

# The Development Challenges Facing India

By Senga Kunio

ANYONE who visited India recently would have been struck by the bewildering modes of transportation. Trucks, buses, two-wheelers, rickshaws, or human-powered cycles, carts, and numerous models of cars were all packed on the same stretches of roads and highways. The challenges faced by India's transport and urban planners in managing such heterogeneous forms of transportation, while also providing for the needs of pedestrians and street-hawkers, are daunting, to say the least.

Policymakers in India face a similar predicament. This is to be expected in the world's largest and most diverse democracy, where the past coexists with the modern and great affluence, with extreme deprivation. India has the largest pool of technical and scientific personnel in the world, as well as the largest number of illiterates. It has 23 billionaires with a combined net worth of \$99 billion, but it is also home to 250-300 million of the world's poorest. While India has become an international hub for software development and IT/IT-enabled services, it continues to be plagued by power and water shortages. Fifty-three percent of India's GDP comes from the service sector, but nearly two-thirds of the labor force is still employed in the agriculture sector.

## Overview of Recent Economic Performance

Nearly 30 years of inward-looking policies led to an economic crisis in 1991, when India was left with \$1.1 billion in foreign exchange, a high fiscal deficit, and, worst of all, an economy and people bereft of confidence. This crisis forced the government to launch an ambitious program of reforms and structural adjustment. It is gradually unleashing the productive potential of the economy. The long-

term growth rate increased from 3.5% between the 1950s-70s, to 5.4% in the 1980s, to 6% in the 1990s, and to around 7-8% in recent years. The high growth led to a decline in the incidence of poverty – from 36% in 1993-94 to 26% in 1999-2000. The number of people living in poverty has decreased from 320 million to 260 million during this period.

Despite these improvements, most education and health indicators continue to show large rural-urban differences, wide variation across states, and disturbing gender gaps. Given the current pace and pattern of growth, India will not reach many of the non-income Millennium Development Goals such as maternal mortality rate, infant mortality rate, and gender parity in secondary enrollment ratios. The major development challenges facing India are, therefore, as follows:

### Making Growth More Inclusive

Employment generation, human resource development and balanced growth across sectors and regions are critical to ensure that the benefits of growth reach a greater cross section of the population. In spite of the good growth performance in recent years, the employment growth has not kept pace with additions to the labor force. While the fast-growing service sector has not created jobs on the scale expected, the agriculture sector, which accounts for the largest share of employment, has lagged behind. To enhance the employment elasticity of growth, the government launched the *Bharat Nirman* program in 2005 to strengthen rural infrastructure. This program aims at creating productive farm and non-farm employment opportunities in rural areas through investment in irrigation infrastructure, rural roads, rural electrification, telecommunications connectivity and

affordable housing. Measures being taken to strengthen agricultural storage and marketing infrastructure under the National Horticulture Mission will also help increase added value in agriculture and usher in a second Green Revolution.

The draft of the 11th Five-Year Plan for 2007-12 emphasizes the employment-generating potential of the tourism sector which created 38.6 million jobs in 2002-03, or about 8.3% of total employment. There is potential to generate 27 million additional jobs through tourism from 2007 to 2012. The 11th Plan will therefore focus on creating adequate tourism infrastructure such as the modernization and expansion of airports, increase in accommodation facilities and improved road connectivity to tourist destinations.

The growth can become more inclusive only when the education and health profiles of the majority of Indians improve. India ranks 127 out of 177 countries in the Human Development Index for 2005 by the United Nations Development Programme. The National Common Minimum Program aims to increase the share of public spending on education to around 6% of GDP with at least half of this spent on primary and secondary education. It pledges that health spending will increase to at least 2-3% of GDP with the focus on primary health care. Unfortunately, public expenditure (combined central and state governments) on education actually fell from 3.2% of GDP in 2000-01 to around 2.8% in 2004-05, while the outlay on health had remained between 1.2% and 1.3% in recent years. Not only does social spending have to be increased, but the targeting of the programs and quality and delivery of services also needs to be improved significantly. The government is taking concrete measures to

reduce inter-regional disparities. It has introduced special centrally sponsored development schemes for the benefit of poorer states. It has also launched a major initiative to revamp the huge network of rural finance institutions and cooperatives.

### Improving Governance and Service Delivery

The current government has been emphasizing that high outlays and more development programs per se have not been enough to achieve development. Since August 2005, therefore, it has initiated the exercise of preparing “outcomes budgets” so that the actual developmental impact of various government programs can be tracked. Programs not delivering well are either trimmed, redesigned or canceled. The government is increasingly relying on e-governance initiatives to improve the accountability and performance of its employees so that the quality of public services, including delivery, improves. It also continues to be serious in terms of keeping the fiscal and revenue deficits under check.

### Enhancing Investment in Infrastructure

Expansion of investment, especially in infrastructure, holds the key to sustaining India's growth in the long run. The rate of aggregate investment needs to go up to 30-35% to sustain a growth rate of 8-9% in the medium term. Infrastructure development plays a crucial role in sustaining high growth rates and spreading the benefits of growth more evenly among the population. Studies undertaken by the Asian Development Bank (ADB) endorse the positive effects of infrastructure creation on poverty reduction.<sup>1</sup> The latest economic survey of India estimates that power shortages of 12% at peak levels and of 8% at non-peak levels are equivalent to around \$3.4 billion of foregone generation

capacity or an approximate GDP loss of around \$68 billion. The national highways account for 2% of total road length, but 40% of total traffic. Only 12% of the national highways are four-lane, 53% are two-lane, and 35% are single lane. Indian ports have a vessel turnaround time of 3-5 days, as against only 4-6 hours in Singapore and Hong Kong. With better infrastructure, India's growth can undoubtedly be higher, with the benefits reaching a much larger section of the population.

Finding adequate resources for funding the required infrastructure facilities remains a major challenge. The Committee on Infrastructure headed by Prime Minister Manmohan Singh estimated the investment requirements as follows: \$38 billion for the national highway sector by 2012; \$9 billion for airports by 2010; and \$11 billion for ports by 2012. Since these amounts are far beyond the financing capacity of the government, a quantum increase in private-sector investment and participation will be required. The government, along with development partners such as the ADB, is taking measures to facilitate public-private partnerships in infrastructure investment (both asset creation and maintenance).

### Making Growth Environmentally Sustainable

A major challenge facing India today is to strike the right balance between the need for rapid growth and environmental protection. The environmental issues include the denudation of forest land, the sharp decline in the number of several species of birds and animals such as tigers and vultures, and the rise in pollution levels. India's burgeoning population and rapid urbanization are having an adverse impact on the environment and on the health of the people, especially the poor and the young. The depletion and contamination of groundwater owing to the indiscriminate applica-

tion of insecticides and fertilizers are causing major problems in urban and rural areas.<sup>2</sup> Given its huge population and the pressing demands of meeting the basic needs of millions, India cannot afford to adopt a “grow now, worry about the environment later” approach as several of today's developed countries followed in the past. India's policymakers need to give priority to issues of conservation of energy and water, protection of biodiversity and habitat, reduction of dependency on oil and other nonrenewable energy sources, and measures to mitigate pollution. Environmental degradation, if not checked, will undermine the entire growth process with a particularly adverse impact on the poor and vulnerable.

### Conclusion

The challenges facing India are daunting to say the least. The country's steady economic growth in recent years and the prowess shown by Indian firms, however, raise the hope that these challenges will be surmounted through proper planning, coordination and concerted efforts by all parties – the Government, the public sector, private entities, civil society and development partners. Multilateral agencies such as the ADB will continue to work closely with the Government of India in supplementing their development efforts. The Government has been managing the economy well and is showing good leadership in enhancing levels of infrastructure investment and promoting rural development. The draft approach paper of the 11th Five-Year Plan also confirms that the government is on the right track in tackling the development challenges facing India. **J.S**

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1) ADB Regional Technical Assistance (RETA) 5947: Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction.  
2) Excessive subsidies for electric power and fertilizer/pesticide use are a major factor behind the current problems.