

Overview and Priority Areas for Action

The Mid Term Appraisal presents a detailed assessment of the performance of the economy as a whole as well as an assessment of performance in individual sectors in comparison with the Tenth Plan targets. The picture emerging from the appraisal is mixed. The economy is doing well in many areas and these gains need to be consolidated but there are also important weaknesses, which, if not corrected could undermine even the current performance level.

AN OVERVIEW OF PERFORMANCE AND PROBLEMS

GDP growth has averaged 6.5 per cent in the first three years, which is below the Tenth Plan target of 8.1 per cent but is commendable nonetheless. Growth in 2005-06 is projected to accelerate to 7.6 per cent and could accelerate further if the corrective steps listed in this chapter are implemented speedily. Private corporate sector investment, which had been dormant for several years, appears to have turned around. International perceptions of India are also generally positive creating a favourable climate for foreign direct investment. Inflation had become a serious concern in mid 2004 when there was upward pressure because of the rise in international oil prices, but it has since been brought under control. The external payment position is comfortable with substantial inflows from abroad leading to a more than comfortable build up of foreign exchange reserves.

The Industrial Sector which had a lackluster performance in the first two years of the Tenth Plan period, appears to have turned around in 2004-05 with a growth rate of 8.1 per cent in the first eleven months (April - February 2004 - 2005). This marks a distinct

improvement over the performance in the first two years. Nevertheless, the average for the first three years is unlikely to exceed 7 per cent, which is much better than the average of 4.5 per cent in the Ninth Plan but well short of the Tenth Plan target of 8.9 per cent. A positive feature of recent industrial performance is the evident increase in competitiveness in many sectors. The success in the IT sector is well known but equally important is that many other manufacturing sectors, pharmaceuticals, biotechnology, automobiles, auto components etc. are all showing considerably stronger competitive capability. Fears of Indian industry collapsing under the onslaught of cheap imports have also evaporated and there is much greater confidence in being able to flourish in a more open environment.

These positive features are clearly a source of strength, and the aim of policy should be to consolidate these gains and accelerate growth in the remaining years of the Tenth Plan. However, there are also important signs of weakness which are a cause for concern and call for corrective steps.

AGGREGATE GROWTH

The growth performance in the first three years, averaging 6.5 per cent is clearly below the target of 8.1 per cent. Growth in 2005-06 is projected at 7.6 per cent, on the basis of a recovery of the agricultural sector, and this could accelerate further in 2006-07. Even so, the average growth rate in the Tenth Plan period is likely to be below 7.0 per cent, well short of the 8.1 per cent target. An important reason for the lower growth is that investment did not increase in line with available investible resources.

TRENDS IN AGRICULTURE

The objective of accelerating GDP growth to 8 percent in the years ahead, and achieving a more inclusive spread of benefits, depends critically upon a reversal of recent trends in agriculture where growth has decelerated sharply from 3.2 per cent between 1980-81 and 1995-96 to a trend average of 1.9 per cent subsequently. This deceleration, observed during and after the Ninth Plan period suggests that the problem of rural distress that has surfaced in many parts of the country is grounded in reality. The problem is also not a purely distributional one, reflecting the special problems of small and marginal farmers and landless labour. In fact the deceleration is general across all crops, and reflects a broad based deceleration in productivity growth. It is essential to reverse this trend and this certainly calls for something more than continuing with “business as usual”.

INFRASTRUCTURE PROBLEMS

The Mid Term appraisal draws pointed attention to the fact that infrastructure inadequacies in both rural and urban areas are a major factor constraining India’s growth. This is especially so in the increasingly open economy environment in which we must operate, where the quality of domestic infrastructure impacts on our ability to compete with imports, to penetrate export markets and also to attract FDI.

INTERNATIONAL DEVELOPMENTS

The oil prices on the world market are likely to remain high for some time. Since we depend on imports for more than 70 percent of our oil needs, this is a potential source of weakness. The impact on Indian economy has been muted so far as the price increases have not been passed on fully to consumers. Because of the ample foreign exchange reserves, the high outgo for oil imports has not created shortage of other imports. However, if the oil prices remain at a high level, sooner or later that will have to be either passed on to the consumers which will push up inflation, or fiscal deficit will have to increase, which may also push up inflation. Uncertainties prevailing

in the international economy also present a challenge. Recent forecasts have downgraded the prospects of growth in world trade, which may have knock-on effects on India’s exports, and thereby on our growth prospects. The growth projections for the rest of the Plan are based on a 16 per cent growth rate of our exports, which is more than double the projected growth rate of world trade. While this may be feasible, a downturn in the world economy could make this target difficult to achieve. It is estimated that every 1 percentage point reduction in our export growth rate will *ceteris paribus* reduce the growth rate of GDP by 0.2 percentage points.

SOCIAL DEVELOPMENT

Social sector indicators in education and health show that while there is progress over time, we are lagging far behind the East Asian countries in these areas. Our social indicators are not only lower than the levels in these countries today, but they are lower even in comparison with the levels achieved by these countries twenty five years ago, when they first began to grow rapidly. The social indicators also show disturbing gender gaps, large rural-urban differences and wide variation across states. A significant improvement in all these dimensions is necessary if we want to create the pre-condition for a general improvement in welfare of our population and for genuine equality of opportunity. A basic shift in priorities signalled by the NCMP was the need to give greater importance to social sector expenditures as part of the effort to promote development with social justice. The Tenth Plan specifies monitorable targets for certain indicators of social development in health, education and gender equality. These targets are not identical to the Millennium Development Goals (MDGs) but it is believed that if these targets are met, then the other MDGs are also likely to be achieved. It is a matter of deep concern that at the current pace of progress, it appears unlikely that many of these targets will be met. The solution to these issues lies in the institutional structures through which public intervention in these areas operates.

EMPLOYMENT

The employment situation in the economy presents a serious problem. The MTA projections, using sectoral growth rates and estimated employment elasticities, suggest that the unemployment rate for the economy as a whole, based on the current daily status of employment would have increased from 8.87 per cent in the base year 2001-02 to 9.11 per cent in 2004-05. This projection implies that total employment increased slower than labour force growth. The data on employment in the organised sector presents an even more disturbing picture showing a decline in absolute employment between 2001 and 2003 in both the public sector and the private sector. This suggests that while employment may be increasing in the unorganized sector in response to growth, there is actually a contraction in employment in the organised sector, which is the preferred sector for employment by new entrants to the labour force.

INEQUALITY AND POVERTY

Related to the inadequate growth in employment is the issue of the impact on poverty in the Tenth Plan period. There has been a great deal of debate on the extent of reduction in poverty in the 1990s with different views depending on the data used and corrections made to take into account the problems of comparability. The consensus view is that while poverty declined, the decline was less than targeted. A firm assessment of performance in the Tenth Plan period will be possible only when the results of the 61st Round of NSS are received.

There are no measures of income inequality based on reliable income surveys. However, some of the features of recent growth raise concerns that inequality may be increasing, most important of which is the fact that per capita agricultural GDP has actually declined although overall per capita GDP has increased at 5 per cent per annum. Another feature of recent developments which has a bearing on inequality is that factor incomes data from the National Accounts show large increases in operating surpluses of the organized sector and of the compensation of employees in this sector

while per capita income growth is much less than average amongst the self-employed in the unorganised sector and actually negative amongst employees in agriculture. This would not be a problem if the size of the organised sector were expanding but that does not seem to be the case given employment trends. The moderate improvement in education and health indicators implies that access to more productive employment remains limited, especially in backward regions and amongst disadvantaged groups.

NCMP priorities in the areas of health, education and agriculture offer correctives from the human capabilities and sectoral points of view, and the promise of an Employment Guarantee Act provides a measure of insurance and additional income for the rural poor, and increases their bargaining capacity.

BALANCED REGIONAL DEVELOPMENT

An issue of increasing concern, is the apparent regional imbalance in development. This concern surfaces in several different ways. One dimension relates to the fact that the inter-State differences in the pace of development are leading to greater imbalance across States. State SDP data are not available beyond the first year of the Tenth Plan period, but several studies have shown that inter-State inequality increased in the 1990s. Some States were able to benefit from the economic reforms and increase their growth rates significantly. Although it is not true that the richest States benefited the most, some of the poorest and most populous States did decelerate. The concern for imbalance also surfaces at district level. About 150 districts are backward compared to others and need special corrective efforts. Even advanced States have several backward districts which do not share the general dynamism of the State. The case is also made that districts may not be the appropriate basis for analyses on the grounds that parts of a district are often locked into backwardness.

RESOURCES IN THE PUBLIC SECTOR

The availability of resources in the public sector to meet targeted levels of Plan expenditure is a major area of weakness. Neither

the Centre nor the States have been able to mobilise the resources needed to keep outlays in line with Tenth Plan projections and this has led to significant under funding in many sectors. The Central Sector Plan was projected to be 6.4 per cent of GDP in the Tenth Plan against which the achievement in the first four years is only 5.4 per cent. The States plan was expected to be 4.69 per cent of GDP against which the likely achievement in the first four years will not exceed 3.64 per cent. Taking the Centre and the States together, Plan outlays will be lower than expected by 2 percentage points of GDP. This shortfall is despite the fact that both the Centre and the States have relied much more on borrowed resources than was intended, leading to a rise in public debt. The consolidated public debt of the Centre and States taken together is about 80 per cent of GDP, which is among the highest in emerging market economies.

PRIORITY AREAS FOR ACTION

The scope for correcting all these deficiencies within the Tenth Plan period is limited. However, it is necessary to define a corrective agenda now and initiate the process as quickly as possible. Each of the individual chapters of the MTA contains a concluding section on the way forward which enumerates detailed suggestions for corrective steps in each sector of the economy. These suggestions deserve careful consideration and should form the framework for policy formulation leading into the Eleventh Plan. Some of the important policy initiatives in major areas on which a credible start can be made in the rest of the Tenth Plan period and should therefore have high priority in defining the policy agenda for the next year are summarised below.

AGRICULTURE, IRRIGATION AND RURAL DEVELOPMENT

Policy initiatives needed for agriculture must recognise that there is a general deceleration in the sector and not only a distributional problem. The specific problems of small farmers and the landless must receive special attention, but the policy correctives necessary are broader and must look at factors

affecting agriculture generally. It is necessary to increase investment, including especially public investment in agriculture related infrastructure and also take a number of policy initiatives.

1. *Rejuvenating Support Systems*

Agricultural growth cannot be revived without rejuvenating support systems in extension, credit and the delivery systems of inputs such as seeds, fertilizers, veterinary services. Although institutional credit to agriculture has been stepped up substantially since last year, underlying problems of farm debt and of the cooperative sector remain. It is necessary to implement the recommendations of the Task Force on Revival of Co-operative Credit Institutions under the Chairmanship of Prof. A. Vaidyanathan as soon as possible so that this sector with the largest rural credit reach is revived. Similarly recent Central efforts to deal with the near collapse of extension systems in most states need to be intensified and made more case sensitive. Delivery systems regarding seeds, fertilizers and pesticides require revamping by strengthening not only the existing public infrastructure but also facilitating the growth of private alternatives. The regulatory framework for these inputs also needs to be strengthened urgently to avoid the sale of spurious material without putting too great a constraint on enterprise. All this will need a large increase in expenditure in addition to the Central initiatives already on the anvil. However, since these systems essentially involve recurrent expenditure, the reforms above need to be put within a policy framework so that these reforms are owned by the States and transferred to them within a definite timeframe.

2. *Investment in Irrigation/Water Management*

Availability and management of water is the most important constraint on agricultural productivity and this area has been neglected because of paucity of resources especially with the State Governments and also a diffusion of responsibility over several different departments in the Central Government. Schemes which should have priority are:

- i) rehabilitation of the existing irrigation systems;
- ii) ground water development in areas where there is unutilised potential through back-ended subsidy schemes;
- iii) artificial recharge of ground water in areas suffering from aquifer depletion; and
- iv) inclusion of command area development works as part of major/medium projects.

The total cost of this effort is estimated at around Rs.110,000 crore and the Central Share up to the end of the 11th Plan period could be around Rs.23,000 crore.

If a start is to be made in implementing these schemes with effect from 2006-07, it will require an additional Rs.3000 crore in 2006-07 rising to Rs.5000 crores by 2011-12. Since it will be difficult to find additional resources of this order from the GBS given other existing commitments, a possible solution is to link the funds under the existing FFW & SGRY programmes and the new Backward Regions Grant Fund, to ensure that at least in the 150 or so districts covered by these programmes, projects related to irrigation and water management receive priority. FFW and SGRY have limits on the non-wage component which may limit the ability to undertake some of the works needed but the proposed Backward Regions Grant Fund provides untied resources which could supplement the non wage component of FFW/SGRY.

In the districts covered by the Backward Regions Grant Fund the resources provided by the Fund should primarily be used in conjunction with the FFW/SGRY, for investments aimed at improving irrigation and water management. The guidelines of the Backward Regions Grant Fund will have to be devised with this objective in mind and those for FFW/SGRY and the proposed EGA re-examined to allow this. In the other districts, the AIBP and the RIDF schemes should be used to focus on irrigation and water management programmes and for this purpose AIBP should be further enhanced in 2006-07.

3. Pricing of Water

The policy of severely under pricing water from canal systems has two well known adverse effects. It encourages excessive water use, especially in upstream areas, often leading to water logging and salinity, which damages soil productivity. It also weakens the finances of irrigation departments which are unable to maintain existing systems and to complete ongoing projects. Water pricing is a sensitive issue but to leave it unattended for this reason will only perpetuate present problems. The following policy correctives should be considered:

- i) States should be encouraged to set up Water Regulators for periodically revising water tariffs as is being done by Maharashtra and Gujarat.
- ii) The States could also set up Water Users' Associations (WUAs) to manage distribution of water and also empower them to collect the tariff, and retain a part of it (say 50 per cent) for system maintenance. WUAs may also be empowered to set water tariffs at higher levels and retain all the additional collection.
- iii) Water regulators could set differential water tariffs for high water consuming crops, linked with ground water status, and also recommend a lower scale of subsidy on power tariffs for agriculture in water depleted areas to discourage over- drawal of ground water.
- iv) The Centre could link subsidy for micro irrigation (from Central and NABARD schemes) to ground water status to encourage adoption of micro-irrigation in critical and dark areas. Its use in areas with large ground water potential could be left to be determined by financial viability.

Items (i), (ii) and (iii) above, are in the domain of State Governments. State Governments could be incentivised to take action by making access to AIBP funding, and also the proposed funding of mega projects (see item 4 below) conditional on (i)-(iii) being implemented, perhaps in a phased manner.

4. *Mega Irrigation Projects*

There are nine on-going approved mega projects with international ramifications/inter-State benefits, each having irrigation potential of more than 1 lakh ha. These are: Teesta barrage Stage-I, Phase-I (West Bengal), Indira Gandhi Nehar Stage-II (Rajasthan), Western Kosi (Bihar), Shahpur Kandi (Punjab), Sardar Sarovar (Gujarat), Indira Sagar (Madhya Pradesh), Omkareshwar (Madhya Pradesh), Upper Krishna Stage-II (Karnataka), Gosikhurd (Maharashtra). Completion of these projects will add a potential of 3.3 m.ha. at a cost of Rs.27,700 crore.

Given the resource constraint in the States, completion of these projects in a reasonable period is not likely unless some additional resources are provided. There is a case for considering Central support for a new mega irrigation scheme aimed at completing these projects. It is necessary to explore the scope for tapping new sources of funds for such investments, including the SPV for infrastructure financing announced in the Budget for 2005-06. Irrigation projects may not be financially viable on a stand alone basis in the conventional sense because of low water charges, but as long as their economic returns are high and the loans are guaranteed by the State Government, the financing problem can be resolved. Funding assistance for this purpose should be strictly linked to reforms in water tariff policy and greater reliance on participatory irrigation management through water user associations.

5. *Watershed Development*

More than half our cultivable area is rain-fed and much of it is under severe water stress. Programmes for the treatment of wastelands and degraded lands, including steps at water conservation are extremely important for these areas. At present, these programmes are being implemented by several departments, with similar objectives but different operational guidelines and, also different cost norms, which is not conducive to operational efficiency. Watershed development is a complex discipline requiring knowledge of soil, sub-soil structures,

geo-hydrological data, and agricultural sciences. It also requires strong organisational support and community participation for it to be successful. The technological inputs in watershed projects are required both at the preparatory phase of the project, during project implementation and in the post-project phase. Therefore preparation of guidelines on technical inputs, social process and accounting and auditing manuals for watershed programmes is a must. Also, a framework for conjunctive use of surface and ground water in watershed development projects needs to be developed. The present system needs to be reviewed so that all watershed projects in a particular agro-climatic zone are implemented by a single department/agency within a common framework.

6. *Agricultural Research*

The scientific input into agricultural development needs to be greatly strengthened. The Task Group on Revamping and Refocusing of National Agricultural Research appointed by the Planning Commission under the chairmanship of Dr. M. S. Swaminathan has made a number of recommendations aimed at strengthening existing agricultural research institutions and giving them greater flexibility. These should be speedily considered for early implementation. The Government has already accepted one of the recommendations for establishing a National Fund for Strategic Agricultural Research and an initial provision of Rs.50 crores has been made for 2005-06. The administrative arrangements for establishing the Fund should be put in place so that the Fund can become operational by June 30, 2005. Efforts should also be made to tie up funding from multilateral agencies such as the World Bank and ADB so that the Fund can have an assured source of financing on which it can draw.

7. *PDS Pricing*

The present system of differential PDS pricing, with very low prices for BPL consumers, is a highly inefficient way of serving the equity objective. There are heavy leakages of as much as 55 per cent according to a recent

Planning Commission study. The system also distorts incentives for grain producers in non-surplus areas where FCI procurement is poor or non-existent, because it depresses grain prices below the MSP. With the Food for Work Programme in place and the expansion of Mid-Day Meals and the universalisation of Integrated Child Development Services (ICDS), there is a strong case for moving to uniform PDS pricing. In other words, the PDS, should not be viewed as a poverty reducing instrument as much as an instrument for protecting the common man (including the poor) by stabilising issue prices at a level which may imply only a limited subsidy but which insulates the consumer from sudden increases in prices due to scarcity. The procurement side of the operation should continue to aim at stabilising MSP reasonably above costs of production. Procurement support should also be extended to cover the entire country.

PDS pricing is a sensitive issue, but the proposed change is a logical consequence of the adoption of other schemes aimed at poverty alleviation. It needs to be implemented in parallel with the expansion of other social safety net schemes. The resources saved by moving towards a unified issue price should be directed to expand other poverty reducing programmes, including especially the FFW.

The urban poor are not covered by the Food for work Programme and a case can be made that they need continued subsidy benefits through the PDS. This could be attempted through a system of smart cards. A smart card may be charged with the entitlement of the person who can buy ration commodities from any trader who is linked to the smart card system. The price difference can be automatically transferred to the traders' account when the holder makes a purchase.

8. *Fertilizer Pricing*

The N,P,K imbalance that peaked in the mid-1990s is much less now, but the subsidy on urea continues to be much higher than in the P&K fertilizers, promoting continued imbalance in fertilizer use. Excessive use of nitrogenous fertilizer leads to environmental

pollution and unnecessarily erodes profit to the farmer. Fertiliser subsidies need to be comprehensively re-examined to improve balance and also to target the subsidy more to smaller holdings, for example, by limiting the subsidy to a fixed quantity to be given per farmer, with the rest of the market being decontrolled. The present practice of fixing fertiliser prices separately for urea and other fertilisers, based on different considerations, needs to be ended and replaced by a policy which takes an integrated view. The issue has been examined by several expert groups. It should be referred to the National Commission of Farmers to make recommendations for restructuring on the clear understanding that the restructuring is aimed at (a) rationalizing the subsidy across different types of fertilizer to ensure balanced fertilizer use and (b) combining it with mechanisms that would ensure that all resources saved are ploughed back into agriculture through other schemes.

9. *National Horticulture Mission*

Agricultural diversification into horticultural crops is a natural outcome of the process of rising income levels and the associated change in consumption patterns, and the growing scope for exports. The National Horticulture Mission being launched in 2005-06 is therefore a timely initiative to support efforts by the States to promote horticulture. The level of funding provided for 2005-06 is sufficient to initiate the effort, but significant increase in funding of this scheme will be necessary if the momentum builds up and States evolve credible strategies in this area.

10. *Agricultural Marketing and Contract Farming*

Agricultural diversification needs to be supported by the evolution of market institutions which are different from those needed for non-perishable cereal crops. Marketing of perishable horticultural crops requires the development of a cold chain, with facilities for quick refrigeration shortly after harvesting and transportation to the market in refrigerated trucks. It also requires a much stronger linkage of the farmer (and therefore

his production decisions) with the buyer who can reflect the specific needs of the market, which vary greatly depending on whether the product is destined for domestic retail or for exports or as an input into agro processing industry.

Contract farming will enable corporate buyers to organize groups of farmers to produce under contract, with the buyer organising the supply of seeds and related inputs, and also providing a measure of extension support. Contract farming needs to be supported by changes in the **Agricultural Produce Marketing Committee Acts** in the States, which require that agricultural produce can only be bought in regulated markets. There is resistance to bringing about these changes because of entrenched interests that control existing *mandis* and their associated funds, but the changes must be made in the interest of the farmer. It is necessary to link central assistance in the proposed National Mission on Horticulture to agricultural marketing reforms, amendments in the Agricultural Produce Marketing Committee (APMC) Acts. It should be recognised, however, that success in this area depends critically upon the development of essential infrastructure in rural areas including especially development of transport linkages, rural electrification and in the case of exports, suitable handling facilities at airports.

11. *Amendment of the Essential Commodities Act.*

Another important initiative for the development of trade in agricultural products is the amendment of the Essential Commodities Act. The present Act gives too much discretionary power to officials and discourages large investments by corporate traders. It is necessary to amend the Essential Commodities Act to remove those aspects of the Act which serve to discourage the development of modern private trades while strengthening the ability of the Act to intervene on occasion of genuine emergency or scarcity. All such interventions should be strictly time bound and limited to the period of scarcity, and should be carried out as transparently as possible.

12. *Food Processing Law*

One of the factors impeding the development of food processing has been the multiplicity of laws governing this industry which makes producers liable under a wide variety of circumstances, with considerable vagueness on what would constitute a violation. A Group of Ministers has been considering a new consolidated Food Processing Act and a revised draft Act also has been prepared which is both acceptable to industry associations and also takes care of the concerns of NGOs, especially on the sensitive issue of infant foods. The draft Bill should be introduced in Parliament as soon as possible.

13. *Promotion of Participatory Natural Resource Management*

Participatory management practices seek to empower the rural communities who would decide and prioritise their requirements and accordingly prepare and implement micro plans appropriate to local conditions and needs. The building of community based organizations, flexibility in technical and financial norms, facilitation through a multi-disciplinary professional groups, independent reliable and on-going monitoring and evaluation are the basic premises and procedures of these participatory processes. There is need to revisit the guidelines and the content of all programmes in natural resource management in the light of this valuable experience and also strengthen the coverage and funding of these programmes. More specifically, vacant and under utilized land areas can be used for creation of forest resources. Currently, there are 2,34,676 village Panchayat institutions in 31 States and Union Territories in the country in addition to the traditional councils in Meghalaya, Mizoram and Nagaland. If every Panchayat is entrusted to identify a reasonable area of land for afforestation through community participation, a substantial area can be covered under green canopy in total. The right of use of such resources should be left to the communities and opportunities for value addition and marketing provided.

14. *Bio-diesel*

With current and projected levels of crude oil prices, bio-fuel is a potentially viable alternative to fossil fuel. Most of the developed countries have active programmes for use of bio-diesel from various sources like rapeseed and sunflower oil in Europe, soya in USA, and palm oil in South East Asian countries. India is unlikely to use edible oils for this purpose but non-edible oils such as Karanj, *Jatropha Curcas*, Neem, Mahua, etc. which require little care in terms of watering and maintenance, and can be cultivated in wastelands can offer a viable option for production of bio-diesel. Since the country has nearly 63 million hectare of waste land, a part of such land can be used for cultivation of these oil bearing crops. Bio-diesel is cleaner than petroleum-diesel and will help the local environment and since it is renewable, there is no net emission of carbon and it can qualify for carbon trading. A blend of up to 20 per cent would require an estimated quantity of 13 million tonnes of bio-diesel production which would potentially need an area of 11 million hectare of waste land. *Jatropha* cultivation on this acreage could create 11 million jobs in the rural areas and the greening created will be entitled for emission trading under Kyoto Protocol.

To promote bio-fuel, it may be necessary to consider mandatory blending of 2 per cent bio-diesel initially, to be raised progressively to say 15 per cent subject to availability at an acceptable price. Commercial viability will activate the major oil refineries and oil marketing companies to make arrangements to procure the necessary oil for blending and would encourage private companies or joint venture companies to enter into contracts with the oil refineries and in parallel tie-up with farm communities and state government authorities to develop non-edible oil plantations of the desired type. Any subsidies/fiscal incentives necessary to achieve initial commercial viability should have a sunset clause so as to ensure long-term sustainability.

SOCIAL SECTOR

The NCMP recognises the importance of the Education and Health sectors and

important steps have already been taken to increase allocations very substantially in these areas. The priorities in this area in the rest of the Plan period must be to ensure that the programmes launched are effectively implemented and closely monitored.

Education

The main priority areas in education are the following:

15. *Improving the Effectiveness of Sarva Shiksha Abhiyan (SSA)*

The Sarva Shiksha Abhiyan has already led to visible improvements in indicators like enrolment ratios and dropout rates, but there are other dimensions such as teaching quality and teacher absenteeism which remain areas of concern. There is a need to improve teaching practices in the primary schools assisted through the SSA. Among other measures, pre-service and in-service training of teachers should be strengthened and availability of Teaching-Learning Materials ensured. The Teacher Education Scheme should be merged with the SSA. Greater involvement of local communities and Panchayati Raj Institutions, and also NGOs will help address the problems of both poor teaching quality and teacher absenteeism. The SSA guidelines should be reviewed to ensure that they promote optimal investment and cater to special regional circumstances. Close monitoring and evaluation is necessary to provide feedback designed to improve the functioning of the scheme.

16. *Meeting the Increased Demand in Secondary Education*

With the successful implementation of the SSA, there will be increased demand for secondary education. If SSA achieves the goals of retention in full, or near full measure, the secondary school enrolment is poised to shoot up from 2.18 crore in 2002-03 to approximately 5 crore by 2011. To plan for a major expansion of secondary education it may be necessary to set up a new Mission for secondary education on the lines of the SSA.

This is clearly an area which will require further enhancement of funds in the near future. Since

the private sector has a very substantial share in secondary schools at present, the proposed expansion in secondary schooling will have to recognise the scope for promoting public private partnership in this sector. Efforts need to be made to ensure that private schools which are given concessional facilities also provide admission to some deserving students from low income families with financial support.

17. *Funding University/College Education*

The state of university education needs a comprehensive review. There are deep seated problems of poor and varying standards, inadequate facilities, outdated syllabi and rigid recruitment and promotion procedures which provide little incentive to teachers to remain abreast of the subject, or to the best students to choose academic life as a career. Unless the situation is radically reformed, the university system will continue to decay with a shrinkage of areas of high quality. The Knowledge Commission that is being established should be requested to go into these issues in detail and submit a report which could be an input to the Eleventh Plan.

An issue which needs to be addressed urgently is the issue of fees. Fees in the majority of Universities and Colleges are currently pitched at unsustainably low levels and more than half the number of students coming to the University actually pay lower fees than they did in private secondary schools. A substantial increase in university fees should be combined with an aggressive means based scholarship and loan programs by public sector banks. The Central Government can give a lead in this matter by introducing the system in the Central Universities.

Health

Health is another critical area where the role of the government needs to be increased. India's public expenditure on health (Centre plus States) has been declining and is currently around 0.9 per cent of GDP. It will need to be increased to around 2 per cent of GDP by the end of the 11th Plan.

18. *National Rural Health Mission*

The National Rural Health Mission, being launched in 2005 is a new major initiative seeking to restructure the health delivery system in rural areas by integrating the different disease control programmes and creating a single district health committee which would work on a pooled budget for central funds and co-ordinate these different activities while also seeking active involvement of PRIs. The initiative is being supported by an enhanced level of funding in 2005-06 but further large increases (around 30 per cent per year) will be needed in subsequent years to achieve the stated objectives.

19. *National Mission on Sanitation*

It is well recognized that safe drinking water and sanitation are two critical "non-health" determinants of the health status of a population. Although 95 per cent of rural habitations have been fully covered with potable drinking water facilities by March 2004, access to sanitation remains extremely inadequate. Even today, nearly 70 per cent people across the country have no option other than open air defecation, and this directly contributes to high incidence of water borne and parasitic diseases. Accordingly, we need to provide sanitation facilities to all dwelling units. This would be best pursued in mission mode through a National Sanitation Mission and could be dovetailed with the four year, six point agenda introduced as Bharat Nirman in the Budget 2005.

20. *Reforming the Central Government Health Scheme (CGHS)*

The CGHS is a contributory health scheme for central government employees, with 44 lakh beneficiaries. Recurring expenditures are incurred to run a network of 250 CGHS clinics for the participants, providing general practitioner services, including free medicines and drugs. The range and quality of services provided under the CGHS is not commensurate with the expenditure incurred on it. One option that should be considered is to convert the CGHS to a public sector provider of clinical

health care for the general public, which charges a fee for its services, in competition with other providers, public and private. Simultaneously, central government employees could be shifted to a system of health insurance, under which they can access the CGHS or other clinical health care providers of their choice being reimbursed at the permissible rate. The system would have the advantage of subjecting the CGHS to competition from other health service providers, while also giving central government employees the choice between competing service providers. The scope for restructuring the CGHS in this way should be examined by an Expert Committee.

Women and Child Development

21. *Restructuring of ICDS*

With the commitment to universalize ICDS, the scheme needs to be restructured as follows to include provision of day care/crèche facilities and pre-school education:

- *Integrating Crèche Services with ICDS:* Day-care support services are an essential requirement for working mothers. To ensure nutrition for children during their critical development from 6 months to 2 years, they need to be fed frequently and with appropriate care, several times during the day. The ICDS programme does not provide this critical component of day-care for working mothers. Day care instituted under ICDS should meet this need. Its absence has an indirect impact on the education of the girl child, since she is often made to stay back to take care of younger siblings. At present the Department is running separate schemes for setting up of crèches. However, the number of crèches has not risen from around 12470 since 1993. These crèches need to be increased and converged with ICDS.
- *Strengthening pre-school education under ICDS:* Pre-school education for the 3 to 6 years age group is a weak component of ICDS. The Anganwadi workers need to be trained to be able

to fulfill this requirement. The 93rd amendment in effect accorded elementary education the status of a fundamental right, but left out pre-school education. The exclusion of the latter deprives children in the age group 3 to 5 years of pre-school education, contributing to greater school dropout rates and other problems for them later on. District-level strategies have to be designed for the pre-school education of children. Also, the State Councils for Educational Research and Training (SCERTs) should train the Anganwadi workers to meet this critical requirement of pre-school education.

22. *Beyond Gender budgeting:*

The Union Budget for 2005-06 has initiated the first step in gender budgeting by the proposal for incorporating a separate statement highlighting gender sensitivities of budgetary allocations under 10 Demands for Grants of Ministries/Departments. However, gender budgeting by itself will not ensure that the stated outlays for women translate into outcomes in terms of a reduction in gender gaps in education and literacy, health, employment, etc. There is a need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism in all women-specific and women-related programmes. The Ministry of Finance, in consultation with the Planning Commission and other related Ministries/Departments, should work towards a mechanism to measure the development outcomes of all women-specific and women-related programmes. The financial outlays for gender development also need to be converted into expected physical outcomes with quarterly targets under each programme/scheme.

Social Justice and Empowerment

The objective of inclusive broad based growth requires continuous attention to programmes aimed at ensuring social justice and empowerment of the excluded sections. There are many ongoing schemes to address these concerns which need close monitoring.

In addition, the following initiatives would help.

23. *Conferring Ownership Rights to Tribals living in Forests*

Tribals living in forests are being denied their traditional rights of forest land, collection of forest produce etc. due to development of sanctuaries and national parks, and other environmental restoration projects. The National Forest Policy, 1988 stipulates certain safeguards for their protection in terms of their involvement in forest department activities. The NCMP also envisages restoring the traditional rights of tribals on forest produce including Tendu leaves. Action should be taken expeditiously for enacting legislation to confer ownership rights to tribals living in forests.

24. *Support for higher education to SCs and STs*

In the fast changing economic and labour market scenario where higher qualifications are demanded for suitable placement/jobs, especially in the teaching profession in higher education sector, there is a need for enhancement of higher education among the SCs and STs enabling them to pursue higher studies leading to M.Phil and Ph.D degrees. A special scheme on the pattern of UGC Fellowship, need to be initiated to promote higher education to meet the needs of SC/ST students.

25. *Implementing the National Policy for Older Persons*

The National Policy for Older Persons was announced in January 1999. However, the Policy has not yet been operationalized. An Action Plan to do so should be prepared and implemented expeditiously.

INFRASTRUCTURE DEVELOPMENT

The Mid Term Appraisal clearly reveals that infrastructure is a major weak spot which, if corrective steps are not taken, will prevent the economy from transiting to higher rates of growth. Some key issues in each sub-sector in

this area, which could be addressed in the course of the next year, are summarised below.

26. *Review of Regulatory Structures*

Since it is simply not possible to mobilise all the resources needed for building high quality infrastructure solely through the public sector, the general strategy for infrastructure development relies upon public private partnerships. To attract private investment in infrastructure sectors it is necessary to have independent regulatory authorities which would carry credibility with both consumers and producers, and also ensure a level playing field between incumbent public sector service provider and new private sector entrants. Regulators have been established in some of the sectors and some additional regulators are proposed to be set up. It is necessary to review the regulatory system that has evolved and see what changes, if any, are needed to bring our regulatory structure in line with international best practice. One of the issues that is relevant in this context is whether there should be a large number of separate regulatory bodies, with their own appellate structures, or whether some aggregation is possible. The relative role of the regulator and the Competition Commission also needs to be clarified. The Planning Commission will prepare a discussion paper on this subject, indicating the international consensus on best practice, and recommending changes that may need to be considered in this context.

Power Sector

Despite several steps at reform over the years, the situation in the power sector is worrisome, primarily because of very slow pace of progress in the distribution segment. Without effective reforms in this area, the sector will not be financially viable and will be unable to achieve the required levels of public investment or to attract private investment. Though some progress has been made and State regulatory bodies have been set up, the actual improvement in distribution efficiency is very low. The following steps should be considered for implementation over the next six months:

27. *Announcing the Extent of Review*

Envisaged in the Electricity Act

To remove uncertainty among potential investors the precise elements of the Electricity Act which are to be reviewed should be announced as early as possible. These should address the concerns that have been raised without undermining investor confidence or weakening the drive to create a competitive, efficient power sector.

28. *Tariff Policy*

In addition to the Electricity Policy required under the Act, which was issued recently, the Electricity Act requires the GOI to issue a tariff policy. This is an extremely important document since it will establish the basic framework within which investors will work. Among other things, the tariff policy would have to address critical issues such as the manner of fixing the cross subsidy surcharge to be levied. The proposed Tariff Policy should be issued no later than June, after full consultation with the Planning Commission and Finance Ministry. Thereafter the CERC should be requested to undertake a review of the Tariff orders issued by various SERCs to determine the extent to which they are in conformity with the Tariff Policy.

29. *Operationalising Open Access*

Open access provisions are extremely important to enable bulk consumers to access power from generating companies (as distinct from SEBs/distribution companies) on payment of a wheeling charge and cross subsidy surcharge to be fixed by the regulator. This will enable power producers to bypass SEBs that are not considered creditworthy and undertake direct supply to bulk consumers in the market, thus encouraging private investment in generation and avoiding power shortage. It will also put competitive pressure on SEBs/distribution companies to control their cost of supply. The Act requires open access to be introduced for all users of 1 MW and above, no later than January 2009 for which purpose SERCs have to issue regulations by June 2005. The proposed Tariff Policy should address these issues and require SERCs to allow open access in a phased manner instead of waiting for the outer limit

of January 2009 set by law for the entire country.

30. *APDRP Restructuring*

The Accelerated Power Development and Reform Programme was designed to encourage reform in electricity distribution and has both an investment component which finances investment in the distribution system and an incentive component which is linked to reductions in T&D losses. The programme was originally conceived with the two components having equal weight and the incentive component was expected to expand over time. In fact, the total disbursement under APDRP is much below expectations and most of the disbursement is of the investment component. The projects approved under APDRP are said to have a payback between 10 months to 4 years with an average payback of 18 months. Clearly this is far from ground realities since many projects are still under construction even after three years. The hard truth is that after three years of the program less than Rs.5,800 crores or about 30 per cent of the approved investment program of Rs.19,489 crores has been completed. At this pace it will take several more years to complete investments before we can see the benefits that the incentive component was to reward. As a comparison, the total disbursement on incentives in three years has been only Rs.955.58 crores. More importantly, since the investment component is largely under construction, the loss reduction against which incentives have been disbursed cannot be related to APDRP investments. Finally, APDRP was supposed to bring down AT&C losses from a level of 50 per cent to 15 per cent in five years. This is not even remotely possible. APDRP should be restructured to link it as much as possible to incentivising improvements in distribution especially reduction in T&D losses.

31. *Rural Areas to be Notified*

The Electricity Act provides that electricity supply (generation transmission and distribution) is completely delicensed for notified rural areas. States should be encouraged to notify rural areas where this could lead to the emergence of independent rural suppliers

of electricity.

Coal

Coal will remain the mainstay of thermal generation in India given our coal reserves and the expected high cost of petroleum. Coal India may find it difficult to increase coal production to meet the expanded requirements associated with faster growth. This calls for basic changes in the structure of the industry including denationalisation of the coal sector and restructuring of Coal India, especially its loss making subsidiaries. These are obviously difficult issues on which consensus may be difficult to achieve in the short run. However, the proposals listed below are feasible within existing constraints and could make a significant difference:

32. *Pricing of Coal*

The current system of pricing coal based on “Useful Heat Value” (UHV) is irrational as it is based on an obsolete empirical formula. UHV classification also uses excessively wide bands for grading coal. This weakens incentives for delivering better quality coal and also for washing coal to improve its quality. We should switch to pricing coal on the basis of Gross Calorific Value with narrow bands in line with current international practice. The move is resisted by the Power Sector because they feel it will raise the price of better quality coal. However, this could be calibrated to ensure that there would be a reduction in the price of poorer quality coal

33. *Captive Mining*

Given the limitations on Coal India in increasing total production, we should adopt a clear policy of encouraging captive mining, including setting a target of achieving say 50 million tons of captive mining per annum by 2012. On that basis, a sufficient number of blocks should be identified and allotted in a transparent manner to major coal users such as NTPC for captive mining including through Joint Ventures with established mining companies. The coal blocks should be bid out in a transparent manner which would encourage potential investors. The definition of captive

mining should be broadened to include Group Captive mines, shared by more than one end user. Further, the captive mining policy may be made more flexible by allowing captive mines to sell incidental surpluses (say up to 15 per cent of their production) to Coal India under pre-negotiated agreements, or directly to end users against current linkages/fuel supply agreements with Coal India.

34. *Coal Trading*

Trading and marketing of coal could be liberalized by removing coal from the list notified under the Essential Commodities Act. CIL could make available about 10 per cent of the production through e-auctions open to both traders and actual users. So far, this has been attempted in an ad hoc manner and the auctions have realised premium prices for CIL. Over a longer period, we need to encourage the emergence of coal traders who would also have an incentive to develop private coal handling capacity in the ports and also to invest in bulk transport arrangements for coal.

35. *Ending the system of linkages*

The existing system of coal linkages is not consistent with modern energy markets and needs to be replaced in a phased manner by a system of long term fuel supply contracts. Even if existing linkages are not disturbed immediately, trade linkages can be made tradable. More generally, we could move to a system where increased coal supply is not allocated on the basis of linkages. Ministry of Coal should examine the scope for effecting such a change beginning with some experimental steps in the remaining years of the Tenth Plan.

Petroleum

The medium term prospects for the petroleum sector are dominated by the prospect that international oil prices will remain high. We clearly need to do all that we can to secure oil and gas supplies. A number of good initiatives are underway in this sector. The most important near term policy priority relates to oil and gas pricing.

36. *Oil Pricing*

The liberalized pricing regime for oil products was never really implemented and has come under strain with the hardening of international oil prices. Since current prospects are for continuing high crude oil prices in the international market, our immediate priority should be to nudge domestic oil product prices as quickly as possible to levels that are sustainable. As the overall price level is under control, this is a favourable environment to achieve the necessary adjustment in petrol and diesel prices so that the oil companies are not unduly hurt. An adjustment in kerosene and LPG prices is also needed and is obviously a more sensitive issue. However, the underpricing of these items is now very high. There is a very good case on economic grounds for a significant adjustment in LPG prices and also some adjustment in kerosene prices.

There is also a strong case for re viewing the current system for determining refinery gate prices which is based on import parity prices for refineries plus various cost margins. The average price paid to the public sector refineries is then paid to private sector refineries. We should move to freer price competition at the refinery gate and also the retail end.

37. *Abandoned/Marginal fields*

At present abandoned or marginal fields for recovery of oil and gas are not included under open competitive bidding. There is a case for allowing foreign companies to bid for these fields under production sharing agreements similar to NELP. This will bring in cost-effective technologies not currently available in India.

Railways

The internal structure of the Railways and its relationship to the government as well as its method of reporting to Parliament, has not changed from colonial times. Given the tremendous changes that have taken place in the economy and in competing transport sectors, there can be little doubt that deep seated reforms are needed in this area. This can only be a longer term agenda but the

following initiatives are possible over the next year.

38. *Rail Tariff Rationalization:*

Several high level expert committees which were set up to go into various issues relating to the tariff policies and fare structures have recommended that the price of each service should reflect its cost as closely as possible. Considering that a large portion of the costs incurred in the railway operations are joint costs, a more precise costing methodology would enable the railways to achieve this objective. Railways have already embarked on accounting reforms projects which would facilitate such identification. Keeping these aspects in mind, and also taking note of the violent fluctuations in the price of the petroleum products which still constitute 13 per cent of the Revenue Expenditure of the Indian Railways, the Railways should move towards evolving a fare structure, even if gradually, linked to a rational indexing of the line-haul costs to the tariff. This would facilitate not only reduction of the extent of cross subsidization between the classes among the passenger fares but also between passenger fares and freight and also enable compensation to the Railways for social service obligation in a more transparent manner, as per the commitment in the common minimum programme. At the same time, Railways would, prepare a paper in consultation with Planning Commission on tariff setting mechanism including the need for a Rail Tariff Authority.

39. *Competition in Container Movement*

In pursuance of announcement of the Railway Minister in his budget speech for 2005-06 regarding allowing organization other than CONCOR for movement of container traffic, a revised policy for container movement is being formulated by the Ministry of Railways. This needs to be expedited.

Road Transport

The Committee on Infrastructure chaired by the Prime Minister has identified a road map for reform and implementation in

this area which is being closely monitored by the Planning Commission. The following initiatives are particularly important.

40. Restructuring of NHAI

The NHAI is responsible for implementing the various phases of NHDP and this is a mammoth task entailing management of an enormous portfolio of projects, some of which are in the form of construction contracts and others in the form of BOT projects. Effective implementation of this portfolio calls for top class planning, project management and project financing skills. NHAI needs to be restructured by inducting multi-disciplinary skills into the organisation and enabling it to access specialised skills when needed. The NHAI Board should also be restructured with induction of professional expertise at the Board level. The restructuring should be substantially complete by the end of 2005.

41. Model Concession Agreement and Award of Thirty BOT projects

NHDP III covers 10,000 kms of highways to be four-laned on BOT basis. The project includes densely travelled sections outside the GQ and NS/EW, highways connecting state capitals to the GQ and NS/EW, and highway stretches required for connectivity to ports and places of tourist interest. The Committee on Infrastructure had approved that a Model Concession Agreement would be prepared and that 30 BOT projects would be awarded by August 2005. The Model Concession Agreement, which is under preparation, should be widely publicised and discussed in a lender's and investor's conference based on early announcement of the list of road stretches for which investors are being invited to bid. To minimise problems with implementation, NHAI should identify, based on experience thus far, the kind of problems that have delayed projects in the past, and take corrective steps to ensure effective implementation.

42. Six-laning of the Golden Quadrilateral (GQ)

The growth in traffic on the GQ fully justifies further augmentation of this critical

part of the road infrastructure by expanding the heavily used sections to six lanes. The Government should announce a programme of 6-laning the GQ over the next 7 years of which at least one half should be completed within 3 years on the basis of toll based BOT. Relevant stretches should be announced early and bids invited by the end of 2005.

Civil Aviation

The Committee on Infrastructure identified several initiatives of which restructuring of Mumbai and Delhi airports through PPPs is the most immediately important.

43. Restructuring of Mumbai-Delhi Airports

The key to successful private public partnership project is to have a good concession agreement that clearly assigns responsibilities and sets the terms of operation. The Operation Management and Development Agreement (OMDA) in respect of Delhi and Mumbai airports has since been finalized and issued to the 9 pre-qualified bidders on 31st March, 2005 along with other related documents inviting technical and financial bids within a period of 12 weeks. Based on RFP bids, the joint venture partners for the two airports are expected to be selected by mid of the current financial year (2005-06). This is a high visibility project of public private partnership in infrastructure development and efforts should be made to ensure that it serves as a model.

Ports

The rapid rise in foreign trade has placed a considerable strain on port infrastructure. Expansion in port capacity and improved quality of port services is vital for trade growth and international competitiveness. In particular, ports need to be restructured for handling the rapid shift towards containerization of cargo. The following initiatives can be taken in this area.

44. PPP in Berth Expansion based on Perspective plans

Experience with JNPT and elsewhere shows that private investors are keen to invest

in new private berths and the entry of such operators has already increased capacity and improved efficiency. The traffic at major ports has been increasing at more rapid pace than in the past. It is necessary to put port expansion on high priority in anticipation of faster growth in the years ahead. For this purpose, the major ports on the eastern and western coasts should prepare a perspective plan for the next twenty five years. The perspective plan for each port should be finalized keeping in view the competitive advantage of the port in providing particular specialized service(s) and in consultation and approval stake-holders / concerned agencies. Investment for new berth capacity should be preferably through private investment or Public-Private Partnership. Given economies of scale, the shipping industry is rapidly moving towards larger vessels which require deeper draft. This calls for significant investment in capital dredging. Port Trusts should be encouraged to undertake bankable schemes for leveraging their internal resources for the purpose. The budgetary support to the selected projects relating to capital dredging may be kept at the minimum level. The imposition of modest cess to fund common user facilities including dredging projects also needs to be considered.

Urban Infrastructure

The poor quality of urban infrastructure in our major cities is an aspect of infrastructure deficiency that has come to be increasingly recognised in recent years. Urban infrastructure problems are likely to intensify as our cities expand and our urban population grows. Besides, in an environment in which states are increasingly interested in attracting foreign direct investment, it is inevitable that the quality of infrastructure in urban areas will be one of the critical competitive aspects that investors will consider in making location decisions.

45. *National Urban Renewal Mission*

The Budget for 2005-06 includes a provision of Rs.5500 crore for National Urban Renewal Mission. The basic approach of the Mission is that States willing to undertake

urban sector reforms will be provided with assistance that would help finance critical urban infrastructure. A key assumption in designing the urban reforms is that the urban infrastructure should be financially self sustaining subject to the provision of a reasonable amount of viability gap funding. It must be recognised however that the provision of Rs.5500 crore is far from adequate if indeed a number of states seek funds under this program. This is one of the areas where funding requirements could increase substantially in the years ahead.

LABOUR AND EMPLOYMENT

The failure to generate employment in line with the growth of the labour force and the rising expectation of high quality jobs is a major weakness in economic performance. The Government has responded speedily to the NCMP commitment on establishing an Employment Guarantee by introducing a Food for Work Programme in 150 of the most backward districts as an interim measure and introducing the Employment Guarantee Bill in Parliament. This will provide a measure of support at the low end of the employment spectrum i.e. casual manual labour in rural areas, but it cannot address the problems of the educated unemployed who are typically looking for employment of a higher quality. This type of employment can only come from robust growth of the economy especially in labour using sectors. Accelerating the rate of growth of the economy, while ensuring an acceleration in agricultural growth, must be an integral part of any sustainable employment strategy and the various policy initiatives emerging from the MTA will all help to achieve this objective. Other issues that are relevant in this context are the following.

46. *Skill Development and Vocational Education and Training.*

Even as there is a lack of jobs, there is evidence that our educational system is not generating a sufficient supply of trained people, especially those trained in skills that are in demand. To illustrate, in Germany, there are 2500 trade options for skill development and

these vocations cover a wide range of activities including manufacturing, training, services etc. Similarly, in China and South East countries, choices for youth to learn a vocation, a skill or a trade are abundant and wide ranging. However, in India, we have only identified about 175 trades for such skill development opportunities and these are also old trades which have little contemporary relevance. Only a small minority of our youth go in for formal vocational education and training. Industrial Training Institutes (ITIs), which are under the State Governments, require extensive upgradation and modernisation of the syllabus to cover trades with contemporary relevance of which there are a large number. A beginning has been made with the proposal to upgrade 100 ITIs, but much more experimentation is needed, with much larger role for public-private partnership. Further assistance to State Government ITIs should be made subject to the condition that the ITIs are organized as autonomous bodies, with facilities for launching a number of new training facilities with potential for vertical mobility, and that such bodies are managed by boards with substantive involvement of local industry and professional organisations.

47. *Change in Labour Laws*

It is a common complaint that our labour laws are much less flexible than in other developing countries with whom we have to compete and this impedes our ability to exploit the full potential for tapping into the global market for labour intensive manufactured products as China has done with outstanding success. Inflexibility in labour laws is by no means the only constraint on our competitiveness. There are many others which must also be tackled. However, labour flexibility is one of the problems and the scope for introducing greater flexibility while protecting the legitimate interests of the employed labour force needs to be addressed. The National Common Minimum Programme outlines the framework of government policy in this area. It rules out automatic hire and fire but it acknowledges that the need for changes in labour laws needs to be discussed. The Report of the Second Labour Commission

which has made a number of suggestions which would provide additional flexibility while also protecting interests of labour can provide the starting point for such a dialogue.

48. *Social Security for Unorganised Workers*

Welfare of unorganised workers has to be pursued by State Governments with support from the insurance industry on the basis of contributory schemes that are financially viable. State Governments should enact legislation for welfare of unorganized workers, which should clearly identify the mechanism for raising resources through contribution by workers' salary coverage, employers where possible and the relevant state governments. The benefits to be given, will depend critically on resources mobilised.

ISSUES CONCERNING INDUSTRY

Over the years we have put in place a framework of industrial policy suitable for transiting to a liberalised and more open economy. The industrial sector has adjusted to the change fairly well. Policies should continue to move in this direction. Some of the policy initiatives which are feasible and could be put in place in the remaining Tenth Plan period are the following:

49. *Small Scale Industry*

The policy of reserving areas of production for the small sector was feasible when the economy was not open but in an open economy, and especially one moving towards low tariffs, it imposes artificial constraints on the efficiency of domestic production. This is now well recognised and the Government has been dereserving sectors periodically. This policy of dereserving sectors should be continued. There is no reason why the process of dereservation should be stretched out over a long period. Dereservation has not hurt the economy thus far and there is merit in implementing it at a faster pace. There is also a case for raising the investment limit for SSI and also creating a new concept of "middle scale industry".

50. *Reducing Inspector Raj*

Small and medium industry is especially burdened by the phenomenon of repeated visits by multiple inspecting agencies, each of which has excessive powers without sufficient transparency or checks on how to use them. The Planning Commission is coordinating an effort to make recommendations on what can be done by the Centre regarding inspections in this domain and what can be done by the States. Determined action by the Central Government in its area to reduce harassment by inspectors will lend credibility to the need for action in this area and may persuade the State Governments to do their bit.

51. *Mineral Sector Policy*

There is tremendous scope for attracting investments, both domestic and FDI, and associated new technology in mineral exploration and mining. However investments and injection of new technology in this sector are held up by excessively complicated procedures with considerable duplication at the State and National level. Most mineral resources occur in forest areas and clearance from forest and environmental angle compound the problem. Weaknesses in infrastructures (power, roads and rail in particular) are another big constraint. The current policies suffer from a bias against issue of large mining leases consistent with development of mines with application of new technology. The procedure regarding environmental and forest clearances is also non-transparent and highly dilatory. A high level committee needs to be set up for reviewing the National Mineral Policy and to suggest measures including possible amendments to the Mines and Minerals Development and Regulation Act and also in other Acts or procedures to attract adequate investment in this sector.

52. *FDI in Retailing*

There is a strong case for allowing FDI in modern retailing. Entry of modern foreign retailers through joint ventures in India will help develop backward linkages to sources of supply and thus develop a domestic supply chain capable of meeting international quality

standards. In due course, these domestic suppliers could supply retail outlets operated in other countries. China has benefited enormously from such linkages and it is necessary to review our policy in this respect as part of a general strategy of promoting labour intensive manufacturing by the same retailers. Fears of large adverse effects on domestic retailing are grossly exaggerated, especially since modern domestic retailing has begun in any case. Allowing FDI in joint ventures is likely to provide access for domestic suppliers to international retailing which purely domestic modern retailers may not be able to offer.

53. *Balanced Regional Development*

As stated earlier, apparent regional imbalance in development is an issue of increasing concern. To address the problem, the establishment of a Backward Regions Grant Fund (BRGF) has already been announced in the budget speech of the Finance Minister and the following initiatives need to be taken in this regard.

54. *Addressing Regional Imbalance in Development*

The Backward Regions Grant Fund should be operationalised quickly. It could have two windows. Under the first window, backward districts could be identified for assistance based on objective parameters and with greater emphasis on human development indicators than in RSVY. Initially, the list could consist of districts presently under RSVY but could be enlarged to cover districts in hard-core backward states., viz., Bihar, Orissa, Jharkhand, Chattisgarh, Assam, (East) U.P. (East) M.P., more intensively. The second window could be a grant facility for core infrastructure projects (at inter district or state levels) that would otherwise be considered as financially unviable but are necessary for removing backwardness. The amounts to be made available to states covered will be in proportion to the population residing in their backward districts. Assistance under the fund could be linked to implementation by the concerned states of the constitutional provisions regarding PRIs and district planning.

GOVERNANCE

The Tenth Plan emphasizes the need for initiatives to improve governance, but this is an area where much remains to be done.

55. *Empowering PRIs*

Although the Panchayati Raj Institutions (PRIs) have been established and elections as mandated by the Constitution are taking place, the PRIs have not been empowered through effective transfer of functions, funds or functionaries. Since a large volume of resources is transferred for implementing the Centrally Sponsored Schemes (CSS), which typically deal with subjects that should be handled at the local level, these schemes provide an avenue to the Government of India to persuade State Governments to transfer financial resources and also equip PRIs with administrative support to fulfill the objectives of the CSSs. To encourage a greater role for PRIs, consideration could be given to introducing a linkage whereby releases under CSSs are made to the States only if the States transfer functions, functionaries and financial resources to the PRIs. This could be done at least in the case of the CSSs that fall within the ambit of the Eleventh Schedule of the Constitution which lists functions assigned to PRIs.

56. *Ensuring Security of Tenure to Public Servants.*

Frequent and arbitrary transfers of public servants not only affect delivery of services to the public, but also serve to demoralize sincere, hard working officers. Despite some efforts in the past, the progress in ensuring security of tenure for public servants has not been satisfactory; in fact, the problem seems to have become more acute in some States. There is, therefore, an urgent need for the Central Government to persuade the States to institute mechanisms for providing security to civil servants and discouraging their frequent and arbitrary transfers.

57. *National E-Governance Plan*

The National e-Governance Plan is an important initiative aimed at introducing e-

Governance and the associated process re-engineering in various areas of interaction between the government and the citizens and businesses. Mission Mode projects under the Plan need to be put on a time line. For each mission project, the intended outcomes should be stated upfront. In light of these stated objectives, a systematic review of the legacy processes should take place and redundant processes should be eliminated, reduced, simplified or reengineered. At service level, the services to the citizens and businesses should be redefined and integrated within the G2C and G2B domains. Enterprise level reengineering would involve restructuring or merger and finally at the sectoral level reengineering would mean changes in law, redefining the mandate of institutions, regulators and service providers and reconfiguring the service delivery. An apex Committee on e-governance must ensure that a road map is drawn up in the course of next six months for a comprehensive reengineering of processes, services, enterprises and sectors relating to the Mission Mode Projects.

RESOURCE CONSTRAINTS

The priority areas indicated in this chapter include many areas which call for a substantial increase in Plan outlays in the years ahead. Some of the important areas which will require additional resources from the Centre are the following

- (i) Expansion of the FFW into a full fledged Employment Guarantee will involve significant additional resources. More precise estimates can be made on the basis of experience gained with FFW in 150 districts but an additional requirement of Rs.20,000 crore per year would probably be needed for full coverage.
- (ii) Investment in irrigation and water conservation in dryland areas has not taken place on the scale required. A serious effort in this area would require additional expenditure of at least Rs.7000 crores per annum.
- (iii) Public expenditure on health is currently only 0.9 per cent of GDP

and the target is to expand it to 2.0 per cent. Even if this is to be done by the end of the 11th Plan, it will call for significant increases annually in the years ahead.

- (iv) The success of the Sarva Shiksha Abhiyan will lead naturally to a massive increase in public expenditure on secondary school infrastructure.
- (v) Our infrastructure requirements are huge and while a part of the requirement can and should be met by attracting private investment, this cannot be a complete substitute for public spending on infrastructure, either directly in public sector projects where private sector will not be forthcoming or in the form of a capital subsidy (viability gap funding) for private sector BOT projects which may be needed in many cases. If the requirements of rural roads, rural electrification, rural housing, urban infrastructure in major cities, and viability gap funding for the railways and for the highway networks are added up, it would call for additional resources of at least Rs.20,000 crore per year.

It is unlikely that all these demands can be met in the remaining period of the Tenth Plan. In the longer term a determined effort needs to be made to raise resources for these essential expenditures through increased tax revenues following from efforts to reform the tax system and improve tax administration, reducing expenditure on untargeted subsidies and improve user charges. In the short term some prioritization among alternative claims for scarce resources will be necessary.

The following initiatives are potentially important for raising resources in the short term.

58. *Operationalising the SPV for Financing Infrastructure.*

The SPV for financing infrastructure announced in the Budget for 2005-06 needs to be operationalised at the earliest. This can provide valuable support for potentially viable infrastructure projects which may not be financeable if left entirely to market sources.

59. *Resources from sale of equity in profitable PSUs*

In view of the resource constraints facing the Central Government, it is necessary to exploit fully the room provided by the NCMP for sale of minority equity stakes in profit making public sector enterprises while retaining government equity at 51 per cent. Systematic pursuit of this option could yield very substantial resource mobilization in the years ahead.

The 59 policy initiatives listed above are not a comprehensive list of the many suggestions that have emerged from the Mid Term Appraisal. These are summarised at the end of each chapter and deserve careful consideration. However, the initiatives enumerated above are those which are most likely to yield results within the time period of the Tenth Plan, and for this reason most relevant in the immediate future. The other initiatives, many of which deal with longer term changes, will need to be pursued as part of the Eleventh Plan agenda.