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Dear Secretary

You may recall that the National Development Council (NDC) in its meeting held on 21st December 2002 has unanimously approved the Tenth Five Year Plan (2002-07). The Tenth Five Year Plan (2002-07) document has already been placed on our Web site, namely <http://planningcommission.nic.in/>

2. I write this to draw your attention to the decision that the discussions on the Annual Plan (2004-05) be held sometime in December 2003 - January 2004. Accordingly, it is requested that the Annual Plan 2004-05 proposals of your Ministry / Department may please be forwarded to the Planning Commission not later than **7th November, 2003**. The guidelines for the classification of the Plan and Non-Plan expenditure (**Appendix - 1**) as also the formats (**Appendix - 2**) for presenting the proposals are enclosed. Given the schedule (**Appendix - 3**) for the formulation of the Annual Plan and its consideration / approval prior to its incorporation in the Union Budget 2004-05, it would be necessary that we adhere to the indicated schedule for meaningful Plan discussions that give an appropriate reflection of your plan priorities for the Tenth Plan and the Annual Plan 2004-05. On this issue, your nodal Adviser in the Planning Commission would shortly be in touch with you.

3. In this letter, I would like to share with you the general thinking of the Planning Commission on the achievement of the projected 8 per cent growth in GDP during the Tenth Plan period and also on some important issues that have a bearing on the process of Plan formulation in general, and the proposal for the Annual Plan 2004-05 in particular.

General Concerns

4. The current year is the second year of the Tenth Five Year Plan (2002-07), which envisages an average annual growth rate of 8 percent. While the growth performance in recent years has been lower than this target, international evidence, as well as India's own experience demonstrates that the target is indeed feasible. Under the circumstances a few words on the strategic approach that has been adopted may be in order.

5. The principal reason why 8 per cent growth may be feasible in the Tenth Plan is that the scope for realising improvements in efficiency is very large, both in the public sector and in the private sector. However, this improvement in efficiency can only be realised if policies are adopted which ensure such improvement. We must therefore give high priority to identifying efficiency enhancing policies both at the macro level and also at the sectoral level. These policies will often involve a radical break from past practices and even institutional arrangements.

6. There is sufficient evidence to suggest that there may be a considerable stock of existing capital assets, which are either lying idle or have never been used to their full potential. The existence of such unused capacity presents both an opportunity and a problem for accelerating the growth in the Tenth Plan. On the one hand, if much of these capacities can be brought into productive use, it would be possible to accelerate the rate of growth significantly without a commensurate increase in the rate of capacity creation through fresh investment. Thus, the aggregate investment rate can be significantly lower than would have been otherwise. On the other hand, the existence of large unutilised capacities is likely to curb the desire to invest by the private sector. Therefore, it is considered imperative to place full emphasis on completion of partially completed or on-going projects and upgradation of existing capital assets before starting new projects; expedite the process of privatisation of non-strategic Public Sector Enterprises (PSEs), particularly those which are working well below capacity and introduce legal and procedural changes for facilitating quick transfer of assets.

7. Improving utilization of existing capacities will also require revival of aggregate demand, especially through public investment in crucial infrastructure sectors, which can also lead to "crowding in" of private investment. This will require strengthening of the institutional capacity to undertake public investment, which has eroded to some extent in recent years. Furthermore, we need to simplify rules, regulations and procedures, which unnecessarily hamper private investment activity in the country, so that private investment can play its required role in due course. Every Ministry / Department needs to focus on these issues so that early action can be taken to bring about policy and procedural reforms.

8. Besides improvement in efficiency and better sectoral focus leading to reduction in the incremental capital output ratio (ICOR), the Tenth Five Year Plan (2002-07) has also thrown up a new challenge in terms of raising public and private investment levels to realize the average growth target of 8 percent per annum. The growth envisaged in the Plan requires an average annual investment of 28.4 percent of GDP involving acceleration in the investment rate from 24.4 percent of GDP in the base year (2001-02) to 32.3 percent of GDP in the terminal year of the Plan. The step up envisaged in the public sector investment is nearly 3 percentage points of GDP. Without fiscal consolidation, it would not be possible to achieve any improvement in the current levels of public investment. Therefore, it is emphasized that while preparing plan proposals, the area of collective concerns such as the deteriorating public finances and fiscal health of the government need to be expressed explicitly.

9. Empirical studies have also pointed out that there are areas where procedural hurdles and the framework of rules and regulations have raised the transaction costs of economic activities in production, distribution and even consumption of our produce. This has contributed to inefficiencies in our systems and has made India a high-cost economy in comparison to some of our Competitors in the export markets. There is, therefore, a need to vigorously root out these distortions in our policy framework for generating a more broad-based development momentum, cutting across the public and private domain, to address our concerns on equity and sustaining an accelerated growth performance of our economy.

10. The Priority Agenda / Thrust Areas encapsulates the directions of the Tenth Plan Document and it is essential to work on these to derive the maximum advantage. Progress of Priority Agenda / Thrust Areas will also be a deciding factor in next year's allocation. In this context, I would like to emphasise that Priority Agenda / Thrust Areas approved by the Cabinet concerning your Ministry / Department should be accorded priority while making your Plan proposals and should form an integral component of the Core Plan of your Ministry / Department. This is also the time to start thinking on the Priority Agenda / Thrust Areas items for the year 2004-05 so that they could be provided appropriate allocation in next year's budget.

11. Though it is necessary to provide adequate allocation of resources for Plan programmes and schemes, it is, however, found quite disturbing to note that even what is provided by way of

Plan outlays is not translated well in terms of physical achievements. There are many possible reasons for this, including a thin spread of scarce resources on account of proliferation of both Central and Centrally Sponsored Schemes with similar objectives -within a sector and across sectors - inadequate monitoring of Plan expenditure and, more importantly, the general inefficiency and ineffectiveness in transforming our scarce resources into desired outcomes. Therefore, to supplement our efforts to achieve the ambitious target of average GDP growth rate of 8% per annum in the Tenth Plan, we have to not only take serious steps for mobilising additional resources for stepping up our investment rate, but we also need to address all these concerns most expeditiously. The Plan has to be an instrument for setting new benchmarks for efficiency and effectiveness in implementing our development policies and programmes. In this context, I would like to reiterate that while formulating the proposals for the Annual Plan 2004-05 of your Ministry / Department, the following outcomes that have emerged from the evaluation studies of the Planning Commission, past annual plan discussions and the recent Quarterly Performance Review (QPR) meetings, may be kept in view and given utmost importance:

- (i) Evaluation Reports of Planning Commission clearly indicate that in a large number of schemes there is too much expenditure on administration and, as a result, too little is left for the actual work to be carried out. Planning Commission has been pursuing vigorously ZBB exercise for convergence / weeding out and transfer of Central Sector / Centrally Sponsored Schemes. It is of utmost importance that the decisions of the Planning Commission emanating from the ZBB exercise regarding the schemes of your Ministry / Department, which were communicated to you, are fully taken on board in the Annual Plan 2004-05 proposals, if not already implemented through earlier Annual Plans. This would enable us to prevent a mismatch between the requirement of funds and the Plan allocations and ensure that Plan expenditure is matched by desired physical achievements. This would also shift the focus of planning from inputs to outputs, i.e. on physical targeting rather than on financial allocations.
- (ii) There has to be a serious prioritization of all Plan programmes / schemes / projects for the Tenth Five Year Plan with a view to use the available resources in the most judicious and economically efficient manner. In particular, while preparing the Annual Plan proposals for 2004-05, there should be an attempt to outline the "Core Plan" for the Ministry / Department highlighting the basic sectoral priorities and the minimum programme for public action in the concerned sector. Implicit in this is the idea that critical programmes in each sector should not suffer for lack of allocation over the Plan period and completed as planned so that the projected benefits from their implementation could be fully realized. Core Plan should also reflect Priority Agenda / Thrust Areas so that sufficient allocations are made for them.
- (iii) As far as possible, only those central sector and centrally sponsored schemes / programmes / projects should be included in the plan proposals which have been approved for the Tenth Plan period with the necessary investment decisions taken by the designated body or proposals which are in public interest and cannot be delayed without significant implications on the economy and for which at least the preliminary feasibility study has already been carried out. In this context, may I emphasise the need to provide indicative state-wise break-up of the allocation for each existing CSS, so that these can be incorporated in our State Plan discussions. The relevant detailed guidelines in respect of the procedure for inclusion of the new Plan schemes have already been issued separately. The proposals for new plan schemes should also include the principle of such allocation and, if possible, the state wise physical and financial targets.
- (iv) With a view to improve effectiveness of public spending in achieving the stated objectives of the Plan programmes / schemes, I would also urge you to strengthen the mechanism of holding Quarterly Performance Review (QPR) meetings, initiated recently by the Planning Commission, on regular basis. This would undoubtedly provide useful

feedback and a better understanding of the concerns of your Ministry / Department. Should there still be some constraints in the way of satisfactory implementation of the Plan schemes, you may consider carrying out joint monitoring of such schemes along with Planning Commission. These concerns need also to be clearly flagged so that they could be appropriately discussed at the Secretary level meetings during the course of Annual Plan 2004-05 discussions.

- (v) An important channel for mobilising resources for development, particularly for social sectors, is the Externally Aided Projects (EAPs) and direct funding of projects (i.e. outside the budgetary flows) by the NGOs, which has been insufficiently integrated with the planning process and the allocation of budgetary resources. Often, it has been observed that some of these projects are started in the course of the year and since the budgetary support for the fiscal year is fixed at the time of the presentation of the Union Budget, additional funds required for the inclusion of new EAPs can only be through depletion of funds under the Domestic Budget Support (DBS) of the Ministry / Department. This adversely affects, in many cases, the physical targets fixed for the programmes initiated by the concerned Ministry / State Government and creates uncertainty about the availability of further resources for such programmes / schemes. In this context, it was requested that every Ministry / Department's proposal for the Annual Plan should also include the proposed / likely EAPs in your sector. EAPs that are of high enough priority for inclusion in the Core Plan should be indicated and included in the Core Plan as well.
- (vi) You may recall that as per the Prime Minister's initiative for the North-Eastern region, all Central Ministries / Departments are required to earmark at least 10 per cent of the Budget for the North-East (except those specifically exempted). A scheme-wise break up of this allocation may also be indicated for the Annual Plan 2004-05. The list of Departments exempted from this requirement of earmarking 10% of their budget is enclosed (**Appendix - 4**). It has been observed that in certain cases, the provision made was not 10% of the Gross Budgetary Support (GBS), which can cause embarrassment to the Government besides sending negative signals to the North-Eastern Region. It is, therefore, once again emphasized that, in future, this requirement may be strictly adhered to in the Revised Estimates (RE) and Budget Estimates (BE).
- (vii) You would agree that there is a need to encourage public-private partnership in promoting infrastructure to leverage public funds, improve quality of service delivery and ensure better value for money. The success achieved under the National Highways Development Project (NHDP) launched by the Prime Minister in October 1998 is an example for adopting new methods of financing and public-private partnerships in other areas too. The PPP could be effectively used in the delivery of social services like health care, primary education, provision of quality transportation facilities in the form of roads, railroads, ports and airports and safe drinking water and sanitation. What is required is a change in the paradigm of the public sector to 'providing' public goods and services without necessarily "producing" them itself.
- (viii) You may also recall that the Prime Minister made an announcement in his Independence Day Speech 2002 with regard to a comprehensive programme to accelerate e-governance through Information Technology at all levels of Government to improve efficiency, transparency and accountability at the government-citizen interface. Subsequently, in pursuance of the decision taken in the 50th NDC meeting, an Empowered Sub-Committee on Governance Reforms with special reference to E-Governance was constituted, *inter-alia*, to suggest ways and means for promotion of e-governance as a tool to achieve good governance. E-governance has also been identified as one of the priority sectors of the Tenth Five Year Plan. Besides, in pursuance of recommendations of a High Powered Committee for Improving

Administrative Efficiency by using IT, Planning Commission had requested all central Ministries / Departments to make a provision of 2-3 per cent of their Plan / Budget for programmes / schemes relating to IT application, and had also communicated the decision of the High Powered Committee under the Chairmanship of Cabinet Secretary that Ministries/Departments could incur expenditure of an amount exceeding 2-3 per cent of their budget (from plan or non-plan) for initiatives relating to furthering the use of Information Technology, including training, acquisition of hardware, software as well as development and maintenance of software. It was clarified that it does not entail any additionalities by way of budgetary allocations.

Tentative Size of the Annual Plan 2004 - 05

12. I would like to emphasise the need to have a realistic assessment of resources so that the proposals formulated for the Annual Plan 2004-05 are credible and the exercise itself is meaningful. I would like to add here that the internal resources and the functioning of public sector undertakings and departmental undertakings such as the Electricity Boards, Transport Corporations and Irrigation Departments have been a matter of concern and deliberated extensively in the Commission. There has to be a concerted effort to enhance the internal accruals of such undertakings so that they do not constitute a drain on the budgetary resources of the government, and on the contrary they should be in a position to make a positive contribution to the government's efforts at mobilising resources for the Plan. It has also been observed that in some cases the gap between the approved Plan outlay and the revised / actual Plan outlay is largely on account of the failure of the PSUs to mobilise the agreed quantum of internal and extra budgetary resources for the Plan. This has to be examined closely and such Ministries / Departments that have Public Sector Undertakings under them, need to bridge the said gap.

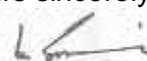
13. A clearer picture on the resource position - the budgetary support to the Central Plan and the Central assistance to State Plans - is expected to be available in due course. In the meantime, in the light of what has been stated above, you may like to initiate the formulation of your Ministry's / Department's proposals for the Annual Plan 2004-05 with an indicative increase of about 5-10 per cent over the current year. We expect to receive your proposals **by 7th November 2003** at the latest so that the Plan discussions can be scheduled starting from the first week of December 2003. The process of Plan discussions and finalisation of the Plan outlays would be greatly facilitated if the proposals are forwarded according to the prescribed guidelines and the formats. I may add here that the concerned sectoral Advisers in the Planning Commission may also write to you in due course to seek specific information in respect of your sector.

14. Shri J.C. Sharma, Director (Plan Coordination), in-charge of the Central Plan, Telephone no. **2309-6526** would be the Coordinating Officer in the Planning Commission. The name and telephone number of the coordinating officer in respect of your Ministry / Department may be intimated for facilitating liaison. You may please send ten copies of your Plan proposals to your Subject (Nodal) Division in the Planning Commission and another 10 copies to the Plan Coordination Division.

15. I look forward to your cooperation in completing this exercise meaningfully and as per the schedule. This letter may please be acknowledged.

With regards,

Yours sincerely,



(N. K. Sinha)