How have the poor done?
Mid-term Review of Ninth Plan

N.C. SAXENA[1]

(Published in Economic and Political Weekly, Oct 7, 2000, XXXV, No 41)

Despite the 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, and 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 of development outcomes and effectiveness of public service delivery.

Despite several external shocks during the last three years such as the East Asian Crisis, post Pokhran economic sanctions, Kargil, and the rise in International Oil Prices the Indian economy has shown resilience and has continued to be one of the ten fastest growing economies of the 1990s. Price stability was maintained and the growth momentum has not been affected seriously. India's average growth of GDP since 1991-92 has been 6.3 percent. During the last three years economy has grown at 6.1 percent annually, and the last two years of the Ninth Plan may even see some improvement.

There has been concern whether growth in the 1990s has been accompanied by a reduction in poverty. Official Planning Commission estimates are likely to be available by the year end when NSS full sample data is released. Quick analysis of the six months data shows that the percentage of the poor in the total population may have declined from a level of 36 percent in 1993-94 but not at the targeted pace to reach 16.5 percent in 2001-02, the level which was projected to be achieved by the end of the Ninth Plan period. This may be due to: sluggish agricultural growth which was also less well spread out; inadequate reach of TPDS to the poorest in the northern and eastern states; failure of watershed development and poverty alleviation schemes; fiscal crisis caused by the V Pay Commission that led to reduced ability of the states to spend on social sector and maintenance of assets; and declining governance leading to inefficient utilisation of resources and even leakages.

Agriculture

During the period 1989-90 to 1998-99 growth rate of production for both foodgrains and non-foodgrain crops taken together has declined to 2.35 percent per annum from 3.72 percent per annum achieved during 1979-80 to 1989-90. The decline in the rate of growth for foodgrains was sharper from 3.54 to 1.80 per cent per annum. This has also resulted in slower increase of real agricultural wages from 4.68 percent during 1981-91 to 2.04 percent between 1991-99. Why this slow down?

The policy approach to agriculture, particularly in the 1990s, has been to secure increased production through subsidies in inputs such as power, water and fertilizer, 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 is questionable. The subsidies do not improve income distribution and the demand for labour. The boost in output from subsidy-stimulated use of fertilizer, pesticides and water deteriorates the aquifers and soil – an environmentally unsustainable approach that may partly explain the rising costs and slowing growth and productivity in agriculture, notably in the Punjab and Haryana. Moreover, the deteriorating state finances have meant that subsidies have, in effect i) "crowded-out" public agricultural investment in roads and irrigation and expenditure on technological upgrading, ii) limited maintenance on canals and roads, and iii) 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.

Intensity of private capital is in fact increasing for all class of farmers, but at a faster pace in green revolution areas and for large farmers. Thus, the weight of fertilisers, pesticides and diesel that accounted for a mere 14.9 per cent of the total inputs in 1970-71 in the country increased to 55.1 per cent in 1994-95. For a large farmer in commercialised regions it could be as high as 70 per cent. But the proportion of output sold has increased at a much slower rate than the proportion of monetised inputs, including hired labour. The implication of this is a resource squeeze in agriculture. Whereas the need for resources to purchase these inputs has been increasing, the marketable surplus has been increasing at a slower rate to absorb this, as growth in non-farm employment has become very sluggish. It is not surprising that the repayment of loans is such a problem in Indian agriculture and has even led to suicides in some cases. Pressed by the increasing costs, big farmers demand higher output prices, thus setting the cycle of inflation. This is a serious problem that has escaped the attention of both policy planners and academics. They both tend to view subsidies as a political problem. However, if 70 percent people continue to live in villages and largely dependent on home production, the cost of home grown inputs to bought inputs cannot be very different from 70:30, unless one considers exports as a major option in agriculture. Unfortunately 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 on output 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 areas where they have reached a point of saturation. 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 or of a new technology, which would be more labour intensive and would cut cash costs.

Minor irrigation in eastern region – Much of the decline in poverty during the 1980's was due to rise in paddy production in the eastern India. However, collapse in the supply of electric power in this region in the last ten years combined with no new breakthrough in seeds and technology has led to plateauing of yields. Stimulating ground water development is crucial to kickstart the Green Revolution in this region as only 1/5th of ground water resource is being utilised. Studies have revealed that diesel (though more expensive than electric power) pump subsidy schemes operated by the State Governments have fared poorly due to lengthy, irksome and complex procedures and heavy transaction costs which leave little real subsidy for the farmers. East Indian States should reform their pump subsidy scheme to ameliorate the pump capital scarcity that lies at the heart of the problem. It is also equally important to promote cost effective improved manual irrigation technologies, such as treadle pump, for the sub-marginal farmers.

Watershed and wasteland development

Culturable lands which produce biomass below their potential have been categorised as wastelands. The estimates of extent of wastelands range from 76 million to 175 million hectares. Up to the end of Eighth plan period, 16.5 million hectares of rainfed/degraded land have been treated/developed under different schemes. However, these achievements do not get reflected in the data for Net Sown Area, which has almost remained stagnant at around 142 million ha for the last thirty years. This indicates that either the treated lands were already under cultivation or an equal area is getting degraded or diverted for non-agriculture purposes, or there was no sustainability of the efforts made. The possibility of bogus reporting also cannot be ruled out.

Watershed Development programmes are being implemented by several departments of Government of India, often with different and conflicting guidelines. Even when approach or guidelines are common, sanction of funds is done by different departments and each does separate monitoring. The need for ‘a Single National Initiative’ has been felt for some time, and was also articulated in the 1999-2000 budget speech of the Union Finance Minister, and in the President’s address for 2000-01.

Evaluation reports have shown that watershed projects cannot succeed without full participation of project beneficiaries and careful attention to issues of social organisation. This is because success depends on consensus among a large number of users. Moreover, collective capability is required for management of commons and for new structures created during the project. Then the costs and benefits of watershed interventions are location-specific and unevenly distributed among the people affected. Unfortunately most projects have failed to generate sustainability because of the failure of government agencies to involve the people. Field staff has no incentive to make the effort to pursue participatory approaches. Pressure to spend substantial resources by a fixed deadline does not enable peoples’ capability to develop. Strict orientation to achieving physical targets discourages field staff from taking the time to promote peoples’ participation. There is continued insecurity about availability of funding at the grassroot level, as there is no guarantee that funds would be released in time by GOI or other funding agencies. There is also no arrangement for handing over of structures and maintenance of plantation after a project is completed.

It is important to look at forest lands, non-forest wastelands and crop lands in an integrated manner. This is often not done as treatment upstream to reduce soil movement does not benefit large farmers who are downstream. They see no advantage and are indifferent or opposed to this strategy. They would prefer to conserve and harvest water in the drainage line so that it can be used directly for irrigation or to replenish groundwater. However, 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 upper slopes can benefit; groundwater recharge begins at the earliest; 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 successful stories, especially in the states such as Madhya Pradesh and Andhra Pradesh where state initiatives have been taken. Characteristics of successful and sustainable projects such as Ralegaon Siddhi, revival of johad in Alwar, Sadguru Water and Development Foundations activities in Gujarat, Watershed Development in Jhabua and Sagar districts of Madhya Pradesh are: the emphasis on social issues, people's mobilisation, clear direction to Government machinery to accept principles of participatory management, explicit project monitoring and strong sense of ownership by the local community.

Public Distribution System and Food Security

Despite hefty increase in the annual food subsidy from Rs 2450 crores in 1990-91 to Rs 9200 crores in 1999-00, all is not well with the targeted Public Distribution System (TPDS) in India. There is 36 percent diversion of wheat, 31 percent diversion of rice and 23 percent diversion of sugar from the system at the national level. TPDS does not seem to be working in the poorest north and north-eastern states. The allocation of poorer states such as UP, Bihar and Assam was more than doubled, as a result of shifting to TPDS in 1997, yet due to poor off-take by the states and even poorer actual lifting by the BPL families, the scheme has not made any impact on the nutrition levels in these states.

There is lack of infrastructure and shortage of funds with government parastatals in most states except the few in west and south. Even when the quota for the poor was doubled to 20 kg per household per month in April, 2000, figures for the first four months show that only 54 percent of the subsidised foodgrain was picked up by the states, leaving 2.2 million tons unlifted. GOI should ensure that adequate infrastructural capacity is available at the district and block levels, otherwise wasting scarce resources through leakages helps only contractors and corrupt government staff, and does not in any way help the poor.

While the growth rate in availability of foodgrains per capita was 1.20 per cent per annum during the 1980s the growth rate has come down to minus 0.28 per cent per annum during the 1990s. Despite the fact that food consumption of the poor in India has gone down in the last ten years (and is 40 percent below as compared to per capita consumption of the top 10 percent), the level of foodgrains stock with the FCI has been increasing, signifying lack of purchasing power with the poor, and distorted food security policy. It is painful to note that with 40 million tonnes of foodgrains in the FCI godowns more than half of the children 1-5 years old in rural areas are under-nourished, with girl children suffering even more severe malnutrition.

The challenge is to reduce foodstocks to roughly half its present level and use it for reducing malnutrition, without adversely affecting the farmers. This would need the following legal and policy changes, which would enhance the role of private sector and make markets less distorted than these are at present.

- A Central Act to ban controls on movement between States.

- Phase out levy or monopoly purchase.
- Remove licensing controls and de-reserve food processing industry.
- Encourage rice export, and if necessary, import broken rice for the TPDS.
- Take out wheat, rice and sugar out of the Essential Commodities Act.
- Completely decontrol sugar and take it out from PDS.
- Lift the ban on Futures Trading of agricultural commodities.

Poverty-alleviation programmes

There are serious problems in both formulation and implementation with most poverty-alleviation programmes, except the scheme for old age pensions. For instance, evaluation of the scheme for promoting self employment, Integrated Rural Development Programme (IRDP) points: 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; poor targeting and selection of non-poor; absence of linkage between different components of the IRDP; rising indebtedness; and scale of IRDP outstripped 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. Besides, the programme for upgrading skills, TRYSEM, was not dovetailed with IRDP. One discovered non-existent training centres and non-payment of stipend in some cases. However, the programme for women, DWCRA did well in some states (AP, Kerala, Gujarat).

Evaluation of the programmes for wage employment points: inadequate employment and thin spread of resources; violation of material-labour (60:40) norms; fudging of muster rolls; schemes implemented universally through contractors who sometimes hired outside labourers at lower wages**.** Central norms of earmarking, 40 per cent of funds for watershed development and 20 per cent for minor irrigation, have not been followed. Today 60 out of Rs 100 in wage schemes is reserved for wages, but in reality only Rs 10 to 15 actually goes to the poor worker, the rest is illegal income for bureaucracy, contractors and politicians.

The programme for rural housing, although quite popular because of 100 percent subsidy of Rs 20,000 per beneficiary, has led to strengthening of dependence of 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. There would also be pressure from the local MLAs and MPs to ensure that their followers are given a house on priority at the earliest possible. Thus the scheme dis-empowers the poor collectively while providing them individually with a valuable asset. Instances of corruption to the tune of Rs 5000 to 8000 out of the approved amount of 20,000 also came to light.

During the 10th Plan it is suggested that:

- IRDP to become a micro-finance programme to be run by banks with no subsidy on the lines of Rashtriya Mahila Kosh.

- Funds to gram sabha only when the people contribute 25 percent.

- Employment programes to be replaced by food for work programme only in areas of extreme distress. Jobs to be created elsewhere through productive works and their maintenance, such as rural roads, watershed development, rejuvenation of tanks, afforestation & irrigation.
- Focus on strengthening the economy of the marginal and small farmers, forest gatherers, artisans, unskilled workers etc. The poor should not merely benefit from growth generated elsewhere, they should contribute to growth.
- Today there is huge budget for safety net programmes (7000 crores annually for poverty alleviation, 10,000 crores for food subsidy, 10,000 crores for kerosene subsidy), and very little for asset creation – only 1700 crores for irrigation, 400 crores for afforestation, and little for maintenance. *The priority needs to be reversed.*

PRIs - As regards panchayats, in spite of various drawbacks and lacunae in constitution of PRIs, and the fact that political leaders even at the PRI levels tend to imbibe the political culture of that state, there are many instances where village Sarpanches have done commendable work in improving the social and economic life of the common people. There is less optimism about the work done by PRIs at the block and district level, where the elected members behave more or less as contractors. Even for the village panchayats, the ordinary village people think that they have not benefited to the extent of funds provided by government. Corruption is singled out as the most important cause for the ineffective functioning of these institutions. Control which is exercised by the sarpanch and Block Level officials over the village panchayats and gram sabhas (which rarely meet) has not only buttressed corruption, but it has also led to pessimism that villagers at their own level cannot change and improve performance because of heavy dependence on elected functionaries and Block officials. The present system is, therefore, seen as to have actually reinforced dominance and unequal access to power, besides rendering the villagers helpless and alienated. Though providing a framework for decentralised rural development, trends so far suggest that the panchayati raj system has not been able to enhance participation and empowerment.

Fiscal crisis & Governance

As is well known, the fiscal situation of Centre & States has deteriorated continuously in 1990s, especially after 1997. The combined balance of current revenues of the centre and the states fell from minus 13,324 crore in 1996-97 to minus 92,969 crore Rupees in 1999-00. Tax Revenue as percent of GDP of Centre has fallen from 11.3 percent in 1989-90 to 8.8 percent in 1999-00. The non-plan expenditure seems to be getting out of control, with losses from State Electricity Boards being more than 20,000 crores a year. The share of Plan expenditure of the centre and the states in GDP has fallen from 13.4 percent in 1986-87 to 8.6 percent in 1998-99, making Plan outlay a residual item of government expenditure.

Fiscal crisis has several implications. First, declining capital investment leads to slow growth, which in turn renders increasing the revenue yield more difficult. Second, financially weak infrastructure sectors have placed a massive burden on the states; problem has been accentuated by the deepening culture of non-payment by customers of public utilities. And third, governance problems have accelerated fiscal crisis both directly and indirectly.

In almost all states people perceive bureaucracy as wooden, disinterested in public welfare, and corrupt. This perception of the collapse of ethical standards has a number of implications for fiscal discipline. States' reluctance to hit at the entrenched government servants, take action against the corrupt ones, or reduce their numbers or make changes in their service conditions to their disadvantage further confirms the belief of the people that state apparatus exists only for government servants. The problems of law & order in some states, the culture of harassment, long delays, administrative secrecy, and the seeming inability to check organised power theft (T & D losses are close to 40 percent) - all discourage formal sector, large scale, law-abiding tax paying units from investing in these states. But it is the growth of the latter upon which prospects for future productivity, growth and higher wage jobs will largely depend. These states will be neither 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 state's physical and social infrastructure, progress will be impossible without a significant redirection and improvement in the way these states run their administration so that the administrative apparatus performs for what it is paid.

Hence it is important that along with wiping out the revenue deficit simultaneous efforts are launched to improve governance and restore the confidence of the common man in the reform process. This will not only reduce government expenditure but will also make the common person accept lower subsidies. When he is convinced that the additional tax he pays is going to improve roads or increase the quality of power and water supply, and not merely be pocketed by the avaricious civil servant, he is more likely to respond to the national need for better fiscal health of public finances. A civil service renewal programme that improves public satisfaction therefore has to be an essential component of proper fiscal management. Some of the suggestions are:

- The average tenure of collectors, SPs, Project Officers, and other such category of officers should be at least two years, so that although government would be free to transfer an officer before two years without calling for his explanation, the average must be maintained above two years. This would mean that for every short tenure some one else must have a sufficiently long tenure to maintain the average. States where this average is less than two years should be given two years of time to bring it above two years.
- At least for higher ranks of the civil services e.g. Chief Secretaries, Secretaries of Government and DGPs, postings may be made contractual for a fixed period, and suitable systems may be evolved to ensure that they are rarely removed before the period of the contract without their consent or explanation.
- Property and tax returns of all senior officers should be put on a 'home page' of the government on the internet.
- Each state should be asked to pass the Corrupt Public Servants (Forfeiture of Property) Act, already drafted by the Law Commission. This will ensure that the illegally wealth of the corrupt is confiscated and is not enjoyed by them.
- No officer above the age of 60 should get government housing.
- Departments which have more dealings with the people, such as the Police and Revenue, 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' as they are totally governmental and rigid. The system should be made more open so that the civil service can gain from the expertise of outsiders in the mode of donor agency evaluations of projects.

- GOI 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 control on initial recruitment and most vacancies caused by retirement should remain unfilled and the posts abolished.

Summing up

To sum up, the characteristics of agricultural growth in the 1990s; the slowdown of growth in the poor states; indifferent performance of poverty alleviation programmes and TPDS, and weaknesses in governance and institutions, are all problems that may explain the lack of sufficient progress in reducing poverty in the 1990s.

The GOI Ministries spend roughly Rs 35,000 crore annually on Programmes that are meant to achieve Poverty Alleviation. These funds, if directly transferred to the poor, could buy for every poor household 3 kg of foodgrain every day from the market at the rate of 7.5 Rs per kg and thus could wipe off the entire poverty from this country. If poverty still continues, the obvious conclusion is that availability of funds can at best be a necessary but not sufficient condition to tackle poverty and backwardness. The determining factor is the capability of the government machinery to formulate viable schemes and the delivery system to optimally utilise funds. Unfortunately the record of government is poor on both counts.

Development is an outcome of efficient institutions rather than the other way around. Focus therefore must be shifted from maximising the quantity of development funding to maximising of development outcomes and effectiveness of public service delivery. This will help in improving the perception of investors and donor agencies about the investment climate in the States. It will also contribute to increasing the revenue collecting ability of States.

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 lift the 350 million poor, and increasingly concentrated in the poorer states, out of poverty. 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, mere increase in the social sector expenditure would only result in further leakages and swelling of the already bloated parasitic bureaucracy.

---

[1] Based on the mid-term review of the Ninth Plan. The full report would soon be available on the Commission’s website planningcommission.nic.in.