GOVERNMENT OF INDIA
PLANNING
LOK SABHA

UNSTARRED QUESTION NO:557
ANSWERED ON:27.07.2005
ECONOMIC GROWTH RATE
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Will the Minister of PLANNING be pleased to state:

(a) country`s over-all economic growth as measured by its Gross Domestic Product during 2004-05;

(b) whether it is true that the growth in the current year is lower than last year;

(c) if so, the reasons therefor;

(d) whether the National Development Council expressed dissatisfaction on the progress made in agricultural production and held this sector responsible for low rate of growth;

(e) if so, whether special programmes are envisaged to step up agricultural growth during the remaining period of the Tenth Five Year Plan;

(f) if so, the details, thereof; and

(g) the likely average growth rate of the economy during the Tenth Plan?

Answer

MINISTER OF STATE IN THE MINISTRY OF PLANNING (SHRI M.V. RAJASEKHARAN)

(a) to (c) : The growth of Gross Domestic Product (at factor cost and constant prices) during 2004-05 has been estimated at 6.95% as against 8.5% during 2003-04. The lower growth during 2004-05 is primarily due to decline in growth of the agriculture sector to 1.1% in 2004-05 as against 9.6% in 2003-04.

(d) : The Mid-Term Appraisal of the Tenth Five Year Plan has identified agriculture to be one of the sectors leading to slower growth of the economy during the first three years of the Plan. The National Development Council has agreed with the observation.

(e) & (f) : Some of the key suggestions on special programmes to step up agricultural growth during the remaining period of the Tenth Five Year Plan as indicated in the Mid- Term Appraisal are annexed.

(g) : The likely average growth rate of Gross Domestic Product during the Tenth Plan has been indicated at 7% in the Mid Term Appraisal provided the economy grows at 77% during the last two years of the Plan period.

PRIORITY AREAS FOR ACTION The scope for correcting all these deficiencies within the Tenth Plan period is limited. However, it is necessary to define a corrective agenda now and initiate the process as quickly as possible. Each of the individual chapters of the MTA contains a concluding section on the way forward which enumerates detailed suggestions for corrective steps in each sector of the economy. These suggestions deserve careful consideration and should form the framework for policy formulation leading into the Eleventh Plan. Some of the important policy initiatives in major areas on which a credible start can be made in the rest of the Tenth Plan period and should therefore have high priority in defining the policy agenda for the next year are summarised below-

AGRICULTURE, IRRIGATION AND RURAL DEVELOPMENT

Policy initiatives needed for agriculture must recognise that there is a general deceleration in the sector and not only a distributional problem. The specific problems of small farmers and the landless must receive special attention, but the policy correctives necessary are broader and must look at factors affecting agriculture generally. It is necessary to increase investment, including especially public investment in agriculture related infrastructure and also take a number of policy initiatives.

1. Rejuvenating Support Systems

Agricultural growth cannot be revived without rejuvenating support systems in extension, credit and the delivery systems of inputs such as seeds, fertilizers, veterinary services. Although institutional credit to agriculture has been stepped up substantially since last year, underlying problems of farm debt and of the cooperative sector remain. It is necessary to implement the recommendations of the Task Force on Revival of Co-operative Credit Institutions under the Chairmanship of Prof. A. Vaidyanathan as soon as possible so that this sector with the largest rural credit reach is revived. Similarly recent Central efforts to deal with the near collapse of extension systems

in most states need to be intensified and made more case sensitive. Delivery systems regarding seeds, fertilizers and pesticides require revamping by strengthening not only the existing public infrastructure but also facilitating the growth of private alternatives. The regulatory framework for these inputs also needs to be strengthened urgently to avoid the sale of spurious material without putting too great a constraint on enterprise. All this will need a large increase in expenditure in addition to the Central initiatives already on the anvil. However, since these systems essentially involve recurrent expenditure, the reforms above need to be put within a policy framework so that these reforms are owned by the States and transferred to them within a definite timeframe.

2. Investment in Irrigation/Water Management

Availability and management of water is the most important constraint on agricultural productivity and this area has been neglected because of paucity of resources especially with the State Governments and also a diffusion of responsibility over several different departments in the Central Government. Schemes which should have priority are:
i) rehabilitation of the existing irrigation systems;
ii) ground water development in areas where there is unutilised potential through back- ended subsidy schemes;
iii) artificial recharge of ground water in areas suffering from aquifer depletion; and
iv) inclusion of command area development works as part of major/ medium projects.

The total cost of this effort is estimated at around Rs. 110,000 crore and the Central Share up to the end of the 11th Plan period could be around Rs.23,000 crore.

If a start is to be made in implementing these schemes with effect from 2006-07, it will require an additional Rs.3000 crore in 2006-07 rising to Rs.5000 crores by 2011-12. Since it will be difficult to find additional resources of this order from the GBS given other existing commitments, a possible solution is to link the funds under the existing FFW & SGRY programmes and the new Backward Regions Grant Fund, to ensure that at least in the 150 or so districts covered by these programmes., projects related to irrigation and water management receive priority. FFW and SGRY have limits on the non-wage component which may limit the ability to undertake some of the works needed but the proposed Backward Regions Grant Fund provides untied resources which could supplement the non wage component of FFW/SGRY.

In the districts covered by the Backward Regions Grant Fund the resources provided by the Fund should primarily be used in conjunction with the FFW/SGRY, for investments aimed at improving irrigation and water management. The guidelines of the Backward Regions Grant Fund will have to be devised with this objective in mind and those for FFW/SGRY and the proposed EGA re-examined to allow this. In the other districts, the AIBP and the RIDF schemes should be used to focus on irrigation and water management programmes and for this purpose AIBP should be further enhanced in 2006-07.

3. Pricing of Water

The policy of severely under pricing water from canal systems has two well known adverse effects. It encourages excessive water use, especially in upstream areas, often leading to water logging and salinity, which damages soil productivity. It also weakens the finances of irrigation departments which are unable to maintain existing systems and to complete ongoing projects. Water pricing is a sensitive issue but to leave it unattended for this reason will only perpetuate present problems. The following policy correctives should be considered:

i) States should be encouraged to set up Water Regulators for periodically revising water tariffs as is being done by Maharashtra and Gujarat.

ii) The States could also set up Water Users` Associations (WUAs) to manage distribution of water and also empower them to collect the tariff, and retain a part of it (say 50 per cent) for system maintenance. WUAs may also be empowered to set water tariffs at higher levels and retain all the additional collection.

iii) Water regulators could set differential water tariffs for high water consuming crops, linked with ground water status, and also recommend a lower scale of subsidy on power tariffs for agriculture in water depleted areas to discourage over- drawal of ground water.

iv) The Centre could link subsidy for micro irrigation (from Central and NABARD schemes) to ground water status to encourage adoption of micro-irrigation in critical and dark areas. Its use in areas with large ground water potential could be left to be determined by financial viability.

Items
(i),
(ii) and
(iii) above, are in the domain of State Governments. State Governments could be incentivised to take action by making access to AIBP funding, and also the proposed funding of mega projects (see item 4 below) conditional on
(i)-
(iii) being implemented, perhaps in a phased manner.

4. Mega Irrigation Projects

There are nine on-going approved mega projects with international ramifications/inter-State benefits, each having irrigation potential of more than 1 lakh ha. These are: Teesta barrage Stage- I, Phase-I (West Bengal), Indira Gandhi Nehar Stage-II (Rajasthan), Western Kosi (Bihar), Shahpur Kandi (Punjab), Sardar Sarovar (Gujarat), Indira Sagar (Madhya Pradesh), Omkareshwar (Madhya Pradesh), Upper Krishna Stage-II (Karnataka), Gosikhurd (Maharashtra). Completion of these projects will add a potential of 3.3 m.ha.

at a cost of Rs.27,700 crore.

Given the resource constraint in the States, completion of these projects in a reasonable period is not likely unless some additional resources are provided. There is a case for considering Central support for a new mega irrigation scheme aimed at completing these projects. It is necessary to explore the scope for tapping new sources of funds for such investments, including the SPV for ` infrastructure financing announced in the Budget for 2005-06. Irrigation projects may not be financially viable on a stand alone basis in the conventional sense because of low water charges, but as long as their economic returns are high and the loans are guaranteed by the State Government, the financing problem can be resolved. Funding assistance for this purpose should be strictly linked to reforms in water tariff policy and greater reliance on participatory irrigation management through water user associations.

5.Watershed Development

More than half our cultivable area is rain-fed and much of it is under severe water stress. Programmes for the treatment of wastelands and degraded lands, including steps at water conservation are extremely important for these areas. At present, these programmes are being implemented by several departments, with similar objectives but different operational guidelines and, also different cost norms, which is not conducive to operational efficiency. Watershed development is a complex discipline requiring knowledge of soil, sub-soil structures, geo-hydrological data, and agricultural sciences. It also requires strong organisational support and community participation for it to be successful. The technological inputs in watershed projects are required both at the preparatory phase of the project, during project implementation and in the post-project phase. Therefore preparation of guidelines on technical inputs, social process and accounting and auditing manuals for watershed programmes is a must. Also, a framework for conjunctive use of surface and ground water in watershed development projects needs to be developed. The present system needs to be reviewed so that all watershed projects in a particular agro-climatic zone are implemented by a single department/agency within a common framework.

6. Agricultural Research

The scientific input into agricultural development needs to be greatly strengthened. The Task Group on Revamping and Refocusing of National Agricultural Research appointed by the Planning Commission under the chairmanship of Dr. M. S. Swaminathan has made a number of recommendations aimed at strengthening existing agricultural research institutions and giving them greater flexibility. These should be speedily considered for early implementation. The Government has already accepted one of the recommendations for establishing a National Fund for Strategic Agricultural Research and an initial provision of Rs.50 crores has been made for 2005-06. The administrative arrangements for establishing the Fund should be put in place so that the Fund can become operational by June 30, 2005. Efforts should also be made to tie up funding from multilateral agencies such as the World Bank and ADB so that the Fund can have an assured source of financing on which it can draw.

7. PDS Pricing

The present system of differential PDS pricing, with very low prices for BPL consumers, is a highly inefficient way of serving the equity objective. There are heavy leakages of as much as 55 per cent according to a recent Planning Commission study. The system also distorts incentives for grain producers in non-surplus areas where FCI procurement is poor or non-existent, because it depresses grain prices below the MSP. With the Food for Work Programme in place and the expansion of Mid-Day Meals and the universalisation of Integrated Child Development Services (ICDS), there is a strong case for moving to uniform PDS pricing. In other words, the PDS, should not be viewed as a poverty reducing instrument as much as an instrument for protecting the common man (including the poor) by stabilising issue prices at a level which may imply only a limited subsidy but which insulates the consumer from sudden increases in prices due to scarcity. The procurement side of the operation should continue to aim at stabilising MSP reasonably above costs of production. Procurement support should also be extended to cover the entire country.

PDS pricing is a sensitive issue, but the proposed change is a logical consequence of the adoption of other schemes aimed at poverty alleviation. It needs to be implemented in parallel with the expansion of other social safety net schemes. The resources saved by moving towards a unified issue price should be directed to expand other poverty reducing programmes, including especially the FFW.

The urban poor are not covered by the Food for work Programme and a case can be made that they need continued subsidy benefits through the PDS. This could be attempted through a system of smart cards. A smart card may be charged with the entitlement of the person who can buy ration commodities from any trader who is linked to the smart card system. The price difference can be automatically transferred to the traders` account when the holder makes a purchase.

8, Fertilizer Pricing

The N,P,K imbalance that peaked in the mid-1990s is much less now, but the subsidy on urea continues to be much higher than in the P&K fertilizers, promoting continued imbalance in fertilizer use. Excessive use of nitrogenous fertilizer leads to environmental pollution and unnecessarily erodes profit to the farmer. Fertiliser subsidies need to be comprehensively re-examined to improve balance and also to target the subsidy more to smaller holdings, for example, by limiting the subsidy to a fixed quantity to be given per farmer, with the rest of the market being decontrolled. The present practice of fixing fertiliser prices separately for urea and other fertilisers, based on different considerations, needs to be ended and replaced by a policy which takes an integrated view. The issue has been examined by several expert groups. It should be referred to the National Commission of Farmers to make recommendations for restructuring on the clear understanding that the restructuring is aimed at (a) rationalizing the subsidy across different types of fertilizer to ensure balanced fertilizer use and (b) combining it with mechanisms that would ensure that all resources saved are ploughed back into agriculture through other schemes.

9. National Horticulture Mission

Agricultural diversification into horticultural crops is a natural outcome ofthe process of rising` income levels and the associated change in consumption patterns, and the growing scope for exports. The National Horticulture Mission being launched in 2005-06 is therefore a timely initiative to support efforts by the States to promote horticulture. The level of funding provided for 2005-06 is sufficient to initiate the effort, but significant increase in funding of this scheme will be necessary if the momentum builds up and States evolve credible strategies in this area. and

10. Agricultural Marketing Contract Fanning Agricultural diversification needs to be supported by the evolution of market institutions which are different from those needed for non-perishable cereal crops. Marketing of perishable horticultural crops requires the development of a cold chain, with facilities for quick refrigeration shortly after harvesting and transportation to the market in refrigerated trucks. It also requires a much stronger linkage of the farmer (and therefore his production decisions) with the buyer who can reflect the specific needs of the market, which vary greatly depending on whether the product is destined for domestic retail or for exports or as an input into agro processing industry.

Contract farming will enable corporate buyers to organize groups of farmers to produce under contract, with the buyer organising the supply of seeds and related inputs, and also providing a measure of extension support. Contract farming needs to be supported by changes in the Agricultural Produce Marketing Committee Acts in the States, which require that agricultural produce can only be bought in regulated markets. There is resistance to bringing about these changes because of entrenched interests that control existing mandis and their associated funds, but the changes must be made in the interest of the farmer. It is necessary to link central assistance in the proposed National Mission on Horticulture to agricultural marketing reforms, amendments in the Agricultural Produce Marketing Committee (APMC) Acts. It should be recognised, however, that success in this area depends critically upon the development of essential infrastructure in rural areas including especially development of transport linkages, rural electrification and in the case of exports, suitable handling facilities at airports.

11. Amendment of the. Essential Commodities Act.

Another important initiative for the development of trade in agricultural products Is the amendment of the Essential Commodities Act. The present Act gives too much discretionary power to officials and discourages large investments by corporate traders. It is necessary to amend the Essential Commodities Act to remove those aspects of the Act which serve to discourage the development of modern private trades while strengthening the ability of the Act to intervene on occasion of genuine emergency or scarcity. All such interventions should be strictly time bound and limited to the period of scarcity, and should be carried out as transparently as possible.

12. Food Processing Law

One of the factors impeding the development of food processing has been the multiplicity of laws governing this industry which makes producers liable under a wide variety of circumstances, with considerable vagueness on what would constitute a violation. A Group of Ministers has been considering a new consolidated Food Processing Act and a revised draft Act also has been prepared which is both acceptable to industry associations and also takes care of the concerns of NGOs, especially on the sensitive issue of infant foods. The draft Bill should be introduced in Parliament as soon as possible.

13. Promotion of Participatory Natural Resource Management

Participatory management practices seek to empower the rural communities who would decide and prioritise their requirements and accordingly prepare and implement micro plans appropriate to local conditions and needs. The building of community based organizations, flexibility in technical and financial norms, facilitation through a multi-disciplinary professional groups, independent reliable and on-going monitoring and evaluation are the basic premises and procedures of these participatory processes. There is need to revisit the guidelines and the content of all programmes in natural resource management in the light of this valuable experience and also strengthen the coverage and funding of these programmes. More specifically, vacant and under utilized land areas can be used for creation of forest resources. Currently, there are 2,34,676 village Panchayat institutions in 31 States and Union Territories in the country in addition to the traditional councils in Meghalaya, Mizoram and Nagaland. If every Panchayat is entrusted to identify a reasonable area of land for afforestation through community participation, a substantial area can be covered under green canopy in total. The right of use of such resources should be left to the communities and opportunities for value addition and marketing provided.

14. Bio-diesel

With curreni and projected levels of crude oil prices, bio-fuel is a potentially viable alternative to fossil fuel. Most of the developed countries have active programmes for use of bio-diesel from various sources like rapeseed and sunflower oil in Europe, soya in USA, and palm oil in South East Asian countries, India is unlikely to use edible oils for this purpose but non-edible oils such as Karanj, Jatropha Curcas, Neem, Mahua, etc. which require little care in terms of watering and maintenance, and can be cultivated in wastelands can offer a viable option for production of bio-diesel. Since the country has nearly 63 million hectare of waste land, a part of such land can be used for cultivation of these oil bearing crops. Bio-diesel is cleaner than petroleum-diesel and will help the local environment and since it is renewable, there is no net emission of carbon and it can qualify for carbon trading. A blend of up to 20 per cent would require an estimated quantity of 13 million tonnes of bio-diesel production which would potentially need an area of 11 million hectare of waste land. Jatropha cultivation on this acreage could create 11 million jobs in the rural areas and the greening created will be entitled for emission trading under Kyoto Protocol.

To promote bio-fuel, it may be necessary to consider mandatory blending of 2 per cent bio- diesel initially, to be raised progressively to say 15 per cent subject to availability at an acceptable price. Commercial viability will activate the major oil refineries and oil marketing companies to make arrangements to procure the necessary oil for blending and would encourage private companies or joint venture companies to enter into contracts with the oil refineries and in parallel tie-up with farm communities and state government authorities to develop non-edible oil plantations of the desired type. Any subsidies/fiscal incentives necessary to achieve initial

commercial viability should have a sunset clause so as to ensure long-term sustainability.