



**N.K. Sinha**  
Secretary  
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**D.O. No. N-11016/3(1)/2004-PC**

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Government of India  
Planning Commission  
Yojana Bhavan, Parliament Street  
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Tel.: 23096574 Telefax: 23096575

Dated : 13<sup>th</sup> October, 2004

Dear

I am writing this letter to draw your attention towards initiating the proceedings for the finalization of Annual Plan 2005-06. As is the normal practice, the discussions on the Annual Plan (2005-06) are proposed to be held during December 2004 - January 2005. Accordingly, it is requested that the Annual Plan 2005-06 proposals of your Ministry / Department may please be forwarded to the Planning Commission not later than **11<sup>th</sup> November, 2004**. The guidelines for the classification of the Plan and Non-Plan expenditure (**Appendix - 1**) as also the formats (**Appendix - 2**) for presenting the proposals are enclosed. Given the schedule (**Appendix - 3**) for the formulation of the Annual Plan and its consideration/ approval prior to its incorporation in the Union Budget 2005-06, it would be necessary that we adhere to the indicated schedule for meaningful Plan discussions that give an appropriate reflection of your plan priorities for the Tenth Plan and the Annual Plan 2005-06. On this issue, your Nodal Adviser in the Planning Commission would shortly be in touch with you.

2. In this letter, I would like to share with you the general thinking of the Planning Commission on some important issues that have a bearing on the process of Plan formulation in general and the proposal for the Annual Plan 2005-06 in particular.

3 You are aware that Planning Commission has initiated the Mid-Term Appraisal (MTA) of the Tenth Five Year Plan. The MTA provides an opportunity to take stock of the economy and to introduce policy correctives and new initiatives in critical areas in the context of the new priorities outlined in the National Common Minimum Programme. The approach to the "Mid-Term Appraisal of the Tenth Plan (2002-07)" has been broadly endorsed by the Full Planning Commission chaired by the Prime Minister, and has already been placed on our website, namely, <http://planningcommission.nic.in>. The approach paper sets out in detail the key areas of concern of the Government, and the sectors of economic activity, which we need to focus on during the remainder period of the Tenth Plan. It is suggested that priorities indicated in the Mid-Term Appraisal process should get reflected in the Annual Plan 2005-06. In addition, I would also like to draw your attention towards plans and priorities of the Government outlined in detail in the NCMP, President and Prime Minister's speeches delivered at various forums as well as Finance Minister's Budget Speech for 2004-05.

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4. It is explicitly stated in the very beginning of the National Common Minimum Programme that one of the 'basic principles of governance' is a commitment to 'ensure that the economy grows atleast 7%-8% per year in a sustained manner over a decade and more and in a manner that generates employment, reduces poverty, hunger and homelessness and improves the standard of living so that each family is assured of a safe and viable livelihood. Besides, the policies and programmes must also be environmentally sustainable. This requires acceleration in the rate of growth of agricultural production upto 4% and of industrial production to around 10%-12%, and to establish an appropriate linkage between the two. For this to become feasible, it is of utmost importance that we create an enabling environment that rewards creativity, risk taking and the spirit of enterprise and adventure. The essence of the National Common Minimum Programme is, therefore, the recognition that policies that are aimed at promoting economic growth must also advance the cause of distributive justice and create new employment opportunities. The basic approach of the Government thus, has to be one of seeking faster growth while ensuring that the benefits of growth are more evenly distributed. Further, our policies for higher economic growth and modernization need to be combined with an emphasis on social justice, rural development, regional balance, communal harmony and concern for the environment.

5. There are many critical areas that directly affect the quality of life of every citizen, and where the Government has a role. These areas include the provision of social and physical infrastructure required for development, provision of elementary education and public health, providing drinking water and sanitation. They also include economic infrastructure, which in our country to a large part must be provided by the Government such as irrigation, power, roads and railways. It is expected that the Government, at every level of governance, will be pro-active and sensitive to the needs of the people in these areas. In this context, the Prime Minister, in his Independence Day address (2004) to the nation, had identified seven priority sectors for focused attention. These are agriculture, water, education, health care, employment, urban renewal and infrastructure. He further stated that these seven sectors ("Saat Sutra") are the pillars of the development bridge we must cross to ensure higher economic growth and more equitable social & economic development.

6. You would agree with the view that the experience of the past half a century of development in our own country reveals that a vibrant and productive agrarian economy is the foundation of high and sustained growth. Those regions of our country that have experienced agrarian transformation - economically, socially and politically - have fared better than the ones that have yet to experience agrarian change. Therefore, our strategy for rural development must be fashioned to unleash the productive potential of our agriculture and its allied activities. The Prime Minister, in his address to the Nation on June 24, 2004, therefore, reiterated that the NCMP is committed to giving a "New Deal" for rural India. In his Independence Day address this year, he expressed the view that the "New Deal" that India needs must encompass investment in irrigation, credit delivery, health care, availability of electricity, primary education, rural roads and the modernization of infrastructure for agriculture.

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7 There is a widely accepted view about our growth process that employment generation has not kept pace with demand for jobs. The NCMP also draws attention to the fact that in the past few years, the most employment-intensive segment of small scale industry has suffered extensive neglect. The NCMP also states that all efforts - including making SSI sector free from control regime, improving its access to credit, technological and marketing support and upgrading infrastructure facilities in major industrial clusters, will be made so as to encourage the growth of small & medium enterprises, agro industries and sectors like tourism, where there is a high job potential. There is also an urgent need to provide employment in rural areas. The "Food for Work Programme" will be an important part of our strategy to deal with this challenge. Besides, new investment in the infrastructure sector will also help in generating new job opportunities.

8. Given the fact that Indian economy is gradually integrating with the evolving world economy, the firms in our industries must become more competitive with world-class capabilities based on the use of modern Science & Technology. To enable this, it is necessary on the part of the Government to create world-class and cost-effective infrastructure. The quality of infrastructure in India is normally perceived far below the level required to achieve and sustain high levels of growth. Better roads, better connectivity, model airports and railways, efficient ports and affordable and reliable power are all basic requirements for a competitive economy. We are committed to removing the inadequacies in infrastructure facilities through a mix of policy and fiscal measures. The Government's commitment to develop the infrastructure sectors is, however, reflected in the setting up of a Committee on Infrastructure under the Chairmanship of Prime Minister with Planning Commission as its executive arm responsible for identifying bottlenecks in policy implementation, guiding the relevant Ministries to speed up implementation of projects and generating new ideas for the consideration of the Committee. In this context, I would request you to give your suggestions to the Planning Commission, for developing the infrastructure sectors of the economy.

9. A development paradigm needs to be found which encourages the co-existence of both small and large sectors and takes advantage of their mutual complementarities and the inherent competitiveness of various sectors, in achieving the goals and objectives outlined in NCMP for transforming India into a dynamic industrial economy. However, the goals of this development agenda cannot be met if we do not reform the instrument in our hand with which we have to work, namely the Government and public institutions. Governance forms the key element of the Tenth Plan, but there has been practically no movement on this front. We shall have to make effective use of the resources of the civil society to improve the quality of Government and delivery of important public services. In this context, it seems pertinent to mention that if we use our decentralized system of governance effectively, we can ensure more effective delivery of basic services such primary education, public health and health care providing safe drinking water and sanity.

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10. Though it is necessary to provide adequate allocation of resources for Plan programmes and schemes, it is quite disturbing to note that even what is provided by way of Plan outlays is not translated well in terms of physical achievements. There are many possible reasons for this, including a thin spread of scarce resources on account of proliferation of both Central and Centrally Sponsored Schemes with similar objectives - within a sector and across sectors - inadequate monitoring of Plan expenditure and, more importantly, the general inefficiency and ineffectiveness in transforming our scarce resources into desired outcomes. Therefore, to supplement our efforts to achieve the ambitious target of average GDP growth rate of 7-8% per annum for a sustained period, we have to not only take serious steps for mobilizing additional resources for stepping up our investment rate, but we also need to address all these concerns most expeditiously. The Plan has to be an instrument for setting new benchmarks for efficiency and effectiveness in implementing our development policies and programmes. In this context, I would like to reiterate that while formulating the proposals for the Annual Plan 2005-06 of your Ministry / Department, in addition to the priorities indicated above, the following outcomes that have emerged from the evaluation studies of the Planning Commission, past annual plan discussions and the recent Quarterly Performance Review (QPR) meetings, may be kept in view and given utmost importance:

- (i) Evaluation Reports of Planning Commission clearly indicate that in a large number of schemes there is too much expenditure on administration and, as a result, too little is left for the actual work to be carried out. Planning Commission has vigorously pursued the ZBB exercise for convergence / weeding out and transfer of Central Sector / Centrally Sponsored Schemes. A further exhaustive review of ongoing programmes/schemes is to be carried out by the Commission so that they are in accordance with the NCMP objectives. It is of utmost importance that the decisions of the Planning Commission emanating from this exercise regarding the schemes of your Ministry / Department, are fully taken on board in the Annual Plan 2005-06 proposals. This would enable us to prevent a mismatch between the requirement of funds and the Plan allocations and ensure that Plan expenditure is matched by desired physical achievements. This would also shift the focus of planning from inputs to outputs, i.e. on physical targeting rather than on financial allocations.
- (ii) There has to be a serious prioritization of all Plan programmes / schemes / projects for the Tenth Five Year Plan keeping in view the priorities and objectives outlined in NCMP, with a view to use the available resources in the most judicious and economically efficient manner. In particular, while preparing the Annual Plan proposals for 2005-06, there should be an attempt to outline the "Core Plan" for the Ministry / Department highlighting the basic sectoral priorities and the minimum programme for public action in the concerned sector in view of the objectives and priorities briefly outlined in the preceding paragraphs. Implicit in this is the idea that critical programmes in each sector should not suffer for lack of allocation over the Plan period and are completed as planned so that the projected benefits from their implementation can be fully realized.

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- (iii) As far as possible, only those central sector and centrally sponsored schemes/ programmes/projects should be included in the plan proposals which have been approved for the Tenth Plan period with the necessary investment decisions taken by the designated body or proposals which are in public interest and cannot be delayed without significant implications on the economy for which at least the preliminary feasibility study has already been carried out. In this context, may I emphasize the need to provide indicative state-wise break-up of allocation for each existing CSS, so that these can be incorporated in our State Plan discussions.
- (iv) Given the fact that the challenge before us is the effective implementation of the stated policies and programmes at all levels of government, it would be prudent on our part to develop alternative mechanisms to improve the process of delivery of services to the targeted groups of beneficiaries. In this context, I would urge you to strengthen the mechanism of holding Quarterly Performance Review (QPR) meetings, initiated by the Planning Commission, on regular basis. This would undoubtedly provide useful feedback and a better understanding of the concerns of your Ministry / Department. Should there still be some constraints in the way of satisfactory implementation of the Plan schemes, you may consider carrying out joint monitoring of such schemes along with Planning Commission. These concerns need also to be clearly flagged so that they could be appropriately discussed at the Secretary level meetings during the course of Annual Plan 2005-06 discussions.
- (v) An important channel for mobilizing resources for development, particularly for social sectors, is the Externally Aided Projects (EAPs) and direct funding of projects (i.e. outside the budgetary flows) by the NGOs, which has been insufficiently integrated with the planning process and the allocation of budgetary resources. Often, it has been observed that some of these projects are started in the course of the year and since the budgetary support for the fiscal year is fixed at the time of the presentation of the Union Budget, additional funds required for the inclusion of new EAPs can only be through depletion of funds under the Domestic Budget Support (DBS) of the Ministry / Department. This adversely affects, in many cases, the physical targets fixed for the programmes initiated by the concerned Ministry / State Government and creates uncertainty about the availability of further resources for such programmes / schemes. In this context, it was requested that every Ministry / Department's proposal for the Annual Plan should also include the proposed / likely EAPs in your sector. EAPs that are of high enough priority for inclusion in the Core Plan should be indicated and included in the Core Plan as well.
- (vi) You may recall that as per the Prime Minister's initiative for the North-Eastern region, all Central Ministries / Departments are required to earmark at least 10 per cent of the Budget for the North-East (except those specifically exempted). A scheme-wise break up of this allocation may also be indicated for the Annual Plan 2005-06. The list of Departments exempted from this requirement of earmarking 10% of their

budget is enclosed (**Appendix - 4**). It has been observed that in certain cases, the provision made was not 10% of the Gross Budgetary Support (GBS), which can cause embarrassment to the Government besides sending negative signals to the North-Eastern Region. It is, therefore, once again emphasized that, in future, this requirement may be strictly adhered to both in the Revised Estimates (RE) and Budget Estimates (BE).

- (vii) You would agree that there is a need to encourage public-private partnership in promoting infrastructure to leverage public funds, improve quality of service delivery and ensure better value for money. The success achieved under the National Highways Development Project (NHDP) is an example for adopting new methods of financing and public-private partnerships in other areas too. The PPP could be effectively used in the delivery of social services like health care, primary education, provision of quality transportation facilities in the form of roads, railroads, ports and airports and safe drinking water and sanitation. What is required is a change in the paradigm of the public sector, i.e. to 'providing' public goods and services without necessarily "producing" them itself.
- (viii) In pursuance of the decision taken in the 50<sup>th</sup> NDC meeting, an Empowered Sub-Committee on Governance Reforms with special reference to E-Governance was constituted, *inter-alia*, to suggest ways and means for promotion of e-governance as a tool to achieve good governance. E-governance has also been identified as one of the priority sectors of the Tenth Five Year Plan. Besides, in pursuance of recommendations of a High Powered Committee for Improving Administrative Efficiency by using IT, Planning Commission had requested all central Ministries / Departments to make a provision of 2-3 per cent of their Plan / Budget for programmes / schemes relating to IT application, and had also communicated the decision of the High Powered Committee under the Chairmanship of Cabinet Secretary that Ministries/Departments could incur expenditure of an amount exceeding 2-3 per cent of their budget (from plan or non-plan) for initiatives relating to furthering the use of Information Technology, including training, acquisition of hardware, software as well as development and maintenance of software. It was clarified that it does not entail any additionalities by way of budgetary allocations.

### **Tentative Size of the Annual Plan 2005 - 06**

11. I would like to emphasize the need to have a realistic assessment of resources so that the proposals formulated for the Annual Plan 2005-06 are credible and the exercise itself is meaningful. I would like to add here that the internal resources and the functioning of public sector undertakings and departmental undertakings such as the Electricity Boards, Transport Corporations and Irrigation Departments have been a matter of concern and deliberated extensively in the Commission. There has to be a concerted effort to enhance the internal accruals of

such undertakings so that they do not constitute a drain on the budgetary resources of the government, and on the contrary they should be in a position to make a positive contribution to the government's efforts at mobilizing resources for the Plan. It has also been observed that in some cases the gap between the approved Plan outlay and the revised / actual Plan outlay is largely on account of the failure of the PSUs to mobilise the agreed quantum of internal and extra budgetary resources for the Plan. This has to be examined closely and such Ministries / Departments that have Public Sector Undertakings under them, need to bridge the said gap.

12. A clearer picture on the resource position - the budgetary support to the Central Plan and the Central assistance to State Plans - is expected to be available in due course. In the meantime, in the light of what has been stated above, you may like to initiate the formulation of your Ministry's / Department's proposals for the Annual Plan 2005-06 with two alternative assumptions – **first alternative** should indicate an increase of about 5 per cent over the current year ensuring *inter-alia* full provision of the allocations for all critical programmes including NCMP related schemes/ programmes and **second alternative** may involve an increase of 12 per cent over the current year. We expect to receive your proposals **by 11<sup>th</sup> November 2004** at the latest so that the Plan discussions can be scheduled starting from the first week of December 2004. The process of Plan discussions and finalization of the Plan outlays would be greatly facilitated if the proposals are forwarded according to the prescribed guidelines and the formats. I may add here that the concerned sectoral Advisers in the Planning Commission may also write to you in due course to seek specific information in respect of your sector.

13. Shri J.C. Sharma, Director (Plan Coordination), in-charge of the Central Plan, Telephone No. **23096526** would be the Coordinating Officer in the Planning Commission. The name and telephone number of the coordinating officer in respect of your Ministry / Department may be intimated for facilitating liaison. You may please send five copies of your Plan proposals to your Subject (Nodal) Division in the Planning Commission and another five copies to the Plan Coordination Division.

14. I look forward to your cooperation in completing this exercise meaningfully and as per the schedule. This letter may please be acknowledged.

With regards,

Yours sincerely,

(Rajeeva Ratna Shah)

PLANNING COMMISSION  
(Plan Coordination Division)

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**Sub: Annual Plan 2005-06: Central Ministries/ Departments.**

The Annual Plan exercise for 2005-06 for the Central Sectors is to be initiated with a view to complete the process of discussing plan proposals of Central Ministries/ Departments in a meaningful manner well in time for incorporation of the finalized budget estimates in the Union Budget 2005-06. As is the usual practice, requisite information on the Annual Plan proposals is required to be called for from the Central Ministries/ Departments in the format prepared by the PC Division.

2. A draft D.O. letter requesting the Central Ministries/ Departments for forwarding their Annual Plan proposals for 2005-06 alongwith requisite **Annexures** is placed below for kind consideration and approval.

(J.C. Sharma)  
Director (PC)  
6.9.2004

Adviser (PC)

**MOST IMMEDIATE**

**PLANNING COMMISSION  
(Plan Coordination Division)**

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**Sub: Formulation of the Annual Plan 2005-06 : Central Ministries / Departments**

Planning Commission has initiated the exercise for the formulation of the Annual Plan (2005-06). In this context, letters have been sent from Secretary, Planning Commission to all Union Secretaries concerned inviting their proposals for Annual Plan 2005-06. The guidelines for the classification of expenditure between Plan and Non-Plan, formats for inviting Plan proposals, proposed schedule for Annual Plan formulation and list of Central Ministries / Departments exempted from earmarking at least 10 per cent of their budget outlay for specific programmes in North-Eastern Region have been forwarded with the Secretary's letter.

2. A copy of the Secretary's letter along with enclosures is enclosed for perusal and necessary action. The Schedule for Secretary-level meetings and other details, if any, would be communicated in due course.

**Encl. : As above.**

(J.C. Sharma)  
Director (PC)

Pr. Advisers / Advisers / HoDs

Planning Commission Cir. No. N-11016/3(1)/2004-PC dated 14.10.2004

**Copy along with enclosures for information to :**

- (i) PS to Deputy Chairman, Planning Commission;
- (ii) PS to MoS (Planning);
- (iii) PS to Members; and
- (iv) PS to Secretary, Planning Commission.