

## Twelfth Five Year Plan: Development Challenges and Prospects

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India has entered the Eleventh Plan period (2007-2012) in the background of an impressive economic growth of 8.5 percent per annum with low inflation trajectory and sound macro-economic fundamentals. The eleventh plan aimed at building on the gains of the Tenth Plan to trigger a development process towards a path of *faster and more inclusive growth*. Such a process was expected to achieve an average growth rate of 9 percent per annum for the plan period and provide broad based benefits to ensure equality of opportunity for all. The broad vision of the Eleventh Plan included development components: rapid growth that reduces poverty and creates employment opportunities, access to essential services in health and education especially poor, equality of opportunity, empowerment through education and skill development, environmental sustainability, women development, enabling infrastructure and good governance. However, the progress achieved in all these areas was found to be less than expected.

The Indian economy, on the eve of the Twelfth Five Year Plan (2012-17) is characterized by slowdown in the economic growth, soaring inflation, widening fiscal and current account deficits and growing concern of macro-economic imbalances. The terminal year of the Eleventh Five Year Plan and the process of working towards formulating Twelfth Five Year Plan (Twelfth Plan), therefore, provide an opportunity and appropriate time to reflect on the planning and its policies and strategies with a view to identify weaknesses that need to be corrected. Moreover, the global economic prospects remain anemic with serious macro-economic crisis and concerns about sovereign debts in developed countries. This has far reaching implications for development planning in India. Against

this backdrop, it is imperative to identify emerging issues and concerns which need to be addressed with appropriate responses and strategies under the Twelfth Plan. This paper is an attempt to reflect on these directions.

Section one looks into the need for changing the perspective of the planning in India particularly in the context of economic liberalizations and emergence of private sector as driving force of economic growth. In the subsequent sections, the main focus is centered around examining the approach to Twelfth Plan, assessment of growth prospects and key issues and concerns. In the last section, an attempt is made to identify some of the risks involved in the context of global economic uncertainty that need to be addressed in the Twelfth Plan.

### Need for change in Planning Perspective

Before looking into the dynamics of Twelfth Plan, it is important to consider a question frequently asked: whether centralized planning has any relevance or justification in the context of economic liberalization and if needed, what should be its approach and form. The question was relevant as things have changed enormously during six decades of planning. In the wake of liberalization, privatization and globalization, the continuing with the planning practiced in the past, on the face of it; seem to be irrelevant and unwarranted. However, as pointed out by Stiglitz, "The issue is not whether planning is needed – it surely is – but whether the most effective place to do the planning is in a government centralized bureau or at the level of the firm. Today most economists are skeptical about the ability of a centralized bureau to do effective planning" (Stiglitz, 1997). The contextualized change

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in the character of planning process is therefore warranted.

At the time of independence, India inherited a backward and stagnant economy. The planning was, then, universally accepted as the surest and most direct route for the pursuit of economic development. The justification for planning was then derived from the fact that in an underdeveloped economy, when resources available were scarce and private sector was not developed, public intervention in resource allocation was necessary to achieve rapid growth and distributional objectives<sup>1</sup>. Securing rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of the values and attitudes of a free and equal society were considered as the main objectives of planning process. Few would have, then, questioned the rationality or advisability of formulating and implementing a national development plan through a national coordinating planning organization.

In India, since independence, every five years, the development plan was prepared and launched with the great fanfare, though the impact of planned development has been sadly disillusioning and disappointing. Albert Waterston, in his exhaustive study of the development planning experience in 55 countries which included India, concluded that:

An examination of postwar planning history reveals that there have been many more failures than successes in the implementation of development plans. By far the great majority of countries have failed to realize even modest income and output targets in their plans except for short periods. What is even more disturbing, the situation seems to be worsening instead of improving as countries continue to plan (Waterston, 1965).

As a result of the disenchantment with central planning, the use of market mechanism as a key instrument for promoting greater efficiency and more rapid growth was increasingly advocated during 1970s and 1980s. The collapse of socialist planning and success of South-East Asian countries following market economy also contributed to paradigm shift towards this change. India adopted economic liberalization in 1991. The question of relevance of planning in this context was debated in India at some length in the wake of economic reforms<sup>2</sup>. It was recognized that after liberalization, the planning in the way it was practiced in the past was no longer tenable. However, it did not imply dismantling of planning altogether. The reliance on market would not take care of social objectives. There was also a question of market failures in economy like India. These issues required to be tackled through public intervention and well crafted policies and public sector programs as provider of basic infrastructure.

In recognition of this reality, the Eighth Plan (1992 – 97), the first plan to be implemented after the reforms, stated clearly “the Plan is indicative in nature” and for “managing the transition from a centrally planned economy to a market-led economy” (Planning Commission, 1992, Vol. I). Dandekar, an eminent economist, also emphasized that the public sector planning can be prescriptive so long as public sector investment is significant proportion of the total investment. As far as private sector is concerned, the planning has to operate in a more deregulated environment and hence, for private sector, the planning has to be only indicative (Dandekar, 1994). The practice of drawing up ambitious plans with serctoral and sub-sectoral targets on a five yearly basis under a central

<sup>1</sup> The UN Report (1951) dealing with the development problems of the underdeveloped countries signified a major watershed in the planning for development. The disenchantment with the operation of market mechanism during Great Depression and success of central planning in Soviet Block were also the major impetus for the emergence of planning for development.

<sup>2</sup> Planning Commission had held a meeting of economists in may, 1994. Also see article by V.M.Dandekar “Role of Economic Planning in India in the 1990s and Beyond” Economic and Political Weekly, June 11, 1994.

agency (the Planning Commission), however, continued in India with all paraphernalia as ritual as in the past<sup>3</sup>.

During the last two decades, the role of public sector in the economy has palpably shrunk and is, now, shrinking further. Private sector has emerged as the main driving force for economic growth. With more liberalization and privatization of the economy, the state can at best be a facilitator for creating enabling and conducive environment for private enterprises to drive the economy. The planning for the private sector should be, therefore, more in the nature of policy planning and not planning by mandate or physical planning specifying targets and instruments to achieve them. Though it is vital for the state to put in place vision for development goals and policies, the private sector should have greater freedom to plan and perform within the framework of policies laid down by the state.

Thus, the transition to a market driven economy does not eliminate the need for planning. As pointed out by Dandekar, the plan for government should be prescriptive wherever public investment is involved particularly focusing on education, health and infrastructure development. Besides, given the stark disparity in the living conditions, the state has obligation to play a redistributive role. Hence, the planning has to consider appropriate public services for empowerment of weaker section of the community. For the private sector, the plan targets have to be indicative with more focus on enabling and conducive policy planning. Thus, for all these reasons, the focus of the planning under the Twelfth Plan has to be different from planning in the past. It has to take into consideration the changing perspective of development economics and paradigm shift in policy strategies.

### **Approach to 12<sup>th</sup> Plan**

Approach to Twelfth Plan also should take into consideration some of the shortcomings of the Indian

planning process. Planning has been done now on top-down approach by the centralized planning organization without considering the area specific resource endowments, local development needs and aspirations of the people. This 'one size fits all' supply-led approach resulted in lack of sectoral integration, convergence of programs, wastage of scarce resources at grass root level and limited outcomes. Moreover, development of most of the sectors such as agriculture, rural development, special area programs, village and small industries and many of the social services such as education and health rest with the state and district level authorities. Effectiveness of the program implementation in these sectors and delivery of services, thus, depends on the state governments and district authorities. Similarly, centrally sponsored welfare schemes are implemented by grass root level organizations. No efforts have been made to strengthen the state and district planning bodies and develop requisite planning and implementation capabilities in them.

The need for demand-driven bottom-up approach in planning is to achieve the best outcome in terms of balanced development with convergence of resources and enforcement of inter-sectoral priorities by taking into consideration aspirations of local people. Long ago, Prof. Dantwal advocated two way process for planning; top-down approach for laying down development goals, macro policy framework and priorities for resource allocation at the national level and bottom-up approach for preparation of physical plan setting out targets to be achieved based on resource endowments and local development needs at grass root and state levels. A National plan should be an integrated plan based on these two way process (Dantwala, 1984). Prof. Dandekar also criticized the use of sophisticated multi-sector models to set production targets by the plan and inputs needed for the same on the ground of

<sup>3</sup> With this changing perspective, China recently renamed the Planning Commission as the National Development and Reform Commission.

feasibility and reliability and advocated decentralized process of development<sup>4</sup>.

73<sup>rd</sup> and 74<sup>th</sup> Amendments of the Constitution mandated local planning at the village panchayats, intermediate panchayats and district panchayats levels, but nothing has been done so far in this direction. Though the Eleventh Plan has, for the first time, stressed the need for integrated decentralized planning process at grass root level, the intention was not matched by action. The Twelfth Plan should, therefore, consider making the decentralized process of planning its integral part.

Another serious shortcoming of the present method of planning is the disjunction between planning and budgeting. Even after six decades of planning, no workable mechanism has been evolved to annualize the requirements of Five Year Plans in the budgetary process. The development budget annually prepared by the Ministry of Finance depends on the resource availability and consequently ends up by compromising the goals of the plans in most arbitrary way. More often, the resources available fall much short of what would be required to fulfill the targets of the plan. Similarly, the budgets of state governments are prepared independently without synchronizing with year-wise phasing as envisaged under the plan. The focus of district planning has been largely an annual post-budget exercise to allocate funds available to programs in different sectors. This in fact constitutes the Achilles heel of Indian Planning (Bagchi, 2007).

The public policy is another area of concern. The plan documents provide prescriptive policy framework in vital areas; but given the multiplicity of policy making bodies and political realities, they often remain buried in the plan documents. Ministry of Finance has its own Department of Economic Affairs, Prime Minister has his Economic Advisory Council and other line ministries are involved in respective sector policy making. RBI is

independently involved in monetary and banking policy. There are other think tanks promoted by the government. Planning Commission has no role in policy implementation. There is a need for better networking and interface between these bodies to make the policy framework of the plan operationally effective. The approach to Twelfth Plan should take into consideration some of these serious lacunas.

### **Failed Eleventh Plan**

It is important to assess performance of the Eleventh Plan as it provides broad framework to formulate the Twelfth Plan on the strengths already achieved to trigger a development process<sup>5</sup>. Eleventh Plan was built on the strengths achieved under Tenth Plan. Tenth Plan witnessed a transition from 5 percent average annual growth to higher growth trajectory of 8.5 percent annual growth, making India one of the fastest growing economies in the world. Industrial sector has responded well to economic reforms and has shown that it is capable of competing in the global economy. The macro-economic fundamentals were very sound. Savings and investment rates have increased significantly. Export was growing at the rate of 23 percent per annum and there was a significant increase in foreign exchange reserve. The current account deficit was less than 1 percent of GDP. India for the first time achieved high growth with lowest inflation trajectory. The annual inflation was lower than 5 percent. The perceptions about India among global investors were very favorable as reflected in the significant increase in FII and FDI inflows. The percentage of population below poverty line has come down from 36 percent in 1990s to 28 percent in 2004-05. There was a steady improvement in health and education and other social indicators.

Against this background, the Eleventh Plan aimed at shifting the economy to a path of faster and more

<sup>4</sup> Dandekar questioned the usefulness of mathematical input/output models for sectoral targets which are highly aggregative and not always practicable (Dandekar, 1994).

<sup>5</sup> Since the paper intended to focus on prospects and challenges of the Twelfth Plan, no in-depth critical evaluation was carried out on the performance and achievement of the Eleventh Plan in different areas. Only a brief review of outcomes is adumbrated as a backdrop for considering key issues involved and the prospects of Twelfth Plan.

inclusive growth. It sets a target of 9 percent annual growth in the five year period with acceleration during the period to reach 10 per cent by the end of the Plan. The growth process was also expected to achieve broad based benefits and equality of opportunity for all. This broad vision of the Eleventh plan included reduction of poverty, creation of more employment opportunities, improving access to essential services in health and education equality of opportunity, empowerment through education and skill development, women development, enabling infrastructure, environment sustainability and good governance. The Eleventh Plan was, thus, expected to lay the foundation for sustainable and inclusive two digital growth processes in the subsequent Five Year Plans.

However, the performance of the Eleventh Plan in all the areas was found dismal and disappointing. As against average annual 9 percent GDP growth during the last four years of Tenth Plan, the average annual growth during the four year period of the Eleventh Plan was 8.2 percent. Growth in the last year of the Plan (20011-12) is likely to be around 7 percent. The expected 8 percent annual average growth during the Eleventh Plan was also mainly due to higher growth in agriculture thanks to good Monsoon. The high growth trajectory of the Tenth Plan was achieved by rapid growth in manufacturing. The peak growth rate of 11.8 percent in manufacturing sector reached in the last year of the Tenth Plan has started decelerating during the Eleventh Plan. During the last year of the Eleventh Plan, it is expected to be below 5 percent.

In the macro-economic front, whatever the achievement made in the macro-economic stability and balance was lost during the Eleventh Plan. India is now witnessing the highest rate of inflation among

emerging economies. It has reached double digits. The current account and trade deficits have reached above tolerable thresholds threatening the external imbalance. There was a significant decline in the saving and investment rates. Another area of concern is growing fiscal deficit of both centre and the states, which increased to the unsustainable level of about 10 percent of GDP. While the stimulus succeeded in countering the effects of the recession to some extent, it has clearly contributed significantly towards vulnerability of the Indian economy.

Eleventh Plan envisaged growth and inclusiveness as coequal objectives. Inclusiveness is a multi-dimensional concept (Ahluwalia, 2011)<sup>6</sup>. Inclusive growth should result in lower incidence of poverty and improvement in essential services such as education, health, empowerment through skill development, reduction in unemployment and under-employment and improvement in basic amenities like drinking water, electricity, roads, sanitation and housing. Since inclusiveness is a multidimensional in nature, it is difficult to assess the impact of inclusiveness in absence of data for recent years<sup>7</sup>. The Eleventh Plan has laid down 27 national and 13 state-specific monitorable targets to achieve inclusive growth. 27 national targets fall in six areas: Income and poverty, education, health, women and children, infrastructure and environment<sup>8</sup>. Though there was a moderate improvement in delivery of essential services such as education, health, clean drinking water and sanitation, the achievement remained far behind the targets.

Despite more than six decades of planned economic development, India has the largest number of people below poverty line<sup>9</sup>. Moreover, the performance in reducing poverty varies considerably across states. While Southern and Western States have achieved

<sup>6</sup> Ahluwalia, in his article says "it is difficult to assess inclusiveness than performance on growth" for three reasons: (a) inclusiveness is a multidimensional concept, (b) the data on inclusiveness are available only after a lag and (c) the impact of inclusiveness is not immediately visible.

<sup>7</sup> There is no performance and outcome audit of Eleventh Five Year Plan. Mid-Term appraisal of the Eleventh Plan focuses more on evaluation of allocation and utilization of funds under various programs/schemes. There is no data on actual impact in vital areas.

<sup>8</sup> For details of Monitorable variables see Eleventh Five Year Plan Vol.1.

<sup>9</sup> There are controversies in regard to definition and measurement of poverty. The estimates of poverty vary from 37 percent to 76 percent. According to a recent estimate (Polaski et al. 2008), 792 million Indians constituting 73 percent of the total population survive on less than \$1 per day, while 94 percent live on less than \$2 per day.

impressive reduction in poverty, other states have not improved their position. More than 50 percent of people in these states are below poverty line. A large part of the rural population particularly SCs, STs, landless agricultural laborers suffer from deprivation and development exclusion. Moreover, income inequality and disparities between rural and urban income have widened. In access to basic services, the performance is only marginal and India still lags behind other developing countries. In human development, as per UNDP Human Development Index, India's ranking among 177 countries has come down from 124 in 2000 to 134 in 2009. The goal of inclusiveness, thus, did not make much headway during the Eleventh Plan period. Thus in all respects, the Eleventh Plan has failed to reach of the results as expected.

#### **Twelfth Plan: Fragility of Growth Prospects**

The Twelfth Plan is entering on the eve of a more uncertain global economy and more vulnerable domestic macro-economy than Eleventh Plan. The draft Approach Paper for Twelfth Five Year Plan prepared by the Planning Commission has set an objective of achieving *faster, sustainable and more inclusive growth*. It has targeted an average annual growth rate of 9 percent. Though the target of 9 percent annual growth appears to be reasonable and imperative, considering the present context of global recession and macro-economic vulnerability of domestic economy, the question would arise as to whether it is feasible to achieve 9 percent sustainable growth during the Twelfth Plan period. Approach Document of Twelfth Plan has indicated several potential drivers of growth to suggest that it is possible to accelerate GDP growth in Twelfth Plan beyond the 9 percent level. The main drivers of growth indicated are: sound macro-economic fundamentals, impact of economic reforms, dynamism of the private sector, demographic dividends and improvement in productivity.

The global economic prospects are now clouded with

uncertainty. The developed countries are faced with serious macro-economic imbalances due to mounting sovereign debts and unsustainable fiscal deficits. The growth in these countries is on downturn. The prospect of an early return to robust growth in these countries is doubtful. As Indian economy is now more globally integrated, India's growth prospects cannot be viewed in isolation from developments in the world economy. The share of exports in GDP has increased from 14 percent in 1990s to 22 percent in 2010-11. India cannot grow faster without growing external demand. Moreover, any rise in oil and commodity prices will have adverse impact on India's development. India also needs badly FDI for achieving higher growth. The 9 percent plus growth achieved during the Tenth Plan period was partly driven by the booming world economy.

On macro-economic fundamentals, as already indicated, there are serious problems of internal and external imbalances as reflected in galloping inflation spiral, hardening of interest rate, fiscal stress, widening of trade and current accounts deficits and depreciation of Indian rupee. The economic reforms, though restored macro-economic stability during 1990s, have not resulted in any structural shift in the economy to warrant any significant impact on acceleration of economic growth. After initial bout of first generation reforms in the early 1990s, subsequent reform initiatives have also been sporadic and not systemic. The necessary reforms of labor laws, banking, small scale industry reservations and infrastructure continue to be impeded by politics and vested interests. Eleventh Plan period witnessed a policy paralysis in economic reforms. Hence, one cannot expect any structural and systemic reforms during Twelfth Plan period to trigger higher economic growth. Moreover, it should be noted that in spite of economic reforms, economic growth during 1990s remained at the 1980s level of 5.5 percent. During the period between 2003-04 and 2006-07, on the other

hand, economic growth sharply accelerated to 9 percent level even without any economic reforms (Surjeet, 2010).

On supply-side, the growth response depends on growth of capital formation, labor inputs and increase in total factor productivity. India has upside potential in regards to these factors but the optimum realization of these potentials required supportive policies and programs. The growth of capital formation depends on the rate of investment, both public and private. With the increase in the revenue deficits, the government savings are negative which would adversely reduce the ability of the government to increase public investment. There has been also slow-down in the private corporate investment due to uncertainties flowing from the global crisis, unfavorable investment climate and hardening of interest rate. The scope for higher capital investment depends on increase in the domestic savings rate and foreign capital inflow. If the consumption is grown faster than the GDP, which is presently prevailing, it will have adverse impact on saving ratios. There has been a slow-down in the pace of saving rate in recent years. Similarly, prospects for foreign capital inflows in the context of global recession may not be bright.

As regards potential population dividend for achieving higher growth, the growing working age population is an advantage only if sufficient investment takes place in manufacturing sector to absorb the additional labor force. This is not the case at present. The employment is growing far slower than labor supply. Moreover, the majority of new entrants to labor force are unskilled from rural areas. Unless labor intensive industries are promoted, they cannot be absorbed. A growing number of young labor forces could be easily a recipe for daunting employment deficit and consequent unrest. The chances of translating the potential of additional labor force into a reality of employment to achieve higher growth during Twelfth Plan appear slim.

Similarly, the total factor productivity growth depends on technical progress and ability to use factors more efficiently. Though total factor productivity can be a contributing factor for growth, the trade-off between technical progress and labor employment can become an area of concern.

Besides above factors, there are number of other significant factors which may constrain the growth prospect during the Twelfth Plan. To achieve rapid growth, the economy will have to overcome constraints posed by limited energy supplies, poor and shortages in infrastructure, problem of land acquisition for industrial development, complex problem of managing urban transition and governance. Greater efforts also needed in agriculture, education and health to achieve faster, sustainable and more inclusive growth. After taking into consideration all these challenges, the Planning Commission, in fact, pointed out that "given the uncertainties in the global economy, and the challenges in the domestic economy, even a 9 percent target is feasible only if we can take some difficult decision" (Planning Commission, 2011).

#### **Critical Areas of Concerns**

Aside from the downside factors affecting the growth prospects discussed in the above sections, Twelfth Plan needs to focus on critical challenges facing in the key sectors of the economy. These are briefly considered below.

#### **Macro-economic stability**

Macro-economic stability is a prerequisite for ensuring sustainable faster and more inclusive growth. It creates enabling and conducive environment for stimulating private investment and FDI. Economic growth is, thus, vulnerable to macro-economic instability. The Twelfth Plan will be launched in a less benign and more uncertain macro-economic conditions due to global crisis caused by the USA and Euro-zone sovereign debt crisis and its aftershocks. The recent developments in the global economy are also indicative

of uncertainties in the outlook for the medium term and volatilities in the world commodity and financial markets.

A weak spot in macro-economic fundamentals is the recent build up of Inflationary pressure. Inflation especially galloping food inflation is now emerging as a serious threat for both growth and inclusiveness. Its impact is already reflected in hardening of interest rate and depreciation of rupee. World commodity prices are already under pressure and rising and as a result, the inflationary risk could be severe on India in near future. The persistent high inflation can reduce savings, distort incentives for investment and thereby undermine growth. Trade off between inflation and inclusiveness should be also an important area of policy concern during Twelfth Plan.

Fiscal deficit of the centre and states had expanded on unsustainable level because of the stimulus package implemented as a response to 2007-08 global financial crises. Hit by slowing economy and resultant less than buoyant revenues, the widening deficits and the attendant mounting public indebtedness pose a real threat to macro-economic stability during the Twelfth Plan period. The real challenge is that the reduction in fiscal deficit has to be achieved while also achieving an increase in plan expenditure. The mounting debt service, pensions and salaries and subsidies weaken the capacity of both central and state governments for effective provision of necessary public goods could significantly constrain the future growth performance.

On external front, the trade deficits and current account deficits are widening. The current account deficit has already reached to the tolerable threshold of 3 percent GDP. The global recession will have spillover effects on merchandise exports and invisible and foreign capital inflows. This will adversely further widen the current account imbalance. With India's growing current account deficit, risks arising out of volatility of capital inflows and depreciation of Indian rupee, the

need for appropriate policies to manage such risks and their impact on macro-economic stability are crucial during the Twelfth Plan. With the widening fiscal deficits and sovereign debt crisis, the allocation of global financial capital in the future will be very different from the past (Reddy, 2011). Apart from slow-down in exports and resultant widening of current account deficits, the quality of India's stock of external liabilities has changed towards more volatile portfolio flows and short term commercial debts in addition to non-green field foreign direct investment.

### **Agriculture**

The draft Approach Paper for Twelfth Plan has targeted 4 percent annual growth during the Twelfth Plan period. The target of 4 percent growth in agriculture has been repeatedly emphasized in all five year plans since 9<sup>th</sup> plan. But the target have proved elusive with decadal average growth rate from 2000-01 to 2009-10 at less than 2 percent per annum. Tackling the problems faced by the agricultural sector and revitalizing agriculture to achieve 4 percent annual growth on sustainable basis is, however, a must not only to achieve 9 percent overall growths but also for inclusiveness. China and other neighboring Asian countries have achieved agricultural growth of 4 to 5 percent per annum on sustainable basis. Why not India?

Agricultural sector is today in deep crisis. Since the beginning of 1990s, it has lost its growth dynamism and witnessed deceleration in its growth. The growth in agricultural sector during 2008-09 was negative 0.1 percent and in 2009-10, it was only 0.4 percent. Whatever recent spurt in growth (3.4 percent) achieved during Eleventh Plan was mainly due to good monsoon. The reasons for deceleration in agricultural growth are many and include dependence on monsoon, low productivity, declining public investment, lack of irrigation, grossly inadequate maintenance of existing irrigation assets, falling water tables, poor rural



infrastructure, unresponsive research, collapse of extension services, distorted incentive structure, reliance on informal sources for credit with high interest rate burden, lack of diversification and low value additions. A recent NSSO survey reveals that nearly 40 percent of farmers would like to quit farming given a choice.

While the share of agriculture in total GDP declined to 15 percent, people depending on agriculture for their livelihood remained unchanged at about 70 percent. The Census 2011 estimates that 833 million people continue to live in rural India. Agriculture provides employment to about 65 percent of the labor force. After six decades of planning, farmers are in the process of marginalization and pauperization. Agrarian distress is now symbolized by farmers' suicides. Between 1995 and 2007, more than 2 lakh farmers committed suicides. In such a situation, achieving 4 percent target on sustainable basis is a herculean task. It requires right package of policies and programs to develop an efficient, viable and globally competitive agricultural sector.

While the central government can play a significant role in revamping systems as it was done on the eve of green revolution, the state governments must act on several fronts to revitalize the agricultural sector to generate 4 percent annual growth. The focus should be on addressing the supply-side constraints, improving delivery of high yielding package of inputs and services to farmers and promoting opportunities for the value creation. Gujarat has already shown the way in this regard. Unfortunately, the draft Approach Paper for Twelfth Plan has no coherent package of policies and programs except *more and faster* of same thing; old wine in new bottle.

### **Manufacturing**

Another major area of concern is the recent noticeable slow-down and volatility in the growth of manufacturing, which accounts for 80 percent of the

value added in industrial sector. It was buoyant during the Tenth Plan and reached the peak growth of 14.3 percent in 2006-07. Thereafter, growth in manufacturing GDP was volatile and on downward slide. The Eleventh Plan envisaged the manufacturing and general industrial sector growing at an average annual rate of 10-11 percent. As against this, the actual achievement was 7.4 percent. Manufacturing, which grew at 10 percent in the first year of the Eleventh Plan, slipped to 4.2 percent in 2008-09. Though, it recovered in 2009-10, it once again on downward trend. Data on the IIP has exhibited volatility in growth widely during the 2010-11. While earlier, the volatility was associated with capital goods, now consumer non-durables and basic industrial goods were the main depressants in the deceleration of industrial growth. It is indeed a matter of concern that manufacturing sector is not yet sharing in the dynamism of the Indian economy. The share of the manufacturing sector in GDP is still only 15 percent in India compared with 35 percent in China and about 40 percent in other emerging economies.

If the economy has to grow at 9 percent in the Twelfth Plan, and agriculture, which now accounts for only 15 percent of GDP, is constrained to grow at less than 4 percent, then industry and service sectors have to contribute 10 to 12 percent growth. Moreover, unless manufacturing becomes engine of growth, creation of a sufficient number of productive jobs to absorb the expected increase in labor force and also surplus labor that must be moved out from agriculture may not be possible.

Small and medium enterprises, which are more labor absorbing and contributes 8 percent of the GDP, accounts for 45 percent of the manufacturing sector's output and 40 percent of its exports, are now saddled with number of problems. Unless they are rejuvenated and made innovative and competitive, they cannot be the major contributors to manufacturing growth. The enabling and conducive policy environment to promote private investment and encourage labor intensive

industries is, thus, required to achieve the targeted 10 percent industrial growth in the Twelfth Plan. Strategic interventions are required in Twelfth plan to increase the share of manufacturing sector at least 30 percent to GDP in the next decade.

### Service Sector

Service sector is at present the main driver of growth and it contributes 64 percent of the GDP. Optimism of service sector contribution to growth is centered around ever expanding global economy and external demand. The advanced countries are facing deceleration in growth and uncertainty with large fiscal deficits and unsustainable public debt and unemployment levels. There are also a number of other challenges India has to face with the growing competition from other emerging economies in service sector. Its low employment potential, dependence on external demand, weak backward and forward linkages with agricultural and industrial sectors and concentration on few selected sub-sectors such as IT-software, finance and insurance, real estate, tourism and business services are also some of areas of concerns, which need to be addressed in the Twelfth Plan.

### Infrastructure

Infrastructure network such as power, roads, ports, airports and railways is viewed as a critical binding constraint to inclusive and sustainable economic growth. The key to global competitiveness of the Indian economy depends on global standard efficient infrastructure. India at present suffers from not only a huge infrastructure deficits but also poor quality standards. Infrastructure development is critically required in rural and backward areas. Urbanization and urban infrastructure required is another challenging area. It is estimated that if the Indian growth is to be maintained around the targeted 9 percent, then the investment in physical infrastructure will have to be doubled. The Planning Commission has estimated an investment requirement of \$ 1025 billion for infrastructure during Twelfth Plan period. At least 50

percent of it is expected to come from the private sector. The huge finance required poses challenges such as how to raise funds required for investment and how to develop the world class quality infrastructure in time-bound manner without any implementation hurdles.

The Third Plan advocated public-private partnership (PPP) model for generation of funds as well as implementation. While the PPP-model appears attractive in paper, the experience is not encouraging. The empirical evidences also show several deficiencies including time-lag in their operationalization. Moreover, with the present global crisis, the participation of FIIs is doubtful. Apart from the problem of raising huge financial outlays, there are several bottlenecks that need to be addressed to avoid implementation delays. They include *inter alia*, slow approval process, land acquisition delays, environmental and forest clearances and inadequate availability of both skilled and unskilled manpower. Forward looking policies and approach, time-bound programs for capacity addition, technological change and removal of entry barriers are urgently required.

### Issues of Inclusiveness

Inclusive growth has become a mantra in Indian policy announcements and it so now in the planning. Twelfth Plan aims at faster, sustainable and more inclusive growth. Since it is multi-dimensional concept, unless the development is broad based and multi-dimensional, inclusive growth will remain an elusive objective. At present, the growth is not broad based, it has marginal impact on poverty and it widens inter-personal, inter-regional and rural-urban income inequality<sup>10</sup>. The benefits of growth in terms of income, employment and delivery of essential livelihood services are not adequately shared by the poor and weaker section of the society, especially the schedule castes and schedule tribes.

Essential services such as quality education, health, clean drinking water and sanitation are still beyond

<sup>10</sup> Chakravarthy offered an incisive analysis of success and limitations of the Indian policy and planning since independence. In his opinion, poverty reduction and reduction of income inequality did not take place as per the expectation (Chakravarthy, 1987). Chen and Ravallion have also empirically shown that rapid poverty reduction will be hard to achieve even in the face of high growth rates if initial income inequality is substantial or if the growth process itself aggravates inequality I(Chen and Ravallion, 2004).

the reach of rural majority. Poverty in terms of lack of access to basic services is also very acute in urban areas. According to National Family Health Survey, the proportion of children suffering from severe malnutrition was 40 percent in 2005-06, children not fully vaccinated, 45.5 percent and women not benefiting from safe delivery was 41 percent. The drop-out of elementary school in 2007-08 was 43 percent. The extent of basic deprivation is clearly substantial and it is more in some states. It is comparable to sub-Saharan Africa. What is particularly worrisome is that in spite increased allocation of resources under different plans, only marginal improvements took place. All these pose major challenges for the Twelfth Plan.

### **Governance**

Governance is defined as "the manner in which power is exercised in the management of a country's economic and social resources for development" (The World Bank, ———). Efficiency, transparency, accountability and responsiveness to people are main ingredients of good governance. Good governance is therefore *sine qua non* for ensuring enabling, conducive and stable macro-environment and providing essential public goods and services such as health care, education and basic infrastructure to achieve faster, sustainable and more inclusive growth. Good governance is required at all levels; central, state and district levels. Good governance at lower levels requires decentralization of planning process and empowerment to deliver public services efficiently and transparently. Corruption now surfaces in many forms, all of which eroded the confidence of the people in the Five Year Plans. Though, Tenth and Eleventh Plans drew attention to the critical need of good governance and have taken number of steps, there was no significant improvement in governance at all levels. While plans have right objectives and programs, their implementation on the ground is poor.

Over-arching challenges for Twelfth Plan should

therefore include besides building on the initiatives already taken to achieve a decisive improvement in governance but also effective implementation of already envisioned *Lokpal* Bill, transparent public procurement system, creation of legislative framework to ensure independent and transparent functioning of regulatory institutions and decentralization and strengthening Panchayat Raj Institutions for efficient and transparent delivery of public services at grass root levels. Improvement in governance in all these dimensions must be made a central focus of the Twelfth Plan.

### **Opportunities, Challenges and Risks**

The Indian economy is entering the Twelfth Plan period in an environment of great hope and emerging aspirations of people. The last decade witnessed the transition to high growth trajectory. Indian economy presents several potential drivers of growth. With the right enabling and conducive policy environment and good governance, it is possible to achieve faster, sustainable and more inclusive growth.

India is a vast country bestowed with diverse agro-climatic conditions. By diversifying and productivity improvement, agricultural sector provide good scope for achieving 4 percent sustainable annual growth. India has dynamic private sector which has grown in strength and is well positioned to undertake large investments needed to propel the manufacturing sector to faster growth path. Similarly, MSME sector is required to be strengthened with strategic interventions to exploit its potential performance. Accelerating higher growths in agriculture, manufacturing and MSME are essential to achieve more inclusive growth during the Twelfth Plan period.

There are also other upside potential factors which the Twelfth Plan should take into account for accelerating growth. The demographic dividend arising from relatively young educated and skilled population, dynamism of private sector, productivity growth

enhancing policy reforms improvement in the quality of institutions and governance are India's underrated strength to achieve higher growth (Rodrik and Subramanian, 2004). IT sector has already benefited from the stock of educated human capital. Manufacturing and other sectors could reap the dynamic benefit of this growing human capital. While aspiration of young population can be a driving force to push the economy towards faster growth, it is also true that if these aspirations are not appropriately transformed into growth driving force, it can lead to frustration and cynicism. Twelfth Plan therefore needs to take into account these challenges and consider a number of initiatives to empower the young population with requisite talents and skills and create opportunities for their employment.

India has in recent years witnessed the emergence of a strong and dynamic private sector. Some of the private industrialists are also global players. Hence Indian private sector is well positioned to undertake larger investments needed in manufacturing sector to propel the economy to a faster growth path. The process of second generation reforms particularly in financial sector, labor laws, FDI in infrastructure, land acquisition for industrial use etc. are required to stimulate private investment in industrial and service sectors.

Growth is not the only objective of planning and development. The ultimate objective is to achieve broad based improvement in standard of living of all people. Though India has to some extent succeeded in the growth front, it has not done well on inclusion. The broad vision of Twelfth Plan is to achieve broad based growth that reduces poverty, creates employment opportunities, access to essential services in health and education at affordable costs and provision of basic amenities like water, electricity, roads, sanitation and housing. How to ensure that the real benefit of growth reaches the poor and weaker section of the society is the critical challenge before the Twelfth Plan.

Twelfth Plan also must focus on risks that the economy may face and evolve strategies to manage those risks. The global financial crisis of 2007-08 stalled India's high economic growth - low inflation - sound macro-economic trajectory. With the onset of recent global crisis, India has serious macro-economic challenges with economic growth and investment slowing down, inflation soaring, fiscal and current account deficits widening and Indian rupee depreciating sharply. Against this background, the Twelfth Plan has to take into consideration the many macro and micro level challenges and risks involved while formulating policies, strategies and programs.

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