



SPEECH

of

SHRI BABULAL GAUR

CHIEF MINISTER, MADHYA PRADESH

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Hon'ble Prime Minister, Deputy Chairman of the Planning Commission, other Union Cabinet Ministers and my Colleague Chief Ministers

1. It is a privilege to be with you all at this NDC meeting to review the Tenth Five-Year Plan. I compliment the Planning Commission for an objective mid term appraisal of the plan and seeking the views of the State Governments. This healthy practice would strengthen not only the planning process but also the federal character of the Constitution.

2. The Tenth Plan had targeted an average annual growth rate of GDP of 8.1 % to be achieved by a steady acceleration in the course of five years from around 6.7% targeted in 2002-03 to 9.3% in the terminal year 2006-07. The growth target of the first two years was about 7% on average and the actual performance has been 4.6% in 2002-03 and 8.3% in 2003-04, averaging 6.4% for the two years. In order to achieve high growth rate at the national level it is important to identify areas of high growth potential both in terms geographical as well as sectoral. It is in this context, making investments in backward States like Madhya Pradesh becomes very essential. We cannot have a dream of a prosperous India with 40% of the population living in backward States.

Regional Imbalances

3. Even after more than 50 years of development planning, nearly 30 percent of the population live below poverty line, more than 30 percent of the people cannot even read and write and vast majority people do not have access to the safe drinking water. Most of these people live in the backward States. Globalisation, liberalisation and structural reforms have little meaning to these people. These are the prescription of the free market paradigm and only for those people who can participate in the market either as consumers or as producers. But, unfortunately vast majority of the Indian masses are not meaningfully integrated into the market. Thus, the Indian society is much larger than the Indian economy. Development planning has to build up capabilities of all people and enlarge opportunities for all, and not just for a select few.

4. The Tenth Plan clearly recognizes growing regional disparities across an array of indicators. Therefore national targets need to be broken down to regional

targets for any meaningful intervention. The issue of regional imbalance has also been highlighted in the National Common Minimum Programme, and is sought to be addressed through a Backward Areas Grant Fund. The Union Budget provided Rs. 5000 crore for the current year which is insufficient and has to be increased to Rs. 20,000 crore per annum. The recent industrial concessions given to Himachal Pradesh and Uttaranchal should be extended to Madhya Pradesh, which is also disadvantaged. Similarly, if the Special Purpose Vehicles proposed in Union budget for the development of infrastructure go to big metropolitan cities and developed States the existing inequalities would get accentuated.

5. The proposal of passing on external assistance to the States on back-to-back basis is welcome. But, it should be ensured that the existing inequalities in the distribution of external assistance among the States should be reduced. In the present scheme of assistance, the States have been divided between World Bank and ADB assistance. IDA assistance is supposed to officially cut across this division of States. However, it is quite natural that states, which are assisted by the World Bank, would get more assistance than the other states, which have been assigned to the ADB. Thus, passing of external assistance to the States on back-to-back basis would bring in inequitable debt serving burden among States.

6. In the States where the banking network is not well spread, a large number of public works especially those relating to providing wage employment, have to be undertaken by withdrawing cash from the banks. In some remote areas even the salaries are paid in cash. Given such a situation, the transaction tax on the cash withdrawn from the banks by the government agencies should be exempted.

7. Another related issue is a ten percent advance income tax on the compensation paid for land acquisition by the government under Section 194 L (A) and two and half percent advance tax under the Section 206 of the Income Tax Act on the auction of the forest produce should be withdrawn as these are the taxes on the State government.

Agriculture

8. The Plan had projected a gradual acceleration of the growth rate of agriculture from nearly 3% in the initial year to around 5% in the terminal year. After the first two years of the Plan, it is evident that there is no discernible acceleration in

agricultural growth. Madhya Pradesh has a lot of potential for agricultural growth. However, this potential can only be realized by higher investments and this would require additional Central Assistance.

9. Irrigation and more effective water resources management are crucial for agricultural development. In the absence of irrigation the performance of agriculture is weather dependent. The scope of the Accelerated Irrigation Benefit Programme (AIBP), which was designed to bring on-going irrigation projects to quick completion, has to be expanded. In case of the States, which are below the national average irrigated area more schemes have to be taken up under AIBP. We strongly advocate that the Centre should finance the mega irrigation projects in the States that have low irrigation facilities. We have taken many progressive steps for people's participation in irrigation management.

10. In addition to the inadequacy of the growth in agriculture, the increasing unemployment is disturbing. The economy is not generating sufficient productive jobs to absorb the addition to the labour force. In the 1990s, the role of agriculture in providing additional employment opportunities was virtually zero. The Plan envisaged bringing waste and degraded lands into production and encouraging diversification to more labour intensive crops as remedies. Neither has progressed very much and this approach needs a review. The other sector, which holds promise for large-scale, especially for the unskilled or semi-skilled is civil construction. At present, the potential of this sector is restricted by land-use restrictions, procedural hurdles and lack of resources to expand public investment in infrastructure. This is an area, which needs reform, especially in urban areas.

11. The proposed Employment Guarantee Act should be brought in as soon as possible. The coverage under this should be extended to non-BPL families as well as who are available for employment. There should not be any age restriction for the employment seekers in the proposed act. -

Food Security and Nutrition

12. Over the years, a number of programmes have come into existence for providing food and nutritional support, especially for the poor. At present, from the Centre, the schemes which provide food support are: (a) Targeted Public Distribution System (TPDS) (b) Antyodaya Anna Yojana (c) Mid-day Meal Scheme (d) Integrated

Child Development Scheme (ICDS) and (e) Food for Work Scheme. In addition, some States have their own schemes for similar purposes. These schemes have increased in recent years as a result of a perceived worsening of the nutrition situation. There is a need to integrate these Schemes and transfer these funds to States with flexibility in design and implementation. However, the present system of PDS to BPL families should be continued.

13. The price support and procurement systems and input subsidies on fertilizer have been the main pillars of Central Government support to agriculture. However, these have led to a sharp increase in subsidy-based support while public investment in agriculture has suffered. The outcome is inequitable since the subsidies tend to move to richer States and thus deprive public investment in the poorer States. The Mid Term Appraisal (MTA) should consider how the systems could be changed gradually in a manner, which does not affect food security.

Social Development

14. The MTA has rightly observed that the fiscal implications of Sarva Siksha Abhiyan (SSA), especially for State finances, do not seem to have been considered adequately. Since the Union Government has chosen to keep all of the two per cent education cess (Rs.5000 crore) towards the central share of the SSA and since all externally assisted projects assisted by World Bank, DFID, EC also fund the central share of the SSA programme, over all central funding available for SSA has gone up. This is, of course, welcome and should help in achieving the SSA targets. However, the States now find it increasingly difficult to raise additional resources to meet the larger state share which is now required. There are two ways to address this vital aspect of the funding of SSA:-

(1) That Central Government should share a portion of the education cess with the States.

(2) The State share for SSA should be brought down 25 per cent to 10 to 15 per cent in the current plan period.

15. Unless one of these two measures is urgently taken several States will be unable to meet their share. Moreover, there is likely to be a greater shortfall in the educationally backward States, where the investments required to meet the UEE

goals are larger, yet where the resource constraints are more pronounced. In such a scenario these States will not be able to draw on the additional SSA funds, which have now become available through the Ministry of Human Resource Development.

16. The MTA has rightly observed that the success of SSA will create pressures on the secondary education system, which will require a major expansion in the near future. While the private sector has a large share in the secondary education than the primary schooling, the increased demand for the secondary education cannot be met by the private sector especially in the rural and tribal areas. The secondary schooling in these areas should continue to be funded by the government.

17. Inadequate progress on the health and family welfare front is a matter of grave concern. Unless prompt and decisive steps are taken, the Plan targets on IMR and MMR will not be met and the MDG targets too will almost certainly be missed. Madhya Pradesh having poor health indicators welcomes the launching of National Rural Health Mission. Our State is fully geared up for proper implementation of the programme. The allocation of funds under this programme should be need-based and higher weightage should be given to the rural, SC, ST and BPL population.

Infrastructure Development

18. The MTA has laid emphasis on infrastructure especially rural roads and power. Under Bharat Nirman, all villages with a population of 1000 or more are to be connected by road by year 2009. In order to achieve this goal, the Centre has to increase the resource allocation to the States. In case of Madhya Pradesh, additional resources of Rs. 2775 crore would be required.

19. The importance of reforms in the power sector cannot be overemphasized. In terms of institutional reforms we have covered a long way, but need to improve on distributional aspects. The most politically sensitive issue is power subsidy to agriculture. The Centre has to make an appropriate and comprehensive policy framework to enforce uniform tariff to agricultural sector.

Environment

20. It is heartening to note that the Planning Commission realised that an unfair burden is being borne by some States in preserving their forest areas, and that there is a need for compensatory mechanisms to be developed.

21. Environmental conservation as a special problem for certain category of States having above national average forest cover and the compensation to be paid to these states has not been addressed so far. However, the judgement dated 22-9-2000 of the Supreme Court (WP No. 202/1995) regarding compensation to States having above national average forest cover is a significant step towards maintaining the ecological balance and the costs thereof. The extent of forest cover in a State and the cost of maintenance of the same must be compensated. Madhya Pradesh is the second largest state in the country. Of the 3,08,245 sq. lons geographical area of the state, 95,221 sq. lons (30.8 %) is the forest area as against national average of 23.28%. State harbours 12.4% of the country's forest area, which is the highest amongst the States.

22. States like Madhya Pradesh are required to retain a large area under forests and also bear the cost of maintenance of this forest cover. There is however no return on such investment as "conservation" and not the "exploitation" is the objective as well as legal imperative. The people of the entire country share the benefits of the conservation. An equitable arrangement would be to calculate the cost of forest assets by capitalising the stock, attributing it a value and making incremental return available to the state as a rate of return. MP has 23,797 sq. lon of forest in excess of all India average. Assuming Rs.5 lakh NPV per hectare, the excess forest would be equal to Rs. 118985 crore of capital stock. This capital stock would yield an annual return of Rs. 3570 crore at 3% rate of interest.

23. It is ironical that any development activity taken up by State Government converting forestland for non-forestry purposes, the State has to pay a Net Present Value (NPV) of Rs 5 to 9 lakh per hectare of forest land to Compensatory Afforestation Fund Management and Planning Authority (CAMPA). This is in addition to the compensatory afforestation done by the project authorities. This would make all the development activities like irrigation projects, roads and water supply schemes to tribal areas be unviable. The Centre has to compensate the States that have forest cover above the national average.

24. Another related issue is coal royalties. In the increasingly market-driven economy that India has moved into, the presence of mineral resources like coal ought to have been a major growth engine for the States that have them. It is an ironic situation that coal-bearing States figure among the poorer States of India. This

is on account of the restrictive legal and policy framework that prevails in this sector. Governments of coal-bearing States have been questioning the current regime of tonnage based royalty and pleading for an ad valorem regime. Both the Planning Commission and also Finance Commission have supported these demands for enhanced compensation. However the administrative Ministry and CPSUs have always been able to thwart a final decision in favour of ad valorem on the ground that consumer interests will be compromised.

25. During the year 1991-92, when the Government of India revised the coal royalty based on tonnage, the quantum of royalty fixed on *ad-valorem* basis works out to 23.40 per cent of the coal price. As the price of coal has been increasing and the royalty continues to be paid on tonnage, the amount of royalty as a proportion of its price has steadily been decreasing. Had the GOI fixed the rate of royalty on *ad-valorem* basis since then, the State of Madhya Pradesh would have got Rs. 8269 crore more from royalty on coal (assuming the rate of royalty at 25 per cent of sale price since the year 1991 -92).

Public-Private Participation

26. The Public-Private Participation is a mode of implementing development and welfare schemes by the government in partnership with the private sector. The most essential feature for the success of the Public-Private Participation is the transparency in the mechanism designed. The State of Madhya Pradesh has taken up the roads under the EOT using the concept of subsidising the viability gap. Under this, we have already completed 900 Km and would be completing 1100 Km roads. The success of 'Rogi Kalyan Samiti' in hospital management in Madhya Pradesh is well documented. We have also taken up a water supply scheme to supply water to industrial use in Dewas under the Public-Private Participation.

Twelfth Finance Commission

27. The Centre accepted the recommendation of Twelfth Finance Commission of discontinuing the loans given to the States to finance the plan. This being such an important issue we feel that the Centre should have discussed this matter with the States before accepting the recommendation and switching over to a new regime. Such a discussion would have given all concerned an opportunity to work out the necessary institutional arrangements.

28. The Twelfth Finance Commission recommended that for fiscally weak States that are unable to raise funds from the market, the Centre could borrow for purpose of on-lending to such States at an interest rate aligned to marginal cost of borrowing for the Centre. Here, it is important to distinguish between fiscal management and fiscal base. A fiscally well-managed State may have a weak fiscal base and similarly, a fiscally not-so-well managed State may have a strong fiscal base. However, the market may not appreciate this distinction and fiscally well-managed States with a low fiscal base may find it difficult to raise money in the market. In this context we are surprised that the Central budget for the year 2005-06 has skirted this issue. 29. In the case of Madhya Pradesh, the new regime of funding will imply that our Market Borrowings increase from Rs. 1729.69 crore in 2004-05 to Rs. 3218.46 crore in 2005-06. As you are aware, our fiscal management has been prudent, despite our weak economic base. As a result of good fiscal performance, we could draw the entire fiscal incentive grant under the Eleventh Finance Commission. Thus, we are confident and would like to raise the loan component of the Central Assistance from market. At the same time in case of our inability to raise funds from the market due to insensitivity of the market to the nuances of State finances, we may have to fall back on the alternative suggested by the Twelfth Finance Commission for fiscally weak States. In such a case, we would need the assistance of your good offices to ensure that the weaker States get loans from the Centre at the rates prevailing on Government Treasury Bills.

30. The AIBP is an important scheme to finance irrigation projects and some of these projects are inter-state project. If schemes such as AIBP are left to the market borrowings, there could be severe disruptions in fund flows and project implementation, especially in inter-state projects. The present pattern of financing should, therefore, be continued.

Fiscal Management of the State

31. The fiscal management of State in last two years has been significantly improved. It is worth mentioning here that after a gap of 16 years, there was no overdraft for even a single day in the financial year 2004-05 and the same trend of a strengthened Ways and Means position continues in the current fiscal year.

32. We have released the State share of equity, which was not paid by the previous government, to the Regional Rural Banks. As result of this an additional

Credit flow of Rs.200 crore to the rural sector became available. Similarly, we have paid the arrears of share capital totaling Rs.163 crore to NHDC for the Omkareswar project to ensure completion of the power project.

33. Financial rules have been amended for streamlining and making procurement procedures more transparent. Functioning of the treasuries has been computerised. Budgetary allotments have been released at the functional level by the Departments on 2nd April this year, enabling Departments to implement the schemes from the beginning of the financial year.

The fiscal performance of State in the year 2004-05 compared to 2003-04 can be seen from the following:

1. Nearly 21% of the resources were spent on capital expenditure as against 12%.
2. The plan expenditure increased to 28% of the total expenditure from 26%.
3. The expenditure on salaries as a proportion of the non-plan expenditure was brought to 23.16% from 24%.
4. Interest payments as a proportion of the total receipts was brought to 17% from 22.4%.
5. State own resources increased to 60% of the total resources from 58%.
6. The growth of tax revenues increased to 16% from 9.95%.
7. The revenue deficit decreased to Rs.1263 crore from Rs. 4475.76crore.
8. The resource mobilisation through small savings scheme increased by 46%.

As a result of our good fiscal performance, we could draw all the grant of Rs. 297 crore under the fiscal incentive scheme of the Eleventh Finance Commission. The fiscal performance is not without any sacrifices. The DA of State Government employees is 12 percent behind the Central Government Employees and 50 percent of the DA is not merged with the basic pay.

Budgetary Priorities

34. The agreed outlay for the Tenth plan of the State is Rs. 25737 crore. As a result of good fiscal management, the State could finance 89.34% of the Tenth Plan outlay at constant price as against a target of 78%. As per the MTA the State has performed well above the all-states average of 69.40%. We are hopeful of exceeding the agreed outlay in the remaining two years of the plan. As per the priorities of the state government additional investments are proposed in the roads, power, irrigation and social sectors in the year 2005-06.

35. A provision of Rs 941 crore has been made as against a provision of Rs 667 crore in the year 2004-05 (RE) for roads and bridges, which is 41% higher. About 300 km of state highways would be upgraded during the year 2005-06 with the assistance of Asian Development Bank. Another 1100 km road would be constructed with financial assistance from NABARD and 320 km long roads from Central Road Fund. Besides, 3000 km rural roads would be built at a cost of Rs. 500 crore through Rural Road Development Authority. Under Bond-BOT programme, 900 km roads have been completed and construction of 1100 km roads is under progress.

36. Agriculture in MP is highly weather dependent and thus it is highly drought prone adversely affecting the poverty levels. It is the irrigation that can make agriculture resilient to drought and protect income of the rural poor. During this year, an additional irrigation potential of 1.5 lakh hectare will be created. The outlay on irrigation has been increased by 14%. Survey of 198 irrigation schemes with an estimated potential of 86 thousand hectares has been taken up. Water Restructuring Project to strengthen old irrigation systems and restore irrigation facility to 2.5 lakh hectares has been taken up at a total cost of Rs. 1919 crore with the assistance of the World Bank.

37. Once highly applauded the Electricity Board of Madhya Pradesh had become a heavy burden on the State finances. Besides taking over its major liabilities including that of Rural Electrification Corporation, a provision of Rs. 359.55 crore has been made in this year budget for creating additional generation capacity. An additional generation capacity of 402 MW would be created in 2005-06. A 2000 MW Thermal Power Project would be setup in Khandwa district by MPSEB, in partnership with the Government of Gujarat. We are making efforts to improve the aging transmission and distribution system in a specified time frame.

38. The new Industrial Policy takes holistic view of the industry and its inter-linkages with trade and other sectors. It emphasizes a cluster approach. The private sector has been responding well to the new policy, which is reflected in new investment proposals. Madhya Pradesh one of few States where the SEZ are fully functional.

39. We are fully aware that people should be socially empowered to enjoy the benefits of the physical infrastructure. We are determined to improve the social infrastructure like education and health. Under Sarva Shiksha Abhiyan an outlay of Rs 1253 crore has been provided which is Rs 123 crore more than the outlay for the last year. Our target is to ensure that all primary schools have regular buildings by the year-end. An allocation of Rs. 171 crore has been made for the Mid Day Meal Programme, which has improved enrollment and attendance. As many as 900 Sanskrit teachers for middle schools would be appointed and Sanskrit Pathshalas would be strengthened in the year 2005-06.

40. All Community Health Centers and Primary Health Centers would be provided with appropriate buildings within the next 3 years. For this purpose we have taken up a comprehensive programme with the assistance of NABARD. Health cards under Pandit Deen Dayal Upchar Yojana 2004 have been issued to 2,11,113 SC/ST persons so far in the state. Provision of Rs. 17.33 crore has been made for this.

41. We recognise the importance of direct social welfare measures as a short-term policy until these groups become capable of participating in the development process on their own. We have distributed 50,000 cycles to the girls who have entered class IX to facilitate easier access to Secondary education. Each BPL family would be provided assistance under Gau Dan scheme and also an insurance cover of Rs. 50,000 against accidental death under a new Vivekanand insurance scheme. In the rural areas, five villages have been selected in each assembly constituency under Gokul Gram scheme for the all-round development of the villages. Basic amenities in urban slums would be provided through the Ayodhya Basti Yojana.

The outlook for future

42. We, the people of Madhya Pradesh aspire to be the citizens of a fully developed State. In order to achieve this objective, public investment in irrigation, rural roads, mandis and electricity has been stepped up to make agriculture more

productive. Govt. of India should complement our efforts by providing higher level of Central Assistance to increase agricultural production in tandem .The industrial development suffered due to poor infrastructure. As a result of the new industrial policy along with improved infrastructure the prospects of new investments have improved. The tourism sector, which has lot of potential is also picking up. On the social sector, we want to build up on the success of SSA and improve the quality of education and expand secondary education. The health sector of the State continues to cause great concern. But, we are committed to meet the MDG targets in key areas like IMR, MMR and immunisation.

43. To enable the State make larger public investments, the fiscal base should be strong. As enumerated above, the State is moving towards fiscal consolidation. We are not complacent of our performance and we would continue our efforts. Instead of formulating fiscal policy from Budget to Budget, we would like to bring out a medium term fiscal perspective of the Government soon. This would enable the industry, trade and financial sector to take appropriate long-term investment decisions with certainty. In order to make the medium term fiscal perspective more credible and authentic, we propose to bring in Fiscal Responsibility and Budgetary Management Bill in the next session of the Assembly.

44. A Guarantee Redemption Fund has been created to take care of the liabilities that may arise due to the guarantee given by the government to various state enterprises. Along with the restructuring of the MPSEB, a provision Rs. 250 crore has been made for restructuring of the other State undertakings including closing down the State Road Corporation.

45. We are determined to maintain the fiscal discipline and transform the State into a modern developed State. I hope the issues raised by the MTA, the suggestions made by the Planning Commission and the views expressed by State Governments would objectively be integrated into a policy framework. Accordingly, necessary mid-course corrections should be taken up expeditiously, so that we can achieve the targets within the plan period.