

## **Speech of Shri S.M. Krishna, Chief Minister, Karnataka**

50th National Development Council Meeting on 21st December 2002 at New Delhi

The National Development Council is meeting today to consider and approve the Tenth Five Year Plan (2002-2007) at a time when the country has been tested by a failed monsoon and drought of unimaginable magnitude, a global slowdown which has hit hardest at the economy of developing countries, terrorism and communal violence.

The declared objectives of the Tenth Plan are an annual 8% GDP growth rate during 2002-2007, annual FDI flows of US\$ 7.5 billion, a disinvestment target of Rs.78000 crores, creation of 50 million jobs in 5 years and a tough regimen of reforms in agriculture, labour and fiscal policy. The Plan envisages a 5% reduction in poverty from 26% to 21% by 2007, 75% literacy rate, reductions in IMR to 45 and MMR to 2, potable drinking water to be provided to all villages etc.

The public sector outlay is pegged at Rs.1592300 crores. The Central plan outlay is Rs.921291 crores while the states and UT outlay is Rs.671009 crores. I hope that these outlays will not remain enshrined in documents but will get translated into concrete programmes on the ground.

Doubts have been expressed regarding the targeted growth rate of 8% since the Indian economy has registered a growth rate of 5.35% during the Ninth Plan period. The Prime Minister has said we cannot afford not to have a significantly high rate of growth and while I agree with this sentiment, ground realities force us to take a hard look at the projected rate of growth with a degree of scepticism.

The Government of India's Mid-Year Economic Review, presented in Parliament, forecasts a 5.5% growth for GDP and 6% for infrastructure while agricultural production is expected to grow by only 1%. The overall prognosis is gloomy. Given this scenario, the 8% average rate of growth for the Tenth Plan period can be achieved only if an average rate of growth of 9% is achieved during the remaining 4 years. This does not seem very likely. Further, the shortfall in overall GDP growth in the Ninth Plan has been attributed to the declining trend of capital formation in the rural sector. The Central Government neglected this sector by reducing outlays on agriculture, irrigation and rural development in the Ninth Plan. This neglect has affected growth in the industrial sector as well, since consumer demand fell in the agriculture-based economy.

The Tenth Plan aims at an annual growth rate of 8.0% which is projected to increase to 9.3 % in the Eleventh Plan but much of the action would lie in the domain of

the states. For the first time, the Tenth Plan includes a state-wise break-up of broad developmental targets, including targets for growth rates and social development. The Tenth Plan projections have indicated that the population in the working age group of 15 to 60 years would be growing at an annual rate of 2.4 per cent during Plan period, which would be the fastest growth ever recorded. This indicates the need for a substantial increase in public investments, especially in infrastructure. This is a daunting task considering large government deficits and lack of resources for investment. Our attempts to improve our fiscal position and direct investment for development of social and economic infrastructure should be adequately supported by the Central Government. The current sharing pattern of Central assistance to states should offer greater financial incentives to States that have reformed key economic sectors.

Since the Tenth Five Year Plan aims at annual average rate of growth of 8% which is no doubt ambitious, the new paradigm of development that is needed to achieve such an unprecedented growth rate calls for a significant increase in the role of the States in the development process of the country. Unless the State Governments are enabled to play their legitimate and rightful role in bringing about necessary policy and institutional changes and strengthen infrastructure facilities, the targets set for the plan will remain on paper. The growth of the nation cannot come about without the growth of the States. In this context, it is important to recognize that the allocation of resources must be based not on the dynamics of coalition politics but on objective criteria to harness the development potential prevailing in different regions. Politicisation of the allocation decisions in an open economy will only be detrimental to healthy growth.

Therefore the Tenth Five year Plan will have to present fairly radical, innovative strategies to promote growth in the economy. The best kind of economic growth is that which also fosters human development, poverty reduction, universal primary education, significant reductions in the IMR and MMR, safe drinking water, housing and reducing the gender gap.

We have reflected these concerns in our state's Tenth Five Year Plan. We have brought in various reforms in the fiscal policy, the power sector, industry, urban development and governance. We have initiated public-private sector partnerships to leverage resources and expertise. But with all these reforms in progress, we have always remained conscious of our commitment to the disadvantaged sections of society. The outlay is Rs.43558 crores, which is 86% higher than the Ninth Plan Outlay of Rs.23400 crores. Since Karnataka has the highest acreage of dry land after Rajasthan, Irrigation has been given the highest priority by allocating 32.6% of the outlay to this sector. The social

services sector accounts for 32.6%. Other thrust sectors are Transport (11.1%), Energy (5.2%) Agriculture and Rural Development (10.5%). Karnataka has achieved about 111% realisation of the Ninth Five Year Plan outlay as compared to the projected resources and it is one of only four States among 15 major States, to have raised more resources during the Ninth Five Year Plan. Consequently, Karnataka has already achieved most of the monitorable targets set for various indicators by the Planning Commission in the Tenth Five Year Plan document.

## **Resources**

Karnataka is one of three states that have achieved a high growth rate while keeping its fiscal deficit low. This is the outcome of sweeping reforms in fiscal policy and resource management. Our main objective is to follow up on the declared fiscal objectives of containing fiscal deficit, eliminating revenue deficit and stabilisation of debt. The State Government prepared a medium term fiscal plan (MTFP) for the period 2000-01 to 2004-05. The MTFP will be a rolling annual document which will provide a perspective of the fiscal situation in the medium term and will also measure actual performance against the stated fiscal targets. The MTFP contains definite reform measures for augmentation of revenue, compression of non-productive expenditure and for protecting and enhancing high priority development expenditure.

In order to promote departmental accountability and planning, departments also formulate Departmental Medium Term Fiscal Plans (DMTFP) which indicate performance targets, strategies, resources and major programmes that will be undertaken over the MTFP period. Pilot DMTFPs have already been prepared for Primary and Secondary Education, Health and Family Welfare, Medical Education, Public Works and Drinking Water Supply. The DMTFPs will be extended to almost all the departments in the coming year.

The policy changes outlined in the MTFP when translated in terms of projections of revenues and expenditures show that the State's fiscal targets can be achieved by 2005-06. In fact, the projections based on the assumptions are estimated to improve the revenue deficit from 2.66% in 2001-02 to a revenue surplus of 0.16% of GSDP in 2005-06. The Gross Fiscal Deficit during the same period would decrease from 4.66% to 2.75% of GSDP. These targets are better than what has been suggested by the Planning Commission for the Tenth Plan. The State is on course to achieve these fiscal targets.

From 1997-98 onwards, the Government of India's interest rate was higher than the market borrowings rate and this gap has widened to almost 4% during the current year.

The current interest rate of the Government of India is 11.5%, whereas the State is able to resort to market borrowings at about 7 %. There is therefore, an immediate need to bring down the interest rate of Government of India loans to around 6%.

Karnataka is committed to the introduction of value added taxation (VAT) from April 2003.

### **Governance Reform**

The Tenth Five Year Plan defines itself as a "Reforms Plan" rather than a "Resources Plan", meaning thereby that allocation of resources for priority sectors will not suffice if these resources are not utilised optimally through efficient and effective implementation strategies. Governance reform in Karnataka has focused on making implementing agencies truly accountable for outcomes and on empowering users of public services.

Several measures have been initiated to reduce the stranglehold of red tape and dispel the opacity of government transactions. The Transparency in Tenders and Procurement Act and the Right to Information Act are early initiatives in this direction. E-governance has successfully demystified the public/government interface and taken information technology to the grassroots.

Significant steps include the computerisation of the treasury, "Mahithi" which enables the citizen to access online information about public services and "Bhoomi" which has completely transformed the land records maintenance system in Karnataka. "Bhoomi" is a programme that provides online delivery of land records in the state. 200 lakh land records containing information about ownership, land classification and use, bank loans etc can be accessed by 67 lakh rural people in 27,000 villages through 177 government owned kiosks. The project has reduced dramatically the delays, red tape and corruption that often characterised the manual system of land record maintenance. User fees are charged and Rs. 9 crores have been collected so far thereby establishing clearly that people are willing to pay for efficient service delivery. I am happy to say that the Union Ministry of Communications and Information Technology intends implementing Bhoomi as a pilot project in 28 districts across the country.

### **Agriculture**

Agriculture is currently in a state of crisis, partly because of drought but primarily because this sector has been consistently neglected in the post-Green Revolution phase.

The WTO agreement is another factor which has brought into sharp focus the problems of farmers. The ongoing negotiations with the WTO have caused a lot of misgivings among farmers all over the country. Part of the reason is that these issues are not understood by the common man as the negotiations are extremely complex in nature. It is well known that all countries support their agriculture, This is both an economic and political necessity. The level of subsidy per farmer in the United States is as high as \$12000 per annum whereas the subsidies offered by developing countries like India is quite minimal. Nevertheless, the developed countries drove a hard bargain at Geneva. Finally, it has been decided that the domestic support given to the agricultural sector would be 10% of the total value of agricultural produce in developing countries and 5% in developed countries. This is called Aggregate Measure of Support (AMS). It is interesting to note that India's AMS is only about 3% of the value of its agricultural output. Therefore, we would still be well within the WTO norms even if India tripled its existing level of support to agriculture (by way of subsidies to fertilisers, minimum price support etc). So, why are we not doing this?

## **Irrigation**

Karnataka State has one of the largest drought prone areas in the country. Therefore, the State has adopted a three-pronged strategy of high investment in irrigation projects, revitalisation of small tanks and dry land development based on watersheds. But in the long run the solution to our problem is inter-basin transfer of surplus waters.

Our ancestors linked the Ganga and the Cauvery in hymns and prayers; it is time that we made this a concrete reality. If the proposed inter-linking of rivers is planned well and executed properly, it will pioneer a systematic development of the water resources of our country.

## **Energy**

We are aware that the core issue is the power subsidy which has resulted in the financial instability of the public utilities, erosion of their net worth and increased dependence of utilities on the state government, a scenario not peculiar to Karnataka by any means, in order to address these problems more seriously several reforms have been initiated. An Electricity Regulatory Commission (KERC) was established in 1999. The Electricity Board was corporatised and then unbundled and four distribution companies were formed on a regional basis with a view to encouraging private sector participation in the distribution of electricity in the state. The Government intends to complete the process of privatisation in the next two years.

The Electricity Bill 2001, currently under consideration should not take away the essence of the State Reform Act, as this may result in slowing down the State Government's reform process and give room for frequent legislative changes. The Government of India should also review its policy of encouraging capacity addition particularly high cost energy generation from non-conventional energy sources. It is the experience of Karnataka that these energy sources are located in remote and far flung rural areas which generate very little revenue to the state utilities as all such energy flows to rural consumers who continue to be subsidised. The Government of India should seriously examine how utilities should recover the costs as well as user charges. Such mismatches arise because the Central Government does not take state governments' inputs seriously when formulating new policies or projects. No policy or legislative framework should be thrust upon the states without addressing the financial sustainability of the states and state power utilities. I hope that the Government of India will come out with a comprehensive power reform policy which would address all these issues.

## **Roads**

The Government of India has launched some major road connectivity projects which are to be commended but the overall scenario is less encouraging. The Lucknow Plan 1981-2001, regarding road development in India had proposed that a National Highway be accessible from any village within a distance of 50 Km. However, even today in Karnataka National Highways do not pass through three districts namely, Gulbarga, Raichur and Kodagu. These districts have a total area of 28665 Sq Km which is nearly 15 % of the 191791 Sq Km area of the State. Therefore, such districts must be provided with connectivity to National Highways.

Out of the 3728 Kms length of National Highways in Karnataka, about 1691 Kms are yet to be widened and strengthened to bring them on par with National Highway standards. Maintenance and upgradation of existing roadways should be prioritised in the Tenth Plan.

## **Industry**

The primary objectives of Karnataka's reform programme in this sector is the creation of a competitive business environment to promote % the private sector as the primary engine for growth, provide for ease of doing business and to help reduce transaction costs. The Industry Facilitation Act which has now been reserved for Presidential assent will facilitate these objectives.

To take the process of deregulation forward, we seek the active support of the Government of India in amending Central labour laws. The complex labour laws, rules and policies governing different sectors of the country's economy have impeded GDP growth and productivity. The Tenth Plan should seriously look at labour reform.

I would also like to renew the Karnataka Government's request to consider service exports for providing assistance to states for infrastructure development under the Assistance to States for Infrastructure Development and Allied Activities (ASIDE) programme of the Ministry of Commerce. At present the growth of exports of manufactured goods and the annual growth rate determine the quantum of a state's financial assistance. Karnataka has significant software exports accounting for almost 50% of the Rs.20000 crores that we export. It is therefore appropriate that service exports should be included while calculating the infrastructure funding support that Govt. of India provides. The Tenth Plan should have examined such issues more exhaustively.

We are moving towards disinvestment and restructuring PSUs. 25 PSUs will be restructured during the next two years.

## **Human Development**

I must reiterate that Karnataka which has shown a high rate of growth is committed to ensuring that the fruits of economic growth promote human development in meaningful ways. Sectors that are critical to the development of the vulnerable sections of society are education, healthcare, housing, women and child development and the welfare of the Scheduled Castes and Tribes. All these sectors have been supported with substantial outlays in the State Tenth Five Year Plan.

## **Education**

We welcome the initiative taken by the Union Government in launching a massive programme to universalise elementary education i.e "Sarva Shiksha Abhiyan." Since education is in the concurrent list we hope that the Central Government will provide substantial funding to supplement Karnataka's own considerable outlays in the sector. Midday meals have been introduced in the 7 educationally backward districts of the state. Since the programme results in improving enrolment and retention rates and provides nutrition to the poor, the Government of India should seriously consider including this in the Sarva Shiksha Abhiyan scheme. I would have liked to have seen more Central assistance for teachers' training and a new programme of assistance for secondary education where infrastructure needs to be upgraded and modernised. In higher education

the bulk of grants are channelled to universities and institutions of higher learning but hardly any funding is extended to colleges which cater to 90% of the students in tertiary education. This anomaly should be addressed.

The University Grants Commission and AICTE should, before recommending any hike in pay scales and pay structures, take into consideration the paying capacity of the states. A greater consultative process with states on such matters would facilitate decisions in the best interest of the Centre as well as states.

Karnataka accords very high priority to education in general and elementary education in particular both in terms of focus as well as resource allocation. We are conscious of the gender disparities in literacy and education and have taken major steps to promote girls' education. Education is free for girls in government institutions up to the +2 level. Free textbooks and uniforms are also being given to girl students. Education is also free in vocational courses in women's polytechnics. .

In order to bring back school dropouts and non-enrolled children to formal schools "Chinnara Angala" a 60-day summer bridge course has been operationalised and around 3.68 lakh students have returned to school in the last two years.

Community participation has transformed the functioning of schools in the state. "Dattu Yojana" or " Adopt a School" programme improves basic infrastructure facilities by encouraging private participation and is being implemented in 8000 schools and around Rs. 56.45 crores have been mobilised. Parents have now become stakeholders in the efficient management of schools through School Betterment and Monitoring Committees resulting in better student performance and reduced teacher absenteeism.

## **Health**

I had hoped to see the Government of India coming forward, in a big way, to financially assist the states in the compliance, implementation and enforcement of various statutory requirements relating to mental health, drugs, bio-medical waste disposal, blood safety, prevention of sex determination tests etc. This aspect should be included in the Tenth Plan.

Karnataka is building a strong network of secondary level hospitals. Under the World Bank assisted Health Systems Development Project, 200 secondary level hospitals, and under the German assisted KFW Project Phase-1, 26 hospitals, will be completed by the end of the current financial year.

The Government of Karnataka has introduced an innovative and novel comprehensive rural health care scheme. All farmers registered with the Farmers' Cooperative Society will be eligible for the scheme. A monthly fee of Rs. 5 will be collected from each member and this will enable farmers to go to the best hospitals in the state for medical treatment ranging from diagnostics to surgery.

### **Women's Empowerment**

The Tenth Five Year Plan has, quite correctly, flagged gender disparities as an area of concern but I do not find any radical agendas or strategies. I strongly recommend that the Government of India take a leaf out of our book and implement a women's plan on the lines of our Karnataka Manila Abhivrudhi Yojana under which a minimum of a third of the resources in all beneficiary oriented schemes are earmarked for women. Under "Stree Shakti" more than a lakh women's self help groups have been formed with NGO participation.

### **Welfare of the Scheduled Castes & Tribes**

We have identified 3 core sectors where investment will yield optimal outcomes for the economic development of the Scheduled Castes and Tribes. They are education, irrigation and housing, scheme. This is an approach that the Tenth Plan could adopt since dispersing resources over a vast array of mini-programmes does not really help beneficiaries. A focused deployment of resources has proven to be a sounder strategy for empowerment.

As part of this policy, from 2002-03 onwards, one lakh houseless SC/ST families will be provided with houses every year. By this measure, in three years every homeless SC & ST family in the state would have been allotted a house.

### **Housing**

I agree with the suggestion in the plan document that the Tenth Plan objective shall be "Housing for All". We have identified 7.5 lakh house-less people and about 14 lakh site-less people in the state. The Government has launched an ambitious programme of providing 11 lakh houses during the period 1999-2000 to 2003-2004 and has already completed 5 lakh houses by the end of November 2002 and hopes to complete all the 11 lakh houses targeted by the end of 2004-05. We, in effect, have already set our plan in motion and are confident of providing houses to all during the Tenth Plan period. Additional resources under various Central schemes should be extended to states during

the Tenth Plan.

The Government of India has introduced a new and very ambitious programme called VAMBAY to provide housing for the slum dwellers in urban areas. I am proud to say that we have almost completed all the houses allotted to us in the first phase. However, under VAMBAY there is no provision for other basic infrastructure like drinking water, UGD, roads, lighting etc. Without these infrastructure facilities VAMBAY colonies will continue to be slums. In order to ensure comprehensive development of VAMBAY colonies, the scheme needs to provide for basic infrastructure at least.

## **Conclusion**

It is my earnest hope that the Tenth Five Year Plan will not become a mere wish list. Greater fiscal discipline, aggressive resource mobilisation and effective implementation are critical to achieving the goals of the plan document. Greater cooperation between the Centre and the states in major projects and a genuinely participatory approach to planning in keeping with the spirit of federalism are necessary for economic growth and human development. The interests of our farmers must be nurtured and protected because agriculture is still the cornerstone of our economy. Massive investments in agriculture and irrigation will ensure a strong economy, food security and reduce poverty. We must foster the public/private partnership and introduce major reforms to make governance more effective and accountable.

The principal beneficiaries of the Tenth Five Year Plan should be those who constitute the most vulnerable sections of our society. Only then can we hope to achieve a polity based on equity and social justice.

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