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Towards Faster and More Inclusive Growth

An Approach to the 11th Five Year Plan

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1. OBJECTIVES AND CHALLENGES

The Indian economy on the eve of the 11th Plan is in a much stronger position than it was a few years ago. After slowing down to an average growth rate of about 5.5% in the Ninth Plan period (1997-98 to 2001-02), it has accelerated in recent years and the average growth rate in the Tenth Plan period (2002-03 to 2006-07) is likely to be about 7%. This is below the Tenth Plan target of 8%, but it is the highest growth rate achieved in any plan period.

While this performance reflects the strength of the economy in many areas, it is also true that large parts of our population are still to experience a decisive improvement in their standard of living. The percentage of the population below the poverty line is declining, but only at a modest pace. Far too many people still lack access to basic services such as health, education, clean drinking water and sanitation facilities without which they cannot be empowered to claim their share in the benefits of growth. These problems are more severe in some states than in others, and in general they are especially severe in rural areas.

1.1 A Vision for the 11th Plan

The 11th Plan provides an opportunity to restructure policies to achieve a new vision of growth that will be much more broad based and inclusive, bringing about a faster reduction in poverty and helping bridge the divides that are currently the focus of so much attention. The first steps in this direction were initiated in the middle of the Tenth Plan based on the National Common Minimum Programme adopted by the Government. These steps must be further strengthened and consolidated into a strategy for the 11th Plan.

Rapid growth has to be an essential part of the strategy since it is only in a rapidly growing economy that we can expect to raise the incomes of the mass of the population sufficiently to bring about a general improvement in living conditions. Fortunately, the growth objective is now more achievable than it has ever been. Work done in the Planning Commission and elsewhere suggests that the economy can grow between 8% and 9% per year on a sustained basis provided appropriate policies are put in place. With population growing at 1.5% per year, this would ensure that the real income of the average Indian would double in ten years. It is also possible to adopt policies that will ensure that this growth is broad based, benefiting all parts of the country, and especially the rural areas.

This must be accompanied by a major effort to provide access to basic facilities such as health, education, clean drinking water etc., to large parts of our population which do not have such access at present. These essential public services not only impact directly on welfare in the short run, they also determine economic opportunities for the future. Access to these services is not necessarily assured even when growth leads to rising income levels. Governments at different levels must ensure provision of these services. Improved levels of health and education are in fact critical inputs that determine the growth potential in the longer term.

Even if we succeed in achieving broad based and inclusive growth, there are many groups that may still be marginalised. These include primitive tribal groups, adolescent girls, children in the age group 0 to 3, and others who do not have strong lobbies to ensure that their rights are guaranteed. The 11th Plan must pay special attention to the needs of these groups.

The private sector, including farming, small scale enterprises and the corporate sector, has a critical role to play in achieving the objective of faster and more inclusive growth. This sector accounts for 70% of the total investment in the economy and our policies must aim at creating an environment in which entrepreneurship can flourish. However, it will also call for a substantial increase in the allocation of public resources for plan programmes in critical areas. These resources will be easier to mobilise if the economy grows rapidly. The growth component of the strategy is therefore important for two reasons: it will contribute directly by raising income levels and employment for the population in general and it will also help to finance programmes that are necessary to ensure that growth is more broad based and inclusive.

All this is feasible but it is by no means inevitable. Converting potential into reality is a formidable task and cannot be achieved if we simply continue on a business as usual basis. There is need for a self critical look at our programmes and policies to see what is working and what is not. Programmes designed to achieve particular objectives often fail to do so even though substantial expenditure may be incurred on them. We need to move away from a focus on outlays to a hard look at outcomes.

This paper suggests a broad approach to tackling these problems in the 11th Plan by building on our strengths and countering our weaknesses.

1.2 Strengths of the Economy

The strengths of the economy are well known and are reflected in the macro-economic indicators in Table 1, which compare the position in the Tenth Plan with the Ninth Plan. The growth of the economy has accelerated compared with the Ninth Plan and our macro-economic fundamentals are sound. Domestic savings rates have been rising and had reached 29.1% in 2004-05. The combined fiscal deficit of the Centre and State Governments is higher than it should be, but has been falling and the Budget Estimates for 2006-07 suggest it may be down to 7%. Inflation has been moderate, despite the sharp hike in international oil prices. The current account was in surplus during the first two years of the Tenth Plan and turned into a deficit to the extent of 1.0% of the GDP in the third year i.e., 2004-05. The deficit is estimated to have risen to around 2.3% of the GDP for the first nine months of 2005-06. This reflects the revival of investment and also the impact of high oil prices, but a deficit of this order is eminently financeable. The foreign exchange reserves are at a very comfortable level of $ 155 billion.

Table 1*: Macro-economic Indicators*

	Ninth Plan (1997-98 to 2001-02)	Tenth Plan (2002-03 to 2006-07)
GDP growth (%) of which	5.5	7.0
• Agriculture	2.0	1.8
• Industry	4.6	8.0
• Services	8.1	8.9
Gross Domestic Savings (% of GDP, at market prices)	23.1	28.2
Gross Domestic Investment (% of GDP, at market prices)	23.8	27.5
Current Account Balance (% of GDP, at market prices)	- 0.7	0.7
Combined Fiscal Deficit of Centre and States (% of GDP at market prices)	8.8	8.4
Foreign Exchange Reserves (US $ billion)	54.2	151.6
Rate of Inflation (based on WPI)	4.9	4.8

Notes:

1. GDP growth is in terms of GDP at Factor cost at 1993-1994 prices. For the Tenth Plan the growth rate is for the first four years, i.e., for the years 2002-03 to 2005-06.
2. Gross savings rate, gross investment rates and the Current Account Balance are expressed in current prices and are averages for the Plan. For the Tenth Plan, these are the average of the first three years i.e. for the years 2002-03 to 2004-05.
3. Combined Fiscal deficit is the average of the Plan. For the Tenth Plan, it is the average of the first 4 years of the Plan, i.e., for the years 2002-03 to 2005-06.
4. Foreign Exchange Reserves are as on 29th March, 2002 for the Ninth Plan and 31st March, 2006 for the Tenth Plan.
5. The rate of inflation for the 10th Plan is the average upto January 2006.

An important source of strength is that the economy has matured in several important respects responding to the economic reforms implemented by successive governments over the past two decades. Our economy is now much more integrated with the world economy and has benefited from this integration. The outstanding success of IT and IT-enabled services (ITES) first demonstrated what Indian skills and enterprise could do, given the right environment. Similar strength is now evident in other sectors also, such as pharmaceuticals, auto components and, more recently, even textiles.

Another benefit derived from global integration is the increased inflow of foreign direct investment. FDI increased from an average of $3.7 billion in the 9th plan period to average of $5.4 billion in the first four years of the 10th Plan (upto December 2005). This is still below our potential. The National Common Minimum Programme stated that the country needs and can absorb three times the amount of FDI that it gets. This remains a reasonable target and can be achieved in the 11th Plan.

In the longer run, we have another important potential strength arising from our demographic trends. Our dependency rate (ratio of dependent to working age population) is falling whereas it is rising in industrialised countries and even in China. Properly handled, with an emphasis on human resource development and an economy capable of absorbing them in productive employment, the presence of a skilled young population in an environment where investment is expanding and the industrial world ageing would be a major advantage.

1.3 Some Major Challenges

The strengths enumerated above are real and represent a base on which we must build in the 11th Plan. However there are also important challenges to be faced.

(a) *Providing Essential Public Services for the Poor*

The most important challenge is how to provide essential public services such as education and health to large parts of our population who are denied these services at present. Education is the critical factor that will empower the poor to participate in the growth process and our performance in this area has been disappointing. Literacy is still less than 70% and while the Sarva Shiksha Abhiyan has expanded access to primary schools in terms of enrollment, it has yet to provide quality education. Looking ahead, we need to move as rapidly as possible towards universalisation of secondary education which is an essential requirement in a knowledge driven world. In the matter of health also there are large gaps in the availability of health care and in related services such as maternal and child care, clean drinking water and access to basic sanitation facilities for the mass of our population especially the poor do not have even minimum access.

Some of these services, e.g. education and curative health, are available in the market to those who can afford to pay. However, quality sources of supply are costly and beyond the reach of the common man, and other privately provided services are of highly variable quality. In our situation, access for the mass of our people can only be assured through a substantial effort at public financing of these services. In most cases, this also means public provision though there is obviously room for partnership with private entities, including especially non-profit bodies and civil society involvement.

A major institutional challenge is that even where service providers exist, the quality of delivery is poor and those responsible for delivering the services cannot be held accountable. Unless such accountability is established, it will be difficult to ensure significant improvement in delivery even if additional resources are made available. This is a major challenge of governance that must be faced.

(b) *Regaining Agricultural Dynamism*

One of the major challenges of the 11th Plan must be to reverse the deceleration in agricultural growth from 3.2% observed between 1980 and 1996-97 to a trend average of only 1.5% subsequently. This deceleration is undoubtedly at the root of the problem of rural distress that has surfaced in many parts of the country. What is more, the problem is also not a purely distributional one, arising out of the special problems of small and marginal farmers and landless labour. In fact, the deceleration is general affecting all farm size classes. To reverse this trend, corrective policies adopted must focus not only on the small and marginal farmers, who continue to deserve special attention, but also on middle and large farmers who too suffer from productivity stagnation arising from a variety of constraints.

A second green revolution is urgently needed to raise the growth rate of agricultural GDP to around 4%. This is not an easy task since actual growth of agricultural GDP, including forestry and fishing, was only 1% per annum in the first three years of 10th Plan and even the most rosy projections for 2005-06 and 2006-07 would limit this below 2% for the full five year period. The challenge posed is to at least double the rate of agricultural growth. This calls for action on both the demand side and the supply side.

(c) *Increasing Manufacturing Competitiveness*

The manufacturing sector has also not grown as rapidly as might have been expected. The average growth rate of this sector has accelerated compared to the Ninth Plan but is unlikely to exceed 8% in the 10th Plan. It should be targeted to grow at around 12% or so if we want to achieve a GDP growth of between 8 and 9%

India's remarkable success in IT enabled services has prompted some observers to conclude that China has a comparative advantage in manufacturing whereas India has an advantage in services and we should therefore concentrate on growth of high value services. This approach is simplistic. India's performance in IT enabled services and other high end services is clearly a source of strength that we must build upon. However, India cannot afford to neglect manufacturing. India meets most of the requirements for attaining double digit growth in manufacturing. We have a dynamic entrepreneurial class that has gained confidence in its ability to compete. We have skilled labour and excellent management capability. However there are other constraints that limit our competitiveness, especially in labour intensive manufacturing, and the 11th Plan must address these on a priority basis.

The most important constraint in achieving a faster growth of manufacturing is the fact that infrastructure, consisting of roads, railways, ports, airports, communication and electric power, is not up to the standards prevalent in our competitor countries. This must be substantially rectified within the next 5-10 years if our enterprises are to compete effectively. In the increasingly open trading environment that we face today, our producers must compete aggressively not only to win export market share but even to retain domestic market share against competition from imports. Indian industry recognises this and no longer expects to survive because of protection. But they do expect a level playing field in terms of quality of infrastructure. This should have high priority in the 11th Plan.

Shortage of electric power and the unreliability of power supply are universally recognised as a drag on the pace of India's development. Our competitors benefit from round the clock supply of power at stable voltage and frequency, but this remains elusive in most parts of India. The management of power systems, especially distribution, is the responsibility of state governments and a decisive improvement in this area is a critical challenge.

(d) *Developing Human Resources*

The emphasis we had put on quality higher education decades ago, setting up IITs and other premier educational institutions, has paid us rich dividends. However, expansion of such institutes has slackened in the past two decades, and there are clear signs of an emerging shortage of the high quality skills that are needed in the knowledge intensive industries. This could quickly erode our competitive advantage in this area. To ensure a continuous and growing supply of quality manpower we need large investments in public sector institutions of higher learning, combined with fundamental reforms of the curriculum and also service conditions to attract high quality faculty. The scope for expanding capacity through private sector initiatives in higher learning must also be fully exploited, while also ensuring that quality standards are not diluted. Unless this is done on an urgent basis, we will fail to attain global standards.

No society, certainly not at India's stage of economic development, can give everyone high-end skills to make them doctors, engineers, software specialists, financial analysts or even provide university level education to all. Industry also requires persons skilled in many specific trades and the situation in this area is not comforting. India has historically lagged behind in the area of technical/vocational training and even today enrolment rates in ITIs and other vocational institutes, including nursing and computer training schools, is only about a third of that in higher education. This is quite the opposite of other Asian countries which have outperformed us in labour intensive manufactures. Our ITIs will have to be substantially expanded not only in terms of the persons they train but also in the number of different skills and trades they teach. The quality and range of their training should keep pace with the changing needs of the economy.

(e) *Protecting the Environment*

Environmental concerns are growing globally as well as within the country. While there may appear to be a trade-off between environmental sustainability and economic growth in the short run, it has to be recognised, that in the longer run environmental sustainability and human well-being are not necessarily in conflict. Neglect of environmental considerations, as for example, in profligate use of water or deforestation can lead to adverse effects very quickly. The threat of climate change also poses real challenge to the well being of future generations which we can ill afford to ignore. Our development strategy has to be sensitive to these growing concerns and should ensure that these threats and trade-offs are appropriately evaluated.

(f) *Improving Rehabilitation and Resettlement Practices*

Our practices regarding rehabilitation of those displaced from their land because of development projects are seriously deficient and are responsible for a growing perception of exclusion and marginalisation. The costs of displacement borne by our tribal population have been unduly high, and compensation has been tardy and inadequate, leading to serious unrest in many tribal regions. This discontent is likely to grow exponentially if the benefits from enforced land acquisition are seen accruing to private interests, or even to the state, at the cost of those displaced. To prevent even greater conflict, and threat to peace and development, it is necessary to frame a transparent set of policy rules that address compensation, and make the affected persons beneficiaries of the projects, and to give these rules a legal format in terms of the rights of the displaced. In addition to those displaced by development projects, those displaced by social upheavals should also be properly resettled.

(g) *Improving Governance*

All our efforts to achieve rapid and inclusive development will come to naught, if we cannot ensure good governance both in the manner public programmes are implemented and, equally important, in the way the government interacts with the ordinary citizen. Corruption is now seen to be endemic in all spheres and this problem needs to be addressed urgently. Better design of projects and implementation mechanisms and procedures can reduce the scope for corruption. Much more needs to be done by both the Centre and the States to reduce the discretionary power of the government, ensure greater transparency and accountability, and create awareness among citizens. The Right to Information Act empowers the people to demand improved governance, and we must be ready to respond.

Quick and inexpensive dispensation of justice is an aspect of good governance which is of fundamental importance in a successful civil society. The legal system in India is respected for its independence and fairness but it suffers from notorious delays in dispensing justice. Delays result in denial of justice. Delays cost money and therefore it is difficult for the poor in India to afford justice. Fundamental reforms are needed to give justice two attributes: speed and affordability.

1.3 Disparities and Divides

Even as we address the specific challenges listed in 1.2 above, we must also deal with broader perceptions that development has not only failed to bridge the divides that afflict our country, it may even have sharpened some of them. Some of these perceptions may be exaggerated, but they are real nonetheless. The 11th Plan must seek to bridge these divides as an overarching priority.

There are many divides, all demanding equal attention. Foremost among these is the divide between the rich and the poor. As explained in 5.1, poverty is declining, but only at a modest pace which is no longer acceptable given the minimalist level at which the poverty line is fixed. The pace of poverty reduction must be accelerated. There is also a divide between those who have access to essential services and those who do not, which leads to large disparities in health and nutritional status, in education and skills, as also in availability of clean water and sanitation.

There are also excluded groups in our society such as SCs, STs and OBCs and some minorities who continue to lag behind the rest.

Table 2: ***Status of Some Socio-Economic Indicators***

		Average/All India		Best State	Worst State
		Around 1990	Recent Year	Recent Year	Recent Year
Per Capita Net National Product : (Rs. per person at 1993-94 Prices)[1]		7321	**11799**	16679	3557
Consumption Poverty: Head Count Ratio (%)[2]		36.0	**27.8**	6.16	47.15
Literacy (age 7+) Male:[3]		64.1	**75.3**	94.2	59.7
Literacy (age 7+) Female: [3]		39.3	**53.7**	87.7	33.1
Attending Elementary Schools(6-14 years)[3]		55.3	**71.1**	103.1	55.8
Sex Ratio: (females/1000 males)[3]		927	**933**	1058	709
Infant Mortality Rate: (2003) (Per 1000 live births)[4]		80	**60**	11	83
Maternal Mortality Rate: (1997) (Per 1000 live births)[4]			**4**		
Undernourished Children: (1998-99)[5]					
	Weight-for-age		**47.0**	20.6	55.7
	Height-for-age		**45.5**	18.1	55.5
	Weight-for-height		**15.5**	4.8	24.3

1 For the years 1990-91 and 2003-04
2 The poverty estimates given are for 1993-94 and the latest estimates based on the NSS 2004-05 survey which is comparable with 1993-94.
3 Calculated from information based on Census 1991 and 2001
4 Based on SRS
5 Percentage age below 2 standard deviation from the mean of an international reference population.

Another important divide which compels immediate attention is gender discrimination. It begins with the declining sex ratio and goes on to literacy differential between girls and boys plus the high rate of maternal mortality. The extent of bias is self evident. The statistics given in Table 2 are reflective of the trend but do not tell the whole story. Differences in educational status and economic empowerment are heavily biased against women. Special, focussed efforts must be made to purge society of this malaise by creating an enabling environment for women to become economically empowered. Measures for societal recognition of women's economic and societal worth will be a concomitant of this.

The divide between urban and rural India has become a truism of our times. The Central Government has adopted a multi-pronged strategy to reduce this divide in its various dimensions. The Bharat Nirman programme addresses gaps in rural infrastructure and covers irrigation, road connectivity, housing, water supply, electrification and telephony. The National Rural Employment Guarantee Act has elements of a social safety net as it provides guaranteed employment in rural areas, but can also help in building rural infrastructure especially if resources from other programmes are also pooled in. The Sarva Shiksha Abhiyan and National Rural Health Mission are ambitious programmes for providing primary education and primary health services universally. All these programmes are meant to give a new deal to rural India. To succeed, these Central Government initiatives have to be owned by states and local authorities, within whose constitutional responsibility most of them lie.

Regional backwardness is another issue of concern. The differences across states have long been a cause of concern but increasingly there is recognition of the problem of severe imbalances within states. Backward districts of otherwise well performing states, present a dismal picture of intra-state imbalance and neglect. The Centre and the States together must deal with this problem on a priority basis. We cannot let large parts of the country be trapped in a prison of discontent, injustice and frustration that will only breed extremism. The spread of Naxalism in more than 100 districts in the country is a warning sign. Pockets of despair where communalism has left scars are also festering with anger. In all areas despair is the result of visible failures of the state apparatus to ensure good governance and create an environment where the bulk of the people experience the benefit of development.

Special efforts must be made to remove the discontent, dispense justice, instill a sense of fairness among the people and give them dignity and hope. Otherwise, not only will the growth momentum in the rest of the country be disrupted, but we will not attain the dignity and pride of a good society. The Backward Regions Grant Fund provides a new instrument to deal with this problem.

The broad policy approach needed to address the challenges described above, are discussed in subsequent Chapters of this Approach Paper.

2. GROWTH POTENTIAL IN THE 11th PLAN

There are three broad sources of economic growth: Accumulation of physical capital; accumulation of human capital; increase in the efficiency of production due to technical or organizational change (total factor productivity). The 11th Plan must look to all these different sources of growth to ensure that India's growth potential is realised. In this Chapter we present an assessment of the macro-economic constraints on accelerating GDP growth.

2.1 Macro-economic Projections

Simulations from several models show that the base-line growth rate of the economy, i.e., the growth that is likely to be achieved without significant new policy initiatives, or the business as usual scenario, is around 7 per cent per annum. However, all the models also indicate that with additional policy initiatives it is possible to raise the average growth rate in the 11th Plan to somewhere between 8 and 9 percent. The broad macro-economic implications of accelerating from 7% growth achieved in the Tenth Plan to higher levels are spelt out below, using the in-house model of the Planning Commission.

(a) *Investment Savings Requirements*

Table 3 presents an assessment of investment and savings requirements of different target growth rates for the 11th Plan. They show that acceleration from the base line 7% growth to say 9% will require an increase in the total investment rate from 29.1% to 35.1%. It may be noted that this is much lower than the investment rates reported in China implying that we are in a position to achieve comparable rates of growth with a lower ICOR. Even so, the scale of the increase envisaged is substantial and the feasibility of this level of investment depends upon the willingness of the private sector and the public sector to invest, and our ability to finance these investments.

Table 3: *Alternative Scenarios for 11th Plan*

Target GDP Growth Rate in 11th Plan	**7.0%**	**8.0%**	**9.0%**
Average investment rate	29.1	32.0	35.1
Average CAD as % of GDP	2.0	2.4	2.8
Domestic Savings Rate: of which	27.1	29.6	32.3
(a) Household	20.1	20.5	21.0
(b) Corporate	5.0	5.5	6.1
(c) PSEs	3.1	3.1	2.8
(d) Government	-1.1	0.5	2.4

The higher level of investment has to be financed by some combination of increased domestic savings and increased foreign savings as reflected in the larger current account deficit. The current account deficit (CAD) is projected to increase from 2% of GDP in the 7% projection to 2.8% of GDP in the 9% growth projection. This is a feasible level of CAD and should not present any danger, provided it is financed mostly from FDI and long- term external borrowings rather than short-term borrowings or portfolio flows. Higher levels of the current account deficit can be tolerated for some time if financed exclusively by higher FDI but in general we should aim at keeping the CAD below 3%.

If the CAD is constrained as indicated, the total domestic savings rate must increase from 27.1% to 32.3%. The growth of household and corporate savings will be determined by behavioural parameters, given the growth of income and GDP. These can be influenced by government policy only to a limited extent. A significant portion of the needed increase in domestic savings will therefore have to come from an improvement in Government savings. The projected improvement in government savings shown in Table 3 suggests a turnaround in government savings of around 2.5 percentage points of GDP for a growth rate between 8 and 9%. This will require strong budgetary discipline by both the central government and the state governments.

Fortunately, the high buoyancy in tax revenues displayed in recent years suggests that the efforts at reforms of tax structure and tax administration are having an impact and continuation of these efforts in the Centre and also in the States should lead to rapid growth in tax revenue. This needs to be combined with moderation in growth of current expenditure, especially in subsidies, combined with progress in rationalising user charges to reduce losses in various public sector areas. These issues are examined in detail in Chapter 6.1.

(b) *Structure of Investment : Public Private Mix*

The structure of savings given in Table 3 has implications for the structure of investments during the 11th Plan period and these are outlined in Table 4. The 7.0% growth scenario is broadly consistent with the behavioural trends in investment that have been observed in the immediate past, both in the public and in the private sectors.

The split of total investment between public investment and private investment is not easy to project. In the projections it has been assumed that private investment is determined by past behaviour, which is responsive to the aggregate growth of GDP, with public investment picking up the slack. The growth rates of public and private investment shown in Table 4 require a significant step up in private investment growth rate in all scenarios except the base-line, from the historical average growth rate of 6.5%. Public investment is often an important determinant of private investment and for this reason it would be desirable to maintain the public investment target at reasonably high levels especially if these are directed to key infrastructure development. It is also important to regularly monitor private investment demand and to take counter cyclical measures in time.

These projections do not explicitly allow for investments made in the PPP mode. If allowance is made for PPP investments, some of the investment shown in the public sector would be transformed into viability gap support of PPP in the form of a transfer from the public sector to the private sector and the level of private investment would be correspondingly higher. Private investment has in the past demonstrated growth rates of above 18% per annum during the period 1994-95 to 1996-97, and could do so again, especially if the investment climate appears favourable. PPP offers a distinct possibility for increasing investments in certain key sectors, though to do it effectively requires some institutional capacity in the public sector. Given the inefficiencies often encountered in public investment, such PPP could increase economic efficiency and lower the capital requirement, provided that regulatory mechanisms are adequate. (See Box in Chapter 3)

Table 4: ***Some Implications of the Savings Requirements for 11th Plan***

Target GDP Growth Rate in 11th Plan (%)	7.0	8.0	9.0
Public Investment (as % of GDP)	8.4	9.8	11.2
Private Investment (as % of GDP)	20.7	22.2	23.9
Government Revenue Balance (% of GDP)	-2.9	-1.3	0.6
Government Fiscal Balance (% of GDP)	-6.4	-6.2	-6.0

2.2 <u>Sectoral Growth Rates</u>

The sectoral growth rates consistent with the growth scenarios presented above are given in Table 5. The agriculture growth targets are explicitly derived from the demand side assuming virtually zero growth in agricultural imports and a step up in the rate of growth of agricultural exports by 10% per annum. Services sector growth is projected in relation to GDP growth with an elasticity of 1.1 which is slightly lower than in the past. The industrial growth targets are determined residually.

In deriving the trade figures, net exports are projected at the level necessary to calibrate aggregate demand and aggregate supply. Import growth has been related to overall GDP growth with an elasticity of around 1.5, which is somewhat higher than the historical average of 1.3, reflecting the assumed impact of trade liberalisation and greater dependence on energy imports. However, in these calculations it has been assumed that there is no further change in energy prices.

The growth rate of gross exports in Table 5 reflect the level of gross exports implicit in the estimates of net exports and gross imports as derived above.

Table 5: ***Structure of Growth in Different Scenarios***

GDP	**7.0**	**8.0**	**9.0**
Agriculture	3.2	3.7	4.1
Industry	8.2	9.4	10.5
Services	7.7	8.8	9.9
Imports*	10.9	11.7	12.5
Exports*	14.2	15.4	16.4

Note: *Measured in US dollars. In the case of imports, it is assumed that the price of oil remains constant at $70 per barrel from 2006-07 onwards and average tariff rate stabilises at 10% from 2008-09.

These scenarios suggest that, demand for agriculture will restrict its growth to between 3% and 4%. Services could grow at 8 to 10% and industry a little faster, exceeding 10 percent growth in the 9% GDP growth scenario. The implicit growth of manufacturing sector, which is a subset of industry, would be around 12% in the 9% GDP growth scenario. The target growth rates for Industry and Services certainly appear feasible in the light of recent performance, although the agricultural growth rate is much higher than recent trends. Nevertheless, every effort will need to be made to achieve the agricultural growth targets, since failure on this count may require excessively high targets for the non-agricultural sectors in order to attain the over-all GDP growth rate and also expose the economy to needless vulnerability.

The importance of agricultural growth arises not only from the need to provide adequate food production but because of the increasingly important role that rural demand will need to play in order to support non-agricultural growth from the demand side. Much of this demand will be for non-agricultural activity which will also generate non-agricultural employment in rural areas.

Table 6: ***Implications of 2% Agricultural Growth***

GDP	**7.0**	**8.0**	**9.0**
Agriculture	2.0	2.0	2.0
Industry	8.6	9.9	11.2
Services	8.1	9.3	10.5
Imports	11.8	13.9	15.3
Exports	19.6	23.0	25.9

In order to appreciate the sensitivity of the various targets to agricultural performance, Table 6 shows the requirements of sectoral growth if agriculture grows only at the recent trend growth rate of 2% in all scenarios. Not only does the industrial growth required to meet the GDP growth targets become higher, but a much higher export growth is needed to absorb the additional industrial growth. Export growth in the 8% growth scenario has to be 23% per year instead of the

15.4% shown in Table 5. Import requirements, on the other hand, do not increase very sharply. The very high export growth requirements may not be easily attainable, despite the recent performance. In our view, therefore, a strategy aiming at acceleration in the growth rate should provide for acceleration in agricultural growth not only because it is more consistent with reducing poverty and generating income in rural areas, but also because it is more consistent with the likely constraints on export performance.

2.3 The External Environment

There are significant uncertainties affecting the world economy in 2006. The major economies have been characterised by significant macro-imbalances and it is not certain how these imbalances will be ironed out. The uncertainty on this count has been exacerbated by the recent spurt in oil prices. It is obviously difficult to judge how these developments will impact on India's medium term prospects. We clearly stand to benefit if the macro-imbalances are resolved in a non-disruptive manner, oil prices soften over time, and the ongoing WTO negotiations produce an acceptable outcome which strengthens the multilateral trading system. However, this favourable outcome is not assured. A positive feature of the international situation is that current perceptions of foreign investors are very favourable. However, the prospects for oil prices remain a matter of concern.

(a) *Foreign Direct Investment*

India is generally seen as one of the best performing emerging market countries and one capable of sustaining growth at over 8% over the next two decades, provided appropriate policies are put in place to deal with existing constraints on growth. This has created a favourable impression among potential foreign investors. Most of the major international companies are now operating in India and many have announced ambitious expansion plans. The flow of FDI amounted to about $6 billion in 2005-06 and could increase significantly during the 11th Plan.

As shown in Table 3 the current account deficit in 2011-12 is projected at 2.4% of GDP in the 8% growth scenario and 2.8% of GDP in the 9% growth scenario. It should be possible to finance current account deficits on this scale relying mainly on net FDI flows, allowing for a significant increase in Indian FDI abroad as Indian companies also globalise.

(b) *Oil Prices*

It is difficult to predict what will happen to oil prices over a five year period but current assessments are that oil prices will remain high. This will exert contractionary pressures on the economy, both directly and also through their impact on world economic growth. The impact of high oil prices on the world economy is somewhat muted thus far partly because industrialised countries have been more able to adjust to higher oil prices but, as pointed out above, there are macro-imbalances in the world economy which make it vulnerable.

For India, the persistence of high oil prices does pose difficult choices between (a) passing on the price increase to the consumer (b) lowering taxes on petroleum products and (c) squeezing the oil companies. Each of these options has some adverse consequences, and the Government has resorted to a combination of all three in the past 12 months. In the medium term, the only viable approach is to rationalise taxation on petroleum products and then pass on the bulk of the burden of higher oil prices to consumers with targeted subsidies to protect the interests of the poor.

Simulations with macro-models suggest that if oil prices increase sharply in future, our growth rate could be lowered by between 0.5 and 1.0 percentage points below the levels projected with present levels of oil prices. However, all such estimates have a large margin of error. The important point is that even these simulations show that with appropriate oil pricing policies, increased exports and appropriate fiscal and monetary policies, the adverse impact of high oil prices on GDP growth can be substantially moderated in the medium term. They will have an impact on affordable levels of consumption but they need not have as sharp an impact on GDP growth.

2.4 Growth Target for the Eleventh Plan

To summarise, the task of achieving an average growth rate between 8 and 9 percent in the 11th Plan is macro-economically feasible with a strong fiscal effort that is difficult but not impossible. It is, therefore, proposed that the target growth rate for the Eleventh Plan be placed at 8.5 per cent per annum. The key macroeconomic values consistent with a growth target of 8.5% are presented in the Table 7.

Table 7: *Macroeconomic Indicators for the Eleventh Five Year Plan*

1.	Growth rate of GDP (%); of which;		8.5
	1a.	Agriculture	3.9
	1b.	Industry	9.9
	1c.	Services	9.4
2.	Investment rate (% of GDP) of which		33.6
	2a.	Public	10.4
	2b.	Private	23.2
3.	Domestic Savings rate (% of GDP) of which;		31.0
	3a.	Household	20.7
	3b.	Corporate	5.8
	3c.	PSEs	3.0
4.	Current account balance (% of GDP)		-2.6
	4a.	Growth rate of imports (%)	12.1
	4b.	Growth rate of Exports (%)	16.0
5.	Government revenue balance (% of GDP)		-0.5
6.	Government fiscal balance (% of GDP)		-6.1

In adopting a target, of 8.5% growth, we need to certain key vulnerabilities and provide for them:

- The projection assumes no sharp disruption in the world economy which could arise from a disorderly adjustment of global macro-imbalances or a further large increase in oil prices. If this happens, our growth prospects would be affected at least for a few years.
- The experience of the past decade indicates that endogenous business cycles may have become an abiding feature of Indian macroeconomic behaviour. This can be addressed through appropriate fiscal and monetary measures provided that recognition is early enough.
- The most vulnerable period will be the first two years of the Plan during which the possibility of a cyclical downturn is complicated by the effect of oil prices on the domestic and the international economies and by the lack of sufficient flexibility in fiscal management arising from FRBM Acts in the Centre and the States.
- Agriculture continues to be an important driver of macroeconomic behaviour in India and all projections are based on a steady, sustained improvement in agricultural performance. Any slippage will have to be compensated by measures which not only prevent rural distress but also preserve the growth momentum.

Finally, macro-economic feasibility of the type discussed in this Chapter is only one test. To make the growth target a reality, and also to do so in a manner which makes the growth inclusive, calls for a large number of supportive policies in individual sectors. These are explored in the subsequent Chapters of this Paper.

3. SECTORAL POLICIES FOR THE ELEVENTH PLAN

The transition towards faster and more inclusive growth calls for significant new initiatives in many sectors. In some we need to build on policies that are working well but need further strengthening in critical areas to build the additional momentum needed. In others we need a more comprehensive restructuring since it is evident that business as usual will not do. In this Chapter, and the next, we provide a brief assessment of the broad direction of policy we need to explore in formulating the 11th Plan.

3.1 Accelerating Agricultural Growth

Accelerating GDP growth in agriculture to around 4% as envisaged in this Paper, is not an easy task. Actual growth of agricultural GDP, including forestry and fishing, was only 1% per annum in the first three years of 10th Plan and even the most rosy projections for 2005-06 and 2006-07 would limit this below 2% for the full five year period. The challenge posed is to more than double the growth rate achieved in the 10th Plan. This will require action on both the demand side and the supply side.

(a) *Demand Side Intervention*

On the demand side there is evidence that farmers face adverse demand conditions. Not only has agricultural growth been low in the last decade, the prices received for agricultural products have also failed to keep pace with the costs or the general price level and, as a consequence, profitability has declined. Several modeling exercises suggest that a 4% growth of agriculture will not be sustainable from the demand side unless aggregate GDP growth is much higher than 8%.

Some of the steps already taken, such as the recently introduced National Rural Employment Guarantee Programme, will help the demand side in the 11th Plan. The emphasis on expanding access and improving quality of public sector schools and health facilities may also help by reducing the need for private expenditure on these items by lower income groups and some of this expenditure will be redirected to generate demand for agriculture. [1] Improved rural connectivity envisaged through Bharat Nirman can also trigger growth of an integrated national market where rural people are more able to meet each others demand. In its sheer size and scope, such expanded rural-rural trade is likely to be as important in the initial years as other efforts of demand support such as promoting agricultural exports, or strengthening support to agricultural diversification for domestic processing. The latter of course have the advantage of being able to attract private corporate investment into rural areas once essential infrastructure is in place and their importance is likely to grow over time.

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1 A very large private expenditure shift has occurred over the last decade from food to health, education and conveyance, some of which should be reversible.

(b) *Supply side strategy*

The supply side challenge of doubling agricultural growth is also formidable. This is especially so because no dramatic technological breakthrough comparable to the “green revolution” is presently in sight. We are also not exploiting the potential of existing technology. In fact, most of the growth required in cereals, pulses and oilseeds is possible merely through plausible yield increase in currently low yield regions. It is however necessary to identify the specific constraints and policy distortions that have produced these yield gaps.

The National Commission on Farmers has drawn attention to the knowledge deficit which constrains agricultural productivity. To overcome this, farmers will need effective links to universities and best practices. A good extension system is the means for achieving this linkage but unfortunately the extension system has virtually collapsed in most states, partly as a result of constraints on non-plan expenditure. Krishi Vigyan Kendras set up by ICAR have very little interaction with the ATMA model of extension being promoted by DAC. The result is that farming practices in large parts of the country are sub-optimal. Soil testing to determine optimal nutrient requirements is hardly practised and fertilizer application is often highly unbalanced with excessive use of nitrogenous fertilisers, often leading to a negative effect on productivity of the soil over time, a consequence that farmers are not fully aware of. These imbalances are themselves to some extent the result of a system of fertiliser subsidy which is irrational and focuses excessively on nitrogenous fertilizers.

Lack of credit at reasonable rates is a persistent problem, in large part, reflecting the collapse of the cooperative credit system. The failure of the organised credit system in extending credit has led to excessive dependence on informal sources usually at exorbitant interest rates. This is at the root of farmer distress reflected in excessive indebtedness.

Accelerated agricultural growth will require diversification into horticulture and floriculture which in turn imply structural changes in the relation between agriculture and non-agriculture. Diversification requires effective marketing linkages, supported by modern marketing practices including introduction of grading, post-harvest management, cold chains, etc. There is a need to encourage the development of modern agricultural markets and for this purpose it is necessary to amend the APMC Acts. Although this has begun, the process needs to be accelerated.

Diversification also means the product must meet the specific requirements of the different markets being serviced, and these requirements vary depending on whether the market is domestic consumption, agro-processing or exports. Contract farming is a potentially effective way of attracting corporate investors to help establish these linkages with markets and also provide farmers with necessary inputs, extension and other advice. Although very limited at present, many states have already taken steps to facilitate this potential to assist the process of diversification. A greater focus is, however, necessary on enabling small farmer participation by encouraging group formation and providing suitable and effective regulatory frameworks. Existing vested interests in traditional trade channels often oppose these changes but they must be overcome.

As farmers adopt new and untried technology, and increase input intensities, they also face larger risks. These risks are often not well understood owing to lack of knowledge of the requirements of new seeds and new technology. All farmers do not have the ability to bear downside risks. Thus, we have seen farmer suicides when new seeds fail to deliver expected output, or when expenditure on bore wells proves infructuous, or when market prices collapse. Farmers should be protected against such risks by appropriate measures. Insurance is one way of doing this, but the financial cost of existing and proposed crop insurance schemes is very considerable, and recurring, so that these are not appropriate as plan schemes. These and related issues of risk management need to be addressed in the 11th Plan.

The agricultural strategy for the 11th Plan must be based on recognition of the need for strategies specific to different agro-climatic zones. The nature of the technical constraints and crop development possibilities vary considerably across zones. Viable policy packages must be devised for each zone keeping these variations in mind. This will need to be incorporated in the design of future plan schemes with corresponding improvements in plan implementation and in administrative structures to optimise region-specific benefits. While the strategies can emerge through consultation between the Centre and the States, the task of implementing these strategies on the ground falls almost wholly on the state governments.

(c) *Agricultural Research*

In the longer run, growth in agricultural productivity can be sustained only through continuous technological progress. This calls for a well considered strategy for prioritised basic research, which is now all the more urgent in view of mounting pressure on scarce natural resources, climate change and also the shrinking availability of spill-overs from international public research. The 11th Plan will have to focus the National Agricultural Research System (NARS) to strengthen its basic research component through properly anticipated identification of strategic research pathways. This must go hand in hand with clearer demarcation of responsibilities within NARS between such basic research, which may not contribute immediately to growth, and the more immediate requirement to adapt and disseminate existing technology and provide region-specific problem solving capacity. The recently established National Strategic Agricultural Research Fund must be expanded in the 11th Plan and oriented to stimulate research responding to a well defined strategy of prioritisation.

New generation technologies based on rapidly evolving scientific developments will play a pivotal role in achieving new levels of productivity in agriculture. The country's large agricultural research system which successfully launched the green revolution in the past will now be called upon to address newer and more formidable challenges. In this endeavour, business as usual has no place whatsoever. The system needs to be thoroughly revamped and restructured in the light of the advice rendered by the high powered committees chaired respectively by Dr. Swaminathan and Dr. R.A. Mashelkar.

(d) *Water Management and Irrigation*

Water is a critical input for agriculture and this calls for expansion of irrigation, where it is possible and better water management in rainfed areas where assured irrigation is not possible. This is clearly an area where past policies have been inadequate. Performance in expanding irrigation has been disappointing with resources being spread thinly over many projects and a large number of irrigation projects remaining under construction for many years.

The Bharat Nirman programme *inter-alia* envisages creation of 10 m. ha. additional assured irrigation during the 4 years period (2005-2009). To achieve this, the pace of potential creation will have to be scaled up from 1.42 m. ha per year in recent years to 2.5 m.ha./year. Of the new potential envisaged under Bharat Nirman, about half is planned for 2007-08 and 2008-09 i.e., first 2 years of the 11th Plan. Assuming the same rate of creation of continues thereafter, a total of about 11 m.ha. of new potential can be expected in the 11th Plan consisting of 5.5 m.ha in major & medium irrigation, 3.5 m.ha. through minor irrigation and about 2.0 m.ha through ground water development. In addition, another 3-4 m.ha. of land is to be restored through modernisation of major, medium and minor projects and restoration of tanks.

Investments in the major and medium irrigation sector will require large resources from the state governments supported by Central Assistance under AIBP. However, implementation of these projects by state governments is also important. Monitoring the pace of creation of potential assumes special importance. Besides regular monitoring by Central Water Commission, it is proposed to expand usage of remote sensing techniques for this purpose which has been initiated on a pilot basis in the 10th Plan.

Along with expansion of irrigation facilities, steps need to be taken to ensure that water is distributed equitably and that it is used efficiently. The past pattern where tail enders are denied water because upper end users appropriate it for highly water intensive crops must be avoided. Participatory Irrigation Management (PIM) by democratically organised water user associations empowered to set water charges, collect and retain substantial part of it, would help to maintain field channels, expand irrigated area, distribute water equitably and provide the tail enders their just share of water. Experience in Gujarat has shown the effectiveness of such PIM. The 11th Plan must expand reliance on PIM on a large scale.

Water is also critical for the more than 60% of cultivable land that is unirrigated and rainfed. Ground water management is critical for these areas and will therefore need much more focused attention in the 11th Plan. Unless this is done we run the risk of a deepening agricultural crisis in dryland areas. Water must be recognised as a scarce resource and every drop needs to be used efficiently. In this context, it must be recognised that some existing policies followed by state governments contribute to the problem. Continued provision of free power by some states and highly subsidised power by all states is leading to an increase in semi-critical, critical and over exploited areas of groundwater use, which already cover 29% of the blocks in the country.

Watershed management, rainwater harvesting and ground water recharge can help augment water availability in rainfed areas. Building structures for water management and managing them also provides opportunities for employment generation in rural areas. In addition the enhanced productivity of land will generate its own employment. The National Rainfed Areas Authority to be set up in the current year provides a vehicle for developing concerted action plans for rainfed areas in close consultation with state governments.

With an estimated 80 million hectares needing treatment, and average expenditure of Rs.10,000 per hectare, the total requirement of funds is about Rs.80,000 crore. For this magnitude of funding to be feasible during the 11th Plan, it is absolutely essential that these programmes be converged with or at least supplemented by the Employment Guarantee programme funding local level schemes which conserve moisture and recharge ground water.

(e) *Animal Husbandry and Fishery*

The livestock and fisheries sectors together account for about 30% of the value of the output of Agriculture & Allied Sector and provide full time and part time employment to 5.5% of the total working population. Their contribution to total GDP in 2003-04 was 6.3%. The 11th Plan must evolve viable strategies for these sectors to expand rapidly. The effort to revive agricultural dynamism must therefore pay sufficient attention to this sector.

India continues to be the largest producer of milk in the World with a total production of 91 million tonnes in 2005-06 and the contribution of milk alone was higher than paddy, wheat and sugarcane in the year 2003-04. Yet the per capita availability of milk at 231 gm. per day during 2003-04 is still very low. Matters are even worse regarding meat, with abattoir conditions pathetic and utilisation of by-products inefficient. Poultry development in the country has shown better progress over the years, primarily because research and development schemes of the government have been complemented with effective management and marketing by an organised private sector.

Some of the important initiatives that are needed are:

- Promotion of appropriate crossbreeds while conserving indigenous breeds of livestock.
- Establishment of livestock marketing system.
- Promotion of rural backyard poultry in a cooperative marketing setup.
- Development of cooperative dairy firms.
- Enhancing livestock extension services.
- Encouraging private veterinary clinic.
- Institutionalising a framework for utilising synergy between restoration and creation of water bodies for water harvesting and fishery.
- Provision of an insurance package to avoid distress.

The survival of pastoralism is crucial for sustainable land use. Besides conserving domestic biodiversity, it is a means of producing food in dry lands without depleting groundwater resources. However, there are many constraints on expansion in this area Grazing permits are denied in traditional grazing sites that have been converted into protected areas/wildlife sanctuaries, national parks/Joint Forest Management (JFM) programme. Original pasture lands or stipulated animal drinking water ponds are encroached upon, or used for other purposes. Bio-diesel (Jatropha) planting is being promoted through state agencies without seeing all the consequences such as blocking the migration routes of animals and encroaching upon herd-passing pathways.

3.2 Industrial Growth

The industrial sector has gained in strength in many ways over the past fifteen years as a consequence of liberalising industrial controls and the gradual integration with the world economy. Automobile components, pharmaceuticals, special chemicals, textiles are recording unprecedented levels of global competitiveness and the recent surge in the Index of Industrial Production (IIP) also supports this assessment. However, there are numerous constraints that limited industrial performance and need to be addressed.

(a) *Promoting Industrial Growth*

The 11th Plan should aim at raising the rate of growth of the industrial sector to 10% and manufacturing growth to 12% per annum. The most critical short-term barriers to growth of the manufacturing sector are absence of world-class infrastructure and shortage of skilled manpower. The 11th Plan will place special emphasis on infrastructure and skill formation and these are discussed separately later in this paper (See 3.5 and 4.1)

In addition, the 11th Plan should give priority to taking following initiatives to facilitate rapid industrial growth:

(i) Taxes and duties should be made non-distortionary and internationally competitive. Internally, the tax system must promote and be consistent with a unified national market, so that Indian industry can reap the benefit of economies of scale and scope. Externally, the gradual reduction of tariffs on non-agricultural products should continue. Negative protection which arises because of inverted duty structures must be minimised and, ideally, eliminated.

(ii) While initiatives to provide infrastructure in general are important, they should be supplemented by efforts to promote infrastructure development in local areas such as of Special Economic Zones and Special Economic Regions. The latter differ from SEZs in that they do not come with export tax benefits.

(iii) Technological modernisation is the key to high industrial growth. The growing interest of foreign direct investors in the economy provides a valuable method of injecting resources into the economy, upgrading our technological standards and building international partnerships, which can have many positive effects.

(iv) State governments should take steps to create an investor friendly climate. There is a need to ensure that delays in land registration, water and utility connections, environmental and other clearances are minimized through a single window clearance of applications for establishment of industrial units.

(v) Labour intensive mass manufacturing based on relatively lower skill levels provides an opportunity to expand employment in the industrial sector. China has done exceptionally well in this area and has opened up the world market in which we could compete effectively. A key issue in this context is the need for greater flexibility in some of the labour laws. In particular, there is the need to consider appropriate amendments in Section V-B of the Industrial Disputes Act, 1947 to facilitate exit and Contract Labour (Abolition and Regulation Act) to give to the industry the flexibility necessary to compete in international markets.

(vi) Another constraint affecting the growth of labour intensive manufacturing is the reservation of many of these industries for the small scale sector. With reduced barriers to trade, and the negotiation of free trade agreements with our neighbours and with ASEAN, our domestic producers have to compete with imports even if they don't aim for export markets. They cannot do so if reservation limits their ability to modernise. The policy of progressive de-reservation of industries for small scale production has reduced the list of reserved industries from about 800 to 326. This policy should continue in the 11^{th} Plan at an accelerated pace.

(vii) Although industrial licensing has been virtually eliminated, residual entry barriers remain in sugar, petroleum refining, fertiliser and drug industry. These should be progressively eliminated. Equally important is the need to amend the Companies Act, 1956, in order to facilitate rehabilitation and liquidation procedures of industrial units, where necessary.

While promoting industrial growth, protection of consumers, particularly illiterate and marginalised cross sections of society in rural areas, should be accorded high priority in the 11th Five Year Plan. Competition is the best guarantee of consumer protection and should be strongly encouraged.

(b) *Village and Small Enterprises*

The dispersed and decentralised VSE Sector poses a special challenge and opportunity to our policy makers. This sector has the second largest share of employment after agriculture and comprises a wide range including handlooms, handicrafts, sericulture, wool, powerlooms, khadi, village industries, coir and other agro and rural industry segments including food processing industries. It touches the lives of the weaker and unorganised sections of the society with more than half of those employed being women, minorities and the marginalised. Fifty seven percent of the VSE units are owner run enterprises with one person. They account for 32% of the workforce and 29% of the value added in non-agricultural private unincorporated enterprises. With the successful infusion of design skills, modern marketing and appropriate technology, this segment can form the basis for a self sustaining culture of creative and competitive industry.

Several Ministries/Departments/Institutions deal with activities falling within the domain of the VSE sector, and have a variety of schemes to support the VSEs. However, the benefits accrue to only a small fraction of VSEs as only 13% are registered. In the 11th Plan we need to ensure that the unregistered small enterprises and units outside the cooperative fold are also able to benefit from government schemes.

We need to change the approach from emphasis on subsidies to creating an enabling environment. A cluster approach can help increase viability by providing these units with infrastructure and support services of better quality at lower costs. The 11th Five Year Plan should restrict subsidies to those needed to create a level playing field and to reflect the costs or benefits that might be imposed on others in the society. It should incentivise innovation and creativity. It should mitigate business risk for start-ups, by removing all entry barriers. It should provide infrastructure and liberate VSEs from the inspector raj. Furthermore, in order to improve the competitiveness of small and medium enterprises, schemes for establishment of mini tool rooms, setting up of design clinics and providing marketing support should be evolved on a PPP basis.

(c) *Mining*

The mineral policy needs to be reviewed to bring it in line with contemporary realities. The Mines and Minerals Act and the Mineral Concession Rules as well as the FDI policy have also been revised on several occasions with a view to attracting private investment for exploration of mineral deposits and operation of mines but actual investment in this area has been very meager because of procedural hassles and numerous discretionary provisions in the laws, which discourage prospective investors. The provisions for rehabilitation are also unsatisfactory.

A review of the policy and of the laws and procedures in this area is urgently needed to identify and eliminate the constraints in the way of investments in mining activities. The procedures should ensure that there is seamless transition from the stage of reconnaissance permit through prospective license to mining lease, and security of tenure is guaranteed to the maximum extent possible. The conditions for resettlement must also be made transparent and the rights of those whose lands are acquired must be suitably protected.

3.3 The Services Sector

The services sector accounts for 54 per cent of GDP and is currently the fastest-growing sector of the economy, growing at 9 per cent per annum since the mid-1990s. This sector is estimated to have the potential for creating 40 million jobs and generating additional $ 200 billion annual income by 2020. The sector has the unique opportunity to grow due to its labour cost advantage reflecting one of the lowest salary and wage levels in the world, coupled with a rising share of working age population. The 11th Plan must, therefore, put special focus on this sector so that its potential to create employment and growth is fully realised.

(a) *Professional Services*

Professional services include a wide array, namely, IT Services, Customer Relations Management, Health Services, Accountancy Services, Legal Services, Educational Services, Construction and Engineering Services, Architectural and Design Services etc. The Information and Communication Technology revolution has made it easy to provide such services all over the world and Indian professionals have made a mark in many fields leading India to being recognised all over the world as an important player in the knowledge economy.

India has attained a large share of the offshore market in this area with a 65% share of global offshore IT services (i.e., outsourced software services) & 46% of global business process off shoring (BPO) industry. This was made possible by an unparalleled export performance with a CAGR of 28% over a decade. Fortunately, the scope for future expansion continues to be large as only 10% of the potentially addressable global IT/ITES market has been realised. The remaining 90% of a global potential market of approximately $300 billion still remains to be realised.

India's advantages of talent, established track record, and a geographical location that provides a 24 hour working day to American professionals and communication infrastructure of data connectivity and security should be consciously leveraged to achieve our full potential. We need to work through WTO to assure access to overseas outsourcing. We also need to, build a much larger IT workforce through an HRD plan, and improve urban infrastructure through public private partnerships.

While the rapid growth of professional services has been an impressive achievement, industry leaders have been highlighting the emerging skill constraint. Many of the graduates, not only from the humanities but also from the engineering and science streams, need further training to acquire usable skills. India needs to ensure that the number of professionals turned out keeps increasing and, even more importantly, that there is no slackening of standards in education. With India aggressively pursuing the liberalisation of trade in services, it is necessary that the educational standards should be such as to enable Indian service providers to hold their own against the best in the world.

(b) *Construction, Housing and Real Estate*

Construction industry provides a large scope for direct and indirect employment of persons with a wide range of skills and also of unskilled persons; it employs over 30 million people and has been growing at over 10% per year over the last five years. It covers rural and urban infrastructure, roads, airports, sea-ports and commercial and residential buildings. Infrastructure development has been identified as a major thrust area emphasised through such projects as Bharat Nirman, Pradhan Mantri Grameen Sadak Yojana, National Highways Development Programme, Modernisation of Airports etc. Simultaneously, in housing we have a large unmet need and a growing demand due to growing working population and nuclear families. Availability of housing loans at low interest rates has stimulated this demand. Construction has great possibilities for creating employment which need to be fully exploited.

There are several constraints on land development in many states which need to be reconsidered. The most important of these arise from the Urban Land Ceiling Act which is still in operation in some states. Non-transparent land use policies, which are almost ubiquitous, also add to the problem. Urban Rent Control, high stamp duty and other transfer costs also restrict construction. State governments and Municipal Bodies should undertake a comprehensive review of such policies and amend necessary laws/regulations in line with the requirement of modern city development to formulate their Master Plans and Zonal Plans in a given timeframe. State governments should also make their rural/urban land-use conversion processes simpler and quicker.

The situation is aggravated by low investment in urban roads and rapid transport systems, which if developed can help disperse population and mitigate the high cost of urban properties. The issue of enlarging the scope of FDI in this sector has to be viewed in light of the fact that even in China nearly half the FDI inflows are in the housing sector alone. Investment in the sector can be stimulated if government and SEBI bring about refinements in the financial markets by developing sophisticated financial instruments, customised for real-estate sector.

(c) *Tourism*

The contribution of tourism services in the GDP for 2002-03 is estimated at 5.83% including direct and indirect effects. Tourism as the third largest net earner of foreign exchange earned some 6 billion US$ in 2005. Total employment, direct and indirect, generated by the tourism sector is estimated at 38.6 million for 2002-03, constituting 8.27 per cent of the total employment in the country. During the 11th Plan period, there is potential to generate 27 million additional jobs due to tourism.

To fully benefit from natural, cultural, business, leisure, spiritual, religious, ecological, adventure and medical tourism, the 11th Plan should focus on creation of adequate tourism infrastructure like modernisation and expansion of airports, increase in accommodation facilities under star and budget category and improved road connectivity to tourist destinations.

(d) *Retail Trade and Organised Retail*

Currently retailing in India is estimated to be a $200 billion or a Rs. 900,000 crore activity. Of this, organised retailing is a mere 3% in the form of various kinds of Shopping Malls (22 million Sq. ft. space), supermarkets (47), hypermarkets (36), discount stores (27), specialty stores (45), department stores (18), convenience stores (9) and e-tailing (9).

Retail trade and services provide employment to large number of persons. For many of hawkers, street vendors, etc. they are a source of livelihood that is open to almost anyone. While the bulk of retailing will continue to be in the small scale and informal sector, it must be recognised that modern. Organised retailing brings many advantages to producers and also to urban consumers, while also providing employment of a higher quality. Organised retailing in agricultural produce can set up supply chains, give better prices to farmers for their produce and facilitate agro-processing industries. Modern retailing can bring in new technology and reduce consumer prices, thus stimulating demand and thereby providing more employment in production.

Foreign direct Investment in retailing has been allowed to a limited extent and there is strong interest among foreign investors in being allowed to play a larger role, including in hyper markets and multi-brand retail stores. This is an area of policy where there are different views. We need to evolve a consensus keeping in mind the balance of advantages and disadvantages that exist with modern retailing with FDI in most other developing countries, including even China.

(e) *Entertainment and Media Services*

One of the sectors which has consistently outperformed the GDP growth year after year is the Entertainment and Media Services Sector which is expected to grow at a compound annual growth rate (CAGR) of 19% till 2010 and beyond during the 11th Plan period. This sector comprises Television (CAGR - 42%), Films (19%), Radio (1%), Music (2%), Print Media (31%), Live entertainment (2%) and Advertising (3%). It is a sector in which the demand grows faster than income. We can thus expect continued high growth. The 'convergence' of all forms of media to a common digital form, along with technological breakthroughs, provides scope for even higher growth. A facilitating policy environment needs to be created as the sector offers large scope for employment.

3.5 Infrastructure Development

Infrastructure inadequacies in both rural and urban areas are a major factor constraining India's growth and this was pointed out in the Mid Term Appraisal of the 10th Plan. A Committee on Infrastructure under the chairmanship of the Prime Minister was also established to define an agenda for action in this area. The Committee has identified an ambitious programme for infrastructure development which will cover the entire 11^{th} Plan period.

Preliminary exercises suggest that investment in infrastructure defined as road, rail, air and water transport, power generation, transmission and distribution telecommunication, water supply, irrigation and storage will need to increase from 4.6% of GDP to between 7 and 8% in the 11th Plan period. In other words, of the increase of 6 percentage points in total investment needed to accelerate from 7% growth to 9%, about half should be in infrastructure. This will place a heavy burden on the public sector which will have to invest more in this area.

Since public sector resources are scarce, an aggressive effort at promoting public private partnership in infrastructure development will be needed. PPPs will not be feasible in all types of infrastructure but they are feasible in some areas and these should be exploited. A number of initiatives have been taken in the last two years of the 10th Plan by both the Centre and the states to promote infrastructure development through public private partnership and the experience gained helps identify the conditions under which PPPs are more likely to succeed (see Box 1).

Box No. 1

Public Private Partnerships

Public Private Partnerships (PPPs) are increasingly becoming the preferred mode for construction and operation of infrastructure services such as highways, airports, ports etc., both in developed and developing countries. PPPs offer significant advantages in terms of attracting private capital in creation of public infrastructure as well as in improving efficiencies in the provision of services to users.

PPPs can be undertaken through a range of alternatives such as BOT, BOOT etc. They enable governments to transfer construction and commercial risks to the private sector which is best suited to manage them. However, considerable work is needed to create an enabling environment which should not only attract private investment but must also be seen to be in the public interest and this is best assured if the process is seen to provide services at reasonable cost and in a transparent manner. If we adopt best practices, it will be possible to create credible PPP projects that evoke a positive public response and do not require re-negotiation or payment of unforeseen liabilities by the government or the users.

PPPs are best implemented through standardised arrangements that constitute a stable policy and regulatory regime where private capital derives greater comfort and seeks the least possible risk premium. Model Concession Agreements (MCAs) would be used for providing a stable regulatory and policy framework. The MCA for PPP in highways has already been approved and published. Similar work is nearing completion in other sectors.

Because PPPs involve dealing with the private sector, they sometimes give rise to suspicion that corporate investors are getting a favoured treatment. Transparent processes and consultations with stakeholders combined with effective competitive bidding for PPP projects help in improving perceptions and enhance the acceptability of PPP projects. This approach also provides the requisite comfort to public servants who are responsible for awarding projects to private entities.

The key to making PPPs acceptable is to create an environment where PPPs are seen to be a way of attracting private money into public projects, not putting public resources into private projects.

(a) *Roads*

The 10th Plan stressed the need for improving mobility and easy accessibility. Accordingly, the National Highway Development Programme (NHDP) consisting of 4-laning of the Golden Quadrilateral [NHDP I] with a length of 5,846 km. and the North-South and East-West Corridor [NHDP II] with a length of 7472 km. coupled with Pradhan Mantri Gram Sadak Yojana (PMGSY) for rural roads were taken up. The PMGSY programme has been recently expanded to achieve the Bharat Nirman target of connecting 1000+ habitation (500+ for hilly and tribal areas) by 2008-09 with all weather roads. This programme will help bring India's villages into the market economy. Similarly the "Special Accelerated Development Road Programme for the North Eastern Region (SARDP-NE)", will help in developing and integrating these regions with the rest of the country.

Keeping in view the need for nationwide connectivity and mobility, it is proposed to undertake an expanded programme for highway development (See Box 2) going beyond NHDP I and II to include NHDP III to VII. This programme will involve substantial resources from public private partnerships based on build, operate and transfer (BOT) model which has many advantages over the traditional construction contracts (See Box 1 on PPPs). All contracts for provision of road services for NHDP Phase-III onwards would be awarded **only on BOT basis**, and the traditional construction contracts will be awarded only in specified exceptional cases. A model concession agreement has been developed to facilitate speedy award of contracts. This is a very significant innovation in the area of public-private partnership.

Box No. 2

National Highway Development Programme

The National Highway Development Programme (NHDP) approved by the Committee on Infrastructure is estimated to require a total investment of Rs.220,000 crore. Some of the projects in the programme will, however, spill over beyond 2011-12. Compared to an investment of Rs.59,490 crore projected for the Tenth Plan (likely actual of Rs. 51,000 crore), investment during the Eleventh Plan is likely to be Rs.180,000 crore. The programme has been divided in seven phases/ segments as indicated below:

Phase/ Segment	**Description**	**Length** (In km)	**Cost** (Rs. in cr.)
NHDP-I*	Golden Quadrilateral (GQ)	1,738	8,811
NHDP-II*	East West/ North South corridors	6,736	43,623
NHDP-III	4-laning of important sections	10,000	65,197
NHDP-IV	2-laning	20,000	27,800
NHDP-V	6-laning the GQ	6,500	41,210
NHDP-VI	Expressways	1,000	16,680
NHDP-VII	Bypasses, Ring-roads etc.	To be firmed up	16,680
Total		**45,974**	**2,20,000**

*Balance work only

The present traffic mix consisting of non-motorised and low-powered vehicles compels low speed. Furthermore most of the National Highways pass through habitations and ribbon development is a perennial problem. It is, therefore, necessary to establish a network of access controlled Expressways across the country for which advance planning would be undertaken during the 11^{th} Plan. The actual construction (except for 1000 kms already taken up) would be undertaken during the 12th Plan period and would be prioritised according to the density of traffic.

Vehicular traffic needs more than just the arterial routes to be of world-class. Adequate attention has not been given in the past to other roadways, which are the responsibility of the state governments. Priority would be accorded for ensuring integrated development of road networks including State Highways, Major District Roads and Other District Roads. The increased emphasis on rural roads would also continue and a major proportion of the 1.72 lakh unconnected habitations would be connected with all weather roads under the PMGSY.

The maintenance of roads has not been given adequate importance by the states mainly due to paucity of resources. This has resulted in poor riding quality of the road network which is highly uneconomic. A rupee spent on maintenance saves two to three rupees in vehicle operating costs, besides improving traffic flow. Keeping this in view, the 12th Finance Commission has recommended additional grants to the tune of Rs.15,000 crore for maintenance of roads and bridges for the four-year period 2006-07 to 2009-10.

The National Highway Authority of India (NHAI) has an enormous task before it to implement a road programme involving a total cost of over Rs. 220,000 crore. The Authority is being restructured to give it greater professional skills combined with a measure of autonomy and accountability.

Indian roads are considered very accident prone and claim a large number of casualties representing an enormous human and economic loss. It is proposed to establish a dedicated organisation for promoting road safety. One per cent of the cess is to be earmarked for safety-related measures.

(b) *Railways*

The 10th Plan laid emphasis on capacity expansion through modernisation and technological upgradation of the railway system, improvement in quality of service, rationalisation of tariff and improvement in safety and reliability of rail services. Significant progress has been achieved in the last two years of the 10th Plan - thanks to a remarkable improvement in productivity. This has enabled a quantum expansion in efforts at capacity augmentation. Yet capacity bottlenecks persist and containers pile up and congest ports for want of adequate capacity to move them. The Railways need to augment capacity particularly on critical routes such as Delhi-Mumbai and Delhi-Howrah for which dedicated freight corridors are to be constructed during the 11th Plan.

The opening of container movement by competing public and private entities is a major initiative that would not only be customer friendly but would also enable Railways to regain its market share lost to other modes of transportation. Other steps in the same direction would be the establishment of logistic parks and terminals, further rationalisation of freight structures and increased use of IT-enabled services. Railways will also undertake a major initiative in shifting to PPPs for building and operation of selected rail infrastructure. This will enable the Railways to undertake a much larger programme of capacity augmentation than what public finances alone would permit.

The pace of railway modernisation needs to be vigorously accelerated in the 11th Plan. A paradigm shift in provision and delivery of rail services is called for. World class transport services require provision of quality passenger amenities at terminals, introduction of modern rolling stock and improvement in overall sanitation. In the freight segment, the capacity of the rolling stock needs to be improved through appropriate changes in design of wagons and making them lighter to increase pay load to tare ratio. The Railways should also consider ways of reorganising its structure and activities so as to concentrate on the core activities of provision of infrastructure and operation. Manufacturing and maintenance of rolling stock should be corporatised as has been done in China. There is also scope for outsourcing other activities.

Rationalisation of passenger and freight tariff can also help in getting more freight traffic. Cross subsidising passenger traffic through freight traffic, and within passenger traffic cross subsidising second class fares by overcharging higher class of travel cannot be carried beyond a point because overcharged freight migrates to road and overcharged passengers to air. To put Railway fares on a rational basis it is essential to establish a Rail Tariff Regulatory Authority.

(c) *Ports*

Although there has been some improvement in the port sector during the 10^{th} Plan, this sector needs major expansion and modernisation to support the growth rates envisages for the future. The 11th Plan will develop ports and related infrastructure to bring them to international standards in turn around time and clearing of import and export cargoes. Keeping in view the present trend, it is estimated that the Indian Ports will have to handle cargo traffic of about 800 MT by 2012 as compared to 520 MT handled in 2004-05. This would require substantial capacity augmentation at major and minor ports. A deep sea port will be developed and drafts of existing ports will be deepened, where feasible, through capital dredging.

The bulk of capacity augmentation would be undertaken through public private partnership and captive users. This would necessitate that the framework for private sector participation is laid down in a clear and comprehensive manner (See Box on PPP).

Since adequate rail-road connectivity of ports with the hinterlands is of crucial importance, it would be improved on priority basis. The government along with other share holders such as Port Trusts and major users would also take up development of common user facilities.

(d) *Airports*

The acceleration in economic activity in recent years has led to a very rapid growth in air travel. Air transport traffic was earlier expected to grow at the rate of 16 per cent per annum, but during the last two years the actual growth rate has been in the range of 24-28 per cent. As a result, airlines are facing infrastructure constraints due to limited landing slots, inadequate parking bays and congestion during peak hours. In addition, there is considerable suppressed demand for domestic air travel because many regional domestic airports have not been upgraded.

The 11th Five Year Plan would lay emphasis on provision of infrastructure facilities at a much faster pace. The restructuring of Delhi and Mumbai airports is now underway and their modernisation is expected to be completed by 2010. Chennai and Kolkata will be developed next along lines that will incorporate lessons gained during award of contracts for Delhi and Mumbai airports. The greenfield airports in Bangalore and Hyderabad are already well on their way to commissioning. In order to meet the growth of traffic, greenfield airports would also be developed in other selected cities. In addition, 35 non-metro airports would be taken up for development by Airport Authority of India making use of both in-house capacity and public private partnership.

The development of Aeronautical Communication Navigational Surveillance and Traffic Management (CNS-ATM) services would be taken up on priority to improve the productivity and efficiency of airlines and airport operators. The performance of regulatory agencies such as immigration and customs would be improved by streamlining the procedure, training of staff and use of IT.

(e) *Electric Power*

Rapid growth of the economy will place a heavy demand on electric power and this is an area of weakness at present. Reforms in this sector have been under way for several years and they have brought about several important institutional changes which were needed to make the power sector efficient and more competitive.

- The Electricity Act 2003 is in place.

- The National Electricity and Tariff policies envisaged in the Act have been notified.

- Regulators are in place in the states and have issued a series of regulatory orders which are beginning to reduce the wide dispersion in electricity tariffs that have existed traditionally and to contain tariffs charged for industries.

- Many states have unbundled their SEBs into generation, transmission and distribution companies for better transparency and accountability.

Nevertheless, as mentioned in Chapter 1, shortage of power, and lack of access continues to be a major constraint on economic growth.

Utility based generation capacity is expected to rise by less than 30,000 MW in the Tenth Plan but we should plan for an increase by 60,000MW in the 11^{th} Plan to move to a comfortable situation consistent with a growth rate between 8 and 9% per annum. The 11th Plan must evolve policies that can ensure that generation capacity of this order is created in an efficient, least cost manner while emphasizing exploitation of India's hydro potential and nuclear capabilities especially in the field of fast breeder reactors. Establishment of new generation capacity and reducing cost of power will require action on many fronts:

i) Availability of fuel such as coal or natural gas for new power plants must be assured;

ii) A national consensus on royalty rates for fuels and compensation for host states also needs to be worked;

iii) Long term finance should be made available to lower capital charge;

iv) The presently provided guaranteed rate of post tax returns for CPSUs should be lowered to reduce cost of power and augment resources of state power utilities.

(v) An efficient inter-state and intra-state transmission system of adequate capacity that is capable of transferring power from one region to another;

(vi) An efficient distribution system which alone can ensure financially viable expansion;

(vii) Rehabilitation of thermal stations through R&M to augment generating capacity and improve PLF;

(viii) Rehabilitation of hydro stations to yield additional peaking capacity;

(ix) Improving supply side and demand side efficiencies to effectively lower primary energy demand by 5-7% during the 11th Plan period;

(x) Ensuring use of washed coal for power generation; and

(xi) Harnessing captive capacity to support the grid.

The greatest weakness in the power sector is on the distribution side which is entirely the domain of the States. Aggregate Technical and Commercial (AT&C) losses of most State Power Utilities (SPUs) remain high and have made SPUs financially sick and unable to invest adequately in generating capacity. For the same reason they have also had only limited success in attracting private investors to set up power plants.

The Accelerated Power Development and Reform Programme (APDRP) initiated in 2001 was expected to bring down AT&C losses to 15% by the end of the Tenth Plan. In fact, the average for all states is closer to 40% (including uncollected bills). However, there are encouraging success stories in loss reduction in a number of cities and small areas as a result of intensified management efforts. Some states, e.g. Tamil Nadu and more recently Andhra Pradesh, have shown a much better performance than the average. This gives hope and provides guidance on how to restructure APDRP, using technological tools such as smart metering and GIS mapping for real time, monitoring and accountability at each distribution transformer. State governments should adopt the goal of bringing down AT&C losses from the current level of around 40% to at least 15% by the end of the 11^{th} Plan. This can be done if managements of SEBs are professionalised and given autonomy of operation without political interference.

Half the country’s population is today without electricity and, indeed, without a consistent supply of any other form of commercial energy either. The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) is a key initiative providing electricity access to all households and actually connecting all BPL households. However, the success of this commendable effort depends critically upon adequate availability of electricity and actual electrification of all households. Mere access without supply of power will only add to frustration.

(f) *Coal*

Coal will remain the dominant primary source of commercial energy and total demand for coal is projected to increase from 432 million tonnes in 2005-06 to 670 million in 2011-12. The need for the power sector itself would increase by 180 million tonne taking the total to about 500 million tonnes in 2011-12. Meeting these demands poses a formidable challenge in increasing coal production. Coal India is currently aiming to increase production by an unprecedented 60% during the 11th Plan period inclusive of the recently approved emergency production plan. However, realistically speaking, this level of increase in output, together with the necessary rail infrastructure to move the additional coal production, may be difficult to achieve by Coal India alone.

Coal production is nationalised at present and private investment in coal mining is only allowed for captive mines supplying coal to designated sectors, power, steel and cement. Taking a longer term view of energy production there is a strong case for denationalising coal so that private sector investment can come into this crucial area. If petroleum, which is much scarcer than coal, is open to the private sector there is no reason why coal should not also be opened up, especially if we take a longer term view of energy constraints and also the need to absorb new clean coal technologies. Pending a consensus on this issue, every effort should be made to expand coal production through the route of captive mines. Large coal users, especially in the power sector, can be given available proven coal blocks for developing captive mines.

Preliminary estimates suggest that in addition to coking coal we may also need to import 40-50 million tons of superior grade thermal coal by the end of the 11th Plan. Thermal power stations on the Southern and Western coasts can be competitive using imported coal and the country's electricity requirement justifies such import. This would require necessary port handling capacity and coast based power generation capacity of around 12000 to 15000 MW to absorb the thermal coal imports.

Coal pricing and marketing also needs to be modernised. The e-auction route which has been opened recently has worked well, and has helped to nudge consumers towards more rational coal pricing. This window can be expanded over the 11th Plan. The method of pricing coal also needs to be rationalised by shifting to gross caloric value instead of useful heat value and by having more finely graded price bands.

(g) *Oil and Gas*

India will remain dependent on crude oil imports. Fortunately, the demand for petroleum products has grown at only 2.7% per annum in the first four years of the Tenth Plan. Consumption of petroleum products is likely to rise from 112 MT in 2005-06 to about 135 MT by the end of the 11th Plan with net crude oil imports reaching 110 MT. Gas consumption is forecast to rise to about 55 MTOE with imports reaching 20 MTOE unless the recent finds announced in the KG basin actually start flowing in significant quantities by the terminal year of the 11th Plan. This assumes that Naphtha based fertiliser production switches completely to gas by the end of the 11th Plan. The scope for trans-national gas pipelines needs to be explored from a longer term perspective, but no pipelines are likely to become available for this level of gas import during the 11th Plan. Thus LNG imports would need to rise to four times from the current level of 5 million tons.

The most important policy issue in this sector relates to pricing petroleum products. The recent increase in oil prices is now expected to persist for some years and although prices of some petroleum products have been raised the increase still leaves a large uncovered gap. This gap is being borne partly by the oil companies and partly by the issue of bonds by the government to the companies, which is equivalent to a government subsidy. Other critical issues facing the oil and gas sector relate to: (i) pricing of domestically produced natural gas and its allocation to the power and fertiliser industry; (ii) strengthening upstream regulation in the oil and gas sector; and (iii) ensuring competition and open access in the proposed pipeline transportation and distribution grid.

In the longer run, the only viable policy to deal with high international oil prices is to rationalise the tax burden on oil products over time, remove fat which may exist in existing pricing mechanisms which give the oil companies an excessive margin, realize efficiency gains through competition at the refinery gate and retail prices of petroleum products, and pass on the rest of the international oil price increase to consumers, while compensating targeted groups below the poverty line as much as possible.

The current method of determining prices for petroleum products on the basis of import parity needs reconsideration. India is deficient in crude oil but has developed surplus capacity in products. Product price entitlement should therefore be based on export parity pricing, which would be much lower than import parity. The 10% duty on products has been reduced to 7.5% which is a step in the right direction. There is a strong case for further reducing the duty on products to 5% to equate it with the duty on crude

(h) *Other Energy Initiatives*

More broadly, as we move into the 11th Plan, we need to take an integrated view of energy policy towards different energy sub-sectors. While the Central and State Sectors will continue to dominate the Energy sector in the 11th Plan, energy policy should not be determined sector by sector where the dominant public sector players often have significant vested interests. We need to move towards a more transparent policy framework that treats different sources of energy in a similar fashion. Such a framework must meet the following objective:

(i) Ensure energy competition in each sub segment of the energy sector and remove all entry barriers so as to realise optimal fuel and technology choices for extraction, conversion, transportation and end use of energy.

(ii) Ensure energy pricing that leads to efficient choice of fuel, inter-fuel substitution, and technology so that resource allocation takes place based on market forces operating under a credible regulatory regime. Thus, oil where imports exceed 70% of our consumption has to have trade parity pricing being linked to import parity or export parity depending upon whether we are surplus or deficit in the specific product.

(iii) Incentivise rational use of energy across all sectors including, agriculture, industry, commerce, domestic, personal transport, public transport and haulage.

(iv) Ensure an institutional framework that provides a level playing field to public sector and private sector players and provides comparable incentives to producers across all energy sectors.

(v) Ensure a consistent tax and regulatory structure across all energy sub-sectors. There is no reason why energy resource should be taxed much more than others unless there are some externalities involved.

(vi) Meet social objectives as far as possible through direct and tradable entitlements offered to those in genuine need.

(vii) Treat environmental externalities uniformly under the polluter pays principle.

A consistent policy framework embodying these principles would minimise distortions across sectors and maximise efficiency gains.

Institutions for promoting and forcing the pace of energy conservation and improvement in energy efficiency also need to be strengthened. Development and use of renewable and non-conventional energy sources have not progressed to the extent they could have. The 11th Plan will restructure incentives and support from supply driven programmes to demand driven programmes and technologies. It will also link subsidies and support to outcomes in terms of renewable energy generated, rather than to capital investments.

Available fossil energy resources must be optimally exploited using enhanced recovery techniques. Coal bed methane must be fully exploited and fossil fuel reserves enhanced through more intensive exploration. Renewable energy sources such as wind energy, bio-mass and bio-fuels account for a very small percentage of total energy but they could increase to between 2 and 3 percent in the course of the 11th Plan period.

The 11th Plan must also set up a robust energy R&D system to develop relevant technology and energy sources to enhance energy security and lead to energy independence in a cost effective way in the long run. A number of technology missions covering areas such as in-situ gasification, IGCC, solar energy, energy storage etc. are proposed to be launched. The scope for bio-fuels including extraction of ethanol from agricultural waste, using reported advances in technology, needs to be vigorously explored.

(i) *<u>Urban Infrastructure</u>*

Rapid economic growth will inevitably lead to an increase in urbanisation as cities provide large economies of agglomeration for individual activity. Unfortunately, the state of urban infrastructure in the country has deteriorated to an extent that we are not able to fully benefit from these economies. Poor urban infrastructure inflicts a severe hardship on people. Congested roads, poor public transport, inadequate availability of water, improper treatment of sewage, uncollected solid waste and above all grossly inadequate housing that forces more than 50% of our population in some metropolis to live in slums, all these severely decrease the quality of life and lower the well being of urban population. They also affect the investment climate since India cannot expect to make a favourable impression on foreign investors and the international business community generally, if India's cities appear to be falling behind those in other developing countries.

In order to cope with massive problems that have emerged as a result of rapid urban growth, the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched by Govt. on 3rd December, 2005 for a seven year period beginning 2005-06. It envisages urban renewal projects in a mission mode approach. The mission envisages providing focussed attention to integrated development of infrastructural services in 63 selected cities to secure effective linkages between asset creation and asset management, to ensure adequate investment of funds to fulfill deficiencies, to scale up delivery of civic amenities on universal access to urban poor and to encourage planned development of cities.

The 11^{th} Plan will have to make substantial provision of funds under the JNURM (See Box 3) if the momentum of urban reform linked to infrastructure creation really takes off as we hope.

Box No. 3

Jawaharlal Nehru Urban Renewal Mission

The scheme involves a total allocation of Rs. 50,000 crore by the Central government in the form of ACA Grant to states/UTs. The state would be provided Additional Central Assistance (ACA) in the form of 100% grant as a %age of project cost ranging from 35% (for Mega Cities) to 90% (for NE states). In order to ensure outcomes, the state has to prepare city development plans, detailed project reports and sign MOA indicating milestones for implementation of reforms, with the Ministries of Urban Development and Urban Employment and Poverty Alleviation to access the funds from the Central government.

At the end of the 11th Plan, all mission cities would achieve the following:

(i) Modern and transparent budgeting, accounting, financial management systems, designed and adopted for all urban services and governance functions.
(ii) City-wide framework for planning and governance will be established and become operational.
(iii) Access for urban residents to a basic level of urban services.
(iv) Financially self-sustaining agencies for urban governance and service delivery.
(v) A women friendly environment by ensuring proper lighting, better transportation and adequate safety measures.
(vi) Transparency and accountability of local services and governance to citizens.
(vii) E-Governance applications in core functions of ULBs/Parastatals resulting in reduced cost and time of service delivery processes.

(j) *Telecom and Connectivity*

India has witnessed an impressive telecom revolution during the last decade. From one of the highest telecom charges in the world, India has moved to one of the lowest telecom charges. During the last two years, we have been adding on an average 3 million mobile connections per month, with private operators playing a major role. The tele-density presently stands at 14.4 with major contribution coming from tele-density in urban areas. The 11th Plan must ensure continued expansion in this important area, especially in rural areas, so that the gap with other countries is reduced.

In addition to telephone connectivity, which is predominantly used for voice, we also need to establish internet connectivity for data. Access to the internet in urban areas increased significantly due to its affordability but it is still low and in rural areas it is negligible. We need to make special intervention to connect rural areas and develop a strategic plan to carry text, data and video to make rural telephony a viable proposition.

The new wireless technologies (such as 3G-GSM or CDMA, Wi Fi and Wi Max) now provide various last mile connectivity options for different range of distances. It is, therefore, imperative that the traditional fixed line voice telephone connectivity is augmented or supplemented using latest wireless technologies for last mile connectivity. Government of India through the State Wide Area Network (SWAN) Programme has provided connectivity to 6000 block headquarters on fibre. Wireless technology options could be used for providing last mile connectivity to every village from the block headquarters. Andhra Pradesh proposes to connect every village on fibre and provide gigabit connectivity. These options need to be examined to arrive at the best option for the country.

3.6 Financing Development

Accelerated growth involves expansion in investment, economic restructuring of existing enterprises as they gear themselves up to face competition, and encouragement to new entrepreneurs responding to opportunities. All this is possible only if expansion and restructuring can be effectively financed. The macroeconomic feasibility of the strategy proposed in this paper in terms of aggregate domestic savings has been discussed in Chapter 2. The specific problems of financing the public sector plan are discussed in detail in Chapter 6. The third pillar is the financial system and its ability to intermediate savings to potential users.

One of India's strengths is that it has a financial system comprising commercial banks, non-bank financing organisations, capital market institutions and insurance and pension funds. Indian skills are evident in financial markets and institutions all over the world. It is essential that we continue to strengthen the financial system and support its development through a combined effort at improving the regulatory system in line with international best practices and liberalising the system to encourage competition. This liberalisation should include an increased role for foreign financial institutions in the domestic market and a carefully calibrated opening of the economy to international capital markets.

This is the approach followed thus far and it has generally succeeded in ensuring systemic stability while also allowing financial development. As we gain confidence in systemic stability, we can be more ambitious in encouraging new developments. Several aspects of the strategy outlined in the Approach paper call for innovation. The need to manage risks of various types calls for new insurance products. As Indian corporates acquire positions abroad, they will need to hedge themselves against different risks. The massive investments needed in infrastructure will require innovative methods of financing and unbundling of risks. The need to encourage innovation and new entrepreneurship will require encouragement of venture capital funds.

Our financial policies must be sufficiently flexible to support all these initiatives.

3.7 Environmental Sustainability

Population growth increases the environmental load irrespective of the rate of economic growth. Rapid economic growth can intensify environmental degradation. The solution does not lie in slowing growth since slow growth also leads to its own form of environmental deterioration. With rapid growth we can have the resources to prevent and deal with environmental problems, but we must also ensure that rapid growth is environmentally benign. This can be achieved through greater awareness, starting with school children, and appropriate policies. The 11th Plan must integrate development planning and environmental concerns, providing the use of economic instruments based on the polluter pays principle, supplemented by command and control policies where these are more appropriate.

(a) *Improving Air and Water Quality*

Real time monitoring of air and water quality is crucial for devising programmes and policies related to pollution management. The existing 300 monitoring stations for air and 850 for water quality need augmentation in number and technology. Establishing a reasonably adequate monitoring network with contemporary technology will be a priority.

The objective of river cleaning is to restore the water quality of all the major rivers to the designated best use which is the 'bathing class' (category B). We are very far from achieving this objective. The National River Conservation Plan needs a critical review of the present strategy of central assistance to states for creation of facilities. Sustainability and operational issues remain unresolved in most cases. Ways of linking treatment of sewage and industrial effluents to the urban and industrial development planning need to be worked out. The goal should be to ensure that by the end of the 11th Plan no untreated sewage or effluent flows into rivers from cities and towns. Studies on minimum essential flow in the rivers and plans to maintain it must be drawn up. This should include workable mechanisms to expedite solution of water sharing problems between states.

The demands of river cleaning increase with population and expansion of townships and success depends on the efforts of all stakeholders. Civic bodies should have a pivotal role to play in this context. This must be ensured through policy/legislative means. The impact on water quality of the "Water Quality Assessment Authority (WQAA)" constituted in June 2001, in different states is yet to be ascertained. A workable mechanism will be developed for monitoring and early warning systems for improving water quality.

(b) *Solid Waste Management*

The increasing generation of solid waste is a growing problem in all cities. Uncollected garbage is not only visually ugly, it also causes diseases. Dumping garbage into landfills is not an attractive option in our land scarce cities and should be minimised. Most industrial countries now require their citizens to segregate wastes at home into recyclable products. While recycling is done by rag pickers in India, their lives can be made less unpleasant if citizens sort out organic and inorganic waste and dispose of organic waste in local compost or vermiculture pits.

Cities and towns must be encouraged to evolve systems with citizen participation, for segregation of waste at point of origin, maximising recycling and safe disposal of the rest.

(c) *Preservation of Wildlife and Bio-diversity*

Management planning for the Protected Areas will be a priority and each sanctuary/national park will be enabled to maintain a database of vital information on its biodiversity and habitat status.

Important wildlife habitats of the country will be conserved and protected with participation of people. While an interface with communities will be developed, communication and surveillance of forests and wildlife will be augmented through Integrated Forest Protection scheme of MoEF.

People living in deep forests will be encouraged to shift to fringes voluntarily for providing inviolate space for wildlife. To facilitate this process, an appropriate programme including provision for livelihood opportunities will be formulated as suggested by the Tiger Task Force.

d) *Mitigating Land Degradation Through Green Cover*

Overuse of resources has been identified as a major cause of land degradation. Creation of forest/biomass resources in all the culturable vacant lands will be taken up for strengthening life support system of communities and maintaining soil/water regimes. A programme for social forestry will support development and sustainable management of the common property resources through Panchayati Raj Institutions.

Encouraging agro/farm forestry and building interface between industry and farmers is an important strategy suggested in the National Forest Policy 1988. An enabling environment will be created for encouraging tree growing by farmers. Subsidised supply of raw material to industries from government forests will be discouraged. Domestic and international trade of the farm forestry produce by support price mechanisms and exim/tariff regulation will be considered. Forest management will be encouraged to withdraw from raising farm forestry plantations in government forests to provide better market opportunities to the farmers.

(e) *Increasing the Green Cover*

Satellite data for 2002 indicate green cover of 23.68%, representing a net improvement of 0.65% since 2000. This is a welcome development and if the trend continues, the 10th Plan target of 25% will be fulfilled by 2007. However, it is a matter of concern that the quality of green cover has deteriorated. There has been a 6.3% reduction in dense forests indicating degradation. State forest management would need to work for attaining productivity potential of the forests. Timber and non-timber benefits must be optimised with adequate investment for regeneration. The Eleventh Finance Commission has also supported this cause through grants-in-aid for forest maintenance.

Joint Forest Management (JFM) evolved in 1990s aimed at involving communities in improving degraded forests. This was largely based on benefit sharing. It failed where the forests managed by the communities were so degraded that no significant benefits accrued to the communities. However, there was success in places where leadership was in the hands of highly motivated individuals and significant benefits could be generated. Certain aspects of empowerment, reciprocal commitment for protection and sense of ownership remain to be strengthened in JFM.

The 10th Plan proposed universalisation of JFM. In the 1.70 lakh villages in the vicinity of forests, 99708 JFM Committees were formed till 2005 against about 62890 in the beginning of the 10th Plan. The emphasis in the 11th Plan will be on consolidation of JFM through augmenting productivity and linking forests with livelihood and gainful employment generation. Management of NTFP for value addition and link to markets will need to be organised for better returns to the communities.

Among the initiatives to be pursued in the 11th Plan are the following:

- Encourage PRIs to revive common property resources through social afforestation.
- Rationalise forest regulations to allow industry to partner farmers in undertaking agro-forestry for augmenting the raw material base for forest based industries like paper & pulp.
- Encourage the corporate sector to participate in development of degraded land for forestry, without compromising communities priorities.
- Rationalise rules and procedures under environmental laws to expedite investment, production and employment growth.

f) *Environmental Clearances*

As we put in place a policy of environmental protection, we must also pay attention to the danger of creating a new license permit raj system which will replicate all the ills associated with the old licensing regime. A comprehensive review of environmental clearance procedures is necessary to ensure that the system is transparent and avoids unnecessary delay. Unless this is done, the large increases in investment required for accelerated growth will not fructify.

4. STRATEGIC INITIATIVES FOR INCLUSIVE DEVELOPMENT

Along with sectoral policies aimed at improving livelihood support and increasing employment, a strategy of inclusiveness and broad based participation in the development process calls for new emphasis on education, health and other basic public facilities. Inadequate access to these essential services not only directly limits the welfare of large sections of our population, but also denies them the opportunity to share fully in the benefits of growth. Indeed by limiting the quality of human resource development, it limits the growth process itself.

4.1 Empowerment Through Education

Education is the most critical element in empowering people with skills and knowledge and giving them access to productive employment in the future. The 11th Plan should pay special attention to this area. An ideal we should strive for is that all children should be able to get as much education as they are capable of getting, irrespective of their parents' ability to pay.

a) *Elementary Education: Sarva Shiksha Abhiyan (SSA*)

A major step was taken in 2004-05 to ensure effective funding of elementary education by the levy of 2% Education Cess earmarked for the Sarva Shisha Abhiyan which aims at useful and relevant elementary education to all children in the age group 6-14 by 2010. It also aims to bridge all social, gender, and regional gaps with the active participation of the community in the management of schools.

There has been considerable progress in enrollment and near 100% enrollment of 6-14 year olds is likely to be achieved by the end of the 10th Plan. Enrolment, however, is only the first step. The children must also complete eight years of useful and relevant school education and this remains a problem since the drop-out rate in primary schools for the country as a whole was around 31% in 2003-04. For some states it was much higher. This has to be reduced sharply, if not eliminated altogether, for both genders and all social groups.

The management of schools has to move from a highly centralized system to a more decentralized system based on local school management committees of parents and other educationally inclined people in the neighborhood accountable to the local self government. However, making available ICT solutions, shared management personnel, and management skills in order to enable the school management committees will be crucial.

One of the main tasks before Sarva Shiksha Abhiyan (SSA) is to make school a more attractive, interesting, and a joyful place. The goal should be for all schools in India to have physical infrastructure and quality and level of teaching equivalent to Kendriya Vidyalayas, and the 11th Plan must make significant progress toward this goal.

High drop-out rates are a result of combination of factors. A school that is far away, one that does not function regularly, a teacher that is engaged in non-teaching work or is just not there, a method of teaching that fails to hold the attention of the child and fear of the teacher are factors that contribute heavily to dropping out. Often the need for children of poorer families to work also drives children to become workers. With the Employment Guarantee Scheme adding to family income, these pressures should reduce. Dropping out to take care of younger siblings may also reduce as working mothers will have crèche facility for their children at the work site. However, work of many NGOs around the country in the rural and the urban has shown that child workers can be mainstreamed into education through camps that hook them on to good education after withdrawing them from work. In extreme cases, well run residential schools in regions of extreme poverty succeed in keeping the children from living on the streets or railway platforms or joining the work force prematurely.

The Mid Day Meal Scheme can help increase attendance and also improve the children's nutritional status through micro nutrient supplementation. It also helps to remove caste barriers as all children will sit together for their meals. Involvement of stakeholders, like mothers of children who attend the school, in the preparation of midday meals, can ensure quality of meals. Mothers' Cooperatives may be given the task. The management and supervision mechanisms need to be improved and changes in the nutritional status of the children covered under the programme should be monitored. School health programmes should be revived and converged with MDMS and the MDMS itself merged with the SSA.

The most difficult task is to ensure good quality of instruction and the position in this respect is disturbing. A recent study[2] found that 38% of the children who have completed four years of schooling cannot read a small paragraph with short sentences meant to be read by a student of class 2. About 55% of such children cannot divide a three digit number by a one digit number. These are indicators of how bad things might be in the learning of other school subjects. The 11th Plan must pay special attention to this problem. Several states have started experimenting with efforts to raise the basic skills in a campaign mode. Their experiences should be evaluated. Creating a set of national testing standards and preferably a chain of institutions that test and evaluate children according to set norms will help in the direction of improvement of learning as clear goals will be set.

There are several obvious causes for poor quality of learning. There is inadequacy of teachers as reflected in large vacancies and their quality, accountability and motivation is also low. Teacher absenteeism is a major problem in many areas. Teacher training is also inadequate. Authorising panchayats and citizen's education committees to oversee teacher performance can help increase accountability.

A more powerful method of enforcing accountability is to enable parents to choose the schools where they will send their children. Enabling people to choose between available public or private schools (by giving them suitable entitlements reimbursable to the school) and thus creating competition among schools could be considered. The experiment could be tried in pilot schemes. The extent of learning should be monitored by regular testing by independent bodies. This will also help in

[2] Annual Status of Education (ASER) –Rural 2005 facilitated by Pratham

rating schools which is important for enabling parents to exercise their choice about their child's school.

Schools impart not just education in its narrow sense but, more broadly, also mould the child's attitudes. Gender sensitivity and health education should be included in the curriculum at the elementary stage itself for developing the child's basic attitude. To check the skewed sex ratios and stop violence against women, gender sensitisation has to begin early and beliefs about inferiority and superiority of sexes culled right from childhood.

Schooling is, but one element of a child's development. To give every child a good start in life, child nurture is important. The 11th Plan must evolve a policy towards children based on "Starting Right" (See Box 4).

Box No. 4

Child Nurture – Starting Right

Development of children is at the center of the 11th Plan. We are committed to ensure that our children do not lose their childhood because of, work, disease or despair. We aim to give the right start to children from 0-6 years with effective implementation of the ICDS programme. It is to be a community based programme involving parent groups. The nutrition component has to have imaginative menus based on seasonal and regional variations. The scheme will nurture and strengthen pregnant and lactating mothers.

Currently, the pre-school component of ICDS centers is very weak. Early Childhood Education (ECE) could be placed under the SSA. The ICDS centers then will concentrate on inculcating good health and hygienic practices among the children. For this it will be essential that these centers have toilets and drinking water. The play itself could introduce children to local poetry/folk tales which are often missing from school curriculums. For this purpose, the elders of the community could be asked to visit the children on a weekly basis. This will serve the dual purpose of enriching the child and making the elderly feel part of the educating process.

b) *Helping Disadvantaged Children*

Efforts will be made to identify and mainstream street children, differently abled and other disadvantaged children. Children from socially disadvantaged families often have learning difficulties as among other things their vocabulary is limited. Special help in pre-primary schools can help them overcome this handicap. Information and Communication Technology (ICT) has a great potential for enhancing learning levels and improving quality of education. Public private participation is envisaged in operating ICT in schools through appropriate models acceptable to the states. The pre-school education component of ICDS-Anganwadi is very weak and enrolment of under-age children and the repetition rate in primary classes is, therefore, quite high. Therefore, SSA shall have a separate component for at least one year Early Childhood Education (ECE), which in a phased manner shall be universalised.

c) *Secondary Education*

As we ready ourselves for the knowledge economy, we cannot be satisfied with universalisation of primary education. A person with a mere 8 years of schooling will be as disadvantaged in the knowledge economy dominated by ICT as an illiterate person is in modern industry and services. The 11th Plan should therefore aim at a progressive rise in the minimum level of education towards high school level or Class X. The general education strategy will therefore have to be built on a long term perspective for improving the quality of basic education upto Class X and providing access to all children in the age group of 6-16 to this level. In any case, the demand for secondary education will expand significantly as SSA reaches its goal of universal and complete elementary education. A new mission for secondary education, SSA-2 to cover upto class X, will need to be put in place in the 11th Plan.

The needed expansion of secondary education will require not only public but also private effort. At present, private aided and unaided schools account for 58% of the total number of secondary schools. The striking feature is that their proportion is actually increasing at a faster pace than public funded schools, mainly because the state governments have nearly stopped increasing funding of public secondary schools and aided schools. The 11th Plan must evolve strategies for secondary schooling that will emphasise the primacy of public responsibility for providing secondary schooling but also allow scope for private schools to expand if they complement the public effort.

There is a feeling that voucher schemes can help promote both equity and quality in schooling in areas where adequate private supply exists, provided that this is combined with strict requirements on private schools to give freeships to students in economic need. However, government must ensure that public schools are available to provide competition to private schools and of course in areas unserved and underserved by private schools. Special efforts must be made to cater to the educational needs of SCs/STs, minorities and girls whose enrolment depicts a wide gap.

Extension of secondary education in rural areas poses a special challenge since secondary schools cannot be set up in every village. They must serve a cluster of villages. There is perhaps a case for combining upper primary with secondary school education once secondary schools are established in sufficient numbers.

d) *Technical/Vocational Education and Skill Development*

With rapid expansion of information technology, schools will focus on vocations in the tertiary sector, requiring limited infrastructure, in areas such as IT, insurance, banking, tourism and retail trade. For more intensive training the industrial training institutions (ITIs) will be increased in number. More importantly, the scope and content of the training they provide must be made relevant to the needs of industry and available jobs by involving industries and industrial associations in running them. The number of skills for which training is provided must be increased hundred fold, from 40 at present to closer to 4000 as provided in China.

Data collected in 60th round of NSS shows that only 3% of the rural youth (15-29 years) and 6 per cent of the urban youth have gone through a formal course of vocational training of any kind. Most of them have acquired the skills they have from taking up or changing employment. Therefore, the principal planning issue will be how to expand vocational training from the present capacity of a mere 2 to 3 million to 15 million new entrants to the labour force. The 11th Plan must pay special attention to devising innovative ways of modernising the Industrial Training Institutes (ITIs).

Since 2004 an effort is being made to identify and implement the reforms in administration of ITIs so as to facilitate better interaction with the industry. To begin with one hundred ITIs have been taken up. However, much more needs to be done. The system at present is still run like a government department, a position that is not up to the demands of a knowledge economy. It is necessary to give true financial and administrative autonomy to the ITIs that are formally registered societies. These ITIs should be run by independent qualified professional Heads whose performance is measured by the placements/income improvements of the passing out trainees and who are accountable to boards consisting of stakeholders, such as user industries and public spirited citizens in the locality. A new initiative at Public Private Partnership that will give a choice to the industry in design of courses and to the youth in selecting courses needs to be taken.

Vocational training for both men and women shall be accorded top priority in the 11th Plan, to be treated as an industry to attract investment into it. So far the private investments have come in only for the higher wage skills– IT, airlines personnel, fashion technology, etc., or the skills linked with government jobs – teachers, instructors, etc. These private training institutes are themselves present mainly in larger towns. Smaller towns that provide avenues for advance for rural youth have concentrated mainly on academic education or college education.

The possibilities in agro-processing are increasing. However, there is little or no training in processing of agricultural or forest produce, which is closer to home for many youth who will not be able to enter the industrial sector. There are many schemes with known technologies within the government that need to be taken to the youth through short courses that can be useful. Starting agricultural schools with a strong agro-processing, irrigation, soil conservation, and forestry/ gardening components should be one of the goals of the 11th plan.

To reach out to rural youth skill development should be treated at par with school education in allocation of government resources. An initiative at block level infrastructure for vocational training will be taken. Vocational training should be given priority at par with secondary education in allocating public sector financial and physical resources – land and other supportive services.

e) *Higher Education*

India has a well developed higher education system which has served us well thus far, but is now subject to serious strain. The extent of access it provides is limited. Only about 8% of the relevant age group go to university whereas in many developing countries, the figure is between 20 and 25%. There is clearly a need to undertake major expansion. There is also a serious problem of quality. While some of our institutions of higher education compare well with the best in the world, the average standard is much lower. Disturbingly, the high quality institutions are finding it difficult to get faculty of suitable quality given the enormous increase in opportunities in the private sector for many of the skills most in demand. The 11th Plan must undertake a major effort to expand capacity in our institutions while also improving quality. Unless this done, we will run into skill constraints which will limit our ability to exploit this important area of competitive advantage?

New colleges and universities must be set up, to provide easier access to students in educationally backward districts. Existing institutions must be strengthened and expanded where possible and open and distance education encouraged. In addition, a specific plan for upgrading a few "existing" select universities with "potential for excellence" will be formulated laying down specific parameters which are in tune with global standards. At least 20 universities, with the potential for excellence, may be upgraded in the 11th Plan period.

The recent decision to extend reservation for OBCs in central educational institutions has highlighted the issue of inadequate capacity for non-OBC non-SC/ST students in high quality institutions. The government has assured that there will be sufficient expansion in the total number of seats to avoid any reduction in seats available for non-OBC non SC/ST students. This expansion is long overdue. In fact, the 11th Plan should aim for expansion over the medium term which would allow expansion even for the general category.

The 11th Plan must address this challenge on a priority basis in a manner which ensures that general quality will not be compromised. It must address simultaneously the issues of increasing enrolment in universities and colleges especially the high end institutions like the IITs and IIMs, the problems of varying standards, outdated syllabi, inadequate facilities, and most of all the need to create an environment that will attract top class faculty. This will require a complete revamp of existing systems in many respects.

Achievement of these objectives will require a substantial increase in resources devoted to this sector and successive annual plans will have to provide rising levels of budgetary support. However this must be accompanied by internal resource generation by duly and realistically raising fees. Simultaneously, efforts will be made to develop a wider merit-cum-means based loan and scholarship programmes through the banking system and other agencies.

Access to high quality institutions is extremely important for equity since they provide opportunities for the poor and socially disadvantaged to advance themselves. However, the ability to benefit from higher education is effectively determined at the school level. Unless the access of all groups to high quality schooling is improved, they will remain at a disadvantage even if they get access to higher education, because they will not be able to do well at later educational stages.

Admission to a college or a university is often the factor that limits the opportunities to a student. The number of faculty and the available infrastructure is a restricting factor. However, in an open university system this is not a limiting factor.

Until we develop larger network of well provided for colleges, or even as a system itself, the open schooling program should be strengthened and expanded. In case of subjects that do not require laboratory work, pre-recorded selection of lectures, tutorials, and standardized tests available at internet kiosks which the student can access at will, can be helpful. Testing and examination centers where students can take standardized examinations in parts can reduce the pressure. But, for this autonomous institutions charged with the responsibility of testing and examination will have to be developed. The 11th plan should pay attention to creation of high level of electronically available content and testing mechanisms so that the pressure of infrastructure can be reduced.

f) *Adult Literacy Programmes*

The 10th Plan target of attaining 75% literacy rate is likely to be achieved by 2007. Therefore, the Dakar goal of halving the illiteracy rate by 2015 is likely to be achieved ahead of the target period. However, bridging of regional, social and gender gaps will continue to be major areas of concern.

The 11th Plan should aim to increase adult literacy to 85% by the end of the Plan. There are 30 crore illiterates of whom a significant proportion is not covered under any adult education programme. A programme will be framed for the older age group (35+) also using the new computer based self-learning system which has been found to be very effective. Literacy programmes cover 598 out of 600 districts in the country. The Mid-term Appraisal of the 10th Plan pointed out the need for merger of various adult literacy programmes including the Total Literacy Campaign. The quality of NGOs initiating the various programmes will be assessed through regular monitoring, and Central and state governments will evolve an accreditation process.

Adult literacy that we measure today is not an adequate measure of the level of functional literacy that is required in the new millennium. We must rededicate ourselves to a much higher level of literacy through continuing education programs. The 11th plan should create workable models of continuing education as a separate stream.

g) *The Cutting Edge: Science and Technology*

In the current knowledge era, our development depends crucially on innovative solutions provided by Science and Technology. Capabilities in S&T therefore are justly reckoned as reliable benchmark for establishing the status of the development of a nation. India must occupy a frontline position in this listing. The 11th Five Year Plan approach to S&T will be guided by this context. The emphasis will be on:

(i) Substantially stepping up support to basic research and setting up a National Level mechanism for evolving policies and providing direction to basic research.

(ii) Enlarging the pool of scientific manpower and strengthening the S&T infrastructure. Focused efforts will be to identify and nurture bright young students to take up higher studies for pursuing scientific research as a career.

A concomitant requirement for this is restructuring and revamping the universities and improving the service conditions of the scientists.

(iii) Implementing selected National Flagship Programmes which have direct bearing on the technological competitiveness of the country in mission mode so that India achieves a leadership position in some high technology areas.

(iv) Establishing globally competitive research facilities and centers of excellence. Kindling innovative spirit so that scientists translate R&D leads into scalable technologies which yield wealth generating products and processes. Attention will be paid for evolving new models of public-private partnerships.

(v) Identifying ways and means for catalysing Industry-academia collaborations for development, application and flow of technologies from lab to the market place and for the industry to invest more in strengthening national S&T infrastructure.

(vi) Promoting strong linkages with other countries in the area of Science and Technology including participation in mega international science initiatives.

(vii) Evolving an empowered National Science and Technology Commission responsible for all matters relating to S&T (Administrative, Financial, Scientific) including scientific audit and performance measurement of scientists and scientific institutions.

4.2 A Comprehensive Strategy for Better Health

The 10th Plan aimed at providing essential primary health care, particularly to the underprivileged and underserved segments of our population. It also sought to devolve responsibilities and funds for health care to PRIs. However, progress towards these objectives has been slow and the 10th Plan targets on MMR & IMR have been missed. Rural health care in most states is marked by absenteeism of doctors/health providers, low levels of skills, shortage of medicines, inadequate supervision/monitoring, and callous attitudes. There are neither rewards for service providers nor punishments to defaulters. As a result, health outcomes in India are adverse compared to bordering countries like Sri Lanka as well as countries of South East Asia like China and Vietnam (see Table 8).

Table 8: ***India and Comparator Countries***

	India	Sri Lanka	China	Vietnam
Infant mortality (per 1000 live births)	60 (2003)	13 (2003)	30 (2003)	19 (2003)
One year olds fully immunised for measles (%)	58.0 (2002-04)	99 (2003)	84 (2003)	93 (2000)
Population with sustainable access to improved sanitation (%)	30 (2002)	91 (2002)	44 (2002)	41 (2002)
Under-five mortality (per 1000 live births)	87 (2003)	15 (2003)	37 (2003)	23 (2003)
Births attended by skilled birth attendants (%)	47.6 (2002-04)	97 (1995-2003)	97 (1995-2003)	85 (1995-2003)
Maternal mortality (per 100,000 deliveries)	407 (adjusted 2000)	92 (adjusted 2000)	56 (adjusted 2000)	130 (adjusted 2000)

The health care delivery system needs oversight /stewardship at all levels. It requires both strong policies and institutions. However, given our socio-cultural and economic diversity, interventions have to be evidence based and area specific.

Past shortcomings notwithstanding, we can reach the Millennium Development Goals for IMR and MMR by the end of the 11th Plan. However, this will require action on many fronts- enabling pregnant women to have institutional deliveries and receive nutritional supplements; connecting PHCs and CHCs by all weather roads so that they can be reached quickly in emergencies; expanding access to clean drinking water; and improving sanitation.

To improve the primary health care system, the Eleventh Plan will initially lay emphasis on integrated district health plans and later on block specific health plans. Those plans will ensure involvement of all health related sectors and emphasise partnership with NGOs.

The Plan will take care of the special needs of people living with AIDS, in particular given the feminine face of HIV, the women. This is recognised and will be given highest priority.

a) *National Rural Health Mission*

A seven year National Rural Health Mission (NRHM), which spans the duration of the 11th Plan, has been launched to address infirmities and problems across rural primary health care (See Box 5). One objective of the mission is to co-opt and converge the public health approach into primary health care. Another objective is to genuinely empower and support Panchayati Raj Institutions to manage, administer and be accountable for health services at community levels. Supervision of health sub-centres by gram panchayats will improve attendance of staff, motivate appropriate quality of care and provide constant feed-back on patient satisfaction. The NRHM will also converge the management of health delivery across all systems of medicine (including ISM) at primary health care levels.

Box No. 5

The National Rural Health Mission

- The National Rural Health Mission is expected to address the gaps in the provision of effective health care to rural population with special focus on 18 States, which have weak public health indicators and/or weak infrastructure.
- The Mission is a shift away from the vertical health & family welfare programmes to a new architecture of all inclusive health development in which societies under different programmes will be merged and resources pooled at the district level.
- It aims at effective integration of health concerns with determinants of health like safe drinking water, sanitation and nutrition through integrated District Plans for Health. There is a provision for flexible funds so that the States can utilise them in the areas they feel important.
- The Mission provides for appointment of Accredited Social Health Activist (ASHA) in each village and strengthening of public health infrastructure. It emphasises involvement of the non-profit sector, especially in the under served areas. It also aims at flexibility at the local level by providing for untied funds.
- The Mission, in its supplementary strategies, will aim at fostering public-private partnerships; regulating the private sector to improve equity and reduce out of pocket expenses; introducing effective risk pooling mechanisms and social health insurance; and taking advantage of local health traditions

At present the health care system suffers from a severe shortage of trained personnel. Across states 6% to 30% posts of doctors remain vacant and random checks showed that from 29% to 67% doctors were absent. This problem of unavailability of doctors can be redressed if we mobilise doctors who are trained under Indian Systems of Medicine (ISM). Currently, there is no sustained dialogue between the two systems of medicine. There are close to half a million institutionally qualified ISM practitioners, not included in the public sector supported primary health care (except for 40,000 employed by government). The trained ISM practitioners represent a valuable human resource at village and block levels. This could be leveraged and co-opted into providing primary health care. Kerala has fully combined the administration and delivery of the Modern and Indian Systems of Medicines, with outstanding outcomes in terms of access and quality of care. Himachal Pradesh is following the same route. The scope for generalising such experiments needs to be explored.

b) *Financing Health Services*

In order to energise health systems for improving health outcomes, innovative financing mechanisms are critical. Publicly supplied health care depends on how health care providers are paid. Providers should be paid only if they actually perform a service or otherwise satisfy the customer (the patient or the village health committee). Fees for health services delivered will encourage accountability.

A system of private-public partnership could be experimented with. Some states have such systems. We should explore an entitlement system for pregnant women to have professionally supervised delivery. This will empower them to exercise choice, as well as create competition in the health service sector. Contracting out of well specified and delimited projects such as immunisation can help enhance accountability.

Global experience has shown that private health insurance is characterised by serious market failures. Community Based Health Insurance (CBHI) is emerging as a promising concept. CBHI initiatives coupled with social mobilization will improve the quality of health care and expand the health care interventions as per requirements.

c) Clean Water for All

Clean drinking water is vital to reduce the incidence of disease and also to reduce malnutrition; waterborne infections hamper absorption of food even when intake is sufficient. The 10th Plan target of providing potable drinking water to all villages has clearly not been achieved. Under Bharat Nirman, it is now planned to cover the 55067 uncovered habitations in 4 years (2005-09). Rural Water Supply is, however, beset with the problem of sustainability, maintenance and water quality. Out of the 14.22 lakh habitations in the country, although more than 95% coverage was achieved prior to Bharat Nirman, about 2.8 lakh habitations have slipped back from either fully covered to partially covered category. Another 2.17 lakh habitations have problems with the quality of water, with about 60,000 habitations facing the serious problems of salinity or arsenic and fluoride contamination. Under Bharat Nirman, it is also proposed to tackle the habitations that have slipped back or have problems with water quality. The 11th Plan must emphasise full and timely realisation of the Bharat Nirman targets.

Sustainability needs to be addressed by moving away wherever possible from ground water to surface water resources. Where alternate sources do not exist, or are not cost effective, ground water recharge measures will be insisted upon in the vicinity of the project.

It will also be necessary to move away from state implemented and managed projects to community owned and managed projects, namely the Swajaldhara Programme. The Swajaldhara had a limited provision in the 10th Plan of 20% of allocation of the Accelerated Rural Water Supply Programme (ARWSP). It will need to be upscaled so that more and more schemes are community managed, reducing the maintenance burden and responsibility of the state. The Twelfth Finance Commission funds for this purpose will need to be fully utilised by the states.

d) *Sanitation*

Rural sanitation coverage was only 1% in the 1980s. With the launch of the Central Rural Sanitation Programme in 1986, the coverage improved to 4% in 1988 and then to 22% in 2001. The programme was modified as Total Sanitation Campaign in 1999 changing the earlier supply driven, high subsidy and departmentally executed programme to a low subsidy, demand driven one, with emphasis on hygiene education. Five hundred and forty districts are covered under the programme and the population coverage is expected to increase to about 35% by the end of the 10^{th} Plan.

Lack of sanitation is directly linked to a number of waterborne diseases and it is now generally acknowledged that unless 100% coverage of the community is achieved with proper solid waste management, health indicators do not show significant improvement. Since the subsidy regime in the current programme is only for BPL families, for full coverage to be achieved, APL families will have to be motivated to switch over from open defecation to use of toilets. The Information, Education and Communication (IEC) campaign must therefore receive increased attention in the 11^{th} Plan. The cost norms for individual household toilets are being revised and a solid waste management component being included in the programme. With these measures and focused IEC, coverage under the programme is expected to increase significantly in the 11^{th} Plan.

Linkage of rural sanitation with the rural health mission has also now been recognised as a necessity and the required steps are being taken. The Nirmal Gram Puraskar, a reward scheme for 100% open defecation free communities has been a motivating factor and is picking up momentum as can be seen from the number of communities competing for the Puraskar. It is expected that with allocation of the required funds in the 11^{th} Plan, the MDG goal can be met by 2010, and full coverage achieved between 2012 and 2015.

4.3 Rural Infrastructure: Bharat Nirman

The Bharat Nirman programme launched in 2005 identifies seven major areas where infrastructure gaps need to be addressed (See Box 6**)**. The programme currently extends into the first two years of the 11^{th} Plan. It must be fully and effectively implemented.

Box No. 6

Bharat Nirman

Bharat Nirman is a time-bound business plan for action in rural infrastructure over the four year period (2005-2009). Under Bharat Nirman, action is proposed in the areas of irrigation, rural roads, rural housing, rural water supply, rural electrification and rural telecommunication connectivity. Specific targets have been set under each of these goals as under:

irrigation	-	to create 10 million hectares of additional irrigation capacity
rural roads	-	to connect all habitations (66802) with population above 1000 (500 in hilly/tribal areas) with all weather roads
rural housing	-	to construct 60 lakh houses for rural poor
rural water supply	-	to provide potable water to all uncovered habitations (55067) and also address slipped back and water quality affected habitations
rural electrification	-	to provide electricity to all un-electrified villages (1,25,000) and to connect 23 million households below the poverty line
rural telephony	-	to connect all remaining villages (66822) with a public telephone

While the agenda is not new, the effort is to impart a sense of urgency to these goals, make the programme time bound, transparent and accountable. The funding for the programme will be met through an appropriate mix of budgetary support by the Centre and states, external aid, market borrowing and a separate window under RIDF for rural roads.

To ensure accountability, the names of villages electrified, villages connected by all weather roads, villages provided drinking water and villages provided telephone will be put on the internet.

5. BRIDGING DIVIDES: INCLUDING THE EXCLUDED

The strategy of inclusive growth proposed in this paper can command broad based support only if it is seen to bridge divides which are currently perceived as leaving large segments of our population outside the growth process and sometimes even marginalised by it. These divides have many different dimensions: there is the divide between those above the poverty line and those below it and the associated concern whether growth is benefiting the poor. At other times the focus is on the divide between those with productive jobs and those who are unemployed or grossly underemployed. There is also the rural – urban divide, and the divide between different states and at times also the divide between backward and non-backward districts. Each of these present legitimate concerns and the 11th Plan must ensure that the growth process is one which addresses each of these.

5.1 Growth and Poverty

A basic and long standing concern relates to whether the growth strategy will by pass the poor, excluding them from the benefits of growth. There is an extensive literature on what has happened to the proportion of the population below the poverty line, and the general picture emerging from this literature is that the proportion has declined over time but not fast enough. The official figures for poverty in 1999-2000 indicated that the %age of the population below the poverty line had declined from 36 per cent in 1993-94 to 26 per cent in 1999-2000, though the comparability of the two figures was questioned and concern was expressed that the pace of reduction in poverty is overstated.

Preliminary estimates are now available from the latest NSS thick sample conducted in 2004-05 which provides data that are fully comparable to 1993-94. This shows that the % of population below the poverty line in 2004-05 was almost 28%, which is higher than the official figure for 1999-2000 because of the non-comparability of 1999-2000 data. The reduction in poverty between 1993-94 and 2004-05 is 0.74% points per year rather than 1.66% points per year implied by the earlier 1999-2000 data. However, it is also clear that poverty continues to reduce. The %age of poverty in 2004-05 that is roughly (but not strictly) comparable to 1999-2000 is about 22%, implying that poverty decreased over 1999-2000 to 2004-05 at the rate of 0.79 percentage points per year.

This is at best a modest rate of decline. One reason for this is that agricultural GDP growth has only just about kept pace with population growth during the last decade. The much higher growth of non-agricultural GDP is trickling down to the poor, who must have also benefited from lower inflation, particularly of food prices, but the outcomes would have been much better had agricultural growth been faster.

The strategy of accelerated growth incorporating a near doubling of the rate of growth of agriculture can be expected to reduce poverty further especially if we can achieve a steady expansion in schemes aimed at supporting incomes and welfare of the poorer sections e.g. National Rural Employment Guarantee, Bharat Nirman, Sarva Shiksha Abhiyan, the Mid Day Meals Scheme the National Rural Health Mission and Bharat Nirman. It must be emphasised that rapid growth is important not only because it will generate income earning opportunities for the poor, it will also generate the growth in tax revenues needed to finance various anti poverty programmes. The combined effect can help reduce poverty significantly.

A comprehensive strategy for tackling poverty also requires development of an appropriate social safety net for the poor. There are in fact many programmes and policies at present which constitute elements of a social safety net such as for example, the rural employment guarantee, the targeted public distribution system, provision of homestead sites, implementation of land reforms, the national rural health mission, various types of crop and livestock insurance, old age pensions, etc. However we do not have a comprehensive social safety net covering the bulk of the population including the population in the informal sector. The scope for expanding and reshaping existing schemes and adding new schemes to improve the social safety net needs to be carefully examined in formulating the 11th Plan. The issue of financial viability of such schemes is obviously critical and the claim of safety net programmes have to be viewed along with other claim in resources aimed at improving the welfare of the poor.

5.2 Employment

Concern is often expressed that the process of growth in recent years has not generated employment at the pace required for absorbing the additional entrants to the labour force. The growth of organised sector employment in particular has been inadequate, though many new sectors such as IT enabled services, financial services and tourism have generated a large number of new and high quality jobs. The 11th Plan must pay special attention to the growth of employment.

a) *Changing Employment Patterns*

Doubling the growth of agricultural GDP to 4% per year will improve employment conditions in agriculture by raising real wages and reducing underemployed. In fact, if the economy does grow at 9% and the agricultural sector at 4% only, income disparity between agriculture and non-agriculture will increase further unless the agricultural workforce reduces absolutely by around 10 million during the 11th Plan and non-agricultural employment increases at 5% per annum to absorb not just this shift but also all new entrants into the labour force. This poses a major challenge not only in terms of generating non-agricultural employment but also managing the resulting livelihood changes. Some concrete measures will also be necessary to manage consequences of the inevitable reduction in agricultural employment that will accompany structural change. While yield growth, changes in relative prices and shift to higher value crops can moderate this effect, we must recognise that existing size of operational holdings sets a limit to how much can be earned from farming. Many more farmers will resort to mechanisation in order to increase productivity, and in the process reduce employment of hired labour. Many other farmers would find it better to lease or sell their plots and move to non-agricultural occupations that provide better income. Such displacement of hired labour and increase in land transactions can be socially disruptive but must nonetheless be facilitated for productivity gains to be achieved and to prevent land from being left fallow. Given the sheer magnitude of workers currently tied to land, as compared to those in the organised sector, this issue could dwarf the ones usually raised in discussions regarding labour market flexibility.

Planning efficient and equitable shift of labour from agriculture to non-agriculture requires consideration of rights of tenants, women's land rights and protection from insecurity. These issues should be faced squarely in the context of the need to reduce agricultural workforce. Otherwise, it could become an excuse to dilute existing ceiling laws, conjuring visions of "efficient" large farms. Such false ideas are dangerous and need pre-empting. There is no evidence of economies of scale beyond what current ceilings allow, land hunger is unabated, and land per agricultural worker will remain below one hectare for over a decade even if non-agricultural employment grows at 6% per annum. Only a positive message, that stresses equity and puts land reform back on the agenda, will make it possible to move on more difficult issues involving efficiency, such as tenancy. This is also almost a precondition for dealing effectively with encroachment and non-participation that currently plague watershed and wasteland development programmes. With EGA in place, there is scope to step up such programmes massively to not only address natural resource regeneration in rainfed areas but also, through direct employment and improving productivity of even tiny plots, provision of enough livelihood fallbacks for the poor to diversify their occupations without jeopardising capability of future generations.

A shift of the labour force out of agriculture into the non-agricultural sector can only happen if our growth strategy is a success and the economy as a whole grows at a more rapid rate than in the past and generates high growth in labour intensive manufacturing and in productive services sectors. The government will also have to focus on employment generating schemes which can yield result in the short term and are oriented to supporting the employment prospects of weaker sections. More specifically our policies should be tailored to support the areas given below.

b) *Employment Generating Sectors*

To increase the employment intensity of economic growth, the 11th Plan must pay special attention to labour intensive manufacturing sectors such as food processing industry, textiles small & medium enterprises, tourism, and construction. The end of the textile import quota regime in industrialised countries, offers India a huge opportunity to expand textile and garment exports and thus generate substantial additional employment, provided we can compete with other developing countries.

Tourism - both domestic as well as international – provides large possibilities for employment generation in the hotels, catering, entertainment and travel industries. It can also create a market for handlooms and handicrafts whereby additional employment can be generated.

Accelerated growth of manufacturing at 12% per year or higher will contribute enormously to additional job creation. The state governments have an important role to play in making such growth possible by creating an investor friendly environment especially for labour intensive sectors.

Substantial employment can be generated in the construction sector, given the need to build houses and expand infrastructure.

Labour market policies are clearly relevant in this context. In the changing economic scenario, global as well as national, labour flexibility is viewed as an essential attribute of competitiveness. All over the world efforts are being made to introduce greater flexibility while at the same time protecting the legitimate interests of labour. It must be emphasised that labour flexibility does not mean "hire and fire". There are many aspects of our labour laws where greater flexibility is needed and would be in the interest of labour as a whole in the sense that it would actually generate larger volumes of employment in the organised sector by encouraging employers to expand employment. This flexibility is especially needed if we want to exploit the enormous opportunities offered by export markets. Other countries, especially China, have been remarkably successful in this area. It is time for India to compete. These are sensitive issues on which opinions differ. We should evolve a consensus on the scope for reforming key labour laws including especially the Industrial Disputes Act and the Contract Labour (Regulation and Abolition) Act.

c) *National Rural Employment Guarantee Programme (NREGP)*

The National Rural Employment Guarantee Act (NREGA) assures employment for at least 100 days to every rural household, and therefore provides much needed income security to agricultural workers in lean agricultural season. Initially implemented in 200 districts, it is to be extended to the entire country over a five-year period. In addition to the direct income support it provides, it also serves as a mechanism for channelising resources for development of land and water and promote rural connectivity in conjunction with *Bharat Nirman, the Backward Region Grant Fund* and various other infrastructure oriented projects in rural areas. The projects are to be selected by the Panchayat so that they are relevant to the needs of the community.

The 11th Plan must ensure that NREGP is adequately funded and effectively implemented. Employment programmes in the past have suffered from poor design of projects and large leakages including misuse of funds arising from false muster rolls. It is important for state governments to ensure that the implementation of the NREGP does not suffer from these deficiencies.

d) *Self-Employment Programmes*

The government's strategy for promotion of self-employment ventures currently relies on formation of self-help groups to empower rural communities and enable them to take up economic activities. Many departments in the government of India implement schemes that provide assistance to self-help groups and their guidelines vary in scope, content and implementation mechanism thus creating overlap and inefficiency. The 11th Plan would seek to harmonise self-employment programmes implemented by different Ministries and implement an integrated self-employment programme that cuts across ministerial boundaries. The programme would also have a special component for training and capacity building of educated unemployed youth, particularly in rural areas, a problem which has assumed serious proportions especially in the southern parts of the country.

5.3 Rural Urban Divide

Yet another divide that must be bridged is that between rural and urban areas. The data on per capita consumption in the NSS surveys shows a slight increase in the ratio of urban to rural per capita consumption. If the urban – rural comparison is extended to include gaps in availability of other essential services, the gap is much larger than in per capita consumption. The 11th Plan must act decisively on both fronts. The strategy of accelerated agricultural development proposed in this paper, combined with infrastructural support for non-agricultural activity in rural areas, will help reverse the widening urban rural divide. Programmes such as Bharat Nirman are particularly relevant in this context.

Apart from the rural-urban divide there is also a divide within urban areas which is growing. Massive problems have emerged as a result of rapid growth of urban population without a corresponding increase in urban infrastructure and provisioning of civic services. Only a select few have somewhat better access to urban services. Yet even they cannot escape the consequences of a massive neglect of basic urban services that becomes glaringly apparent under stress (e.g. heavy rains, earthquakes). Even clean drinking water is not available to all. The quality of life for the bulk of our urban population involves many avoidable hardships. Cities provide substantial economies of agglomeration and are the growth engines of the economy. Urban renewal is an imperative for both efficiency and equity. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) launched in 2005-06 is directed to provide improved urban services.

The above programmes will require substantial allocation of funds, mainly by the government. The question arises whether these outlays compromise public investment in other needed areas and reduce growth? In fact, if targeted effectively and implemented efficiently, these programmes and the outlays envisaged will stimulate the economy and raise its growth rate. The Rural Employment Guarantee Scheme, for example, can create productive assets and provide additional income to the poor and increase demand for food and other consumer goods, which in turn would also stimulate growth. Increasing demand for agricultural goods is important to raise agricultural growth, which is otherwise likely to face a demand constraint. Growth of agriculture in turn is vital to bridging rural urban divide. Similarly, the backward districts development programme can be mobilised to increase growth and reduce disparity.

5.4 Balanced Regional Development

Regional divides are another challenge which the 11th Plan must overcome. Balanced regional development has been an important objective in our planning and various instruments including fiscal incentives, industrial policies and directly targeted programmes have been deployed in the past to achieve this objective. Some of the earlier instruments, such as industrial licensing, are no longer relevant in today's economic environment since investment cannot be directed to particular locations. In a competitive world, investment must be allowed to flow to locations perceived to have an attractive investment climate and better infrastructure facilities. While this has definitely generated efficiency, there is evidence of increasing regional divides. The growth performance across states has varied and the performance of the poorer states which have poorer infrastructure has been disappointing.

While income growth performance has diverged, there is welcome evidence of some convergence in educational and health indicators across the states. The gap between the better performers and the poorer states has narrowed and the health and educational outcomes in the poorer states have registered definite improvement. A much larger effort is needed in this area. Sarva Shiksha Abhiyan and National Rural Health Mission have already put the institutional architecture in terms of schemes in place. The states would have to be supported to improve their governance to deliver these services more effectively.

These improvements in social infrastructure must be complemented by improvements in infrastructure and other elements which make for a pro-investment environment. Improvement in economic infrastructure is the surest way of ensuring an improvement in growth performance of poorer performing states. The emphasis on infrastructure in the 11th Plan will help to acquire more balanced regional development. Much of the Centre's effort to improve infrastructure across the country will contribute to this end. It needs to be complemented by parallel effort by the state governments. The role of the state governments is especially important in the power sector where operational responsibility lies entirely in the hands of the state government.

Inter-state differences are only one aspect of balanced regional development. Equally important is the emergence of large differences within states with many districts in states that are otherwise performing well suffering from severe backwardness. The causes of backwardness of districts are familiar. These are typically districts with rainfed agriculture or extensive land degradation, generally poor infrastructure and connectivity and low human development indicators. Many of these districts also have large tribal populations, where problems of tribal rights in forest areas have remained unresolved and contribute to persistent dissatisfaction. Lack of economic development in many of these districts has led to severe social problems, perception of alienation and neglect, which soon deteriorates into an adverse security environment which discourages development. In many of these districts, these problems have led to the rise of Naxalism which now poses a severe internal threat. It is important to remember that while many of these districts are in states that are lagging behind, some are also to be found in some of the better performing states such as Maharashtra, Andhra Pradesh and Karnataka.

The primary responsibility for achieving balanced regional development within states must necessarily lie with the state government. By definition, states that are doing well on average should be able to look after the backward districts within the state by appropriate allocation of plan resources. Unfortunately that has not happened. A more equitable allocation of states resources must be an important part of the solution. However, recognising the severity of the problem the government has launched a new programme, the Backward Regions Grant Fund which will be applicable to identified backward districts. The 11th Plan must ensure concerted efforts to break the vicious circle that keeps these districts backward.

5.5 Bringing on Par: SCs, STs, Minorities and others left behind

Development and empowerment of socially disadvantaged groups is a commitment enshrined in the Constitution, and education is the most effective instrument of social empowerment. Schemes for the educational uplift of the SCs and STs have borne fruit although the gap between the general population and SCs and STs is still at unacceptable levels. The educational schemes in favour of these sections would therefore need to be continued with redoubled vigour. It is imperative to promote education among other backward sections including minorities. Some minorities have fallen far behind the national average in education. It will be necessary to go to the root of the problem and examine the reasons for the decline so that remedial measures can be taken during the 11th Plan. At a minimum the minority-dominated areas would need special focus in SSA and the schemes for creating infrastructural facilities would need to be implemented in these areas. In addition it would be necessary to explore ways of incentivising minority students.

While bringing the SC, ST and other backward classes to national level may take time, certain aspects of the backwardness need to be immediately set right. Thus complete elimination of the abhorrent practice of manual scavenging needs to be accomplished by the middle of the 11th Five Year Plan. This needs to be done through effective measures of liberation and rehabilitation of scavengers such as sustainable employment and income generating activities. Similarly, total eradication of the practice of bonded labour which especially targets the SCs and STs would be an urgent imperative in the 11th Plan. To this effect, efforts shall also be made on a continuing basis to identify and rehabilitate bonded labour and their children.

There is a need to effectively implement the special component plan and the tribal sub-plan both at the Central and state level. Also, a comprehensive National Tribal Policy to ensure protection, all-round development, welfare and empowerment of the tribals and tribal areas with special emphasis on rehabilitation and resettlement of project affected people needs to be announced and effectively implemented. Expeditious adoption of the National Tribal Policy in the 11th Plan is an urgent imperative.

5.6 Gender Balancing

The gender divide is another dimension of the problem which needs urgent attention. Gender bias is deeply ingrained in our society and is reflected in indicators like sex ratios, literacy levels of boys and girls, Maternal Mortality Rates (MMR), etc. However, even these data do not fully reflect the discrimination against women. The 11th Plan strategy for gender balancing must take care of the special needs of women such as clean cooking fuels, care for pregnant and nursing women, etc. Gender balancing would require appropriate provisions in government policies/schemes across Ministries/Departments and sectors.

This must be complemented by campaigns of public awareness that educate men and women gripped with patriarchal values, of the emerging social and economic realities. Special measures for gender empowerment and equity should be an essential element of the 11th Plan. While women's needs will be tackled across all sectors, the Plan will particularly focus on three aspects – violence against women (VAW), economic empowerment and women's health.

In the last few years, there has been an increase in all forms of VAW ranging from domestic violence to feticide and sexual assault. The 11th Plan will seek to check this through effective policies and legislation. The effort will be to ensure that towns and cities under the NURM are made women-friendly. At the same time, the Plan will address the feminization of agriculture and menial employment. It will seek to provide adequate and need based training to women to ensure that they can enter all sectors of the economy and that too, on an equal footing with men. Special attention will be paid to the economic empowerment of women from the marginalised and minority groups. This will not only increase the decision-making powers of women but will also make them less susceptible to violence.

Finally, the 11th Plan will recognise that a nation cannot be healthy unless its women are healthy. It will strive to reduce the incidence of anemia and malnutrition among the adolescent girls to break the cycle of ill-health and maternal and infant mortality.

6. PUBLIC SECTOR PLAN: AN ENABLING ENVIRONMENT

The strategy proposed in this paper can succeed only if both the private and the public sectors play the role expected of them. Private sector activity in farming, small and medium enterprises and the large corporate sector accounts for 75% of the total investment, and will be crucial for achieving the growth and employment objectives. The Centre and the States must create the environment that will encourage efficient expansion and investment in the private sector especially in key labour intensive areas relevant in this context. The public sector also has major responsibilities in developing infrastructure either directly or through PPPs, and in supporting individual sectors such as agriculture, irrigation, rural development, health and education, etc. that are crucial for ensuring inclusiveness.

Implementing the public sector component of the 11th Plan presents several challenges. First, the resources needed to finance the public sector effort will be substantial, and ways of financing this effort have to be found. Second, the focus of public sector activity will shift heavily to sectors that are largely in the domain of the states and this has implications for the relative role of the Centre and state governments in plan formulation and implementation. Third, many of the sectors of special focus are those in which implementation depends crucially on involvement of the local community and this implies that the role of panchayati raj institutions, and also the voluntary sector, must be greatly expanded. These issues are discussed below.

6.1 Financing the Public Sector Plan

The final picture on the size of the 11th Plan will only emerge after consultation with the states and Central Ministries and taking account of the reports of the various working groups. However, it is evident from earlier Chapters that the strategy outlined in this paper will require large increases in Plan expenditure in several sectors in both the Central and State plans. For example, irrigation and water conservation in rainfed areas are both critical elements of the strategy and will require extra expenditure above the normal levels of about 0.5% of GDP annually. In the health sector we need to increase total expenditure by at least 1 percentage point of GDP by the end of the 11th Plan. In education we may need an increase of at least 0.5% of GDP by the end of the 11th Plan period to cover the requirements of expanding secondary education, plus an additional 0.25% of GDP for higher education. The proposed expansion of the NREGA to cover the entire country in a phased manner may require an additional 0.75% of 2005-06 GDP by the end of the 11th plan. These items alone will call for additional expenditure, above current levels, of about 1.0 percentage point of GDP in 2007-08 rising to about 2.5 percentage points of GDP in 2011-12.

Large investments are also needed in other infrastructure areas, highlighted in Chapter 3, which should also receive priority. The requirements for urban infrastructure for example are particularly large if we want to upgrade our cities, many of which have been long neglected. The need for public resources for some of the infrastructure expenditure can be moderated by relying on PPP, but the total requirement is so large that even with reliance on PPP, the public sector support may have to increase significantly. This is because some of the infrastructure needed is unlikely to attract private investment and in other areas where private investment is feasible, it will need public support through viability gap funding. It is also necessary to recognize that excessive deployment of private resources in infrastructure may 'crowd out' investment in the production sectors, which should be the primary focus of private investors.

Some of the demand for increased expenditure could be accommodated by reprioritising and reducing the allocation of public sector funds from existing plan schemes that do not serve priority objectives, or which have proved to be ineffective. Over the years, there has been a tendency to continue funding old plan schemes even when they have lost their relevance or have failed to yield results. There is a strong case for both the Centre and the States undertaking a zero based budgeting exercise to weed out such schemes in the 11th Plan. The projected 8.5% GDP growth helps to bring about a reduction in allocation as a share of GDP while maintaining reasonable growth in real terms. However, the scope for containment in many of the sectors is limited, especially since the composition of the Plan has already shifted substantially towards the social sectors. There are also other areas with potential demand including some, e.g. expanded crop and livestock insurance and a comprehensive social security system for the unorganised sectors, whose essential nature is non-plan, but which could involve some plan demand and in any case would be a claim on the over-all budgetary resources.

A detailed estimate of plan requirements will only be available after the various working groups submit their reports. It is best at this stage to work on the assumption that the public sector responsibilities of the strategy outlined above would require an increase in the Budgetary Resources for the Plan from an average of 7.15% of GDP (centre and states combined) in the Tenth Plan to an average of around 9.5% in the 11th Plan period.

The feasibility of achieving this order of increase in budgetary support for the Plan by the Centre and the States taken together needs to be carefully examined. In principle, the resources needed can be mobilised by some combination of the following:

- an increase in tax revenues as a percentage of GDP;
- a fall in non-Plan expenditure (including explicit and hidden subsidies) as a percentage of GDP; and
- an increase in the fiscal deficit.

The scope for increasing the fiscal deficit as a means of financing Plan expenditure is constrained by the Fiscal Responsibility and Budget Management (FRBM) Act which requires the central government to reduce the fiscal deficit to 3% of GDP by 2009 and also to bring the revenue deficit to zero in that year. Similar Acts have been passed by most of the states. This forces the combined fiscal deficit of the Centre and the States to be limited to 6 percent of GDP from 2008-09 onwards. Far from any increase in fiscal deficit as a means of mobilising resources we are constrained to work with a reduction of the fiscal deficit of around 1 percentage point of GDP to be achieved in the first two years of the Plan.

To achieve the desired increase in plan size we will therefore have to depend on some combination of an increase in tax revenues as a percentage of GDP and a reduction in non-Plan expenditure. Preliminary projections (see Appendix for details) suggest that this is feasible if the GDP grows at 8.5% and revenue buoyancy observed in central sector tax revenues is maintained. In these projections, non-Plan expenditure is projected to grow by about 5% in real terms, which is higher than during the 10th plan. Because of the projected faster growth of GDP in the 11th Plan, it results in a reduction as a share of GDP.

The projection based on a GDP growth of 8.5% in the Eleventh Plan period and revenue buoyancy with respect to GDP of 1.25 for the Centre and 1.1 for the States is summarised in Table 9. It shows that aggregate resources for the Centre and the States come to an average of 9.43% of GDP. This reflects an increase in gross tax revenues of the Centre by 1.7 percentage points of GDP over the 11th Plan period and a reduction in the Centre's non-plan expenditure by a similar amount.

Table 9: *Resources for the 11th Plan at 8.5% Growth*
(As percentage of GDP)

		10th Plan Average	11th Plan Average
1.	**Centre' s Plan GBS**	**4.33**	**5.08**
	(i) of which grants to states	1.37	1.47
2.	State Plan GBS	4.19	5.83
3.	Centre and States [1 + 2 – 1(i)]	7.15	9.43

This outcome is consistent with achieving the Centre's target of reducing the fiscal deficit to 3% by 2008-09. However, we could face problems in two areas. The first relates to the time phasing in which budgetary resources can be generated and the second to the revenue deficit.

(a) *The Time Phasing Problem*

The time phasing problem arises because, as outlined in Appendix, the FRBM requirement calls for a reduction in the fiscal deficit of the Centre and the states combined by about 1% of GDP in the first two years of the 11th Plan. This means that the increase in resource availability will be relatively modest in the first two years, followed by fairly sharp increases thereafter. This has the consequence that some of the plan expenditures needed for making growth more inclusive may have to be postponed. This time phasing may also present problems for infrastructure development, where there are long time lags, and delays could jeopardize growth with a corresponding effect on revenues. In addition, during these two years there would be very little, if any, scope to undertake countercyclical fiscal measures if circumstances so require.

This raises the issue whether the FRBM targets should be shifted further out by say two years. An alternative projection of revenues based on shifting the fiscal deficit target by two years is also presented in the Appendix Table 9. It shows a better time profile for Plan expenditure in the first two years. Alternatively, the rules under the FRBM Act could be modified so that the fiscal deficit targets are not specified in absolute terms but are cyclically adjusted in keeping with international best practices in this regard. Unfortunately, these options may not be available to the States, which could face similar problems, due to the specific nature of the Twelfth Finance Commission recommendations and, as a result, the onus will be on the Centre.

An important point to note is that rapid growth and high revenue buoyancy – the latter being a consequence of ongoing reform in tax structure and tax administration – and moderation in the growth of non-Plan expenditure are critical and of roughly equal importance for achieving the ambitious levels of plan expenditure envisaged.

(b) *The Revenue Deficit Problem*

The second problem relates to the achievement of the revenue deficit targets specified in the central FRBM and also in various state legislations. These targets could prove difficult to achieve because the shift in Plan expenditure towards the social sectors has meant that a large proportion of the expenditure undertaken will be revenue expenditure as per the current budgetary definition. According to this, all grants by one tier of government to another, or to the private sector, are treated as revenue expenditures, irrespective of whether such expenditures create assets or not. In other words, we could face a situation where the fiscal deficit targets are met but the revenue deficit targets are not because of the high revenue component of Plan expenditure. For example, the entire budgetary expenditures on Bharat Nirman, the National Employment Guarantee, the Backward Regions Grant Fund, the Jawaharlal Nehru National Urban Renewal Mission, and all new schemes in agriculture such as the National Horticulture Mission are classified as revenue expenditure since they are in effect grants to implementing agencies in the states, even though they finance asset creation on the ground. A similar problem arises with viability gap financing which is a grant clearly linked to investment under private public partnership but which appears as revenue expenditure in the budget.

These problems suggest that, it may not be easy for the Centre to cut the revenue deficit from 2.1% in 2006-07 to 0% by 2008-09 while also achieving large increases in Plan expenditure with a high revenue component. Indeed, the very thrust of the approach to the 11th Plan presented in this paper, which involves combining innovative financing of infrastructure with a massive decentralized thrust on education, health and agriculture, may be defeated if the FRBM discipline is insisted upon with the current definition of revenue deficit. Although the States presently do not face this problem to the same extent as the Centre, restrictions on the size of the revenue deficit will limit the extent and pace of devolution to the PRIs and ULBs, which will provide a set-back to the strategic approach being advocated in this paper.

One approach would be to redefine the revenue deficit to exclude revenue expenditure which is clearly linked to asset creation. However, this may not be the appropriate solution especially since the concept of revenue expenditure is well defined in our accounting tradition and even recognised in the Constitution. A more basic approach is to question the rationale of including the revenue deficit as a fiscal control measure. Unlike the fiscal deficit, which at least has a clear economic implication, because it determines the increase in public debt, the revenue deficit is a pure accounting construct with no linkage to economically meaningful concepts such as savings and investment. A zero revenue deficit can be achieved merely by converting revenue expenditures to capital expenditures by showing grants to implementing agencies as a zero interest loan in perpetuity.

Internationally, fiscal responsibility legislation focusses on the fiscal deficit and on the primary deficit as the relevant control variables. The revenue deficit is not generally recognised internationally as a relevant concept. The case for focussing on the primary deficit is simply that interest costs on accumulated debt are outside the scope of government control and may vary with interest rate changes, which do not reflect the quality of fiscal control. In fact, international practice also recognises the need for counter cyclical fiscal policy and therefore focuses on the cyclically adjusted fiscal deficit. There is a case for amending our FRBM legislation to conform to international practice.

6.2 Relative Roles of the Centre and the States

One of the issues on which concern is sometimes expressed is that economic policy is moving in a direction that involves a dismantling or erosion of the role of the state in the development process. It is evident from Chapter 6.1 that this is not the strategy proposed in this paper. On the contrary, the objective of accelerating growth, and making it more inclusive cannot be achieved without a very active, and in many respects expanded, role for the state in some areas. However, the role of the government does need to be restructured. We need to reduce direct intervention in, and commitments of scarce public resources to areas where the private sector operating under competitive market can deliver. Public resources that would otherwise be absorbed in these sectors are best directed to sectors which cannot be left solely to market forces and where expansion is sorely needed. These include some sectors where central government has the principal responsibility, i.e., the development of national highways, railways, airports, major ports, parts of the power sector, etc. and others which are primarily the domain of the states, e.g., agriculture, irrigation, land and water management in the rainfed areas, rural drinking water, education and health, large parts of the road network and urban infrastructure. In areas such as electric power, the entire agenda of reforming the distribution system and meeting the investment requirements is the responsibility of the state governments.

Many of the new focus areas are the responsibility of the states. The resource projections in the Appendix show that the states will have a substantial flow of resources during the 11th Plan and should be able to meet a large part of the need for expenditure in the areas which are the domain of the states. Nevertheless, they will need substantial assistance from the Centre. This raises the issue of the form which the central assistance should take. Should it be in the form of centrally sponsored schemes or normal central assistance? Whatever the modality chosen, there is the related issue of the appropriate percentage contribution which the states should make to expenditures under these schemes.

a) *Centrally Sponsored Schemes Vs Central Assistance*

The role of the centrally sponsored schemes has been discussed on several occasions in the NDC and it is difficult to evolve a consensus on this issue. One view is that since these schemes relate to areas which are in the state sector, the schemes should be transferred to the states along with the funds. There are several operational problems with this approach. If the funds are transferred as part of normal central assistance, the amounts available to each state would have to be determined as per the Gadgil formula, and not on the basis of the specific needs of the states in individual sectors. Transfers based on state-specific needs can be achieved through the mechanism of additional central assistance, but this is not very different in practice from centrally sponsored schemes and, from the point of view of the states, it has the disadvantage that whereas financing under the centrally sponsored schemes are on a 100% grant basis, this is not necessarily so in additional central assistance.

The trend that has evolved in recent years is that central support for programmes in some critical sectors such as the SSA, MDM, NREG has gone as 100% grant through centrally sponsored schemes while other support e.g., for the JNURM or the BRGF or AIBP is in the form of additional central assistance, where the grant component has varied across schemes. The states' share of these schemes also varies. There is a case for rationalising the states' share and fixing it at a reasonable level, keeping in mind the expected revenue buoyancy.

b) *Flexibility in design*

A problem common to both forms of central assistance is that the central government designs the parameters within which the schemes operate and this often deprives state governments of the flexibility that may be needed to take account of local conditions. Another problem is that releases of central assistance are linked to timely submission of utilisation certificates, a discipline imposed to ensure that transfers lead to actual expenditures. There are complaints that the practice of requiring utilisation certificates before releasing subsequent tranches of assistance can harm implementation especially when certain types of works can only be done in certain months of the year. It is necessary to review experience in these areas as part of the prelude to the 11th Plan to see if adjustments in existing procedures are possible which would improve the overall efficiency of the planning process.

6.3 Decentralisation in Planning

We have seen that the sectoral shift in plan priorities discussed above involves increased focus on social sectors that are in the domain of the states. In many of these programmes devolution needs to go further down to the third tier of government, i.e., the Panchayati Raj Institutions. Past experience shows that programmes in health and education, and many types of rural development initiatives including the employment guarantee programme, rural housing, rural drinking water, watershed management etc., are most effective when there is active involvement of the local community, both in designing the programme and in monitoring implementation.

This is explicitly reflected in some of the recent initiatives. The National Rural Employment guarantee, for example, is structured around a system where the projects that can be taken up are determined by the gram panchayat, progress is monitored at the panchayat level, including maintenance of a record of those who have registered for work, and funds are disbursed only after the gram sabha certifies that the works are satisfactorily completed. Similar oversight can be provided over education and health programmes by village level committees constituted for the purpose.

(a) *Institutions for decentralised planning*

Looking ahead, it is necessary to move beyond defining a role for PRIs in individual programmes towards the constitutionally mandated procedure for developing district level plans working from the village level upwards. Under this procedure, states are constitutionally required to set up District Planning Committees (DPCs). Village level plans covering the functions devolved to PRIs are to be outlined at the gram panchayat level and these plans are to be consolidated by the DPC into a district level plan which takes account of the availability of funds from devolution of state plan resources and the earmarked funds flowing from various central schemes. If this exercise is taken seriously and if states devolve at least 30% of Plan resources to the district level as has been recommended, then these resources together with the resources flowing from the central government amount to a very substantial sum especially in districts where the National Rural Guarantee is operative. If the process can be made effective, it would permit convergence of the various resource flows taking place and allow holistic planning.

The success of this approach depends critically upon the extent to which state governments are willing to implement it effectively. Progress in this respect has been mixed. The PRIs have been politically empowered, elections take place regularly in almost all states and the relevant functions have also been devolved, as intended, in most states. However, there has been much less action in devolving funds and functionaries, which are the other two legs on which the structure must rest. The extent of financial devolution varies. While some states have devolved a significant proportion of the state budget to the PRIs, many others have not yet done so. Many states have also not yet constituted the District Planning Committees which are to play a crucial role in decentralised planning.

There is also a great need for capacity building at the PRI level to ensure that plans evolved at the ground level are technically viable. With this purpose in view, the Backward Regions Grant Fund, which covers all districts where NREGA is operative, has already been entrusted to the Ministry of Panchayati Raj with an explicit capacity building component. Active involvement of NGOs assisting the PRIs has proved to be very effective in many cases, and efforts should be made in the 11th Plan to encourage such involvement. There is a case for earmarking a small portion (say 1%) of the budget provision for centrally sponsored schemes to be utilised by the Ministry of Panchayati Raj in capacity development programmes to support DPCs where these have been constituted.

(b) *Accountability*

Devolution of funds to local and intermediate panchayats must be accompanied by greater accountability. Transparency can be a very effective tool to increase accountability and the Right to Information Act enacted in 2005 is a major step in this direction. It allows concerned stakeholders, including especially potential beneficiaries or those acting on their behalf, to obtain the information necessary to enforce accountability. Combined with use of the internet, which will gradually become a feasible proposition even in rural areas as facilities to access the internet are extended, it can empower beneficiaries in a manner which enables them to enforce their rights. For example, the decision to provide the list of villages electrified under the RGGVY, or the list of villages where drinking water has been provided, or the list of villages provided with all weather roads on a website monitoring the progress of Bharat Nirman , will increase the pressure on the system to deliver and will focus attention on non performance.

(c) *Civil Society Organisations*

The role of civil society organisations in strengthening the capacity of PRIs has been favourably commented upon above. In addition to capacity building, many CSOs have a proven track record of implementing programmes at the grass roots level and they have shown impressive results in this area. Recognising this experience, the 11th Plan should aim at encouraging partnerships between CSOs and PRIs which also extend to joint implementation. The choice of CSOs for this purpose must of course be left to the PRIs but the guidelines for government programmes, both central and state government programmes, should allow room for such participation. However, such decentralisation of responsibilities of implementation and agency choice will put premium on other forms of responsibility at higher tiers of government, the most important of which is monitoring and evaluation.

The central government will shortly announce a policy for the voluntary sector which will recognise the enormous positive contribution which the sector can make in the development process. State governments should consider a similar initiative.

6.4 Monitoring Outcomes instead of Outlays

Monitoring and evaluation of government programmes is crucial to learn lessons about the design and implementation of programmes which can help increase their effectiveness. Traditionally, plan monitoring has been done by tracking expenditure levels achieved in relation to outlays. While this is an important measure of the pace of implementation, it is not a measure of effectiveness. For that, it is necessary to go from outlays and expenditures to final outcomes. The Central Government has made a start with the budget of 2005-06 but there are internal difficulties. In the case of education for example, starting from expenditures as a first step, one can track intermediate outcomes such as the construction of school facilities, the filling of vacancies and training of teachers, success in enrollment and reductions in drop out rates but the final outcome is really the quality of education provided. All the intermediate steps are relevant and also well worth monitoring, but the ultimate test of the strategy must be defined in terms of final outcomes. Often this can only be determined over a period of time. At times the causal chain may involve factors outside the program itself. This is evident, for example, in the case of health where improvements in health status are often the result not of interventions in the area of curative health but in the provision of clean drinking water and sanitation.

These considerations point to the need for professional and systematic monitoring of programmes conducted by independent agencies outside those actually implementing these programmes. Such independent monitoring however requires that there be agreed benchmarks on the basis of which to evaluate subsequent performance. The Planning Commission is considering making it a firm condition that all proposals submitted to it will require sufficient benchmarking before approval. It also plans to strengthen its evaluation capacity by involving research institutes and civil society organisations which have the capability of undertaking rigorous evaluation. State governments would be well advised to take similar steps to improve the quality of plan programmes.

7. CONCLUSIONS

The complete strategy for the 11th Plan will only emerge from an extensive process of consultations that has already begun. The Approach Paper is a first step in this process, suggesting broad objectives and targets and the associated challenges and implications for policy, which need to be considered by the Centre and the States in the process of formulating the 11th Plan. The important conclusions emerging from the Approach Paper from this perspective are summarised in this Chapter.

7.1 Objectives and Targets

India's economic fundamentals have improved to the point where we now have the capacity to make a decisive impact on the quality of life of the mass of our people, including especially the poor. We can do this by aiming at doubling the real income of the average Indian in less than ten years time and also committing ourselves to reducing poverty to less than 10% in the same period. This calls for a target growth rate of GDP of around 8.5% in the 11th Plan combined with policies to ensure that growth is broader based than in the past. A major element of the strategy must be the effort to empower the poor by expanding access to health and education and by special livelihood support schemes and programmes.

To achieve an average growth rate of 8.5% over the 11th Plan, from an underlying growth rate of 7% or a little more, requires a steady acceleration with the economy growing at 9.5% or so by the end of the 11th Plan. This would put India in the sort of high growth trajectory witnessed earlier by Korea and China. The Approach Paper suggests that this is feasible, but it cannot be achieved without special efforts, especially if the growth process is to be more inclusive.

7.2 Health, Education and other Essential Services

A central part of the vision of the 11th Plan must be to extend access to essential public services such as health, education, clean drinking water, sanitation, etc. which are currently denied to large parts of our population especially in rural areas. The provision of good quality education is the most important equalizer in society and it is time we launched a major effort in this area. We must go beyond primary education, on which we have made a good start through the SSA, to tackle the looming problems in secondary education and also in higher education. A similar effort is needed in health and related services.

Plan expenditure in these areas will have to increase substantially to achieve the expansion which is needed. The Central Government will have to provide resources to assist the states in these areas However, resources are only one part of the problem. It is equally important to ensure that the existing system can deliver quality services. This raises several issues which state governments must address:

(i) Since much of the expenditure required for providing health and education is of a current nature (salaries of health and education personnel), adequate provision must be made by the state governments on the non-Plan side. At present there are a large number of vacancies of staff in the health and education systems which have not been filled up due to resource constraints.

(ii) In addition to inadequate staffing, there is also the serious problem of the poor quality of performance of government staff reflecting lack of accountability in the system. The planned increase in expenditure will be infructuous if accountability is not improved. For primary education and health, which are locally delivered services, more active supervision by the PRIs can help in this process. For secondary and higher education, and also for tertiary health care, other methods of monitoring performance and enforcing accountability are necessary.

(iii) Involvement by NGOs has had very positive effects in many areas on the design and implementation of government programmes especially at the local level. Innovative steps such as measuring the quality of public satisfaction with services offered in different states help to create a climate of public accountability. Broader involvement of NGOs needs to be encouraged. The Planning Commission will shortly submit to the Central Government a draft National Policy for the voluntary sector. State governments should consider adopting similar policies which would encourage the voluntary sector to participate in development.

7.3 Agriculture

The best way to ensure that income growth in the 11th Plan is broad based and extends to rural areas is to achieve a doubling of the growth rate in agriculture from less than 2% achieved in the 10th Plan to around 4% in the 11th Plan period. This requires action on several fronts by both the Centre and the States.

(i) We will have to increase the rate of public investment in sectors such as irrigation, watershed development in rainfed areas, rural road connectivity and rural electrification. This would require a substantial increase in the allocation of Plan funds to these areas. The Centre can help through sector specific programmes such as AIBP, PMGSY, RGVY, NREGA and the Backward Regions Grant Fund. However, the states must also make a major effort through appropriate allocations for these sectors in State Plan budgets. Effective prioritisation is also important so that available resources are not spread too thinly, as happens with irrigation projects in many states. A major challenge is how to ensure convergence of the substantial central resources which flow from different channels with available resources from the states, to maximise effectiveness on the ground.

(ii) The National Farmers Commission has identified the knowledge deficit in agriculture as an important reason why productivity is much lower than what is achievable even with existing technology. This problem needs to be tackled by revitalising the agricultural extension system which has collapsed in most states. Part of the problem is that expenditure on extension is non-Plan expenditure and this has been squeezed in most states. The extension effort should be linked with the KVKs in each district so that farmers can access relevant advice suited to their specific circumstances. Soil testing to inform farmers of micro-nutrient deficiencies should be greatly expanded and this can be done by KVKs in each district.

(iii) It is necessary to shift from a focus on productivity of individual crops to a focus on productivity enhancement of the farm incomes, recognising that the farm is a multi-product system. Viable packages have to be evolved for individual agro-climatic zones putting together knowledge of what is likely to work best in each zone, and tackling critical constraints which are different from zone to zone. The Central Government can take a lead in this area working with the individual states concerned to evolve zone specific strategies and also to direct research to tackle problems critical for each zone.

(iv) Modern marketing and the involvement of corporate entities buying directly from farmers for retail domestic marketing, agro-processing and exports will have to be encouraged if agricultural diversification is to take place. Many states still have to bring about amendments in the Agricultural Produce Marketing Committee Acts and implement them in a manner which allows the development of modern markets and also facilitates contract farming. Vested interests associated with existing mandis are likely to oppose these developments, but these resistances have to be overcome by state governments.

(v) Several problems facing agriculture today are the direct result of distortions introduced by policy. The policy of providing free or highly subsidised power to agriculture for example, encourages excessive drawal of water contributing to a fall in the water table. Under pricing of canal water leads to wasteful water use and adoption of water intensive crops at the upper end of canal networks often reducing the total irrigation potential. Similarly the present system of fertiliser subsidy is not well balanced across different types of fertilisers and leads to excessive application of nitrogenous fertiliser which actually reduces productivity over the longer term. These are politically sensitive issues but ignoring them will only make the problem worse. There is need to revisit these policies to reduce the distortions. This should be done with a clear understanding that the resources released in the process should be ploughed back into agriculture in a more productive manner.

(vi) Inadequate access to credit is a major problem affecting most farmers often pushing them into the hands of money lenders who charge exorbitant rates. The co-operative credit system needs to be revitalised along the lines proposed by the Vaidyanathan Committee. The Central Government has indicated its willingness to provide resources to recapitalise the system provided state governments agree to a framework in which the credit co-operatives are effectively depoliticised. These changes must be introduced urgently
.
(vii) Over the longer term, agricultural research must be revitalized to ensure full exploitation of scientific advances which make it possible to improve productivity in our agro-climatic conditions. The Central Government can take a lead in this area by implementing the recommendations of the Swaminathan and Mashelkar Committees.

7.4 Industrial Growth

Accelerating to 8.5% growth in GDP will require industry to grow at 10% and manufacturing at 12%. This calls for a substantial increase in investment in the industrial sector, combined with technological upgradation and modernization to achieve efficiency levels needed to survive in an increasingly competitive world. This process has already begun in the larger and more capital intensive industries, but it has yet to take off in the more labour intensive industries and in small and medium enterprises which are the major potential source of employment in the 11th Plan. Both the Centre and the States must work together to create the supportive environment necessary for these sectors to expand and modernise.

The Central Government has already done a great deal to free entrepreneurs from dysfunctional controls but there is an unfinished agenda which needs attention:

(i) Some industries such as for example, fertilisers and sugar continue to be subject to controls and there is surely room for deregulation.

(ii) The list of items reserved for small scale industries needs to be further pruned to allow units in these areas to expand to a competitive size.

(iii) There is need for a comprehensive review of the mining policy since India's internal mining wealth is largely unexplored and there is scope for attracting investment in this very capital intensive area.

(iv) The inflexibility of our labour laws may be denying us the opportunity to expand employment in the organised manufacturing sector. This is a sensitive issue but the Central Government should initiate a dialogue with labour leaders to evolve a consensus. There is scope for improvement without resorting to extreme measures which would jeopardise legitimate labour interests.

(v) While there should be no compromise on protecting the environment it is necessary to ensure that our regulatory systems are in line with global best practice. Unfortunately, the existing processes for grant of environmental approval for industrial and other projects are non-transparent and cumbersome. A comprehensive review is needed to streamline these processes the process so that environmental concerns are reflected in a rational way with the process of development.

Similar steps need to be taken by state governments. Some state governments have begun to streamline the procedure for granting clearances of various types needed for new investment and for business operations and these efforts have had a favourable impact in terms of both domestic and foreign direct investment. The process needs to be expanded across states and also deepened within states. Introducing transparency, improving governance and reducing the burden of inspector raj will improve the business climate for small and medium enterprises. The establishment of Investment Commissions or Industrial Advisory Councils to the Chief Minister would be an innovative step which would help sensitise the state government machinery to the concerns of private investors.

7.5 Infrastructure

Lack of infrastructure is a major constraint on our economic performance and must be tackled on a priority basis by both the Centre and the States. Several initiatives are already underway and they need to be strengthened.

(i) The development of rural infrastructure is a high priority for ensuring inclusiveness and the Bharat Nirman Programme has made a good start. It needs to be reinforced in the 11th Plan so that critical targets for irrigation, rural road connectivity, rural drinking water, rural housing and rural telecom connectivity can be met.

(ii) The gaps in general infrastructure encompassing power, roads, railways, ports, airports and telecommunications have also begun to be addressed, but much more is needed. The total investment in infrastructure has to increase from around 4.5% of the GDP in the 10th Plan to an average of around 7.5% or so in the 11th Plan. Some of this will have to come from public investment but public resources being limited, we will need to supplement the public effort through private investment as much as possible. Initiatives in this regard are underway in both the Centre and the States.

(iii) The power sector is critical for industrial growth and the real problem here is with the distribution system. This is entirely in the hands of the state governments, and they should give top priority to improving the performance of distribution companies.

(iv) Public private partnerships can sometimes run into controversy if the private partner is seen to have received unduly favourable treatment. It is, therefore, essential to evolve a framework for public private partnerships in infrastructure based on principles which ensure that PPPs are seen to be in the public interest. This can be done by ensuring that the terms of concession agreements are transparent and protective of public interest, and also that there is robust competitive bidding so that least cost options are chosen. This approach has been adopted by the Centre in roads, ports, airports and in railways. State governments should adopt a similarly transparent approach to ensure that PPP projects succeed.

7.6 Special Programmes for the Poor

Rapid growth, with special emphasis on agriculture and an effort to raise the manufacturing sector growth to 12% per year, will help to create a more inclusive growth process. This will be supplemented by critical programmes aimed at providing livelihood support to the poor. The National Rural Employment Guarantee Act is the most important of these programmes. It has been initiated in 200 districts to begin with and will be expanded. There are also several other programmes like the SGSY.... which provide direct livelihood support to various groups of weaker sections. These programmes are important complements to the general strategy of accelerating growth and making it more broad-based. They need to be strengthened and made more effective during the 11th Plan. The Scheduled Caste Sub Plan and Tribal Sub-Plan also need to be effectively implemented at both the Central and State Government levels.

7.7 Financing Development

To grow at an average rate of 8.5% over the 11th Plan period will require a substantial increase in domestic investment from around 29% which is needed for continuing with 7% growth, to about 34%. Half of this increase of around 5 percentage points is expected to come from private investment and the rest from public investment in critical infrastructure sectors.

The projected increase in private investment can be expected to materialise if GDP growth is close to the target indicated and if steps are taken to improve the investment climate. Both factors will stimulate domestic investment and also foreign direct investment which has been increasing over the years but is still well below its potential. The projected increase in public investment would have to come from a combination of increased investment by the public sector, financed by internal and extra budgetary resources, and investment undertaken through the Plan budgets of the Central and the State Governments.

On the financing side we can expect an increase in private domestic savings, in line with rising income levels and an increase in net foreign inflows, from around 2% of GDP in the base year to about 2.8% in the 11th Plan. However, the overall savings balance also requires a substantial improvement in government savings. This will present a major fiscal challenge for the Centre and the States.

In addition to the public investment that has to be financed through the Plan, we need to make provision for the planned expansion in public services, much of which is not investment but revenue expenditure. To accommodate this expansion the average level of Plan expenditure will have to increase from around 7.5% of the GDP in the 10th Plan period to around 9.5% in the 11th Plan. The required additional mobilisation of resources must come from a combination of an increase in tax revenues as a proportion of GDP and a fall in non-Plan expenditure as a percentage of GDP. The increase in tax revenues depends critically upon achievement of the growth targets and good revenue buoyancy. Both the Centre and the States have to ensure that reforms in tax administration lead to the level of buoyancy expected.

Fiscal discipline also requires control in non-Plan expenditure by both the Centre and the States. Some of what is non-Plan expenditure is essential for effective delivery of public services. Another part is pre committed such as interest payments and pensions. Effective control must be exercised in the rest of non-Plan expenditure if ambitious plan targets are to be met. In practice this means control of subsidies and also levy of rational user charges to keep the demands on budgetary expenditure within limits.

Financial Projections of Gross Budgetary Resources for the Plan

The financial resources likely to be available to the Centre and the States in the course of the 11th Plan will be worked out in detail on the basis of the report of the Working Group on Plan Financing which has recently commenced work. However, some preliminary projections, made for the purpose of the Approach Paper, and the results are summarised below.

Appendix Tables 1-8 present the availability of gross budgetary support as percentage of GDP in the Centre and the States associated with alternative projections of 7%, 8%, 8.5% and 9% GDP growth in the Plan. The projections are based on an inflation rate of 5% per year.

In all these projections non-plan expenditure is projected at different rates for the Centre and the states as indicated in the tables. The Centre's non-Plan expenditure is projected to grow at 5% in real terms and for the States at about 7%. The interest rate on government debt is projected at 7% in nominal terms for the Centre and 8.5% for the States.

For each growth projection there are two alternative assumptions about the buoyancy of central government tax revenues, i.e., 1.25 and 1.15. It may be noted that actual buoyancy in recent years has varied from around 1.5 during the Tenth Plan period to about 1.1 over the longer period of a decade.

The picture regarding available resources over the 11th Plan period, emerging from Appendix Tables 1-8 is summarised below.

Resources (GBS) available for Centre plus State Plans
(As percentage of GDP)

		Alternative Growth rates in the 11th Plan			
		7.0%	8.0%	8.5%	9.0%
Centre's Revenue Buoyancy:					
i)	1.25	8.97	9.22	9.43	9.67
ii)	1.15	8.60	8.83	9.03	9.25

It appears that the target of around 9.4% of GDP for Central plus State budget expenditure in the Plan can be achieved under 8.5% growth and a revenue buoyancy of 1.25 for the Centre. As shown in Appendix Table 5 this is realised because of an increase in gross tax revenues of the Centre amounting to 1.7 percentage points over the plan period and a reduction in non-Plan expenditure of 1.8 percentage points.

The time pattern of resource generation reflects the impact of the FRBM constraint which requires a reduction in the fiscal deficit of both the Centre and the States to 3% of GDP each by 2008-09. This obviously moderates the growth of Plan resources in the first two years after which there is a sharp increase.

Appendix Table 9 shows the effect of phasing out the FRBM restriction to achieve the fiscal targets 2 years later, in which case the resource flow is more even. The total resources mobilised are also larger amounting to about 9.8% of GDP over the Plan period.

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

7.0% growth Scenario with FRBM target : Centre's Revenue Buoyancy =1.25

CENTRE	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**Plan Average Eleventh Plan**
1. GBS to Plan	**4.38%**	**4.33%**	**4.42%**	**4.80%**	**5.26%**	**5.70%**	**4.90%**
of which							
(i) Grant to States	1.45%	1.31%	1.08%	1.29%	1.52%	1.74%	1.39%
(ii) Other Plan revenue Expenditure	2.19%	1.42%	1.17%	1.40%	1.65%	1.89%	1.51%
(iii) Plan Capital Expenditure	0.73%	1.59%	2.17%	2.11%	2.09%	2.07%	2.00%
2. Total Non-Plan	9.9%	9.6%	9.3%	9.0%	8.8%	8.5%	9.03%
of which							
(i) Interest payments	3.5%	3.4%	3.2%	3.1%	2.9%	2.8%	3.07%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.95%
(iv) non-plan grant to States	0.9%	0.9%	0.7%	0.6%	0.6%	0.5%	0.66%
(v) Subsidies	1.2%	1.1%	1.0%	1.0%	0.9%	0.9%	0.99%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.10%
3. Total Expenditure	**14.3%**	**13.9%**	**13.7%**	**13.8%**	**14.0%**	**14.2%**	**13.93%**
4. Gross tax revenue	**11.2%**	**11.5%**	**11.8%**	**12.1%**	**12.4%**	**12.8%**	**12.12%**
Less : Share of States	2.9%	3.1%	3.2%	3.3%	3.4%	3.5%	3.30%
5. Net Tax to Centre	8.3%	8.4%	8.6%	8.8%	9.0%	9.3%	8.82%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.82%
7. Total Revenue Receipt	10.2%	10.3%	10.4%	10.6%	10.8%	11.0%	10.64%
8. Gross Fiscal Deficit	**3.8%**	**3.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.08%**
9. Revenue Deficit	**2.1%**	**1.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.20%**
STATES							
10. States Plan	**4.62%**	**4.89%**	**4.79%**	**5.16%**	**6.06%**	**6.42%**	***5.46%***
11. Total Non-Plan	**11.08%**	**10.46%**	**10.38%**	**10.30%**	**10.23%**	**10.21%**	**10.32%**
of which							
(i) Interest payments	2.37%	2.27%	2.20%	2.14%	2.08%	2.07%	2.15%
(ii) Pay & Allowances	3.28%	3.27%	3.26%	3.25%	3.24%	3.23%	3.25%
(iii) Pension	1.21%	1.22%	1.23%	1.24%	1.24%	1.25%	1.24%
(iv) Other Non-Plan	3.72%	3.71%	3.69%	3.68%	3.67%	3.66%	3.68%
12. Total Expenditure	**15.71%**	**15.36%**	**15.17%**	**15.46%**	**16.29%**	**16.62%**	**15.78%**
13. Tax Revenue	9.11%	9.42%	9.61%	9.80%	10.00%	10.20%	9.81%
of which							
(i) State Own Tax Revenue	6.20%	6.30%	6.40%	6.51%	6.61%	6.72%	6.51%
(ii) Share from Centre	2.91%	3.12%	3.21%	3.30%	3.39%	3.48%	3.30%
14. Non-tax Revenue	3.64%	3.44%	3.06%	3.15%	3.29%	3.42%	3.27%
of which							
(i) plan grant from Centre	1.45%	1.31%	1.08%	1.29%	1.52%	1.74%	1.39%
(ii) non plan grant from Centre	0.9%	0.9%	0.7%	0.6%	0.6%	0.5%	0.66%
(iii) State own non-tax Revenue	1.30%	1.27%	1.24%	1.22%	1.19%	1.17%	1.22%
15. Total Revenue Receipts	12.75%	12.86%	12.67%	12.96%	13.29%	13.62%	13.08%
16. Gross Fiscal Deficit	**2.35%**	**2.50%**	**2.50%**	**2.50%**	**3.00%**	**3.00%**	**2.70%**
17. Revenue Deficit	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**7.91%**	**8.13%**	**8.67%**	**9.79%**	**10.37%**	**8.97%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance

marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.25**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance

marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.

__Appendix Table 2__

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

7.0% growth Scenario with FRBM target : Centre's Revenue Buoyancy =1.15

CENTRE	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Plan	**4.38%**	**4.25%**	**4.25%**	**4.54%**	**4.90%**	**5.24%**	**4.64%**
of which							
(i) Grant to States	1.45%	1.27%	1.00%	1.17%	1.35%	1.52%	1.26%
(ii) Other Plan revenue Expenditure	2.19%	1.38%	1.08%	1.27%	1.46%	1.65%	1.37%
(iii) Plan Capital Expenditure	0.73%	1.59%	2.17%	2.11%	2.09%	2.07%	2.00%
2. Total Non-Plan	**9.9%**	**9.6%**	**9.3%**	**9.0%**	**8.8%**	**8.5%**	**9.03%**
of which							
(i) Interest payments	3.5%	3.4%	3.2%	3.1%	2.9%	2.8%	3.07%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.95%
(iv) non-plan grant to States	0.9%	0.9%	0.7%	0.6%	0.6%	0.5%	0.66%
(v) Subsidies	1.2%	1.1%	1.0%	1.0%	0.9%	0.9%	0.99%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.10%
3. Total Expenditure	**14.3%**	**13.8%**	**13.5%**	**13.6%**	**13.7%**	**13.7%**	**13.67%**
4. Gross tax revenue	**11.2%**	**11.4%**	**11.6%**	**11.7%**	**11.9%**	**12.1%**	**11.74%**
Less : Share of States	2.9%	3.1%	3.1%	3.2%	3.2%	3.3%	3.19%
5. Net Tax to Centre	8.3%	8.3%	8.4%	8.6%	8.7%	8.8%	8.55%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.8%	1.8%	1.8%	1.82%
7. Total Revenue Receipt	10.2%	10.2%	10.3%	10.4%	10.5%	10.6%	10.37%
8. Gross Fiscal Deficit	**3.8%**	**3.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.08%**
9. Revenue Deficit	**2.1%**	**1.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.20%**
STATES							
10. States Plan	**4.62%**	**4.82%**	**4.64%**	**4.93%**	**5.74%**	**6.01%**	**5.23%**
11. Total Non-Plan	**11.08%**	**10.46%**	**10.38%**	**10.30%**	**10.23%**	**10.21%**	**10.32%**
of which							
(i) Interest payments	2.37%	2.27%	2.20%	2.14%	2.08%	2.07%	2.15%
(ii) Pay & Allowances	3.28%	3.27%	3.26%	3.25%	3.24%	3.23%	3.25%
(iii) Pension	1.21%	1.22%	1.23%	1.24%	1.24%	1.25%	1.24%
(iv) Other Non-Plan	3.72%	3.71%	3.69%	3.68%	3.67%	3.66%	3.68%
12. Total Expenditure	**15.71%**	**15.29%**	**15.02%**	**15.23%**	**15.97%**	**16.22%**	**15.54%**
13. Tax Revenue	9.1%	9.4%	9.5%	9.7%	9.9%	10.0%	9.70%
of which							
(i) State Own Tax Revenue	6.2%	6.3%	6.4%	6.5%	6.6%	6.7%	6.51%
(ii) Share from Centre	2.9%	3.1%	3.1%	3.2%	3.2%	3.3%	3.19%
14. Non-tax Revenue	3.64%	3.40%	2.97%	3.03%	3.11%	3.20%	3.14%
of which							
(i) plan grant from Centre	1.45%	1.27%	1.00%	1.17%	1.35%	1.52%	1.26%
(ii) non plan grant from Centre	0.9%	0.9%	0.7%	0.6%	0.6%	0.5%	0.66%
(iii) State own non-tax Revenue	1.30%	1.27%	1.24%	1.22%	1.19%	1.17%	1.22%
15. Total Revenue Receipts	12.75%	12.79%	12.52%	12.73%	12.97%	13.22%	12.84%
16. Gross Fiscal Deficit	**2.35%**	**2.50%**	**2.50%**	**2.50%**	**3.00%**	**3.00%**	**2.70%**
17. Revenue Deficit	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**7.79%**	**7.89%**	**8.30%**	**9.29%**	**9.73%**	**8.60%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance	
marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.15**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance	
marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

8.0% growth Scenario with FRBM target : Centre's Revenue Buoyancy =1.25

CENTRE	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Plan	**4.38%**	**4.33%**	**4.43%**	**4.84%**	**5.41%**	**5.97%**	**5.00%**
of which							
(i) Grant to States	1.45%	1.31%	1.09%	1.31%	1.60%	1.87%	1.44%
(ii) Other Plan revenue Expenditure	2.19%	1.42%	1.18%	1.42%	1.73%	2.03%	1.56%
(iii) Plan Capital Expenditure	0.73%	1.59%	2.17%	2.11%	2.09%	2.07%	2.00%
2. Total Non-Plan	**9.9%**	**9.6%**	**9.2%**	**9.0%**	**8.6%**	**8.2%**	**8.94%**
of which							
(i) Interest payments	3.5%	3.4%	3.2%	3.0%	2.8%	2.7%	3.03%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.93%
(iv) non-plan grant to States	0.9%	0.9%	0.7%	0.6%	0.6%	0.5%	0.65%
(v) Subsidies	1.2%	1.1%	1.0%	1.0%	0.9%	0.8%	0.97%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.09%
3. Total Expenditure	**14.3%**	**13.9%**	**13.7%**	**13.8%**	**14.0%**	**14.2%**	**13.93%**
4. Gross tax revenue	**11.2%**	**11.5%**	**11.8%**	**12.1%**	**12.5%**	**12.9%**	**12.16%**
Less : Share of States	2.9%	3.1%	3.2%	3.3%	3.4%	3.5%	3.31%
5. Net Tax to Centre	8.3%	8.4%	8.6%	8.8%	9.1%	9.4%	8.85%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.8%	1.7%	1.7%	1.79%
7. Total Revenue Receipt	10.2%	10.3%	10.4%	10.6%	10.8%	11.0%	10.64%
8. Gross Fiscal Deficit	**3.8%**	**3.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.08%**
9. Revenue Deficit	**2.1%**	**1.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.20%**
STATES							
10. States Plan	**4.62%**	**4.89%**	**4.80%**	**5.23%**	**6.39%**	**7.00%**	**5.66%**
11. Total Non-Plan	**11.08%**	**10.46%**	**10.37%**	**10.24%**	**9.97%**	**9.75%**	**10.16%**
of which							
(i) Interest payments	2.37%	2.27%	2.20%	2.12%	2.03%	1.99%	2.12%
(ii) Pay & Allowances	3.28%	3.27%	3.25%	3.23%	3.15%	3.08%	3.20%
(iii) Pension	1.21%	1.22%	1.23%	1.23%	1.21%	1.19%	1.22%
(iv) Other Non-Plan	3.72%	3.71%	3.69%	3.66%	3.58%	3.49%	3.63%
12. Total Expenditure	**15.71%**	**15.36%**	**15.17%**	**15.47%**	**16.36%**	**16.75%**	**15.82%**
13. Tax Revenue	9.11%	9.42%	9.61%	9.81%	10.04%	10.28%	9.83%
of which							
(i) State Own Tax Revenue	6.20%	6.30%	6.40%	6.51%	6.64%	6.76%	6.52%
(ii) Share from Centre	2.91%	3.12%	3.21%	3.30%	3.41%	3.51%	3.31%
14. Non-tax Revenue	3.64%	3.44%	3.06%	3.16%	3.32%	3.47%	3.29%
of which							
(i) plan grant from Centre	1.45%	1.31%	1.09%	1.31%	1.60%	1.87%	1.44%
(ii) non plan grant from Centre	0.9%	0.9%	0.7%	0.6%	0.6%	0.5%	0.65%
(iii) State own non-tax Revenue	1.30%	1.27%	1.24%	1.21%	1.16%	1.11%	1.20%
15. Total Revenue Receipts	12.75%	12.86%	12.67%	12.97%	13.36%	13.75%	13.12%
16. Gross Fiscal Deficit	**2.35%**	**2.50%**	**2.50%**	**2.50%**	**3.00%**	**3.00%**	**2.70%**
17. Revenue Deficit	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**7.91%**	**8.15%**	**8.76%**	**10.21%**	**11.09%**	**9.22%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance

marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.25**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance

marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.

Appendix Table 4

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

8.0% growth Scenario with FRBM target : Centre's Revenue Buoyancy =1.15

CENTRE	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Plan	**4.38%**	**4.25%**	**4.26%**	**4.57%**	**5.04%**	**5.47%**	**4.72%**
of which							
(i) Grant to States	1.45%	1.27%	1.00%	1.18%	1.42%	1.63%	1.30%
(ii) Other Plan revenue Expenditure	2.19%	1.38%	1.09%	1.28%	1.53%	1.77%	1.41%
(iii) Plan Capital Expenditure	0.73%	1.59%	2.17%	2.11%	2.09%	2.07%	2.00%
2. Total Non-Plan	**9.9%**	**9.6%**	**9.2%**	**9.0%**	**8.6%**	**8.2%**	**8.94%**
of which							
(i) Interest payments	3.5%	3.4%	3.2%	3.0%	2.8%	2.7%	3.03%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.93%
(iv) non-plan grant to States	0.9%	0.9%	0.7%	0.6%	0.6%	0.5%	0.65%
(v) Subsidies	1.2%	1.1%	1.0%	1.0%	0.9%	0.8%	0.97%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.09%
3. Total Expenditure	**14.3%**	**13.8%**	**13.5%**	**13.6%**	**13.6%**	**13.7%**	**13.65%**
4. Gross tax revenue	**11.2%**	**11.4%**	**11.6%**	**11.8%**	**12.0%**	**12.2%**	**11.77%**
Less : Share of States	2.9%	3.1%	3.1%	3.2%	3.3%	3.3%	3.20%
5. Net Tax to Centre	8.3%	8.3%	8.4%	8.6%	8.7%	8.9%	8.57%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.8%	1.7%	1.7%	1.79%
7. Total Revenue Receipt	10.2%	10.2%	10.3%	10.4%	10.4%	10.5%	10.36%
8. Gross Fiscal Deficit	**3.8%**	**3.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.08%**
9. Revenue Deficit	**2.1%**	**1.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.20%**
STATES							
10. States Plan	**4.62%**	**4.82%**	**4.65%**	**5.00%**	**6.06%**	**6.56%**	**5.42%**
11. Total Non-Plan	**11.08%**	**10.46%**	**10.37%**	**10.24%**	**9.97%**	**9.75%**	**10.16%**
of which							
(i) Interest payments	2.37%	2.27%	2.20%	2.12%	2.03%	1.99%	2.12%
(ii) Pay & Allowances	3.28%	3.27%	3.25%	3.23%	3.15%	3.08%	3.20%
(iii) Pension	1.21%	1.22%	1.23%	1.23%	1.21%	1.19%	1.22%
(iv) Other Non-Plan	3.72%	3.71%	3.69%	3.66%	3.58%	3.49%	3.63%
12. Total Expenditure	**15.71%**	**15.29%**	**15.02%**	**15.24%**	**16.03%**	**16.32%**	**15.58%**
13. Tax Revenue	**9.11%**	**9.39%**	**9.54%**	**9.71%**	**9.89%**	**10.08%**	**9.72%**
of which							
(i) State Own Tax Revenue	6.20%	6.30%	6.40%	6.51%	6.64%	6.76%	6.52%
(ii) Share from Centre	2.91%	3.09%	3.14%	3.19%	3.26%	3.32%	3.20%
14. Non-tax Revenue	**3.64%**	**3.40%**	**2.98%**	**3.03%**	**3.13%**	**3.23%**	**3.15%**
of which							
(i) plan grant from Centre	1.45%	1.27%	1.00%	1.18%	1.42%	1.63%	1.30%
(ii) non plan grant from Centre	0.9%	0.9%	0.7%	0.6%	0.6%	0.5%	0.65%
(iii) State own non-tax Revenue	1.30%	1.27%	1.24%	1.21%	1.16%	1.11%	1.20%
15. Total Revenue Receipts	12.75%	12.79%	12.52%	12.74%	13.03%	13.32%	12.88%
16. Gross Fiscal Deficit	2.35%	2.50%	2.50%	2.50%	3.00%	3.00%	2.70%
17. Revenue Deficit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**7.79%**	**7.90%**	**8.38%**	**9.68%**	**10.40%**	**8.83%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance

marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.15**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance

marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.

Appendix Table 5

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

8.5% growth Scenario with FRBM target : Centre's Revenue Buoyancy =1.25

CENTRE	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Plan	**4.38%**	**4.34%**	**4.48%**	**4.94%**	**5.52%**	**6.09%**	**5.08%**
of which							
(i) Grant to States	1.45%	1.32%	1.11%	1.36%	1.65%	1.93%	1.47%
(ii) Other Plan revenue Expenditure	2.19%	1.43%	1.20%	1.47%	1.79%	2.09%	1.60%
(iii) Plan Capital Expenditure	0.73%	1.59%	2.17%	2.10%	2.09%	2.07%	2.00%
2. Total Non-Plan	**9.9%**	**9.6%**	**9.2%**	**8.9%**	**8.5%**	**8.1%**	**8.86%**
of which							
(i) Interest payments	3.5%	3.4%	3.2%	3.0%	2.8%	2.6%	2.99%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	1.0%	0.9%	0.9%	0.8%	0.92%
(iv) non-plan grant to States	0.9%	0.9%	0.7%	0.6%	0.5%	0.5%	0.65%
(v) Subsidies	1.2%	1.1%	1.0%	1.0%	0.9%	0.8%	0.96%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.08%
3. Total Expenditure	**14.3%**	**13.9%**	**13.7%**	**13.8%**	**14.0%**	**14.2%**	**13.93%**
4. Gross tax revenue	**11.2%**	**11.5%**	**11.8%**	**12.2%**	**12.5%**	**12.9%**	**12.19%**
Less : Share of States	2.9%	3.1%	3.2%	3.3%	3.4%	3.5%	3.32%
5. Net Tax to Centre	8.3%	8.4%	8.6%	8.9%	9.1%	9.4%	8.87%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.8%	1.7%	1.6%	1.77%
7. Total Revenue Receipt	10.2%	10.3%	10.4%	10.6%	10.8%	11.0%	10.64%
8. Gross Fiscal Deficit	3.8%	3.4%	3.0%	3.0%	3.0%	3.0%	3.08%
9. Revenue Deficit	2.1%	1.0%	0.0%	0.0%	0.0%	0.0%	0.20%
STATES							
10. States Plan	**4.62%**	**4.92%**	**4.91%**	**5.44%**	**6.62%**	**7.27%**	**5.83%**
11. Total Non-Plan	**11.08%**	**10.45%**	**10.28%**	**10.07%**	**9.79%**	**9.54%**	**10.03%**
of which							
(i) Interest payments	2.37%	2.27%	2.18%	2.09%	2.00%	1.95%	2.10%
(ii) Pay & Allowances	3.28%	3.26%	3.23%	3.17%	3.09%	3.01%	3.15%
(iii) Pension	1.21%	1.22%	1.22%	1.21%	1.19%	1.17%	1.20%
(iv) Other Non-Plan	3.72%	3.70%	3.66%	3.60%	3.51%	3.41%	3.58%
12. Total Expenditure	**15.71%**	**15.36%**	**15.19%**	**15.52%**	**16.41%**	**16.81%**	**15.86%**
13. Tax Revenue	**9.11%**	**9.42%**	**9.62%**	**9.84%**	**10.07%**	**10.32%**	**9.85%**
of which							
(i) State Own Tax Revenue	6.20%	6.30%	6.41%	6.53%	6.65%	6.78%	6.53%
(ii) Share from Centre	2.91%	3.12%	3.21%	3.31%	3.42%	3.53%	3.32%
14. Non-tax Revenue	3.64%	3.44%	3.07%	3.18%	3.34%	3.49%	3.30%
of which							
(i) plan grant from Centre	1.45%	1.32%	1.11%	1.36%	1.65%	1.93%	1.47%
(ii) non plan grant from Centre	0.9%	0.9%	0.7%	0.6%	0.5%	0.5%	0.65%
(iii) State own non-tax Revenue	1.30%	1.27%	1.23%	1.19%	1.14%	1.09%	1.18%
15. Total Revenue Receipts	12.75%	12.86%	12.69%	13.02%	13.41%	13.81%	13.16%
16. Gross Fiscal Deficit	**2.35%**	**2.50%**	**2.50%**	**2.50%**	**3.00%**	**3.00%**	**2.70%**
17. Revenue Deficit	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**7.94%**	**8.28%**	**9.02%**	**10.49%**	**11.44%**	**9.43%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance

marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.25**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance

marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.

Appendix Table 6

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

8.5% growth Scenario with FRBM target : Centre's Revenue Buoyancy =1.15

CENTRE	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Plan	**4.38%**	**4.26%**	**4.30%**	**4.66%**	**5.13%**	**5.58%**	4.79%
of which							
(i) Grant to States	1.45%	1.28%	1.03%	1.23%	1.46%	1.68%	1.34%
(ii) Other Plan revenue Expenditure	2.19%	1.39%	1.11%	1.33%	1.58%	1.82%	1.45%
(iii) Plan Capital Expenditure	0.73%	1.59%	2.17%	2.10%	2.09%	2.07%	2.00%
2. Total Non-Plan	9.9%	9.6%	9.2%	8.9%	8.5%	8.1%	8.86%
of which							
(i) Interest payments	3.5%	3.4%	3.2%	3.0%	2.8%	2.6%	2.99%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	1.0%	0.9%	0.9%	0.8%	0.92%
(iv) non-plan grant to States	0.9%	0.9%	0.7%	0.6%	0.5%	0.5%	0.65%
(v) Subsidies	1.2%	1.1%	1.0%	1.0%	0.9%	0.8%	0.96%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.08%
3. Total Expenditure	**14.3%**	**13.8%**	**13.5%**	**13.6%**	**13.6%**	**13.7%**	**13.64%**
4. Gross tax revenue	**11.2%**	**11.4%**	**11.6%**	**11.8%**	**12.0%**	**12.2%**	**11.79%**
Less : Share of States	2.9%	3.1%	3.1%	3.2%	3.3%	3.3%	3.20%
5. Net Tax to Centre	8.3%	8.3%	8.4%	8.6%	8.7%	8.9%	8.58%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.8%	1.7%	1.6%	1.77%
7. Total Revenue Receipt	10.2%	10.2%	10.3%	10.3%	10.4%	10.5%	10.35%
8. Gross Fiscal Deficit	**3.8%**	**3.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.08%**
9. Revenue Deficit	**2.1%**	**1.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.20%**
STATES							
10. States Plan	**4.62%**	**4.84%**	**4.75%**	**5.20%**	**6.27%**	**6.82%**	**5.58%**
11. Total Non-Plan	**11.08%**	**10.45%**	**10.28%**	**10.07%**	**9.79%**	**9.54%**	**10.03%**
of which							
(i) Interest payments	2.37%	2.27%	2.18%	2.09%	2.00%	1.95%	2.10%
(ii) Pay & Allowances	3.28%	3.26%	3.23%	3.17%	3.09%	3.01%	3.15%
(iii) Pension	1.21%	1.22%	1.22%	1.21%	1.19%	1.17%	1.20%
(iv) Other Non-Plan	3.72%	3.70%	3.66%	3.60%	3.51%	3.41%	3.58%
12. Total Expenditure	**15.71%**	**15.29%**	**15.04%**	**15.27%**	**16.06%**	**16.36%**	15.60%
13. Tax Revenue	9.11%	9.39%	9.55%	9.73%	9.92%	10.11%	9.74%
of which							
(i) State Own Tax Revenue	6.20%	6.30%	6.41%	6.53%	6.65%	6.78%	6.53%
(ii) Share from Centre	2.91%	3.09%	3.14%	3.20%	3.26%	3.33%	3.20%
14. Non-tax Revenue	3.64%	3.40%	2.98%	3.04%	3.15%	3.25%	3.16%
of which							
(i) plan grant from Centre	1.45%	1.28%	1.03%	1.23%	1.46%	1.68%	1.34%
(ii) non plan grant from Centre	0.9%	0.9%	0.7%	0.6%	0.5%	0.5%	0.65%
(iii) State own non-tax Revenue	1.30%	1.27%	1.23%	1.19%	1.14%	1.09%	1.18%
15. Total Revenue Receipts	**12.75%**	**12.79%**	**12.54%**	**12.77%**	**13.06%**	**13.36%**	**12.90%**
16. Gross Fiscal Deficit	**2.35%**	**2.50%**	**2.50%**	**2.50%**	**3.00%**	**3.00%**	**2.70%**
17. Revenue Deficit	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**7.82%**	**8.03%**	**8.63%**	**9.94%**	**10.72%**	**9.03%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance

marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.15**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance

marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.

Appendix Table 7

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

9.0% growth Scenario with FRBM target : Centre's Revenue Buoyancy =1.25

CENTRE	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Plan	**4.38%**	**4.37%**	**4.55%**	**5.05%**	**5.63%**	**6.22%**	**5.17%**
of which							
(i) Grant to States	1.45%	1.34%	1.15%	1.41%	1.70%	1.99%	1.52%
(ii) Other Plan revenue Expenditure	2.19%	1.45%	1.24%	1.53%	1.85%	2.16%	1.64%
(iii) Plan Capital Expenditure	0.73%	1.59%	2.17%	2.10%	2.09%	2.07%	2.00%
2. Total Non-Plan	**9.9%**	**9.6%**	**9.1%**	**8.8%**	**8.4%**	**8.0%**	**8.76%**
of which							
(i) Interest payments	3.5%	3.4%	3.2%	2.9%	2.7%	2.6%	2.95%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	0.9%	0.9%	0.9%	0.8%	0.91%
(iv) non-plan grant to States	0.9%	0.8%	0.7%	0.6%	0.5%	0.5%	0.64%
(v) Subsidies	1.2%	1.1%	1.0%	0.9%	0.9%	0.8%	0.95%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.06%
3. Total Expenditure	**14.3%**	**13.9%**	**13.7%**	**13.8%**	**14.0%**	**14.2%**	**13.93%**
4. Gross tax revenue	**11.2%**	**11.5%**	**11.8%**	**12.2%**	**12.6%**	**13.0%**	**12.23%**
Less : Share of States	2.9%	3.1%	3.2%	3.3%	3.4%	3.5%	3.33%
5. Net Tax to Centre	8.3%	8.4%	8.6%	8.9%	9.2%	9.5%	8.90%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.7%	1.7%	1.6%	1.74%
7. Total Revenue Receipt	10.2%	10.3%	10.4%	10.6%	10.8%	11.1%	10.64%
8. Gross Fiscal Deficit	**3.8%**	**3.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.08%**
9. Revenue Deficit	**2.1%**	**1.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.20%**
STATES							
10. States Plan	**4.62%**	**4.98%**	**5.05%**	**5.67%**	**6.86%**	**7.54%**	**6.02%**
11. Total Non-Plan	**11.08%**	**10.40%**	**10.17%**	**9.89%**	**9.60%**	**9.33%**	**9.88%**
of which							
(i) Interest payments	2.37%	2.26%	2.16%	2.06%	1.96%	1.91%	2.07%
(ii) Pay & Allowances	3.28%	3.24%	3.19%	3.12%	3.03%	2.94%	3.10%
(iii) Pension	1.21%	1.21%	1.20%	1.19%	1.16%	1.14%	1.18%
(iv) Other Non-Plan	3.72%	3.68%	3.62%	3.54%	3.44%	3.34%	3.52%
12. Total Expenditure	**15.71%**	**15.38%**	**15.22%**	**15.57%**	**16.46%**	**16.87%**	**15.90%**
13. Tax Revenue	**9.11%**	**9.43%**	**9.64%**	**9.87%**	**10.10%**	**10.35%**	**9.88%**
of which							
(i) State Own Tax Revenue	6.20%	6.30%	6.42%	6.54%	6.67%	6.80%	6.55%
(ii) Share from Centre	2.91%	3.13%	3.22%	3.33%	3.43%	3.55%	3.33%
14. Non-tax Revenue	3.64%	3.45%	3.08%	3.20%	3.36%	3.52%	3.32%
of which							
(i) plan grant from Centre	1.45%	1.34%	1.15%	1.41%	1.70%	1.99%	1.52%
(ii) non plan grant from Centre	0.9%	0.8%	0.7%	0.6%	0.5%	0.5%	0.64%
(iii) State own non-tax Revenue	1.30%	1.26%	1.22%	1.17%	1.12%	1.06%	1.17%
15. Total Revenue Receipts	**12.75%**	**12.88%**	**12.72%**	**13.07%**	**13.46%**	**13.87%**	**13.20%**
16. Gross Fiscal Deficit	**2.35%**	**2.50%**	**2.50%**	**2.50%**	**3.00%**	**3.00%**	**2.70%**
17. Revenue Deficit	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**8.02%**	**8.46%**	**9.31%**	**10.79%**	**11.77%**	**9.67%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance

marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.25**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance

marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

9.0% growth Scenario with FRBM target : Centre's Revenue Buoyancy =1.15

CENTRE	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Plan	**4.38%**	**4.29%**	**4.37%**	**4.76%**	**5.23%**	**5.68%**	**4.86%**
of which							
(i) Grant to States	1.45%	1.29%	1.06%	1.27%	1.51%	1.73%	1.37%
(ii) Other Plan revenue Expenditure	2.19%	1.40%	1.14%	1.38%	1.63%	1.88%	1.49%
(iii) Plan Capital Expenditure	0.73%	1.59%	2.17%	2.10%	2.09%	2.07%	2.00%
2. Total Non-Plan	**9.9%**	**9.6%**	**9.1%**	**8.8%**	**8.4%**	**8.0%**	**8.76%**
of which							
(i) Interest payments	3.5%	3.4%	3.2%	2.9%	2.7%	2.6%	2.95%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	0.9%	0.9%	0.9%	0.8%	0.91%
(iv) non-plan grant to States	0.9%	0.8%	0.7%	0.6%	0.5%	0.5%	0.64%
(v) Subsidies	1.2%	1.1%	1.0%	0.9%	0.9%	0.8%	0.95%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.06%
3. Total Expenditure	**14.3%**	**13.8%**	**13.5%**	**13.5%**	**13.6%**	**13.7%**	**13.63%**
4. Gross tax revenue	**11.2%**	**11.4%**	**11.6%**	**11.8%**	**12.0%**	**12.3%**	**11.81%**
Less : Share of States	2.9%	3.1%	3.1%	3.2%	3.3%	3.3%	3.21%
5. Net Tax to Centre	8.3%	8.3%	8.4%	8.6%	8.8%	8.9%	8.60%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.7%	1.7%	1.6%	1.74%
7. Total Revenue Receipt	10.2%	10.2%	10.2%	10.3%	10.4%	10.5%	10.34%
8. Gross Fiscal Deficit	**3.8%**	**3.4%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.08%**
9. Revenue Deficit	**2.1%**	**1.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.20%**
STATES							
10. States Plan	**4.62%**	**4.90%**	**4.89%**	**5.42%**	**6.50%**	**7.07%**	**5.76%**
11. Total Non-Plan	**11.08%**	**10.40%**	**10.17%**	**9.89%**	**9.60%**	**9.33%**	**9.88%**
of which							
(i) Interest payments	2.37%	2.26%	2.16%	2.06%	1.96%	1.91%	2.07%
(ii) Pay & Allowances	3.28%	3.24%	3.19%	3.12%	3.03%	2.94%	3.10%
(iii) Pension	1.21%	1.21%	1.20%	1.19%	1.16%	1.14%	1.18%
(iv) Other Non-Plan	3.72%	3.68%	3.62%	3.54%	3.44%	3.34%	3.52%
12. Total Expenditure	**15.71%**	**15.30%**	**15.06%**	**15.31%**	**16.10%**	**16.40%**	**15.63%**
13. Tax Revenue	9.1%	9.4%	9.6%	9.8%	9.9%	10.1%	9.76%
of which							
(i) State Own Tax Revenue	6.2%	6.3%	6.4%	6.5%	6.7%	6.8%	6.55%
(ii) Share from Centre	2.9%	3.1%	3.1%	3.2%	3.3%	3.3%	3.21%
14. Non-tax Revenue	3.64%	3.40%	2.99%	3.06%	3.16%	3.26%	3.18%
of which							
(i) plan grant from Centre	1.45%	1.29%	1.06%	1.27%	1.51%	1.73%	1.37%
(ii) non plan grant from Centre	0.9%	0.8%	0.7%	0.6%	0.5%	0.5%	0.64%
(iii) State own non-tax Revenue	1.30%	1.26%	1.22%	1.17%	1.12%	1.06%	1.17%
15. Total Revenue Receipts	**12.75%**	**12.80%**	**12.56%**	**12.81%**	**13.10%**	**13.40%**	**12.93%**
16. Gross Fiscal Deficit	**2.35%**	**2.50%**	**2.50%**	**2.50%**	**3.00%**	**3.00%**	**2.70%**
17. Revenue Deficit	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**7.90%**	**8.20%**	**8.90%**	**10.22%**	**11.02%**	**9.25%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance

marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.15**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance

marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.

Government Finance Projection for Eleventh Five Year Plan (2007-12)- Central and State Governments

(as per cent of GDP)

8.5% growth Scenario with FRBM target shifted to 2010-11 : Centre's Revenue Buoyancy =1.25

CENTRE	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Plan Average Eleventh Plan
1. GBS to Plan	**4.38%**	**4.74%**	**5.26%**	**5.67%**	**5.41%**	**6.00%**	**5.42%**
of which							
(i) Grant to States	1.45%	1.80%	1.82%	1.81%	1.60%	1.89%	1.78%
(ii) Other Plan revenue Expenditure	2.19%	1.95%	1.97%	1.96%	1.73%	2.04%	1.93%
(iii) Plan Capital Expenditure	0.73%	0.99%	1.47%	1.90%	2.09%	2.07%	1.70%
2. Total Non-Plan	9.9%	9.6%	9.2%	9.0%	8.6%	8.2%	8.92%
of which							
(i) Interest payments	3.5%	3.4%	3.2%	3.1%	2.9%	2.7%	3.05%
(ii) Defence	2.3%	2.2%	2.2%	2.3%	2.3%	2.3%	2.26%
(iii) Pay & Allowances	1.0%	1.0%	1.0%	0.9%	0.9%	0.8%	0.92%
(iv) non-plan grant to States	0.9%	0.9%	0.7%	0.6%	0.5%	0.5%	0.65%
(v) Subsidies	1.2%	1.1%	1.0%	1.0%	0.9%	0.8%	0.96%
(vi) Other Non-Plan	1.0%	1.1%	1.1%	1.1%	1.1%	1.1%	1.08%
3. Total Expenditure	**14.3%**	**14.3%**	**14.5%**	**14.6%**	**14.0%**	**14.2%**	**14.33%**
4. Gross tax revenue	**11.2%**	**11.5%**	**11.8%**	**12.2%**	**12.5%**	**12.9%**	**12.19%**
Less : Share of States	2.9%	3.1%	3.2%	3.3%	3.4%	3.5%	3.32%
5. Net Tax to Centre	8.3%	8.4%	8.6%	8.9%	9.1%	9.4%	8.87%
6. Non-tax Revenue	1.9%	1.9%	1.8%	1.8%	1.7%	1.6%	1.77%
7. Total Revenue Receipt	10.2%	10.3%	10.4%	10.6%	10.8%	11.0%	10.64%
8. Gross Fiscal Deficit	**3.8%**	**3.8%**	**3.8%**	**3.8%**	**3.0%**	**3.0%**	**3.48%**
9. Revenue Deficit	**2.1%**	**2.0%**	**1.5%**	**1.0%**	**0.0%**	**0.0%**	**0.90%**
STATES							
10. States Plan	**4.62%**	**5.40%**	**5.62%**	**5.89%**	**6.56%**	**7.23%**	**6.14%**
11. Total Non-Plan	**11.08%**	**10.45%**	**10.28%**	**10.07%**	**9.79%**	**9.54%**	**10.03%**
of which							
(i) Interest payments	2.37%	2.27%	2.18%	2.09%	2.00%	1.95%	2.10%
(ii) Pay & Allowances	3.28%	3.26%	3.23%	3.17%	3.09%	3.01%	3.15%
(iii) Pension	1.21%	1.22%	1.22%	1.21%	1.19%	1.17%	1.20%
(iv) Other Non-Plan	3.72%	3.70%	3.66%	3.60%	3.51%	3.41%	3.58%
12. Total Expenditure	**15.71%**	**15.84%**	**15.90%**	**15.96%**	**16.35%**	**16.77%**	**16.17%**
13. Tax Revenue	9.11%	9.42%	9.62%	9.84%	10.07%	10.32%	9.85%
of which							
(i) State Own Tax Revenue	6.20%	6.30%	6.41%	6.53%	6.65%	6.78%	6.53%
(ii) Share from Centre	2.91%	3.12%	3.21%	3.31%	3.42%	3.53%	3.32%
14. Non-tax Revenue	3.64%	3.92%	3.78%	3.63%	3.28%	3.45%	3.61%
of which							
(i) plan grant from Centre	1.45%	1.80%	1.82%	1.81%	1.60%	1.89%	1.78%
(ii) non plan grant from Centre	0.9%	0.9%	0.7%	0.6%	0.5%	0.5%	0.65%
(iii) State own non-tax Revenue	1.30%	1.27%	1.23%	1.19%	1.14%	1.09%	1.18%
15. Total Revenue Receipts	12.75%	13.34%	13.40%	13.46%	13.35%	13.77%	13.47%
16. Gross Fiscal Deficit	**2.35%**	**2.50%**	**2.50%**	**2.50%**	**3.00%**	**3.00%**	**2.70%**
17. Revenue Deficit	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Total Budgetary Support for Plan (Centre and States)* [1+10-1(i)]	**7.55%**	**8.34%**	**9.06%**	**9.75%**	**10.38%**	**11.34%**	**9.77%**

Assumptions for Projection: -

Rate of Inflation **5 per cent**

Assumptions for Central Finance

marginal rate of interst (nominal)	**7.0%**
tax buoyancy	**1.25**
annual growth in non tax revenue	**12.5%**
annual growth in pay & allowance	**10%**
Growth in ONP	**10%**
States' share in Central Tax	**29%**

Assumptions for State Finance

marginal rate of interst (nominal)	**8.5%**
tax buoyancy	**1.15**
annual growth in own non tax revenue	**10%**
annual growth in pension	**13%**
annual growth in pay & allowance	**12%**
Rate of Growth in ONP	**12%**

* This total rules out the component of grants to States, which is an expenditure in the Central budget and a receipt in the State budgets.