

I am grateful to the Prime Minister and his colleagues for having organised this meeting for a discussion on the Approach to the 11th Five Year Plan. While it is true and indeed laudable that the Indian economy is today very robust, the problems of agriculture, unemployment and distributive justice continue to challenge us, as has been recognised in the Approach Paper. The next five years are, I believe, critical for our economy. With some careful planning, we may be able to ensure not only sustained economic growth but also that its benefits reach all sections of the society.

2. The most important declared objectives of the 11th Plan are, to accelerate the growth rate of GDP from 8% at present to 10% by the end of the Plan; double the per capita income in the next 10 years and create 70 million new work opportunities. More importantly, the Approach Paper envisages a reduction in poverty by 10 percentage points; increase in the literacy rate to 85%; reduction in gender gap in literacy to less than 10 percentage points and reductions in IMR to 28 and MMR to 1 per 1000 live births.

3. Much of the action to achieve the objectives of the 11th Plan will be in the domain of the States. For example, the burden of financing human resource development and infrastructure, energy and irrigation falls essentially on the States. Central assistance in these areas is normally scheme bound and too little. In the past, a plethora of Centrally Sponsored schemes with small outlays and similar objectives, targeting the same population have failed to have the desired impact. Lack of a centralised database has led to duplication of efforts. Failure to correctly identify areas of concern and absence of consolidation of best practices are other problems that handicap these schemes. It is learnt that the Planning Commission is in the process of winding up many of these schemes and merging some others

to enable adequate control over the flow of funds and flexibility in the implementation of the schemes. The Central government should not ordinarily have any scheme with an approved annual outlay of less than Rs. 500 crores. More flexibility should be given to States to make changes according to local needs. The Planning Commission must specify a sunset clause and notify terminal dates for all existing and future schemes. It is further suggested that all Centrally Sponsored Schemes should have at least 75% contribution from the Centre with only 25% contribution coming from the States.

4. Given this background, the 11th Plan will have to bring in radical and innovative strategies to promote growth in the economy. I am indeed very happy that the Paper stresses inclusive development as one of the most important features of the Plan. Considering the fact that the resources of the Union Government have been exceptionally buoyant in the recent years and are expected to continue to be so, this perhaps is the best opportunity we have of combining growth with distributive justice.

5. In my various public speeches and official presentations, I have time and again emphasised the need to include all sections of the society in the developmental process. Balancing the aspirations of the common man, in both rural and urban areas, and meeting his basic needs are objectives that necessarily require to be incorporated in the Plan and also to be integral to the growth process that we adopt. I am happy to note that extant regional backwardness and exclusion of certain sections of the society from the growth process has been specifically taken note of by the Paper and several new initiatives suggested. This will be our major challenge in the 11th Five Year Plan and possibly subsequently too.

Agriculture

6. The Paper rightly emphasises the need to address the problem of deceleration of agriculture and the crucial role that agriculture would have

to play if rate of growth of GDP of 9% is to be achieved in the 11th Plan. Generating employment in rural areas and increasing incomes of farmers is a critical requirement today. Most farmers in my State remain at the mercy of the rain gods for cultivation and informal institutions for credit and other inputs. Agricultural research, appropriate for their lands, has still not reached this highly vulnerable section of the farming community.

7. I am happy to inform this august gathering that Karnataka has brought out a new Agricultural Policy on the eve of Suvarna Karnataka or the 50th year of the formation of the State. The basic philosophy around which the policy revolves is protection and improvement of soil health; conservation of natural resources with special emphasis on water conservation and micro irrigation; timely availability of credit and other inputs to farmers; better post harvest processing facilities and reduction of the distance between 'Lab to Land' in the transfer of technology.

8. Our Agriculture Policy is farmer centric. It has been evolved after extensive discussions with representatives of farmers' organisations apart from experts in various fields related to agriculture. Our goal is to double agriculture production in the next 10 years by a sustainable farming system that not only maintains and replenishes the soil, but also ensures that the farmer gets the best price for his produce and is in a position to compete both nationally and internationally.

9. The Government of India's decision to introduce the scheme of making available short-term agricultural credit to farmers at 7% interest from 2006-07 subject to an upper limit of Rs. 3 lakhs announced in the Union Budget for 2006 – 07, is a very timely and welcome decision. The State Government has already taken necessary action to implement the said scheme through cooperative credit institutions. However, there are certain aspects of the scheme which need to be sorted out immediately by the Union government in the interest of the farmers and the cooperative credit institutions. I would also urge upon the Central Government to reduce the interest burden of all

loans to farmers to 4% as has been done by the State Government in respect of the co-operative sector.

Forest

10. We endorse the Approach Paper's recommendation of an increase of 5 percentage points in the forest and tree cover in the 11th Plan. However, the issue of rehabilitation of people living in forests needs to be looked into urgently. Those who are willing to settle outside the forest area need to be encouraged with attractive rehabilitation packages. The Union Government must come forward to provide financial assistance for such rehabilitation and also for acquisition of lands for the relocation.

11. We need also to recognise the growing popularity of eco-tourism. Karnataka has many enchanting sites in forest lands outside of protected areas, which can be developed for eco-tourism. In fact, participatory eco-tourism involving local stakeholders will actually promote the preservation of forest areas besides promoting tourism. It will also provide employment opportunities for local landless and poor people. We would recommend that the Union Government includes a major initiative to promote eco-tourism in the 11th Plan.

Rural Development

12. Karnataka is a pioneer in the implementation of Panchayathi Raj System in the country. The State has been one of the first to transfer all the 29 subjects to the Panchayati Raj Institutions (PRI) in accordance with the 73rd amendment to the Constitution. We have successfully conducted four elections to gram panchayats, taluk panchayats and zilla panchayats in the last two decades. It is a matter of pride for us that women constitute 43% of the over 96,000 elected members in PRIs. Specific guidelines and parameters have been evolved for the levy of house and property taxes at the village level by gram panchayats. This has resulted in an increase of the

taxation demand by three-fold. Twelfth Finance Commission grants to the State PRIs are being transferred in real time to their bank accounts through the internet.

13. Karnataka has embarked upon a bold and new strategy through the Suvarna Gramodaya Programme integrating the implementation of various development programmes to transform 1000 villages every year into model villages or Suvarna Gramas (golden villages). This new initiative is unprecedented and involves the investment of additional resources to the tune of more than Rs.1000 crores above the normal allocations. The objectives of the Suvarna Gramodaya programme are to upgrade the physical environment for improving the quality of life; fully develop the income generating potential of land based activities; provide full and adequate infrastructure for human resource development including education, health services and childcare facilities; generate significant levels of non-agricultural employment, especially for educated unemployed youth; and, support community awareness and development through agencies such as self help groups and cultural associations. This is an innovative programme which the Central Government can replicate in all States. It should help significantly in achieving the twin objectives of eradicating poverty and slowing down the migration of people from rural to urban areas.

14. We are happy to inform that Karnataka has launched with World Bank assistance a novel initiative for strengthening the service delivery mechanism at the GP level. 1,343 GPs in 39 most backward taluks have been identified under this project, which will be operationalised from January 2007. The project envisages strengthening of grass root institutions. The key features of the project are release of larger untied grants to the selected GPs in accordance with local priorities, revamping of the financial management and procurement system for GPs and monitoring of service delivery performance at the GP level.

Water Resources

15. The need for continued emphasis on irrigation in the 11th Plan is, needless to say, obvious given the increase in agricultural productivity that the Approach Paper envisages. I believe that to step up the pace of irrigation development, it is necessary to undertake some large capital-intensive projects as national projects. Even though this proposal has been extensively discussed in the past, no policy decision has been taken so far. The process of grant of environmental clearance for irrigation projects needs to be simplified. I would suggest that the cost limit for major projects needing environmental clearance be raised from Rs.100 crores to Rs.450 crores since the ceiling of Rs.100 crores was fixed in 1994 and construction costs have increased considerably thereafter. Also evolving a national policy on water rights will help in successful implementation of participatory irrigation management and reduction in local conflicts related to water distribution.

16. Improving performance of irrigation schemes and bridging the gap between the potential created and the potential utilised needs to be given importance by increasing outlays for command area development and water management programmes and inclusion of more projects under the Accelerated Irrigation Benefit Programme (AIBP). Huge financial resources are already locked up in on-going projects and the States require to invest more money in order to get the full benefits of projects. Unless Bharat Nirman is made a fund based programme and funding arrangements under AIBP simplified and coverage of AIBP expanded, it will be difficult to achieve the target for the creation of new irrigation potential in the 11th Plan.

17. Karnataka has about 41 thousand tanks having an atchkat of 9.7 lakh hectares. The Government of India has approved restoration of 299 tanks at a cost of Rs. 74 crores under the National Project for Repair, Renovation and Restoration of Water Bodies in two districts of the State. This project is of great utility for a State like Karnataka which has extensive arid lands and is dependant on minor irrigation in most parts of the State.

We would urge the Planning Commission to extend this project to other districts of the State in the 11th Five Year Plan.

18. Coastal Karnataka is highly susceptible to sea erosion. The State Government has been repeatedly requesting the Union Ministry of Water Resources and the Planning Commission to bring the Karnataka coast under the National Coastal Protection Project and fund the construction of sea walls along the coastline for a length of about 50 kms at an estimated cost of Rs.400 crores.

Energy

19. I agree with the Approach Paper that GDP growth of 9% is not possible without a commensurate increase in the supply of energy. The Planning Commission has rightly emphasised that the availability of fuels such as coal and natural gas must be assured for new power plants. The Karnataka Power Corporation Limited (KPCL), which is currently adding 1250 MW of thermal power and planning to take up six new coal based thermal power plants with an aggregate capacity of 4000 MW, is severely constrained by the uncertainty over the availability of domestic coal of good quality. I would urge the Union Government to give priority to public sector power companies in the allotment of coal blocks for developing captive mines.

20. KPCL has also not been able to start work on the proposed 1400 MW gas-based power plant at Bidadi because none of the oil and gas sector majors in India is willing to quote a firm price and delivery schedule for the supply of LNG or natural gas in view of uncertainty in international markets. Substantial finds of natural gas have been made in the Krishna-Godavari basin. Government of India should play a pro-active role in making this natural gas available to the power sector. Special attention should be given to the needs of Karnataka, which does not have any reserves of coal or lignite. Ministry of Petroleum and Natural Gas should facilitate the laying of

a pipeline from Krishna-Godavari basin to Bangalore and other major cities in Karnataka.

21. The Approach Paper rightly states that it is essential to establish an efficient inter-state transmission system of adequate capacity that is capable of transferring power from one region to another. Existing transmission links between the southern region and other regions, particularly the western region, are not adequate. When KPCL had surplus capacity some months ago, it was not able to export power to western and northern States because of non-availability of a transmission corridor. Power Grid Corporation of India Limited should take up the expansion and strengthening of the transmission network between Karnataka and other States on priority basis.

Roads

22. Karnataka compares rather unfavourably with the other States in the southern region in terms of connectivity through national highways. The State clearly requires additional assistance from the Centre both for new roads and maintenance of national highways in order to meet the developmental goals of the 11th Plan. The Karnataka State Highways Improvement Project (KSHIP), which was taken up with World Bank loan assistance for the improvement of about 2,300 kms of state highways at a cost of Rs. 2,300 crores in the year 1999-2000 has been very successful and the World Bank has commended the performance of KSHIP. Phase-I of the project will be completed in all respects by October-2007. The State Government proposes to take up improvement of another 3,400 kms of state highways under the second phase of KSHIP at an estimated cost of about Rs. 4,300 crores. The preparation of the Phase-II project is underway. This is a very important project for us and needs to be supported by the Government of India.

Infrastructure

23. We welcome the focus on infrastructure proposed by the Approach Paper for the 11th Plan. We have also initiated several steps to bring in Public Private Partnership in infrastructure projects. However, as has been rightly observed in the Paper, such projects are feasible only in developed regions where their economic viability makes them attractive. I have time and again been emphasising the need to provide good quality infrastructure to the backward regions of the State, where PPPs are not possible. For this, the assistance of the Central Government is critical.

24. The Union Railway Ministry has estimated that the investment required to complete the major on-going railway projects in Karnataka is Rs.3842 crores. Some of these projects are being taken jointly by the Railways and the State on a 50:50 cost sharing basis. Since, most creditably, there has been a turn around in the Indian Railways and they are making very significant profits I would propose that this cost-sharing between the Railways and the State Government be changed to 80:20. Also, several railway projects such as Hubli – Ankola; Shahbad – Bagalkote – Kuduchi; Talaguppa – Honnavara; Kadur – Chickamagalur and Chamarajanagar – Bangalore require early approval. Some of these projects would improve the rail connectivity to the backward regions of the State significantly. Such projects, I would strongly urge, should be taken up by the Railways on priority as a part of the 11th Plan's initiative to improve the infrastructure in under-developed regions.

25. Similarly, we have an ambitious plan to provide air links to all major cities in the State including the under developed northern Karnataka region. We have proposed the setting up of airports at Hassan, Shimoga, Gulbarga, Bellary and Bijapur. We are also hopeful that the existing defence airports at Bidar and Karwar could also be used for civilian flights. I have no doubt in my mind that opening of hinterland of the State through air travel to places like Gulbarga and Bijapur will provide a major boost to

trade and tourism in those districts. In this context, I would like to place on record my appreciation of the support provided to us by the Union Government for the expansion and development of airports at Belgaum, Hubli, Mysore and Mangalore.

Industries

26. My Government has announced a New Industrial Policy for the years 2006-2011 recently. In order to strengthen the existing industries and also to assist them in addressing human resource development issues, a new scheme titled 'Suvarna Kayaka Udyoga Shikshana Yojane' has been launched. The scheme aims to identify the needs of the organized sectors for skilled man power in various trades and to train qualified eligible youths to undergo hands-on training. The expenditure on training is to be shared equally by industry and the Government. This Public Private Partnership will provide employment opportunities to the rural and urban youth of the State.

27. The State Government has identified industrial corridors in potential locations, which will act as growth initiators and business hubs. Efforts have been made to provide easy access to credit for enterprises in these corridors, in consultation with the State Level Bankers' Committee in accordance with RBI and Government of India guidelines. Central government's assistance is requested, at least to an extent of 50% of the cost for creation of infrastructure for these industrial corridors, which will help our backward districts considerably.

28. Karnataka is endowed with rich mineral deposits. Since value addition to the minerals produced in the State generates employment and also additional resources, we have formulated a mineral policy that encourages exploration and value addition. Karnataka is producing 40 million tonnes of iron ore per annum but getting only Rs. 80 crores as royalty. We have repeatedly proposed that royalty rates be fixed on ad-valorem basis linked to

the market value of the ore. The State is also planning to bring an Act to raise resources for the creation of infrastructure and for improving the environment in mining areas. We feel there should be restrictions on the export of valuable minerals in raw form. A clear and unambiguous policy should be put in place to encourage value addition within the State. Auction of mining areas should be considered only in cases where no one is coming forward for value addition or where economically viable technology is not readily available within the country. There are several public sector companies dependent on minerals. Such companies should be provided mining leases for their captive use, so that public sector companies do not suffer for want of raw materials.

Education

29. Karnataka accords very high priority to education in general and elementary education in particular, both in terms of focus as well as resource allocation. We are conscious of the gender and caste gaps in literacy and have taken major steps to promote girls' education. Education is free for girls in government institutions up to the plus 2 level. Vocational courses are also free in women's polytechnics.

30. We are successfully implementing the scheme of providing hot cooked meal to school children. We have extended the programme to students studying in 6th and 7th standards in both Government as well as private grant-in-aid schools. At present Government of India is providing dry ration only to students studying up to 5th standard. They should extend this assistance to 6th and 7th standard students also. The conversion cost for providing hot cooked meal is around Rs.2 per child per day. However, Government of India is reimbursing only Re.1 per child per day. We urge that the entire cost of conversion be reimbursed by the Centre, at least from 11th Plan onwards.

31. The Sarva Siksha Abhiyan programme is accorded very high priority by us. We request the Government of India to retain the present cost sharing pattern of 75:25 (Centre-State) during the 11th plan also, since it will be difficult for the State to bear any additional burden resulting from a changed sharing pattern. Even now the State spends as much as 99% of its education budget on salaries of teachers, leaving very little outlay for libraries, laboratories, curriculum development and teachers training,

32. We also welcome the proposal to launch Sarva Shiksha Abhiyan-2 to universalize secondary education up to class 10. However, funding should not be merely confined to schools, teachers and classrooms but should also extend to laboratories, libraries and teaching aids. School grant should be at least 5% of the salary expenditure in each school. Otherwise, buildings and equipment will become unworthy of use in a short time for want of maintenance. Finally, States must be given flexibility to take into account State and district specific needs. We also endorse the need to rejuvenate the vocational education system as proposed in the Approach paper.

Health

33. The Approach Paper provides the right diagnosis for the complexities of the health sector. Health is itself an outcome of several factors such as employment, education, awareness, nutrition and sanitation. Even though we have achieved considerable progress in health sector, there are serious regional disparities within the State that deny proper quality health care to large sections of poor and vulnerable population. We have therefore, decided to give priority to the less developed talukas of the State in introducing measures to improve the equity and efficiency of the health care delivery system. In this context, I greatly appreciate the timely introduction of National Rural Health Mission and see it as an opportunity to fill the gaps in providing cost effective interventions to control morbidity and mortality. We recognise institutional delivery as the single most important instrument to

improve the health indicators in the State. Our strategies for this include increasing the number of PHCs operating as 24-hour maternity centres, deploying more nurses, training more ANMs particularly from among the tribal populations, and running mobile health clinics to cover remote villages and under-served habitations.

34. In order to over-come the shortage of skilled man-power, as also to involve the community in the management of public health activities, we have developed performance based agreements for effective public private partnerships. Building upon the successes of community based insurance for the poor and group insurance for Stree Shakti Groups and Cooperatives, we have planned to cover BPL populations in pilot districts under health insurance. We shall also have a State Level Health care Accreditation and Regulatory Agency, which will induce healthy competition between public and private health care providers under the health insurance scheme.

35. In the true spirit of decentralization, most of the programmes of primary and public health have been transferred to the Panchayathi Raj institutions for close supervision. In order to integrate various vertical systems of information-flow, we have planned a comprehensive Health Management Information System, from the level of the Primary Health Centre to the State Directorate. We also plan to implement various strategies of organisational development so that the processes of planning, decision making, implementation and monitoring become outcome-oriented.

Housing

36. Access to safe and healthy shelter is essential to a person's physical, psychological, social and economic well-being. Housing industry has significant linkages to other sectors of the economy. In the last few months I have toured the various parts of Karnataka extensively. I have found that one of the most persistent demands of the economically weaker sections is housing. We have accordingly given top priority to housing and several new

initiatives have been taken to resettle slum dwellers and to provide low cost housing in rural and urban areas. As per a recent survey, there are about 20 lakh houseless and siteless families in Karnataka. It is my desire and intention to announce a major housing initiative in the State from the next financial year. Given the importance of the sector, I would suggest for the consideration of the Planning Commission that some new initiatives be undertaken by them in the 11th Plan to assist State Governments so as to ensure that in as many States as possible every homeless family has a roof over its head by the end of the 11th Plan. I have also reviewed the various existing Central schemes relating to housing very carefully and would suggest that within these schemes certain changes be incorporated in order to make them more meaningful. To elaborate, lending of loans from NHB for these schemes should be at a concessional rate of interest of 3%, annual state allocations under IHSDP should be increased to cover all cities in the State, land purchase cost should be included within the IHSDP so that tenurial rights can be passed on to the dwellers, the beneficiaries' contribution in JNNURM and IHSDP should be uniformly Rs.10,000, the annual allocations to the State under the IAY should be increased from one lakh to 1.5 lakh houses, the unit cost of assistance under IAY should be increased from Rs.25,000 to Rs.50,000 since no decent house can today be built at the current unit cost and, most important of all, specific provision for infrastructure under IAY made available in the case of group houses.

Urban Development

37. Karnataka is ranked as the fourth most urbanized among the major States in India with approximately 34% of State's 53 million population living in urban areas (2001 Census). The State's high urban growth was primarily caused by migration and natural increase, rather than reclassification of settlements. The urban areas, if properly developed, have the potential for emerging as major engines of growth and employment. With relatively slow growth in agriculture, we are already witnessing greater

migration to urban areas. The rapid pace of urbanization has left a huge 'infrastructural deficit' in all the cities/towns.

38. In the 11th Plan, the State Government will need to address these infrastructural gaps and focus upon all round development of tier II and tier III cities in an attempt to make these towns and cities attractive for investment in various economic activities that will facilitate creation of jobs to absorb those entering the workforce and thereby stem the tide of relentless migration to the metropolitan cities. The JNNURM is a programme that has focused on integrated development of infrastructure services in selected cities. Bangalore and Mysore, which are among the selected cities, have prepared investment plans amounting to Rs. 24,486 Crores during the mission period. Based on the City Development Plan submitted by JNNURM cities it may be necessary for the Central Government to review the allocation of grants under this scheme during the 11th Plan and scale it to appropriate levels, given the magnitude of infrastructure deficit that needs to be addressed.

39. At the same time there is also an urgent need to tackle the comprehensive development of tier II and tier III cities through appropriate investment in infrastructure. As the possibility of expanding the scope of JNNURM to more cities is limited, investment for UIDSSMT should be reviewed and a greater thrust given, with the desirable objective of 100 % coverage of water supply and sanitation and solid waste management in all small and medium towns by the end of the 11th Plan period.

40. In the area of urban infrastructure, special thrust will have to be given to traffic and transportation, particularly in emerging metropolises, so that a sustainable plan for transport infrastructure is conceived and implemented during the period. As the development of transport infrastructure is very crucial for the planned growth of cities, the State would like to suggest a special thrust for all cities with population between 3 -10 lakhs people as a way of preparing them for metropolitan status. It should be ensured that

these cities have comprehensive development plans for transportation infrastructure and Central assistance provided to fund these Plans.

41. With the envisaged investments in urban infrastructure, particularly water supply, sewerage and solid waste management, there is an enormous responsibility for appropriate capacity creation in the ULBs to ensure proper operation and maintenance of assets created. Appropriate institutional mechanisms need to be developed by the State as well as the ULBs and also appropriate PPP models for various categories of urban services. Concomitant to this is the need for skill development at many levels to meet the requirement of trained personnel for different categories of urban service. The State Government would give a strong thrust to skill development in this area through vocational training as a means of providing employment opportunities for youths in small towns and cities as well as surrounding rural areas. Central Government should provide financial support for this project.

42. In the matter of tackling sanitation in urban areas, particularly in areas where the poor reside, special thrust should be given for new technologies to conserve the utilization of water as also to eradicate practices such as engagement of safai karmacharis. In the area of municipal reforms, Karnataka has been a pioneer and has an impressive record of good practices in the matter of municipal governance including e-governance. This initiative will continue to receive priority in the 11th Plan.

Social Welfare

43. I fully share with the Approach Paper, the concerns expressed regarding the urgent need to include scheduled castes and scheduled tribes, backward classes and minorities in the development process and to ensure that benefits of growth reach them also. In spite of decades of planning and the introduction of a large number of programmes for their development, these disadvantaged segments continue to be deprived of their basic needs.

My frequent visits to villages and extensive interaction with representatives of these communities in Janatha Darshans has made it quite obvious to me that it is not only the shortage of funds but also the inadequacies in implementation that has resulted in this situation. I have taken special care to tone up the administrative machinery in the State for the various schemes designed to benefit SCs and STs and would urge that the outlays for these schemes, such as that for their education, be stepped up substantially in the 11th Plan.

44. I would also suggest that the Central Government may promote few new schemes with substantial outlays for the welfare of backward classes and minorities. One scheme which could be considered immediately is the construction of hostels for girls from minority communities in blocks with substantial presence of their population. The Central Government also needs to increase substantially the corpus funds of organizations such as the National Minority Development Finance Corporation and the National Backward Classes and Finance Development Corporation in order to enable their programmes to make a perceptible impact on welfare of these under privileged sections.

Women Welfare

45. Declining sex ratio is a matter of great concern for us, indicative as it is of women's low socio-economic status and the fact that they do not have an adequate role in family and community decision-making. To arrest the trend, the State Government has launched a novel scheme called "Bhagyalakshmi" to protect the girl child and change society's attitude towards her. Under the scheme, an amount Rs.10,000 is deposited in the name of each female child born after 31st March 2006. The benefits of the scheme are limited to two girl children of a BPL family, both in rural and urban areas. Each beneficiary gets annual scholarships and insurance benefits and the deposit together with interest accrued is to be paid to the beneficiary on attaining the age of 18 years. We have provided Rs.250 crores

for this scheme in our budget for 2006-07. I would request the Planning Commission to take a close look at this scheme and to encourage it by providing Central assistance for it.

46. I have noted with much appreciation the fact that the Approach has looked at the issue of employment in great detail. There is no doubt that creating adequate employment opportunities so that our unemployed youth become income earners and contributors to the society and are also restrained from going astray is one of the most important challenges before us in the 11th Plan. Just as it is at the national level, even in Karnataka the contribution of the primary sector to the State domestic product has been declining, while that of the secondary sector has remained more or less constant and the tertiary sector increased substantially. However, the population dependant on the primary sector continues to be disproportionately high. As much as 67% of the total employment was in agriculture and related activities in the year 1999-2000 compared to the 31% contribution that the sector made to the State income that year. It is for this reason that the State Government has taken several initiatives to create more employment opportunities in the primary sector through its new agricultural policy and greater emphasis on horticulture and floriculture. Similarly, the new Industrial policy also aims to absorb unemployed youth in the manufacturing sector through its new training initiative and encouragement of labour intensive industries such as garment manufacturing, in the two tier and three tier cities and towns of the State. The extension of NREGP to all the backward districts of the State, particularly in northern Karnataka by the Planning Commission would be of great assistance to us in this regard. I firmly believe that the Centre and States should come together in addressing this crucial planning issue, so that the 11th Plan has some innovative and meaningful employment generation programmes.

Resources and Financing

47. The State is committed to maintaining sustainable debt stock and therefore its fiscal deficit target of 3% as mandated in its Fiscal Responsibility Act. In order to meet the expenditure requirements of the State, surplus in revenue account is to be used for capital formation. It is proposed to increase tax revenues through better tax administration and increasing the tax base. Use of information technology for tax administration, rationalization of rates for increased compliance are some of the measures that are expected to bring in greater tax revenues. Non-tax revenues in the form of user charges would be revised to reflect cost of delivery of the services and supplement tax revenues. Revenue expenditure on pre-committed items like interest payments would be brought down further through debt swapping and pre-payment of high cost debts. Debt consolidation benefit of Government of India loans under Twelfth Finance Commission recommendations has already been extended to the State Government. Through its fiscal discipline, the State is confident of availing the benefit of debt waiver scheme also. Both these benefits combined would free substantial resources for high priority expenditures. Contributory Pension Scheme on the lines of the Government of India schemes has been brought into force and it is proposed to bring down liability on that count. Weeding out of ineffective and non-priority schemes and programmes through zero based budgeting has been carried out and the freed resources are being ploughed back into high priority expenditures. Rightsizing of staffing and abolition of redundant posts in inessential areas has been attempted to bring down recurring expenditure.

48. Fiscal correction over the last few years has brought financial stability in Karnataka. Loss on account of implementation of VAT was expected and the system will get stabilized over next two years. With fiscal correction Karnataka has improved its debt stock. Rating agencies have given high creditworthiness ratings. But, unfortunately, the State is unable to utilize the market advantage of reduced interest rates. We are burdened with accumulating NSSF funds. As per the NSSF scheme, all net small savings collected in the territorial jurisdiction of the State are given back to the State

as a loan. While interest rates have dipped in other instruments of savings, small savings have continued to be very attractive with a return of 9% on investment. Steps are being taken by the State Government to curb investment in small savings programmes. But, the high return provided by Government of India on NSS continues to attract more investment. As the collections are transferred on a back-to-back arrangement, we have been forced to accept borrowings beyond what was budgeted.

49. The Planning Commission prefers that States go in for market borrowings instead of Central loans. However, the Union Ministry of Finance has advised States to resort to market borrowings only after NSSF funds with the States area exhausted. This is highly disadvantageous to the States. It deprives us of access to funds at market cost. Further, we will be unnecessarily penalized by having to pay an interest rate higher by about 2.5% which works out to about Rs.75 to 100 crores per year in absolute terms. In this context I need also to mention that the Government of Karnataka has borrowed at high cost, loans carrying interest ranging from 13% to 18% from financial institutions such as HUDCO and LIC. We have offered to prepay these loans but the financial institutions have not agreed. I would urge the Union Ministry of Finance to look at our request and resolve these two long pending issues as early as possible since they are affecting the fiscal health of the State.

50. Also, funding of externally aided projects has been brought on a back-to-back arrangement as a result of which exchange rate fluctuation risk has now devolved on State governments. It is difficult for State governments to plan for long-term exchange rate fluctuations. We have proposed that Government of India may devise risk mitigation measures to protect the States from exchange rate risks. The phasing out of CST is being discussed by the Empowered Committee of State Finance Ministers. CST is a very important source of revenue for Karnataka and, if phased out, the loss arising as a result will have to be compensated fully.

Conclusion

The Approach Paper has identified very well the goals for the 11th Plan and the challenges in realizing them. The basic thrust, that of reducing poverty and focusing on bridging the various divides that continue to afflict us, is not only unexceptionable but imperative given the fact that the economy has been registering impressive rates of growth in the recent years and that there is need to distribute the benefits of this growth amongst all. Needless to say, the mere enunciation of the objectives and targets for the 11th Plan will matter little unless the envisaged results are achieved at the ground level. Good governance, emphasis on outcomes instead of outlays, decentralised planning and accountability are all features that must be built into the Plan to make it effective. While we are in general agreement with the approach adopted by the Planning Commission, in my presentation I have tried to reiterate some of the priority areas for Karnataka and recommended certain initiatives with the hope that our suggestions and genuine needs will get incorporated in the 11th Plan. I am grateful that the Planning Commission has had extensive consultations with the State Governments regarding the Approach to the 11th Plan and I am confident that both in the preparation and implementation of the Plan it will continue to consult and interact closely with the State Governments. As the Approach Paper recognizes, the Centre and State will have to complement each other's efforts in order to ensure that the goals of the 11th Plan are achieved.

Jai Hind, Jai Karnataka