

## CHAPTER 1

# PERSPECTIVE, OBJECTIVES AND STRATEGY

1.1 The Tenth Five Year Plan, covering the period 2002-03 to 2006-07, represents but another step in the evolution of development planning in India. In the 55 years that have passed since our Independence, the challenges, the imperatives and the capabilities of the nation have undergone profound changes. The planning methodologies have attempted to keep pace with the emerging requirements and to guide the economy through the vicissitudes of national and global events, with greater or lesser success. The Tenth Plan carries on this tradition in the context of the objective realities of Indian economic life as they are manifested today.

1.2 The single-most important feature of our post-colonial experience is that the people of India have conclusively demonstrated their ability to forge a nation united despite its diversity, and to pursue development within the framework of a functioning, vibrant and pluralistic democracy. In this process, democratic institutions have put down firm roots, which continue to gain strength and spread. The degree of democratisation that has been achieved in the political sphere is, however, not matched by its progress on the economic front. There are still too many controls and restrictions on individual initiatives, and many of our developmental institutions continue to exhibit paternalistic behaviour, which today has become anachronistic. For the country to attain its full economic potential, and for the poorest and weakest to shape their destiny according to their own desires, it requires a comprehensive reappraisal not only of our development strategy, but also of the institutional structures that guide the development process. This is the task that the Tenth Plan has set for itself.

### THE PERSPECTIVE

1.3 The last decade of the 20<sup>th</sup> 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 to ensure that the basic material requirements of all sections of the population, 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 income, alone does not always ensure enrichment in quality of life, as reflected, for instance, in the social indicators on health, longevity, literacy and environmental sustainability. The latter must be valued as outcomes that are socially desirable in themselves, and hence made direct objectives of any development process. They are also valuable inputs in sustaining the development process in the longer run. 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.

1.4 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, to attain the desired economic and 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 in itself. It becomes imperative, therefore, to pursue a

development strategy that builds on a policy focus for exploiting synergies between economic growth, desirable social attainments and growing opportunities for all. Such a strategy must have at its heart a commitment to widen and deepen the participation of people in all decisions governing economic and social development.

1.5 The Tenth Five Year Plan (2002-07) has been 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 per cent in the 1980s to an average of about 6.1 per cent in the Eighth and Ninth Plan periods, making India one of the ten fastest growing countries in the world. 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 per cent for the first time in four decades. Literacy has increased from 52 per cent in 1991 to 65 per cent in 2001 and the improvement is evident in all States. Sectors such as software services and IT enabled services have emerged as new sources of strength, creating confidence about India's potential to be competitive in the world economy.

1.6 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 progress has been clearly disappointing. Growth in the 1990s has generated less employment than was expected. The infant mortality rate has stagnated at around 70 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 access to drinking water in their homes, and far fewer have latrines inside the house. The situation in this regard is much worse in the rural

areas. Land and forest degradation and over-exploitation of groundwater is seriously threatening sustainability of rural livelihoods and food production. Pollution in the cities is on the increase.

1.7 All of these issues, among many others, will have to be tackled during the coming years, and the strategies and programmes for doing so are discussed at the appropriate places in this Plan document. However, there are a few which are of critical concern, and which need to be highlighted right at the outset.

1.8 First and foremost, it needs to be emphasised that the Tenth Plan straddles a cusp in the evolution of our demographic structure. Although the growth rate of population in the country has declined to below 2 per cent during the decade of the Nineties, and is expected to decline even further during the next decade, the growth rate of the population in the working age group of 15 to 60 years will continue to accelerate before it turns down towards the end of this decade. This pattern of the growth rate of the working age population, exceeding the overall population growth rate, was in evidence during the 1990s as well, and it is fortunate that the country has not faced a serious unemployment problem as yet. The significant reduction in the labour force participation rates between 1993-94 and 1999-2000 has ensured that the pace of creation of work opportunities has nearly absorbed the accretions to the labour force, at least in the aggregate. It would not, however, be prudent to assume that participation rates will continue to decline in the future, since there are at least two possibly contradictory forces in operation. On the one hand, the increasing trend in the average years of education will reduce the rate of addition to the labour force; while, on the other, greater workforce participation by women will tend to increase it. Although the recent data seems to suggest that women are withdrawing from the workforce, particularly in rural areas, it is not obvious that this is entirely a voluntary phenomenon. It may simply reflect the non-availability of appropriate work opportunities. With economic growth, improved connectivity and higher female literacy, the situation can, and indeed should, change dramatically.

1.9 There is, therefore, every likelihood that the labour force will increase faster than the economy's current ability to provide gainful and decent work opportunities. During the 1980s and the early part of the 1990s, the average growth rate of employment has been above 2 per cent per annum, which has dropped to only 1.1 per cent in the latter part of the 1990s. Therefore, if these past trends in work creation continue into the future, the country faces the possibility of adding at least half a percentage point of the labour force – that is nearly 2 million young people – to the ranks of the unemployed each year. By the end of the Tenth Plan, open unemployment, measured on the usual principal and subsidiary status (UPSS) basis, could then be as high as 5 per cent, or even higher, as compared to around 2.8 per cent at present. Such a situation is clearly insupportable. Unemployment not only entails high human costs, but also imposes significant costs on society in terms of social unrest and deterioration of law and order.

1.10 The effects of underemployment and disguised unemployment are at least as pernicious as those of open unemployment. The composite incidence of unemployment and underemployment, as captured by the current daily status (CDS) basis, presently stands at nearly 9 per cent of the labour force and at almost 13 per cent for the youth. Recent evidence suggests that the incidence of underemployment among rural males has actually risen during the mid- to late-1990s, which is a matter of grave concern indeed. On the basis of past trends, the composite measure of unemployment is likely to rise to an average of 11 per cent by the end of the Tenth Plan, and 15 to 16 per cent for the youth. The principal cause of this problem is the steadily worsening land-man ratio and the continued dependence of a high proportion of the population on agriculture. Indeed, in absolute terms, the number of people dependant on agriculture has actually increased. But this is not the only reason. The failure to significantly improve the intensity of land use in large tracts of the country is also responsible for a high degree of seasonality both in agriculture and in all other activities that are linked to it. Over the perspective period, it is expected that the land available for agriculture will actually

reduce, partly due to the need for increasing forest cover in the country for environmental reasons, and partly to the expanding need of land for non-agricultural purposes. Under such circumstances, the extent of underemployment can rise alarmingly unless measures are taken to either increase the intensity of land use through increased irrigation and watershed development or to shift a significant proportion of the labour force out of agriculture to non-agricultural activities, or both.

1.11 The trends noticeable in the availability of agricultural land lead naturally to the issue of food security in the country. This has been a central theme of Indian planning right since its inception, and particularly after the experience of the famines of 1965-66. In recent years, however, it appears that food security in the traditional sense of the term – i.e. calorific requirement – may no longer be such a pressing problem. Although per capita availability of food grains has not risen very sharply, there appears to have been a distinct shift in consumption patterns away from food grains towards other forms of food. This change partly reflects the changes that have taken place in the age structure and occupational patterns of the population, and partly the effect of higher incomes leading to consumption of a more diversified basket of food products. The evidence that exists of pervasive under-nutrition in our population, particularly among children and women, suggests that this shift in consumption patterns is desirable and needs to be encouraged. Nevertheless, care must be taken to ensure that the availability of staples is not allowed to drop beyond a point. Moreover, the relatively short shelf life of most non-cereal food products requires that the storage structures in the country are reoriented to keep pace with the desired change in the product composition.

1.12 A related issue is the environmental degradation that has taken place in the country and which threatens both our nutritional security and health. Urban pollution is already having serious effects on the health status of the people, and it is feared that unless measures are taken immediately, pollution related disease burden could go up alarmingly. In the rural areas, land and water

degradation have reached alarming proportions, and at current trends, will lead to unsustainability in agricultural production and forest cover. It is estimated that more than 45 per cent of India's geographical area is already affected by serious soil erosion and this proportion is increasing year by year. An even more pressing problem is that of water availability. Already, substantial parts of the country are experiencing water stress, both in terms of quantity and quality. It is felt that unless urgent measures are taken, water, for both drinking and irrigation purposes, may become the single most important problem by the end of the decade. A particularly disturbing aspect of our present water management policies is the almost complete neglect of the origins and catchment areas of our rivers, both major and minor. Unless considerably greater attention is paid to this issue, it is feared that many of our rivers may cease to exist, with disastrous consequences for the economy and ecology.

1.13 Ecological issues, unfortunately, have not been adequately incorporated into our development strategy, despite the fact that there has long been recognition of the importance of environmental and ecological factors in Indian planning and policy. The biological wealth of the nation has not been nurtured and utilised for the welfare of both our people and humanity at large to the extent it should have. Although India has been a signatory to all international treaties and conventions on ecology and bio-diversity, and has enacted several laws on these issues, there is evidence that bio-diversity loss is continuing apace. Much of the problems are no doubt attributable to lack of resources, but possibly more is due to an inadequacy of emphasis and poor governance.

1.14 The limitations that are placed by land and water availability on agricultural output and employment necessitate careful consideration of the alternatives. It is becoming increasingly clear that the solutions would have to be found by increasing productivity in agriculture, including agro-forestry, horticulture, animal husbandry and fisheries, and by creating employment opportunities in other activities. In both cases, it has now become necessary to significantly enhance the education and skill

levels of our workforce. An important step in this direction has been taken by recognising that elementary education should be treated as the right of every citizen. It is now necessary to ensure that this recognition is translated to appropriate action. This step alone will no doubt contribute to a large extent in increasing the opportunities that can be accessed by the poor. But it is not enough. The skill requirements of modern agriculture and of most alternative occupations demand more specialised training than is usually imparted in the standard school curriculum, including the vocational stream at the secondary level. Unless such skills are imparted, the possibility exists that the growth process may be constrained not so much by the availability of capital but by the availability of appropriate skills. Since much of the new work opportunities will continue to involve physical labour, it is important to emphasise the dignity of labour within the educational system itself.

1.15 Recent evidence suggests that the gender bias that exists in the Indian social system is more persistent than was earlier believed. The unexpected decline in the sex ratio of those below the age of six years, that has emerged from the 2001 census, is a particularly disturbing manifestation of this. It is also conceivable that the decline in women's labour force participation rates is a reflection of this bias. Unless such trends are reversed decisively within the next decade, the efforts towards social and demographic transition and improving the quality of life of people are likely to prove less than effective. It is, therefore, imperative that the development process must include gender equity as an integral component of the broader strategy.

1.16 Economic and social development of the country must also take full cognisance of the growing regional imbalances in practically all indicators. Not only have the per capita incomes in the various States of the Union started diverging rapidly during the past decade, the disparities in social attainments also appear to be persistent, as brought out by the National Human Development Report 2001. These trends indicate a growing polarisation of the country, which can have an extremely damaging effect on national unity and

harmony. There is also evidence that protectionist and 'beggar-my-neighbour' behaviour is becoming increasingly more prevalent among the States. In a context where the country as a whole is in the process of fostering greater integration with the rest of the world, such behaviour is fraught with serious dangers.

1.17 There are two additional issues which have traditionally not been a part of Indian planning, but which today demand integration into the broader planning framework. First, notions of national security today are broader than merely that of defence or military preparedness. The two most critical aspects of this wider view are energy and food security. Although the performance of the agricultural sector has obviated the urgency of the latter quite considerably, it cannot be totally taken for granted. Energy security is another matter altogether. India's high level of dependency on external energy sources, and the vulnerability of its supply routes will have to be factored into any planning for the energy sector. Similar considerations, albeit to a lesser extent, apply to the transport and communication sectors, which are critical for modern-day military operations. The second issue relates to disaster management. Until now, disasters have been treated as being inherently episodic in nature, and therefore to be addressed only as and when they occur. This is clearly no longer adequate. The consequences of global climate change on the frequency of cyclones, droughts and floods are more in evidence today than before. Disaster management, if not disaster relief, must therefore form an integral element of national planning. Even for disaster relief, the macro-economic stance that should be taken has to be informed by the needs of growth and development.

1.18 Finally, our democratic traditions demand that the people do not merely remain as beneficiaries of our growth and development plans, but see themselves as active participants and arbiters of their own destiny. The conditions are already propitious in that the unorganised sector in India has been performing strongly in recent years and displaying entrepreneurial dynamism of a signifi-

cantly higher order than the organised. In particular, the success of micro-credit programmes through self-help groups has been most encouraging. The potential that can be unleashed by the removal of the various barriers to individual initiatives that have been erected over the years, is considerable.

1.19 The Prime Minister has set the stage for formulation of the Tenth Five Year Plan by articulating a vision in which the per capita income is to be doubled within the next ten years. A target of creating 100 million employment opportunities over the next ten years has also been announced by the Prime Minister. The purpose of the Tenth Plan is to give shape to this vision keeping in mind the constraints and potentialities that have been discussed earlier. Since the Tenth Plan is only the first phase of the ten-year road map, it is felt that the Prime Minister's vision can be realised through targeting a growth rate of 8 per cent during the Tenth Plan period and 9.3 per cent during the Eleventh Plan, and by focusing attention on the growth of employment intensive sectors. Since there are significant lags in the process of creation of capacities and their being brought into production, the Tenth Plan will have to consciously take into account the pipeline investments that would be necessary to accelerate the growth during the Eleventh Plan period. This fact increases the investment requirements and also lends a degree of urgency in taking the appropriate policy steps.

## OBJECTIVES OF THE TENTH PLAN

1.20 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. The Prime Minister's vision has been the basis for setting the target in this regard, not only for the Tenth Plan period, but for all of the next ten years.

1.21 The Approach Paper had proposed that the Tenth Plan should aim at an indicative target of 8 per cent average GDP growth for the period 2002-07. It is certainly an ambitious target, especially in view of the fact that GDP growth has decelerated

to below 6 per cent 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 is only about 6.5 per cent. The proposed 8 per cent growth target therefore involves an increase of at least 1.5 percentage points over the recent medium term performance, which is substantial. Nevertheless, the National Development Council (NDC) affirmed its faith in the latent potentialities of the Indian economy by approving the 8 per cent growth target for the Tenth Plan period.

1.22 The Approach Paper also recognised that economic growth cannot be the only objective of 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 broadly in terms of enhancement of human well being. To reflect the importance of these dimensions in development planning, the Tenth Plan identifies specific and monitorable targets for a few key indicators of human development. The NDC has approved that, in addition to the 8 per cent growth target, other targets as given in Box 1.1 should also be considered as being central to the attainment of the objectives of the Plan:

1.23 These targets reflect the concern that economic growth alone may not lead to the attain-

ment of long-run sustainability and of adequate improvement in social justice. Earlier Plans have had many of these issues as objectives, but in no case were specific targets set. As a result, these were viewed in terms of being desirable but not essential. Thus a 'best endeavour' approach was usually adopted in this regard. In the Tenth Plan, however, these targets are considered to be as central to the planning framework as the growth objective.

1.24 The targets mandated by the NDC at the time of approval of the Approach Paper to the Tenth Five Year Plan are, by and large, consistent with the 8 percent growth target either through direct linkages that exist or through the resources that are generated by the growth process for more intensive public interventions. At the time of formulation of the Approach Paper, these linkages had been assessed on the basis of economy-wide aggregative trends observed in the past, and it was felt that achievement of even these targets would require concerted efforts. Subsequently, more detailed study and analysis by the Planning Commission have revealed that it may be possible to record even better achievement as far as employment generation and poverty reduction are concerned. The Report of the Special Group on Targeting 10 Million Employment Opportunities Per Year, which was constituted to deliberate upon the Prime Minister's vision, indicated that with appropriate sectoral focus and directed

### BOX 1.1

#### 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 and high-quality employment at least to 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 in gender gaps in literacy and wage rates by at least 50 per cent by 2007;
- Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2 per cent;
- Increase in Literacy rates to 75 per cent 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 per cent by 2007 and 33 per cent by 2012;
- All villages to have sustained access to potable drinking water within the Plan period;
- Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012.

interventions, it would be possible to generate substantially more employment opportunities than arising merely out of the growth process, not only to take care of the additions to the labour force, but also to reduce the backlog of unemployment. Similarly, internal exercises carried out in the Planning Commission revealed that the state-wise break down of the aggregate growth target, which seeks to redress regional imbalances, could lead to even faster reduction in the poverty rate than the assessment made on the basis of the aggregative trends. The Tenth Plan, therefore, seeks to achieve targets in these two areas which go beyond those set by the NDC in the Approach Paper. (Box 1.2).

### BOX 1.2

#### EMPLOYMENT GENERATION AND POVERTY REDUCTION : CAN WE DO BETTER?

The current back-log of unemployment at around 9 per cent, equivalent to 35 million persons, is too high, and every effort needs to be made to not only arrest the rising trend, but to actually reduce it during the Tenth Plan period itself. The Prime Minister's vision of creating 100 million employment opportunities over the next ten years is taken as the basis for targeting the creation of 50 million employment opportunities during the next five years, which is about 14 million higher than the target mandated in the Approach Paper on the basis of additions to labour force during the Plan period. If this target is achieved, the unemployment rate is likely to decline significantly to 5 per cent by the end of the Tenth Plan.

Similarly, the mandated reductions in the poverty rate of 5 percentage points during the Tenth Plan and another 10 percentage points during the Eleventh Plan, as stipulated in the Approach Paper, will still leave more than 11 per cent of the population, or about 130 million people, below the poverty line in 2012. Every effort, therefore, needs to be made to reduce the poverty rate even faster. It is estimated that with a proper sectoral and regional focus, it may be possible to reduce the poverty rate by nearly 7 percentage points over the Tenth Plan period if the growth target of 8 per cent is achieved through the state-wise break down that has been drawn up in consultation with the States.

## THE DEVELOPMENT STRATEGY

1.25 The Tenth Plan provides an opportunity, at the start of the new millennium, to build upon the gains of the past and also to address the weaknesses that have emerged. There is growing impatience in the country at the fact that a large number of our people continue to live in abject poverty and there are alarming gaps in 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, and at the same time also avoid repeating past mistakes. There must be willingness 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.

1.26 An important aspect of the redefinition of strategy that is needed relates to the role of government. This redefinition is necessary both at the Central Government level and also at State Government level. It is now generally recognised 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 been 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 organisations is expected to decline substantially. 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.

1.27 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 indeed, 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 expand. There are other areas, e.g. infrastructure development, where gaps are large and

the private sector cannot be expected to step in significantly. In these areas, the role of Government may have to be expanded and restructured. It will have to expand 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 greater 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 the government as a regulator ensuring a fair deal for consumers, transparency and accountability, and a level playing field is also extremely important.

1.28 With the growing importance of the private sector in economic matters, and the consequent increase in the sensitivity of the economy to business cycle fluctuations, both the role and the manner of macro-economic management demand a reappraisal. Greater flexibility in fiscal and monetary policies has now become necessary to ensure that the economy is consistently maintained on the feasible growth path. While there has certainly been considerable improvement in the flexibility and sophistication of monetary and exchange rate management in the country, the same cannot be said about the conduct of fiscal policies, which remain rooted in outmoded budgetary procedures. In recent years it has become evident that there are circumstances in which monetary policy alone is ineffective to address macroeconomic developments, and a more sensitive fiscal policy is essential. It is, therefore, imperative that a reformulation of the fiscal management system be undertaken expeditiously to make it more appropriate for the changed context.

1.29 The Indian Central Plans have traditionally focused on setting only national targets. However, recent experiences suggest that the performance of different States varies considerably, and cognisance has to be taken of this issue. 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 recognise that the sharp increase in the growth rate and significant improvement in the social indicators that

are being contemplated for the Tenth Plan will be possible only if there is a corresponding improvement in the performance of the relatively laggard States. Indeed, if the higher targets are sought to be achieved simultaneously with the slow progress, as observed in the past, 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.

1.30 In order to emphasise the importance of ensuring a balanced development for all States, the Tenth Plan includes a State-wise break-up of the broad developmental targets, including targets for growth rates and social development, which are consistent with the national targets. These State-specific targets take into account the needs, potentialities and constraints present in each State and the scope for improvement in their performance, given these constraints. It needs to be emphasised that these State-wise targets are not meant to be a substitute for or to over-ride the process of State Plan formulation. They are more in the nature of indicative guidelines for facilitating planning in the States. It is an unfortunate fact that many States of the Union have de-emphasised the planning process and have allowed their planning systems to degenerate. As a result, many State Plans are not based on any rigorous and analytically meaningful appraisal of resources and capabilities or of the strategies that can be used to accelerate the development process. National targets are often uncritically adopted as State targets, thereby leading to a dysjunction between the planned and the possible.

1.31 It is hoped that the presentation of State-wise targets in the national Plan will serve as a catalyst to reinvigorate planning at the State level. There are two dimensions to this. First, the very recognition of the diversities that exist in the country should lead to a similar recognition at the sub-State level. Different districts within a State are at different levels of development and have different capabilities. A State Plan will, therefore, have to recognise these differences, and ensure that the State-wise targets set in the State Plan are consistent with what is planned at the district level. This will require careful consideration of the sectoral pattern of growth and its regional dispersion within the State.

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. Secondly, a statement of the comparative position of the various States in different dimensions of development is in itself an important method for encouraging introspection, leading hopefully to effective benchmarking for future progress. Much has been said about the value of experience-sharing and best practice adoption, but these are contingent upon recognition of the possibilities that exist.

1.32 The objective of creating a common economic space within the country, which is an essential element of nationhood, depends critically upon the recognition of commonality of interests by the States. This need has gained urgency as external barriers to trade and commerce are in the process of being brought down. Unfortunately, there has been an increasing tendency on the part of a number of States to increase the barriers to internal trade. Such measures are specifically barred by the Constitution, and it is the responsibility of the Central Government to ensure that no policy, which has the effect of abridgement of inter-State trade and commerce, is permitted by the exercise of Article 307 of the Constitution.

1.33 It is important to re-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 ensure sufficient expansion of sustainable gainful employment opportunities for our expanding labour force, and a sufficient increase in the incomes of the poor and the disadvantaged. However, this is not just a one-way relationship. It is also true that high growth rates may not be sustainable if they are not accompanied by a dispersion of purchasing power which can provide the demand needed to support the increase in output without having to rely excessively on external markets. The inherent risks and possible consequences of such excessive dependence have become evident from the experiences of the East Asian and Latin American crises. External markets are certainly 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.

1.34 Although growth has strong direct poverty-reducing effects, the frictions and rigidities in 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. A three-pronged strategy for attaining equity and social justice along with high rates of growth is proposed for the Tenth Plan period (see Box 1.3)

**BOX 1.3**  
**STRATEGY FOR EQUITY AND SOCIAL JUSTICE**

- 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. The first generation of reforms concentrated on the industrial economy and reforms in the agricultural sector were neglected. This must change in the Tenth Plan.
- The growth strategy of the Tenth Plan must ensure rapid growth of those sectors which are most likely to create gainful 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 sectors which have a large employment potential. These include sectors such as agriculture in its extended sense, construction, tourism, transport, SSI, retailing, IT- and communication-enabled services, and a range of other new services which also need to be promoted through supportive policies.
- 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 as well. However, it is important to ensure that they are effective in achieving their objectives.

### Feasibility of 8 per cent Growth

1.35 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 as well as the efficiency of new investment. There can be little doubt that India cannot hope to achieve an 8 per cent growth, relying entirely, or even largely, on increased investment. With the average incremental capital output ratio (ICOR) in the Eighth and Ninth 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 increase the investment ratio by 4.5 and 5 percentage points of GDP, which would have to be mobilised 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 substantial part of the additional growth must, therefore, come from increased efficiency and tapping hidden potentialities in the economy.

1.36 The principal reason why 8 per cent growth may be feasible in the Tenth Plan is that the scope for realising improvements in efficiency is very large, both in the public sector and in the private sector. However, this improvement in efficiency can only be realised 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 sectoral 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 the targeted 8 per cent growth if sufficient political will is mobilised 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.

1.37 There is sufficient evidence to suggest 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. It is present as much in central investments as in the State sector. Since completion of such projects and upgradation of existing capital assets will almost invariably be more cost-efficient than starting new projects, it will require a moratorium on launching new projects until at least a minimum number of partially completed projects are brought to completion. There is, however, no reason to believe that the existing set of projects necessarily represent the most desirable or optimum choice of options; therefore, some reprioritisation on sound economic principles becomes necessary.

1.38 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 market 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 go 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. Privatisation of non-strategic public

enterprises thus appears to hold the best alternative promise in this regard.

1.39 The third area is in the private sector itself, 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 that 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 such problems 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.

1.40 Therefore, in order to take advantage of whatever idle capital stock that exists in the economy today for accelerating the growth rate in the Tenth Plan, there are at least three categories of measures as indicated in Box 1.4, that would need to be taken immediately.

#### Box 1.4

##### Measures to Reduce Idle Capital Stock

- 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 Public Sector Enterprises (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 Sick Industrial Companies (Special Provision) Act (SICA), introduction of a bankruptcy law, facilitating foreclosure, accelerating judicial processes, etc:

Detailing such measures forms a core element of the Tenth Plan, and these would need to be accepted at all concerned levels of the Government, both at the centre and in the States.

1.41 Most infrastructure and industrial investments in India take an unconscionable time to come on stream. Much of this arises from the investor-unfriendly laws 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 to the investment activity.

1.42 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 are addressed in some detail in the Tenth Plan.

1.43 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, it is also because of the structural infirmities of the economy. As for example, the average level of inventory holdings in India (which is estimated to be around four months of output) is orders of magnitude higher than in other countries of the world (around one month), 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 many, and lie in poor transport infrastructure which complicates logistics management, an inadequate insurance system, 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.

1.44 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 often caused by the excessively rigid labour laws applied to the organised sector, which make it more difficult for the corporate entrepreneur to rationalise labour than to dispose-off capital assets when the 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.

1.45 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 due to 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.

1.46 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 two principal causes. Excessive acquisition of land, over-investment in amenities for employees and at times undue mechanisation are others. These are again issues of institutional design and governance, and solutions to these will have to be found in that context.

### The External Sector

1.47 The proposed acceleration in the growth rate cannot take place without tapping on 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 a period of slow-down. The United States economy, in particular will have to be monitored carefully, since the back-wash effects of a United States slow-down can be substantial on India, not only since it is our largest trading partner, but also as countries which are heavily dependent on the United States market would search for alternative export avenues.

1.48 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. Liberalisation of imports as required by the World Trade Organisation (WTO) 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 manage-

able limits. Rapid export growth of exports 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.

1.49 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, in general, exposes the economy to vulnerability.

1.50 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 the inability of the Indian economy to absorb all available investible resources more than any other factor. With investment demand growing strongly, this should not be a source of concern. Rationalisation of the domestic tax structure, and the consequent simplification of the export promotion regime, will also be necessary.

1.51 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 recently, the strategy has been largely defensive. While this was perfectly appropriate for an inward-looking development strategy, it is not so now. The Indian interventions at the Doha Ministerial demonstrate the much more active and aggressive position that is being taken by India.

This approach will have to be strengthened as the process of globalisation gathers momentum in the Indian economy.

## The Financial Sector

1.52 With the steady reduction in the share and role of the public sector in the economy, the importance of activities related to financial intermediation 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 services, and various types of infrastructure are instances of such sectors. The recent financial sector reforms have naturally focused primarily on improving the viability and stability of financial institutions, without adequately addressing this issue. It is, therefore, necessary to consider methods of encouraging the financial sector to finance such activities without impinging on its viability or compromising on prudential concerns.

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

1.54 Finally, there is a problem of serious shortage of long-term risk capital in India, which will need to be rectified 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 over-sight is central to the process of a sustained growth in savings and investment in the country over the longer run.

## Agriculture and Rural Development

1.55 The policy approach to agriculture, particularly in the 1990s, has been to secure increased production through subsidies in inputs such as power, water and fertiliser, 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 has made it difficult to expand power supply in uncovered rural areas and contributed to the low quality of rural power supply. These problems are particularly severe in the poorer States.

1.56 The equity, efficiency, and sustainability of this approach are however questionable. The subsidies have grown in size and are now financially unsustainable. Some of these, as for example the fertiliser subsidy, are really subsidies to cover the high cost of the fertiliser industry, and need to be re-examined in the context of liberalisation. 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.

1.57 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 resources indicates that both land and water will be crucial constraints on the efforts to expand production in agriculture. India is already in a situation where the extent of forest cover has declined alarmingly. Although in recent years there has been some improvement, it is a long way

from our eventual target. In such a situation there is little possibility of increase in the cultivated area of the country other than through reclamation of wasteland for agriculture and forestry. Indeed, perhaps there would be 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 and water resources in a manner, which is sustainable over the longer term.

1.58 The first, and possibly the most important, area of focus must be to raise the cropping intensity of our existing agricultural land. Climatically India is fortunate in that it is possible to have multiple crops practically all over the country. The critical problem though is water, as water resources are also under severe strain. Despite large investments in irrigation in the past, only about 40 per cent of the 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. Moreover, capacities of existing projects are also getting eroded due to insufficient expenditure on maintenance and upgradation.

1.59 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 very difficult or environmentally sensitive, which makes it difficult to implement them. The Tenth Plan must aim at a major revival of public investment in irrigation capacity and water management. Greater attention will also have to be paid to rain water harvesting and increasing the irrigation potential through scientific watershed development and minor irrigation. There is also considerable scope to improve the efficiency of the existing irrigation infrastructure through better and more participative management practices.

1.60 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 road connectivity. Other forms of rural infrastructure are also important, but the impact of rural roads has a dominant bearing on widening the opportunities and alternatives available to our people. Although this is an area that is in the domain of the State Governments, the Centre has taken initiative to provide earmarked 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.

1.61 The third area that needs attention is the development and dissemination of agricultural technologies. Over the years India has developed an extensive system of agricultural research centres and extension services. There is reason to believe, however, that the quality of the agricultural research efforts has weakened while the extension system has virtually collapsed. Strengthening of the agricultural research and development system, with special emphasis on bio-technology, and a significant improvement in the degree of sophistication in the technology dissemination methods are essential to achieving rapid and sustained growth in agricultural productivity. A radical overhaul of the extension services is also needed.

1.62 Finally, the true potential of Indian agriculture can be realised only when there is diversification of agricultural products, both geographically and over time. The food and nutritional requirements of the people for leading healthy lives demand a wider range of food products than are presently consumed on the average. For such diversification to gain momentum, the requisite science and technology inputs will have to be provided along with appropriate supportive price policies. Most of the non-grain food products are, however, perishable in nature. In order to encourage the diversification through minimum wastage, considerable attention will be required to 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.

1.63 Forests are natural assets and provide a variety of benefits to the economy. The recorded

forest area in the country is about 23 per cent of the total geographical area, but 41 per cent of this is degraded, and hence unable to play an important role in environmental sustainability and in meeting the forest produce needs of the people, industry and other sectors.

1.64 The problems and constraints in forestry development include lack of awareness about multiple roles and benefits of forests; lack of linkage between management and livelihood security of the people; application of low level of technology; inadequate research and extension, weak planning capability, wastage in harvesting and processing, market imperfections, over-emphasis 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 products grown by the people, lack of inter-sectoral coordination and weakness and conflicting roles of public forest administration.

### Industrial Policy Issues

1.65 The industrial sector will have to grow around 10 per cent to achieve the Tenth Plan target of 8 per cent growth for GDP. This represents a major acceleration from its past performance; the sector grew at only about 7 per cent 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 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.

1.66 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 that can be tapped in the Tenth Plan period have been discussed earlier. The specific policy issues that deserve special attention in the context of industrial development are discussed in the following paragraphs.

1.67 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 high. It is estimated that India's import weighted tariffs have declined from around 90 per cent at the start of the reforms to around 34 per cent in 2001-02 but this reduced level is three times higher than the level prevailing in East Asia. It is now well recognised that while industrial protection may sometimes be needed to help a particular sector, it tends to raise domestic costs and makes 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 of India too has announced that India's tariff levels will be brought to the East Asian levels within a three-year period. 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 to prevent dumping and other forms of misuse.

1.68 A second important policy issue relates to the need to extend industrial liberalisation, which has been implemented extensively at the Central level, to the State level also. Industry circles frequently complain that the administration of regulations 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 thus needed in these areas.

1.69 The small scale industry (SSI) has a vital role to play in the process of industrialisation providing a vehicle for entrepreneurship to flourish and a valuable entry point for new entrepreneurs who can start as small enterprises and then grow big. 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 the much needed employment avenues. Khadi and village industries also have an important role to play, especially in promoting non-farm employment in rural areas. The Tenth Plan must ensure that policies are supportive of the small scale sector. Liberalisation of controls and doing away with unnecessary procedures at the State level can help in this process. Equally important is the need to ensure that adequate credit is made available to the SSI units. A proactive policy, encouraging the banks to meet the needs of the 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.

1.70 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 specialised credit access schemes and fiscal incentives, a similar 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 impeded healthy growth and 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, however, the effect on employment should be carefully considered, since the present employment situation is rather grim. 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. There must also be recognition of the fact that the relationship between the large and the small units is not always adverse, and that quite often there is a strong complementarity between the two. There are, however, a number of policy distortions, which

obscures or even prevents the operation of such complementarities. The extent of ancillarisation in India, although increasing in recent years, is well below the potential. Policies that impede this relationship must be identified and removed.

1.71 Finally, it needs to be mentioned that the principal responsibility for achieving competitive efficiency rests with the private enterprises themselves. The policy environment cannot always be used as an alibi for non-performance. Recent research suggests that in India the main barriers to achieving international levels of efficiency are internal to the firms, and only to a minor extent in the policy environment. Private enterprises need to take these results to heart and engage in the introspection that is necessary for them to overcome and remove these internal limitations.

### Social Infrastructure

1.72 Performance in the field of education is one of the most disappointing aspects of India's 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 per cent 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. Assertion of the dignity of labour and vocationalisation of curricula are essential to ensure that a dysjunction does not take place between the educational system and the work place.

1.73 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 be transferred to local bodies which have a direct interest in teacher performance. States should be encouraged to implement the 73<sup>rd</sup> and 74<sup>th</sup> 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 mobilisation of local communities for adult literacy campaigns and for promotion of primary education.

1.74 The University and Higher Education Sector also needs attention. Although the number of universities has increased, and many universities continue to maintain high standards of education, it is a matter of serious concern that on the whole, the expansion in quantity has been accompanied by a fall in quality. Modernisation 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 recognise that the universities must make greater efforts to supplement resources from the Government.

1.75 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 utilisation 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 a steep fall in mortality, but the disease burden due to communicable diseases, non-communicable diseases, environmental pollution and nutritional problems continue to be high. In spite of the fact that norms for creation of infrastructure and manpower are similar throughout the country, there remain substantial variations between States and districts within a State in availability and utilisation of health care services and health indices of the population.

1.76 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 charges and utilising the

funds obtained for health care services from people above poverty line.

1.77 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 to ensure 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.

### Shelter for All

1.78 The objective of the National Housing and Habitat Policy 1998 was to provide shelter to all, especially to the poor and the deprived. The policy envisaged construction of 2 million additional houses annually. Of these, 1.3 million units were to be in rural areas and 0.7 million units in urban areas. The time has come to ensure that the goal of shelter to all is achieved by the end of the Eleventh Plan. The issues and problems relating to provision of rural and urban housing are very different and hence require specific interventions.

1.79 As per the 1991 Census, the total rural housing shortage was 13.72 million, which included households without shelter and those living in kutcha unserviceable houses. In addition, it was estimated that 10.75 million households would require housing during the period 1991 to 2002, on account of population growth. By the end of the Eighth Plan, around 6 million units had been created. During the Ninth Plan it is estimated that 4.5 million houses have been constructed under IAY and related programmes. In addition, HUDCO has sanctioned schemes for construction of close to 6 million dwelling units in the rural areas. Thus, the backlog left at the end of the Ninth Plan is estimated to be around 8 million dwelling units.

1.80 Urban housing shortage at the beginning of Tenth Plan has been assessed to be 8.89 million units. As much as 90 per cent of the shortfall pertains to the urban poor, and is attributable to the 'congestion' needs of joint families, obsolescence and replacement of old houses, upgrading of kutcha houses, and provision of housing to slum-dwellers. In urban areas, the problem becomes complex due

to two factors: the high cost of land, and the lack of access to institutional credit for workers in the informal sector, including the self-employed. Provision of affordable land requires allocation of Government-owned lands, and cross-subsidization from commercial properties and colonies developed for the affluent, to those for the urban poor.

1.81 During the Tenth and Eleventh Plan housing shortage would go up further due to population growth, in addition to the backlog of housing shortage in the Ninth Plan. It would be possible to make a more precise assessment of the housing shortage and requirement once details for 2001 are available from the Census. However, in view of the housing shortage even on the basis of 1991 Census, a major thrust to the housing programme would have to be accorded in the Tenth and Eleventh Plan to meet the goal of 'Shelter for All' by year 2012. For this a detailed action plan would have to be drawn up incorporating housing programmes of public, private and household sectors. Nevertheless, it would be necessary to provide free houses under IAY to the shelterless rural poor, with some subsidy for upgradation of kutcha houses. There is also a need to promote credit linked housing in the rural areas for easing the housing shortage for non-BPL families. As regards credit for the urban poor, which is required even in the programmes of slum-rehousing (Valmiki Ambedkar Awas Yojana), there is need for measures to create institutional arrangements. The steps to ensure availability of credit will include strengthening of State Housing Boards, arranging tie-ups between self-help / thrift-and-credit groups of urban poor and Housing Finance Institutions, and promotion of co-operative housing schemes for the benefit of urban poor.

### Economic Infrastructure

1.82 The energy-transport infrastructure will be a major constraint on any effort to achieve a significant acceleration in the growth of GDP during the Tenth Plan period. A GDP growth of around 8 per cent or so will require an industrial sector growth around 10 per cent. This will place heavy demands on the generation and distribution of electric power and also transport sectors. 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 neither be able to accelerate its growth nor compete effectively in the increasingly integrated international economy.

1.83 The power sector has been suffering from serious problems which were identified as early as ten years ago. However, no corrective action was taken and the result is that the power sector faces an imminent crisis in almost all States. No State Electricity Board (SEB) 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 crore, and this has led to large outstanding dues to Central Public Sector Undertakings (PSUs) amounting to Rs. 35,000 crore.

1.84 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. Only 80 per cent of the electricity charges billed are actually collected. These serious issues were hidden by claiming a large absorption of electricity in agriculture which, being unmetered, enabled SEBs to claim transmission and distribution (T&D) losses of around 24 per cent. However, when actual losses were calculated more precisely, in States power sector reforms were being undertaken, it was found that the actual T&D loss is as high as 45-50 per cent.

1.85 Operational efficiencies in generation are also very low in some States. Overstaffing is ram-

part. Political interference on the management of SEBs has become the norm in most States, making it difficult to ensure high levels of management efficiency.

1.86 These problems were known at the start of the economic reforms and it was recognised at the time that the public sector may not be able to invest in the power sector to expand capacity to the required extent. 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 who 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 SEBs 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.

1.87 Fortunately, a consensus is beginning to emerge on what needs to be done in this area and a handful of States have started the process of reform. 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 per cent cannot suddenly go to a 15 per cent level, which is otherwise technically feasible. And yet, unless they make this transition, we cannot expect to provide adequate power of assured quality at a reasonable price. The Centre will have to assist this process through legislative changes and financial support to the investment requirements. As States embark on power sector reforms, it will also 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 three to four year period. Substantial financial resources will be needed to help States make the transition.

1.88 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 per cent 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.

1.89 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 per cent of total electricity generated. 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 the 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.

1.90 Considering India's continental size, geography and resource endowment, it is natural that the Indian 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 its 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.

1.91 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.

1.92 The heavy cross-subsidisation of passenger fares cannot fully be justified on either economic or social grounds since the beneficiaries of the subsidy are not necessarily the poor. This system must be phased out gradually over the Tenth Plan period. Due consideration should be given to establishing an independent Rail Tariff Regulatory Authority for tariff fixation on technical and commercial considerations.

1.93 Greater emphasis has to be laid on completion of existing projects, and a proper prioritisation 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 containerisation 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.

1.94 The Indian road network is not up to the requirement of rapid growth in an internationally competitive environment, in which the 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 related North-South and East-West corridor projects must have top priority. 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 is necessary to plan and take preliminary action for expressways to be built in future on those sections where they can be commercially justified.

1.95 There are a number of areas of concern, which affect the efficiency of road transport operations. These include the need for reform of State road transport corporations to make them more efficient, rationalisation of road transport taxation structure, which will support cost-effective road transport systems, restraining of overloading of trucks, control of encroachments and unplanned ribbon development, and promoting road safety. Particular emphasis needs, however, to be given to removing all unnecessary policy and procedural hindrances to greater private participation in road transport operations, especially in rural areas, without compromising on road safety considerations.

1.96 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 villages 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.

1.97 The civil aviation sector also needs to be given careful consideration. As the economy moves towards higher value-added products, particularly in agriculture, an increasing proportion of the produce will have to move by air, both within the country and abroad. In addition, the more remote and inaccessible regions of the country, such as the North-east, can realise their true potential when such a transition becomes possible. The aviation policy and planning must, therefore, be reassessed in order to make it consistent with the emerging needs of the economy.

1.98 Telecommunications is a crucial component 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 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.

1.99 The 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. The goal should now be to provide a telephone on demand, anywhere in the country. 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 which need to be taken into account in the policy regime. Such convergence of services and single licence regime is needed to optimise the utilisation of resources with least cost of provision and encourage competition across the country in services and among the service providers.

### Governance Reforms

1.100 Successful implementation of development programmes requires adequate funds, appropriate policy framework, formulation of suitable plan schemes, and effective delivery machinery. However, past experiences suggest 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 of the delivery system to implement these schemes on the ground. There are serious deficiencies in both respects and they can be regarded broadly as due to poor governance. These weak-

nesses 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 cornerstones of the Tenth Plan.

1.101 While the functions of the State in India have steadily widened, capacity to deliver has declined over the years due to administrative cynicism, rising indiscipline, and a growing perception that the political and bureaucratic elite views the State as an arena where public office is to be used for private ends. In almost all States, people perceive bureaucracy as wooden, disinterested in public welfare, and corrupt. The issue of reform in governance has acquired critical dimensions, more so 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.

1.102 There has also been less than adequate decentralisation of the functions of Government, to the detriment of the delivery of a number of key services. The spirit of the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendments has not been observed in many of the States. It is believed that little improvement will be possible until such decentralisation becomes effective, both in terms of functions and resources. But decentralisation cannot stop at the level of PRIs and urban local bodies (ULBs). The potential of civil society organisations, such as water users' associations or health and education committees to name only a few, to improve delivery of services is vast, and advantage must be taken of these possibilities through appropriate devolution of functions and authority.

1.103 In the area of civil services 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.

1.104 The issue of institutional design is not restricted to the Government or the bureaucracy alone. Practically all mechanisms by which commerce and intercourse take place or by which services are delivered to the people need to be re-examined in the light of increasing efficiency and accountability. Corporate governance, therefore, is just as important an issue as civil service reforms, and this applies just as much to the small-scale as to the large. Consumer protection too requires the establishment and strengthening of appropriate institutions, which can effectively articulate the needs of the average consumer. Such bodies must be encouraged, and not seen in an adversarial role by the Government and the private enterprise. In addition, reform of the cooperative system has become essential to ensure that this sector plays the role that it is capable of doing. This requires a complete unshackling of this sector from the needless political and bureaucratic control that it suffers from today.

1.105 Finally, nowhere is the issue of institutional reform as important as in the delivery of law and justice. All efforts at development can flounder in the absence of peace and of law and order. Increasing insecurity can not only retard new investment, but actually lead to closure of existing activities. Similarly, it must be recognised that the success of a market-based economy rests critically on the sanctity of contracts and the speed with which they can be enforced. This requires both expeditious delivery of justice by the legal system and of its enforcement by the concerned arms of the State.