
Preface

The Eleventh Plan began in very favourable circumstances with the economy having grown at the rate of 7.7% per year in the Tenth Plan period. However, far too many of our people still lack the basic requirements for a decent living in terms of nutrition standards, access to education and basic health, and also to other public services such as water supply and sewerage. Disadvantaged groups, especially the Scheduled Castes and Scheduled Tribes and the minorities have benefited less than they should have. Regional imbalances have emerged across and even within states.

The Eleventh Plan seeks to remedy these deficiencies by seeking to accelerate the pace of growth while also making it more inclusive. The growth objective is to achieve an average growth rate of 9% per annum for the Plan period. The objective of inclusiveness is reflected in the adoption of 26 other monitorable targets at the national level relating to (i) income and poverty, (ii) education, (iii) health, (iv) women and children, (v) infrastructure, and (vi) environment. Some of these national targets have also been disaggregated into 13 state level targets and it is expected that the state governments design policies and programmes to achieve them.

THE MACROECONOMIC PERSPECTIVE

The macroeconomic requirements for 9% growth are challenging but not impossible. The average investment rate must rise from 32% in the Tenth Plan to around 37% in the Eleventh Plan period, reaching 39% at the end of the period. This increase is entirely feasible. Private investment, which has been buoyant in the Tenth Plan, is expected to provide the bulk of the increased investment accounting for 78% of the total, about the same as in the

Tenth Plan. The share of public investment in total investment has been declining over successive Plan periods from 34.7% in the Eighth Plan to 29% in the Ninth Plan and 22% in the Tenth Plan. In the Eleventh Plan its share is expected to stabilize at the level in the Tenth Plan implying that the volume of public investment must increase in line with private investment. This is necessary if we are to achieve the expansion in social sector investment and in infrastructure which is necessary for ensuring faster and more inclusive growth.

These rates of investment will be supported by a buoyant domestic savings rate of 34.8% and a relatively manageable current account deficit of around 2% of GDP. The household sector is the main contributor to the domestic savings, but the public sector is also expected to contribute positively to savings reflecting a significant turnaround compared with past experience. The projected current account deficit could easily be higher because of the likely continuance of high oil prices but even so, it should remain sustainable given the likely availability of foreign inflows.

The strategy for achieving faster growth with greater inclusiveness involves several interrelated components. These are: (i) a continuation of the policies of economic reform which have created a buoyant and competitive private sector capable of benefiting from the opportunities provided by greater integration with the world, (ii) a revival in agricultural growth which is the most important single factor affecting rural prosperity, (iii) improved access to essential services in health and education (including skill development) especially for the poor, which is essential to ensure inclusiveness and also to support rapid growth, (iv) a special thrust on infrastructure development which

is a critical area for accelerating growth, (v) environmental sustainability which is becoming increasingly important, (vi) special attention to the needs of disadvantaged groups, and (vii) good governance at all levels, Central, state, and local.

As in most market economies, the dominant impulse for growth will come from the private sector. India is fortunate in having a strong private sector capability ranging from agriculture, which is entirely dependent on private farmers, most of whom have modest land holdings, through small and medium entrepreneurs in industry and services to larger domestic corporate entities, many of which benefit from FDI to varying degrees. The Eleventh Plan must ensure a policy environment that is supportive of this vibrant and globalized private sector which has an important contribution to make in India's future development.

Emphasizing the importance of the private sector is not to downplay the role of the government. On the contrary, apart from the usual role of government in providing a stable macroeconomic policy, the Eleventh Plan envisages a very large role for public policy in a number of sectors.

AGRICULTURE AND RURAL DEVELOPMENT

One of the most disappointing features of the Ninth Plan was the deceleration in agricultural growth which set in after the mid 1990s with GDP in agriculture growing at only around 2% per annum after growing at 3.6% per annum between 1980 and 1996. Reversing this deceleration to achieve a growth target of 4% per annum in agricultural GDP is a key element of the Eleventh Plan strategy for inclusive growth.

In the medium term, the focus has to be on improving yields with existing technology and there is considerable scope for doing so because yields obtained in the field in large parts of the country are much lower than what is achievable with existing technology, provided cultivation practices are improved and critical inputs made available. Timely availability of water is the most critical element in raising yields and the Plan therefore emphasizes expansion of irrigation where possible and also improvement of existing irrigation systems. Where irrigation is not possible—and this covers 60% of the land area—the solution lies in improving management of water resources through watershed development, covering rain water harvesting in farm ponds and tanks, and methods of ground water recharge. A major expansion in the Accelerated Irrigation Benefit Programme and a

renewed thrust at watershed development has been planned. The National Rainfed Area Authority, which was established in 2006 and is now fully operational, is expected to help converge different programmes in rainfed areas to achieve better water management in rainfed areas.

On the output side, it is necessary to emphasize measures to ensure food security while also diversifying into non-foodgrain crops and promoting animal husbandry and fishery. The new National Food Security Mission, aims at increasing cereal and pulses production by 20 million tonnes by concentrating on those areas which have the greatest potential for increase in yields with given technology. The National Horticulture Mission which provides support for diversification has been expanded. A new Rashtriya Krishi Vikas Yojana (RKVY), has been introduced which provides additional financial resource to state governments to finance agriculture development programmes emerging from district level agricultural plans which take into account district specific agro-climatic constraints.

The strategy can be aided by the National Rural Employment Guarantee (NREG) Act which has put in place a historic rights-based employment guarantee which provides income support to the weaker sections of rural society. It can also serve the larger objective of enhancing agricultural productivity because the first priority under NREG is being given to projects aimed at water conservation. Effective convergence of resources available under NREG, with a large strategy for water management, will be crucial.

EDUCATION AND SKILL DEVELOPMENT

An educated labour force is critical for achieving faster growth and education is also the key to ensuring greater inclusivity. The Eleventh Plan will build on ongoing efforts to strengthen elementary education. The infrastructure for primary schools has been almost completed under the Sarva Siksha Abhiyan and it is now necessary to focus our efforts on issues of quality and the expansion of infrastructure for secondary education. This involves upgradation of upper primary schools to secondary schools, expansion of intake capacity in existing secondary schools, and establishment of high quality model schools to serve as examples of excellence in secondary schooling. The quality of education in public schools suffers from a variety of problems including widespread teacher absenteeism, inadequate teacher training, outdated pedagogy, and insufficient accountability. These problems need to be addressed urgently by state governments and

by the PRIs if we are to provide equality of opportunity for our weaker sections especially in the rural areas.

Higher education will be a key driver in an increasingly globalized and knowledge-driven world and we need to increase the enrolment rate in higher education from around 11% at present to 21% over a ten annum period. This will require a massive expansion in the university system which must be combined with efforts to create competitive world class institutions of higher education. Given the scarcity of resources, private sector initiatives in higher education and various forms of public-private partnerships (PPPs) must be encouraged.

Apart from formal education, there is need to expand the skill capabilities in the labour force as a precondition for embarking on a labour intensive growth process. At present, only 20% of those entering the workforce get some kind of formal training. This proportion must be greatly increased. The Plan proposes a National Skill Development Mission to expand and restructure the public sector skill development efforts and also to support private skill development initiatives in several high growth sectors of the economy.

HEALTH AND NUTRITION

We have made progress in several areas related to health as evidenced by the success in eliminating or controlling diseases such as small pox, leprosy, polio, and TB, all of which is reflected in the steadily rising life expectancy of the population. However, there are other indicators which highlight serious problems in certain critical areas. High levels of malnutrition continue to affect a large part of our child population, limiting their learning capacity and influencing morbidity and mortality ratios in the country. Our maternal mortality rates and infant mortality rates are far too high. The incidence of anaemia among women and children is at unacceptable levels. Far too large a proportion of the population, especially in rural areas, lacks access to affordable health care.

These problems need to be addressed by multiple interventions, many of which range beyond curative health care. These include dietary improvement, nutrition supplementation for children, better child care practices, access to safe drinking water, improved sanitation, and immunization. However, these efforts must be accompanied by a much better system of affordable curative health care which is lacking at present. The National Rural Health Mission is an important step in providing broad based improvement in health care for the rural population. The Rashtriya Swasthya Bima Yojana is a new and important

innovation providing the population below the poverty line with an insurance policy covering hospital treatment for a defined set of conditions with the government meeting the premium. The policy allows the patient to choose from multiple service suppliers including private hospitals who join the system.

INFRASTRUCTURE DEVELOPMENT

Poor quality of infrastructure seriously limits India's growth potential in the medium term and the Eleventh Plan outlines a comprehensive strategy for development of both rural and urban infrastructure, defined to include electric power, roads, railways, ports, airports, telecommunications, irrigation, drinking water, sanitation, storage, and warehousing. The total investment in these areas was around 5% of GDP in 2006-07 and the Plan aims at increasing this to about 9% of GDP by the terminal annum 2011-12.

Since various social sector and livelihood support programmes for the poor will have the first charge on public resources, the strategy for infrastructure development has been designed to rely as much as possible on private sector investment through various forms of PPPs. The Plan recognizes that the scope for private participation in infrastructure development in several areas is limited and the infrastructure requirement of these areas therefore, has to be met through public investment. However, it is therefore all the more necessary that the fullest possible use must be made of opportunities to attract private sector investment wherever this is feasible. Both the Centre and the states have seen varying degrees of success in attracting private investment in areas such as power generation, telecommunications, roads, railways, airports, and ports, though much more needs to be done.

The Central Government has sought to evolve policies for private sector participation which are transparent and where the responsibilities of the private concessionaire are clearly defined. Where the nature of the investment involves an element of monopoly rather than free entry by competing suppliers, the choice of concessionaire must be determined by an open competitive bidding process and standards of service should be clearly set and monitored by an independent regulatory authority. The key to successful PPP is that the public must perceive that PPP has added value in terms of the scale of services and also quality and cost.

Special attention is being paid to the Bharat Nirman programme which focuses on the provision of key elements of rural infrastructure such as irrigation, rural

electrification, rural roads, rural drinking water supply and sanitation, housing for the poor, and rural connectivity via community IT service centres.

Urban Infrastructure

The rate of urbanization in India has been relatively slow so far, but faster growth is likely to change this in future leading to a faster pace of urbanization in the years ahead. Urbanization is a natural outcome of the process of development and we must gear up to the challenge to meet the need for providing infrastructure and utilities in the cities. It will be necessary to upgrade the quality of infrastructure in existing cities to provide improved municipal services and also to develop new cities and suburban townships in the vicinity of existing cities as satellites/counter magnets to redistribute the influx of population.

Urban infrastructure is expensive to construct and, the financial condition of most of our cities is such that they will not be able to finance the scale of investment for quite some time. Accordingly, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) seeks to provide Central assistance for urban infrastructure development linked to a process of reforms at the city and urban local body level which would make these bodies more financially viable, and ultimately capable of financing the investment we need in urban areas. The JNNURM has got off to a good start, but close monitoring will be necessary in the Eleventh Plan to ensure successful implementation of individual projects and also the larger reforms agenda.

ENERGY

As in other developing countries, our ability to sustain rapid growth will depend critically upon the availability or affordability of energy. The Eleventh Plan faces special challenges in this area since the start of the Plan coincides with a period of sharp increase in the world prices of petroleum products and a growing concern about the need to increase energy efficiency, both to economize on costs and also to reduce carbon emissions, as much as possible. These challenges must be met in a manner which does not come in the way of our objective of achieving faster and more inclusive growth. It will be essential to ensure efficient functioning of the major energy sectors to maximize domestic production of energy and also to import additional energy as needed. Energy pricing has a critical role to play in this context.

It will be necessary to evolve appropriate policies for the major energy producing sectors—electricity, coal, oil and gas, and various forms of renewable energy—which

are consistent with optimal use of all these energy sources. The Eleventh Plan outlines a broad approach based on the Integrated Energy Policy formulated earlier by the Planning Commission. The sharp increase in international oil prices and also in coal prices poses a major challenge. While large price increases cannot be suddenly transmitted to the economy in one go, artificially suppressing energy prices cannot be a viable solution for an energy deficit economy. It comes in the way of expanding domestic supply, promoting energy conservation and demand management, and also encouraging growth of alternative energy sources. A gradual transmission of permanent changes in these prices is both possible and necessary and can be combined with protecting the most vulnerable sections of the community from sharp price changes.

The compulsions of moving to a rational energy policy are underlined by the emerging threat of climate change which presents special challenges over the longer term. The burden for reducing energy emissions must fall largely on the industrialized countries, which have contributed the most in creating the problem in the past and which today have much higher levels of per capita emissions than India. However, we also need to play our part in containing the growth of our per capita emissions to sustainable levels.

THE ROLE OF GOVERNMENT

As pointed out earlier, the strategy for delivering faster and more inclusive growth will require an expansion in the role of government in several areas. The Eleventh Plan envisages an expansion in the size of the Plan (Centre plus states) from 9.46% of GDP in the Tenth Plan to 13.54% of GDP in the Eleventh Plan. Part of this increase will come from expanded budgetary support from the Plan and the rest from the internal and extra budgetary reserves of the public sector at the Central Government and the state government levels.

The increase in budget resources depends critically upon the ability of both the Centre and the states to maintain the high growth in tax revenues observed in recent years. This will depend to some extent upon the pace of growth since rapid growth will produce buoyant revenues, but it will also depend significantly upon the continuation and deepening of tax reforms. The strategy of simplifying the tax structure and streamlining tax administration has generated better compliance in both the Centre and the states which is reflected in the rising share of taxes in GDP. This trend must be made to continue. Another important element in mobilizing resources for public investment is the ability to contain

subsidies and use the resources thus saved to undertake much needed public investment. A comprehensive revision of subsidies in the system, including hidden subsidies of one type or another, with a view to rationalizing them to retain only those aimed at the truly vulnerable, is needed. The present subsidies on petroleum products are particularly relevant in this context.

A second aspect of the changed role of government in the Eleventh Plan is that the public sector will increasingly concentrate in areas that lie in the domain of the state governments, and within the states in the domain of panchayati raj institutions. This is especially true of elementary education, health, rural drinking water, rural sanitation, child nutrition, housing for the poor, the national employment guarantee, and schemes for watershed management. Programmes in these areas are implemented at the local level and often depend critically upon local level authorities and the system of governance and accountability should therefore be at the local level. The 93rd and 94th Amendments to the constitution were landmark steps in empowering the Panchayats and urban local bodies and to give full effect to these amendments it is necessary to transfer functions, functionaries, and funds to the PRIs. While the functions to be transferred have been clearly identified, the actual progress made in transferring the functionaries and funds remain limited. It is also necessary to build capacity at the local level. NGOs can play an important role in building capacity or in encouraging empowerment or participation or ways should be found of engaging the NGO community more actively in local level programmes.

THE EXTERNAL ENVIRONMENT

Work on the Eleventh Plan began in 2006 and the Plan was finally approved by the NDC in December 2007. During this period, there were significant developments in the world economy, the implications of which are not easy to quantify at this point. Oil prices increased very sharply in 2006 and this continued through 2007. Although there was uncertainty initially about whether they would return to more normal levels, the assessment today is that high oil prices are likely to continue, and

indeed further increases cannot be ruled out. There has also been a massive increase in world prices of foodgrains and edible oils reflecting a variety of factors, some short term such as drought and low production in some of the major producing countries, and others long term such as the shift of land from foodgrains production to the production of biofuel crops, reflecting policies of industrialized countries on incentivizing such a shift. There has also been a sharp rise in prices of metals and mineral ores in world markets.

As price pressures have built up in world markets, the world economy also gives signs of entering a cyclical downturn led by a sharp slowdown in the United States. The extent and duration of this cyclical downturn remains uncertain, but it will clearly have some effect on the underlying growth potential of emerging market economies. The Indian economy is less dependent on global demand than many East Asian countries and therefore the impact of a global slowdown on India will be less than for others, but we are also much more integrated than in the past and we should therefore expect that just as we benefit from global prosperity in the upswing we will be affected by the downswing, although less than others.

These developments present formidable challenges as we implement the Eleventh Plan. The Plan is formulated on the assumption that it should be possible for the economy to meet these challenges while still achieving the medium term growth objective of 9% inclusive growth. The objective may have become more difficult, but it is still manageable, provided suitable policies, some of which are not easy to implement, are put in place.

The Tenth Plan marked a historic breakthrough on the aggregate GDP growth front. The challenge before the Eleventh Plan is to improve upon this growth performance and also ensure greater sustainability and inclusiveness so that the development process being unleashed has the widest possible spread of benefits. In the search for inclusion, the Plan pays special attention to the needs of the weaker sections including the Scheduled Castes, Scheduled Tribes, OBCs, and minorities. The objectives of the Plan cannot have meaning if they are not translated into a visible flow of benefits to these groups.



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