

SRIRAM'S IAS



GENERAL STUDIES

Civil Services Mains Exam.-2013

(PAPER-III)

Book No.-I

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Inclusive growth

Inclusive growth basically means, "broad based growth, shared growth, and pro-poor growth". Inclusive growth by its very definition implies an equitable allocation of resources with benefits accessible to every section of the society. Inclusive strategy involves a much greater role of the States, and closer coordination between the Centre and the States, than would be needed for a purely corporate-led growth strategy. This is because most of the policy measures and institutional support required for small and medium entrepreneur-led growth lie in the domain of State Governments and local bodies. The Centre's contributions would lie mainly in creating the appropriate macroeconomic framework, financial sector policies and national level infrastructure.

Inclusive growth has been projected as the strategic pillar in the forthcoming 12th five year plan. The policy designers are of the opinion that the 'inclusive growth strategy for the 12th five year plan should be based on the experience of inclusive outcomes of the 11th five year plan'. The approach to 12th five year plan titled 'Faster, Sustainable and More Inclusive Growth' defines inclusive growth as: Inclusive growth should result in lower incidence of poverty, universal access to school education including skill and education, better opportunities for wage employment and livelihood, improvement in health outcomes, improvement in provision of basic amenities like water, electricity, roads, sanitation and housing.

Has growth of Indian economy been really inclusive during the last plan or since the last two decades of reforms? This question demands a close empirical investigation.

Since July 1991, Indian economy has witnessed several reforms encompassing all the major sectors of the economy (agriculture, industry, trade, foreign investment, technology, public sector, financial institutions and so on). The main objective of these reforms was to put the Indian economy out of the low level equilibrium trap. These reforms have marked a steady break from the previous policy regime of state controlled and insulated economy. Due to these policies, India saw robust rates of growth of GDP. Since the last decade or so, GDP and Investment growth have recorded historical increase in India. However, in the last two years, there is a sharp decline in growth rate due to the economic crisis at the global level. But the economic survey of 2013 predicts that the recovery is on the way as far as growth is concerned. Who is benefiting from this higher growth trajectory is the other important question. The questions that arise are: Can high growth provide better and secure employment to the common people? Has this growth made health and educational facilities more accessible to the common people? Has this high growth rate been able to reduce real poverty? All these issues are closely related to the title of 11th and the current 12th five year plan (2012-17). The policy designers initially believed that generally higher GDP economic growth will 'trickle down' to lower levels. But in India, this 'trickle down' has not worked. Therefore, we need special interventions in terms of redesigning the growth pattern and also inclusive programmes to address the needs of the excluded.

'Inclusive growth' as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equitably shared. Growth is inclusive when it creates economic opportunities along with ensuring equal access to them. Apart from addressing the issue of inequality, the inclusive growth may also make the poverty reduction efforts more effective by explicitly creating productive economic opportunities for the

issuance → showing thought for future
immensurate → corresponding or in proportion

poor and vulnerable sections of the society. The inclusive growth by encompassing the hitherto excluded population can bring in several other benefits as well to the economy. The concept "Inclusion" should be seen as a process of including the excluded as agents whose participation is essential in the very design of the development process, and not simply as welfare targets of development programmes (Planning Commission, 2007).

Inclusive growth refers to both the pace and the pattern of the economic growth. The literature on the subject draws fine distinction between direct income redistribution or shared growth and inclusive growth. The inclusive growth approach takes a longer term perspective as the focus is on productive employment rather than on direct income redistribution, as a means of increasing incomes for excluded groups. Inclusive growth is, therefore, supposed to be inherently sustainable as distinct from income distribution schemes which can in the short run reduce the disparities, between the poorest and the rest, which may have arisen on account of policies intended to jumpstart growth. While income distribution schemes can allow people to benefit from economic growth in the short run, inclusive growth allows people to "contribute to and benefit from economic growth".

The current policy objective of inclusive growth with stability given in the 12 FYP requires that there be productive and structural growth along with environmental security.

Need for inclusive growth

There are prudential, political and moral reasons. (1) Practically, we need to build an inclusive society because human resource needs to be developed. Education, health and skills for all, will mean huge employment, productivity, innovation, exports and so on. (2) Politically, if there is no inclusive growth, conflicts will arise on a mass basis and could even turn into extremist movements like naxalism and communalism which can strike a body blow to the integrity of the nation. At any rate, Constitution of India promises inclusive growth in the Preamble and the DPSPs and so the nation owes it to all. (3) Morally, it is inhuman to leave millions weak and destitute while the nation is growing at an impressive rate.

Challenges of achieving inclusive growth

Achievement of inclusiveness is a challenge in the following way

- The number of people to be targeted being so large- hundreds of millions, the effort has to be commensurate
- Fiscal, human and administrative resources necessary are huge
- Institutional mechanisms for federal coordination, PPPs, strong LSG bodies (PRIs and Nagarapalikas) need to be developed
- Decentralization is crucial as inclusive governance is an integral part of inclusive growth
- Suitable laws that enable people-centered growth process- be it in land acquisition, environmental field, R&R, - are required

Poverty and recent achievements

The record in recent years of the anti-poverty strategies- the heart of inclusive growth- is encouraging. The percentage of the population below the official poverty line has been falling but even as that happens, the numbers below the poverty line remain large. According to the latest official estimates of poverty based on the Tendulkar Committee poverty line, as many as 29.8 per cent of the population, that is, 350 million people were below the poverty line in 2009-10. Questions have been raised about the appropriateness of the Tendulkar poverty line which

corresponds to a family consumption level of `3,900 per month in rural areas and `4,800 per month in urban areas (in both cases for a family of five). There is no doubt that the Tendulkar Committee poverty line represents a very low level of consumption and the scale of poverty even on this basis is substantial. An Expert committee under Dr. C. Rangarajan has been set up to review all issues related to the poverty line keeping in view international practices.(Read ahead for detailed examination of issues)

It is well established that the percentage of the population in poverty has been falling consistently but the rate of decline was too slow. The rate of decline in poverty in the period 2004-05 to 2009-10 was 1.5 percentage points per year, which is twice the rate of decline of 0.74 percentage points per year observed between 1993-94 and 2004-05. Normally, large sample surveys used for official estimates of poverty are conducted every five years, but because 2009-10 was a drought year, the National Sample Survey Office (NSSO) felt that it would tend to overstate poverty and it was therefore decided to advance the next large sample survey to 2011-12. The results of this survey – NSSO 68th Round details came out in 2013 June and are discussed ahead). NSSO 68th Round findings on poverty, consumption and inequality in consumption are: Poorest of poor in the country survive on barely Rs 17 per day in villages and Rs 23 a day in cities. According to the data, which relates to 2011-12 (July-June), five per cent population on the bottom rung had an average monthly per capita expenditure (MCPE) of Rs 521.44 in rural areas and Rs 700.50 in urban areas. On the other end of the spectrum, top five per cent of the population had an MPCE of Rs 4,481 in rural areas and Rs 10,282 in urban areas.

The National Sample Survey Office's (NSSO) 68th round of survey is based on samples consisting of 7,496 villages in rural India and 5,263 urban blocks except some remote areas, during July 2011-June 2012, the release said. On an average on the all-India basis, MPCE was around Rs 1,430 for rural India and about Rs 2,630 for urban India. Thus average urban MPCE was about 84 per cent higher than average rural MPCE for the country as a whole, though there were wide variations in this differential across states”.

Inter-group Equality

Inclusiveness is not just about bringing those below an official fixed poverty line to a level above it. It is also about a growth process which is seen to be ‘fair’ by different socio-economic groups that constitute our society. The poor are certainly one target group, but inclusiveness must also embrace the concern of other groups such as the Scheduled Castes (SCs), Scheduled Tribes (STs), Other Back-ward Classes (OBCs), Minorities, the differently abled and other marginalised groups. Women can also be viewed as a disadvantaged group for this purpose. These distinct ‘identity groups’ are sometimes correlated with income slabs the SCs and STs, for example, are in the lower income category and all poverty alleviation strategies help them directly. Women on the other hand span the entire income spectrum, but there are gender-based issues of inclusiveness that are relevant all along the spectrum.

Inclusiveness from a group perspective goes beyond a poverty reduction perspective and includes consideration of the status of the group as a whole relative to the general population. For example, narrowing the gap between the SCs or STs and the general population must be part of any reasonable definition of inclusiveness, and this is quite distinct from the concern with poverty, or inequality, though the two are related.

Balance regional development (BRD) and Inclusive growth

Another aspect of inclusiveness relates to whether all States, and indeed all regions, are seen to benefit from the growth process. The regional dimension has grown in importance in recent years. On the positive side, as the PM mentioned in the 57th NDC speech (See ahead), many of the erstwhile backward States have begun to show significant improvement in growth performance and the variation in growth rates across States has narrowed. However, both the better performing and other States are increasingly concerned about their backward regions, or districts, which may not share the general improvement in living standards experienced elsewhere. Many of these districts have unique characteristics including high concentration of tribal population in forested areas, or Minorities in urban areas. Some districts are also affected by left wing extremism, making the task of development much more difficult.

In the Twelfth Plan, govt aims pay special attention to the scope for accelerating growth in the States that are lagging behind. This will require strengthening of States' own capacities to plan, to implement and to bring greater synergies within their own administration and with the Central Government. As a first step, the Planning Commission is working with its counterpart Planning Boards and Planning Departments in all State Governments to improve their capabilities. An important constraint on the growth of backward regions in the country is the poor state of infrastructure, especially road connectivity, schools and health facilities and the availability of electricity, all of which combine to hold back development. Improvement in infrastructure must therefore be an important component of any region-ally inclusive development strategy.

The efforts of the govt in this regard are

- ✓ FC criteria
- ✓ PC transfers
- ✓ special category states
- ✓ BRGF
- ✓ Green revolution in the eastern region
- ✓ North eastern region Vision 2020

Special focus on North east

Holding that infrastructure deficiency in North-East is a "major concern", Prime Minister Manmohan Singh in 2008 announced linking of all state capitals there by rail to ensure better connectivity and earmarking of Rs 31,000 crores to improve roads.

Releasing 'Vision Document 2020 for the North-Eastern Region' he said besides developing rail and air connectivity, the government is also committed to improve road facilities in the Eleventh Plan. For improving air connectivity, he announced that a green-field airport will come up at Itanagar to connect the region with the rest of the country. He said all villages on the Arunachal Pradesh border will soon be electrified at a cost of Rs 550 crore. The Vision Document, approved by the North-East Council, also lays stress on promoting education in the region. Govt is to set up a NTFT and NIT at Shillong.

Green Revolution in Eastern India

The programme gets Rs 1,000 crore in his Budget for 2013-14. It was during Union Budget 2010-11 that for the first time, separate funds were allocated for the eastern parts of the country. The scheme, which comes under Rashtriya Krishi Vikas Yojana, includes Assam, Bihar, Jharkhand, eastern UP, Chhattisgarh, Odisha and West Bengal. Rice was a priority crop under the scheme. The other areas of focus were asset-building activities such as water management, construction of farm ponds and repair of irrigation channels. The main motive behind this project

is to ensure food security. The idea is to tap the eastern region for food grains and pulses. The Centre has also allocated Rs 500 crore for encouraging crop diversification to promote technological innovation. The original Green Revolution States face the problem of stagnating yields and over-exploitation of water resources. The answer lies in crop diversification.

BRGF

The Backward Regions Grant Fund Programme (BRGF), launched in 2007, signifies a new approach to addressing persistent regional imbalances in development. The programme subsumed the Rashtriya Sama Vikas Yojana (RSVY). The BRGF Programme covers districts in 27 States, of which 232 districts fall under the purview of Parts IX and the Constitution dealing with the Panchayats and the Municipalities, respectively. The remaining 18 districts are covered by other local government structures, such as Autonomous District and Regional Councils under the Sixth Schedule of the Constitution and state specific arrangements as in the case of Nagaland and the hill areas of Manipur.

Objectives

The Backward Regions Grant Fund is designed to redress regional imbalances in development by way of providing financial resources for supplementing and converging existing developmental inflows into the identified backward districts, so as to:

- Bridge critical gaps in local infrastructure and other development requirements that are not being adequately met through existing inflows,
- Strengthen, to this end, Panchayat and Municipality level governance with more appropriate capacity building, to facilitate participatory planning, decision making, implementation and monitoring, to reflect local felt needs,
- Provide professional support to local bodies for planning, implementation and monitoring their plans,
- Improve the performance and delivery of critical functions assigned to Panchayats, and counter possible efficiency and equity losses on account of inadequate local capacity.

The BRGF programme represents a major shift in approach from top-down plans to participative plans prepared from the grassroots level upwards. The guidelines of the Programme entrust the central role in planning and implementation of the programme to Panchayats in rural areas, municipalities in urban areas and District Planning Committees at the district level constituted in accordance with Article 243 ZD of the Constitution to consolidate the plans of the Panchayats and Municipalities into the draft district plan. Special provisions have been made in the guidelines for those districts in J&K, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura which do not have Panchayats, where village level bodies and institutions mandated under other frameworks such as the Sixth Schedule are to plan and implement the programme. The conviction that drives this new locally driven approach is that grassroots level democratic institutions know best the dimensions of poverty in their areas and are, therefore, best placed to undertake individually small, but overall, significant local interventions to sustainably tackle local poverty alleviation. There are three features of BRGF that make it truly unique among central initiatives to combat backwardness. First, the approach of putting the Panchayats and the Municipalities at the centre stage of planning and implementation. Second, no Central funding stream is as 'untied' as the BRGF – the funds can be applied to any preference of the Panchayat/Municipality, so long as it fills a development gap and the identification of the work is decided with people's participation. Third, no other programme spends as much funds, nearly 11 percent of the total allocation, for capacity building and staff provisioning.

Creation of capacity for effective planning at district and lower level is a key-pre-requisite to participative planning. Hence the BRGF contains a specific component for the capacity building of Panchayati Raj Institutions of Rs. 250 crore per year. A framework that looks upon capacity building in a very comprehensive fashion, encompassing training, handholding and providing ongoing support to Panchayat elected representatives has been developed for States to follow, while undertaking capacity building.

The planning process under BRGF is based on the guidelines for district planning issued by the Planning Commission. The process of integrated development commences with each district undertaking a diagnostic study of its backwardness and a baseline survey by enlisting professional planning support, to be followed by a well-conceived participatory district development perspective plan to address this backwardness during the period of the Eleventh Five Year Plan. Such plans would integrate multiple programmes that are in operation in the district concerned and, therefore, address backwardness through a combination of resources that flow to the district. District Plans received from the various States indicate that the untied fund allocated to the districts are generally being used for filling infrastructural gaps in drinking water, connectivity, health, education, social sectors, electrification, etc. The basket of works taken up includes construction of school buildings /class rooms, health sub-centres, drinking water facility, sanitation facilities, anganwadi buildings, Panchayat buildings, irrigation tanks/channels, street lights, link roads, culverts, soil and water conservation measures, etc. The BRGF has adopted the National Capability Building Framework (the NCBF) which envisages strengthening of institutional arrangements, including the infrastructure as well as software support for capacity building of elected representatives, the functionaries and other stakeholders of PRIs and thereby improving the vigour of grassroots level democracy.

The finance ministry in May 2013 set up an expert committee under the chairmanship of Chief Economic Adviser Raghuram Rajan to look into a composite development index of states for allocation of money under the Backward Region Grant Fund (BRGF). Rajan committee would consider criteria such as the state's positing in national per capita income and human development indicators to evolve a composite index. The panel would have five members but can invite experts as special invitees for deliberations. Finance Minister Chidambaram in 2013-14 Budget speech said that the criteria for determining backwardness under BRGF are based on terrain, density of population and length of international borders. "It may be more relevant to use a measure like the distance of the state from the national average under criteria such as per capita income, literacy and other human development indicators."

PURA

Provision of Urban Amenities in Rural Areas (PURA) is a Central Sector scheme re-launched by Ministry of Rural Development (MoRD), Government of India during remaining period of the XI Plan with support from Department of Economic Affairs and the technical assistance of Asian Development Bank. MoRD is implementing the PURA scheme under a Public Private Partnership (PPP) framework between Gram Panchayat(s) and private sector partners with active support of the state governments.

The scheme envisages development of rural infrastructure and is the first attempt at delivering a basket of infrastructure and amenities through PPP in the rural areas.

The primary objectives of the scheme are the provision of livelihood opportunities and urban amenities in rural areas to bridge the rural – urban divide.

Core funding shall be sourced from the Central Sector scheme of PURA and complemented by additional support through convergence of different Central Government schemes. The private sector shall also bring into the project its share of investment besides operational expertise. The scheme would be implemented and managed by the private sector on considerations of economic viability but designed in a manner whereby it is fully aligned with the overall objective of rural development.

Inclusiveness and Inequality

Inclusiveness also means greater attention to income inequality. The extent of inequality is measured by indices such as the Gini coefficient, which provide a measure of the inequality in the distribution on a whole, or by measures that focus on particular segments such as the ratio of consumption of the top 10 per cent or 20 per cent of the population to that of the bottom 10 per cent or 20 per cent of the population, or in terms of rural-urban, such as the ratio of mean consumption in urban versus rural areas. An aspect of inequality that has come sharply into focus in industrialised countries, in the wake of the financial crisis, is the problem of extreme concentration of income at the very top, that is, the top 1 per cent and this concern is also reflected in the public debate in India.

Inequality must be kept within tolerable limits (Art.38, DPSP). Some increase in inequality in a developing country during a period of rapid growth and transformation may be unavoidable and it may even be tolerated if it is accompanied by sufficiently rapid improvement in the living standards of the poor. However, an increase in inequality with little or no improvement in the living standards of the poor is a recipe for social tensions. As a society, we therefore need to move as rapidly as possible to the ideal of giving every child in India a fair opportunity in life, which means assuring every child access to good health and quality education.

India, HDI and IHDI: Human Development Report 2013

Over the past two decades, India has seen a big improvement in its human development index score, from 0.41 in 1990 to 0.554 in 2012, according to the latest report by the United Nations Development Program (2013). However, despite this improvement, India overtook only four of the countries positioned above it in 1990: Swaziland, Kenya, Cameroon and Congo. The rise in India's HDI score is partly thanks to it starting from a low base (countries with high HDI scores have limited room for improvement), and also a rapid increase in per capita gross national income.

Despite the improvement, India remains in the "medium development" category, 136th in a list of 186 countries that stretches from Norway at the top of the "very high human development" category to Niger at the bottom of the "low human development" group. In 2011, India was 134th in the list.

Since 2011, the UNDP report has included an inequality adjusted HDI, also known as IHDI, which aims to capture the effects of inequality on human development. If there is no inequality the IHDI equals the HDI, while a big difference between the readings means greater inequality. India's IHDI score was nearly 30% lower than its HDI reading.

The most glaring inequality in India is in education, the report says, even though it commends the introduction of the Right to Education Act.

Success stories, such as China, invariably show growth in investment in health and education, with a special focus on rural areas to "enable poor people to participate in growth," the UNDP report says.

India also fared poorly on life expectancy and gender equality.

Inclusiveness as Empowerment

Finally, inclusiveness is not just about ensuring a broad-based flow of benefits or economic opportunities, it is also about empowerment and participation. It is a measure of the success we have achieved in building a participatory democracy that people are no longer prepared to be passive recipients of benefits doled out by the Government. They are slowly beginning to demand these benefits and opportunities as rights and they also want a say in how they are administered. This brings to the fore issues of governance, accountability and peoples participation to much greater extent than before. This also covers areas like access to information about government schemes, knowledge of the relevant laws and how to access justice. The growing concern with governance has also focused attention on corruption. How to tackle corruption is now at the centre stage of policy debates.

Empowerment refers to increasing the political, social, educational, gender, or economic strength of individuals and communities. Sociological empowerment often addresses members of groups that social discrimination processes have excluded from decision-making processes through - for example - discrimination based on caste, disability, race, ethnicity, religion, or gender. India being a welfare state has many plans and programmes for the empowerment of the marginalised groups which is the hallmark of a strategy to achieve an inclusive strategy. (The initiatives are discussed in various parts of the Study Material)

AP

Andhra Pradesh Scheduled Caste Sub-Plan/Scheduled Tribe Sub-Plan Planning, Allocation and Utilization of Financial Resources Act 2012

Andhra Pradesh made history In December by passing a bill to give statutory status to the scheduled castes and scheduled tribe sub-plans, ensuring allocation of funds to these sections in proportion to their population. The law will also ensure total utilization of funds allocated to these sections in the planned budget. The state assembly passed Andhra Pradesh Scheduled Caste Sub-Plan/Scheduled Tribe Sub-Plan Planning, Allocation and Utilization of Financial Resources Bill 2012, making it the first state in the country to have such legislation. The bill was brought as the funds were either not being utilized or diverted for other purposes.

Inclusiveness through Employment Programmes

The 12th FYP says the following about the Mgnrega : One of the most important interventions for fostering inclusion during Eleventh Plan was the MGNREGA. While its achievements in ameliorating poverty and preventing acute distress during times of drought have been recorded and appreciated, there are also some complaints against MGNREGA, primarily on the grounds that it is a dole, involving huge expenditures that could have been spent more productively. There are also complaints that it is leading to increase in wages of agricultural labour and construction workers. There is also evidence that wherever land productivity has improved and greater water security been delivered, small and marginal farmers working in MGNREGA sites have reverted back to farming and allied livelihoods. There is also evidence that MGNREGA is enabling crop diversification, particularly into horticulture, wherever it has adequately converged with schemes of Agricultural Departments. An important lesson from this experience is that it is the quality of assets created, which will determine whether MGNREGA can go beyond the safety net to become a springboard for entrepreneurship, even at the lowest income levels.

Accelerated growth in recent years has yielded distinct benefits to many and the prosperity which this has generated is visible to all, raising the expectations of all sections of the population, and creating a demand for a fair share of the benefits of growth.

Eleventh Plan Achievements on Inclusive Growth

The following are some important indicators showing the extent to which the Eleventh Plan succeeded in fulfilling the objective of inclusive growth. (In some cases, where the data relate to the NSSO surveys, the time period for comparison is before and after 2004–05.) Aspirants are advised to insert the latest data, for example, NSSO 68th large round data revealed in 2013 June)

- GDP growth in the Eleventh Plan 2007–08 to 2011–12 was 8 per cent compared with 7.6 per cent in the Tenth Plan (2002–03 to 2006–07) and only 5.7 per cent in the Ninth Plan (1997–98 to 2001–02). The growth rate of 7.9 per cent in the Eleventh Plan period is one of the highest of any country in that period which saw two global crises.
- Agricultural GDP growth accelerated in the Eleventh Plan, to an average rate of 3.7 per cent, compared with 2.4 per cent in the Tenth Plan, and 2.5 per cent in the Ninth Plan.
- The percentage of the population below the poverty line declined at the rate of 1.5 percentage points (ppt) per year in the period 2004–05 to 2009–10, twice the rate at which it declined in the previous period 1993–94 to 2004–05. (When the data for the latest NSSO survey for 2011–12 become available, it is likely that the rate of decline may be close to 2 ppt per year. Indeed!!!!)
- The rate of growth of real consumption per capita in rural areas in the period 2004–05 to 2011–12 was 3.4 per cent per year which was four times the rate in the previous period 1993–94 to 2004–05.
- The rate of unemployment declined from 8.2 per cent in 2004–05 to 6.6 per cent in 2009–10 reversing the trend observed in the earlier period when it had actually increased from 6.1 per cent in 1993–94 to 8.2 per cent in 2004–05.
- Rural real wages increased 6.8 per cent per year in the Eleventh Plan (2007–08 to 2011–12) compared to an average 1.1 per cent per year in the previous decade, led largely by the government's rural policies and initiatives.
- Complete immunization rate increased by 2.1 ppt per year between 2002–04 and 2007–08, compared to a 1.7 ppt fall per year between 1998–99 and 2002–04. Similarly, institutional deliveries increased by 1.6 ppt per year between 2002–04 and 2007–08 higher than the 1.3 ppt increase per year between 1998–99 and 2002–04.
- Net enrolment rate at the primary level rose to a near universal 98.3 per cent in 2009–10. Dropout rate (classes I–VIII) also showed improvements, falling 1.7 ppt per year between 2003–04 and 2009–10, which was twice the 0.8 ppt fall between 1998–99 and 2003–04.

Ending of gender based inequities, discrimination and all forms of violence against girls and women is being accorded overriding priority in the Twelfth Plan. This is fundamental to enabling women to participate fully in development processes and in fulfilling their social, economic, civil and political rights, for more inclusive growth.

Environmental Sustainability

While striving for faster and more inclusive growth, the Twelfth Plan must also pay attention to the problem of sustainability. No development process can afford to neglect the environmental consequences of economic activity, or allow unsustainable depletion and deterioration of natural resources. Unfortunately, the experience of development in many countries, and our own past experience in some respects, suggests that this can easily happen unless appropriate corrective steps are taken at early stages. The Twelfth Plan must devise a strategy of development which effectively reconciles the objective of development with the objective of protecting the environment.

Development cannot take place without additional energy and the energy requirement of development will have to be reconciled with the objective of protection of environment. The economy depends heavily on coal and hydro power to meet its energy needs and the development of each of these energy sources involves potential trade-offs with conservation of forests and the objective of avoiding displacement of people. We need to manage these conflicting objectives more efficiently, with adequate compensation for those dispossessed and appropriate remedial steps to correct for loss of forest cover where this is unavoidable. Nuclear energy is another important energy source for the country, and has the greatest potential over the next 20 years, of providing a substitute for coal-based electricity. However, here too environmental and safety issues have arisen, especially after the Fukushima accident. These concerns are being addressed.

The achievement of environmental sustainability will impact the life of communities in several dimensions. It will require the need development of new energy efficient practices in urban housing and transport to contain the growth in the demand for energy. It would mean use of far more energy efficient technologies in coal-based electricity generation such as the introduction of super critical and ultra super critical boilers. It would require active promotion of energy efficiency in industries, farms and offices, and the promotion of more energy efficient appliances through policies of branding and mandatory standards. Transport policies and related technologies for more energy efficient vehicles will need to be developed and adopted.

The issue of sustainability also has a global dimension because of the threat of climate change caused by the accumulation of carbon dioxide and other Greenhouse Gases (GHG) in the atmosphere due to human activity. Since GHG emission in any country accelerates the process of global warming, this is obviously an area where a global cooperative solution is needed. No country will have sufficient incentive to contain its own emissions unless it is part of a global compact. Such a compact in turn is possible only if there is a fair distribution of the burden. Developing countries have consistently argued that since it is the industrialised countries that have historically contributed the bulk of the accumulated stock of GHG, and are also the most able to pay, they must bear burden of global mitigation and adjustment. India is participating in the ongoing inter- national negotiations under the UN Framework Convention on Climate Change, but progress thus far has been minimal.

We cannot, however, abstain from taking action to deal with climate change until an international solution is found. It is known that India will be one of the countries most severely affected if global warming proceeds unchecked and as such appropriate domestic action is necessary. A National Action Plan for climate change has been evolved with eight component Missions. Implementation of these missions must be an integral part of the Twelfth Plan. Policies should be closely monitored to ensure that we achieve the stated objective of reducing the emissions intensity of our GDP by 20 per cent to 25 per cent between 2005 and 2020.

Resolving the conflict between energy and the environment is not without cost. It involves additional upfront costs both of mitigating the adverse impact on the environment and of switching to more expensive renewable energy sources. These costs must be built into the cost and the pricing of the energy produced. The reluctance to bear these costs arises largely because the cost of environmental damage is not properly measured. It is only when this is done that the cost of avoiding such damage can be compared with the environmental benefits to reach a rational decision on whether the costs are worth it. Part of the problem is that the conventional ways of measuring GDP in terms of production do not take account of environmental damage caused by production of certain goods which should properly be reflected as a subtraction from GDP. Only if GDP is adjusted in this way for environmental costs that growth of adjusted GDP can be called a measure of the increase in total production in the economy. Recognising this

problem, the Planning Commission has commissioned an Expert Group under Professor Partha Dasgupta to prepare a template for estimating green national accounts which would measure national production while allowing for negative effects on national resources. In the aftermath of recent disaster in Uttarakhand, the State government decided to have Green Audit – similar to the Green GDP concept (July 2013)

The capabilities we need to develop to achieve the objective of faster, more inclusive and sustainable growth are to be discussed: human capabilities, which are in many ways the most important; institutional capabilities and the development of infrastructure which is a general capability enhancer for all agents. Both the Central and State Governments have a role to play in developing these capabilities and the Twelfth Plan at the Central and State level should accord high importance to this effort.

The development of human capabilities must be the first priority as proper development of human capabilities will also ensure that our growth is more inclusive in the sense that the marginalised and disadvantaged sections of our society will be more able to access the opportunities thrown up by the growth process.

The most fundamental of all human capabilities is life itself and the steady rise in life expectation in the country suggests that significant progress has been made in this dimension. Life expectancy which was only 32 years at the time of Independence is now 67 years. In other words, every Indian can expect to live twice as long as was the case at Independence! Nevertheless, the level of life expectancy in India remains lower than in many emerging market economies and it is appropriate to plan for significant further improvements in this important dimension.

The infant mortality rate (IMR) is another dimension of human capability where we are making progress. IMR fell from 80 in 1991 to 66 in 2001 and at a faster rate thereafter to 47 in 2010. The rate of decline was 14 in the first period and 19 in the second period. Nevertheless, the level of IMR remains high and we need to do much better for our children. We must strive to bring the IMR down to 28 by the end of the Twelfth Plan. Maternal mortality rates (MMRs) are another indication of weakness in our performance. MMR has been falling over time, thanks to the initiatives for promoting institutional deliveries under the NRHM. The percentage of women giving birth in institutions with the benefit of skilled birth attendants has increased from 53 per cent in 2005 to 73 per cent in 2009. We need to do even better, and the Twelfth Plan must bring MMR down to 1 per 1,000 by the end of the Plan period.

While there has been progress in the dimensions discussed above, the decline in the child sex ratio rings an urgent alarm. This is an area of grave concern since it implies that society is denying life to female children, and increasingly resorting to female foeticide. The spread of diagnostic and medical facilities has paradoxically actually worsened the situation, as the falling child sex rate is being seen in the more developed areas and cities.

Education

India has a young population, and consequently, the labour force, which is expected to decline in most developed countries and even in China, is expected to increase over the next 20 years. This 'demographic dividend' can add to our growth potential through its impact on the supply of labour and also, via the falling dependency ratio, on the rate of domestic savings. Besides, a young population brings with it the aspirations and the impatience of youth, which in turn can become strong drivers for bringing about change and innovation. To reap this demographic dividend we must ensure that our younger citizens come into the labour force with higher levels of education and the skills needed to support rapid growth. The SSA has brought us close to the target of universalisation of primary education and the Right to Education Act (RTE) 2009

makes eight years of elementary education a fundamental right for all the children. The MDM Scheme has ensured that retention in schools has improved greatly. However, the learning outcomes for a majority of children continue to be disappointing. Addressing the quality issue in our schools is critical for the effective development of human capabilities and for achieving the objective of equality of opportunities. The quality of teachers and, even more important, their motivation and accountability will need to be improved. Many of the children who are presently in school are first-generation learners, and these children need supplementary instruction. This is not easy due to shortage of qualified teachers in many schools across the country. New and innovative approaches such as multigrade learning, which has been successfully tried in Tamil Nadu, could be adopted in such cases.

The success of the SSA has put pressure on expanding the capacity of secondary schools and the Rashtriya Madhyamik Shiksha Abhiyan (RMSA) addresses this issue. Although there is considerable focus on providing secondary school access, the dropout rates between elementary and secondary schools continue to be high, and between the secondary and post-secondary stage they are even higher. This is a particularly serious problem for girls, who have to travel longer distances to attend secondary schools. Curricular and examination reforms in secondary schooling would receive special attention aimed at fostering critical thinking and analytical skills, and preparing students for further education. All this requires innovative approaches, some of which are already in evidence in certain States.

The last decade has also seen a huge increase in the demand for higher education and this is expected to increase further as more children complete school and more and more jobs are seen to require higher-level qualifications. However, our higher education institutions also suffer from problems of quality. Too many of our universities are producing graduates in subjects that are not required by the changing job market, and the quality is also not what it should be. Higher education policy has to be driven by three 'E's': expansion, equity and excellence. Of these, the third E, 'excellence', is the most difficult to achieve. India cannot hope to be competitive in an increasingly knowledge driven world if our higher education institutions do not come up to the high standards of excellence needed to be able to be globally competitive. Not even one Indian university figures in the latest list of the top 200 universities in the world. We should work towards ensuring that there are at least five by the end of the Twelfth Plan. For this, universities at the top of the quality hierarchy should be identified and generously supported so that they can reach the top league. Centres of excellence within existing universities should be created. A special initiative should be launched to attract high calibre faculty from around the world on non-permanent teaching assignments. All these initiatives should be pooled into an India Excellence Initiative in the Twelfth Plan.

Skill Development

The Skill Development Mission is being launched to skill at least 50 million individuals by the end of the Twelfth Plan. Skill development programmes in the past have been run mainly by the government, with insufficient connection with market demand. To ensure that skills match demand, special efforts are needed to ensure that employers and enterprises play an integral role in the conception and implementation of vocational training programmes, including managing Industrial Training Institutes (ITIs) and in the development of faculty. An enabling framework is needed that would attract private investment in Vocational Training through Public-Private Partnership (PPP). We should try to optimise on the respective strengths of the public and private sector entities engaged in skill development. Mobilising the required investments, setting up first

rate ITIs, ensuring efficiency in operations and management and enabling post-training employment will be the primary responsibilities of private sector entities while the government will provide the enabling framework and the requisite financial support especially in respect of SC, ST, Minorities and differently abled persons and other deprived sections of society.

12th Plan and Skills

The foundations of growth in any economy are always based on the skills and knowledge of the human resources. This is a critical element to addressing the challenges and opportunities for growth in this highly competitive and globalised world. As India moves rapidly towards achieving ambitious economic and social targets, engaging the human resource and skills development will be critical for ensuring success as a knowledge economy.

India has seen a rapid growth in the last few years. This growth cannot be called inclusive as it has not been able to bring about development at the grassroot levels. The overall skill gap in the country is estimated at over 10 million per year and growing.

For India the challenge magnifies due to unprecedented issues of scalability i.e. reaching out to 500 million by 2022 coupled with multiple challenges in implementation.

12th Plan aims to increase the percentage of the workforce which has received formal skills through vocational education and training from about 12.0 per cent at present to 25.0 per cent by the end of the Twelfth Plan. This would mean that about 70 million more people have to be imparted formal skills in the next five years. Priorities are

- Accreditation and certification system need revamp
- Reorientation of curriculum on a continuous basis to make it responsive to the industry needs
- reach out to the millions of dropouts/disadvantaged ones and
- resolve the problem of unemployability of even the so called "trained" by continuous retraining
- Disseminating information about the availability and effectiveness of training programs is crucial. The role Employment Exchanges, NCVT and the SCVTs could play is dissemination of information on the nature and quality of training particularly with respect to enrollment, institutional capacity, completion information and graduate follow-up data from all registered vocational institutions. This will enable the government and the stakeholders to see whether the system is responding to employers' needs and devise policies accordingly. (National Council for Vocational Training (NCVT) State Councils for Vocational Trainings (SCVTs))
- meet the need for establishing flexible learning pathways integrated to schooling on one end and higher education on the other through National Vocational Education Qualification Framework (NVEQF). This would mean addressing the issues of vocationalisation of school education through creative means.
- Imparting soft skills alongside has become highly relevant and has global precedence.
- The system of Industrial Training Institutes and Industrial Training Centres need significant expansion and a lease of fresh energy to skill in numbers required.
- Public-Private Partnerships in financing, service delivery, and provision of workspaces and training of trainers are being promoted but a robust mechanism to regularly assess them is clearly found wanting.

The issue of Skill Development crucially depends on other issues like status of literacy at all three levels, general state of employment, state of labor markets, functioning of labour intensive sectors and industries, and appropriateness and strength of social program.

Even a cursory glance on these parameters confirms the level of challenges that daunt pursuit of skill development of the nation's workforce. Therefore, an integrated approach is a must and all departments have to join hands and support the ongoing policy efforts. Additionally, since states lie at the forefront of implementation of these policies, they must not allow federal tensions to hamper the progress of their respective Skill Development Missions.

Skill development has been accorded a very high priority during the 12th Five Year Plan: number of Industrial Training Institutes (ITIs) in the country had increased two fold during the last five years with the addition of 4,000 more institutes and capacities have been increased to train 13.75 lakh persons annually to cater to the expanding workforce in the country. National Skill Development Corporation has also been actively partnering private sector players to further augment the process of skilling.

NSDA was set up in 2013.

NSDA

In June 2013, Government constituted the National Skill Development Agency (NSDA) by subsuming the Prime Minister's National Council on Skill Development (PMNCSD), the National Skill Development Coordination Board (NSDCB) and the Office of the Adviser to the PM on Skill Development.

The NSDA will coordinate and harmonize the skill development efforts of the Government of India and the private sector to achieve the skilling targets of the 12th Plan and beyond. It will endeavour to bridge the social, regional, gender and economic divide by ensuring that the skilling needs of the disadvantaged and marginalized groups like SCs, STs, OBCs, minorities, women and differently-abled persons are taken care of through the various skill development programmes.

While the Central Ministries and National Skill Development Corporation (NSDC) will continue to implement schemes in their remit, the NSDA will develop and monitor an overarching framework for skill development, anchor the National Skills Qualifications Framework (NSQF) and facilitate the setting-up of professional certifying bodies in addition to the existing ones.

NSDA will be an autonomous body chaired by a person of the rank and status of a Cabinet Minister supported by a Director General and other support staff.

Community colleges

Faced with the task of skilling 500 million youth, India is implementing the US concept of community colleges to ensure that its workforce is trained to meet newer challenges. Visualizing skill development to be an integral part of the country's education system, India has embarked to develop community colleges. India-US Higher Education Dialogue includes this as a priority (June 2013).

In the United States, community colleges (once commonly called junior colleges) are primarily two-year public institutions of higher education. After graduating from a community college, some students transfer to a university or liberal arts college for two to three years to complete a

bachelor's degree, while others enter the workforce. Community colleges are often geared toward local students and local needs. Students who could not afford campus or off-site housing at a four-year college, or for other reasons cannot relocate, can attend courses while staying in their local community (though some colleges do offer student housing). Also, community colleges can work with local businesses to develop customized training geared toward local needs, whereas a four-year institution generally focuses on state-wide or national needs.

Nutrition

Poor learning outcomes in our schools are partly because of poor quality of teaching but they are also partly due to high incidence of child malnutrition, which reduces learning ability. India has had the largest and the longest running child development programme in the world in the form of ICDS, but the problem of malnutrition remains large. Latest data is not available on malnutrition. The latest data on child malnutrition are from the National Family Health Survey (NFHS- 3) conducted in the period 2005–07 which pre-dates the Eleventh Plan. The full impact of the Eleventh Plan programmes on this aspect of human capability is therefore not yet known. Surveys undertaken by the State Governments seem to suggest that mal-nutrition has fallen in many States. The next Annual Health Survey for 2012–13 will include data on mal-nutrition and these data will provide a reliable basis for assessing what has happened since NFHS-3. Meanwhile, the ICDS programme will be expanded and comprehensively restructured in the Twelfth Plan to make it more effective.

Malnutrition is also a problem among adults, especially women. The incidence of anaemia and lowbody mass among women is very high in the country. The causes of this persistent malnutrition are not well-understood. The availability of food, especially better quality food products such as fruits, vegetables and dairy products, is significantly better today than it was in the past. Nevertheless, the incidence of mal-nutrition remains high. There is a need to bring this dimension of human capability to the fore front of policy attention. The Food Security Ordinance promulgated in July 2013 (discussed elsewhere) will address some of these issues, but the problem of nutrition is actually much more complex and a multidimensional approach is necessary.

Health

Health is another critical dimension of human capability, which needs much greater attention in the Twelfth Plan. At present, less than 30 per cent of outpatient and less than half of inpatient health care capacity of the country is in the public sector, and the majority of the population relies on private health care provision which often imposes a heavy financial burden. It is, therefore, essential to expand public sector capacity in health care especially in the rural areas. The NRHM, launched during the Tenth Plan, made an important start in expanding health care facilities in rural areas. While additional infrastructure has been created, there are large shortages of personnel, especially specialists in rural health facilities, reflecting the fact that trained human resources in health are in short supply and it takes many years to set up new medical colleges to train the required number of doctors.

Ideally, the public health care system must be expanded to address the health needs of the vast majority of citizens, recognising that upper-income groups may opt for private health care. The Twelfth Plan will therefore see the transformation of the NRHM into a National Health Mission, covering both rural and urban areas. Unlike rural residents, those in urban areas have access to private health care providers, but private health care is costly and large numbers of urban residents especially slum dwellers cannot afford it. An important component of the National Health Mission will be the Urban Health Initiative for the Poor, providing public sector primary

care facilities in selected low-income urban areas.

There is a massive shortage of healthcare professionals in the country and their supply must therefore be expanded rapidly if we want to fulfill our commitments in this sector. We must therefore plan for an expansion of teaching and training programmes for healthcare professionals, particularly in the public sector institutions.

Finally, attainment of good health outcomes is not just a matter of providing curative care. We need to give much greater attention to public health which has traditionally suffered from neglect. We also need to focus much more on a provision of clean drinking water and sanitation, which can make a major contribution to improved health. This was the experience in industrialised countries over a hundred years ago, and this is also true for us today.

The longer-term objective of Health Policy must be the provision of Universal Health Care (UHC), whereby anyone who wants it is assured of access to a well defined set of health care entitlements. Putting a UHC system in place will take time, but we need to start building an appropriate architecture.

Drinking Water and Sanitation

The problem of providing safe drinking water is particularly acute in the rural areas. Successive plans have emphasised programmes for expanding the coverage of rural drinking water but they have not had as much success, as desired. The incidence of 'slipped back' habitations appears to be accelerating and serious problems of water quality have emerged in many areas. Part of the problem is that rural drinking water schemes are not fully integrated with national system of aquifer management. Excessive drawal of groundwater for irrigation is leading to lowering of water tables causing drinking water hand pumps to run dry and lowering of the water table is also causing salinity and chemical pollution, making the water non-potable. A sustainable solution to the rural drinking water problem has to be found as part of a holistic approach for aquifer management.

Sanitation and clean drinking water are critical determinants of health and are complementary to each other. Without proper sanitation, the incidence of diarrhoeal diseases due to contaminated drinking water will not come down, and without adequate water supply, improved sanitation is generally not possible. It is, therefore, necessary to adopt a habitation approach to sanitation and to institutionalise the integration of water supply with sanitation in each habitation. The problem of sanitation in urban areas is also very serious since almost all our cities, including even the State capitals and major metros, have a large percentage of the population (45 per cent in Delhi) not connected to the sewer system. Urban development must give top priority to planning for water, toilets and sewerage as an integrated whole taking into account the likely expansion of the urban population.

Enhancing Human Capabilities through Information Technology

The ability to access information is an important institutional capability we need to develop. Lack of ready access information is often a major impediment in efforts to improve the well-being of the people. With improvement in literacy and education, and developments in information technology, we are in a position to provide our people with access to information, including obtaining birth records, land records, payment records for utilities and so on.

The rapid spread of mobile telephony, including in rural areas has facilitated innumerable innovations which directly benefit the ordinary citizen. Farmers in some parts of the country are able to subscribe to commercial services which deliver relevant information for a particular crop to the farmer through Short Message Service (SMS). The parents of babies born in municipal hospitals in Bengaluru get an SMS alert, when the next vaccination is due. Such innovations

need to be encouraged. Yet another human capability that is important is the ease and effectiveness of establishing identity. The Aadhar project, which provides a unique identification (UID) number, backed by biometric data capture, to establish identity unambiguously, is a major step forward. Identity can be difficult to establish, especially for the poor, when they move from their place of origin, whether by choice or by compulsion. The UID project has already enrolled 250 million persons. Experiments with using Aadhar to make payments under MGNREGS electronically into no frill bank accounts which can be accessed through mobile phones have begun in 51 districts. It will soon be possible for large-scale use of the Aadhar platform to make various types of government payments due to individuals in a seamless manner electronically, avoiding problems of misuse and leakage.

The Aadhar platform will also facilitate a shift from the physical delivery of subsidised commodities through the Public Distribution System (PDS) to a system of cash payment, if desired. Some States have indicated that they would be interested in such a shift. Adoption of a target to move the major subsidies and beneficiary payments to a cash basis linked to Aadhar by the end of the Twelfth Plan period would be a major step towards improving efficiency. (Followed up in the Chapter on PDS and Food Security. Read ahead)

Development of Institutional Capabilities

The Twelfth Plan also needs to focus on developing the capabilities of our institutions to perform the increasingly complex and demanding tasks expected of them. We have three pillars of governance (Legislature, Executive and Judiciary) and three tiers of government (Centre, State and Panchayats/ULBs). The capabilities of these institutions to deliver on their mandate need to be greatly improved. The gaps are most evident at the lowest level of PRIs and ULBs, where trained personnel are lacking and the training systems are also inadequate.

Implementation Capability

Planning Commission says that the capacity to implement is low at all levels of government. The government simply does not function with the efficiency that is required in the twenty-first century. This is partly because of the lack of motivation at various levels, but it is primarily because governmental systems and procedures are largely process-driven. They are not outcome-oriented. Accountability is often viewed as adhering to procedures with no incentive to depart from procedures to secure better results. Unless this weakness is overcome, mere provision of more funds for programmes implemented in the same old way will not help.

Where implementation rests within one Ministry, there are problems of (i) insufficient attention to evidence-based analysis in the design of policies and programmes, (ii) insufficient concurrent evaluation that would give feedback on outcomes achieved and (iii) lack of willingness or ability to bring about systemic changes needed to improve outcomes. Even when it is known that a change in procedures will help, it takes very long to bring about that change. The problem is greatly multiplied when the effectiveness of a programme depends, as it often does, on actions that have to be taken by several different Ministries. Inter-ministerial consultations take far too long, and more importantly, are typically not oriented to resolving problems. This is because each Ministry works in a silo, applying its own rules and procedures. The effort is to seek a consensus if possible, with little ability to overrule positions taken by individual Ministries in the interest of a holistic problem solving approach. Resolving conflicting stands by consensus is of course desirable if possible, but beyond a point, it may not be possible, and some systems for conflict resolution are needed.

To deal effectively with these problems it may be necessary to redesign governmental decision-making systems. There has been a great deal of system redesign in the private sector in response

to the new environment created by economic reforms. A similar redesign of government is needed. For example, the CCI that was set up earlier in 2013 has demonstrated its usefulness. It is chaired by the Prime Minister and including all key Ministers and to amend the Transaction of Business Rules so that statutory clearances under various Acts for all infra-structure projects above a given size are given by the Board, taking into account the views of all Ministries. The allocation of business rules could provide that such clearances would be issued by the Cabinet Secretariat based on the decision of the Board. This would be a systemic change which would ensure a holistic consideration of complex issues and greatly accelerate decision-making. Several other changes are discussed in Chapter 6 including in particular the need for greater reliance on industry specialists with domain knowledge.

Delivery of Public Services

Delivery of public services in many States is hampered by weak institutional capacity. Thus, although public hospitals may have trained doctors and nurses, and public schools may have trained teachers, neither of these institutions will have administrators who are trained in the operation of health care or educational institutions.

The first step in reforming public service delivery is to devise mechanisms for measuring the extent of public satisfaction with public services and publicising the results. The Public Affairs Centre at Bengaluru has done excellent work in conducting systematic surveys of public perception or satisfaction with various types of public services ranging from water and sanitation, health and education, public transport, police and so on. Such surveys periodically conducted produce valuable information for the political leadership on where performance is felt to be poor and where it is improving.

Greater involvement of citizens' organisations can help focus government attention on these problem areas. The Delhi Government's experiment with Bhagidhari is example of citizen involvement and consultation operating through Resident Welfare Associations. (To be expanded ahead)

Regulatory Institutions

An area where the lack of institutional capability is beginning to manifest itself is in our expanding system of regulatory bodies. As areas that were earlier dominated by the public sector have been opened up for private operators, often competing among themselves or with existing public sector operators, independent regulatory institutions have been established to oversee the functioning of the players in the system. The effectiveness of regulatory organisations depends critically upon the quality of the personnel running the institutions and the degree of independence established. Too many of the regulatory agencies are staffed by former bureaucrats and there is not enough induction of specialists with domain knowledge. A thorough review of the regulatory system established in different sectors is needed to determine the weaknesses of the system currently in place and recommend ways of correcting them. This is especially true as the next two five year Plans are likely to see faster change in the global economy and in the structure of the Indian economy too.

By July 2013, GOI is in the process of setting up coal, road and civil aviation regulators that contribute to policy; regulate/rationalize tariffs with all stake holders in mind; keep competition healthy and public interest is protected in the operation of the sector.

Development of Infrastructure

Infrastructure provides the basic support system for other sectors of the economy expanding capabilities everywhere. A distinguishing characteristic of infrastructure is that while in other

areas imports can meet the gap between demand and supply, deficiencies in infrastructure cannot be made good through imports- for example, power. Infrastructure requirements can only be met through development of the relevant infrastructure capacity in the domestic economy. Furthermore, Good quality infrastructure is important not only for faster growth but also to ensure that growth is inclusive. Small businesses spread throughout the country need access to good quality and reliable infrastructure services to compete effectively. Large enterprises can often develop their own infrastructure as they often do with captive power, and being large can even locate themselves *ab initio* where other infrastructure is better, that is, nearer ports and near transport hubs. Small enterprises on the other hand.

The 12th Five year Plan (2012 – 2017) and inclusive growth

12th FYP aims to achieve faster, more inclusive and sustainable growth in India. The plan is broadly classified under sections – macroeconomic framework; sustainable development; water; land issues; environment, forestry and wildlife; science and technology; innovation; governance; and regional equality. Financing the 12th plan estimates resource availability of Rs 80,50,123 crore with the target GDP growth rate of 8 percent. This implies public sector resources of 11.8 percent of GDP compared to 10.96 percent of GDP expended in the 11th Plan.

The key achievements of the 11th plan (2007/8 to 2011/12) as stated in the draft 12th plan document have been given above.

12 FYP and faster and more inclusive growth

Shri. Chidambaram (In his lucid style):

The theme of the 11th plan was faster and more inclusive growth and the theme of the 12th plan is also faster, more inclusive and sustainable growth. In the initial years of economic reforms and liberalization, the emphasis was on growth.

Having demonstrated our capacity to grow at a higher rate, the emphasis rightly shifted to more inclusive growth. We need to define what inclusive growth is. It , inclusive growth can't be measured in any one parameter. Higher per capita income can be achieved by small section shaving very high incomes while people at the bottom continuing to have low incomes; still statistically one can say we have a higher per capita income. Inclusive growth can't be merely the GDP number. The GDP number can be contributed by a few states leaving out half a dozen poor states. The GDP number can be contributed by a few sectors leaving out sectors which employ unskilled or low skilled people. The 12th FYP lists the following as indicators of inclusive growth. First is lower incidence of poverty. Poverty must decline at a higher rate. The second is, growth must be reflected in day to day lives of ordinary people as only if the members of the family especially the children have access to school and higher education and it is reflected in better health outcomes particularly infant mortality rate and maternal mortality. Another measure of inclusive growth is the quality of education and by the skills a person acquires. Skill development is an important measure of inclusive growth. And finally, social inequalities between the marginalized- SC/ST, women etc need to be corrected.

Prime Minister's speech in the 57th NDC meet in December 2002: excerpts related to 12 FYP and Inclusiveness

As we begin our Twelfth Plan journey, it is worth noting that we do so with an economy that has shown many areas of strength.

We achieved an average of 7.9 percent growth in the Eleventh Plan period, despite the fact that there were two global crises in this period. This growth has also been much more inclusive than in the past.

The percentage of the population below the official poverty line declined by about 2 percentage points per year after 2004-05, which is two and a half times faster than the rate of decline between 1993-94 and 2004-05. This basic finding that poverty declined faster would hold even if the poverty line is revised.

Agriculture growth accelerated from 2.4 percent in the Tenth Plan to 3.3 percent in the Eleventh Plan. Real wages in agriculture have grown at 6.8 percent per year in recent years, compared with only 1.1 percent per year in the period before 2004-05. Better agricultural performance is an important reason why poverty declined faster.

States that used to grow slowly in earlier periods have done much better. The average growth rate of the five poorest states exceeds the national average for the first time in any Plan period. I think we may be reaching the stage when the term "BIMARU States" can be relegated to history. While these developments indicate the strengths of our economy, it is also true that the current economic situation is difficult. The continuing crisis in the global economy has reduced growth everywhere. It is expected to be zero in the Eurozone and Japan and emerging market economies have also slowed down.

The global slowdown, combined with some domestic constraints, has meant that our growth has also slowed down. Our first priority must be to reverse this slowdown. We cannot change the global economy, but we can do something about the domestic constraints which have contributed to the downturn.

The most immediate problems we need to tackle are the implementation problems affecting large projects, including particularly power projects, which are stuck because of delays in getting clearances and fuel supply agreements. We have taken a number of steps to deal with this problem, including the establishment of a new Cabinet Committee on Investment under my Chairmanship.

As the Plan document makes clear, the high growth scenario will definitely not materialise if we follow a "business as usual" policy. The Plan identifies a number of areas where new initiatives and policy innovations are needed. Many of these are areas where the principal responsibility is that of the States. I look forward to hearing the views of Hon'ble Chief Ministers on these suggestions.

While we need to accelerate growth, we do not view growth as an end in itself. Our real objective must be to improve the condition of lives of the aam aadmi, which is why we emphasise that growth, must be inclusive.

There are two reasons why rapid growth is necessary to achieve greater inclusiveness. First, it is necessary to generate the revenues to finance our many programmes of inclusiveness. If growth slows down, neither the States nor the Centre will have the resources needed to implement inclusiveness programmes. We will either be forced to cut these programmes, or be pushed into tolerating a higher fiscal deficit, which will have other negative consequences.

Rapid growth also contributes directly to inclusiveness because it provides greater access to income and employment opportunities. Policies aimed at stimulating growth in agriculture and in medium and small industries, combined with steps to promote education and skill development, will produce a growth process which is inherently more inclusive. The Twelfth Plan strategy contains many elements which will ensure that growth is as inclusive as possible. I welcome your comments on this strategy.

We also need to pay special attention to disparities between socio-economic groups such as SCs, STs, OBCs and minorities. These groups lag behind the rest of the population in key socio-economic indicators. Fortunately, the gaps are closing but the pace at which this is happening is not satisfactory and certainly does not match expectations. We need to consider how we can do better.

Gender inequality is another important aspect which deserves special attention. Women and girls represent half the population and our society has not been fair to this half. Their socio-economic status is improving, but gaps persist. The emergence of women in public spaces, which is an absolutely essential part of social emancipation, is accompanied by growing threats to their safety and security. I have in mind the brutal attack on a young woman only a few days ago in the capital and other such reprehensible incidents elsewhere. We must reflect on this problem, which occurs in all states and regions of our country, and which requires greater attention both by the Centre and the States.

In this particular case, the culprits have been apprehended, and the law will catch up with them expeditiously. Government has decided to review the present laws and examine the levels of punishments in cases of aggravated sexual assault. A committee of eminent jurists, headed by the former Chief Justice of India, Justice J.S. Verma, has been constituted for this purpose. Let me state categorically that the issue of safety and security of women is of the highest concern to our Government. A Commission of Inquiry is being set up to look into precisely these issues in the Capital. There can be no meaningful development without the active participation of half the population and this participation simply cannot take place if their security and safety are not assured. I urge all Chief Ministers to pay special attention to this critical area in their states....

Agriculture is an area of critical concern. Although the share of agriculture in GDP has fallen to only 15%, about half of the population still relies on agriculture as its principal income source. What happens in agriculture is therefore critical for the success of inclusiveness. We need to build on the success of the last Plan by increasing land productivity in agriculture so that we not only meet our rising demand for food, but also increase incomes of those dependent on agriculture. Paradoxically, we should not aim at increasing total employment in agriculture. In fact, we need to move people out of agriculture by giving them gainful employment in the non agricultural sector. It is only when fewer people depend upon agriculture that per capita incomes in agriculture will rise significantly and sufficiently to make farming an attractive proposition.

Agriculture is a State subject and most of the policy initiatives needed are in the realm of State Governments. The Minister of Agriculture, my colleague Shri Sharad Pawar will be dealing with these issues in some detail and I look forward to the reaction of Chief Ministers on this important subject.

Growth in manufacturing should be at double digit levels, but this has yet to take place. The Plan mentions many new initiatives aimed at strengthening performance in the manufacturing sector. Small and medium industries are particularly important as they generate more employment. Both the Centre and the States must give priority attention to creating an eco-system in which these industries can grow and flourish.

Better infrastructure is the best guarantee for rapid growth of the economy. Infrastructure development is heavily capital intensive and both the Centre and the States are severely constrained by resource availability. The central government, and many state governments, have been successful in promoting infrastructure development through PPPs. India has the second largest number of PPP projects in infrastructure in the world. It will be necessary to continue this thrust in the Twelfth Five Year Plan.

The Eleventh Plan paid special attention to the North East and I am happy to say that North Eastern states have responded well. GDP growth in a number of states was higher than the national average. We plan to step up the pace of investments in infrastructure, particularly roads, rail, airports, waterways and power transmission systems to support and stimulate economic activity in this vital region of our country. I am hopeful that as a result of our Look East Policy, this region will fast become a major gateway to trade and economic activity with our neighbours. I have mentioned that both the Centre and the States face resource constraints. Both therefore

have to make determined efforts to mobilise resources to fund the Plan. The Plan document points out that we need to increase the tax ratio as a percent of GDP through a combination of tax reforms and better tax administration. Early implementation of the Goods and Services Tax (GST) is critical in this context. I hope we will have the co-operation of the States to introduce GST as quickly as possible.

The Plan also draws attention to the need to control subsidies. Some subsidies are a normal and indeed essential part of any socially just system, but subsidies should be well designed and effectively targeted and the total volume must be kept within limits of fiscal sustainability. Failure to control subsidies within these limits only means that other plan expenditures have to be cut or the fiscal deficit target exceeded. The Finance Minister will be addressing these issues in his intervention.

A common complaint against government programmes is that they suffer from leakages, corruption, delays and poor targeting. The Central Government is taking a major step to deal with this problem by shifting several beneficiary oriented schemes to a direct transfer mode, using the Aadhaar platform. This will begin to roll out for selected schemes in selected districts in the course of January 2013. In due course, a wide range of benefits like scholarships for students, pensions for elderly, health benefits, MNREGA wages and many other benefits will migrate to direct transfer into bank accounts using Aadhaar as a bridge. This is an innovative step which will be watched by the entire global development community. The Central and State Governments must work together to make this a success.

Many State Governments have said that Centrally Sponsored Schemes are often ineffective because of rigid guidelines. The Deputy Chairman has already pointed out that we are taking steps to rationalise the Centrally Sponsored Schemes along the lines recommended by the B.K. Chaturvedi Committee, including proposals to introduce greater flexibility in these schemes. I am sure these changes will be widely welcomed.

There are two areas I wish to mention which pose a major challenge for our economy and these are energy and water.

Energy is a critical input for any growth process and our domestic energy resources are not sufficient to meet our country's growing needs. We import oil, natural gas and in recent years even coal. If we wish to keep our energy import requirement within reasonable limits, we must emphasise energy efficiency to moderate demand and we must increase domestic production of energy. Energy pricing is critical for both objectives. If domestic energy prices are too low, there will be no incentive to increase energy efficiency or to expand even supply.

Unfortunately, energy is underpriced in our country. Our coal, petroleum products and natural gas are all priced well below international prices. This also means that electricity is effectively underpriced, especially for some consumers. Immediate adjustment of prices to close the gap is not feasible, I realise this, but some phased price adjustment is necessary. Energy experts are unanimous that we cannot expect to achieve rapid, inclusive and sustainable growth if we are not willing to undertake a phased adjustment in energy prices to bring them in line with world prices. The Central Government and the states must work together to create awareness in the public that we must limit the extent of energy subsidies. I look forward to hearing the comments of Hon'ble Chief Ministers on this complex issue.

The management of our water resources poses severe challenges. We are rapidly approaching the position where the total demand for water in the country simply cannot be met by available supply. As with energy, we have to respond by increasing water use efficiency and also by expanding supply in a sustainable manner.

The Plan document outlines a comprehensive strategy for dealing with this problem, starting with a serious effort to map available ground water supplies aquifer by aquifer. Available water

also needs to be allocated to different uses through a Water Regulatory Authority. This is an area where action lies largely in the domain of State Governments.

The development of our country is necessarily a cooperative endeavour involving many stakeholders. It involves both the public sector and the private sector, the Central Government and the State Governments. It also involves the common people particularly those participating actively in devising new ways of addressing old problems.

Critical view: 11th Plan: Exclusion and Deprivations

Despite an average 7.9 per cent growth in GDP during the 11th Plan Period sometimes peaking to 9 per cent- the performance of India in terms of the Human Development Index (indicative of inclusive growth and the extent of population benefiting from development) saw a downward slide to 136th position among 186 countries. While a handful are reaping benefits and have entered the billionaires club, many are going into deprivation and disempowerment. By various other indicators, India's inclusive growth has shown weaknesses (In the class). A serious effort is necessary to quantify inclusive growth on lines of IHDI (inequality adjusted HDI) with the help of indices like the Gini Coefficient (the measure of income inequality). According to a report of OECD (Organisation of Economic Cooperation and Development) released in December 2011, top 10 per cent wage earners in India now make 12 times more than the bottom 10 per cent. India spends an abysmal 5 per cent of its GDP on social protection schemes as compared to more than 15 per cent by Brazil, and during the last two decades India's Gini Coefficient has climbed from 0.32 to 0.38 with 0 being the ideal score.

Structural composition of GDP and inclusive growth

As per economic survey of 2013 the share of agriculture in GDP is at all time low (13.9 per cent during this year) but it is still the most important sector in terms of employment share. On the other hand, the manufacturing and services activities which are contributing more than 85 per cent to GDP and getting a lion's share of total capital formation are employing less than half of the total workforce. The higher growth and capital formation in the above two sectors have failed to transfer the workforce from low productive activities (agricultural and allied) to high productive activities (manufacturing and services). For growth to be inclusive it must create adequate livelihood opportunities and add to gainful employment in rural areas too. The 11th five year plan aimed at generating 58 million work opportunities. But the NSSO survey has reported an increase in work opportunities to the tune of only 18 million between 2004-05 to 2009-10. The growth rate of employment in the organised sector (public and private combined) is only 1.9 per cent in 2010. The recent data shows that only 15.6 per cent of India's workforce has regular jobs whereas remaining 84.4 per cent are either self-employed or working on casual basis.

Social Indicators

Social sector spending in India needs to be increased for inclusive growth

In India, public spending on health as percentage of total public spending is 4.1 per cent, which is about 1.2 per cent of GDP. 12th five year plan projected 1.95 per cent of GDP as public health expenditure by the end of the 12th plan which is less than the overall norm of 5 per cent suggested by World Health Organisation.

In primary education, we are well behind the other nations which have comparable level of economic growth and per capita income. During 2011, the mean year of schooling in India was 4.4 and female literacy rate was lower than the overall average. Public expenditure on education as percentage of GDP 3.1 per cent in 2011-12.

Inclusiveness and environment: 12th Plan

The 12th FYP has the following important suggestions for sustainable growth

- Recognition of a number of serious environmental problems facing India, such as water scarcity and pollution, and soil degradation due to overuse of chemical fertilisers.
- diagnosis of environmental governance issues such as non-enforcement of conditions under which environmental clearances are given to development projects, alienation, displacement and dispossession of tribal communities including by the government while using its 'eminent domain' powers, and inadequate decentralisation to panchayati raj and other local community institutions.
- Recommendation to give environmental orientation to some sectors, such as 'green manufacturing' (energy efficiency, recycling), urban sustainability ("energy efficient buildings, management of solid waste and a shift to public transport"), and tourism that is ecologically sensitive and community-based.
- A number of specific steps to address environmental problems, such as rainwater harvesting and groundwater recharge, assistance to rainfed farming, reduction of freshwater use in cities by enhancing recycling and reviving traditional waterbodies, more sustainable methods in agriculture including ecological fertilisation and non-pesticide management, encouragement to community seed banks and to millets including their use in ICDS and Mid-day Meal schemes, environment-friendly and culturally relevant housing under the Indira Awas Yojana, and others.
- Recommendations on some important governance or institutional steps, such as a 'Commons Policy' with secure tenure and management rights to communities using them, creation of Water User Associations to involve communities, mechanisms of conflict resolution relating to land and water, a National Water Commission to monitor compliance of environmental and other conditions, cumulative environmental impact assessments in vulnerable regions, forest produce-gatherers' collectives to optimise returns, speedy implementation of PESA and Forest Rights Act (FRA) in specially disadvantaged areas, and convergence of various government schemes and departmental or ministerial priorities.

MSME sector and Inclusive growth in 12th FYP

The average growth rate during the 11th Plan period was 7.9 per cent, lower than the target of 9%. Despite two global crises, one in 2008 and another in 2011, it must be noted, 7.9% growth was occurred which is slightly more than in the 10th Plan namely, 7.6 per cent, thanks to MSME Sector which has consistently registered higher growth than the overall growth of Industry Sector. On an average the growth rate of MSME was 13 per cent every year in the period of 11th plan which itself indicates au fond MSME Role in Indian Economy. Therefore, MSME has a focus attention in 12th Plan document. Plan Document says:

"The Growth of the MSME Sector must be a central focus of India's Manufacturing strategy. This is the foundation for a strong Manufacturing Sector providing more employment with less capital. It is the entry point for the workers and entrepreneurs who move through it to large-scale enterprises. Whereas much Govt. attention is given to consult with and address the issues of larger enterprises, the development of the MSME Sector must become more central to the deliberations about the challenges of Indian industry and the Indian economy. The sector must be viewed not as a static and weak sector, requiring constant support and protection, but as an

integral part of the industrial system with upward mobility for individual units within it.”

MSME Plan- The Plan outlay for MSME is nearly doubled and is second highest in the outlays for various industry ministries & departments. The following table speaks about the outlays.

Census indicates that in Manufacturing, among the MSMEs, 94.9% are Micro, 4.9% are Small and just 0.2% are Medium. It is but natural that with almost everyone is Micro, the entire spending ought to be for 'Capacity Building' and to ensure that Micros grow into Small on large scale so that by the end of Plan period, in the year 2017, we have at least 10% Medium and 25% Small Enterprises in Manufacturing. To achieve such a transformation the role of 'enabling environment' is critical.

Noting key challenges like finance & credit, technology infrastructure, marketing, recommendations to that effect, which are not fresh, are being made to create enabling environment. Report of PM Task Force on MSMEs has narrated it in details. The 2013 Doing Business Report which is on SMEs is an eye opener. 12th Plan document says on –

Industrial Policy, Business Regulatory Framework.□

1. “In India, Industrial Policy becomes assaulted under a stifling system of bureaucratic control through licenses. There is no doubt that these controls were highly dysfunctional and needed to be dismantled.”
2. “The Key objectives of streamlining of business activities through the regulatory framework should be: • Low compliance cost for doing business in India • Simple regulatory environment, saving time & energy for the business; and • Ensuring fair competition.

The country must improve regulations and implementation in many subjects to make India generally a more attractive country for doing business.”

Doing Business 2013: There is vast number of Business Regulations at different levels of Govt. in existence in the country. There are instances of contradictory as well as overlapping business regulations on account of these being administered by the different tiers as well as layers of the Govt. Lack of periodic review clauses in regulations and lack of Regulatory Impact Analysis (RTA). Lack of defined mechanism for consultation between Govt. and Industry.

Road Map- A variety of strategies and recommendations and rightly so, have been made in the document of 12th Plan for the robust growth of MSME Sector on the issues of

- Credit & Finance
- Technology up gradation
- Infrastructure Development
- Marketing & Procurement and
- Institutional Structure

All these have been, time & again deliberated at various fora. Introduction of Insolvency Act, Liberalisation of Labour Laws, Changes in Apprenticeship Act, amending MSMED Act, Restructuring DICs etc. has also been insisted. Clusters development is further stressed, and Clusters Stimulation Cell is also recommended.

On 'Single Window' the document notes,” decentralized Single Window System should be established with appropriate geographical spread. The Single window System, governed by a common minimum standard, should, rather than being a coordination office, be endowed with

access to relevant information and sufficient delegation of powers from all concerned regulators, including Central, State, Local and Sector regulators. This would help reduce the start-up time for businesses by providing all requisite approvals and licenses if any, through the Single window System." A team of Business Facilitation Officers is also advised.

MSME Definitions

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

- (a) Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:
- (i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;
 - (ii) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and
 - (iii) A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs. 5 crore but does not exceed Rs. 10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building.

For the services sector, the definitions are:

Investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006 are specified below):

- A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;
- A small enterprise is an enterprise where the investment in equipment is more than Rs. 10 lakh but does not exceed Rs. 2 crore; and
- A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

Sen and Dreze Vs Bhagwati and Panagariya

In recent years, there is a debate between those who say that reforms benefitted the country and those who oppose the view saying that the benefits are not adequate.

Some believe that poverty, illiteracy and ill-health afflict India because its leadership ignored them in favour of growth for its own sake; that the economic reforms that focused on growth have failed to help the poor, especially the socially disadvantaged; that any gains claimed in poverty alleviation derive from the use of progressively lower poverty lines; and that even if gains have been made, with one in two children suffering from malnutrition, reforms have done precious little to improve health outcomes. Jagdish Bhagwati and Panagariya do not agree with the above view.

Sen and Dreze have the opposite view. Following two paragraphs represent their point of view: as articulated in an article titled: "Putting Growth In Its Place."

“The progress of living standards for common people, as opposed to a favoured minority, has been dreadfully slow so slow that India’s social indicators are still abysmal.” For instance, according to World Bank data, only five countries outside Africa (Afghanistan, Bhutan, Pakistan, Papua New Guinea and Yemen) have a lower “youth female literacy rate” than India (World Development Indicators 2011). To take some other examples, only four countries (Afghanistan, Cambodia, Haiti, Myanmar and Pakistan) do worse than India in child mortality rate; only three have lower levels of “access to improved sanitation” (Bolivia, Cambodia and Haiti); and none (anywhere—not even in Africa) have a higher proportion of underweight children. Almost any composite index of these and related indicators of health, education and nutrition would place India very close to the bottom in a ranking of all countries outside Africa.

Growth and Development

So which of the two stories—unprecedented success or extraordinary failure—is correct? The answer is both, for they are both valid, and they are entirely compatible with each other.....economic growth is not the same thing as development, in the sense of a general improvement in living standards and enhancement of people’s well-being and freedom. Growth can be very helpful in achieving development, but this requires active public policies to ensure that the fruits of economic growth are widely shared, and also requires—and this is very important—making good use of the public revenue generated by fast economic growth for social services, especially for public healthcare and public education.