Rural Poverty, Inequality and Social Exclusion in India

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Contents of the Paper

- Dimensions of rural poverty, inequality and social exclusion
- Processes involved people moving out of poverty and falling into poverty: Agriculture, food prices, employment, wages, rural non-farm etc.
- Measures needed for reduction in poverty, inequality and social exclusion
Trends in Poverty, Inequality and Social Exclusion

- Although there has been progress in decline still more than 300 million below poverty line.
- Two unambiguous conclusions:
  1. There is no evidence of higher rate of decline in poverty in the post-reform compared to pre-reform
  2. Inequality increased significantly in the post-reform compared to pre-reform
- Tendulkar Committee estimates: Rural poverty 42%.
- Arjun Sengupta’s Commission: 77% poor and vulnerable
Poverty, Inequality and Social Exclusion

- Multidimensional poverty: 75% either poor or at least a stunted child in rural areas. 54% in urban areas.
- Poverty is getting concentrated on few states and few social groups. STs have the highest incidence of poverty.
- Social exclusion in terms of caste (SCs, STs).
- Financial exclusion: Credit and other services.
- Education exclusion of rural population.
- Disparities: Rural-urban, regional, social, gender.
Processes Involved in rise and fall of poverty and inequality

- Agriculture is the most important source of employment and income generation.
- GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture.
- Structural Reforms and agriculture: Terms of Trade had impact on agricultural growth.
- Increasing agricultural growth is thus crucial for reduction in rural poverty and inequality.
- Therefore, first, we look at the problems in agriculture and needed measures for growth.
Agriculture

Concerns in Agriculture


-- Worse still growth of foodgrains output fell short of population growth over this period.

-- This led to rising rural distress and also farmers’ suicides.

-- Land and water problems, vulnerability to world commodity prices, 45% of farmers want to leave agri but no where to go.

---- Disparities in growth across regions and crops: growth rate declined more in rainfed areas.
Problems in Indian agriculture

- Long term factors: Steeper decline in per capita land availability. Shrinking of farm size
- Slow reduction in share of employment (still 55%)
- Main problem is low labour productivity in agriculture. Gap between agri. and non-agri. is widening.
- We should blame non-agriculture (industry and services) for not absorbing workers from agriculture.
Sources of growth in agriculture

Steering Group for 11th Plan has estimated sources of growth

Sources of growth: Five factors: (a) Public invest. (b) private invest. (c) Technology; (d) diversification (e) fertilizer

There has been slowdown in all these factors

Terms of trade also declined

Higher growth in the post-reform period only in the case of agricultural credit
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Some Dynamism in Recent Years

- 4% growth in agri. in the last three years. Record foodgrain production last year (231 m.t.). Exports in cotton, rice and sugar. It created rural demand. Useful in financial crisis.


- Some increase in high value agriculture

- Lagging regions showing relatively high growth.

- Comfortable buffer stocks
Three Goals of Agricultural Development

1. Achieve 4% growth in agriculture and raise incomes. Increasing productivity (land, labor), diversification to high value agri. and rural non-farm by maintaining food security.

2. Second goal is sharing growth (equity): focus on small and marginal farmers, lagging regions, women etc. Share of women is increasing in agri. On lagging regions, focus on Eastern India and other rainfed areas.

3. Third is to maintain sustainability of agri. by focusing on environmental concerns.
Improving Agriculture Growth

- Six deficits in supply of food and agriculture
  - (a) land and water management deficit
  - (b) investment, credit and Infrastructure deficit,
  - (c) research and extension (technology) deficit,
  - (d) market deficit,
  - (e) institutions deficit,
  - (f) education/skill deficit

- Need for massive increase in outlays for agriculture and rural infrastructure by simultaneously improving the delivery systems.

- Govt. is thinking of big push to education in 11th Plan. Such a big push is needed for agriculture sector
Employment: Issues

Four major issues on employment.
- First, rate of growth in employment. (quantity)
- Second, quality of employment.
- Third structure in terms of diversification to rural non-farm sector.
- Finally, the policies for taking advantage of demographic dividend.

Employment growth has not improved in the post-reform period (1993-94 to 2004-05) as compared to pre-reform period (1983 to 1993-94)

Quality of employment is a concern as there is a mis-match between growth and employment across sectors.
Issues in Employment and Wages

- There are large working poor because of low wages.
- Employment growth in organized sector declined in the post-reform period.
- There are 458 million workers in India in 2004-05.
- Out of this 423 million workers are informal/unorganised workers (92%).
- The growth of wages for casual workers in rural areas is almost same at 2.8% between pre and post-reform.
- Agricultural wages have increased due to NREGA.
Food Prices and Poverty

- Literature shows higher relative food prices have significant adverse impact on poverty.
- There has been faster reduction in poverty during the period 1999-00 to 2004-05 due to lower relative food prices.
- India has done well in insulating domestic prices from world prices during 2005-08.
- Recent food price increase is a concern from poverty point of view.
- Food price inflation was nearly 19% for few weeks
## Trends in Cereal Prices

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Movement in Indices of Commodity Prices India vs International: Cereals

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Movement in Indices of Commodity Prices India vs International: Wheat

The graph illustrates the comparison between India's Wholesale Price Index (WPI) and the International (IMF) Indices for wheat prices from 2005 to 2008, broken down by quarters. The data shows an overall upward trend, with a significant increase from 2005 to 2008, peaking in 2008 Qtr I at 269.9, followed by a gradual decline to 2008 Qtr III at 208.4. The India WPI line (red) starts at 100 in 2005 and rises steadily, while the International Indices line (green) starts at 100 and shows a more dramatic increase before declining.

Key points:
- 2005: WPI 100, IMF Indices 100
- 2006: WPI 113, IMF Indices 125.8
- 2007: WPI 120.7, IMF Indices 167.4
- 2008 Qtr I: WPI 124.6, IMF Indices 269.9
- 2008 Qtr II: WPI 125, IMF Indices 227.3
- 2008 Qtr III: WPI 128.8, IMF Indices 208.4
Movement in Indices of Commodity Prices India vs International: Rice

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Rural non-farm sector

- **Poverty can not be removed with 55% of workers in agri.** Need to promote rural non-farm sector.

India currently produces about 50 million tonnes of fruits and 90 million tonnes of vegetables. Only 2% of these fruits and vegetables are processed as against 23% in China, 78% in Phillippines, 83% in Malaysia.

- Half of those engaged in agriculture are still illiterate and **just 5% have** completed higher secondary educ.

- Even in 2004-05, around **60% of rural male workers and 85% of rural female workers are either illiterate** or have been educated upto primary level.

- In other words, **education and skills are constraints**

- India can learn from China on rural transformation.
Social Protection in India

- In order to take care of chronic poverty and risks, India has introduced many social protection programmes in recent years.
- India has relied more on social assistance in terms of promotional measures.
- Protection or Contingent type of social security measures are mostly available for the organized workers (8% of total workers). 92% have very limited coverage of contingent social security.
- India has social protection programmes at three levels:
  (a) Universal Capability enhancing programmes (*Sarva Siksha Abhiyan* and rural health mission)
Social Protection Programmes in India: Protection and Promotional

2. Targeted programmes for the poor and vulnerable: provide socio-economic security. Major programmes are:
- Food and Nutrition Programs (PDS, ICDS, Mid-day meals)
- Self Employed Programmes (SGSY, Self Help Groups)
- Wage Employed Programmes (NREGA)
- Protection for socially disadvantaged sections (SCs and STs) and other vulnerable groups
- Cash and kind transfers: Housing program (Indira Awas Yojana), National Old Age Pension (NOAP), widow/disabled pension,

3. Social protection for the Unorganized/informal workers: old age, accident and death
Self employment programmes

- Self Employment programs: Micro credit
- Earlier micro credit to individuals (IRDP)
- Now group approach mainly (Grameen Bank of Bangladesh)
- Several institutional innovations. Following RBI guidelines in 2000, several MFIs started intermediation including Non-banking financial institutions.
- Due to self help groups and MFIs, interest rates in the market have come down.
Two important models on SHGs

- One is Kerala model: *Kudumbasree* programme improved empowerment and reduced poverty.
- Andhra Pradesh: The government is implementing a statewide rural poverty eradication programme based on social mobilization and empowerment of rural poor women.

This programme is popularly known as ‘Indira Kranti Pathakam’

- Self Help Groups: It is relatively successful in Andhra Pradesh
- Social and economic empowerment of women improved.
National Rural Employment Guarantee Act (NREGA): Salient Features

- The NREGA was notified in September, 2005
- Objective: To enhance livelihood security in rural areas by providing at least 100 days of **guaranteed wage employment** in a financial year to every household
- Primary Objective: Employment Creation
- Auxiliary Objective: Regenerating natural resource base and creating productive assets
- Third is process objective: Strengthening grass root processes of democracy infusing transparency and accountability in governance
- First time a rights based approach for employment throughout India.
- **This is the largest ever public employment programme visualised in human history**
Conclusion on NREGS

- Most evaluations-official and non-official show that implementation has been more effective than any of its predecessor schemes.
- In particular, the leakages have been reduced significantly in many places
- Significant rise in agricultural wage shows its success.
- The success of course is by no means uniform
- Much needed relief during financial crisis even for the urban poor returning to rural areas
- 11th Five Year Plan indicates that NREGS is going to be one of the important programs for poverty reduction in India
- NREGS can transform livelihoods of the poor but also will also lead to revolution in rural governance.
Some other Issues

- Cash transfers: Latin American Experience is good. Whether they work in India.
- Skill Improvement: This is crucial for rural transformation in India
- Voices of the Poor: World Bank study In 300 villages with 30,000 women and men in India
  --Moving out of poverty: Rural non-farm sector, multiple sources of income, local democracy panchayats, access to assets including housing
  --Falling into poverty: Health shocks or death in family, panchayats captured by elite, corruption
- Impact of urban growth on rural poverty
What should be done for reduction in poverty, inequality and social exclusion

First, growth and equity policies should be followed simultaneously rather than ‘growth first and equity next’ approach.

Growth and equity are complements rather than trade-offs.

Economic growth is important. It improves tax/GDP ratio. You can spend on agriculture, social sector. Growth is necessary but not sufficient for inclusive.

Second, agriculture development should be given priority.

Third, macro pro-poor policies are more important than having only safety nets for poverty reduction.

Investment in infrastructure
Reduction in poverty and inequality

- **Fourth**, women’s social and economic empowerment is important.
- **Fifth**, economy should follow agriculture-industry-service sequence.
- **Sixth**, employment (both quantity and quality) should be the focus of inclusive approach.
- Skill improvement and youth employment need to be the focus areas. Otherwise you can not shift people from agriculture to non-farm sector.
- **Seventh**, equality of opportunity is important. Even if we do not follow equitable distribution of assets, everyone should get equal opportunity for better education and health. Social inequality has to be reduced.
Reduction in poverty and inequality

- Eighth, South East Asian and East Asian experience shows that globalization with better initial conditions led to equitable development. India should learn from China on rural non-farm employment.
- Ninth, development of technology is important for inclusive approach.
- Tenth, rights approach
- Eleventh, Inclusive governance
- Some people say that when things are not working, democracy is responsible for lack of governance.
- Instead of blaming democracy, there is a need to strengthen democracy by decentralizing and inclusive governance.
THANK YOU