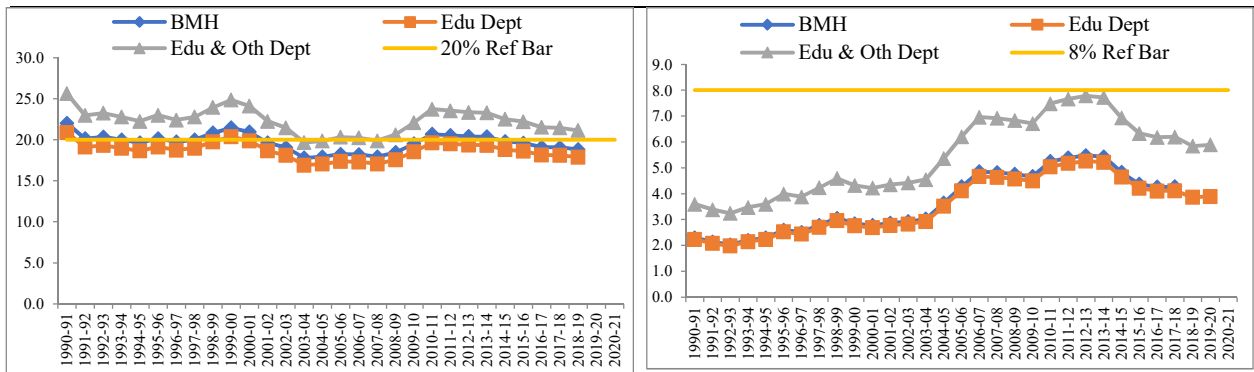
As a large part (more than 98%) of expenditure on education is incurred through revenue account, it would be appropriate to consider expenditure on education as a percentage of total budgeted expenditure in the revenue account. Figure 7 illustrates that all states' expenditure on

education (combined of education and other department) as a percentage in their total budget expenditure in revenue account has remained at more than 20 percent all through the three decades. Not only that even the BMH based expenditure for states is also hovering around 20 percent all through the analysis period (Figure 7a).

Figure 7: Expenditure on Education as a percentage of Total Budgeted Expenditure in Revenue Account of Union Government and States

a) Budgets of All States

b) Union Budget



Notes: *BMH* – Budget Major Heads (2202, 2203, 4202 & 6202); *EDs* – Education Departments; *EDs&ODs* – Education and Other Departments together.

Source: Authors’ estimates based on RBI and MoE (Govt of India) data.

The Central government’s expenditure on education as a percentage of its total budget expenditure in revenue account has been observed to be less than 10 percent. It has shown an increasing trend since early 1990s to the beginning years of second decade (say 2010s) of this century; where it has increased from 3.5 percent to nearly 8 percent (Figure 7). Thereafter it began declining; for the latest year it is only 5 percent. It is to be noted that in fact the ABEE of MoE (Govt of India) accounted all the expenditure on centrally sponsored schemes related to education in the Centre’s expenditure on education.

Overall, Indian state is spending 4 percent of its GDP and 15 percent of total budget (public) expenditure on education. While all states together spend 3 percent of GDP on education, Centre is spending around 1 percent of GDP. While all states together spend more than 20 percent of their budget expenditures on education, Centre is spending only less than 10 percent of its Union Budget expenditure. Centre’s contribution is around 20 to 25 percent of total public expenditure on education in India (Centre and States together), rest is borne by the States.

III Concluding Remarks

Public expenditure on education is critical for educational development in a country or state given the public good nature of education. In a federal structure of polity, both the governments at Centre and that at State level are to play key role in educational development

of the nation and are the main stakeholders in funding the education. In India, education being a concurrent subject, the central government also has a role in deciding the priorities and direction as well as shouldering the burden of allocating the resources. It is evident from the above analysis that the Central Government is relatively spending lower than the states proving lesser commitment to public education.

The National Educational Policy (NEP) 2020 proposes to increase the expenditure on education which is presently at 4 percent of GDP to 6 percent. Whether the Centre is going to shoulder the required increase in education budget is a matter of concern. Centre and states should proportionately share the expenditure on education. Otherwise states are already burdened with spending considerable proportion of their expenditure on education against other competing demands on their development agenda. With a lower commitment of financial resources Central Government would be playing a predominant role in the direction and regulation of the education sector which is apparent from the NEP 2020. This could give rise to conflict and friction between the state and central governments given some propositions of the NEP may not be in consonance with the goals of the state governments. Central government has to improve its stake in policy by making adequate resources available to the states so that financial burden of the policy shift is borne equally by the states and the centre.

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