

A Note on Agriculture for the **National Convention on Union Budget 2007-08.**

India is today witnessing the gravest agrarian crisis in its post-1947 history. The worst sufferers of the government's betrayal and non-performance are Indian peasants who are driven to commit suicide in large numbers. Cases of farmers' suicides are also surfacing in relatively prosperous states like Punjab, Kerala and Maharashtra. The prices of all inputs have shot up, whereas the prices of farmers' output continue to be at the mercy of a manipulative market and pathetic government agricultural policies. The crop insurance scheme is in a shambles. With the cooperative credit structure in most states turning sick, coupled with the advent of corporate farming, and the government turning a blind eye to the demand for remunerative prices for farm produce, farming community is being forced to carry a heavy burden of private debt.

The crisis in agriculture is also pushing agriculture labourers into indebtedness and further pauperization. The per capita production of foodgrains has witnessed a decline, but more than that rural India has experienced a massive deflation. The average rural family today is eating nearly 100 grams less of foodgrains than six or seven years ago and the average per capita availability of food grains has declined sharply. In 1991, when reforms began, availability of food per person was 510 grams, today it has fallen to 437 grams. This should have been a matter of urgent concern anywhere in the world. But the government machinery of our democratic and sovereign country is both, deaf and blind to ponder over this sensitive issue. Even, it hardly draws comment in the media here. All India absorption of foodgrains per capita per annum has fallen by 22 kilograms between the three-year period of 1995-98 and that of 2000-03. Foodgrain available per Indian fell almost every year in the 'reforms' period. And by 2002-03, it was less than it had been at the time of the great Bengal famine.

Distress is so evident that there can be no doubt that there has been pauperization of the masses in era of agricultural liberalization. Mass scale suicides by farmers across states today are actually a symptom of a much wider crisis in agricultural sector. This is the result not of a natural catastrophe or some unfortunate accident but a systematic, deliberate, clearly drafted shift to corporate farming from small family farming practices as well as mindless deregulation that has ruined the fortunes of the peasantry class as a whole.

The situation on land ownership front is even more disappointing and frustrating. The present land ownership scene is characterised by:

- (a) large masses of marginal and small peasants with holdings not exceeding two hectares (constituting about 80 % of total operational holdings and accounting for 36 % of the total cultivated area as estimated officially in 1995-96) practising virtually subsistence agriculture and the prevalence of large masses of landless workers (the official estimate being 10.7 crores in 2001);
- (b) relatively much smaller numbers of middle and large landholders with holdings larger than four and ten hectares respectively, (constituting about 7 % of the total operational holdings and accounting for 40 % of the total cultivated area) practising capitalist agriculture;

This highly skewed pattern of land distribution has aggravated the pains of the farming community.

Thus, from all accounts, we are experiencing a severe agrarian crisis. The manifestations are ubiquitous and unmistakable. But, the government policy continues to be insensitive towards this naked reality. Only half hearted measures are being employed. Effectively no real solution to the problem of the

chronic indebtedness of small and medium peasants is being offered. The inadequacy of the initiative is apparent in the context of the policy environment of withdrawal/ reduction of minimum support price programmes. Instead, the Government, it seems, is clearly in favour of intrusion of the agents of the Corporate agriculture through the supply of inputs and control of the market system; and incipient direct entry of the Corporate sector into farming in the name of bridging the twin deficits, namely the Knowledge deficit and Input deficit, of the farming community.

In the following sections of this background note, we endeavour to capture some of most decisive factors that can be held accountable for the present agrarian distress. However, at the outset, it will be apt to point out that the following discussion aims to highlight the pressing problems of the agriculture sector, which, even today, provides the base for survival to over sixty percent of Indian population, who seldom command any proper attention of the policymakers as well as the biased media of our democratic set up.

I. AGRARIAN DEVELOPMENT IN THE ERA OF REFORMS

Agricultural growth rates in India have registered a steady decline in the period of nineties. The decline is quite stark when we compare the decade of nineties with that of eighties. In the eighties, the rate of growth of agricultural output (all crops) was 3.19%; this figure had fallen to 1.73% in the nineties (see Table 1).

Table 1

| Period | Agricultural Growth Rates (% p.a.) | | |
|--------------------|------------------------------------|-----------------|-----------|
| | Food grains | Non Food grains | All Crops |
| 1980-81 to 1989-90 | 2.85 | 3.77 | 3.19 |
| 1990-91 to 2000-01 | 1.66 | 1.86 | 1.73 |

Source: **Utsa Patnaik**, (2004), "Alternative Ways of Estimating Poverty and Implications for Policy: A Critical Appraisal of the Indian Experience", www.networkideas.org

The main reason behind the decline in growth rates is the slowdown in capital formation in this sector. Investment in agriculture as a proportion of GDP has fallen from 1.92% in 1990 to 1.31% in 2003 (see Table 2).

Table 2

| Year | Gross Capital Formation in Agriculture (in %) | | Investment in Agriculture as % of GDP |
|----------|---|--------|--|
| | Private | Public | |
| 1990-91 | 70.4 | 29.6 | 1.92 |
| 1995-96 | 69.1 | 30.9 | 1.57 |
| 1996-97 | 71.1 | 28.9 | 1.51 |
| 1997-98 | 75.0 | 25.0 | 1.43 |
| 1998-99 | 74.0 | 26.0 | 1.26 |
| 1999-00 | 75.6 | 24.4 | 1.37 |
| 2000-01 | 76.8 | 23.2 | 1.28 |
| 2001-02 | 71.1 | 28.9 | 1.24 |
| 2002-03 | 76.1 | 23.9 | 1.27 |
| 2003-04* | 74.4 | 25.6 | 1.31 |

Source: *Economic Survey 2004-05, Government of India*

The slowdown in agricultural growth rates also breaks the illusion of excess agricultural production created by bloating stocks of foodgrains in FCI godowns; an illusion that will be dispelled by the depletion of these foodstocks once policies of demand generation are put into place. Since the government is considering a substantial increase in purchasing power in rural India through NREG starting Budget 2006-07, it should also treat the slowdown in agricultural production on urgent basis for otherwise all attempts at expansion of the economy will be frustrated by rising prices of foodgrains.

Need for Expanding Irrigation Coverage

We have noted that the decline in Gross Capital Formation in Indian Agriculture as the main source of decline in agricultural growth rates. Moreover, since the share of public investment in total investment in agriculture shows a declining trend, it means that public investment in agriculture (as a proportion of GDP) is declining at a much more rapid rate than overall investment in this sector. Since public investment in agriculture is known to crowd in private investment by reducing the cost of infrastructural inputs, this trend needs to be reversed. Particularly disturbing is the fall in public expenditure on irrigation and flood control (see Table 3).

Table 3: Public expenditure on irrigation and flood control

| Year | Plan Expenditure (Rs. Crore) | Non Plan Expenditure (Rs. Crore) | Total Expenditure (Rs. Crore) | Real Plan Expenditure (Rs. Crore) | Real Non Plan Expenditure (Rs. Crore) | Real Total Expenditure (Rs. Crore) |
|--------------|------------------------------|----------------------------------|-------------------------------|-----------------------------------|---------------------------------------|------------------------------------|
| 1996-97 | 767 | 93 | 860 | 598.3 | 72.5 | 670.8 |
| 1997-98 | 476 | 122 | 598 | 357.0 | 91.5 | 448.5 |
| 1998-99 | 135 | 139 | 274 | 95.9 | 98.7 | 194.5 |
| 1999-00 | 448 | 146 | 594 | 304.6 | 99.3 | 403.9 |
| 2000-01 | 211 | 152 | 363 | 135.0 | 97.3 | 232.3 |
| 2001-02 | 422 | 158 | 580 | 261.6 | 98.0 | 359.6 |
| 2002-03 | 185 | 155 | 340 | 111.0 | 93.0 | 204.0 |
| 2003-04 | 271 | 169 | 440 | 154.5 | 96.3 | 250.8 |
| 2004-05 (RE) | 365 | 169 | 534 | 193.5 | 89.6 | 283.0 |
| 2005-06 (BE) | 524 | 173 | 697 | 267.2 | 88.2 | 355.5 |

Source: Response to the Union Budget, 2005-06, CBGA

Extension of irrigation facilities in selected states of Punjab, Haryana and Uttar Pradesh was one of the pillars of our agricultural growth strategy in the seventies. The benefits of extending irrigation facilities in these regions have more or less been fully tapped and agricultural growth rates in these regions have been stabilised. There is thus a case for extending irrigation facilities to other states. However, appropriate policies for the early Green Revolution areas at the current conjuncture need to be explored and implemented.

Bharat Nirman

Recognising the need to boost infrastructural facilities in rural areas, government started 'Bharat Nirman', a plan that sets out physical targets, vis-à-vis infrastructural availability in rural areas, to be achieved by 2009. With respect to irrigation facilities Bharat Nirman fixes a target of bringing additional one crore hectares of land under assured irrigation. While the government has spelt out the physical targets to be achieved under Bharat Nirman, it is yet to clearly spell out the quantum of its own budgetary support for the purpose and its division between states and Centre. Moreover the meagre increase in allocations on infrastructural items in Union Budget 2005-06 suggests that burden of implementing

Bharat Nirman is going to fall mainly on the states. The case of irrigation facilities will be instructive here. Comparing Union Budget Estimates of irrigation (minor, medium and major) of 2005-06 with those of 2004-05, we find a small increase of about Rs. 11 crores. Finance Minister has himself admitted, in the discussions on budget in the Rajya Sabha that bringing additional one crore hectares of land will require Rs 67500 crores. This basically implies an additional allocation of Rs 17000 crores on irrigation every year to be made over next four years. Since the Centre has allocated only Rs. 11 crores of these 17500 crores, either it expects the states to bear the additional burden or it is simply not serious about achieving the noble objectives set out under Bharat Nirman.

Falling Prices and Rising Costs

Finally the biggest problem that our agriculture faces is its declining viability as an occupation. There has been a sharp fall in prices of almost all agricultural commodities in the last few years. The problem of falling market prices has been compounded by the government's decision to virtually freeze minimum support prices in recent years (see Table 4).

Table 4

| | Minimum Support Prices (Rs/Quintals) | |
|---------|--------------------------------------|--------------|
| | Wheat | Common Paddy |
| 1994-95 | 360 | 340 |
| 1995-96 | 380 | 360 |
| 1996-97 | 475 | 380 |
| 1997-98 | 510 | 415 |
| 1998-99 | 550 | 440 |
| 1999-00 | 580 | 490 |
| 2000-01 | 610 | 510 |
| 2001-02 | 620 | 530 |
| 2002-03 | 620 | 530 |
| 2003-04 | 630 | 550 |
| 2004-05 | 640 | 560 |

Source: *Economic Survey, 2004-05*

In addition, input costs have also increased because of reduction in subsidies on almost all inputs, notable are fertilizers and power (which falls mainly within the purview of the states). Many economists have argued the need to phase out subsidy on chemical fertilizers since price distortion introduced by subsidies encourages excessive use of these fertilizers, which are harmful from the point of view of sustainability. This however is an argument more in favour of redirecting subsidy from chemical towards organic fertilizers rather than doing away with any subsidy.

II. CENTRE'S BUDGETARY OUTLAYS FOR AGRICULTURE

Decline in public investment on agriculture seems to be the most significant factor contributing to stagnation in the sector. The total investment in agriculture as a proportion of GDP has declined from around 2.2 % in 2000-01 to 1.7 % in 2004-05. At one hand, when private investment in agriculture is shrinking, if government does not come forward to compensate the gap, it will have disastrous impact on the sector itself.

Table 5. Investment in Agriculture

| Year | Investment in Agriculture (Rs. crore) | | | Total Investment in Agriculture as a per cent of GDP at constant 1999-00 prices |
|----------|--|-------|--------|---|
| | | Total | Public | Private |
| 1999-00 | 43473 | 7754 | 35719 | 2.2 |
| 2000-01 | 38176 | 7018 | 31158 | 1.9 |
| 2001-02 | 46744 | 8529 | 38215 | 2.2 |
| 2002-03 | 45867 | 7489 | 38018 | 2.1 |
| 2003-04 | 47833 | 12809 | 35024 | 2.0 |
| 2004-05* | 43123 | 12591 | 30532 | 1.7 |

Source: Economic Survey 2005-06

Table 6. Trend of Government Allocation in Agriculture and Allied Activities

| Year | Revenue Account | Capital Account | Loan Account | Total Agriculture and Allied Activities | As % of Total Expenditure | As % of GDP (Central Government) |
|------------|------------------|-----------------|--------------|---|---------------------------|----------------------------------|
| 1996-97 RE | 10,527.40 | 342.08 | 344.45 | 11,213.93 | 5.58 | 0.82 |
| 1997-98 RE | 12,939.55 | 343.92 | 276.29 | 13,559.76 | 5.84 | 0.89 |
| 1998-99 RE | 15,115.35 | 333.35 | 269.31 | 15,718.01 | 5.63 | 0.90 |
| 1999-00 RE | 16,624.84 | 223.89 | 254.77 | 17,103.50 | 5.74 | 0.88 |
| 2000-01 RE | 19,305.81 | 48.09 | 150.47 | 19,504.37 | 5.99 | 0.93 |
| 2001-02 RE | 25,363.16 | 50.19 | 220.86 | 25,634.21 | 7.08 | 1.13 |
| 2002-03 RE | 31,198.32 | (323.69) | 205.74 | 31,080.37 | 7.52 | 1.26 |
| 2003-04 RE | 32,882.41 | 66.11 | 85.82 | 33,034.34 | 7.01 | 1.20 |
| 2004-05 RE | 36,127.98 | 78.75 | 100.09 | 36,306.82 | 7.30 | 1.16 |
| 2005-06 RE | 36,490.86 | 47.75 | 102.55 | 36,641.16 | 7.20 | 1.04 |
| 2006-07BE | 39,714.76 | 65.18 | 63.50 | 39,843.44 | 7.06 | 1.01 |

Source: Expenditure Budget Vol-I, Annexure-1

The share of Agriculture and allied activities in the total budgetary expenditure of the government has declined from 7.52 % in 2002-03 RE to 7.06 % in 2006-07 BE. As a proportion of GDP, it has declined from 1.26% to 1.01 % during the same period. The capital expenditure on agriculture and allied activities are very small in comparison to the needs the sector deserves. Given the precarious fiscal situation of the state governments, the central government should come forward to invest more and more on rural infrastructure and agricultural capacity creation through increased capital investment in the sector. It is unfortunate to note that the total capital investment in agriculture and allied activities had declined from a meager Rs. 150 crores in 2005-06 RE to Rs. 129 Crores in 2006-07.

The capital investment for irrigation and flood control though have increased from Rs. 11.18 crore in 2004-05 to Rs. 14.74 crore in 2005-06, was abysmally small for the purpose. In the current budget however, the central government reduced the allocation further to Rs. 9.49 Crores.

Table 7. Allocations for Irrigation and Flood Control

| Year | Revenue | Capital | Loan | Total | As % of Total Expenditure | As % of GDP (Central Government) |
|------------|---------|---------|-------|--------|---------------------------|----------------------------------|
| 1996-97 RE | 213.55 | 22.15 | 5.00 | 240.70 | 0.12 | 0.02 |
| 1997-98 RE | 224.79 | 15.32 | 5.00 | 245.11 | 0.11 | 0.02 |
| 1998-99 RE | 272.08 | 13.18 | 9.50 | 294.76 | 0.11 | 0.02 |
| 1999-00 RE | 311.34 | 9.07 | 12.00 | 332.41 | 0.11 | 0.02 |
| 2000-01 RE | 375.16 | 9.00 | 22.00 | 406.16 | 0.12 | 0.02 |
| 2001-02 RE | 409.94 | 11.00 | 32.00 | 452.94 | 0.13 | 0.02 |
| 2002-03 RE | 330.64 | 10.13 | 27.00 | 367.77 | 0.09 | 0.01 |
| 2003-04 RE | 349.58 | 6.32 | 15.54 | 371.44 | 0.08 | 0.01 |
| 2004-05 RE | 312.47 | 11.18 | 15.80 | 339.45 | 0.07 | 0.01 |
| 2005-06 RE | 376.91 | 14.74 | 15.80 | 407.45 | 0.08 | 0.01 |
| 2006-07BE | 436.63 | 9.49 | 15.80 | 461.92 | 0.08 | 0.01 |

Source: Expenditure Budget Vol-I Annexure-I, Various years

In his budget speech, the Finance Minister has announced Rs 2350 crore central assistance to the states to undertake assured irrigation projects costing Rs. 7121 crore for the year 2006-07. However, such assistance would be made through Accelerated Irrigation Benefit Programme (AIBP). However, since, it is a loan assistance scheme, it would only add to the existing debt burden of the state governments in the long run.

Table 8. Allocations for Rural Development

| Year | Plan | Non Plan | Total | As % of Total Expenditure | As % of GDP |
|------------|----------|----------|----------|---------------------------|-------------|
| 1999-00 RE | 7220.00 | 17.72 | 7237.72 | 2.43 | 0.37 |
| 2000-01RE | 8869.55 | 18.84 | 8888.39 | 2.73 | 0.43 |
| 2001-02RE | 10606.50 | 19.12 | 10625.62 | 2.93 | 0.47 |
| 2002-03RE | 15176.00 | 19.13 | 15195.13 | 3.68 | 0.62 |
| 2003-04RE | 15500.00 | 18.76 | 15518.76 | 3.29 | 0.56 |
| 2004-05RE | 13866.40 | 19.00 | 13885.40 | 2.79 | 0.44 |
| 2005-06RE | 21334.00 | 20.27 | 21354.27 | 4.20 | 0.61 |
| 2006-07BE | 24025.62 | 21.94 | 24047.56 | 4.26 | 0.61 |

Source: Expenditure Budget Vol-I Annexure-I, Various years

The share of rural development expenditure in the total expenditure of the government has increased marginally. Such meagre increase is in no way substantial for the problems faced by toiling farmers and rural population of our country. As a proportion of GDP, the allocations proposed in budget 2006-07 BE are still below the allocations estimated in 2002-03 RE. However, there have been many promised allocations through extra budgetary route. In his speech, the Finance Minister have mentioned of creating a corpus of Rs. 4000 crores under Rural Infrastructure Development Fund, a credit disbursement of Rs.

4863 crores for the SHGs and earmarking of Rs150 crore for the national horticulture mission. However, all these proposals for the year 2006-07 are based on the assumption of an increased private public partnership in these sectors. In another effort to repair, renovate and restore around 20000 water bodies in 23 districts in 13 states, the Finance Minister plans to administer a total expenditure of Rs. 4481 crore through a funding pattern comprising shares from Centre, State and external assistance. However, for this to happen, the Centre would require the states to sign a MoU. While proposed funding pattern and the nature of the external assistance is not very clear, we certainly don't want assistance from entities like World Bank and ADB, along the lines of Joint Forest Management.

Furthermore, there has been a steep and secular decline in investment in rural development over the Plan periods of five decades despite having over seventy percent of population dependent on this sector and contributing about 25 % of our total GDP. Let us be clear that about three-fourth contribution to GDP from this sector is from subsistence agriculture. Due to wrong priority of achieving economic growth, the investments in this sector have been brought down from 14.9% of the total planned investments during the First Plan to only 5.2 % during the Tenth Plan.

III. AGRICULTURE IN THE DRAFT APPROACH PAPER TO 11TH PLAN

The emphasis on the major challenge to reverse the deceleration in agricultural growth, from 3.2% observed between 1980 and 1996-97 to a trend average of only 1.5% subsequently, leaves no scope for disagreement and, in our opinion, must be accorded prime importance. We also concur with the view that this deceleration is undoubtedly at the root of the problem of rural distress that has surfaced in many parts of the country.

However, the argument that this problem is not purely a distributional one, and arises out of the special problems of small and marginal farmers and landless labour, weakens the case for equitable distribution of land in the country. It may be true that the deceleration is affecting all farm size classes in general. However, the policy prescription to reverse this trend that says that we should focus not only on the small and marginal farmers, who continue to deserve special attention, but also on middle and large farmers who too suffer from productivity stagnation arising from a variety of constraints, may not be the only best solution. It must be complemented by proper land redistribution policy and its strict implementation. It may also be added here that the benefit of this 'continued attention' is largely appropriated by large farmers, which has been argued by many experts.

Demand Side Intervention

"The Approach paper mentions that not only has agricultural growth been low in the last decade, the prices received for agricultural products have also failed to keep pace with the costs or the general price level and, as a consequence, profitability has declined. Several modelling exercises suggest that a 4% growth of agriculture will not be sustainable from the demand side unless aggregate GDP growth is much higher than 8%. Therefore steps (indirect) must be taken to generate demand for agriculture.

- *It lists out some of the steps already taken, such as the recently introduced National Rural Employment Guarantee Programme, which will help the demand side in the 11th Plan.*
- *The emphasis on expanding access and improving quality of public sector schools and health facilities may also help by reducing the need for private expenditure on these items by lower income groups and some of this expenditure will be redirected to generate demand for agriculture.*
- *Improved rural connectivity envisaged through Bharat Nirman can also trigger growth of an integrated national market where rural people are more able to meet each others demand. In its sheer size*

and scope, such expanded rural-rural trade is likely to be as important in the initial years as other efforts of demand support such as promoting agricultural exports, or strengthening support to agricultural diversification for domestic processing. The latter of course have the advantage of being able to attract private corporate investment into rural areas once essential infrastructure is in place and their importance is likely to grow over time."

CACP should shoulder its responsibility in a rational manner

Higher cost of production (due to increased input costs owing to reduction in fertilizer and power subsidy), in the absence of a corresponding increase in farm product prices (courtesy CACP), has rendered farming an unviable occupation. On the one hand, the cost of production increases due to increased input prices and at the same time market imperfections do not allow the farming household to generate sufficient profits to cover household expenses, exigencies and expenditure on social or family functions. Between 1990-91 and 1995-96 the prices of wheat as measured by the average of wholesale price indices increased by 58%, that of fertilizer increased by 113%, that of irrigation by 62% and insecticides by 90%. While the frequent revisions in the administered prices of petroleum products have raised the price of diesel substantially.

The Minimum Support Price declared by Government of India seems to be ignorant of the variable agro climatic situation and infrastructural facilities, eg. irrigation of various states. Depending on the state specific agro climatic situation and irrigation facilities per hectare yield also varies, in a substantial manner, across states.

The per hectare crop yield in Bihar, Orissa, and other states is less in comparison with the yield of other states due to irrigation facilities and unfavourable agro climatic situations. This leads to more cost of production. However, due to conducive climatic situation and sufficient irrigation facilities, the per hectare yield in Haryana, Punjab and Western UP (the privileged region of our country, thanks to Green Revolution) is more. The Minimum Support Price declared by Government of India does not cover the cost of production of the agriculture produce to the full extent. Therefore, the Minimum Support Prices do not give full justice to the farmers of the State having high cost of production.. Therefore, instead of declaring one Minimum Support Price at the national level which applies uniformly across states, separate prices for groups of states according to cost of farming is the need of the present agrarian situation.

However, the major demand side intervention that is proposed to be taken up in the 11th Plan period pertains to efficient and equitable shift of labour from agriculture to non-agriculture sector. This aspect becomes clearer when we explore the rationale for such a strategy provide by the Planning Commission. This has been produced below.

Changing Employment Patterns

"The approach paper stresses that doubling of the growth of agricultural GDP to 4% per year will improve employment conditions in agriculture by raising real wages and reducing underemployed. In fact, if the economy does grow at 9% and the agricultural sector at 4% only, income disparity between agriculture and non-agriculture will increase further unless the agricultural workforce reduces absolutely by around 10 million during the 11th Plan and non-agricultural employment increases at 5% per annum to absorb not just this shift but also all new entrants into the labour force."

"It further argues that while yield growth, changes in relative prices and shift to higher value crops can moderate this effect, we must recognise that existing size of operational holdings sets a limit to how much can be earned from farming. According to it, many more farmers

will resort to mechanisation in order to increase productivity, and in the process reduce employment of hired labour. Many other farmers would find it better to lease or sell their plots and move to non-agricultural occupations that provide better income. The approach paper supports such displacement of hired labour and argues that increase in land transactions can be socially disruptive but must nonetheless be facilitated for productivity gains and to prevent land from being left fallow."

"In order to achieve the foregoing goals, it emphasises the need for planning efficient and equitable shift of labour from agriculture to non-agriculture sector. As per the Approach paper, it requires consideration of rights of tenants, women's land rights and protection from insecurity. These issues should definitely be faced squarely in the context of the need to reduce agricultural workforce. Otherwise, it could become an excuse to dilute existing ceiling laws, conjuring visions of "efficient" large farms. Such false ideas are dangerous and need pre-empting. There is no evidence of economies of scale beyond what current ceilings allow, land hunger is unabated, and land per agricultural worker will remain below one hectare for over a decade even if non-agricultural employment grows at 6% per annum."

The last argument presented clearly brings to the fore that we must go whole hog to land distribution strategy simultaneously along with the strategies to improve the productivity of agricultural sector as enumerated above.

It may be further emphasised here, as also recognised by the Approach paper that only a positive message, that stresses equity and puts land reform back on the agenda, will make it possible to move on more difficult issues involving efficiency, such as tenancy. This is also almost a precondition for dealing effectively with encroachment and non-participation that currently plague watershed and wasteland development programmes.

We also concur with the view of the Approach paper that with EGA in place, there is scope to step up programmes, mentioned in the preceding, massively to not only address natural resource regeneration in rain fed areas but also, through direct employment and improving productivity of even tiny plots, provision of enough livelihood fallbacks for the poor to diversify their occupations without jeopardising capability of future generations.

The approach paper to 11th Five Year Plan also mentions that a shift of the labour force out of agriculture into the non-agricultural sector can only happen if our growth strategy (PM's oft quoted remark of 'growth with a human face') is a success and the economy as a whole grows at a more rapid rate than in the past and generates high growth in labour intensive manufacturing and in productive services sectors. The government will also have to focus on employment generating schemes which can yield result in the short term and are oriented to supporting the employment prospects of weaker sections.

Supply side strategy

"The supply side challenge of doubling agricultural growth is also formidable. The National Commission on Farmers has drawn attention to the knowledge deficit which constrains agricultural productivity. To overcome this, farmers will need effective links to universities and best practices. A good extension system is the means for achieving this linkage but unfortunately the extension system has virtually collapsed in most states, partly as a result of constraints on non-plan expenditure."

"The farming practices in large parts of the country are sub-optimal. Soil testing to determine

optimal nutrient requirements is hardly practiced and fertilizer application is often highly unbalanced with excessive use of nitrogenous fertilisers, often leading to a negative effect on productivity of the soil over time, a consequence that farmers are not fully aware of. These imbalances are themselves to some extent the result of a system of fertilizer subsidy which is irrational and focuses excessively on nitrogenous fertilizers."

"Lack of credit at reasonable rates is a persistent problem, in large part, reflecting the collapse of the cooperative credit system. The failure of the organized credit system in extending credit has led to excessive dependence on informal sources usually at exorbitant interest rates. This is at the root of farmer distress reflected in excessive indebtedness."

Indeed, the agricultural sector needs revival. Banks have to lend to this sector, giving up its mistaken belief that financing farmers will mostly result in bad loans. Most bad loans of the banks are loans given to large industrial houses. It is not the case that farmers cannot repay. Not lending to the farmers has been a political choice that has pushed farmers into the hands of malicious and relentless usurers who charge exorbitant rates of interest for their loans advanced to the crisis inflicted marginal and small farmers. This policy-induced indebtedness of the peasantry, ultimately, results in the most unfortunate, though recent, phenomenon of serial farmer suicide across states.

"Accelerated agricultural growth will require diversification into horticulture and floriculture which in turn imply structural changes in the relation between agriculture and non-agriculture. Diversification requires effective marketing linkages, supported by modern marketing practices including introduction of grading, post-harvest management, cold chains, etc."

"Diversification also means the product must meet the specific requirements of the different markets being serviced, and these requirements vary depending on whether the market is domestic consumption, agro-processing or exports."

"Contract farming is a potentially effective way of attracting corporate investors to help establish these linkages with markets and also provide farmers with necessary inputs, extension and other advice. Although very limited at present, many states have already taken steps to facilitate this potential to assist the process of diversification."

However, this diversification by the corporate sector is fraught with a number of problems. In the name of raising productivity, they may use the resources excessively and render the land infertile after profiteering. Therefore the greater focus should be on enabling small farmer participation in this respect by encouraging group formation and providing suitable and effective regulatory frameworks, as argued by the approach paper. The problem of existing vested interests in traditional trade channels opposing these changes must be overcome and a comprehensive strategy must be elaborated in the Plan document in this regard. Also a thrust towards crop diversification in favour of cash crops would have serious implication for the food security of the country. The credit requirement of the farmers would also increase when such a shift takes place. And the costs associated with the various risks involved are huge which we have been witnessing in the form of farmer suicides in recent years.

Farmers should be protected against such risks by appropriate measures. Insurance is one way of doing this, but the financial cost of existing and proposed crop insurance schemes is very considerable, and recurring, so that these are not appropriate as plan schemes. The promise that these and related issues of risk management need to be addressed in the 11th Plan should be welcomed.

Agricultural Research

It is worth mentioning the approaches to be adopted with regard to the agricultural research in the country. The steps suggested must be welcomed and followed in letter and spirit in the whole of 11th Plan period.

“It calls for a well considered strategy for prioritised basic research, which is now all the more urgent in view of mounting pressure on scarce natural resources, climate change and also the shrinking availability of spill-over from international public research.”

“The 11th Plan will have to focus the National Agricultural Research System (NARS) to strengthen its basic research component through properly anticipated identification of strategic research pathways. This must go hand in hand with clearer demarcation of responsibilities within NARS between such basic research, which may not contribute immediately to growth, and the more immediate requirement to adapt and disseminate existing technology and provide region-specific problem solving capacity.”

“The recently established National Strategic Agricultural Research Fund must be expanded in the 11th Plan and oriented to stimulate research responding to a well defined strategy of prioritisation. New generation technologies based on rapidly evolving scientific developments will play a pivotal role in achieving new levels of productivity in agriculture.”

“The country’s large agricultural research system which successfully launched the green revolution in the past will now be called upon to address newer and more formidable challenges. In this endeavour, business as usual has no place whatsoever. The system needs to be thoroughly revamped and restructured in the light of the advice rendered by the high powered committees chaired respectively by Dr. Swaminathan and Dr. R.A. Mashelkar.”

In sum, it is clear that allocations for agriculture need to be stepped up very considerably, if the concerns raised in the 11th Plan are to be considered seriousness.

Some Aspects of Infrastructure Development in India

Introduction

In India, infrastructure has been classified into two categories. While the physical infrastructure comprises of transportation, power and communication, the social infrastructure includes water supply, sanitation, sewage disposal, education and health. The contribution of infrastructure in sustained economic development of a country is well established. It is also well known that high transaction costs arising from inadequate and inefficient infrastructure can prevent the economy from realizing its full growth potential regardless of the progress on other fronts.

In India, infrastructure has been a subject that has traditionally been in the hands of the government. Right from the independence, till the beginning of decade of reforms, there have been some debates about which part of the infrastructure sector needed to be in the private sector, and which part in the public sector. Without going into the merits of these debates, we should be aware of the fact that creating a world-class infrastructure must have the very highest national priority, bringing together federal and state authorities and public and private players in a common national endeavor. World-class infrastructure will be needed to provide the platform for faster, consistent growth and for India to become a major world economic power. Also, there will be lasting political support for those in power who provide infrastructure that India's rural population and urban dwellers can touch, can feel and use to improve their lives.

Infrastructure is not the last area one develops in an era of great economic progress. It is, at the very least, an essential part, and often a prior condition, for great transformation. We know that improvements in "human capital", such as better education and health care are important contributors to infrastructure creation.

Initiatives

The present Union Government is also conscious of the importance of expanding infrastructure and the UPA government promised, in its National Common Minimum Programme (NCMP), to accord highest priority to the development of infrastructure in the country (see box 1 below), immediately after assuming power.

As a follow-up to NCMP, the **Committee on Infrastructure (CoI)**, under the chairmanship of the **Prime Minister**, was constituted on 31st August, 2004 with the objectives of initiating policies that would ensure time-bound creation of world class infrastructure delivering services matching international standards, developing structures that maximize the role of public-private partnerships¹ (PPPs) and monitoring progress of key infrastructure projects to ensure that established targets are realized. The Central Government has identified six key infrastructure sectors, namely, highways, railways, power, ports, airports and telecom, where it wishes to bridge the infrastructure gap with the major participation of private sector. It may be noted that the total investment, at 2001-02 prices, required in infrastructure during the Tenth Five Year Plan was Rs. 1,089,400 crore, which was later revised to Rs. 1,108,800 crore in the Mid-Term Appraisal of the Tenth Plan.

¹ A Public Private Partnership (PPP) Project means a project based on a contract or concession agreement, between a Government or statutory entity on the one side and a private sector company on the other side, for delivering an infrastructure service on payment of user charges and other concessions, such as subsidy and tax exemptions.

Box 1: National Common Minimum Programme on Infrastructure

The UPA attaches the highest priority to the development and expansion of physical infrastructure like roads, highways, ports, power, railways, water supply, sewage treatment and sanitation. Public investment in infrastructure will be enhanced, even as the role of the private sector is expanded. Subsidies will be made explicit and provided through the budget.

The review of the Electricity Act, 2003 will be undertaken in view of the concern expressed by a number of states. The mandatory date of June 10, 2004 for unbundling and replacing the state electricity boards will be extended. The UPA government also reiterates its commitment to an increased role for private generation of power and more importantly power distribution.

Railways constitute the core of our infrastructure. Public investment for its modernization, track renewal and safety will be substantially increased. Railways reforms will be pursued.

The UPA government commits itself to a comprehensive programme of urban renewal and to a massive expansion of social housing in towns and cities, paying particular attention to the needs of slum dwellers. Housing for the weaker sections in rural areas will be expanded on a large scale. Forced eviction and demolition of slums will be stopped and while undertaking urban renewal, care will be taken to see that the urban and semi-urban poor are provided housing near their place of occupation.

The UPA will pay special attention to augmenting and modernizing rural infrastructure consisting of roads, irrigation, electrification, cold chain and marketing outlets. All existing irrigation projects will be completed with three to four years. Household electrification will be completed in five years.

Furthermore, the Col has estimated time-bound investment requirements as: Rs. 2,20,000 crore in the National Highways sector by 2012; Rs. 40,000 crore for Airports by 2010; and Rs. 50,000 crore for Ports by 2012, i.e., a total of Rs. 3,10,000 crore in these three sectors (all part of transportation sector) alone. The Union Government is expecting that a substantial portion of this investment would come from the private sector through the much touted PPP mode.

Infrastructure inadequacies, in both rural and urban areas, have been identified as a major weak spot, as also pointed out in the Mid-Term Appraisal of 10th Plan. As per the draft Approach Paper to 11th Five Year Plan, the Col has identified an ambitious programme for infrastructure development which will cover the entire 11th Plan period. The Approach Paper to 11th Plan also brings out the result of preliminary exercises done to estimate the magnitude of investment in this regard. It says that investment in infrastructure defined as road, rail, air and water transport, power generation, transmission and distribution, telecommunication, water supply, irrigation and storage will need to increase from 4.6 percent of GDP to between 7 and 8 percent in the 11th Plan period. It also means that of the total investments to be made in the economy as a whole to push its growth rate from the current 7 percent to 9 percent in the 11th Plan period, about half of such investments should go towards creation of infrastructure.

The magnitude of financial resources required within a short span of time has created the popular belief among the proponents of market reforms that the private sector should participate in these initiatives in a major way. A number of initiatives have been taken in the last two years of the 10th Plan by both the Centre and the States to promote infrastructure development through public private partnership.

In fact, the Ministry of Finance has created a new scheme in July 2005 to mobilize resources for

financing the infrastructure projects. This scheme has been named as 'Scheme for Financial Support to Public Private Partnerships (PPPs) in Infrastructure. The said scheme will be a Plan scheme to be administered by the Ministry of Finance and budgetary provisions will be made in the Annual Plans of the scheme on a year-to-year basis. The Private Company implementing a project (developing, financing, constructing, maintaining and operating a project) shall enjoy a number of concessions.

Apart from being provided a normal financial assistance (subsidy) to the tune of 20 percent of the capital cost of the project (can go up to 40 percent; the sponsoring Ministry / State Government / statutory entity may provide a further 20 percent subsidy), known as Viability Gap Funding (VGF), these Companies shall also enjoy tax concessions which have been in place for over a decade now.

Two major initiatives have been taken by the Central Government in the Ministry of Finance. These are – the Viability Gap Funding Scheme, as mentioned in the foregoing, and setting up of Indian Infrastructure Finance Corporation. As far as the India Infrastructure Finance Corporation Ltd. is concerned, the Centre has indicated a sum of Rs. 10,000 cr in the first year (2006-07) and has clarified that there is really no limit as such. If there are bankable projects that can be funded and which require long-term debt, it has been assured by the Finance Minister that IIFC will raise funds in the strength of the Government's guarantee and will lend such funds to these projects.

Status and the Future Prospects

The country has made considerable progress in the last ten years in attracting private investment into the infrastructure sectors - in telecommunications, ports and roads and in other individual projects. The sector is estimated to grow at a Compound Annual Growth Rate (CAGR) of 15 per cent over the next few years. Clearly, it is a sector with immense potential. According to the Economic Survey 2005-2006, India has the potential to absorb US\$ 150 billion of foreign direct investment in the next five years in the infrastructure sector alone.

CONSTRUCTION SECTOR

In India, construction is the second largest economic activity after agriculture. Investment in construction accounts for nearly 11 per cent of India's Gross Domestic Product (GDP) and nearly 50 per cent of its Gross Fixed Capital Formation (GFCF). There is a clear increase in fund allocations for the infrastructure sector in the Tenth Plan (2002-07) by the Planning Commission most of which is to be spent in the construction sector. Construction accounts for nearly 65 per cent of the total investment in infrastructure and is expected to be the biggest beneficiary of the surge in infrastructure investment over the next five years. The construction sector in India is the second highest employer after agriculture and provides direct or indirect employment to about 32 million people.

There are significant opportunities for companies in the Indian construction sector. Construction is the second largest economic activity after agriculture, and accounts for 11% of India's GDP. The investments made in this sector amounted to Rs 6.6 trillion in FY05, and are expected to grow to over Rs 8 trillion by FY08, thus reflecting the significant opportunity ahead for such companies. The construction sector can be broadly classified into 3 sub-segments:

- Real estate construction (Residential and commercial),
- Infrastructure (roads, power) and
- Industrial construction (Steel, textiles, fertilisers, oil and gas refineries and pipelines).

REAL ESTATE

There is significant demand for quality housing in India. With trends such as younger people wanting to own a house earlier in life, plus greater affordability due to reasonable interest rates on home loans and favourable tax treatment, the demand for residential housing is expected to continue to grow in the near future. On the other hand, as regards commercial property, major drivers for this segment are expected to be the IT-ITES, retail, FMCG, telecom, media (multiplexes) and banking and financial services (BFSI) sectors. The SEZ Act passed recently is also expected to lead to greater demand for commercial real estate. Total investments in this space (real estate) are expected to increase from Rs 4.5 trillion in FY05 to Rs 5.1 trillion by FY08.

INFRASTRUCTURE

With the government's focus on infrastructure development, a lot of promise is in store for the infrastructure segment. Road construction projects, railways, urban infrastructure, power and irrigation projects, which are the major focus areas, are expected to witness investments of Rs 2.2 trillion by FY08, as compared to Rs 1.7 trillion in FY05. Around 50% of the cost of infrastructure projects are accounted for by construction activity, thus reflecting the potential that is there in this segment.

INDUSTRIAL CONSTRUCTION

After a slowdown in industrial investments between FY99 and FY03, these have started picking up. With higher demand and capacity utilisation, the need for incremental investments is quite strong. With higher imports of capital goods, a strong indicator of increased capital spending by corporates, significant investments are expected over the next few years. The total investment in this segment is expected to hit Rs 973 billion by FY08, up from Rs 414 billion in FY05. This is expected to be led by the oil and gas, steel, auto, petrochemicals, cement, paper and fertiliser sectors.

THE CHALLENGES

Undoubtedly, the biggest challenge facing this sector is the lack of skilled and quality human resources. This sector is not too different from the software sector, where skilled employees come at a premium. This is a major 'raw material' for construction companies as well, as the timely and 'within-budget' execution of projects requires experienced personnel, which are scarce in this industry. As a matter of fact, in many ways, the construction sector is actually worse-off than the software sector, since engineers perceive software as a 'glamorous' career, and therefore, the sector is losing out to its more glamorous software cousin.

Another risk that this sector is facing is the risk of execution, which is correlated to the above risk. Most of the companies in this sector have order books ranging from 2 to 5 times of their annual sales, and if they are unable to get quality personnel to staff their projects, executing them on time and within the stipulated budget will prove to be a challenge. The time taken by the government to award contracts could also be a hindrance to the order book accretion, apart from escalating raw material costs.

ROADS

The Indian road network, the largest in the world aggregating 3.32 million km, consists of 65,569 km of National Highways, 1,28,000 km of State Highways, 4,70,000 km of Major District Roads and about 26,50,000 km of other District and Rural Roads.

National Highways account for only about 2 per cent of the total length of roads, but carry about 40 per cent of the total traffic across the length and breadth of the country. Considering the importance of the National Highways and the rapid increase in traffic, the Government has taken up the National

Highways Development Project (NHDP), which consists of the following components:

- NHDP Phase-I: The Golden Quadrilateral (GQ; 5,846 km) connecting the four major cities of Delhi, Mumbai, Chennai and Kolkata
- NHDP Phase-II: The North-South and East-West Corridors (NS-EW; 7,300 km) connecting Srinagar in the north to Kanyakumari in the south, including spur from Salem to Kochi, and Silchar in the east to Porbandar in the west
- Port connectivity and other projects - 1,157 km
- NHDP Phase III-A (4,015 km): 4-laning of over 4000 km in the year 2005 approved at an estimated cost of US\$ 4.9 billion.

In order to provide road connectivity to rural India, Pradhan Mantri Gram Sadak Yojana (PMGSY) was unveiled in the 10th Plan, with the objective of bringing India's villages into the market economy. The PMGSY programme has been recently expanded to achieve the Bharat Nirman target of connecting 1000+ habitation (500+ for hilly and tribal areas) by 2008-09 with all weather roads. The emphasis on rural roads would continue and a major proportion of the 1.72 lakh unconnected habitations would be connected with all weather roads under the PMGSY during the 11th Plan.

FUTURE PLANS FOR THE ROADS SECTOR

The Government has set ambitious plans for upgradation of the National Highways in a phased manner in the years to come (remaining period of the 10th Plan and whole of 11th Plan). The details are as under:

- 4-laning of 10,000 km (NHDP Phase- III) including 4,000 km that has been already approved. An accelerated road development programme for the North Eastern region.
- 2-laning with paved shoulders of 20,000 km of National Highways under NHDP Phase-IV.
- 6-laning of GQ and some other selected stretches covering 6,500 km under NHDP Phase-V.
- Development of 1,000 km of express ways under NHDP Phase-VI.
- Development of ring roads, bypasses, grade separators, service roads, etc. under NHDP Phase-VII.

The approach paper to 11th Five Year Plan has expressed the concern that the maintenance of roads has not been given adequate importance by the states mainly due to paucity of resources. This has resulted in poor riding quality of the road network which is highly uneconomic. A rupee spent on maintenance saves two to three rupees in vehicle operating costs, besides improving traffic flow. Keeping this in view, the 12th Finance Commission has recommended additional grants to the tune of Rs.15,000 crore for maintenance of roads and bridges for the four-year period 2006-07 to 2009-10.

PORTS

India, with an extensive coastline of 7,517 km (including the Andaman & Nicobar islands), has 12 major ports and 187 minor ports. The 12 major ports carry about three fourths of the total traffic, with Vishakapatnam being the top traffic handler in each of the last five years.

During 2004-05, Indian ports handled a total estimated traffic of over 520 million tonnes. Up to

December 2005, cargo handled by major ports registered a 12.4 per cent growth, compared to 11.3 per cent observed in 2004-05. There has been an impressive growth of container traffic of 14.2 per cent per annum during the five years ending in 2004-05. Half of the world's traded goods are containerised and this proportion is expected to increase further.

Although there has been some improvement in the port sector during the 10th Plan, this sector needs major expansion and modernisation. As per the approach paper to 11th Plan, it is said that the 11th Plan will develop ports and related infrastructure to bring them to international standards in turn around time and clearing of import and export cargoes. Keeping in view the present trend, it is estimated that the Indian Ports will have to handle cargo traffic of about 800 MT by 2012 as compared to 520 MT handled in 2004-05. This would require substantial capacity augmentation at major and minor ports. A deep sea port will be developed and drafts of existing ports will be deepened, where feasible, through capital dredging.

The bulk of capacity augmentation would be undertaken through public private partnership and captive users. This would necessitate that the framework for private sector participation is laid down in a clear and comprehensive manner. Since adequate rail-road connectivity of ports with the hinterlands is of crucial importance, it would be improved on priority basis. The government along with other share holders such as Port Trusts and major users would also take up development of common user facilities.

AIRPORTS

Addressing the need for more efficient airports, the Indian Government has begun an aggressive drive to modernise existing airports. The international airport in Delhi and Mumbai are being upgraded with private sector participation. The FDI cap in the sector has been moved to 49 per cent. For the upgradation exercise, a joint venture will be formed in which the Airports Authority of India (AAI) and other public sector units will hold 26 per cent equity and the balance 74 per cent will be held by a strategic partner. The AAI has now identified 25 non-metro airports for development. These include Agatti, Aurangabad, Bhopal, Bhubaneswar, Coimbatore, Indore, Khajuraho, Nagpur, Patna, Port Blair, Rajkot, Trichy, Vadodra, Varanasi and Vishakhapatnam.

RAILWAYS

The Indian Railways, which boasts of being the world's second largest rail network under a single management, has been one of the biggest contributors to the rise of industry and the change in the economic landscape of the country for over 150 years. Of the two main segments – freight and passenger – of the Indian railways, the freight segment accounts for roughly two thirds of its revenues.

The 10th Plan laid emphasis on capacity expansion through modernisation and technological upgradation of the railway system, improvement in quality of service, rationalisation of tariff and improvement in safety and reliability of rail services. Significant progress has been achieved in the last two years of the 10th Plan - thanks to a remarkable improvement in productivity. This has enabled a quantum expansion in efforts at capacity augmentation. Yet capacity bottlenecks persist and containers pile up and congest ports for want of adequate capacity to move them. The Railways need to augment capacity particularly on critical routes such as Delhi-Mumbai and Delhi-Howrah for which dedicated freight corridors are to be constructed during the 11th Plan.

In the railway sector, a number of projects are being funded by Public-Private Partnership; the Rail Vikas Nigam Ltd. has been entrusted with the task of promoting PPP for railway projects. Government has also decided to set up dedicated freight corridors, on Delhi-Howrah and Delhi-Mumbai routes. These projects are likely to be financed largely through PPP.

TELECOMMUNICATIONS

India's telecommunications story in many ways epitomises the new India. The image of young Indians with slick mobile phones has become a metaphor for economic growth in country. With rapid growth in the telecommunication sector, tele-density levels have surpassed all targets set by the Government. The total number of telephones (basic and mobile) rose from 22.8 million in 1999 to more than 125 million at the end of December 2005.

While 21.83 million telephones were added during 12 months of 2004-05, the first nine months of 2005-06 saw an addition of 27.47 million phones. Overall, tele-density has risen from a mere 2.32 in 1999 to 11.32 in December 2005.

The FDI scenario in the sector has also been on a roll. The Government allows 74 per cent of FDI in the sector and the total FDI approved up to September 2005 was US\$ 9.3 billion. Some of the major investors are Hutchison, Singtel, AT&T and Distacom. Telecom major Vodafone has announced its entry into the sector with the acquisition of 10 per cent shares in Bharti Televentures. The agenda for having world renowned Telecom and IT companies set up their R&D/manufacturing base in India, has been aggressively pursued to ensure timely delivery, high quality, cost effective supplies and very good after sale services.

POWER

India's power market is the fifth largest in the world with an installed generation capacity of 123 GW, generation of more than 600 billion KWh, and a transmission & distribution network of more than 6.3 million circuit km.

With economic development in the country, per capita electricity consumption is bound to increase. The Government has taken significant policy initiatives to improve conditions for attracting private investment and FDI in the power sector. Broadly, 100 per cent foreign equity participation is allowed under the automatic approval route in all segments of the industry. For large generation projects, the Mega Power Policy extends incentives, such as capital import duty concessions, and the waiver of local levies to improve cost attractiveness, and a tax holiday for a period of 10 consecutive years out of 15 years from commencement.

It may be added here that nearly half of the country's population is today without electricity and, indeed, without a consistent supply of any other form of commercial energy either. The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) is a key initiative providing electricity access to all households and actually connecting all BPL households. However, the success of this commendable effort depends critically upon adequate availability of electricity and actual electrification of all households. Mere access without supply of power will only add to frustration.

Urban Infrastructure

Urban development and infrastructure comprises of components such as, drinking water, sanitation, sewage systems, electricity and gas distribution, urban transport, primary health services and environment regulation. Smaller cities, because of inadequate financial resources, have found it particularly difficult to cope with the increasing demands on services. Urban areas in India present a grim picture with regard to the availability of basic infrastructure. For example, although 89 percent of the urban population is reported to have access to safe drinking water, there are severe deficiencies in equitable distribution of water.

In case of urban India, the Accelerated Urban Water Supply Programme launched in 1994 for providing

water supply to towns having population of less than 20000 as per the 1991 Census, has taken up 1244 projects with an approved estimated cost of Rs. 1822 crore up to July 26, 2005 and Rs. 760 crore had been released against the same. This scheme has been merged with the recently launched National Urban Renewal Mission (Economic Survey 2005-06) in selected cities. This programme is intended to include an urban infrastructure development scheme for small and medium towns to provide reform linked assistance to the state governments for infrastructure projects including water supply and sewerage projects for all towns and cities. A meagre amount of Rs. 87 crore has been provided in 2006-07 Budget for Water Supply and Sanitation Programme of Department of Urban Development under the Ministry of Urban Development, which is even lower than the revised estimates of Rs. 100 crore for 2005-06.

JAWAHARLAL NEHRU NATIONAL URBAN RENEWAL MISSION (JNNURM)

The Prime Minister launched JNNURM on December 3, 2005 to encourage cities to initiate steps to bring about improvement in the existing service levels in a financially sustainable manner. The objectives of the mission, *inter alia*, include planned development of identified cities including semi-urban areas, outgrowths and urban corridors and improved provision of basic services to the urban poor. The duration of the mission would be seven years beginning from 2005-06. Cities / Urban Agglomerations / Parastatals will be required to prepare detailed project reports for undertaking projects under identified areas. Assistance under JNNURM is additional central assistance, which would be provided as grant (100 per cent central grant) to the implementing agencies. Funds for the identified cities would be released to the designated State Nodal Agency, which in turn would arrange, to the extent feasible, additional resources from the financial institutions / private sector / capital market. The Union Government would delineate private sector participation in development, management and financing of urban infrastructure in due course.

The admissible components under the mission include urban renewal, water supply including desalination plants and sanitation, sewerage and solid waste management, urban transport, development of heritage areas, preservation of water bodies etc. A provision of Rs.50,000 crore has been agreed to as Central Assistance for JNNURM for a period of 7 years beginning from 2005-06.

On completion of the mission period of seven years, it is expected that Urban Local Bodies (ULBs)/ Parastatals will achieve the following outcomes:

- (a) Modern and transparent budgeting, accounting, and financial management systems designed and adopted for all urban services and governance functions*
- (b) City-wide framework for planning and governance will be established and become operational*
- (c) All urban residents will be able to obtain access to a basic level of urban services*
- (d) Financially self-sustaining agencies for urban governance and service delivery will be established, through reforms to major revenue instruments*
- (e) Local services and governance will be conducted in a manner that is transparent and accountable to citizens*
- (f) E-governance applications will be introduced in core functions of ULBs/ Parastatals resulting in reduced cost and time of service delivery processes.*

It is estimated that over a seven-year period, the Urban Local Bodies (ULBs) would require a total investments of Rs. 1,20,536 crores. This includes investment in basic infrastructure and services, that is, annual funding requirement of Rs. 17,219 crores. It is well recognised that in order to fructify these

investments, a national level initiative is required that would bring together the State Governments and enable ULBs catalyse investment flows in the urban infrastructure sector.

Further, according to the Ministry of Urban Development, assistance from JNNURM is expected to facilitate additional investment in the urban sector. To this end, the Ministry says, the implementing agencies are expected to leverage the sanctioned funds under JNNURM to attract greater private sector investments through Public Private Partnerships that would enable sharing of risks between the private and public sector. Thus, the Government is implicitly dispelling the argument that public spending crowds out private sector investments. However, an investment from the private sector under this mission would entail additional burden on the urban poor in terms of User charges for various services provided under this mission. Also, the Union Government has allocated Rs. 4890.66 Crore (in 2006-07, Table 1) only from its kitty and would raise the rest of the annual requirement from the participation of private players. Thus, the success of this ambitious scheme depends largely on the response that it receives from the private investors.

Table 1: Allocations on different components of JNNURM

(in Rs. Crore)

| Details/Year | 2004-05 RE | 2005-06 RE | 2006-07 BE |
|--|----------------|---------------|----------------|
| Sub-Mission on Urban Infrastructure and Governance | 167.00 | 150.00 | 2287.15 |
| Sub-Mission on Urban Infrastructure Development for Small and Medium Towns | 199.50 | 115.00 | 1010.00 |
| Sub-Mission on Basic Services to Urban Poor | 0 | 0 | 908.78 |
| Integrated Housing and Slum Development | 732.75 | 200.00 | 684.73 |
| Total | 1099.25 | 465.00 | 4890.66 |

Note: 1. Allocations include transfers to States and UTs through Ministry of Finance and Schemes under Ministry of Urban Development
 2. The figures for the different components of JNNURM for the years mentioned have been arrived at after identifying allocations on similar schemes in the respective years from **Expenditure Budget Volume 2** detailing Notes on Demands for Grants of the Department of Urban Development and Transfers to States and Union Territories under the Ministry of Finance.

Bharat Nirman: A Business Deal for Rural India

Bharat Nirman is a time-bound business plan for action in rural infrastructure over the four year period (2005-2009). Under Bharat Nirman, action is proposed in the areas of irrigation, rural roads, rural housing, rural water supply, rural electrification and rural telecommunication connectivity. Specific targets have been set under each of these goals as under:

Irrigation - to create 10 million hectares of additional irrigation capacity

Rural roads - to connect all habitations (66802) with population above 1000 (500 in hilly/tribal areas) with all weather roads

Rural housing - to construct 60 lakh houses for rural poor

Rural water supply - to provide potable water to all uncovered habitations (55067) and also address slipped back and water quality affected habitations rural

Electrification - to provide electricity to all un-electrified villages (1,25,000) and to connect 23 million households below the poverty line

Rural telephony - to connect all remaining villages (66822) with a public telephone

While the agenda is not new, the effort is to impart a sense of urgency to these goals, make the programme time bound, transparent and accountable. The funding for the programme will be met through an appropriate mix of budgetary support by the Centre and states, external aid, market borrowing and loan from a separate window under Rural Infrastructure Development Fund (RIDF) for rural roads. To ensure accountability, the names of villages electrified, villages connected by all weather roads, villages provided drinking water and villages provided telephone will be put on the internet.

Water Supply and Sanitation

The Tenth Plan aims at providing safe drinking water to all rural habitations within its period of operation. It may be noted here that water is a State subject, and the schemes for providing drinking water facilities are implemented by the States. The Central Government provides financial and technical support in this regard. The Department of Drinking Water Supply and Sanitation through its Accelerated Rural Water Supply Programme (ARWSP) and Central Rural Sanitation Programme has undertaken an investment of Rs. 50000 crore upto March 31, 2005 beginning 1972-73 to achieve this objective. Economic Survey 2005-06 claims (page 219, para 10.62) that 96.1 percent of rural habitations were fully covered, and 3.6 percent were partially covered as on April 1, 2005, leaving 0.3 percent not covered with drinking water facilities. However, at the level of rural households, nearly 27 percent lack access to safe drinking water (Economic Survey 2005-06, Table 9.6). The Central Rural Sanitation Programme has taken up projects in 540 districts covering 30 States / UTs with an approved outlay of Rs. 5694.44 crore since 1999 (Economic Survey 2005-06). Budgetary allocations have registered an upward trend on this account as is evident from Table 2.

Table 2: Union Government's Expenditure on Water Supply and Sanitation

(in Rs. Crore)

| Year | Revenue Account | Capital Account | Loans | Total | Union Govt. Expenditure on Water Supply and Sanitation as Proportion of GDP (in %) |
|------------|-----------------|-----------------|-------|----------------------|--|
| 1996-97 | 316.92 | 10 | 25 | 351.92 | 0.026 |
| 1997-98 | 480.45 | 7.99 | 33.47 | 521.91 | 0.034 |
| 1998-99 | 586.02 | 17.99 | 2.26 | 606.27 | 0.035 |
| 1999-00 | 640.98 | 18.01 | 16.75 | 675.74 | 0.035 |
| 2000-01 | 795.37 | 20 | 0 | 815.37 | 0.039 |
| 2001-02 | 839.79 | 20.01 | 0 | 859.8 | 0.038 |
| 2002-03 | 959.42 | 20 | 0 | 979.42 | 0.04 |
| 2003-04 | 1213.92 | 5 | 0 | 1218.92 | 0.044 |
| 2004-05 | 1785.67 | 1.65 | 0 | 1787.32 | 0.057 |
| 2005-06 RE | 2120.96 | 0 | 0 | 2120.96 | 0.06 |
| 2006-07 BE | 2451.08 | 0 | 0 | 2451.08 ^a | 0.062 |

Notes: Figures for 1996-97 to 2004-05 are *Actuals*, those for 2005-06 are *Revised Estimates (RE)*, and those for 2006-07 are *Budget Estimates (BE)*.

^a Does not include Rs. 3066 crore as Grants in aid on Demand No. 80 for States and Union Territories and Rs. 600 crore as Special Areas Programmes for North Eastern Areas on the premise that these transfers are actually spent by the States.

^b Extrapolated assuming a nominal growth rate of 12 % over the previous year.

Source:

1. Annual Financial Statement of Central Government- for various years.
2. Economic Survey 2005-06, GOI.

Rural Drinking Water is one of the components under Bharat Nirman, which has been conceived as a plan to build rural infrastructure in four years period from 2005-06 to 2008-09. The Plan outlay on this head has been substantially increased from Rs. 4284 crore in 2005-06 RE to Rs. 5400 crore in 2006-07 BE. This step must be welcomed and applauded. The volume of Plan allocation on Rural Sanitation stood at Rs. 720 crore in the total Plan allocation of Rs. 5400 crore proposed.

Backward Regions Grant Fund

From the year 2002-03 Rashtriya Sam Vikas Yojana had been introduced as a scheme under Central assistance to State Plans. It was renamed as Backward Districts / Areas Fund and further renamed in the Budget proposals of 2005-06 as Backward Regions Grant Fund (BRGF) on the recommendations of an Inter-Ministerial Group (IMG) in 2005-06. The IMG had identified 170 backward districts based on certain socio-economic variables. It had also proposed that resources under the new facility should be conditional on Panchayati Raj Institutions being properly empowered, including devolution of functionaries and funds. Consequent upon the establishment of the Fund, the existing Rashtriya Sam Vikas Yojana (RSVY), envisaged to end in 2006-07, will be wound up with suitable transition arrangements that will protect every district now covered under RSVY. As of now, the scheme (BRGF) would cover 250 districts, which includes all of NREGA districts.

The Scheme aims at focused development programmes for backward areas, which would help reduce imbalances and speed up development. The main objectives of the scheme are to address the problems of low agricultural productivity, unemployment and to fill critical gaps in physical and social infrastructure. The District Administration / Panchayati Raj Institutions accordingly would be required to prepare a Three-Year Master Plan with nested Annual Action Plans. The Plan is to be based on a SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis, review of on-going schemes and identification of a few lead sectors wherein state intervention would help the region overcome major bottlenecks in development. The additionality is to be used to meet local needs through schemes in these lead sectors which would make a dent on the poverty of the region in a time bound manner. People's participation and involvement of Panchayati Raj Institutions, NGOs and Self Help Groups would be ensured at every stage including plan formulation, implementation and monitoring.

In terms of financial allocations under this head, in 2004-05 Budget proposals, Rs. 3225 crore was earmarked for this scheme, which was revised to Rs. 1969 crore in the same year. In the year 2005-06 too, against the budget estimates of Rs. 5000 crore, the revised allocation stood at only Rs. 2000 crore. In 2006-07 budget proposals, this scheme has been allocated a sum of Rs. 5000 crore out of which Rs. 3750 crore has been placed under Demand No. 67 of the Ministry of Panchayati Raj and Rs. 1250 crore under Demand No. 35 of Ministry of Finance as Transfers to State and Union Territory Governments. Rs. 250 crore has specifically been allocated for Capacity building, preparation of district / block / village plans, training, acquisition of technical inputs and monitoring for the chosen 250 districts, which has to be adequately and effectively utilized by the district administration for smooth implementation of BRGF. This scheme has welcome intentions and one should hope and also urge the Union Government to realise this scheme to the extent as envisaged.

Concluding Remarks

In the infrastructure sector, the initiatives such as BRGF, JNNURM, Bharat Nirman, RIDF at the national levels augurs well for the country. Dovetailing ongoing employment generation schemes, such as, NREGS, SGRY, etc. with these (off course without curtailing any resources provided for these programmes) would be a good idea. However, in case of projects / programmes implemented through PPPs, the Government of India needs to take the issues of regional disparities and regulations into consideration. As regards the latter, the Planning Commission (Committee on Infrastructure) has come up with a

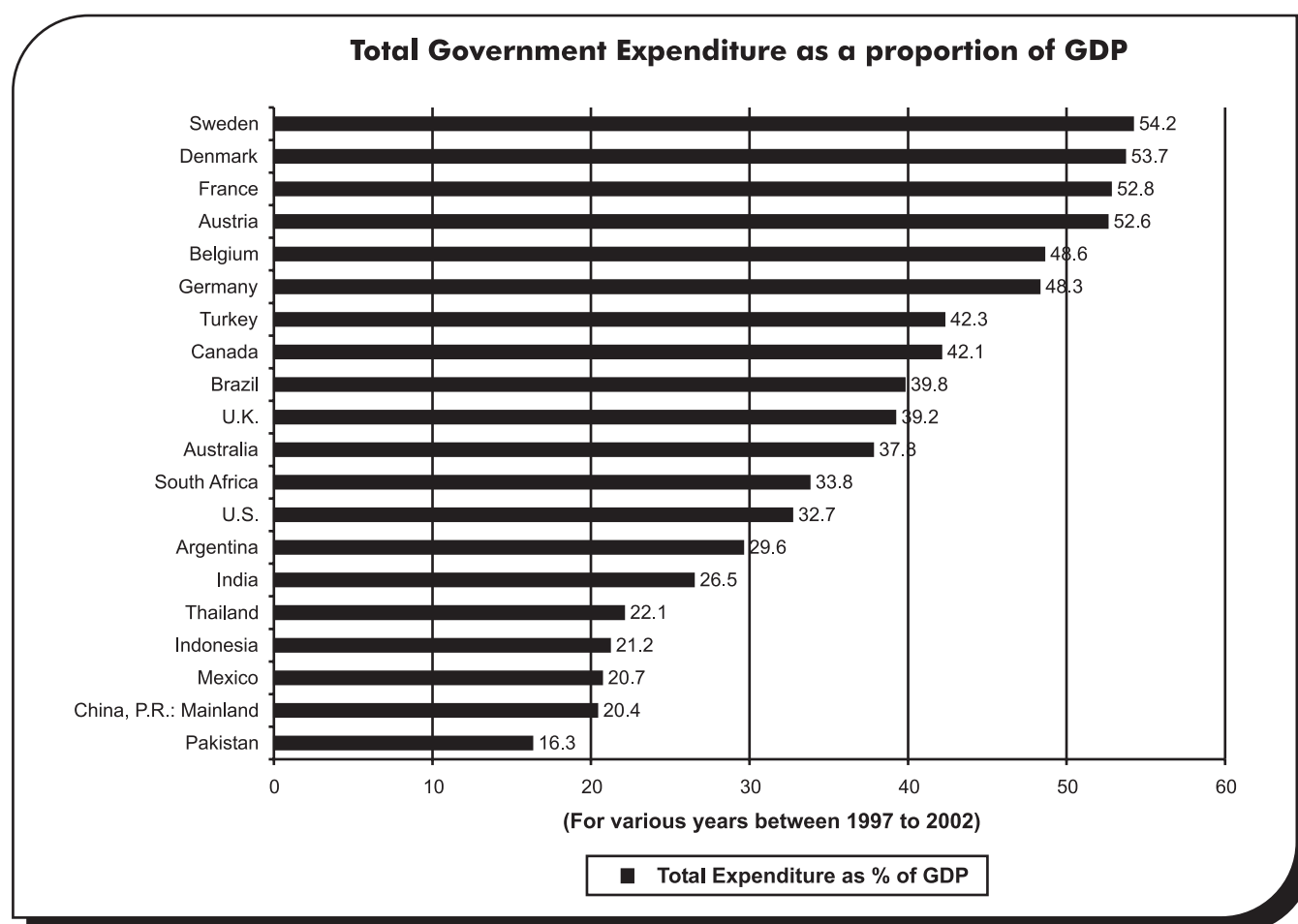
consultation paper, which analyses the current state of regulatory law and policy in India and proposes a broad policy approach to guide the next stage of regulatory reform. However, the issues relating to equity in provision of such infrastructure across the country do not find any mention in policy pronouncements. Without addressing this issue, it may turn out that such infrastructural services remain concentrated in areas where the private capital finds them most profitable, in spite of providing them with Viability Gap funding and other concessions.

A Note on Resource Mobilisation & Expenditure Management for the National Convention on Union Budget 2007-08

This note intends to highlight some of the key issues relating to resource mobilisation by the Union Government and management of its budget expenditure for better outcomes, which may be taken into consideration in the National Convention on Union Budget 2007-08.

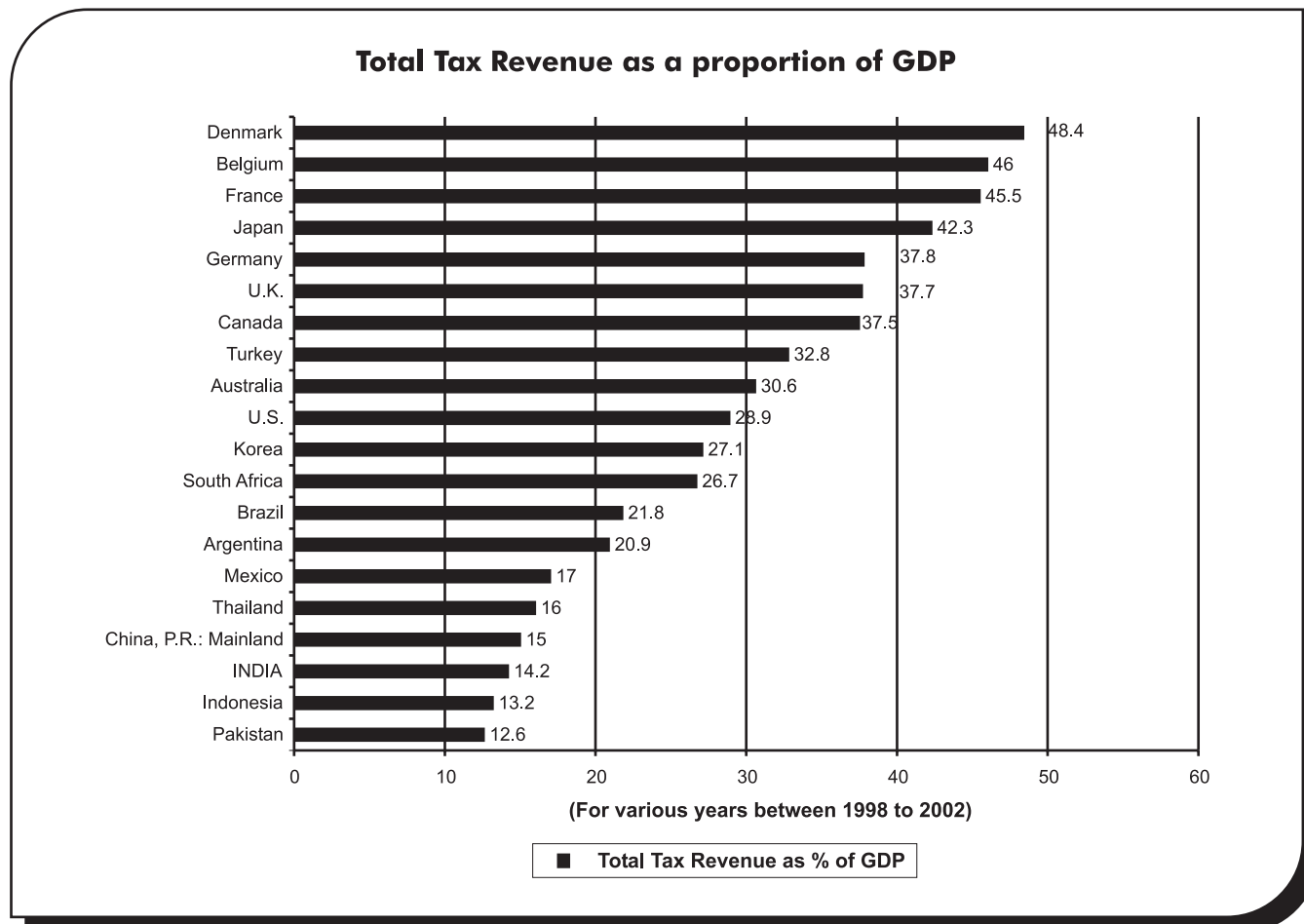
1. INTRODUCTION

At the outset, it may be worthwhile to take a quick look at a comparison of the total magnitude of government spending as a proportion of the country's Gross Domestic Product (GDP) in India and elsewhere. The following chart presents such a comparison of the size of total government spending across twenty countries, including developed as well as developing countries, during the years 1997 to 2002. It is evident that the total government spending in India (i.e. including both the Union Budget and Budgets of all States) as a proportion of the country's GDP is much smaller than the same for many other countries, which not only include developed OECD countries but also developing countries like Brazil, South Africa and Argentina.



The relatively smaller size of total government spending (as a proportion of GDP) in India translates into relatively lower levels of public spending on important social sectors as well as economic sectors.

Therefore, it is pertinent to ask what could be the main reason for which the total size of Budget in India, relative to the aggregate level of economic activities in the country, is smaller than so many other countries. While there could be several reasons for this, the most important reason has been the inability of the state in India to mobilise a substantial amount of tax revenue. In this regard, it would again be worthwhile to look at a comparison of the size of total tax revenue in India as a proportion of the GDP in comparison with the same in other countries.



As is evident from the chart shown above, the total tax revenue (i.e. aggregate tax revenue collected by the Union Government and all States) as a proportion of the country's GDP has been much lower in India in comparison to many other countries. Not only the developed OECD countries but also developing countries like, Brazil, Argentina, South Africa, Mexico, Thailand and China, have had higher levels of tax revenue (relative to the aggregate level of economic activities in the country) than India. Thus, the relatively lower levels of tax revenue (as a proportion of GDP) in India would explain to a significant extent the lower levels of public spending on important social as well as economic sectors in the country.

Table 1: Total Tax Revenue as a proportion of GDP in 2004

| Year | Gross | Tax Revenue as % of GDP |
|--------------|-------|-------------------------|
| Sweden | 2004 | 50.7 |
| Denmark | 2004 | 49.6 |
| Belgium | 2004 | 45.6 |
| Netherlands | 2004 | 39.3 |
| Spain | 2004 | 35.2 |
| U.S. | 2004 | 25.4 |
| S. Korea | 2004 | 24.6 |
| Mexico | 2004 | 18.5 |
| India | 2004* | 16 |

Note: *2004-05 BE

Source: Srinivasan, G. (2005), "Low tax-GDP ratio daunts India's quest to join developed world", *Business Line*, New Delhi, Oct. 13

While the previous chart presented a comparison of the tax-GDP ratios of selected countries during the years 1998 to 2002, Table 1, shown above, presents such a comparison for one of the more recent years (2004). The tax-GDP ratio in India has been rising over the last couple of years. However, it must be noted here that the total tax-GDP ratio for India still falls far short of the levels attained by most developed countries as well as some of the developing countries.

Thus, the most important concern relating to resource mobilisation by the Union Government in India would be the augmentation of tax-GDP ratio. Given that indirect taxes usually have a regressive impact on people, economists argue for greater reliance upon direct taxes. The next concern, therefore, becomes the composition of tax revenue mobilised by the Union Government. The Union Government also collects various kinds of non-tax revenue, such as, dividends from PSUs, interest receipts on loans given by it and also user charges on some of the services provided by it. However, the total magnitude of such non-tax revenue is much smaller than tax revenue and also user charges on public services are widely seen as detrimental for the economically backward classes who constitute the majority in this country. There are also some other sources that contribute receipts for the government, which are known as capital receipts. One of the prominent examples of such capital receipts, which may be considered under resource mobilisation by the Centre, would be disinvestments proceeds. However, as is well known by now, the case for disinvestments in PSUs for augmenting government resources in India is very weak. Therefore, the preset note, in the **second section**, focuses mainly on mobilisation of tax revenue by the Union Government. The **third section** of the note briefly outlines some issues relating to public expenditure management, which we regard as pertinent at the current juncture. The phrase "public expenditure management", in the mainstream discourse dominated by international lending agencies and the advocates of neoliberal economic reforms in India, has primarily meant "public expenditure compression" with emphasis on reduction of subsidies and pensions paid out of the Budget and elimination/ reduction of deficits in the Budget. The preset note does not get into the contentious arguments put forward for this kind of public expenditure compression. It focuses on the issue of managing public expenditure for better outcomes, taking note of the exercise of Outcome Budgeting initiated by the Union Government Ministries since last year.

2. RESOURCE MOBILISATION BY THE UNION GOVERNMENT

The inability of the government to collect enough taxes has been one of the most disquieting aspects of India's development experience. As already mentioned, the tax-GDP ratio in India has been one of

the lowest in the world, and the low tax-GDP ratio has constrained the growth of public expenditure in the country. What is even more disturbing is that in the period of economic reforms this ratio has taken a further beating implying that reduction in fiscal deficits over this period has been attained mainly at the cost of public expenditure.

2.1 TAX REVENUE UNDER ECONOMIC REFORMS

In India, the falling tax-GDP ratio over the decade of 1990s and later was mainly rooted in the reduction of customs duties which was a consequence of the overall policy of trade liberalisation, and the accompanying reduction in excise duties which was meant to ensure that domestic producers are not at a disadvantage. Just to take an example, peak rate on customs duties, which was in the range of 300% in the pre-reform period, has been reduced to 15%. While the decline in the rates of both customs and excise duties became inevitable in the context of the opening up of the economy and the need to provide a level playing field to domestic producers, the persistence of exemptions and concessions for both of these taxes have substantially reduced the collection of these taxes. While there has been some improvement in the direct tax-GDP ratio over this period, it has not been sufficient to offset the fall in the indirect tax-GDP ratio.

Since 1991-92, following the recommendations of the Tax Reforms Committee headed by Raja J. Chelliah, a restructuring of the tax system has been in progress. As regards direct taxes, the tax reforms have focused on rationalisation (i.e. reduction) and stability of tax rates, simplification of tax laws and effective tax compliance. The marginal income tax rates have been reduced substantially. Over this period, there has been an increase in both personal and corporate income tax revenue due to an increase in the number of assesseees and better compliance; however, this has been far from sufficient to offset the fall in indirect tax revenue.

Direct taxes are more progressive than indirect taxes and the increase in the share of direct taxes in total taxes is a welcome trend. As mentioned above, the focus of the strategy on direct taxes has been to reduce tax rates as well as simplify procedures so as to yield greater compliance. However, greater compliance can also be attained through stricter enforcement and there really was no need to reduce the tax rates to invite greater voluntary compliance. Tax evasion is not a straightforward (positive) function of tax rate but depends also on the willingness of the government to enforce compliance. By accepting the low tax or no tax framework offered by the corporate sector and rich individuals, the government has in some sense justified the tax evasion that has been taking place for so many years (for example, the Voluntary Disclosure of Income Scheme, wherein the Union Government encouraged people to disclose hidden money by paying low levels of tax). Such a strategy, while it may lead to small improvements in the tax-GDP ratio, will not go very far towards increasing tax revenues to the standards set by developed countries.

In addition to this, resource mobilisation in the era of economic reforms has also been marred by the practice of announcing tax holidays for the private sector. When a tax holiday is announced especially to develop a region within a country, it may not lead to any additional investment if capitalists only shift their plant and machinery from more developed to less developed regions to take benefit of the tax holiday. This strategy while it surely leads to loss in precious revenue for the government may not add anything in terms of the aggregate demand to the country. A more effective strategy would be to incur extra public expenditure in these regions, especially in the creation of infrastructure, which might crowd in private investment in these regions.

There have also been some attempts in the recent years by the Union Government to increase the tax base by bringing services sector, whose contribution in GDP has been steadily rising, within the tax net. Also financial services deserve a special mention because, unlike other activities, in this sector speculative

activities of the firms destabilise the economy. There is thus a case for taxing these speculative activities at a much higher rate. While a securities transaction tax does seek to curb speculative activities by financial investors, its rate is very low at present. This rate can be increased without much negative effect on the rest of the economy. Tax base can also be expanded through new taxes such as tax on inheritance, which is widely used in advanced capitalist countries but has not been used in India.

2.2 UNION GOVERNMENT'S BUDGET FOR 2006-07

Let us briefly look at the possible impact which Union Budget 2006-07 could have had on tax revenue mobilisation. Some of the tax proposals made in the last Budget were certainly in the right direction.

- **Service Tax:** The proposal for bringing in 15 new services into the service tax net, as also doing away with the exemptions provided to 6 services, was a welcome step. This is expected to further consolidate the collections from service tax in the current fiscal, which has shown a significant rise in 2005-06 (Rs. 23,000 crore in revised estimates of 2005-06 as against Rs. 17,500 crore projected in the budget estimates of 2005-06).
- **STT:** The across the board rise of 25 percent on all rates of Securities Transactions Tax (STT) again was a welcome proposal. However, given the very low level of these rates, this 25 percent increase was certainly not adequate.
- **Tax Administration:** The efforts towards modernisation of tax administration and fine-tuning of the database on taxes were some other positive features of the tax proposals.
- **Improving Tax-GDP Ratio:** Budget 2006-07 indicated a step up in tax collection efforts and improved tax administration by the Union Government in 2005-06, which resulted in the significant increase in gross tax revenue in 2005-06 RE (which showed a 21 % increase over the 2004-05 RE figures). Thus, with the Union Budget 2006-07, the tax-GDP ratio for the Union Government showed a welcome rise to 11.2 % in the Budget Estimates for 2006-07.

Table 2: Tax Revenue of the Union Government as a Proportion of GDP at mp

| Year | Gross Tax Revenue (in Rs. Crore) | Gross Tax Revenue as % of GDP | Direct Taxes as % of GDP | Indirect Taxes as % of GDP |
|--------------|-------------------------------------|----------------------------------|-----------------------------|-------------------------------|
| 1996-97 | 128762 | 9.4 | 2.8 | 6.5 |
| 1997-98 | 139221 | 9.1 | 3.2 | 6.0 |
| 1998-99 | 143797 | 8.3 | 2.7 | 5.6 |
| 1999-00 | 171752 | 8.9 | 3.0 | 5.9 |
| 2000-01 | 188603 | 9.0 | 3.3 | 5.7 |
| 2001-02 | 187060.1 | 8.2 | 3.0 | 5.2 |
| 2002-03 | 216266.1 | 8.8 | 3.4 | 5.4 |
| 2003-04 | 254348.2 | 9.2 | 3.8 | 5.4 |
| 2004-05 (RE) | 306021.0 | 9.8 | 4.3 | 5.5 |
| 2005-06 (RE) | 370141.0 | 10.5 | 4.8 | 5.6 |
| 2006-07 (BE) | 442153.0 | 11.2 | 5.3 | 5.8 |

Source: Annual Financial Statement and Receipts Budget, Union Budget, various years

- Note:** 1. Taxes of Union Territories without legislature have been excluded from both Direct and Indirect Taxes.
2. Gross Tax Revenue used here is the Tax revenue collected by the Union Government including States' share in it.

Although the tax-GDP ratio for the Union Government has been rising over the last couple of years, the total tax-GDP ratio for the country still lags far behind the levels attained by the high-income countries as also many developing countries. Hence, the Union Government and the States need to take strong measures to ensure that tax-GDP ratio registers a significant increase over the coming years.

We must note here that the tax proposals made in Union Budget 2006-07 were disappointing on several grounds.

- **FBT:** The dilution of the Fringe Benefits Tax (exempting some of the benefits and reducing the rate from 20 % to 5 % in case of some others) clearly showed the inclination of the Finance Minister towards safeguarding the interests of the private corporate sector.
- **Corporation Tax:** The revenue from Corporation Tax showed an increase by 24.8 % between RE for 2004-05 (which was at Rs. 83,000 crore) and RE for 2005-06 (which is at Rs. 1,03,573 crore). Also, in the BE for 2006-07, it was projected to increase from the 2005-06 RE figure by 28.4 %. However, some economists have pointed out that this increase is significantly smaller than the margin by which profitability of the leading companies in the corporate sector has been rising over 2004-05 and 2005-06.
- **Tax Exemptions:** A very important set of information presented by the government in Budget 2006-07 draws our attention to the huge magnitude of tax revenue foregone due to myriad exemptions, incentives or deductions in taxes. Annexure 12 of the Receipts Budget in Union Budget 2006-07 presents an analysis of the estimated magnitude of 'tax expenditure', or expenditure due to 'tax preferences', in 2004-05. It is clear that this magnitude indicates the tax revenue foregone because of exemptions, incentives and deductions prevalent in the Union Government Tax System (see the following Table).

Table 3: Estimate of Tax Revenue Foregone Due to Tax Exemptions/ Incentives/ Deductions (in the Union Government Tax System) in 2004-05

(in Rs. Crore)

| Tax exemptions/ incentives/ deductions under | Estimated Revenue Foregone |
|--|----------------------------|
| 1 Customs Duty | 92,561 |
| 2 Corporate Income Tax | 57,852 |
| 3 Excise Duty | 18018 |
| 4 Personal Income Tax | 11,695 |
| 5 Co-operative Sector Tax | 1534 |
| 6 - (Related to Export Credit) | - (35,430) |
| Total Revenue Foregone | 1,58,661 |
| Total Tax Revenue collected in 2004-05 | 3,06,021 |
| Revenue foregone as % of Tax Revenue collected | 51.8 % |

Source: Annexure 12, Receipts Budget, Union Budget 2006-07

The two major areas of leakages in tax revenue, as seen from the table above, are Customs Duty and Corporate Taxes. Unfortunately, despite compiling such information in the Budget papers, the Finance Minister did not propose any significant measure for plugging such leakages from the Central Government's tax system, which was to the tune of 52 % of total tax revenue collected in 2004-05.

- **Wealth Tax:** The direct tax base could have been widened significantly through higher Wealth taxation. But Budget 2006-07 left the revenue projections from Wealth Tax unchanged (from the 2005-06 levels) at a meagre Rs. 265 crore. We must note here that Wealth Tax contributed Rs. 162 Crore in 1998-99, and almost a decade later, the contribution from Wealth Taxation to Centre's tax revenue is only Rs. 265 Crore, despite the fact that the last decade has witnessed substantial creation of wealth by the well off sections of the country's population.
- **Capital Gains Tax:** The Government could have widened the direct tax base also through restoration of Capital Gains tax. The abolition of the Long-term Capital Gains tax on traded shares and units of Mutual Funds and the reduction of the Short-term Capital Gains tax to 10 % has led to revenue losses to the tune of thousands of crores and encouraged speculative activities in the stock market. However, Budget 2006-07 does not touch Capital Gains Tax at all.

Table 4: Tax Revenue from Different Sources: an International Comparison (in % of GDP)

| | Year | Income, Profits, and Capital Gains | Individual Income Taxes | Corporate Income Taxes | Sales Taxes and VAT | Excises | Inter-national Trade Taxes | Property Taxes | Social Security & Payroll | Other |
|--|------|------------------------------------|-------------------------|------------------------|---------------------|---------|----------------------------|----------------|---------------------------|-------|
| High-Income OECD Countries | | | | | | | | | | |
| Canada | 2000 | 18.3 | 13.9 | 4.1 | 5.4 | 2.1 | 0.3 | 3.7 | 6.1 | 1.6 |
| U.S. | 1999 | 14.2 | 11.8 | 2.4 | 2.2 | 1.7 | 0.2 | 3.1 | 6.9 | 0.6 |
| Australia | 1999 | 18.1 | 13.2 | 4.9 | 2.5 | 3.3 | 0.6 | 2.9 | 2.0 | 1.2 |
| Japan | 2000 | 14.2 | 10.1 | 2.5 | 6.6 | 3.8 | 0.1 | 1.8 | 12.0 | 3.8 |
| Korea | 2000 | 9.1 | 5.7 | 3.5 | 2.4 | 2.0 | 0.2 | 2.8 | 10.0 | 0.7 |
| Belgium | 2000 | 18.1 | 14.3 | 3.7 | 7.5 | 2.9 | 0.5 | 1.5 | 14.2 | 1.4 |
| Denmark | 2000 | 28.5 | 25.3 | 2.3 | 9.5 | 5.4 | 0.2 | 1.6 | 2.4 | 0.8 |
| France | 2000 | 11.4 | 8.3 | 3.1 | 7.7 | 3.7 | 0.1 | 3.0 | 17.4 | 2.1 |
| Germany | 2000 | 11.4 | 9.6 | 1.8 | 6.9 | 3.3 | 0.2 | 0.9 | 14.8 | 0.4 |
| U.K. | 2000 | 14.5 | 10.8 | 3.7 | 7.0 | 4.7 | 0.2 | 4.4 | 6.3 | 0.6 |
| Developing/ Emerging Market Countries | | | | | | | | | | |
| Argentina | 2001 | 4.9 | 3.2 | 1.7 | 3.3 | 1.7 | 5.2 | 2.4 | 3.1 | 0.3 |
| Brazil | 1998 | 5.0 | 0.3 | 1.3 | 2.0 | 1.8 | 0.7 | 0.6 | 9.7 | 1.9 |
| China, P.R.: Mainland | 1999 | 1.9 | 0.4 | 0.5 | 4.3 | 1.1 | 0.7 | 0.3 | ... | 6.7 |
| India | 1999 | 3.0 | 1.3 | 1.6 | ... | 3.2 | 3.0 | ... | ... | 5.0 |
| Indonesia | 2001 | 6.3 | 1.3 | 4.7 | 3.7 | 1.2 | 0.6 | 0.5 | 0.4 | 0.3 |
| Mexico | 2000 | 5.0 | ... | ... | 3.5 | 1.6 | 0.8 | 0.2 | 1.5 | 4.3 |
| Pakistan | 2002 | 3.9 | 0.6 | 3.3 | 4.6 | 1.3 | 1.4 | ... | ... | 1.5 |
| South Africa | 2001 | 14.2 | 9.7 | 4.3 | 6.1 | 2.6 | 0.8 | 1.3 | 0.6 | 0.9 |
| Thailand | 2001 | 4.9 | 1.9 | 2.7 | 3.1 | 3.6 | 1.8 | 0.2 | 0.5 | 1.9 |
| Turkey | 2000 | 9.5 | 7.1 | 2.3 | 10.9 | 1.5 | 0.4 | 1.1 | 5.1 | 4.3 |

Source: Lorie, H (2003), "Priorities for Further Fiscal Reforms in the Commonwealth of Independent States", IMF Working Paper

In the present context, it would be worthwhile to look at a comparison of the composition of the total tax revenue in India with the same in other countries. As is evident from the table above, in India the revenue collected from direct taxes like, taxes on income, profits and capital gains and property taxes have contributed a very low share in the total tax revenue in comparison to most other countries. On the other hand, India's dependence upon international trade taxes has been too high in comparison to other countries. Thus, the government must take strong measures to expand its direct tax revenue significantly, especially when the total tax-GDP ratio for the country has been at very low levels and the revenue from international trade taxes have been on a sharp decline in the era of external sector liberalisation.

3. EXPENDITURE MANAGEMENT BY THE UNION GOVERNMENT

Fiscal policymaking in India over the last one and a half decades of economic reforms has been steered by the overriding objective of reducing fiscal deficit of the government. Some of the most important policy changes in the sphere of public finance such as, reduction in the expenditure on rural development, dismantling of universal public distribution system, freeze on government jobs etc. have been guided by the objective to reduce the fiscal deficit. The logic of deflationary fiscal policies was taken to its extreme by the UPA Government, which, almost immediately after its election to office, notified the **Fiscal Responsibility and Budget Management (FRBM) Act**. It requires the Union Government to completely wipe out its **revenue deficit** and reduce **fiscal deficit** to 3% of GDP by the year 2008-09. Thus the ideology of fiscal conservatism now has legal teeth. Fiscal Responsibility Acts passed by the States also have similar requirements relating to the revenue deficit and fiscal deficit. Thus, there is now a one-to-one relationship between the revenue and expenditure of the Government; if there is a short fall in revenue the expenditure has to be checked proportionately.

3.1 FISCAL CONSERVATISM AND THE FRBM ACT

It must be noted here that the Twelfth Finance Commission has put in place a **Debt Write Off package for the States**, for the period from 2005-06 to 2009-10, under which the first condition of eligibility to claim write off is enacting a Fiscal Responsibility Legislation along the lines of the Central FRBM Act. Once a State has enacted an FRBM Act, it can get interest relief (i.e. partly or fully writing off the interest burden of the State, which it owes to the Centre) in proportion to the amount by which it reduces its revenue deficit every year. Thus, the Twelfth Finance Commission has almost forced the States to enact such FRBM legislation and subsequently curtail their deficits.

We must note here that **the arguments, which are cited by the advocates of conservative fiscal policy, do not imply a rigid adherence to any one level of revenue deficit, as does the FRBM Act**. While it is true that public debt in India has risen sharply in the past few years and the objective of debt reduction is in itself a noble one, it is the reliance on FRBM Act to attain this objective that we find difficult to accept.

Since fiscal deficit is a sum of primary deficit and interest payments, the reduction in fiscal deficit can equally well be attained either through a reduction in primary deficits or through **a reduction in interest payments (by a reduction in the interest rates)**. Since primary deficit reflects the expansionary impetus provided by the Budget, a way of reducing public debt without imposing a heavy dose of deflation on the economy would be **to reduce interest rate on public debt**. However the policies of financial sector liberalisation, pursued by successive governments in the reform period, have made interest rates on public debt largely an exogenous variable to be determined by the banking sector. Thus in the period of economic reforms while government has been able to rein in fiscal deficit, most of this reduction in fiscal deficit has come through a sharp curtailment of primary deficit while the share of interest payments in GDP has gone up uninterrupted.

It is this irrationality of government using more and more of its resources to simply pay interest on past borrowings that needs to be reversed. The government thus needs to reassert its claims on the financial resources of the country to make an expansionary and pro-poor fiscal stance consistent with the criterion of debt sustainability for otherwise the burden of the fiscal adjustment is going to fall mainly on the primary deficit and development expenditure.

Also, under the influence of FRBM Act, **the social sectors**, where large parts of the expenditures are revenue expenditure or recurring expenditure, become more vulnerable to expenditure curtailment than other sectors. Crucial expenditure on health and education is treated as revenue expenditure even though it increases the potential output of the economy and thus, on conceptual grounds should be treated as capital expenditure. A single-minded obsession to reduce revenue deficit might harm expenditure on these items adversely.

The constraints imposed by the FRBM Act may force the government to put a part of its expenditure outside the budget so that it can show the reduced fiscal deficit required by the FRBM Act. This is clearly objectionable from the point of view of **transparency in budget making**. For example, starting with the Union Budget 2005-06, the Union Government almost completely stopped loan assistance meant for financing State Plans. Such a move, while it may create an illusion of lower fiscal deficit of the Union Government, will not alter the aggregate indebtedness of Union Government and States taken together. Similarly, the food component of the National Food for Work Programme has also been kept outside the purview of Budget in order to show a reduced fiscal deficit.

3.2 UNION GOVERNMENT'S BUDGET FOR 2006-07

In Budget 2006-07, the total magnitude of Union Government expenditure fell to 14.27 % of the GDP from 15.94 % of GDP in 2004-05.

Table 5: Trends in Expenditure of the Union Government (at current prices)

| Year | Total Expenditure (in Rs. Crore) | Total Expenditure as % of GDP |
|--------------|-------------------------------------|-------------------------------|
| 1996-97 | 201007 | 14.69 |
| 1997-98 | 232053 | 15.24 |
| 1998-99 | 279340 | 16.04 |
| 1999-00 | 298053 | 15.39 |
| 2000-01 | 325592 | 15.58 |
| 2001-02 | 362310 | 15.95 |
| 2002-03 | 413248 | 16.78 |
| 2003-04 | 471368 | 17.08 |
| 2004-05 | 497682 | 15.94 |
| 2005-06 (RE) | 508705 | 14.41 |
| 2006-07 (BE) | 563991 | 14.27 |

Source: Annexure 3, Expenditure Budget, Vol I, Union Budget 2005-06, Union Budget 2006-07

The main thrust for such a decline in the magnitude of total Union Government expenditure (as a proportion of GDP) clearly comes from the FRBM Act. We can see from Table 6 below, that both revenue deficit and fiscal deficit (for the Union Government) registered declines over 2005-06 and they were projected to fall further in the 2006-07 fiscal.

Table 6: Deficits of the Union Government as a Proportion of GDP at mp

| Year | Revenue Deficit as % of GDP | Fiscal Deficit* as % of GDP | Primary Deficit* as % of GDP |
|--------------|--------------------------------|--------------------------------|---------------------------------|
| 1996-97 | 2.4 | 4.9 | 0.5 |
| 1997-98 | 3.1 | 5.8 | 1.5 |
| 1998-99 | 3.8 | 5.1 | 0.7 |
| 1999-00 | 3.5 | 5.4 | 0.7 |
| 2000-01 | 4.1 | 5.6 | 0.9 |
| 2001-02 | 4.4 | 6.2 | 1.5 |
| 2002-03 | 4.4 | 5.9 | 1.1 |
| 2003-04 | 3.6 | 4.5 | 0 |
| 2004-05 | 2.5 | 4.0 | -(0.1) |
| 2005-06 (RE) | 2.6 | 4.1 | 0.5 |
| 2006-07 (BE) | 2.1 | 3.8 | 0.2 |

Source: Budget at a Glance, Union Budget, 2006-07, 2005-06, 1999-00, 1998-99

Note: * Gross Fiscal Deficit and Gross Primary Deficit have been abbreviated as Fiscal Deficit and Primary Deficit, respectively.

As has already been indicated, one consequence of such unreasonable fiscal conservatism has been the **lack of transparency in the domain of Union Government's finances**. Since last few years, the Union Government has been doing several kinds of creative accounting for showing a smaller figure for fiscal deficit. In Union Budget 2006-07, the share of Central Plan Outlay coming from Internal and Extra Budgetary Resources (IEBR) of Public Enterprises has gone up substantially to Rs. 1,22,757 crore from Rs. 98,085 crore in 2005-06 RE. However, since IEBR falls outside the Budget, this significantly greater dependence on IEBR in 2006-07 does not affect the deficit figures for the government. But the more serious consequence of having the FRBM Act in place has been the **inability of the Union Government to raise public spending on crucial social sectors and economic sectors in the country to any significant extent despite its declared commitments in the National Common Minimum Programme (NCMP)**. It must be noted here that had the UPA government not been committed to conservative fiscal policy (and not enacted the FRBM legislation), it would have been easily able to step up Total Expenditure (as a % of GDP) in 2006-07 (instead of bringing it down), when its Non-debt Receipts have shown a rise from 10.27 % of GDP (in 2005-06 RE) to 10.51 % of GDP (in 2006-07 BE).

Table 7: Comparison of Total Expenditure and Total Non-debt Receipts of Union Government (1996-97 to 2006-07)

| Year | Total Non-debt Receipts as % of GDP | Total Expenditure as % of GDP |
|---------|--|----------------------------------|
| 1996-97 | 9.81 | 14.69 |
| 1997-98 | 9.40 | 15.24 |
| 1998-99 | 9.54 | 16.04 |
| 1999-00 | 9.98 | 15.39 |
| 2000-01 | 9.90 | 15.58 |
| 2001-02 | 9.75 | 15.95 |
| 2002-03 | 10.92 | 16.78 |
| 2003-04 | 12.61 | 17.08 |
| 2004-05 | 11.93 | 15.94 |
| 2005-06 | 10.27 | 14.41 |
| 2006-07 | 10.51 | 14.27 |

Source: Compiled from data in Union Budgets, various years.

3.3 MANAGING PUBLIC EXPENDITURE FOR BETTER OUTCOMES

As we had mentioned at the outset, in the discourse on public expenditure management in India, an emphasis on achieving better outcomes from the Budget outlays makes much more sense at the current juncture than any emphasis on public expenditure compression.

In this regard, we must note that the Union Government has initiated an exercise of **Outcome Budgeting** since 2005-06. Although the practice of Union Government Ministries (and some organisations under them) bringing out **Performance Budgets** has been there since 1968-69, no significant purpose seems to have been achieved by the same. Some of the observers have been very critical of the results achieved by this practice of Performance Budgets. For instance, Harnita Chowdhary, in a recent article ("Outcome Budgeting- Moving beyond Rhetoric?", Economic and Political Weekly, June 24, 2006), observes that "Indian performance budgets have remained more or less static since their introduction. Like an abbreviated version of each department's obligatory annual report, Indian performance budgets embody description and not analysis of the projects that generate government development expenditure". However, the introduction of Outcome Budgeting must be welcome at least for its intent.

The stated objective of Outcome Budgets, brought out by most of the Union Government Ministries for their Plan spending, is **to measure the development outcomes of all major programmes/ schemes financed by the Union Budget**. The Union Government Ministries/ Departments, excepting a very few like the Ministry of Defence, are required to prepare Outcome Budgets following certain guidelines developed by the Ministry of Finance and the Controller General of Accounts. From the point of view of the present note, what is of particular relevance in these Outcome Budgets is the set of risk factors compiled by the Ministries, which is meant to highlight **the risk factors in effective utilization of Budget outlays under their major programmes/ schemes**. The following Table presents a compilation of these risk factors in some of the major schemes run by three important Ministries, viz. Ministry of Health & Family Welfare, Ministry of Women and Child Development and Ministry of Rural Development. In the following Table, the Column on the extreme right presents the risk factors corresponding to specific schemes as has been highlighted in the Outcome Budgets (for 2006-07) of the respective Ministries.

Table 8: Risk Factors in Effective Utilization of Budget Outlays as Highlighted in Outcome Budgets for 2006-07

| Ministry/ Department of Union Government | Name of the Programme/ Scheme | Physical Outputs to be Delivered | Processes/ Timelines | Risk Factors/ Remarks |
|--|--|--|--|--|
| Ministry of Health & Family Welfare | National Rural Health Mission (NRHM)- Accredited Social Health Activist (ASHA) | To train ASHA, one for every 1000 population or less / for large isolated habitations in 18 Special Focus States | (1 lakh ASHAs already selected during 2005-06 and additional 1.5 lakh to be selected.) 4 lakh ASHAs to be selected by 2007-08 | • Selection of ASHA is a community based process and the pace of <u>progress is a function of the capacity and extent of participation of the community.</u> |
| Ministry of Health & Family Welfare | NRHM- Infrastructure Strengthening | Strengthening of Sub-centres | To be phased over the Mission period. | • Subject to <u>availability of trained manpower.</u> |
| Ministry of Health & Family Welfare | NRHM- District Health Plan | Preparation of District Health Action Plan in 300 districts | 2006-07 | • Dependent on <u>technical capacity at the district level.</u> |

| Ministry/ Department of Union Government | Name of the Programme/ Scheme | Physical Outputs to be Delivered | Processes/ Timelines | Risk Factors/ Remarks |
|--|--|--|---|---|
| Ministry of Health & Family Welfare | NRHM- Routine Immunization (Routine Immunization of children against 6 vaccine preventable diseases [VPD] and reduction in morbidity and mortality rate due to VPD.) | As per the District Level Household survey of 2002-03, the immunization level of coverage in the country is 47.6 %. This is to be raised to a minimum of 75 % for each of the antigens, i.e. BCG, DPT, OPV and Measles. | Fixed days and fixed sites, weekly sessions at the sub-centre and outreach areas. Special immunization weeks in the EAG and NE States. | <ul style="list-style-type: none"> • <u>Vacant posts of Auxiliary Nurse Midwives (ANMs) at the sub centre and District Immunization Officers (DIOs) in the districts are to be filled up</u> without which it would be difficult to achieve the coverage indicated. |
| Ministry of Health & Family Welfare | NRHM- National Vector Borne Disease Control Programme- Malaria (To reduce the incidence of Malaria) | Annual Blood Examination rate (ABER)- 10 % of target population under surveillance, i.e., 100 million. | <ul style="list-style-type: none"> - Fortnightly visits of households by Health Workers - Operationalization of at least one DDC/ FTD per village in high risk areas. - Provision of microscopy at sector level PHC - Introduction of quality control and assurance for microscopy. | <ul style="list-style-type: none"> • <u>Filling up of vacant posts of Health Workers</u> for domiciliary visits. • <u>Timely release of funds for States for programme implementation.</u> • Submission of Utilization Certificates by States to Gol for timely release of funds. • Functional microscopy services. |
| Ministry of Health & Family Welfare | National AIDS Control Programme | <ul style="list-style-type: none"> - Voluntary Counseling and Testing Centre: 200 new Centres - Modernization of district level blood banks: 39 - STD clinics: 200 - New sentinel sites: 400 - Targeted Interventions: 350 - Community Care Centres: 20 - Drop in Centres: 10 - And several other outputs. | 2006-07 | <ul style="list-style-type: none"> • <u>Delay in release of funds or non-release of funds from Gol and States to AIDS Control Societies</u> may lead to non-achievement of the target. • <u>Delay in providing infrastructure and staff</u> for blood bank may lead to non-achievement of the target |
| Ministry of Women and Child Development | Integrated Child Development Services (ICDS) | <ol style="list-style-type: none"> 1. No. of Projects Operational: 5635 2. No. of AWCs: 7.44 lakh <ol style="list-style-type: none"> a) No. of beneficiaries:- total: 4,99,04,769 women: 91,49,359 children: 4,07,55,410 b) No. of children given supplementary nutrition: 4,07,18,734 | <ul style="list-style-type: none"> - ICDS Project including AWCs to be fully functional takes about 1 year to get operationalised from the day of sanction. - Quarterly Progress reports on functional AWCs, No. of beneficiaries for SNP. - Quarterly reports on no. of children benefiting from preschool education. | <ul style="list-style-type: none"> • Need to target and focus districts having high incidence of IMR, CMR, MMR, low literacy high drop outs, malnutrition anemia etc. • Also to focus inaccessible hilly and tribal areas, slums and SC concentrated pockets, drought prone areas. |

| Ministry/ Department of Union Government | Name of the Programme/ Scheme | Physical Outputs to be Delivered | Processes/ Timelines | Risk Factors/ Remarks |
|--|--|---|---|---|
| Ministry of Rural Development | Sampoorna Gramin Rozgar Yojana (SGRY) | c) No. of functionaries trained (job): 8,44,969 d) No. of 'refresher' training: 4,51,349 e) No. of children attended pre-school: 2,30,87,619. | <ul style="list-style-type: none"> - Quarterly reports on monitoring of severely malnourished children. - No. of persons trained will be monitored on a quarterly basis. | <ul style="list-style-type: none"> • <u>Need to ensure States' share of nutrition cost in time and regular State-wise monitoring of release of funds</u> for supplementary nutrition. • <u>Training of Anganwadi Workers</u> for strengthened preschool education. • Ensuring potable drinking water in every Anganwadi. • Functional skill and health education for adolescent girls. |
| | Swarnajayanti Gram Swarozgar Yojana (SGSY) | <ul style="list-style-type: none"> - No. of new SHGs to be formed: 63,467 - No. of SHG Swarozgaris to be assisted (assuming 10 members per group): 6,34,670 - No. of individual swarozgaris to be assisted: 3,96,667 | <ul style="list-style-type: none"> - Release of 1st installment: 30 April 2006 - Receipt of 60 % utilization reports from States: 30 October 2006 - Release of 2nd installment: 31 December 2006. - Allocation of Central funds to States/UTs in proportion to rural poverty incidence: 30 April 2006 - Receipt of utilization certificates from States and release of Central funds to eligible States/UTs: 31 December 2006. | <ul style="list-style-type: none"> • Non provision of State share • <u>Slow utilization of funds in States</u> • Non furnishing of utilization certificate and audit report by States • <u>Non-receipt of counterpart funding from States</u> • <u>Non-identification or delay in identification of genuine beneficiaries</u> for current year. • <u>Lack of adequate local training centres</u> in States/UTs for providing training to beneficiaries in desired skills/activities/ trades. • Adequate flow of bank credit to swarozgaris. • <u>Timely release of State share.</u> |
| | Rural Housing (Indira Awaas Yojana) | 15.33 lakh houses | <ul style="list-style-type: none"> - Allocation of 1st installment of Central fund to States/UTs: 30 April 2006 - Receipt of proposals for 2nd installment on utilization of 60 % of available funds and release of installment of Central funds to States/UTs: 31 December 2006. | <ul style="list-style-type: none"> • Natural calamities such as floods, cyclones, earthquakes, which hamper progress of implementation of the programme. • Panchayat/Assembly elections in some parts of the country when the entire State machinery is diverted to those activities. • <u>Non provision of State share.</u> |

A quick look at the risk factors highlighted by the selected Union Government Ministries in their latest Outcome Budgets indicates that some of the issues that need to be addressed in order to ensure effective utilization of Budget outlays for these Ministries include the following:

- Delays in the process of flow of funds from Central Ministries up to the level of implementing agencies in the districts;
- Availability of skilled/trained staff in the States/Districts for implementing schemes and deployment of such staff in remote areas;
- Desirability of Centrally Sponsored Schemes (versus State Plan Schemes) from the point of view of effective implementation;
- Requirement of matching grants from economically backward States under Centrally Sponsored Schemes and
- Monitoring of implementation of schemes by local communities.

(This paper has drawn significantly from two of the previous publications of CBGA: (1) Background Paper for the National Convention on Union Budget 2006-07; (2) Whose Side Are You on Mr. Finance Minister?- Response to Union Budget 2006-07.)

4. SOME POINTERS FOR THE WORKING GROUP

Based on the discussion presented above, we may highlight some key concerns as Pointers for the deliberations to be held in the National Convention on Union Budget 2007-08.

I. Resource Mobilization by the Union Government

- Direct Taxes as a proportion of GDP in India vis-à-vis the same in other countries.
- Tax revenue forgone due to tax exemptions, incentives and deductions in the Central Government tax system- especially with regard to customs duty and corporate taxes.
- Wealth Tax, Inheritance Tax, and Capital Gains Tax.
- Taxes/duties on luxury goods.
- Tapping resources from the parallel economy

II. Managing Public Expenditure for Better Outcomes

- Fiscal Responsibility and Budget Management (FRBM) Act and its targets for time-bound reduction of Fiscal Deficit and elimination of Revenue Deficit
- Relevance of Outcome Budget exercise undertaken by the Union Government Ministries- generation of information on physical outputs delivered by the schemes, outcomes achieved through the schemes, bottlenecks in the process of flow of funds up to the level of implementing agencies in the districts, etc.
- Delays in the process of flow of funds from Central Ministries up to the level of implementing agencies in the districts
- Availability of skilled staff in the States/Districts for implementing programmes/schemes and deployment of such staff in remote areas- Union Government policies affecting these factors.
- Centrally Sponsored Schemes versus State Plan Schemes- desirability from the point of view of effective implementation.
- Requirement of matching grants from economically backward States under Centrally Sponsored Schemes
- Monitoring of implementation of schemes by local communities.

BUDGETING FOR MARGINALISED GROUPS: DALITS, ADIVASIS

Dalits and Adivasis lie far below the rest of population on almost all counts of socio-economic attainment (see Table 1, 2 & 3). Since Dalits and Adivasis comprise a large section of our poor, policies that hurt poor in general, such as the reduction in public expenditure on employment, will hurt these disadvantaged social groups more strongly. Clearly the reversal of some of these policies will definitely benefit these groups as well. However considering the discrimination these groups face, there is definitely a case for specific schemes aimed at their upliftment. In this respect a distressing trend of declining public expenditure on the welfare of Dalits, Adivasis and Other backward Classes emerges. The decline can be noted both as a percentage of the total non-plan expenditure as well as the total expenditure of the Central Government (see Table 4).

While there was some improvement in the allocations to these socially disadvantaged groups in the Union Budget 2005-06, the allocation in Union Budget 2006-07 has been declined again both as a percentage of the total non-plan expenditure as well as the total expenditure of the Central Government. Although in the budget 2005-06, while the Finance Minister promised to start Rajiv Gandhi National Fellowship for 2000 SC and ST students for pursuing M. Phil and Ph.D. courses in selected universities, the outcome budget shows that this fellowship will cover only 1333 such students in a year.

As is well known that budgetary expenditure on public provisioning of healthcare facilities in India is very low. This is even worse for disadvantaged social groups. There is no mention of any health scheme for this section of the population in Demand for Grants of the Ministry of Social Justice and Empowerment. The poor state of the health of these social groups is evident from the health indicators as given in Table 1, 2 & 3. In order to reverse this trend, what is required is the direct intervention by the state in terms of increased public expenditure and that too with positive discrimination for the disadvantaged social groups.

Table 1 Comparison of different socioeconomic indicators of SCs/STs with All India average

| Indicator | Year | All-India (Total Population) | | SCs | STs |
|---|---------|---------------------------------|---------------|-------|-------|
| Population (in Crore) | 2001 | 102.7 | | 17.9 | 8.8 |
| Sex Ratio | 1991 | 927 | | 922 | 972 |
| Population Below Poverty Line (Rural) (in%) | 1999-00 | 27.09 | | 36.25 | 45.86 |
| Population Below Poverty Line (Urban) (in%) | 1999-00 | 23.62 | | 38.47 | 34.75 |
| Literacy Rate (in %) | 1991 | 52.2 | | 37.4 | 29.6 |
| Gross Enrolment Ratio (Class I-V) (in %) | 1999-00 | 94.9 | | 92.4 | 97.7 |
| Drop Out Rates in Class I-V (in %) | 1998-99 | 39.7 | | 44.3 | 57.3 |
| Infant Mortality Rate (per 1000) | 1998 | 70 | | 83 | 84.2 |
| Under 5 Mortality Rate (per 1000) | 1998 | 94.9 | | 119.3 | 126.6 |
| Underweight Children among Children under 3 years of age (in %) | 1998 | 47 | | 53.5 | 55.9 |
| Population Having Access to Safe Water (in %) | 1991 | 61 (Rural) | 88 (Urban) | 63.6 | 43.2 |
| Population Having Access to Improved Sanitation (in %) | 1991 | 9.46 (Rural) | 44 (Urban) | 11.16 | 7.22 |

Note: Total Population includes SCs and STs.

Source: 1. Tenth Five Year Plan, Planning Commission of India, 2002

2. National Health Policy 2002, Ministry of Health and Family Welfare, GoI

3. National Human Development Report, Planning Commission of India, 2001

4. Nirupam Bajpai (2003), "India: Towards the Millennium Development Goals", Background Paper for HDR 2003, UNDP

Table 2: Comparative Literacy Rate

| Year | ST | SC | Other than SC/ST | Gap of other to ST |
|------|------|-------|------------------|--------------------|
| 1991 | 29.6 | 37.41 | 57.69 | 28.09 |
| 2001 | 47.1 | 54.69 | 68.81 | 21.71 |

Source: Planning Commission, 2005, Table 2.3.

Table 3 Comparative Health Indicators among different socioeconomic groups

| | SCs | STs | OBCs | Others | All |
|----------------------|-------|-------|-------|--------|------|
| Infant Mortality | 83 | 84.2 | 76 | 61.8 | 67.6 |
| Neo natal Mortality | 53.2 | 53.3 | 50.8 | 40.7 | 43.4 |
| Child Mortality | 39.5 | 46.3 | 29.3 | 22.2 | 29.3 |
| Under Five Mortality | 119.3 | 126.6 | 103.1 | 82.6 | 94.9 |

Source: National Family Health Survey (NFHS) 1998-99.

Table 4: Budgetary Allocations to SCs, STs and OBCs.

| Year | Plan Expenditure on SCs, STs & OBCs (in Rs. Crore) | Non-Plan Expenditure on SCs, STs & OBCs (in Rs. Crore) | Total Expenditure on SCs, STs & OBCs (in Rs. Crore) | Col-2 as a proportion of Total Plan Expenditure (%) | Col-3 as a proportion of Total Non-Plan Expenditure (%) | Col-4 as a Total Expenditure of the Centre (%) |
|------------|---|---|--|---|---|--|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 1998-99 RE | 1602.18 | 52.26 | 1654.44 | 2.23 | 0.03 | 0.62 |
| 1999-00 RE | 1159.32 | 55.04 | 1214.36 | 1.51 | 0.03 | 0.43 |
| 2000-01 RE | 1172.7 | 52.86 | 1225.56 | 1.33 | 0.02 | 0.36 |
| 2001-02 RE | 1239.67 | 58.23 | 1297.9 | 1.24 | 0.02 | 0.35 |
| 2002-03 RE | 1225 | 58.88 | 1283.88 | 1.08 | 0.02 | 0.26 |
| 2003-04 RE | 1250 | 62.54 | 1312.54 | 1.03 | 0.02 | 0.30 |
| 2004-05 RE | 1350 | 65 | 1415 | 0.93 | 0.02 | 0.30 |
| 2005-06 RE | 1533.7 | 66 | 1599.7 | 1.07 | 0.02 | 0.43 |
| 2006-07 BE | 1750 | 67.6 | 1817.6 | 1.01 | 0.02 | 0.32 |

Source: Reponse to the Union Budget 2006-07, CBGA

Table 5: Allocations for the Development of SCs and STs as % of Total Allocations under Various Departments of Union Government

| Demand No. | Ministry/ Department | Total Allocations for the Department (in Rs. Crore) | | | SC/ST-specific Allocations (in Rs. Crore) (% Share in Total Allocations) | | |
|------------|--|---|---------------|---------------|--|---------------------|---------------------|
| | | 2005-06 | 2005-06 | 2006-07 | 2005-06 | 2005-06 | 2006-07 |
| | | BE | RE | BE | BE | RE | BE |
| 55 | Department of Elementary Education & Literacy | 12536.53 | 12536.33 | 17132.71 | 3038.74 (24.24%) | 3041.36 (24.26%) | 3939.8 (23%) |
| 56 | Department of Secondary Education & Higher Education | 5800.5 | 5800 | 6982.28 | 999.72 (17.24%) | 1044.85 (18.01%) | 1228.42 (17.59%) |
| 57 | Department of Women & Child Development | 3931.11 | 3931.34 | 4852.94 | 754.14 (19.18%) | 703.46 (17.89%) | 961.86 (19.82%) |
| 59 | Ministry of Labour & Employment | 1192.09 | 1265 | 1481.36 | 2.65 (0.22%) | 2.83 (0.22%) | 3.04 (0.21%) |
| 78 | Department of Rural Development | 18353.87 | 21354.27 | 24047.56 | 3605 (19.64%) | 4157.5 (19.47%) | 3447 (14.37%) |
| 81 | Department of Science & Technology | 1636 | 1446 | 1746 | 5 (0.31%) | 5 (0.35%) | 5 (0.29%) |
| 87 | Ministry of Social Justice & Empowerment | 1599.7 | 1599.7 | 1817.6 | 1110.95 (69.45%) | 1113.51 (69.61%) | 1320.43 (72.65%) |
| 93 | Ministry of Tribal Affairs | 1509.74 | 1409.17 | 1667.46 | 1499.76 (99.34%) | 1399.66 (99.33%) | 1657.44 (99.40%) |
| 104 | Ministry of Youth Affairs & Sports | 506.99 | 478.01 | 669 | 24.88 (4.91%) | 24.14 (5.05%) | 28.82 (4.31%) |
| | Total Expenditure in Union Budget | 505791 | 508705 | 563991 | | | |
| | Total SC/ST specific allocations (Rs. Crore) | 1040.84 4 | 11492.31 1 | 12591.81 1 | | | |
| | (% Share in Total Expenditure) | (2.18%) | (2.26%) | (2.23%) | | | |

Source: Response to Union Budget, 2006-07, CBGA. Calculated from Expenditure Budget Vol. I & II, Union Budget 2006-07, GOI.

A quick analysis of the shares of SC & ST-specific allocations in total allocations under various departments of the Union Government (see Table 5 above) throws up some important concerns.

- The allocations meant for SCs and STs within total allocations under **Department of Secondary and Higher Education** at 17.6 % is quite low, while that under **Department of Elementary Education and Literacy** at 23 % is not much better. Thus, while literacy rates of SC and ST females continue to be quite low and drop out rates among children of these communities at all levels of school education remain higher than rest of the population, there is no sign of any significant effort by the Union Government for prioritizing education for SCs and STs within overall education sector in the country.
- The priorities for SCs and STs within the programmes and schemes under **Department of Rural Development** are quite low. The SC & ST-specific allocations constitute less than 20 % of total allocations under this Department in 2005-06 RE.
- Likewise, the SC & ST-specific allocations constitute less than 20 % of total allocations under the **Department of Women and Child Development** in 2006-07 BE. Given that SC/ ST women and children suffer double disadvantage (reflected from the fact that overall female literacy rate in 2001 was much higher than SC/ ST female literacy rates, and similarly overall under five child mortality rate was much lower than SC and ST- child mortality rates in 1998), the Government needs to ensure that its interventions through Department of Women and Child Development benefit the SC/ ST women and children to a much greater extent.

Therefore, it is quite disturbing to note the meager priorities given to development of Dalits and Adivasis in overall expenditure by the Union Government as also under some of its crucial departments, like, Rural Development, Elementary Education and Literacy, Secondary and Higher Education, and Women and Child Development. The Government must expand the scope of such exercise to other important departments, most notably the Department of Health and Family Welfare. One way of ensuring greater public expenditure on these socially marginalized groups would be to identify relevant departments and make them specify the proportion of their total allocation directed towards the welfare of these marginalized groups, as in the gender budgeting proposals. **However since the decline of public expenditure on these groups has taken place within the context of decline in total expenditure of the government, enhanced allocations to specific schemes meant for these groups should not be at the cost of other expenditures of the government. In other words, government instead of redirecting its existing programmes towards the marginalized groups should commit to enhance its total expenditure with marginalized groups getting a larger share of the benefit at the margin.**

Briefing Paper Gender

There is growing realization of the fact that progressive politics does not, *per se* translate to greater commitment to women's rights. And thus, more progressive and people-centred policies and budgets will not necessarily imply greater gender-sensitivity and gender-responsiveness, unless concerted efforts are made in this direction. Couple this with the fact that government's greater commitments to women's rights will not translate to anything unless adequate resource allocations back the commitments and claims made and what we have is a strong case for gender-responsive budgetary allocations specifically for women.

This paper is divided into four sections. Section I provides a quick snapshot of where Indian women stand today; Section II gives a brief review of the some of the recent initiatives undertaken by the government in the realm of gender-responsive budgeting; Section III looks at the part of the story that goes beyond allocations and highlights some issues in the implementation of some of the major schemes across select ministries and departments in the Central Government; and Section IV flags the key concerns.

I. A quick snapshot of where Indian women stand today

As per the 2005 UN statistics, India ranks a measly 98 of the 140 countries with regard to the gender-related development index (Human Development Report 2005). Superceded by many countries even in the South and South East Asian region, such as Malaysia (54), Thailand (57), Sri Lanka (66), Viet Nam (83) and Indonesia (87), India's position in terms of GDI ranking leaves much to be achieved.

Within the country too, how Indian women stand vis-à-vis Indian men is also a telling story. A summary fact file of basic indicators comparing status of women vis-à-vis that of men in the country is given below:

Table 1: Situation of Women vis-à-vis Men in India

| Indicator | Female | Male |
|--|--|----------------|
| Life expectancy at birth in 2003 (in years) | 65.0 | 61.8 |
| Adult literacy rate in 2003 (in %) | 47.8 | 73.4 |
| Combined gross enrolment ratio for primary, secondary and tertiary schools in 2002-03 (in %) | 56 | 64 |
| Estimated earned income PPP US\$ in 2003 | 1569 | 4130 |
| Seats in parliament held by women as a % of total (as on 1 March 2005) | 8.3 in lower house; 11.6 in upper house | |
| Female economic activity as a % of male rate in 2003 (ages 15 and above) | 50 | Not applicable |
| Total work time in 2000 (minutes per day) | 457 | 391 |
| Time allocation on non-market activities in 2000 (in %) | 65 | 8 |
| Women in government at ministerial level in 2005 (% of total) | 3.4 | Not applicable |

Source: Human Development Report 2005

Thus, almost any indicator of development that one might chose to take, there is one story that is bound to emerge again and again— that Indian women continue to be discriminated against, whether it is the sex ratio or the gender disparity in the literacy levels or the exceptionally high maternal mortality rate or crimes against women. Further, the declining child sex ration, especially in the more developed states, reconfirms some of our worst fears, about the extent of discrimination and misogyny as well as its pervasiveness in almost every conceivable aspect of our lives, even before they are born.

Moreover, this discrimination takes place in an intersectional framework. Gender based discrimination gets compounded when it interfaces with discrimination on the basis of caste, class, disability, HIV status, rural-urban divide, etc. For instance, even in 2001, about two-third of Adivasi women and about 60 percent of Dalit women were illiterate. Similarly, a comparison of the Under 5 Mortality Rates (per 1000 live births), in the year 1998, brings out the significantly higher levels of mortality among Dalit and Adivasi children.

Through the tables below, we highlight the situation of women in education. It also presents the regional disparities, by juxtaposing the best performing state with the worse performing state.

Table 2: Educational Attainment of Girls

| Outcome Indicators | Year | India | Best Performing State | Worse Performing State |
|-----------------------------------|-----------|-------|-----------------------|------------------------|
| 1 GER for Girls (I-VIII) | 2002-2003 | 79.33 | 119.67 (Maharashtra) | 49.25 (Bihar) |
| 2 Dropout Rate for Girls (I-VIII) | 2002-2003 | 53.45 | 14.82 (Haryana) | 80.78 (Bihar) |
| 3 GER for Girls (IX – XIII) | 2002-2003 | 33.21 | 64.57 (Kerala) | 11.39 (Bihar) |
| 4 Dropout Rate for Girls (I – X) | 2002-2003 | 82.97 | 49.71 (Kerala) | 91.24 (Bihar) |

Note: GER: Gross Enrolment Ratio;

Source: 1. Annual Report: 2002-2003, Ministry of Human Resources Development (GOI).

2. Selected Educational Statistics: 2002-2003, Ministry of Human Resources Development (GOI).

Table 3: Some Vital Indicators

| Outcome Indicators | Year | India | Best Performing State | Worse Performing State |
|--|---------|-----------------|-----------------------|------------------------|
| 1 Sex Ratio | 2001 | 933 | 1058 (Kerala) | 861 (Haryana) |
| 2 Child Sex Ratio (0-6 Years) | 2001 | 927 | 978 (Andhra Pradesh) | 793 (Punjab) |
| 3 Life Expectancy at Birth (Female) | 2001 | 66.91 | 75 (Kerala) | 58.01 (Madhya Pradesh) |
| 4 IMR for Girls (per 1000 Live Births) | 1998-99 | 67.6 | 16.3 (Kerala) | 86.7 (Uttar Pradesh) |
| 5 IMR for Girls (per 1000 Live Births) | 2004 | 58 | 11 (Kerala) | 79 (Orissa) |
| 6 MMR (per 1 lakh live births) | 1998-99 | 540 (NFHS-2) | 28 (Gujarat) | 707 (Uttar Pradesh) |
| 7 Neo Natal Mortality Rate (Female) | 1998-99 | 43.4 | 13.86 (Kerala) | 54.9 (Madhya Pradesh) |
| 8 Total Fertility Rate | 1998-99 | 3.07 | 2.07 (Kerala) | 4.31 (Uttar Pradesh) |

Note: IMR- Infant Mortality Rate; MMR – Maternal Mortality Rate

Source: 1. Primary Census Abstract: Census of India, 2001.

2. West Bengal Human Development Report, 2004, UNDP, India.

3. Sample Registration System 2004

4. India, Planning Commission. (2000). Status of Women & Men: Data Sheet. New Delhi. p. 1.

5. India, Ministry of Statistics and Programme Implementation, Central Statistical Organization (2002). Women and Men in India 2002. New Delhi. p. 26

Table 4: Political Empowerment of Women in regard to the Number of Elected Total and Women Panchayat Representatives in the Three Tiers, 2002

| | Best Performing State | | Poor Performing State | |
|---------------------------|-----------------------|-------|-----------------------|-------|
| | Women (in%) | Total | Women (in%) | Total |
| 1 Gram Panchayats | 44.86 (Karnataka) | 80073 | 26.86 (Tamil Nadu) | 97458 |
| 2 Intermediate Panchayats | 42.24 (Karnataka) | 3255 | 26.94 (Tamil Nadu) | 6570 |
| 3 District Panchayats | 38.09 (Karnataka) | 890 | 26.37 (Tamil Nadu) | 656 |

Source: India, Ministry of Statistics and Programme Implementation, Central Statistical Organisation (2003). *Women and Men in India 2002*. New Delhi. P.106, as Published by NRCW (DWCD), GOI. For Further details refer to <http://nrcw.nic.in/statistics.asp#Political%20Participation>

Table 5: Female Workforce Participation Rate According To Sex And By Sector, 2001 (Figures Are Provisional)

| | India | | Best Performing State | | Poor Performing State | |
|----------|-------------|-------------|------------------------|-------------|-----------------------|-------------|
| | Women (in%) | Total (in%) | Women (in%) | Total (in%) | Women (in%) | Total (in%) |
| Rural | 30.98 | 41.97 | 46.52 (Maharashtra) | 50.43 | 15.88 (Kerala) | 32.50 |
| Urban | 11.55 | 32.33 | 16.06 (Karnataka) | 35.67 | 6.19 (Uttar Pradesh) | 26.92 |
| Combined | 25.69 | 39.26 | 34.93 (Andhra Pradesh) | 45.81 | 15.28 (Kerala) | 32.32 |

Note: The figures for India exclude the data for the entire Kachchh district, Morvi, Mailya-Miyana and Wankaner talukas of Rajkot district and Jodiya taluka of Jamnagar district where population enumeration of Census of India, 2001 could not be conducted due to earthquake

Source: India, Ministry of Statistics and Programme Implementation, Central Statistical Organization (2003). *Women and Men in India 2002*. New Delhi. P.41, as Published by NRCW (DWCD), GOI. For Further details refer to <http://nrcw.nic.in/statistics.asp#Political%20Participation>

II. SOME RECENT INITIATIVES

A. THE TWIN CONCEPTS OF WOMEN'S COMPONENT PLAN AND GENDER BUDGETING

In India, the notion of WCP was a precursor to the adoption of Gender Budgeting, which represents a much broader and profound approach towards ensuring gender responsive budgets and public policies. Gender Budgeting is widely regarded as an approach of looking at the budget formulation process, budgetary policies and budget allocations, and implementation of those policies from the gender lens. Gender Budget, with regard to the Central Government or any State, does not refer to a separate budget for women; rather it is an analytical tool which scrutinizes the government budget to reveal its gender-differentiated impact and advocate for greater priorities for programmes/schemes directly benefiting women and better implementation of such programmes/schemes. Gender Budgeting is concerned not only with public expenditures but also with the gender-differentiated impact of revenue mobilization by the government. In fact, Gender Budgeting, as an approach, is not confined to budgets alone; rather it covers analysing various economic policies from the gender perspective.

On the other hand, under WCP, both Central as well as State Governments were required to ensure that "not less than 30 per cent of the funds/benefits are earmarked for women under the various schemes of the 'women-related' ministries/departments". There is no explanation, however, on how the Planning Commission arrived at this particular figure of 30 % under the WCP, at least not in any of the government reports/ documents available in the public domain. WCP is restricted only to Plan allocations by the Ministries/Departments, and WCP provides a benchmark to assess the performance of Ministries/Departments in prioritizing Plan resources for schemes which benefit women.

WCP had entered the planning process in the Seventh Plan with the initiation of a special mechanism to monitor 27 beneficiary oriented schemes for women. However, the Ninth Five Year Plan (1997-2002) marked a significant progress in this regard. The notion of WCP, as it was adopted in the Ninth Plan, earmarked a clear, unconditional minimum quantum of funds/benefits for women in the schemes run by all Ministries/Departments that were perceived to be "women-related" and thereby recognized that prioritizing financial resources for programmes/schemes for women is critical for women's empowerment.

The Tenth Five Year Plan (2002-07) marked another significant step forward as it envisaged "immediate action in tying up these two effective concepts of WCP and Gender Budgeting to play a complementary role to each other, and thus ensure both preventive and post facto action in enabling women to receive their rightful share from all the women-related general development sectors". The need for taking up Gender Budgeting was also recognized in the *National Policy for the Empowerment of Women, 2001*, which observed "Availability of adequate financial, human and market resources to implement the Policy will be managed by concerned Departments..." and that this process will include, among other initiatives,

B. SOME SERIOUS CONCERNS FROM THE GENDER BUDGET STATEMENT OF 2005-06

In Union Budget 2005-06, the Government for the first time included a statement on Gender Budgeting, which presented the magnitude of allocations for various programmes/ schemes (under ten Departments) that were expected to benefit women substantially (and hence eligible to be a part of the Gender Budget). The total allocations included in the Gender Budget in 2005-06 BE constituted about 2.8 % of total Union Government Expenditure. With the latest Budget, this Gender Budgeting exercise has been extended to cover 24 Departments of the Union Government. The total magnitude of Gender Budget (i.e. women-specific allocations) has now gone up to 4.67 % of total Union Budget in the 2005-06 BE and it shows a rise to 5.1 % of total Union Budget in the Budget Estimates for 2006-07. While this step from the Government to expand the scope of Gender Budgeting is indeed welcome, there are some serious drawbacks in this exercise presented in Union Budget 2006-07 (Statement No. 20, Expenditure Budget Vol. I, Union Budget 2006-07), which must be rectified by the Government.

The Gender Budgeting statement presented in Union Budget 2006-07 indicates, in two parts (Part A and Part B), the budget allocations for programmes/ schemes that are substantially meant for the benefit of women. Part A presents women-specific budget provisions under schemes in which 100% allocations are meant for women. Part B presents women-specific budget provisions under schemes where such allocations constitute at least 30 % of the total provisions. This table is given in Annexure 1.

On one hand, some of these assumptions are clearly wrong, for instance, putting 100 % allocations for 'All India Institute of Medical Sciences' and 'Safdarjung Hospital' under Ministry of Health & Family Welfare in the Gender Budget. On the other hand, some of the assumptions are also patriarchal, for instance, the assumption that anything that has to do with children, anything that has to do with contraception and family planning is for the exclusive benefit of women. Unless such assumptions are rectified, the relevance of Gender Budgeting attempted by the Government will be diluted.

III. SOME ISSUES IN IMPLEMENTATION

Having looked at the status of Indian women and some of the recent initiatives in the sphere of budgets; it is imminent to look at some important concerns with regard to implementation. Many a scheme and programme is launched by the government that promises to provide holistic coverage as well as solutions to the issues related to Indian women. However, the wedge between official objectives and actual implementation continue to exist, if not widen.

Select illustrations by way of specific schemes pertaining to women launched by three ministries make a case for themselves. Following set of tables have been extracted from the Outcome Budget 2006-07, which lists the objective of each of the schemes and risk factors in their implementation. A perusal of these reveals the following issues in implementation:

- Availability of land to begin with
- Problems in monitoring leading to difficulty in implementation
- Targets not being quantifiable
- Execution of a scheme linked to participation of community
- Realization of objective subject to approval by 'competent' authority
- Lack of machinery to monitor NGO based schemes

It is pertinent to ask what the Central Government is going to do in order to address these risk factors in implementation, both in the current fiscal year as well as in the forthcoming fiscal? Many of these risk factors fall outside the scope of Union Budgets. However, the Centre and the States must reorient their plans and programme strategies in order to address these bottlenecks in implementation.

1. Ministry of Women and Child Development

| Name of scheme | Objective | Risk factors |
|----------------|-----------|--------------|
|----------------|-----------|--------------|

| | | |
|---|--|--|
| Integrated Child Development Services (1975*) | Kishori Shakti Yojana focusing on girls between 11-18 years related to nutrition, health, literacy, vocational training, awareness related to participation in productive activities | In view of the multiplicity of the objectives and interventions permitted under the scheme, it is not possible to lay down outcomes which could be monitored through monthly/ quarterly/ annual/ periodical reports. The impact of the scheme can be assessed only through evaluation by an independent professional agency at the end of 3-5 years. |
|---|--|--|

| | | |
|--------------------|---|----|
| Swayamsidha (1995) | Establishment of Self Help Groups; building confidence and awareness among women on varied issues such as health, education, sanitation, legal rights; improving access to economic resources; involvement of women in local level planning | NA |
|--------------------|---|----|

| | | |
|-------------------------------------|--|----|
| Central Social Welfare Board (1953) | Providing short stay homes; condensed course of education; family counseling centers focusing on women | NA |
|-------------------------------------|--|----|

Source: Outcome Budget 2006-07

2. Ministry of Human Resource Development (Department of Elementary Education and Literacy)

| Name of scheme | Objective | Risk factors |
|----------------|-----------|--------------|
|----------------|-----------|--------------|

| | | |
|------------------------|---|----------------------------|
| Mahila Samakhya (1988) | Facilitate empowerment of rural women through education; enabling women to play a proactive role in society; enhance opportunities for participation of women and girls in formal and non-formal education programmes | State level implementation |
|------------------------|---|----------------------------|

| | | |
|---|--|--|
| Kasturba Gandhi Balika Vidyalaya (2004) | Setting 750 residential schools for girls from disadvantaged groups at upper primary level | Availability of land by State Government |
|---|--|--|

Source: Outcome Budget 2006-07

3. Ministry of Human Resource Development (Department of Secondary and Higher Education)

| Name of scheme | Objective | Risk factors |
|----------------|-----------|--------------|
|----------------|-----------|--------------|

| | | |
|---------------------------|---|--|
| Access with Equity (2002) | Improving boarding and lodging of girl students at secondary and higher secondary level | § Difficult to monitor NGO based schemes as there is no separate machinery |
|---------------------------|---|--|

§ Risk of inefficient non-existent NGOs, submission of fake documents regarding their activities.

§ MHRD is releasing grants pertaining to 2002-03, 2003-04 and 2004-05 only due to practical difficulties in ensuring that funds are used for the purpose for which it is given.

§ The NGOs are concentrated in few states

§ The targets are not quantifiable to reflect actual number of beneficiaries and extent of its benefit.

Source: Outcome Budget 2006-07

4. Ministry of Health and Family Welfare

| Name of scheme | Objective | Risk factors |
|----------------|-----------|--------------|
|----------------|-----------|--------------|

| | | |
|--------------------------------------|--|--|
| National Rural Health Mission (2005) | Apart from strengthening integrated primary health care services in rural areas, outcomes include reduction in Infant Mortality Rate, Maternal Mortality Ratio and Total Fertility Rate. | § The initial plan for selection of ASHA in 10 states to be extended to 18 states and remote tribal and under served areas of all states subject to approval by competent authority. Selection of ASHA is a community-based process and the pace of progress is a function of the capacity and extent of participation of the community. |
|--------------------------------------|--|--|

§ In the context of infrastructure strengthening, some issues are as follows: (a.) Setting up Mobile medical Units in 200 districts is subject to approval by competent authority. (b.) Upgradation of existing CHCs and First Referral Units (FRUs) also subject to approval by competent authority.

Source: Outcome Budget 2006-07

IV. Key Concerns

- o **Generation of gender-disaggregated information by Central Government Ministries**
- o **Proper implementation of Women's Component Plan by all Central Govt. Ministries**
- o **Gender Budgeting Statement in the Union Budget 2007-08 not to repeat the mistakes/ flaws of the same presented in 2006-07 Budget.**
- o **Allocation of adequate financial resources for women-specific programmes/ schemes in Union Budget 2007-08**
- o **Central Govt. and States must address the risk factors in implementation of women-specific programmes by Central Govt. Ministries.**
- o Estimates of allocation and expenditure on the programmes/ schemes run by the different Ministries/ Departments shown as a separate account head in the Demands for Grants on the pattern of *Tribal Sub Plan* and *Special Component Plan for Scheduled Castes*
- o No re-appropriation from WCP to the general programmes/schemes should be permitted without the prior approval of the Ministry of Women and Child Development
- o WCP should be extended to all Ministries/Departments – both in the Central Government and in the States- and should not be confined to the realm of some Ministries only which have historically been perceived as “women-related”
- o To ensure that sanctioned funds actually reach the women, a ‘non-lapsable pool’ of women’s fund could be created in every State and also at the Centre. In the event of under-utilisation of funds allocated for women specific programmes/schemes under any Ministry (Central or State), the balance amount to be transferred to this pool. Effective checks and balances, incentives for quality of spending, and monitoring outcomes to prevent funds lying unused in the pool would also be required.
- o WCP needs to factor in this intersectionality-framework while addressing issues of women ensuring some guidelines for designing programmes and schemes focused at the most vulnerable women, like dalit women, adivasi women, HIV positive women, sex-workers, etc.

Annexure 1

Table 4.2 below is an abridged version of the said Gender Budgeting Statement.

Union Government's Budgetary Provisions for Women

(Figures are in Rs. Crore)

Part A- Programmes/Schemes in which 100% allocations are for Women

| Ministry/Department | 2005-06 (BE) | 2005-06 (RE) | 2006-07 (BE) |
|---|---------------|--------------|--------------|
| Demand No.46, Department of Health & Family Welfare | 921.111302.58 | | 1576.22 |

Programmes/ Schemes Included:

R.A.K College of Nursing, Lady Reading Health School, Training for ANMs/LHVs, Strengthening of Basic Training Schools, Free Distribution of Contraceptives, Sterilization Beds, RCH-II Flexible Pool, Social Marketing of Contraceptives

Demand No.52, Police 11.04 6.71 4.59

Programmes/ Schemes Included: Day care centre, Family accommodation, Gender Sensitization, Health Care Centre, Improvised Service, Nutritional Care Centre, Women's Hostel, 2nd National Conference for Women in Police, Common Room for Women Staff.

Demand No.54, Ministry of Home Affairs- Transfer to UT Government 2.03 1.71 2.03

Programmes/ Schemes Included: Assistance for the Nutrition Programme for adolescent Girls (NPAG)-Delhi and Pondicherry

Demand No.55,

Department of Elementary Education & Literacy 255.00249.00158.00

Programmes/ Schemes Included: Kasturba Gandhi Balika Vidyalaya Scheme (for SC/ST & OBC women), Mahila Samakhya for Women

Demand No.57

Department of Women & Child Development 3922.49 3922.47 4842.68

Programmes/ Schemes Included: Integrated Child Development Services Scheme, National Institute of Public Cooperation and Child Development, Rajiv Gandhi National Creche Scheme for the Children of Working Mothers, Other Schemes of Child Welfare, Condensed Courses for Women Edu., Balika Samridhi Yojana, Hostels for Working Women, Support to Training & Employment Programme, Central Social Welfare Board, Swawlamban, Short Stay Homes, Awareness Generation Programme, National Commission for Women, Swashakti Project, Rashtriya Mahila Kosh, Swayamsidha, Swadhar, Scheme for Rescue of Victims of Trafficking, Relief & Rehabilitation of Rape Victims, Other Programmes of Women's Welfare, Nutrition, Provision for Projects/Schemes for the benefit of North Eastern Region & Sikkim

Demand No.64

Ministry of Non Conventional Energy Sources 5.00 0.01 0.10

Programmes/ Schemes Included: Women and Renewable Energy Development

Demand No.76

Department of Rural Development 2775.00 2750.00 2920.00

Programmes/ Schemes Included: Rural Housing - Indira Awas Yojana(IAY)

Demand No.81

Department of Science & Technology 4.00 4.00 30.00

Programmes/ Schemes Included: Women Component Plan

Demand No.86

Ministry of Small Scale Industries 0.40 0.40 1.00

Programmes/ Schemes Included: Trade Related Entrepreneurship Assistance & Development for Women (TREAD)

Demand No. 87

Ministry of Social Justice & Empowerment 0.01 28.00 32.00

Programmes/ Schemes Included: Girls Hostels for SCs

Demand No.94, **Andaman & Nicobar Islands** 0.45 0.45 0.50

Programmes/ Schemes Included: Andaman & Nicobar Islands Assistance for Nutrition Programme for Adolescent Girls

Demand No.95, **Chandigarh** 0.73 0.73 0.80

Programmes/ Schemes Included: Chandigarh Assistance for Nutrition Programme for Adolescent Girls

Demand No.96, **Dadra & Nagar Haveli** 0.47 0.47 0.52

Programmes/ Schemes Included: Dadra & Nagar Haveli Assistance for Nutrition Programme for Adolescent Girls

Demand No.97, **Daman & Diu** 0.29 0.29 0.32

Programmes/ Schemes Included: Daman & Diu Assistance for Nutrition Programme for Adolescent Girls

Demand No.98, **Lakshadweep** 0.06 0.06 0.06

Programmes/ Schemes Included: Lakshadweep Assistance for Nutrition Programme for Adolescent Girls

Demand No.104

Ministry of Youth Affairs & Sports 2.60 2.60 2.80

Programmes/ Schemes Included: Scheme for National Championship for Women

Demand No.56

Department of Secondary Education & Higher Education 6.40 6.40 6.40

Programmes/ Schemes Included: Access & Equity

Total – Part A 7905.08 8273.88 9575.82

Part B – Programmes/Schemes in which at least 30% allocations are for women

Demand No.1

Department of Agriculture & Cooperation 1.00 3.75 1.50

Programmes/ Schemes Included:

Development and Strengthening of Infrastructure Facilities for Production and Distribution of Quality Seeds; Extension Support to Central Institutes/DOE; Macro-management Andhra Pradesh Training of Women in Agriculture (ANTWA)

Demand No.12

Department of Industrial Policy & Promotion 5.00 5.00 5.50

Programmes/ Schemes Included: Scheme of salt works

Demand No.15

Department of Information Technology 5.70 5.70 9.30

Programmes/ Schemes Included: DOEACC, TDIL, IT for Masses

Demand No.46

Department of Health & Family Welfare 5710.42 5066.08 6541.98

Programmes/ Schemes Included: Safdarjung Hospital & VMC, New Delhi; Dr. RML Hospital & SPM, PGIMER, New Delhi; Kalawati Saran Children's Hospital, New Delhi; All India Institute of Medical Sciences, New Delhi; Lady Harding Medical College & S.K. Hospital; PGIMER, Chandigarh; JIPMER, Pondicherry; National Cancer Control Programme; Grants to Kasturba Health Society, Wardha; Indian Nursing Council; National Vector Borne Disease Control Programme (Including Filaria & Kala Azar); National TB Control Programme; National Leprosy Eradication Programme; National Blindness Control Programme; Development of Nursing Services; Rural Family Welfare Services; Urban Family Welfare Services; Routine Immunisation Programme; Pulse Polio Immunisation; IEC (RCH); Training (RCH); RCH-II Flexible Pool

Demand No.47

Department of AYUSH 38.24 36.95 43.22

Programmes/ Schemes Included: Central Council for Research in Ayurveda & Sidha , New Delhi; Rastriya Ayurveda Vidyapeeth, New Delhi; Central Council for Research in Homoeopathy, New Delhi; Central Council for Research in Unani Medicine, New Delhi; Central Council for Research in Yoga & Naturopathy, New Delhi; Morarji Desai National Institute of Yoga,

New Delhi.

Demand No.55

Department of Elementary Education & Literacy 5694.37 5697.50 7473.00

Programmes/ Schemes Included: Sarva Shiksha Abhiyan, National Programme of Nutritional Support to Primary Education, Teacher Education, Bal Bhawan Society; District Primary Education Programme, Shiksha Karmi, National Council for Teacher Education, Literacy Campaigns & Operation Restoration, Continuing Education, Jan Shikshan Sansthan, Support to NGOs

Demand No.56

Department of Secondary Education & Higher Education 1271.54 1343.15
1635.22

Programmes/ Schemes Included: NVS, KVS, University Grants Commission, Indira Gandhi National Open University, Community Polytechnics, NITTTR, SLIET

Demand No.59

Ministry of Labour & Employment 125.05115.76127.46

Programmes/ Schemes Included: Improvement in Working Conditions of Child/Women Labour

Demand No.76

Department of Rural Development 1584.00 2050.00 1380.00

Programmes/ Schemes Included: Sampoorna Gramin Rozgar Yojana (SGRY), Swarnajayanti Gram Swarozgar Yojana

(SGSY)

Demand No.83

Department of Bio-Technology 5.00 5.00 5.00

Programmes/ Schemes Included: Bio-Technology Programmes for Women

Demand No.87

Ministry of Social Justice & Empowerment 1550.02 1482.35 1711.15

Programmes/ Schemes Included: Special Central Assistance for SCP, Post-Matric Scholarship for SCs, Machinery for Implementation of PCR Act 1955 & Prevention of Atrocities Act 1989, Prematric Scholarship for SCs, Assistance to Voluntary Organisation for Welfare of SCs, Supporting project of All India or Interstate nature for SCs, Dr. B.R. Ambedkar Foundation, Coaching and Allied Scheme, Grants to non-Govt. Institutions for running pre-examination Training Centre for SCs, Upgradation of merit of SC students, Assistance to Meritorious students belonging to SCs for pursuing study in residential public school, Setting up of Residential schools for SC Students, National Commission for SCs, National Commission for Safai Karmacharis, National Commission for De-notified, Nomadic & Semi-nomadic Tribes, Scholarships to students of SC & other categories for study abroad, Rajiv Gandhi National Fellowship for SCs, Share Capital to SC Development Corporation, National Safai Karmachari Finance & Development Corporations, National SC Finance & Development Corporation, Misc. schemes for SCs, Prematric scholarship for BCs, Boys & Girls hostels for BCs, Post Matric Scholarship for BCs, Assistance to Voluntary Organisation for BCs, National Commission For Backward Classes, Maulana Azad Education Foundation, National BCs Finance & Development

Corporation, Grants-in-aid to Wakf Board, National Commission for Minorities, National Minorities Finance & Development Corporation, Special Officer for Linguistic Minorities, National Commission for Economically BCs, National Commission for Economically BCs among religious & Linguistic minorities, Deendayal Disabled Rehabilitation Scheme, National Institute of Social Defence, National Institute of Visually Handicapped, Dehradun, National Institute of Orthopaedically handicapped, Kolkata, National Institute for Hearing Handicapped, Mumbai, National Institute for Rehabilitation Research & Training, Cuttack, Pt. Deendayal Institute for Physically Handicapped, New Delhi, National Institute for Mentally Handicapped, Secunderabad, National Institute for Multiple Handicapped, Aids and Appliances for the Handicapped Establishment of Rehabilitation Centres, Rehabilitation Council of India, Spinal Injury Centre, Implementation of the Persons with Disabilities Act, including Scheme for Disabilities, Technology Development Projects in Mission Mode, Chief Commissioner for Disabilities, Centre for Visually, Hearing & Orthopaedically Disabled Persons, Distribution Expenses of Commodity Assistance under bilateral agreements, Welfare of Working children in need & care of Protection, Central Adoption Resource Agency, Scheme for Street Children, Assistance to Homes for Infant & Young Children for promoting in-country adoption, Assistance to Voluntary Organisations for Old Age Homes, Assistance to Voluntary Organisation For providing Social Defence services, Prevention and Control of Juvenile Social Maladjustment, Grants-in-Aid for Research Studies & Publication, Information and Mass Education Cell, National Handicapped Finance & Development Corporation, Artificial Limbs Manufacturing Corporation, Lump sum allocation for NE & Sikkim.

Demand No.102

Ministry of Urban Employment & Poverty - 29.00 75.00

Programmes/ Schemes Included: Swarnajayanti Shahari Rojgar Yojana

Demand No.104

Ministry of Youth Affairs & Sports 136.58126.39152.38

Programmes/ Schemes Included: Nehru Yuva Kendra Sangathan, National Service Scheme, Promotion of National Integration, Youth Hostels, Scouting & Guiding, National Service Volunteers Scheme, Rashtriya Sadbhavana Yojana, Rural Youth and Sports Clubs and Evaluation, Promotion of Adventure, Promotion of Youth Activities & Training, Institute of Youth Development, Commonwealth Youth Programme, Development and Empowerment of Adolescents, Scheme relating to Talent Search and Training

Total- Part B (in Rs. Crore) 16126.92 15966.63 19160.71

Grand Total (A & B) (in Rs. Crore) 24032.00 24240.51 28736.53

Total Union Government Expenditure

(in Rs. Crore) 514344 508705 563991

Grand Total (A + B) as a proportion of Total Union Government Expenditure 4.67 %
4.77 % 5.10 %

Source: Statement 20, Expenditure Budget Vol. I, Union Budget 2006-07, GOI.

* Figures in brackets in all tables in Section III indicate year of inception of programme/scheme

