The Tenth Plan – India's Poverty Reduction Strategy

These economic and social developments provide the challenging context for implementation of the Government's poverty reduction strategy, embodied in India's Tenth Five-Year Plan. The Tenth Plan covers 2002/3 to 2006/7 and was prepared over a two-year period involving an extensive process of consultation and consensus building. It lays out even more ambitious goals than the MDGs and acknowledges that a higher level of performance will require some radical departures from existing practices in India.

The essence of the Tenth Plan is to change the role and improve the effectiveness of government, so as to better support the private sector and ensure widespread improvements in well-being. The strategy has four core components. First, governance and service delivery are to be improved. Greater reliance is to be placed on the private sector and on public sector reforms to deliver accountability, reduce opportunities for corruption and improve the speed and effectiveness of government at all levels. Second, poverty is to be reduced, particularly in the lagging states, through the implementation of policies that encourage growth, employment generation and access to elementary education (especially for girls) and to primary health care (especially for women). Third, the growth rate is to be increased, including through greater public investments. As outlined in the Tenth Plan, this requires fiscal adjustment at both the central and state levels, as well as reform of the financial system, and trade liberalization. Finally, improvements in infrastructure and the productive base are at the heart of the Tenth Plan.

The Tenth Plan targets an average growth rate of 8 percent per year and rapid progress across a wide range of social indicators, spurred by an ambitious policy reform agenda. As mentioned in page no. 14, while currently the likely medium term outlook for growth is about 6 percent a year, it is clearly possible for GoI and the states to set growth on a higher path and move towards the Tenth Plan growth target of 8 percent a year by the end of the Plan period (*the fast reform scenario*) provided comprehensive reforms are adopted.

In a *fast reform scenario*, measures to reduce fiscal deficits, at the Center and in the states, would reduce crowding out and pressures for exchange rate appreciation, and create space for increased private investment. Improvements in the management and composition of public expenditures, with a lower share spent on civil servants' wages, pensions and interest, and on covering power sector losses, and a higher share spent on operations and maintenance (O&M) and investments in key infrastructure, would further "crowd in" private investment. Improvements in the investment climate, through the removal of bottlenecks in product and factor markets and key infrastructure, would increase the productivity of both public and private investment across the economy, including in India's poor rural areas. An increase in FDI would contribute technology transfer and increase output.

Accelerating growth towards 8 percent a year also depends greatly on changes taking place in India's lagging states. If the trends of the past few years continue, i.e., if growth continues to be divergent across states (with poorer states growing no faster than 5 percent per year or only slightly better than in 1997-2002), then richer states would have to grow at near 10 percent per year on average to reach an all-India average of 6.5 percent per year over the Tenth Plan period. Since this is unlikely, implicit in projections of rapid aggregate growth is an acceleration of growth in the lagging states. To achieve this, major policy and governance reforms will be needed in the poorer states. The role of the Center in both catalyzing and setting the pace for reforms at the state level will be critical.

Since poverty is also primarily a rural phenomenon in India, policies to increase the productivity of agriculture, which declined between the 1980s and 1990s, will also be of particular importance for poverty reduction and increased rural incomes. In the short run, the removal of subsidies to food grains could reduce agricultural output in the few states that benefit the most from these subsidies. In the medium term, these are also states where significant agricultural diversification can take place. More importantly, this reform agenda would help increase incomes in poor states that do not benefit from subsidies, and release resources for rural infrastructure, such as research and extension, rural electrification, and rural roads - key inputs to achieving faster progress on the MDGs. Simultaneously, faster growth in industry and continued rapid growth in services could provide jobs for the labor force released from agriculture.

It is also important to note that a number of factors weaken the link between India's economic growth and poverty reduction. These factors range from the skewed ownership of, and access to, productive assets (e.g., land, credit) and ineffective delivery of government programs, to restrictive social groupings that cause exclusion (e.g., caste, kinship) and systems of patronage. In India, social processes can still work to exclude, deprive or discriminate against large population groups on the basis of their caste, ethnicity, religion and gender. Bias against women compounds other types of exclusion. The groups excluded, the way they are affected and the effectiveness of policies against exclusion varies significantly between urban-rural areas and regions. In general however, all these forms of exclusion block mobility and reduce opportunities for involvement in economic and political life. None are conducive to achieving the targets set out in the MDGs. Measures aimed at empowering poor people, both as economic agents and as service users, therefore appear to be vital for success in sustained poverty reduction.

As highlighted in the 2004 World Development Report (2004 WDR), "*Making Services Work for Poor People*", more effective delivery of health and education services and provision of social safety nets, would help to empower India's citizens to both contribute to, and benefit from, strong economic growth. Effective service delivery will in turn depend on measures that increase the accountability of the public sector and private service providers to all Indian citizens, including the poorest and most vulnerable. This suggests a need for greater progress on shifting the role of government, decentralizing services and strengthening local government capacity across India, in order to tighten the linkages between politicians, service providers and poor citizens. The most vulnerable segments of the population - namely women and girls and the SC/STs - cannot be left out of this equation.

In summary, the *fast reform scenario* will need to be comprehensive, not just to accelerate growth, but also to rapidly improve social indicators, during and beyond the Tenth Plan period. Some of the most important elements of the reform agenda that would comprise the fast reform scenario - most of which are embodied in the Tenth Plan, are outlined in Box 2.

Box 2: Summary of India's Priority Reforms

Fiscal Policy

- Progressively reduce the primary deficit at the Center and in states by completing tax reforms (eliminating exemptions, bringing services into the tax net, implementing a uniform state VAT and reforming tax administration), reducing power sector losses, and phasing out petroleum subsidies.
- Reduce financial sector risks by implementing the new securitization law, linking returns on provident funds and small savings to market benchmarks, and establishing a clear framework for managing state government guarantees.
- Improve fiscal management by imposing greater fiscal discipline on state borrowing and transfers, breaking down artificial distinction between plan and non-plan expenditures, and consolidating Centrally Sponsored Schemes.
- Improve the composition of public expenditures, by reducing the share spent on wages, pensions, interest payments, and agricultural subsidies, and increasing investment and O&M for priority social, infrastructure and agriculture programs.

Delivery of Public Services

- Reduce administrative fragmentation and reform civil service pay policy and pensions. Improve the performance of the civil service and quality of service delivery by improving public access to information, strengthening accountability, and reducing political interference.
- Refocus health, education and social safety net programs on outcomes. The central government can play an important role as an independent source for measuring progress towards agreed goals.
- Improve the private market for health care through training, public information and accreditation. Priorities for public funds are to provide clean water and sanitation, and to combat communicable diseases (including HIV/AIDS prevention).
- Ensure increased public resources and improved resource use in elementary education. Schools should be more accountable to communities, with more local autonomy to find the best solutions.
- Develop a well-designed fiscal framework for local governments, which would guarantee their autonomy and accountability. Flows of funds from the Center and states should be dependent on good local fiscal performance and resource mobilization.

Investment Climate for Industry and Services

- Speed up trade reform by reducing average import tariffs and phase out tariff exemptions, specific tariffs and anti-dumping duties. Remove other product market distortions by, implementing a full and uniform VAT, phasing out remaining FDI restrictions, eliminating preferential policies for small-scale firms, price and marketing reforms for agricultural and agro-based products, and streamlining business entry and regulation procedures.

Box 2 (continued)

- Reduce inefficiencies in factor markets by easing restrictions on hiring and firing of workers, enhance the capacity of the financial system to mobilize longer-term resources and allocate finance more efficiently towards productive sectors, thereby enhancing access by underserved segments (SMEs, micro enterprises, infrastructure), address problems in the use and transfer of land, and enhance bankruptcy procedures.
- Ensure access to reliable power at reasonable costs by rationalizing power tariffs and improving the financial and operational performance of State Electricity Boards.
- Address capacity and quality constraints in the transport sector by improving public sector performance (for roads and rail), mobilizing private sector investment (including better cost recovery for roads), phasing out price distortions (for rail), and improving the efficiency of existing capacity (for ports).

Agricultural Policy and Rural Development

- Put in place a market-based food grain policy that protects the poor through targeted safety nets, while mitigating drastic supply shocks through a cost effective and well-managed price stabilization mechanism.
- Reduce input subsidies that are fiscally unsustainable and distorting input use. Savings should be used to fund more productive investments in agricultural research and extension, rural roads, and rural electrification.
- Reduce regulation of domestic trading activities for major agricultural commodities and eliminate remaining trade policy distortions, including subsidized exports of rice and wheat.
- Improve access to land by revisiting current legislation on land tenancy, and building on successful initiatives to improve land administration.
- Devise market-based solutions to improve rural access to a larger range of financial services, at lower cost.

Source: The India Development Policy Review, June 2003 with updates from World Bank staff