



GOVERNMENT OF KERALA

**51ST MEETING OF THE NATIONAL
DEVELOPMENT COUNCIL**

**MID TERM APPRAISAL OF THE TENTH FIVE
YEAR PLAN**

27TH - 28TH JUNE 2005

NEW DELHI

SPEECH

By

Shri Oommen Chandy

Chief Minister

Kerala

**RESPECTED PRIME MINISTER, HONOURABLE UNION MINISTERS,
DISTINGUISHED DEPUTY CHAIRMAN AND MEMBERS OF THE PLANNING
COMMISSION, DEAR COLLEAGUES,**

At the outset, let me express my great pleasure in participating in this meeting of the National Development Council and convey my appreciation to the Prime Minister for calling this meeting. I am confident that the discussion of the Mid-Term appraisal of the Tenth Plan prepared by the Planning Commission in this meeting will help develop a shared understanding on critical issues that need to be addressed for us to achieve key development objectives.

Let me also congratulate the Planning Commission on its excellent report on the Mid-Term Appraisal of the Tenth Plan. I am especially happy to note that the Mid-Term Appraisal, and the policy initiatives suggested in it, seeks to chart a new way forward for the remaining Tenth Plan period and beyond, reflecting the vision and commitments of the 2004 National Common Minimum Programme of the Government of India, which states:

"The people of India have voted decisively in the 14th Lok Sabha elections for secular, progressive forces, for parties wedded to the welfare of farmers, agricultural labour, weavers, workers and weaker sections of society, for parties irrevocably committed to the daily well-being of the common man across the country."

Let me assure you, Prime Minister, of the fullest support and cooperation of my government and of the people of Kerala in your endeavour to realize the vision of the Common Minimum Programme of social justice and prosperity for all and in implementing the vision and direction set out in the Mid-Term Appraisal. To this end, my government will give full and careful consideration to all the policy initiatives suggested in the Mid-Term Appraisal and to the suggestions that emerge from these deliberations.

Kerala's Development Challenge

Let me take this opportunity first to share with you some thoughts on critical development challenges facing Kerala in light of the issues identified in the Mid-Term Appraisal.

Converting Social Development Gains into Economic Growth

As all of you know, Kerala is well known all over the world for its remarkable achievements in social development. Kerala is also blessed with unmatched natural endowments. Its unique geographical location has given it a crucial role in global trade for centuries, involving trade with the Far East, the Middle East and the West.

However, it is unfortunate that Kerala's economic development has not kept pace with its social development. Although Kerala has made great strides in alleviating, to a significant extent, the social, human and political dimensions of poverty, 30% to 40% of our people still struggle under the burden of economic poverty. It is mainly due to dearth of adequately remunerative employment. For years, Kerala remained an economic laggard.

The Winds of Change: The Emergence of a New Face of Kerala

I am very pleased to be able to present to you today a new face of Kerala. Important winds of change have begun to blow in Kerala. Today, Kerala is actively and aggressively seeking to convert its social achievements and its natural endowment into economic prosperity for all its people. Let me highlight one or two aspects of this remarkable transformation of Kerala.

The most noteworthy aspect of Kerala's economy in the last decade is the sharp positive change in the economic growth scenario. Incidentally, I must point out with appreciation that the distinguished Deputy Chairman, Dr. Montek Singh Ahluwalia, was amongst the first economists to draw attention to what has since been described as "Kerala's turnaround in economic growth".

In the 1970s, the Kerala economy grew at around 2.27%. Growth slipped to a low of 1.16% in the 1980s. In the last 15 years or so, however, Kerala has emerged from years of economic stagnation and climbed on to a path of impressive growth. Kerala's long-term average growth rate for this period is 5.8% which is very close to the national average for this period.

While this is good news indeed, it must be noted, however, that much of this growth is fuelled by the remittances of hard working Kerala emigrants rather than by a growth in investments, production or productivity. This turnaround in economic growth was made possible by the economic reforms initiated by the Government of

India.

There has also been a marked and perceptible improvement in the investment climate and business environment in Kerala. I am happy to note, for example, that Kerala ranks third in the country in the recent rating on economic freedom for states of India issued by the Rajiv Gandhi Institute for Contemporary Studies in March, 2005. Over the last several months, we have seen a remarkable and unprecedented upsurge in investment interest in Kerala.

- We have been able to obtain an estimated Rs. 30,000 crore of additional new investments, including some Rs. 20,000 crore of investments with the support of the central government in a range of mega investment projects.
- We have taken major initiatives in a number of fields including IT, Tourism infrastructure, agriculture and agro-industry, traditional industry and urban development.
- We have launched a major initiative to modernize government and make government more efficient.

We had to face the devastating tragedy of the tsunami which has taken a significant toll on a large number of families in various parts of our State. The people of the State united as one to lend their help and support to our affected brothers and sisters.

The consistent efforts of the Kerala Government over the last four years have begun to bear fruit and there is a perceptible change in the mind-set of the people. There is a strong demand from common people for job-creating investment and growth and they are no longer prepared to tolerate mindless opposition to development and growth. Kerala has truly transformed from a state perceived as *investor-unfriendly* to a state that is actively *investor-welcoming*.

I believe that we are today standing at the threshold of a "New Kerala", unrecognizable from the past. I believe that Kerala now has, for the first time in its history, a realistic chance of achieving a substantial breakthrough in economic growth.

Challenges Ahead

There is, however, no room for complacency. We are at the most crucial and difficult part of this journey. We have many challenges ahead of us.

We will need to attract substantial new investment not only in emerging sectors such as IT, education, tourism, health and finance but also in manufacturing as well as in agriculture and traditional industries. These investments must, above all, create decent jobs for our talented youth. We will also need to ensure that our youth receive adequate higher education to enable them to enhance their wages.

This will require substantial financial assistance from the Central Government as well as the private sector and private investments. In turn, this will require difficult policy reforms to address fiscal and regulatory issues. The Kerala economy will need to become more open to competition and provide a greater role for the private sector even while safeguarding the interests of public sector enterprises and their employees. Technological changes are needed in key areas, again without adverse impact on the existing workforce. The quality and availability of public services and the quality of infrastructure need substantial improvement. We need to ensure access of all our young people to high quality education at all levels.

It will be easy for us to lapse back into the old trap of low growth and persistent poverty, with irrational opposition to investment and growth. Continued strong support from the Central Government, the cooperation of other states and the assistance of the private sector are vital for us to be able to maintain and build on this new momentum.

I am happy that the overall thrust and direction of the Mid-Term Appraisal, as well as the areas of emphasis identified by the Prime Minister, are very much consistent with these needs and aspirations of Kerala.

The Mid-Term Appraisal correctly notes that some states have been unable to benefit from economic reforms and increase growth rates to the extent they could have. I would include Kerala in this category. I seek every possible assistance from the Central Government to enable us to take full advantage of economic reforms and increase our growth rates.

In particular, I would request that our achievements in social development

should not be used as a basis to deny us the vital assistance that we need to vanquish economic poverty, particularly when we are within grasp of this historic goal.

Policy Issues

Against this background of the development challenges facing Kerala, let me turn to specific policy issues both sectoral and cross-sectoral arising from the Mid-Term Appraisal and the implementation of the Plan that are of greatest interest and concern to us in Kerala. These issues also respond to the suggestions of the Prime Minister with respect to the areas on which he would like us to focus on today.

Agriculture and Agro-Industry

We agree fully with the centrality given in the Mid-Term Appraisal to raising agricultural growth rates for the reduction of unemployment and poverty. We also fully share the view that crop diversification is needed for the revitalization of agriculture.

For this, policies and programmes supporting cash crops are needed including investments in new plantations, the rejuvenation of old plantations, R&D for increasing productivity, reduction of vulnerability to disease and pest attacks, ensuring price stability through innovative fiscal mechanisms, extension of agricultural insurance to take care of risk and proper alignment of domestic policies to utilize opportunities created by the new trade regime while ensuring adequate safeguards against risks.

There is need for effective coordination between the Ministry of Agriculture, the Ministry of Commerce and commodity boards and state governments. There is need for a regular mechanism for consultation. There is need to shift away from crop-specific support, both in the case of subsidies and loans. Institutional arrangements to cater to diversification are needed, including transport, storage, marketing certification of quality and information sharing for crop choice and crop husbandry.

Agriculture should not be seen in isolation and should be packaged along with animal husbandry and fisheries. In these sectors, the role of the Government of India continues to be minimal and needs to be stepped up for they are of direct benefit to

the poor. There is also need to increase private sector investment. The launch of the National Horticulture mission is welcome. Its scope needs to be widened, level of funding significantly increased to cater to the diverse requirements of states.

The tremendous potential for organic agriculture needs to be fully utilized. A national policy on the development of organic agriculture is needed, backed up by R&D and quality control measures as well as necessary incentives that take into account broader economic benefits from organic agriculture such as improved health.

- 1) Suggestions for rejuvenating the support system for agriculture include:
- 2) developing farmer-based self-help group systems to facilitate joint arrangements for input supply and marketing;
- 3) setting up IT based networks for providing information and services to farmers;
- 4) restructuring and integrating existing departmental and research support to provide specialist services on a local basis; and
- 5) forging links with Panchayati Raj institutions.

Irrigation and Water Management

Over the years there has been an increasing realization that local irrigation and water conservation projects are often more relevant to more people in the country than large irrigation projects. However the budgetary allocations provided for watershed management and development of local water resources are very low.

A national mission to revamp the traditional water bodies of the country has become an urgent necessity and funds for this purpose can be pooled from various programmes for wage employment as well as irrigation.

A participatory approach focusing on small and marginal farmers could have multiple positive effects. As far as the old, long pending irrigation projects are concerned, a policy framework needs to be put in place to identify critical bottlenecks and suggest modifications. This exercise has to be done by an external multi-disciplinary team. Such revised projects could be funded under AIBP subject to

rigorous performance targets.

The issue of pricing of water needs to be approached with great caution. While public irrigation systems need to recover the full costs of operation and maintenance, access to water of the poor must also be safeguarded. Water cannot be treated as a commodity, access to which is allocated through a market-based pricing mechanism alone. Equally, we need to develop more effective mechanisms for conservation of water resources including appropriate restrictions on the extraction of groundwater.

I feel that the concept of command area development needs to incorporate the farmer-centred resource conservation approach. In new projects, prior consultation and agreement on sharing of costs with the benefited farmers should be mandatory; that is, a demand based approach validated by firm upfront commitments would be needed. All this has to be operationalized with an information system on water resources.

Employment Programmes

Generating employment in a sustainable and equitable manner should be the basic objective of our planning. I am happy that the MTA is very clear on this issue. But employment should not be equated with agriculture labour and manual wage employment but should address the issue in relation to the levels of human development prevailing in different states in the country.

In a state like Kerala, with a large army of educated unemployed youth, what is required is urgent action to bridge the employability gap. This calls for a mix of approaches including the last mile training needed to bridge the gap in skills which may not be available even after formal training in institutions or from experience gained in existing jobs. I request that the Commission constituted to go into issues relating to employment in the unorganized and informal sector be converted into a National Mission on Employment.

In the early days of planning, manpower planning was given a lot of importance. In a globalized market economy, there is need for greater and more complex planning for human resource development where the Central Government has a pivotal role to play.

It is necessary to support traditional and small industries as a key strategy for job creation, especially those which have considerable potential in the current international scenario. This requires a package of measures focusing on technology upgradation, quality assurance and marketing support. The Traditional Industries Fund needs to be expanded substantially to achieve this.

Also, the policy announcement on promoting Rural Hubs needs to be translated into action through a concerted partnership between the State and Central Governments and the industry with local governments playing a critical role.

Adequate attention should be provided to PSU reform, based on principles such as managerial autonomy, professionalization, technology infusion and performance orientation. Now that the Government has affirmed that viable PSUs will not be privatized just for the sake of privatization, the remaining part of the Tenth Plan should devote more attention to the question of revitalizing and expanding the viable public sector industrial units.

Governance

The land mark feature of the Tenth Plan is that it recognized the importance of good governance in delivering development. The MTA reaffirms this approach. The focus of good governance efforts should be on transparency and participation and the objective to improve service delivery, especially to the poor. Our experience shows that a two-pronged approach would be required, one to restructure laws and procedures and the other to sensitize and reorient the service providers so that they can inculcate the true spirit of public service as expounded by Gandhiji.

Modern ICT tools are very useful in this respect and the National E-Governance Plan is a most useful initiative. By now, several successful good governance initiatives have been implemented in different parts of the country and outside. Government of India may set up a network to share and exchange information on such practices and offer incentives for adopting them.

For improving governance, civil service reform is absolutely essential. The capabilities and skills of existing civil servants have to be upgraded and new recruits put through rigorous induction training programmes. This calls for enhancing the quality of training institutions at the state and national levels. It may be useful to

harness the services of IIMs and international institutions related to public policy to achieve this objective. Security of tenure of civil servants is an important part of reform and this can be achieved through transparent transfer norms evolved in consultation with staff organizations, as Kerala has been doing.

Local Governance: Strengthening Panchayati Raj and Nagarpalika Institutions.

More needs to be done at the national level to strengthen the Panchayati Raj and Nagarpalika systems in the country.

From our experience, I recommend the following broad policy measures for strengthening Panchayati Raj in our country.

- 1) Define the minimum set of responsibilities which PRIs have to perform;
- 2) revamp centrally sponsored schemes in these areas to make them feasible for local level planning and implementation by PRIs; for new national programmes like Bharat Nirman, National Rural Health Mission, National Urban Renewal Mission and so on, bring in elements facilitating full involvement of PRIs right from the beginning;
- 3) develop a methodology for bottom-up planning with special focus on strengthening of DPCs;
- 4) facilitate the creation of technical support systems at the local level with freedom to PRIs to access expertise;
- 5) strengthen capacity building programmes for elected representatives; and
- 6) circulate best practices.

An excellent way to strengthen Panchayati Raj in the country would be for the Government of India collectively to own and push the Action Plan for strengthening Panchayati Raj Institutions, so meticulously developed by the Ministry of Panchayati Raj in consultation with the states.

The Kerala Planning Board is currently carrying out an assessment of ten years of experience in Panchayati Raj in our state. We will be glad to share our findings with the Planning Commission, the Government of India and the states when this assessment is completed.

It would be a useful strategy to positively incentivise the transfer of responsibilities and resources to local governments and include decentralization as a top priority governance reform agenda in the country. Let me use this occasion to point out that although Kerala, with its quite modest budget, has devolved nearly Rs. 8000 crore as Plan Grant for decentralized planning and development through urban and rural local governments, the State has not been compensated either by the Finance Commission or the Planning Commission.

In addition, we are, in my view, quite unfairly, criticized for increasing the revenue deficit, as grants to local governments are classified as revenue expenditures, even though about 50-60% is spent on capital works.

I am convinced that democratic decentralization is absolutely essential for bringing about fair and just development in the country. I would urge the Planning Commission to consider introducing a decentralized planning process from the Eleventh Five Year Plan onwards,. Since decentralized planning takes time to put in place, it is necessary to start work on this as soon as possible. The model, drawing on what worked and did not work well in the model for decentralized planning used in our State,

As a prelude to this, the NDC may set up a Sub Committee along with a Standing Committee of officials to work out modalities to align assistance now provided through centrally sponsored and externally supported schemes to make them more amenable to being funded through local governments.

Infrastructure, Tourism

In recent times, capital investment has been going down all over the country. This is a cause for concern. Happily, GO1 has launched certain major initiatives in expanding the road network. These efforts need to be expanded to all parts of the country.

Simultaneously, a push is needed for strengthening the waterways of the country. This is justified from an environmental point of view as well.

It is necessary to distinguish the infrastructure needs of coastal areas - with focus on fishing ports, protection of the coastlines and basic minimum infrastructure for fishing villages - and hill areas (where infrastructure should be appropriate to the

fragile eco systems of these areas).At present, investment in these areas is too low and requires considerable expansion.

As regards rural infrastructure, RIDF is a useful source of funds but the irrational practice of getting the projects cleared centrally by NABARD headquarters causes avoidable delays.

The failure to maintain the quality of infrastructure assets already created should also get adequate attention. A rational system of decentralized approval, matched with intense monitoring of execution of RIDF work, would be more appropriate.

Many a time, asset renewal is more economical than asset creation. It is necessary to move towards an Asset Renewal Fund, financed partly by Plan and partly by Non-Plan sources. Likewise a viable means of funding creation of large infrastructure has to be identified. The recent suggestion to tap the country's foreign exchange resources looks promising and the Planning Commission may specially work out a method for doing so.

Also the proposed SPV for infrastructure has to become fully operational with clear criteria for accessing funds.

I welcome the establishment of the National Urban Renewal Mission which addresses a long felt need for infusion of funds for development of cities and towns. I suggest that along with focus on infrastructure, there should be a strong incentive component for upgradation of municipal governance in keeping with the spirit of the 74th amendment.

The decision to link flow of funds to strengthening urban local governments is welcome, but it is difficult to agree to a reduction of stamp duty to 5% within the next five years. A longer period of atleast 10 years would be required, as a fair valuation system has to be put in place.

Also, the setting up of regulators for urban services needs to ensure that there will be no diminution of the powers of urban local governments. Proper accountability systems and transparency requirements can be put in place.

Bharat Nirman is a promising concept to provide minimum needs

infrastructure in a planned and fast track manner. In order to be successful, there has to be a decentralized planning process on the basis of clear local data and priority setting. The norms should be flexible enough to address location specific issues. For carrying out different construction works at the village level, innovative approaches are called for. Standard technical designs and specifications have to be generated. The engineering force could be augmented with redeployment of surplus engineers from different departments at the state level to achieve the required strength of technical manpower. This may be augmented with personnel drawn from technical institutions, non-governmental organizations and even retired officers. A support network of technical and managerial organizations may be set up to impart training, oversee quality and monitor progress. Since Bharat Nirman is a major initiative, I request that detailed consultations may be held with state governments before deciding on the modalities of implementation.

To facilitate private participation in infrastructure, a policy framework is required, preferably enshrined in a law. Since the conditions of participation are quite varied and often complex, it may be useful to generate model packages for different kinds of private-public partnerships, describing the contractual obligations in detail and making transparent provisions for taking care of unexpected eventualities.

Ideally, an independent fast track dispute settlement mechanism should be put in place along with arrangements for third-party quality assurance. For public-private partnerships to be fully realized, there is a strong need for building high quality capacity in-house with special emphasis on structuring of innovative projects and accessing different sources of finance, costing of services, monitoring their performance and managing institutions.

In this respect, outsourcing cannot provide the full solution even though in the interim, certain agencies could be accredited for developing projects.

What is urgently needed is a fund for developing projects.

There has been significant improvement in the performance of the power sector even though there is still a long way to go. I strongly feel that reforms in the power sector cannot be uniform across the country and need to be carefully modulated to suit local conditions. The basic elements of reforms of Electricity Boards should consist of the following points:

- 1) retraining of staff;
- 2) phased unbundling starting from costing of different units, their grouping and then giving identity to them;
- 3) universal metering;
- 4) creation of an elaborate data base on generation and distribution;
- 5) use of IT for billing and power distribution management;
- 6) reduction of distribution loss through technological interventions as well as effective actions to control theft; and
- 7) policies facilitating private investment in power generation and transmission.

In order to increase production of power, there should be a system for single window fast track clearance of power projects, especially hydro power projects. Non-conventional energy sources should be used to fill gaps and also as a useful supplement in difficult areas. Unfortunately, it appears that sufficient attention is not given to proper planning and implementation of projects in the non-conventional energy sector. I suggest that I REP may be reconstituted to provide the scope for integrated planning and implementation of projects relating to non-conventional energy.

As regards pricing of power, I feel that there is need to recover full costs. But taking into account socio-economic priorities, differential pricing would be needed for quite some time to come.

I am glad that Tourism, as an engine of economic development and job creation, is getting some recognition. Kerala is now a model in promoting tourism through a process of active facilitation by the State, of the private players and a well-planned marketing strategy. I seek strong support from Government of India in strengthening critical infrastructure, upgrading heritage sites, improving traditional health care facilities, providing easier air links and, above all, projecting the State as an all-in-one tourist destination.

Human Development: Health and Education

I am happy that the Mid-Term Appraisal has given prime importance to human

development.

The enhanced allocation to Sarva Siksha Abhiyan and the new initiative of National Rural Health Mission are most timely.

The MTA rightly recognizes the health transition but I am not sure whether the programmes are flexible enough to take care of the differential needs of states which are at different stages of the health transition. For example, Kerala which is in the most advanced stage in this transition, is now grappling with special problems like care of the aged, lifestyle diseases and quality of secondary health care. I strongly urge that the National Rural Health Mission be given the flexibility to address these problems also as, soon the rest of the country would be confronting them as well.

Urban health care also needs to be looked into especially in the matter of public health.

In order to improve the quality of the National Rural Health Mission I recommend the involvement of PRIs and Municipal bodies both in the planning and execution of different components. There has to be a partnership with NGOs particularly to encourage them to take up management of contracts of institutions and programmes in inaccessible areas.

As a delivery mechanism, self-help groups of women could be networked. Here again I request extensive discussion with the State Governments to decide on the details of implementation.

Drinking water and sanitation are closely related to primary health and should be planned for and implemented as such. The separation of these components from the public health sector has not proved beneficial. It is high time that we recognize their inter-dependence and go for a holistic approach cutting across departmental and state boundaries. The proposed Public Health Mission should achieve this objective.

In the case of education there can be a transition from literacy and school education to vocational, technical and specialized education and a shift of emphasis from access and coverage to quality. The Sarva Sikhsa Abhiyan should be able to address the transitional issues in states like Kerala which need it - including by

rehabilitation of old assets.

Absenteeism of teachers is not an issue in Kerala, where local awareness is very high. Involvement of panchayats could go a long way in ensuring regular attendance of teachers.

For Sarva Siksha Abhiyan to be effective, there has to be a system for high quality capacity building through cascading training and extensive use of IT based teaching aids. Similarly the minimum set of teaching aids for different subjects has to be developed and provided to schools so that students can visually learn difficult concepts and carry out simple experiments.

The recognition that technical education system needs to be reorganized has to be followed up with a large initiative to strengthen ITIs and Polytechnics so that they are able to provide the manpower requirements of the modern economy.

Here, GOI has a critical role to play, not in terms of centrally sponsored schemes, but in identifying trades with employment potential, developing appropriate curricula, suggesting the minimum set of facilities for practical training and developing top quality ICT based training modules backed up by a programme to improve capacity among the existing teachers in these institutions.

Kerala is a State which has a high level of private participation in secondary education. Experience shows that non-profit organizations should be given preference and support in the form of concessional availability of land and grants for development of infrastructure. But an important point to be borne in mind is that the interests of weaker sections should be fully protected in such a scenario.

Also, sanitation should not be equated with mere construction of toilets and should address the management of waste, both solid and liquid.

Over the years, the impetus given to development of science and technology in the states in the mid 70s has been losing momentum. There is a strong need to strengthen state level activities in applied science and technology through support to local institutions and networking of these institutions with national and international centres of excellence. This is particularly true of areas like biotechnology and information technology.

Poverty Alleviation, Social Justice

For over a quarter of a century, poverty reduction has been given the central place in our developmental efforts. The concept of poverty prevailing in the country is getting dated. In the changing economic scenario, a new set of norms has to be evolved to determine poverty, moving away from the food-centred approaches to a set of broader entitlements which are essential for a decent quality of life. Even among the poor, the profile differs widely with at least three broad categories - destitute, very poor and poor, each group requiring a different set of strategies for their uplift. What is required is to evolve an appropriate measure focusing on relative poverty even while retaining the old measure of absolute poverty.

In spite of several rounds of restructuring, the anti-poverty programmes are still supply driven and isolated, with few horizontal linkages. What is called for is the development of a meaningful process of participatory planning for poverty reduction through empowered groups of the poor developing sub-plans for poverty reduction as in the context of Panchatyati Raj. The Kerala experience in operationalizing this idea through the "Kudumbashree" programme could probably be adapted in different parts of the country.

The key elements of Kudumbashree are:

- (1) community-based identification of the poor on the basis of transparent criteria;
- (2) all inclusive organization of the poor through women;
- (3) linkages with panchayats;
- (4) confidence building to access entitlements;
- (5) capacity building to access economic opportunities;
- (6) social security through mutual thrift and mutual help;
- (7) social capital building through regular meetings and interactions;
- (8) participatory planning for poverty reduction;
- (9) tackling multiple dimensions of poverty;

- (10) demand-based convergence of services;
- (11) excellent outreach and feedback mechanism; and
- (12) potential for expansion to cover children, youth and old.

The Kudumbashree system facilitates micro level interventions to reduce poverty and accurately monitor poverty reduction initiatives where it happens.

Now, an innovative extension of this programme called "ASRAYA" has been implemented in about one-third of Kerala to provide community based social security to the poorest of the poor. It appears that ASRAYA can grow into a replicable model. I am happy to offer all necessary support to those states which are interested in learning about this unique experiment in poverty reduction. The National Employment Guarantee Programme through legislation is a truly revolutionary step. For its effective implementation, details need to be worked out. The role of panchayats in this programme is very critical. There should be adequate flexibility to accommodate state circumstances. For example, in Kerala, the poor are more likely to prefer and accept cash over food for work. There should be an extensive preparatory phase in which implementable plans are prepared in a participatory bottom up manner. The focus of the plan should be on water conservation and rehabilitation of assets. There should be clear provisions ensuring transparency in this programme. Monitoring should be ensured. To kick-start the programme I suggest that a campaign approach be followed. The programme should have a fund to take care of the needs of the educated unemployed poor.

A critical part of poverty reduction is food security. I would urge the Planning Commission to reconsider the proposal to do away with differential pricing for BPL families under PDS. I would strongly underscore the need to maintain differential pricing for BPL families in order to protect food security for the poorest.

Unfortunately, there is no social security system in place. By passing down the responsibility of NSAP to the states with the support from the centre, the states have been put to serious difficulty and a most important national initiative seems to have been considerably diluted. I seek a comprehensive review of social security measures and call for a joint state and central effort in this regard.

In spite of increases in the allocation for programmes related to social justice

the results have not been very encouraging. Persons from Scheduled Castes and Tribes are the worst affected in a scenario where public sector jobs, particularly at the lower end, are drying up. While the initiative of the national government to persuade the private sector is a laudable attempt, the employability of SC and ST youth, especially those belonging to the poorer sections, has to be simultaneously enhanced through direct government efforts.

Almost by definition, the lands owned by the SC and ST are marginal and degraded. If the National Employment Guarantee Programme could be utilized to develop such lands it could have a positive impact on the development of these groups. In the case of STs, livelihood security is of prime importance. Although the approach paper to the Tenth Plan promised a national policy on empowering tribals, not much has been done. Even the basic rights of tribals living in forest areas for centuries have not been codified, with the result that they are being denied the basic minimum necessities of life in the name of forest conservation. This needs to be resolved, failing which programmes and functions would be ineffectual.

The disabled constitute around 3% of the population. In spite of powerful national legislation, its implementation remains weak. Now that the data on the disabled is available from the Census, it is possible to plan for their welfare and development in a proper manner.

May 1 request a positive response in this regard? Here again, a sub-plan approach may be relevant and partnership with local governments and NGOs may also be appropriate.

The importance accorded to gender development is most timely. But it must be recognized that we are still in the realm of administrative and academic analysis of figures and facts. I would advocate a radical departure so that gender planning gets incorporated into the mainstream planning process. This is more easily said than done, for it calls for rigorous preparatory capacity building and methodology refining exercises. Gender budgeting should encompass plan and non-plan elements.

In this respect, the innovative attempt by Kerala to prepare a Women Component Plan by setting apart 10% of the allocation to local governments may be worth studying.

Allocation of Financial Resources *Criteria for Resource Allocation*

The most serious issue of concern we have relates to allocation of financial resources from the Centre.

The point I would like to raise is the preferential treatment being given to backwardness in the allocation of resources. Considerations of equity and fairness justify such a preference but my plea is that this should not be narrowly interpreted with respect to certain criteria alone. Problems like educated unemployment, second generation issues like growing maintenance deficit in assets created years ago with States' own efforts and the need to sustain investments in areas related to human development have all to be factored in while assessing resource requirements. Otherwise, development itself could become a disincentive to states.

Kerala has suffered three times over in this regard. Our reduced allocation from the Finance Commission is, we feel, the penalty we are forced to pay for the social development we have achieved - which we financed largely using our own internal resources. On the same basis, using criteria of backwardness, we have suffered again in terms of the allocation of Plan resources. Now, the Ministry of Finance has placed constraints on our ability to raise external assistance based on the concept of "fiscal stress". While I fully respect the concerns of the Ministry of Finance regarding the debt situation of states, I would request that the approach of the Finance Ministry to the issue of fiscal stress be fully discussed and reconsidered so that it will not inadvertently be an impediment for states such as Kerala to borrow urgently needed resources to take advantage of opportunities for growth.

With the implementation of the recommendations of the Twelfth Finance Commission, states should have been permitted to raise loans to match central assistance. But this has not been done so far. Another core recommendation of the Finance Commission of back-to-back transfer of external aid requires some clarification. While the idea itself is sound, the Government of India should consider absorbing the exchange rate risk. Yet another point to be raised in respect of TFC award is that full freedom should be given to local governments in using TFC grants for creating the public assets of their choice.

Devolution

For over two decades, the NDC has been discussing and taking general decisions on rationalizing centrally sponsored schemes. Many years after the constitutional amendments to create local governments, a large number of schemes in the legitimate domain of local development still figure prominently in the Union budget. In addition, several centrally sponsored schemes are somewhat rigid and not always relevant to local situations and needs. For example, schemes for primary education and family welfare are not any longer relevant to a state like Kerala. At the same time, funds are badly needed for improving the quality in school and higher education and dealing with emerging issues in health. Therefore I would request that, as a first step, centrally sponsored schemes may be integrated into four or five block grants on the basis of key objective like education, employment, poverty reduction, nutrition, health, etc. The state should be given the freedom to develop locally relevant programmes while subscribing to national goals. This building of schemes and their untying may be done before the Eleventh plan begins.

Centrally Sponsored Schemes

Several new generation centrally sponsored schemes are called demand based and reform linked. However, in practice, the basis for their allocation is not clear at all. There is need for transparency and openness in this respect. As a small and significant first step, may I ask the Planning Commission to put on its Website all centrally sponsored schemes with their allocations and guidelines, giving state-wise distribution of funds? This would enhance transparency and better utilization of resources.

Consultation with States on international policy decisions affecting States

In the context of globalization several international policy decisions in the domain of the Central Government have serious implications for the development of states. Even bilateral trade agreements can have an adverse impact on the local economy of states. On the other hand, to utilize the opportunities of the new international economic regime, states have to do a lot of background work. Therefore there is an urgent need to have a regular system of consultations with the state government before policy decisions on these matters are taken at the national level.

The Mid term Appraisal suggests reduction of investments in certain critical sectors. I feel that this may be avoided as the need of the hour is a higher investment to match needs and expectations.

I am confident that, under the leadership of the Prime Minister, the NDC will become a purposeful and result-oriented body that provides critical inputs into policy making and implementation of development programmes.

JaiHind