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HOW HAVE THE POOR DONE? MID-TERM REVIEW OF INDIA'S NINTH FIVE-YEAR PLAN

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Despite good performance on the growth front, progress in reducing poverty in the 1990s has left much to be desired. Concerted policy action is needed to lift the 350 million poor, who are increasingly concentrated in the poorer States, out of poverty. This requires not so much additional resources – which would only result in further leakages and swelling of the already bloated bureaucracy – as better policies and sound delivery mechanisms. The focus needs to shift from maximising the quantity of development funding to maximising development outcomes and the effectiveness of public service delivery.

Policy conclusions

- Although the Indian economy has continued to grow rapidly, poverty reduction is proceeding far more slowly than anticipated.
- In agriculture, many existing subsidy programmes (fertiliser, electricity, water) need to be dismantled and replaced by efforts more focused on the poorer eastern States.
- Watershed development has major growth and equity potential, but this will not be realised unless more participatory approaches are introduced, the power of elites kept in check, and government funding provided specifically to meet poor people's needs.
- Public distribution systems function badly, in part because of the limited capacity of States to draw on central government provisions; they are also poorly targeted, and riddled with patronage and other forms of corruption. A wide range of steps to liberalise food markets needs to be taken, and the public distribution system greatly reduced in its scope.
- Programmes for employment and self-employment need to be narrowed down, and more tightly focused on the needy, on asset creation and on the service sector.
- Urgent steps are needed to reduce central and State fiscal deficits, including reductions in the losses of public utilities.
- Steps to improve governance are needed at all levels: early retirement, less frequent transfer of civil servants, and action against corruption are all essential. Increased public confidence in government may increase the willingness to accept reduced subsidies and to pay taxes.
- Above all, funding in India is not a constraint to the faster reduction of poverty: the main future emphasis has to be on increasing government capacity to manage the available funds more effectively.

Introduction

Despite external shocks during the last three years, the Indian economy has shown resilience and has continued to be one of the ten fastest growing economies of the 1990s. Average annual GDP growth since 1991–2 has been 6.3%, with a high degree of price stability. There has been concern whether growth in the 1990s has been accompanied by a reduction in poverty. A preliminary analysis suggests that the proportion of the poor in the total population may have declined from 36% in 1993–4 but not fast enough to reach the Ninth Plan target of 16.5% in 2001–2. This may be due to: sluggish agricultural growth which is also poorly distributed spatially; inadequate reach of the Targeted Public Distribution System (TPDS) to the poorest in the northern and eastern states; the limitations of watershed development and poverty alleviation schemes; fiscal crisis caused by awards under the fifth Pay Commission that led to reduced ability of the States to spend on the social sectors and on maintenance of assets; and deteriorating governance leading to leakages and inefficient utilisation of resources.

Agriculture

During the period 1989–90 to 1998–9 the growth rate of production for both foodgrains and non-foodgrain crops taken together declined to 2.35% per annum from the 3.72% per annum achieved in the previous decade. The decline in the rate of growth for foodgrains was sharper, from 3.54% to 1.80% per annum. This has also resulted in slower increase of real agricultural wages from 4.68% during 1981–91 to 2.04% in 1991–9. Why this slow down?

Agricultural policies, particularly in the 1990s, focussed on securing increased production through subsidies on inputs such as power, water and fertiliser, and by increasing the minimum support price rather than through building new capital assets in irrigation, power and rural infrastructure. The equity, efficiency, and sustainability of the current approach are questionable. The subsidies improve neither distribution nor the demand for labour. The boost in output from subsidy-stimulated use of fertiliser, pesticides and water may be environmentally unsustainable, given its negative impacts on soil and water quality, and may partly explain the rising costs and slowing growth of productivity in agriculture, notably in the Green Revolution areas of Punjab and Haryana. Moreover, deteriorating State finances have meant that the continuation of subsidies has, in effect:

- 'crowded-out' public agricultural investment in roads and irrigation
- limited maintenance on canals and roads
- contributed to the low quality of rural power.

These problems are particularly severe in the poorer States. Although private investment in agriculture has grown, this has often involved macroeconomic inefficiencies (such as private investment in diesel generating sets). Instead of seeking low cost options that have a higher capital-output ratio, present policies have resulted in excessive use of capital on the farms, such as too many tubewells in water-scarce regions.

Private capital investment is increasing everywhere, but at a faster pace in Green Revolution areas and among large farmers. Thus, fertilisers, pesticides and diesel accounted for 55.1% by value of total inputs in 1994–5 against 14.9% in 1970–1. But the value of output sold has increased at a much slower rate than the cost of purchased inputs, including hired labour. The implication of this is a resource squeeze in agriculture. This is a serious problem that has escaped the

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attention of both policy planners and academics. They both tend to view subsidies as a political problem. In particular, the new Agriculture Policy 2000 has entirely missed this point and has in fact advocated increasing use of private capital in agriculture, without understanding its implication for output prices (since, as their margins deteriorate, larger farmers agitate for higher prices) or rural consumption. The present high capital use is sustained because of subsidised power and water, unpaid loans, and cheap fertilisers. One cannot simultaneously talk of reduction in subsidies and at the same time increase input use, especially in Green Revolution areas where saturation has been reached. A better strategy would be to concentrate on eastern and rainfed areas where returns to both capital and labour are high. The need is also for better factor productivity in agriculture especially for labour intensive new technologies.

Much of the decline in poverty during the 1980s was due to an increase in paddy production in eastern India. However, the collapse in electricity supply in this region in the last ten years, combined with no new breakthrough in seeds or technology, has led to a plateauing of yields. Only around one-fifth of groundwater resources in this region are being used, and recharge rates are good, so higher ground water utilisation is crucial to kickstarting the Green Revolution here. Diesel pump subsidy schemes operated by the State Governments have fared poorly due to irksome and complex procedures and heavy transaction costs which leave little real subsidy for the farmers. Diesel pumping is in any case more expensive than electrical. East Indian States should reform their subsidy schemes to address the shortage of pumps that lies at the heart of the problem. It is equally important to promote cost effective improved manual irrigation technologies, such as treadle pumps, for the very small scale farmers.

Watershed and wasteland development

Estimates of the extent of wastelands range from 76 million to 175 million hectares. Up to the mid-1990s, 16.5 million hectares of rainfed or degraded land had been treated under different schemes implemented by several departments of the central government, often under different guidelines. Even when the same guidelines are used, funds are provided by different departments and each does its own monitoring (but monitoring beyond the expenditure or activity levels is rare). The need for 'a single national initiative' has been felt for some time, and was articulated in the 1999–2000 budget speech of the Union Finance Minister, and in the President's address for 2000–1, but still has not been achieved.

Evaluation reports have shown that watershed rehabilitation will fail to meet productivity, equity and sustainability objectives unless project beneficiaries are fully engaged and careful attention is paid to issues of social organisation. Success depends on consensus among a large number of users (Farrington et al, (eds) (1999)). Moreover, collective capability is required for management of the commons and of new structures created during the project. Even so, the costs and benefits of watershed interventions will be location-specific and unevenly distributed among the people affected especially where poorer groups are unable to have their requirements met. The record of government agencies in stimulating people's participation has been poor, and their overall success rate low (Kerr et al., 2000). Field staff have no incentive to make the effort to pursue participatory approaches. They are oriented mainly to physical targets and under pressure to spend substantial resources by fixed deadlines which are often inconsistent with local requirements, and arrangements for handing over new structures and regenerated plantations after project completion are weak.

Farmers who are mainly settled in valley floors see some advantage in the rehabilitation of forest and grazing lands in the upper slopes, from which the poor and landless mainly benefit: rehabilitation allows improved recharge of aquifers from which farmers pump irrigation water. However a more immediate attraction for them is to conserve and harvest water in the drainage line so that it can be used directly for irrigation. Lands in the upper catchment should be rehabilitated first for at least three reasons. First, so that the landless and the poor who depend on the upper slopes can benefit; second, so that groundwater recharges as early as possible; and third, by the time the lower catchment is treated any debris and erosion running down from the upper catchment has been minimised. High priority should also be given to rejuvenation of village ponds and tanks, and recharge of groundwater.

Despite problems there are many success stories, especially in States such as Madhya Pradesh and Andhra Pradesh. Successful and sustainable projects such as Ralegaon Siddhi, the revival of *johad* in Alwar, Sadguru's activities in Gujarat, and watershed development in Jhabua and Sagar districts of Madhya Pradesh have characteristics which include: the emphasis on social issues, people's mobilisation, clear direction to Government machinery to accept principles of participatory management, explicit project monitoring and a strong sense of ownership by the local community.

Public Distribution System and food security

Despite a hefty increase in the annual food subsidy from Rs 2.5bn in 1990–1 to Rs 92bn in 1999–00, all is not well with the Targeted Public Distribution System. A high proportion of the resources allocated under the TPDS fail to reach target groups including: 36% of wheat, 31% of rice and 23% of sugar. The TPDS works particularly badly in the poorest north and north-eastern States. The allocation to them has more than doubled, yet the scheme has not made any impact on nutrition levels in these States, owing largely to poor uptake of national provisions by the States.

Lack of infrastructure and shortage of funds held by government parastatals in most States, except a few in the west and south, are principal reasons for low uptake by the States. Central government needs to intervene, to ensure that adequate infrastructural capacity is available at the district and block levels, otherwise the waste of scarce resources through leakages helps only contractors and corrupt government staff, and does not in any way help the poor.

The growth rate in availability of foodgrains per capita has fallen from +1.20% in the 1980s to -0.28% per annum during the 1990s. Food consumption among the poor in India has gone down in the last ten years, yet the level of foodgrains stock with the Food Corporation of India (FCI) has been increasing, signifying lack of purchasing power among the poor, distorted food security policies and inadequate distribution capacity. It is painful to note that with 40 million tonnes of foodgrains in stock at the FCI more than half of the children of 1–5 years in rural areas are under-nourished, with girl children suffering disproportionately.

The challenge is to reduce food stocks to roughly half their present level and use them for reducing malnutrition, without adversely affecting farmers. This would need the following legal and policy changes, which would enhance the role the of private sector and make markets less distorted than at present. Necessary changes include:

- A central Act to ban controls on movement between States.
- The phasing out of levies and monopoly purchase. The removal of licensing and other controls on the food processing industry.
- The stimulation of rice export, and if necessary, the import of broken rice for the TPDS.

- The removal of wheat, rice and sugar from the Essential Commodities Act.
- The complete decontrol of sugar and its removal from the TPDS. Removal of the ban on Futures Trading of agricultural commodities.

Poverty-alleviation programmes

There are serious problems in both formulation and implementation of most poverty-alleviation programmes, except the scheme for old age pensions. For instance, evaluations of the scheme for promoting *self*-employment, the Integrated Rural Development Programme (IRDP) point to: sub-critical investment; unviable projects; lack of technological and institutional capabilities in designing and executing projects utilising local resources and expertise; illiterate and unskilled beneficiaries with no experience in managing an enterprise; indifferent delivery of credit by banks (high transaction cost, complex procedure, corruption, one-time credit, poor recovery); overcrowding of lending in certain projects such as dairy; inadequate training; inclusion of the non-poor and exclusion of many poor; the absence of linkage between different components of the IRDP; rising indebtedness; and the large scale of operation of the IRDP which has outstripped the capacity of government and banks to absorb. A disturbing feature of the IRDP in several States has been rising indebtedness of the beneficiaries of IRDP. There is still an under-emphasis on activities which require no fixed assets at all, such as a large number of trading, service and even simple processing activities. However, the programme for women, Development of Women and Children in Rural Areas, DWCRA, did well in some States (Andhra Pradesh, Kerala, Gujarat).

Evaluations of the programmes for *wage* employment point to: the registration of non-existent workers; the hiring by contractors of outside labourers at lower wages and the illicit displacement of registered labour by machinery in some cases. Central norms of funding allocation have not always been followed. Today 60% of government funding for wage schemes is reserved for wages, but in reality only 10% to 15% actually goes to workers themselves, the rest is illegal income for bureaucrats, contractors and politicians.

The programme for rural housing, which offers 100% subsidy of Rs 20,000 per beneficiary, has led to greater dependence by the rural poor on the elite. Given the large number of potential beneficiaries awaiting the allotment of a free house and limited resources, a situation has been created wherein the poor are divided among themselves and political patronage becomes a principal means of allocation. In some areas, misappropriation of these resources ranges from 25%-40% of the total made available.

For the Tenth Five-Year Plan it is suggested that:

- The IRDP should become a micro-finance programme to be run by the banks with no subsidy.
- Funds should be made to available to village assemblies only when the people themselves contribute 25% of the amount required.
- Employment programmes should be replaced by food for work programmes in areas of extreme distress. Elsewhere, jobs should be created through productive works and their maintenance, such as rural roads, watershed development, rejuvenation of irrigation tanks, afforestation and irrigation.
- The economic conditions of marginal and small farmers, forest gatherers, artisans and unskilled workers need to be strengthened. The poor should not merely benefit from growth generated elsewhere, they should contribute to growth.
- Today there is huge budget for safety net programmes (Rs 70bn annually for poverty alleviation, Rs 10bn for food subsidy, Rs 10bn for kerosene subsidy), and very little for asset creation – only Rs 1.7bn for irrigation, Rs 0.4bn for afforestation, and little for maintenance. The priority needs to be reversed.

Local government (*panchayati raj*)

In spite of various lacunae in the constitution of local government, there are many instances where leaders of the lowest (village) tier of local government have done commendable work in improving the social and economic life of ordinary people. There is less optimism about the work done by local government at higher (block and district) levels, where the elected members behave more or less as contractors. Corruption is the most important reason for the ineffective functioning of these institutions and is reinforced by weak accountability of local government to its electorate, particularly to local membership groups. Though providing a framework for decentralised rural development, local government still has a long way to go in enhancing participation and empowerment.

Fiscal crisis and governance

The fiscal situation of both the central government and the States has deteriorated severely in the 1990s, especially since 1997. The combined balance of current revenues of the centre and the States fell from Rs 133bn in 1996–7 to -Rs 929bn in 1999–00. Tax revenue at the central level has fallen from 11.3% of GDP in 1989–90 to 8.8% in 1999–00. Other losses in revenue are also severe: for instance, losses from State Electricity Boards amount to more than Rs 200bn/yr.

Fiscal crisis has several implications. First, declining public sector investment reduces the rate of growth, among other things making it more difficult to increase tax revenue. Second, financially weak public utilities have placed a massive burden on the States; the problem has been accentuated by the deepening culture of non-payment by customers for utilities. And, third, governance problems have accelerated the fiscal crisis both directly and indirectly.

In almost all States people perceive the bureaucracy as wooden, uninterested in public welfare, and corrupt. This perception of the collapse of ethical standards has a number of implications for fiscal discipline. Many States' reluctance to reduce the number of civil servants, change their conditions of service or take action against corrupt ones, further confirms the general belief that the state apparatus exists only for the benefit of government servants. The problems of law and order in some States, the culture of harassment, long delays, administrative secrecy, and the seeming inability to check organised theft of electricity (amounting to around 20% of supply) – all discourage large scale, law-abiding tax-paying units from investing in these States. But it is the growth of private enterprise which is fundamental to future prospects of productivity, growth and higher wage jobs. These States will neither be able to end the fiscal crisis nor to restore growth unless they are able to address problems of governance. Whether the issue is tax compliance or investment climate for the private sector, or the States' physical and social infrastructure, progress will be impossible without a significant redirection and improvement in the way these States run their administration.

Removal of the revenue deficit and improved governance must therefore go hand-in-hand. Not least, these will improve people's willingness to accept reduced subsidies. When they are convinced that the additional tax they pay is going to improve roads or increase the quality of power and water supply, and not merely be pocketed by avaricious civil servants, they are more likely to respond to the national need for tighter fiscal management. A civil service renewal programme that improves public satisfaction is therefore essential and might include the following steps:

- The average tenure of middle and lower-ranking officers be at least two years, so that although government would be free to transfer an officer before two years, for every short tenure someone else must have a sufficiently long tenure to maintain the average.
- For higher ranks, postings may be made contractual for a fixed period, and safeguards implemented to ensure that they are rarely removed before the period of the contract without their consent.
- The property holdings and tax returns of all senior officers should be put on a government 'home page' on the internet.
- Each State should be required to pass the Corrupt Public Servants (Forfeiture of Property) Act, already drafted by the Law Commission. This will ensure that the illegally acquired wealth of the corrupt is confiscated.
- No officer above the age of 60 should be given government housing.
- Departments which have extensive dealings with the public, such as the police and tax authorities, should be assessed once in three years by an independent team of professionals, consisting of journalists, retired judges or members of the armed forces, academicians, activists, NGOs, and even retired government servants. These should look at their policies and performance, and suggest constructive steps for their improvement. At present the systems of inspection are elaborate but often preclude the possibility of a 'fresh look'. They need to be more open so that the civil service can gain from the expertise of outsiders in the mode of donor agency evaluations of projects.

Central Government must take a lead in reducing its staff, especially in Ministries dealing with State subjects, and transfer most of the Centrally Sponsored Schemes to the States. There should be firmer controls on initial recruitment and most vacancies caused by retirement should remain unfilled and the posts abolished.

Conclusions

To sum up, the lack of sufficient progress in reducing poverty in the 1990s may be explained by combinations of: the characteristics of agricultural growth in the 1990s; the slowdown of growth in the poorer States; indifferent performance of poverty alleviation programmes and TPDS, and weaknesses in governance and institutions.

Central government spends roughly Rs 350bn annually on programmes that are meant to reduce poverty. It is salutary to note that these funds, if directly transferred to the poor, could buy for every poor household 3 kg of foodgrain every day over the year at market prices, and so reduce under-nutrition at a stroke. Given that poverty still continues, the obvious conclusion is that the currently high availability of funds can at best be a necessary but not sufficient condition. The determining factor is the capability of the government machinery to formulate viable schemes and the delivery system to utilise funds optimally. The record of government is poor on both counts.

Development creates, but also depends upon, efficient institutions. Focus therefore must be shifted from maximising the quantity of development funding to maximising the capacity of the public sector to deliver appropriate outcomes. This will help in improving investors' and donor agencies' perception of the investment climate in the States. It will also help in increasing their revenue collecting ability.

Thus despite good achievement on the growth front, India faces significant challenges and needs to take some difficult political decisions. Concerted policy action is needed to improve the livelihoods of the 350 million poor, who are increasingly concentrated in the poorer States. This requires not so much additional resources, as better policies and sound delivery mechanisms. Unless teachers attend schools and teach, doctors attend health centres and provide health care, and subsidies reach the poor, a mere increase in social sector expenditure would only result in further leakages and swelling of the already bloated bureaucracy.

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