CHAPTER – I

INTRODUCTION

Development planning has been going on in India since independence with formulation of the First Five Year Plan in the year 1951. Since there have been a series of Five Year Plans which has heralded the growth of the economy in the past 60 years. Five Year Plans were first introduced in the erstwhile Soviet Union in 1928 for achieving planned economic development an accelerated pace. In 1950, India’s Prime minister Jawaharlal Nehru, who was impressed by the Soviet model of planning, adopted Five Year Plans as a model for economic development, and established the Planning Commission which was to act independent of any cabinet and was answerable only to the Prime Minister, who is also chairperson of the commission. Draft plans were to be approved by the National Development Council, comprising the Planning Commission and the chief ministers of all states. An approved plan is then passed by the cabinet and then in Parliament.
Many have questioned the benefits of Five Year Planning, especially in a country as big and unpredictable as India, and it has often been seen that targets are not met. This method has still not been able to successfully get rid of poverty and the cost overruns in failed or incomplete public sector projects are often too high. Despite these setbacks Five Year Plans are still a good yardstick to determine investment and policy priorities.

In 1951, India’s First Five Year Plan (1951-56) was unveiled. While the First Plan placed greater emphasis on agriculture, the Second Five Year Plan (1956-61) sought to build up an industrial base for the country, particularly in the public sector. However, the chief landmark in this period was wide ranging and broad-based reforms in the village power structure by the abolition of the Zamindari system and the creation of cooperatives among the rural poor to stimulate agricultural growth. The Third Five Year Plan (1961-66) was interrupted by the 1962 war with China and the 1965 war with Pakistan, and it was evident that its targets would not be met. Its main basis was the conviction that an increase in agricultural production, particularly food grains, is essential for political stability and to build up food security.
and a buffer stock so as to not depend on foreign imports. Area specific programmes like the Intensive Area Agricultural Programme and the Intensive Agricultural District Programme were promoted at this time. This was followed by three annual plans between 1966 and 1968, once again emphasizing on agriculture, and also on stimulating exports, in the process also devaluating the rupee in 1966. The Fourth Five Year Plan (1969-74) called for greater expenditure in the public sector, but was not able to meet its national income growth target. This was the time, when the so-called “Green Revolution” begun, which by the end of the Fifth Five Year Plan period ensured food security and adequate buffer stocks for India. The Fifth Five Year Plan was passed in 1976 after a series of revisions due to the global crisis over crude oil prices, but it had to be prematurely terminated because of internal political differences following the election of a new government. There were two more annual plans in 1978 and 1979. The Sixth Five Year Plan (1980-85) took a more adaptable “rolling” approach and concentrated on employment generation in rural areas and anti-poverty measures, while the Seventh Five Year Plan (1985-90) laid greater emphasis on energy and social development. Following two more annual plans in 1990 and
1991, the Eighth Five Year Plan was launched in 1992, setting of economic liberalization and market based reforms, the fruits of which are still being enjoyed today. It was a landmark in the sense that it encouraged private investment in major public sector undertakings, greater rural and agricultural development and anti-poverty and anti-illiteracy measures. It also continued the emphasis on food security and foodgrains were also being exported during this period. The Ninth Five Year Plan (1997-2002) continued with the momentum of its predecessor, especially emphasizing on employment generation and poverty reduction.

The basic objectives of the rural development programmes has been alleviation of poverty and unemployment through creating basic social and economic infrastructure, self employment of rural poor and to provide wage employment to marginal farmers, landless labourers so as to discourage seasonal and permanent migration to urban areas. Under the decentralized planning process, rural development programmes have assumed greater significance as their planning and implementation has been transferred to Pachayati Raj Institutions (PRIs). Department of
Rural Development is responsible for effective implementation of many Centrally Sponsored Schemes (CSS) of Rural Development Ministry and state sector schemes of similar and complementary nature. In all the Centrally Sponsored Schemes, the Ministry of Rural Development, Government of India, decides the district wise physical and financial targets. The development of rural areas and improvement in the quality of life of the rural people has been the primary concern of the department. In order to correct the development imbalance and to accord due priority to rural areas, a number of initiatives have been taken by the department for the creation of social and economic infrastructure in rural areas.

1.1 Poverty

Poverty in India and in the state has received considerable attention in the various plans. Official poverty estimates at the National and State level are periodically prepared by the government of India’s Planning Commission using detailed household consumption and expenditure data from the National Sample Survey Organisation’s (NSSO) quinquennial consumer expenditure surveys. While there is considerable evidence
available of regional (i.e., sub-state) variation in poverty, typically the GOI. Planning Commission does not compute poverty estimates below the state level because of limitations of survey sample sizes. Many state government departments of economics and statistics (DES), conduct households surveys on a matching basis with NSSO, but few if any pool data from these surveys with the central (i.e., NSSO) sample to derive regionally disaggregated estimates, both on account of delays in processing the state sample and because often they lack the requisite in-house capacity to conduct analysis.

Evidence on regional differences in poverty can be a useful policy tool for allocating resources and development efforts in undeveloped areas. However, disaggregated estimates of poverty within India’s States are typically not computed because of inadequate sample sizes available for geographic or administrative units below the state level.

Murgai, Suryanarayana, Saidi, (2003), use the pooled data to examine regional variation in poverty within Karnataka. Regionally disaggregated poverty estimates showed that there is
considerable heterogeneity in the extent and depth of poverty within the state. The broad picture that emerges from the poverty estimates in their paper, is one of: (i) higher levels of poverty in the northern districts, that are parts of the Gulbarga and Belgaum divisions; (ii) highest concentration of the absolute number of poor also in the northern districts: nearly 60 per cent of the state's poor live in these two divisions: (iii) but also considerable variation in poverty levels within divisions. E.g., Kolar district is about as poor as the northern districts. These poverty estimates are found to be reasonably consistent with independent correlates of poverty, including agricultural wages, employment shares, and district domestic products. Area development is another area where the Government and the Planning process are especially concerned. The Hyderabad Karnataka Development is a stupendous area effort meant to improve the status of the people living in the backward areas of North Karnataka.

Farmer's destitution is an area of grave concern for the Government. Whether it is due to the impact of the WTO or other reasons it is still very unclear. Due to the rapid pace of
technology development, commercialization is taking place in a big way. All inputs are monetised and input costs as a result are high. This exposes the farmers to a great deal of risk. Thus, it is imperative that the Government devices measures to protect the small and the marginal farmers. Market uncertainties have increased many folds due to the liberalization of trade induced by the WTO. Though, studies have shown that the India's farmers will be benefited in the long run by the WTO. Infrastructure, institution and information constrains pose a big threat to the Indian agrarian economy in the immediate future. The farmers have to be prepared to meet the competition posed by the WTO provisions and convert it into an opportunity. This requires the express attention of the Government in their policies and Plans.

1.2 Infrastructure Development

Due to the consistency in policy since structural reforms were introduced during the middle of 1991, India has been witnessing robust economic growth, the trend is gaining strength in recent years. The goal is to achieve an average growth rate of 9 per cent
in the next five years. The higher growth rate expectations are based on the hope of better agricultural output and services sectors, and strong consumer demand induced by the India's workforce which is likely to swell by 71 million people, which amounts to nearly a quarter of the world's extra workers. For the expectations to materialize, large investments in all infrastructure sectors are called for. In this direction, major initiatives have been undertaken at the National level. There is no denying the fact that the strong foundation that, infrastructure must provide to an expanding economy is in the doldrums at present. It is widely believed that the single most important constraint at the macro level that is holding the average growth back is the low pace of infrastructure development.

Before the late 1980s, the economic growth rate of independent India looks ordinary: India's rate of growth of output per worker is square in the middle of the world's distribution, and the values of its proximate determinants of growth are ordinary too. This puts a bound on the growth-retarding effects of the "license
raj" generated by Prime Minister Jawaharlal Nehru's attraction to Fabian socialism and central planning.

Since the late 1980s, India does not look ordinary at all. It has been one of the fastest-growing economies in the world, with a doubling time for average GDP per capita of only sixteen years. Conventional wisdom traces the growth acceleration neo-liberal economic reforms implemented under the government of Mr. Narasimha Rao. Yet the timing of the growth acceleration suggests an earlier start for the current Indian boom under the government of Mr. Rajiv Gandhi.

1.3 Transport

Roads, ports, railways, airports, special economic zones, power, irrigation, telecom, urban infrastructure and rural infrastructure are the major areas of infrastructure in need of development. The ambitious National Highway Development Project slowed down after the first three phases of the programme running behind schedule. The second phase of the project is suffering from cost overruns due to increase in input costs, change in scope of projects, etc., Development is being carried out involving
the private sector who construct the highway and recover their investment by collecting toll. This is a novel method of circumventing the problem of resource crunch of the government; Karnataka has demonstrated its keenness to take up road construction projects, in a manner similar to that followed by the NHAI, on State highways.

The thrust is now on developing an efficient multi-modal system, which uses the most efficient mode of transport from origin to destination. This involves coordinating rail, road and road connectivity between ports and hinterland. As more cargos are being moved in boxes, major ports are gearing up to invest a whopping Rs. 10,260 crores in setting up container terminals (CTs) in the next five years. For reducing transition costs, ensuring transparency and improving the quality of investments in Public Private Participation (PPP) projects are being considered.

The main reasons for the increase in the growth rate of airline transport are attributed to new low cost airlines and increase in the number of sectors being operated. The Airport Authority of
India will invest about Rs 1,500 crore to modernize at least ten non-metro airports in the country by 2008. The modernization will include modernization of terminals, parking bays, taxiways, and runways. Growth in airfreight services to and from India, especially in the wake of the burgeoning trade in the pharmaceutical, gems and jewellery sectors, has been attracting new players in this space. But inadequate airport infrastructure continues to be a major roadblock stifling the growth in air cargo traffic vis-à-vis the potential available.

1.4 Special Economic Zones
In May 2005, the government approved a new Special Economic Zone (SEZ) Law. The failure of the earlier SEZ policy (April 2000) has led the government to declare a uniform SEZ policy and cover all aspects of establishment, operation, and fiscal regime in a comprehensive manner under single legislation. The most important change is related to tax incentives. Under the new law, the period of corporate income tax exemptions has been increased to 15 years from the existing 10 years. These SEZ are expected to generate substantial number of direct and indirect jobs in the coming years and attract huge investments.
1.5 Power

The power ministry has set upon the onerous task of commissioning as many as 53 generation projects totaling 20,608 MW in 2006–07 as part of the Tenth Plan (2002–07) compared to the 19,015- MW generation capacity installed in the Ninth Plan period (1997–02). The rate of return for the state power sector is still negative 26 per cent (2005–06) compared to negative 32 per cent (2004–05). But things have changed for the better. At least ten SEBs including the Karnataka Power Transmission Corporation (KPTCL) are now cash positive because state governments now pay the boards the subsidies they mandate; governments are entitled to give subsidies, and paying for these directly is a sign that the new laws are beginning to work.

The National Electricity Plan, an integral part of the Eleventh Five Year Plan (2007–12), has targeted a generation capacity addition of 67,000 MW and around 60,000 MW in the Twelfth Five Year Plan (2012–17). In order to achieve the plan target the Eleventh Five Year Plan will contain several policy measures for the power sector.
The Expert Committee on Integrated Energy Policy has set out a comprehensive energy plan for India in the long-term. According to the Committee, if India wishes to grow at 8 to 10 per cent annually up to 2031, it will need to produce five to seven times more electricity than today's supply. The Indo-American Nuclear Co-operation Promotion Act of 2006 will lead to more efficient import of nuclear technology and equipment that will ultimately translate into higher nuclear power generation. State-owned NTPC could be the first company to foray into nuclear power with plans to set up generation capacities of up to 2,000 MW.

The success of the telecom story is already well known. With 4.5 to 5 million new telephone connections being given out every month, the country could have 250 million telephone users by December 2007. Phone ownership is growing rapidly in India.

The Jawaharlal Nehru National Urban Renewal Mission in January 2006 resulted in fifty-seven of the sixty-three cities has made concerted efforts to submit city development plans of their city to the Ministry of Urban Development (MoUs).
The Bharat Nirman Yojana and the Jawaharlal Nehru National Urban Renewal Mission are the time bound programmes of the central government to achieve overall development in rural and urban areas respectively. The television, mobile telephony and slowly improving rural roads are reducing the rural-urban divide. Kirk Johnson, a sociologist at the University of Guam who has studied the impact of television in rural India, believes satellite TV will change social and economic patterns as well as provide poorer country-dwellers with information they can use to improve their lives.

However, public investment in irrigation and watershed management as well as greater expenditure on rural roads to improve access and connectivity will be the key to improve productivity. This will catalyze private sector to make investments in rural development activities like retailing, marketing infrastructure, transportation, logistics, etc.

Driven by the government's desire to enable universal access to electricity, the Ministry of Power has chalked out a blue print 'Mission 2012' which sets out milestones to be crossed. This
exercise entails additional electrification of 62,000 villages by 2007, 18,000 remote villages will be covered by 2012, and complete electrification of all households by 2012. The Rajiv Gandhi Grameen Vidhyutikaran Yojana (RGGVY) was launched in April 2005 to complete household electrification within next five years' time and modernizing the rural electricity infrastructure. The scheme also lays special emphasis on sustainability of rural power supply through collection of the cost of electricity from the beneficiaries.

Karnataka is facing a temporary power crunch, and in order to tide over the immediate power shortage the state has considered setting up diesel power generating units and laying a gas grid along the coastline from Mumbai High, to utilize natural gas to generate power. The state has also identified 150 locations where mini and micro hydro-electric projects can be set up. Plans have been initiated to harness wind energy also. By the end of 1997, the installed capacity was around 4,388 MW, with generation of 18,200 million units. In the VII Five Year Plan Rs.626 billion amounting to 28% of the total plan expenditure was spent on the energy sector.
In keeping with the policy of liberalization set in motion since 1991, private investment for generation of power through thermal stations, mini and micro hydro-electric schemes, diesel power generation, wind energy etc., are welcomed by the state.

1.6 Irrigation

Agriculture being the main sector of the state, Irrigation place utmost significant part in obtaining increased yields from the land. The development of Irrigation in the state was slow and unsystematic during the pre-independence era. However, there were some notable Irrigation works undertaken and completed during the pre-independence, such as Krishnaraja Sagar (which was the only major project completed prior to independence), Vijayanagar canals, Cauvery anicut Channels, Gokak canal, Vanivilas Sagar, Markonahalli and Anjanapura. Though major projects like Tungabhadra, Bhadra and Ghataprabha stage-I were commenced prior to the plan period, their progress was slow and they got impetus only after their inclusion in the First Five Year Plan.
There were more than 25,000 tanks scattered over erstwhile Mysore state. But in Bombay Karnataka and Hyderabad Karnataka areas, the number of such minor irrigation works are meager. Virija Anicut Project in Cauvery Sub-basin will be covered (16th Century)

The total investment up-to the end of March 2000 on Irrigation in the state is Rs. 14,267 crores comprising Rs.13,399 crores on major & medium irrigation and Rs. 868 crores on minor irrigation (using surface waters). This does not include the investment on irrigation prior to the plan period i.e., 1951. Up-to the end of March 2000 a total irrigation potential of 36,22,921 hectares.

1.7 Formulation of Five Year Plan and Annual Plans

The principal task of the Planning Commission is to formulate the Five Year and Annual Plans for the most effective and balanced utilisation of the country's material, capital and human resources, appraise from time to time the progress in their implementation and recommend adjustments of policy and measures that are considered to be necessary in the light of such
appraisal. In formulating the Five Year Plan the Planning Commission coordinates and oversees the development programmes of the Central Ministries and State Governments and integrates these in a National Plan covering both the public and private sectors. Specific schemes of financing are worked out for the Centre and each State, indicating clearly the additional resource mobilisation efforts that they would have to undertake; these are integrated with the overall scheme of flow of funds for the economy as a whole. At the Centre, the role of the Planning Commission in investment planning is crucial as the Commission provides an objective method of resource allocation reconciling claims of various Ministries taking into account the broad national objectives and priorities. Similarly, the Commission seeks to ensure through the Annual Plans, which are the operational plans that the sum total of outlays of the Centre and the State is consistent with the estimates of resources available to the public economy. Resources match the plan outlays in both the public and private sectors in order to ensure orderly growth in conditions of relative stability, without introducing any distortions in investments or the production pattern. In the Process of Planning
process of formulating a Five Year Plan is preparation of a paper on 'Approach to the Plan'. While undertaking work in this connection, Steering Committees/ Working Groups are also set up for reviewing the progress in the implementation of the current Five Year Plan and making detailed recommendations regarding programmes, projects, schemes and policies as well as outlays and targets both financial and physical for the various sectors and sub-sectors. Members of these Groups are drawn from officials in the Planning Commission, Central Ministries/Departments, other Institutions, State Governments and experts in the respective fields. As many as 23 Steering Groups and 116 Working Groups were set up in connection with the Ninth Plan. For the Tenth Plan, Steering Committees and 98 Working Groups were set up. Lists of Steering Committees/Working Groups set up for the Ninth Five Year Plan and those for the Tenth Five Year Plan are placed at Annexure II and Annexure III respectively. The Approach Paper is prepared on the basis of the preliminary exercises undertaken in the Planning Commission, projecting the growth profile of the economy over a period of 15-20 years covering the ensuing Five Year Plan period and the papers prepared by the Sectoral
Divisions bringing out the issues to be tackled in their respective sectors during the ensuing Five Year Plan period. Also, experience of the past projected requirements, likely availability of resources and such information as becomes available as a result of the work undertaken by the various Steering Committees/Working Groups are also kept in view while formulating the Approach Paper. Views of the Central Ministries, State Governments, Consultative Committee of Members of Parliament, Panel of Economists, experts and cross-section of the public are also taken into account. Objectives, targets, strategy, policies and programme thrusts of the Five Year Plan are enunciated in Approach Paper. Sometimes alternative scenarios, requiring different degrees of effort, are also presented. The paper is first considered in the meeting of the full Planning Commission, then by the Union Cabinet and finally by the National Development Council. After approval by the Council, it is placed before the Parliament.

While initiating work on the approach at the national level, the State Governments are also advised to take preliminary steps for formulating their approach and set up Working Groups wherever
considered necessary. After the National Development Council approves the Approach Paper, the Planning Commission addresses the Central Ministries and State Governments for undertaking the exercise of formulating detailed proposals for the Five Year Plan. Suitable guidelines are indicated for this purpose based on the mandate given by the NDC while approving the Approach Paper. The work on detailing the development strategy, the economy wide or macro parameters, such as savings, investment, employment, exports, imports and sectoral targets is carried out in-house by the Planning Commission, with inputs from the concerned Working Groups.

The main emphasis on ensuring that, these targets or projections are consistent with the mandate given by the NDC while approving the Approach Paper. 16. Simultaneously, the Financial Resources Division of the Planning Commission requests the State Governments to furnish detailed forecasts of their resources for the plan and the estimates of State resources for the Five Year Plan is made by the Working Group on State Resources. For the Centre, the estimates of resources are formulated by the Steering Committees/Working Groups on
Financial Resources of the Centre, which includes, inter alia, representatives of the Planning Commission, Ministry of Finance and Reserve Bank etc. The recommendations of the State Plan Sectoral Working Groups on the plan proposals of a state are considered by the concerned State Plan Adviser. He takes a view on these recommendations in the light of his informal discussions with the State and Central Officers and also his knowledge of the development activities in the State. He prepares a report making detailed recommendations covering the programmes, targets and outlays. This report forms the basis of discussion between the Planning Commission and the State Government for finalising the Plan of the State concerned. The final position regarding the state's own resources, including market borrowing and additional resource mobilisation, Central assistance and programme content emerges after discussion. 18. In the case of Central Plan, the procedure adopted for the Tenth Plan was that the division concerned prepared a background paper taking into account the guidelines laid out in the Approach Paper, the recommendations of the concerned Working Group(s), Ministry's proposals and the Division's own assessment of the development programme that was considered
feasible and necessary. This Paper constituted the basis of discussion between the Planning Commission and the Secretaries of the concerned Central Ministries/Departments. In the light of the discussions with the Ministries and the anticipated availability of the total resources for the Central Plan, the Planning Commission took a view on the development programme of each Ministry/Department and the respective outlays. In the process of finalising the Plan, the Planning Commission, if deemed necessary, may also consult the Consultative Committee of Members of Parliament attached to the Ministry of Planning representatives of organised groups of industrialists, labour leaders, agriculturists, social scientists and other experts. The views expressed in the Parliament and at other fora are also taken into account. Members of Parliament are also addressed individually seeking their valuable suggestions in this regard.

The Central and State Plans, together with the scheme of financing for these, as finally formulated are incorporated in the draft Five Year Plan. After approval by the full Planning Commission and the Union Cabinet, the Plan is presented before
the National Development Council. After the Council has approved/endorsed the Plan, it is laid on the tables of both Houses of the Parliament.

The procedure for the formulation of the Annual Plan has been the same as for the Five Year Plan in the case of the States until 1993-94. However, while formulating the Annual Plan 1993-94, the Planning Commission attempted a change in the process of formulation and finalisation of the State Plans. Earlier, the State Plan proposals, which used to be need-based, were first discussed in the Working Groups consisting of the officers of the States, the Planning Commission and the Central Ministries; this is used to form the basis of discussion between the Deputy Chairman and the Chief Ministers concerned. Invariably, in the process, the plan proposals were far in excess of the resources and efforts had to be made to match the plan size to the resources in the discussions with the Chief Ministers. For the formulation of Annual Plan 1993-94, the resource evaluation was made first, based on which, the plan size was decided in the discussion between the Deputy Chairman and the Chief Ministers. The detailed Sectoral allocations were worked out
thereafter. This realistic approach in finalising the Plan size has been highly appreciated by the States.

In the sectoral allocations in the State Sector, a change in the system by limiting the earmarking of funds to around 50% of total outlay, contrary to much higher percentages prescribed earlier, was attempted, so as to provide greater flexibility to the States to meet local requirements. This also meets the long-standing demand of Chief Ministers in the National Development Council for greater flexibility in the State Plan. 23. In the case of the Centre, firstly, estimates of Centre's resources are called for from the Ministry of Finance and finalised in consultation with that Ministry. In this connection, Planning Commission participates in a series of meetings convened by the Ministry of Finance with the Central Ministries to consider and finalise the Internal and Extra Budgetary Resource (IEBR) of the Public Sector Undertakings under the jurisdiction of the concerned Ministries. Secondly, discussions with Central Ministries are held on the draft Plan proposals sent by them and Member-Secretary/ Secretary, Planning Commission with the Secretaries of the Ministries/Departments, takes meetings for this purpose.
1.8 **Significance of the study**

A detailed analysis of Karnataka's budget with a time perspective is needed to understand the process of preparation of the five-year plans and the manner in which allocations are made to the various sectors. The abiding concern of all Five Year Plans is to help the backward sectors so that harmonious and self-sustaining growth takes place in the economy. These will happen only if all the sectors are balanced. Imbalances in the economy are bound to exist; the planning process is meant to overcome these constraints by allocating resources accordingly or inducing private sector investment. Added to this, new paradigms of growth that will emerge from time to time, which has also to been addressed by the planning process to convert opportunities into reality. In the final analysis, the planning process should bring about growth in the economy and the concerns should be addressed comprehensively. Studies so far have not addressed these aspects of Karnataka's budget and hence this study is a modest attempt in this direction. The study will shed light on the strengths and weaknesses of the state's budgets, which will
serve as an indicator for the future, so that a scientific approach is adopted if current experience is otherwise.

With the aforesaid concerns in mind this study has been formulated with the following objectives:

1.9 **OBJECTIVES:**

1. To document the changing pattern of budgetary expenditure of the State since independence to identify the changing priorities.
2. To analyse the sources of revenue to finance the development projects in the budgets.
3. To analyse the efficiency of fiscal management of state.
4. To study the impact of budgetary outlays on the development of the various sectors of the State's economy.
5. To analyse the financial stability the States finances.

1.10 **Limitations of the Study**

The study deals with secondary data on various parameters of the five-year plans as well as the economic indicators. Data on many of the variables were not available on a continuous basis
and on many occasions, the data collected from various sources on the same variable did not tally. Therefore, judgment had to be exercised to reconcile the same. Since data was historical, data on many of the variables prior to 1960 were hard to get. Hence, all impact indicators were obtained for the period after 1960-61.