

**APPROACH PAPER
TO
THE TENTH FIVE YEAR PLAN
(2002-2007)**



सत्यमेव जयते

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Chapter 1

Objectives, Targets and Strategy

Introduction

1.1 The Tenth Five Year Plan (2002-07) is being prepared against a backdrop of high expectations arising from some aspects of the recent performance. GDP growth in the post-reforms period has improved from an average of about 5.7% in the 1980s to an average of about 6.5% in the Eighth and Ninth Plan periods, making India one of the ten fastest growing developing countries. Encouraging progress has also been made in other dimensions. The percentage of the population in poverty has continued to decline, even if not as much as was targeted. Population growth has decelerated below 2% for the first time in four decades. Literacy has increased from 52% in 1991 to 65% in 2001 and the improvement is evident in all States. Sectors such as software services, entertainment and IT enabled services have emerged as new sources of strength creating confidence about India's potential to be competitive in the world economy.

1.2 These positive developments are, however, clouded by other features which give cause for concern. The economy is currently in a decelerating phase and urgent steps are needed to arrest the deceleration and restore momentum. This reversal is all the more difficult because it has to take place in an environment where the world economy is slowing down. There are several aspects of

development where our progress is clearly disappointing. Although employment growth has almost kept pace with the labour force growth, the incidence of unemployment on Current Daily Status basis is relatively high at above 7%. More than half of the children 1-5 years old in rural areas are under-nourished, with girl children suffering even more severe malnutrition. The infant mortality rate has stagnated at 72 per 1000 for the last several years. As many as 60 per cent of rural households and about 20 per cent of urban households do not have a power connection. Only 60 per cent of urban households have taps within their homes, and far fewer have latrines inside the house. Deterioration in urban environment, increase in slum population, and in air, river and water pollution has vastly affected the quality of life of the urban poor. Land and forest degradation in the rural areas, and over-exploitation of groundwater is seriously threatening sustainability of food production. The decline in the juvenile sex ratio over the last decade, visible in the data from Census 2001, is an indication that the Constitutional assurance of freedom and equality for women is still far from being fulfilled. The Tenth Plan must prioritise specific measures to halt and reverse such regressive trends, which are rooted in women's social subordination and the discrimination practiced against them on many fronts, and ensure 'survival, protection and development' of children, especially the girl child.

1.3 The Tenth Plan provides an opportunity, at the start of the new millennium, to build upon the gains of the past but also to address the weaknesses that have emerged. We must respond to the growing impatience in the country at the fact that large numbers of our population continue to live in abject poverty and there are alarming gaps in our social attainments even after five decades of planning. To meet this challenge squarely, the Tenth Plan must learn from past experience. It must strengthen what has worked well, but it must also avoid repeating past failures. We must be willing to modify policies and institutions based on past experience, keeping in mind the changes that have taken place in the Indian economy and in the rest of the world. We must, therefore, draw up a reform plan instead of merely having a resource plan.

1.4 An important aspect of the redefinition of strategy that is needed relates to the role of Government. It is now generally recognized that Government in the past tended to take on too many responsibilities, imposing severe strains on its limited financial and administrative capabilities and also stifling individual initiative. An all-pervasive government role may have appeared necessary at a stage where private sector capabilities were undeveloped, but the situation has changed dramatically in this respect. India now has a strong and vibrant private sector. The public sector is much less dominant than it used to be in many critical sectors and its relative position is likely to decline further as government ownership in many existing public sector organizations is expected to decline to a minority. It is clear that industrial growth in future will depend largely upon the performance of the private sector and our policies must therefore provide an environment which is conducive to such growth.

1.5 This is not to say that Government has no role to play or only a minimalist role, in promoting development. On the contrary, government has a

very important role but a different one from that envisaged in the past. There are many areas, e.g. the social sectors, where its role will clearly have to increase. There are other areas, e.g. infrastructure development, where gaps are large and private sector cannot be expected to step in significantly. In these areas the role of government may have to be restructured. It will have to increase in some areas of infrastructure development which are unlikely to attract private investment e.g. rural infrastructure and road development. In others e.g. telecommunications, power, ports, etc., the private sector can play a much larger role provided an appropriate policy framework is in place. Here, the role of the Government needs to change to facilitate such investment as much as possible while still remaining a public sector service provider for quite some time. In all these areas, the role of government in creating and maintaining a modern regulatory system for ensuring a fair deal for consumers, transparency and accountability, and a level playing field is also extremely important. Redefining the role of the Government to reflect the changed circumstances facing the economy must be an important aspect of future strategy. This redefinition is necessary both at the Central Government level and also at State Government level.

Objectives of the Tenth Plan

1.6 Traditionally, the level of per capita income has been regarded as a summary indicator of the economic well being of the country and growth targets have therefore focused on growth in per capita income or per capita GDP. In the past, our growth rates of GDP have been such as to double our per capita income over a period of nearly 20 years. Recognising the importance of making a quantum jump compared with past performance, the Prime Minister has directed the Planning Commission to examine the feasibility of doubling per capita income in the next ten years. With population expected to grow at about 1.6% per

annum, this target requires the rate of growth of GDP to be around 8.7% over the Tenth and Eleventh Plan periods.

1.7 The Commission had arranged wide-ranging consultations with groups of experts to invite lateral inputs at an early stage in the process of Plan formulation especially with regard to the feasibility of high growth. Almost all the experts were of the opinion that a 8 to 9 per cent annual growth target for the next ten years was technically feasible, but they also emphasized that it could not be achieved through a "business as usual" approach. On the contrary, it would require concerted action in several areas, often involving a radical departure from present practices.

1.8 This approach paper proposes that the Tenth Plan should aim at an indicative target of 8.0% GDP growth for the period 2002-07. This is lower than the growth rate of 8.7% needed to double per capita income over the next ten years, but it can be viewed as an intermediate target for the first half of the period. It is certainly a very ambitious target, especially in view of the fact that GDP growth has decelerated to around 6% at present. Even if the deceleration is viewed as a short term phenomenon, the medium term performance of the economy over the past several years suggests that the demonstrated growth potential over several years is only about 6.5%. The proposed 8% growth target therefore involves an increase of at least 1.5 percentage points over the recent medium term performance, which is very substantial.

1.9 Economic growth cannot be the only objective for national planning and indeed over the years, development objectives are being defined not just in terms of increases in GDP or per capita income but more broader in terms of enhancement of human well being. This includes not only an adequate level of consumption of food and other types of consumer goods but also access to basic social services especially education, health, availability of drinking water and basic sanitation. It

also includes the expansion of economic and social opportunities for all individuals and groups, reduction in disparities, and greater participation in decision making. The Tenth Plan must set suitable targets in these areas to ensure significant progress towards improvement in the quality of life of all our people.

1.10 To reflect the importance of these dimension in development planning the Tenth Plan must establish specific and monitorable targets for a few key indicators of human development. It is proposed that in addition to the 8% growth target, the targets given in the Box should also be considered as being central to the attainment of the objectives of the Plan:

MONITORABLE TARGETS FOR THE TENTH PLAN AND BEYOND

- Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points by 2012;
- Providing gainful high-quality employment to the addition to the labour force over the Tenth Plan period;
- All children in school by 2003; all children to complete 5 years of schooling by 2007;
- Reduction of gender gaps in literacy and wage rates by at least 50% by 2007.
- Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2%;
- Increase in Literacy rate to 75% within the Plan period;
- Reduction of Infant mortality rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012;
- Reduction of Maternal mortality ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012.
- Increase in forest and tree cover to 25% by 2007 and 33% by 2012.
- All villages to have sustained access to potable drinking water within the Plan period;
- Cleaning of major polluted rivers by 2007 and other notified stretches by 2012.

1.11 The above mentioned social targets will require a substantial allocation of resources to the social sector and major improvements in governance to make effective use of these resources. It must also be recognized that achievements of these targets is not independent of the achievement of high growth. Indeed, high growth rates will generate the flow of public resources needed to sustain improvements in social indicators.

1.12 The Plan has traditionally focused on setting national targets but recent experience suggests that the performance of different States varies considerably. For example, although the economy as a whole has accelerated, the growth rates of different states have diverged and some of the poorest states have actually seen a deceleration in growth. It is important to recognize that the sharp increase in the growth rate and improvement of social indicators that is being contemplated for the Tenth Plan is possible only if there is a significant improvement in the growth rates of the slow growing states. Indeed if the higher growth target is sought to be achieved with a continuation of the low growth rates observed in some of the most populous States, it would necessarily imply a very large increase in inter-state inequality with serious consequences for regional balance and national harmony.

1.13 Census 2001 has shown that India's population is 102.7 crores – which is 1.5 crores more than the projections for 2001 made by the Technical Committee on Population Projection. During the nineties, the slow decline in the Crude Death Rate and Crude Birth Rate, plateauing of the Infant Mortality Rate, low sex ratio and wide inter-state/inter-district differences in health and demographic indices have been matters of grave concern. Currently, eight states with poor health and demographic indices constitute 44.7% of India's population. Special efforts will be made during the 10th Plan to enable these states to fully achieve their

potential. The human and economic development of the country would, to a large extent, depend upon the success of these efforts.

1.14 In order to emphasise the importance of ensuring balanced development for all states, the Tenth Plan should include a state-wise break-down of the broad developmental targets, including targets for growth rates and social development. These state specific targets should take into account the potentialities and constraints present in each state and the scope for improvement in performance given these constraints. This will require careful consideration of the sectoral pattern of growth and its regional dispersion. It will also focus attention on the nature of reforms that will have to be implemented at the state level to achieve the growth targets set for the states.

Feasibility of 8% Growth

1.15 At an aggregate level, any acceleration in growth requires some combination of an increase in gross domestic fixed capital formation and an increase in efficiency of resource use. The latter requires policies which will increase the productivity of existing resources and also increase the efficiency of new investment. There can be little doubt that we cannot hope to achieve 8% growth relying entirely, or even largely, on increased investment.

1.16 With the average ICOR in the 8th and 9th Plan period amounting to around 4.0, the investment increase needed to achieve a 1.5 percentage point increase in growth is 6 percentage points. While some part of this could come from an increase in foreign direct investments, it is unrealistic to expect this source to contribute more than 1 to 1.5 percentage points. This means that if the entire acceleration in growth has to come from additional investment with an ICOR of 4.0, it would be necessary to mobilize between 4.5 and 5 percentage points of GDP, would have to be mobilized through

additional domestic savings. An increase of this order in the average rate of domestic savings over the next five years may not be feasible. A very substantial part of the additional growth we have targeted must therefore come from increased efficiency and the macro-economic resource implications of this approach are examined in detail in Chapter 2.

1.17 The principle reason why 8% growth may be feasible in the Tenth Plan is that the scope for realizing improvements in efficiency is very large, both in the public sector and in the private sector. However, this improvement in efficiency can only be realized if policies are adopted which ensure such improvement. The Tenth Plan must therefore give high priority to identifying efficiency enhancing policies both at the macro level and also at the sector level. These policies will often involve a radical break from past practices and even institutional arrangements. In many cases they will involve policy decisions, which can easily become controversial given the compulsions of competitive politics. The Tenth Plan can only succeed in achieving 8% growth if sufficient political will is mobilized and a minimum consensus achieved which will enable significant progress to be made in critical areas. If this is not possible then growth will be correspondingly lower.

Growth, Equity and Sustainability

1.18 It is important to emphasise that the equity-related objectives of the Plan which are extremely important are intimately linked to the growth objective and attainment of one may not be possible without the attainment of the other. For example, high rates of growth are essential if we want to provide a sufficient expansion of sustainable high quality employment opportunities to our expanding labour force and ensure a sufficient increase in incomes of the poor and the disadvantaged. However, the relationship is not just a one way relationship. It is also true that sustained high growth

rates may not be sustainable if they are not accompanied by a wide dispersion of purchasing power with higher employment which can provide the demand needed to support the increase in output without having to rely excessively on external markets. External markets are an extremely important source of demand and we would emphasise that they need to be tapped much more aggressively for many sectors. However, given the size of the economy and the present relative size of exports, much of the demand needed to support high growth will have to come from the domestic economy itself.

1.19 Although growth has strong direct poverty reducing effects, the frictions and rigidities in parts of the Indian economy can make these processes less effective, and the Tenth Plan must therefore be formulated in a manner which explicitly addresses the need to ensure equity and social justice. There are several ways in which this can be achieved.

(i) First, agricultural development must be viewed as a core element of the Plan since growth in this sector is likely to lead to the widest spread of benefits, especially to the rural poor including agricultural labour. Also, since the majority of women workers are engaged in agriculture, investments in this sector have enormous implications for gender equality and must be designed to have maximal impact on this dimension. The first generation of reforms concentrated on reforms in the industrial economy and reforms in the agricultural sector were neglected. This must change in the Tenth Plan.

(ii) Second, the growth strategy of the Tenth Plan must ensure rapid growth of those sectors which are most likely to create high quality employment opportunities and deal with the policy constraints which discourage growth of employment. Particular attention must be paid to the policy environment influencing a wide range of economic

activities which have a large employment potential. These include sectors, such as construction, real estate & housing, transport, SSI, modern retailing, entertainment, IT enabled services and a range of other new services, which need to be promoted through supportive policies. An activity, which has potential to stimulate most of these sectors through backward and forward linkages, is tourism. Development of this activity requires coordination and synergy across a wide-range of agencies. The Tenth Plan must ensure realisation of the full potential of this activity.

(iii) Third, there will be a continuing need to supplement the impact of growth with special programmes aimed at special target groups which may not benefit sufficiently from the normal growth process. Such programmes have long been part of our development strategy and they will have to continue in the Tenth Plan. However, it is important to ensure that they are effective in achieving their objectives. Women being the most vulnerable group within every category, there is an urgent need to review the outcomes and impacts of on-going programmes of "social safety nets" for women, and redesign them as necessary to ensure that they advance gender equality goals.

1.20 In pursuance of the Ninth Plan objective of empowering women as agents of socio-economic change and development, the National Policy on Empowerment of Women was adopted in April, 2001. On this basis, a National Plan of Action (NPA) is being formulated to ensure the requisite access of women to information, resources and services. The Tenth Plan shall stress upon the effective implementation of the NPA.

Population

1.21 During the Tenth Plan, the major focus of the Family Welfare programme will be on ensuring that families have improved access to health-care

facilities providing appropriate high quality of health care to enable them to achieve their reproductive goals. This in turn will enable the country to achieve the goals set in the National Population Policy 2000. The National Population Commission will play a catalytic role in improving centre-state and inter-sectoral coordination, and in involving private sector, voluntary institutions and civil society at large for generating a vigorous people's movement to support the national efforts to achieve the goals set in the National Population Policy 2000. Irrespective of their socio-economic status, majority of the population access public sector facilities for ante-natal care (60%), immunisation (90%) and sterilisation (86%). During the Tenth Plan there will be continued commitment to provide essential primary health care, emergency and life-saving services in the public domain. Services under national disease control and family welfare programmes will be provided free of cost to all based on their need.

Quality and Productivity of Employment

1.22 In order to address the concerns of equity in a sustainable manner, it is necessary not only to ensure that all adult persons looking for work are employed, but also to ensure that they are employed at levels of productivity and income which are necessary to afford them a decent life. A significant proportion of workers presently are earning below the subsistence wages. An unfortunate facet of our labour market conditions is the continuing incidence of child labour, which must be eradicated in the shortest possible time. The slow down in the rate of population growth, increase in the share of the aged, and increasing participation of the younger age group in education are likely to moderate the growth of labour force and, to that extent, the pressure on the need for employment creation is reduced. The challenge, however, is to bring about a qualitative change in the structure and pattern of employment in terms of promoting growth of good quality work opportunities. The employment strategy in the Tenth

Plan needs, therefore, to focus on employment growth and on the qualitative aspects of employment. In order to enable the poor to access the opportunities and to ensure consistency between the requirement and availability of skills, emphasis will need to be placed on skill development.

Unresolved issues in tribal development

1.23 From the viewpoint of policy, it is important to understand that tribal communities are vulnerable not only because they are poor, assetless and illiterate compared to the general population; often their distinct vulnerability arises from their inability to negotiate and cope with the process of integration with the mainstream economy, society, cultural and political system, from which they were historically protected as the result of their relative isolation. Post-independence, the requirements of planned development brought with them the spectre of dams, mines, industries and roads on tribal lands. With these came the concomitant processes of displacement, both literal and metaphorical — as tribal institutions and practices were forced into uneasy existence with or gave way to market or formal state institutions (most significantly, in the legal sphere), tribals found themselves at a profound disadvantage with respect to the influx of better-equipped outsiders into tribal areas. The repercussions for the already fragile socio-economic livelihood base of the tribals were devastating — ranging from loss of livelihoods, land alienation on a vast scale, to hereditary bondage.

1.24 As tribals grapple with these tragic consequences, the small clutch of bureaucratic programmes have done little to arrest the precipitous pauperisation, exploitation and disintegration of tribal communities. Tribals respond occasionally with anger and assertion, but more often in anomie and despair, because the following persistent problems have by and large remained unattended to :

- Land alienation and their non-restoration
- Indebtedness
- Tribal Forest Rights, Development of Forest Villagers and Shifting Cultivators.
- To give effect to the provisions of Panchayats (Extension to the Scheduled Areas) Act of 1996 (PESA, 1996) through required legislations at the State Level.
- Involuntary displacement due to development projects and lack of proper rehabilitation
- Rehabilitation of displaced and disabled tribals.
- Survival, protection & development of the Primitive Tribal Groups.
- Effective and meaningful implementation of strategy of Tribal Sub Plan.

To tackle the various unresolved problems of the tribals, the Tenth Plan shall formulate a comprehensive National Policy for Empowering Tribals through their integrated development, which will lay down the responsibilities of the different wings of Government with appropriate accountability.

Continuing issues relating to Scheduled Castes, Other Backward Classes, and Minorities.

1.25 Since Independence, several measures have been adopted for the welfare and development of Scheduled Castes. Despite the implementation of various developmental programmes, socio-economic level of the SCs continues to be lower than that of the general population. Some major issues in development of SCs are as listed below :

- Minimising the literacy gap between the Scheduled Castes and general population.
- Eradication of the obnoxious practice of manual scavenging through an inter-sectoral time bound programme in a project mode.

- Strict adherence to Special Component Plan (SCP) and Special Central Assistance to SCP strategies ensuring quantification / earmarking of funds through strict monitoring.

1.26 Focussed attention on the socio-economic development of Other Backward Classes (OBCs) and Minorities will be paid through :

- Provision of special incentives and support facilities to promote educational development of these Groups with a special focus on women and the girl-child.
- Promoting entrepreneurship and technical support, viz., vocational training in modern technologies, skill upgradation, credit and market linkages, for optimising their productive capabilities, especially amongst the traditional artisans and occupational groups.

Empowering the Disabled and Welfare of Other Disadvantaged

1.27 Keeping in view the special issues / problems being faced by the disabled, social deviants, aged, street children, drug addicts and the like, special approach initiated in the Ninth Plan for 'Empowering the Persons with Disability'; 'Reforming the Social Deviants'; and 'Caring Other Disadvantaged', need to be further strengthened through following measures:

- Effective implementation of the Persons with Disabilities Act, 1995 to ensure social justice to disabled with equitable terms.
- Strengthening and consolidation of the outreach and extension programmes through National Programme for Rehabilitation of Persons with Disabilities (NPRPD).
- Strengthening and expansion of social defence services to address to the problems of drug

abuse / addiction, trafficking among women and girl children, destitution etc.

- Overall welfare and development of the aged through special measures for their protection, socio-economic rehabilitation and social security.

Environment degradation, poverty and economic development

1.28 Conventional thinking on environment blamed the poor for over-exploitation of natural resources, as poverty and environment were considered linked in a "downward spiral" in which poor people, forced to overuse environmental resources for their daily survival, are further impoverished by the degradation of these resources. Population growth and economic change (which often bypasses the poor, or reduces their access to natural resources) are also seen to contribute to this process. It was therefore believed that poverty needs to be eradicated in developing countries before they can turn their attention to environmental protection. The perception of the 'vicious circle' as characterising the environmental degradation and poverty in developing countries is vulnerable to criticism on several counts. It is a simplistic, exaggerated and misleading thesis, especially if presented in terms of an overall generalisation. In the past, when poverty levels were much higher in developing countries, there was not much environmental degradation. Now that poverty levels are declining significantly, it does not seem plausible to attribute environmental degradation to poverty. Evidently, other factors play a more important role.

1.29 As the poor are dependent on nature for livelihood, they are very vulnerable to natural calamities, environmental degradation and ecological disasters, which are often manmade, such as the Bhopal Gas Tragedy, and pollution caused in the river Yamuna by industries and

upstream rich farmers. We cannot also take it for granted that all economic development alleviates poverty. There are cases of destructive development which aggravate poverty and contribute to environmental degradation at the same time. Probably the first victims of any environmental degradation are the women among the poor. A fuel wood crisis as a result of deforestation, for example, forces village women to travel for miles in search of wood. This involves waste of energy and time which the women could have devoted to more remunerative work. They have to bring water for cooking and washing from great distances. Fodder scarcity also affects women first: the care of livestock is their responsibility. This burden on women in turn has an impact on girl children. When the mothers' time is spent on fetching fuel wood and drinking water, girl children are kept at home and discouraged from attending schools. They have to look after younger children, sweep the house and do other household chores.

1.30 There is enough empirical evidence to establish that environmental conservation must go hand in hand with economic development because any economic development which destroys the environment will create more poverty, unemployment and diseases and thus cannot be called even economic development. It may just be transfer of resources from the poor to the rich. This is because the poor depend on nature for their daily survival – for them the Gross Nature Product is more important than the Gross National Product. Environmentally destructive economic development will impoverish the poor even further and destroy their livelihood resource base. Therefore the environmental concern in the developing world must go “beyond pretty trees and tigers” and must link it with peoples' lives and well-being. The environmental problems facing India are different from those facing the affluent countries and are more immediate and health & livelihood threatening in

nature. Pollution in our air, soil degradation, deforestation, desertification, shrinking wetlands, inadequate public health and sanitation, indoor pollution in rural areas, growing water scarcity, falling groundwater tables, the lack of minimum flow in rivers, and over extraction of water for irrigation purposes are some of the environmental problems that need to be addressed first before any poverty alleviation programme can meet with success. In the ultimate analysis, environmental management and economic development are mutually supportive aspects of the same agenda. A poor environment undermines development, while inadequate development results in a lack of resources for environmental protection.

Challenges of Urbanisation

1.31 There is mounting evidence that increasing pressures on urban environments is taking its toll on the quality of life of our urban population. Although economic deprivation may be less acute in urban areas than in the rural, the deleterious effects of non-economic factors may indeed be more pervasive. Thus far we have been fortunate in that rural to urban migration has not been as large as had once been anticipated. Nevertheless, the situation is serious. Urban population growth is much higher than the rate of population growth, and already about 29 per cent of our population lives in urban areas, frequently in deplorable conditions. In the past, our approach to the process of urbanisation has been largely reactive in the sense problems have been sought to be addressed in a **post-hoc** manner. This approach must change, and urban planning has to become anticipatory and based upon an integrated approach to addressing the various dimensions of urban development. In previous plans, the problems of metropolitan areas and of the smaller towns have been addressed to some extent, but there are two types of urban areas which have largely been neglected and call for

immediate attention. The first is the medium-sized towns, which are experiencing the most rapid population growth of all segments of the country and where municipal structures and institutions are not strong enough to cope with the challenges. The second is towns and cities which receive a large number of transient visitors, usually for religious or cultural purposes, who place an excessive strain on the limited civic amenities.

1.32 To summarise this chapter, the broad objectives and targets of the Tenth Plan can be described as achieving an average rate of growth

of GDP of 8 per cent, along with specific focus on a few key measures of human development. The aggregate growth target should ensure a broad based development which meets the objectives of equity and sustainability. The Plan should also specify state specific growth and development targets which take into account the constraints operating in individual states. The rest of this Approach Paper is devoted to outlining measures that will become necessary for achieving the vision of doubling per capita incomes in the country by the end of the Eleventh Plan period, while keeping in mind the other important objectives stated above.

Chapter 2

Resources and Other Measures

2.1 In this chapter, we examine the macro-economic implications of the target of 8% growth for the Tenth Plan period with a particular focus on the implications for domestic and external resource mobilization and the ICOR. Our assessment is based on the assumption that the broad strategy of the Plan will be to rely on a combination of increased investment and improvement in efficiency based on unlocking of hidden capacities in the economy, unleashing repressed productive forces and entrepreneurial energies and upgrading technology in all sectors, all of which will improve efficiency in all economic activities. This will require acceleration of the process of moving towards a market economy with rapid dismantling of policy constraints, procedural rigidities and price distortions. It will also

growth rates for the 10th Plan, one as a base scenario and the other as a target scenario. The base scenario is described as one emerging from current macroeconomic trends supplemented by the fiscal measures which are already in the pipeline. For the first two years, the growth improvement in the target scenario from the base scenario is based mainly on the utilization of the existing slack in the economy. The additional policy efforts needed therefrom, are reflected in the difference in the growth trajectory of the last three years of the 10th Plan i.e., between 6.6 per cent and 8.7 per cent. In the target scenario, the 10th Plan ends with over 9 per cent growth rate in the terminal year, and also includes provision for further acceleration in the Eleventh Plan period.

TABLE I : Alternative Growth Paths for the Tenth Plan

(percentage growth in GDP)

Year	2002-03	2003-04	2004-05	2005-06	2006-07	Xth Plan	Last 3 yrs
Target Run	6.7	7.3	8.1	8.7	9.2	8.0	8.7

require that the essential institutional structure necessary for the orderly operation of a market economy be strengthened significantly.

2.2 The challenge the economy has to face to reach an average growth of 8 per cent per annum over the 10th Plan period need be assessed against a base run scenario. Table I presents two alternative

2.3 Table II provides the macro economic parameters of the two alternative scenarios and a comparison of the two gives the dimensions of efforts to be made to meet the 8 per cent growth target of the 10th Plan. Past experience shows that the average gestation lag of the Indian economy as a whole is about 2.5 years. In such a situation the productive capacity that will be available in the first

two years of the 10th Plan has already been determined by the investment made by the current year 2000-01. As it happened, the two years most relevant for the beginning of the 10th Plan period, 1999-2000 and 2000-01, recorded relatively low investment rates ranging between 23.3 and 24 per cent of GDP. In this light, the increase in investment rate to 32.6 per cent in the targeted scenario calls for significant increase in the domestic savings to nearly 29.8 per cent and the foreign saving (current account balance of the balance of payments) to 2.8 per cent from the present level of 1.5 per cent. This

2.4 Table III presents the fiscal corrections needed to reach the target scenario from the base one. The average fiscal deficit of the Centre needs to be reduced from 2.8 per cent to 2.6 per cent of GDP at current market prices. This is in line with the targets set in the "Fiscal Responsibility and Budget Management Bill" proposed by the government. This will need to be accompanied by a reduction in the consolidated fiscal deficit of the Centre and States from 4.4 per cent of GDP in the base line scenario to 3.3 per cent in the target scenario. It will also be necessary to ask for a

TABLE II : Macroeconomic Parameters for the Tenth Plan – A Comparison

	Base-Line	Target
Gross Investment Rate (% of GDPmp)	27.8	32.6
Current Account Deficit	1.5	2.8
Public Sector (of which)	2.4	4.6
Public Enterprises	3.0	2.9
Household Sector	19.0	19.4

is reasonable in the light of the experience of other emerging countries. The more difficult task is to increase the public sector saving from 2.4 per cent to 4.6 per cent and especially the government saving from a negative level to 1.7 per cent of GDP in the Target Growth scenario. As the economy is likely to move more on the market-based private sector activities, an increase in the savings rate of the private corporate sector from 4.9 to 5.8 per cent has been regarded to be achievable. The household sector saving will remain almost at the same percentage level.

reduction in the revenue deficit by nearly 1 per cent on the average both in the States and in the Centre in the "Target" scenario from the "Base" one.

2.5 Table IV provides the possible scenario of the receipts and expenditures of the Central Government as percentage of GDP. The details are given in the annexure. As it is shown in the Table, the 8 per cent growth scenario will need significant efforts and several policy changes to increase the revenue rates from 9 per cent average of GDP in the 9th Plan to 10.2 per cent in the 10th Plan. This

TABLE III: Fiscal Correction in the Tenth Plan – A Comparison

(% of GDP at market prices)

	Base-Line	Target
Consolidated Fiscal Deficit	4.4	3.3
Centre	2.8	2.6
States	2.0	1.8
Consolidated Revenue Deficit	2.9	0.8
Centre	1.8	0.5
States	1.1	0.3

again seems to be an achievable target since this percentage has already been achieved in the near past. Revenue expenditure should be reduced from 12.5 per cent to 10.7 per cent through reduction in subsidies and downsizing. The rationale behind this is given in the next paragraph. What all this means is the revenue deficit of the Central Government must be reduced to hardly 0.5 per cent over the Tenth Plan period and the non-plan expenditure may be reduced from 11.5 per cent to 9.5 per cent and the fiscal deficit from 5.0 per cent to 2.6 per cent, close to the target set by the Ministry of Finance.

The suggested measures for fiscal correction and consolidation have to be viewed against recent developments in finances of both the Centre and the State governments.

Central Finances

2.6 The fiscal situation of Central Government has deteriorated continuously in 1990s and especially during the Ninth Plan. The combined balance of current revenues of the Centre and the States declined from a negative Rs.13,324 core in

Table IV: Target Growth Scenario – Fiscal Parameters of the Central Government

(percentage of GDP)

	Ninth Plan	Tenth Plan
2. Revenue expenditure	12.5	10.7
4. Total expenditure	15.4	14.0
(b) Non-plan expenditure	11.5	9.5
6. Fiscal deficit	5.0	2.6

1996-97 or 1% of GDP to negative Rs.92,969 crore or 4.8% of GDP in 1999-2000. This has occurred because of a substantial increase in interest payments and the increased wages and salaries on account of the Fifth Pay Commission award and equally importantly because the revenue receipts of Centre as a proportion of GDP have declined from 11.3% in 1989-90 to 9.3% in 2000-01. The shortfall between the revenue receipts and expenditure (non-plan) has been increasing and is around 3.6% of the GDP. The Central Government has bridged this gap through consistently high public borrowings including borrowing from small savings - the most expensive source of capital receipts for the Government. As a result, debt service payments of the Central Government have risen inexorably from about 30% of tax revenue in 1980-85 to about 70% at present. A rise in debt service burden has meant that revenue deficit, which was 17% as a proportion of fiscal deficit in 1980-85, has now increased to about 50%. In other words, nearly half of the current borrowings go to financing current expenditure.

State Financing

2.7 The finances of the State Government have deteriorated precipitously in the 1990s. The States' Balance from Current Revenue (BCR) has deteriorated continuously declining from Rs.3,118 crore in 1985-86 to Rs.220 crore in 1992-93 after which it turned negative and reached the massive figure of minus and is Rs.32,306 crore in the year 2000-01! During the same period the States' overall debt has multiplied manifold from a level of Rs.53,660 crore in 1986-87 to Rs.4,18,583 crore in 2000-01. The consolidated revenue deficit for the States for 1999-2000 (Revised Estimates) is 2.9% of Gross Domestic Product and the gross fiscal deficit of States touched a level of 4.9% of Gross Domestic Product surpassing the previous level of 4.2% in 1998-99.

2.8 The deterioration in the State finances in recent years is, largely, an outcome of the fact that in the face of a limited resource-base the States had to cope with a significant growth in their committed expenditure. These include, wages and salaries, pensions and interest payments, which account for a major proportion of the non-plan expenditure and together absorb a sizable part of the revenue receipts. The pension liabilities of fourteen major states have increased by 200 times from Rs.100 crore in 1975-76 to Rs.20,000 crores in 1998-99. It has, thus, increased from just 2% of revenue receipts in 1980-81 to about 12% in 1999-2000 and is likely to touch 20% by the end of the Tenth Plan.

2.9 A major cause for concern on the revenue front is the near stagnation in States' Tax-GDP ratio at round 5.4% throughout the 1980s and the 1990s. While borrowings of State Governments have grown sharply, a major portion of the borrowed funds are being diverted to bridging the revenue gap, leaving very little funds for investment in core sectors. Revenue deficit accounted for 60% of the Gross Fiscal Deficit (GFD) in 1999-2000 as against only 28.3% in 1990-91. As a result, there has been a deceleration in the growth of the capital expenditure from 37% to 17% between 1980 and 1998. More importantly, not only has the share of plan expenditure to total expenditure of the State Government declined over successive plans, but the allocations for the social sectors have also suffered in the process. Plan expenditure have fallen from 27% of the total State expenditure in the Sixth Plan to only 19% in the Ninth Plan. The share of states in overall plan expenditure has fallen from 52 per cent in the Fifth Plan to 37 per cent in the Ninth Plan.

2.10 Table V shows the financing pattern of state plans for the Sixth, Seventh, and Eighth five-year plans, and the first four years of the Ninth Plan. It

Table V: Financing Pattern of State Plans: (all figures at 1993-94 Prices)

Sources:	Sixth Plan 1980-85		Seventh Plan 1985-90		Eighth Plan 1992-97		Ninth Plan 1997-2002 #	
States Own Contribution	35169	28	30220	18	-6480	-4	-105407	-52
Total Borrowings	43691	35	61377	37	90543	52	215334	107
Total State Resources	78859	63	91596	55	84163	48	109927	55
Central Assistance	47174	37	73854	45	90643	52	91719	45
Total Resources	126034	100	165451	100	174806	100	201645	100

The Scheme of Financing of Annual Plan 2001-02 used in the table is as per the Official Level Discussions.

may be noted that State Plan Finances at constant prices have increased by only 21% in ten years from the 7th to the 9th Plan. Besides, central assistance has hardly increased in the 9th Plan as compared to the previous Plan. On the other hand, The contribution of the balance of current revenue (BCR) to the financing of state plans, which was as high as 28% in the VI Plan has now fallen to (-) 52%! Thus state governments are borrowing more and more to finance non-plan revenue expenditures rather than capital expenditures. This can only lead to further worsening of the fiscal situation in the coming years. If reckless borrowing is not kept in check, some states may be forced to declare financial emergency in the 10th Plan!

2.11 In fact in many states most plan funds are also being used for payment of salaries. Staff that was being paid out of non-plan budget earlier is now being shown against the plan; a complete reversal of what used to happen in the early decades of planning, when after each plan period the staff was shifted from plan to non-plan. There are several implications of fiscal insecurity on the delivery of programmes.

2.12 First, often GOI funds are diverted for paying salaries, and not passed on to the development

departments for months and years, thus defeating the very purpose of the intention of funding of social sector schemes by the Centre. In such a scenario neither can commitment of the field staff be sustained, nor can people's participation so essential for the success of programmes be encouraged. Second, States do not release the counterpart funds in time, leading to further uncertainty about the availability of funds at the field level. Third, lack of counterpart funds leads states to demand CSSs to be 100 per cent funded by GOI, which dilutes the sense of ownership of states with development schemes. When states do not contribute, the political and bureaucratic leadership does not put its weight behind the implementation of such schemes. Fourth, some states are unable to find counterpart funds for CSSs, and hence are not able to draw the earmarked allocations. Since CSSs generally require only 25% contribution from the states, in effect it means that if the states could pay one rupee less to their staff, they could get 3 Rs from GOI to spend on development programmes.

2.13 And lastly, even when some projects/ programmes are completed, its sustainability is a serious concern. The precarious financial position in many cases prevent the State Governments from taking up committed liabilities of the project such

as repairs or maintenance after completion, thus drastically reducing the life of the project. There can be no investment in future if the states are all the time obsessed with ways and means position trying to meet both ends meet by excessive borrowing from the market or by diverting funds from GOI, meant for development purposes to salaries.

2.14 The following decisions have to be made to achieve the fiscal corrections needed at the Centre.

1. Gross Budgetary Support for the Plan should be steadily increased as a percentage of GDP to 5 per cent by the terminal year of the Plan, implying an average annual growth of 18.3 per cent per annum.
2. Reduction in the number of government employees by 2% per year with no new recruitment during the five year period. All additional requirements should be made through redeployment and rationalization of various Ministries.
3. Non Plan expenditure excluding interest payments, defence allocations and pay and allowances held constant in real terms to current level implying annual growth rate of 5 per cent.
4. Gross tax (including diesel cess) to GDP ratio rising from 9.16 per cent in 2001-02 to 11.7 percent in 2006-07 implying buoyancy of 1.44 per cent.
5. Disinvestment process to be accelerated to yielding Rs.16000 to Rs.17000 crores per year on the average over the first three years of the 10th Plan.
6. Higher tax revenue should be achieved mainly through buoyancy and expansion of the tax base. Besides, a widespread and bold imposition of user charges of all non-merit goods.
7. For tax revenues to increase as a share of GDP, imposition of indirect taxes on the services sector is imperative. This can essentially be achieved by the imposition of

a widespread value added tax on all sectors of the economy. This would mean the levy of tax at every stage of value addition from production to sale of both goods and services. Levying such a tax will require an amendment to the Constitution along with the achievement of the consensus with the States so that it becomes feasible to do so.

2.15 In expenditure control, there are two areas, which need special focus. The first is subsidies, both direct and implicit, which are estimated to form a substantial proportion of GDP. The definition, magnitude, utility and justification of these subsidies merit consideration, particularly since this is precisely the area with the highest potential for savings. The same considerations would also apply to various cross-subsidisation mechanisms that are currently in force. We have discussed some measures to reduce food subsidy in the next chapter. The second is the pension liability of the government, which is the fastest growing component of current expenditures. At present these liabilities are unfunded and represent a claim on the general revenues.

2.16 A good deal of public sector investment is in the provision of public services. The pattern and condition of the provision of such infrastructure services has been done in such a way that the public has got used to not paying economic charges for these services. This includes key services such as power, water supply, irrigation, and transport, among others. The finance ministry has calculated that hidden subsidies on non-merit goods amount to as much as 10.7 per cent of GDP on an annual basis. It is no wonder that the combined fiscal deficit of the Centre and the states amounts to almost 10 per cent of GDP. In the case of power alone the losses resulting from lower than economic pricing to the agriculture and domestic sectors amount to almost Rs. 25,000 crore a year. It is primarily the absence of appropriate pricing of public services and the lack of will to collect the levied charges that has caused the large fiscal imbalance that afflicts the country.

2.17 The argument for not charging appropriate user charges has essentially been based on equity considerations. It is argued that the poor are not able to pay adequately for these essential public services. This argument ignores the fact that it is the better-off sections of the society that consume most such services and therefore benefit from these services. In fact, if the better-off are made to pay, it would then become possible to provide essential services to reach the poor. The fiscal health of both the central and state governments can improve dramatically over, say, a five-year period if this correction is made. But this reform cannot be done by mere announcement. It needs research, public awareness, public education and persuasion. The central government must lead this campaign and forge an understanding and consensus with state governments, who must do the same with local bodies.

Corrective Measures

2.18 The tendency of the State Governments to readily extend guarantee to borrowings of their public enterprises and financial corporations is, perhaps, speeding up the deterioration in their fiscal situation. These guarantees will sooner or later devolve on State Governments as the financial health of many of these enterprises is far from being sound. More so, because much of these borrowings are being used to pay salaries and wages to the State employees and meeting other revenue expenditure. The practice is hurting the State Governments' credibility and is ultimately likely to bring about financial bankruptcy. It is important that such borrowings through PSUs and financial corporations, unless linked with implementation of fiscal reforms, should not be encouraged. In this context, States of Gujarat, Rajasthan and Karnataka have already prescribed limits on extending such guarantees. Tamil Nadu has, in the current year's budget, proposed imposition of a ceiling of guarantees, while Rajasthan and Tripura have proposed creation of Guarantee Redemption Funds.

2.19 An important channel for mobilising resources for development, particularly for social sectors, namely the Externally Aided Projects (EAP) and direct funding of projects (i.e. outside budgetary flows) by the NGOs has not been sufficiently integrated with our planning process. Consequently, an important source of scarce resource for development, in the third world context, is not being adequately tapped. Moreover, since EAPs in the State Sector is routed as additional Central assistance and nearly 70-80% of such resources are flowing into a handful of states, there is an issue of distributional equity to be addressed urgently, in this regard. The Planning Commission has suggested that the quantum of external aid should be delinked from GBS so that there is an incentive for Ministries and State Governments to make efforts for accessing more external aid. A mechanism to assist weaker states in preparation and implementation of EAPs could be set up to help the weaker states. In this context, an initiative on project preparation facility has already been taken up by the Planning Commission. It has also been suggested that there is some merit in reserving a substantial amount of SLR borrowings for counterpart funding, which the States are expected to provide for such projects. The remaining SLR borrowing could be allocated to the State on project specific basis.

Downsizing

2.20 Surplus staff in government is a serious problem and corrective steps cannot be postponed. One should identify surplus staff, set up an effective redeployment plan, and a liberal system for exit. For the time being, recruitment should only take place for functional posts, and vacant posts of secretarial and clerical posts should not be allowed to be filled. Since expenditure on staff has increased to an unsustainable level, one must seriously consider changing the service conditions at least for new government recruitment. One should also shift to contributory pension system for the new set of employees. GOI must take a lead in reducing its

staff, especially in Ministries dealing with state subjects, and transfer most of the CSS to the states.

In many states, we have

- Engineers, but no fund for construction or maintenance
- Doctors, but no medicine
- Teachers, but no school building
- A large army of class III and IV employees, with no productive work. Many class I and II officers, but little funds for travel, telephones, or POL, and thus no supervision or monitoring
- Very little capital expenditure and asset creation
- Little funds for maintenance or repairs of assets
- Highly paid employees, but no complementary investment or working expenditure. Salaries have crowded out high priority non-wage expenditure, thus vastly reducing the very purpose of employing staff.

2.21 Prime Minister has recently announced reduction in government staff by 10% in four years in order to effect economy in government expenditure. This requires 2% per year reduction in the number of government employees with no new recruitment, rationalization of various Ministries and all additional requirements should be made through redeployment. Such measures should cover all levels of the civil service.

Link development assistance to performance

2.22 The Central Assistance to State Plans should increasingly take the form of project-specific assistance. The existing schemes based on this principle, like the Accelerated Irrigation Benefit Programme (AIBP) and Rural Infrastructure Development Fund (RIDF) administered by NABARD, may be made more effective. To enhance

the scope of project-based assistance, several funds have been created from the current year for providing assistance for infrastructure other than irrigation, particularly roads, bridges and power projects. Their effectiveness should be increased through better monitoring and targeting.

2.23 In view of the importance of fiscal reforms at the state levels, consideration should be given to setting up an annual fund at the Planning Commission to augment plan resource of those states that agree to wipe off the revenue deficit in a period of five years and improve governance. Though the initial allocation would be formula based, the ultimate releases of funds to individual States would be done on the basis of their performance.

2.24 The withdrawal from this fund by the individual state would begin only when it signs a MOU with the Planning Commission about the proposed reforms the state would undertake and the time period of completing various bench marks to be identified jointly by the Planning Commission and the state. The MOU would give equal weightage to fiscal discipline and good governance.

2.25 The states would gain in fiscal respectability if they adopt the agreed measures, but there must also be a system of strong disincentive of losing out on central assistance if the unpopular measures of increasing user charges or improving governance are not put in place.

Efficiency of Resource Use

2.26 The implicit ICOR in the 10th Plan target projection implies a reduction from 4.28 in the base line to 4.08. This will only be possible if extensive reforms are undertaken which give a push to greater efficiency. Some of the major sources of such efficiency are discussed below.

2.27 There is sufficient evidence that there may be a considerable stock of existing capital assets, which are either lying idle or have never been used to their full potential. Bringing such assets into full

productive use can certainly reduce the resource requirements quite dramatically. The first major area of idle capacity is in public infrastructural investment, which has been caused by the tendency to launch too many projects without the requisite financial provision or management capability leading to a tardy pace of completion and sometimes even abandonment. Such problems are endemic in sectors such as power, roads, railways and irrigation, but are probably present in other sectors as well. This problem is present as much in central investments as in the state sector. To a large extent these reflect changing political compulsions and priorities. Although completion of such projects and upgradation of existing capital assets may be more efficient than starting new projects, it would require a moratorium on launching new projects until at least a minimum number of partially completed projects are brought to completion. Since there is no reason to believe that the existing set of projects necessarily represent the most desirable or optimum choice of options, reprioritisation on sound economic principles becomes necessary. This is a task that is best undertaken by joint team of experts from the concerned Ministry and/or State government and the Planning Commission. Highest priority should be given to such selected projects during the Tenth Plan. At times this may also require the Plan to fund repair and maintenance activities, which implies a breach of the existing distinction between the Plan and non-Plan expenditures.

2.28 In order to ensure that such problems do not recur in the future, it appears desirable to move from the present system of annual commitment of funds to a three year rolling Plan system, whereby firm commitment of resources for the Plan will be made for a two-year period with an indicative commitment for the third year. There is, however, the danger that such a system may sometimes result in an over-commitment of funds, and to obviate this possibility the concept of a "core" plan will have to be enforced on all Central Ministries/Departments and States.

2.29 The second area of idle capacity stock is in the public sector enterprises where financial and

managerial problems have prevented adequate investment in balancing and/or upgradation leading to inadequate utilisation of the capital assets or to the lack of competitiveness. Prolonged periods of insufficient maintenance expenditures also have similar effects. Mere infusion of fresh funds is unlikely to solve this problem since the roots of the malaise are deeper, and usually lie in the domain of policies and excessive interference in the management of these enterprises. Measures to unlock such potential capacities through institutional change can yield rich dividends to the economy. Operational autonomy of public enterprises has been discussed, and even attempted in some cases, for many years now; but usually to no avail. Complete privatisation of all non-strategic public enterprises within a specified time period appears to hold the best promise in this regard.

2.30 The third area is in the private sector, which accounts for the bulk of the economy and where efficiency is vital. Much depends here on the policy framework. A comprehensive review is needed of policies in different areas to identify constraints to efficiency and optimal utilisation of resources. The Tenth Plan will have to address these issues in a comprehensive manner. However, an over-arching problem is the legal and procedural hurdles which prevent the transfer of capital assets from non-performing companies to those which would utilise them better. Even if such transfers are effected, the time-lag is usually so substantial that much of the effective value of the capital stock is eroded. This problem also has implications for the willingness of lenders to advance funds to companies. Solution to this problem will require legal and procedural changes for facilitating quick transfer of productive assets so that their idle time is minimised. In particular, bankruptcy and foreclosure laws need to be instituted and made more effective.

2.31 Therefore, in order to take advantage of whatever idle capital stock that exists in the economy today to accelerate the growth rate in the Tenth Plan, there are at least three categories of measures that would need to be taken immediately.

- Full emphasis to be placed on completion of partially completed or on-going projects and upgradation of existing capital assets before starting new projects.
- Rapid privatisation of PSEs, particularly those which are working well below capacity.
- Legal and procedural changes for facilitating quick transfer of assets, including such measures as repeal of SICA, introduction of a bankruptcy law, facilitating foreclosure, accelerating judicial processes, etc.

Detailing such measures would form a core element of the Tenth Plan, and which would need to be accepted at all concerned levels of the Government.

2.32 Most infrastructure and industrial investments in India take an unconscionable time to come on stream. Much of this arises from the investor-unfriendly laws (such as the Land Acquisition Act) and non-transparent procedures and clearances that have to be gone through prior to even launching the project, but hurdles can also come up in the course of execution. As a consequence, the gestation lags get lengthened and leaves investible resources locked up for extended periods. One of the reasons why the services sectors have performed much better than the industrial sector in India is that such impediments are less in their case, though not entirely absent. The solution to this problem would have to be sought in identifying and removing unnecessary hurdles in the investment activity.

2.33 A change in the approach of governments and government functionaries from hampering and hindering investment to encouraging and supporting it is essential for growth. Recent research is beginning to quantify what has long been known : that government controls and restrictions impose an enormous cost on productive activity. At the base of this approach are oppressive laws, rules and regulations. These must be modernised and modern system of incentives and accountability introduced if we are to increase efficiency, reduce ICORs and stimulate investment.

2.34 Reduction in gestation lags of industrial and infrastructural investments, and indeed in all economic activities, through removal of policy and procedural barriers is of the highest importance since it is central not only to reducing ICORs, but also to unshackling entrepreneurial energies. Although various governments from time to time have announced 'single window clearance' procedures and 'investor assistance cells', they have rarely been effective. The primary reason for this is that the problem lies not in inadequate coordination, but in fragmented and often arbitrary exercise of the various powers of government vested in a number of functionaries at different levels through a complex system of delegation of powers. It is compounded by the fact that neither are the rules and regulations governing entry and operation transparent, nor are they justiciable. Rationalisation of these various rules, notifying them in a comprehensive and transparent manner, assigning accountability of each functionary and providing administrative and legal recourse in case of malafide dilatoriness will be necessary to address this problem. These are issues in governance, and will be addressed in some detail in the Tenth Plan.

2.35 The efficiency and productivity of various economic activities in India are well below the international standards. Although this is partly on account of the technological gaps that exist, but it is also because of the structural infirmities of the economy. As an example, the average level of inventory holdings in India is orders of magnitude higher than in other countries of the world, which results in a large amount of investible resources being kept in reserve for contingencies rather than being put to productive use. The causes of this problem are myriad; and lie in an inadequate insurance system, poor transport infrastructure, which complicates logistics management, and of course in outmoded methods of management, just to name a few. Although the advent of Information Technology has helped to some extent, there is a considerable way to go before international standards are attained.

2.36 Finally, the existence of unjustifiably high capital intensity in many sectors is also a cause of grave concern since these resources could have been applied to creating additional capacity. There is no doubt that this is frequently caused by the excessively rigid labour laws applied to the organised sector, which make it more difficult for the entrepreneur to rationalise labour than to dispose off capital assets when need arises. It also has a deleterious effect on work ethics and discipline. As a result, the effective cost of labour to the entrepreneur can be many times the nominal wage bill. Therefore, rationalisation of labour laws and regulations, which reduce the implicit cost of labour without affecting the explicit, can release considerable investible resources.

2.37 However, it should not be thought that excessive capital intensity is caused solely by the impact of labour laws. Overstatement of capital costs by promoters, with the intention of passing off a higher proportion of the real investment cost to the lenders, i.e. having a higher debt/equity ratio than would be otherwise acceptable, is also fairly endemic in India. This arises primarily from the inadequate capacity of the financial sector to evaluate investment proposals and to a lack of information sharing between different financial institutions due to out-dated confidentiality rules. These issues will need to be addressed expeditiously.

2.38 Overstatement of capital costs is not confined to the private sector alone. It is equally prevalent in public investments. There are numerous instances where the capital cost of a public project is significantly higher than equivalent private projects and even by international comparisons. The reasons, however, are different. Poor project management, leading to time and cost over-runs, and corruption are the two principal causes. These are again issues of institutional design and governance, and solutions will have to be found in that context.

The External Sector

2.39 The acceleration in the growth rate cannot take place without tapping into the opportunities offered by the international economy in terms of markets, investment and technologies. But in doing so, vulnerabilities have to be identified and addressed. This is particularly important in view of the emerging trends in the international economy which suggest that the period of very high growth in world trade is coming to an end. World trade growth has declined dramatically this year and appears likely to remain well below that of the last decade for some time. The slow-down of the U.S. economy, and its role as an engine of growth for world trade is an important factor. In the second half of the nineties, China gradually became a competitor for South East Asian exports. In the first decade of the 21st Century Indian producers are likely to feel the heat of China's competition. The nature of the world trading system has also changed with an increasing trend towards regional trading blocs in which India's participation is minimal. We must gear up to meet these competitive challenges by accelerating our domestic reforms to create conditions for competitive advantage by domestic and foreign-invested enterprises in the country.

2.40 A high rate of GDP growth will necessarily be associated with a high rate of growth of imports. This is particularly true given the extent of dependence on imports of energy and the limited likelihood of expanding domestic energy sources rapidly enough. The recent liberalisation of imports will also have a role to play. In such a situation, sustained high rates of growth of exports will be essential for keeping the current account deficit within manageable limits. Rapid export growth will also be necessary for aggregate demand reasons, since a steady increase in the rate of domestic savings implies that the rate of domestic consumption growth will be less than the rate of growth of output. Therefore, external markets will have to be sought for sustaining high levels of capacity utilisation. Exports can also stimulate product and process innovation to meet challenges

of the global market. In industries with significant economies of scale, exports also help in bringing down the average cost of supply by more efficient phasing of lumpy capacities.

2.41 At present the Indian economy suffers from two principal infirmities in expanding its exports rapidly – the share of tradeables in GDP has been falling steadily; and the tradeables' sectors continue to be dominantly inward-looking. Measures for reversing these attributes are essential for sustainable growth. Unless capacities are created in India specifically for the export market, it is unlikely that the export growth targets can be met. There are of course exceptions, but excessive reliance on a limited number of goods and services exposes the economy to vulnerability.

2.42 The most effective means of encouraging outward orientation is to lower tariffs on imports so that the anti-export bias both in policies and mind-sets get corrected. Protection, if at all necessary, should be provided mainly through the exchange rate mechanism. In recent years there have been periods when the real exchange rate appreciated, but these reflect more the inability of the Indian economy to absorb all available investible resources than any other factor. With investment demand growing strongly, this should not be a source of concern.

2.43 Most importantly, it is necessary to recognise that rapid growth and development will not be possible without greater integration with the international economy. In order to make most of the opportunities available, it is essential that India evolve a positive agenda for its future negotiations at the WTO. Until now, the strategy has been defensive and status-quoist. While this was perfectly appropriate for an inward-looking development strategy, it is not so now. The Tenth Plan will evolve a strategic position for our international negotiations.

The Financial Sector

2.44 With the steady reduction in the share and role of the public sector in the economy, the

importance of financial intermediation activities has increased, and will continue to do so. It is becoming evident, however, that the organised financial sector in India is either unable or unwilling to finance a range of activities that are of crucial importance both for growth and development. Agriculture, unorganised manufacturing and many types of infrastructure are instances of such sectors. Recent financial sector reforms have naturally focused primarily on improving the viability and stability of financial institutions, without adequately addressing this issue. It is necessary, therefore, to consider methods of encouraging the financial sector to finance such activities without impinging on its viability or compromising on prudential concerns.

2.45 The most important issue in this context is the utility and effectiveness of subsidized interest rates for various purposes and segments of people. The evidence suggests that, on one hand, financial institutions are reluctant to make such loans and advances since they are not in their interest; and, on the other hand, these benefits are systematically misused by the powerful and influential. Often the actual beneficiary ends up bearing a higher effective interest rate than would be available in the normal course. It appears more important to ensure a smooth flow of resources than providing limited amounts with subsidy.

2.46 Finally, there is a serious shortage of long-term risk capital in India, which will need to be bridged if rapid growth is to be achieved. In addition, excessive reliance on debt instruments by savers for meeting their long-term income flow requirements places pressure on the level and structure of interest rates. A judicious mix between interest and capital gains incomes is necessary to balance the needs of both savers and investors. Therefore, a widening and deepening of the capital market, including equity and long-term debt, with adequate regulatory oversight is central to the process of a sustained growth in savings and investment in the country over the longer run.

CENTRAL GOVERNMENT FINANCES AT 8 PER CENT GROWTH

	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Price Index	1.0654	1.1617	1.1997	1.2777	1.3543	1.4221	1.4932	1.5678	1.6462	1.7285
GDP (COP)	1424078	1520353	1617656	1714715	1826171	1948525	2088819	2260102	2456731	2682750
GDP (CUP)	1517213	1766213	1940702	2190858	2473260	2770917	3118944	3543432	4044296	4637190
Budget Support to Plan (COP)	55451	57517	64729	67496	73910	79894	89785	101543	116049	134175
- do - (CUP)	59077	66818	76182	86238	100100	113614	134064	159201	191041	231924
(% of GDP)	3.89%	3.78%	3.93%	3.94%	4.05%	4.10%	4.30%	4.49%	4.72%	5.00%
Interest	65637	77882	90248	100669	111307	121366	130762	139168	146969	153948
(% of GDP)	4.33%	4.41%	4.65%	4.59%	4.50%	4.38%	4.19%	3.93%	3.63%	3.32%
Defence	35278	39897	47071	54461	62000	70370	79870	90653	102891	116781
(% of GDP)	2.33%	2.26%	2.43%	2.49%	2.51%	2.54%	2.56%	2.56%	2.54%	2.52%
Extended W&MEFC grant			3000	10154	7203	6631	5745	5627	5627	5627
Small Savings Loans to States	15732	23026	26883	30243	34024	38277	43061	48444	54500	61312
Pay & Allowances	26688	31286	32692	30231	31969	33210	34498	35837	37227	38672
(% of GDP)	1.76%	1.77%	1.68%	1.38%	1.29%	1.20%	1.11%	1.01%	0.92%	0.83%
Other Non-Plan	29640	40456	48911	53768	61876	64970	68218	71629	75211	78971
(% of GDP)	1.95%	2.29%	2.52%	2.45%	2.50%	2.34%	2.19%	2.02%	1.86%	1.70%
Total Non-Plan (CUP)	172975	212546	221922	249283	274355	294916	315849	337287	362298	388372
(% of GDP)	11.40%	12.03%	11.44%	11.38%	11.09%	10.64%	10.13%	9.52%	8.96%	8.38%
Total Expenditure (CUP)	232052	279365	298104	335521	374455	408530	449913	496487	553339	620296
(% of GDP)	15.29%	15.82%	15.36%	15.31%	15.14%	14.74%	14.43%	14.01%	13.68%	13.38%
Gross Tax (excl. Cess)	139221	143797	169835	192521	220437	258639	305418	365275	439624	532430
(% of GDP)	9.18%	8.14%	8.75%	8.79%	8.91%	9.33%	9.79%	10.31%	10.87%	11.48%
Less : share of States	43548	39145	43991	52418	61617	73905	88571	105930	127491	154405
(% of Gross Tax)	31.28%	27.22%	25.90%	27.23%	27.95%	28.57%	29.00%	29.00%	29.00%	29.00%
Cess			900	5800	6200	6636	7138	7752	8461	9278
Net Tax to Centre	95673	104652	128271	144403	163020	191370	223984	267097	320594	387303
(% of GDP)	6.31%	5.93%	6.61%	6.59%	6.59%	6.91%	7.18%	7.54%	7.93%	8.35%
Non-tax Revenue	38214	44858	53242	61761	68715	76452	85061	94638	105295	117151
	2.52%	2.54%	2.74%	2.82%	2.78%	2.76%	2.73%	2.67%	2.60%	2.53%
Recoveries of Loans	8318	10633	10131	14885	15164	17060	19192	21591	24290	27326
Disinvestment	912	5874	1723	2500	12000	15000	18000	16000	15000	14000
	0.61%	0.93%	0.61%	0.79%	1.10%	1.16%	1.19%	1.06%	0.97%	0.89%
Total Non-debt receipts	143117	166016	193367	223549	258899	299882	346237	399327	465178	545781
	9.43%	9.40%	9.96%	10.20%	10.47%	10.82%	11.10%	11.27%	11.50%	11.77%
Fiscal Deficit (old method)	88936	113348	131620	142216	145800	142672	141953	140222	136605	129015
FD/GDP (old method)	5.86%	6.42%	6.78%	6.49%	5.90%	5.15%	4.55%	3.96%	3.38%	2.78%
Fiscal Deficit (new method)	73204	90322	104737	111973	111776	104395	98891	91778	82105	67703
FD/GDP (new method)	4.82%	5.11%	5.40%	5.11%	4.52%	3.77%	3.17%	2.59%	2.03%	1.46%

TARGET GROWTH SCENARIO – INTER-SECTORAL FLOW OF FUNDS

(% of GDP at market prices)

	Government	Public Enterprises	Private Corporate	Household	Total
Financed by:					
Own Savings	1.7	2.9	5.8	19.4	29.8
Borrowings	3.3	1.2	6.4	-8.1	2.8

Chapter 3

Sectoral Policy Issues

3.1 Pursuit of a strategy for achieving 8% growth in the Tenth Plan will call for bold departures from existing policies in each of the major sectors. Some of the critical issues which need to be addressed in individual sectors are discussed below.

1. Agriculture and Land Management

3.2 The policy approach to agriculture, particularly in the 1990s, has been to secure increased production through subsidies in inputs such as power, water and fertilizer, and by increasing the minimum support price rather than through building new capital assets in irrigation, power and rural infrastructure. This strategy has run into serious difficulties. Deteriorating state finances have meant that subsidies have “crowded-out” public agricultural investment in roads and irrigation and expenditure on technological upgrading. Apart from the inability to create new assets, the lack of resources has eroded expenditure on maintenance of canals and roads. The financial unviability of the State Electricity Boards, which are pointed out below, is only partly due to subsidies on agricultural power supply, has made it difficult to expand power supply in uncovered rural areas and contributed to the low quality of rural power. These problems are particularly severe in the poorer states.

3.3 The equity, efficiency, and sustainability of this approach are questionable. The subsidies have grown in size and are now financially unsustainable.

Some of the subsidies, e.g. the fertiliser subsidy, are really subsidies to cover the high cost of the fertiliser industry. Other subsidies, e.g. under-pricing of power and irrigation do not improve income distribution in rural areas and may also be environmentally harmful. Excess use of subsidised fertiliser has created an imbalance between N, P and K, whereas excess use of water has produced water logging in many areas.

3.4 It is necessary to evolve a new approach to agricultural policy based on a careful assessment of current constraints and possibilities. A sober and careful assessment of our resources indicates that both land and water will be crucial constraints on our efforts to expand production in agriculture. As a nation we already are in a situation where the extent of forest cover has declined alarmingly. Although in recent years there has been some improvement, we are a long way from our eventual target. In such a situation we see little possibility of increase in the cultivated area in the country, and indeed perhaps an eventual decline as urban demand and environmental imperatives lead to conversion of some agricultural land. There is therefore no alternative but to focus on raising the productivity of our land water in a manner, which is sustainable over the longer term.

3.5 Nevertheless, every effort needs to be made to bring presently uncultivated land into productive use, whether in agriculture or in forestry. For this, it

will be essential to evolve a comprehensive land-use policy which will lay out the contours of the ownership and institutional framework that will encourage the productive utilisation of such lands. Furthermore, in order to optimise the utilisation of our land resources, state governments may take such initiatives as deemed appropriate to remove impediments coming in the way of productive utilisation of cultivable land, including tenurial reforms. The Tenth Plan must also focus on increasing work opportunities and productivity of women farmers. Increasing women's access to productive land by regularising leasing and sharecropping of uncultivated agricultural land by women's groups, encouraging collective efforts in bringing wastelands under cultivation and providing policy incentives to women in low-input subsistence agriculture, will have immediate benefits in terms of household, food security and women's empowerment.

3.6 The first, and possibly the most important, area of focus must be to raise the cropping intensity of our existing agricultural land. Climatically we are fortunate in that it is possible for us to have multiple crops practically all over the country. The critical problem here is water. However, our water resources are also under severe strain. Despite large investments in irrigation in the past, only about 40 per cent of our agricultural area are irrigated. The progress on this front has slowed down considerably in recent years, particularly in terms of major and medium irrigation projects.

3.7 Public investment in irrigation has fallen significantly over successive Plan periods. This is largely due to resource constraints faced by governments both at the Centre and the states. However, resources are not the only problem. Potential irrigation projects are located in areas which are either more difficult or environmentally more sensitive which makes it difficult to implement irrigation projects. The Tenth Plan must aim at a major revival of public investment in irrigation

capacity and water management. The Accelerated Irrigation Benefit Programme is a potentially important instrument for providing resources to state governments in support of ongoing irrigation schemes. Allocations under this programme need to be massively increased. Greater attention will also have to be paid to rain water harvesting and increasing the irrigation potential through scientific watershed development. There is also considerable scope to improve the efficiency of our existing irrigation infrastructure through better and more participative management practices.

3.8 Much of the decline in poverty during the 1980's was due to rise in paddy production in the eastern India. However, collapse in the supply of electric power in this region in the last ten years combined with no new breakthrough in seeds and technology has led to plateauing of yields. Stimulating ground water development is crucial to kick-start the Green Revolution in this region as only 1/5th of ground water resource is being utilised.

3.9 Watershed Development programmes are being implemented by several departments of Government of India, often with different and conflicting guidelines. Even when approach or guidelines are common, sanction of funds is done by different departments and each does separate monitoring. The need for 'a Single National Initiative' has been felt for some time, and was also articulated in the 1999-2000 budget speech of the Union Finance Minister, and in the President's address for 2000-01. Evaluation reports have shown that watershed projects cannot succeed without full participation of project beneficiaries and careful attention to issues of social organisation. This is because success depends on consensus among a large number of users. Moreover, collective capability is required for management of commons and for new structures created during the project.

3.10 The second priority must be the development of other rural infrastructure that

supports not only agriculture, but all rural economic activities. A number of recent studies have indicated that the rate of growth of rural incomes and reduction in rural poverty are strongly influenced by the provision of rural and district road connectivity. Other forms of rural infrastructure are also important, but the impact of rural roads in widening the opportunities and alternatives available to our people has a dominant effect. Although this is an area which is in the domain of the state governments, the Centre has taken initiative to provide dedicated funding for a significantly accelerated rural roads programme. It is also necessary to reorient the poverty alleviation programmes in a manner that they contribute more efficiently to the creation of rural assets, both private and community.

3.11 The third area that needs attention is the development and dissemination of agricultural technologies. Over the years we have developed an extensive system of agricultural research centres and extension services. There is reason to believe that the quality of the agricultural research effort has weakened while the extension system has virtually collapsed. Strengthening of our agricultural research and development system and a significant improvement in the sophistication of the technology dissemination methodologies are essential to achieving rapid and sustained growth in agricultural productivity. A radical overhaul of the extension service is also needed. Specific measures are necessary to ensure that research, technology development and extension services meet the special needs of women farmers. An increased focus on subsistence crops and technologies in rain-fed/dry land areas would be appropriate in this regard.

3.12 Fourthly, serious thought should be given to the issue of declining public investment in agriculture. Although private investment in agriculture has grown, this has often involved macroeconomic inefficiencies (such as private investment in diesel generating sets). Instead of

seeking low cost options that have a higher capital-output ratio, present policies have resulted in excessive use of capital on the farms, such as too many tubewells in water scarce regions.

3.13 Intensity of private capital is in fact increasing for all class of farmers, but at a faster pace in green revolution areas and for large farmers. Thus, the weight of fertilisers, pesticides and diesel that accounted for a mere 14.9 per cent of the total inputs in 1970-71 in the country increased to 55.1 per cent in 1994-95. For a large farmer in commercialised regions it could be as high as 70 per cent. But the proportion of output sold has increased at a much slower rate than the proportion of monetised inputs, including hired labour. The implication of this is a resource squeeze in agriculture. Whereas the need for resources to purchase these inputs has been increasing, the marketable surplus has been increasing at a slower rate to absorb this, as growth in non-farm employment has become very sluggish. It is not surprising that the repayment of loans is such a problem in Indian agriculture and has even led to suicides in some cases. A better strategy would be to concentrate on small and marginal farmers, and on eastern and rainfed areas where returns to both capital and labour are high. The need is also for better factor productivity in agriculture or of a new technological breakthrough, which would be more labour intensive and would cut cash costs.

3.14 Finally, we need to recognise that the true potential of Indian agriculture can be realised only when we can diversify our agricultural products, both geographically and over time. The food and nutritional requirements of our people for leading healthy lives demand a wider range of food products than are presently consumed on the average. It also calls for increasing the production of pulses and oilseeds. Most of the non-foodgrain food products are, however, perishable in nature. In order to encourage this diversification through minimisation of wastage will require considerable focus on post-

harvest technologies and marketing infrastructure. It would also require a reconsideration of the various rules and regulations that govern agricultural trade, which frequently act against the interests of the farmers and distort their incentive structure.

3.15 An important component of agricultural diversification is animal husbandry, including dairying and poultry, which hold immense promise for increasing not only rural livelihoods, but urban as well. Proper development of this sector will require attention not only to technology, processing and marketing arrangements, but also to issues of animal welfare. In particular, disaster management programmes for livestock need to be devised since such asset loss can drive the poor into destitution.

3.16 A complaint often voiced by representatives of farmers is that the process of economic liberalisation has not been extended to the agricultural sector which remains subject to numerous controls which reduce the potential return to farming. There is merit in this criticism and the Tenth Plan could contribute significantly to agricultural growth if it could address these issues.

3.17 To sum up, agricultural output increased in the 1990s because of higher output support price and input subsidies. Now it must come from higher investments in irrigation, seeds, power and roads. Therefore public investment in irrigation, power and roads should be sufficiently stepped up by reducing subsidies on fertilisers, water and power. Canal systems are in poor shape for lack of operations and maintenance outlay. These should be improved by stepping up plan allocations for maintenance, involving users' groups in management, and appropriate pricing of water to cover operation and maintenance costs. Minimum Support Prices for foodgrains and other commodities will be so adjusted as to promote diversification of agriculture, environmental sustainability, and reduction in food subsidies. And lastly, the eastern and the rain-fed areas of the central region, which have the highest

potential for increase in productivity, would be the focus of attention during the 10th Plan.

3.18 These measures in the 10th Plan can put agriculture on higher growth trajectory as well as trigger growth in other sectors, besides reduce poverty.

2. Poverty-alleviation programmes

3.19 Over the years poverty alleviation programmes of various types have expanded in size and today there is a wide variety of such programmes which absorb a large volume of resources. The Plan provision for rural development is Rs.7,000 crores, for food subsidy Rs.13,000 crores, and for kerosene and LPG subsidy about Rs.12,000 crores, making a total of Rs.32,000 crores. Against this, the provision for irrigation is only Rs.1,700 crores and for afforestation only Rs.400 crores. We need to examine whether the resources used for poverty alleviation scheme and for various types of subsidies in the name of poor may not be more effective in alleviating poverty if directed to various types of basic infrastructural asset creation programmes in rural areas.

3.20 Several evaluations of the Integrated Rural Development Programme (IRDP) show that the projects undertaken under the programme suffer from numerous defects including especially sub-critical investment levels; unviable projects; lack of technological and institutional capabilities in designing and executing projects utilising local resources and expertise; illiterate and unskilled beneficiaries with no experience in managing an enterprise; indifferent delivery of credit by banks (high transaction cost, complex procedure, corruption, one-time credit, poor recovery); overcrowding of lending in certain projects such as dairy; poor targeting and selection of non-poor; absence of linkage between different components of the IRDP; rising indebtedness; and scale of IRDP outstripped capacity of government and banks to

absorb. A disturbing feature of the IRDP in several states has been rising indebtedness of the beneficiaries of IRDP. Besides, the programme for upgrading skills, TRYSEM, was not dovetailed with IRDP. One discovered non-existent training centres and non-payment of stipend in some cases. However, the programme for women, DWCRA did well in some states (AP, Kerala, Gujarat). IRDP was restructured in 1999 to address some of its shortcomings. The SGSY, which replaced IRDP, is a holistic programme based on a group approach with selection of viable activities. The objective is to help the poor to generate adequate levels of income to bring them above the poverty line on a sustained basis. This should be possible without any subsidy, which in many cases leads to corruption. The subsidy amount should instead be used for increasing the revolving fund given to self-help groups.

3.21 Evaluation of the programmes for wage employment also reveals serious weaknesses: inadequate employment and thin spread of resources; violation of material-labour (60:40) norms; fudging of muster rolls; schemes implemented universally through contractors who sometimes hired outside labourers at lower wages. Central norms of earmarking, 40 per cent of funds for watershed development and 20 per cent for minor irrigation, have not been followed. Today 60 out of Rs 100 in wage schemes is reserved for wages, but it has been reported that in some states only Rs 10 to 15 actually goes to the poor worker, the rest is illegal income for bureaucracy, contractors and politicians. An issue repeatedly highlighted in public hearings on these schemes is that of payment of lower wages to women workers. Norms for reservation for women under employment schemes are also not followed consistently. The absence of sex-disaggregated data on beneficiaries in non-targeted schemes makes it difficult to monitor and control such violations. Collection and maintenance of gender disaggregated data on implementation of

all anti-poverty schemes must, therefore, become mandatory.

3.22 The programme for rural housing, although quite popular because of 100 percent subsidy of Rs. 20,000 per beneficiary, has led to strengthening of dependence of the rural poor on the political and bureaucratic system. Given the large number of potential beneficiaries awaiting the allotment of a free house and limited resources, instances of corruption going even up to 40% of the approved amount have also come to light. There is a strong need to make the selection of beneficiaries more objective and non-controversial. The mandatory provision for joint registration of houses in the name of both husband and wife is flouted in most cases. In many states, field-level functionaries are unaware of the existence of such a provision.

3.23 During the 10th Plan it is suggested that:

- SGSY should be transformed into a micro-finance programme to be run by the banks and other financial institutions, with no subsidy.
- Funds to gram sabhas should be extended only when the people contribute, either in cash or in kind, say 15% in normal blocks and 5% in tribal/poor blocks. This will instill a sense of ownership in the community.
- There should be a single wage employment programme to be run only in areas of distress. The focus should be on undertaking productive works and their maintenance, such as rural roads, watershed development, rejuvenation of tanks, afforestation, irrigation and drainage. The payment of wages should be mainly in the form of foodgrains with some cash component. This will improve self-targetting.
- Rural development funds should also be used for enhancing the budgetary allocation of successful rural development schemes that are being run by state governments, or for meeting

the state contribution for donor assisted programmes for poverty alleviation.

- Grassroots women's groups should be empowered and encouraged to implement selected poverty alleviation schemes, particularly food-for-work schemes in areas affected by natural disasters.
- Special efforts should be made to strengthen the economy of the marginal and small farmers, forest produce gatherers, artisans, unskilled workers etc. The poor should not merely benefit from growth generated elsewhere, they should contribute to growth.
- Special efforts must be made to encourage development of tiny and village industries suited for rural areas to provide non-farm employment in rural areas.

3. Public Distribution System and Food Security

3.24 Despite hefty increase in the annual food subsidy from Rs. 2450 crores in 1990-91 to Rs. 9200 crores in 1999-00 and to Rs. 13,000 crores in 2000-01, all is not well with the targeted Public Distribution System (TPDS) in India. There is 36 percent diversion of wheat, 31 percent diversion of rice and 23 percent diversion of sugar from the system at the national level. TPDS does not seem to be working in the poorest north and north-eastern states. The allocation of poorer states such as UP, Bihar and Assam was more than doubled, as a result of shifting to TPDS in 1997, yet due to poor off-take by the states and even poorer actual lifting by the BPL families, the scheme has not made any impact on the nutrition levels in these states.

3.25 The challenge is to reduce foodstocks to roughly half its present level and use it for reducing malnutrition, without adversely affecting the farmers. This would need the following legal and policy changes, which would enhance the role of private sector and make markets less distorted than these are at present.

- Amendment of the Essential Commodities Act to make it an emergency provision that will have to be formally invoked by notification for a limited period of time.
- Enactment of an agreed upon Central Act to ban controls on movement within and between States.
- Phase out of all forms of monopoly purchase.
- Remove licensing controls and de-reserve all agri-based and food-processing industries, including sugar, its derivatives and milk processing, in a time-bound manner.
- Announce a policy renouncing the use of export restrictions on agricultural commodities. Domestic shortages should be met by imports, but not by imposing export controls.
- Phasing out of controls on sugar and also removal of sugar from the PDS.
- Remove the present restrictions on establishing new milk processing capacity under the MMPO.
- Lift the ban on Futures Trading and stocking of all agricultural commodities, and on institutional credit and finance for such activities.
- Remove all restrictions on the export of agri-products.

It is important to emphasise that these initiatives are resource neutral. They do not require the investment of significant public resources but they will help improve agricultural income generation. In addition, the proposed changes discussed below will reduce the surplus with the FCI, as well as reduce leakages. There would thus be massive saving in the food subsidy that can be used for direct income transfer to the poorest and for improving land and water productivity in the poorer areas.

3.26 New initiatives have been taken in India in the field of decentralised procurement of foodgrains. Some state governments have for instance initiated

their own food procurement operations. More such initiatives should be encouraged in the future. Under such a situation it is conceivable that some of the FCI godowns (with staff) are transferred to the state governments. In this context the task of maintaining buffer stocks will become the joint responsibility of the central and state governments. Deficit states should be encouraged to buy directly from surplus states, and they should be compensated for transport and storage etc. These states will most probably hire private agencies to do so, which will bring private expertise into this field.

3.27 Most storage godowns with the FCI are small scale low quality structures, or food grains are stored in the open called covered and plinth storage (CAP), leading to high storage losses. One should consider fiscal concessions to encourage new godown capacity in the private sector.

3.28 The present extraction rates for both wheat and rice are about 10 to 30 % below the international standards due to reservation of agro-processing units for small sector who use inefficient technologies. Therefore remove licensing controls on Roller Flour Mills and other food processing industry. De-reserve food processing units, especially rapeseed and groundnut processing units, from the SSI list.

3.29 Private transporters get a low priority on railway movement forcing them to rely on more expensive truck transport. Similarly selective credit controls by RBI restrict access to trade financing by the private sector. These problems deserve attention.

3.30 Regulated markets were supposed to improve efficiency, but many Mandies make it illegal for farmers to sell through alternative channels (ie selling directly to millers). The markets have thus emerged as taxing mechanisms, rather than facilitating farmers to get the best price.

3.31 On the whole, laws and controls have repressed private foodgrain marketing, undercutting its potential contribution to long-term food security.

4. Forests

3.32 Forests are natural assets and provide a variety of benefits to the economy. Recorded forest area is about 23 per cent of the geographical area of the country but 41 per cent are degraded hence unable to play an important role in environmental sustainability and in meeting the forest produce needs of the people, industry and other sectors.

3.33 The problems and constraints in forestry development include lack of awareness about multiple roles and benefits of forests, especially its role in drought proofing and prevention of soil and water run-off, no linkage between management and livelihood security of the people, low level of technology, inadequate research and extension, weak planning capability, wastage in harvesting and processing, market imperfections, overemphasis on government involvement and control, low level of people's participation and NGOs involvement, lack of private sector participation, unwanted restrictions on felling transport and marketing of forest produce grown by the people, lack of inter-sectoral coordination and weakness and conflicting roles of public forest administration.

3.34 Existing policy, laws, rules, regulation and executive orders should be reviewed for removing constraints in holistic development of forestry with people's participation. Areas where action by government is needed relate to:

- Focus on farm forestry has been surprisingly diluted since 1991 despite its enormous potential, especially in agriculturally backward areas. There are better social returns in promoting agroforestry models in the rainfed or semi-arid regions, which contain most of

India's marginal lands. It is in this sector that we need to take a big initiative. Similarly tree plantation on marginal and waste lands belonging to the poor is not encouraged. Integrated land-use planning is not being attempted, and common lands adjacent to forests get a low priority in the field after 1991.

- Measures to sustain JFM beyond the project period have not been conceptualised. These relate to: building one-to-one correspondence between user groups and forest patch through a new forest settlement, recognition of JFM groups in law and linking them with statutory panchayats, and integrating the activities of such groups with other income generating programmes such as watersheds and marketing of NTFPs.
- Women, particularly in tribal communities, are dependent on forests for meeting many of their survival needs, as well as for income. Protecting women's traditional usufruct rights and enabling women's groups to collect and market NTFPs has been proved to be a viable and cost-effective strategy not only for women's empowerment but also for renewal of forests. It is important to acknowledge and recognise women as managers, food gatherers, wage earners and producers. Forestry development policies must be premised on the basis of this realisation.
- Continuing subsidies on government auctions of wood and bamboo to industries, which acts as a disincentive to industry to pay a remunerative price to farmers. Governments need to examine the pattern of subsidy to forest based industries and wipe out that subsidy in a time-bound manner so as to improve valuation of forests. This will also give a big boost to farm forestry.
- Government must review the tariff structure on forest-based products such as timber and pulp keeping in view the incentive effect on farmers.
- Poor understanding of the social implication of technology; old style plantations still continue to be funded despite the 1988 Policy. We should consider changing forest technology by shifting attention from timber to floor management and production of more gatherable biomass.
- Classification of bamboo as NTFP thereby providing rights to the tribal population and other forest dwellers over this resource. Bamboo harvesting policy systematically maximizes dry bamboo output for paper mills rather than green bamboo output for artisans. In fact the present practices ban felling of green bamboo. Streamlining the procedure for making green bamboo available directly to the artisans.
- Gregarious flowering of bamboo is expected from 2003 onward. This will result in mass mortality of bamboos, fire, increase of rodents, famine and unrest in tribal areas. Emergency plan should be formulated to face the calamity.
- Forest fire prevention and control should be given top priority to reduce losses and emission of greenhouse gases.
- Conservation and development of medicinal plants should be given priority to meet the local crude drugs requirement and for export.
- Agroforestry, mountain, watershed development, river valleys, arid areas, wastelands afforestation programme should be given priority.
- Research and technological development must increase productivity, production of new products, value addition, improved marketing, export and productive employment generation.
- Promotion of coastal shelterbelt plantations for prevention of natural calamities.
- An integrated system for addressing issues of animal welfare, including ecology, safety and commercial exploitation will need to be evolved.

3.35 We suggest that for marketing NTFPs Government should not have a monopoly, nor create such a monopoly for traders and mills. The solution is to denationalise NTFPs gradually, starting with mahua flowers and sal seeds, so as to encourage healthy competition. Encouraging setting up of processing units within the tribal areas is also to be recommended. In fact the Forest Department should be given targets for setting up of such units by the tribals and local groups, so that the role of the FD becomes that of a facilitator, and not of regulator.

3.36 Government should give up some of its functions to the market, rather than try to do every thing itself. For instance, retail sale of fuelwood and bamboo can easily be done by the open market. There is no need for having controls under the excise laws on mahua flowers. Its processing and sale can be easily left to free market operations.

3.37 Nationalisation also distorts administrative priorities. In central Indian states, the entire forest staff is busy with tendu leaf collection for three months in a year from March to June, with no time for JFM or other important forest related work. It is unfortunate that collection of raw material for a health hazardous industry gets top priority at the cost of forest protection.

5. Industrial Policy Issues

3.38 The industrial sector will have to grow at over 10% to achieve the Tenth Plan target of 8% growth for GDP. This represents a major acceleration from its past performance; the sector grew at only about 7% in the Eighth and Ninth Plan periods taken together. Besides, this acceleration has to take place in an environment which will be significantly different from the past. Two differences are particularly important. First, industry will have to face much stronger international competition, as our domestic market is now more open with quantitative restrictions (QRs) on imports having been removed with effect from April 1, 2001.

Second, the relative role of the public sector as a distinct entity will decline in the course of the Tenth Plan as the incremental capacities will be mainly in the private sector and the process of disinvestment converts many of the existing public sector enterprises from government controlled enterprises to non-government enterprises in which government may have a minority stake but the units will either become board managed or managed by a strategic investor. In either case, they will not be part of the public sector.

3.39 The Tenth Plan must therefore focus on creating an industrial policy environment in which private sector companies, including erstwhile public sector companies, can become efficient and competitive. Some of the sources of efficiency which can be tapped in the Tenth Plan period have been discussed in Chapter 2. The specific policy issues that deserve special attention are discussed below.

3.40 The removal of quantitative restrictions on imports is an important step in opening the economy to foreign competition. However, while QRs have been removed, import protection is still very high. It is estimated that India's import weighted tariffs have declined from around 90% at the start of the reforms to around 34% in 2001-02 but this reduced level is three times higher than the level prevailing in East Asia. It is now well recognized that while industrial protection may appear to help a particular sector, it also raise domestic costs and make downstream industrial activity uncompetitive. The net effect is to make industry as a whole uncompetitive in world markets. Recognising this, developing countries the world over have steadily reduced the level of protection over the past ten years. The government has announced that India's tariff levels will be brought to the East Asian levels in a three year period and a plan for a phased reduction will be announced before the Budget for 2002-03. This is in our view the right approach and will give Indian industry a clear indication of the pace at which the transition will be made. Care, however, will have to

be taken to ensure that adequate safeguards are provided for ensuring a level playing-field and to prevent dumping and other forms of misuse.

3.41 A second important policy issue relates to the need to extend industrial liberalization, which has been extensively implemented at the Central level, to the state level also. Industry circles frequently complain that the administration of regulation at the state level is extremely cumbersome and subjects entrepreneurs to frequent harassment. The transactions cost imposed by this system, including costs on account of corruption spawned by excessive regulation, are very large. What is more, they are especially burdensome for small scale units. Radical changes are needed in these areas.

3.42 Small-scale industry has a vital role to play in the process of industrialization providing a vehicle for entrepreneurship to flourish and a valuable entry point for new entrepreneurs who can start small and then grow by. Small scale industries are also vehicles for achieving a broader regional spread of industry. Since SSIs are generally more employment intensive per unit of capital than large scale industry they are also a source of much needed employment. Khadi and village industries also have an important role to play, especially in promoting non-farm employment in rural areas.

3.43 The Tenth Plan must ensure that policies towards the small scale sector are supportive. Liberalisation of controls at the state level can help in this process. Equally important is the need to ensure that adequate credit is made available to SSI units. A proactive policy encouraging banks to meet the needs of SSI, while maintaining all necessary banking diligence in credit appraisal is very necessary. Procedures for credit approval and disbursement in the public sector banks need to be modernized to ensure quick response.

3.44 The policy of reservation of certain products for SSI also needs to be reconsidered. While there

is an overwhelming case for providing support to SSIs through specialized credit access schemes and fiscal incentives, a comparable case cannot be made for reservation on economic grounds. Several expert committees have examined this issue and come to the conclusion that the policy of reservation has hurt our export capability in many areas. It is often regarded as irrational once competition from imports is freely allowed. For these reasons, the expert view is that the policy of reservation needs to be phased out in due course. While doing so, the effect on employment should be carefully considered, since the present employment situation is not comfortable. There is also a need for preferential opportunity to extend investment limits for SSI units with immediate effect, while restricting entry of new large units until later. These issues should be examined and a clear policy laid down at the start of the Tenth Plan period.

3.45 Another major problem facing Indian industry is the nature of the laws relating to bankruptcy and liquidation. The existing Sick Industrial Companies Act (SICA) is ineffective and in any case has provisions which are not consistent with the requirements of a modern bankruptcy law. It needs to be replaced by a legislation which will enable creditors to enforce their claim through quick liquidation in the event of non-payment of creditor dues. This would put pressure on managements to respect the need for repayment and increase bankers' reassurance that they can realize repayments due which would in turn encourage banks to lend. It would also encourage quick restructuring in Indian industry to deal with defaulting managements by changing managements which at present is extremely time consuming.

Labour Policy

3.46 Finally, it is essential to take a fresh look at the structure of labour laws. Our present laws are far too rigid since they do not allow firms to retrench labour or downsize without the permission of the appropriate government, which in most cases is the

state government. This permission is almost never given. Unfortunately, these provisions which were meant to protect employment have actually served to discourage growth of employment. The inability to shed labour in times of difficulty encourages entrepreneurs to avoid hiring labour. It is important to note that rigidity in labour laws represents a greater burden for the labour-intensive industries than for capital intensive industries, where the labour force is small and excess labour can be more easily carried, or alternatively, VRS packages can be worked out which do not pose a huge burden.

3.47 One of the reasons for rigidity in labour laws is that the “employer” is expected to provide, individually for security of employment (i.e., guarding against risks of loss of job), family sickness, retirement benefits and bear the costs of accidents and other occupation related risks compensations. This happens because the labour market institutions, which are designed to provide social security to workers, have a narrow reach, are almost exclusively administered by Central Government, provide security at a high cost, are highly specific to individual employers, and lack the concepts of “shared risk”. Therefore, a more innovative and broad-based social security system for workers is needed to smoothen the process of labour reforms and enable rationalization of labour laws.

6. Science and Technology

3.48 Recognizing that the comparative advantage in the globally integrated knowledge-based world economy today is shifting to those with brain power to absorb, assimilate and adopt the spectacular developments in S&T and harness them for national growth, the Tenth Five Year Plan will give a special thrust to S&T by leveraging on the strong institutional S&T framework built in the post-independent India.

3.49 The approach to technology will go beyond technology import, absorption, adaptation or assimilation. Significant inputs will be made in those

areas where India will have an opportunity to take global leadership and also in those areas, where benefits of S&T will include all those who have been excluded so far.

3.50 Innovative technologies will be generated to meet the Indian needs and to preserve, protect and add value to India’s indigenous resources, its vast biodiversity and its rich traditional knowledge. Technology plurality – an appropriate mix of traditional, conventional and modern technology will be harnessed to enhance the national productivity maximally.

3.51 Technology will be used as a tool to give India a competitive position in the new global economy. For example, Indian exports today derive their comparative advantage through resource and labour rather than differentiation and technology. Therefore, increasing India’s share in high-tech products, deriving value from technology led exports and export of technology will be given a major thrust.

3.52 Technology with a human face will be given a new thrust. Providing creative and innovative solutions in health services, population management, mitigating the damage to vast sections of our people from natural hazards, technologies for conservation of land, water and energy resources and their integrated management for sustainable development would receive the highest priority.

3.53 There is a deep concern today about the declining popularity of science and unwillingness to take science as a career among the youth. This will jeopardise India’s future. Imaginative and innovative programmes will be supported to enhance the intake of young scientists.

3.54 Recognizing that science is an endless frontier, a uniquely human activity without limits, the Indian contributions to advancing that frontier

through intense support to frontline basic research, especially in universities, will be provided.

3.55 While building on the great comparative advantage of India in the emerging areas of information technology and biotechnology, strong support will be provided to agriculture and agro-based industries and infrastructural areas like energy, transportation, communication and housing.

3.56 Full articulation of S&T will be made into various policies and programmes covering economic, energy environmental and several other socio-economic sectors. This centrality will be reflected in the identification of technological choices, the investments and the S&T necessary for all individual sectors, even while formulating sectoral plans. The approach will be to make all social-economic ministries and states the real stakeholders of S&T.

7. SOCIAL INFRASTRUCTURE

Education

3.57 Our performance in the field of education is one of the most disappointing aspects of our developmental strategy. Out of approximately 200 million children in the age group 6-14 years, only 120 million are in schools and net attendance in the primary level is only 66% of enrolment. This is completely unacceptable and the Tenth Plan should aim at a radical transformation in this situation. Education for all must be one of the primary objectives of the Tenth Plan. The Sarva Shiksha Abhiyan, which has been launched to achieve this objective, indicates a strong reiteration of the country's resolve to give the highest priority to achieve this goal during the Plan period. It should also be our resolve that the process of integrating our educational system with the economic needs of the people and of the nation must begin at the primary school stage itself. The objective of education is the total development of a child's

personality, in which, character building and physical education, including sports, are crucial ingredients. Assertion of the dignity of labour and vocationalisation of curricula are essential to ensure that a disjunction does not take place between the educational system and the work place.

3.58 Universalizing access to primary education and improvement of basic school infrastructure must be a core objective of the Tenth Plan. This would mean targeting the provision of one teacher for every group of 40 children for primary and upper primary schools, opening of a primary school/alternate schooling facility within 1 km of every habitation, provision of free textbooks to all SCs/STs children and girls at the primary and upper primary school, management and repair of school buildings through school management committees, provision of opportunities for Non-Formal and Alternative Education for out of school children in the most backward areas and for unreached segments of the population in response to local needs and demands articulated at the grass root level.

3.59 Mere establishment of schools and hiring of teachers will not lead to an improvement in education if teachers remain absent as happens in many parts of the country, especially in rural areas. It is therefore essential that control over schools and teachers should be transferred to local bodies which have a direct interest in teacher performance. States should be encouraged to implement the 73rd and 74th Amendments of the Constitution, which facilitate the transfer of management of primary and upper primary schools to panchayats/local bodies. Planning, supervision and management of education would have to be through local bodies at district, block and village levels. Efforts should also be made for social mobilization of local communities for adult literacy campaigns and for promotion of primary education.

3.60 Concerned users of public services have a self-interest in monitoring and improving public

services. Where panchayats and other local bodies are not effective, it may prove more productive to set up parents groups with representatives of the local bodies and teachers to monitor the delivery of basic education to the rural areas. These parent-teacher groups must be empowered to do this monitoring and enforcing accountability on absentee teachers and disappearing school supplies.

3.61 Steps would have to be initiated to fill up all the existing vacancies of the teachers through in a time bound manner, with defined responsibility to local bodies and communities, and to remove legal impediments in the recruitment of para-teachers. For quality education, provision of adequate academic support/ training to all the teachers will be necessary. In this connection, the use of IT needs to be explored in terms of teachers' capacity building, as also for spread of literacy through TV, media.

3.62 The Mid-Day Meal Programme has made a difference in attendance and retention wherever a proper cooked meal is served. The practice of only providing grains followed by some State Governments, and that also not according to the prescribed norms in all cases, is vitiating the very purpose of the scheme. The State Governments must make efforts to provide hot cooked meals. If it is not possible to cover all the primary schools, efforts must be made to cover all schools in the backward and tribal areas, so that at least the children who badly need this extra nutrition are covered.

3.63 The University and Higher Education Sector also needs attention. Although the number of universities has expanded, and many of the universities continue to maintain high standards of education, it is a matter of serious concern that the expansion in quantity has been accompanied by a fall in quality. Modernization of syllabi, examination reforms and greater attention to issues of governance of universities and colleges, all require

urgent attention. Part of the problem facing universities is the inadequate provision of budgetary resources from the government. Since budget resources are limited, and such resources as are available, need to be allocated to expanding primary education, it is important to recognize that the universities must make greater efforts to supplement resources from the government. University fees are unrealistically low and in many universities have not been raised in decades. This policy is only starving the universities of the minimum resources needed to ensure quality education and is not in the interest of the students. A substantial hike in university fees is essential. Resources raised through adjustment of fees can be supplemented by contributions from industry, constituting funds/trusts like the Bharat Shiksha Kosh, etc. It is also necessary to encourage the establishment of private universities.

3.64 Laws, rules and procedures for private, cooperative and NPO supply of education must be modernised and simplified so that honest and sincere individuals and organisations can set up universities, colleges and schools. Oppressive controls on fees, teacher salaries, infrastructure and staff strength must be eliminated. The regulatory system must be modernised based on the economics of information and global best practices. Given the weak criminal justice system in our country, the regulatory system must also put the greatest emphasis on fraud detection and punishment while letting normal individuals to function more freely.

3.65 These considerations apply with even greater force to the technical educational system. Both technical and management education need to be managed strategically in order to provide broad-based, multi-disciplinary education incorporating composite skills and knowledge to meet the challenges posed by globalisation. In view of the spurt in demand for education in information technology and other new and emerging technology areas, suitable courses at the degree level need to

be given a boost. The challenges posed by faculty shortage and resource limitations have to be tackled through rationalisation and networking.

Health

3.66 Improvement in the health status of the population has been one of the major thrust areas in social development programmes of the country. This was to be achieved through improving the access to and utilization of Health, Family Welfare and Nutrition Services with special focus on under-served and under-privileged segments of population. Technological improvements and increased access to health care have resulted in steep fall in mortality, but disease burden due to communicable diseases, non-communicable diseases and nutritional problems continue to be high. In spite of the fact that norms for creation of health care infrastructure and manpower are similar throughout the country, there remain substantial inter-state/inter-district variations in availability and utilization of health care services and health indices of the population.

3.67 The areas of attention in the Tenth Plan include the reorganisation and restructuring of existing health care infrastructure, including the infrastructure for delivering ISM&H services, at primary, secondary and tertiary care levels, so that they have the responsibility of serving population residing in a well defined geographical area and have appropriate referral linkages with each other. One of the major factors responsible for poor performance in hospitals is the absence of personnel of all categories who are posted there. It is essential that there is appropriate delegation of powers to Panchayati Raj Institutions (PRIs) so that there is local accountability of the public health care providers, and problems relating to poor performance can be sorted out locally.

3.68 There is a need for horizontal integration of all aspects of the current vertical disease control programmes including supplies, monitoring, IEC,

training and administrative arrangements; so that they become an integral part of health care; in order to facilitate this the states may speedily implement the recommendation regarding horizontal integration of on-going vertical programmes, including the suggestion that there should be a single health and family welfare society at state and district levels.

3.69 There are six lakh practitioners in Indian Systems of Medicine and Homeopathy in the country. They will be provided with appropriate orientation/skill upgradation through CME programmes, mainstreamed and utilised in improving access to health care coverage under the national programmes. Efforts will be made to fully implement the recommendations of the Planning Commission's Task Force on preservation, promotion and cultivation of medicinal plants and herbs, ensure availability of good quality ISM&H drugs at affordable prices within the country and fully realise the export potential for these drugs and formulations.

3.70 There will have to be a continued commitment to provide essential primary health care, emergency life saving services, services under the National disease control programmes and the National Family Welfare programme free of cost to individuals based on their needs and not on their ability to pay. At the same time, suitable strategies will have to be evolved, tested and implemented for levying and collecting user charges from people above poverty line and utilising funds obtained for improving the quality of health care services.

3.71 Data from NSSO indicate that escalating health care costs is one of the reasons for indebtedness not only among the poor but also in the middle-income group. It is therefore essential that appropriate mechanisms by which cost of severe illness and hospitalisation can be borne by individual/Organisation/State are explored and affordable appropriate choice made. Global and Indian experience in this area, including efforts at

risk pooling, cross-subsidy at local levels, social insurance, health insurance/health maintenance organisations have to be reviewed and appropriate steps initiated.

Nutrition

3.72 Currently the major nutrition-related public health problems are chronic energy deficiency, micronutrient deficiencies, such as anaemia due to iron and folic acid deficiency, Vitamin A deficiency, Iodine deficiency disorders, chronic energy excess and obesity and associated health hazards.

3.73 Nutritional problems need to be tackled across a broad front. There needs to be a continued increase in food grain production to meet the needs of the growing population. This increase should be more in the case of coarse grain production to meet the energy requirements of the BPL families at lower cost. Efforts have to be made to check the sluggish trend in per capita availability of pulses, and increase pulse production, improve affordability of pulses and increase consumption. Similarly, increased availability of vegetables at affordable cost throughout the year in urban and rural areas is desirable to address nutritional needs of the population.

3.74 As a Tenth Plan strategy, efforts have to be made to move from un-targeted food supplementation to fully operationalising growth monitoring, including screening pre-natal women, in order to identify onset under-nutrition and initiate appropriate health and nutritional interventions. Another necessary step is to move from treatment of infection when children are brought, to prevention, early detection and management of infections through improved access to health care, which would prevent any deterioration in the nutritional status of children.

Rural Water Supply

3.75 Despite good monsoons continuously for the last twelve years and high priority from

Government of India for the programme of augmenting the supply of drinking water by way of funds and attention, the problem of potable drinking water has remained unresolved and in fact becoming more serious every year. Although, the Ministry of Rural Development claims more than 95% coverage, independent reports show scarcity of drinking water in about half of the villages of India. What is even more distressing is the fact that this gap has been increasing over the years, despite heavy investment.

3.76 It may be noted that the new Policy initiated in April 1999 has asked the states to implement "Sector Reform" measures and adopt a demand-driven approach based on empowerment of village water and sanitation committees, 10% of capital cost sharing and 100% sharing of O&M cost by users etc. The new strategy thus rightly relies heavily on the use of central/state funding as a critical incentive to drive the sector reform process at both the state and local government levels. As such, it is important that funding conditionality for disbursement of central funds to state administrations, and from state administrations to Panchayat Raj Institutions and/or local administrations, be explicitly defined both in terms of conditions which must be met and activities for which funding can be applied.

3.77 It must be recognised that sector reforms such as improving capacity of the local people to manage water resources and to make them pay for the supply are politically or administratively not popular decisions. In the absence of requisite political and administrative will, it is feared that the unpopular measures of the new Policy may not be implemented. The modalities of collecting water charges and its use should also be thought through. So far the panchayats have relied too heavily on central and state funding leading almost to spoon feeding and weak implementation capacity. For their capacity building they too should get into the mould of collecting user charges, which is so far avoided by the panchayats being an unpopular measure.

3.78 In the ultimate analysis, drinking water problem is very much a governance issue, it requires bureaucracy committed to peoples' control over funds and programme, effective monitoring, and radical transformation in the style of implementation of all government programmes, because people centred management and sustained results cannot be achieved in isolation in just one sector.

8. ECONOMIC INFRASTRUCTURE

3.79 The energy-transport infrastructure will be a major constraint on any effort to achieve a significant acceleration on the growth of GDP in the Tenth Plan period. GDP growth of around 8% or so will require industrial sector growth of over 10%. This will place heavy demands on the generation and distribution of electric power and also transportation. Since these are non-tradable services, the necessary expansion in supply must come from increased domestic production. Furthermore, in a globally competitive environment, the quality of these services in terms of both price and reliability are as important as availability and it is well known that we face serious problems on both counts. Unless these problems are speedily resolved, India will not be able to compete effectively in the increasingly integrated international economy.

Electric Power

3.80 The power sector has been suffering from serious problems which were identified as much as ten years ago. Though a number of corrective measures have been taken, they have yet to yield the desired results. The outcome is that the power sector faces an imminent crisis in almost all states. No State Electricity Board is recovering the full cost of power supplied with the result that they make continuous losses on their total operations. These losses cannot be made good from State budgets, which are themselves under severe financial strain, and the result is that the SEBs are starved of resources to fund expansion and typically end up

even neglecting essential maintenance. The annual losses of SEBs at the end of the Ninth Plan are estimated at Rs. 24,000 crores and this has led to large outstanding dues to Central PSUs NTPC, NHPC, CIL, Railways, etc. amounting to Rs. 35,000 crores.

3.81 The reasons for the huge losses of the SEBs are well known. Power tariffs do not cover costs because some segments, especially agriculture, but also household consumers, are charged very low tariffs, while industry and commercial users are overcharged. However, the overcharged segments do not always pay the high charges because theft of electricity, typically with the connivance of the staff in the distribution segment, is very high. 80% of the electricity charges billed are actually collected. These large issues were hidden by claiming a large absorption of electricity in agriculture which is unmetered which enabled SEBs to claim T&D losses of around 24%. However, when actual losses were calculated more precisely, in states undertaking power sector reforms, it was found that the actual T&D loss is as high as 45-50%.

3.82 Operational efficiencies in generation are also very low in some states. Overstaffing is rampant. Political interference on the management of SEBs has become the norm in most states making it difficult to ensure high levels of management efficiency.

3.83 These problems were known at the start of the economic reforms and it was recognized at the time the public sector may not be able to invest in the power sector to the required extent to expand capacity. The government therefore invited private investors in power generation in the hope that private investment would fill the gap. However, it soon became evident that significant volumes of private investment cannot be attracted in an environment where the independent power producer is expected to sell power to a public sector distributor which may

not be in a position to pay for the power purchased. The result has been that the inflow of private investment has been much below the targeted level. Since the financial problems of the State Electricity Boards have worsened over the Ninth Plan period, even this volume cannot be expected to continue unless State Governments undertake serious reforms in the power sector, including especially distribution, to make the sector financially viable.

3.84 Fortunately, consensus is beginning to emerge on what needs to be done in this area and a handful of states has started the process of reform. The main elements of power sector reform are the following:

- Power tariff must be rationalized and the process of tariff fixation de-politicised by entrusting it to State Electricity Regulatory Commissions. Ideally, power tariffs should cover the cost of production with reasonable levels of efficiency. If any section of consumers has to be subsidized, the necessary subsidy should be provided explicitly from the Budget. Cross subsidization should be avoided. If it is felt that power consumers as a whole should pay for subsidies to certain categories of consumers, this is better done by levying an excise duty on power (which is within the domain of the states) and using the proceeds to subsidise targeted consumers.
- The traditional vertically integrated public sector monopoly model in which generation transmission and distribution are all bundled into one does not provide maximum incentive for efficiency in all stages of the operation. SEBs should therefore be unbundled to separate generation, transmission and distribution as distinct activities which can then be corporatised and ultimately also privatized.
- Reforms in the distribution segment are the most critical for restoring viability in the power sector since this is the segment which realizes sales

proceeds and therefore ensures financial viability. Public sector controlled distribution systems dealing with millions of consumers are unlikely to ensure efficiency in collection. Many states are willing to begin the process of privatizing distribution. This will help to provide competitive benchmarks against which the rest of the system can be judged.

- Even states unwilling to privatize distribution at this stage should give top priority to distribution reforms. Immediate metering of all 11 KV substations and the introduction of appropriate MIS systems which would help locate pockets of high T&D losses should have top priority. In the medium term the system must move to 100% metering if all consumers, or group of consumers in areas where individual metering is not feasible.
- Bulk consumers should be allowed to access power directly from producers paying a suitable wheeling charge to the transmission and distribution companies. This open access to the transmission network on a non-discriminatory basis is critical for opening up the electricity sector to competition. If implemented, it will force distribution companies to improve the quality of service.
- Captive power generation has an important role to play in an environment where there is an overall shortage. However, most state governments have not formulated clear policies which would enable efficient use of existing resources. A rational policy for captive generation should be drawn up which would enable surplus captive power to be sold to the grid at a reasonable price. Captive power producers should also be able to sell to individual consumers on paying a suitable wheeling charge.

3.85 While reforming the power sector, care must be taken to ensure that the needs of the rural areas are not neglected. The deleterious effects of

insufficient and erratic power supply on all forms of rural economic activities, including agro-processing industries, are too well known to bear repetition. Universal service obligations must, therefore, form part of any process of power sector reforms. The issues of pricing and cost recovery will need to be addressed by the Electricity Regulatory Commissions.

3.86 It is encouraging that a handful of states have started the process of reforms in the power sector. However, it is important to note that the process will necessarily be long drawn out. Systems that are operating at a T&D loss of 45% cannot suddenly go to a 10-15% level, which is otherwise technically feasible. And yet, unless they make this transition, we cannot expect to provide power to Indian industry at a reasonable price and of assured quality. As states embark on power sector reforms it will be necessary to deal with the problems of the very large outstanding dues of SEBs and also the medium term restructuring of the SEBs to bring about viability in operations over a 3 to 4 year period. Substantial financial resources will be needed to help states make the transition. The Accelerated Power Development Programme (APDP) introduced in the Ninth Plan needs to be greatly expanded to serve as a vehicle for assisting states willing to undertake power sector reforms.

3.87 The optimum mix of power generation in terms of primary energy sources is an important issue for long term planning of the power sector. Over the years, the balance between thermal and hydro-electricity has shifted steadily against hydro-electricity which now accounts for only 24% of total power generation whereas an ideal level would be much higher. Special efforts need to be made to restore the balance. Hydro-electricity not only avoids carbon emissions, it is also particularly well suited to dealing with situations where there are large peaking deficits. India has large untapped hydro resources and although there are environmental constraints in tapping these resources, a concerted effort at exploiting this potential, while at the same

time protecting against environmental damage and ensuring fair resettlement compensation is definitely needed.

3.88 Atomic energy is another important source of electric power which has environmental advantages and is also likely to be economical in the longer run. At present, nuclear energy accounts for only 2.4% of total electricity generation. This is far too low. The Nuclear Power Corporation has demonstrated the capability of setting up and operating nuclear energy power plants with high levels of technical efficiency and safety. It is desirable to plan for a significant expansion in nuclear power generation capacity. An expanded programme would also make it possible to reduce costs of construction. This would necessarily require much larger allocation of budgetary support to this sector.

Coal

3.89 Coal is a primary energy source which is plentifully available in the country and is also the cheapest fuel for power generation. Coal production will fall below the target for the Ninth Plan but this has not presented a problem because thermal power generation capacity has not expanded as targeted. For the Tenth Plan period, however, if electric power is to expand to support 8% growth, a substantial expansion in domestic coal production will be needed. The gestation period for a coal mine is considerably longer than that of power plants and this means that coal production planning should have in mind not only the requirement of the Tenth Plan but also the Eleventh Plan.

3.90 A major policy constraint affecting the coal sector is the fact that it is the only energy sector that is not open to private investment except for captive mining. At a time when the petroleum sector has been opened to private investment, there is no reason why commercial mining of coal should not be thrown open also. A proposal for amending the Coal Mines (Nationalisation) Act 1973 has been

introduced in Parliament. Early passage of this amendment is a necessary step for attracting private investment in this important area. Opening the sector for private investment will not only improve total supplies, it will also ensure an improvement in quality because of the pressure of competition.

3.91 It should be noted however that amendment of the Coal Mines (Nationalisation) Act may not be sufficient to attract private investment in this important area. It will also be necessary to make other amendments to overcome the hurdle placed in the way of private mining in notified tribal areas by the Samatha Judgement. The procedures for environmental clearance also need to be greatly simplified so that potential private investors face clear and transparent rules.

Hydrocarbons

3.92 Government have already evolved "India Hydrocarbon Vision – 2025", which lays down the framework to guide the approach and policies for the next 25 years in this sector. Our dependence on imported oil is increasing. It is expected to be about 70% by the beginning of the Tenth Plan and is likely to increase further in the course of the Plan period. It is also likely that the use of gas for power generation will increase rapidly in the coming years. Efforts should be made to increase indigenous production of oil and gas. Arbitrary administrative restrictions on consumption and imports of petroleum products are not the solution and will affect the economic growth of the country. The correct approach would be to allow the scarcity value of such exhaustible natural resources to be reflected in prices. This will create an incentive for conservation and efficient use of petroleum products. This underscores the importance of ensuring that the Administrative Price Mechanism (APM) for petroleum products is dismantled on schedule by April 2002, and petroleum price determination shifts to market based pricing at the start of the Tenth Plan. Complete price deregulation and operation of efficient market in petroleum sector

needs establishment of prudential rules and regulations by a statutory regulatory authority. Therefore, setting up of regulatory mechanisms needs to be expedited, so as to ensure smooth transition from APM to market-driven pricing mechanism.

3.93 At the same time, we need to provide for oil security through strategic storage of crude oil and petroleum products, diversification of oil imports and holding of equity oil abroad. In view of the strategic importance of oil sector in the economy, there is a need to restructure the public undertakings in the oil sector to have the required strength to compete with MNCs. Following restructuring, divestment/ privatisation of some of these companies should also be undertaken in the course of the Tenth Plan through a transparent process.

Non-Conventional Energy

3.94 There is a significant potential to meet the basic energy requirement of people (viz. cooking and lighting), both in the rural and urban areas, in an economically efficient manner through non-conventional and renewable sources of energy. The emphasis has to be on preparing a time-bound plan for progressive electrification covering groups of users or a village as a whole. Wherever feasible, community systems have to be put up to meet and manage the energy requirements in the villages. People's participation through Panchayats, other local bodies, cooperatives and NGOs is to be secured in planning and implementation of such programmes. In addition, other energy users would have to be encouraged for using these energy forms for their particular applications. The approach has to be decentralised and based on a judicious mix of public and private investment.

3.95 At present, contribution from non-conventional energy sources, such as solar, wind, biomass, small hydro (upto 25 MW capacity), etc. is around 3% of the total installed power generating capacity. The strategy to enhance the grid supply

of power from renewable sources of energy or from co-generation has to aim at improving despatchability and cost-competitiveness. A suitable policy framework would need to be introduced for providing remunerative returns and encouraging private investments. Development and promotion of this sector, which is environmentally benign, should not be constrained by intrusive regulation.

Railways

3.96 Considering India's continental size, geography and resource endowment, it is natural that Railways should have a lead role in the transport sector - not to mention other considerations such as greater energy efficiency, eco-friendliness and relative safety. However, Indian Railways has experienced a continuous decline in its position relative to the road transport system. Some reduction in share in favour of road transport was to be expected and is in line with trends elsewhere but there is reason to believe that in India this has been excessive. This has happened primarily because of policy distortions, which need to be corrected urgently.

3.97 The most important policy distortion is the skewed tariff policy which overcharges freight movement in order to subsidise ordinary passenger traffic. This is accompanied by an investment strategy which has placed excessive emphasis on opening new lines for passenger traffic and not enough emphasis on expanding capacity in areas where there is potential commercial traffic. The net result has been an alarming deterioration in the financial condition of the Railways and an inability to undertake the investment needed to improve Railway transport services.

3.98 The heavy cross subsidization of passenger fares is economically irrational and cannot be justified on social grounds since the beneficiaries of the subsidy are not the poor. This system must

be phased out gradually over the Tenth Plan period. Consideration should be given to establishing an independent Rail Tariff Regulatory Authority for tariff fixation on technical and commercial considerations.

3.99 There is also a need to contain burgeoning administrative costs. Expenditure on staff has been increasing at a rapid pace reflecting considerable overstaffing combined with large Pay Commission increases. The burden on the Railways of pension payments is particularly onerous. Corrective action in these areas is urgently needed. The aim should be that staff cost including pension remains within the level of 45% of gross traffic receipt up to the year 2010. This will imply that the staff strength will have to be reduced to around 12 lakh and maintained at that level.

3.100 If the provision of rail transport services, which lacks consumer focus at present, is to be replaced by a system which provides services in line with consumer needs, it will require restructuring of Indian Railways. Indian Railways should concentrate on its core function, i.e. running of transport services on commercial lines, while spinning off non-core/peripheral activities, such as manufacturing units, into individual corporations. These can remain in the public sector for the time being, but should operate like any other public sector unit on commercial accounting principles. Restructuring of even the core functions of Indian Railways appears to be desirable in order to improve efficiency and to better meet the objectives of the organisation.

3.101 Greater emphasis has to be laid on completion of existing projects, and a proper prioritization of all ongoing projects has to be made to ensure that resources are not spread too thinly across projects. Capacity on the saturated high density corridors needs to be augmented particularly on the Golden Quadrilateral by undertaking doubling, opening up of alternative routes through

new lines, gauge conversion etc. The programme of containerization needs to be accelerated, not only to promote inter-modal transport but also as a strategy for increasing its own market share and catering to high value traffic. It would also be necessary to ensure that projects aimed at raising revenue and capacity must achieve their objective.

3.102 During the Tenth Plan, the Railways should also enlarge the scope of private sector participation gradually in acquiring rolling stock through innovative leasing schemes, and aim at upgrading safety infrastructure through induction of technical aids to support human element and enhance asset reliability.

Roads

3.103 Our road network is not up to the requirement of a rapid growth in an internationally competitive environment in which Indian industry must compete actively with other developing countries. Improvement in the national highway network should have high priority in the Tenth Plan. Competition of the ongoing work on the Golden Quadrilateral and the North-South/East-West corridor projects must have top priority in the Tenth Plan. More generally, the existing deficiencies in the road network should receive higher priority than the extension of the network itself. In the longer run, it may be necessary to plan and take preliminary action for expressways to be built in future on those sections where they can be commercially justified.

3.104 There are a number of areas of concern which affect the efficiency of road transport operations. These include the need for rationalisation of road transport taxation structure which may support cost-effective road transport systems, restraining of overloading of trucks, control of encroachments and unplanned ribbon development, and promoting road safety. The

employment potential of the road transport sector too has not been effectively utilised due to insufficient encouragement to private enterprise. Particular emphasis needs to be given to removing all unnecessary policy and procedural hindrances to greater private participation in road transport operations, particularly by cooperative and corporate bodies, without compromising on road safety considerations.

3.105 Rural road connectivity is an extremely important aspect of rural development. Substantially enhanced rural road accessibility should be achieved in the Tenth Plan by linking up all villages with all-weather roads through the Prime Minister's Gram Sadak Yojana. The need is for the linking of villages and habitations with all-weather roads. However, while constructing rural roads, connectivity of public health centers, schools, market centers, backward areas, tribal areas and areas of economic importance should be given priority.

Ports

3.106 The functioning of major ports under various Port Trusts is characterized by operational inflexibility partly due to the structure of the decision making process and partly due to outdated labour practices. This introduces delays in shipments and additional costs all of which makes our exports uncompetitive. Radical reforms are needed in this area including corporatisation of the major ports within a short period of time and induction of private investors in port development. Fortunately, this is one area where the experience with private investment has been good.

3.107 Productivity improvement at major ports will be another important thrust area in the Tenth Plan. Through productivity improvement, it is expected, a capacity equivalent of 11 MT-15 MT could be added during the Plan. The augmentation of capacity and improvement in productivity should

make for a situation where berths wait for ships rather than ships for berths.

Telecommunications

3.108 Telecommunications is a critical part of infrastructure and one that is becoming increasingly important, given the trend of globalisation and the shift to a knowledge-based economy. Until 1994 telecommunication services were a Government monopoly. Although telecommunications expanded fairly rapidly under this arrangement, it was recognised that capacities must expand much more rapidly and competition also be introduced to improve the quality of service and encourage induction of new technology. Telecommunications has become especially important in recent years because of the enormous growth of information technology (IT) and its potential impact on rest of the economy. India is perceived to have a special comparative advantage in information technology or in IT-enabled services, both of which depend critically on high quality telecommunications infrastructure. Telecommunication has also become extremely important for a wide range of rural activities, and this importance will only increase as the process of diversification of rural economic

opportunities gains momentum. Universal service obligation must, therefore, be insisted upon for all providers of telecom services.

3.109 Telecommunications policy in the Tenth Plan must, therefore, provide the IT and related sectors with world class telecommunications at reasonable rates. Formulating a policy for the sector faces an additional challenge because technological change in telecommunication has been especially fast and is constantly leading to major changes in the structure of the telecommunication industry worldwide. With its technological and cost advantages, Internet telephony should be opened up. Tariff rebalancing with the objective of cost based pricing, transparency and better targeting of subsidies should be the guiding principles for tariffs. Convergence of data, voice and image transmission and use of wide bandwidth and high speed Internet connectivity have added new dimensions to infotech and entertainment which need to be taken into account in the policy regime. Such convergence of services and appropriate changes in the licensing regime is needed to optimise the utilization of resources with least cost of provision and encourage competition across the country in services and among the service providers.

Chapter 4

Design of Programmes, Governance and the Institutional Framework for Development

4.1 Successful implementation of development programmes requires adequate funds, appropriate policy framework, formulation of suitable plan schemes, and effective delivery machinery. However, past experience suggests that availability of funds is no panacea for tackling the problems of poverty, backwardness and low human development in India. Funds may be necessary, but they are not a sufficient condition; the determining factor seems to be the capability of the funding Ministries/State Governments to formulate viable schemes and at the delivery system to implement these schemes on the grounds. There are serious deficiencies in both respects and they can be regarded broadly as due to poor governance.

4.2 These weaknesses can no longer be side-stepped as merely macro-level field problems. They need to be faced squarely and redressed at the planning stage itself. Reform of governance therefore has to be the one of centrepieces of the Tenth Plan. This chapter suggests several reforms to improve effectiveness of design of programmes as well as its delivery. These can be broadly grouped under two heads; re-orientation of centrally sponsored schemes; and an ambitious civil service renewal programme aimed at strengthening of delivery institutions, district administration and the panchayats. This chapter has been written keeping in mind the social sector programmes directed by GOI, although most suggestions will be relevant even for state sector programmes.

Centrally Sponsored Schemes (CSSs)

4.3 The Government of India is involved in a large number of programmes that are in the state list of the Constitution. As these schemes are implemented by the states, GOI has no control over the staff, or over day-to-day supervision or coordination so necessary for the success of such schemes. The number of such Centrally Sponsored Schemes has multiplied very fast in the last ten years, and has reached a staggering number of more than 200 today. The CAG studied the implementation of a few centrally sponsored schemes (CSSs) and observed as follows in their 1999 report:

“The result of the performance reviews of these schemes carried out in the controlling Union ministries and the different states disclosed a common pattern of shortcomings in the execution of all Centrally Sponsored Schemes as under:

- Inability of the Union ministries to control the execution of the schemes with a view to ensuring the attainment of the stated objectives in the most cost effective manner and within the given time-frame, as a result of which, the programmes continued to be executed in uncontrolled and open-ended manner without quantitative and qualitative evaluation of delivery.
- The controlling Union ministries confined their role to the provision of budget and release of

the funds to the state governments rather mechanically without reference to the effective utilisation of the funds released earlier in accordance with the guidelines and capacity of the respective state governments to actually spend the balance from the previous years and releases during the current year.

- The ministries were unable to ensure correctness of the data and facts reported by the state governments. Overstatement of the figures of physical and financial performance by the state governments was rampant. No system of accountability for incorrect reporting and verification of reported performance were in vogue.
 - The Ministry was more concerned with expenditure rather than the attainment of the objectives. Large parts of funds were released in the last month of the financial year, which could not be expected to be spent by the respective state governments during that financial year.
 - The state government's attitude to the execution of the programmes was generally indifferent. They laid emphasis on release of assistance by the ministry rather than ensuring the quality of expenditure and attainment of the objectives. Misuse of the funds provided for vulnerable sectors and sections of the society was rampant. The state governments' attitude towards such misuse was one of unconcern. The controlling Union ministries had no clue to such misuse. Thus, in many cases, the figures of expenditure booked in accounts assumed precedence over the bonafide and propriety of the expenditure.
 - Nobody could be held responsible for shortfall in performance, poor delivery of output, wanton abuse of the authority to misuse the funds provided for succour to the victims of calamity, economic upliftment of the poor Schedules Tribes, eradication of Malaria, sheltering from the suffering of repeated droughts, etc."
- 4.4 CAG has thus indicted both the central and state governments for shabby implementation of the CSSs. It has however looked at the end result, but not analysed the causes why the outcome is so much below the desired level. The reasons for poor implementation of centrally sponsored schemes are many, such as:
- There are too many schemes to be monitored. The Divisional Commissioner, Kanpur identified 167 schemes being run at the block level, and he felt there were more schemes that were still to be added to the list. It was impossible, he felt, for the BDO to keep effective control on their proper execution.
 - A number of plan schemes are in operation with similar objectives targeting the same population. Generic components like extension, training, IEC get repeated in most of such schemes leading to wastage. For every new scheme, there is a tendency to develop new implementation machinery at the national, state and district levels. There are schemes that are no longer productive, but still continue. All this calls for a lot of consolidation and convergence.
 - Ministries are hesitant to monitor state sector schemes, although it may have important bearing on the sector with which the central Ministry is concerned. Even centrally sponsored schemes are not being monitored by the central ministries. Funds are released in an indifferent manner without asking for utilisation of previous assistance. If financial monitoring is weak, the impact of funds on performance is hardly studied, and sustainability is never questioned!
 - Apart from willingness, capacity to do effective monitoring is limited, and often does not exist. Thus there is neither will nor capability for the task. Delayed evaluation serves little purpose, as officers have a short time perspective. Independent assessment by academics that is not sponsored by Ministry ever reaches the Ministry. Even senior officers are not aware of

the evaluation studies published in EPW and similar journals. Giving funds to consultancy organisations is looked upon as a patronage activity by Government officers. No interest is taken in ensuring the quality of such reports.

- There is unwillingness to accept poor performance, for fear of being questioned by Parliament or adverse press publicity. Senior officers feel that they would be taken to task if failure were admitted. Hence a vested interest develops up to the top to conceal shortcomings, and not encourage independent evaluation. Since weaknesses are not highlighted, no corrective action is taken to set them right. Due to vested interest all along the line in bogus reporting and no readiness to admit bad performance, the learning process of the organisation is blocked.
- Most schemes follow a blue print and top-down approach, with little flexibility given to field staff. Any change in the scheme requires approval from GOI which is time consuming. Uniformity of schemes all over the country from Mizoram to Kerala, without sufficient delegation to states to change the schemes to suit local conditions, leads to a situation where the states even knowing that the scheme is not doing well become indifferent to its implementation.
- States do not release the counterpart funds in time, leading to uncertainty about the availability of funds at the field level. Even the release of GOI funds to the field is held up for several reasons. First, the states have to get legislative approval for GOI schemes, which takes time. Second, states do not attach importance to spending on CSSs, and thus are in no hurry to sanction expenditure. And third, fiscal problems at the state level force the states to divert GOI funds for paying salaries. States' burgeoning fiscal problems thus exacerbate this trend, as already discussed.

- Much time is spent by State Government officials in collecting district, and sometimes block level information, and little in analysis. Officers at all levels spend a great deal of time in collecting and submitting information, but these are not used for taking corrective and remedial action, but only for forwarding it to a higher level, as they have no power to change the nature of CSSs. This defeats the very purpose for which information is collected.
- Routine has taken over the functioning of government at all levels. Little time is left for officers to initiate reforms or change schemes. With the best of commitment it often takes two years to get a scheme changed. In the meantime the officer gets transferred, and his efforts come to naught. Perception of short tenure dampens the enthusiasm to undertake reforms. Many schemes assume a highly committed delivery machinery which will act as 'friend, philosopher and guide' of the people. Even if such rare individuals existed in government they do not stay at a particular post for a long time to make lasting impact. Incentive structure is also weak.

4.5 The proliferation of CSS is an example of the state over-stretching itself. It would be better to do fewer things well rather than getting involved with an unmanageably large number of activities. Policy makers should therefore attempt to match the government's role to its existing capacity, while at the same time strive to improve the effectiveness and efficiency of public resource use. One of the ways to reduce the mismatch between the intentions of the GOI and the inadequate implementation capability is by radically limiting the number and improving the flexibility of CSS.

4.6 The share of the CSS in the Plan budget of the Central Ministries has now increased to 70% against 30% in the early 1980s. This expansion has taken place at the expense of investments in Infrastructure, Industry and Energy sectors. While

reduced expenditure on Industry is justifiable the reduction in expenditure on infrastructure and energy does involve a significant cost since these sectors remain sectors where public investment is needed. The massive increase in allocations has however not been matched by improved monitoring, and effective control. There is ample evidence of diversion of plan funds for salaries and other non-plan expenditure. This suggests that the number of CSS needs to be curtailed drastically from more than 200 today to just about 20 to 40 so that effective systems for their monitoring can be developed.

4.7 A number of plan schemes are in operation with similar objectives targeting the same population. These should be converged, and the schemes that are not yielding results should be weeded out. The tendency to proliferate centrally sponsored schemes need to be curbed, and more funds should be provided to State specific programmes, as project based Central assistance to the state plans with AIBP type of budgetary arrangement, where central Ministries have adequate control over flow of funds but states too have flexibility in deciding the details of schemes. Role of the Central Ministries should be capacity building, inter-sectoral coordination, and detailed monitoring and impact studies of state sector projects, so that the gain from public spending is maximised. CSS funds should also be used for enhancing the budgetary allocation of successful development schemes that are being run by state governments on their own, or for meeting the state contribution for donor assisted programmes for poverty alleviation and social infrastructure.

4.8 It is interesting to note that CSS compare unfavourably with Externally Aided Projects in the matter of efficiency. This is because Ministries are willing to abide by funding agency standards of project consultancies, implementation and monitoring, but CSS rarely follow a project approach and lack important components, which are essential to make them succeed. Many of them would do

better if a project approach were insisted upon, with time bound targets for monitoring, mid-term evaluation and detailed impact studies. What cannot be made into a project should not be in the CSS basket. CSS should be designed in consultation with individual states, and the outlays should be demand driven.

Governance reforms

4.9 Over the decades, after having inherited very substantial powers from its colonial legacy, the State apparatus has steadily amassed functions – and more powers often in the name of the poor. The new developmental State has been bestowed a vast number of new responsibilities and vastly extended financial powers. Although the exercise of these powers is not untrammelled – there are a number of checks and balances imposed by the democratic system — the labyrinthine and obscure processes through which decisions are taken, over-regulation in many spheres of public life, the weakness of democratic institutions, and the sheer monopoly which vests with the State, creates sufficient ground for arbitrary exercise of this power.

4.10 We would like to quote here from the address of the Prime Minister to the National Development Council meeting held on Feb. 19, 1999:

“People often perceive the bureaucracy as an agent of exploitation rather than a provider of service. Corruption has become a low risk and high reward activity. Frequent and arbitrary transfers combined with limited tenures, are harming the work ethic and lowering the morale of honest officers. While expecting discipline and diligence from the administration, the political executive should self-critically review its own performance. Unless we do this, we cannot regain credibility in the eyes of the people who have elected us to serve them.”

4.11 The issue of reform in governance has acquired critical dimensions in poorer states in the

light of low economic growth and fiscal crisis. Weak governance, manifesting itself in poor service delivery, excessive regulation, and uncoordinated and wasteful public expenditure, is seen as one of the key factors impinging on growth and development. The financially weak infrastructure sectors here places a massive burden on these states; problem has been accentuated by the deepening culture of non-payment by customers of public utilities. States' reluctance to discipline government servants, take action against the corrupt ones, or reduce their numbers or make changes in their service conditions further confirms the belief of the people that state apparatus exists largely for government servants. The problems of security, the culture of harassment, long delays, administrative secrecy, and the seeming inability to check organised power theft - all discourage formal sector, large scale, law-abiding tax paying units from investing in these states. But it is the growth of the latter upon which prospects for future productivity and export growth and higher wage jobs will largely depend. These states will be neither able to end the fiscal crisis nor to restore growth unless they are able to address problems of governance. Whether the issue is tax compliance or the environment for the private sector or the state's physical and social infrastructure, progress will be impossible without a significant redirection and improvement in the way these states run their administration.

4.12 Almost the entire social sector programme is implemented by State level field machinery and, therefore, we should be vitally concerned with falling standards of performance and integrity among the field officials. As corruption is on the increase even in higher echelons of bureaucracy, the fear in the minds of lower level officials has declined and corruption at all levels, as the Prime Minister put it, has become a 'low risk and high reward' activity. Even honest civil servants are disheartened by the uncertainty of tenure and lack of support from the top for innovative ideas. This has generated a

growing feeling among the civil servants that honesty, impartiality and concern for public welfare are at a discount today.

4.13 The collapse of ethical standards has a number of implications for fiscal discipline. In such a scenario of low institutional capability and poor performance of civil servants it is unfair to expect that the political processes would be totally free from populism. Politics is after all 'art of the possible', and if the civil service is no longer able to ensure good governance, politicians are forced to resort to populism in order to reach at least some benefits to the people to keep the faith of the voter alive in the political system. Subsidies on water, power and transport help in maintaining the credibility of the democratic system, since the voter does not seem to be getting any other benefit through the vast and ever growing bureaucratic machinery. A civil service renewal programme which improves public satisfaction therefore has to be an essential component of effective implementation of development programmes.

4.14 In the area of civil service reform, the Government faces three critical challenges. It must enhance the productivity of the civil service and make certain that each employee is performing socially relevant tasks. It must ensure the long-term affordability of the civil service, and it must enforce procedures for rewarding and promoting merit, disciplining malfunction and misconduct, to strengthen accountability and performance quality. It has become necessary to reshape the bureaucracy so that it perform its core public functions and develop new ways of ensuring that critical economic and social services are provided directly or indirectly. A new work culture will have to be evolved at all levels of the staff. Innovation and performance should be encouraged and rewarded and steps should be taken to ensure effective devolution and control of the elected bodies over the functionaries.

4.15 The agenda of reform in governance should include a multifaceted strategy based on ensuring security of tenure, increasing accountability, Civil services renewal, open and responsive government, tackling corruption and strengthening the rule of law, and e-governance. Promotion of gender equality must be fore-grounded in the agenda for governance reforms in order to achieve the desired results. Some of the operational decisions that would lead to better governance are summarised below.

4.16 GOI should ascertain the average tenure of Collectors, Project Officers, and other such category of officers who implement development projects in different states. This should be publicised every quarter so that consensus is built against short tenures. Stability index should be calculated for the above posts, and a norm of at least two years be fixed, so that although government would be free to transfer an officer before two years without calling for his explanation, the average must be maintained above two years. This would mean that for every short tenure some one else must have a sufficiently long tenure to maintain the average. To ensure its compliance, necessary changes should be made in the Service Rules and other such Rules.

4.17 At least for higher ranks of the civil services e.g. Chief Secretaries, Secretaries of Government and DGPs, appointments may be made contractual for a fixed period, and suitable systems may be evolved to ensure that they are rarely removed before the period of the contract without their consent or explanation.

4.18 Review the Official Secrets Act, and supplement it by a Right to Information Act. Rule 9 of the All India Services Conduct Rules and similar other Rules which prevents information from being provided to an ordinary citizen should be deleted, and another rule is added highlighting the intention of the Government in favour of transparency and stating that all such information which is generally provided by the Assembly/Parliament to a Member

of Legislature, should also be provided to any member of the public, including NGOs.

4.19 It should be mentioned in each government order the level at which decision has been taken. The reasons for disallowing a petition should be fully mentioned, that is, it should be a speaking order, and the reasons for delay in disposal of petitions should be fully explained.

4.20 Departments such as the Police and Revenue, which have more dealings with the people, should be assessed once in three years by an independent professional organisation. These should look at their policies and performance, and suggest constructive steps for their improvement.

4.21 Another area of reform relates to post-retirement bonanzas. The Fifth Pay Commission while recommending the age of superannuation as 60 years, suggested the complete abolition of the provision of extension in the service rules. The State and Central Governments as well as PSUs should implement this particular recommendation and also avoid post retirement jobs to the civil servants as also the judiciary. If the talent of any particular individual needs to be used even after his retirement, it can be on a short-term consultancy basis to meet a specific time bound requirement at the end of which the contract should be terminated. In any case, no officer above the age of 60 should get government housing. By throwing open the jobs in the organisations like Administrative Tribunals, Commissions of Inquiry, Pay Commission, Vigilance Commission and the other regulatory authorities etc. to the serving civil servants as against the retired, the prevalent congestion at the top levels of the civil service can also be substantially reduced.

4.22 Computer-based information systems should be developed so that discretion and delay can be reduced. Each department should develop a citizen's charter establishing clearly enforceable norms of performance and accountability.

4.23 Nothing would send a stronger and more positive signal to the people as well as investors than the announcement and implementation by government of a comprehensive anti-corruption strategy. Action against corrupt officers cannot be initiated in many states as the power to sanction prosecution is vested in state governments. This should be declared a semi-judicial process, and the powers to sanction prosecution should be vested with a designated authority, which should pass a speaking order.

4.24 It must be recognised that improvement in governance would take place only when countervailing forces in society develop confidence to oppose inefficiency and corruption in government. Therefore, in addition to promoting genuine civil society organisations, government should also relax FCRA provisions so that NGOs have easier access to alternative funding.

4.25 As regards panchayats, in spite of various drawbacks and lacunae in constitution of PRIs, there are many instances where village Sarpanches have done commendable work in improving the social and economic life of the common people. There is mixed experience with the work done by PRIs at the block and district levels, and there is a feeling that there may be too many tiers leading either to ineffectiveness or excessive control. The financial conditions of local bodies too are precarious since in many cases neither is there effective devolution of financial resources by the states nor adequate revenue raising powers. Indeed, the near absence of revenue raising powers with the PRIs is leading to a sense of dependence rather than empowerment, which was the original intent of the Constitutional amendment. Control which is exercised by the sarpanch and Block Level officials over the village panchayats and gram sabhas (which rarely meet) has not only buttressed corruption, but it has also led to pessimism that villagers at their own level cannot change and improve performance because of heavy dependence on elected

functionaries and Block officials. Though providing a framework for decentralised rural development, trends so far suggest that the panchayat raj system has not been able to enhance participation and empowerment as effectively as would be desired.

4.26 The major lessons emerging from the first round of Devolution in the wake of the 73rd/74th Amendment are as follows:

- Constitution should be amended to enable the states, if they so wish, to abolish either the district or the block level tier of the panchayats, and retain only one out of these two, in addition to the village tier, which has the highest potential for direct democracy and participation through the institution of the gram sabha.
- Finance Commission and other development funds should not be given to States unless effective powers are transferred to PRIs. Today there are no panchayats at some level or the other in many states, such as Andhra Pradesh, Gujarat, Punjab, Assam, and Bihar. Stringent cuts should be imposed on them in Central Assistance and other development funds.
- Provide PRIs with revenue raising powers of their own in order to reduce their excessive dependence on the State and Central Governments. Today the PRIs hesitate to levy and collect taxes, as they prefer the soft option of receiving grants from GOI. This must be discouraged and the local bodies be encouraged to raise local resources for development and then receive matching grants from the Centre. The more dependent a PRI is on the mass of its citizens for financial resources, the more likely it is to use scarce material resources to promote human development and reduce poverty. External funds with no commitment to raise internal funds make PRIs irresponsible and corrupt.
- Strengthen accountability of the local bodies and their standing committees. Help to evolve a code

of conduct for all functionaries. Provide orientation for the newly elected members. Make rules and procedures simple and transparent. Strengthen financial management and audit procedures with the objective of facilitating the tasks to be performed by the elected functionaries drawn from all walks of life.

4.27 Effective panchayats/user groups would not only need to have the necessary powers and capacity, but also require effective district and block level administration. Hence reforms for better governance along the lines indicated above would be necessary for the elected representatives to meet the peoples' expectations.

4.28 Development is an outcome of efficient institutions rather than the other way around. Focus

therefore must be shifted from maximising the quantity of development funding to maximising of development outcomes and effectiveness of public service delivery. Despite good achievement on the growth front, India faces significant challenges and needs to take some difficult decisions. Improving public satisfaction and changing work culture requires not so much additional resources, as better policies and sound delivery mechanisms. Unless teachers attend schools and teach, doctors attend health centres and provide health care, and subsidies reach the poor, mere increase in the social sector expenditure would add to the number of government employees without the intended commensurate benefits flowing to the people. This requires reorganising CSSs, and an ambitious civil service renewal programme, some aspects of which we have described in this chapter.

Chapter 5

Conclusions

5.1 The last decade of the 20th century has seen a visible shift in the focus of development planning from the mere expansion of production of goods and services and the consequent growth of per capita income to planning for enhancement of human well being. The notion of human well being itself is more broadly conceived to include not only consumption of goods and services in general but more specifically ensuring that the basic material requirements of all section of the population, including especially those below the poverty line, are met and that they have access to basic social services such as health and education. Specific focus on these dimensions of social development is necessary because experience shows that economic prosperity measured in terms of per capita GDP does not always ensure enrichment in quality of life, as reflected, for instance, in the social indicators on health, longevity, literacy and environmental sustainability, etc. The latter must be valued as outcomes that are socially desirable, and hence made direct objectives of, our development process. They are also valuable inputs in sustaining the development process. In addition to social development measures in terms of access to social services, an equitable development process must provide expanding opportunities for advancement to all sections of the population. Equality of outcomes may not be a feasible goal of social justice but equality of opportunity is a goal for which we must all strive.

5.2 The development process must therefore be viewed in terms of the efficiency with which it uses an economy's productive capacities, involving both physical and human resources, as means to attain the desired social ends (and not just material attainment). To this end it is absolutely essential to build up the economy's productive potential through high rates of growth without which we cannot hope to provide expanding levels of consumption for the population. However, while this is a necessary condition it is not sufficient. It becomes imperative therefore to pursue a development strategy that builds on a policy focus on exploiting synergies between economic growth, desirable social attainments and growing opportunities for all.

5.3 As we set out to discuss the approach to the first five year plan of the new millennium and the tenth since our independence we can justifiably take pride in having reversed the worst inequities of our colonial past and succeeded in building an economy of considerable economic diversity and strength within a framework of federal democracy. Much has been attained and yet much more needs to be done. The task before us is daunting. The economy has the potential to achieve much more than it has done in the past ten years and this achievement is indeed necessary if India is to take her rightful place in the comity of nation. However, achievement of this potential requires decisive action.

5.4 In many respects, development policy in future must make a break from the past. The government had over the years taken on itself too many responsibilities with the result that it not only marginalized individual initiative but also succeeded in imposing severe strains on its financial and administrative capabilities. More importantly, in the face of momentous changes in the domestic economic policy in the last decade and an equally fast paced integration of our economy with the emerging global order, investment planning is no more the only, or the only pre-dominant, or even the most effective instrument of pursuing development. Planning has to necessarily go beyond undertaking mere budgetary allocations between competing sectors and regions. It has to address with greater vigour, the need to release latent energies and stimulate private initiative in various facets of our development process. Ultimately, we have to plan for an environment that provides ample opportunities for all to actualize their potential individually as also collectively for the nation as a whole.

5.5 To this end, the Approach to the Tenth Five Year Plan proposes to shift the focus of planning from merely resources to the policy, procedural and institutional changes which are considered essential for every Indian to realise his or her potential. In view of the continued importance of public action in our development process, increasing the efficiency of public interventions must also take high priority. These measures collectively are expected to create an economic, political and social ambience in the country which would enable us to realise the Prime Minister's vision. The minimum agenda on which there must be full political agreement, and for which the approval of the National Development Council (NDC) is sought, is listed below :

1. Reduction of Centrally Sponsored Schemes (CSS) through transfer to states, convergence and weeding out.
2. Expansion of project-based support to states.
3. Support to states made contingent on agreed programme of reforms.
4. Adoption of "core" plan concepts at both Centre and States.
5. Preference to be given to completion of existing projects than to new projects. Identification to be done by joint team from States, central ministries and Planning Commission.
6. Plan funds to be permitted for critical repair & maintenance activities as decided by joint team.
7. Greater decentralisation to PRIs and other people's organisations.
8. Privatisation/closure of non-strategic PSUs at both Centre and States in a time-bound manner.
9. Reduction in subsidies in a time-bound manner to provide more resources for public investment.
10. Selected fiscal targets to be achieved at both Centre and States.
11. Accelerating tax reforms to move towards a full-fledged VAT in a time-bound manner.
12. Legal and procedural changes to facilitate quick transfer of assets, such as repeal of SICA, introduction and strengthening of bankruptcy and foreclosure laws, etc.
13. Reform of Labour laws.
14. Reconsideration of all policies affecting the small-scale sector.
15. Adoption of a model blue-print for administrative reforms.
16. Reform and strengthening of judicial systems and procedures.