Indian Economy

PLANNING IN INDIA

Introduction

The philosophy behind economic planning recognizes that markets and price system alone cannot ensure welfare of the citizens of a state. While individuals are the best judges of what is good for them, the sum total of such judgement need not be the best option for the society as a whole. Moreover, areas like infrastructure require large investments without immediate tangible returns and therefore do not attract private investment. This requires the state to step in either directly as in the past or through private-public partnership, which is the principle behind the build-operate-transfer (BOT) type of infrastructure development. Finally, the government provides for some goods called public goods, such as the quality of environment and national defences which can be enjoyed by one person without depriving others of similar enjoyment.

The credit for concertising ideas on national planning goes to Sri M.Visvesvaraya, the visionary engineer and statesman of Mysore who published his Planned Economy for India in 1934, which was a blue-print for a ten-year programme of planned economic development for India.

Indian National Congress set up a National Planning Commission as far back as 1938 with Jawaharlal Nehru Chairman. Over the next decade, there were several initiatives. The most important were:

- 'A Plan for Economic Development in India (1944), popularly known as **the Bombay Plan** which gave priority to the development of basic industries, while at the same time seeking the doubling of agricultural production and of per capita income within a 15 years' framework.
- **The People's Plan** drafted by Shri M N Roy which had a 10-year period and which sought to give greatest priority to agriculture. It advocated the nationalization of all agricultural production and distribution.
- **The Gandhian Plan** drafted by Sriman Narayan emphasized economic decentralization with primacy to rural development through the development of cottage industries.

Types of Planning

Some of the important types of planning (not mutually exclusive) are described below:

- Imperative planning involves centralized planning and implementation as opposed to indicative planning which only lays down the broad goals, strategies and guidelines for achieving the goals.
- Fixed term plans are drawn up for a particular period (five years in India) whereas a rolling plan will be more flexible in its targets and allow extension of implementation period.
- Structural planning refers to a strategy, which involves the need to change existing institutions or creating new ones. On the other had, functional planning seeks to achieve the objectives within the existing institutional framework (i.e., without changing existing laws, for instance).

- Apex planning or centralized planning envisages only a central institution while multi-level planning allows for decentralized planning. The Panchayati Raj institutions seek to strengthen multi-level planning.

A Review of Five Year Plans

First Plan (1951-56)

- Highest priority to agriculture, irrigation and power projects
- 44.6% of total public sector outlay of Rs. 2069 crores (subsequently increased to Rs. 2378 crores) on agriculture, irrigation and power.
- Transport and communication received 26.4% and industry only 2.8%
- Rate of investment targeted at 7% of national income
- National income grew by 18% and per capita income by 11%
- Food production went up by 20%

Second Plan (1956-61)

- Targeted a 25% increase in national income through rapid industrialization. Actual achievement was only 20%
- Adopted the socialistic pattern of society as the goal
- Rate of investment planned to be raised from seven percent to 11% of national income.
- National Income increased by almost 20% but per capita income rose only by eight per cent.
- Large industries including steel plants (Durgapur, Bhilai and Rourketa) were set up. The locomotive factory at Chittaranjan and Coach Factory at Perambur were other major projects of this period.

Third Plan (1961-66)

- Emphasis on basic industries continued but agriculture and allied sectors (irrigation and power) were allocated 35% of the outlay.
- A series of crises – China war (1962) Nehru's death (196) – marred the smooth implementation of the plan.
- Growth rate of only 2.2% achieved as against a target of 5% per annum
- Inflation (36%) ate up much of the achievement; Rupee devaluation (1966)

Annual Plans (1966-69) after the disastrous experience of the Third Plan, a plan holiday was declared for three years. All available resources were mobilized for building a buffer stock and for stepping up food production learning from the experience of near-famine years (1965-66).

Favourable monsoon and technological break-through in wheat popularly known as 'green revolution' reduced the inflationary pressure. Nationalisation of banks was another major step during this period.

Fourth Plan (1969-74)

- Emphasis on growth with distributive justice.
- Substantial increases in the outlay for family planning (Rs. 278 crores from Rs. 25 crores in third plan).
- Poor achievement of targets – national income grew by 3.3% per annum; per capital income by 1.2% per annum; agricultural production by 2.8%; industrial production by 3.9%.

Fifth Plan (1974-79)

- Twin objectives of poverty eradication and attainment of self-reliance.
- A National Programme for Minimum Needs including elementary education, safe drinking water health care, shelter for landless, and slum up graduation.
- A growth rate of 5.2% (against a target of 4.4%) achieved.
- Agricultural production increased by 4.2% - the highest so far
- Moderate inflation of 2.1% per annum during he Emergency years (1975-1977)
- The Janata Government terminated the Plan in 1978.

Sixth Plan (1980-85)

- Janata Government had adopted a Sixth Plan (1978-83), which was conceived as rolling plan. Mrs. Gandhi's Government in 1980 abandoned this and a new sixth plan was drafted.
- Poverty alleviation given the top priority.
- Schemes for transferring skills (TRYSEM) and assets (IRDP) and providing slack season employment (NREP).
- Actual growth of national income was higher at 5.3% (against a target of 5.2%)
- Increase of 16% per annum in real investment in fixed asset by private sector.
- Poverty declined from 48.3% in 1977-78 to 37.4% in 1983-84

Seventh Plan (1985-90)

- Strong emphasis on creation of productive employment on farm as well as rural subsidiary occupations.
- Stress on increasing the production of food grains, oilseeds, sugar, textiles, domestic fuel and housing
- Outward-looking strategy with exports receiving high priority.
- Tempo of domestic and external liberalization has tened
- The plan also had a 15-year perspective (1985-2000) for removal of poverty, providing for basic needs, achieving universal elementary education and total access to health facilities.
- Average annual growth rate during the plan period was 5.6% (target fiver percent)
- Agriculture grew at 4.1% against a target of four percent.
- Manufacturing industries achieved a growth rate of 8.8% (target 8%)
- There was a severe short fall in the mining sector (5.6% against a target of 13%)
- Social sector performance fell far short of targets especially in housing for the landless, elementary education, and general poverty alleviation.

Eighth Plan (1992-97)

The plan was launched in 1992 after the plan holiday during economically and politically difficult days of 1990-91 and 91-92.

The acceptance of liberation and the need for market forces to play a greater role.

- Employment generation to be speeded up to achieve full employment by 2000
- Total literacy to be achieved in the 15-35 age group by covering an additional 110 million people
- Restructuring the systems of economic management through public sector reforms, including selective disinvestment.

- The English Plan was to walk on 'two legs' – one leg of alleviating poverty and removing unemployment and the other 'leg' providing a 'safety net' for those who will be affected by the structural adjustment programme. The plan had thus built in 'the human face' element of adjustment.

Ninth Plan (1997-2002)

- The development strategy emphasized the role for markets and the need for government to intervene to ptomote a degree of competition through suitable legislation. Licence Raj was to be ended. The plan emphasized co-operative federalism. It also stressed the importance of infrastructural development.
- The plan was indicative in nature, focusing on policies. It also provided a 15-year perspective. It aimed to achieve a growth rate of eight percent per annun in the medium term and a rate of 6.5percent during the plan period ('97-02')

Tenth Plan

- Annual 8.1 percent GDP growth during 2002-07
- Annual FDI flows of 7.5 billion US dollars
- Public sector outlay at Rs. 15,92,300 crore
- States and UT outlay at Rs. 6,71,009 crore
- Literacy rate to increase to 75 percent by 2007
- Maternal mortality Rate to be reduced to 45 in 2007 and 25 by 2012
- Reduction in gender gaps in literacy ad wage rates by at least 50 percent by 2007
- Cleaning of major polluted river stretches
- Reduction in Government dis-savings to -0.5 percent
- Increase in tax-GDP ratio to 10.3 percent by 2007

Approach Paper to 11th Plan

Planning Commission recently approved the approach paper to the Eleventh Five Year Plan beginning in 2007-08. It has clearly set an ambitious target of achieving ten per cent economic growth by the last year of the plan-that is 2011-12.

Prime Minister Manmohan Singh, who chairs the full planning commission, said that two areas that require immediate attention were Agriculture and infrastructure. The industry and services sectors in the country are doing well clocking double-digit growth.

Agriculture sector

It is the agriculture sector, which needs a thrust as the growth rate has virtually stagnated in the sector. If the GDP growth is to be pushed up by 1-2 per cent, it is the agriculture, which has to grow by at least 4 per cent annually on a sustained basis.

- As over 60 per cent of the population is still dependent on agriculture, it is important that rural India grows rapidly to ensure growth is all inclusive and that gap between rural and urban areas, rich and poor are narrowed down.
- There has been emphasis on the need for vocational education and skill development to ensure greater employment.
- The current agrarian crisis can be tackled only if the centrality of state intervention was recognized howsoever inefficient may be.
- Food security and stability of essential commodity prices are equally important and the approach paper seems to have adopted kid-glove approach in dealing with the issue.

- The country would have to move towards single common market for farm produce.
- There is also the need to encourage food processing industries and a separate action plan is needed to boost this sector. Nearly 35-40% of fruits and vegetables produced in the country go as waste.

Employment Generation
It proposes to create 70 million new work opportunities.

Infrastructure
It proposes to provide electricity connections to all villages and below poverty line household by 2009 and round the clock power by the end of the plan and telephone connectivity to every village by November 2007 and broadband connectivity to all villages by 2012.

Fiscal Sector

The approach paper estimates that the gross budgetary support for the Plan (Centre and states combined) would have to increase by 2.5 percentage points of GDP above the Tenth Plan period.

The issue of Fiscal Prudence

The Approach paper has also recognized the difficulties posed by the rigid FRBM (Fiscal Responsibility and Budget Management) targets to rein-in on fiscal and revenue deficits. It had even suggested a postponement of the FRBM targets for a period of two years. It has also suggested that the focus on wiping out revenue deficits by 2009 should be abandoned as a number of items of expenditure that contribute to human capital formation are listed as revenue expenditure.

Public Private Partnership

It is for this reason that the Approach Paper advocated an aggressive effort to promote public private partnership in infrastructure projects due to scarcity of public resources.

Tenth Plan: Features

The Tenth Plan has a number of new features:

- Firstly, the Plan recognises the rapid growth in the labour force over the next decade.
- The Tenth Plan, therefore, aims at creating 50 million job opportunities during the period, by placing special emphasis on employment intensive sectors of agriculture, irrigation, agro-forestry, small and medium enterprises, information and communication technology and other services.
- Secondly, the Plan addresses the issue of poverty and the unacceptably low levels of social indicators.
- Thirdly, Tenth Plan has adopted a differential development strategy. It is also for the first time that statewise growth and other monitorable targets have been worked out in consultation with the States.
- This Plan is the recognition that Governance is perhaps one of the most important factors for ensuring that the Plan is realised. The Plan has laid down a perspective list of reforms in this connection.
- Finally, considering the present market-oriented economy, the Tenth Plan has dwelt at length about the policies that would be necessary and the design of key institutions.
- The Tenth Plan not only includes a carefully crafted medium term macro-economic policy stance, both for the Centre and the States, but also lays out the policy and institutional reforms that are required for each sector.

Changing nature of planning

- In a federal democracy like ours, the principal task of planning is to evolve shared vision among not only the federal units but also among other economic agents, so that the efforts of all the actors become convergent towards the national priorities.
- While the growth process can be made the responsibility of the corporate sector to a greater degree, its direction and distribution are to be steered by planned public intervention, so that regional imbalances are reduced and socio economic inequities are set right. For example, directing the growth of the large industry into the backward areas and technology-intensiveareas to realise national goals.
- The nature of instruments available to planners in the implementation has changed. The planning process has to focus on the need for planning for policy, so that the signals that are sent to the economic system induce the various agents to grow in a manner that is consistent with national goals. In particular, investment patterns would be determined by sectoral policies. For example, phasing in rupee convertibility over almost a decade, so that the necessary changes and adjustments can be made.
- Given the federal nature of the Indian context, the role of planning is to develop a common policy stance for the Centre and the States. Also, the task of federal policy coordination is central to Indian planning. For example, the need to invite foreign investment in infrastructure areas like power need centre-state coordination as the

necessary legislation and administrative changes involve both.

- Lastly, planning at the grass root level, that is participatory, is very crucial for improving the delivery systems and proper use of resources. The role of the Government is thus to facilitate participatory planning.

With the change in the role of the State, the function of planning for the development of the country also is undergoing change, particularly since the commencement of the economic reforms in 1991 in India. There has been a national debate about the 'relevance of planning' in the changing context of economic liberalization.

In the new context of the economic reforms, the following changes are evident:

- Government only indicates targets and facilitates growth unlike earlier when the Government directed the process, thus reducing the Governmental role reflected in the 'indicative model of planning' adopted since the 8th five year plan (1992-97).

- The physical control of the Government over the economic process is gradually being replaced with fiscal controls.

- Integration of Indian economy with the global economy as the import controls and tariffs are being relaxed and reduced; rupee convertibility being brought in phases; FDI is being invited on liberal terms and so on.

- Increasing role for the market and the consequent increase in the role of the private sector.

- The public sector units will be confined to select socially relevant and infrastructure areas and given greater autonomy in their functioning.

- The role of the government will be in the area of creating an enabling milieu.

In the context of such a situation, the planning model needs to be changed to achieve building of social infrastructure for human development; protection of ecology, regenerating environment and natural resources; protecting the vulnerable sections; and bringing about balanced regional growth.

Monitorable targets for the Tenth Plan and beyond

- Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points by 2012;
- Decadal Population Growth to reduce from 21.3% in 1991-2001 to 16.2% in 2001-11.
- Providing gainful high-quality employment to the addition to the labour force over the Tenth Plan period;
- All children in school by 2003; allchildren to complete 5 years of schooling by 2007;
- Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2percent;
- Increase in literacy rate to 75 per cent within the plan period;
- Reduction of infant mortality rate (IMR) to 45 per 1000 live births
- by 2007 and to 28 by 2012;
- Reduction of maternal mortality ratio (MMR) to 2 per 1000 live
- births by 2007 and to 1 by 2012;
- Increase in forest and tree cover to 25per cent by 2007 and 33 per cent by 2012;
- All villages to have sustained access to potable drinking water within the Plan period; and Cleaning of major polluted rivers by 2007 and other notified stretches by 2012.

The planning exercises are necessary as the problem of the market driven economy is that it caters to the short term needs; well-off sections;more developed regions and its sensitivity to the macro problems requiring a national effort is minimal.

Further, planning is necessary for the sectors like energy, communications, transport and so on as private sector needs to be guided into the national plan.

More, in the context of federal finance, the planning exercise continues to be relevant, as the resources need to be shared, augmented and sourced well.

It is further observed, that the liberalization process is presently showing trends of bypassing the weaker states and (he need of planning process is to even the process of growth so that regional economic imbalances do not result from the market-driven growth.

The allocation of resources for various sections of the society equitably is another important function of planning which assumes greater importance, as monopolies and oligopolies are an intrinsic part of market economies.

In the era of globalisation where corporates are not expected to plan beyond the growth of a particular unit, the role of safeguarding national interests is that of planning by the State. For example, being subjected to various discriminative trade practices by EU, USA and so on, the Indianexporters have to fight sophisticated battles in the WTO for which, the legal services and information and building up bargaining power are best provided by the State.

AGRICULTURE

India ranks second worldwide in farmoutput. Agriculture and allied sectors like forestry, logging and fishingaccounted for 20% of the GDP in 2005, employed 60% of the total workforce and despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India. Yields per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since the green revolution. However, international comparisons reveal that the average yield in India is generally 30% to 50% of the highest average yield in the world. According to the advanced estimates the growth of agriculture sector during 2006-07 was 2.7%. A moderate annual average growth of 3.0% in the first six years of the new millennium starting 2001-02, notwithstanding a growth of 10% in 2003-04 and 6 per cent in 2005- 06, agriculture and allied sector has continued to be a cause of concern. The structural weaknesses of the agriculture sector reflected in low level of public investment, exhaustion of the yield potential of new high yielding varieties of wheat and rice, unbalanced fertilizer use, low seeds replacement rate, an inadequate incentive system and post harvest value addition were manifest in the lacklustre agricultural growth during the new millennium. 8.6 Low yield per unit area across almost all crops has become a regular feature of Indian agriculture

National Agriculture Policy 2000

The first ever National Agriculture Policy was announced on 28 July, 2000. Over the next two decades, it aims to attain:

- Growth that is based on efficient use of resources and conserve our soil, water and biodiversity.
- Agricultural growth that is sustainable technologically, environmentally and economically.
- The use of biotechnology will be promoted for evolving plants which consume less water, are drought resistant, pest resistant, contain more nutrition, give higher yields and are environmentally safe.
- Balanced and conjunctive use of biomass, organic and inorganic fertilisers and controlled use of agrochemicals through INM and IPM will be promoted.
- A major thrust will be given to diversifying agriculture through 'Integrated Farming'.
- Rational utilisation and conservation of the country's abundant water resources will be promoted through Integrated Water Management practices.
- Agroforestry will receive a major National Rainfed Area Authority Government has decided to set up a thrust for efficient nutrient cycling, nitrogen fixation, organic matter addition and for improving drainage.
- Concerted efforts will be made to promote traditional practices, knowledge and wisdom to harness them for sustainable agricultural growth.
- The increases in the Minimum Support Price (MSP) for wheat and rice in recent years are

such that they have begun to have inflationary effect.

- As the MSP is increased, partly under the influence of the big farm lobby, the open market prices also move up.
- Inflation results, CIP are hiked and the poor are hurt.

Since the small farmers do not have the surpluses, only the big farmers benefit and that too from the advanced states like Punjab, Mariana and western UP.

The most embarrassing consequence of MSP rising irrationally is the bulging food stocks to levels almost double of what is prescribed as the minimum norm for food security i.e. more than 40 mt.

Recent initiatives

National Rainfed Area Authority Government has decided to set up a National Rainfed Area Authority to address the problems of rainfed areas for sustainable and holistic development of such areas including appropriate farming and livelihood system approaches.

Micro-irrigation

A Centrally Sponsored Scheme on micro-irrigation was launched in January, 2006 for covering a total area of 6.2 lakh ha. The scheme aims to achieve greater water use efficiency to result in enhanced productivity and better quality of produce.

National Bamboo Mission

Department of Agriculture and Cooperation has launched the National Bamboo Mission with 100 per cent central assistance at a total cost of Rs.568.23 crore, including an outlay of Rs.90 crore during 2006-07 (Tenth Plan) and the first four years of the Eleventh Plan.

Livestock Insurance

Livestock Insurance Scheme was approved in February 2006 for its implementation during the remaining part of 2005-06, and in 2006-07 on a pilot basis in 100 selected districts across the country with a total outlay of Rs. 120 crore. The scheme aims at protecting the farmers against losses due to un-timely death of animals. National Fisheries Development Board has been set up to realize the untapped potential of fishery sector with the application of modern tools of research and development including biotechnology. The Board was registered in July, 2006.

National Commission on Farmers

The National Commission on Farmers (NCF) chaired by Dr. M.S. Swaminathan submitted five Reports between December 2005 and October, 2006. Key recommendations of the Commission are incorporated in the Revised Draft National Policy for Farmers. These include: asset reforms covering land, water, livestock and bio resources; farmer-friendly support services covering extension, training and knowledge, connectivity, credit and insurance; assured and remunerative marketing; inputs and delivery services; and curriculum reforms in the agriculture universities. Other major initiatives recommended include bringing Agriculture in the Concurrent List of the Constitution; setting up of a National Food Security and Sovereignty Board; universalization of Public Distribution System (PDS); setting up of an Indian Trade Organization; making the Commission on Agriculture Cost and Prices into an autonomous statutory organization with MSP at least 50 per cent more than the cost of production, and launch of a Rural Non- farm Livelihood Initiative (RNFLI). RNFLI when implemented would be able to absorb higher number of people dependent on agriculture.

Rehabilitation Package for distressed farmers

A special relief package for farmers was announced for 31 districts in Andhra Pradesh, Maharashtra^ Karnataka and
Kerala where there was high incidence of farmers' suicides. As regards credit, the package envisages: (a) waiving of interest on overdue loans as on July 1, 2006 so that farmers have no past burden. This would make them eligible for fresh loan from the banking system. (b) The overdue loans of the farmers as on July 1, 2006 will be rescheduled over a period of 3—5 years with a one year moratorium, © A credit flow of Rs. 21,422 crore will be ensured in these 31 districts in 2006-07.

Rainfall Insurance Scheme-"Varsha Bima"

AICIL introduced Rainfall Insurance Scheme known as "Varsha Bima" during 2004 south-west monsoon period. Varsha Bima provided for five different options suiting varied requirements of fanning community: (i) seasonal rainfall insurance based on aggregated rainfall from June to September, (ii) sowing failure insurance based on rainfall between June 15 and August 15, (iii) rainfall distribution insurance with the weight assigned to different weeks between June and September, (iv) agronomic index constructed on the basis of water requirements of crops, (v) a catastrophe option covering extremely adverse deviation of 50 per cent and above in rainfall during the season. During kharif 2006, the scheme is being implemented as Varsha Bima-2006 in and around 150 districts/rain gauge station areas covering 16 states across the country.

Capital Formation in Indian Agriculture

The share of the agricultural sector's capital formation in GDP declined from 2.2 per cent in the late 1990s to 1.9 per cent in 2005-06 (Table 8.19). This disturbing decline was partly due to the stagnation or fall in public investment in irrigation, particularly since the mid-1990s. However, there is indication of a reversal of this trend with public sector investment in agriculture accelerating since 2002-03.

Agricultural Marketing

Ministry of Agriculture had formulated a model law on agricultural marketing in consultation with State/UT Governments to bring about marketing reforms in line with emerging trends. This model Act enables establishment of private markets/yards, direct purchase centres, consumers/farmers markets for direct sale, and promotion of public-private-partnership (PPP) in the management and development of agricultural markets in the country. It also provides for exclusive markets for onions, fruits, vegetables and flowers.
Regulation and promotion of contract farming arrangement has also been made a part of this legislation. A provision has also been made for constitution of State Agricultural Produce Standards Bureau for promotion of grading, standardization and quality certification of agricultural produce.

Towards another Big Push to Agriculture- Second Green Revolution

The urgent need for taking agriculture to a higher trajectory of 4 per cent annual growth can be met only with improvement in the scale as well as quality of agricultural reforms undertaken by various States and agencies at various levels. These reforms must aim at efficient use of resources and conservation of soil, water and ecology on a sustainable basis, and in a holistic framework. Such a holistic framework must incorporate financing of rural infrastructure such as water, roads and power.

The Approach Paper to the Eleventh Five Year Plan has aptly highlighted such a holistic framework and suggested the following strategy to raise agricultural output: (a) doubling the rate of growth of irrigated area; (b) improving water management, rain water harvesting and watershed development; © reclaiming degraded land and focusing on soil quality; (d) bridging the knowledge gap through effective extension; (e) diversifying into high value outputs, fruits, vegetables, flowers, herbs and spices, medicinal plants, bamboo, bio-diesel, but with adequate measures to ensure food security: (f) promoting animal husbandry and fishery; (g) providing easy access to credit at affordable rates; (g) improving the incentive structure and functioning of markets; and (h) refocusing on land reforms issues. National Commission on Farmers has already laid the foundation for such a framework. Programme formulation as well as their implementation in the States must be based on unique regional contexts incorporating agro-climatic conditions; and availability of appropriate research and development (R&D) backed by timely and adequate extension and finance.

Vishesh Krishi Upaj Yojana

The objective of the scheme is to promote export of fruits, vegetables, flowers, minor forest produce, and their value added products, by incentivising exporters of such products.

Entitlement: Exporters of such products shall be entitled for duty credit scrip equivalent to 5% of the FOB value of exports for each licencing year commencing from April 1, 2004. The scrip and the items imported against it would be freely transferable.

Imports allowed: Duty credit may be used for import of inputs or goods including capital goods, as may be notified, provided the same is freely importable under ITC (HS). Imports from a port other than the port of export shall be allowed under TRA (Telegraphic Release Advice) facility as per the terms and conditions of the notification issued by Department of Revenue.

Cenvat/Drawback: Additional customs duty/excise duty paid in cash or through debit under Visheh Krishi Upaj Yojana shall be adjusted as CENVAT Credit or Duty Drawback as per rules framed by the Department Revenue.

National Agricultural Insurance Scheme (NAIS)

NA1S was introduced from Rabi 1999-2000 seasons, replacing the Comprehensive Crop Insurance Scheme (CCIS) which was in operation since 1985.

It envisages coverage of all the food crops.

Among the commercial/horticultural crops, eleven crops viz. sugarcane, potato, cotton, ginger, onion, turmeric, chillies, pineapple, banana, jute and tapioca are currently covered under the scheme.

The premium rates are 3.5 per cent (of sum insured) for bajra and oilseeds, 2.5 per cent for other Kharif crops, 1.5 per cent for wheat, and 2 per cent for other Rabi crops or actual rates whichever is less. In the case of commercial/ horticultural crops, actual rates are being charged.

Small and marginal farmers are entitled to a subsidy of 50% of the premium charged from them, which will be shared on 50:50 basis by the Central and State governments. The premium subsidy will be phased out over a period of 5 years.

The scheme is operating on the basis of' Area Approach', i.e. defined areas for each notified crops for widespread calamities, and on "an individual basis' for localized calamities such as hailstorm.

Kisan Credit Card Scheme

- The Kinas Credit Card Scheme, introduced in 1998-99, as an innovative scheme to facilitate access to short term credit by farmers.
- This Scheme gained popularity and its implementation has been taken up by 27 commercial banks, 378 District Central Cooperative Banks/State
- Cooperative Banks and 196 Regional Rural Banks throughout the country.
- The number of cards issued and the amount sanctioned under the scheme

Has increased in each successive year since its inception to reach a total of over 435.6 lakh cards.

INFLATION

Inflation is a state in which the prices of goods and services rise on the one hand and value of money falls on the other.

Inflation is of two types:

1. Demand Pull Inflation: Demand Pull inflation is that inflation when rices rise due to higher Demand for goods and services over the available supply. In other words, demand pull Inflation takes place when increase in production lags behind the increase in money supply.
2. Cost Push Inflation: It is another type of inflation in which prices rise due to increased input Costs.

Deflation: Deflation is that state in which the prices of goods and services fall and the value of money rises.

Current Scenario

The Wholesale Price Index (WPI), available weekly and going back the longest, continues to be the most popular measure for monitoring inflation. Higher food prices pushed the wholesale price index (WPI) inflation to 4.41 % for the week ended 14 July 2007, up from 4.27%... the previous week.

Inflation was 4.62% in the corresponding week last year.

The inflation numbers are still within the five per cent annual target of the Reserve Bank, which is due to review the monetary policy on July 31. Among the primary articles, prices of vegetables rose sharply by 7% during the week, while those of cereals rose by 0.9%.

Among the primary articles, prices of vegetables rose sharply by 7% during the week, while those of cereals rose by 0.9%. Among manufactured products, rates of rice and bran oil rose by 3% each, while imported edible oil, groundnut oil, cotton seed oil and oil cakes became costlier by one percentage point.

In the current year, increase in prices of wheat, pulses, edible oils, fruits and vegetables, and condiments and spices have been the major contributor to the higher inflation rate of primary articles. Shortfall in domestic production vis-a-vis domestic demand and hardening international prices were the major causes for the increase in prices of these commodities.

Recent Anti-Inflationary Measures

The anti-inflationary policies of Government include strict fiscal and monetary discipline; rationalization of excise and import duties of essential commodities to lighten the burden on the poor; effective supply-demand management of sensitive items through liberal tariff and trade policies; and strengthening the public distribution system. The RBI has adopted a policy of monetary tightening, raising the cash reserve ratio (CRR) — the share of deposits that banks park as cash with the central bank — and the short-term inter-bank lending (repo) rate lo contain inflation. While the repo rate was hiked by 0.25 percentage points to 7.75 per cent in March, the CRR has been raised by 0.50 per cent in two stages this year. During 2006-07, the Government initiated a slew of measures to contain the price rise of primary commodities:

- State Trading Corporation tendered overseas for import of 55 lakh tones of wheat to supplement domestic availability.
- Permission was given to private trade to import wheat first at 5% duty from June 27, 2006 and then at zero duty from September 9, 2006 as against the normal applicable duty of 50%.
- Import of pulses was permitted at zero duty from June 8, 2006 and a ban on export of pulses was made with effect from June 22, 2006.
- Close monitoring of prices of each and every essential item on a weekly basis was put in place.
- Regulatory measures were initiated by the Forward Markets Commission (FMC) to contain volatility in the futures prices of wheat, sugar and pulses and ban on futures trading in some pulses was imposed to reduce speculative pressures.
- Reduction in duty on palm group of oils by 20-22.5 percentage points was effected in two phases, first in August 2006 and later in January 2007. Further, tariff values of these oils were frozen at levels prevailing in July 2006, thus reducing to that extent the impact of increase in international prices.
- On January 22, 2007, further duty cuts were announced for Portland cement, various metals and machinery items.

INDUSTRY

India ranks fourteenth worldwide in factory output. Concerted efforts at industrialisation by the government, aiming at self-sufficiency in production and protection from foreign competition, for nearly four decades since independence, have encouraged a diverse (though small) industrial base. They together account for 28.4% of the GDP and employ 17% of the total workforce. Economic reforms brought foreign competition, led to privatization of certain public sector industries, opened up sectors hitherto reserved for the public sector and led to an expansion in the production of fast-moving Consumer goods.

Post-liberalisation, the Indian private sector, which was usually run by oligopolies of old family firms and required political connections to prosper was faced with foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, focusing on designing new products and relying on low labour costs and technology.

Highlights of CPSE performance in 2005-06

- The share of CPSEs in GDP at market prices stood at 11.12 per cent in 2005-06 and 11.68 per cent in 2004-05.
- The cumulative investment of all CPSEs at end-March, 2006 was Rs.3, 93,057 crore. The share of manufacturing CPSEs in such investment was the highest at 51 per cent followed by service CPSEs at 40 per cent, mining CPSEs at 7 per cent.
- The overall growth in turnover of CPSEs was 11.86 per cent. The growth in the turnover of 'heavy engineering and construction services' group was the highest at 39 per cent during the year.
- In terms of capacity utilization, 51 percent of all CPSEs operated at 75 percent or higher; 16 per cent at 50- 75 per cent, and the residual 33 per cent at less than 50 per cent.
- The accumulated losses of all CPSEs declined by Rs. 10,578 crore from Rs.83, 725 crore in 2004-05 to Rs.73,147 crore.
- 44 CPSEs are listed on the domestic stock exchanges. While the shares of MTNL (ADR) are listed on the New York Stock Exchange, the shares of GAIL and SAIL are listed on the London Stock Exchange,
- At end-March, 2006, the 239 CPSEs employed over 16.49 lakh people excluding casual workers. The comparable figures in the previous four years were 19.92 lakh, 18.66 lakh, 17.62 lakh, 17.00 lakh, respectively.

Public Sector

Since the beginning of the planned process of economic development after Independence, public sector played a pre-eminent role in India. Commanding heights of the economy were to be in the hands of the public sector—basically infrastructure areas like transport, communications, energy, steel and fertilizers.

Objectives of the PSUs

- establish sound economic infrastructure
- set up industries in the backward regions and thus help bring about balanced regional development
- assist in ancillarization and thus the spread of the benefits of industrialization
- create sufficient levels of employment and set standards in labour welfare
- build a self-reliant economy
- earn ingestible resources for development
- prevent/reduce concentration of private economic power
- selling goods and services at reasonable prices so as to serve consumer, keep low

inflation and help non-inflationary growth process
- Invest in areas where the private sector would not and could not like in roads, transport and so on.

Performance

- In the last 50 years of economic development, the public sector indeed lived upto the expectations as can be seen below:
- around 240 Central PSUs today (excluding some insurance, finance and other companies) provide the country with infrastructure in steel, cement, transport, communications, power and so on
- the record of the PSUs in supplying many goods and services like coal, drugs, transport, power, irrigation and so on is commendable though an element of subsidy is involved in the effort
- The PSUs are a model employer providing various facilities like education, housing and etc.
- By establishing industries in the poor states like MP, Rajasthan, Bihar and others, the efforts of the PSUs to reduce regional economic imbalances are not insignificant.

Problem Areas

The problems with the PSUs in general are:

- lack of sufficient autonomy due to the fact of excessive government control which is unavoidable because the resources spent are public resources
- The technology is obsolete due to meager or no expenditure on modernization, which is explained by the loss making nature of the units. For example, the State Electricity Boards(SEBs)
- the managerial efficiency is low as there is no incentive for higher efficiency partly because it is not rewarded and also because the financial package is unattractive
- the tenure of the chief executive is uncertain and leaves little scope for
- commitment and dynamism
- the locational disadvantages are such that some plants need to work at 125% capacity to break even, for example, some of the cement plants in central India belonging to the CCI
- the labour strength is in excess and the wage bill is very high
- In some cases the project appraisal is incomplete, for instance, in the case of Surgical Instruments Ltd (Chennai) where the technological tie-up with Russia made instruments suitable for an average Russian, with physical proportions much larger than an Indian.

Professionalisation of PSU Boards

In order to ensure and encourage efficiency in their functioning, Government has taken various steps to professionalise the Boards of CPSEs. These include provision of outside professionals in the form of part-time non- official Directors, restricting the number of Government nominated Directors to one sixth of the actual strength of the Board subject to a maximum of two, and incorporation of functional Directors upto a limit of 50 per cent of the actual strength of the Board. On the recommendations of Arjun Sen Gupta Committee, the Government, during 1987-88, introduced the concept of Memorandum of Understanding (MoU) to ensure clarity in the functioning of CPSEs, and proper
Balance between accountability and autonomy for better results.

The number of CPSEs signing MoUs went up from 4 in 1987-88 to 112 in 2006-07. In order to further the competitive spirit, an attempt has also been made to evaluate the performance of the CPSEs on the basis of (a) sales, (b) growth of sales, (c) net profit, (d) growth in net profit, (e) return on net worth, (f) earning Per share, and (g) dividend pay-out ratio.

Reforms

With the onset of economic reforms in 1991, systemic reforms are being made to make the functioning of the PSUs better. They are:

- the 1991 New Industrial Policy (NIP) dereserved many areas kepi for the PSUs earlier and today only 6 areas
  Stand reserved
- the NIP 1991 made it possible to disinvest a portion of the PSU equity for a variety of purposes
- the NIP 1991 facilitated changes in the SICA to enable the sick PSUs to be referred to the,BIFR for revival or closure
- the budgetary support for the PSUs is progressively declining
- the liberal import of capital goods and others compels the PSUs in the manufacturing sector to perform or perish
- the MoU system is being improved with more than 60% of the weightage being given to the criterion of financial performance
- Efforts are on to privatise some of the sick units.
- Navaratnas that is 9 PSUs were granted financial and managerial autonomy for global competitiveness. Recently 3 more PSUs (Bharat Electronics, Hindustan Aeronautics, and Power Finance Corporation) were granted navaratna status.
- 97 mini-ratnas were taken up for similar reform
- 696 guidelines for the PSUs that have outlived their purpose were dropped.

Strategic Sale

It involves selling 51 % or more of the equity to a strategic partner—domestic or global, so as to restructure the management towards private management control, In some cases, the government stake holding is completely liquidated, While in most others it is reduced to 26%.

The Disinvestment Commission
Believed that 26% stake of the Government is the minimum for the protection of national interest and to stall shareholders' resolution, according to the Companies Act.

Advantages:

- the sale of equity is independent of the state of the capital market, as the strengths of the unit along with its potential matter more
- FDI does not bring finances for the Government while strategic sale will
- it will vastly improve the market sentiment by attracting FIIs
- Strong signals will be sent to the foreign investor that India is serious about PSU reforms and consequently, FDI will flow to a greater extent.
  Another modality to divest the Government stake to 49% is being mooted

In order to take precautions to ensure that the reforms do not lead to workers' problems, the National Renewal Fund (NRF) was sanctioned in the 1991-92 budgets and is being continued since.

Small Scale Industries

An Expert Committee headed by Abid Hussain was set up to review the status of the small enterprise and government policy. It submitted its report on January 27, 1997. Some of the major issues which had an impact on small scale industries can be summarized as follows:

Definition of SSI

The definition of SSIs has been changing continuously. Initially, values of fixed capital and number of employees were combined in defining SSIs. Fixed assets were fixed at half a million rupees in 1955 and number of employees at 50, if the unit used power and 100 without use of power. Then, the employee value was removed and the definition was based on fixed assets alone. Now, it has been fixed at Rs 6 million for SSIs and Rs 7.5 million for ancillary units.

Salient Features of the Micro, Small and Meidum Enterprises Development Act, 2009.

It provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, viz, micro, small and medium. Under the Act, enterprises have been categorized broadly into those engaged in (i) manufacturing and (ii) providing/ rendering of services. Both categories have been further classified into micro, small and medium enterprises, based on their investment in plant and machinery (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services) as under:

Manufacturing Enterprises

Micro Enterprises investment up to Rs. 25 lakh.Small Enterprises-investment above Rs. 25 lakh and up to Rs. 5 crore.Medium Enterprises – investment above Rs. 5 crore and up to Rs. 10 crore.

Service Enterprises:

Micro Enterprises - investment up to Rs. 10 lakhSmall Enterprises - investment above Rs. 10lakh and up to Rs. 2 crore.Medium Enterprises - investment above Rs. 2 crore and up to Rs. 5 crore.

The Act provides for a statutory consultative mechanism at the national level with wide representation of all sections of stakeholders, particularly the three classes of enterprises, and with a wide range of advisory functions, and an Advisory Committee to assist the Board and the Centre/State Governments.

The other features include

i) Establishment of specific Funds for the promotion, development and enhancement of competitiveness of these enterprises,
ii) Notification of schemes/programmes for this purpose,
iii) Progressive credit policies and practices,
iv) Preference in Government procurements to products and sevices of the micro and small enterprises,
v) More effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and
vi) Simplification of the process of closure of business by all three categories of enterprises.

Objectives of divestment

The objectives of divestment do not refer to the process as a means of improving financial performance of the enterprises.

The primary objectives were

- To raise resources for the budget which are essentially non-inflationary in nature?
- Broad-base the ownership of the enterprises which would eventually allow the enterprises to raise resources from the capital market and thereby lower their dependence on budgetary support.

However, to increase efficiency, productivity and competitiveness of the sector, a number of other measures were introduced. These were policies which have focussed on

- Creating internal competition by eliminating entry barriers, subsidies, price distortions and preferential access to budget and bank resources;
- Improving the management of public enterprises by increasing autonomy and the mandate to become profit-oriented centres; and
- Introducing restructuring policies and establishing a social safety.

The Government policy on disinvestment has evolved over the last decade and has been generally announced through the Budget. Disinvestment of Government equity in CPSEs began in 1991 - 92. Till 1999- 2000, disinvestment was primarily through sale of minority shares in small lots. Between 1999-2000 and 2003-04, the emphasis of disinvestment changed in favour of strategic sale. The proceeds from disinvestment from April 1991 to March 2006 amounted to Rs. 49,241.29 crore. At present, the policy is to list large, profitable CPSEs on domestic stock exchanges.

The National Common Mimimum Programme (NCMP) stipulates a strong and effective public sector whose social objectives are met without prejudice to its commercial functioning. Efforts are being made to modernize and restructure sick CPSEs and revive sick industry. Only the chronically lossmaking CPSEs are being considered for closure or sell-off after payment of due compensation to the laid-off employees.

Major Policy initiatives for FDI

A comprehensive review of the FDI policy was undertaken last year to consolidate the liberalization already effected and further rationalize the FDI policy governing various activities. The major policy intiatives taken are:

Change of route: FDI has been allowed p to 100 per cent under the automatic route for distillation and brewing of potable alcohol, manufacture of industrial explosives, manufacture of hazardous chemicals, setting up of Greenfield airport projects, lying of natural gas/LNG pipelines etc.

Increase in equity caps: FDI caps have been increased to 100 per cent and automatic route extended to coal and lignite mining for private consumption, setting up of infrastructure relating to marketing in petroleum and natural gas etc.

FDI in new activites: FDI has been allowed up to 100 per cent on the automatic route in power trading and processing and warehousing of coffee and rubber. FDI has also been allowed p to 51% for ‘single brand’ product entailing which requires prior approval f Government. Specific guidelines have been issued for governing FDI for single brand’ product retailing.

Removal of restrictive conditions: mandatory divestment conditions for Business to Business e-commerce have been dispensed with.

Procedural simplification: The transfer of shares from resident to non-resident including acquisition of shares in an existing company has been placed on the automatic route subject to sectoral policy on FDI.

In order to boost production of cash crops through infusion of foreign funds and technical know how, agriculture & plantations was removed from the list of prohibited sectors for FDI.

Special Economic Zone (SEZ)

SEZs have been established in many countries as testing grounds for implementation of liberal market economy principles. They are viewed as instruments to enhance the acceptability and credibility of transformation policies, to attract domestic and foreign investment, and generally, for

the opening up of the economy. With its genesis in the Export Processing Zones (EPZ), the SEZs in India seek to promote value addition component in exports.
Generate employment and mobilize foreign exchange. EPZs and SEZs were employed with considerable success by China and other ASEAN countries in the 1970s and 1980s to create regional islands, where export-oriented manufacturing could be undertaken. In India, the EPZ experiment was much less of an unequivocal success; and since 1965, when the first EPZ in Kandla was set up. A total of only 11 such zones have come into existence. The Exim Policy of 1997-2002 then introduced the more comprehensive and liberal SEZ concept, after which a bill was drafted and passsed by Parliament in the form of the
SEZ Act, 2005.

SEZ Act 2005

Objectives

- to provide for a stable and long-term fiscal policy framework with minimum regulatory intervention for such zones
- to attract investment, both domestic and foreign
- to ensure employment generation through encouraging export activities t
- There would be no violation of labour laws in the SEZs.
- It also provides for a single-window clearance mechanism for the establishment of SEZs.
- The objective of SEZs includes making available goods and services free of taxes and duties, bolstered by integrated infrastructure for export production and a package of incentives to attract foreign and domestic investments for promoting export- led growth.

Provisions

- It empowers the Union Government to specify an officer or agency for carrying out surveys or inspections to verify or ensure compliance with the provisions of the Central Act by a developer or an entrepreneur.
- The Act provides that SEZs could also take the form of port, airport, inland container depot, land station and land customs stations, as the case may be, under Section 7 of the Customs Act.
- The Act approves the setting up of an International Financial Services Centre in a SEZ.
- The Act provides for tax concession for 15 years in respect of newly established SEZ units that begin to manufacture or produce articles or provide services during the previous year relevant to any assessment year commencing on or after April 1, 2006.
- under this dispensation, units would be eligible for 100 per cent tax exemption for 5 years, 50 per cent for the next five years and 50 per cent of the ploughed back export profits for the next five years (in all 15 years).
- Indian SEZs to be based on 'India- specific' model instead of adopting the model followed by any other country.

Apprehensions against SEZ

Some of the apprehensions against the SEZs are

a) Generation of little new activities as there may be relocation of industries to take Advantage of tax concessions,
b) Revenue loss,
c) Large-scale land acquisition by the developers which may lead to displacement of

farmers with eager compensation,

d) acquisition of prime agricultural land having serious implications for food security,
e) Misuse of land by the developers for real estate and
f) Uneven growth aggravating regional inequalities.