Rural Poverty, Inequality and Social Exclusion: Dimensions, Processes and Policies

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1. Introduction

Poverty alleviation has been on the national policy agenda for more than 50 years. As early as 1938, the Indian National Congress constituted a National Planning Committee (NPC) headed by Jawaharlal Nehru, which had declared that the social objective should be "to ensure an adequate standard of living for the masses, in other words, to get rid of the appalling poverty of the people". The importance of reduction in poverty, provision of other basic needs and equitable development has been emphasised in all the five year plans since independence particularly since the 5th Five-Year Plan. The government has a two-pronged approach, viz, promoting economic growth and direct action towards poverty alleviation.

The latest estimates on poverty based on NSS data show that poverty in India in 2004-05 was around 37 per cent (GOI 2009a). In other words, more than 400 million people are still below poverty line in India. These numbers on poverty indicate that the social objective declared by the NPC headed by Jawaharlal Nehru in 1938 is largely unaccomplished even after 62 years of independence.

The concept of poverty is multi-dimensional (viz, income poverty and non-income poverty). It covers not only levels of income and consumption, but also health and education, vulnerability and risk; and marginalisation and exclusion of the poor from the mainstream of society. As shown by Dreze and Sen (1995), the performance of India in terms of non-income indicators (e.g. education and health) has not been satisfactory. This is not to deny that progress has certainly been made in reduction in both income and non-income poverty. The pace of reduction in poverty has been, however, slow as compared to many other countries, particularly those of South-East and East Asia.

In the post-reform period, India has done well in some indicators such as economic growth, exports, balance of payments, resilience to external shocks, service sector growth, significant accumulation of foreign exchange, Information technology (IT) and stock market, improvements in telecommunications etc. It was, however, realized that the ‘feel good factor’ was only in these indicators. However, exclusion continued in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. Thus, social exclusion is taking place in terms of regions, social and marginal groups, women, minorities and children. It may be noted, however, that economic reforms per se may not lead to insufficient inclusiveness. Initial endowments like infrastructure and social development are important.

1 The author is grateful to Abhijit Sen, Gerry Rodgers and Alakh Sharma for useful discussions
2 More on this see Dev (2008)
The immediate context for inclusive approach in India is the 2004 general elections. It was argued that the verdict in the elections was against the urban-biased economic development policies pursued earlier. The UPA government included inclusive policies in their common minimum programme. The approach paper for 11th Five Year Plan acknowledges that the economic growth has failed to be sufficiently inclusive. 11th Plan (2007-12) advocates for faster and more inclusive growth.

Therefore, apart from poverty, an analysis of inequalities and social exclusion is also important.

The objective of this paper is to examine trends in rural poverty and inequality and to discuss the processes involved in reduction in poverty. The issue of social exclusion is also discussed in the paper. We concentrate mostly on income poverty in this paper although we discuss non-income dimensions in some parts of the paper.

The paper is organized as follows. Section 2 examines trends in rural poverty and inequality and the issue of social exclusion. Section 3 discusses about the processes involved in rural transformation and the constraints for reduction in poverty. Sector 4 offers policy approaches needed for reduction in poverty, inequality and exclusion. Last section provides concluding observations.

2. Poverty, Inequality and Social exclusion

2.1. Trends in Poverty and Inequality

Poverty ratios are estimated in India using consumer expenditure data collected by the National Sample Survey Organisation (NSSO). Official numbers on poverty ratios are the estimates computed by the Planning Commission. The official estimates show that rural poverty declined from 56.4% in 1973 to 28.3% in 2004-05 (Table 1). The absolute number of poor in rural areas declined from 261 million to 221 million while the number of urban poor rose from 60 million to 80 million during the same period.

There have been few problems with official estimates. An Expert Group headed by S.D.Tendulkar was appointed by the Planning Commission to review the methodology on poverty. The Expert Group submitted its report in November 2009 (GOI 2009a). The expert group has moved away from anchoring the poverty lines to calorie intake norm and suggested a new methodology to arrive at state wise and all India rural and urban poverty lines 2004-05. The estimates based on new methodology show that rural poverty declined from 50.1% in 1993-94 to 41.8% in 2004-05. In other words, latest estimates show that rural poverty in the country was around 42%.

It may be noted that poverty is getting concentrated in few states and social groups. A group of four states comprising Bihar, M.P., Orissa and U.P. had a share of 49.8% in the rural poor of the country in 1983. This share increased to 55% in 1993-94 and further to 61% in 2004-05.

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3 On details about new methodology, see Himanshu (2010)
Table 1. Percentage of People Below Poverty Line in India (1973–2004) (Official)

<table>
<thead>
<tr>
<th>Year</th>
<th>Head Count Ratios (%)</th>
<th>Absolute No.of poor Below Poverty Line (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td>1973</td>
<td>56.4</td>
<td>49.0</td>
</tr>
<tr>
<td>1983</td>
<td>45.7</td>
<td>40.8</td>
</tr>
<tr>
<td>1993</td>
<td>37.3</td>
<td>32.3</td>
</tr>
<tr>
<td>2004</td>
<td>28.3</td>
<td>25.7</td>
</tr>
</tbody>
</table>

Source: Planning Commission, GOI, 2009

Table 2 Poverty Ratios Based on Tendulkar’s Expert Group Methodology

<table>
<thead>
<tr>
<th>Year</th>
<th>Head Count Ratios (%)</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>50.1</td>
<td>31.8</td>
<td>45.3</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>41.8</td>
<td>25.7</td>
<td>37.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: Planning Commission, GOI, 2009a

Multidimensional Poverty: Radhakrishna et al (2010) have attempted to measure multidimensional poverty in terms of income and nutrition by pooling two different sets of unit level data - NSS 61st Round consumer expenditure data and NFHS-3 unit level data. Three deprivations of a household have been considered: income poverty, child malnutrition and female chronic energy deficiency. This study indicates that income poverty estimates of Expert Group (2009), and child malnutrition and female chronic energy deficiency estimates of NFHS would help in approximate measurement of multidimensional poverty. Table 3 shows the percentage of households either poor or with at least a stunted child (union of income poverty and child malnutrition) is estimated to be 75.1 per cent in rural and 54.0 per cent in urban. These figures show incidence of multidimensional poverty is much higher than unidimensional poverty either in income or nutrition space. The percentage of households either poor or had a stunted child or women suffering from chronic energy deficiency is much higher at 83.3 percent in rural and 64.2 in urban. From the study it is clear that only about a one-third of the households are income poor in unidimensional space, while nearly three-fourth of the household suffered from poverty in the multidimensional space. In other words, over coming income poverty does not ensure freedom from other forms of deprivations.

Table 3: Multidimensional Poverty

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage of Poor Households</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Union between Poverty and Child Malnutrition</td>
</tr>
<tr>
<td>Rural</td>
<td>75.1</td>
</tr>
<tr>
<td>Urban</td>
<td>54.0</td>
</tr>
<tr>
<td>Combined</td>
<td>69.4</td>
</tr>
</tbody>
</table>

Note: Authors’ estimates from unit level data of the 61st Round (200-05) NSS Consumer expenditure and NFHS-3 (2005-06).
Note: Union represents all households either poor or have a stunted child or both. Intersection represents all poor households with a stunted child.
Inequality: One of the concerns in the post-reform relates to the widening disparities between rural and urban areas. Compound growth rates in gini coefficient for total (rural + urban) shows that inequality either increased or rate of decline was slower in 13 out of 17 states in the post-reform period as compared to pre-reform period. Gini coefficient in urban areas increased in 15 states for urban areas during the same period. Rural monthly per capita expenditure (MPCE) as per cent of urban MPCE declined from 66% in 1983 to 61% in 1993-94 and to 56% in 2004-05 at all India level. This percentage declined for majority of the states over time.

Table 4: Inequality (Gini Coefficient) for the post-reform period (Mixed Reference Period)

<table>
<thead>
<tr>
<th></th>
<th>Gini Coefficient (%)</th>
<th></th>
<th>Compound growth rate in gini coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1993-94</td>
<td>1999-00</td>
<td>2004-05</td>
</tr>
<tr>
<td>Rural</td>
<td>25.84</td>
<td>26.30</td>
<td>26.89</td>
</tr>
<tr>
<td>Urban</td>
<td>31.83</td>
<td>34.63</td>
<td>35.02</td>
</tr>
</tbody>
</table>

Source: Dev and Ravi (2007)

The inequality in consumption has increased significantly for both rural and urban areas in the post-reform period – the rate of increase being much higher for urban as compared to rural areas (Table 4). Dev and Ravi (2007) have decomposed poverty into growth and distribution. The results show that growth was an important factor for reduction in poverty in the post-reform period. However, adverse distribution (increase in gini coefficient) seems to have halted the reduction in poverty at the all India level. If distribution had remained the same, poverty would have been reduced by 2.8 percentage points in rural areas and 4.32 percentage points in urban areas in the post-reform period. Decomposition results for rural areas show that inequality component was positive in 13 states. In other words, growth impact on poverty is reduced by adverse distribution in these 13 states.

Fig. 1 provides interesting results on the relationship of income and gini elasticities with the levels of head count ratios. It shows that the states such as J&K, Kerala, Andhra Pradesh, Punjab, Himachal Pradesh and Haryana which have low poverty ratios had high income and gini elasticities. The policy implication is that growth alone would not be sufficient for reduction in poverty and policies that reduce inequality are also important in these states. On the other hand, states such as Bihar, Orissa, U.P. and M.P. which have high poverty ratios are having low income and gini elasticities. It shows that growth is more important in these states than distribution policies. These states are already having lower gini elasticities. Of course, simultaneous policies of achieving growth with equity are always better in all the states.

To conclude, there are two unambiguous conclusions. One is that there is no evidence of higher rate of decline in poverty in the post-reform period as a whole as compared to pre-reform period. Second, inequality increased significantly in the post-reform period as compared to earlier decade.

Also, poverty is getting concentrated in few regions and few groups. For example, poverty is very high for states like Bihar and Orissa. It is very high among Scheduled Tribes. Among occupation groups, poverty is the highest for agricultural labour households. The multidimensional poverty comprising income poverty, undernutrition among children was more than 70% in rural areas.
2.2. Social and Economic Exclusion
There has been problem of social and economic exclusion in India. Exclusion continued in terms of low agriculture growth with increasing visibility in farmers’ suicides, low quality employment growth, concentration of poverty and low human development both geographically and in terms of social categories, increase in rural urban divides and regional disparities. Although we have constitutional commitment to equality and rise in the emphasis on equality of women, it had only a limited impact in reducing disparity and discrimination of women. There has also been failure in child development in terms of health, nutrition and quality education.

It is also known that only organized sector employees constituting around 8% of total workers benefit from social security. In other words, 92% of the workers who are in the unorganized sector are largely excluded from the social security systems.

We discuss here social exclusion in terms of caste and financial exclusion in terms of institutional credit and other services and exclusion in terms of basic and higher education in rural areas.

2.2.1 Social Exclusion in terms of Caste
In India, certain social groups such as the Scheduled Castes, Scheduled Tribes have historically been disadvantaged and vulnerable. India was among the first countries to include legislation
aimed at affirmative actions in the form of reservations for socially oppressed sections, such as Scheduled Castes (SCs) and Scheduled Tribes (STs). However, in spite of these reservations, SCs and STs are still socially disadvantaged classes. The caste system in India remains one of the main reasons for the social and economic problems of the country. The contradictions in political, social and economic equalities were well articulated by Dr. B.R. Ambedkar, the Chairman of the Constituent Assembly Drafting Committee. He concluded his work with a warning: “on the 26th January 1950, we are going to enter into a life of contradictions. In politics we will have equality and in social and economic life we will have inequality”.

The SCs constitute 16.23% of India’s population. The Constitution of India guarantees protection from social injustice and all forms of exploitation. It guarantees equality before law, and enjoins upon the State not to discriminate against any citizen on grounds of caste. Untouchability is abolished and its practice in any form is forbidden. STs constitute 8.2% of the total population of the country with 91.7% of them living in rural areas and 8.3% in urban areas. The Constitution of India has made several provisions to safeguard the interests of the STs in several Articles and the Fifth and the Sixth Schedules. There are programmes for social-economic development under Tribal-sub Plan and other schemes.

Thus, there have been various programmes and legal provisions for improving socio-economic conditions of SCs and STs. However, they failed to bring significant improvements in the social and economic conditions of the marginalized social groups. The problem of exclusion is most visible if we look at the social and economic development of marginalized groups such as SCs and STs. The gap between socio-economic development between SCs and STs and other social groups is still very high. Atrocities on these groups are also high in the country.

Due to lack of assets and high incidence of wage labour associated with high rate of underemployment and low wages, SC households are often faced with low incomes and high incidence of poverty. In 2004-05, about 36.8% of SC persons were below poverty line as compared to only 28.3% for others (non-SC/ST). The gap between the poverty of STs and non-SC/ST is much higher than that of SCs. The incidence of poverty among STs still continues to be very high at 47.3% in rural areas as compared to 28.3% for all population in 2004-05.

Poverty is getting concentrated among SCs and STs. In some of the poorer states, poverty among these groups is very high. For example, rural poverty among STs in Orissa was 76% while rural poverty among SCs in Bihar was 64% (Table 5).

Nutrition is one of the important indicators of well being in the country. The malnutrition levels are much higher for SC/ST population as compared to other population (Table 6). These levels are also high for OBC population and Muslim population.

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4 On economic discrimination based on caste, see Newman and Thorat (2010) and Thorat and Narendra Kumar (2010)
5 This was quoted by Dreze and Sen (2002)
Table 5. Poverty Ratios by Social Groups: 2004-05: All India and Selected States

<table>
<thead>
<tr>
<th>Year</th>
<th>SC Rural</th>
<th>ST Rural</th>
<th>OBC Rural</th>
<th>SC Urban</th>
<th>ST Urban</th>
<th>OBC Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bihar</td>
<td>64.0</td>
<td>53.3</td>
<td>37.8</td>
<td>67.2</td>
<td>57.2</td>
<td>41.4</td>
</tr>
<tr>
<td>Chattisgarh</td>
<td>32.7</td>
<td>54.7</td>
<td>33.9</td>
<td>52.0</td>
<td>41.0</td>
<td>52.7</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>57.9</td>
<td>54.2</td>
<td>40.2</td>
<td>47.2</td>
<td>45.1</td>
<td>19.1</td>
</tr>
<tr>
<td>M.P.</td>
<td>42.8</td>
<td>58.6</td>
<td>29.6</td>
<td>67.3</td>
<td>44.7</td>
<td>55.5</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>44.8</td>
<td>56.6</td>
<td>23.9</td>
<td>43.2</td>
<td>40.4</td>
<td>35.6</td>
</tr>
<tr>
<td>Orissa</td>
<td>50.2</td>
<td>75.6</td>
<td>36.9</td>
<td>72.6</td>
<td>61.8</td>
<td>50.2</td>
</tr>
<tr>
<td>Uttarakhand</td>
<td>54.2</td>
<td>43.2</td>
<td>44.8</td>
<td>65.7</td>
<td>64.4</td>
<td>46.5</td>
</tr>
<tr>
<td>All India</td>
<td>36.8</td>
<td>47.3</td>
<td>26.7</td>
<td>39.9</td>
<td>33.3</td>
<td>31.4</td>
</tr>
</tbody>
</table>

Source: Planning Commission, GOI, 2009

Table 6: Incidence of Malnutrition Among Women (Chronic Energy Deficiency): 2005-06

<table>
<thead>
<tr>
<th>State</th>
<th>Total Population</th>
<th>SC/ST Population</th>
<th>OBC Population</th>
<th>Muslim Population</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>35.6</td>
<td>42.7</td>
<td>36.0</td>
<td>35.1</td>
<td>27.5</td>
</tr>
<tr>
<td>Assam</td>
<td>36.5</td>
<td>34.5</td>
<td>30.4</td>
<td>46.0</td>
<td>31.4</td>
</tr>
<tr>
<td>Bihar</td>
<td>45.1</td>
<td>58.4</td>
<td>43.3</td>
<td>49.6</td>
<td>31.4</td>
</tr>
<tr>
<td>Chhattisgarh</td>
<td>43.4</td>
<td>46.6</td>
<td>44.8</td>
<td>28.9</td>
<td>26.2</td>
</tr>
<tr>
<td>Gujarat</td>
<td>36.3</td>
<td>48.0</td>
<td>40.5</td>
<td>37.0</td>
<td>22.9</td>
</tr>
<tr>
<td>Haryana</td>
<td>31.3</td>
<td>36.4</td>
<td>33.1</td>
<td>49.0</td>
<td>26.6</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>43.0</td>
<td>44.6</td>
<td>45.3</td>
<td>47.3</td>
<td>26.5</td>
</tr>
<tr>
<td>Karnataka</td>
<td>35.5</td>
<td>41.8</td>
<td>34.9</td>
<td>26.9</td>
<td>31.7</td>
</tr>
<tr>
<td>Kerala</td>
<td>18.0</td>
<td>24.1</td>
<td>18.6</td>
<td>15.6</td>
<td>18.0</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>41.7</td>
<td>48.7</td>
<td>42.2</td>
<td>37.4</td>
<td>27.7</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>36.2</td>
<td>43.6</td>
<td>36.1</td>
<td>23.8</td>
<td>34.5</td>
</tr>
<tr>
<td>Orissa</td>
<td>41.4</td>
<td>50.6</td>
<td>39.6</td>
<td>63.5</td>
<td>30.7</td>
</tr>
<tr>
<td>Punjab</td>
<td>18.9</td>
<td>26.7</td>
<td>18.0</td>
<td>22.5</td>
<td>14.4</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>36.7</td>
<td>44.1</td>
<td>33.3</td>
<td>36.1</td>
<td>32.3</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>28.4</td>
<td>36.1</td>
<td>26.8</td>
<td>20.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>36.4</td>
<td>43.6</td>
<td>35.4</td>
<td>36.4</td>
<td>28.3</td>
</tr>
<tr>
<td>West Bengal</td>
<td>39.1</td>
<td>45.2</td>
<td>39.2</td>
<td>37.4</td>
<td>31.5</td>
</tr>
</tbody>
</table>

Source: Compiled from Kannan (2008). The data is from NFHS-3 data

Financial Exclusion

Public policy aimed at ‘social’ and ‘development banking’ in the form of meeting rural credit needs and reducing the role of informal sector credit. It may be noted that despite the vast expansion, a large number of vulnerable groups remain excluded from the opportunities and services provided by the financial sector. Such excluded groups include small and marginal farmers, women, unorganized sector workers including artisans, the self employed and the pensioners.

Financial inclusion can be defined as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. In the case of credit, the proper definition of financial exclusion includes households who are denied the credit in spite of their demand. Although credit is the most important component, financial inclusion covers various other
financial services such as savings, insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded.

One indicator of financial inclusion is the percentage of farmer households borrowing. NSS data shows that in terms of absolute numbers, North Eastern Region, Eastern Region and Central Region taken together account for 68% of non-indebted farm households (Table 7). The proportion of non-indebted farm households to total farm households is high at 80.1%, 60.0% and 58.4% in the North Eastern region, Eastern and Central regions respectively. The Southern region, on the other hand, exhibits relatively better levels of access to formal/non-formal sources (72.7%) on account of spread of banking habits and more robust infrastructure.

Table 7. Farmer Households Borrowing from formal and non-formal sources: 2003

<table>
<thead>
<tr>
<th>Region</th>
<th>Farmer Households (HHs) borrowing from both formal and non-formal sources</th>
<th>Farmer Households (HHs) not accessing credit from either formal or non formal sources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(No. lakh)</td>
<td>(No. lakh)</td>
</tr>
<tr>
<td>Northern</td>
<td>56.26</td>
<td>51.40</td>
</tr>
<tr>
<td>North Eastern</td>
<td>7.04</td>
<td>19.90</td>
</tr>
<tr>
<td>Eastern</td>
<td>84.22</td>
<td>40.00</td>
</tr>
<tr>
<td>Central</td>
<td>113.04</td>
<td>41.66</td>
</tr>
<tr>
<td>Western</td>
<td>55.74</td>
<td>53.77</td>
</tr>
<tr>
<td>Southern</td>
<td>117.45</td>
<td>72.70</td>
</tr>
<tr>
<td>Group of UTs</td>
<td>0.49</td>
<td>33.10</td>
</tr>
<tr>
<td>All India</td>
<td>434.24</td>
<td>48.6</td>
</tr>
</tbody>
</table>

Source: GOI (2007a)

Table 8 provides data on indebtedness for institutional sources separately. It shows that only 27% of farmers households borrow from institutional sources. Only 4% in North East region, 19% in Eastern region and 22% in Central region get credit from institutional sources.

Another issue is the inclusion of credit for small and marginal farmers. The data show that the share of formal source increases with the size of land. At all India level, the share of formal source varies from 22.6% to 58% for small and marginal farmers while it varies from 65 to 68% for medium to large farmers. Dependence of small and marginal farmers on informal sources is high even in states like Andhra Pradesh, Punjab and Tamil Nadu. For example, small and marginal farmers of Andhra Pradesh have to depend on 73% to 83% of their loans on informal sources. The NSS data also shows that across social groups, the indebtedness through formal sources is lower for STs as compared to others.

**Access to Credit to Micro and Small Enterprises**

The micro and small enterprises get very little credit from formal sources. NCUES (2009) shows that “The overall availability of credit to these enterprises as percentage of net bank credit (NBC) of the Scheduled Commercial Banks (SCB) has declined from 15.5% in 1996-97 to 6.6% in 2007-08. Bank’s credit to micro enterprises (investment upto Rs.25 lakh in plant and machinery) declined from 4.2% in 2002-03 to 2.8% in 2007-08. The lowest segment of micro enterprises (with investment upto Rs.5 lakh in plant and machinery) has experienced a decline from 2.2 per
cent to 1.6 per cent in the same period” (p.282, NCUES, 2009). Many of these enterprises are in rural areas and semi-urban areas.

Table 8 Percentage of Farmer Households Borrowing from Total Sources and Institutional Sources: 2003

<table>
<thead>
<tr>
<th>Region</th>
<th>Total No. of Households (lakh)</th>
<th>Incidence of Indebtedness to both formal and non formal sources</th>
<th>Indebtedness to Institutional Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Lakh HHs (% to total HHs)</td>
<td>Lakh HHs (% to total HHs)</td>
</tr>
<tr>
<td>Northern</td>
<td>109.46</td>
<td>56.26</td>
<td>51.39</td>
</tr>
<tr>
<td>North Eastern</td>
<td>35.40</td>
<td>7.04</td>
<td>19.88</td>
</tr>
<tr>
<td>Eastern</td>
<td>210.61</td>
<td>84.22</td>
<td>40.01</td>
</tr>
<tr>
<td>Central</td>
<td>271.33</td>
<td>113.04</td>
<td>41.66</td>
</tr>
<tr>
<td>Western</td>
<td>103.66</td>
<td>55.74</td>
<td>53.77</td>
</tr>
<tr>
<td>Southern</td>
<td>161.56</td>
<td>117.45</td>
<td>72.70</td>
</tr>
<tr>
<td>Group of UTs</td>
<td>1.48</td>
<td>0.49</td>
<td>33.10</td>
</tr>
<tr>
<td>All India</td>
<td>893.50</td>
<td>434.24</td>
<td>48.60</td>
</tr>
</tbody>
</table>

Source: GOI (2007a)

2.2.3. Exclusion in terms of Education in Rural Areas

Many persons are excluded in terms of literacy, basic education and higher education. Nearly 60% of women are excluded in terms of literacy in rural areas. The percentage of children out of school, drop out rates are much higher in rural areas as compared to urban areas.

The gross enrolment ratio for higher education in rural areas was 6.7% as against 19.9% in urban areas in 2004-05. A primary survey in Punjab shows how rural students are marginalized in universities in the state. The share of rural students was only 4.07% in the overall enrolment of students in universities during 2005-06, while the rural population constituted 66 per cent in 2001 (Ghuman et al, 2009). The study highlights the exclusion of rural students from the formal but regular courses run in the universities of Punjab. “In fact, higher education at the university level has virtually become elusive for rural students in Punjab. And even the rural students who managed their entry into the universities actually belonged to the relatively better-off sections of rural society. All this has been the result of a continuous and systematic neglect of public-funded education at all levels in the rural areas of the state. This along with the unregulated and reckless commercialization of education under the process of privatization of the education delivery mechanism, has resulted in the exclusion of rural students from higher education. The collapse of the school education in the government and government-aided schools has also disturbed the organic link between rural schools and the universities” (p. 143, Ghuman et al, 2009).

The above discussion shows that social and economic exclusion is a severe problem in rural areas. There is a need to have policies and programmes to address this problem.

3. Processes Involved in Rise and Fall of Poverty and Inequality

There have been different processes in the factors that lead to rise and fall of poverty and inequality in rural areas. This section examines these processes for better understanding of the problem of poverty and inequality.

3.1. Agriculture

Since agriculture is the most important source of employment and income generation in rural
areas, it is natural to expect that performance of agriculture will have impact on rural poverty. “GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture” (World Development Report, 2008). However, if the distribution of land and other assets are highly skewed, the benefits of agricultural growth may be lower for the rural poor.

Structural reforms were introduced in India in a big way in 1991. These reforms were followed by India becoming founder member of WTO in 1994. The structural reforms and obligations of WTO have positive and negative effects on Indian agriculture. The economic reforms did not include any specific package specifically designed for agriculture. It was viewed that freeing agricultural markets and liberalising external trade in agricultural commodities would provide price incentives leading to enhanced investment and output in that sector, while broader trade liberalisation would shift inter-sectoral terms of trade in favour of agriculture (Balakrishnan, 2000).

On the positive side, the reforms have improved terms of trade for agriculture and opened up new opportunities such as benefits from trade and specialization, widening choices in new technology including bio-technology, increase in private investment in irrigation and marketing infrastructure like storage and transport. It is viewed that protection to industry in the form of import substitution policies like tight import controls and high import duties have hurt the agriculture till 1991. Disprotection to industry since 1991 is supposed to correct this bias and increase terms of trade for agriculture. “This would create a potentially more profitable agriculture, which would be able to bear the economic costs of technological modernization and expansion” (Manmohan Singh, 1995, p.2).

A look at terms of trade (TOT) in post-reform period shows that it was favourable to agriculture with fluctuations. Agricultural growth was 3.7% per annum in the first six years of the reform period (1991-97). Favourable TOT in agriculture has some impact on agriculture in the post-reform period. Similarly, private investment in agriculture improved in the post-reform period although there has been stagnancy in recent years. Terms of trade for agriculture based on GDP implicit price deflators indicate the TOT increased significantly since 2004-05. Particularly, the TOT for agriculture increased significantly in 2007-08 and 2008-09 and they are the highest in the last two decades.

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6 Regarding agriculture, variables like agriculture output per capita, land productivity and labour productivity, distribution of land have been used to explain variations in poverty. Ahluwalia (1978) was perhaps the first to examine the Indian evidence in a fairly comprehensive manner both at the all India level and at the level of major states. This study showed a strong inverse relationship between agricultural per capita value added and incidence of poverty during the period 1956-57 to 1973-74 at the all India level. On the basis of this analysis, Ahluwalia indicates that 'trickle down mechanism' operated in rural India. However, Bardhan (1985) did not find any evidence of the existence of strong linkages between agricultural productivity and poverty reduction. Srinivasan (1985), says that the results should be interpreted with caution since there was very little to trickle down at the all India level. Dev (1988) showed that labour productivity in agriculture showed large part of the variations in poverty.


8 Also see Ahluwalia (1996)
Trade liberalization in agriculture has been faster towards the end of 1990s in tune with WTO agreements. The impact of trade liberalisation on agriculture works through various channels such as volatile prices, problems in imports and exports, impact on livelihood and other employment opportunities. One problem with trade is that volatility in domestic agricultural prices will increase with globalization. Several studies have shown that volatility in global prices is higher than domestic commodity prices (Nayyar and Sen, 1994; Chand and Jha 2001; Sekhar, 2004). India has considerable flexibility to counter flooding of the Indian market by cheap agricultural imports through imposition of tariffs (bound rates) under WTO. There is a need for extreme vigilance so as to be able to take timely measures, within the existing tariff bindings to arrest heavy import of certain commodities (Rao, 2005).

Agriculture sector has many problems. Growth decelerated from 3.5% during 1981-97 to 2% during 1997-2005. Further scope for increase in net sown area is limited. Land degradation in the form of depletion of soil fertility, erosion and, water logging has increased. There has been decline in the surface irrigation expansion rate and reduction in ground water table. Risk and vulnerability increased. Disparities in productivity across regions and crops persisted. Long term factors like steeper decline in per capita land availability and shrinking of farm size are also responsible for the slow performance of agriculture.

The Steering Committee report on agriculture for 11th Plan (GOI, 2007) has identified the possible reasons for deceleration in agriculture since mid-1990s. According to the report, the major sources of agricultural growth are: public and private investment in agriculture and rural infrastructure including irrigation, technological change, diversification of agriculture and fertilizers. The progress on all these sources slowed down in the 1990s particularly since mid-1990s. Expansion was noticed in the case of agricultural credit.

There has been some revival in agriculture in recent years. Agricultural growth was more than 4% during 2003-04 to 2007-08. The total foodgrains production for the year 2008-09 was 233.88 million tonnes and stands out as record production. There were significant exports in cotton, rice and sugar. Cotton crop experienced a revolution due to adoption of BT cotton. Production of cotton increased from 99.97 lakh bales in 2000-01 to 258.84 lakh bales in 2007-08. There has been some increase in high value agriculture. Some of the lagging regions like Bihar showed relatively high growth in recent years. Similarly, Gujarat recorded high growth of 9% per annum during 2001-02 to 2007-08 (Gulati, 2009).

What are the policy reforms needed to achieve the goals of high growth, equity and sustainability? There are basically seven factors which need focused reforms in the short and medium terms. These are: (a) price policy; (b) subsidies and investments; (c) land issues; (d) irrigation and water management (e) research and extension; (f) credit; (g) domestic market reforms and diversification. Institutions have to be developed in all these aspects.

We discuss here on four issues: (1) subsidies and investments, (2) land issues (3) diversification and (4) group approach for access to land, inputs and marketing.

**(1) Subsidies and Investments in Agriculture:** One major reform needed in agriculture sector relates to reduction in subsidies and increase in investments. Agricultural subsidies are fiscally unsustainable and encourage misuse of resources, leading to environmentally malignant
developments. There is trade-off between subsidies and investments. Public investment declined from 3.4% of agri.GDP in the early 1980s to 1.9% in 2001-03. At the same time subsidies increased from 2.9% to 7.4% of agri.GDP (GOI, 2007). Rise in public and private investment is crucial for enhancing agricultural growth. Fortunately, gross capital formation in agriculture has increased from 12% of agricultural GDP in 2004-05 to 14.2% of GDP in 2007-08. Public sector investment has increased significantly during this period. However, we need 16% agricultural GDP as investment in order to get 4% growth in agriculture. In this context, the announcement of Bharat Nirman programme in 2005 by the Government of India in order to improve agriculture and rural infrastructure is in the right direction. However, the pace of this programme has to be improved.

(2) Land Issues
Land issues are very important in rural areas as access to land is one of the factors for reduction in poverty and inequality. It is known that the share of marginal and small farmers is more than 80% in total number of holdings. Out of 148 million rural households, 133 million own land. About 10% of households do not own land. On the other hand, per cent of hhs. not operating land much higher at 31% (Table 9). Gini coefficient in ownership holdings is 0.74 while in operational holdings it is 0.62. It shows that lease market is reducing the inequalities.

Land relations are extremely complicated and this complexity has contributed significantly to the problems facing actual cultivators. Unregistered cultivators, tenants, and tribal cultivators all face difficulties in accessing institutional credit and other facilities available to farmers with land titles. One priority is to record and register actual cultivators including tenants and women cultivators, and provide passbooks to them, to ensure that they gain access to institutional credit and other inputs. As part of the reforms, lease market should be freed and some sort of security for tenants has to be guaranteed. This will ensure availability of land for cultivation on marginal and small farmers. The land rights of tribals in the agency areas must be protected. There is considerable scope for further land redistribution, particularly when waste and cultivable lands are taken into account. Complementary inputs for cultivation (initial land development, input minikits, credit, etc.) should be provided to all assignees, and the future assignments of land should be in the name of women. Basically, we have to ensure land leasing, create conditions including credit, whereby the poor can access to land from those who wish to leave agriculture.

Table 9 Salient Features of Indian Agrarian Structure

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Estimated Number of Rural Households (millions)</td>
<td>72.5</td>
<td>77.8</td>
<td>93.9</td>
<td>116.4</td>
<td>147.8</td>
</tr>
<tr>
<td>Number owning land (mill.)</td>
<td>64.0</td>
<td>70.8</td>
<td>83.2</td>
<td>--</td>
<td>133.0</td>
</tr>
<tr>
<td>Number Operating Land (mill.)</td>
<td>50.8</td>
<td>57.1</td>
<td>71.0</td>
<td>93.4</td>
<td>101.3</td>
</tr>
<tr>
<td>Per cent not owning any land</td>
<td>11.7</td>
<td>9.6</td>
<td>11.3</td>
<td>11.3</td>
<td>10.0</td>
</tr>
<tr>
<td>Per cent not operating any land</td>
<td>29.7</td>
<td>27.0</td>
<td>24.0</td>
<td>20.0</td>
<td>31.1</td>
</tr>
<tr>
<td>Gini coefficient of land ownership</td>
<td>0.731</td>
<td>0.709</td>
<td>0.712</td>
<td>0.710</td>
<td>0.74</td>
</tr>
<tr>
<td>Gini coefficient of operation holdings</td>
<td>0.583</td>
<td>0.586</td>
<td>0.629</td>
<td>0.641</td>
<td>0.621</td>
</tr>
<tr>
<td>Per cent of land owning households leasing out</td>
<td>7.0</td>
<td>9.9</td>
<td>6.2</td>
<td>--</td>
<td>2.8</td>
</tr>
<tr>
<td>Per cent of owned area leased out</td>
<td>4.4</td>
<td>5.8</td>
<td>4.3</td>
<td>5.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Per cent of operating households leasing in</td>
<td>23.8</td>
<td>25.2</td>
<td>15.2</td>
<td>11.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Per cent of operating area leased in</td>
<td>10.7</td>
<td>10.6</td>
<td>7.2</td>
<td>8.5</td>
<td>6.5</td>
</tr>
</tbody>
</table>

Source: Vaidynathan (2010)
In the year 2000, the Government of India replaced the old Export Processing Zones (EPZ) policy by a new scheme called ‘Special Economic Zones’ (SEZs) with some more incentives. The SEZ policy is expected to give a big push to employment, exports and investment. However, there are several apprehensions against the SEZs. Some of these are: “(a) generation of little new activity as there may be relocation of industries to take advantage of tax concessions, (b) revenue loss, (c) large scale land acquisition by the developers which may lead to displacement of farmers with meager compensation, (d) acquisition of prime agricultural land having serious implications for food security, (e) misuse of land by the developers for real state and (f) uneven growth aggravating regional inequities” (GOI, 2007a). These are valid apprehensions.

(3) Diversification to Hi-value Agriculture and Marketing: There has been diversification of Indian diets away from foodgrains to high value products like milk and meat products and vegetables and fruits. Since risk is high for diversification, necessary support in infrastructure and marketing are needed. Price policy should also encourage diversification. The Government wants to have second ‘green revolution’ by diversifying agriculture in crop sector and allied activities. To promote holistic growth of the horticulture sector through area based regionally differentiated strategies, the National Horticulture Mission (NHM) was launched in the country during 10th Plan. The impact has to be strengthened further to improve productivity in horticulture sector.

The true benefit of diversification will come if more emphasis is given to allied activities like animal husbandry and fisheries. The livestock sector contributes 5.4% to GDP and 22.7% to total output from agriculture sector. Ownership of livestock is more equitable than that of land and women play significant role in animal husbandry.

(4) Group Approach for access to land, inputs and marketing

Small and marginal farmers have disadvantage in having access to land, inputs and marketing. There have been many innovations in India on group approach in recent years.

In order to improve the incomes of marginal and small farmers, there is a talk that we should promote cooperative farming. Andhra Pradesh has some experiences in cooperative farming particularly in the case of women. One of the most interesting examples of this is the Deccan Development Society (DDS), an NGO working with poor women’s collectives in some 75 villages in Medak district – a drought prone tract of A.P. DDS has helped women from landless families establish claims on land, through purchase and lease, using various government schemes. One such scheme of the Scheduled Caste Development Corporation in A.P. provides subsidized loans to landless scheduled caste women for buying agricultural land. Catalyzed by DDS, women form a group, apply for the loan after identifying the land they want to buy, and divide the purchased land among themselves, each woman being registered as the owner of about an acre. Cultivation, however, is done jointly by each group.

On a large scale, cooperative farming may not be possible. To start with, there can be cooperation in input purchases and marketing the commodities. Similar to DDS experiment, poor women’s cooperative farming can be encouraged in some parts of the state. Because of the increased pressure from small and marginal farmers on the limited land for their livelihood, there is no justification, at this stage, for encouraging corporate farming by relaxing the existing
ceiling on land ownership. Basically, marginal and small farmers need assistance in input purchases, technology adoption, crop insurance, credit, output marketing and improving rural infrastructure in a big way⁹.

For small and marginal farmers, marketing of their products is main problem apart from credit and extension. In recent years, there has been some form of contract arrangements in several agricultural crops such as tomatoes, potatoes, chillies, gherkin, baby corn, rose, onions, cotton, wheat, basmati rice, groundnut, flowers, and medicinal plants. There is a silent revolution in institutions regarding non-cereal foods. New production –market linkages in the food supply chain are: spot or open market transactions, agricultural co-operatives and contract farming (Joshi and Gulati, 2003). Contract farming in India is neither backed up by law nor by an efficient legal system. This has to be strengthened as legal system is the single most constraint to widespread use of contract farming in India. There is a need to revamp some of the legal hurdles for agro processing and APMC Act¹⁰.

Most important problem for the farmers is output price fluctuations. There is a big gap between producer prices and consumer prices. There are different models for marketing collectively by the small and marginal farmers. These are: self help group model, co-operative model, small producer co-operatives and contract farming. Apni Mandi in Punjab, Rytu Bazars in Andhra Pradesh, dairy co-operatives are some of the successful cases in marketing. The real challenge lies in organising the small and marginal farmers for marketing and linking them to high value agriculture. Thus, group approach is needed for getting benefits from marketing.

**Few other Issues in Agriculture**

**Emerging Challenge: Climate Change**

Climate change is a reality. India has reasons to be concerned about climate change. Vast majority of population depends on climatic sensitive sectors like agriculture, forestry and fishery for livelihood in the country. The adverse impact of climate change in the form of declining rainfall and rising temperatures would threaten food security and livelihood in the economy. For example, rise in temperature would affect wheat yields.

India has prepared a document namely the National Action Plan on Climate Change. It provides a direction for changes at the national level in policy, planning and public-private partnerships and lays out a global vision for modifying longer time trends for sustainable development. Successful adaptation coupled with mitigation holds the key to food security and livelihoods for the 21st century and beyond in India.

**Equity in Agriculture**

**Regional Disparities:** Growth rates in agriculture SDP were high for many states during the period 1984/85 to 1995/96. However, growth decelerated in all the states except Bihar during the period 1995/96 to 2004/05 (GOI, 2007)¹¹. The deceleration is the highest in the states with greater proportion of rain-fed areas (Gujarat, Rajasthan, M.P., Karnataka and Maharashtra). Recent experience, however, shows that Gujarat recorded the highest growth of around 9 per

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⁹ On group approach, see Galab et al (2009)
¹⁰ See Chadha (2009) on agro processing and rural industrialization
¹¹ Also see Bhalla (2006)
cent during 2000/01 to 2007/08 (Gulati, 2009). During this period, six states viz., Gujarat, Rajasthan, Himachal Pradesh, Andhra Pradesh, Chattisgarh and Bihar recoded more than 4% growth per annum. Public investment in infrastructure like irrigation, power, roads, watersheds, check dams, technology like BT cotton and diversification in agriculture played crucial roles in raising agricultural growth in Gujarat. Other states can learn from the experience of Gujarat. There is a need to shift rice cultivation to Eastern region from Punjab and Haryana for growth, equity and environment reasons. In order to encourage the States to invest more towards agriculture and allied sectors and to achieve 4% growth in agriculture, the government launched the Rashtriya Krishi Vikas Yojana (RKVY) in 2007-08 with an outlay of Rs.25,000 crores for the 11th Five Year Plan. The scheme requires the States to prepare District agriculture plans and provides adequate flexibility and autonomy to State governments. The States should make use of this scheme to improve the agriculture sector.

The share of women is increasing in agriculture. However, the public services are not supporting women in agriculture. We have to ensure women’s rights to land (Agarwal, 1994), infrastructure support to women farmers, their access to technical knowledge, credit, inputs and marketing.

Small and Marginal Farmers: It is known that more than 80% of India’s farmers belong to the categories of small and marginal farmers with an area share of around 40%. The support systems and policy changes have to support in raising productivity and incomes of the small and marginal farmers. National Commission on Enterprises for Unorganized Sector (NCEUS, 2008) suggests special programmes for small and marginal farmers. Principal activities proposed under this include promotion of marginal-small farmers’ groups, enabling greater access to institutional credit, training and capacity building, support for strengthening and non-farm activities, gender-focussed activities and planning for development of marginal and small farmers.

3.2. Employment
Both quantity and quality of employment are important for reduction in poverty and inequality. First, it is useful to know about the overall employment growth rates in both rural and urban areas. Employment growth rate is higher in the urban than in rural areas, both during 1983/1993-94 and 1993-94/2004-05. Decline in the rate of growth in the later period as compared to earlier one was also more in the rural than in urban areas (Table 10).

Table 11: Growth Rates of Employment: 1983 to 2004-05

<table>
<thead>
<tr>
<th>Growth of employment</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>1983-94</td>
<td>2.25</td>
<td>1.65</td>
<td>2.08</td>
</tr>
<tr>
<td>1994-2005</td>
<td>1.87</td>
<td>1.78</td>
<td>1.84</td>
</tr>
<tr>
<td></td>
<td>Rural</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983-94</td>
<td>1.96</td>
<td>1.40</td>
<td>1.77</td>
</tr>
<tr>
<td>1994-2005</td>
<td>1.41</td>
<td>1.55</td>
<td>1.46</td>
</tr>
<tr>
<td></td>
<td>Urban</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983-94</td>
<td>3.15</td>
<td>3.37</td>
<td>3.26</td>
</tr>
<tr>
<td>1994-2005</td>
<td>3.10</td>
<td>3.08</td>
<td>3.09</td>
</tr>
</tbody>
</table>

Source: Estimated from NSS Data by IHD
Overall, it is a concern that there is a decline in the growth rate of employment in the post-reform period as compared to pre-reform period. Within post-reform period, however, the period 1999-00 to 2004-05 witnessed high growth rates of employment in both rural and urban areas.

There are some concerns regarding employment because of the following reasons.

(1) Unemployment rate in rural areas increased in recent years
(2) India has the problem of ‘working poor’. People are working but at low wages and low productivity
(3) The new employment is created in unorganized sector. 92% of the total workers are in the unorganized sector.
(4) Share of wage employment has increased over time. In recent years, however, share of self employment increased. Self employment is the predominant form of employment in India. But, the productivity of this employment is low.

3.3. Wages
Another indicator of purchasing power is agricultural wages. Deaton and Dreze (2002) say that a healthy growth of real agricultural wages appears to be a sufficient condition for significant reduction in poverty in rural areas. The growth of regular and casual wage during pre and post reform period is almost the same in rural areas (Table 11). Within post-reform period, growth rate of real wages declined substantially during 1999-2005 as compared to 1993-2000.

We do not have NSS data on wages for recent years. However, Labour Bureau data indicates, there has been significant increase in real wages in rural areas because of NREGA. After introduction of NREGA, there has been tightening of rural labour market and real wages of agricultural labourers have increased in many parts of India (Table 12). In fact, farmers have been complaining about non-availability of labour in peak season and increase in agricultural wages. This is an interesting phenomenon regarding processes in rural areas.

Table 11 Growth of regular and casual wage of 15-59 age groups (Constant prices (1993))

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>3.34</td>
<td>3.35</td>
<td>2.85</td>
<td>2.78</td>
</tr>
<tr>
<td>Urban</td>
<td>2.48</td>
<td>2.38</td>
<td>2.48</td>
<td>3.17</td>
</tr>
<tr>
<td>Gap</td>
<td>-0.86</td>
<td>-0.97</td>
<td>-0.37</td>
<td>0.39</td>
</tr>
</tbody>
</table>

Source: Various NSS Rounds estimated by IHD

3.4. Food Prices
Relative price of food has become one of the important factors in explaining variations in poverty. Dharam Narain in addition to time and agriculture income per head had used nominal prices in explaining time series variation in rural poverty (Mellor and Desai, 1986). Another study shows that higher relative price of foodgrains/agricultural products vis-à-vis manufactures has poverty increasing impact (Ghose 1989). How does an increase in the relative price of food (RPF) affect rural poverty in India? This question begs an analytical and empirical understanding and there has
Table 12. Wage Rates for Agricultural Labourers

been a debate over this question. Sen (1996) claims that econometric models which include RPF\textsuperscript{12} along with other explanatory variables such as agricultural productivity and public development expenditure result in a much better explanation of pre reform and post reform poverty, than econometric models which ignore RPF. Furthermore Sen shows that RPF does better in tracking poverty than the inflation rate\textsuperscript{13}.

Higher food prices hurt all households who are net purchasers of food. Apart from the whole of the urban population who are net purchasers, even among the rural households, more than 50% of the households are net purchasers of food. Despite the fact that National Sample Survey tabulations do not reveal which rural households are net consumers or producers of food, there is sufficient proxy evidence. In the 1990s, more than 50% of households are agricultural households with some land or landless households. Also we have marginal farmers with very small holdings.

Thus by a very conservative estimate at least 50% of the total rural population is adversely affected by an increase in the relative price of food. Note that some of the small producers who have a marketable surplus could become worse off with higher prices. This is because typically a small producer sells the surplus immediately in the post harvest season, when prices are low, and buys food during the lean season (when she depletes her own stock) when prices are high.

During the period 1999-00 to 2004-05, there has been faster reduction in rural poverty. Trends in relative prices in Fig. 2 shows that relative price of food grains, food and primary sector increased significantly during 1994-95 to 1999-00 and started declining drastically in the period 2000-05 (Table 13). This could be one of the reasons for the faster reduction in poverty in the second period of the post-reform period.

Table 13. Trends in Macro aggregates

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>GDP</td>
<td>6.54</td>
<td>5.91</td>
</tr>
<tr>
<td>GDP(Agrl)</td>
<td>3.28</td>
<td>1.51</td>
</tr>
<tr>
<td>WPI</td>
<td>5.25</td>
<td>5.08</td>
</tr>
<tr>
<td>WPI(Primary)</td>
<td>6.42</td>
<td>3.45</td>
</tr>
<tr>
<td>WPI(food)</td>
<td>7.97</td>
<td>2.81</td>
</tr>
<tr>
<td>WPI(foodgrains)</td>
<td>9.00</td>
<td>0.97</td>
</tr>
</tbody>
</table>


India has done well during 2005-08 global food price crisis. As compared to global food price increase of more than 100 per cent, increase in India was around 20 per cent during the same period. However, recent food inflation of nearly 19 per cent is a cause for concern for the poor.

3.5. Public Expenditure and Poverty.

In recent years, the importance of development public expenditure in reducing poverty has been recognized. Fan et al (1999) examine the causes of decline in rural poverty in India and

\textsuperscript{12} In the literature RPF is computed in at least two different ways: (a) as the ratio of food prices component of CPIAL to the CPIAL itself, and (b) as a ratio of the food or cereal price index to the price index of the manufacturing sector. See Ghose (1989).

\textsuperscript{13} Also see Ravallion (1998)
particularly, the study concentrates on the impact of government spending on productivity and poverty. The study finds that investment in rural roads and agricultural research and development have the greatest impact, while government spending specifically targeted to poverty reduction such as rural development and employment programmes have only modest effects. Sen (1996), argued that the declining trend in poverty ratios witnessed since the early 1970s had been arrested in the post-reform period. Increase in relative prices of food and decline in public expenditure are some of the reasons mentioned for the adverse impact of reforms on the poor.

Fig 2. Trends in Relative Prices (WPI)

Source: Monthly Abstract of Statistics, CSO, September 2005

3.6. Rural non-farm Employment
Poverty can not be removed with 55% of workers in agricultural sector. There is a need to promote rural non-farm sector. According to Sen (1996), the growth in non-farm employment had taken place in the 1980s as a result mainly of larger public expenditure and its multiplier effects on the rural economy, and was responsible in considerable measure for the observed decline in rural poverty in the second half of the 1980s despite drought years like 1987. In the post-reform period, however, non-farm employment fell owing to the expenditure cuts following from the stabilisation and structural adjustment policies and despite a run of good harvest years rural poverty started rising. The study also shows that real wages have not increased in the post-reform period because of increase in relative food prices.

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 education. 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. China experienced a structural transformation in the last three decades. The state’s role has been decisive in building up the physical and social infrastructure (including land reforms). India should learn from China on reforms in agricultural growth, rural non-farm employment, public investment and human development. The impact of growth on poverty reduction is quite significant (Rao, 2007). China started with agricultural reforms. Agricultural growth was quite high. The economic and institutional reforms in the whole economy created space for rural non-farm sector (TVEs and others). Diversification towards rural non-farm sector in China is one of the important factors responsible for rural poverty reduction (poverty is only 3%). This was partly due to agricultural productivity.

### 3.7. Social Protection Policies: Self Employed Programmes and NREGA
Apart from chronic poverty, the poor face many risks and vulnerabilities. There is enough evidence to suggest that poor and poorest of the poor households are vulnerable to a range of risks affecting individuals, households or whole communities which can have a devastating effect on their livelihoods and well being. They have higher exposure to a variety of risks at individual or household level. Some of them are (a) health shocks: illness, injury, accidents, disability; (b) labour market risk: many work in informal sector and have high risk of unemployment and underemployment; (c) harvest risks, life cycle risks including old age problems, social risk and special risks for vulnerable groups. In addition, they have community risks such as droughts, floods, structural adjustment policies etc.

India has introduced many social protection programmes since independence to take care of chronic poverty and risks. The programmes in India address two sets of problems. First one is capability deprivation in terms of food insecurity, inadequate employment, low earnings, low health and educational status. The second one is adversity in the sense of absence of adequate fall back mechanism to meet contingencies such as old age, health, accident and death. India focused more on social assistance and promotional policies for a long time. In recent times, the need for protective, social insurance and contingency types has been recognized.

India has social protection programmes at three levels\(^\text{14}\).

**a) Universal Capability Enhancing Programmes:** The universal programmes addresses the capability deprivation for all citizens. Public health and education programmes are mostly universal programmes. For example, *Sarva Siksha Abhiyan* for school education, Rural Health Mission etc. fall in this category.

**b) Targeted Programmes for the Poor and vulnerable:** These programmes are supposed to provide socio-economic security for the poor and vulnerable groups. The present major schemes for the poor and vulnerable are:
- (i) Food and Nutrition programmes
- (ii) Emploment Programmes (wage and self employed)
- (iii) Protection for socially disadvantaged sections (SCs and STs) and other vulnerable groups.

\(^{14}\)More on this see NCEUS (2006)
(iv) Cash and kind transfers (*Indira Awas Yojana* housing programme, National Old Age Pension (NOAP), widow/disabled pension, rural educational scholarship, free text books, free hostels, free uniforms).

(c). **Protective Social Security Programmes for unorganized workers**: These programmes are for contingencies such as old age, accident and death.

3.7.1 **Employment Programmes**

Most important social protection programmes in India relate to targeted employment programmes. They are targeted to self employed and wage employed workers. While self employed programmes are mainly micro-credit and livelihood based programmes, wage employed are self targeted schemes.

**Self Employment Programmes**

The focus of self employment programmes is on the provision of productive assets to households in the target group, or on the provision of credit meant to finance the purchase of assets. SGSY (*Swarnajayanti Gram Swarozgar Yojana*) is the Government’s only self employment programme in rural areas. The self help group movement in general, apart from SGSY groups, has been spreading all over the country. The objective of the SGSY is to bring the assisted *swarozgaris* (self employed) above the poverty line by providing them income generating assets through bank credit and Government subsidy. The scheme is being implemented on cost sharing basis of 75:25 between the Centre and the States. Up to March 2009, 3.4 million self help groups (SHGs) had been formed and 12.1 million self employed have been assisted with a total outlay of Rs.271,830 million.

There are two important models in the country on poverty alleviation for self employed. One is Kerala Model and the other is Andhra Pradesh model. *Kudumbashree* programme in Kerala has made significant progress in reducing absolute poverty among its members. This programme’s interventions and processes have resulted in a sustained process of empowerment of its women members. Similarly, Government of Andhra Pradesh is implementing a statewide rural poverty eradication programme based on social mobilization and empowerment of rural poor women. This programme is popularly known as ‘Velugu’ or Indira Kranthi Pathakam (IKP).

11th Five Year Plan report (GOI, 2009) documents some issues in self employment programmes as given below.

(i) The number of SHGs formed under the SGSY is very large, but there is a feeling about whether such large numbers mean anything from the point of view of poverty alleviation. Some State Governments such as Andhra Pradesh and Kerala have their own models. There is therefore, a need for placing the SGSY programme on this large canvas and fitting it in the broader context of the SHG movement of the country.

(ii) There is tremendous shortage of manpower in the area of technical support for rural development. Andhra Pradesh continually engages about 6.00 lakh SHGs through a separate structure, Society for the Elimination of Rural Poverty which has independent units that deal with Risk Mitigation, Food Security, Micro Finance, Institution Building, Marketing, and Livelihood Promotion. The dedicated institutional machinery seems to have made a difference. There is a case for similar efforts from other States as well.

(iii) The experience of the States like Andhra Pradesh, Kerala, and Tamil Nadu, federating the SHGs appears essential for improving the bargaining power of the SHGs and better sustainability of the SHG movement.
(iv) Current institutional arrangements for social mobilization and livelihood generation are somewhat limited in scope. Therefore, a mission mode approach to enhance facilitation, institutional building, and hand holding support to SHG movement is required over a long period of time.

(v) Credit is a very important issue. The credit achievement, in terms of the total volume as well as the rate of flow, in Andhra Pradesh model seems to be much higher than the national achievement. An issue that requires to be looked into is also the possibility of introducing interest subsidy as an alternative to the capital subsidy.

(vi) Due to globalization, new areas for employment are emerging. There may be a case for introducing a placement-oriented skill enhancement model for youth as a sub-set of the SGSY. This programme will be a hybrid of the wage employment and self-employment programmes.

The self employment programme certainly improved social empowerment of poor but economic empowerment has to be improved in several parts of the country.

Wage Employment Programme: NREGA
In India, the provision of wage employment has been extensively used as a tool of entitlement protection for many centuries. From the fourth Century BC when the ancient Indian political economist, Kautilya, wrote his Arthasastra, there has been emphasis on public relief works, particularly at times of famine. After independence in 1947, many schemes were sponsored by the central government. However, the most important programme at the state level is the Maharashtra Employment Guarantee Scheme (EGS), introduced in 1972. But, the most important programme now is the National Rural Employment Guarantee Act (NREGA).

National Rural Employment Guarantee Act (NREGA): The NREGA was notified in September, 2005. The objective of the scheme is to enhance livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to every household. The primary objective is employment creation. The auxiliary objective is regenerating natural resource base and creating productive assets. Third one which is process objective is to strengthen grass root democracy by infusing transparency and accountability in governance. First time, a rights based approach for employment throughout India is introduced. This is the largest ever public employment programme visualised in human history. If the government can not provide work, the workers who applied for job will get unemployment allowance. It is also useful for women and disadvantaged sections. One of the important things in the programme is to have transparency and accountability. Gram Sabhas conduct social audits of all works taken up within Gram Panchayat. Social audit includes scrutinizing and verifying the authenticity of all records and procedures of the programme and expenditure. Government has implemented NREGS in phases since 2006.

From April 2008, in phase III, NREGA is universalized and extended to all 596 rural districts in the country. Rs. 390 billion ($ 8 billion) were allocated in 2009-10. The expenditure was around 0.5% of GDP, 3.3% of budget expenditure and 10% of plan expenditure in 2008-09. The performance of NREGS is uneven. It is more successful in states such as Rajasthan, Andhra Pradesh, Madhya Pradesh, and Chattisgarh.

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15 on impact of NREGA on women, see Khera and Nayak (2009)
The problems and challenges of NREGS are (a) awareness problem among workers; (b) implementation and administration problems; (c) problems in monitoring and evaluation; (d) lack of professionals

How do we strengthen the programme?: There is a need for deployment of full time professions and massive cadre of fully trained people at gram panchayat level. Adequate resources and setting up systems must be provided for monitoring and evaluation. Greater use of information technology (IT) should be done for NREGA implementation. Quality of assets has to be enhanced to increase productivity. Without productivity increase, wages may not be sustainable (there is competition among states to increase minimum wages). A role for civil society organisations has to be mandated to work as support agencies.

However, 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. As mentioned above, significant rise in agricultural wage shows its success. There has been significant increase in wages in rural areas since the introduction of NREGS. In some places, migration has reduced. It created much needed relief during financial crisis even for the urban poor returning to rural areas. The 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 can also lead to revolution in rural governance.

It is a great opportunity to generate employment and create productive assets. If it is implemented effectively, NREGS is going to be the biggest social security programme for the unorganized workers.

Cash Transfers
India does not have cash or conditional cash transfers (CCTs) in the form of social assistance although NREGA is a kind of CCT. Kapur et al (2008) argue for introduction of cash transfers in place of some social protection programmes in India. To begin with, they offer four candidates in principle, viz, (a) PDS for food and fuel, (b) fertiliser subsidies, (c) rural housing, i.e., IAY, and (d) self-employment, i.e., SGSY. Together, in the 2008 budget, they account for Rs 73,144 crore. They give several arguments in favour of direct cash transfers such as choice to the poor, relieve financial constraints, less administrative costs and less burden on administration, reduction in inequality in subsidies and, reduction in patronage and corruption (Kapur et al., 2008). There is a need to have some type of CCTs particularly for women and children to improve social protection. At the international level, there are many examples of CCTs. Cash transfers are preferred to food or other in-kind transfers as cash increases the purchasing power of the households. Conditional cash transfers that have worked well include the food-for-education program in Bangladesh, Mexico’s PROGRESA program and the Bolsa Escola in Brazil. Those who oppose the cash or CCTs argue that if there are problems in the quantity and quality of hospitals and schools, CCTs would be less useful. The problem in India is that one has to strengthen the public health and education. Shah (2008) argues that direct cash transfers are not magic bullets and reduction in poverty requires much more than solutions such as direct transfers.

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16 On the problems in NREGA, see Ambasta et al (2008)
3.8. **Skill Improvement**: India is currently at a stage of ‘demographic transition’ where population growth is slowing down but the population of young people entering the labour force continues to expand. This young demographic profile places India favourably in terms of manpower availability and could be a major advantage in an environment where investment is expanding in India and the industrial world is ageing. The ability to sustain a labour-intensive growth process depends crucially upon the expansion of skill capabilities in the labour force. The NSS 61st Round results show that among persons of age 15–29 years, only about 2% are reported to have received formal vocational training and another 8% reported to have received non-formal vocational training indicating that very few young persons actually enter the world of work with any kind of formal vocational training. This proportion of trained youth is one of the lowest in the world. The skills are much lower in rural areas. The Eleventh Plan aims at launching a National Skill Development Mission which will bring about a paradigm change in handling of ‘Skill Development’ programmes and initiatives. The government has provided measures to expand skill training. But, they remain mostly to organized workers. There is a need to have a programme for receiving on-job training in unorganized enterprises. This scheme aims at workers who have primary but less than secondary level education (NCEUS, 2009).

3.9. **Voices of the Poor**

Interactions directly with the poor reveal the processes involved in some people climbing out of poverty and some others falling into poverty. World Bank’s study (Narayan et al, 2009) provides the voices of the poor on poverty. The analysis in this study is based on interviews with 30,000 women and men describing their interactions with local level institutions - social, political and economic - between 1995 and 2005. The people are from 300 villages in four states of India: Andhra Pradesh, Assam, Uttar Pradesh and West Bengal. Some of the conclusions of the study are given below.

(a) Non-farm activities including jobs, initiatives such as opening a small business and having multiple sources of income were cited as the key reasons for families moving out of poverty.

(b) Poor people indicate that local democratic structures such as rural panchayats are critical in helping them move out of poverty. However, where these institutions were captured by groups based on caste, political affiliations, or economic power, benefits reached only a chosen few.

(c) Health shocks such as an illness or death in the family were the most common cause for the falling into poverty. In U. P. social shocks, such rising expenditures on daughters' marriages, were notably high. Loans from self-help groups played a major role in reducing the burden of shocks in Andhra Pradesh. New strategies such as social and health insurance programs and better access to savings and credit instruments can help cushion these shocks.

(d) The study indicates the importance of the accumulation of assets in moving out of poverty. This is true for access to land as well as to permanent housing across all four states - not only in West Bengal with its history of land reform.

(e) Over the 10-year period of the study, people across all communities perceived that corruption in terms of bribe-taking had increased everywhere. The highest rise was perceived in Uttar
Pradesh, where the percentage of people who perceived most/all of their local village officials to be corrupt rose from 35% in 1995 to 88% in 2005.

3.10. Impact of Urban Growth on Rural Poverty
In recent years, links between rural and urban areas have been increasing. A study by Datt and Ravallion (2010) show “that the rate of poverty reduction has increased in the post-reform period, compared to the previous 30-year period, although it is still too early to say if this marks a new trend. In contrast to the pre-reform period, the post-reform process of urban economic growth appears to have brought significant gains to the rural poor as well as to the urban poor” (p.55, Datt and Ravallion, 2010). It is encouraging to find that rising overall living standards in India’s urban areas in the post-reform period have had significant benefits on the country’s rural poor. The study, however, cautions that rural poor will be more vulnerable in future to urban shocks. It does not mean that governments should not invest in rural areas. In fact, rural growth has been low. Easwaran and Kotwal (2009) show that increase in agricultural productivity is important for reduction in rural poverty as non-farm sector may not absorb labour from agriculture in the immediate future.

4. Measures Needed for reducing Poverty, Inequality and Social Exclusion

There is some sort of consensus now that growth should be shared by all sections of the society rather than limiting to few categories of population. This is important to reduce poverty and various types of inequalities in the economy and society. The following policies have to be followed in order to reduce poverty, inequalities and social exclusion17.

First, equity matters for development. Equity is important for its own sake and for higher growth. If we reduce personal, rural-urban and regional disparities, growth will increase. Growth and equity are complements rather than trade-offs. The policies for growth and equity should be followed simultaneously rather than ‘growth first and equity next’ approach. Economic growth is important. It improves tax/GDP ratio and one can spend on agriculture and social sector. Of course, growth is necessary but not sufficient for reducing poverty and inequality.

Second, agriculture development should be given priority. World Development Report 2008 says “GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture”. There are six deficits in Indian agriculture. These are: (a) investment, credit and infrastructure deficit; (b) research and extension (technology) deficit; (c) market deficit; (d) diversification deficit; (e) institutions deficit including land and water management and; (f) education/skill deficit.

Third, it should be recognized women as agents of sustained socio-economic growth and change. Focus on women can reduce poverty and inequality. Gender is a cross-cutting theme and should not be confined to one department. The policies regarding women should cover all sectors of the economy and society. There are significant gender disparities in indicators like education, malnutrition and infant and child mortality rates. Thus, there is a need to focus on reducing the divides between males and females.

17 More on this Dev (2008)
Fourth, one of the important areas for priority is enhancement of physical and social infrastructure. Greater public investment in infrastructure in rural and urban areas to create more employment is needed. Development of physical infrastructure and its quality have not been commensurate with the recent growth in aggregate output (Reddy, 2009). In other words, GDP growth is not sustainable if physical infrastructure is not improved.

Fifth, macro pro-poor policies are more important than having only safety nets for poverty reduction. The macro policies such as fiscal, trade, financial, monetary policies have to be more pro-poor. The experience in several countries during the reform period shows that, public expenditure as percentage of GDP is low and declining. Trade liberalization has been associated with increased ratio of trade to GDP, improved export performance, and diversification towards manufactured exports. However, linkages to employment are not so well established (Palanivel, 2009). Financial sector has historically had an urban bias. On balance, the macro policies have not been pro-employment and pro-poor in the post-reform period in many developing countries including India. Therefore, there is a need to have pro-poor macro policies.

Sixth one is that structural change in economy should follow agriculture-industry-service sequence. In GDP shares, India jumped from agriculture to services without concentrating on manufacturing. Also in many South East Asian countries, there has been a shift of employment from agriculture to manufacturing. The share of employment in manufacturing in Malaysia is 50%, in Korea 62%, in China 31%. On the other hand, the share of employment in manufacturing in India is only 11% while the share of agriculture is more than 55%. Therefore, there is a need to develop industry in order to improve employment. Jumping to services is not the solution.

Employment (both quantity and quality) should be the focus for reduction in poverty and inequality. 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 opportunities is important. Social inclusion can be improved with equality of opportunities. Even if we do not follow equitable distribution of assets, every one should get equal opportunity for better education and health. The Indian economy is on a high growth track. While the Indian government has implemented policies that unleashed the country’s growth potential, it should also embark on a process of social transformation that ends discrimination on the basis of caste, class and gender. We also need to pay more attention to provide clean water, access to health care and high quality education to all. At national level, public action should see that states such as Bihar, M.P., Chattisghad, Jharkhand, U.P. and Orissa and the poor in other states enhance opportunities for improving education, health and incomes. A sustained emphasis on education and health are needed in the next decade for reduction in poverty and inequality.

Eighth one related to seventh is focus on well being of disadvantaged sections. As part of social and economic inclusion, policies have to be framed to improve the conditions of the socially disadvantaged sections of the society. Some of the problems of SCs are: low human development in terms of education and health backwardness, economic backwardness in terms of high poverty and unemployment, high share in agriculture and casual labourers, social exploitation,

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18 On financial sector reforms see Nachne (2009)
segregation and deprivation, crimes and atrocities. Regarding STs, the tribal communities continue to be vulnerable. The requirement of planned development brought with the dams, mines, industries and roads, all located on tribal lands. It may be noted as the tribals grapple with these tragic consequences, small bureaucratic programmes can not solve their pauperization, exploitation and disintegration of tribal communities. Some of the problems of tribals are: displacement of tribals, tribal land alienation, indebtedness, shifting cultivation, deprivation of forest rights, low literacy and high drop-out rates, inadequate and inaccessible health services, nutritional deficiencies and diseases, lack of adequate irrigation facilities, extreme poverty, endangering of intellectual rights, crimes or atrocities against STs, neglect of forest villages, extinction of primitive tribal groups etc.

Ninth, South East Asian and East Asian experience shows that globalization with better initial conditions have increased employment and incomes for workers and led to equitable development. Developing countries should learn from China on agricultural growth, rural non-farm employment, public investment and human development. The impact of growth on poverty reduction is quite significant. Elements of Chinese experience such as high and labor-releasing agricultural growth, favourable income distribution through broad-based agricultural growth, availability of infrastructure, higher levels of literacy and skills, inducements for the location of enterprises in rural areas, and easy access to credit and inputs are extremely relevant for developing countries. Those who support liberalization say that China’s high economic growth and impact on poverty is due to economic reforms since 1978. However, initial conditions before introduction of reforms are important.

Tenth, development of technology is important for inclusive growth. For example, the spread of green revolution to the poorer states in India shows its potential for reducing regional disparities in development. Also, small farmers benefited from technology. This is because gains from technology are widely distributed. Therefore, stepping up agricultural growth through the use of biotechnology holds considerable prospects for reducing regional and interpersonal disparities. Similarly, the experience with information technology is equally encouraging and holds the prospect for raising productivity in agriculture and industry.

Eleventh, inclusive governance is important. The focus of reforms can now be shifted to more efficient delivery systems of public services. It has been recognized that better governance is very important for equitable development and poverty reduction. For example, India has many social protection programmes to improve the capabilities and reduce risks and vulnerabilities. But, the effectiveness of these programmes are far from satisfactory. This is important for better implementation of sectoral policies and poverty alleviation programmes. Social mobilization, community participation and decentralized approach are needed. It may, however, to be noted that governance has to be contextualized in relation to socio-economic environment. Appropriate institutions are needed for better implementation of policies and programmes.

Twelfth, all over the world it is recognized that decentralization in terms of transferring power to local councils is important for development. For many state governments in India, decentralization means devolution of power from Centre to states. The experience of decentralization in terms of greater devolution of functions, finances and powers to PRIs and
urban local bodies in many states has not been satisfactory. The PRIs have to be strengthened for achieving growth with equity.

Thirteenth is the need to have economic reforms in relation to socio-economic environment. Calibrated approach is needed (Reddy, 2009). The rationale for the ongoing economic reforms in India, their consequences and prospects has generally been discussed in the parlance of economics. However, these ‘economic’ phenomena represent largely a superstructure, which is profoundly influenced by the underlying socio-political factors. The economic reforms may not be sustainable if the burden falls disproportionately on the poorer sections of the population. Therefore, there may be a need for meaningful economic reforms that is in line with socio-political factors. Also, we have to tackle structural inequalities rooted in caste, religion and gender.

Lastly, rights approach plays an important role in improving implementation for development programmes. Right to food, right to health and right to education, right to employment and right to information, right to social security etc. puts pressures on governments to deliver the services to citizens. . Basically we have to go beyond supply side and focus on demand side. Social pressures are needed for public action. Better monitoring systems have to be developed at Central, state, district and village levels to realize rights. Justiciability is one aspect of rights. However, one (particularly the poor) can not go to court every time right is violated. It is the responsibility of citizens and NGOs to organize campaigns for better functioning of the programmes.

5. Conclusion
Indian economy achieved high growth in the post-reform period. The average growth rate of GDP during 2004-08 has been around 9% per annum. 11th Five year Plan is aiming to achieve 9 to 10%. However, the post-reform period witnessed increase in disparities across regions and social groups and between rural and urban areas. Growth also bypasses certain vulnerable groups like physically and mentally challenged population, social disadvantaged groups like tribal groups, adolescent girls, small children, widows etc. There is a need to have a broad based approach in order to benefit all sections of the society. Inspite of its importance, the concern for employment in development thinking has been pushed aside particularly in the last two decades. It is important to place the employment issue (both quality and quantity) at the centre of the national and international agenda. Rural transformation is important for reduction in poverty, inequality and social exclusion.

We have discussed in this paper the issues and challenges in the most important aspects of rural transformation: agriculture, rural non-farm sector, employment, rural wages, land issues, food prices, education, health, skill development, financial inclusion, women and disadvantaged sections like SCs and STs. Improving decentralisation and governance are also part of equitable development. It is more challenging for the country to reduce poverty, inequality and social exclusion in rural areas than getting 8 to 10 per cent growth in GDP.

There are strong social, economic and political reasons for achieving rural transformation by reducing poverty and inequality. Socially, poverty and inequality lead to unrest among many people. There is also an economic argument. The measures which raise equity also promote
economic growth. In other words, there is no trade-off between equity and growth. Lastly, the political argument is that no government in a democracy can afford to ignore large sections of workers and non-working population. It is increasingly clear that the process of development in India must become more socially and economically inclusive. If it is not inclusive it can generate very severe social tensions that can lead to disruption and violence. Thus, politically, for having a stable and democratic society one needs poverty and inequality. The policies for higher growth and inclusive growth have to be followed simultaneously. The agenda of rural transformation has to be given highest priority in order to reduce exclusion, social tensions, inequality and improve overall economic development. India will be a running tiger if poverty and inequalities are reduced and have more inclusive approach to benefit all sections of society.

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