

## CHAPTER 11

### VISION: 2020 – FOUNDATIONS, OBJECTIVES, POLICIES

The vision for 2020 has to be related to the achievements of the present as well as the weakness that exist, as they will be the foundations on which we have to build the desired structure. As indicated in the earlier chapters, Pondicherry's economy and society has many favourable features that make possible and aid the building up of a prosperous and growing economy wherein the benefits of growth would be widely shared. While the objective conditions are favourable, it is necessary that the required policies are formulated and implemented.

In recent years since liberalisation Pondicherry has grown at a very high annual average rate (12.8 per cent). It would not be possible to sustain such a high rate of growth over a long period. A more realistic goal for the decade 2000-2010 would be around 8 per cent per annum for GSDP. In the next decade (2010-2020) GSDP would be projected to grow at 7 per cent per annum.

Pondicherry has already laid the foundations for achieving rates of growth of GSDP of this order. With an incremental capital output ratio of about 3, investment of the order of 24 per cent of GSDP would be required. Its own savings would be able to contribute substantially to investment. Moreover, since Pondicherry is a very small economy, even a modest inflow of outside capital would translate itself into an investment amounting to a sizable proportion of its GSDP.

It has been noted that the rate of growth of population of Pondicherry has come down substantially in the decade 1991-2001 due to the fall in both the natural rate of growth and the volume of migration. This trend is likely to continue. First, the natural rate of growth of population would most likely go down because of further improvement in health standards and the spread of family planning practices. Second, as the neighbouring states, further develop and the impact of Tamil Nadu's substantially reduced population growth is felt on its labour force growth, the volume of migration is likely to fall. Hence, it could be assumed that the annual rate of growth of population of Pondicherry will fall from 1.89 per cent in 1991-2001 to 1.45 per cent in the next decade and to 1.07 per cent in 2011- 2020.

Thus, if GSDP grows by 8 per cent in 2000-2010, per capita GSDP would grow by 6.5 per cent per annum. This would mean doubling of per capita income (assuming that the proportion of net factor income going abroad remains the same). This trend will continue into the next decade. So within the next 10 to 15 years, Pondicherry would have the wherewithal to create a prosperous and socially developed society with only a very small proportion of people below the poverty line.

The vision which we wish to place before the policy makers of Pondicherry is the conversion of this lovely, small enclave on the eastern seaboard from a place still with many third world characteristics into a land with many important first world characteristics – high per capita income, a high human development index of the level achieved in Kerala, a protected environment and properly controlled use of natural resources. Pondicherry should also aspire to become a knowledge society.

### ***ECONOMY***

In order to achieve an overall GSDP growth rate of 8 per cent, it would be necessary to have a growth rate of around 10 per cent in the secondary sector and 6 per cent in the tertiary sector to compensate for a low growth rate of about 2 per cent in the agricultural sector. If industry and services grow at rates very much faster than agriculture, then the relative contribution of agriculture will further fall in the second decade. However, agriculture has much growth potential and that should be exploited. Growth of the agriculture sector is needed to increase the income of the population that would still be dependent on it and thus sustain the rural workforce. Since industry makes up almost half of GSDP, a growth rate of 10 per cent of this sector will result in very rapid growth of the economy.

However, since there are so many imponderables in a small economy, a conservative goal of 10 per cent for industry, and 8 per cent for the economy as a whole may be postulated. Doubling of per capita GSDP by the end of the decade could make Pondicherry one of the most prosperous regions in the country. In this context an important task will be to ensure that the residents substantially gain from growth, though some of the gain will flow out as reward for capital investments. As against this, since credit - deposit ratio is fairly low, interest payments will be flowing in and there will also be flow of French pensions. For this purpose, local skills must be developed and

investments by locals should be encouraged for retaining a share of GSDP locally. Except for Karaikal, the Pondicherry economy will become predominantly urban, relying largely on the secondary and tertiary sectors as the engines of growth, particularly in the second decade.

Most of the basic goals have to be achieved by the initiative and endeavours of the people themselves. But the government has to play a crucial enabling, supporting and regulatory role. The government would have to undertake specially the following:

- Create and maintain the necessary economic infrastructure in collaboration wherever possible with the private sector.
- Set up a regulatory framework needed in a liberalised economy in areas falling within the state's jurisdiction.
- Pursue policies and allocate adequate funds from the budget to raise indicators of good health
- Universalise Primary education to high levels such as in Kerala.
- Further expand access to health and sanitation facilities
- Implement policies for protecting the environment
- Take specific steps to improve governance

More is said on the needed government policies in the sections that follow. At this stage, we would like to draw special attention to the vital need to improve governance. Our discussion with industrialists, people in various walks of life and government officials have clearly indicated that there has to be introduced procedural simplicity, more transparency in government transactions and vastly improved delivery of services. We would like to cite an example here. We have heard from more than one industrialist that there was inordinate delay in sanctioning/granting power to a new unit after having been given written sanction/promise. The result in some cases has been that the new industrial unit had to have its own captive power plant. This is the kind of government's failure that severely retards growth and welfare.

## AGRICULTURE

There is little scope for increasing agricultural production through expanding the net area under cultivation in the Union Territory. Given the likely increase in the use of cultivable land for housing, roads, industries, and other non-agricultural purposes, the extent of the present cultivated area might even shrink further during the next few decades. However, the possibilities of achieving higher agricultural growth through some basic changes such as crop diversification and introduction of less water consuming crops should be explored. In the prevailing rice-based subsistence farming system a great deal could not perhaps be achieved. Therefore, future growth in the agricultural sector has to come from largely the following: (1) increases in the present crop yields; (2) further crop intensification; (3) expansion of agri-business activities; and (4) improvements in the output of livestock, fish and horticultural products including vegetables and fruits.

### *Crop Yields And Intensification*

Present yields of all crops grown in the Union Territory of Pondicherry are low. The results of recent crops trials and demonstrations conducted in farmers' fields point to the immediate possibilities for doubling the current crop yields through: (a) promoting the cultivation of HYV's suited to 'prevailing agro-environmental conditions'; (b) increasing the coverage of the area under the certified quality seeds programme; and (c) adoption of already known improved 'agronomic practices'. The following table shows the current and potential yields levels of the main crops grown in the Union Territory under the prevailing and the above mentioned improved conditions respectively.

SL. #	Crop	Projected Yield increase (Mt / Ha)	
		From	To
1	Paddy	2.5	5.0
2	Pulses	0.5	1.0
3	Groundnut	1.5	2.0
4	Sugarcane	80.0	150.0
5	Cotton	1.0	2.0

**Source:** Biovillage–Oriented Development Plan for The Union Territory of Pondicherry (M.S. Swaminathan Research Foundation, Chennai, November 2000)

Several factors are found to be constraining the possibilities for raising productivity through balanced application of improved inputs and better farm

management practices in the Union Territory. These include: limited availability of quality HYV seeds, application of fertilizers not based on soil test values for specific crop varieties, and poor adoption of integrated nutrient and pest management (IPM) practices. Furthermore, the present development focus is predominantly on irrigated rice production. Relevant package of practices for improving the productivity of other crops including paddy grown in less irrigated/low moisture holding areas have not yet been sufficiently developed and popularized.

The *Uzhavar Udhaviyagam* scheme was recently launched by the Government of Pondicherry. It acts as a single window approach to transfer skill, knowledge and resources to farmers. A number of *Uzhavar Udhaviyagam* centres are being established in the villages. These centres will promote agricultural technology, inputs and resources for the overall development of the villages.

### ***Agro Industrial Development***

The Union Territory of Pondicherry will have to heavily depend on the development of agro industries - i.e. enterprises that would be engaged in the transformation of raw and unfinished agricultural materials into finished products and/or in the generation of value addition employment activities – to achieve higher growth in the rural sector. The Union Territory offers a number of advantages, which can be exploited to speed up such developments. For one thing, several agri-business enterprises specialized in processing, packaging, transportation and distribution of agro-industrial products already exist in the Union Territory and their experiences could be tapped for planning and development of new enterprises. Secondly, the proximity of large markets, and the existence of satisfactory infrastructure across the territory are very favourable factors. Furthermore, the Union Territory's industrial policy accords high priority to the development of agro industries in the Union Territory. A number of potential agribusinesses have been identified as priority ones for development. These include enterprises for Seeds Production and Processing; Forage Production and Cattle, Poultry, and Fish Feed Manufacture; Dairy Development; Indigenous Medicinal Plants Processing; and Broiler Production.

The challenge that lies ahead, therefore, for Pondicherry is to once again make agriculture and allied activities grow. Given agriculture's poor performance in the recent

past, a two per cent growth rate over the next 20 years is a realistic target. In terms of employment, it is likely that about two-thirds of the rural workforce will continue to be in agriculture, whereas agricultural employment in urban areas would disappear altogether. With a projected rural workforce of around 1,50,000 in 2020, one could expect approximately 1,00,000 people to remain in agriculture.

Water management is a critical issue. Water tables have started falling throughout Pondicherry due to excessive exploitation of groundwater resources. Recent investigations have revealed that this is resulting in the intrusion of seawater especially in some coastal areas in the Pondicherry region. Existing surface irrigation systems suffer from some inherent weaknesses that need rectification. Several of the tanks and ponds, formerly used for storing rain and surplus river water and irrigating a major proportion of the cultivated area are falling into a state of disrepair. The efforts to revive these systems will have to be speeded up considerably.

The vision also recognises that present policy protects farmers in the wrong way, namely by providing heavy subsidies in respect of water, power, fertilizers and pesticides. This not only has artificially protected agriculture and inhibited farmers from deriving the benefits of the market, but also resulted in long-term damage to land and water resources. While the government has a crucial role to play in the primary sector, it needs to be much more focused on research and development, helping small and marginal farmers by providing better access to credit and marketing, and equipping local farmers' organisations and panchayat bodies so that they can play a more significant role in land and water management. The government can also make credit more easily available and thus encourage investment by individual farmers, allow farmers to obtain remunerative prices, and promote diversification of agriculture and allied activities. Finally, the government must play a regulatory role in terms of use of natural resources and price resources such as water properly so that their use is rationalised.

## **INDUSTRIAL DEVELOPMENT**

Pondicherry's industrial policy (1997) has already set forth a broad vision for the future.

This vision is:

- To promote sustainable industrialisation in the Union Territory of Pondicherry,
- To participate in the globalisation of the economy with greater exports and imaginative imports,
- To ensure balanced industrial development in all regions of the Union Territory,
- To take advantage of the special features of Pondicherry including its heritage and culture,
- To conserve the environment of Pondicherry for sustained and rapid industrial growth,
- To gainfully utilize the human resources of the Union Territory and maximize employment, and
- To improve the standard of living and quality of life of the people of the Union Territory.

Initiatives in terms of industrial growth in the future need to take into account the relative growth of industries as well as the priorities of the Union Territory as articulated in the Industrial Policy of 1997. For example, while the chemical industry has been growing at fast rates since the eighties, it is a potentially hazardous industry in terms of environmental damage. The Union Territory government will, therefore, have to take initiatives that ensure that industrialisation is sustainable both in terms of taking measures to prevent damage to the environment and in terms of promoting environmentally more friendly industries. Water intensive industries could also be discouraged, since groundwater is already heavily utilized. In addition, emphasis on employment generation will be necessary.

### ***Agro-Processing Industry***

While Pondicherry does not have any comparative advantage in terms of its natural resource base, it has many favourable factors giving it some comparative advantages: its

proximity to large markets in the neighbouring states, fairly sound infrastructure covering roads, communications, availability of electricity and water and good human resource base. And there are many other areas in which it can develop comparative advantage over time. With emphasis being placed on a diversified agricultural base driven considerably by horticultural and floricultural crops, the agro-processing industry is one industry in which such a comparative advantage can be developed. Marine product processing must also be an important component of it. Pondicherry's long coastline offers it the opportunity to develop its fisheries sector and consequently a seafood processing industry as well.

### ***Computer Hardware, Software and IT Enabled Industries***

In course of time Pondicherry can hope and strive to establish a full fledged IT industry. In the short-run, however, the greatest potential, exists in IT-enabled services. Call-centres and back office centres only require a moderately educated workforce. Pondicherry must actively seek large companies to establish shop in Pondicherry as a single entrant into the market could have a potential multiplier effect. Pondicherry must exploit its French connection, as this is its area of comparative advantage. It must then raise substantially the standard of qualification of its engineers, explicitly related to the IT industry.

### ***Biotechnology***

Infrastructure for the Biotechnology Park should include library, computers, bioinformatics network, wet labs, green houses, animal testing and office area. It may be desirable to link up with French or American universities to develop the biotechnology park.

### ***Light Engineering including Auto Components***

In this field Tamil Nadu has a vibrant automobile components industry with which Pondicherry will have to compete. If Pondicherry is to do so, it will have to have a much more pro-active policy, which encourages such industries to invest in Pondicherry. One area of focus must be to give encouragement to ancillary industries to emerge as well so those supply sources are readily available.

### ***Basic Metal and Metal Industries***

Efforts need to be made to facilitate linkages between these industries and consumer goods industries such as the automobile industry. As these industries are polluting industries, strict environmental regulations will have to be enforced.

### ***Leather Products and Footwear***

The focus will have to be on value addition and not on tanning. As it is an export-oriented industry, it will have to meet international standards. Another dimension to this is marketing. In order to capture an increasing share of the market, the leather industry with the help of the government will have to spend considerable effort in promoting leather products so as to compete with goods produced in the other states and other countries.

### ***Textiles and Garments***

Efforts will have to be made not only to stay abreast of the latest fashion in potential export markets, but also to develop a 'unique' Pondicherry flavour to export garments, which match with consumer sensibilities.

### ***French Connection***

In regard to some of the consumer industries that we have mentioned above, as well others such as the hospitality industry, Pondicherry must strive to make effective use of its French connection. There is great admiration in India for French culture, language, literature, and fashion in clothes, shoes and furniture and also in French cuisine. Pondicherry should make itself a centre in South Asia for the production and distribution of French-oriented products. Attempts should be made to promote joint ventures with French entrepreneurs and fashion designers. Pondicherry should advertise itself as a distribution point for French products in India. Later on when the South Asian Free Trade Area comes into existence, French products from Pondicherry can be exported to other South Asian countries.

### ***Strengthening the Infrastructure Base***

Despite considerable achievements over the last few years in the field of industrial growth, Pondicherry must focus its attention on considerably upgrading its infrastructure base in order to encourage investment. A major reason why many industries located themselves in the Union Territory was the good infrastructure base that existed,

particularly industrial estates, good roads, reliable power supply and adequate water. Over the last few years, however, many of these strengths have turned into weaknesses. The government must be a major player in trying to revamp the infrastructure base both through public sector investments and by encouraging more private sector participation in infrastructure development.

### ***Industrial Estates***

Industrial estates were to be the pillars of industrial policy in the Union Territory. Serious efforts need to be made, therefore, to revamp these industrial estates so that they provide the necessary infrastructure. PIPDIC not only needs to invest sufficiently in improving the basic road infrastructure within these industrial estates, but needs to work much more closely with departments such as the Electricity Department to ensure that power supply is continuous. As power tariffs are still much lower in the Union Territory than in the neighbouring states, that incentive remains very much in place. But cheaper tariffs are no substitute for good power supply. Other common facilities that need to be developed are sewage and effluent disposal facilities and banking. Much more effort also needs to be undertaken to bring industries aboard. Industries should be more actively involved in the planning of industrial estates and in decisions that affect them within the estates.

### ***Special Economic Zone***

Recently, the Union Commerce and Industry Ministry had approved in principle to develop a Special Economic Zone (SEZ) and a free port for Pondicherry. Once SEZ comes into operation it will attract many investors to invest in Pondicherry and will lead to growth of its economy. The free port will enable the industries to carry out their import and export activities from Pondicherry. The government must ensure that the infrastructural facilities in this zone are top notch and do not deteriorate as in the other industrial estates.

### **Creating the Right Investment Climate**

Increasing emphasis is being placed throughout the world on establishing an 'investor friendly' climate. Even in India, states are being ranked according to their investment climate. This ranking is being taken very seriously by foreign investors especially those who do not want to be met with too much red-tapism.

The government's priority, should be to operationalise this single window clearance system in such a manner that investing in Pondicherry is not a cumbersome process. In the Draft Tenth Five Year Plan for Industries, the government has stressed the need for simplifying procedures, but not in line with a single window clearance system. Thus, slow clearance procedures are likely to continue. Even if multiple permissions are required, a nodal agency such as the Industries Department can act as the coordinator so that the entrepreneur does not have to run from department to department. A single window clearance system can only be effective if the process itself is computerised in order to facilitate inter-department transactions. Once this is done, it will be possible for industrialists to pursue their applications on-line and consequently speed up the process. A redressal cell should also be established so that any unnecessary delays can be expeditiously pursued.

Also, central to creating the right environment is promoting Pondicherry as an industrial location. Pondicherry needs to much more actively seek out industries to invest in the Union Territory by holding industrial trade fairs, meeting with industrialists on a one to one basis and actively advertising the infrastructural and economic incentives it has to offer. This is all the more important in a climate where states are competing with each other for industrial investment. A single big investor in Pondicherry could lead to more investment in basic infrastructure which will lead to more interest in Pondicherry. At present, Pondicherry is not pro-active enough in doing so, and as a result many investors are going elsewhere.

### **Incentives and Concessions**

We find from data made available to us that the process of industrial growth is continuing. There is a case, therefore, for urging the Central government to continue the tax holiday for income tax for another period of ten years. It is also necessary to phase out CST as early as possible as it works against the interests of small and not highly industrial states like Pondicherry. Meanwhile, Pondicherry should bring down its CST rate to an average of 1 per cent.

### **The Role of Government**

PIPDIC has an important role to play in terms of liaison. To date, PIPDIC has been largely responsible for setting up industrial estates and growth centres and offering a

range of subsidies and incentives to industry. It should, however, also assume a much more active liaison role between the government and industry. This should be of a two way nature. PIPDIC should become a channel through which industrialists can air their concerns and at the same time it can offer consultancy services to industrialists.

### ***Disinvestment Of PSUs***

In the process of redefining the role of the government, the government will have to address the issue of PSUs(Public Sector Units). Most of the PSUs are running at a loss and placing a huge burden on the exchequer. There are difficult issues involved in resolving the crisis which exists in most PSUs. On the one hand, a closure of these units would result in significant employment loss. On the other hand, they cannot be kept open merely for this reason given the huge losses they are incurring. The government has suggested that some of these units be modernised, namely, Anglo-French Textiles and Pondicherry Distilleries Ltd. While this needs to be explored, the route of privatisation must be actively pursued. The Pondicherry government must set up a Disinvestment Commission to look into the possibility of allowing private investors to take over these companies.

### **WTO Cell**

Pondicherry must develop its agricultural and industrial potential keeping in mind the implications of WTO. Economic liberalization and the opening up of the economy to foreign trade and capital flows will require industry to become more competitive because of greater competition. Not only will tariffs be reduced but also new environmental and labour standards will come into effect. Industry must ready itself for these new challenges which in turn will offer greater export potential as foreign markets will be more readily accessible if international standards are adhered to judiciously. The Government of Pondicherry must play a pro-active role with regard to WTO. A WTO Cell should be created with the necessary expertise to aid both industries and agriculture in finding new markets for their products. This Cell should have a close working relationship with the agriculture department and the industries department so that exchange of ideas takes place.

This vision for the industrial sector will help Pondicherry fulfill the goals of its Industrial Policy. The vision is also aimed at employment creation and environmental

sustainability. On the one hand, emphasis has been placed on promoting industries such as the leather industry which have good employment potential. On the other hand, emphasis has also been placed on promoting industries which are less polluting and to reward industries which meet environmental standards. Much of the industrial development will, however, take place in the Pondicherry region. The potential for industry in other areas is much less and the focus should be therefore to promote other sectors such as agriculture and services in these regions.

## **SERVICES SECTOR**

### ***Priorities For Infrastructure Services***

The Pondicherry government needs to take some bold policy decisions with regard to infrastructure:

- remodelling government agencies so that the provision of infrastructure facilities is more efficient,
- increasing the budgetary support given to infrastructure development agencies,
- reforming the sector so that private players play a more important role in the future,
- providing the necessary incentives so that the private sector is encouraged to participate in infrastructure development, and
- rationalising the pricing structure so that prices more accurately reflect the economic costs.

Such a focus will enhance both public and private sector investment in infrastructure. While the role of the public sector will have to be curtailed/reduced, it will remain critical especially in terms of areas such as low cost housing or roads in far off places where the incentive for private sector actors to participate is much less. By increasingly involving private sector actors, however, the government can focus its attention on specific concerns without worrying about budgetary constraints.

There should be a conscious move, however, to retrieve costs within the infrastructure sector. One of the main problems at present is that infrastructure projects incur huge expenditures of which very little is retrieved from the user. A greater role for

the private sector will ensure to some extent that costs are met. Government projects too must charge adequate user fees.

An additional emphasis within the infrastructure sector should be on efficiency improvements. These can be realised by prescribing performance standards and by introducing performance incentives. Increased competition within the infrastructure sector will also go a long way in increasing efficiency.

Improved infrastructure is a prerequisite for stimulating engines of growth such as higher education, IT and tourism. Without significant upgrading of infrastructure facilities, it is unlikely that Pondicherry will capitalise on its comparative advantages. The above mentioned policy prescriptions in the infrastructure sector are a necessary (if not sufficient) condition for services to grow.

### ***Higher Education***

Pondicherry's Higher Education system has in the past been a major pillar of strength to Pondicherry. Not only has it provided a highly educated local workforce, but it has also been a major centre of learning for people from outside the Union Territory. There are signs, however, that Pondicherry has lost some of its competitive edge in higher education. Graduates no longer have the professional requirements that industry wants. Even the recently started Institute for Information Technology has closed down, suggesting that it was not adequately catering to the needs of IT firms. ITIs also no longer serve as a main source of skilled labour with industry preferring to look outside the Union Territory for labour.

Despite these worrisome trends, higher education remains a source of huge potential. Educational institutions, by providing good training to students, can make them more competitive for the job market as well-trained students are future professionals, managers and entrepreneurs. For example, in the past, Pondicherry's excellent medical colleges provided highly competent doctors. Even if graduates do not remain in Pondicherry, the 'export' of skilled graduates could serve Pondicherry well in the long run.

A two-fold strategy is required to harness Pondicherry's comparative advantage in higher education. First of all, efforts need to be made to promote professional courses.

Along with existing areas of comparative advantage such as medicine, Pondicherry should develop skills in emerging industries such as biotechnology and information technology. As stated elsewhere in the report, standards of advanced courses in Information Technology and Computer Engineering have to be immediately upgraded.

### ***Information Technology***

A number of realisable goals of IT policy need to be used as benchmarks. They include:

- (1) Developing the infrastructure which is needed to attract IT industries to the Union Territory
- (2) Promoting the IT industry (and especially IT-enabled industries) as a major actor in the economy
- (3) Introducing e-governance and ensuring that all departments completely switch over to e-governance
- (4) Encouraging the growth of IT-education centres (both public and private) which impart high-quality (and updated) education.

A main reason for the IT Park not gathering momentum is its poor infrastructure. Base infrastructure must be the first priority of the Pondicherry government to promote its IT Park. State of the art telecommunications is an absolute necessity for an IT park to grow. The government needs to invest heavily in this. IT industries of the future will require more telecommunications bandwidth than present day industries. The plans to provide High Speed Data Communications facilities, which will be able to provide world wide connectivity, need to be pursued.

Private sector investment will only be forthcoming if there is an investment-friendly climate. The government must make it easier for IT industries to establish roots in Pondicherry. This will involve going ahead with its plans for a single window clearance system under the aegis of an Industrial Guidance Bureau, giving priority clearance in servicing of power at industrial rates and allowing IT industries to be established in residential areas as well. The Pondicherry government has to go out and attract private sector investment as opposed to expecting it to come to Pondicherry. If one major IT player invests in Pondicherry, this itself could lead to significant investment in infrastructure development and consequently other actors entering the Pondicherry IT market.

In order to kick-start IT education in the Union Territory, a separate committee on IT education should be formed which consists of government people, academics from university/college IT departments, teachers from private IT institutions and IT professionals. The committee should look into a number of issues such as: (1) the IT curriculum (in schools, colleges and private institutions), (2) the potential for IT institutions (government and private) in Pondicherry, and (3) ways in which IT education can be promoted. Specific recommendations should be made which are not overly ambitious and which can be met. These can be both of a short-term and long-term nature.

### ***Tourism***

Pondicherry's tourism vision over the next twenty years should include the following:

- 1) identifying potential new tourist sites within the Union Territory and developing them within a framework of ecotourism,
- 2) upgrading hotel infrastructure to acceptable service standards,
- 3) improving physical infrastructure
- 4) introducing courses in tourism related topics so as to improve the quality of trained personnel,
- 5) establishing a strong promotional base for the tourist industry, and
- 6) promoting private sector participation in tourism-related activities and in the operation and maintenance of tourist and heritage sites.

This vision signals an attempt to entice the entrepreneur to invest in Pondicherry and consequently to develop the attractiveness of Pondicherry as a tourist destination. The Pondicherry government should facilitate this by providing attractive incentives to private actors. The upgradation of physical and service infrastructure will require significant investment from the private sector. The government's responsibility should be more those of a facilitator. In addition to facilitation, the government should ensure that the environment is protected and that environmental standards are not dispensed with.

Pondicherry's strength, however, is also its weakness in terms of tourism potential: its quietness and serenity do not offer tourists enough to do. While treks and yoga appeal to some, others are looking for activity-filled days of recreation. Thus, for

Pondicherry to realise its aim of making tourism a major industry, it has to provide the tourist with more attractions which will make Pondicherry a stand alone destination.

One way to do this is by building on its existing strengths. French culture and ambience give Pondicherry a unique advantage over other destinations and protect it from competition as well. At present, Pondicherry's French aura is not being capitalised upon: not only is the French quarter being neglected, but French culture and cuisine are hardly visible. Efforts must be made to promote the French connection. A network of French institutions such as the Alliance, the French Institute and the Consulate already exist in Pondicherry which can offer considerable help in promoting French culture.

A lot of other infrastructural improvements are necessary in Pondicherry. Within Pondicherry, the local transport system is poorly organised, making travel within the town extremely difficult. Increasing number of vehicles have made the roads very congested as well. Improving the quality of roads and proper traffic management are very much part of tourism promotion. They are also crucial to maintaining the serenity of Pondicherry as poor roads and traffic congestion are adding to pollution within the town area. Inter-department interactions is a must for better pollution control.

Hotels are also an important component of infrastructure. A considerable number of star hotels have come up in the last few years making Pondicherry more appealing to the better off tourist and enticing them to stay in Pondicherry as opposed to only passing through. Pondicherry, in the past, has been frequented mostly by budget tourists who spend very little money.

More such hotels will be needed in the future. If tourism is to grow at present rates, the existing hotel infrastructure will be inadequate. Also, no five star hotel is yet available in Pondicherry. Executive tourists still prefer, therefore, to make Pondicherry a day trip destination. Way-side rest houses are also an important component of tourism promotion as they provide a stop-over point for refreshment. The government must provide entrepreneurs with the incentive to start such rest houses. Government-run rest houses are often in poor condition.

Certain other readily available services are also crucial to Pondicherry's tourism drive. ISD, STD, fax and e-mail services are everyday needs of the tourist. While

Pondicherry has a fair number of STD/ISD booths, it needs to encourage the establishment of more e-mail and fax centres so that the tourist can keep in touch with the outside world. Banking facilities also need to be diversified. Tourism development is as much about infrastructure development as it is about providing places of leisure.

## **FINANCIAL SERVICES**

Pondicherry has the distinction of being a Union Territory with a high growth rate of per capita income. In terms of the total Gross State Domestic Product (GSDP) the banking sector which contributed only 4 per cent in 1993-94 had increased to 5.4 per cent in 1998-99. An indicator of the growth of this sector is perhaps captured more sharply by the growth rate of the bank deposits of the scheduled commercial banks operating in the state. The growth rate of deposits which has been 9.64 per cent per year should see a similar growth of around 10 per cent in the next decade as well.

### ***The Scheduled Commercial Banks***

The accessibility to banking facilities will change significantly in the near future in Pondicherry due to the increase in urbanization. While banks may be compelled to close uneconomic branches they will have to provide banking facilities such as extension counters and ATMs. Upgradation of technology will benefit the public as well as the banks. The lower cost of maintaining ATMs in contrast to the higher cost of operating with unionized labour will be mutually advantageous.

The remittances from the French government towards the Franco Pondicherrian pensioners will continue to flow. The funds that are accumulated could be diverted towards infrastructure investment by offering special incentives in terms of returns. These inflows can be harnessed to productive applications in the Union Territory.

### ***Information Technology In Banking***

Information Technology in banking is slated to play a major role. This involves two types of initiatives. Firstly new technology with regard to development of intra-bank/Intra-city communication network with the necessary secure system, to enable an efficient payment system to strengthen the ATM and Credit Card related customer interface. The upgradation of technology will need to be done at the national level to spread banking and financial facilities to a larger area. Secondly, training needs to be

imparted to the existing and new entrants to the banking sector in the use of the new technology for its optimum use and raise banking service efficiency in terms of reduced time for transactions and eliminate opportunities for fraud.

### ***State Cooperative Banks And Urban Cooperative Banks***

The Pondicherry State cooperative banks are presently operating at a level of profit which is at the bare minimum level. They have been encouraged by NABARD with the award of a performance linked prize. However the cooperative bank sector is fraught with dangers of inefficiency and losses as they are expected to comply with international accounting standards which are not in line with the operating environment of rural and semi-urban India. Indigenous accounting mechanisms have to be put in place to ensure that creditworthy borrowers are not deprived of loans and advances so that the banks can enhance their profitability and grow stronger. The state co-operative banks will also need to embrace information technology as an integral part of their existence to compete against the SCBs who will increasingly try to capture a larger market share and enter the shrinking rural areas of Pondicherry and widen their customer base.

### **HUMAN DEVELOPMENT**

The Union Territory of Pondicherry is among the top achievers of human development in the country today. This high level of human development has been made possible by the prominent presence of the public sector in the provision of health, education and public utilities. Moreover, this success of human development has taken place inspite of its high population growth caused mainly by in-migration.

Health and reasonable life span are important notions of personal well-being. The Union Territory of Pondicherry exhibits the best of statistics such as infant mortality rate, total fertility rate, death rate and the spread of immunisation. Ante-natal care programmes are also wide and effective. The Union Territory Administration spends a considerable portion of its budget on health care. The future programmes of the Union Territory should include sustenance of public health care systems and creation of super speciality departments in the major hospitals. Family Planning programmes should be made more widespread.

Education is the single most important input for improving one's well-being as well as social welfare. The Union Territory of Pondicherry stands next to Kerala in all the types of literacy rates. The enrolment ratios at all levels of schooling are high. The quantitative expansion of Post-Matric education offering wide range of specialization is commendable. Once again, the public sector involvement in promotion and provision of education is significant and should be sustained.

An area which needs immediate attention is the problem of high drop-out rates at the secondary school level. The Union Territory Administration should attend to this problem immediately. The quality of education at school level should be improved. Now the students at secondary and higher secondary levels take the exams conducted by neighbouring state governments. The Union Territory Administration can initiate steps to create its own boards of examination and make the school education locally relevant and qualitatively high. Further, the quality of education at Post-Matric education level can be made better by subjecting the higher educational institutions for accreditation by the National Assessment and Accreditation Council.

The economic well-being of the people of the Union Territory are judged by the indicators such as per capita income, per capita consumption expenditure, accessibility to shelter and public utility. Except per capita consumption expenditure and shelter, all other indicators indicate that the economic inputs for human development in the Union Territory are at satisfactory levels. The low level of per capita consumption expenditure in this region could be attributed to high savings rate. The lack of access to shelter, and the existence of 21 per cent of people below poverty line should be immediately addressed. Apart from this, the growth of unemployment and casualisation of labour should also be taken into consideration while formulating future economic policies. The following policy goals are worth mentioning here:

- Improve educational and health care services to international standards in the next 20 years.
- Provision of Shelter for All by 2020 should be given high priority.

- Implementation of poverty eradication programmes should be made effective to reduce proportion of population living below poverty line to zero by 2020.
- Facilitate increase in employment opportunities in the private sector.
- Casualisation of labour should be reduced through implementation of social security network and providing retraining facilities for labour.

## **POWER SECTOR**

Pondicherry has historically had the reputation of offering a stable supply of electricity and at cheaper rates, especially compared to its neighbours Tamil Nadu and Andhra Pradesh. Such a favourable scenario of quality electricity supply at cheaper rates combined with power tariff concessions for the first 5 years of operation and other tax concessions offered by the UT government made this an attractive destination for setting up industries and for domestic settlements.

There are indications, however, that this comfortable scenario is gradually changing for Pondicherry. Starting from 1995-96, the revenue expenses of the Electricity Department (ED) been higher than the revenue receipts and this gap has widened. This is despite the fact that the ED does not take into account any interest payment or return that is due on its capital outlays. The outstanding dues payable by the ED to the Central Power Sector units are rising. At the same time the Centre is placing greater emphasis on fiscal discipline and this means that the Union Territory will find it increasingly difficult to access the necessary government funds to make good its losses and pay its dues. Moreover, the restructuring efforts currently being undertaken in the country's power sector implies that the ED may have to pay higher prices for the power it purchases in the future. If the growing inefficiencies in this sector are not corrected then inadequacy of power could act as a major constraint to economic development in the Union Territory. Thus, if the power sector has to deliver and supply adequate quantities to promote higher economic growth then it is imperative that it has to become more efficient.

### ***Institutional Reforms***

Restructuring efforts are already afoot to address the problem of gross inefficiencies in the Indian power sector. Keeping in view the broader context of reforms that are taking

place in the country, we seek here to outline a reforms agenda and suggest a possible enabling institutional arrangement that could help promote efficiency in Pondicherry's power sector.

The present institutional arrangement in Pondicherry is such that the Electricity Department has the ownership, supply rights and regulatory responsibility relating to power supply. In order to reduce the potential either for 'government failure' or for 'market failure' in this sector, it is first important to separate the ownership/supply functions from the regulatory functions. The Central Electricity Regulatory Commissions (CERC) Act (1998) has already prepared the ground for this by *requiring* all the states and union territories to set up independent regulatory commissions in their respective jurisdictions. The regulatory authority on all issues relating to the power sector would vest with these commissions. Provisions have also been made in this Act to facilitate restructuring the existing institutional arrangement for supply. The Electricity Bill 2001 submitted to the Parliament, when passed, would extend these provisions. Moreover, there is sufficient flexibility in the options afforded so that different states and union territories can adapt the restructuring efforts they undertake to suit their specific situation. Given this, we suggest here a possible approach to restructuring in Pondicherry, which, it is felt, would greatly help in improving efficiency, particularly in the emerging scenario for the Indian power sector. The basic idea is to design an institutional arrangement that would provide appropriate incentives to all relevant groups so that the decisions they are expected to make in society's interest are also in tune with their own self-interests. In other words the objective is to design incentive-compatible mechanisms. The suggestions offered are strongly based on the recognition that the alternative should be a viable and sustainable one and that the "transaction costs" of effecting *and* sustaining the transition are minimized.

### ***Regulated Electricity Board***

The ownership structure of the electricity supply sector in the Union Territory could be converted from that of a government Department to a fully autonomous Electricity Board. The Pondicherry government and the private sector could jointly own the share capital of this Board, with the government holding a minority share. This Board should be given ***complete autonomy*** in making all short-term and long-term decisions relating to

the Electricity Board (EB) and also be made *accountable* to the public and to the regulatory commission. An independent Regulatory Commission, established according to the guidelines given in the CERC Act 1998, should be responsible for regulating the performance of the EB. The basic responsibility of the EB would be to supply electricity to whoever requires it in the UT, subject to the pricing and quality regulations of the Regulatory Commission. The EB should be allowed to run its operations on commercial lines with complete flexibility both in terms of deciding who it purchases electricity from and at what prices, and in terms of the prices it would like to charge the different categories of its consumers. The EB should however be required to meet all the regulatory requirements of the Commission.

### ***Price-Cap Regulation***

The Regulatory Commission could adopt a price-cap type of regulation as it is done in the United Kingdom. This approach requires that the Commission specify an overall price ceiling, which the EB cannot exceed. Within this overall ceiling the utility may be free to fix the tariff rates for its different categories of consumers subsequently, the utility would be allowed to raise the price ceiling by a percentage, which would be equal to the percentage rise in the RPI minus a certain percentage 'X'. It is suggested that the Regulatory Commission could work out the price ceiling for the first time based on long run marginal costs of capacity expansion. The 'X' percentage that is disallowed from the rise in RPI, would have to be carefully worked out based on technically feasible efficiency increases in the sector. All the policy decisions of the Regulatory Commission should be transparent and subject to public hearings.

### ***Incentives***

The managers and the other employees of the EB could be offered appropriate performance-linked incentives. The managers could probably be given equity shares in the utility, which may be non-transferable for a sufficient length of time so that the long-term interest of the utility is promoted. The other employees could be given bonus payments. Such an incentive system would align individual interests of income maximization with the utility's, and hence society's, interest of efficiency maximization.

### ***Tariffs And Subsidies***

The EB should be given the autonomy to fix tariff rates for all consumer categories as it sees fit. If, however, the government desires to provide a subsidy to any consumer, it could do so by paying a percentage of the consumer's bill. The government could pay a very high percentage (maybe 95% or so) of the bill if the consumer is from a highly disadvantaged category, say the lowest income group or very small farmer. It could pay correspondingly smaller percentages for other consumers who are relatively in a better position. The key thing is however, that ***all consumption is metered*** and every consumer is required to pay at least a part of the bill, even if it is a small percentage. These measures would not only ensure better transparency but also encourage more judicious use of electricity. They would also avoid significant negative externalities like illegal power consumption, indiscriminate use of groundwater resulting in over-exploitation of the resource, illegal markets for water and so on.

Pondicherry has an advantage in the context of power sector reforms because right now the ED is basically an electricity distribution entity that buys power from other sources and manages the supply within the UT. It would not have to deal with the higher transaction costs associated with 'unbundling' like other vertically integrated utilities. The smallness of its size, the share of industrial consumption being as high as seventy percent, the falling share of agricultural consumption and the fact that in the near future the cost of supplying electricity here would continue to be relatively lower compared to that of its neighbouring states are additional advantages.

### **WATER RESOURCES MANAGEMENT**

Serious water management problems are likely to occur in the Pondicherry region, if adequate remedial measures and policies are not taken up in earnest by the Union Territory. Furthermore, the Union Territory is already facing a growing urban demand which has to be balanced against the declining agricultural use for irrigation. These tradeoffs can be managed only if there is proper regulation of ground water extraction. The Union Territory should take the following steps:

#### ***Regulation Of Groundwater***

Although the region has high rainfall, the utilisation of water has been done without careful consideration of the consequences. It is fortunate that the Union Territory has

passed a Ground Water Regulation Act and set up the administrative machinery for monitoring the extraction and use of ground water. It is also necessary to have a hydrological data centre where the water resources data should be maintained and analyzed, so that the regulatory work is facilitated.

### ***Water Pricing***

A major cause for the over-extraction is the under-pricing of water. Industrial users should be required to bear the full cost of Rs.5 per cubic metre while some subsidy could be given to domestic users, but the tariff should initially be not less than Rs.2 per cubic metre which is the rate charged in Tamil Nadu. Ultimately domestic consumers should also pay the full cost of domestic water supply. Farmers also should be required to pay for the consumption of electricity, so that there is a deterrent against over-extraction of water for irrigation.

### ***Water Quality Monitoring***

Discharge of effluents by industries and domestic waste is polluting both surface water and ground water. A water quality monitoring network has to be established to collect relevant data for action to be taken by the Department of Environment. Educational institutions like Polytechnics, Colleges and Research Institutions can also be involved in water quality monitoring to supplement the efforts of the Government.

### ***Conservation Measures***

Apart from pricing and regulation, the Union Territory should embark on an educational campaign to promote water conservation. T.V., Radio, as well as educational material in schools should focus on conservation.

### ***Tank Rehabilitation***

The tanks and ponds of the Pondicherry region have to be protected and rehabilitated not only for irrigation but for recharging the ground water. Tanks should also be treated as ecosystems and restored accordingly. Currently, the Union Territory government is implementing a project on tank restoration costing Rs.34.73 crore, with support from the European Union, which should be given high priority.

### ***Drinking Water***

*Despite* the comparative abundance of water in the rural areas, there are 40 “no source” villages and 90 “partially covered” (i.e. less than 40 litres per capita per year) villages in the Union Territory. It should be the goal to ensure 100% coverage of all villages and towns in the Union Territory by 2020. The town of Mahe should be provided with dependable water supply by the Kerala Water Authority by 2020. The Union Territory Government has formulated a scheme to tap surplus water from the Bahour and Ousteri tanks to augment urban water supply. External assistance can be sought for this scheme.

### ***Underground Drainage System***

Domestic sewage is causing pollution of the urban waterways, tanks and ponds of the region. It is important that the urban areas of the region, particularly Pondicherry and Oulgaret municipalities are totally sewered. There should also be proper treatment of the sewage collected, before it is discharged into the sea. The Public Works Department has prepared a proposal for Rs.124 crore which has been sent to the Ministry of Urban Affairs and Employment, Government of India. French assistance may be sought since France has considerable expertise in the water sector.

## **URBAN ENVIRONMENT**

The continuing urbanisation of the Union Territory will require institutions and policies to manage the process so that some of the adverse consequences can be mitigated and could be addressed in a systematic manner.

### ***Urban Waste Management***

Of prime importance is the collection and disposal of solid wastes. The urban local bodies can contract with either private firms or NGOs to collect and transport household wastes to the disposal sites. As a pilot project the removal of garbage was done by private contractors in the five wards of Nellithope constituency. According to a government report, the work done by these private contractors was effective and done better than by the Municipality. The current practice of dumping the wastes in low-lying areas should be discontinued. The Union Territory should examine various options – sanitary landfilling, composting, biomethanation etc. and evaluate the technical and economic feasibility of each option. It is also important to protect the wetlands and tanks and not dump refuse in them.

Most states are regulating the disposal of biomedical wastes. The Union Territory should devise a regulatory system and also assist small clinics and laboratories to segregate their wastes and dispose them properly. Industrial solid wastes also have to be regulated and disposed in a secured landfill or disposal site. Hazardous wastes will require special facilities and regulatory procedures.

Liquid wastes – both sewage and industrial wastes are already posing a serious problem in the Pondicherry region. Industrial effluents have to be treated at source and / or in a common effluent treatment facility. The Union Territory should charge for the collection and treatment of sewage and industrial effluents. The sewage treatment plants need to be upgraded so that they meet effluent standards. Sludge from the plants has also to be disposed properly. Burning of sludge and solid waste should be avoided.

### ***Roads And Transport***

Proposals already exist under the Tenth Five-Year Plan, to upgrade 200 km of state highways and district roads and to make a variety of other road improvements. Also, construction of major and minor bridges has been planned, together totaling an investment of Rs.157.50 crore. Proposals for Rs.109.60 crore have also been put forward under the National Highway and Central Road Fund Schemes.

The government of Pondicherry may look into the possibility of private sector participation more carefully over the next decade both for construction and maintenance. Private firms may be able to mobilize finance particularly for urban roads. If Pondicherry is to attract tourism and industry, the quality of urban roads has to be substantially improved. Then the PWD can focus more on district and rural roads, and also on the small towns of the union territory. The main priority should be to rationalise a road transport taxation system in line with that proposed for the country in the tenth five-year plan. This should be aimed at creating a cost effective transport system and at removing procedural hurdles for private sector participation.

In planning for the future, it is necessary to improve the public transport. Currently, there are only 3,500 buses plying in the Union Territory. Improved transport facilities would reduce levels of air pollution from private vehicles. Privatisation of bus services could also be considered. Due to the narrow roads and heavy increase in the

number of two-wheelers, the roads are very congested. The local transport system is also poorly organized. For better and proper traffic management a detailed professional study of the road transport system is needed. Improvements in roads and the transportation services of Pondicherry are critical for enhancing the quality of life in the Union Territory. Privatisation of both road and public transport need to be assessed in planning for 2020, since it would not be possible for the Union Territory to generate the resources to provide all the necessary services.

### ***Housing And Slums***

The government will have to take a number of steps to address the problem of housing shortage. Given the government's own projections of housing shortage for the year 2001, it is unlikely that the government can meet these demands on its own. The government should, therefore, focus primarily on low income (and to some extent middle income) housing and slum upgradation and improvement.

The slum clearance board will have to play a much more active role in the future given the growth of slums in Pondicherry. The current focus on slum upgradation and environmental improvements, promoted through the national slum developmental programme, needs to be further emphasized. However, in addition to physical upgradation of slums, efforts must be made to provide economic opportunities for slum dwellers as well.

A comprehensive housing policy must be formulated for Pondicherry which maps out a new facilitating role for the government and a more active role for the private sector. This housing policy must also move away from an emphasis only on physical construction to housing in terms of residential development. This should be done in a manner which highlights Pondicherry's rich cultural tradition and creates an attractive urban landscape.

### **Urban Governance**

Rapid urbanisation requires an institutional set up that can respond to urban concerns and issues in a responsible and integrated manner. The Town and Country Planning Department has to plan for the urban future of Pondicherry. A high priority would be the

preparation of a regional plan for Pondicherry. Similarly a regional plan has to be prepared for the Karaikal region. Infrastructure investments should be made consistent with the Regional Plan. The Town and Country Planning Department should have links with all the line agencies dealing with housing, roads, water and sewer, environment and industries.

Heritage is an integral part of the urban fabric of Pondicherry. An inventory of heritage buildings as well as provision for a heritage fund must be made to improve the structures in the historical areas. The protection of heritage is discussed at length in the section on tourism. The Housing and Urban Development policy for Pondicherry must emphasize the rich cultural and historical tradition of the Union Territory.

The 74<sup>th</sup> Amendment to the Constitution has prescribed that local functions be delegated to the urban local bodies. This is a good opportunity for the Union Territory government to shed some of its functions to the municipalities and the urban commune panchayats. Local functions such as water supply, sewage, solid waste management, streets, etc. should be delegated to the urban local bodies. If Pondicherry and Oulgaret municipalities are merged into a single corporation, the new corporation can carry out the local functions envisioned in the Twelfth Schedule.

## **FINANCES OF PONDICHERRY GOVERNMENT**

The sound state of the Government's finances is one of the several bright features of Pondicherry's economy. It is true that at present more than 50 per cent of revenues are received from the Central government as transfers. But the fact remains that since the government has been running a surplus on revenue account continuously, it does not face any problem of thorough re-structuring of its finances as most other States. Its public debt to GSDP ratio is only around 4 per cent and its fiscal deficit about 2 per cent. The government can raise its fiscal deficit safely to 3 per cent of GSDP and maintain capital expenditure at 5 per cent of GSDP. If a higher rate of capital formation is desired, the ratio of revenue surplus should be increased.

There is scope for raising the levels of own resources of Pondicherry government. Non-tax revenues now form a low proportion of GSDP. The scope for raising user charges will have to be examined. As discussed in the relevant chapter, several reforms in

the structure of taxation are needed and tax administration has to be modernised and strengthened. Adequate efforts must be made to increase the ratio of own revenues to GSDP as the relative importance of the central transfers is likely to fall.

The growth of revenue expenditure should be carefully calibrated. It has been found that the proportion of revenue expenditure incurred on administrative services, pensions and miscellaneous services increased from 10.8 per cent in 1985-86 to 16.9 per cent in 1998-99. Ways must be found to control the rise in this ratio. The three-year medium-term expenditure planning is an important aid in this task.