

Chapter 1. Three Year Action Agenda: An Overview _____

VISION AND CHALLENGES

- 1.1. The objective of eliminating poverty in all its dimensions such that every citizen has access to a minimum standard of food, education, health, clothing, shelter, transportation and energy has been at the heart of India's development efforts since Independence. The extremely low level of per-capita income and widespread poverty made it impossible for us to achieve this objective without growing the economy. Tax revenues were so meagre and the economy's needs so vast that no serious dent into poverty could be made through redistribution alone. While we substantially improved economic performance during the first four decades of independence over that during the preceding fifty years, growth remained below 4%, which was woefully inadequate for a meaningful decline in poverty.
- 1.2. But the signs of change began to emerge during the second half of the 1980s, with 1991 proving to be a turning point. The reforms that followed first under Prime Minister Narasimha Rao and then under Prime Minister Atal Bihari Vajpayee placed India first on a 6% growth trajectory and then, beginning in 2003-04, on an 8% plus trajectory. Rising wages accompanied faster growth and pulled many out of abject poverty. Growth also yielded handsome gains in tax revenues, which helped expand social spending manifold, reinforcing the direct effect of growth on poverty reduction.
- 1.3. Although a combination of global economic developments and domestic policy choices led to a dip in the growth rate to 5.6% in 2012-13, quick corrective action in 2014, followed by sustained policy reforms, has helped the economy sustain 7% plus growth during the three years ending on 31 March 2017. Indeed, there are good prospects that we will return to the 8% plus growth trajectory in another two to three years if not sooner. Therefore, the chances of a massive cut in the poverty rate in the upcoming decade are excellent.
- 1.4. India's 125 Crore citizens, the majority of which consists of the youth, increasingly aspire for greater empowerment and a better quality of life. It is in recognition of these joint aspirations that the Prime Minister has called for the transformation of India with the "Participation of All and Development of All" or "Sabka Saath, Sabka Vikas."
- 1.5. In this backdrop, the present document charts an ambitious, transformational yet achievable Action Agenda for the government during 2017-18 to 2019-20, that constitute the last three years of the Fourteenth Finance Commission. The Agenda is a part of a longer-term Fifteen-year Vision and Seven-year Strategy outlined in a separate document. The Action Agenda proposes a path to achieve all-round development of India and its people. A brief outline of the subjects covered in the document is provided below.

Part I: Medium-term Revenue and Expenditure Framework

- 1.6. The most direct and visible policy tool of the government is the budget. The allocation of expenditure needs to be aligned to the government's overall objectives. Accordingly, chapters 2-4 in Part I present expenditure proposals for three years based on revenue forecasts. This exercise has been limited to the Central government.
- 1.7. During the past three years (2014-15 to 2016-17), the government has made significant progress towards implementing a sound and stable fiscal strategy. The fiscal deficit has been cut from 4.5% of the Gross Domestic Product (GDP) in 2013-14 to 3.5% in 2016-17 while the revenue deficit has been reduced from 3.2% to 2.1% of the GDP over the same period.¹ It is proposed that the government should capitalize on this progress by maintaining its course during the next three years. Under the proposed fiscal framework, the fiscal deficit is to be reduced to its eventual target of 3% of the GDP under the Fiscal Responsibility and Budget Management (FRBM) framework by 2018-19, while the revenue deficit is expected to fall to 0.9% of the GDP by 2019-20.
- 1.8. The Action Agenda proposes linking Central government expenditures to future priorities. It suggests shifting the composition of expenditures by allocating a larger proportion of additional revenues that become available over time to high-priority sectors. Under the proposed agenda, the share of non-developmental revenue expenditure in total revenue expenditure would decline from 47% in 2015-16 to 41% in 2019-20. At the same time, the share of

capital expenditure, which is more likely to promote development, would rise significantly. The proposals imply substantial expansion in expenditures by 2019-20 on education, health, agriculture, rural development, defence, railways, roads and other categories of capital expenditure.

Part II: Economic Transformations in Major Sectors

- 1.9. This part includes two chapters, one dealing with agriculture, which is the backbone of the rural economy, and the other focuses on industry and services in which the key issue is the creation of well-paid jobs.

Agriculture: Doubling Farmers' Incomes

- 1.10. Farmers make up nearly half of India's workforce. Therefore, for India to flourish, its farmers and the farm economy must prosper. It is against this background that the Prime Minister has called for doubling farmers' incomes by 2022. To achieve this goal, the Action Agenda outlines a strong programme for agricultural transformation. It includes numerous measures to raise farm productivity, bring remunerative prices to farmers, put farmers' land to productive uses when they are not able to farm it themselves and improve the implementation of relief measures. Chapters in subsequent parts of the document offer an ambitious agenda for empowering the rural population through improved road and digital connectivity, access to clean energy, financial inclusion and "Housing for All."
- 1.11. Enhancing agricultural productivity requires of efficiently using inputs, introducing new technologies and shifting from low to high value commodities. We need to expand the scope of irrigation to increase crop intensity, improve access to irrigation, enhance the seed replacement rate and encourage the balanced use of fertilizers. Precision farming and related new technologies, that allow highly efficient farming and conserve resources, must be spread through appropriate policy interventions. Conditions conducive to shift into high value commodities such as horticulture, dairying, poultry, piggery, small ruminant husbandry, fisheries and forestry need to be created.
- 1.12. The reform of the Agricultural Produce Marketing Committees (APMC) Act needs a new lease of life. Farmers should get genuine rights for direct sales to buyers of all commodities, potential buyers should get the rights to buy produce directly from farmers, entry of private agricultural markets should be free and an effective legal framework for contract farming should be established. Minimum Support Prices (MSPs) have distorted cropping patterns due to their use in certain commodities in selected regions. There has been an excessive focus on the procurement of wheat, rice and sugarcane at the expense of other crops such as pulses, oilseed and coarse grains. These distortions have led to the depletion of water resources, soil degradation and deterioration in water quality in the North-west. At the same time, eastern states, where procurement at the MSP is minimal or non-existent, have suffered. One measure that can help reduce distortions in the MSP system is the system of "Price Deficiency Payment." While MSP may still be used for need-based procurement, under the deficiency payments system, a subsidy may be provided to farmers on other targeted produce, contingent on prices falling below an MSP-linked threshold.
- 1.13. Over the years, landholdings in India have become smaller and fragmented. According to the 2010-11 Agricultural Census, 47% of landholdings had become less than half a hectare in size. These holdings are too small to support a family of five so that many farmers now seek alternative sources of income. But stringent tenancy laws in most states have meant that these farmers hesitate to lease the land they leave behind. As a result, an increasing amount of farmland is being left fallow. The introduction of a modern land-leasing law that balances and protects the rights of the tenant and landowners would be a potential solution.
- 1.14. Finally, to alleviate distress in case of natural calamities, the government has recently introduced the Fasal Bima Yojana. This is an important positive step toward mitigating risk but requires improvement. Capping the subsidy amount per farm household to a fixed amount and charging the full premium for additional insurance would not only economize on financial resources but will also be more equitable.

Trade, Industry and Services: Creating Well-Paid Jobs

- 1.15. Contrary to some assertions that India's growth has been "jobless," the Employment Unemployment Surveys (EUS) of the National Sample Survey Office (NSSO), which till date remain the most reliable sources of information on India's employment situation, have consistently reported low and stable rates of unemployment

over more than three decades. Even under the most demanding definition of employment, the unemployment rate consistently remains between 5% and 8%.

- 1.16. Indeed, unemployment is the lesser of India's problems. The more serious problem, instead, is severe underemployment. A job that one worker can perform is often performed by two or more workers. In effect, those in the workforce are employed, but they are overwhelmingly stuck in low-productivity, low-wage jobs.
- 1.17. Three examples illustrate the point. First, in 2011-12, as per the NSSO Employment Unemployment Survey, 49% of the workforce was employed in agriculture. But agriculture contributed only 17% of India's GDP at current prices. Second, in 2010-11, firms with less than 20 workers employed 72% of India's manufacturing workforce but contributed only 12% of manufacturing output.² Finally, services are no different. According to the 2006-07 NSSO survey of service firms, the 650 largest enterprises accounted for 38% of services output but only employed 2% of services workers. Put another way, the remaining services firms employed 98% of the workforce but produced only 62% of the output.
- 1.18. Therefore, what is needed is the creation of high-productivity, high-wage jobs. Accordingly, Chapter 8 of the Action Agenda focuses on the measures necessary for the increased emergence of larger, organized-sector firms. The experience of countries that managed to transform rapidly, such as South Korea, Taiwan, Singapore and China, shows that the manufacturing sector and the ability to compete in the vast global marketplace hold the key to the creation of well-paid jobs for low and semi-skilled workers. The "Make in India" campaign needs to succeed by manufacturing for global markets.
- 1.19. A focus on the domestic market through an import-substitution strategy, however attractive it may seem, would give rise to a group of relatively small firms behind a high wall of protection. They will not only fail to exploit scale economies but also miss out on productivity gains that come from competing against the best in the world. The electronics industry offers a case in point. Our domestic market in electronics as of 2015 is only USD 65 billion. In contrast, the global market is USD 2 trillion. Our policy of import substitution under high protection has given rise to a group of small firms none of which is competitive in the world markets. In contrast, a focus on the global market can potentially result in output worth hundreds of billions of dollars and hence a large number of well-paid jobs.
- 1.20. Today, with Chinese wages rising due to an ageing workforce, many large-scale firms in labour-intensive sectors currently manufacturing in that country are looking for lower-wage locations. With its large workforce and competitive wages, India would be a natural home for these firms. Therefore, the time for adopting a manufactures- and exports-based strategy could not be more opportune. Keeping this context in view, the Action Agenda offers detailed proposals for the implementation of an exports-based strategy. Among other things, it recommends the creation of a handful of Coastal Employment Zones, which may attract multinational firms in labour-intensive sectors from China to India. The presence of these firms will give rise to an ecosystem in which local small and medium firms will also be induced to become highly productive thereby multiplying the number of well-paid jobs.
- 1.21. India has, of course, already achieved considerable success in some key services and skilled-labour-intensive industries. It has had great success in the global markets in information technology (IT), information technology-enabled services (ITES) and pharmaceuticals. Its financial sector, including capital markets, has also acquired a modern character and has been exhibiting healthy growth during the past one and a half decades. Therefore, unlike past rapid transformers such as South Korea, Taiwan, Singapore and China, India has the advantage of walking on two legs: manufactures and services.³ The Action Agenda offers specific proposals for jumpstarting some of the key manufacturing and services sectors, including apparel, electronics, gems and jewellery, financial services, tourism and real estate.

Part III: Regional Development

- 1.22. Chapters 7-9 in Part III focus on urban, rural and regional development, respectively. Urbanization is an integral part of modernization. Often, urban centres such as Mumbai and Shanghai are home to the organised sector activities. But even when these activities locate in rural areas, they quickly turn the latter urban. Shenzhen in China offers the most striking example of such a transformation. From a group of fishing villages with a population of 300,000 in 1980, today, Shenzhen is among the most urbanized spots on the face of earth. Accordingly, the Action
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Agenda spells out how we can facilitate urbanization in the country. Key challenges faced by the urban sector include affordable housing, infrastructure development, public transport, promotion of Swachh Bharat, reform of urban land markets and waste management.

- 1.23. A large part of India's population resides in rural areas. The challenges in the rural areas include creating jobs such that some agricultural workers could shift to non-farm sectors, skill development, accessing education and health facilities, infrastructure, local governance, drinking water and sanitation and financial inclusion. The Action Agenda outlines possible avenues to achieve progress in these areas.
- 1.24. The final chapter in Part IV turns to a discussion of regional strategies to achieve balanced growth across the country, such that a minimum level of prosperity comes to all. The areas covered include the North Eastern region, coastal areas, islands, North Himalayan states and desert and drought prone areas. Developing infrastructure in these areas to bridge the divide created by geographical uniqueness is an important element of government actions.

Part IV: Growth Enablers

- 1.25. Part IV discusses how to enhance the contribution of a number of growth enablers. These include infrastructure, digital connectivity, Public Private Partnerships (PPPs), energy, science and technology and creation of an effective innovation ecosystem. Chapters 10-15 discuss each of these subjects in detail. Infrastructure development is one of the most crucial elements of economic transformation. The development of transport and connectivity infrastructure, including the roadways, railways, shipping & ports, in-land waterways and civil aviation, is discussed in Chapter 10. The challenges faced in this sector include physical capacity constraints, severe modal imbalances and a lack of holistic planning, maintenance and safety.
- 1.26. Digital connectivity has become an important driver of economic growth. In order to leverage efficiencies promised by the adoption of digital technologies, we need to develop a physical digital infrastructure network that is accessible to all. We must also create a host of software drive services including government services that can be provided digitally. The Action Agenda discusses the Digital India campaign and the actions related to enhancing digital connectivity.
- 1.27. Private sector involvement in infrastructure projects across different sectors helps in bridging the gap between the available public resources and the required investment. In addition, it helps in bringing private sector expertise into play. However, the institutional framework governing Public Private Partnerships (PPP) needs to be strengthened so that bottlenecks to implementation are avoided. Chapter 12 deals with these hurdles and suggests ways to overcome them.
- 1.28. The energy sector is one of the key drivers of economic growth and development. Access to reliable sources of energy is a crucial issue. Chapter 13 discusses this subject including actions necessary for increasing energy consumption and increasing energy efficiency and production. It pays particular attention to how we may improve the efficiency of distribution of coal, electricity, oil & gas, and harness renewable energy.
- 1.29. Another important element in India's development strategy is spurring science and technology including creating an enabling environment for innovation and entrepreneurship. With economic growth, India's contribution to science and technology has gained some momentum but it still lags behind the other major economies in the world. A culture of innovation is also essential for India to find ways to tackle its development challenges such as access to education, improving agricultural productivity and wastewater management. The Action Agenda for science and technology is presented in Chapter 14, while that for creating an effective innovation ecosystem is discussed in Chapter 15.

Part V: Government

- 1.30. Part V considers issues related to the government such as governance, taxation, competition and regulation. Chapter 16 discusses rebalancing the government's role in favour of public services and away from manufacturing. It also recommends reforms in the civil service, and electoral process. It suggests actions to eliminate corruption
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and black money, which have emerged as important policy priorities. Finally, the chapter offers suggestions for strengthening federalism and bringing states to the forefront of reform agenda.

- 1.31. Chapter 17 includes reforms to taxation policy and its administration with the view of reducing the scope for tax evasion and generation of black money, expansion of the tax base, and creation of a predictable and stable tax policy.
- 1.32. The government influences market outcomes through a regulatory environment that consists of laws, policies and rules. As elsewhere, India's regulatory environment has features that do not facilitate competition and may harm the public interest. Public procurement policies also need improvement. Chapter 18 discusses reforms that will encourage competition, improve the public procurement system and enhance the capacity of sectoral regulators.
- 1.33. Chapter 19 looks at the Justice System and includes a reform agenda to strengthen the rule of law in India. It covers three broad areas in which the Justice System needs reform - statutory and administrative laws, the judicial system and police. The suggestions on statutory and administrative law reform focus on modernizing and weeding out old and dysfunctional elements in legislation, unifying and harmonizing laws, reducing government intervention in areas where it is not required, undertaking statutory reforms in criminal justice and procedural laws, and reforming land/property related laws. The suggestions for reforming the judicial system revolve around streamlining human resource availability and performance, increasing and strengthening avenues for dispute resolution and extensive use of ICT to improve efficiency. For police reform, the important areas are state level legislative and executive reforms to help police forces serve more effectively within the modern-day democratic state.

Part VI: Social Sectors

- 1.34. Part VI of the Action Agenda turns to education, skill development, health and issues facing specific groups such as Scheduled Castes, Scheduled Tribes, women, children, differently abled and senior citizens. Education, skill development and health contribute to the creation of a productive workforce. Addressing the needs of all members of society is critical for inclusive growth of the country.
- 1.35. Given that a large and growing segment of India's population is under 25, education and skill development are critical to fully harvesting India's demographic dividend. Chapter 20 discusses the actions for improving the country's education system. The goals of improving learning outcomes in schools, raising the quality of education and research in higher education and promoting skill development are priorities for the sector. At the school level, while we have successfully brought all children into the fold of elementary education, quality education remains a distant dream. Actions to improve education quality can no longer be delayed. The chapter provides various steps to improve outcomes in the areas of school as well as higher education.
- 1.36. In the next fifteen years, we must entirely transform the delivery of health services and engineer a quantum jump in health outcomes. With this in view, Chapter 21 discusses measures necessary to lay down the foundation of a transformational change in the next three years. It focuses on public and preventive health, assurance of health care, reforming fiscal transfers from the Centre to states for better health outcomes, accelerating human resource development and improving access to medicines.
- 1.37. The guiding principle of the Prime Minister's development philosophy has been "Sabka Saath, Sabka Vikas" which implies that development should include every citizen. In this spirit, Chapter 22 discusses actions for building a more inclusive society. The chapter outlines actions aimed at the removal of obstacles faced by specific groups on the basis of gender, caste, age and physical impairment.

Part VII: Sustainability

- 1.38. The last part of the Action Agenda, Part VII, turns to environmental sustainability. We must address the high levels of air pollution in the cities, black carbon pollution indoors from the use of biomass fuels in cooking, massive volumes of solid waste in urban areas and deforestation. On the one hand, we must strengthen and streamline

regulatory structures governing sustainability of the environment while on the other we must remove hurdles that adversely impact growth without protecting the environment. Chapter 23 outlines the action items contributing to these objectives.

- 1.39. Finally, water demand for irrigation, drinking and industrial use has been increasing with growth in incomes and population. But the sources of water supply remain scarce. We must address issues such as water scarcity, uneven distribution of water resources across people, sectors and regions, deteriorating water quality and excessive dependence on groundwater. These issues are taken up in the last chapter of the Action Agenda, Chapter 24.
- 1.40. Only by working together towards common national goals can the Centre and states meet India's development challenges. "Maximum Governance and Minimum Government", and "Competitive and Cooperative Federalism" are critical to achieving the full potential and creating a modern India, which brings prosperity to all of its 125 Crore citizens.

¹ These figures represent the Revised Estimate for Budget 2016-17.

² Asian Development Bank estimates using NSSO and ASI data.

³ Panagariya, Arvind, "A Passage to Prosperity," Wall Street Journal, 14 July 2005.

Part I: Three-Year Revenue and Expenditure