

Deputy Chairman's Remarks at NDC  
22<sup>nd</sup> October, 2011

Respected Prime Minister,  
Cabinet Ministers,  
Chief Ministers and other representatives of State Governments,  
Lieutenant Governors,  
Ladies and Gentlemen,

Allow me to begin by offering you all a warm welcome, on behalf of myself and my colleagues, in the Planning Commission

The Approach Paper that is before you has been prepared after extensive regional consultations with State Governments, and also with other stake holders. Many of you have participated in these consultations.

The Prime Minister has requested me to focus on issues that are of particular relevance for the states. I would like to draw your attention to six major issues.

The first issue relates to determining the state level five year plans for the Twelfth Plan period. This is an important part of the planning process and I would urge Chief Ministers to complete the process as early as possible, and give us their targets for growth and other social indicators, so that we can build these into consistent national targets for the Twelfth Plan.

The setting of state level targets by State Governments leads naturally to defining what the State Government needs to do to achieve these targets, in each of the five critical areas mentioned by the Prime Minister as defining the role of government.

I would urge Chief Ministers to keep in mind the first of the points mentioned by the Prime Minister i.e. the need to create an economic environment that would support the efforts of farmers and entrepreneurs. How attractive the business and investment

environment is in a state will determine much of the outcome in terms of the flow of investment to the State and the growth of both output and employment.

The second issue relates to resources for the Plan. The Prime Minister has emphasized the importance of development of rural and urban infrastructure, provision of health services and extension of education and skill development for inclusive growth. I would urge Chief Ministers to ensure that they make adequate provision for these sectors when formulating the Twelfth Plan for the States. This must be accompanied by measures to mobilize own resources of the States.

The resources challenge facing the Central Government in this regard is spelt out in the Approach Paper. We have to raise the Centre's Gross Budgetary Support for the Plan as a ratio of GDP if we are to accommodate the needs for additional support in critical sectors such as health and education. However, this has to be done while simultaneously also reducing the fiscal deficit. The Approach Paper states that this is possible only if the Centre can raise the ratio of tax revenues to GDP, and cut untargeted subsidies.

The States are in a similar position. They too have to achieve an increase in Plan expenditure as a share of GDP to fulfil the essential task of government in achieving inclusive growth. They too must reduce the fiscal deficit since the debt position has become very difficult in many states. The centre's ability to provide resources is limited for the reasons I have mentioned. Therefore, to solve this problem, the states have to aim at much better revenue performance and also exercise progressive control over subsidies.

As far as revenue is concerned, the performance varies greatly across States. This suggests that many states can improve their revenue mobilization. The Planning Commission has offered to work with states to improve revenue performance and some states have responded. On a broader issue, I would like to point out that early implementation of the GST would make a major contribution. It would not only raise more revenue for both the Centre and the States, it would also create a single market in the country and remove many of the distortions in the indirect tax system. I will not elaborate on this

issue, as I am sure the Finance Minister will deal with it in detail in his remarks.

The Prime Minister has pointed out that because public resources are scarce, both the Centre and the States must explore the scope for public private partnership, wherever possible to leverage limited public resources. Since private investment is unlikely to go into some difficult areas, it is important to direct scarce public resources to those areas on a priority basis. PPP can be used in other areas. We would welcome the views of State Governments on the strategy.

The third issue I wish to mention is agriculture. The Approach Paper outlines the challenges in this area in great detail, and the Minister of Agriculture will give us his perspective in the course of the day. I would only like to emphasise that agriculture is crucial for inclusive growth and for food security. It lies entirely in the domain of state Governments. Although performance has improved in the eleventh Plan, we feel that this sector needs more attention and priority at State Government levels. Some of the actions we have recommended are very simple. For example, it should not be difficult to exempt horticultural products entirely from the application of the APMC Act. However, this is yet to be done.

The fourth issue I wish to touch on relates to the management of energy resources. The Approach paper points out that this will be a major challenge because rapid growth will require a significant expansion in domestic energy supplies and also a much greater focus on energy efficiency. Much of what needs to be done in the area of energy lies in the realm of the Central Government, and we hope we can take the difficult steps involved. However, some critical areas lie entirely in the domain of the State Governments.

One such area, where corrective action is urgently needed, is electricity distribution. The viability of the power sector as a whole depends critically upon the financial viability of the distribution system since that is where the revenues are collected to pay for generation and transmission. Unfortunately, the situation is deeply distressing.

The total losses of the distribution system, if properly accounted, are probably as high as Rs 70,000 crores. If the States could cover these losses by subsidies, the system would not be at risk. However, state budgets cannot provide subsidies on this scale and the losses are effectively being funded by the banking system. That source of funding will soon dry up, as some States are experiencing. Commercial banks have to watch their balance sheets and cannot evergreen loans indefinitely.

Part of the problem lies in the fact that AT&C losses are very large. The APDRP was expected to reduce losses to 15% by the end of the Twelfth Plan, but actual performance is very short of this target. An equally serious problem is that even if losses are reduced to 15%, most distribution systems will still not be viable because electricity tariffs have not been adjusted in line with costs. Some distribution companies have not raised tariffs to the consumer for 10 years!

Unless corrective action is taken, the system will experience a shrinkage of credit to the sector, non payment of dues to generators, and a loss of investor confidence. We have to move urgently to implement a package of distribution reforms combined with tariff increases, which will make the distribution companies viable for all additional sales. This would still leave the legacy problem of loans to cover past losses, which will have to be handled separately. The Twelfth Plan version of the Accelerated Power Development Reform Programme should be tailored to provide resources to States taking credible steps along these lines.

Another area in energy management where the states have a major role, is energy efficiency in buildings. New energy efficient building standards have been notified but only two States have made them mandatory. I would urge all Chief Ministers to mandate the new standards in their States for all new commercial buildings, including Government buildings. Combined with effective enforcement, this would go a long way to reduce the growth of energy demand in future.

The fifth issue I wish to raise relates to the management of water resources. All studies show that the demand for water in the country is outstripping supply, leading to serious water shortages and unsustainable drawal of ground water in many parts of the country. There are steps we can take on the supply side to increase the amount of water that is effectively available, and this should be a priority both for resource allocation and implementation in the twelfth Plan. However, the scope for increasing supply is limited. The real solution lies in increasing the efficiency of water use. At present, almost 80% of our water is used in agriculture, and it is used very inefficiently. Water use in agriculture can be cut to half with known technology, e.g., by switching from flood irrigation of paddy to SRI.

Water availability can be improved by treating sewage water before it enters our fresh water system. At present, only about 30 % of sewage water is treated. There are similar problems with industrial effluents. With urbanisation and industrialisation set to accelerate, these pressures on our fresh water systems will increase. Corrective action in all these areas lies largely in the domain of state governments.

The Approach paper calls for a comprehensive re examination of water policy including changes in the laws. It also calls for empowered water regulatory authorities which can ensure effective allocation of water to different uses and also different areas. Some States have introduced innovative schemes for rational use of water by involving farmers actively. Future assistance under AIBP should be linked to moves which ensure more rational use of water. We would welcome inputs from the state governments giving their perspectives on this issue.

The sixth issue relates to the need to improve implementation of Plan schemes on the ground. Over the past several years, we have greatly expanded the volume of resources devoted to various flagship programmes, all of which are implemented at the state government level. These include programmes in health, education, provision of clean drinking water, sanitation, area development programme, etc. The feedback we have got is that while these schemes focus on the right areas, their implementation leaves a great deal to be desired.

190

One of the problems that is frequently mentioned is the proliferation of Centrally Sponsored Schemes and the need for streamlining them and giving greater flexibility in implementation. As the Prime Minister has already mentioned, we have circulated a copy of the Report of the Chaturvedi Committee which makes a number of recommendations. Strengthening capacity at the local level is often a critical constraint. We would be happy to implement these recommendations if they find favour generally.

The Approach Paper also mentions many other ways of improving governance and promoting innovation, all of which would help improve implementation. Extending e-governance to the panchayat level and introducing transparency in government programmes would help improve performance by empowering stakeholders. The use of the UID number combined with the benefits of IT can help reduce leakage and increase efficiency in many schemes. The Central Government is planning to use the Aadhar platform to improve efficiency in many of these programmes. I would urge state governments to think along similar lines.

An important initiative, which is currently underway, is the Central Plan Scheme Monitoring System. This scheme will serve as a management information and decision support system which will enable us to track Central government disbursements under a Centrally Sponsored Scheme from the point where the transfer is made to the State Governments, down through different levels in the state Government to the final expenditure incurred at the implementing level. The scheme is being facilitated by changes proposed to be made in the present budget and accounting classification in the Centre and the States which will allow expenditure to be identified according to the scheme and according to the functional characteristics, i.e., capital or revenue. Once this is operationalised, Central Ministers and Chief Ministers would be able to tell what amounts have been released by the Centre and what expenditure has actually been incurred in the field, in each block or village depending on the coding detail used.

This list of six areas, where the State Governments have a primary role, is not exhaustive. There are many others which I have not dealt with. Since time is short, I have limited myself to touching only some of the most important points. I look forward to the reactions of the Chief Ministers.

Thank you.