49th N.D.C. Meeting, 1st September 2001, Vigyan Bhavan, New Delhi.

Speech of Shri S.M. Krishna, Chief Minister, Karnataka

The National Development Council is meeting at a crucial time in the history of post independent India. During the two and half years since it met last in February 1999, we have witnessed far reaching changes. Elections have taken place to the Parliament as well as to a number of State Legislatures and new governments are in place in some States. The World economy is undergoing transformation, the beginning of the 21st century coinciding with the slow down of economy of developed nations, the opening up of WTO regime, new developments in the hi-tech sectors like Information Technology and Bio-technology, all having their impact on developing countries like India. To face the challenges of globalisation on the one hand and of poverty and social backwardness prevalent in our own country on the other, we need to take bold decisions and adopt innovative strategies. It seems appropriate that we are meeting today to discuss the approach to the Tenth Five Year Plan which should define our vision for the next five years, which in my view, is going to be critical politically and economically for the future development of our country.

We are all legitimately proud of India multifarious achievements in the first fifty years of independence and especially since the development has taken place within the frame work of democracy. However, what is of deep concern is not so much as what we have achieved as what we have NOT achieved so far. It is depressing that after fifty years of independence, atleast one-third of our citizens still live below a modestly defined poverty line. Despite bursting granaries, we have a large population requiring food security. There are probably more illiterate Indians today than the entire country's population in 1947. An unexceptionally high percentage of people still do not have access to safe drinking water, health services, housing, sanitation and proper communication facilities. In this context, there is a need for introspection as to why India as a country has performed well below its potential.

One reason for the below par performance has been the concentration of decision making powers on economic issues with the Government of India. What is happening as of now is that the State governments have to approach the Government of India and the Planning Commission for scrutiny of even the minute details about their annual plans and related issues. The States are also required to plead for the discretionary largesse of the Planning Commission and the Government of India. As a result, there is not only distortion of the planning process but also avoidable delays and plenty of tension. Does all this contribute to national integration and national well being?

Need for autonomy to the State Governments

The real case for decision making autonomy to the State governments rests on the comprehension based on experience that a country as diverse as India, is incapable of dealing effectively with an unjust social and economic order with a centralized polity.

The issue of *Pradhan Mantri Gramin Sadak Yojana* is a case in point. The recently reported decision to revert the administration and implementation of the scheme back to the Centre is a retrograde step. It is ironical that while Constitutional amendments are found necessary to empower Panchayaths, we are usurping the Panchayaths' powers by insisting on the Central Government clearance for each and every project under the scheme.

Agriculture

Agriculture should be a sector of special focus in the Tenth Plan. Agriculture is the best bet for an assault on poverty given the numbers involved. Amelioration of agriculture would have a cascading effect on the secondary and tertiary sectors and overall growth of the economy. If the farmers suffer, the economy suffers; if the farmers prosper, the economy prospers.

The problems of Indian agriculture are structural. There are no easy solutions. Such measures as we have taken are palliatives, not solutions. The agricultural support system now in place is the result of the severe food shortages experienced during the 1960s. But we have a foodgrains surplus now. And ironically we are not equipped to handle surpluses. The WTO agreement is just one more factor, which has to be taken into account when looking at the problems of farmers and farming. What we are looking at is the cumulative neglect of the agricultural sector over the years. Somewhere along the way agriculture stopped getting the priority it deserved. We need again the kind of investment and emphasis on agriculture, which we had in the sixties when the green revolution took off.

Agricultural policies and programmes operate in a situation where the States are responsible up to the harvest stage and the Central Government after that. This divided responsibility makes farmers feel that they are neglected both by the Central Government and the State governments. Solutions to the farmers' problems have to be found jointly by the Central Government and the State governments. Inputs, credit, marketing infrastructure and market information have to be provided jointly by both.

Rashtriya Krishi Bima Yojana

The need for a comprehensive crop insurance scheme is well accepted. However, in its present form the scheme is not proving useful to the farmers. This is on account of its limited coverage of a few crops; even here the threshold level for getting assistance is unrealistically low. To make our scheme effective, the unit should be a village with more realistic threshold values. Also, the scheme should cover all agriculture and horticulture crops.

The premium amounts payable to farmers as of now is 2.5% to 3.5%, it should be reduced, which Government of India should share at least upto 2/3rd of the amount.

As the rural population grows, the farm sizes get smaller and smaller. Farmers with very small holdings are becoming worse off than landless labourers. Should agriculture alone take care of this overflow of population? Can such farmers meet the challenge of globalization? They might survive, but at what level? How much can we subsidize subsistence farming? Agriculture is the major livelihood provider to farmers and farm labourers; how do we ensure their right of livelihood? Do we take the road of corporate farming to meet the challenge of globalization and lifting of quantitative restrictions on import of agricultural commodities? I would expect that the policy makers debate these issues and find solutions, to the extent possible in the Tenth Plan.

Resources

Achieving the growth rate envisaged will require substantial increase in public investments, especially in infrastructure. This is a daunting task considering large government deficits and consequent lack of resources for investment. Our attempt to improve our fiscal position and direct investment for development of social and economic infrastructure should be adequately supported by the Central Government. There is a need for an incentive system to encourage States to reform. A beginning has already been made in this direction by the Eleventh Finance Commission's supplementary report. A similar approach should be adopted for the distribution of plan grants of the Tenth plan.

Productivity increase in the economy cannot be brought about unless sufficient improvements in the human development indices are made to empower the weaker sections of the society. In the present fiscal situation, the State Governments are not able to achieve this unless they borrow funds which has resulted in a substantial portion of the Plan based on borrowed money. This has further strained State's fiscal health.

Heavy borrowings have resulted in interest payments of the State Governments increasing significantly over the last ten years. We are now spending almost 17% of our revenue receipts on interest payments. There has been a general reduction in the interest rate regime over the last few years. However there has been no reduction in the interest rates on the loans of the Central Government to the States. I would request that a mechanism be worked out by the Central Government to enable the States to replace existing high cost loans with fresh low cost borrowings. The Center should also provide debt relief in the form of reduced interest rates for existing loans. For all future loans, there should be an immediate reduction of 1% on the rate of interest. These measures will provide some relief to the bad fiscal situation of the State Governments. Similarly the interest rates of negotiated loans raised by the States from financial institutions for funding the plan should be reduced by 1%.

Further, in our zeal to create assets, we should not ignore the necessity to maintain existing ones. A related issue is inadequate direct return on large investments made earlier in power and irrigation projects. Suitable policies should be evolved by consensus during the Tenth Plan to ensure adequate returns on the investments made in the irrigation and power projects.

Maximizing the growth rate to improve the well being of the people will require the allocations are made in an objective manner to harness the development potential of different regions. Resource transfer should be a combination of policies to reduce backwardness and reward performance.

Revision of Gadail Mukherji Formula

Our pleas for amendment of the Gadgil Mukherji formula for distribution of Central assistance for State plans have been pending for a decision for a long time. The issue should be brought before the NDC and an early decision should be taken.

The loan grant pattern for distribution of Central assistance is also not in line with current realities. The Revenue component of plan schemes has gone up over the years with increase in the responsibilities of States in major social sectors like education and health. The grants component in the Central plan assistance should therefore be increased. This will help the States to reduce the interest burden and use the money for development works.

These issues should be decided before the start of the Tenth Plan.

Governance Reforms

In order to achieve the 8 per cent rate of growth indicated in the draft Tenth Plan document, it is necessary to ensure that the private sector performs its due role and that it is assisted in this regard in all possible ways both by the Central and State Governments. In Karnataka, we have recently introduced a new and innovative industrial policy, which has completely de-regulated the industrial environment. A similar bold initiative is required to be taken by the Government of India. Apart from making procedures more simple and transparent, it is necessary to urgently delegate more powers to the States especially in regard to environmental and forest clearances.

Achievements of the State

I would like to mention here the achievements of the State government in not only improving fiscal health of the State but also to improve the investment in development of social and economic infrastructure of the State.

In Karnataka we have taken early initiatives to implement a programme of reforms and economic restructuring. In governance reform programmes, we have started right sizing the government and have also enacted a Right of Information Act to enhance accountability. We have taken tough decisions to freeze new recruitments. Transparency in Tenders and Procurement Act has been enacted to provide accountability and transparency public spending. We are committed to Public Sector Reforms.

We have a declared objective of eliminating revenue deficit and containing fiscal deficit to 3% of NSDP by 2004. This will help in reducing the debt-servicing burden of the State and help in freeing resources for development activities. Towards this we have prepared a Medium Term Fiscal Plan (MTFP) for the period 2000-01 to 2004-05. The plan contains definite reform measures for augmentation of revenue, compression of non-productive expenditure and for protecting and enhancing high priority development expenditure. Ours is one of the very few States that have a statutory ceiling on Government Guarantees.

We appreciate that the biggest drain on the finances of the State is the Power Subsidy and so we have taken substantial steps in the direction of reforming the power sector in the State. This is the one sector that can act as the main engine for growth. We have a fully functional Electricity Regulatory Commission and the Electricity Board has been unbundled and corporatised. The State Government has issued the power sector policy Statement and also an IPP policy. A Bill for Prevention of Theft of Power has been passed by the legislature and will be shortly sent for the Presidential assent. Universal Metering Programme will commence from September 2001. A Privatization Strategy is in the final stages.

We firmly believe that the fight against poverty depends on the efficiency and effectiveness of public expenditure. Through social audit of schemes, we are placing more emphasis on key outcomes rather than expenditure.

But all this is not at the cost of investment in priority sectors. In fact, our plan size has been increased from Rs.5231 crores in 1999-00 to Rs.8588 crores, which is an unprecedented 64% increase over two years. 42% of this plan is for Rural Development and Agriculture etc. and 38% is for infrastructure development.

We propose to increase expenditure on Primary and Secondary Education from Rs.2500 crores in 1999-00 to Rs.5000 crores in 2004-05, Health from Rs.1000 crores to Rs.2100 crores, water supply from Rs.600 crores to Rs.1300 crores and roads from Rs.400 crores to Rs.1050 crores over the same period. This has been made a part of Medium Term Fiscal Plan.

I firmly believe that government and government agencies are not repositories of all available expertise and that wisdom is not their exclusive preserve. In order to bring about synergy between private and public sector, it is necessary to make private sector an active partner in progress. I am happy to mention that we have demonstrated this in Kamataka by setting up Task Forces headed by very eminent people in their respective fields. Our faith in the efficacy of "Public-Private partnership" has been re-affirmed by the sound recommendations of these Task forces which we are actively implementing.

Draft Approach Paper to the Tenth Five Year Plan

The draft approach paper to the Tenth five year plan sets ambitious targets with a view to double the per capita income over a period of 10 years. The annual average rate of growth of gross domestic product (GDP) has been targeted at 8 percent during the plan period. The approach paper sets targets for a number of indicators as well, like reducing poverty to 20 percent, ensuring universal access to primary education, reducing population growth, increasing literacy to 70 percent, reducing infant mortality and maternal mortality rates, ensuring universal access to potable drinking water and increasing the forest cover to 25 percent by the end of the Tenth Five Year Plan. Achieving these targets would require not only significant changes in policies and institutions, but also very substantial increase in investments and up-gradation of technology to enhance productivity.

Achieving the targeted growth rate calls for a significant increase in the role of the States in the development process. The approach paper agrees that the objectives of accelerating growth, increasing employment opportunities and reducing poverty can be achieved only by giving emphasis on agriculture and agro processing industries. In fact during the 1990s, the employment intensity in the growth process particularly in the organized sector has shown some decline. This has implied more pressure for employment in the unorganized sector. This again calls for significant increase in public investments to strengthen rural infrastructure to ensure adequate and good quality power, rural roads and irrigation facilities. These activities are mainly in the domain of the State Government and therefore it is necessary to shift the balance of the development process in favour of the States.

This clearly strengthens the case of greater transfer of resources to the State. Central sector and Centrally sponsored schemes should be transferred to the States with the funds and the recommendations in this regard made in the approach paper are welcome.

Transfer of Centrally Sponsored Schemes (CSS) to States:

I have seen the status report on the issue of transfer of Centrally Sponsored Schemes to States. The Sub Committee of the NDC, which was set up in March 1999 is yet to complete the work and come out with specific recommendations.

Our State has already given its detailed views on the matter as well as identified schemes for retention as CSS, transfer with earmarking and outright transfer. Our view is that such schemes should be formulated only in areas, which require joint action among several States, and in sectors, which are of crucial importance like the provision of basic minimum services or schemes with externalities. Ideally, CSS should be of a pilot nature, testing out ideas for universal applicability. They should then be evaluated against quantified objectives and a decision to extend these be left to the State Governments. CSS, which have continued for more than two decades should be transferred to States.

While transferring these CSS to the States, fund allocations should have an inbuilt mechanism to take care of cost escalations for two plan periods at least and there must be a provision to index them to the inflation level. Schemes concerned with poverty alleviation should be indexed at a higher level to enable States to get adequate Central aid to help the poorest of the poor. There is no need, however, for joint formulation and monitoring of schemes transferred or for earmarking funds for local bodies as these issues can safely be left to States.

Placing Uttaranchal on the list of Special Category States

I have gone through the case made out for placing Uttaranchal on the list of the existing 10 special category States. However, the proposal to include additional State under special category States should not result in the reduction of the assistance to the non-special category States. The assistance to special category States should be within 30% of Central plan assistance as existing now. We will agree to the proposal with this safeguard.

Calamity Relief Fund

Our State is passing through the worst drought in the living memory and we have asked the Central Government for Rs.903 crores of assistance, which we hope, will come through soon. Calamity relief funds have proved to be inadequate to meet expenditure incurred by States on relief works. Their size should be increased on the basis of the expenditure incurred by the States in the latest year. On many instances, calamity relief assistance has been extended as advance plan assistance subject to future adjustment. This does not help the States at all and in fact places an additional burden on them.

Considering the excess BPL cards for subsidy

The Food Corporation of India is carrying 36 million tones of food grains, in excess of the prescribed buffer stock norm of 24 million tones, valued at Rs. 33,284 crores, which can be invested for better use than incurring huge inventory carrying cost and loss due to deterioration. In Kamataka 62.85 lakh Below Poverty Line families have been covered under the subsidized food grains scheme. However, the Government of India has recognized only 31.29 lakh families as Below Poverty Line families in the State. There is a huge gap of 31.56 lakh in the BPL families to whom the State Government supplies food grains at BPL rates at great cost. With the *Anthyodaya Anna Yojana* Scheme being announced, I suggest that Government of India should issue food grains to the entire BPL families identified by the State Government at the BPL price. The SC/ST/OBC/BCM hostels and Anganwadi Centers may also be covered under the BPL allocation.

The Government of India should also consider modifying the *Annapooma* Scheme so as to provide 10 Kgs. of rice or wheat to the destitute at the rates applicable to the *Anthyodaya Anna* scheme, and balance of old age pension may be paid in cash. The scheme may also be extended to cover those who are the recipients of old age pension.

Mid Term Appraisal of 9th Five Year Plan

I have gone through the mid term appraisal of the 9th five year plan prepared by the Planning Commission. We agree with the concern expressed in the appraisal report about increasing regional inequalities, widening gaps between rural and urban areas, gender disparities and adverse human development indicators prevalent in various areas and communities. One of the earliest human development reports was published by Kamataka. We are making an in-depth study of the regional imbalances among various parts of the State. The issues of convergence of different plan schemes with similar objectives and targeting the same population in different sectors, of control of corruption and leakage in execution of schemes, etc., are well appreciated. We are emphasizing on evaluation and quality monitoring of the programs. A system of concurrent evaluation of all major plan schemes is being attempted. The need to ensure better implementation of programs cannot be over-emphasized and the recent declaration of the Prime Minister that the year 2002 would be "year of implementation" is welcome.

In Karnataka we have been able to fully utilize and in fact have exceeded annual plan outlays approved by the Planning Commission during all the years of the 9th five year plan and there are no shortfalls in any of the plan years.

To mention the year-wise details, during 1997-98 Rs. 4424.28 crores have been spent as against Rs. 4130.00 crores approved by the Planning Commission (+7.13%). The corresponding figures are Rs. 5649.04 crores spent against Rs. 5353.00 crores approved during 1998-99 (+5.53%) and Rs. 6362.90 crores spent against Rs. 5800.00 crores approved during 1999-2000 (+9.71%). The actual figures for the year 2000-2001 are not yet firmed up, however we are sure of spending the approved outlays fully.

International Airport

It is necessary to take States as an equal partner with the Centre in the development process. The issue of the International Airport in Bangalore is a case in point. That Bangalore is the knowledge capital of India and requires the state-of-the-art Airport needs no reiteration. Successive governments of Kamataka have pushed the case of this prestigious project.

The bulk of the project costs would be borne by the private sector partners and the Government of India exposure is limited to 13% of the equity. Despite this, simple clearances involving Landing Rights, Aero charges and using the existing Airport for raising funds for the International Airport project have run into rough weather. It may not be necessary to remind the Central Government that it has not inherited the Viceroy's mantle of paramountcy. What is needed for proper economic governance of India is a Centre State partnership where the focus would be on consensus and cooperation for pushing key projects.

Conclusion

Today's meeting is crucial for finalising India's development strategy for the 21st century. We need greater fiscal discipline and responsibility both at the centre and in the States so that public sector investments are not jeopardized. The private sector should be allowed to perform its due role if the target of 8% economic growth in the next few years is to be achieved.

There should be a complete change in the mind-set of the people governing India both at the Centre and the State. Every effort must be made to enhance the private-public partnership and ensure that the wisdom and experience of the private sector is fully utilised in nation building activities. This would also facilitate greater investment in many critical areas.

Finally agriculture, which is crucial to build a strong and prosperous India should be accorded a place of primacy so that the objectives of food and nutritional security, poverty eradication and adequate employment generation are met. Due care must be taken to ensure that-the gainers from the Tenth Plan would be the poor, the weak and the underprivileged for whose benefit this entire planning exercise is sought to be done.