



**GOVERNMENT OF KARNATAKA**

**SPEECH**

**OF**

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**AT THE MEETING OF**

**NATIONAL DEVELOPMENT COUNCIL**

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I am grateful to the Prime Minister and his colleagues for convening this meeting to discuss the Mid-Term Appraisal of the Tenth Five Year Plan. This is a critical phase in the development of our country. We will have to adopt innovative strategies to face the challenges of unemployment, poverty and social inequalities, by strengthening social infrastructure in health and education. As regards the primary sector, arid zones in states like Karnataka need to be drought proofed through irrigation, watershed development and water management.

2. The Tenth Five Year Plan outlay for Karnataka is Rs.43558 crores, which is 86% higher than the Ninth Five Year Plan outlay of Rs.23400 crores. Karnataka is one of the few major States to have consistently raised more resources than were projected in the Five Year Plans. We hope to continue this trend in the Tenth Plan as well. Equally gratifying is the fact that the additional resources for the Plan have been essentially generated out of our own tax receipts rather than out of borrowings. The per capita plan outlay of Karnataka at Rs.2429 in 2005-06 is the highest among major States. Incidentally, Karnataka's Plan outlay at Rs. 13555 crores in the current year is the second highest among all States. State's efforts towards additional resource mobilisation should be supplemented by the Centre by way of additional allocation to enable us to achieve the objectives of the Tenth Plan.

3. Three successive years of drought in the State have adversely affected growth in the Gross State Domestic Product. Nearly 90 per cent of the taluks were affected by deficit rainfall. The State's economy turned the corner in 2004-05 with better monsoon helping the agriculture sector, resulting in an overall growth of 7.8 per cent during the year. Assuming that the monsoon in the current year and 2006-07 will be normal and anticipating growth of 7.4 per cent and 10 per cent respectively in the manufacturing and the services sector, I hope the State will achieve a growth of 7.1 per cent growth in GSDP during the Tenth Plan.

4. My State has taken steps to manage its resources prudently. Karnataka has adopted a revenue led reforms programme, having enacted the Fiscal Responsibility Act in 2003 and has eliminated revenue deficits in the last two years. It has maintained the fiscal deficit at a sustainable level of less than 3 per cent. The interest payment is about 15 per cent of the total revenue receipts. I am happy to note that the fiscal management practices that we have adopted are now part of the recommendations of the MTA.

5. The MTA states that high-level contributions to plan from non-debt sources are possible only by increasing tax resources and eliminating non-productive and non-targeted expenditures. Karnataka has shifted to a VAT regime with a uniform tax structure under the guidance of the Empowered Committee of State Finance Ministers. Although the tax realisation during the first two months of the year has shown positive growth, we are banking on the assurance given by the Government of India to compensate losses if any in the first three years. But there are some trade distortions as some States have not adopted VAT. I urge the Government of India, as well as the Empowered Committee, to prevail on these States to join the mainstream and implement VAT.

6. The States have very limited sources that they can tax. With the service sector growing rapidly in Karnataka, we had requested the Government of India to allow us to tax services. We have been assured that there will be a new Service Tax Bill which will allow States to tax more services. I request the Government of India to come out with the modified bill early so that the States can tax the service sector for generating additional resources for development.

7. The Twelfth Finance Commission (TFC) has given its report and the Government of India has accepted the recommendations. The TFC has provided sufficient incentives in the area of debt restructuring to the State to support fiscal correction and the steps indicated are welcome. While applauding the measures suggested by the TFC, the MTA has expressed concerns regarding the ability of some States to avail of fiscal reforms incentives.

8. We are also in favour of shifting States' borrowing from Government of India sources to markets. However, this approach should be adopted with caution. We are concerned about the lending policies of public financial institutions like NCDC, LIC, GIC, NABARD, and HUDCO. I completely agree with the MTA that these bodies will have to introduce good appraisal procedures so that the development process is supported on merit and not on the guarantees given by the State Governments. I also recommend interest relief through debt swaps of loans obtained by States from Central financial institutions. I request the Centre to help progressive States like Karnataka to manage their resources efficiently so that more funds become available for the new policies suggested in the MTA. I also urge that States may be given the option of not borrowing from NSSF.

9. I would like to bring the subject of regional imbalance to your attention. Karnataka usually ranks quite high in many economic and human development indicators. Hence, it is perceived to be a developed State, which does not require the special Central assistance that is normally extended to underdeveloped States. The truth is that there are high regional disparities within the State. The Human Development Index is very high in Bangalore, the coastal and *malnad* districts but it is very low in the northern parts of the State. The presence of naxalite activities in some parts of the State is indicative of socio-economic disparities and the backwardness of these regions. The districts of the Hyderabad -Karnataka region have low literacy rates, high IMR and MMR and a very large percentage of agricultural labour. The backwardness of the region is due to the vast arid zone and recurrent drought. Because of backwardness, a special status under Article 371 of the constitution has been sought for the Hyderabad-Karnataka Region. My Government has taken many steps to increase funds to the northern districts. The Committee on Redressal of Regional Imbalances in the State has recommended that a special development plan of Rs.9600 crores should be implemented in North Karnataka. The State has not been able to implement the special development plan due to resource constraints. I reiterate my request to the Centre to co-finance at least 50% of the special development plan, which would greatly benefit the 12 districts of North Karnataka. In this context, I welcome the setting up of a Backward Regions Grant Fund (BRGF). Districts like Raichur and Bijapur have very low literacy rates, while Kolar has a high concentration of Scheduled Castes and Chamrajanagar a high concentration of both SCs and STs. All these districts have very low GSDP. I request the Centre to finance these districts under BRGF.

10. As stated earlier, Karnataka has endured one of the worst droughts in recent memory. During the current year also there has been a delay in the onset of monsoon. Central assistance however was insufficient to meet the expenditure incurred by the State on relief works. In many cases, calamity relief has been extended as advance plan assistance subject to future adjustment. This does not help the State and in reality places an additional burden on its finances.

11. Karnataka is making every effort within its limited financial means to fully utilise all its irrigation sources. I welcome the recommendations of MTA to provide 100% Central funding under AIBP and to fund large irrigation projects as national projects to enable their speedy completion. Once completed, the consequent increase in agricultural production would fuel development of the entire economy.

12. Agriculture should be the subject of special focus as suggested in the MTA. Agriculture is the best bet for an assault on poverty given the numbers involved. Amelioration of the farming community's problems will have a cascading effect on the secondary and tertiary sectors and the overall growth of the economy. If farmers suffer, the economy suffers; if farmers prosper, the economy prospers. A major concern now is how to increase the incomes of farmers and generate employment in rural areas. The credit system or marketing system must take into account the reality that the majority of farmers have small holdings and are at the mercy of the monsoon. Agricultural research must focus on the requirements of these farmers who are in need of support from Government. Farmers indebtedness has many humanitarian and financial implications. Sickness in cooperative credit institutions combined with the unsatisfactory performance of commercial banks has pushed rural indebtedness to very high levels. The Karnataka Government, as part of its CMP, has ensured that subsidized agricultural credit is available to farmers through cooperative banks at 6 per cent interest and the required subsidy amount has been provided in the Budget. The government has also taken action to supply good quality seeds to farmers at subsidized rates. The State welcomes the recommendation to create a buffer stock of milk powder during the flush season and use it to introduce a 'school milk programme' along with the ongoing mid-day meal scheme. The State has increased its contribution to the revolving market intervention fund for market support operations. A medical insurance scheme has been introduced for farmers and agricultural labourers. Kisan Credit Card facilities have been extended to all farmers in the States.

13. In fulfillment of the promises made in our CMP, a significant food security measure was introduced on September 1, 2004 under which subsidized food grains (20 kg rice and 5 kg wheat) at Rs.3 per kg are supplied to every BPL cardholder. A budgetary provision of Rs.500 crores has been made to support this crucial food security scheme. My Government welcomes the suggestion in the MTA to set up a Food and Nutrition Security Watch for monitoring outcomes of specific interventions

and overall food availability in the country.

14. The employment situation in Karnataka, as in India, is a mixed one. Workforce participation in Karnataka has steadily increased from 40.2 per cent in 1981 to 42 per cent in 1991 and 44.6 per cent in 2001. There has been a structural change in the composition of income and employment. The primary sector which contributed about 38 per cent of the state domestic product in 1993-94 has declined to 21 per cent in 2003-04. However, the sector continues to be the main source of employment accounting for nearly 67 per cent of the aggregate employment. There are visible gender and caste disparities with women, SCs and STs forming the largest proportion of agricultural labour. The proposed National Employment Guarantee Programme will create more employment opportunities for the weaker sectors in rural areas. There is a need to encourage women's participation in the secondary and tertiary sectors as their present level of participation is about 22 per cent. Another area of concern is declining organised sector employment whose relative share in the aggregate employment is about 8%. One of the reasons for declining organised sector employment is closure of small scale industries. There is an immediate need to take up promotional measures to address this issue. Another area of concern is the large number of educated youth seeking jobs. We fully support the MTA's recommendation to accelerate growth in labour intensive sectors to address this problem to generate more jobs.

15. Karnataka's literacy rate is 66.6 per cent in 2001 as compared to 56.04 per cent in 1991. Karnataka ranks 8<sup>th</sup> among major States. The female literacy has increased to 56.9 per cent. My Government has further improved the incentives to increase enrolment and reduce drop-outs of school children through Vidya Vikasa Programme by providing free uniforms, text books to all children and attendance scholarships to girls. The midday meal programme has now been extended to cover all children in classes I - VII in government as well as to private aided institutions. This benefits nearly 66 Lakh School going children and entails an expenditure of Rs. 290 crores. The number of out of school children in the State has reduced dramatically by over 8 lakhs since 2001. Govt. of India may consider extending provision of food grains to cover school children studying in classes VI-VIII.

16. I welcome the proposal to continue the existing funding pattern under the Sarva Shiksha Abhiyan programme up to 2010. We have taken many innovative

steps to encourage private participation in school education. The State Govt. raised Rs. 70 crores through private contributions under the school adoption programme. School Development Monitoring Committees (SDMCs) have been formed in every school. It monitors the performance of the school regularly, resulting in a reduction in teacher absenteeism. We intend to make the SDMCs an integral part of Gram Panchayats by treating them as one of the sub committees. This will assign a greater role for the Gram Panchayats in the management of schools.

17. In order to improve the quality of engineering education we are implementing the ISRO-EDUSAT pilot project linking all engineering colleges. This is first of its kind in the country. We intend to extend this to school system also. The increasing cost of higher education is a matter of concern. Govt. of India may consider setting up an Education Corporation for funding the financial needs of students seeking higher education.

18. I support the MTA recommendation to constitute a Sarva Swasthya Abhiyan on the lines of Sarva Shiksha Abhiyan because health for all must become a reality in our country soon. Population growth in Karnataka has declined from 2.1 % in 1991 to 1.7 % in 2001 per annum. The State's infant and maternal mortality rates have gone down but much more needs to be done specially in the northern districts. The State has set up Arogya Raksha Samithis in all district hospitals and public health institutions for effective supervision. We have entrusted the management of 39 Primary Health Centers to NGOs and private medical colleges to encourage public-private participation as has also been suggested in the MTA. We propose to increase institutional delivery specially in the rural areas by introducing 24 hours service in 400 PHCs. Karnataka recommends the introduction of a maternity insurance scheme as an effective social safety measure. More Central assistance would be required if we are to reach the targeted expenditure of 3% of GDP in the health sector.

19. Karnataka is implementing ambitious housing programmes namely, Ashraya and Ambedkar in addition to Indira Awaas Yojane. Under these programmes, 1.72 lakh and 0.51 lakh houses have been constructed for SCs and STs, respectively, during the first three years of the Tenth Five Year Plan. The Social Welfare department is implementing a scheme of providing financial assistance to SC/ST meritorious students for pursuing higher studies abroad in specified fields.

20. One of the recommendations of the MTA is the formulation and implementation of a Women's Component Plan (WCP) and gender budgeting in order to ensure gender justice. I am happy to say that Karnataka has been successfully implementing a WCP since 1995-96. Under the Karnataka Mahila Abhivrudhi Yojana a minimum of one third of the resources in all beneficiary oriented schemes are earmarked for women. Micro finance programmes can contribute immensely to women's social and economic empowerment and poverty reduction in the village community. Self Help Groups (SHGs) are an effective way of ensuring participatory development. One lakh Sthree Shakti SHGs, have been formed in my State with over 15 lakh members, with savings of Rs. 275 crores. 58945 groups have been credit linked and advanced loans of Rs. 245.34 crores. As many as 59237 SHGs have taken up income generating activities.

21. While I agree that the thrust areas for the power sector in the Tenth Plan must include power sector reforms it is also necessary to enhance substantially the levels of investment in all segments of the sector, namely, generation, transmission and distribution. Karnataka has embarked on a significant programme of capacity addition during the Tenth and Eleventh Plans, to create an additional generation capacity of 3350 MWs. We agree that the guaranteed 14-16% post-tax returns received by Central generating companies under the cost-plus tariff regime are indeed unsustainable. The high tariffs impose a severe financial burden on State power utilities. We recognise that reduction of power sector losses is an important issue in power sector reforms. Reduction of losses enables the power sector to upgrade its capacities through higher fund flows. Distortions in the tariff structure will also be eliminated. My government is seriously trying to tackle this issue.

22. Karnataka accords the highest priority to governance as a means to effectively achieve plan targets. The State is a pioneer in decentralizing governance and empowering Panchayat Raj Institutions to function effectively at the grassroots. This year as many as 127 Plan schemes with an outlay of Rs. 1210 crores have been transferred to the Panchayat Raj sector. Under activity mapping, the responsibilities of gram panchayats have been increased.

23. Keeping the present traffic density on State Highways and Major District Roads, in mind it is necessary that 1/6<sup>th</sup> of total road length needs to be resurfaced every year. Although the State is making full use of funds provided under CRF, the



State still needs huge funds for maintenance of its roads. All the roads, which are being improved by the State Government with an investment of Rs.2750 crores, under Karnataka State Highways Improvement Project (KSHIP) and Karnataka Road Development Corporation merit being reclassified as National Highways. Such reclassification or upgradation will be advantageous both to the Central Government and the State Government.

24. Karnataka has seen high economic growth with Bangalore emerging as one of the country's main Information Technology based growth centres. However, Bangalore is facing major infrastructure challenges and requires huge investments for development of infrastructure. Other cities which are growing fast and which also need special attention are Mysore, Hubli-Dharwad, Mangalore and Gulbarga. We request that assistance may be provided for infrastructure development to these cities out of the funds earmarked for National Urban Renewal Mission.

25. I request the Railways to speed up completion of all railway projects in Karnataka by providing additional resources. As the Government of Karnataka has agreed to share 2/3<sup>rd</sup> of the cost of electrification and doubling of the railway line from Bangalore to Ramanagaram, I request the Central government to take up the remaining work from Ramanagaram to Mysore, which is a tourist centre of national importance.

26. Today's meeting is crucial for finalising India's development strategy. We need greater fiscal discipline and responsibility both at the Centre and in the States. The private sector should be allowed to perform its due role if the target of 7-8% economic growth in the next few years is to be achieved. The role of Government will continue to remain critical in the areas of equity and social justice. Good governance is key to introducing a people friendly plan. I trust many of our recommendations will find acceptance in the MTA report.

Thank you

Jai Hind Jai Karnataka