Promoting Growth, Ending Poverty

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India's Development Priorities:

Issues and Challenges along the Path to 2015

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1. Introduction

Over the last decade or so, India has gradually enhanced its global standing as a growing Asian power. Several political, economic and cultural factors have combined to project an image of rising stature that has captured the world's imagination. The image is not inaccurate; yet it is incomplete, for India is also home to one-quarter of the world's poor. Although economic growth has brought considerable benefits to the country in terms of poverty reduction, the achievements on this front have not been as rapid or as effective as expected.

Indeed the problems faced by India today are not just of low income or consumption levels. Non-income poverty affects a much larger section of the population, who do not have access to basic services of a good standard. There are concerns regarding the environmental impact of socioeconomic development. Social exclusion and uneven development have in many cases widened inequalities and mitigated the poverty-reducing impact of economic growth. On the whole, many have expressed serious doubt as to whether India will be able to achieve the Millennium Development Goals (MDGs) by 2015.

This paper aims to present an overview of the challenges and opportunities faced by India in its attempts at achieving poverty reduction. The issues are largely surrounding three key objectives – growth, equity and sustainability. It is evident that in order to effectively achieve poverty reduction (income and non-income), India must pay attention to the demands posed and challenges faced by these broad objectives. The manner in which international donor agencies such as the World Bank, the Asian Development Bank (ADB) and the UK's Department For International Development (DFID) can assist India in achieving its goals is also considered.

2. The Millennium Development Goals

Adopted in 2000 by the United Nations General Assembly, the Millennium Development Goals (MDGs) are a list of development objectives with specific targets. Member states have committed themselves to achieving these targets by 2015, relative to 1990 benchmarks. The objectives are to:

1. Eradicate extreme poverty and hunger

2. Achieve universal primary education

[1] This paper was prepared by Rohan Mukherjee from the Centre for Policy Studies in New Delhi. It draws on roundtable consultations convened by CPS in December 2005 and a broader review of current academic and policy debates in India.

3. Promote gender equality and empower women

4. Reduce child mortality

5. Improve maternal health

6. Combat HIV/AIDS, malaria and other diseases

7. Ensure environmental sustainability

8. Develop a global partnership for development.

India's progress towards achieving the MDGs has been slow and fragmented. Observers note that while the targets for income poverty and primary education enrolment look set to be met, there are serious reasons to believe that India might fall short of the rest, by a long way on some counts. The sheer size of the Indian population also means that despite decreases in the proportions of various disadvantaged categories, the absolute size of each category still remains staggering. Therefore, it is imperative that while the government's efforts must be focused on achieving the MDGs by 2015, its intentions must go beyond them. No future projections of power and wealth for the nation can be stable until the 350 million Indians living on less than $1 a day are given real and convertible opportunities to improve their prospects and enjoy the benefits of economic prosperity, democracy and social equality.

The rest of this paper is devoted to analysing the current scenario in India and assessing the needs and priorities of its development strategy, especially from the perspective of external assistance.

3. Development Priorities in India

These can be separated into three closely linked categories – growth, equity and sustainability. While growth is clearly the central objective for poverty reduction, equity and sustainability are important considerations that must temper growth to ensure that its benefits are distributed fairly and it does not take too heavy a toll on the environment and natural resources. Under these three broad objectives are grouped various topics relevant to poverty reduction and the path to 2015. Growth priorities include issues pertaining to structural change, infrastructure, human capital and the economic and institutional regime. The concerns of equity, crucial in the Indian context, reflect on lagging regions and excluded social groups. Sustainability focuses on the existing and impending resource scenario and the environmental impact of development. Each of these topics will be discussed in detail below, keeping in mind their bearing on poverty reduction.

3.1. Growth

Economic growth is essential for poverty reduction. A recent study (Besley et al. 2004) uses state-level empirical data for India from 1958 to 2000 to show that an increase in growth of 1 per cent is associated with a reduction in poverty of 0.65 per cent. It is therefore vital that government policies are designed to promote growth in all sectors. Since 1991, neo-liberal economic reforms have allowed India to sustain higher growth rates than ever before, going up to 8.2 per cent in 2003–4. As a result, India's *per capita* income has risen rapidly (see Figure 1) and it has made impressive strides in poverty reduction. The proportion of people living on less than $1 a day has declined from 54 per cent in 1981 to 35 per cent at time of writing.

However, a significant portion of the population still remains in poverty, whether we consider the threshold to be $1 a day or the national poverty line as estimated by the Government of India. The question now is to assess the growth scenario in India and determine ways in which first a growth rate of over 8 per cent can be sustained, and second how the benefits of economic growth can most effectively be used to tackle poverty.

Figure 1: Growth in *per capita* income

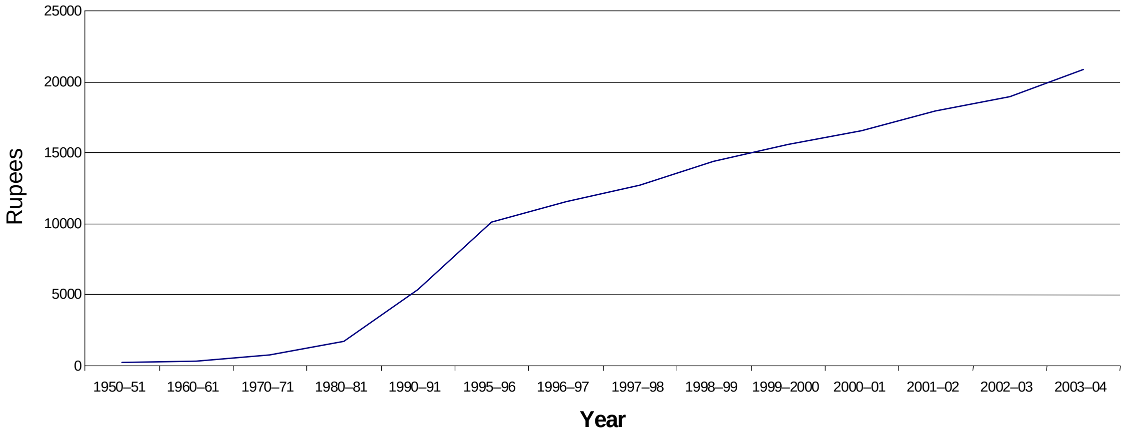
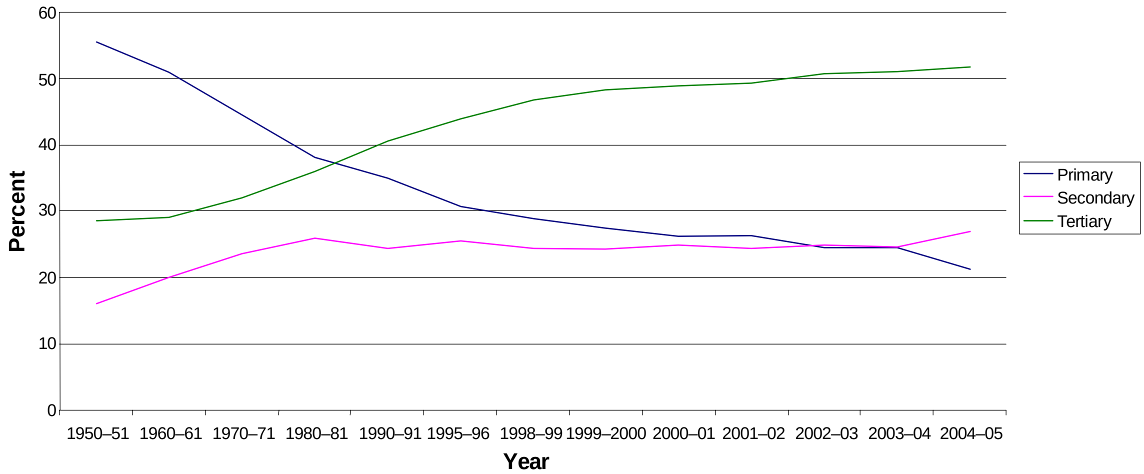


Figure 2: Sectoral shares in GDP over the years



Source: TATA Services, Statistical Outline of India, 2004–5.

3.1.1. Structural Change

A striking feature of Indian growth in the 1990s was the expansion of the service sector, which grew at an average annual rate of 9 per cent and accounted for nearly 60 per cent of the overall growth rate of the economy. In fact, in the 50 years since Independence, a role reversal between the primary and tertiary sectors of the Indian economy has been seen. In 1951, agriculture contributed 55.4 per cent of GDP and services 28.5 per cent. Today the figures are 21.2 per cent and 51.8 per cent, respectively (see Figure 2). While this has been beneficial for the growth of the economy and the growth of exports, especially in information technology (IT) and business process outsourcing (BPO), its impact on poverty is less certain.

This is primarily due to three reasons:

1. In the 1990s, the shift away from agriculture, a labour intensive sector, towards services, a capital intensive sector, led to an overall reduction in the number of jobs available in the economy. This led to the phenomenon of 'jobless growth', whereby the economy grew at 6–7 per cent despite the fact that corporations cut down manufacturing jobs and there was a net loss in the number of jobs over the years.

2. The share of agriculture in GDP has declined faster than its share of employment. Thus the value of agricultural output has fallen incommensurately with the number of people employed in the sector. This has contributed directly to rural poverty by keeping agricultural income and wages low, while the costs of production continue to rise due to external factors like declining soil quality, increased pesticide use, etc.

3. Those involved in agriculture face declining levels of productivity and rising costs, but do not have the exit option of moving into the service sector because they lack the minimum skills required. This has had negative consequences for the sector as a whole, with farmer suicides still being reported, even from rural districts that are considered prosperous.

Given that 56 per cent of the working population of India is involved in agriculture and of the 89.35 million farmer households in the country, 48.6 per cent have been reported to be indebted,[2] managing the ongoing structural change in the economy in order to mitigate its adverse impact on poverty reduction needs to be given adequate importance as a policy objective. The Planning Commission's *India Vision 2020* (2002b) document succinctly frames the problem: 'India has met the challenge of producing sufficient food to feed everyone, but it has yet to meet the challenge of generating sufficient employment opportunities to ensure that all its people have the purchasing power to obtain the food they require'. Declining efficiency in agriculture needs to be countered with greater investment in research, expansion and development of rural infrastructure, better access to markets for farmers, improved training and expansion of rural credit facilities.

While the structural shift towards services and manufacturing is seen by many as a *fait accompli* of development, it is important to manage this shift in a way that maximises poverty reduction. To this end, the informal sector and small and medium enterprises (SMEs) are both areas that hold tremendous potential if dealt with creatively. In the next 15 years, India can expect a significant expansion of its working-age population, accompanied by a decline in the total proportion of the

2 National Sample Survey, 59th Round, January–December 2003.

workforce engaged in agriculture. To accommodate these changes, India has to generate 200 million new employment opportunities over the next 15 years. A focus on the informal sector and SMEs has the potential to achieve this target and also to redress rural–urban imbalances to a great extent. Given the right set of advantages like skill development, technology, market access, quality control and access to credit and insurance, SMEs can develop in a way that would improve the health of rural economies, while also linking them to urban markets in an unprecedented manner.

Thus, given that structural change is leading to greater unemployment overall, it is important to take steps that will mitigate the impact of this phenomenon on the agricultural sector, and open up new avenues of job creation that the poor might benefit from.

3.1.2. Infrastructure

Infrastructure plays an important role in development and economic growth. Access to roads, electricity and water can greatly enhance the livelihood prospects of the poor, especially in rural areas, and also improve their standard of living. A recent World Bank (2004) study on India's progress towards the MDGs reveals that road access, electricity and sanitation are among the factors that have a positive impact on infant mortality, child malnutrition and primary enrolment, attendance and completion. Therefore, it is vital for human development that both the urban and rural infrastructure be expanded and improved simultaneously.

Roads

The infrastructure gap that exists in India today presents a significant obstacle to achieving poverty reduction effectively. For example, while the government has spent considerable amounts developing the national highway network, smaller roads in rural areas have been neglected. The National Highway Authority of India estimates that 40 per cent of all habitations are not connected by all-weather roads. This has significant implications for access to schools, hospitals, markets, etc. for rural populations. This is not to say, however, that the national highways ought not to be a priority. Although they constitute less than 2 per cent of the road network, they bear 40 per cent of total traffic; long-distance road transport contributes to 3.9 per cent of India's GDP. However, even in this sector, service quality is poor and transit times are double those of developed countries due to excessive waits at check-posts, slow speeds on most roads and a high accident rate.

The development of an efficient countrywide door-to-door transport system, facilitated by good quality roads, would contribute to economic growth in a big way. Such a system would allow current long-distance transporters to diversify from carrying low-value bulk goods to high-value goods and time-sensitive shipments meant for export. There would also be additional benefits in terms of domestic trade and labour mobility. On the whole, development of the road network, large and small, is important for economic growth.

Urban Infrastructure

The 49th round of the NSS (1993) estimated the total number of urban slums in India to be 56,311, with roughly 6 million households inhabiting them. The 58th round (2002) estimated the number of slums to be 52,000, with 8 million households, i.e. roughly 14 per cent of all urban households.

Thus, while the number of slums in urban areas has reduced, the number of people inhabiting them has increased rather disproportionately.[3] The increased pressure of population on the already scant civic amenities in urban slums has led to their further deterioration. Some 49 per cent of all slums were reported to be lacking in basic sanitation facilities in 2002. It has certainly not helped that the decentralisation of municipal governance in the 1990s has led to a reduced commitment to urban infrastructure in terms of budgetary allocations. However, recent initiatives of the government, especially the launch of the National Urban Renewal Mission (NURM) are evidence of a commitment to improving the quality of life in urban centres and making a concerted effort to reduce urban poverty.

Given the high density of population and resultant strain on infrastructure and services in urban centres, it is extremely important for municipal governments to raise adequate finances and carry out extensive urban development. The main priorities are roads, sanitation, availability of safe drinking water, and adequate facilities for the treatment of human and industrial waste.

Power and Water

While roads and sanitation suffer from underinvestment and poor coverage, the power and water sectors are victims of systemic inefficiencies and large-scale wastage of resources. Both face serious problems of cost recovery from users. Agriculture accounts for over 90 per cent of total water consumption and almost 30 per cent of power consumption. The subsidised and in some states free supply of water and power to this sector has resulted in over-exploitation and tremendous wastage in distribution and utilisation. The low level of cost recovery in the power sector has led State Electricity Boards (SEBs) to run into huge losses and mounting inefficiencies. A study of the ADB Institute reveals that the cost recovery ratio for electricity supplied to the agricultural sector is only 12 per cent. This has led to SEBs having a Return On Capital Employed (ROCE) rate of minus 44 per cent in 2002.

Table 1: Cost recovery in the power sector

Consumer category	Share in consumption (%)	Supply cost (Paise/KWh)	Tariff (Paise/KWh)	Cost recovery (%)
Agricultural	29	350	42	12
Residential	21	350	195	56
Industrial	29	350	380	109
Commercial	7	350	430	123
Average		350	240	68.6

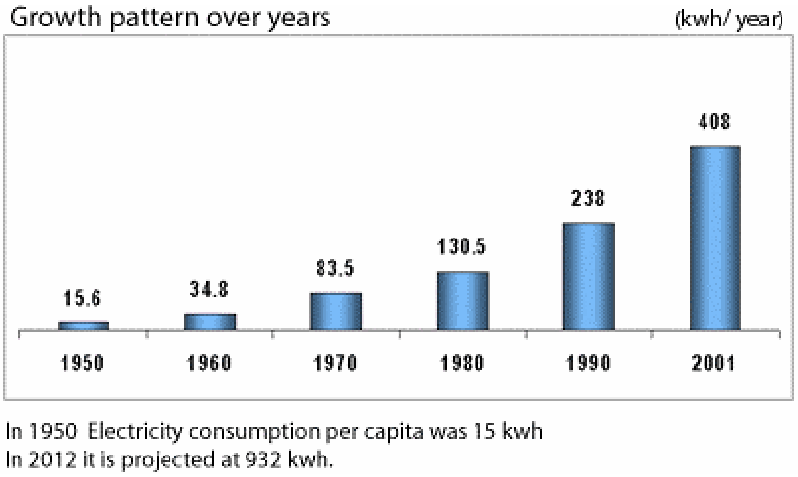
Source: Desai (2004).

The issues of over-exploitation and inefficiency are even starker when considered in light of India’s stock of energy and water resources. With 16 per cent of the world’s population, India only has 4 per cent of its water resources. While this is by no means a small amount, a lot of it is difficult to access and properly utilise. On the power side, domestic demand for commercial fuels (coal, oil and natural gas) is set to exceed indigenous supply in the next couple of years. The total energy shortage during 2005 was 7.4 per cent, and peak shortage of power was 9.1 per cent of peak demand. Transmission and distribution losses alone amounted to 21.4 per cent of the total

[3] The related issue of migration, not considered here, will be dealt with later.

electricity requirement. What further complicates matters is that India's annual *per capita* consumption of power is among the lowest in the world, which means that as economic growth levels of 8 per cent or above are sustained and income levels rise, energy demands will escalate and demand will rapidly and disproportionately outstrip supply. In addition, there are grave risks of the SEBs, which account for 90 per cent of installed capacity, becoming financially completely unsustainable.

Figure 3: Growth in *per capita* electricity consumption



Source: Ministry of Power, Government of India

Thus the overall priorities for infrastructure *vis-à-vis* economic growth and poverty reduction are to develop the road network, strengthen urban infrastructure, improve service quality in long-distance commercial transport, and make the power and water sectors more efficient, possibly by cutting down on subsidies and introducing user charges.

3.1.3. Human Capital

The key to economic growth for any nation, especially a developing one as populated as India, is a productive workforce. The importance of health and education in this regard cannot be underestimated. Unfortunately, public provision of both services suffers from shortage of funds, infrastructural constraints, poor quality of services and a lack of well-trained human resources. There is an urgent need for the government to rejuvenate public health and education in order to accelerate economic growth in a manner that will take India closer to achieving the MDGs.

Health

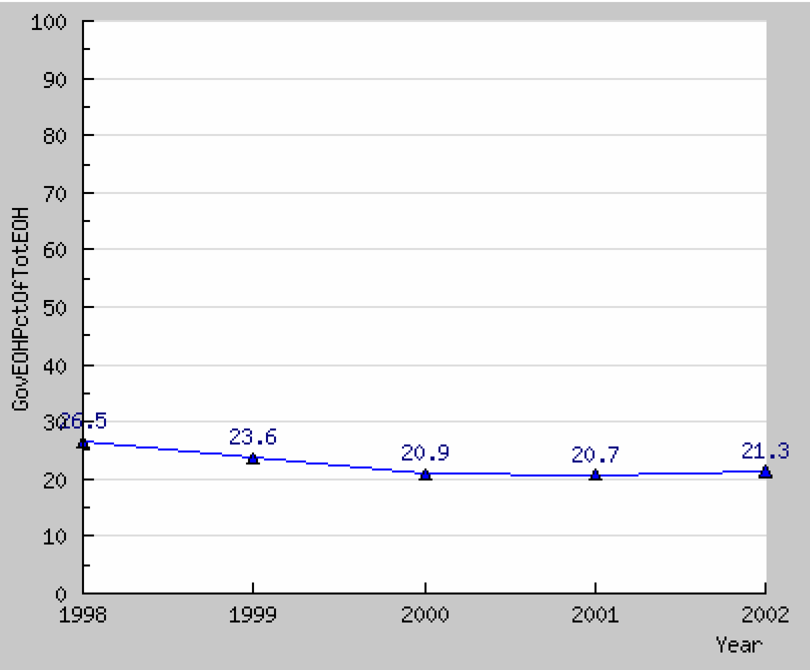
If we take a look at the health-related MDGs, India's Infant Mortality Rate (IMR) has declined considerably from 130–140 in the 1970s to 63 in 2003. However, in 2003, the mortality rate for children under five (U5MR) was higher, at 87, and maternal mortality, per 100,000 live births, was 540. Child malnutrition, at 47 per cent, is a significant hurdle in India. In fact, calorie deficiency is widespread, affecting 53 per cent of the population.[4] These figures point to the comprehensive

[4] Figures compiled from UNDP and ADB statistics on human development.

failure of the government's provision of health and nutritional support to the population, especially mothers and children.

Given the present scenario, India is unlikely to meet the health-related MDGs by 2015. However, it can get as close as possible by increasing public spending on health and family welfare, as well as promoting the education of women. In 2002, total expenditure on health was 6.1 per cent of GDP. Of this, only 21.3 per cent was borne by the government; the rest was private expenditure. Given that a significant portion of total expenditure on health is due to private spending by higher income groups, especially in urban centres, one can conclude that health services for the poor, especially in rural areas, are severely under-financed. This has a negative impact on labour productivity and income levels, as frontline health officials often charge fees for services that are in theory free of cost.

Figure 4: Government expenditure as percentage of total expenditure on health

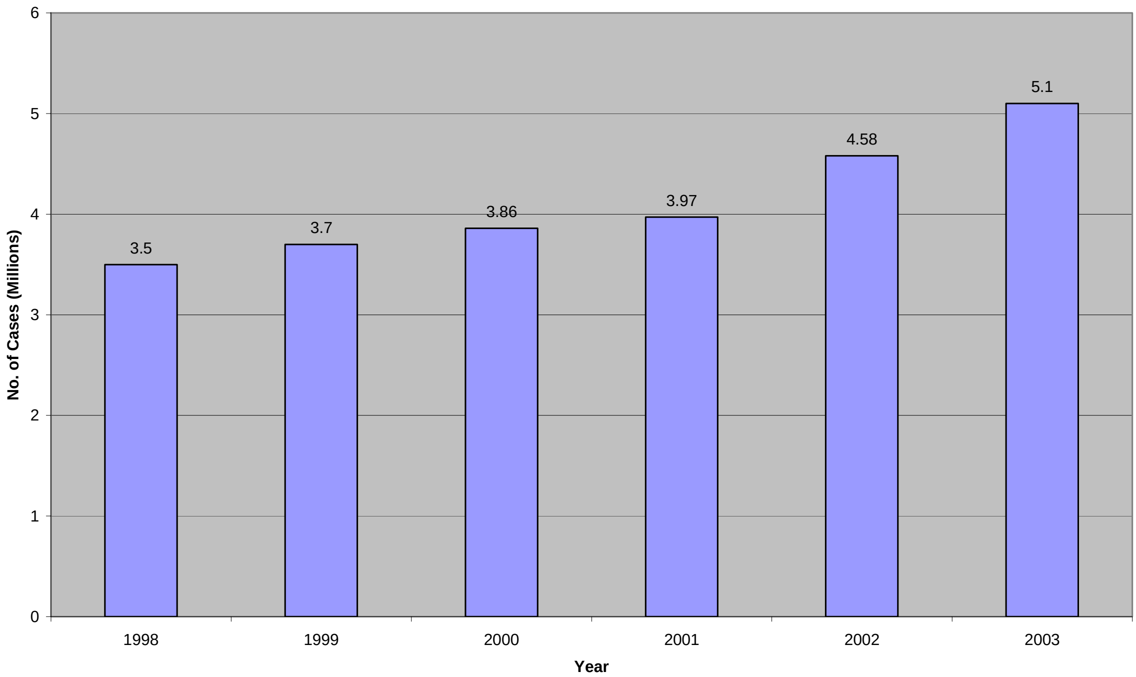


Source: World Health Organisation (WHO)

While finance is an issue, the inordinate focus of public health on medical services is also problematic. The proper role of public health services is to reduce a population's exposure to diseases by, for example, enforcing food safety and other health regulations, providing effective methods of sanitation and waste disposal, educating the public on health and hygiene issues, etc. However, in India, the focus has always been on curative measures rather than preventive ones. As a result, the prevention of outbreaks takes a backseat to the establishment that tackles them. Such an arrangement can have high economic costs, as in the example of the plague outbreak of 1994 in Surat, Gujarat. Poor sanitation led to a situation that cost the nation US$1.7 billion, according to the World Health Organisation. A better focus in public health will lead to a reduction in the incidence of major diseases like tuberculosis (1.5 million cases), malaria (2 million cases) and HIV/AIDS (over 5 million cases).

HIV/AIDS is of growing importance in India, which currently has the world's second largest number of people carrying the virus, up by 46 per cent since 1998. Although the prevalence of the disease among adults is less than 1 per cent, there is no doubt that India is at a crucial juncture. The actions of the government at this stage will be the deciding factor between future containment and widespread incidence of the disease. To this end, the government and its National AIDS Control Organisation (NACO) have taken many steps, including setting up support groups and networks, providing HIV counselling and testing services, working on an HIV vaccine, and providing free antiretroviral therapy in high-risk states. A number of national and international Non-Government Organisations (NGOs) and donor agencies/governments are also working to contain the disease in India.

Figure 5: Estimated prevalence of HIV/AIDS in India (1998–2003)



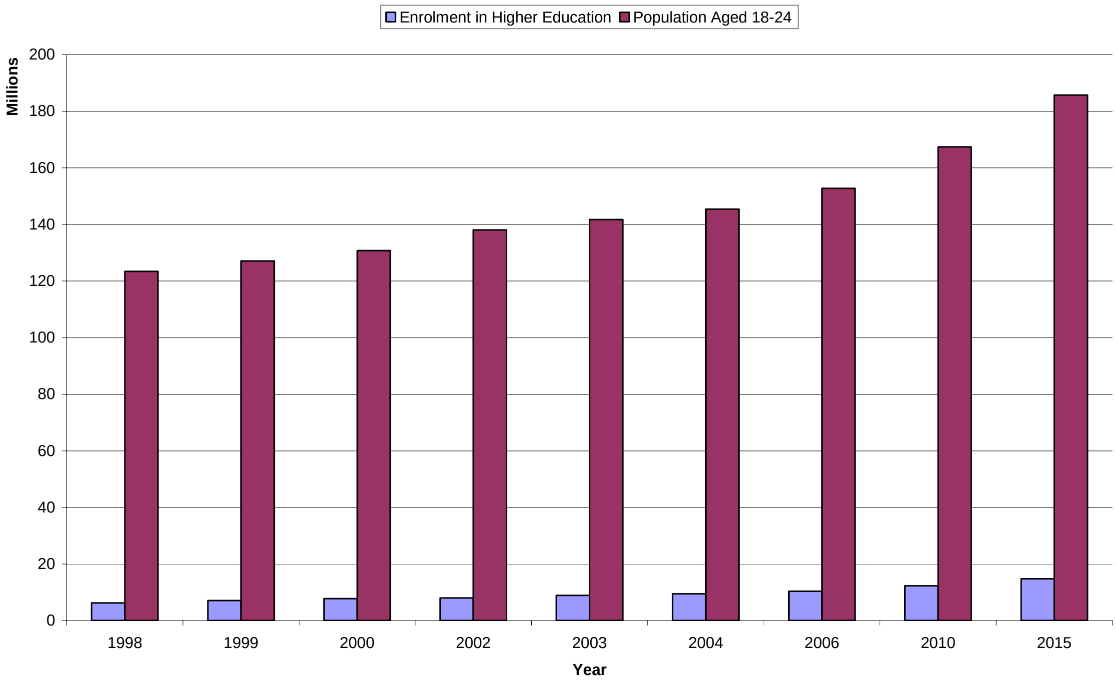
Source: National AIDS Control Organisation (NACO).

However, the geographically fragmented prevalence of the disease, dispersion and mobility of high-risk groups (e.g. truck drivers, sex workers and migrant labour) and social attitudes and beliefs that adversely impact the uptake of effective contraceptive methods, reporting of cases and social care of patients, are all significant hurdles that need to be overcome. The over-arching constraint is one of finances. The government's budget for tackling the disease falls far short of the required amount. Thus, while an increased financial commitment is imperative, strategies that focus more on preventive education, public awareness and partnering with civil society organisations are likely to produce more effective results and help India to contain the spread of HIV/AIDS.

Education

Literacy and education, the most effective tools for developing human capital, are crucial for India given the demographic structure of its population, 54 per cent of which was below the age of 25 in 2001. By 2015, this proportion is not expected to drop below 45 per cent.[5] Therefore in coming years, the supply of education, especially higher education, is likely to be significantly outstripped by demand.

Figure 6: Future 'Business as Usual' enrolment scenario in higher education



Data Source: Annual Reports of MHRD; Registrar General of India, Population Projections 1996–2016.

According to the administrative records of schools, enrolment ratios in primary education are high (over 85 per cent). However, data from the 55th round of the NSS indicate a gross primary enrolment rate of 61 per cent and a net rate of only 52.5 per cent in 1999–2000. The same set of data also shows that the primary completion rate for the country was 61.4 per cent that year. In fact, 53 per cent of children drop out of school before finishing Grade VIII.[6] The quality of education is another major source of anxiety for the nation. In terms of infrastructure, thousands of school are lacking in basic facilities like classrooms, blackboards, teachers, toilets, electricity and drinking water facilities, etc. In terms of teaching, lack of qualified teachers, high rates of teacher absenteeism and negligence, discriminatory practices, illegal fee-charging and corporal punishment are common features of the system.

Poor quality has negative impacts on student achievement levels. A Terminal Assessment Survey conducted in a total of 132 DPEP (District Primary Education Programme) Phase-I and Phase-II

5 Registrar General of India, *Population Projections 1996–2016*.

6 Primary education lasts from Grades I–IV, Upper Primary from Grades IV–VIII; Secondary from Grades IX–XII; Elementary education covers Grades I–VIII.

districts in 2001 and 2003 revealed that in Language and Mathematics tests given to Grade III–IV students, the percentage of districts in which the average marks exceeded 60 out of 100 were only 43.2 per cent and 28.8 per cent, respectively. The problem is compounded by lenient evaluation and promotion policies that allow poor performance among students to go unchecked. The result is a high dropout rate and low levels of achievement even at the secondary and higher education levels, ultimately leading to poor employability and hence underutilisation of productive potential among lower and middle income groups, who typically cannot afford good-quality schooling.

In 2005, the government proposed a Right to Education Bill that, if enacted, will make education a fundamental right for all children aged 6–14. While this is not entirely satisfactory as it does not adopt the definition of child as found in the UN Convention on the Rights of the Child, which states that a child is a person under the age of 18, it is a step in the right direction. The question is, however, whether the government will be able to financially sustain such a law. In recent years, India's total expenditure on education has hovered around 4 per cent of GDP. The National Institute of Educational Planning and Administration (NIEPA) calculates that in order to fully implement the Bill, the government would have to spend an additional 1.51 per cent of GDP annually on elementary education alone. Given past trends and experience, it is unlikely that the Bill, if enacted, will be implemented to its full potential.

Table 2: Public expenditure in education (as a percentage of GDP)

	1981–2	1985–6	1990–1	1995–6	1999–2000	2001–2
Total	2.49	3.00	3.59	3.60	4.22	4.18
Elementary	1.09	1.39	1.58	1.44	1.58	1.66
Secondary	0.81	0.92	1.10	0.98	0.94	0.98
Higher	0.38	0.42	0.36	0.37	0.47	0.43

Source: Jha P., Withering Commitments and Weakening Progress, EPW, Aug 2005.

Overall, the health and education sectors are victims of neglect and maladministration. Greater financial commitment is definitely a priority, as are quality and spread of service. Both sectors have a significant share of private players at all levels. Creative strategies to encourage public–private partnerships might be an answer to some of the problems.

3.1.4. The Economic and Institutional Regime

The success of a modern market economy depends critically on the nature of its legal system, financial system, transport and telecommunication infrastructures, and the macroeconomic policies followed by the government with regard to private and foreign investment, trade, technology, etc. India has many strengths in this regard. The judicial system, while incredibly sluggish, is sophisticated and independent; capital markets are relatively efficient when compared with other developing countries; the national highway network is developing rapidly and the telecommunications sector, gradually deregulated over the course of the 1990s, has expanded both in spread and quality of service; international trade has grown steadily since the 1980s; and the overall investment climate has been improving over the years.

Table 3: Telephone subscriptions (millions)

	2001–2	2002–3	2003–4*	2004–5*
Direct exchange lines	38	41	43	45
Cellular GSM services	6	13	25	35
WLL/CDMA	0	2	8	14

Source: TATA Services, Statistical Outline of India, 2004–05. *Estimated.

Table 4: Tele-density in 2001

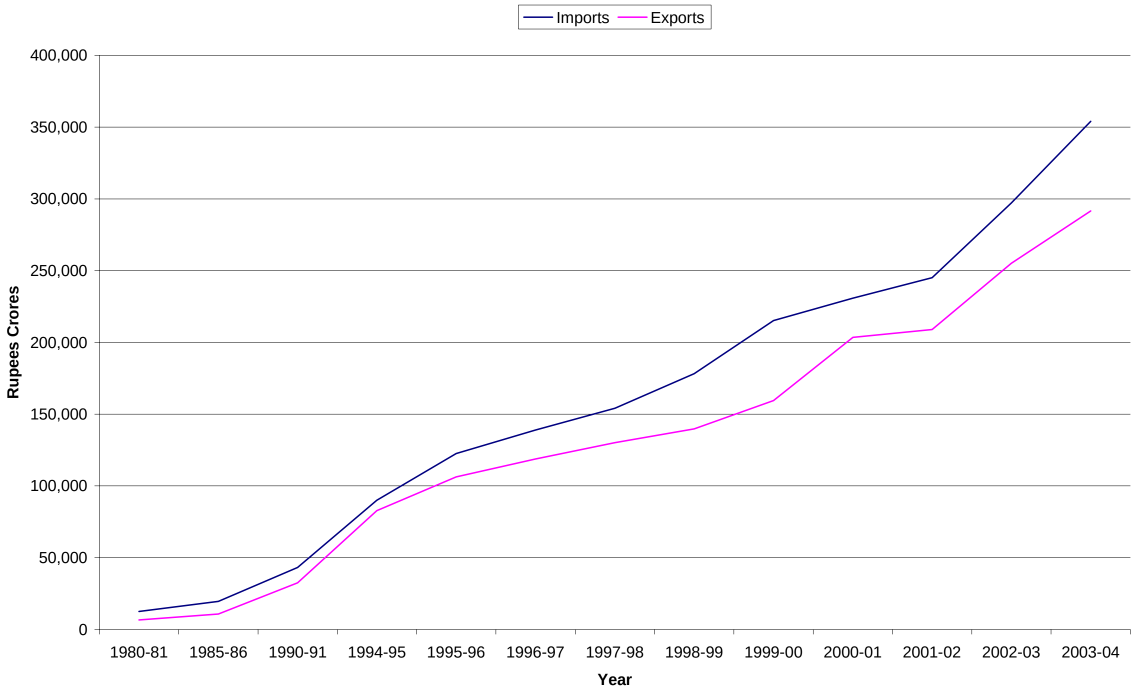
Country	No. of main telephone lines per 100 inhabitants
USA	66.45
Germany	63.48
Japan	59.69
UK	57.78
France	57.35
Korea, Rep.	47.60
Russia	24.33
Turkey	28.52
Brazil	21.69
China	13.81
India	3.38

Source: Planning Commission (2002a).

However, although the process of reforms started in the 1990s has gradually given a boost to growth, there is a lot more that can be done to achieve and sustain even higher levels of growth. Government licensing and rent-seeking, excessive regulations in product markets, high barriers to entry and exit of firms, stringent labour laws that restrict the hiring and firing of workers, slow resolution of industrial disputes and lack of adequate protection of intellectual property rights are some of the problems that discourage private investment. Information asymmetries and out-dated regulations allow unproductive private firms and public sector enterprises to continue functioning, resulting in an inefficient allocation of resources in the economy. While exports have grown steadily, India's balance of trade has always been negative and increasing over time (see Figure 7). Despite the expansion of capacity, India's tele-density remains low (see Table 4), with rural areas accounting for only 23 per cent of fixed phone lines. All these factors add up to a need for bolstering growth through greater institutional and regulatory reform. The main objective of this would be to strengthen and sustain private sector involvement in growth and development. The private sector currently contributes 75 per cent of GDP, therefore sustaining high levels of future growth will only be possible through greater encouragement for private firms to do business in India.

The private sector can also be very effectively involved in poverty reduction. By recognising the economic potential of the market at the 'bottom of the pyramid', private firms can enter previously uncharted consumer territories that promise considerable benefits in terms of growth, profits and social change. The purchasing power of the poor in developing countries is not negligible, primarily because it is driven by volume and not income levels. Concurrently, firms operating in this domain cannot aim for high margins; instead, profits are also driven by volume and capital efficiency. By modifying their business models and channels for marketing and distribution appropriately to take this difference into account, private firms can earn large revenues from the poor, while simultaneously giving them a chance to rise out of poverty through employment opportunities, extension of credit facilities (a way of creating buying power), encouraging local innovations in product development and access to quality products. Therefore, while there are changes that can be made in the investment climate to boost growth via private sector involvement, there are also ways of involving the private sector that have a more direct impact on poverty. Both are equally important strategies.

Figure 7: India's growing balance of trade



Data Source: TATA Services, Statistical Outline of India, 2004–5.

At this juncture, it is vital to note that the economic and institutional regime is important for economic growth not just in terms of institutional arrangements, but also in the way in which public institutions function. Issues of governance are therefore fundamental to the effective performance of public duties by the government and its institutions. A World Bank global survey (Kaufmann 2005) of 209 countries measures governance along six lines – voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption. India does not rank highly on any of these indicators, especially in political stability and regulatory quality. On corruption, Transparency International's *Corruption Perceptions Index* in 2004 gave India a score of 2.8 on 10 (0 being highly corrupt and 10 highly clean) and 90th place, out of 146 countries. The evidence, therefore, shows that governance in India has a long way to go.

Good governance embodies transparency, accountability and efficiency. While almost all public institutions are lacking on all three counts, there also exists a deep-rooted fear of the state and its functionaries among the citizenry. The inaccessibility and corruption of the bureaucracy at all levels ensures that many of the country's poor are unsuccessful in trying to exercise their voice in service delivery or policy matters. This has an adverse impact on non-income poverty. Moreover, governance in the broader sense is vital for economic development. Corruption and over-regulation impose heavy costs on firms doing business in India. Therefore, improving governance would improve the investment climate while making government policy more sensitive to the needs of the poor. Both are highly desirable outcomes from the perspective of growth and poverty reduction.

3.2. Equity

Economic growth without equitable socioeconomic structures is counter-productive to the cause of poverty reduction. As the World Development Report 2006 points out, equity has a direct bearing on economic efficiency since it helps to correct imbalances in resource allocation arising out of market failures that are common in developing countries with high levels of inequality. Moreover, when inequality is high, society as a whole is likely to be more inefficient by missing out on the unexplored and unexploited talents of middle and lower income groups.

Economic and social inequalities are widespread in India. There exist large disparities in poverty levels, mortality rates, educational attainments and access to resources between regions, social groups and the sexes. A strategy for growth and poverty reduction that does not focus on bringing those that have fallen behind up to the same level as the rest commits the crime of perpetuating systemic inefficiencies and doing more harm than good to the nation and its economy in the long run.

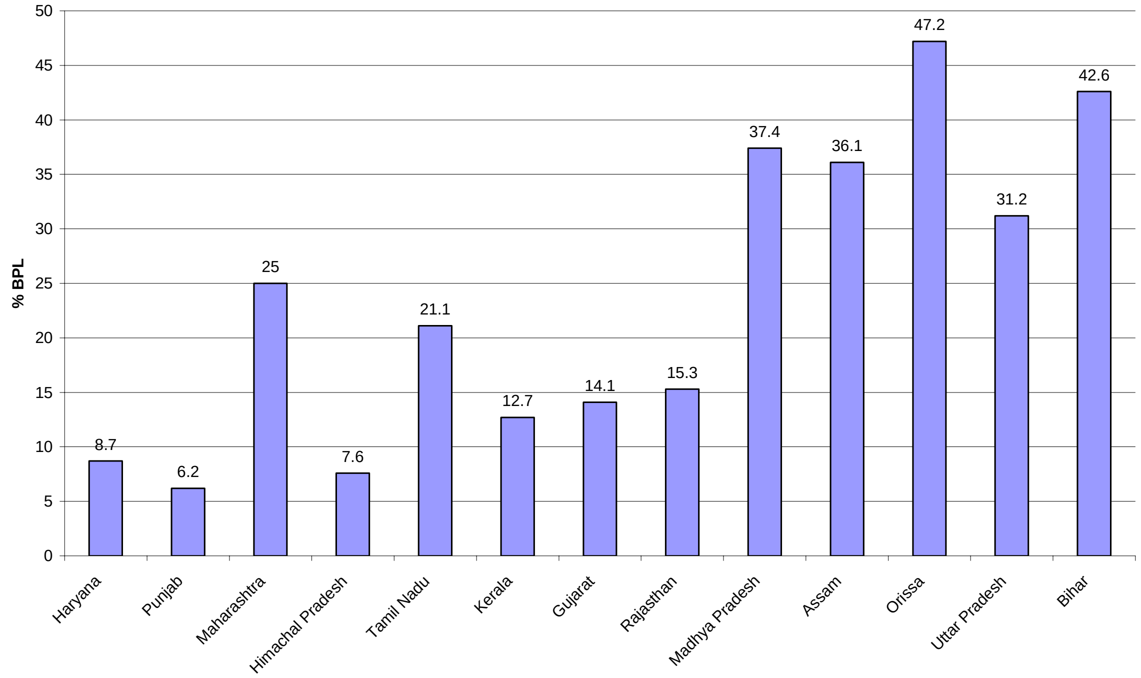
3.2.1. Regional Inequality

A few facts can serve to highlight the extent of regional inequality in India today:

- Some 54 per cent of India's poor live in the states of Uttar Pradesh, Bihar, Orissa and Madhya Pradesh. The combined *per capita* income of these four states is less than the individual *per capita* incomes of the states of Goa and Delhi.
- In the period from 1980 to 1999, the states of Maharashtra, Gujarat and Karnataka experienced real *per capita* growth rates that were four times as high as that of Bihar and twice as high as those of Orissa and Uttar Pradesh.
- The infant mortality rate of Kerala is 14; that of Orissa is 96. Child malnutrition stands at 24–28 per cent in the north-eastern states and Kerala; it is 51–55 per cent in Bihar, Rajasthan, Uttar Pradesh, Madhya Pradesh and Orissa.
- In Bihar, only 53 per cent of children aged 6–11 attend school. In nine other states, this figure is more than 90 per cent.

As is evident, certain states like Bihar, Uttar Pradesh, Orissa, Rajasthan and Madhya Pradesh consistently fall behind others by wide margins on most indicators. Since India is a federal polity, regional differences in growth and prosperity are to be expected. Yet the scale and persistence of these differences have had and will continue to have harmful effects on economic stability and social cohesion unless concerted efforts are made to improve the situation of the lagging states.

Figure 8: Percentage of population below the official poverty line (1999–2000)



Source: TATA Services, Statistical Outline of India, 2004–5.

The most noticeable outcome of regional inequality is migration. While migration in itself is not harmful and indicates a healthy economy with labour mobility, it can have pernicious effects on local economies in the long run. For example, in the ten years from 1991 to 2001, the populations of Uttar Pradesh and Bihar lost a net total of 2.6 million and 1.7 million persons, respectively due to migration alone. The largest receivers of migration, as expected, are the prosperous states: Maharashtra, Delhi, Gujarat and Haryana.

Such large-scale migration from poorer areas to more prosperous ones causes two phenomena. First, poorer areas tend to be caught in a vicious circle whereby inhabitants uproot themselves and leave due to scant economic prospects, which leads to a decline in the domestic product of the region and prompts more migration in the long run. This in turn weakens the local economy further.[7] Second, the influx of migrants into prosperous states and particularly urban centres results in excess labour supply, which pushes wages down and results in cultural friction and political backlash, among other things. The retaliatory politics of the Shiv Sena in Mumbai are an example of local opposition to the large-scale in-migration of labour from other states.

7 Migration also has positive effects on local economies in terms of remittances. However, remittances from domestic migration are typically insufficient for accelerating development and the majority share of remittances from international migration are typically commanded by better-performing states with greater potential for producing high-value labour. Poorer states earn a significantly smaller share of the remittance pie, which constituted 2 per cent of GDP in 2001. In this manner, migration is both a cause and an effect of widening regional inequalities.

Table 5: Migration as a component of population growth in major cities (1991–2001)

City/urban agglomeration	1991 Population	2001 Population	Decennial growth (%)	Decennial in-migrants	Migration as component of growth (%)
Greater Mumbai	12,596,243	16,368,084	29.9	2,489,552	66.0
Kolkata	11,021,918	13,216,546	19.9	822,389	37.5
Delhi	8,419,084	12,791,458	51.9	2,112,363	48.3
Chennai	5,421,985	6,424,624	18.5	435,620	43.4
Bangalore	4,130,288	5,686,844	37.7	761,485	48.9
Hyderabad	4,344,437	5,533,640	27.4	498,483	41.9
Ahmadabad	3,312,216	4,519,278	36.4	428,910	35.5
Pune	2,493,987	3,755,525	50.6	744,194	59.0
Surat	1,518,950	2,811,466	85.1	869,860	67.3
Kanpur	2,029,889	2,690,486	32.5	138,708	21.0

Source: Census of India, 2001.

The problem of migration is further complicated by the rising phenomenon of urbanisation. Currently 28 per cent of India's population lives in urban areas. This figure is expected to rise to 40 per cent by 2020. The lure of higher incomes in cities and urban lifestyles draws scores of poor workers out from rural areas, especially from poorer regions. However, the resultant glut of labour supply and drop in wages ensures that while their incomes might be marginally higher than what they were in the villages, they continue to remain poor by any standard. It is a telling sign that migration has contributed to 46 per cent of decennial population growth (1991–2001) in the 35 most populated cities of India, with the biggest contributors being Uttar Pradesh and Bihar.

Table 6: Growth of urbanisation

	1951	1961	1981	1991	2001
No. of urban agglomerations/towns	2,843	2,365	3,378	3,768	5,545
Urban population (millions)	62.4	78.9	159.5	217.6	286.1
Urban population as a percentage of the total population	17.3	18.0	23.3	25.7	27.8

Source: TATA Services, Statistical Outline of India, 2004–05.

Ultimately, a policy of encouraging urbanisation without focusing on rural infrastructure and economies will result in imbalanced growth, increased inequalities and the over-population of cities. Two-thirds of the country's poor continue to live in rural areas; measures are required to keep them there and bring them out of poverty by building up local economies. To this end, the National Rural Employment Guarantee Act, enacted recently by the Indian Parliament, is a significant step. It guarantees 100 days of employment to every rural household in a year. Not only will this provide guaranteed employment to agricultural households during lean periods, it also has the potential, in conjunction with other policies, to significantly redress rural–urban imbalances by pumping money into rural economies and discouraging migration to a great extent.

3.2.2. Social Inequality

Far from being on the wane, social prejudices in India are very much alive and continue to be perpetuated through social customs, religious rituals, the political system and even the education system. The caste system and the practice of untouchability pervade socioeconomic relations, in rural as well as urban areas, and among the educated as well as the less educated. This has the principal effect of excluding certain sections of society from the benefits of economic growth. In fact, the poor and the socially excluded are largely overlapping categories in India. More than 40 per cent of those who are poor belong to the category of Scheduled Castes (SC) and Scheduled Tribes (ST).

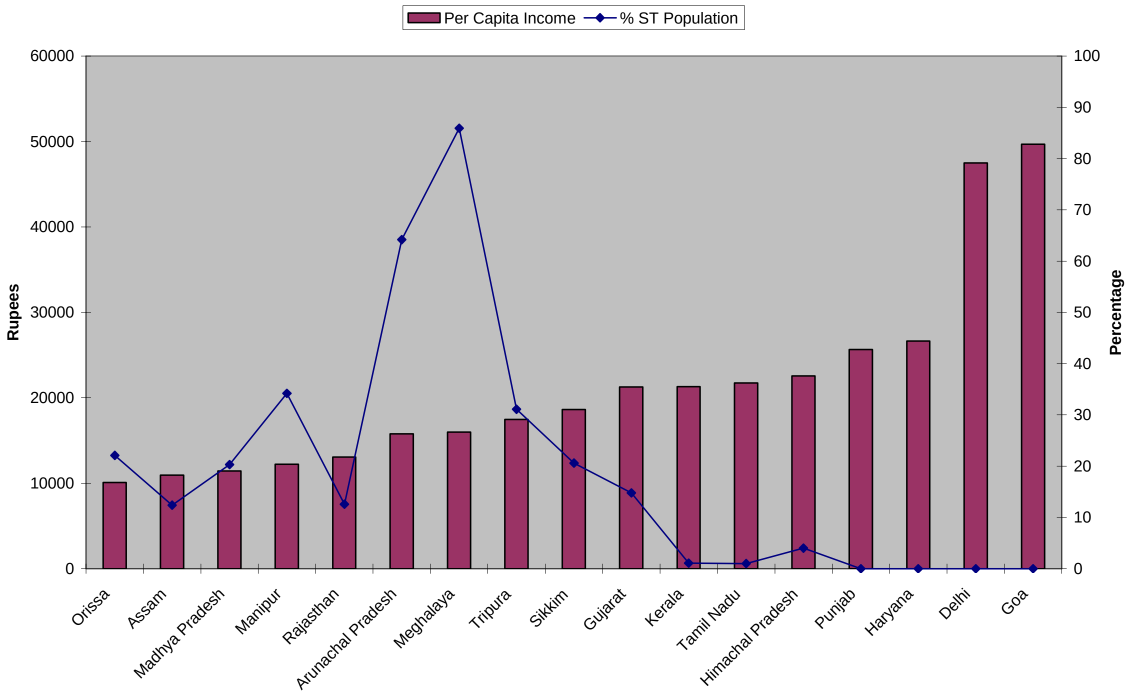
In the case of Scheduled Tribes, social inequality also manifests itself in regional inequality. Most tribal populations live in remote areas normally outside the reach of public services. These regions are normally backward and lacking in basic infrastructure. Figure 8 shows *per capita* income for certain states, compared with the proportions of ST populations in them. One finds that the proportion of ST populations drops towards the higher end of the PCI scale, suggesting that states with higher ST populations are likely to be poorer.[8] The government's attempts at decentralising the task of development in rural areas via the 73rd Constitutional Amendment (1992) and its special provisions for Scheduled Areas (1996) have so far had limited success in these states.

Indeed decentralisation has on the whole been unsuccessful in tackling the problems of regional and social inequality. This is primarily because of a distinct lack of enthusiasm for effective decentralisation on the part of state-level legislators and bureaucrats, who have vested political and other interests in maintaining the status quo and preventing the downward flow of power within the system. As a result, local Panchayati Raj Institutions (PRIs) are often rendered impotent by the negative influences of local politicians, landlords, businessmen and government officials. Even in Scheduled Areas where the majority of seats, including that of chief executive, in local-government bodies are reserved for SC/STs, socioeconomic development has been negligible due to the interference of local élites and widespread malfeasance in the sanctioning of development resources, implementation of projects, distribution of wages, etc. The persistence of caste as the dominant source of social and political identity also causes existing hierarchies to be transferred directly onto the composition of PRIs, thus ensuring that these bodies remain incapable of addressing the needs of the socially disadvantaged.

SC and ST populations form almost one-quarter of India's population, yet they are subjected to the worst forms of discrimination and violence at the hands of upper castes. Such discrimination and exclusion from the social and economic mainstreams is not only a violation of human rights, it also creates inefficiencies in terms of resource allocation and unexplored talent that create barriers to higher rates of economic growth and poverty reduction. Policies are required to harness the talents of these groups and to focus on locally sensitive solutions to their problems. Most importantly, they must be given fair access to public services and markets, so that they too can benefit from the country's prosperity and lift themselves out of poverty.

8 Unfortunately, due to the small sample size, it is not possible to develop unbiased statistical tests to measure the correlation between PCI and ST populations at the aggregate (state) level. However, the hypothesis is *prima facie* plausible and deserves further study at a more granular level.

Figure 9: Mapping social and regional inequality in the case of Scheduled Tribe populations



Source: Census of India, 2001; TATA Services, Statistical Outline of India, 2004–5.

3.2.3. Gender Inequality

Gender inequality, like other forms of inequality, exists in most realms of socioeconomic activity, from employment to education. MDG 3 requires that countries work to promote gender equality and empower women. A stipulated measure of this is the female:male ratio in education. Currently the ratio in primary education is 83 per cent, secondary education 71 per cent and tertiary education 66 per cent. The figures confirm the fact that girls are more likely to drop out of education as they progress upwards through the system; this occurs primarily due to parental discrimination, which is especially acute in poor households where often economic considerations lead parents to give preference to sons over daughters in allocating resources for health, education, etc. India's poor record on gender equality has led the UNDP to rank it 108th among 174 countries on the Gender Development Index.

There is also a significant regional dimension to gender inequality. Based on indicators like the female literacy rate, sex ratio and female labour participation, one can discern a regional divide between the states of the North and West on the one hand, and those of the South and East on the other. The latter group score much higher on these indicators than the former. For example, the gross primary enrolment ratio for females in Bihar, Uttar Pradesh and Rajasthan is about one-third the ratio for males. On the other hand, there is parity or near-parity in enrolment ratios in Punjab, Haryana, Sikkim and Kerala.

The fact that the states most inimical to gender equality are also among the poorest states is not a coincidence. Female literacy and work participation have a significant impact on development.

Esteve-Volart (2004) uses state-level panel data from 1961 to 1991 to show that female literacy has a much more significant bearing on development than male literacy. In addition, states with higher female literacy in 1961 recorded higher growth rates over the period. Other empirical studies from around the world have all found evidence of strong associations between female adult schooling and almost all the MDG indicators. Thus gender inequality needs to be given priority as a strategy for poverty reduction.

3.3. Sustainability

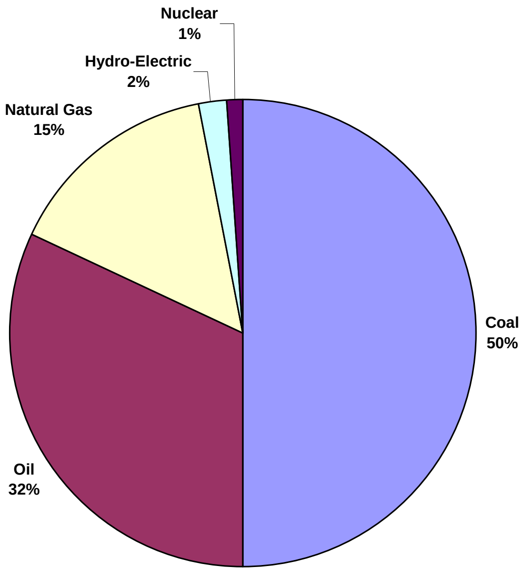
Social and economic development results in greater pressure on natural resources and a steady deterioration of the environment. Growing demand for energy, water and other resources gradually depletes a country's natural endowment, with potentially disastrous consequences, especially for the poor who lack the political influence or economic power to command resources. Urbanisation and migration into urban centres, both major facets of modern development, contribute to environmental degradation at unprecedented levels. These are all issues that must be effectively tackled in the long-term interest of the nation and its poor.

3.3.1. Depletion of Resources

India's growing population and economy have put greater pressure on the natural resources at its disposal. Energy is a major case in point, demand for which is expected to rise at 5 per cent per annum by the end of the Tenth Five-Year Plan. This has caused a steady depletion of commercial fuels – coal, oil and natural gas – which account for 70 per cent of the total energy supply. Already domestic demand for petroleum products and natural gas exceeds indigenous supply; the same is expected for coal by 2006–7. Despite this growth in the demand for commercial fuels, 60 per cent of rural households depend on traditional sources of energy like fuel wood, dung and crop residue. While this practice in itself has adverse implications for forest cover and biodiversity, it also implies that the bulk of demand for commercial fuels comes from urban areas and industrial regions. Developing Small and Medium Enterprises (SMEs) in rural areas or setting up industries in lagging regions would further heighten demand for energy from commercial fuels.

Given that fossil fuels are fast disappearing from the planet, it is encouraging to see that India is today the world's fifth largest producer of wind power. Private sector players are also being encouraged to invest in solar energy, hydro-energy, biomass and biofuels. Such renewable sources of energy and the technologies that harness them, if sufficiently developed, can facilitate higher economic growth, while conserving natural resources. Greater emphasis is therefore required on renewable technologies and education for energy efficiency. In recent times, the government has taken a number of steps to raise awareness for water conservation, but the scale of intervention has been minor and its impact uncertain. A more concerted effort is required to minimise wastage in the use of India's natural resources, while also turning to renewable sources of energy.

Figure 10: India's energy mix (2001–2)



Source: Planning Commission (2002a).

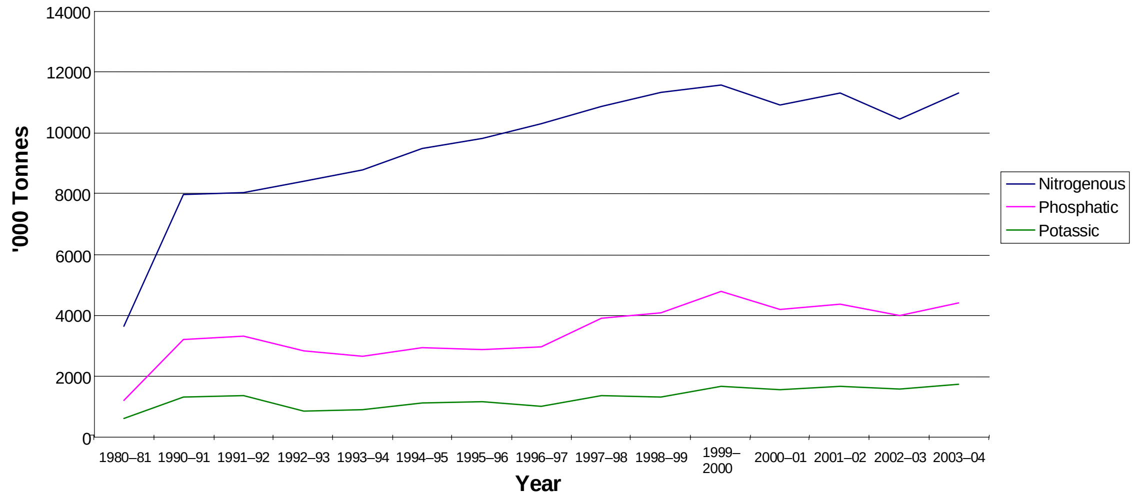
3.3.2. Environmental Impact

The processes of development, urbanisation and fossil fuel use have all had adverse effects on the quality of the natural environment in India. The results are potentially disastrous; the gradual degradation of forests, land, water and air has made it increasingly difficult for both urban and rural communities to lead healthy lives. Respiratory diseases are on the rise in major urban centres, water-borne diseases are rampant in rural areas, and the depletion of forests is affecting India's rich biodiversity.

In agriculture, declining soil productivity due to the excessive pressure of population has led farmers to expand their fertiliser budgets; this in turn has led to excessive chemical accumulation in the soil, which further reduces its productivity, affects the quality of output and poses health risks to the consumers of agricultural products. Chemicals in the soil also very easily find their way into groundwater and other sources used by communities. A similar story can be found with pesticides – traditional methods of pest control are now exceptions, with more and more farmers turning to chemicals.

In urban areas, the lack of adequate public transport has led to a rapid increase in the number of privately owned vehicles. In most cities, two-wheelers, which pollute far more than automobiles, comprise over 70 per cent of total motor vehicles. Overall, the rising number of vehicles in cities every year is contributing to increasing levels of air and noise pollution. Urban areas are also notorious for destroying the water bodies within them. Of the total waste-water generated in cities, not more than 30 per cent is treated before disposal. The remaining amount, untreated, enters local water systems, causing considerable pollution. The presence of harmful chemicals in urban water bodies, like fluoride, iron and arsenic, all point to reckless industrialisation without regard for environmental consequences.

Figure 11: Fertiliser consumption over time



Source: TATA Services, Statistical Outline of India, 2004–5.

India's environmental problems are a function of both policy failures as well as infrastructural inadequacies. If sufficient steps are not taken to reduce emissions, clean up water bodies, re-forest wastelands and adopt traditional methods of fertilisation and pest control in agriculture, the gains of economic growth might very easily be squandered on mounting health costs and the accompanying loss of human productivity, as well as the economic cost of lives lost to diseases caused by environmental pollution. The worst hit in every scenario of resource depletion and environmental degradation are always the poor, as they are least able to command resources that are greater in number or better in quality. Thus, measures are also required to ensure that these sections of society are not unduly punished for actions that they are not entirely responsible for.

4. The Role of International Donors

In 2003, Official Development Assistance (ODA) to India accounted for just 0.2 per cent of GDP, down from 0.4 per cent in 1990. Towards the end of 2003, the government decided to discontinue development cooperation with a number of bilateral donors, except six – the European Commission, Germany, Japan, Russia, UK and USA. These two facts not only serve as indicators of India's growing economic strength and global stature, they are also reminders of the fact that in India, the government is by far the largest sponsor of development and the most visible agent of social change and economic progress.

Against this backdrop, any efforts by external agencies or donors to bring about systemic change in order to accelerate poverty reduction are unlikely to be successful. It is therefore important for such agencies to accept the changing role of government in the Indian developmental effort, and to view themselves less as agents of development and more as facilitators. Thus instead of working independently of the government in many areas, they should work with the government to improve its methods of programme implementation, service delivery and decision making in order to make them more transparent, efficient and effective.

A concurrent strategy should involve a further shift of focus from issue-based to regional interventions, so that lagging regions and States might benefit more from development assistance. Already there exists a number of successful state-level projects sponsored by agencies like the DFID, World Bank and ADB that have been able to significantly reduce the ranks of the poor in those states. Such initiatives need to be expanded and multiplied, so that the poorer states are able to catch up with those that are better off.

As facilitators, international agencies can work to:

- Undertake extensive data collection on socioeconomic variables right down to the village level. This can be integrated with geographic information systems (GIS) to produce interactive data that can be accessed online.
- Develop information networks that can be easily tapped by government officials. Direct channels of communication can be created between Indian Administrative Service (IAS) officers in different districts, as well as between IAS officers and national and international experts in various fields like energy, environment, infrastructure, etc.
- Establish online portals on subjects of public importance like water, energy, health, education, energy, urban development, etc., both as information resources for government officials and knowledge centres for the general public.
- Devise training programmes for government officials in change management, programme implementation, data analysis and public action. Emphasis should especially be placed on using data (not opinions) to arrive at public policy decisions and engaging in consultations with other officials/experts to obtain a well-rounded perspective on every issue before making decisions.
- Disseminate, in a targeted and accessible manner, the development experiences of other countries and regions. Currently, this is done to an extent through the internet, yet available resources are not widely used by government or grassroots civil society organisations. Greater publicity and accessibility is required to increase usage.
- For all of the above, facilitate the translation of materials into all the official Indian languages. This will address issues of regional inequality at least in access to information and knowledge resources.

Thus, by effectively employing the finances, knowledge and technology at their disposal, international donor agencies have the potential to accelerate poverty reduction in India by facilitating the government's initiatives and vastly improving their efficacy. Governments in developing countries are reluctant to invest in knowledge systems that would make their own interventions more effective. For instance, there are only a couple of cities in India that have complete CADASTRAL surveys. It is impossible to imagine how governments will plan for India's urban future in the absence of such information. This is the sort of intervention where aid agencies can bring a distinct comparative advantage. A shift to knowledge creation and dissemination will be more productive in future, given the changing nature of the Indian government's ability to lead its own development. Indeed, there is no doubt that in the twenty-first century, knowledge will be the axis around which all aspects of development, growth, empowerment and adaptability to new challenges will revolve. The multiplier effect of knowledge is far greater than direct interventions, and donors might consider areas where such knowledge needs to be produced and disseminated.

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