

Planning Commission

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Issues for the Approach to the Twelfth Plan

The meeting of the Planning Commission on 21st April considered a presentation on “Issues for the Approach to the 12th Plan”. Based on the discussion, the Commission will prepare a Draft Approach Document which will be discussed with the States in May and will be finalised by June.

The following are the main points in the presentation and the subsequent discussions.

Eleventh Plan Performance

GDP growth for the 11th Plan is likely to be 8.2%, which is less than the target of 9%, but is a remarkable achievement given the worst drought in 30 years and the global recession. We have also seen progress on various aspects of inclusiveness, though the progress has been less than what was targeted. Agricultural growth has improved from 2% in the Tenth Plan to 3%, but this is below the 4% target. There has also been progress in poverty reduction and in the areas of health, education and in upliftment of SC/STs. However, trends reveal that we are likely to miss the Millennium Development Goals (MDGs) in several of the targets, especially those relating to health.

Inflation has accelerated in the past two years and is now an area of concern. The global environment is also highly uncertain, both in terms of the strength of recovery in the developed countries and also the volatility in commodity prices, especially oil. International financial markets are yet to stabilize, and the extraordinary easing of global money supply has yet to play itself out.

Planning Commission has undertaken extensive consultations with a wide range of organizations and individuals, which reveals that citizen groups support the broad objectives of existing government programmes, but they have little faith in the design of these programmes and the manner of execution. There is a perception that government programmes, especially Centrally Sponsored Schemes, are not sensitive enough to local needs. Also, Government works in silos with little effort to achieve convergence and co-ordination across Ministries and between Centre and States, even though most problems require inter-Governmental and inter-Ministerial co-ordination.

Twelfth Plan Objectives

The basic objective for the Twelfth Plan must be **faster, more inclusive and sustainable growth**.

A key issue is what the Growth target should be. The target of 10% is being mentioned, but our internal assessment is that even 9% will be difficult given the constraints we face. In the short to medium run, the main constraints relate to insufficient agricultural growth leading to inflation, growing skill shortages, and the unsettled global economy. In the longer run, the environment and natural resources, particularly energy and water, pose serious challenges. We are therefore proposing a target range of GDP growth of **9 to 9.5%**.

It is our conviction that an inclusive growth strategy is essential to address some of the main growth constraints outlined above, and to make the target growth rate feasible. The following are the key instruments for making growth more inclusive:

- (i) Better performance in agriculture (at least 4% growth).
- (ii) Faster creation of jobs in manufacturing. We should specify a target for extra jobs to be created in this sector in next 5 years. This will be worked out in greater detail, but at its heart lies our ability to spread industrial growth more widely.
- (iii) Both agricultural and manufacturing growth will depend upon the creation of appropriate infrastructural facilities in a widely dispersed manner. Rural connectivity is particularly important in this regard, especially in the backward areas and the north-east.
- (iv) There must be a much stronger effort at health, education and skill development
- (v) Reforming the implementation of flagship programmes to increase their effectiveness in achieving the objective of greater inclusion.
- (vi) Special challenges focused by vulnerable groups and backward regions. The need for a special focus on backward regions has particularly become urgent.

Agriculture and Rural Development

We must aim for a target of 4% agricultural growth. Cereals will grow only at 1.5 to 2.0% and we need not set higher targets for this. However, other food (horticulture, dairying, fisheries etc.) need to grow at more than 5%. This calls for a change in agricultural strategy as these are all perishable products, and therefore subject to much higher degree of market risk than food-grains, oil seeds or natural fibres. In the case of these products, which are all relatively high value,

investments and institutional development are more important than subsidies or price support systems.

Nevertheless, we must focus on raising land productivity and water use efficiency. State specific strategies are needed. Dry areas need to focus on livestock. Most importantly, markets must be reformed. An important beginning has been made by granting statutory status to warehouse receipts. However, the real benefits from this measure can accrue only when the appropriate warehouse infrastructure and supporting backward linkages have been created and a nationwide trading platform has been put in place. Consideration should be given to extending infrastructure status to a wider range of agricultural market facilities in the same manner as for warehouses. States must modify the Essential Commodities Act (ECA) and the APMC Act (perhaps exclude horticulture and perishables entirely from the ambit of APMC), rebuild the extension system, increase the involvement of private sector in marketing, and also facilitate leasing in/out of land by farmers. State agricultural universities and extension networks are in a bad shape and need strengthening.

MGNREGS has helped generate employment and income in rural areas but it can do much more to increase land productivity, particularly in rainfed areas. This calls for redesign of the programme in the Twelfth Plan. In addition, MGNREGA has transformed rural labour relations, which is bound to affect the production decisions of farmers, both in terms of crops as well as technologies. The Agricultural support systems must facilitate this transition, which requires greater flexibility and responsiveness.

Forest economies and tribal societies need greater protection and promotion. Steps need to be taken to make PESA and FRA more effective. This can be in conjunction with schemes for increasing resources directed to the backward regions.

Water

Water is emerging as a major problem, both for drinking as well as for irrigation. Urban and industrial demand for water is going up rapidly, without commensurate augmentation of supply. To address this critical problem, we need to put an integrated strategy in place immediately. The elements of this strategy could be:

- (i) Re-estimate India's water balance basin-wise. All aquifers must be mapped over the next five years and aquifer management plans put in place.
- (ii) AIBP must be restructured to incentivize irrigation reform and efficiency of water use. Setting up Water Regulatory Authority should

be made a precondition for AIBP approvals. Some States are already doing this.

- (iii) Watershed management must be given higher priority, with convergence of programmes and better technical support.
- (iv) Separation of electrical feeders for agriculture with high-quality assured, even if rationed, power supply can potentially reduce ground water use.
- (v) Water recycling in urban areas and by industries should be enforced to protect water levels and water quality in both surface and ground water sources.
- (vi) The legal and policy framework needs to be improved. We may consider promulgating a new Groundwater Law reflecting the principles of Public Trust Doctrine, and a new Water Framework Law along the lines of the one that exists in the European Union.
- (vii) A National Water Commission may be put in place to monitor compliance with conditionalities imposed in clearance of important projects.

Since water is primarily a State subject, we will need to evolve a political consensus along the lines of what was done in the case of power. Perhaps a special National Development Council meeting could be convened for this purpose.

Industry

Manufacturing performance is weak. Growth of manufacturing in the 11th Plan is likely to be only 8%. We need to raise this to 11-12% per year in the 12th Plan to create the jobs for our growing labour force. This has become a particularly urgent need since it is now clear that agriculture will no longer absorb more workers, and may indeed release some of the existing work-force. In our estimation, the manufacturing sector will have to create around 3 to 4 million jobs over and above the pace of job creation in the recent past.

We are fortunate to have an abundance of entrepreneurial talent in the country, which needs to be harnessed effectively if we are to achieve the desired growth in manufacturing. The corporate sector has largely been unfettered, and has demonstrated its dynamism. There are, however, limits to which it can grow. A large part of the additional growth will have to come from the MSME sector, which continues to face a plethora of hurdles in realizing its true potential. The Twelfth Plan will need to focus on this.

For accelerating manufacturing growth, therefore, we need a strategy to:

- (i) Achieve greater domestic value addition and technological depth in Indian industry to cater to growing domestic demand and to improve our trade position.
- (ii) Attract investment, including FDI, in critical areas where manufacturing capacity should be modernised and developed.
- (iii) Improve the business environment and reduce the cost of doing business. This is largely an agenda item for state governments. (Procedural wrangles and corruption affect small business the most.)
- (iv) Land and infrastructure constraints must be addressed effectively. Again, this is largely in the domain of the State, but the Centre can incentivise.
- (v) Promoting “clusters” is a very effective way of helping manufacturing and promoting MSMEs. State Governments should be incentivized to support clusters.

Education

Education has received less funds in the Eleventh Plan than was envisaged. This is partly because the sector made a slow start, but also because of resource constraints. The Twelfth Plan has to correct this.

Eleventh Plan focused on quantity in school expansion. We have recorded significant success in this regard, with enrolment rates going up rapidly, especially in primary education. However, scholastic achievement tests show that learning achievements of the students are well below desired levels. Twelfth Plan must focus on quality. This includes teacher training and evaluation, and also measures to enforce accountability.

We now need to rapidly build capacity in secondary schools to absorb the graduates from expanded primary enrolments. States must facilitate PPP in secondary education. States are keen to do this, and we are collaborating with them on this. The drop-out rates between primary and secondary education continue to be extremely high, which raises questions regarding the perceptions of the utility of secondary education among the people. This will need to be changed through introducing higher skill content at the secondary schools level. Vocational education will need to be given greater emphasis and made more attractive.

The gross enrolment ratio (GER) in higher education must be targeted to increase from nearly 18% today to say 25% by 2016-17 and perhaps 30% by 2020. Private universities and colleges have played a major role in increasing enrolment in higher education in recent years, but there are concerns regarding both equity and quality. Measures will need to be taken to further promote

private initiatives in higher education while addressing the concerns that have arisen.

Skill Development needs a major focus at all levels. We must involve PPP to ensure that the skills developed also lead to employability.

Health

The quality of health services needs to be improved through NRHM. We must also focus on preventive aspects of health care, particularly drinking water, sanitation, nutrition, better maternal and child services and immunisation.

Shortage of qualified medical personnel at all levels is a major hurdle in improving the outreach of the healthcare system, especially the public health facilities. This needs to be corrected expeditiously. Efforts are already underway to increase the out-turn of doctors. This will have to be accelerated, and similar efforts have to be put in place for nurses and medical technicians. However, such efforts will take time to have sufficient impact. In the meanwhile, systems will need to be put in place for more effective PPP models in primary health care.

Role of PPP in secondary and tertiary health care must be explored with greater vigour. Planning Commission needs to evolve appropriate concession models to facilitate this. We are in touch with states to study their experiments, and best practices will need to be propagated in the country.

Expenditure on health by the Centre and States needs to be increased from 1.3 percent of GDP at present to 2.0 percent (and perhaps even 2.5 percent) by the end of 12th Plan.

Energy

GDP growth of 9% requires commercial energy growth of 7%. The likely achievement in 11th Plan is 5.5%. Unless we can ensure adequate growth in commercial energy availability, the GDP growth target cannot be achieved.

The following policy issues have to be addressed.

- (i) We need to create 100,000 MW of new power capacity in the Twelfth Plan. The ability to do so is seriously undermined by persisting large losses in the discoms, estimated at Rs.70,000 crore per year. These losses are being sustained only because banks continue to lend to what are effectively bankrupt discoms. State Governments have to be incentivised to implement distribution reforms which reduce ATC

losses. Some states are succeeding but in general the progress is too slow. Better performing states should be rewarded.

- (ii) Forest and environment clearance procedures are hindering both coal availability and hydro-power development. State governments with coal and hydro resources have been complaining strongly about the costs being borne by them.
- (iii) The implementation of past policy initiatives is incomplete. Prices of electricity are not sufficiently flexible and regulators are being restrained from allowing periodic price increases. Open access is still not a reality, and needs to be incentivized.
- (iv) At present, **petroleum, gas and coal prices** all three are out of line with world prices and world energy prices are unlikely to soften. Domestic prices need to be better aligned to give the right signals to both consumers and investors. We need to adopt a time-bound programme to achieve this alignment over three years.
- (v) **Coal production** will be a major constraint partly due to weak performance of Coal India and partly environmental constraints. Because coal production cannot be increased sufficiently, we must plan now for coal imports to rise from 80 million tonnes to 250 million tonnes by the end of the 12th Plan. This will require corresponding expansion of rail and port capacity.
- (vi) Coal India must become a coal supplier and not just a mining company. It should plan to import coal and carry out price pooling and blending to meet the needs of the users.
- (vii) In the **petroleum and natural gas sector**, we need further expansion of new NELP blocks and a clear policy for exploration of shale gas, integrated development of oil and gas blocks. Bidding in various oil exploration rounds in the past has not attracted oil majors. Term of PSCs should perhaps be clear to attract investment. This is an area where foreign participation in exploration also brings in up-to-date technology.
- (viii) **Nuclear power** programme must continue, with necessary safety review. Active efforts need to be made to allay the apprehensions of people regarding the safety of nuclear power plants.
- (ix) **Solar** mission is seriously underfunded and requires more support. It is also not clear whether the current bidding process is sufficiently competitive and provides appropriate incentives for improving efficiency. **Wind** power too requires greater support, especially for off-shore locations which have not been sufficiently explored.
- (x) **Demand** side management of energy is as important as action on the supply side. Realistic pricing will help. However, we also need more pro-active standard setting for appliances, vehicles and buildings.

Transport

GDP growth at 9% or more will need to be supported by much faster expansion in transport infrastructure than we have seen in the past. The requirements of energy efficiency also require a shift from road to rail in freight.

The following are some of the important issues that arise:

- (i) The Dedicated Freight Corridor project is a major capacity enhancing investment for the Railways. It must be put on a monitoring system such that both corridors are completed before the end of the Twelfth Plan. For this purpose, milestone must be clearly fixed, and responsibility assigned.
- (ii) The Railways have to undertake an ambitious programme of modernisation and technical upgradation which increases their freight carrying capacity. Unless this is done they will not be capable of facilitating the shift from road to rail transport which is crucial for energy efficiency. This can only be achieved if (a) the Railways desist from diverting resources to gauge conversion and uneconomic passenger lines and (b) Railways financing is improved to be able to support medium term expansion.
- (iii) Improved Railway financing requires rationalisation of freight: passenger fares in the Railways. If this is not done, the Railways will simply not achieve financial viability.
- (iv) The Railways must move speedily to implement the PPP projects that are pending in diesel and electric locomotives.
- (v) Rail and road linkages to ports must have top priority.
- (vi) The NHAI programme needs to be put on a track where monitorable milestones targets are set for the 12th Plan with maximum emphasis on viable BOT projects to reduce the demand for Government resources.
- (vii) The port expansion programme has been seriously delayed. PPP in ports should be exploited. Much more needs to be done to deepen ports.

Plan Size and Resources

The feasible size of the Twelfth Plan will be worked out in consultation with the Finance Ministry. As in the past, a Working Group has been set up under the Chairmanship of the Chief Economic Adviser. The size will depend upon:

- (a) the buoyancy in revenues
- (b) the tolerable level of the fiscal deficit
- (c) the extent to which we can control non-Plan expenditure including subsidies.

A tentative picture available at present suggests that the Centre's GBS could increase from 4.9% of GDP in 2011-12 to 6.2% of GDP in 2016-17. Most of this increase will be in the last two years of the Plan since in the first three years the fiscal deficit will have to be compressed from 4.6% in 2011-12 (the base year) to 4.1%, 3.5% and finally 3.0% in 2014-15.

A key assumption affecting the resource projection is that non-Plan expenditure growth can be contained below GDP growth. The absence of a Pay Commission in this period will help. However, critical to this projection is the assumption that subsidies will grow by only 5% per year. It may be difficult to contain food subsidy within that limit, depending on the outcome of the Food Security Act. However, strong action will be needed in containing fertiliser subsidy and petroleum subsidies.

Allocation Priorities in the 12th Plan

The increase in the GBS as a percentage of GDP between 2011-12 and 2017-18 is therefore only 1.3 percentage point. However, we have to provide a significant increase for health, education, and infrastructure as a percentage of GDP.

Health and Education received only about 60% of the planned allocation in the 11th Plan as against an over-all realization of 87%. This was partly on account of major new schemes being launched during the Plan, and partly due to limitations in the absorptive capacity in these sectors. The preparatory work done during the 11th Plan has led to significant improvement in absorptive capacities, and these sectors both require and are ready for significant increases in allocations. It is estimated that the GBS allocated to these two sectors, including skill development initiatives, will need to be increased by at least 1.2 percentage point of GDP.

Infrastructure investments have seen significant improvement during the 11th Plan, but the pace of infrastructure development needs further acceleration if the glaring infrastructure gaps are to be bridged within a reasonable time-frame. Although PPPs have been successful in a number of infrastructure sectors, and efforts will need to be continued in further encouraging private sector involvement, it is felt that public investment in infrastructure, particularly irrigation, watershed development and urban infrastructure, will need an additional 0.7 percentage points of GDP increase over the next five years.

These sectors will therefore need an increase of 1.9 percentage points of GDP as GBS during the 12th Plan. The GBS for the other sectors as a percentage of GDP must therefore go down. The allocation of these sectors will increase in absolute terms, but more slowly than real GDP. This reprioritisation must be accepted.

The above situation emphasises the importance of resorting to PPP as much as possible. This is particularly important in the social sectors, where only tentative beginnings have been made. Several states have initiated interesting models of PPP in social service delivery. These experiments need to be evaluated and best practices up-scaled to the national level.

The innovations made at the state level in a range of sectors make a compelling reason for reconsideration of the Centrally Sponsored Schemes (CSS). The States have consistently argued that the CSS are structured too rigidly to permit innovations and to meet local specificities. There is merit in this argument. It is, therefore, proposed to reduce the number of CSS to only a few major schemes which are of a national character and dictated by the rights and entitlements of citizens. For all the rest, it is proposed to create flexi-funds in the concerned Ministries which can be used to support state-level innovations and/or up-scaling of successful experiments. The success of the Rashtriya Krishi Vikas Yojana (RKVY), which is in effect a flexi-fund scheme, as compared to the other CSS lends further credibility to this approach.

A compelling argument has also been made regarding the lack of ownership of the CSS by the States, and its consequent effect in terms of poor implementation. It has been proposed therefore that the model used in the new APDRP should be extended to all other CSS as well. In this model, central funds are initially provided as loans to the state governments, which are subsequently converted to grants on achievement of pre-specified outcome or output targets.

Governance and Empowerment

Citizen feedback reveals general unhappiness with governance and public service delivery. Four important dimensions have been pointed out: (i) programmes and schemes are often designed without adequate understanding of the desires and limitations of the beneficiaries, especially the most disadvantaged; (ii) systems for informing the people of their rights and entitlements are very poor and often exclusionary; (iii) the service delivery personnel, apart from issues of corruption, are inadequately informed of their duties and responsibilities and take little pride in their work; and (iv) complaint redressal systems are not independent of the delivery mechanism resulting in non-responsive behavior.

People should be active agents of change and this can be achieved only if flagship programmes provide human and financial resources for social mobilization, capacity building and an information strategy. The involvement of civil society organizations (CSOs) in programme design through wide consultations should become a norm. Delivery and policy functions, the latter

including concurrent evaluation, need to be separated in Government Ministries in order to introduce objectivity in programme design and redesign. Consideration needs to be given to setting up professionally managed delivery organizations with clear mandates and accountability.

Information dissemination methodologies need to be entirely recast. The poorest and most disadvantaged need to be targeted specifically. It is also felt that women and the youth are the most effective agents of change, and advantage should be taken of organizations which work closely with them to spread relevant programme information through formal and informal channels.

Total Quality Management needs to be introduced at all levels in service delivery organisations. Training of service delivery personnel and periodic review of performance are essential.

Complaint recording and redressal systems have to be created at an arm's length from the delivery system, and these should be empowered to enforce and monitor compliance. Advantage can be taken of IT systems to increase transparency and responsiveness.

Government departments engaged in related areas tend to work in silos. We need much better mechanism for converging the activity of these departments. In many areas there is need for effective mechanisms for resolution of inter-Ministerial and inter-departmental differences. This is particularly true in the field where the Collector is potentially the only possible focus of convergence but is actually far too overburdened.