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# Economic Growth and Development of Karnataka\*

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## Abstract

The transformation of Karnataka from a less than average per capita income State in 1990-91, to the second highest among the large States in 2022-23 has been remarkable. However, the impressive growth performance of the state has not translated itself into appreciable human development. This is mainly due to the significant regional variations in development. What is more, the intra-state inequalities have been increasing over the years. Thus, Karnataka is a state of contrasts – with dynamism and spectacular development in some regions co-existing with penury and backwardness in others. The imbalance is seen also in the spectacular growth of the services sector while the shares of both agriculture and industry have shown a steady decline.

Bangalore has been the leading centre for the services sector growth due to, inter alia, impressive knowledge economy, innovation and High-Tech capital, skilled manpower, elite public institutions, salubrious climate, multicultural and cosmopolitan population and responsive bureaucracy. The opening up of the economy in 1991 unleashed the potential of the city and paved the way for it becoming the IT and ITES capital. The two districts in the west coast, with their private sector entrepreneurial orientation depended on their own initiative to develop. The spirit of enterprise and high level of human development in these districts helped in both wealth creation. In contrast, the Kannada speaking districts which were under the Hyderabad Nizam and the Bombay Presidency continue to suffer backwardness despite the initiatives to develop them. The districts under the Mysore royalty, with large investments face stagnancy due to the adoption of water intensive crops as the state is unable to levy charges on water and electricity.

The government's response to development has been mainly reactive to the developmental concerns. The spectacular growth of the modern services sector, large scale migration of technical workforce and high net worth individuals have placed heavy demands on urban infrastructure and services. The electoral politics has resulted in the state steadily enhancing subsidies and transfers under social security and welfare displacing capital spending and human development expenditures. The sustained and balanced growth would require significant policy reorientation.

**Keywords:** Karnataka, India, growth development, services, regional inequality

**JEL Classification:** H70, O13, O14, O15, O43

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## 1. A Summary and a Starting Point:

Karnataka occupies an important place in India's economic landscape. With a population share of just about 5 per cent, the State contributed 8.2 per cent of the Gross Domestic Product (GDP) of the country in 2022-23. Essentially led by the modern services sector, it is one of the fast-growing states, steadily increasing its share in the country's GDP. Not surprisingly, it has made a rapid transition from being less than average per capita Net State Domestic Product (NSDP) state in the early 1990s to the second highest among the large Indian states, next only to Telangana in 2022-23. The state is the hub of technology and innovation and has the largest pool of technical and scientific personnel in the country. It is one of the most prolific start up ecosystems. In 2023, it had 45 of the 112 unicorns in the country accounting for 44.6 per cent of the value. It hosts over 875 global capability centers (GCC). The capital city of the State, Bengaluru, has the largest share of GCC talent in the country. It is the largest foreign investment destination and a leader in services exports. Bengaluru has the largest concentration of IT and ITES enterprises and is compared to the Silicon Valley in the United States. The capital city is also the most cosmopolitan and linguistically the most diverse city in the country with only 45 per cent of the population in the city speaking Kannada, the State's language.<sup>1</sup>

Despite these impressive credentials, Karnataka is a state of contrasts. While it has done well in achieving a high per capita income level, the human development record is just about the average. Furthermore, the economic growth performance in the State is concentrated predominantly in Bengaluru, the two coastal districts of Dakshina Kannada (South Kanara) and Udupi and the coffee growing districts on the Western Ghats, Chickamagalur. The share of the four districts in the State's Gross State Domestic Product (GSDP) increased from 39.5 per cent in 2004-05 to 53.8 percent in 2022-23 and the share of Bangalore – urban alone has shown a sharp rise from 29 per cent to 40 per cent during the period. In broad terms, economic development is confined mainly to South Karnataka, and North Karnataka lags well behind in both the level of living and human development indicators. The economic growth in the State is led predominantly by the Services sector. The share of the sector in total value added in the state has risen steadily over the years to constitute almost 70 per cent of the total. Correspondingly, the shares of both agriculture and industry have been showing a steady decline.

The growth and development pattern in Karnataka cannot be explained merely by resource endowments or the infrastructure differences and for the same reason the redressal of backwardness does not depend merely on making larger public spending. Historical factors, and the nature and quality of institutions impacting on the structure of incentives seem to have played even more decisive role in determining the pattern of development in the State<sup>2</sup>. This becomes clear when we examine the performance of different regions within the state. The southern part of the State, under the patronage of the Mysore Royalty had considerable investments in irrigation, infrastructure and education. The coastal belt of the State which was a part of the erstwhile Madras

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<sup>1</sup> <https://www.deccanherald.com/india/karnataka/bengaluru/bengaluru-linguistically-most-diverse-in-india-data-1026388.html>

<sup>2</sup> Banerjee and Lakshmi (2005), relate agricultural growth in districts to the system of land tenure to underline the importance of institutions in determining their growth.

Presidency had to depend upon their own community and the spirit of enterprise as the capital city located in the eastern coast was 700 kilometers away. The northern parts of the State ceded from the territories ruled by the Nizam of Hyderabad and those from Bombay Presidency were steeped in the feudal culture and had been subject to benign neglect. There was no focus on physical or social infrastructure, and society was steeped in Jagirdari (similar to zamindari system, but the land belonged to the Nizam) system and practices like bonded labour and child marriage. They suffered not only from physical infrastructure deficit but also poor institutions and structure of incentives.

The State has been attracting a high proportion of domestic and foreign investments, though the credit-deposit ratio at 59 per cent is less than the average for the country by 12 percentage points in 2023-24. Much of the investment flows are concentrated in Bengaluru and surrounding areas. Private sector activity is concentrated in and around Bengaluru and in coastal districts of the State. Coupled with a substantial infrastructure deficit and incentive incompatible institutions, the northern parts of the State have continued to lag behind. This has raised the feeling of neglect, discrimination and alienation by the residents of Northern Karnataka. Even in the large parts of Southern Karnataka, the development is supported predominantly by the spread of irrigation. The two numerically strong and politically influential communities in the State – the Lingayats and Vokkaligas, wield considerable influence in public policy decisions and currently, there is a considerable controversy on the shares of different communities in the total population of the states based on a Caste Survey done in 2015.

In this paper, an attempt is made to analyse the growth and development pattern of Karnataka State. As one of the foremost states in the country which has recorded impressive growth performance, the analysis helps to understand the strengths and weaknesses in public policy formulation for development. Furthermore, the wide imbalance in development within the state offers the opportunity to understand the process better. The paper is presented in five sections. Section 2 traces the growth and composition of per capita income from different sectors of Karnataka in the last two decades and its transformation from the state of less than average per capita income to the high-income category. Economic reforms ushering in the opening up of the economy and the relaxation of controls and regulations in 1991 helped the services sector a greater freedom and Karnataka, with its comparative advantage centered around Bangalore was able to galvanise progress through the services led growth acceleration. Section 3 brings out the diversity in development within the state. The southern part of the State, particularly the capital city of Bangalore and surrounding areas were able to reap the benefits of liberalisation and increased activity in the modern services sector and the coastal parts of the State with a strong private sector orientation combined with education provided impetus to encouraged entrepreneurial activity both within the region and to other parts of the country. In contrast, the northern parts of the State comprising of the regions included from erstwhile Hyderabad-Karnataka and Bombay-Karnataka regions had huge infrastructure deficit, knowledge and governance deficits, institutional constraints and have continued to be backward. Even the old Mysore region with large irrigated areas covered by the Krish Raj Sagar Dam irrigating the Cauvery River basin, triggered by the policy of free water supply have focused on water-intensive crops like paddy and sugarcane and with little incentive towards crop diversification and are faced with

stagnancy. The policy has created a strong vested interest group resulting in the suboptimal use of water. These factors have led to significant imbalance in development in the state with advanced modern economy in Bangalore and the coastal districts coexisting with extreme backwardness in the northern parts of the State. In section 4 we discuss the role of state government policies in the development outcomes in the state. The last section underlines the lessons from the growth experience and summarizes the conclusions.

## **2. Economic Development of Karnataka: Growth and Composition.**

### **2.1. Growth Performance in Karnataka.**

Karnataka State has experienced an impressive growth performance in per capita income over the last two decades and has catapulted itself from being a less than average per capita income State by 16 per cent in 1990-91 to the high-income category in the 2020s. At Rs. 304434, the per capita Income (NSDP) in the State in current prices in 2022-23 was the fourth highest in the country and if the two small states of Goa and Sikkim are excluded, the state had the second highest per capita NSDP, next only to Telangana (Table 1). The improvement in the State's rank in per capita NSDP from nine in 2011-12 to 4 in 2023-24 has been spectacular. In fact, in 1990-91, the per capita income in the state was lower than the all-India average by 19 per cent. By 2004-05, it was higher than the national average by 11 per cent and the difference increased to 42.2 per cent in 2011-12 and to 80 per cent in 2022-23.

**Table 1: Per Capita NSDP (Current Prices) Ranking of States (Rs).**

	<b>2004-05</b>	<b>Percent of Average</b>	<b>Rank</b>	<b>2011-12</b>	<b>Percent of Average</b>	<b>Rank</b>	<b>2022-23</b>	<b>Percent of Average</b>	<b>Rank</b>
Andhra Pradesh	25959	107.5	13	69000	108.7	14	219881	129.7	11
Bihar	7914	32.8	28	21750	34.3	28	53478	31.6	28
Chhattisgarh	18559	76.9	21	55177	86.9	18	137329	81.0	21
Goa	76968	318.8	1	259444	408.8	1	492648	290.7	2
Gujarat	32021	132.6	7	87481	137.8	11	272451	160.7	7
Haryana	37972	157.3	2	106085	167.2	3	296592	175.0	5
Jharkhand	18510	76.7	23	41254	65.0	23	96449	56.9	26
Karnataka	26882	111.3	10	90263	142.2	9	304474	179.6	4
Kerala	32351	134.0	6	97912	154.3	6	252662	149.1	8
Madhya Pradesh	15442	64.0	26	38497	60.7	26	132010	77.9	22
Maharashtra	36077	149.4	3	99597	156.9	5	252389	148.9	9
Odisha	17650	73.1	24	48387	76.2	21	143765	84.8	19
Punjab	33103	137.1	5	85577	134.8	12	181678	107.2	15
Rajasthan	18565	76.9	20	57192	90.1	17	150653	88.9	17
Tamil Nadu	30062	124.5	9	93112	146.7	8	277802	163.9	6
Telangana	24409	101.1	16	91121	143.6	7	312522	184.4	3
Uttar Pradesh	12950	53.6	27	32002	50.4	27	84126	49.6	27
West Bengal	22649	93.8	19	51543	81.2	20	139442	82.3	20
India: per capita NNP	24143	100.0		63462	100.0		169496	100.0	

Source: Handbook of Statistics of the States. 2023. Reserve Bank of India.

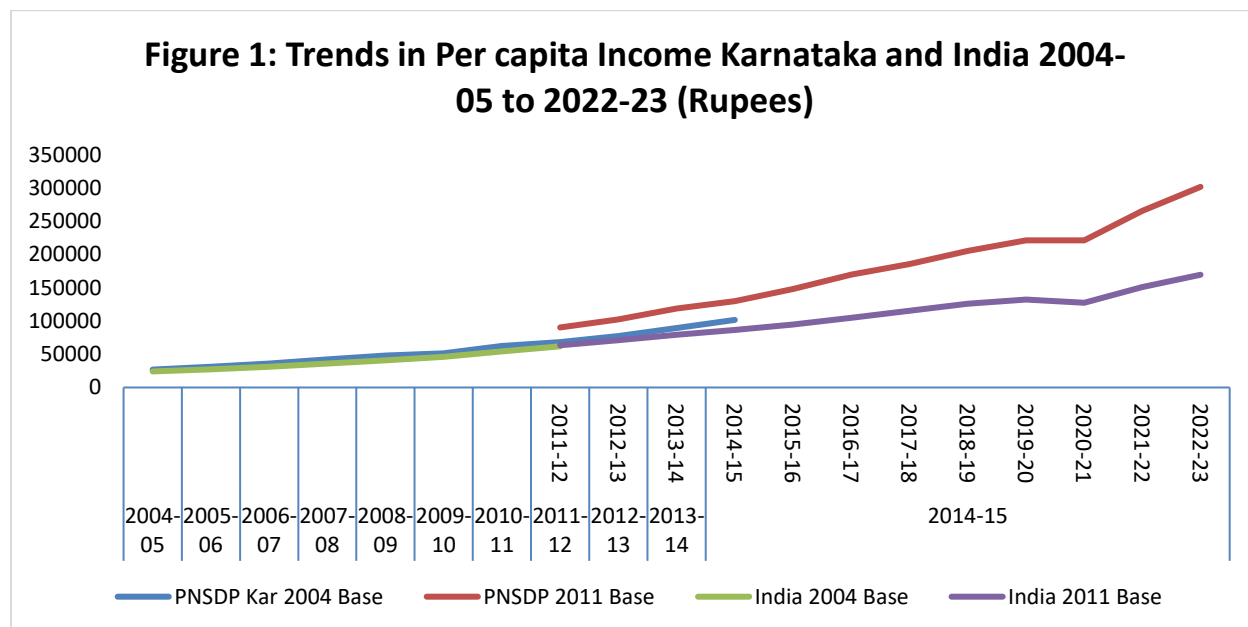
There are some shortcomings with both inter-state and inter-temporal comparisons of NSDP and it is important to take a cautious note on this. The data on State Domestic Products (SDP) released by the Ministry of Statistics and Programme Implementation (MOSPI), are not strictly comparable as these have been put together by the respective states, although by following a uniform methodology. Comparable SDP data are estimated by the MOSPI generally at the request of the Union Finance Commissions and continuous time series on this is not available. More serious is the problem with the time series data when the base year is changed. The changes are expected to incorporate improved methodology and to use new and better data sets available for estimation. While, by and large, the changes in the base year are not very disruptive, the story was different in the case Karnataka when the base year was changed from 2004-05 to 2011-12. While the difference in the average per capita income of the States in the aggregate was just about 10 per cent, in the case of Karnataka, the difference was the highest at 32.6 per cent. Thus, the per capita income of the State suddenly became higher in 2011-12 just as the base year was changed (Table 2, Figure 1)! This injects a measure of discontinuity to the time series comparisons. Although most time series comparisons make proportionate adjustment in the GSDP, it is important to take note of this discontinuity in the case of Karnataka.

**Table 2: Effect of Base Change in 2011-12 (Per Cent)**

Andhra Pradesh	6.53
Arunachal Pradesh	3.05
Assam	13.28
Bihar	-3.68
Chhattisgarh	14.08
Goa	22.63
Gujarat	1.75
Haryana	-0.22
Himachal Pradesh	16.67
Jharkhand	12.86
Karnataka	32.64
Kerala	18.32
Madhya Pradesh	3.54
Maharashtra	6.77
Manipur	18.01
Meghalaya	19.27
Mizoram	7.52
Nagaland	-16.89
Odisha	11.33
Punjab	11.29
Rajasthan	4.68
Sikkim	21.93
Tamil Nadu	4.56

Telangana	21.29
Tripura	-7.28
Uttar Pradesh	6.60
Uttarakhand	17.50
West Bengal	-3.45
All States	8.95

Source: Author's Estimate.



## 2.2. Inter-sectoral composition

Even when we consider the trend from 2011-12 in the sectoral composition of Gross State Value Added (GSVA), the changing pattern is clearly seen. The GSVA of Karnataka at current prices registered an annual growth of 12.4 per cent during the period from 2011-12 to 2023-24. This was mainly due to the services sector, which registered growth of 13.6 per cent on average. Interestingly the growth rate of agriculture was marginally lower than the aggregate growth at 12.2 per cent. In contrast, the industry sector grew about 9.4 per cent during this period. In terms of the composition, the shares of both primary and secondary sectors have shrunk, the latter much faster, over the years, and commensurately, the share of the services sector has shown a sharp increase in the total GSVA. The share of the primary sector declined from 13.7 per cent in 2011-12 to 11.7 per cent in 2024-25, and within the primary sector, the decline in the share of agriculture was from 10.1 per cent in 2011-12 to 8.5 per cent in 2023-24. The share of the secondary sector declined sharply from 29.5 per cent to 20.1 per cent during the period. Correspondingly, the share of the services sector has increased by over 11 percentage points from 56.8 per cent in 2011-12 to 68.1 per cent in 2024-25, which is the highest among the states. This differential inter-sectoral growth performance has its implications for distribution of incomes as well.

According to the PLFS Survey in 2020, 46.6 per cent of the workforce was engaged in agriculture but it generated less than 10 per cent of the GSVA while the employment in the services sector was 41 per cent which contributed 68.1 per cent.

**Table 3: Sectoral Composition of GSVA (Current Prices)**

<b>2004-05 Series</b>				
<b>Year</b>	<b>Primary</b>	<b>Secondary</b>	<b>Services</b>	<b>Total GVA</b>
<b>2004-05</b>	16.3	31.2	52.5	100.0
<b>2005-06</b>	17.1	30.5	52.3	100.0
<b>2006-07</b>	15.0	32.9	52.1	100.0
<b>2007-08</b>	14.8	32.7	52.5	100.0
<b>2008-09</b>	13.5	32.2	54.3	100.0
<b>2009-10</b>	14.2	29.8	56.0	100.0
<b>2010-11</b>	15.6	29.5	54.9	100.0
<b>2011-12 Series</b>				
2011-12	13.7	29.5	56.8	100.0
2012-13	13.0	27.9	59.1	100.0
2013-14	13.1	26.5	60.4	100.0
2014-15	13.1	24.6	62.3	100.0
2015-16	11.9	24.0	64.0	100.0
2016-17	11.0	24.8	64.2	100.0
2017-18	12.5	24.2	63.3	100.0
2018-19	11.4	24.2	64.4	100.0
2019=20	12.4	21.3	66.3	100.0
2020-21	15.2	20.9	64.0	100.0
2021-22	14.6	22.3	63.1	100.0
2022-23	12.7	20.9	66.3	100.0
2023-24*	12.0	20.7	67.4	100.0
2024-25**	11.7	20.1	68.1	100.0
Average Growth Rate 2011-25 (%)	12.2	9.4	13.6	12.4

*Source:* Directorate of Economics and Statistics, Government of Karnataka.

*Note:* \* First Revised Estimate; \*\* Advance Estimate

The analysis of growth of per capita NSDP at constant prices shows that Karnataka registered an annual average growth much higher than the all-States' average consistently during the last two decades (Table 3). The growth was steady at 6.4 per cent during the entire period from 2004-05 to 2022-23 as well as the during the two sub-periods 2004-5 to 2011-12 and 2012-13 -2022-23. To adjust for the discontinuity in the data due to the change in the base year (2011-12), the growth rate was estimated for the two periods separately for the period 2004-11 and 2011-23. The analysis of growth shows that among the general category states, the growth of per capita NSDP in Karnataka was the second highest during the period 2011-2023. And for the entire period from 2004-23, only Gujarat

and Tamil Nadu showed the growth higher than Karnataka . It is also seen that while the growth rate in both Gujarat and Tamil Nadu decelerated during the second period (2012-23), Karnataka continued to record the same growth during both the sub-periods. Thus, the growth in per capita NSDP was not only high but also steady during the last two decades. Not surprisingly, Karnataka growth performance was exemplary.

**Table 4: Per Capita NSDP Growth (Constant Prices)**

States	2004-2011 (2004-05 Base; 2004-05 Prices)	2011-2022 (2011-12 Base; 2011-12 Prices)	2004-2022 (Adjusted 2011-12 Base; 2011-12 Prices)
Andhra Pradesh	6.09	6.08	5.66
Bihar	8.16	3.02	4.94
Chhattisgarh	5.81	4.11	4.49
Goa	6.80	3.16	4.25
Gujarat	8.36	6.83	7.60
Haryana	7.23	4.62	5.85
Jharkhand	5.42	3.24	4.32
Karnataka	6.39	6.39	6.39
Kerala	7.23	4.12	5.31
Madhya Pradesh	6.31	4.71	5.50
Maharashtra	7.58	3.59	5.02
Odisha	5.02	5.84	5.24
Punjab	5.10	3.40	4.01
Rajasthan	6.71	3.38	4.84
Tamil Nadu	9.15	5.43	6.64
Telangana	8.99	6.18	6.74
Uttar Pradesh	4.97	3.44	3.99
West Bengal	5.30	3.38	3.82

*Source:* Estimated from Handbook of Statistics in States, Reserve Bank of India. 2023.

As mentioned above, the high growth in GSDP in Karnataka was propelled mainly by the Services sector. The inter-sectoral composition of the gross state value added (GSVA) shows that in 2022-23, the Services sector share in Karnataka at 66.3 per cent was the highest among the non-special category states. In contrast, the share of the secondary sector was just 20.9 per cent and that of the primary sector just 13.7 per cent. Within the primary sector, the share of the agriculture sector was just 9.7 per cent. It is also seen that there was an increase in the services sector share from 56.8 per cent in 2011-12 to 65.4 per cent and accompanying decline in the share of the secondary sector from 29.5 per cent to 20.9 per cent. The share of the primary sector has been constant at 13.7 per cent though within the sector, the share of agriculture declined from 9.7 per cent to 8.5 per cent. In other words, the sector continued to contribute 13.7 per cent despite the declining share in agriculture mainly due to increased contribution mining.

**Table 5: Composition of Gross Sectoral Value Added in States (Current Prices)**

State	2011-12			2022-23		
	Agriculture	Industry	Services	Agriculture	Industry	Services
Andhra Pradesh	14.9	32.2	40.9	14.3	25.7	39.3
Arunachal Pradesh	23.6	19.3	38.7	11.9	28.1	45.6
Assam	15.2	32.4	46.5	13.7	36.2	41.8
Bihar	17.6	18.8	55.5	11.8	19.1	56.2
Chhattisgarh	12.1	47.3	34.6	11.6	44.8	34.8
Goa	2.6	63.6	31.3	3.1	48.5	44.6
Gujarat	14.4	43.8	36.7	10.6	48.3	35.1
Haryana	14.9	31.6	44.9	8.8	30.6	51.1
Himachal Pradesh	9.7	44.2	39.0	8.2	42.3	44.1
Jharkhand	9.6	45.4	38.5	6.8	41.2	43.7
Karnataka	13.7	29.5	56.8	12.7	20.9	66.3
Kerala	8.6	28.2	57.5	4.1	24.6	65.2
Madhya Pradesh	24.1	30.9	39.1	32.3	21.5	35.9
Maharashtra	8.9	35.8	51.1	7.1	25.8	62.3
Manipur	10.8	15.4	64.8	15.6	10.2	68.1
Meghalaya	8.6	40.3	44.7	12.4	19.2	58.7
Mizoram	10.2	20.5	59.4	6.3	31.2	48.4
Nagaland	16.9	12.9	56.2	13.5	12.8	60.7
Odisha	11.6	43.6	38.5	11.2	45.0	35.6
Punjab	19.7	25.4	43.8	14.1	27.8	46.2
Rajasthan	17.6	32.7	38.7	12.8	27.4	45.3
Sikkim	7.2	62.9	28.8	7.2	61.7	29.7
Tamil Nadu	7.8	36.9	50.5	5.9	34.3	53.0
Telangana	9.6	30.9	52.8	8.3	18.8	64.4
Tripura	17.0	20.4	52.4	24.0	19.3	41.8
Uttar Pradesh	18.2	27.6	45.5	16.5	27.5	47.5
Uttarakhand	7.1	53.8	33.9	4.3	46.6	43.9
West Bengal	14.5	26.6	49.9	11.5	24.5	55.1
India	12.4	32.7	48.3	10.7	28.7	52.4

Source: Estimated from Handbook of Statistics in States, Reserve Bank of India.

The high and increasing share of the services sector has been mainly due to the exemplary growth of Information Technology (IT) and Information technology enabled services (ITES), with a heavy concentration in Bengaluru to be called a Silicon Valley of India. It is also seen that despite the government's efforts at promoting manufacturing and the increase in the share of the construction sector, the share of the secondary sector has shown a steady decline. Similarly, despite the heavy investment by the government in large irrigation projects over the years, the share of agriculture in the total value added has

steadily declined. It may be noted that Karnataka is the second most arid state in the country, next only to Rajasthan and despite large investments and political patronage, the productivity in agriculture is low. However, Karnataka is a leading state in both floriculture and horticulture with Bangalore and surrounding areas serving as the hub. The State was awarded “the Best State for Horticulture 2022” for promoting horticultural development and production during the 13th Agriculture Leadership Awards in 2022 and Bengaluru is a prominent hub for flower, particularly rose exports from India (Karnataka, 2025).

### **3. Uneven Development of Karnataka.**

#### **3.1. Lagging in human development**

Ironically, while Karnataka’s is almost on the top in terms of its rank in per capita income, its performances in other development indicators are not commensurate (Table 6). While the state ranked 4<sup>th</sup> in per capita NSDP (2 if only large general category states are considered), its rank in headcount ratio of poverty was 12<sup>th</sup> lowest (8<sup>th</sup> among large general category States). In terms of human development indicators, the State’s performance is not as impressive. Its rank in the proportion of underweight children below 5 years was 22 and stunted children aged less than 5 years was 21. The State ranks 20 in the drop out ratio at the secondary school level and in the proportion of literate population above 15 years is 20.

**Table 6: Development Indicators of States**

	Income Related 2022-23		Other Development Indicators						
	PCNSDP	Ag. Share	Headcount	Underweight	Stunted	Preg. Anaemic	Dropout ratio	Enrolment	Literacy
			Poverty (%)	Children <5 yrs (%)	Children <5 yrs (%)	women (15-49) (%)	seconda ry level (%)	Higher Sec. (%)	> 15 Years (%)
Andhra Pradesh	219881	14.29	6.06	29.8	31.2	53.7	16.3	56.7	68
Arunachal Pradesh	199992	11.85	13.76	15.4	28	27.9	11.7	53.7	80.6
Assam	119308	13.65	19.35	32.8	36.3	54.2	20.3	40.1	69.3
Bihar	53478	11.83	33.76	41	42.5	63.1	20.5	35.9	67.3
Chhattisgarh	137329	11.63	16.37	31.3	34.6	51.8	9.7	68.1	74.8
Goa	492648	3.11	0.84	24	25.8	41	9	73.7	94.4
Gujarat	272451	10.65	11.66	39.7	39	62.5	17.9	48.3	82.8
Haryana	296592	8.83	7.17	21.5	27.5	56.4	5.9	75.5	80.6
Himachal Pradesh	218788	8.19	4.93	25.5	30.8	42.2	1.5	94.1	86.5
Jharkhand	96449	6.81	28.81	39.4	39.6	54.8	9.3	46.4	74.6
Karnataka	304474	8.54	7.58	32.9	36.4	46.7	14.7	56.6	77.8
Kerala	252662	4.14	0.55	19.7	23.4	31.4	5.5	85	94.8
Madhya Pradesh	132000	32.29	20.63	33	36.7	52.8	10.1	51.3	72.6
Maharashtra	252389	7.12	7.31	36.1	35.2	45.7	10.7	71.5	85.1
Manipur	111853	15.59	8.18	13.3	23.4	32.4	1.3	69.9	38.6
Meghalaya	123896	12.40	27.79	26.6	46.5	45	21.7	46	94.3
Mizoram	215144	6.34	5.3	12.7	28.9	34	11.9	61.3	99.3
Nagaland	145537	13.46	15.43	26.9	32.7	22.2	17.5	35.8	94.4
Odisha	143765	11.19	15.68	29.7	31	61.8	27.3	43.6	75.6
Punjab	181678	14.06	4.75	16.9	24.5	51.7	17.2	82.1	81.4
Rajasthan	150653	12.84	15.31	27.6	31.8	46.3	7.7	70.4	68.3
Sikkim	520461	7.24	2.6	13.1	22.3	40.7	11.9	64.2	85.4
Tamil Nadu	277802	5.94	2.2	22	25	48.2	4.5	81.5	83.9

Telangana	312522	0.84	5.88	31.8	33.1	53.2	13.7	64.8	75.7
Tripura	157364	23.99	13.11	25.6	32.3	61.5	8.3	56.3	92.2
Uttar Pradesh	84126	16.45	22.98	32.1	30.7	45.9	9.7	50.7	72
Uttarakhand	230994	4.26	9.67	21	27	46.4	5	78.8	83.5
West Bengal	139442	11.46	11.89	32.2	33.8	62.3	18	62	80.6
India	169496	10.75	14.96	32.1	35.5	52.2	12.6	57.6	76.7
Karnataka's Rank	4	11.00	12	22	21	13	20	17	17

*Source:* 1. Sustainable Development Report 2023-24, NITI Aayog, Government of India,  
2. Handbook of Statistics of States, Reserve Bank of India.

Thus, the high growth in per capita NSDP seen in the last two decades and the improvement in the State's rank in per capita NSDP from 10 to 4 did not bring in commensurate performance in reducing poverty and improvement in human development. This is because, the increases in income levels were uneven resulting in higher inequality among people and regions. This is not surprising as changes in the sectoral composition of GSVA shows the steadily increasing share of the services sector and declining share of the manufacturing and agricultural sectors. A recent study shows that the estimated number of workers in the state is close to 3 crores and only 24.7 per cent of them is engaged in the formal sector (Akshatha, 2024). According to the Periodic Labour Force Survey (PLFS) Report 46.5 per cent of the workers are engaged in agriculture generating just about 9 per cent of the gross state value added in 2022-23 indicating the unevenness in the generation of incomes (Government of India, 2023)). A better understanding of this phenomenon requires more detailed analysis of the inter-regional differences in level of incomes and growth rates.

### **3.2. Inter-district imbalance in development: Outperformers and laggards**

Table 7 presents the per capita Net District Domestic Product (NDDP) in the State at constant (2011-12) prices for the years 2004-05, 2011-12 and 2022-23. The district development product information is estimated by the Directorate of Economics and Statistics, Government of Karnataka from 2002-03. Since the base years have changed in 2004-05 and again in 2011-12, inter-temporal comparison of per capita NDDP poses problems. However, our interest is to see the relative differences in per capita NDDP across districts, we have constructed the index of per capita NDDP for the districts taking average of the district product for the years 2002-03 and 2022-23.

The most significant story of Karnataka's development is the acute inter-district differences, and the divergence has been increasing steadily over the years. The coefficient of variation in per capita income among the districts was 0.39 in 2004-05, declined marginally to 0.36 in 2011-12 and increased sharply to 0.43 in 2022-23. The shares of every district in the State except for Bengaluru -Urban and Udipi declined over the years as seen from the index values of the per capita NDDP in the districts. Interestingly, in 2002-03, there were 10 districts in the State which were above the state average, but by 2022-23, there were only four. It is also seen that Bengaluru – Urban has been the fastest growing district increasing the index from 202 to 241 over the 20-year period. In fact, much of the economic activity in the State is concentrated in Bengaluru – urban and the two coastal districts and the share of the four districts in the State's NSDP has steadily increased from 39.6 per cent in 2004-05 to 48.3 per cent in 2022-23. The share of Bengaluru – Urban district alone increased from 29.5 per cent to 37.9 per cent during the period. Thus, the affluence of Karnataka can be characterised as the prosperity of Bengaluru and the two coastal districts and to some extent, the coffee growing district of Chickamagalur and the remaining parts of the states have continued to stagnate.

	Per capita NDDP (Rs)			Index: State Average=100		
	2005-06	2011-12	2022-23	2005-06	2011-12	2022-23
<b>Bagalkote</b>	36357	78041	132653	93.2	86.5	75.4
<b>Bangalore Urban</b>	86507	185767	443876	221.8	205.8	252.4
<b>Bangalore Rural</b>	30528	95787	170244	78.3	106.1	96.8
<b>Belgaum</b>	23873	54114	84012	61.2	60.0	47.8
<b>Bellary</b>	44158	77760	169725	113.2	86.1	96.5
<b>Bidar</b>	21328	49614	84042	54.7	55.0	47.8
<b>Bijapur</b>	23070	51077	90886	59.2	56.6	51.7
<b>Chamarajanagar</b>	30237	70818	115463	77.5	78.5	65.6
<b>Chickballapur</b>		66617	113488	0.0	73.8	64.5
<b>Chikmagalur</b>	54573	124460	218373	139.9	137.9	124.1
<b>Chitradurga</b>	23966	51790	95314	61.5	57.4	54.2
<b>Dakshina Kannada</b>	77014	156164	302385	197.5	173.0	171.9
<b>Davangere</b>	28039	58728	99211	71.9	65.1	56.4
<b>Dharwad</b>	32986	76745	136927	84.6	85.0	77.8
<b>Gadag</b>	28908	60551	99603	74.1	67.1	56.6
<b>Gulbarga</b>	22919	45101	77130	58.8	50.0	43.9
<b>Hassan</b>	30848	79114	137043	79.1	87.6	77.9
<b>Haveeri</b>	27912	59190	87762	71.6	65.6	49.9
<b>Kodagu</b>	38279	102471	151902	98.2	113.5	86.4
<b>Kolar</b>	25787	69007	109332	66.1	76.5	62.2
<b>Koppal</b>	30066	54401	83942	77.1	60.3	47.7
<b>Mandya</b>	34826	85749	139234	89.3	95.0	79.2
<b>Mysore</b>	27833	65218	121229	71.4	72.3	68.9
<b>Raichur</b>	25280	51951	91595	64.8	57.6	52.1
<b>Ramnagara</b>		84883	148263	0.0	94.0	84.3
<b>Shimoga</b>	40022	87943	160374	102.6	97.4	91.2
<b>Tumkur</b>	32338	81757	142049	82.9	90.6	80.8
<b>Udupi</b>	46779	127780	251000	119.9	141.6	142.7
<b>Uttara Kannada</b>	30906	69408	123636	79.2	76.9	70.3
<b>Vijayanagara</b>			92029			52.3
<b>Yadgir</b>		46130	85578		51.1	48.7
<b>State</b>	39000	90263	175895	100	100	100

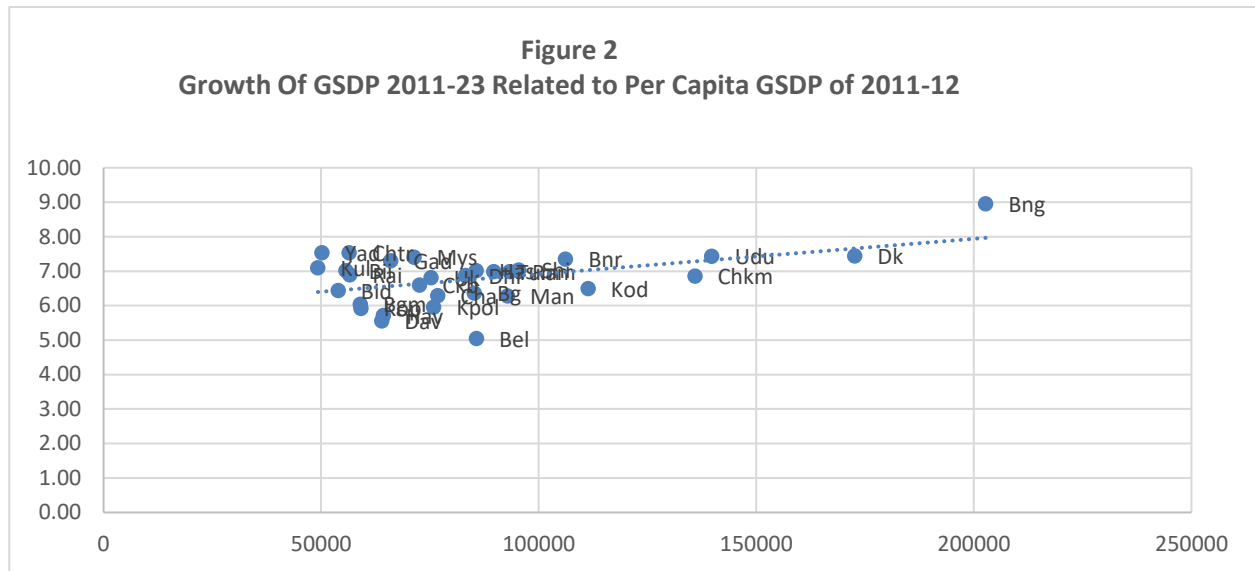
Source: Department of Economics and Statistics, Government of Karnataka.

**Table 8: Income Shares of Four High Income Districts**

	2004-05	2011-12	2022-23
Bengaluru Urban	29.45	32.41	37.85
Dakshin Kannada	5.69	5.92	5.51
Udupi	2.13	2.73	2.61
Chikamagalur	2.30	2.57	2.33
Total	39.58	43.63	48.30

Source: Department of Economics and Statistics, Government of Karnataka.

The growing divergence in the income levels between the districts comes out clear when we plot the growth in NDDP between 2011-12 to 2022-23 against per capita income levels in 2011-12 shown in Figure 2. The positive slope indicates that the growth of district domestic product (DDP) was higher in states with higher per capita DDP. It is also seen that Bengaluru-urban is an outlier - shows a much higher growth than the trend seen in the slope.



Thus, the story of Karnataka is that much of the economic activity is in Bangalore, the coastal districts of Dakshin Kannada and Udupi, and Chickamagalur. The rest of the state continued to stagnate and not surprisingly, reduction in poverty and improvement human development in the State was not commensurate with the increasing per capita NSDP. It is also seen that an overwhelming proportion of the growth in these districts was in the services sector. This raises curiosity on the reasons for the emergence of Bangalore as the “Silicon city”. Similarly, it is important to understand the reasons for the emergence of the erstwhile South Kanara district which was later bifurcated into Dakshin Kannada and Udupi districts as the banking hub and the dominant private sector dynamism in the region. The development dynamics in both Bangalore and the coastal districts have important insights to offer.

Thus, Karnataka State has progressed in terms of generating incomes mainly due to the dynamism in Bengaluru city, the two coastal districts and the plantation centered Chickamagalur, but other districts have stagnated. In fact, in 2022-23, the share of the three districts of Bengaluru – urban, Dakshin Kannada and Udupi in the DDP was 46 per cent. Bengaluru is clearly an outperformer in per capita NSDP growth and its share in the DDP in 2022-23 was 38 per cent, up from 29.5 per cent in 2004-05. Interestingly, Bangalore was a sleepy town in the 1970s and 1980s, with a salubrious climate, affordable real estate prices and peace-loving cosmopolitan population was a paradise for the retirees from all over the country to move in and settle. The transformation of this town to a fast-paced metropolis was nothing short of a miracle. The revolution was the result of the 1991 reforms, and with the essential eco-system for the fast paced growth of the services sector in place, the city could leverage on the liberalized environment to record spectacular growth. Interestingly, with the fast paced growth of service sector activity besides high growth in incomes, there has been large scale migration of skilled personnel to the city putting enormous pressure on the urban infrastructure and services. Consequently, the state government and more particularly, the municipal corporation could not keep pace with the transformation, and the city grew largely in an unplanned manner. The response of the authorities was to mainly in terms of reacting to the situation rather than to proactively plan for growth of the

city. The salient features of Bangalore emerging as the hub of the modern services centre is featured in Box 1.

### Box 1

#### **The Eight Factors Contributing to Bengaluru as a Growth Pole**

##### **1. The knowledge ecosystem, scientific institutions and largest technical pool:**

Bengaluru is a knowledge hub creating the largest pool of scientific and technical personnel. The Indian Institute of Science established 1909 by a visionary partnership between Jamsetji N. Tata, the Mysore royal family and the Government of India has continued to be premier knowledge and innovation institution. The city has 212 engineering colleges of which 189 are privately owned. There are more than 200 medical colleges. Besides, there are about 650 colleges in the city. There are advanced technical and management institutions like Indian Institute of Information Technology and Indian Institute of Management, National Centre for Biological Sciences (NCBS), Ashoka Trust for Research in Ecology and the Environment (ATREE), Raman Research Institute, National Aerospace Laboratories, National Institute of Mental health and Neurosciences and Jawaharlal Nehru Centre for Advanced Scientific Research (JNCASR).

**2. Elite Public Sector Institutions:** Bengaluru is a host to the headquarters of several elite public sector undertakings such as Bharat Electronics Limited (BEL), Hindustan Aeronautics Limited (HAL), National Aerospace Laboratories (NAL), Bharat Earth Movers Limited (BEML) and the headquarters of Indian Space Research Organization (ISRO) and U. R. Rao Satellite Centre, Bangalore has strong R&D centres of ABB, Airbus, Bosch, Boeing, GE, GM, Google, Liebherr-Aerospace, Microsoft, Mercedes-Benz, Nokia, Oracle, Philips, Shell, Toyota, and Tyco.

**3. Natural Choice for IT Capital:** With the ecosystem attracting the brightest technology professionals, new age professional entrepreneurs, and the largest technical pool in the country Bengaluru has become a natural choice for leading the boom in IT and ITeS.

**4. Salubrious climate:** Located on the Deccan Plateau at a height of 3000 ft above the sea level, Bengaluru is known for its healthy and pleasant climate throughout the year. Until the new millennium, Bengaluru was Called a pensioner's paradise due to its pleasant climate, green spaces and affordable housing.

**5. Cosmopolitan, Multilingual and Multicultural Population:** Bengaluru is the most diverse linguistic and cultural city. According to the 2011 census, as many as 107 languages were spoken in the district. The Kannada speaking population in the city was just about 44.5 per cent. Bordering TN and AP, and with a large migrant population from the north, Bengaluru is the most diverse city promoting social interactions.

**6. Strategic Location.** Bengaluru borders Tamil Nadu and closely accessible from Southern and Southwestern regions of Andhra Pradesh. In fact, most people from cities closer to Bengaluru find it their home city.

**7. Responsive Bureaucracy:** The bureaucracy has been responsive and sensitive to the needs of the entrepreneurs and institution builders. The incident of the then industries

secretary personally helping a professor in Physical Research Laboratory, Ahmedabad to facilitate the setting up of the Satellite Centre in an industrial estate in Peenya on the outskirts of Bengaluru city and facilitate his interactions with industries and institutions in Bengaluru to start the work on Aryabhata, the first Indian satellite (Rao, 2014). Similarly, in 1983, when Mr. Narayana Murthy, one of the founders of Infosys was struggling to raise funds for setting up the company, even as Citibank, Bank of America and a few other banks refused the loan of Rs 50 lakh, Karnataka State Finance Corporation and Karnataka State Industrial Investment & Development Corporation provided the required funds.

**8. Connectivity:** Bengaluru is a well-connected city. The airport has air connectivity to most global hubs and the city has good rail and road connections as well. Even the ports of Mangalore and Chennai are not too far and accessible.

### **3.3. Private Sector Led Development in the Coastal Region of Karnataka.**

The fast-paced growth experience in the two coastal districts, Dakshin Kannada and Udupi makes an equally interesting story. In the growth performance of these districts the government hardly played any role. The people in the two districts had to depend on their own initiative rather than looking up to the government for support. The erstwhile district of South Kanara on the West Coast included in Karnataka at the time of reorganization was a part of Madras Presidency with its capital located 700 kms away on the east coast of Madras (now Chennai). The South Kanara district was later bifurcated into Dakshin Kannada and Udupi in 1997. The lack of proximity to the government, in some ways, was a blessing in disguise. There were no government employment avenues nor any assistance or patronage to be sought and the people in the region and they had to depend on their own initiatives. This led to the emergence of local businesses and entrepreneurs filling the void. The large number of temples and a significant brahmin population led to the emergence of skilled cooks and many of them migrated to places all over the country to set up fast food Udupi restaurants (Tumbe, 2018). The first self-financing private medical college in the country came up in Manipal a small hilly terrain in the outskirts of Udupi. The fascinating journey of the district as a cradle of banking started in 1906 when the two prominent banks, the Corporation Bank and Canara Bank were established which was soon followed by Syndicate Bank and Vijaya Bank, in 1926, all within a diameter of 50 Kms around Mangalore and Udupi. While addressing a Bank Economists' conference in 1981, Dr. I. G. Patel stated, "For anyone connected with banking, this one district of South Kanara is like a banking country where one comes on a pilgrimage to see what has been done. It is not merely the home for four public sector banks. ....Innovative banking developmental banking, banking essentially for small and middle sized man rather than the big industrialist or the big trader." (Agarwal, 2022; p.7). The resource scarcity and the cluttering of the region between the Arabian sea on the one side and mountainous range of Western Ghats on the other was adequately compensated by the enterprising nature of the people, emphasis on education and health, and migration of skilled manpower. The interesting features of private sector led inclusive growth in Dakshin Kannada and Udupi districts are summarised in Box 2.

## Box. 2

### Coastal Karnataka: Private Sector Led Development

A good example of private sector led development experience is seen in the two coastal districts of Dakshin Kannada and Udupi districts. Before Independence, they constituted a single district (South Kanara) and was a part of Madras Presidency. In the States Reorganization, it was included in the state of Mysore which was renamed as Karnataka in 1973. The district was bifurcated into Dakshin Kannada and Udupi in 1997.

As a part of Madras Presidency there was hardly any presence of the government, with its capital located 700 kms away on the east coast. After it became part of Karnataka too, the state government presence in the region was very little due to the distance and problems of connectivity due to the Western Ghats. Given the high density of population, people looked up to Mumbai for livelihood opportunities. There was not much rail connectivity and yet, there were about 150-200 private “luxury” buses plying between Mangalore and Mumbai covering the distance of 1200 kms every day from the mid-1960s until Konkan railway became operational in 1998.

There were five distinct features of developmental dynamics of the region: (i) Active migration of skilled people and large remittances; (ii) Strong private sector orientation and less dependence on the government; (iii) Emergence of a number of commercial banks, community-oriented banking, female employment and focus on financial inclusion; (iv) High levels of education, particularly female education and healthcare; (v) Decentralised development based on local resources.

Historically, there was a considerable emphasis on education. The entire region has a vibrant temple culture. Udupi, the temple town was founded by sage Madhwacharya (the proponent of ‘Dvaita’ or dualism philosophy) in the 13<sup>th</sup> century. It has the famous Sri Krishna temple surrounded by two Shiva temples and eight monastic establishments (*Mathas*). As the place had significant brahmin population (10 per cent in 2011), the frequent religious ceremonies and several temples resulted in the acquisition of culinary skills, who migrated to places all over the country establishing fast food restaurants (Udupi hotels). Later, the bunts community, entered the fray to establish restaurants in faraway areas (Iverson and Raghavendra, 2006).

The second wave of migration took place when the enterprising members of ‘Goud Saraswat’ Community, started commercial banks, which was followed by the bunts and the brahmins. Curiously, the small place became a cradle for banking activity with four of the nationalized banks emerging in a region within the diameter of 50 Kms! The first two banks, the Canara Bank and the Corporation bank started in 1906 and the Syndicate Bank and Vijaya Bank came into existence in 1926 (Agarwal, 2023). Interestingly, the Corporation bank was started by a Muslim, but was later taken over by a Goud Saraswat brahmin. As there were no big businesses, the banks mobilised deposits from households and small businessmen by nudging them to save some part of their earnings and collecting the deposits through the agents on a daily basis and lent money to small traders. Besides creating a network of rural branches in the region, they had innovative schemes like “Pigmy” deposit scheme of the Syndicate Bank and Nitya Nidhi scheme of the Canara Bank and created door to door banking service for the daily wage earners, farmers, small traders,

nudging them to save some, howsoever small, part of their earnings, thereby achieving financial inclusion. Profitability was achieved by minimizing the transaction cost by hiring young girls and persons from the community immediately after their passing the matriculation and training them to avoid labour militancy in head offices and customer orientation in branches. It had a spillover effect of improving female literacy, marriage age of the girls and decline in fertility. The skilled population had an additional channel for migration to the gulf region resulting a large volume of remittances. Thus, the region had a concentration of community-oriented banking activity. There were five large community based commercial banks within a diameter of 50 kms in the Udupi-Mangalore region and four of which were big enough to be nationalised (Canara, Syndicate, Corporation and Vijaya bank). The region had a limited presence of the government except in schooling and creating road connectivity. The first private medical college and multi-speciality hospital in the country was established in Manipal, a hilly terrain in the outskirts of Udupi town. An important feature of the two districts is the large number of private medical and engineering colleges.

An interesting case of decentralized development in the region is the commercial growing of the Jasmine flower. Mangalore Jasmine is a GI tagged flower extremely cherished by the local community. Fr. Basil Salvadore Peris, a parish priest initiated the cultivation of the flower in 1934, The cultivation of the flower has now spread into many parts of Udupi and Mangalore (See, Rashmi Gopal Rao, "The allure of Udupi Mallige", <https://rashminotes.com/2023/09/26/the-allure-of-the-udupi-mallige-jasmine/>, The Hindu, September 26.2023). The bushes are grown in places around the houses, the buds plucked every morning by the women and kneaded in the banana stem fibres, and taken to the collection centres located in proximity. As the flower arrives in Shankarapura (near Udupi) market, the price is set and transmitted to the markets through an android mobile app (<https://www.deccanherald.com/india/karnataka/mallige-on-mobile-3368009> . January 25, 2025). This has ensured financial stability and empowerment of several women in households between Mangalore and Udupi.

No wonder, the place is rich both culturally and materially.

Besides Bengaluru – urban and the two districts of coastal Karnataka, the two districts on the western ghats – Coorg and Chickamagalur have shown a reasonably high growth. Coorg is on the foothills of the western ghats and is known for its warrior class and own language and traditions. Both the districts have predominant plantation economy producing 60 per cent of coffee produced in the country and a significant of pepper and other spices. As over 70 per cent of the coffee produced in the region in these districts is exported, their earnings depend upon the international prices of coffee.

In contrast to the fast-paced development experience cited above, much of North Karnataka which include the districts belonging to the erstwhile Hyderabad Karnataka (now called *Kalyana Karnataka*) and Bombay-Karnataka (now called *Kittur Karnataka*) region, have continued to remain backward creating a serious North-South divide in the state. It is argued by the activists in the north Karnataka region that while the districts under the erstwhile Mysore royalty have progressed mainly due to their better political

domination and more focused development efforts including public spending on infrastructure and services, the northern Karnataka has suffered neglect. The fact however, remains that backwardness in the region is rooted in historical legacy and the poor structure of incentives arising from the nature of institutions.

### **3.4. Human development Index in the Districts of Karnataka.**

As mentioned earlier, while Karnataka's performance in economic growth and per capita NSDP has been commendable, the record in human development index (HDI) the achievement is underwhelming. The district-wise analysis for 2019-20 shows that the situation is precarious in most of the northern districts of the State (Table 9; Figure 3). The HDI is estimated by taking the geometric mean of the three-dimensional indices namely, Index of health, Index of Education and Index of Income.<sup>3</sup> The estimated HDI classified in terms of four quartile groups in terms of final value of presented in Table 9 shows that the HDI composite index is almost identical to the Income index as it carries one-third weight and the values of other health and education indexes are not high. However, a closer examination of health and education index shows that there are some differences. By and large, the districts with low income index also have low educational and health achievements. The two high income districts in the highest (fourth) income quartile group, Shivamogga and Dakshin Kannada are in the lowest (first) health quartile group. Even Bengaluru ( Rural) which has the highest value in income index, is in the second (lower middle) quartile group in health index. Among the lowest income quartile group, the districts of Bidar is in the fourth (richest) quartile group in health index.

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<sup>3</sup>  $HDI = (I_{\text{health}} * I_{\text{Education}} * I_{\text{Income}})^{1/3}$ .

The dimension index is estimated as: (Actual value - minimum value)/ maximum value - minimum value).

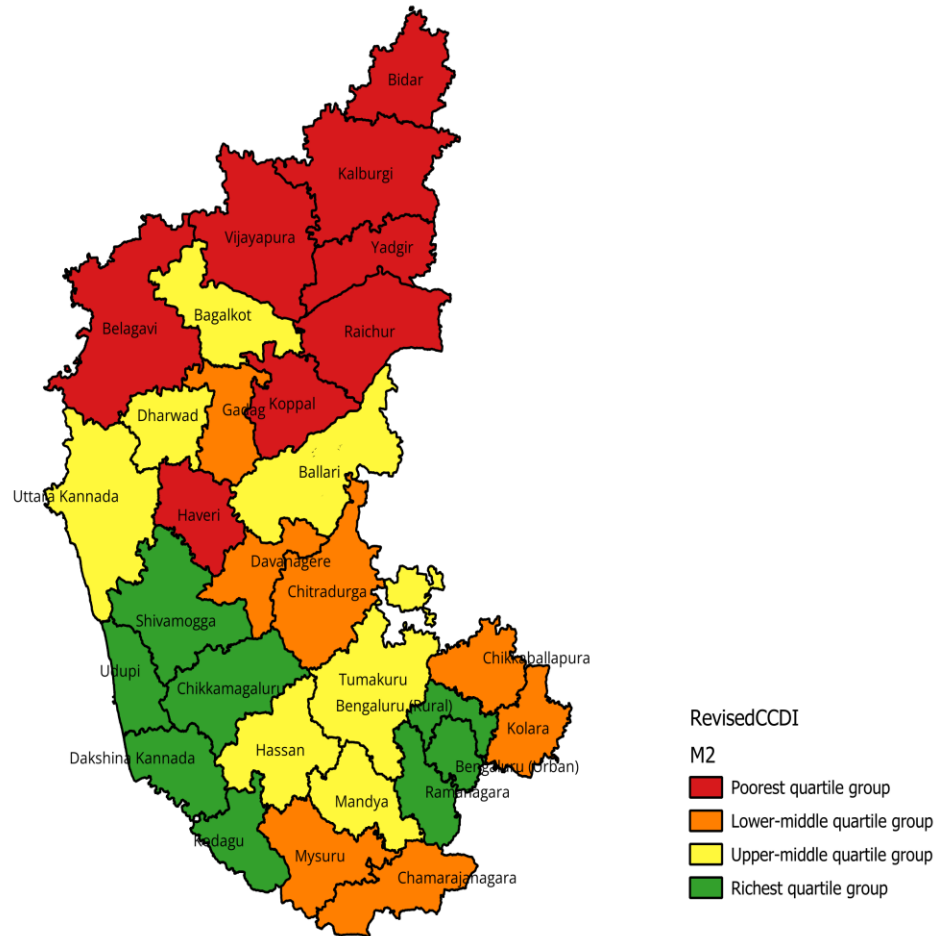
**Table 9: Human Development Index in the Districts in Karnataka 2019-20**

	Sl. No	District	Income Index	Health Index	Education Index	HDI
<b>Poorest</b>	1	Yadagiri	0.533	0.764	0.382	0.538
	2	Kalaburagi	0.514	0.726	0.42	0.539
	3	Raichur	0.535	0.742	0.448	0.562
	4	Haveri	0.533	0.762	0.446	0.566
	5	Davangere	0.538	0.749	0.508	0.589
	6	Koppal	0.524	0.765	0.52	0.593
	7	Chitradurga	0.541	0.757	0.519	0.597
	8	Vijayapura	0.532	0.771	0.524	0.599
<b>Lower-Middle</b>	9	Bidar	0.527	0.772	0.532	0.600
	10	Belagavi	0.529	0.751	0.546	0.601
	11	Chamarajanagar	0.573	0.776	0.488	0.601
	12	Dharwad	0.601	0.708	0.533	0.610
	13	Ballari	0.601	0.73	0.523	0.612
	14	Tumakuru	0.606	0.759	0.506	0.615
	15	Gadag	0.559	0.767	0.563	0.623
<b>Upper-Middle</b>	16	Hassan	0.598	0.769	0.528	0.624
	17	Mysuru	0.577	0.759	0.557	0.625
	18	Chikballapur	0.558	0.768	0.577	0.628
	19	Bagalkote	0.594	0.774	0.542	0.629
	20	Uttara Kannada	0.586	0.775	0.556	0.632
	21	Shivamogga	0.623	0.755	0.547	0.636
	22	Kolar	0.567	0.771	0.599	0.640
<b>Richest</b>	23	Ramnagara	0.615	0.761	0.565	0.642
	24	Bangalore Rural	0.625	0.762	0.557	0.643
	25	Mandya	0.607	0.764	0.575	0.644
	26	Kodagu	0.616	0.768	0.619	0.664
	27	Udupi	0.684	0.76	0.566	0.665
	28	Chikkamagaluru	0.672	0.77	0.576	0.668
	29	Dakshina Kannada	0.720	0.757	0.595	0.687
	30	Bangalore Urban	0.770	0.77	0.678	0.738
		State	0.6340	0.759	0.5550	0.6440
		1ST QUARTILE	0.536	0.757	0.519	0.599
		2ND QUARTILE	0.582	0.763	0.544	0.623
		3RD QUARTILE	0.613	0.770	0.566	0.641

Source:- GOK(2022): *Karnataka Human Development Report-2022*,Pg.33-34

Figure 3:

Revised CCDI 2019-20: Districtwise



The results of the spread of districts in education performance are similar, though less pronounced as compared to the health index. There are two districts in the highest income quartile group but placed in the second quartile group in education index (Ramanagara and Bengaluru – rural). Similarly, two districts in the lowest income quartile group are in the highest education index group (Chikballapur and Kolar). This analysis helps to identify the focus areas for policy intervention to reduce disparities.

### 3.5. High Power Committee for the Redressal of Backwardness.

The developmental pattern in the State we see today has its roots in the States Reorganization based on linguistic consideration in 1956. As mentioned earlier, the State was reorganized by combining the kannada speaking parts of Bombay Presidency, those parts of territory ruled by the Nizam of Hyderabad and the West Coast areas which were under Madras Presidency, the state of Coorg which was directly under the British with the princely state of Mysore. When reorganized, the stated was called the Mysore State, but

was later renamed as Karnataka in 1973. These different constituents amalgamated into the State had widely varying economic, social, cultural and physical characteristics. With vastly different endowments, infrastructure, governance systems and the nature of institutions, there were significant differences in the level of social and economic development. After the economic liberalization, as private investments flowed to areas with better infrastructure and services, the divergence became much more pronounced. Understanding this diversity is important to understand the dynamics of development in the State.

Concerned about the widening regional imbalances in Karnataka, the government appointed a High Power Committee (HPC) to recommend measures to redress economic imbalances in the State chaired by Dr. D. M. Nanjundappa, the then Deputy Chairman of the State Planning Board in 2000. The Committee took taluk (block) as the unit of analysis and worked out a Composite Index of Development using 35 economic indicators relating to agriculture, industry, services, education and healthcare sectors. Of the 175 taluks, 114 were considered backward comprising of 39 most backward, 40 more backward and 35 backward. In terms of the geographical spread, 59 backward taluks were in the northern Karnataka which were in the Kalyana Karnataka and Kittur Karnataka regions and 55 were in South Karnataka, located in Mysore and Bangalore divisions. The committee recommended an additional expenditure of Rs. 31000 crore over a period of 8 years from 2004 to 2012, of which Rs. 15000 crore was to be spent on the regular plans and an additional Rs. 16000 crore to be spent as a special development plan in the four divisions of Kalaburagi (Gulbarga) Belagavi, Mysore and Bangalore in the ratio of 40 per cent, 20 per cent, 15 per cent and 25 per cent respectively in the four divisions.

There are a number of methodological shortcomings with the way backwardness was measured by the HPC. First, per capita income is not one of the measures taken to measure development or backwardness. Second, except for literacy rate, none of the indicators taken to measure represent development output/outcomes; all the indicators taken relate to inputs and infrastructures. Third, in the framework adopted by the HPC, the private sector does not have any role and the recommendations and the HPC recommendations do not touch upon the policies to incentivise the participation of the private sector in development. Fourth, the allocation of additional funds was not related to the infrastructure deficits in taluks. The sector-wise break up shows that over 60 per cent was to be spent on the three sectors of agriculture, rural development and irrigation and education, healthcare and connectivity received much less focus. Fifth, even though taluk was taken as the unit to determine the backwardness, the allocation of funds for its redressal was done to the divisions – not even to the districts, by aggregating the estimated Comprehensive Composite Development Index of taluks to districts and those of the districts to divisions. This left considerable scope for political intervention in the allocation and spending. Furthermore, allocation to the sectors was not based on any estimate of infrastructure and services deficits.

The Government of Karnataka, after a detailed examination of the report and bowing to the pressure from the backward regions decided to introduce a Special Development Plan (SDP) from 2007-08, which has continued. From 2007-08 to 2023-24, the state government has incurred an additional expenditure of Rs. 30611 Crore at current

prices, but this works out to Rs. 14195.59 Crore at constant prices, which is 45.8 per cent of the recommended amount by the HPC. In terms of its impact, the district-wise analysis shows that there is hardly any change from the pattern of development over the years as seen from Table 9. In terms of per capita incomes, as mentioned earlier, the inter-district inequalities have shown a steady increase as seen in the coefficient of variation and the number of districts which are above the average per capita incomes have diminished from 10 to 4.

### **3.6. Extreme Backwardness: The Case of Kalyana Karnataka Region.**

According to the HPC, among the four divisions in Karnataka, Kalaburagi was found to be the most backward. In this division, of the 32 taluks, 22 were the most backward, 5 were more backward and 2 were considered backward. Only 3 taluks were identified as forward taluks. Considering the extreme backwardness in the region, Kalyana Karnataka Regional Development Board was created in 2013 by amending the Constitution (Article 371 J). The objective of the Board was to accelerate holistic development of the backward regions of the state represented by 41 Assembly constituencies and to achieve a balanced development of the region on par with developed districts of the state. A number of development works were initiated by the Board in 5 sectors namely, agriculture, industry physical infrastructure, social infrastructure and financial and technical infrastructure. During the period from 2014-15 to 2024-25, the State government allocated Rs. 19778 crore for various projects in the five sectors and actually incurred the expenditure of Rs. 11174 Crore<sup>4</sup>. The state cabinet has decided to allocate Rs. 5000 crore every year for the next four years. The Legislature has passed a resolution demanding the Union government to allocate equal amount of funds as a special grant on September 16, 2024, which has not materialized so far. Despite these efforts, not much improvements in redressing the backwardness is seen in the region.

## **4. Government Policy in Accelerating Growth:**

The important features of Karnataka's development are (i) there has been a spectacular growth in per capita income over the years. From being less than average per capita income state in the early 1990s, the state has recorded the highest growth during the last two decades to achieve the second highest ranking in 2022-23. (ii) the growth of GVA in the state was propelled mainly by the services sector and the shares of both agriculture and industry have declined over the years. This has implications for employment, skill requirements and migration. With the concentration of 46 per cent of the workforce, agriculture contributing less than 10 per cent of GVA and the Services sector with 33.7 per cent of the workforce contributing nearly 70 per cent of the GVA, there is high degree of inequality and disproportionate demand for urban infrastructure. (iii) The increased income levels have not been translated in terms of improvement in human development. Many of the human development indicators show that the State lags many states in

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<sup>4</sup> See, <https://timesofindia.indiatimes.com/city/bengaluru/10-years-of-special-status-kalyana-karnatakas-mixed-progress-in-development/articleshow/113607245.cms>

headcount measure of poverty, education and health indicators. (iv) An important reason for this imbalance is the uneven level of growth in incomes across regions within the State. While in the early 1990s, there were as many as 10 districts with above the state average per capita incomes, in 2022-23, there were only three districts besides Bengaluru (urban). In other words, the economic growth in the state is concentrated in the metropolitan city of Bengaluru, and the two coastal districts of Dakshin Kannada and Udupi and the coffee growing district of Chickamagalur. There has been a steady increase in the coefficient of variation in inter-district per capita incomes from 0.36 in 2011-12 to 0.43 in 2022-23. The role of the state government policy in the development of different sectors of the state is briefly discussed below:

#### **4.1. Agriculture:**

What was the role of public policy in general and that of the State government in the developmental process in Karnataka? Answering this is important to design the policy interventions to redress backwardness in large parts of the state which continue to suffer from lack of development in many respects. It is also important to sustain the development process by creating employment avenues to the overwhelming proportion of population depending upon agriculture and earning meagre incomes. The excessive employment concentration in agriculture has brought about a sharp difference in rural-urban incomes and has put pressure on the state to provide education, skill development and healthcare to a very large proportion of the population. Drawing the overwhelming proportion of low income earning agriculture labour into labour intensive manufacturing and services sectors in a situation where the employment elasticity of investment in manufacturing has shown a decline and emerging challenges with the spread of artificial intelligence will be challenging. At the same time, as less than one-third of the workforce employed in the high paying services sector, and with the increasing income inequality creating heavy demands on urban infrastructure and services, the State government has not been able to satisfactorily meet the challenges. The fast paced development of the metropolitan city of Bengaluru has placed heavy demands on various semi-skilled services causing higher wages and drawing heavy migration of people to the city not only from the rural areas of the neighboring states but also from the northern and eastern states. The consequence of these factors is to create excessive pressure on urban infrastructure and services such as roads, housing, public transport, water supply and garbage disposal. The state government and the municipal corporation are neither able to predict and plan, nor have the financial resources to meet the challenges adequately. The state government has been reacting to the situation rather than predict and plan for development. The infrastructure woes in Bengaluru city that is pointed out often is the direct result of this pattern of development and the difficulties faced by the state to respond to the emerging situation. Not surprisingly, these problems in Bengaluru city have become a constant source of complaints. With heavy skilled and technical requirements on the employees joining the workforce coupled and with labour saving modern technological developments, the state must make significant changes to its policy framework to meet future challenges.

In Karnataka, traditionally, two prominent castes have been numerically strong and political dominant—*Vokkaligas* in south Karnataka and *Lingayats* in the north. *Vokkaligas*

are predominantly farmers and hence the policy focus was agriculture and irrigation. The Krishna Raj Sagar dam across the river Cauvery was built during 1911-31. At the time of the states reorganization, the net sown area in the state was 7.5 lakh hectares and 71 per cent of the area under irrigation was in south Karnataka. While the focus on irrigation continued, the dominant political class in north Karnataka demanded larger investments in irrigation. Consequently, the ratio of net irrigated areas in the state increased from 7.5 lakh hectares to 24.8 lakh hectares by 2020-21. Large investments were made to enable the northern districts of the state to catch up with the southern part and the ratio of irrigated area to gross cropped area in northern Karnataka increased from 3 per cent at the time of the state's reorganization to 24.3 per cent whereas, in the southern part, it increased from 16.5 per cent to 25.6 per cent (Government of Karnataka, 2002). The focus on investment in irrigation has continued and in 2020-21, the ratio of gross irrigated area to gross cropped area was 40.7 per cent (Government of Karnataka, 2025. P. 224).

The focus on irrigation and the ushering of green revolution in the late 1960s and early 1970s helped to increase food output in the state, but the sector has stagnated in the latter years. While the advocacy for larger investments in the sector has continued, the value added in the sector in total gross value added in the state declined to 15.5 per cent in 2005-06 to 8.5 per cent in 2023-24. A considerable part of the increase in value added in agriculture was not due to the growth in foodgrains or sugarcane, the two heavy water intensive crops grown in the river deltas, but in horticulture and animal husbandry. The inability to levy charges for the irrigation water and supply of free electricity to the farmers has led to the adoption of predominantly water intensive crops in the river deltas and with use of excessive and unbalanced chemical fertilizers, has enhanced salinity, reduced degraded the soil health and fertility and this has created the problem of sustainability and stagnation in the food sector. The farmers in the delta have no incentive to change the cropping pattern. There is an attempt to incentivize horticulture in the dry regions of the state and according to the Economic Survey 2024-25, it has contributed about a third of the income from agriculture and allied activities. The areas in the district, Bengaluru-rural have adopted floriculture. Plantation crops like coffee and spices and important in Kodagu and Chickamagalur districts. Focus on dairying has helped the rural households to supplement their incomes and fisheries are important in the coastal areas of the state. The major concern, however, is that about 46 per cent of the workforce and income from the sector is just about 8.5 per cent. More importantly, the policy of free power and water for irrigation threatens stagnancy in farm incomes, declining agricultural productivity and sustainability.

## **4.2. Industry**

The contribution of industry in GSVA has shown a steady decline from 29 per cent in 2011-12 to 20 per cent in 2022-23. This is partly because, unlike Maharashtra, Gujarat and Tamil Nadu, manufacturing activity was not very significant in Karnataka. The only major industry in the state, the Visveswaraya Iron and Steel Industry located in Bhadravati in Shivamogga district has fallen sick. There are a few defense enterprises in the public sector like Hindustan Aeronautics Limited (HAL), Bharat Electronics limited (BEL), Bharat Earth Movers Limited (BEML), National Aeronautics limited (NAL), and some state government

run enterprises in silk and soap. More recently, some modern industries in aerospace, electronics, automobiles, biotechnology and pharmaceuticals have emerged. Other than these, much of the industrial activity is in the MSMEs. Generally, the focus in Karnataka has been more on the modern services sector. This is partly because, the land in and around Bengaluru is more expensive and acquisition is more difficult. Until recently, agricultural land was not allowed to be used for non-agricultural purposes. The amendments to the Karnataka Land Reforms Act in 2020 removed restrictions on non-agriculturists purchasing agricultural land and increased the maximum land ownership limit in 2020, but the high cost of land near urban agglomerations is a major deterrent in industrialization. Much of the manufacturing activity in the States is concentrated in and around Bengaluru and to some extent in Mangalore and Belgaum. In Bellary and surrounding areas has some steel industries aligned to mining activity.

Karnataka comes out with industrial policies every five years. The latest industrial policy for 2025-30 was announced at the Global Investors' meeting held from February 11-14, 2025 after detailed consultation with the stakeholders. The policy is effective from 08.02.2025. for the next five years. The objectives were stated as accelerating the growth rate to 12% in the manufacturing sector, providing flexibility in the incentives to stimulate interest among the investors across sectors; creating employment opportunities for 2 million works, becoming a pioneer in sustainable industrialization by incentivising green and sustainable initiatives through sustainability linked incentives. To promote balanced growth of industry across the state, the government has been formulating the policy of differential incentives for investments depending upon the backwardness of the districts. The latest policy announcement proposes to give differential capital subsidy or production linked incentives depending upon the regions classified into three investment zones. Additional incentives are given to the units located in the taluks classified as most backward according to the HPC report of 2002.

Despite the incentives announced by the government from time to time, large investments in manufacturing in the State have not been forthcoming and whatever investments made are mostly in areas surrounding Bengaluru even as this is placed under zone 3 where the incentive is the least. The districts in Kalyana Karnataka and Kittur Karnataka are in the zone 1 category where the investments are eligible to get the highest incentive in the form of capital subsidy or production linked incentive. Yet, investments flow mainly to Bengaluru and surrounding areas even as its land and labour cost disadvantages are high. Besides the eco-system, pool of skilled labour and markets seem to make the region more attractive than others. Furthermore, the differential in incentives is not significant enough to wean the investors towards backward districts in backward regions (Ravindra, 2023).

### **4.3. Spectacular growth of Services Sector**

The impressive growth and development of Karnataka is attributable predominantly to the services sector. As mentioned earlier, services contribute to almost 70 per cent of the GSVA in 2023-24 and the share continues to grow. The ushering in of economic liberalization provided the necessary impetus for the sector IT & ITES services to

record spectacular growth in the state. Unlike manufacturing, the modern services sector does not require too much physical space and does not have the same visibility. The 1991 reforms abolished the license-permit raj and since there were no laws governing or controlling the services sector, the governmental interference was minimal and the sector flourished in an unregulated environment. The success of the IT&ITES was entirely due to private initiative, but the government did have promotional role.

Bengaluru was a preferred destination for investment in the modern services sector due to its inherent advantages (See, Box 1). It had a favourable eco-system with large number of high-tech institutions, a large pool of qualified technical personnel and a steady flow of engineering graduates from large number of colleges, salubrious climate, receptive bureaucracy, active promotional role by the government responding to the infrastructure requirements of the sector and liberalized labour regulations for the IT&ITES enterprises. The emergence of two major companies by local entrepreneurs in the information technology sector creating their own brands (Infosys and Wipro) helped to create the eco-system and helped to gain the growth momentum of its own. The creation of the electronic city and important institutions like Indian Institute of Information Technology (IIIT), more liberal labour laws and availability of a large pool of technical personnel created the externalities which were attractive enough for the multinationals locating their branches in the vicinity.

While the state government's promotion of the modern services sector has helped, its spectacular growth is predominantly a private sector initiative. The fast growth of the sector has resulted in the emergence of many technical institutions, migration of technically qualified people, and created a new class of high net worth individuals, significant increase in exports, high demand for fast moving consumer goods and its multiplier effect on economic activity and incomes. The prosperity has also resulted in demand for support services, increase in wages and the migration of semi-skilled and care workers. The result of this has been to increase the price of real estate, unplanned expansion of settlements and heavy demand for urban infrastructure and services which the greater Bengaluru Municipal Corporation (Bruhat Bengaluru Mahanagara Palike) has not been able to meet. The Economic Survey of 2024-25 (p. 169) candidly admits, "...Due to inordinate growth of urban population, sustainability of the primary source of supply of safe drinking water as well as sanitation and drainage in cities and towns is posing a serious challenge". The estimated population of Bengaluru city is 1.4 crore and the vehicle population of 1.21 crore running on the road length of 12879 Kms resulting in severe constraints on transportation. The Economic Survey (p.169) goes on to state candidly admits, "...Urban Karnataka suffers from services deficiencies in road infrastructure like inadequate road capacity, poor quality of roads.... hinder free movements of vehicles and leads to congestion and cause accidents". Admittedly, the government role in economic progress has been more reactive than proactive.

#### **4.4. Public Finance Management and Provision of Services**

In the management of public finances, Karnataka has traditionally been austere. It may be noted that Karnataka passed the fiscal responsibility legislation even before the

Union government and the recommendation of the 12<sup>th</sup> Finance Commission. The state was able to contain its fiscal deficit at less than 3 per cent of GSDP except in 2020-21 and 2021-22, the years impacted by the COVID pandemic, but managed its fisc well within the relaxed limit. The state had revenue surplus since the passing of the FRBM Act, except in the COVID affected years. However, since 2023-24, due to the implementation of the five guarantees, the State has not been able to generate revenue surpluses. The debt to GSDP at about 23 per cent of GSDP is also well within the indicative path of 27.2 per cent set by the 15<sup>th</sup> Finance Commission. Similarly, the interest payment to revenue ratio at 12.8 per cent in 2023-24, is much lower than not only the all-State average, but also all the southern states.

The policy priorities of the State are best seen in the pattern of public expenditures. Tables 10 and 11 present the composition of expenditures in the state relative to GSDP and total expenditures. It is seen that the State has been able to contain its deficit by reducing the share of expenditure in GSDP, by about one percentage point from 12.3 per cent in 2010-11 to 11.4 per cent in 2023-24 (RE). This was achieved mainly by compressing capital expenditure from 2.4 per cent to 1.6 per cent. In terms of functional categories, it is seen that the expenditures as a ration of GSDP to sectors like education, health and family welfare, irrigation and flood control and general administrative services to GSDP have been reduced substantially. The share of education in total expenditures has declined from 18.7 per cent in 2000-01 to 10.9 per cent in 2023-24 (RE) and that of health and family welfare has declined from 5.4 per cent to 4.9 per cent. Similarly, the allocation to irrigation and flood control which is mainly in the nature of maintenance expenditure has declined from 10.7 per cent in 2000-01 to 6.5 per cent in 2023-24. In contrast, the expenditure on social security and welfare, which comprises of various transfer payments increased from just about 0.3 per cent of GSDP in 2000-01 to 1.4 per cent in 2023-24 and as a ratio of total expenditure, the increase was from 2.8 per cent to 11.9 per cent. In fact, there is a sudden jump in this item of expenditure from 6.6 per cent in 2022-23 to 11.9 per cent in 2023-24 mainly due to the implementation of five guarantees promised in the election manifesto.

**Table 10: Share of State Expenditure in GSDP in Karnataka (Per Cent)**

Expenditure Item	2000-01	2010-11	2021-22	2022-23	2023-24	2024-25
					RE	BE
I Developmental Expenditure	8.07	9.12	9.39	8.35	8.03	8.28
<b>A. Social Services of which:</b>	4.18	4.52	4.67	4.03	4.11	4.60
1. Education, Sports, Art and Culture	2.27	2.05	1.54	1.42	1.24	1.42
2 Medical, Public Health and Family Welfare	0.65	0.51	0.77	0.54	0.56	0.57
4. Water Supply and Sanitation	0.26	0.21	0.34	0.27	0.28	0.32
5. Housing	0.19	0.17	0.18	0.17	0.10	0.11
6. Urban Development	0.06	0.24	0.39	0.40	0.03	0.07
7. Social Welfare and Nutrition	0.33	0.73	0.73	0.77	1.36	1.25
Labour and Employment	0.04	0.05	0.05	0.03	0.03	0.06
7. Others*	0.37	0.56	0.67	0.43	0.51	0.81
<b>B. Economic Services (1 to 9)</b>	3.89	4.60	4.72	4.32	3.91	3.68
1. Agriculture and Allied Activities (i to xii)	0.78	0.89	1.04	0.75	0.80	0.81
2. Rural Development	0.30	0.27	0.42	0.50	0.37	0.36
3. Special Area Programmes	0.01	0.09	0.12	0.16	0.14	0.13
4. Irrigation and Flood Control	1.29	0.95	1.06	1.00	0.75	0.67
5. Energy	0.61	1.07	0.89	0.64	0.82	0.80
6. Industry and Minerals (i to iii)	0.25	0.13	0.09	0.10	0.06	0.07
7. Transport and Communications (i + ii)	0.45	0.81	0.74	0.88	0.58	0.54
8. Science, Technology and Environment	0.20	0.38	0.36	0.31	0.39	0.31
<b>II. NON-DEVELOPMENTAL EXPENDITURE</b>	3.69	2.66	3.19	3.17	3.12	3.39
(General Services) (A to F)	4.24	5.15	5.05	4.57	4.18	3.92
Of which: Interest Payments	1.55	1.03	1.25	1.23	1.19	1.36
<b>III. Grants-in-Aid and Contributions of which</b>	0.35	0.54	0.33	0.24	0.27	0.24
Compensation and Assignments to Local	0.35	0.54	0.33	0.24	0.27	0.24
<b>Total Revenue Expenditure</b>	<b>10.84</b>	<b>9.88</b>	<b>10.51</b>	<b>9.29</b>	<b>9.81</b>	<b>8.35</b>
<b>Total Capital Disbursements</b>	<b>1.26</b>	<b>2.44</b>	<b>2.40</b>	<b>2.47</b>	<b>1.60</b>	<b>3.56</b>
<b>Total Expenditure</b>	<b>12.11</b>	<b>12.33</b>	<b>12.92</b>	<b>11.77</b>	<b>11.42</b>	<b>11.91</b>

Note: B.E: Budget Estimate; RE: Revised Estimate. Source: Budget Documents of Karnataka State.

**Table 11: Composition of State Expenditure in Karnataka (per cent)**

<b>Expenditure Item</b>	<b>2000-01</b>	<b>2010-11</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24 RE</b>	<b>2024-25BE</b>
I Developmental Expenditure	66.66	74.03	72.71	71.01	70.31	69.52
<b>A. Social Services of which:</b>	34.51	36.69	36.16	34.25	36.04	38.63
1.Education, Sports, Art and Culture	18.72	16.64	11.96	12.04	10.90	11.92
2 Medical, Public Health and Family Welfare	5.40	4.15	5.96	4.59	4.93	4.76
4. Water Supply and Sanitation	2.17	1.74	2.64	2.30	2.41	2.73
5. Housing	1.55	1.36	1.37	1.48	0.84	0.89
6. Urban Development	0.48	1.98	3.01	3.38	0.26	0.56
7. Social Welfare and Nutrition	2.76	5.89	5.67	6.55	11.93	10.46
Labour and Employment	0.36	0.37	0.39	0.23	0.30	0.52
7. Others*	3.07	4.57	5.16	3.69	4.46	6.78
<b>B. Economic Services (1 to 9)</b>	32.14	37.34	36.55	36.75	34.27	30.89
1. Agriculture and Allied Activities (i to xii)	6.45	7.24	8.07	6.37	6.97	6.80
2. Rural Development	2.46	2.22	3.28	4.21	3.28	3.00
3. Special Area Programmes	0.08	0.77	0.91	1.32	1.24	1.05
4. Irrigation and Flood Control	10.66	7.74	8.18	8.47	6.53	5.59
5. Energy	5.04	8.67	6.86	5.43	7.21	6.73
6. Industry and Minerals (i to iii)	2.09	1.06	0.71	0.83	0.56	0.58
7. Transport and Communications (i + ii)	3.73	6.58	5.73	7.50	5.07	4.52
8. Science, Technology and Environment	1.62	3.07	2.81	2.62	3.42	2.62
<b>II. NON-DEVELOPMENTAL EXPENDITURE</b>	30.49	21.55	24.72	26.92	27.36	28.49
(General Services) (A to F)	34.99	41.76	39.12	38.83	36.61	32.88
Of which: Interest Payments	12.81	8.37	9.71	10.42	10.46	11.42
<b>III. Grants-in-Aid and Contributions of which</b>	2.85	4.42	2.57	2.07	2.33	1.99
Compensation and Assignments to Local	2.85	4.42	2.57	2.07	2.33	1.99
Total Revenue Expenditure	89.55	80.18	81.39	78.99	85.95	70.10
Total Capital Disbursements	10.45	19.82	18.61	21.01	14.05	29.90
Total Expenditure	100.00	100.00	100.00	100.00	100.00	100.00

*Note:* B.E: Budget Estimate; RE: Revised Estimate. Source: Budget Documents of Karnataka State.

The sharp reduction in the allocation to education and healthcare is a matter for concern. It will constrain the ability of the children from the less affluent families availing education in government schools and will have adverse effects not only future development potential but also its even spread. The educational performance in the

backward regions of the state is extremely bad as is seen by the public examination results and the surveys conducted by an NGO – Akshara Foundation. The Foundation carried out a survey of school children in the rural areas in all except the four districts (the excluded districts are Bengaluru-urban, Dakshin Kannada, Udupi and Shivamogga where educational standards are better). The percentage of children in grade 4, 5, and 6 answering 8 out of 20 questions in mathematics of the previous grade correctly is lowest in all the 7 districts in the Kalyana Karnataka division Kalyana Karnataka division (Table 12). These results conform the pattern shown in the human development index presented earlier. These are the districts where providing high quality education is extremely important to break the institutional barriers. The declining share in budgetary allocation has been done in part by not filling in the teachers’ vacancies and the teacher shortage exigencies are met by making ad-hoc appointments of local teachers without any training called “guest teachers”. It is reported that in 2024-25, 43000 “guest teachers” were appointed in the state and in 2025-26, the government proposes to appoint sanctioned 51000 such positions<sup>5</sup>. The issues are similar in the case of the health sector as well.

**Table 12: Children answering 8/20 maths questions of previous year**

<b>District</b>	<b>Grade 4</b>	<b>Grade 5</b>	<b>Grade 6</b>
Tumakuru	88	83	76
Belagvi	88	93	78
Chakkamagaluru	85	79	74
Hasan	85	78	76
Bengaluru (Rural)	85	77	72
Dharwad	84	79	75
Haveri	83	75	71
Kodagu	82	71	63
Vijayapura	81	74	68
Chikkodi	81	74	72
Ramanagara	81	75	65
Bagalkot	81	74	73
Mysuru	81	69	63
Madhugiti	79	75	71
Mandya	79	72	68
Gadag	75	66	62
Kolar	73	67	63
Chamarajanagar	70	64	59
Davanagere	67	61	56
Chikkaballapur	67	61	56
Raichur	60	53	56

<sup>5</sup> <https://www.newindianexpress.com/states/karnataka/2025/May/24/karnataka-to-appoint-51000-guest-teachers-for-2025-26-academic-year>.

Bidar	59	52	52
Yadgir	58	53	55
Koppal	55	51	53
Kalaburagi	55	48	47
Chitradurga	53	49	47
Vijayanagar	48	44	47
Ballari	49	41	41

Source: Gram Panchayat Level Maths Contests Report 2024-24. Akshara Foundation. 2025.

In keeping with the promise made during the State assembly election in 2003, the State government implemented five subsidy and transfer payment schemes for the targeted groups from 2023-24. The five schemes are (i) “Shakti” scheme providing free travel for women in state transport buses within the State; (ii) “Anna Bhagya” or free supply of 5 Kgs of foodgrains every month to the beneficiaries in addition to the 5 Kgs provided by the Government of India; (iii) “Gruhajyoti” is exemption from paying for electricity consumption to every house if its consumption is less than 200 units in a month; (iv) “Gruha Lakshmi” scheme in which all women heads of the households are eligible to get a payment of Rs. 2000 per month; (v) “Yuva Nidhi” in which unemployment allowance of Rs. 3000 per month is given to registered unemployed graduates and Rs. 1500 per month to unemployed diploma holders for a period of two years or until they get employed. These five guarantees are estimated to cost Rs. 52000 Crore in a year and in 2023-24, the total amount spent was Rs. 39825 Crore. Thus, the trend in public spending is to reduce capital expenditures and those on education and healthcare partly to maintain conform to the FRBM targets and also to allocate money for immediate electoral gains by spending on subsidies and transfers to identified groups of population.

Redistribution is a legitimate government activity as the markets do not undertake this. However, it is important for the States to keep three important factors in determining the volume of expenditures to be spent on redistribution. First, the state government must consider the opportunity cost of funding such programmes and distortions in the priorities arising out of such decisions. Second, it must examine whether there are other and more effective policy instruments that can achieve the intended objectives and finally, if it has to redistribute, it is better to make direct cash transfers rather than subsidizing commodities and services to avoid changing relative prices and allocative decisions. Of course, electoral budget cycles are not an unknown phenomenon in the country and the recent phenomenon of expanding transfers and subsidies at the cost of spending on basic public services is disturbing.

## 5. Concluding Remarks

Karnataka’s development experience presents a contrasting picture. While the state has experienced a phenomenal growth to become the second highest per capita income state among the large states, its human development record has a lot of catching up to do.

The growth acceleration is led by the services sector, and this creates an imbalance in the employment scenario as the stagnant agricultural sector and declining manufacturing in which overwhelming majority of workers are employed get meagre incomes while the prosperous services sector incomes are substantially higher. This create severe pressure on urban infrastructure and services. The most important concern in Karnataka is that the economic prosperity is confined to Bengaluru urban, two coastal districts and the coffee growing district of Chickamagalur. The remaining districts, particularly those joining the state from the erstwhile Hyderabad-Karnataka region and Bombay-Karnataka region suffer severe backwardness in per capita income as well as human development.

The detailed analysis of the growth process reveals that the development process seen in the more prosperous districts is primarily due to the private sector and the government's role was confined mainly to promotion and reacting to the emerging concerns than plan and provide the necessary impetus. There are enough evidences to show that the government policies have been mainly reactive to meeting the increasing demand for infrastructure creation and regulation and not proactive in attracting investments in creating the required ecosystem. Not surprisingly we see unplanned urbanization and enormous stress on inadequate infrastructure and services. With the stretched urban limits in and around Bengaluru, the government finds the existing governance system for the city is inadequate and proposes to adopt a two-tier municipal structure similar to Madrid (Spain), Santiago (Chile), and Manila (Philippines) and Hyderabad and Chennai in India<sup>6</sup>.

The development experience of coastal Karnataka underlines the importance of the private sector not only accelerating growth but also ensuring its fair distribution and human development. In contrast, the experience in erstwhile Hyderabad-Karnataka region and Bombay Karnataka region shows that even when the state plays a proactive role, stagnancy and backwardness remain if the institutions and governance systems are not incentive compatible. The situation in the Cauvery delta where there has been so much focus on agriculture and irrigation too is similar. The free water and electricity provided to the farmers has robbed them of the incentive for crop diversification and optimal water use resulting in stagnancy due to deteriorating soil health, excessive use of fertilizers and declining productivity. the experience underlines the fact that the institutions matter and an attempt at balanced development requires not just provision of infrastructure and services but even more importantly, reform of institutions to make them incentive compatible.

A matter of serious concern is the influence of electoral politics distorting the policy priorities of the state government. While the state has, by and large, adhered to the fiscal discipline in containing deficits and debt even in the wake of increasing subsidies and transfers, this has been done by displacing productive expenditures on creation and maintenance of physical infrastructure, and even more important, education and healthcare. This will have long term adverse effects on both growth and distribution.

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<sup>6</sup> Bird and Slack (2007) discuss several alternative models of urban governance and conclude that no one size fits all for all cities or for even the same city in different times. See also Rao and Bird (2011)

While the provision of infrastructure merely requires an increase in public investments, reforming institutions to create a favourable structure of incentives is not easy. It requires a good understanding of the nature of institutions and people have got used to working in the prevailing institutional environment. This requires significant effort at education right from the pre-primary to advanced levels. Studies have shown that the educational standards in the backward districts of Karnataka are far extremely bad, and breaking the vicious cycle of low incomes and poor investments can be broken only when the focus of policy is directed to improve education and health, infrastructure provision, urbanization, connectivity, creating an eco-system for labour intensive manufacturing and responsive governance.

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