Poverty Reduction Strategy Process
and
National Development Strategies in Asia:
A Report to DFID

COUNTRY STUDY
INDIA

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Note:
This document is solely the responsibility of the authors.

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Executive Summary

Introduction

The overall objective of this study is to inform DFID about poverty reduction planning in Asia. The TOR state that the aim is to inform DFID of the complementarities and contradictions between PRSP processes and existing National Development Strategies. It will assess whether the introduction of PRSP is enhancing poverty reduction processes and whether over the medium term the process of preparing, implementing, resourcing, and monitoring a PRSP is likely to lead to stronger, more pro-poor, more accountable national planning processes.

The study concentrates more on strategic and institutional issues than on the political background for poverty reduction planning. It also does not focus on aid instruments. Other studies commissioned by DFID will concentrate on these issues. In addition to India, the study covers Nepal and Vietnam.

India is not an aid dependent country, and maintains strong government ownership of its development policy. The country has a long history of national planning, and poverty reduction has been the main objective of the Plan during the last decades. However, the consensus within the Planning Commission (PC) and among observers is that significant improvements regarding implementation and monitoring of the pro-poor policies are required. The Indian planning process was initially built around the concept of a ‘mixed’ economy, in which the public sector and public investments were expected to play a key role. The Plan also served the function of policy coordination between Centre and States and between different sectors/line ministries. However, as the Planning Commission is an advisory body to the government, the instruments to its disposal to achieve policy coordination have been limited.

Public investments are no longer considered predominant or major drivers in the economy. This implies that the role of the Planning Commission has to change significantly. This adaptation has been slow, partly because the major reform policy agenda has not come from the Commission but from the Finance Ministry and/or the Prime Minister/Cabinet.

The 10th national Five Year Plan is the official GoI (Government of India) Plan for Poverty Reduction, and the World Bank in India has also accepted it as being the Indian PRSP. However, it does differ from PRSP best practice in a number of important ways. It has been produced within the institutional, political and practical tradition of Five Year Planning in India, and while some of the principles behind the PRSP process may have influenced the latest Plan, it is no coincidence that its official name is and remains Tenth Five Year Plan, and not First PRSP.

Several of the general goals of the PRSP process are widely shared in India, and the Plan does, to a large extent, cover the same ground as the PRSPs are intended to
cover. Its main objective is poverty reduction; it is as comprehensive a document as possible in the Indian context; and it focuses on key outcomes, key policies, and public investment.

However, some of the goals relating to the focus on market-driven development are considered highly controversial, and in part the PRSP process is rejected because it is seen to espouse these goals. A second reason for discrepancies between the PRSP and the Indian Plan relate to the fact that the PRSP best practice model is designed for an institutional vacuum. It is not explicitly built around the country’s institutional structures. Opposed to this, Indian Plan works within the bureaucratic-institutional rubric which is in place.

More generally, the Indian Plan is for obvious reasons built around the sovereign elements that drive policy making in the country including the sovereign constitutions. The government is not aid dependent and are under no compulsion to adhere to an international development agenda.

The 10th Plan has many strengths, including strong national ownership, a (albeit somewhat limited) participatory gestation process, and a wide-ranging reform agenda based on thorough analyses. It is furthest from the best practice model with regards to its institutional set-up and what follows from this by way of coverage of the plan, and weaknesses regarding implementation. This is exacerbated by the fact that the reforms of the budgetary system and monitoring system often linked to PRSPs (such as the introduction of an MTEF, performance lined budget execution, and poverty monitoring) have not been implemented in India.

The Plan has two main functions. It is GoI’s strategic document for policy reforms and development for the next 5 years. It is also a costed plan for all programmes and projects that central government will fund or co-fund during the following five years covering around 25-30% of the overall GoI expenditure. However, it does not cover the non-Plan (recurrent) budget which is a major weakness when considering its comprehensiveness. The PC is in charge of implementing the policy reforms listed in the Plan. The PC would need to overcome major political economy issues in order to ensure implementation of the proposed reforms. For example, the Plan outlines far-reaching reforms in the agricultural sector, amounting to a deregulation and liberalisation of the sector, and the introduction of land reforms legalising tenancy relations. Farmers organisations oppose liberalisation, and many political parties are less than keen to go against powerful rural interests. Hence, the initial budget proposal for 2003-04 proposed cuts in certain subsidies to agriculture but this was taken off the table in the end. The 5 year Plan strategy for poverty reduction is, in many ways, very sophisticated. However most of its programmes and projects are less so. The problem is well acknowledged by the PC, and some mitigating action has been taken. Implementation efficiency varies a good deal across the States.
Contribution to Poverty Analysis

The poverty analysis of the 10th Plan draws on a tradition in previous Plans and within academia in India for solid poverty analyses. Through conferences and workshops the PC is well informed about the views and analyses within academia and among activists regarding poverty issues. The Plan preparation process also includes input from working groups with Civil Society participation.

Income poverty remains the core definition of poverty in the Plan. Employment is seen as a vital issue, and it is argued that growth of the small scale industrial sector and of the agricultural sector is particularly important for employment generation, and that policy changes enabling pro-poor growth need to concentrate on these two sectors. This analysis is supported by a good number of academic works and in line with international thinking, though there are also dissenting views.

At the same time, the Tenth Plan has moved towards a more embracing concept of ‘human development’ which includes a more multi-faceted definition of deprivation and poverty with a focus on vulnerable groups (women, children, low castes and so on), and this has been made operational by setting human development targets.

Another issue identified by poor people in several studies is their lack of power within oppressive social relations. This is seen as a structural issue which may negatively influence the ability of the poor to obtain access to land, education etc. Empowerment of the poor and social mobilisation have been key themes in India’s national development strategy since the 7th Plan, and devolution and improved governance are explicitly seen as important links to pro-poor development. It is doubtful that PRSP-like grassroots consultations could add much to the analysis.

Consultation and Participation

The preparation of the Five Year Plan has been fully country led. The present Five Year Plan is part of more than fifty years of institutionalised planning, with the Prime Minister chairing the National Development Council (NDC) which is in charge of the planning process. The Plan is approved by the NDC, the Cabinet and passed by Parliament.

International Financial Institutions are not directly involved in the Planning process. However, India’s international commitments, and the engagement of government with the international institutions, form part of the context within which planning takes place, but no donors and no donor-funded consultants have been formally involved or consulted as part of the Planning process.

The Plan does not rely on direct consultations with the poor. Instead, two types of participative process influence the Plan. The major participatory features are the country’s democratic processes and its democratic institutions. It is through academic,
practical and political interactions within these processes and institutions that that the overall strategy and spending priorities of the Five Year Plans during the last decades have developed. Recently there have been attempts to strengthen both participation and the participatory elements through the strengthened role of local self-government. Since the strength and nature of the democratic polity varies (across time, states), the outcomes reflect a complex interplay of various forces. It is important to be aware that the political process is not necessarily pro-poor in a wider sense.

Academics and CSO activists also take part directly in the preparation of the Plan. The formal participative process has become more broad-based with experts being drawn from various sections of civil society (academia, private sector, trade unions, non-governmental organisations etc.). The Planning Commission estimates that around 6000 people outside the Commission itself have been involved in the preparation of the 10th Five Year Plan. This participative process takes place through Steering Groups and Working Groups set up for the purpose of preparing the Plan. The reports of these groups feed into the Plan, and within their field of expertise the participating civil society representatives may yield considerable influence.

Nevertheless, the questions of increased participation (by the poor, or by the stakeholders), transparency, accountability; questions of policy integration etc. are all seen by civil society as very important issues where significant improvements are required. However, in India there is not any significant body of opinion which believes that the PRSP ‘best practices’ can offer a more effective solution, and the possible participation or influence by donors in the evolution of policy is universally seen as an infringement of India’s sovereignty.

No stakeholders that we consulted saw any role for budget support to GoI. Budget support was perceived as entailing increased political influence by donors, and as not needed financially. Clearly donors had to align themselves with the existing sector-wide plans of GoI, but several GoI officials expressed the view that the main contribution of donors to India’s development was the innovative processes and methods they introduced through their projects.

Changes within Governments

The 10th Plan has not changed significantly the way that central agencies interact with line ministries, or in the way national agencies interact with sub-national agencies (including issues of decentralisation). It has however introduced some reforms in overall policy reform coordination and in how resources are allocated.

There are several processes of policy making in India. Within India’s federal set-up, certain issues are decided at National level while others fall within the purview of the States. At National level, the policy making centres include the PMO (Prime Minister’s Office), the Ministry of Finance, the Cabinet, the PC, the line ministries and the Finance Commission.
The Planning Commission and the NDC are closely linked to the other core processes for policy making. The fact that the main political players are members of the NDC facilitates coordination. On the other hand, the fact that the Plan budget and the non-Plan budget are under two different institutions – the PC and the MoF – constitutes a challenge for coherent policy making. This is exacerbated by the fact that there is no neat division between Plan and non-Plan expenditure. This has implications both for the development of SWAs which by definition will need to go across the Plan – non-Plan divide, and also for any governance reforms. Presently, the MoF is in charge of governance reforms relating to non-Plan expenditure, while the PC aims at improving governance for Plan expenditure.

Changes to improve implementation

The 10th Plan stresses that the targets pertaining to its multi-dimensional poverty reduction programmes can only be achieved if core government policies are reformed (including reforms regarding the liberalisation of agriculture, the abolition of protection of small scale industries, and of the civil service). For the first time, the 10th Plan includes an Action Plan approved by the PMO which specifies which government departments should initiate what reforms, and when. In the end, however, it is up to Parliament and Government to go ahead with the reforms, and it is not clear if the political will and the political strength exist to carry out the Action Plan.

Implementation, and monitoring of implementation leaves a good deal to be desired. Implementation of the Plan is mainly the responsibility of the Line Ministries and the State government with overall oversight and monitoring being undertaken (in the case of specified programmes) by the Central Ministry of Planning and Programme Implementation, and the Planning Commission. Internal monitoring remains weak.

State Five Year Plans are developed as part of the process of agreeing the National Five Year Plan. For the first time, the Central 5 year Plan includes State specific goals and raises State specific issues. However, major differences exist across the States regarding implementation efficiency. This relates to different political situations; different levels of articulation of popular demand for pro-poor policies and pro-poor service delivery; different levels of efficiency of the state level govt apparatus; and different degrees of economic crisis in the States.

It is generally acknowledged that the PC is not in a position to ensure that Plan funds are spent effectively. For example, the 9th Plan midterm review concluded that between 20% and 70% of poverty reduction funds did not reach the beneficiaries. The financial difficulties of most states may also lead to diversion of Plan funds, in order for states to ensure the maintenance of core functions.

These are major unresolved issues. The 10th Plan has institutionalised quarterly monitoring meetings at the PC, with the release of subsequent tranches of central Plan funding to the States being made dependent upon the production of sector and programme specific spending certificates. This is an improvement on previous practice.
which only demanded certificates of drawing of funds by State governments, not the new specific sectoral spending certificates. However, more needs to be done at all levels; but the complex division of responsibilities within the Indian quasi-federal system, and the realities of the political economy are not conducive for thorough reforms.

Conclusions

Donors should develop intelligent and innovative approaches for the dialogue with GoI, and should show readiness to learn from the actually existing solutions, be they imperfect or not. This implies that donors & lenders

1) should let the Plan and the thinking of the PC form part of the basis for their activities in India.

2) should engage in a dialogue with the PC regarding the Plan, especially regarding the overall Plan strategy and its implementation.

3) must take into account that some of the most important issues regarding further improvement of planning in India involve other actors as well as the PC.

4) need to understand the interdependency between the States and the National level, and the differences from State to State and from sector to sector. Donors will need to tailor the State level dialogue and their State level development engagement accordingly.

5) should disseminate internationally the Indian experience regarding a democratically controlled, participatory planning process.
1. Introduction

India has a history of national development planning, and has chosen to rely on this for poverty reduction strategy purposes. India’s 10th Five Year Plan (2002-07) is its official National Development Strategy as well as its Poverty Reduction Strategy. The Plan is recognised by the World Bank as India’s PRSP. However, the Indian Poverty Reduction Strategy differs in a number of ways from PRSP best practice as outlined by the World Bank.

This study is an assessment of the Indian National Development Strategy. This assessment forms part of a consultancy covering three Asian countries, with the overall objective ‘to inform DFID of the complementarities and contradictions between PRSP processes and existing National Development Strategies. It will assess whether the introduction of PRSP is enhancing poverty reduction processes and whether over the medium term the process of preparing, implementing, resourcing, and monitoring a PRSP is likely to lead to stronger, more pro-poor, more accountable national planning processes.’ (DFID 2003a: 2)

For India, the National Development Strategy will be compared with PRSP best practice. The TOR outline the relevant areas for such a comparison. This study consists of three main sections. Chapter 3 covers the historical and institutional context of the present national Plan, while Chapter 4 compares this with PRSP best practice. In Chapter 5, issues pertaining to perceptions and influences of PRSP are discussed.
2. Institutional and Historical Context

2.1 Historical Overview

In India, planning and development strategy have been closely interlinked since before Independence. At the time of Independence, the consensus was that the state should play a major role in enabling the country to achieve economic growth and prosperity for its population. This led to the establishment of the Planning Commission chaired by the Prime Minister and the evolution of a planning strategy through successive Five Year Plans from 1951 to date. The Plans of today are different from their early predecessors, but fifty years of planning experience has given rise to a specifically GoI development approach and style of working.

Till the early 1990s, the goals of the Indian development strategy, and the principal objectives of the plans included growth of national income through rapid industrialisation and, related to this, increased employment, reduction of income inequalities and, as a means to achieve these goals, sustained high agricultural growth. The industrialisation strategy envisaged import substitution and emphasised the development of heavy industry, the need for the public sector to take a central and direct role in the industrialisation process, and self-reliance. The other prong of the strategy (better known as the Nehru-Mahalonobis strategy) was the growth of an employment intensive, light consumer industry in the private sector. The latter fitted well with the Gandhian emphasis on cottage industry and led to measures to encourage and protect the small and cottage industry sector. The other goals of Planning included balanced regional development, and control of the concentration of economic power.

A balance of payment crisis in 1991 acted as an accelerator to speed up economic reforms and liberalisation. Moves away from the existing control of the private sector, especially the ‘Licence Raj’ system had begun in the 1980s, but it was not till after 1991 that liberalisation fully became part of the Indian policy agenda. In the light of previous development trends in the country, the post-1991 reforms have gone quite far, but compared to many other economies India is still far from being a market-driven liberal economy. Many of the earlier developmental goals, especially the emphasis on rapid economic growth and poverty reduction, are reiterated even today and are still the guiding principles of the plan, but the means to achieve these goals have changed due to the reform process under way.

2.2 Macro-economic and Political Context

India is a federal democracy, with Constitutionally laid down distribution of functions between the Centre and the State. The Indian state is often described as a ‘quasi-federal’ state because of the Centrist bias in the Constitution. The bias is most evident in the distribution of the elastic sources of revenue. In the distribution of functions, a large number are in the domain of the States. These include most aspects of health and education. However, a Constitutional amendment in 1976, during the Political Emergency, pulled some of these functions back into the concurrent list (i.e. in the
purview of both the Centre and the States). Because of the imbalance between the revenue sources and functions at the State level, devolution of resources in favour of the States is a necessity. This is done mainly under the aegis of the Finance Commission, the Planning Commission and the line Ministries.¹

India’s economy is the 10th largest in the world. The contribution of the primary sector to output has shrunk to 26.4 percent (from 59.2 percent in 1950-51), while that of the secondary sector is currently 24.4 percent. India’s population stands only next to China (1.02 billion in 2001) but still overwhelmingly resides in the rural sector (67 percent) and 58 percent depend upon the agricultural sector for a living. Well over half the population lived in poverty for almost two and a half decades after Independence, but since then there has been a decline in the incidence of poverty with 26.1 percent of the population officially estimated to be in poverty in 1999-00. However, it should be noted that the Indian poverty line is well below the international $1 a day line. Poverty figures based on the internationally accepted poverty line show that 42% of the population was below the line in 1999.

India’s growth rate moved up for the first time in the 1980s to an average of 5.5 percent annually. In the 1990s, this is estimated to have risen again to about 6.2 percent. However, as is well known now, the growth in the 1980s was financed through profligate spending which pushed up prices, putting India’s current account under pressure. The picture worsened with the Iraq war and the ensuing near default on short term borrowings led to a dramatic reassessment of policy, borrowing from the IMF and the World Bank, structural adjustment measures, followed by internal and external liberalisation.

The Balance of Payments position has, since then, steadily improved but the fiscal situation, both in the Centre and the States continues to be worrisome. Recurrent expenditure, constituted mainly by salaries has proved to be the most resilient part of the budget, with the fiscal stress continuing to constrain both developmental and capital expenditure. The problems are exacerbated by persistently low levels of revenue collection.²

Politically, India is the World’s biggest democracy. During the last 50+ years, most social groups have found their voice within the elite dominated political system (Weiner 2001). Politics in India tends to be organised along vertical lines (e.g. patron-client type relations) rather than along principles and practices associated with polities dominated by horizontally organised interest groups. Pro-poor political initiatives are mainly related to stand-alone programmes, as opposed to major thorough social reform programmes (Kaviraj 2000).

Corruption is widespread and acts as a means of enrichment for sections of all classes but the poor, and the political and economic elite are said to be among the main

¹ Of these, the Finance Commission is constitutionally mandated and is constituted once every five years to decide on the devolution of fiscal resources for the recurrent financial requirements of states. Currently the Twelfth Finance Commission is deliberating over a fresh set of recommendations.

² National revenue collection is about 12% of GDP (99/00, 00/01). If State level revenue collection is included, total revenue mobilisation reaches around 19% (99/00, 00/01) (WB).
beneficiaries. This has led to what has been labelled the ‘criminalisation of politics’, suggesting increased links between politics and criminal activities (Harriss-White 2003; Bardhan 2001). Still, the political pressure from below necessitates the continuation of pro-poor programmes, and the protection of the interests of other social groups as well, e.g. farmers and state employees.

2.3 The Role of Planning

Planning is best understood as one aspect of how GoI works and makes strategies, and how this is transformed into yearly budgets. The Plan interacts with other important aspects of Government policy making and implementation. It is useful to divide the role played by the Plan into a) strategic policy issues, and b) issues relating to the budget. The former role is principally non-monetary while the latter concerns the Commission’s role in allocating (primarily) investible resources.

In principle, the division of labour between Government and Planning Commission is clear: the Planning Commission is advisory to the government. In practice, however, it has varied whether Government or Planning Commission have taken the lead on strategic issues. This ‘fuzzy’ element in the relationship is to a large degree due to the fact that Planning Commission, Prime Minister and Government are closely interlinked: the Prime Minister is the Chair of the Planning Commission, and all Cabinet Ministers are members of the National Development Council (NDC) which approves all major decisions of the Commission. Notably, the Chief Ministers of the States are also members of the NDC. Thus, effectively this body coordinates planning decisions between different sectoral ministries as also between the centre and the states.

The strategic role of the Plan was clearly envisaged from the onset of the planning process, when the first Planning Commission was established in 1950. Part of its remit was to ‘formulate a Plan for the most effective and balanced utilisation of the country’s resources’, and this plan was to be a ‘national plan which embraces both the public and the private sector’ (GoI 1950: Introduction). In effect, the Planning Commission was asked to be in charge of a process establishing the overall development direction of the Indian society.

The second function of the Plan is to be a government resource plan, covering the GoI Plan budget (‘investment’ budget), but not its non-Plan (‘recurrent’ budget). In this respect the Plan is crucial for the strategic development of the public sector. The Plan covers:

[All developmental programmes, new non-Plan revenue expenses, all capital accounts and any others that require special funding in the Plan. Non-Plan items normally fall under the definition of the operating budget, covering those items needed to run the government annually’ (Tummula 1994:229).

The role of the Plan in Indian development has changed considerably since 1991. As the state ceases to be the main actor in development and, instead, takes on the role of provider of an enabling environment for the private sector, the role of the Plan becomes to support this enabling role, and deal with areas that are not (yet) covered by the private
sector, e.g. infrastructure and social development. Since the early 1990s, in an effort to cut government budgets, the Plan budget has decreased from constituting more than 40% of the overall GoI budget, to constituting around 26% (2001/02). Public sector investment has also decreased relative to private investment. Apart from being a deliberate policy this may also be due to the general budget squeeze since 1991.

The Plans have also become less influential at the strategic policy level, relative to decisions made by the rest of Government. The reforms from 1991 onwards have been driven mainly by the Ministry of Finance with the backing of the Prime Minister and the Cabinet. There are several reasons for that, including the need felt for reforms here and now; the lengthy (five year) cycle of the Plans which were also delayed mainly due to political and economic turbulence in the 1990s; the pre-eminence of the Finance Ministry in presiding over the fiscal stabilisation process, which is often seen as the core of the reform process; the necessity for the political leadership to take direct charge of the reform process, given its potential costs to different sections of society, and the role shift for the Planning Commission necessitated by the ideology of reform.

For the Planning Commission and the Plan the adaptation to the new policy agenda has taken some time. The 10th Plan (2002-07) suggests that the Planning Commission coordinates the on-going reforms, thus recouping a strategic position. Steps are presently being taken to implement this but it remains to be seen if this will lead to the development of a strong overall reform framework and to policy harmonisation over time and space.

India is one of the forerunners in poverty analysis and in formulating and implementing anti-poverty programmes. Extensive debates on the nature, measurement and magnitude of poverty in India have taken place since the 1950s. Of late, in line with current international thinking on the issue, there is a more nuanced and multi-faceted understanding of poverty, which includes dimensions of human poverty. This is clearly reflected in the 10th plan.

However, the actual evolution and implementation of poverty reduction policies and their effectiveness in India is to a large extent dependent on political pressure from below. Poor people tend to vote according to who they trust will protect their interests. CSOs are actively engaged in facilitating mobilisation on pro-poor issues across India, often based on issues relating to the rights to a decent living for all Indians enshrined in the constitution. The focus of the Plan, and of politicians, on issues such as employment, health and education relates to social mobilisation on such issues. But as is common elsewhere, it is unfortunately also the case in India that the poorest of the poor are less vocal than others. The work with such disempowered groups poses a special challenge in India, and for the Plan.
3. Poverty Reduction in the NDS/PRSP

This section provides an assessment of how poverty reduction is articulated in the NDS/PRSP, and the extent to which processes emphasised in PRSP literature are being introduced into India. It focuses on the 10th Five Year Plan of India (2002-07). While the Plan is recognised (by the World Bank and other donors) as India’s version of a PRSP, it is still commonly as well as formally referred to as ‘the 10th Five Year Plan’. This report follows this classification.

The Plan and the institutional set-up around the Planning Commission are an important part of policy making at the all-India level. It is however important to note that other government institutions, while interacting with the Planning Commission in the evolution of policy, are often important initiators of new policies in their own right as well: this includes the Cabinet/Government; the Ministry of Finance, Line Ministries, the State Governments, and the Finance Commission, to mention the most important ones. In addition, government policies and budgets are subject to scrutiny and review by the representative institutions viz. the Parliament and the State legislatures. A full assessment of the Indian ‘NDS’ would have to understand the role of, as well as the contestations within, these institutions. This is crucially important not only in order to understand the evolution of policy but, even more, when evaluating the policy implementation processes.

3.1 PRSP Best Practice

This section outlines PRSP best practice principles, in order to facilitate the following assessment of the Indian Plan. A PRS would ideally consist of a single development strategy for the whole of the country. It would have obtained Government agreement, through a participatory process led by the government and with the active involvement of CSOs, grassroots and Donors.

The ideal strategy would be outlined in a single Plan document, and it would include all important aspects of government policies and budgets; no major issues relevant for the development process should be outside of the PRS. The Plan would be supported by SWAps detailing its sector specific elements. Typically, the PRS would be operationalised through a prioritisation process, and the development of a fully costed strategy, which again would be converted into an MTEF (Medium Term Economic Framework, e.g. a 3-5 year rolling budget plan), and output and outcome focussed annual budgets.

The responsibilities for the implementation of the various aspects of the Plan would be clearly specified, and linked to budgets. In order to enable this, a streamlining of the public sector institutions might also be undertaken. One central authority would be in overall charge of implementation (e.g., a PRSP Secretariat with cross-governmental

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3 The main general PRSP literature used in the discussion below is: World Bank, ‘Key Questions for Review of the PRSP Approach’. Outlines 17 main issues for PRSPs. DFID/Peter Grant, no date: PRSPs and budgetary aid in Asia: A DFID perspective. The paper identifies 6 core principles for PRSPs in Asia.
participation but situated within a powerful MoF). Donors may then line up with budget support to implement the PRSP, while individual donor project support would be scaled down. Linked to this, output and outcome monitoring would be introduced, possibly linked to performance related budgeting.

In practice, national PRSs are a good deal more complex than the above model. Political economy issues and technical issues interact and create specific national PRSs. The PRS reform agenda is enormous, much can go wrong, and compromises between different stakeholders and the art of the possible are necessary ingredients.

3.2 To what extent has the NDS been Country Driven?

The preparation of the Five Year Plan has been fully country led. As outlined in section 3, the present Five Year Plan is part of a 50+ years fully institutionalised Indian planning tradition. The institutional set-up ensures that government is in charge of the planning process: the Prime Minister is Chair of the National Development Council (NDC) which is in charge of the planning process, and Cabinet Ministers as well as State Chief Ministers are members.

Each National Five Year Plan as well as the one year plans that flow from them are endorsed by the highest political authorities. The process of preparing the Plan is led by the NDC who set the original targets. Against this background, it is the task of the Planning Commission to develop the actual Plan, through a process of involvement from line ministries and state governments. The Plan is approved by the NDC, the Cabinet and passed by Parliament.

International Financial Institutions are not directly involved in the Planning process. However, India’s international commitments, and the engagement of government with the international institutions, form part of the context within which planning takes place. Themes prevalent in the mainstream development agenda, represented among others by the WB and the IMF, are in many cases mirrored in policies outlined in the Plan (i.e., poverty reduction and prioritisation of social sectors; privatisation of Public Sector Enterprises; good governance issues including Civil Service reform initiatives), but influence is more indirect than direct.

All social groups and institutions are stakeholders in the National Development and Poverty Reduction Process in the sense that it may impact on their present wellbeing and future development prospects. Concentrating on the stakeholders directly involved in the political process, the main stakeholders are the Central Government (the Central Cabinet and the Line Ministries) and the State governments. The NDC is chaired by the Prime Minister (also Chairman of the Planning Commission), and apart from those mentioned earlier, its membership includes the Deputy Chairman of the Planning Commission and Members of the Planning Commission. The Council decides the broad objectives and goals of a plan, the resource allocation formula between Centre and States, and approves the Plan Approach Paper and the full Plan Document. Regular consultations take place between the different wings of the Planning Commission, the Ministries and the States. Civil society members from academia, NGOs, private sector, autonomous corporations, trade unions etc. are drawn on in their individual capacities from an expert
pool, mainly at the time of Plan formulation, but in a more restricted manner, from time
to time. Other stakeholders are not involved in the Planning process but their views on
the programmes may be elicited through studies sponsored by the Commission or carried
out by its evaluation wing.

The principal task of the Planning Commission, is the preparation of the Five
Year Plans and the Annual Plans. The general goals of the Plans and the broad policy
orientation that they entail are decided through a consultative process which involves the
Planning Commission at various levels and its deliberations with others outside the
Commission and is expressed in the Approach Paper to the Plan which is formally
approved by the NDC.

The assessment of resources available for the Plan is important for the preparation
process. Public sector resource availability for the Plan is assessed through consultations
with the Ministry of Finance, the Reserve Bank and the Ministries. The resources made
available by the Finance Ministry in terms of general budgetary support to the Plan are
quite central to the process of planning.

Central Ministries and State Governments develop proposals for plan outlays;
actual resource allocations are determined through an iterative process of consultations
and negotiations which take into account the resource envelope. The Consultative process
set up by the Planning Commission (described below) carries out a review of each sector
and details the strategic priorities and the policy changes that might be required. These
recommendations are not normally associated with budgetary figures.

Physical and financial feasibility and consistency of the targets are checked
through formal models. Initially, these models use different variants thus making explicit
the kinds of choices and trade-off that might be required. Priorities, policy
recommendations and allocations are revised and assessed through an iterative process
until consensus is reached between the states, central ministries and Planning
Commission and is given the seal of approval by the NDC.

3.3 Was plan open and participatory?

The preparation of the Plan is still largely a top-down bureaucratic exercise,
headed by the Planning Commission, with participation of the Line Ministries, and with
major goals being vetted by the Prime Minister and the government. There is some civil
society involvement but the process is less consultative than is implied by PRSP best
practice. There are no systematic and institutional discussions with CSOs regarding the
Plan proposal, its goals and its overall strategy. On the other hand, the involvement of the
political leadership at both Central and State levels (through the National Development
Council at specific junctures) ensures that democratic space is not pre-empted and
populist goals are given voice by the leadership.

Participation takes place at various stages in the Planning process, and is most
intensive and systematic at the preparation phase. The plan preparations are now more
open and participative than in the past, albeit still in a somewhat limited manner. The
formal participative process has become more broad-based with experts being drawn
from various sections of civil society (academia, private sector, trade unions, non-
governmental organisations etc.). The Planning Commission estimates that around 6000 people outside the Commission itself have been involved in the preparation of the 10th Five Year Plan.

The participative process takes place through Steering Groups and Working Groups set up for the purpose of preparing the Plan. The area of each Steering Group generally overlaps with a Line Ministry and both the Commission and the Ministry are closely involved in the consultative process. The Groups are chaired by a Member of the Planning Commission and include representatives from different ministries, public sector organisations, State governments, research organisations and other government agencies, and non-government representatives selected for their knowledge and experience in the area.4

The Steering Groups, in turn, constitute Working Groups with a similar composition. These may be chaired by a Secretary to the Government, or by a non-government expert. Sub-groups may also be constituted as needed. These groups represent a conduit through which the Planning Commission seeks to draw in a range of experience, perspective and critique. The reports of the Working Groups and the Steering Groups are expected to feed into the Plan preparation. Task Forces may also be set up to deal with new subjects or those deemed to be of special importance.

Within their field of expertise and areas of interest, the participating civil society representatives may yield considerable influence. The Planning Commission instructs the Steering Group and Working Group Chairs not to overrule or omit the views and proposals of the group members in their reports. In two groups looked into by the present study, civil society members of the groups were satisfied that the final reports and recommendations reflected their views. In the same cases, the recommendations of the reports have to a large extent been included in the 10th Five Year Plan.5 Beginning with the Tenth Plan, the recommendations of the working group and steering groups are being put up on the Planning Commission website and responses are being invited.

In a manner similar to the Planning Commission, State Planning Boards are expected to draw in a range of experience and perspective while formulating plans at State level. However, planning at State level appears in most cases to be a more bureaucratic exercise with little consultation outside of the State Planning Boards, although there are exceptions (e.g. Kerala where district level planning plays a major role in deciding plan spending pattern).6

As would be clear, the above process is limited to participation by civil society experts, activists and eminent persons, nominated by government, with no formal modality of engagement with civil society institutions and organisations. On the other

4 Information on the composition of the committees set up for developing the approach to the tenth plan is available on the Planning Commission website (planningcommission.nic.in).
5 The two groups were: ‘the working group on strengthening monitoring and evaluation system for the social sector development schemes in the country’, and ‘the steering committee on environment, forest and wildlife’ (GoI 2001; GoI 2002)
6 It is outside the TOR of the report to look at State level planning. However, one of the consultants involved in this report has in a separate report investigated state planning processes in West Bengal, for DFID, see Lerche (2003). It is not possible to draw general conclusions regarding State level planning from this study of planning in a single State.
hand, sector policies such as Health and Education do respond more directly to domestic CSO-led opinions as well as to developments at the international level. For example, education policy development during the 1990s can be seen as being inspired by grassroots and CSO demand, and by the increased international focus on literacy and primary education (Srivastava 2003).

The underlying reasons for this relate to the fact that, firstly, India is a country with a vibrant free press and an equally vibrant political and intellectual debate. The Planning Commission and its members are integral parts of this. The Plans are informed by academic studies and lessons learned by NGOs and donor funded policies, programmes and projects. Non-Government views are sought also on overall strategic issues; e.g., during the Tenth Plan preparation phase, consultation was extended to a discussion of the Draft Approach Paper to which a large number of experts were invited, and detailed comments were sought on the document and the principal goal of the Plan (initially enunciated as achievement of a 9 percent growth rate).

Secondly, and related to the first point, India is a democratic country with a freely elected government which is answerable to Parliament and the electorate. The planning process is part and parcel of the parliamentary democracy, and the Five Year Plan reflects long-term trends in the nation-wide political priorities. Like all important government documents, the Plans, too, are tabled on the floor of the Parliament for discussion.

These two points are crucially important as they raise the issue of the role of different types of participation: direct participation of the (not necessarily representative) CSOs in the planning process; and the processes for political influencing and decision-making in a country with the type of relatively mature democratic institutions such as those which exist in India. It is through these types of academic, practical and political interactions that the overall strategy and spending priorities of the Five Year Plans during the last decades have developed.

The 10th Plan is best seen as having two main roles. At the strategic level, the Plan suggests that the Planning Commission takes on the new role of coordinating ongoing policy reforms. At the same time, the Plan is a government resource Plan. One main feature of the 10th Plan is that it outlines a number of major policy reforms which are necessary if the goals of the Plan are to be achieved. This includes wholesale major liberalisation of the agricultural sector which today is strongly subsidised and regulated; major reforms of the rules and restrictions governing the Small Scale Industry sector; reforms of the power sector and of rail transport; and governance reforms relating to Plan spending and monitoring.

The PC is advisory only and thus has few powers to enforce the implementation of its strategic plan. However, the policy reforms envisaged in the 10th Plan are now being put into yearly Action Plans for the plan period. The Action Plan for 2003-04 has

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7 It must be emphasised that sector policy developments may be driven by line ministries as well as by the Planning Commission. In any case, the Plan and its sub-group represent an opportunity for sector-wide discussions, policy statements and prioritisation.

8 Moreover, in a limited and non-institutionalised manner, broader participation has been elicited by the Planning Commission in the Tenth Plan preparation phase. Drafts of the approach paper, and reports of the Working Groups and Steering Groups have been put on the Planning Commission web site and feedback has been invited.
been drawn up by the PC and approved by the Prime Minister’s Office. Its Implementation progress will be monitored on a quarterly basis.

The increased policy coordination role will need to overcome major political economy issues in order to ensure implementation of the proposed reforms. For example, the Plan outlines far-reaching reforms in the agricultural sector, amounting to a deregulation and liberalisation of the sector, and the introduction of land reforms legalising tenancy relations. Farmers organisations oppose liberalisation, and many political parties are less than keen to go against powerful rural interests. Hence, the initial budget proposal for 2003-04 proposed cuts in certain subsidies to agriculture but this was taken off the table in the end.

The increased policy coordinating role of the PC marks an important change from the early 1990s where other stakeholders gained importance: the economic reforms of the 1990s were initiated by the MoF, and the political voice of the States increased as coalition policies became the norm. This decision to allocate this new role to the Planning Commission does not appear to have been based on participatory processes. This is in keeping with common practice wherein the role of government institutions is considered to be an internal Government decision over which civil society has little influence.

The traditional core function of the Plan has been its role as a development expenditure plan for GoI. Implementation of the Plan is mainly the responsibility of the Line Ministries and the State government. CSOs play an uneven role in monitoring of government performance. However, several internationally renowned initiatives exist in India, notably in the areas of health, food security and starvation deaths, and human rights. Nevertheless, in most parts of India, most of the time, there are few organised civil society or participatory monitoring activities taking place.

This said, many of the more recent programmes, some with external funding, provide for decentralised design and implementation, often with significant civil society participation. Examples include the Sarva Shiksha Abhiyan, the Reproductive and Child Health programme, the Watershed Development Programmes etc. Some of the anti-poverty programmes use a group based approach, and in the case of many others, funds are devolved directly to local bodies which can use them as per the local communities’ own priorities, but according to approved guidelines.

The 73rd and 74th Constitutional Amendments have mandated that rural and urban local bodies in India act as the third tier of ‘self-government’ and a list of their functions has been provided in the Eleventh and Twelfth Schedules of the Constitution. These functions include primary and secondary education, public health and sanitation, primary and secondary health institutions, anti-poverty programmes. The exact delegation of powers has been left to the State legislatures. The delegation of powers and functions has so far been more extensive in the case of local rural bodies known as Panchayati Raj Institutions (PRIs), whose main body at the lowest level is the general body drawn from one or several villages. The PRIs are not directly involved in the planning process at the national level, and given the size of the country this may be neither desirable nor feasible. But they are empowered to draw up village level plans which can be integrated upward to the district level or even beyond. The PRIs also receive funds directly for the
implementation of some of the anti-poverty programmes and can chalk out their own priorities. In practice it is up to each State government to decide to which extent they want the PRIs to be vibrant self-governing institutions, involved in developing their own developmental priorities. In the state of Kerala the PRIs are actively involved in the plan formulation stage as well as in the implementation process but in many states their participation is weak.

3.4 Strategic aspects of the Plan

There are several processes of policy making in India. Within India’s federal set-up, certain issues are decided at National level while others fall within the purview of the States. At National level, the policy making centres include the PMO, the MoF, the Cabinet, the PC, the line ministries and the Finance Commission.

The Planning Commission and the NDC are closely linked to the other core processes for policy making. The fact that the main political players are members of the NDC facilitates coordination. On the other hand, the fact that the Plan budget and the non-Plan budget are under two different institutions – the PC and the MoF – constitutes a challenge for coherent policy making. This is exacerbated by the fact that there is no neat division between Plan and non-Plan expenditure. This has implications both for the development of SWAps which by definition will need to go across the Plan – non-Plan divide, and also for any governance reforms. Presently, the MoF is in charge of governance reforms relating to non-Plan expenditure, while the PC aims at improving governance for Plan expenditure.

Five Year State Plan strategies are also discussed by the PC. While State strategies and policies may vary, they tend to be closely linked with the National strategies. There are at least three reasons for this:

1. The National Five Year Plan now demands that State Plans set specific targets related to national goals in a number of areas.
2. In a number of areas, the National Plan outlines budget allocations to specific sectors at State level
3. Policy level influencing processes, both inside and outside the realm of the PC (e.g., between Line Ministries and Departments)

The traditional core function of the Plan has been its role as an investment expenditure plan for GoI. Each year, annual Plans are prepared by the GoI and by all States, within a framework set by the development programmes of the Five Year Plan and the yearly budget ceiling agreed with the MoF. Yearly sector budgets are agreed between the PC and the National Line Ministries for the State Plans, the Planning Commission reaches an agreement with the Chief Minister of each State, its Department of Finance and its Planning Board, regarding PC assistance to the State Plan and the

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9 Some tasks (those on the concurrent list) are the shared responsibility of the National Ministry and the State Level Departments (e.g. Ministry of Health and Departments of Health).
10 The Plan – non-Plan division is reflected in the fact that non-Plan budgetary transfers from the National to the State governments take place according to a formula decided by the Finance Commission (FC) while Plan transfers go according to rules established by the Planning Commission. The FC does not have a seat in the NDC, and the PC does not have representatives in the FC.
overall size of the State Plan. Within each State, the Planning Board agrees budget caps with the State Line Department.

The Plan budget includes all new government projects / activities in their entirety, e.g. both capital investments and additional salaries. At the end of the stipulated project period, the new activities should either cease or, if the State government wishes to continue the activities, they should be transferred to the recurrent budget.\footnote{Typically, capital or investment projects (e.g. the building of a bridge) would cease at the end of the project period, and future maintenance costs would be paid through the recurrent budget. Projects that might be continued into a new plan period would be, for example, initiatives relating to running new schools. The payment of salaries to the newly employed teachers etc ought to be transferred to the recurrent budget but are often maintained within the plan budget and thus funded through Plan channels.} That, at least, is the principle. In reality a large proportion of schemes are continued from one Plan to the next (GoI, 2003a).\footnote{This may be because State governments find it easier to generate Plan funding than to generate funding for the non-Plan budget, or due to political expediency – a large Plan size signals an active, developmental government. There is political mileage in securing funding for a large Plan.} This results in a blurring of the division between Plan-type expenditure and recurrent expenditure.

Overall, the Plan constitutes 25-30\% of GoI’s budget. Part of this is transferred to the States; other elements also reach the States through the so-called SCC’s (schemes under the control of National Ministries but implemented by State administrations); while some elements relate solely to the national budget.

Most Plan expenditure relates to sectors falling under the responsibility of the State governments, e.g. social sectors, poverty reduction, agricultural development, parts of the small scale industry sector, some infrastructural investments including rural roads and the power sector. This complicates implementation as State governments may have other priorities besides those outlined in the Central Plan. For example, the increased reliance on PRI institutions envisaged by the Plan will only be possible in States where the stipulated transferral of power from State governments to PRIs does take place.

India does not have an MTEF in place. For the Plan budget, the link between the Five Year Plan and the budget is the annual Plans (National and State Plans) which are also prepared by the Planning Commission and the State Planning Boards. Implementation, and monitoring of implementation leaves a good deal to be desired. The Plan is a consensus document, and implementation requires sufficient ownership by the main implementing stakeholders: the Line Ministries, the State and Panchayati Raj bureaucracy, and the political representatives at all levels. Bureaucratic reasons as well as political economy issues may complicate Plan implementation. The need for ownership by stakeholders is a PRSP best practice principle which warrants close attention in India.

Implementation of the Plan is mainly the responsibility of the Line Ministries and the State government (see below) with overall oversight and monitoring being undertaken (in the case of specified programmes) by the Central Ministry of Planning and Programme Implementation, the Programme Evaluation Organisation of the Planning Commission, and the Planning Commission itself. The Central and State bureaucracy
plays the single most important role in implementing the Development Plan. Internal monitoring remains weak, as has been pointed out by the Tenth Plan Working Group on Monitoring and Evaluation.

Major differences exist across the states regarding implementation efficiency. This relates to different political situations; different levels of articulation of popular demand for pro-poor policies and pro-poor service delivery; different levels of efficiency of the state level govt apparatus; and different degrees of economic crisis in the States.

It is generally acknowledged that the PC is not in a position to ensure that Plan funds are spent effectively. For example, the 9th Plan midterm review concluded that between 20% and 70% of poverty reduction funds did not reach the beneficiaries. These are major unresolved issues. The financial difficulties of most states may also lead to diversion of Plan funds, in order for states to ensure the maintenance of core functions. The 10th Plan has institutionalised quarterly monitoring meetings at the PC, with the release of subsequent tranches of central Plan funding to the States being made dependent upon the production of sector and programme specific spending certificates. This is an improvement but more needs to be done at all levels.

3.5 Was the Plan Result-Oriented?

The Tenth Plan formulation has put into place a four-fold poverty strategy. Firstly, a clear set of ‘monitorables’ have been defined for and beyond the Plan period, These targets are ambitious but some at least do not appear to be entirely out of reach, given rapid phases of progress achieved in the past.

Secondly, a broad two-way link between the achievement of these targets and overall growth has been hypothesised. But, significantly, this hypothesis has been disaggregated sectorally and region-wise (as have been the monitorable targets). The sectoral burden of achieving (pro-poor) growth has fallen on the agricultural sector and a number of sectors which have been identified as being capable of providing ‘high quality’ employment growth. Since the performance of States has been seen as crucial to good achievement, the Plan has decided to set up a monitoring and incentive structure, the details of which have yet to be worked out, linking fund transfers to State performance.

Third, changes in the policy and governance environment and institutions have been emphasised. These are expected to remove constraints on growth; allow the public and private sectors to contribute to the growth process; and strengthen the basis of participatory development by improving efficiency and accountability in decision-making. There is thus a greater thrust in the Plan on non-investment decisions although these decisions will on the whole not be taken or implemented by the Plan itself.

Fourthly, a large number of measures have been proposed to improve the condition of groups which are likely to be highly deprived. These include women, SC/ST, the poor, the disabled, elderly without means of support, labourers in the informal sector of the economy and so on. The initiatives envisaged by the Plan include both direct social security-type support; support to group-based credit schemes for deprived women, and
more emphasis on the implementation of already existing legislation for protection of and positive discrimination in favour of deprived groups. These measures are only partly linked to resources, and where they are, the efficiency of resource use has received greater emphasis than in the past. An examination of these measures shows that they are based on incremental learning – changes have been made in response to past experience and examples from countries other than India. But a critical examination of the proposed changes is required to assess whether they go far enough.

The strategy proposed in the plan can be compared to proposals made in other quarters, for example, World Bank (1997, 1998 and 1999). In broad contours, the Indian strategy also reiterates the emphasis on the agricultural and industrial sectors (with a view to promoting quality employment growth) and the need for reform in policy and governance. It further concurs on the need for state level reforms in order to improve performance of the laggard states. But it goes further in specifying disaggregated targets; the need to monitor state level performance and incentive based transfers. Moreover, decentralisation; group based and participatory activities are seen as essential to improving the efficiency and accountability of the developmental processes.

The important issue is not only whether the proposals in the Plan constitute a cohesive strategy in attacking poverty but also whether, given the limited instruments available to the PC to secure the proper implementation of the Plan, the changes proposed can be sustained by the entire decision-making apparatus. The 10\textsuperscript{th} Plan is the first Five Year Plan to include other targets for poverty reduction than an overall target for reduction of the incidence of income poverty. The Plan lists specific and monitorable targets for human development, related to a multi-dimensional understanding of poverty (see Box 1 below). In addition to these overall goals or targets, the Plan also lays down specific targets in a number of other areas which have a bearing on poverty. On the other hand, in several other areas, the Plan proposes action to be undertaken but does not list specific targets, e.g. poor people’s access to land and bonded labour rehabilitation.

**Box 1. Main ‘Monitorable’ Targets for the Tenth Plan and Beyond**

- Reduction of poverty ration by 5 percentage points by 2007 and by 15 percentage points by 2012
- Providing gainful and high-quality employment at least to addition to the labour force over the Tenth Plan period
- All children in school by 2003; all children to complete Five Years of schooling by 2007
- Reduction in gender gaps in literacy and wage rates by at least 50 per cent by 2007
- Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2 per cent
- Increase in literacy rates to 75 per cent within the Plan period
- Reduction of Infant mortality rate (IMR) to 45 per cent per 1000 live births by 2007 and to 28 by 2012
- Reduction of Maternal mortality ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012;
- Increase in forest and tree cover to 25 per cent by 2007 and 33 per cent by 2012
- All villages to have sustained access to potable drinking water with the plan period
- Cleaning of all major polluted rivers by 2007 and other notified stretches by 2012

Source: GoI 2003: 6
The plan outlines a process for the specification of the above targets into state level targets. This would be the first time that each State is given specific poverty related targets. Compared to previous Plans, the specification of monitorable targets, and their extension down to state level are important steps forward. However, no separate mechanism is envisaged for the monitoring of these targets or for linking these to other performance indicators and funding, other than what is already in-built into the plan process.

3.6 Is the Plan comprehensive?

The Plan does not undertake an explicit analysis of the causes of poverty. Instead, there is an implicit conceptualisation of poverty, which can be gleaned from its emphasis on the need for economic growth, employment generation and improved ‘human well being’ including improvements in the areas of health and education.

Income poverty remains the core definition of poverty in the Plan. The main analysis of poverty trends and determinants focuses on issues of growth and employment, carefully disaggregated across sectors (and for the first time) across States. Employment is seen as a vital issue, and it is argued that growth of the small scale industrial sector and of the agricultural sector is particularly important for employment generation, and that policy changes enabling pro-poor growth need to concentrate on these two sectors. This analysis is supported by a good number of academic works though there are also dissenting views.13

At the same time, in the Tenth Plan, the government has explicitly moved towards a more embracing concept of ‘human development’ which includes a more multi-faceted definition of deprivation and poverty and this has been operationalised in the setting of targets relating to human development (see Box 1 above). The National Human Development Report produced by the Planning Commission and mandated by the Parliament also reflects this nuanced shift towards a multi-faceted understanding of human deprivation, with a focus on vulnerable groups (women, children, low castes and so on).14

Both the Planning Commission and the Line Ministries (such as the Ministry of Rural Development, responsible for rural anti-poverty programmes) recognise that income poverty is not a useful operational definition of poverty and the effort is on to develop indicator based criteria for identifying poor households (this is an important exercise for programme targeting) as well as giving flexibility to States to develop such criteria. The indicators which have been developed so far are based on the recommendations of a Task Force of the Rural Development Ministry, which included

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13 More importantly maybe, the way to achieve pro-poor growth within these sectors is hotly disputed, along familiar lines of pro-liberalisation and more state interventionist views.

14 The broader thrust on well-being and human development has no doubt been influenced by the government’s engagement with international and national work on these issues.
experts, some of whom have been involved with PPA studies. These indicators essentially relate to assets and occupational categories.

In various chapters and contexts, the Plan outlines specific processes and structures which serve to perpetuate poverty, including lack of opportunities for education, employment and access to land. A number of empirical academic studies have pointed out the importance of these issues as well.

Another issue identified by poor people in several studies is that of powerlessness arising from oppressive social relations. This is seen as a structural issue which may negatively influence the ability of the poor to obtain access to land, education etc. Empowerment of the poor and social mobilisation have been key themes in India’s national development strategy since the 7th Plan, and devolution and improved governance are explicitly seen as important links to pro-poor development. The Plan deals with this through a concept of disadvantaged and vulnerable groups who should be targeted by special programmes, and to whom a number of programmes should pay special attention: women, children, disabled, SCs and STs, other minorities, etc. Particularly backwards areas also receive a special quota. The emphasis at various places, in this (and also earlier) plans on social mobilisation, community participation, gender empowerment, decentralisation and governance is linked to the goal of empowerment of poor communities and groups.

In spite of the nuanced view regarding poverty and its causes, the allocation of funds to states for anti-poverty programmes is still solely based on the income-poverty criteria. This leads to an inherent, as yet unresolved, conflict in using the poverty incidence derived from national consumption expenditure surveys for deciding resource flows in anti-poverty programmes or PDS, but using other criteria (whether human development based or indicator based) to assess performance or for targeting.

3.7 Is the Plan prioritised?

In the context of priorities, one can ask, to what extent does the Plan clearly define, cost, and prioritise public actions that are likely to reduce poverty? The 10th Plan stresses that the targets pertaining to its multi-dimensional poverty reduction programmes can only be achieved if core government policies are reformed (including reforms regarding the liberalisation of agriculture, the abolition of protection of small scale industries, and of the civil service). The policy reforms are outlined in detail, and the PC action plan approved by the PMO specifies which government departments should initiate what reforms, and when. In the end, however, it is up to Parliament and Government to go ahead with the reforms, and it is not clear if the political will and the political strength exist to carry out the action plan.

The Plan deals with both policy reforms and plan spending through sector-wide programmes. It is not clear from the Plan document, nor from discussions with stakeholders, how well coordinated and focussed on achieving the overall goals each Ministry is. Coordination across several ministries is seen as difficult, which is an issue when, for example, education is dealt with not only by the Ministry of Education but, in
different ways and amounting to about 15 percent of the central expenditure on the sector, by 16 different ministries.

The Plan makes clear that without the proposed policy reforms, neither the economic growth target nor the poverty reduction targets can be achieved.\textsuperscript{15} Plan spending alone is not sufficient. The Plan does not undertake an explicit prioritisation of its activities and programmes. As part of the preparation of the Plan, the PC asked Ministries and Departments to go through ‘zero budgeting’ and ‘core budgeting’ exercises, in order to identify the core issues that needed to be included and prioritised within the Plan. While some activities were terminated or moved to the non-Plan budget, the process did not lead to a transparent listing of priorities within ministries, nor within the overall Plan. If resources are scarce this may well lead to difficulties in the process of transforming the Five Year Plans into yearly Plans and yearly budgets. This is important as it is seen as very unlikely that the extremely high growth target of the Plan – 8%, well above present growth rates – can be achieved.

Projects and programmes are costed but it is not clear from the document to what level of detail this has been done in the Plan itself. The plan also does not show in detail how each specific programme contributes towards the overall target. More detail of this nature can be found in working group reports, in ministerial plans while the budgetary details appear in the Annual Budgets of the MoF. However, it appears that little has been done by way of analyses of cost-benefit, and prioritisation following on from this.

Following form priorities, to what extent have financial, institutional and political constraints facing both government and civil society adversely affected the development and implementation of previous plans, and has the 10\textsuperscript{th} plan taken these constraints into account? The Plan highlights many institutional weaknesses, especially but not only at State government levels. Various streamlining measures regarding the way the central Plan is implemented and monitored have been put in place by the 10\textsuperscript{th} Plan. It is not clear if this will be sufficient to ensure the institutional capacity for Plan implementation. However, the very difficult financial situation of most State Governments means that it is likely that some sort of cost cutting exercises will be undertaken in many states.

3.8 Constraints Faced by NDS

The results of the Indian Plans have been mixed. Main reasons for not achieving goals regarding economic and social development include: the inherent nature of the planning process itself, insufficient realism, fiscal constraints, and issues relating to implementation efficiency.

The overall Planning model used in Indian planning has many critics. It is widely acknowledged that the Harrod-Domar model of growth which forms the backdrop for Indian planning over-emphasises the role of investment in economic growth, and pays too little attention to innovation and technology (DFIDI 2003). In spite of this, the growth targets of most of the Five Year Plans of the 1980s and 1990s were achieved. However, the very high growth target of the 10\textsuperscript{th} Plan – 8%, well above targets and actual growth

\textsuperscript{15} This is based on a major analytical exercise undertaken by the PC regarding future employment creation in India (PC 2002).
The high growth target allows planners and Government to accommodate diverse political interests while a lower growth target would lead to a difficult political process of prioritisation, possibly affecting existing coalitions of interest groups.

The challenging goal of the Five Year Plan makes the process of converting it into targets for yearly plans and into actual yearly budgets, and of moving from budgets into actual expenditure, more political. The fiscal constraints on the Indian Central Government as well as the States have never been tighter. Throughout the 1990s, GoI has financed the budget cuts overwhelmingly by cutting the Plan budget. The prioritisation processes involved here mean that the yearly budgets may not fully reflect the goals of the Five Year Plan.

There may also be discrepancies between projected expenditure and actual expenditure, both overall and between budget headings. This is partly due to variations in Government income year on year, but it is may also be due to the compulsions of democratic politics. As in other democracies, parliamentary decision-making processes, including approval of the Budget, are subject to pressures from a variety of interest groups.

Budget allocations from Central government to different States in India are also subject to political negotiations. The Central Plan and State Plans are coordinated and agreed through the PC and the NDC, which is a political as well as a technical process. In 2002 an objective process to determine State plan sizes was introduced, based on previous state spending and State’s own capacity to raise resources. This is an improvement but members of the PC acknowledge that even now, States may achieve additional Central support for their state plans, through political bargaining with the PC.

The Plan highlights important deficiencies with regard to implementation efficiency, and governance in general. Several reasons are listed, included the complexity of the programmes and funding channels, and outright corruption. Numerous reforms are put forward by the Plan, including increased people’s participation, implementation of existing laws regarding decentralisation, civil service reforms, procedural reforms, improvement of monitoring through Quarterly Performance Reviews, cutting down of the numbers of centrally sponsored schemes from 360 to 188 in order to increase transparency, accountability and avoid ‘overloading’ of the district level implementers of programmes, tracking of state-wise flows of funds, and expert help to states in order to improve implementation efficiency.

A main issue is whether the Central government can succeed in putting in place incentives for the State governments to implement the Plans efficiently. In spite of the attention given to this field by the Plan, it remains to be seen if the reform proposals will be implemented and if they will be sufficient.
3.9 Is the Plan partnership-oriented?

The development partners, including the IFIs, do not have a formal role in the planning process. They have not been formally consulted, nor asked to be in charge of specific elements of the Plan implementation. GoI is adverse to any perceived international political pressure. Presently it is not the IFIs but the WTO which attracts most criticism within India. The IFIs would like to see India speeding up the liberalisation process, but see collaboration as opposed to confrontation as the way forward.

In line with the spirit of collaboration, the thinking of the international development community and lessons from elsewhere are picked upon by Indian intellectuals and politicians and do influence the overall development process. India is also a signatory to the standard international conventions, declarations and covenants (e.g., WTO; UN human rights declarations, education for all, UN millennium development goals) which does have a bearing on legislation and policies in the country.

International experience has influenced Indian planning since its beginning. For example, the Constitution’s approach to citizen’s rights and duties was influenced by western political thinking; the overall Five Year Plan strategy adopted in 1950 was influenced by European and Soviet experiences, and the Washington and Post Washington consensuses have inspired the economic reform programme since 1991.

This, however, results in distinctly Indian solutions, which include aspects of international thinking and best practice. One of the important foci of the 10th Plan: ‘Human Well Being’, is linked to the thinking behind the UNDP’s Human Development Report, and the work of Amartya Sen and associates, i.e. to both international and national trends in development thinking (Dreze and Sen 2002). The new monitorable targets relating to Human Well Being issues in the Plan are also compatible with the MDG targets. Sector strategies (e.g., health and education) have also gained inspiration from international thinking and global policy reforms.

At state level and in certain sectors donor influence is greater. This may be related to the fact that the finances of most State governments are in a very poor state, and that in specific sectors (e.g. reform of the power sector, primary schooling) they depend strongly on international finance. Donors are active in ensuring that GoI officials have access to international thinking and best practice, e.g., through conferences, discussions and studies. Donor funded development projects also play a role in introducing new practices into the system.

The Plan operates with a Five Year time horizon. Some of its general anti-poverty goals include a 10-year target as well but the plan does not explicitly discuss the long-term perspective for poverty reduction. India has produced a 2020 Vision but the general character of this document, and the fact that it does not specifically relate its vision of the future to the present context makes it difficult to use in a discussion of long-term development perspectives.
4. Perceptions and influences of PRSPs

While the 10th Five Year Plan is recognised as India’s PRSP, PRSPs and the PRS principles do not appear to have been the focus for in-depth policy discussions in India. Stakeholders in India do not see the Plan as modelled on, or ‘influenced' by PRSP best practice principles, nor do they see the latter as being particularly useful in the Indian context. As such, there is indeed quite a gap between the Plan and the best practice principles. It is perhaps more useful to discuss influences and convergence in relation to the underlying principles and objectives regarding what constitutes sound poverty reduction policy and strategy, including the design and implementation process. This indeed has been the focus of the preceding analysis.

Although GoI and the WB agree that the 10th Plan is India’s PRSP, India is not a ‘classical’ PRSP country. A single PRSP, which would be the core strategy document for all levels of government in India, and outline budget priorities from national to State levels would go against the federal character of the country. Such a PRSP would require constitutional changes, and would result in a shift in decision-making powers from States to the National Government. It is inconceivable that GoI and the States would see many merits in, or be able to change the present federal set-up along such lines.

Moreover, a PRSP would normally cover both Plan and non-Plan budgets. Ideally a PRSP in India would merge the two budgets into one. This, of course, would run counter to well established budgeting and implementation practices in the country. Such a reform has its proponents in India. Most people interviewed were however against this, some in principle, others for practical reasons, and it is clear that such a reform is not forthcoming in the foreseeable future. After all, such a move would constitute the biggest administrative reform in India since Independence.

In the interviews with some of the government officials, the PRSP was not considered to be compatible with policy making in the complex Indian institutional environment, but rather seen as a poor IFI propagated substitute for a more mature process already in place (which it was readily conceded, needed radical improvements). The understanding of in-country stakeholders of what PRSPs are and how they differ from other processes

Few stakeholders displayed a deep understanding of PRSPs. High-ranking government officials were the best informed, and they tended to reject it for practical and constitutional reasons. None of the stakeholders met (GoI, CSO) were prepared to enter into a discussion of how and whether elements of the PRSP could be useful for the development of India’s poverty reduction strategy.

Stakeholders do not see the connection suggested in this headline. Nevertheless, and in spite of the important caveats outlined above, the Plan appears to draw on several of the same underlying principles regarding what constitutes sound poverty reduction policies:

- The move towards the enabling state, ‘steering’ instead of ‘rowing’
• The pro-poor employment policies with focus on agricultural market based development and informal sector employment creation
• The focus on governance issues
• The SWAp-like approaches
• The participative elements in the Plan preparation process
• These are important convergences even if they are not seen as ‘adaptation of PRSP process features’.

No stakeholders met saw any role for budget support to GoI. Budget support was perceived as entailing increased political influence by donors, and as not needed financially. Several GoI officials expressed the view that the main contribution of donors to India’s development was the innovative processes and methods they introduced through their projects. Some GoI officials saw a role to budget support-like support to the Indian States hardest hit by the financial crisis. However, most also highlighted the political dangers inherent in such an approach.

The new policy reform coordinating role of the PC suggested by the 10th Plan, if implemented, will increase the role of the PC vis-à-vis the Line Ministries. The first important step towards its implementation has been taken but it is not clear whether the PC will be vested with the powers to enforce its coordinating role.

The 10th Plan is the first National Five Year Plan to include a section (one Volume out of three of the Plan document, in fact) on issues relating to State level planning and performance. The proposed setting of State level Plan targets, the increased focus on State level governance issues and the monitoring of State Plan spending is also new. The overall impact of these initiatives remains to be seen but the tendency is towards an increase in Central monitoring of the extent to which States follow pro-poor policies, and of their performance, and the introduction of a relation between performance and allocation of funds.

The 10th Plan has introduced for the first time performance criteria linked to allocation of PC funds to State Plans. State level performance regarding resource mobilisation, and documentation of actual spending per budget line before release of new tranches of PC funds have been introduced. The impact of these reforms remains to be seen.

The participative aspect of the Plan preparation process, especially within the working groups, provides a proper opportunity for experts and CSO to influence government policy. However, the main participative aspect of the planning process relates to the fact that India is a democracy, and the Plan is widely debated in the media and must be approved by the National Development Council and discussed by the elected parliament.
5. Conclusion and Recommendations

India is not an aid dependent country, and has strong government ownership of its development policy. The country has a long history of national planning, and poverty reduction has been the main objective of the Plan during the last decades. However, the consensus within the Planning Commission and among observers is that significant improvements regarding implementation and monitoring of the pro-poor policies are required.

The Indian Planning system is adapting to the changes in the Indian economy and of the role of the State herein that have taken place since the early 1990s. Given that the roles of the Plan and of the Planning Commission are advisory only, and given India’s quasi-federal political system, there will always be limits to their influence. However, the Plan remains the only GoI document outlining its national development strategy; and the PC is the only institution in charge of a national poverty reduction strategy.

India has a history of independent policy formulation. GoI safeguards its sovereignty regarding what it considers to be internal policy matters, including institutional issues such as how it organises its poverty reduction strategy. On the other hand, in broad terms, the GoI thinking and strategising regarding poverty reduction have developed along the same lines as the international processes in this field. India has signed up to the Millennium Development Goals, and its national poverty reduction strategy is based on underlying principles similar to those of the Poverty Reduction Strategies supported by the international development community in other parts of the World. General international principles as well as innovative practices emerging from donor funded projects might be taken up by the PC in ways that fit with Indian planning and policy approaches. At sectoral level, e.g. within Education and Health, government policies also take inspiration from international organisations and international covenants, as well as from the views of Indian experts and the Indian civil society.

The international development community is aware that solutions cannot be imposed on India. Donors may engage in a dialogue with GoI institutions but should not expect to influence them except through the merits of their arguments. In donor dialogues with GoI, the agenda tends to be set by the GoI, not by the donors.

The acceptance by the international organisations of the 10th Plan as the Indian PRS is a case in point. The Indian Plan differs from the best practice guidelines regarding PRS’s in a number of ways, but the international development community chose not to engage in a futile and confrontative exchange of views regarding the merits of the Plan versus that of a PRSP.

The 10th 5 Year Plan is both an overall development strategy document, and a specific plan for the GoI’s investment budget: a costed plan for all programmes and projects that central government will fund or co-fund during the following five years, covering around 25-30% of the overall GoI expenditure. Importantly, the recurrent budget does not fall within the remit of the Plan budget.
The renewed strategic role of the PC within policy coordination is a core plank of the 10th Plan. The implementation of the Plan will involve major policy reforms, including continued liberalisation and governance reforms. These reforms are to be listed year on year in the PC’s yearly Action Plan. Many of the reforms will not be welcomed by politically powerful interest groups. In the final analysis the success of the 10th Plan will depend on the political will of the GoI and the nature of the Indian political economy. For donors, it will be important to understand the processes relating to the yearly Action Plan and its implementation.

As a plan for GoI’s investment budget, several issues regarding the efficiency of the Plan must be raised,

1. The separation of the investment budget and the recurrent budget. This not uncommon split is, in India, embedded in the institutional divide between the PC and the Ministry of Finance.
2. GoI has no MTEF in place; regarding the Plan budget, the Plan serves as a 5 year economic framework, with a corrective mid-term review.
3. The quasi-federal structure of the country means that responsibilities and funding are divided not only between GoI MoF and PC, but also between these National institutions, and State level Finance Departments and State Planning Boards.
4. Implementation of the Plan is entrusted to the National Line Ministries and the State governments, while the PC has no direct role herein.
5. Monitoring (financial and otherwise) is weak and depends primarily on reports from the implementing agencies. The PC has put a first simple system in place relating the release of funds to receipt of financial reports.
6. Poor management and outright corruption are major issues in those states where the majority of India’s poor live. The PC bluntly states that leakages and mismanagement in some states are at levels wholly unacceptable.

It is difficult for GoI to ensure optimal prioritisation of resources and proper implementation of plans under these conditions. Moreover, some of the conditions are deeply embedded in the very set-up of the Indian State-Centre relationship and will not change in the foreseeable future (3,4). Others would require major national administrative reforms which, among other things, might imply changing roles of the MoF and the PC and these reforms are not on the horizon today (1,2) – but reforms in some of these areas have been undertaken in neighbouring countries (e.g., MTEF and merger of plan and recurrent budget in Nepal). Reforms may also be more likely to occur at State level within some of these areas. Reform initiatives regarding implementation and monitoring are taking place at both Central and State levels (5,6), but there is some way to go before these can be considered adequate.

Changes to the existing division of budgets and institutions along plan and non-plan lines is not an issue contemplated by the GoI at present, and neither is a budget-wide MTEF. The PC is well aware of, and concerned with the remainder of the issues listed above. It has initiated a number of reforms in these areas, and has made clear that more are needed.
Taking one step back from implementation and efficiency issues, to the planning process itself and the institutions involved herein, the PC and the related National planning institutions in India are highly capable and well informed. The 10th Plan is ambitious, not only by way of the tasks it sets, but also in the intellectual rigour with which it pursues its goals, sets targets etc. The institutional planning set-up ensures that independent expert views as well as the views of civil society activists are included in the discussions. Most importantly, the democratic control through government and Parliament, and the democratic discussions in newspapers and journals ensure a degree of public ownership and informed participation not commonly seen in most PRS countries. The process enables informed debates regarding overall goals, strategies and targets. While planning in India is mainly a top-down process, participation and public ownership already run deeper than what could have been achieved through the participatory consultation process that is a standard recommendation by the international development community elsewhere in the developing world.

The quality of and the public participation in planning processes at State level do vary, with Kerala representing a bottom-up, participative approach. However, in many States planning is purely a bureaucratic exercise, performed by the state planning departments. The importance attached to the Plan varies from State to State. In some States planning is primarily concerned with making ends meet across departments, while in other states the plans involve strategising and prioritising.

Unfortunately the States which house the majority of India’s poor people have indebted governments, are beset with problems relating to poor governance and have high levels of misuse of public funds. Social conflict is rife and the state governments are not known for being participative. This is a major challenge to GoI and to any donor wishing to have a serious impact on poverty reduction efforts in the country.

Recommendations

The review of the Indian Planning processes highlights the differences between an aid dependent country with no well developed institutional set-up for planning and with no democratic participation; and a country such as India with a history and tradition in both these areas. Donors’ dialogue with the GoI will need to reflect these differences. Donors cannot rely on international standard solutions developed for an institutional vacuum. Instead, they must relate to the specific institutional and political reality of the country. Donors should develop intelligent and innovative approaches for the dialogue with GoI, and should show readiness to learn from the actually existing solutions, all be they flawed.

This implies that donors should let the Plan and the thinking of the PC form part of the basis for their activities in India. The PC is one of the central National institutions in India, and influences policy both at national and state levels. Donors need to be aware of PC policies and documents, including those of its various sub committees. They need to know well the general policies of the Plan, and the detailed thinking behind policies for the specific areas in which they are active. They need to understand the way the PC works, including the various stages of the Planning cycle (from Plan preparation to
Donors should engage in a dialogue with the PC regarding the Plan, especially regarding the overall Plan strategy and its implementation. This dialogue is likely to be led by the PC; to be guided by its planning and implementation cycle; and to involve different national and state level institutions throughout the cycle. Donors’ contribution would include the dissemination of relevant international experience, especially from countries with institutions and political economies comparable to India. Donors are already valued for instigating innovative projects in India itself and should improve further the dissemination of such projects to the PC and other institutions involved in the planning process. However, donors should not expect GoI or the PC to embark on major policy reforms purely on their advice. GoI and the PC are primarily influenced by domestic stakeholders.

Thirdly, some of the most important issues regarding further improvement of planning in India involve other actors as well as the PC. One important example is that the implementation of the new strategic role of the PC regarding policy reforms depends on the realities of the political economy in the country, and on the political will of the GoI to implement the Action Plan of the PC. A second important example is the need to operationalise further the State specific poverty reduction targets listed in the Plan, and the need (acknowledged by the PC) to improve output and outcome monitoring, including dealing with the difficulties relating to outcome monitoring from a dual budgetary system. Donors need to understand the evolving positions of the GoI on these issues, and support the GoI with relevant knowledge dissemination and technical assistance if and when required.

Fourthly, donors need to understand the interdependency between the States and the National level regarding achieving the outcomes expected by the Plan, including the poverty reduction targets. National funding by the PC; schemes sponsored by the Line Ministries and State level planning and funding interact in ways that differ from State to State. The capacities at state level to plan effectively, to implement the Plan and to monitor the outcome vary significantly, as does the political will to achieve the stipulated outcomes. The situation may be further complicated by different priorities at the National Level and of some States. For these reasons, the State level is of major importance for the achievements of GoI’s poverty reduction targets. Donors should assess the needs in the States they work in, and it may well be that there is a greater need for capacity building, knowledge dissemination and technical assistance at this level. It is also clear that the political will to engage with the poverty reduction reforms varies significantly from State to State. Donors will need to tailor the State level dialogue and their State level development engagement accordingly. Some States may be interested in taking forward reform programmes such as State level MTEFs, or budgetary reforms involving the streamlining of the Plan and the non-Plan budgets; detailed poverty targeting and outcome monitoring. Other States are struggling with extreme financial problems, or prolonged mismanagement, and donors will be looking to more initial contributions here.

Fifthly, donors should disseminate internationally the Indian experience regarding a democratically controlled, participatory planning process. In spite of its mainly top-
down character, the open political debate and the influence of independent experts on the Plan formulation, based on existing political institutions and practices, is highly unusual and will provide an interesting counterpart to the standard international participatory practices which tend to rely less on existing national institutions.

The above recommendations are relevant also for donors such as DFID which work mainly at State level. Donors need to engage with core national institutions such as the PC and the Plan as they set the parameters and directly influence State level development. Moreover, it is through such national institutions that State level experiences may get mainstreamed across India, and donors can contribute to this as well. The above recommendations can be made operational as follows:

a) It is recommended that donors should familiarise themselves with

1) The Plan and the strategic documents related to the Plan (most of which are listed or referred to on the PC website)

2) PC Steering Group and Working Group Plan background documents relating to the areas and sectors that they are active in

3) Line Ministry policies and Centrally Sponsored Schemes for relevant sectors

4) Compatibilities and contradictions between State level and National level Plan policies for relevant sectors

5) Central and State level sources of funding for relevant sectors

6) Central and State level targets for relevant sectors

b) It is recommended that, in the dialogue with the PC, donors should relate to the planning and implementation cycle of the Plan, and the related shifting focus of the PC during the phases of the planning process:

1) preparation of the Five Year Plan

2) Implementation and monitoring

3) Evaluation

4) mid-term evaluation, adjustment of the Plan and initiation of the new Plan preparation cycle

c) It is recommended that donors should respond positively to requests from different institutions involved in the planning process regarding knowledge dissemination of relevant international experience.
1) In the Plan preparation phase, these institutions may include the PC, State level plan authorities, and NGOs and other organisations involved in the process.

2) Regarding implementation systems and monitoring systems, including outcome monitoring, recent international PRS experience may be useful for all parties involved.

3) State level project experience in this area may also provide useful insights.

4) Regarding budget management, State level MTEF experience from Pakistan, and the lessons learned by Nepal pertaining to the introduction of an MTEF and the move towards a merger of the Plan and the non-Plan budgets may provide useful insights for Indian States. These issues may be of less direct relevance for national institutions but opportunities should be sought to disseminate the international experience at this level as well.

d) The opportunities for donors at State level vary from State to State, i.e., from knowledge dissemination only to engagement in projects and project activities. The need to understand the interactions between different State level institutions and funding sources, and their National equivalents will be strongest in States where donors are engaged in substantive development activities, especially in States with pro-poor policies but acute financial problems (e.g., West Bengal). In States which have experienced years of mismanagement and where political will for pro-poor reforms is yet to permeate the system there may, nevertheless, be an interest in policy dialogue and knowledge dissemination, from institutions such as State level planning authorities, State level NGOs and other CSOs.

e) Sector specific opportunities for donors will also vary from State to State, and from sector to sector. As part of the detailed analysis on which donor interventions would be based, it is important to understand how the Schemes sponsored by the National Line Ministries fit with the State wise requirements, and the extent to which the need for States to provide counterfunds and manpower to the Centrally Sponsored Schemes leads to the coverage of the most important priorities within, e.g., the health and education sector at state level.

f) It is finally recommended that donors disseminate internationally the Indian experience regarding a democratically controlled, participatory planning process.
Appendix I: Summary of the 10th Five-Year Plan

This appendix first presents the specific remit and tasks of the 10th Plan. This is followed by a more detailed outline.

Remit of NDS: the Tasks of the 10th Five-Year Plan

The 10th Plan contains a number of important changes from previous plans. These include:

- Focus on maintaining sustainable fiscal discipline
- Proposals for a new strategic role for the Planning Commission, facilitating strategic prioritisation of expenditure across policies, programmes and projects for allocative efficiency and equity.
- Encouraging better use of resources, i.e. to achieve outcomes and produce outputs at the lowest possible cost
- Introduction of measurable targets comparable to the MDGs.

The Plan makes clear that it is not only a plan for GoI investment spending during the next Five Years. It is also a strategic reform plan, aiming to reform the role of government in society, and the way government works. It is suggested that the National Development Council should establish a Central Economic Reform Commission to oversee the coordination of all reforms. This is important as the Plan is based on the assumption that a large number of laws will be amended and implemented, and that important administrative reforms are carried through.

The objectives of the Plan are

- Economic Growth and Human Well Being, achieved through
  - 8% growth per annum
  - A number of monitorable targets relating to Human Well Being, and compatible to the MDTs. These include poverty reduction targets, employment targets, drinking water access targets, primary education targets, health, gender and child related targets, ecological targets and population growth targets (see Box 1). This is the first time a Five Year Plan has included specific and monitorable targets.

Plan expenditure will primarily go to infrastructure, social services, poverty and disaster related programmes; and only secondarily to productive sectors. This does not mean that the support to the productive sectors is not important. However, for these sectors Government intervention has as much to do with amendments to laws and regulations as with investment.

In spite of this expenditure pattern, the Plan states that a main goal is employment creation through rapid growth of sectors which can lead to increased employment. The Plan singles out agriculture and the Small Scale Industry sector as the sectors capable of providing best value for money regarding employment growth. Agricultural development in particular will be a core priority. This is to remedy the slow growth during the 9th Plan

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period, something which is all the more important due to the role agricultural growth plays in poverty reduction. The priority is reflected in increased investment allocations, and a strong focus on legislative initiatives related to the liberalisation of the sector. Other goals include:

- Targeted programmes with cross sectoral synergies for special groups, including women, minorities, socially and culturally excluded groups and backward areas.
- To integrate growth with equity and social justice through a set of programmes.
- State-wise growth and other monitorable targets for reducing regional disparities.
- Decentralisation to lowest possible level, often involving PRI and community based approaches regarding rural development, social development and employment related programmes.

The Plan emphasises strongly the need for fiscal correctives, including issues such as decrease of revenue deficit, rationalisation of subsidies to agriculture and food-related poverty programmes, reduction of the number of government employees by at least 2%, introduction of user charges. It outlines a strategy for improving efficiency and governance, including continued privatisation of Parastatals, reduction of centrally sponsored projects and programmes and removal of a number of administrative, procedural and legal hurdles.

At sector level, it proposes major changes in the loss making and inefficient state-owned power sector, and in the likewise loss-making railways. Agriculture and the small scale industrial sector are to undergo major deregulation and a cut in subsidies and protection, while services supporting the sectors in other ways (e.g. agricultural extension and bank credit facilities) will be strengthened.

The Plan states that the key to the success of the changes it proposes will be:

- Changing Government dis-savings to surplus
- Raising budgetary support to the plan from 4% to 4.5% of GDP
- Improvement in plan implementation
- Broadening and deepening agenda for reforms
- Marked improvement in Governance – accountability, transparency and productivity

The main changes from the 9th to the 10th Plan include:

- Focus on maintaining sustainable fiscal discipline
- Strategic role of the Planning Commission, facilitating strategic prioritisation of expenditures across policies, programmes and projects for allocative efficiency and equity (the setting up the Central Economic Reform Commission)
- Encouraging better use of resources, i.e. to achieve outcomes and produce outputs at the lowest possible cost
- Introduction of measurable targets comparable to the MDGs.

With regard to the role of the Plan and the Planning Commission:

- The 10th Plan makes clear that it is not only a plan for GoI investment spending during the next Five Year s. It is also a strategic reform plan, aiming to reform the role of government in society, and the way government work. It is suggested that
the National Development Council should establish a Central Economic Reform Commission to oversee the coordination of all reforms. Important as the Plan is based on the assumption that a large number of laws will be amended and implemented, and that important administrative reforms are carried through. The outcomes of the Plan can only be achieved if Central and State governments carry through the reform work.

- What is new is the emphasis given to the overall strategic level and the institutional framework proposed. The outline of the overall strategy for Indian development, and the listing of law changes and reforms needed for the Plan goals to be achieved is not new.

The main objectives of the Plan are:

- Economic Growth and Human Well Being, achieved through
  - 8% growth per annum
  - a number of monitorable targets relating to Human Well Being. This includes poverty reduction targets, employment targets, drinking water access targets, primary education targets, health, gender and child related targets, ecological targets and population growth targets (see table 2).
- The 9th Plan had as goal ‘Growth with social justice and equity’. Its growth target was 6.5% growth per annum, and it also emphasised ‘Quality of Life’. It did not set monitorable targets.

The general approach of the Plan is:

- Agricultural development to be core element. This is to remedy the slow growth during the 9th Plan period, something which is all the more important due to the role agricultural growth plays in poverty reduction
- Rapid growth in sectors with high quality employment opportunities. The Plan singles out the Small Scale Industry sector (broadly speaking) and agriculture as capable of providing best value for money regarding employment growth
- Targeted programmes with cross sectoral synergies for special groups, including women, minorities, socially and culturally excluded groups and backward areas.
- To integrate growth with equity and social justice through a set of programmes
- State-wise growth and other monitorable targets for reducing regional disparities. The national targets are outlined in the Plan while it is envisaged that State targets will be developed in the State Plans (?? Or are they already included in the Plan?)
- Decentralisation to lowest possible level, often involving PRI and community based approaches regarding rural development, social development and employment related programmes

The Plan proposes several fiscal ‘correctives’:

- Increase Government savings by 2.9% of GDP
- Gross tax to GDP ratio
- Revenue deficit to decrease from 3.4% to 0.5% of GDP
- Realise user charge on power, irrigation, water supply, education and health
- Rationalise subsidy on food, kerosene, fertiliser and cross-subsidy in railways
- Non-Plan expenditure to come down by at least 2 percentage points of GDP
- Reduce number of government employees by at least 2 % per year
- Accept Fifth Pay Commission’s recommendations on downsizing of the Government and on future Pay Commissions

The resources for the plan are:

- Gross Budgetary Support for the Plan to increase from less than 4% of GDP in the 9th Plan to 4.5% in the 10th Plan
- Disinvestment proceeds to average around Rs. 16,000 crore per annum
- Private Foreign Direct Investment to go up to $10 Billion per annum
- Increased mobilisation of States own resources

The Plan includes a strategy for improving efficiency and governance:

- Removal of administrative, procedural and legal hurdles
- Improving government’s interface with the public
- Privatisation / closure of non-strategic PSUs both in centre and States
- Reduction of Central Sector and centrally sponsored schemes through convergence, weeding out and transfers of schemes
- Enhance project-based support to states
- Intensivise implementation of agreed programme of reforms in states
- Adoption of ‘Core’ plan concepts at both centre and States
- Emphasis on completion of existing projects rather than initiation of new projects
- Plan funds to be selectively permitted for critical repair and maintenance activities

Sectoral proposals, power:
Concerns: SEB loses Rs 24,000 crore per annum; Average T&D losses over 40%; Public sector starved of resources
Proposals:
- Tariff rationalisation through SERCs
- Unbundling Generation, Transmission and Distribution
- Privatising distribution
- Bulk consumers to access power directly
- Compulsory metering at least up to 11 KV Substation

Sectoral Proposals, railways:
Concerns: Railway finances are in crisis situation, too many non-priority projects, freight charges pushing traffic to roads
Proposals:
- Establishing an independent Rail Tariff Regulatory Authority
- Rationalisation of freight and passenger charges
- Prioritisation of projects
• Reduction in backlog of track renewal and modernisation of signalling for better safety
• Corporatisation of all non-core/peripheral activities of the Indian railways

Sectoral Proposals, agriculture:
Concerns: Inadequate capital formation and credit support; input and output market distortions
Proposals:
• Increased public investment in irrigation and rural roads
• Comprehensive land use policy
• Strengthening of agricultural extension
• Amendments of Essential Commodities Act
• Rationalisation of subsidies
• Removal of licensing controls on Agro based and rural industries
• Disbanding restrictions on export, trade and credit for agricultural and agro-forestry products

Key changes in the Plan:
• Changing Government dis-savings to surplus
• Raising budgetary support to the plan from 4% to 4.5% of GDP
• Improvement in plan implementation
• Broadening and deepening agenda for reforms
• Marked improvement in Governance – accountability, transparency and productivity
Appendix II: Poverty Reduction Programmes in the 10th Plan

This appendix lists the poverty reduction programmes included in the 10th Plan, and the major changes from the 9th Plan.

- Existing poverty alleviation schemes be rationalised into three main initiatives
  - Self-employment through the Swarnajayanti Gram Swarozgar Yojana (SGSY), which would adopt a process oriented approach involving micro-finance and micro-credit flows through social mobilisation and group formation. This scheme should also contribute significantly to the objective of gender equity.
  - Wage employment through the Sampoorna Grameen Rozgar Yojana (SGRY) which will focus on the creation of rural infrastructure and on calamity relief
  - Guaranteed employment in the most distressed districts of the country through the Jai Prakask Rozgar Guarantee Yojana (JPRGY)

- Public Distribution System. The system be rationalised to concentrate on delivering very few essential food products. Food stamps to replace ration cards to minimize ‘leakages’

- Education. Radical transformation of the situation, the target being provision of universal elementary education by 2007 through the Sarva Siksha Abhiyan programme. Also reforms of secondary education, with increased participation of the private sector

- Health
  - Improved access to and utilisation of Health, Family Welfare and Nutrition Services with special focus on under-served and under-privileged segments of population
  - Exploring alternative systems of health care financing
  - District-based differential strategy for health care provision
  - Mainstreaming ISM&H practitioners in the system
  - New local accountability of public health care providers

- Quality of life in large towns and smaller cities be improved through a number of funds

- Intra-household disadvantages faced by women and children to be recognised and addressed through
  - National Plan of Action to operationalise the Women’s Empowerment Policy
  - National Policy and Charter for Children
  - National Commission for Children to ensure protection of their rights
  - National Nutrition Mission
  - Pilot project for providing food-grains to under-nourished pregnant and lactating mothers and to adolescent girls
• Social development for disadvantaged sections of society, including Tribals who have their own needs
  o Institute a National Charter for Social Justice
  o Eradicate manual scavenging by 2007
  o National Policy and Plan of Action for empowering Tribals
  o National Plan for protection and development of primitive tribal groups
  o Special component plan for the disabled
  o National Programme for demand reduction for substance abusers
  o Appropriate legislation for protection of the aged
Appendix III: Trends in Poverty and Poverty Reduction Strategies in India

Trends in Income poverty

Income poverty has been acknowledged and studied in India since independence. The National Sample Surveys have estimated household consumption expenditure since 1951 and these have formed the basis of poverty estimation. The National Sample surveys are considered to provide reliable data (Ravallion and Dutt) although there is some apprehension that earlier surveys have over-estimated consumption (Patnaik and Patnaik 2001: 35). Apart from issues relating to data reliability, there have been more serious issues relating to producing comparable estimates of poverty across time and regions. These issues were examined closely by an Expert Group in 1993, which provided a methodology according to which the current poverty line is benchmarked to a poverty line defined for 1973-74, based on a minimum calorie norm, which is updated from year to year using state specific deflators. While the Expert Group methodology is widely accepted in India and abroad, it is not free from problems (Deaton 2003a) and with every passing year there is a growing gap between income poverty and poverty estimated on the basis of a minimum calorie norm.

However, even with some possible underestimation of poverty in the earlier period and the other issues mentioned above, virtually all estimates show appreciable decline in both rural and urban poverty since 1973-74 (Datt and Ravallion 1996, World Bank 1996, Planning Commission 1999).

Lately, the comparability of the latest 1999-00 consumption survey with the earlier rounds has been seriously questioned (Sen 2000). The 1999-00 survey not only used a different design, but more critically, collected consumption data for two reference periods (7 day and 30 day) in columns that were side by side, severely compromising the independence of the data. However, there is a school of economist who believe that, with some corrections, the data can yield comparable estimates (Sundaram and Tendulkar, 2003a; Deaton 2003a and b; Deaton and Dreze, 2002). After some debate, the Planning Commission has also accepted the estimates based on the 30 day reference period, yielding ‘official’ estimates of poverty for 1999-00 (Planning Commission 2001).

Most of the debate on the comparability of the two surveys is in the context of more substantive issues relating to the impact of economic reform on poverty reduction and has been fuelled by the annual consumption surveys of the NSS. Unlike the quinquennial rounds which cover over one lakh households, the annual surveys (also called thin surveys) cover only about 15 thousand households but yield estimates that have been considered reliable at the national level. As such they have been used extensively for poverty analysis, not least by the World Bank (World Bank 1998, 1999). The thin round surveys between 1993-94 and 1998 show no decline in poverty, if any thing, they show a small increase (Kundu 1999, World Bank 1999). But this finding reverses significantly, if the 1999-00 survey based estimates are to be accepted. As a result, while earlier findings did not show that poverty had remained stagnant at best in the post reform period, all results which are based on the 1999-00 survey show
appreciable decline, and some (eg. Sundaram and Tendulkar 2003a) show a faster rate of decline in the post reform period.

The overall conclusion, regarding incidence of poverty 1951-2003, allowing for anomalies in specific collection years, is that poverty levels fluctuated around 50-60% till the 1970s. From the early 1970s, there has been an unambiguous decline in poverty rates, with poverty rates falling to 37% in the late 1980s. Since then estimates show a near stagnation till the late 1990s but the latest survey, with all the controversy surrounding it, shows that poverty continued to decline in the 1990s with the official estimate putting the proportion of the poor at just over a quarter of the population in 1999-00. This rate of decline has been deemed to be unsatisfactory according to the Planning Commission (Planning Commission, Ninth Plan MTR, and the 10th Plan).

Poverty Reduction Strategies

Income poverty reduction is commonly seen as a function of growth and/or specific anti-poverty measures related to redistribution. Classically, economic growth linked to industrialisation is expected to entail a shift in workforce distribution away from agriculture towards the industry and service sectors, eventually leading to improvements in income for the poorer sections of society. In this century, the East Asian experience points towards the validity of this model, although it should be emphasised that there were a number of additional reasons for poverty reduction in East Asia (e.g. early redistributive land reforms and/or open land frontiers).

Strategies instituting specific measures in order to achieve a reduction in poverty are, more often than not, redistributive strategies. Redistribution may be seen as a goal in itself, or as a means to an end (e.g. enabling weaker sections of society to take advantage of the overall economic development). Examples of successful poverty reduction linked to redistribution are forthcoming within South Asia (Sri Lanka post Independence) and within India (Kerala post 1957). Elements of this type of strategy include rigorously implemented land reform, access to cheap stable food for vulnerable social groups and emphasis on education and health provision. Within the International development consensus of today, strategies dealing with social exclusion, targeted anti-poverty interventions and social safety nets also fall within this category.

The all-Indian development model did not include strong specific anti-poverty measures until fairly late. The first three Plans (1951-1965) assumed that economic growth, combined with some emphasis on broad egalitarian goals, would lead to poverty reduction more or less automatically. However, this did not happen, in spite of reasonable growth rates compared to those prevailing in the decades before independence, and the introduction of land reforms. The growth of the manufacturing sector did not create sufficient new employment to bring about significant changes in the structure of the workforce, and in agriculture, the feebly implemented land reforms did not benefit the weakest sections of rural society.

However, the primary reliance on an economic growth model for poverty reduction in the 1950s was tempered by some specific anti-poverty measures. Firstly, pre-independence ad hoc public works and drought and disaster relief programmes continued
Secondly, various social welfare programmes catered for groups with special needs, and certain ‘social vices’. These included:

- Women
- Children
- Family
- SC, ST, and other backward classes
- Physically handicapped
- Prostitution, crime, delinquency, alcoholism, gambling, beggary

The social welfare programmes were based on a Gandhian type of community based development approach. They did not have any discernible impact and it may be questioned how seriously this approach was pursued. It should be noted that affirmative action for SCs/STs did have a positive impact but the important elements herein, i.e. job reservation and educational reservation, were not specifically Plan activities.

Economic crisis in the mid-1960s and rise in food prices relative to other prices led to a rise in poverty incidence. In response to this, and in support of Green Revolution farmers, government initiated a policy underwriting agriculture and supporting food grain for consumers. It procured food grains at fixed prices from the producers while delivering the procured food grains and other necessities to consumers at fixed, subsidised prices though a Public Distribution System, the so-called ‘fair-price shops’. This system was expanded during the following Plan periods and today covers by far most villages and neighbourhoods in India.

Politically, poverty reduction or, in the words of the then Prime Minister Indira Ghandi, the ‘War Against Poverty’ moved to the forefront of party politics in the early 1970s. This was reflected in the fifth plan (1974-79), with the ‘Drought Prone Areas Program’ which institutionalised a number of employment programmes and income-generating schemes of the ‘food for work’ type: the National Rural Employment Program, the Rural Landless Guarantee Program. It should be noted, however, that some of the States had introduced social security schemes and programmes aimed at alleviating poverty and underemployment earlier on. The Employment Guarantee Scheme, which continues to be considered worthy of emulation at the national level, was introduced in Maharashtra in 1973.

From the sixth plan (1980-85) onwards, the Integrated Rural Development Programme (IRDP) the employment programmes, the PDS, and special social welfare schemes for the development and empowerment of vulnerable groups formed the backbone of GoI’s poverty reduction strategy. These schemes are likely to have contributed to the workforce diversification away from agriculture which took place in the 1980s (Agriculture’s share of the workforce was constant from Independence till the mid 1970s). It has been estimated that the government schemes created 60% of incremental rural employment in the 1980s (Patnaik and Patnaik 2001: 51). Another important factor was the sharply increased public expenditure in the 1980s which is likely to have formed the basis of further workforce diversification (Sen 1996). The growth in non-farm employment apparently resulted in the tightening of the rural labour market leading to the significant observed decline in poverty (Sen 1996, Sarthy and Papanec 1991). Agricultural growth may also contributed to a decline in poverty through rising
real wages, decline in food prices and impact on non-agricultural growth (Ravallion and Datt 1996).

Poverty increased immediately after the 1991 crisis and the following cut-back in public expenditure. Workforce diversification was initially halted, and agrarian growth has throughout been lower. On the other hand, industrial and service sector growth has been fluctuating but achieved a somewhat higher trajectory in the 1990s than the 1980s. Non-farm employment has continued to grow in the 1990s against the background of much lower over employment growth, resulting in continued workforce diversification, but the rate of growth of non-farm employment has been lower in the recent period (1993-94 to 1999-00) than during the preceding decade (Chadha and Sahu 2002). The debate regarding the extent to which the incidence of poverty fell throughout the 1990s is thus also a debate regarding the plausible reasons for such decline as the two ‘traditional’ explanations for a fall in the incidence of poverty: agricultural growth and/or increased public expenditure and high rates of workforce diversification were not at work.

Trends in Other Dimensions of Poverty

There is a general consensus on a broader concept of poverty which integrates both economic and non-economic forms of deprivation and on the utility of qualitative and participatory methods in understanding poverty. But a reading of the literature shows that there is, as yet, no consensus regarding the core elements which underlie such a concept or their measurability (Chambers, 1995, World Bank 2000/2001; Dreze and Sen, 1995; UNDP Human Development Reports, especially 1995). However, health and educational deprivation, the deprivation and vulnerability of particular groups (women, children, the socially deprived), lack of access to basic services, and so on, are frequently used to portray broader trends in poverty.

In India, although some progress has occurred in all these dimensions, this has been slow and there are wide inter-regional differences, with some regions performing notably poorly (Dreze and Sen 2002; National Human Development Report 2001). There are somewhat contrasting experiences in health and education in the recent decade. In the case of education, literacy and enrolment have picked up remarkably in the 1990s and these are accompanied by lower gender gaps and gaps between social groups. Moreover, with the exception of Bihar, many of the other educationally deprived states have shown well above average performance (NHDR, Tenth Plan, Mehrotra et al. forthcoming). In the case of health, infant mortality has stagnated since the mid-1990s. a number of other process indicators show very slow progress (NFHS 1992-93 and NFHS 1998-99). Health outcomes are still markedly different between sexes and for the poorest and most socially deprived (NFHS 1998-99).

Gender deprivation manifests itself in a number of forms which vary somewhat across regions, often reinforcing caste and class based deprivation. Both women and the lowest castes have poor access to productive assets and face discrimination in the labour market (Dreze and Sen 2002, Thorat, 2001). There has been some improvement in the legislative and policy framework providing these groups greater access to land and other assets. But the vast deprivation faced by women, tribal groups and the low castes – part of it policy induced - continues to be a matter of grave concern in India.
Vulnerability continues to be high among children, among whom mortality rates, undernutrition and involvement in labour remains high. As discussed earlier, infant mortality rates have stagnated since the mid 1990s. Surveys show some decline in severe malnutrition but overall levels of severe and moderate malnutrition continue to remain high. Nearly 14 million children were part of the workforce in 1993-94 as ‘main’ workers. But since then there has been a significant decline in child workers, mainly due to the ‘beneficial’ rise in enrolments. However, educational deprivation remains high with 20 to 25 percent children in the age group 6 to 14 years still out of school.
Appendix IV: List of Persons Met

Dr. R. Bannerji, Joint Secretary, Ministry of Finance
Mr. Sumit Bose, Joint Secretary, Ministry of Human Resources Development
Mr. M.D. Asthana, Director, CSD
Dr. S.R. Hasham, Member, Union Public Service Commission
Dr. R.S. Katoch, Adviser, State Plan, PC
Jeanine van Krimpen, First Secretary Development, State Coordinator AP, Royal Netherlands Embassy
Mr. N.J. Kurien, Adviser, Financial Resources, PC
Professor Kuldip Mathur, Department of Politics, JNU
Mr. Lalit Mathur, Additional Secretary, Ministry of Rural Development
Mrs. Rohini Nayyar, Adviser, Rural Development, PC
Dr. S.P. Pal, Adviser, Evaluation, PC
Professor K. Seeta Prabhu, Head, Human Development Resource Centre, UNDP
Dr. Prema Ramachandran, Adviser, Health, PC
V.J. Ravishankar, Senior Economist, S Asia Poverty Reduction and Economic Management Unit, World Bank
Ellen van Reesch, First Secretary Development, Royal Netherlands Embassy
Dr. N.C.Saxena, ex-Adviser, Perspective Planning, PC
Mr. Satinder Sahni, PRIA
Professor Abhijit Sen, Department of Economics, JNU
Dr. Pronab Sen, Adviser, Perspective Planning, PC
Dr. Charlotte Seymour-Smith, Head, DFIDI
Dr. O.P.Sharma, Adviser, International Economy, PC
Ms. Ratna M. Sudarshan, Principal Economist, NCAER
Dr. Abusaleh Shariff, Chif economist, NCAER
Dr. Arvind Virmani, Director, ICRIER
Dr. Sujatha Viswanathan, Social Economist, ADB

And DFID Advisers and Administrators, Delhi.
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