Opening Remarks of the
Deputy Chairman, Planning Commission
51st meeting of the National Development Council
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I would like to begin by thanking the Prime Minister for his inaugural address in which he has drawn pointed attention to the challenges facing policy making in the remaining years of the Tenth Plan and the run up to the Eleventh Plan.

The Prime Minister has already mentioned that although we are aiming at accelerating growth to somewhere between 7 and 8 percent in the last two years of the Tenth Plan, the average growth for the Tenth Plan period is unlikely to exceed 7 percent.

The state of the economy emerging from the MTA presents a mixed picture. There are several strengths, but also some important weaknesses.

On the positive side, I would emphasize the following:

- Inflation was a concern in mid 2004; it is now under control.
- The external payments position is very comfortable and the level of foreign exchange reserves is high.
- Private corporate sector investment has turned around.
- Industrial growth was weak in the first two years but there was a revival in 2004-05, with the industrial sector recording a growth of 8.1%.
- Competitiveness has increased in many sectors. The success in software and IT enabled services is well known, but the performance of Indian firms in pharmaceuticals, automobiles and auto- components, bio-technology etc. is also commendable.
- The savings rate is high and the centre's fiscal deficit has declined.
- International perceptions of India are very positive. Internationally, the world views India as fully capable of achieving 8% growth on a sustained basis, if suitable policies are put in place. Prospects for attracting FDI are more favourable than ever before.

Against these positive features, the Mid-Term Appraisal also throws up several areas of weakness which call for urgent corrective action.

- Agricultural growth has decelerated from 3.2% in the period from 1980-81 to 1995-96, to an average of below 2% subsequently. This is less than half the target for the 10^{th} Plan.

- Infrastructure inadequacies in both rural and urban areas adversely affect our ability to compete with imports and to penetrate export markets. Poor infrastructure will almost certainly prevent industrial growth from reaching double digit levels.
- In the social sector, the Tenth Plan set monitorable targets in health, education, gender equality etc. We are lagging behind in many areas.
- Employment generation in the economy is not up to expectations. Organised sector employment has fallen in absolute terms in the last three years.
- There is growing concern about regional imbalances both across States and in many cases within States.
- High international oil prices create some uncertainty and could adversely affect growth.

The Mid Term Appraisal has made a large number of suggestions. The Prime Minister has already mentioned some of the most important initiatives especially in the social sectors, employment and rural development. I will focus only on some critical areas.

One of the areas where corrective policies are urgently needed is agriculture, where it is absolutely essential to reverse the deceleration witnessed in the years after 1996. Since the Minister of Agriculture will be addressing many relevant issues in this area, I will limit my remarks to water, which is a critical input for agriculture.

We need to rethink the effectiveness of current strategies, both in irrigated and dry land areas. The maximum irrigation potential of the country is 140 million hectares. We have created a capacity of 100 million hectares but are actually utilising only 85 million hectares, partly because on-farm works are not complete and partly because cropping patterns have changed to water intensive crops, reducing the area that can be irrigated.

There are 388 ongoing major and minor irrigation projects which could add 8 million hectares of irrigation potential. The cost of completing these ongoing projects is estimated at Rs.91,000 crore whereas the present scale of funding, taking State and Central funding together, is only about Rs.13,700 crore per year. To complete these ongoing projects in the next four years, as envisaged in the NCMP, it would be necessary to increase the allocation to irrigation by around Rs.6,500 crore per year. We are exploring the scope for increasing Central Government allocation under the AIBP to meet part of the gap. The States will also have to increase allocations to this sector from their own resources if we are to achieve our objective.

Even as we try to complete ongoing projects, we must also address the problem of very low efficiency of water use in irrigation projects. This varies between 25 to 35 percent, whereas it should be 60 to 65 percent, if the canal network were properly maintained. Lack of resources with the irrigation departments/ corporations is a major problem leading to poor maintenance.

This brings me to the difficult problem of user charges. At present water charges cover only one-fifth - at most one-fourth - of the operations and maintenance cost, and the overwhelming majority of the immediate beneficiaries are not among the rural poor. Even they are not benefited in the longer run if the system is allowed to deteriorate. Some States have begun to take steps to raise water charges and are undertaking institutional reforms such as the establishment of regulatory authorities to determine water tariffs and participatory irrigation management by water user associations. We need to move much faster in this direction. The Mid Term Appraisal calls for decentralising the authority to collect water charges to farmers associations, allowing them to retain 50% of the collection for maintenance. Water regulators could also set higher water charges for water using crops, linked to ground water status.

The situation regarding ground water use is also very disturbing. There is excessive drawal of ground water leading to alarming lowering of the water table in many areas. Merely banning new tube-wells does not help in this situation since it is difficult to implement and, in any case, only gives a monopoly to existing pump owners to continue to draw water and even sell it to other farmers. The policy of free or very cheap power obviously contributes to the problem by encouraging excessive drawal of ground water.

The Mid Term Appraisal calls for a move towards more rational electricity pricing. It also suggests that electricity for agriculture should be priced differently in areas where ground water has been severely depleted. The policy of subsidising micro-irrigation should also be linked to ground water status so as to promote these systems where ground water depletion is most serious. These efforts must be combined with a large scale effort at promoting ground water recharge.

Rain-fed areas account for two-thirds of the cultivable area at present and is necessary to develop a coherent strategy for water conservation and management for these areas. We have in the past had a number of watershed programmes, aimed at conserving water through construction of check dams, ponds, artificial recharge of wells etc., but these schemes have suffered from a multiplicity of departments handling them, poor knowledge inputs into programme design and inadequate involvement of the community. There are some outstanding successes, especially where NGOs have helped to mobilise the community and assist it in programme design, but the general experience with government schemes is much less positive.

We have covered only a small part of the treatable wasteland and drought prone areas, and saturating them with watershed development projects should be a high priority. The total land to be treated under the watershed approach is estimated as 107 million hectare, of which 29 million hectare has been treated till the end of the Ninth Plan under various programmes. The investment required to cover the balance area has been estimated at over Rs.70,000 crore. Additional resources will need to be directed to this area in future. The Mid Term Appraisal recommends that the resources currently being made available under SGRY/Food for Work Programme and also the RSVY in dry land districts could be used for this purpose.

A major message of the MTA is that massive investments are needed in infrastructure sectors such as power, roads, ports, airports and railways if India is to be able to grow at 8 percent per year. This calls for innovative action by both the Centre and the States. Public investment in infrastructure must be increased but the total investment needs of these sectors in the years ahead are so large that they cannot be met by relying on public resources alone. The Mid Term Appraisal therefore recommends concerted efforts to expand public private partnerships in this area, both by the Central Government and the States.

The Central Government has taken important initiatives in this regard. A Committee on infrastructure has been established under the Chairmanship of the Prime Minister to chalk out a monitorable action plan in the major areas of power, roads, railways, airports and ports.

In the case of the roads sector, an ambitious programme has been established which involves a total investment of Rs.172,000 crore in national highways upto 2012.

- A substantial portion will be through public private partnership in the form of BOT projects, where the Central Government will provide viability gap funding in the form of a capital subsidy based on competing bidders seeking the lowest acceptable subsidy.

- Four-laning of around 12,000 km under NHDP III and parts of NHDP II, and six-laning of around 5,000 km on the Golden Quadrilateral will be done entirely through BOT
- A special accelerated road programmes for the North-East region will be implemented in the public sector

The cooperation of the State Governments in the speedy execution of road sector projects is critical, particularly for projects involving land acquisition and removal of encroachments.

Ports also require major expansion and modernisation, especially as the high growth we are aiming at in future will involve accelerated growth in both exports and imports. Public private partnership has worked very well in this area as demonstrated in some of the major ports where berth expansion has been done entirely by the private sector. In future, scarce public resources are best used for activities such as capital dredging in major ports to deepen the draft, so that larger ships can come to our ports, while berth expansion and other onshore activity is left to private entrepreneurship.

Air connectivity is set to expand rapidly and we need to take urgent steps to modernise our airports to deal with the expected expansion. The strategy being followed is that airports which can operate on a purely commercial basis will be offered for development and operation by the private sector, based on concession agreements which ensure that they meet pre-determined targets of capacity and quality. The busier airports can be bid out on the basis of a revenue share. Where the airport is not viable on its own, attracting private investment may require a capital subsidy.

Two private sector airports have already been cleared for Bangalore and Hyderabad. The concession documents for Delhi and Mumbai are being finalised and the pre-qualified bidders will be invited to submit bids shortly. Chennai, Kolkata and a number of other airports could be expanded on a similar basis.

The Railways also need massive upgradation and modernisation especially in the area of freight movement, which is critical for GDP growth. Indian Railways is comparable to Chinese Railways in route kilometrage, but China's rail system carries four times the freight that Indian Railways carries. Indian Railways carry five times as many passengers, but this segment is less connected with expansion of productive capacity, and much of it is loss making. The greater freight carrying capacity in China is in part a reflection of much larger investment levels. In the decade 1992-2002, we invested $17 billion in the railways while China invested five times more.

Railway modernisation and reform is an urgent necessity and should have high priority in the 11th Plan. Meanwhile, two important decisions have been taken.

- A dedicated rail freight corridor is proposed to be constructed from Mumbai to Delhi and Delhi to Kolkata, to be operated by a separate railway freight corporation that will be owned by the Railways. A feasibility study has been commissioned and the project will be posed to the Japanese Government for external assistance.
- In order to introduce competition in the movement of container traffic, the scope for introducing a new private sector or joint venture container movement corporation is being explored.

The power sector is in many ways the weakest part of our infrastructure. The core of the problem is financial unviability of the distribution segment resulting partly from unrealistically low tariffs for certain categories of consumers but even more from the leakage and theft and deliberate under billing arising from inefficiency and corruption.

The reported losses of all the SEBs taken together amount to about Rs.28,000 crore. However, this figure may itself be an underestimate because of the accounting procedures used. Examination of the accounts of some SEBs undertaken by the Planning Commission using professional auditors shows that with proper accounting, losses would be much higher.

The Central Government can do little in this area as this is mainly the responsibility of the States. The Electricity Act 2003 establishes a framework of policy which allows State governments that want to reform the system to do so.

- State Electricity Regulatory Commissions have been established in most States to fix tariffs on a rational basis with due regard to the need for some cross subsidy.
- The system has been unbundled in most States so that the technical and financial efficiency of the distribution segment, which is the core problem area, can be identified and improved.
- The legal framework allows introduction of open access whereby competing generating stations can supply electricity directly to customers able to pay by using the existing distribution system on

payment of a suitable charge to the distribution company. The Planning Commission regards open access as a critical element in power sector reform, which would introduce the much needed competition in the system and attract investment for eliminating shortages. State Governments would do well to accelerate introduction of open access.

Despite, these developments, progress thus far has been limited. I recognise that institutional changes take time and there is considerable learning and experimentation that has to be done. However, this is an area where improved performance will have a direct effect upon industrial growth and competitiveness, small, medium and household industry, which cannot set up its own captive generation have the most to gain from power sector reforms. This is also the sector which is most likely to generate employment.

Finally, I would like to mention a new initiative relating to problems of regional imbalance, which I have alluded to earlier. It is proposed to establish a new programme called the Backward Regions Grant Fund which will provide resources to identified backward regions. The existing RSVY programme will be incorporated in the new programme, which however will involve a higher level funding. The details of the new programme are expected to be announced shortly.

I have not touched upon the difficult issue of resources which constrains the ability of both the Centre and the States to build the momentum necessary to achieve our ambitious objectives. The Mid Term Appraisal contains several suggestions in this regard. The Finance Minister may have more to say on these issues in the course of his presentation.

These are only some of the areas in which corrective steps are needed. The Mid Term Appraisal identifies, in its different chapters, as many as 318 policy recommendations. Some of these are general in nature and can only be implemented in time. To focus attention on those initiatives which have the maximum likelihood of immediate impact in generating faster and more inclusive development in the remaining years of the Tenth Plan, we have identified 59 priority areas and these are listed in the Overview chapter.

I look forward to the reactions of the Chief Ministers to these suggestions.

Thank you.