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## Poverty targeting in Asia: Country experience of India

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## **ADB Institute Discussion Paper No. 5**

### **Poverty Targeting in Asia: Country Experience of India**

**February 2004**

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CAG	Comptroller and Auditor General of India
CSS	Centrally Sponsored Schemes
DPAP	Drought Prone Areas Program
DPP	Desert Development Program
DRDA	District Rural Development Agency
DWCRA	Development of Women and Children in Rural Areas
EAS	Employment Assurance Scheme
EGS	Employment Guarantee Scheme
GDP	Gross Domestic Product
GoI	Government of India
IAY	Indira Awas Yojana
ICDS	Integrated Child Development services Scheme
IRDP	Integrated Rural Development Program
IWDP	Integrated Wastelands Development Program
JGSY	Jawahar Gram Samridhi Yojana
JRY	Jawahar Rogzar Yojana
KVIC	Khadi and Village Industries Commission
MDG	Millennium Development Goals
MWS	Million Wells Scheme
NFE	Non Formal Education
NGO	Non-government Organization
NOAPS	National Old Age Pension Scheme
NPNSPE	National Programme for Nutritional Support to Primary Education
NSAP	National Social Assistance Program
NSDP	National Slum Development Programme
NSSO	National Sample Survey Organization
ODA	Official Development Assistance
PDS	Public Distribution System
PMGSY	Pradhan Mantri Gram Sadak Yojana
PMRY	Prime Minister's Rozgar Yojana
PPP	Purchasing Power Parity
PRI	Panchayati Raj Institutions
PTP	Poverty Targeting Programme
REGP	Rural Employment Generation Programme
RPDS	Revamped Public Distribution System
RPS	Retention Pricing Scheme
SBA	Small Borrowers' Accounts

SC/ST	Scheduled Caste / Scheduled Tribe
SGRY	Sampoorna Grameen Rozgar Yojana
SGSY	Swarnjayanti Gram Swarozgar Yojana
SHG	Self-help Group
SITRA	Supply of Improved Toolkits to Rural Artisans
SJSRY	Swarna Jayanti Shahari Rozgar Yojana
SSA	Sarva Shiksha Abhiyan
TPDS	Targeted Public Distribution System
TRYSEM	Training of Rural Youth for Self Employment
UP	Uttar Pradesh
ZP	<i>Zilla Parishad</i>

## Poverty Targeting in Asia: Country Experience of India

### I. Introduction

This paper addresses two broad questions related to poverty alleviation in India: (1) how much in aggregate does the government spend on poverty targeted programs? and, (2) how effective have these programs been in targeting the poor and in alleviating poverty?

The apparently straightforward query as to how much does the county spend on poverty alleviation, and how is the money spent, has several complex answers. Like the proverbial elephant being explored by seven blind men, the answer depends on the slice put under the analytical lens. There are several reasons for this, starting from the fact that in intensely poor countries with pervasive poverty, it is arguably legitimate to characterize a vast spectrum if not virtually most government intervention as poverty reducing. These can include in principle investments in social and human capital, physical infrastructure, or even regulatory reforms to enhance economic growth. A first twist of the lens to focus on more direct poverty alleviation shows a slew of programs and interventions that may be characterized as “activity targeted” interventions, relying on broadly defined targets wherein the benefit incidence is expected to be higher on the poor than the relatively better off. These typically include government expenditures on social sectors such as health and education, particularly primary education and basic health services. A further narrowing of the lens leads to a focus on government interventions that, within the broad spectrum of activities to reduce poverty, explicitly seek to target the poor, and particularly the poorest of the poor, for impact.

Poverty alleviation in India displays the whole panoply of such interventions – from broadly targeted to narrowly focused – which are quite substantial in magnitude, but difficult to track comprehensively since there is little effort at transparency and consolidation. To begin with, there are large sums of public money spent on “activity targeted” interventions including expenditures on social sectors and subsidies for other economic services including irrigation, fertilizers, food and power. According to the Indian Constitution, a majority of social sector expenditures are in the domain of state governments, and total expenditures by states far exceed those by the central government. There are considerable variations across states in the amounts spent and in the implementation arrangements and efficiency of expenditure.

Expenditures on subsidies, though large quantitatively, are not always transparent. According to recent estimates by Srivastava et. al. (2003), aggregate budgetary subsidies of the central and state governments combined equaled Rs. 2357.5 billion in 1998-99. This amounted to almost 13.5 percent of the GDP at market prices, and roughly 86 percent of the combined revenue receipts of the center and the states. The share of the central government is about one-third of this amount, with the state governments accounting for the rest.

In addition to these broadly targeted expenditures in social sectors and subsidies, the Gol also implements Centrally Sponsored Schemes (CSS), which are implemented by state governments. Despite repeated calls for consolidating and rationalizing these schemes, CSS have continued to proliferate and in 2001 there were 360 schemes in operation. The CSS subsume most narrowly defined, direct poverty targeted programs, but also include several that are less directly targeted though they are explicitly aimed towards improving welfare of the poor. Selecting a core group of poverty targeted programs from the CSS portfolio thus inevitably entails qualitative judgment in some cases. Detailed information on the schemes under CSS is not easily available, being scattered across the numerous ministries that implement these

schemes. In addition, budget documents of the Government of India show total amounts transferred to states under Centrally Sponsored Schemes, but these amounts do not include larger flows transferred directly from the center to the districts, by-passing the state governments (see below). These transfers in 2001-02 amounted to Rs. 150 billion compared to Rs 100 billion shown in the budget documents under CSS, (Saxena and Farrington (2003)).

To address the second question above, assessing the effectiveness of direct poverty targeted programs, the paper focuses on five schemes that are nationally implemented, large in size, and include all relevant categories, namely, self employment, food for work, pure income transfers, and infrastructure creation. These schemes rely on a variety of targeting mechanisms, including self-selection and indicators (such as geographical location, social category, age, etc.). To retain focus and keep the discussion manageable, the large broadly-targeted expenditures on social sector and different subsidies are not dealt with in the main body of the paper but are briefly discussed in an appendix (Appendix 2).

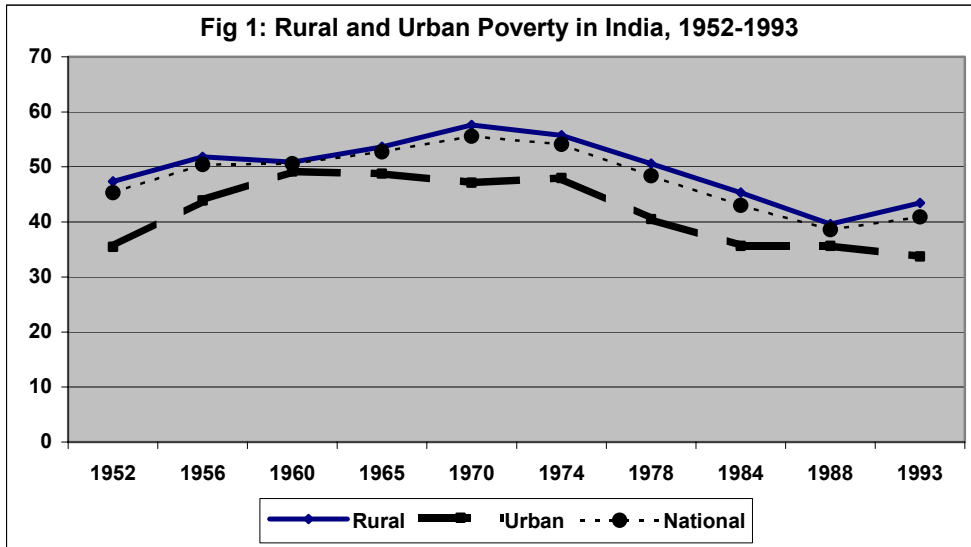
Given India's immense poverty, where more than 800 million people exist on less than USD 2 a day, it is important to ask whether poverty targeting is an important objective. *Targeting is most useful if there is a well-defined target within the whole, but less so when the target is almost as large as the whole.* This issue has been most vocally addressed in India in the context of food security through subsidizing food using the Public Distribution System (PDS). The PDS was provided universally until 1992 but has since then sought to more narrowly target the poorest among the poor, with relatively poor results in the sense of excluding large numbers of people that are nutritionally at risk. In assessing the effectiveness of poverty targeting programs in India, this broader context is worth keeping in mind. At the same time, the immense poverty also reinforces the need to directly assist the poorest among the many poor.

Since most poverty targeted programs in India are sponsored by the central government but implemented by state governments and lower levels of government at district level and below, it is necessary to provide a brief review of the federal fiscal architecture of the economy. This is done in the next section, along with an overview of poverty targeted programs in the country. Subsequently, in Section 3, a brief discussion of targeting mechanisms is provided, including "Administrative Identification" as implemented in India. The selected poverty targeted programs are reviewed in Section 4, followed by a discussion of emerging issues and lessons to be learnt.

## **II. Trends in Poverty**

South Asia is home to the largest number of poor in the world, and India accounts for the largest percentage of the region's share. The long-term performance of the Indian economy with respect to poverty reduction has been mixed, with poverty actually increasing in the first two decades after India became independent in 1947. However, there has been a sustained reduction in poverty since the 1970s. Figure 1 below shows trends in poverty incidence over four decades, measured by the Head Count Ratio of people under the national poverty line. Rural poverty declined from 55.7 percent in 1974 to 37.4 percent in 1991, while urban poverty fell from almost 48 percent to 33.2 percent during the same period, with the major proportion of this decline occurring between 1978 and 1987 (Appendix 1). Estimated poverty rates increased

after the macroeconomic crisis in 1991, though these estimates were based on a relatively smaller sample.<sup>1</sup>



The latest estimates for poverty in India, for 1999-2000, are deliberately not included in figure 1 since they are at the center of considerable controversy. According to these estimates, poverty in India had declined to 27.1 percent in rural areas with a national figure of 26 percent. However, the most recent household expenditure survey used a different methodology, resulting in a lack of comparability between the latest estimates and all earlier ones. The debate surrounding the latest poverty estimates in India is quite intense and wide-ranging, though largely arid at this stage given the fundamental lack of comparability between the latest estimates and those before. In a widely cited analysis, using official poverty lines of the Planning Commission, Deaton (2001) finds poverty in India declined from 36.2 percent in 1993-94 to 28.8 percent in 1999-2000. Unfortunately, though, the actual status on poverty in India as of date is ambiguous, with considerable skepticism attached to official figures.

Even with the latest questionable estimates, India remains the epicenter of poverty, both within South Asia and in the world, with as many as 259 million people below the national poverty line. In terms of the international poverty line of USD 1 per day (measured at 1993 purchasing power parity exchange rates), there are 358 million poor in India. If instead we use the norm of USD 2 per day, almost 80 percent of India's vast population is below poverty line, (World Bank (2003)).

In terms of the non-income dimensions of poverty too, India continues to display intense poverty with relatively poor indicators of social and human development relevant to the MDGs such as infant and maternal mortality, literacy levels, and gender inequalities, (Table 1). To the extent Poverty Targeted Programs (PTPs) can ameliorate these non-income dimensions of poverty, as is often their stated objective, these data only serve to highlight the importance and necessity of well functioning PTPs in the country.

<sup>1</sup> In recent years, household expenditure surveys to estimate poverty incidence have been undertaken quinquennially, alternating between "thick" and "thin" samples.

**Table 1: MDG related Human Development Indicators in India**

<b>MDG/Indicator</b>		
<b>MDG. Goal 1: Eradicate extreme poverty and hunger; Goal 2: Achieve universal primary education</b>		
1	Population living below \$1 a day (%),1990-2001	34.7
2	Share of poorest 20% in national income or consumption (%), 1990-2001	8.1
3	Children underweight for age (% under age 5), 1995-2001	47
4	Undernourished people (as % of total population)	
	1990-92	25
	1998-2000	24
5	Net primary enrolment ration (%)	
	1990-1991	-
	2000-2001	-
<b>MDG 2. Goal 3: Promote gender equality and empower women</b>		
1	Ratio of girls to boys in primary education	
	1990-91	0.71
	2000-01	0.77
2	Ratio of literate females to males (age 15-24)	
	1990	0.74
	2001	0.82
<b>MDG 3. Goal 4: Reduce child mortality; goal 5: Improve maternal health</b>		
1	Under-five mortality rate (per 1,000 live births)	
	1990	123
	2001	93
2	Infant mortality rate (per 1,000 live births)	
	1990	80
	2001	67
3	Maternal mortality ratio (per 100,000 live births), 1995	440
<b>MDG 4. Goal 6: Combat HIV/AIDS, malaria and other diseases</b>		
1	Malaria cases (per 100,000 people), 2000	7
2	Tuberculosis cases (per 100,000 people), 2001	199
<b>MDG 6. Goal 7. Ensure environmental sustainability; water and sanitation</b>		
1	Population with sustainable access to an improved water source, rural (%)	
	1990	61
	2000	79
2	Population with sustainable access to an improved water	



	source, urban (%)	
	1990	88
	2000	95
3	Urban population with access to improved sanitation (%)	
	1990	44
	2000	61

Source: Human Development Report 2003.

Poverty in India is overwhelmingly rural, with more than 70 percent of the poor in rural areas. As might be expected, small and marginal farmers and landless rural labor are important contributors in aggregate poverty. Poverty is also disproportionately higher in population groups belonging to Scheduled Tribes (STs) and Scheduled Castes (SCs), (see table 2 and Box 1 below).

**Table 2: Characteristics of the poor**

(Percentage of rural households below the poverty line, 1983, 1987-88, 1993-94)

	Livelihood Category	1983	1987-88	1993-94
1	Self-employed: Agriculture	38.99	35.88	27.11
2	Self-employed: non-Agriculture	42.89	36.11	29.13
3	Rural labor: Agriculture	63.2	59.63	50.56
4	Rural labor: non-Agriculture	44.13	43.66	34.62
5	Others	29.8	25.4	23.27
6	All households	46.8	42.25	34.7
7	Female-headed households	-	41.1	32.7

Source: Long and Srivastava (2002)

**Box 1: The Poor, the Very Poor and the Poorest**

ADB's *Participatory Poverty Assessment in Kerala* (2002) differentiated between the characteristics of the poor, the very poor and the poorest.

► "Although the poor may have a small plot and hut to live in, they do not have basic amenities and physical assets."

► "The very poor... are those who do not have more than one source of income, however irregular that income might be." The very poor are frequently engaged in casual coolie jobs which do not yield steady income. The very poor include those who have lost everything on account of fire or other disasters. This type of poverty... could be a temporary state, provided the victim has 'social capital' to leverage government and community resources to rebuild their lives."

► "The majority of these communities [poorest] belong to various tribes who live in remote forest areas. There is also a significant proportion of Scheduled Castes... who depend excessively on the forests for their livelihood. Families where the head of household is either mentally or physically challenged, or too old or chronically sick to work would fall into the category of the poorest. There are some women-headed households where the dual task of earning a livelihood and managing the family erodes the earning capacity of women. Then we have beggars who are totally destitute and are categorized as the Poorest."

(adapted from Long and Srivastava (2002))

### III. Overview of Poverty Targeting Programs (PTPs) in India

As noted, the Gol has large expenditures that, given the development status of the country and its poverty, could be related directly or indirectly to poverty reduction. In particular, substantial sums of public money are spent on broad, or “activity targeted” interventions including expenditures on social sectors and subsidies for other economic services, such as irrigation, fertilizer, food and power. This important group of interventions is excluded from the main discussion despite their quantitative importance so as to enable a sharper focus on more narrowly defined, direct poverty targeted interventions. The focus of the existing literature on social expenditures and subsidies in India is primarily their impact on public finances and their efficiency, both of which are less directly related to poverty reduction *per se*. In addition, as outlined below, “activity targeted” interventions in social sectors are constitutionally the responsibility of State Governments, with the result that specific interventions show considerable variations across different states.<sup>2</sup>

#### III.1 The Fiscal Context of PTPs: Federal Fiscal Architecture of India

The Constitution of India ordains distinct responsibilities for the Central and State Governments vis-à-vis expenditures and revenues for each level of administration. The fiscal architecture of the federation is designed to allocate responsibilities for revenue and expenditure between the Center and the States, as well as to equitably devolve resources from the Center to different regions of the large country. The structure, summarized in Table 3 below, reflects attempts at providing vertical and horizontal balances by emphasizing revenue collection at the Center and expenditures at the States’ level.<sup>3</sup> The Central Government collects all the major taxes and is obliged by the Constitution to share them with the states. In turn, States are responsible for expenditures in key areas, including sectors central to poverty alleviation such as health, education, rural development, and irrigation sectors.<sup>4</sup>

**Table 3: Expenditure and Revenue Responsibilities of Center and States**

Central Government Expenditures	Central Government Taxes
Defense	Corporate tax
Railways, highways, airways, shipping	Import duties
Posts and Telecommunications	Property and wealth tax
Heavy and other strategic industries	Income tax surcharges
Strategic industries	Stock exchange stamp duties
External Affairs	
Foreign Trade	

<sup>2</sup> Nonetheless, expenditures on subsidies and on social sectors are discussed briefly in Appendix 2.

<sup>3</sup> For example, in 1996-97 state governments raised about 37 percent of the combined revenues of the center and the states, but undertook over 58 percent of total expenditures by the two tiers of government. For a more comprehensive discussion of the federal fiscal architecture, see D.K. Joshi (1999).

<sup>4</sup> In addition to the Center and the States, a third tier of the government, namely local bodies, also exists but was not mentioned in the Constitution until 1993 when the 73<sup>rd</sup> and the 74<sup>th</sup> Constitutional Amendments assigned some functions to the local bodies, (Box 3 below). Finance Commissions have been formed at the States’ level to suggest resources for financing the activities of the local bodies.

<b>State Government Expenditures</b>	<b>State Government Taxes</b>
Irrigation	Personal income tax*
Power	Sales tax**
Education	Excise duties on alcohol and narcotics
Health	Urban property tax
Rural Development	Mineral taxes
Roads	Stamp and registration duties
Public law and order	
Culture	
<b>Shared Expenditure</b>	<b>Shared Taxes</b>
Population and family planning	Personal income tax*
	Excise duties (excluding alcohol & narcotics)
	Property and wealth tax
	Tax on railway tickets

\* Except agriculture and professional self-employment

\*\* India is planning to introduce Value Added Tax to substantially replace sales taxes.

Source: Hemming et al (1997).

With revenue raising concentrated at the center and expenditures assigned to states, the latter are compensated by statutory provisions for transfer of resources from the center through three channels that also seek to address horizontal equity in terms of regional distribution across states. These channels are the Finance Commission, the Planning Commission via support to the States' 5-year Plans, and via Ministries of the Government of India in the form of Centrally Sponsored Schemes (CSS). In 2001-02, annual transfers from the Center to the States under the Finance Commission were approximately Rs. 700 billion, while the corresponding figures for transfers through the Planning Commission and the CSS are Rs. 400 billion and Rs. 250 billion respectively.<sup>5</sup> Grants through these latter two channels are agreed through the Planning Commission and the Ministry of Finance.

<sup>5</sup> The fiscal year in India is from April 1 to March 31. These data refer to budget allocations. Actual utilization by the States is typically much lower due to various factors, (Shariff et.al. (2002)).

**Box 2: Plan and non-Plan expenditures versus revenue and capital expenditures**

A confounding aspect of government finances in India is the distinction between Plan and non-Plan expenditures, which co-exists and overlaps with the usual distinction of expenditures between revenue and capital expenditures. The Central Government budget in India delineates total expenditures (both revenue and capital) into Plan and non-Plan expenditures. Plan expenditures – both revenue and capital – have traditionally referred to new projects and programs. Non-Plan expenditure consists of regular government operations, including programs that have moved out of the Plan budget and into the regular appropriations process. Typically the non-Plan budget contains no capital spending, although there are minor exceptions to this generalization.

Conceptually, therefore, Plan and non-Plan expenditures correspond significantly with the notions of revenue and capital expenditures. However, non-Plan expenditures also include the accumulation of Plan expenditures since new projects and programs initiated under a Plan period are subsequently classified as non-Plan expenditures. Most expenditure on education and health sectors are classified as non-Plan, since the schemes relating to these sectors are in existence over several Plan periods. It was initially thought states would raise their own current revenues (including transfers from Finance Commission) to meet non-Plan expenditures, including salaries and interest payments, while Plan transfers would assist states in creation of new assets.

Severe worsening of public finances of virtually all states in the country during the past decade has further eroded distinctions between Plan and non-Plan expenditures. For example, many irrigation schemes are not being shown as complete even though they started in the 1960s, so that they continue to be included in Plan expenditures, to cover salaries. Staff who were earlier paid out of non-Plan expenditures are now being shown against the Plan, while states have severely cut back on operations and maintenance expenses of assets already created. In addition, about one third of states' borrowing, ostensibly for Plan purposes, is being diverted to meet non-Plan expenditures, primarily salaries (Saxena and Farrington (2003)). Although several recommendations have been made to eliminate the Plan and non-Plan distinction, including by the Tenth Finance Commission, they have yet to be implemented.

The Finance Commission is a constitutional body appointed by the President of India every five years, whose main objective is to recommend devolution of tax revenues from the center to the states. It also recommends grants-in-aid to states that need additional assistance. Finance Commissions have been concerned primarily with the devolution of income and excise taxes, using these grants to address residual fiscal imbalances across the states. Transfers to states effected through the Finance Commission are essentially on the revenue account, and quite flexible in terms of their uses. Recommendations of the Finance Commission are generally adopted by the Central Government.<sup>6</sup>

The Planning Commission, chaired by the Prime Minister, recommends financial support for states primarily to meet their capital expenditures, within the framework of the existing national five-year development plan and the States' 5-year Plans. Transfers through the Planning Commission are based upon socio-economic parameters including the proportion of population below the poverty line, tax effort of the states, and special problems facing specific states, but are not linked to the size of the states' development plans.

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<sup>6</sup> *ibid.* The 11<sup>th</sup> Finance Commission is currently in session, under the chairmanship of a former governor of the central bank who is also now governor of the state of Andhra Pradesh.

The Centrally Sponsored Schemes (CSS) are meant to supplement the resources of the State governments, who are responsible for the implementation of the schemes.<sup>7</sup> These are not statutory transfers but determined each year by the Finance Ministry of Government of India in consultation with the Planning Commission. Transfers under the CSS are relatively inflexible, bound by the provisions and guidelines attached to individual schemes, while the first two channels transfer resources as either grants or combinations of grants and loans. The CSS are the center of gravity of targeted poverty interventions in India with almost all the major PTPs a large subset of these schemes.

The broad approach underlying the Government's poverty targeted programs embodied in the CSS is three pronged:

- Provision of assistance for creating an income generating asset base for self-employment of the rural poor.
- Creation of opportunities for wage employment.
- Area development activities in disadvantaged and poor regions.

This strategy is supported by a cross cutting theme of improving basic infrastructure and quality of life in rural areas, and by specific programs for social security for the poor and destitute through income transfers.

The CSS, including PTPs have a political genesis starting with the electoral strategy of Prime Minister Mrs. Indira Gandhi in late 1960s based on the populist slogan of *Garibi Hatao* (Eliminate Poverty). This strategy led to several initiatives such as nationalization of commercial banks and initiation of numerous poverty targeted schemes sponsored by the central government and bypassing the state governments, many of which at that time were ruled by other political parties.<sup>8</sup> This trend, once initiated, persisted even after the death of Prime Minister Gandhi, with the result that central government involvement has continually increased in subjects under the State governments, such as education, health, and poverty alleviation. Subjects such as population control and family planning, forests and education have been brought from the "State list" to the "concurrent list", under jurisdiction of both central and state governments, through constitutional amendments. The central government has steadily increased funding and number of CSS, with a dominant share of this funding going straight to district administration, bypassing the state government and placing the district bureaucracy somewhat directly under the central government. Severe deterioration in public finances of state governments, in part due to declining aggregate transfers to states from the center, have resulted in CSS as often being the only schemes in the social sector that are operational at the ground level, with states having little control on them. *Poverty alleviation in India (as in many other countries) is clearly as much about politics as it is about the poor.*

The political overtones of CSS allocations are as evident today as they were at the start of these schemes. Much like then, several states are ruled by political parties not part of the coalition in power at the center. Rao and Singh (2000) document evidence of considerable discretionary, non-economic considerations in transfers through CSS, with states having greater bargaining power at the center receiving larger per capita transfers (including Plan transfers). In addition, many poor states are unable to provide matching transfers for the CSS, resulting in lower utilization of central transfers. Nonetheless, the CSS comprise the core of targeted

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<sup>7</sup> Initially most of these schemes were fully financed by the central government but this has evolved over time into a shared burden with states contributing anywhere from 10 to 90 percent of the scheme funding, with 25 percent as the typical norm.

<sup>8</sup> Saxena and Farrington *op.cit.*

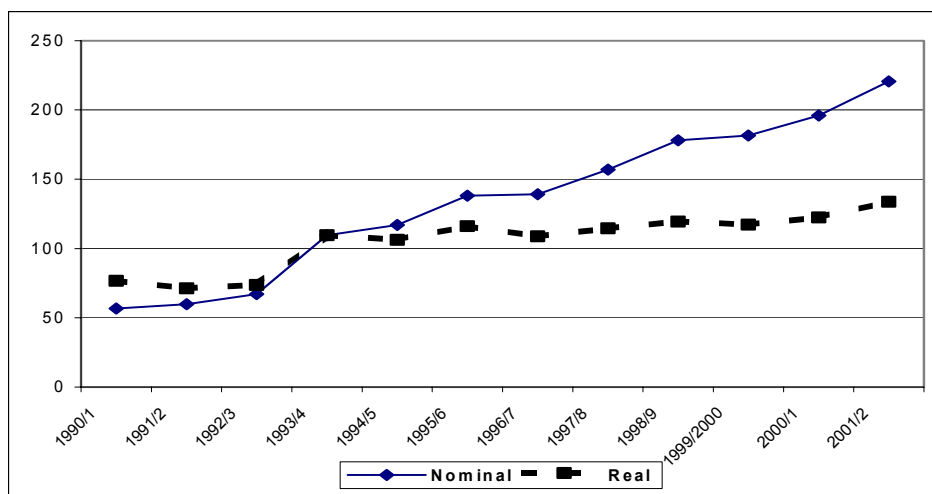
poverty programs in the country, aside from broad-based poverty initiatives such as expenditures on primary health and primary education. Most specific programs targeted at poverty alleviation are a component of the CSS.

### III.2 Poverty Targeting Programs in India: An Overview

Despite severe fiscal imbalances in the country, manifested in continued high fiscal deficits through most of the 1990s, CSS have proliferated with abandon during the decade. In the terminal year of the Ninth 5-year Plan (2001), there were 360 schemes in operation as CSS. The latest 5-year Plan in the country has called for a convergence of similar schemes and the elimination of schemes that have outlived their utility, viewing the “mushrooming growth” of CSS as a “case of the state overreaching itself”.<sup>9</sup> The Planning Commission recommended eliminating 48 schemes, merging 161 schemes into 53, and retaining the remaining 135 schemes, implying a continuation forward of a total of 135 schemes.

The large number of schemes under CSS are a major source of ambiguity in assessing total government expenditures on PTPs, since some of the schemes are directly targeted at poverty alleviation while others have less direct yet substantial benefits for the poor in the medium and long term. The selection of specific schemes as poverty targeted will necessarily be qualitative, and vary according to sources. Figure 2 below provides trends in total expenditure on PTPs during 1990s based on one such classification.

**Figure 2: Trends in central government expenditures on PTPs**



(nominal and in 1993-94 prices)

Source: Shariff et al (2002)

As can be seen, expenditures have increased substantially in nominal terms, by almost a factor of 500 percent. However, due to relatively high inflation rates in the first half of 1990s, the increase in real terms – in 1993-94 prices – has been relatively more modest. In particular, expenditures in real terms remained relatively static during the 1990s following an increase in 1993-94, and have only increased more recently in 2000.

<sup>9</sup> GoI (2000).

For comparison, table 4 provides estimates by the Planning Commission on poverty related schemes in 1999-2000. According to these estimates, total expenditure on poverty programs was Rs. 342.6 billion, but if we exclude the subsidies on food and kerosene oil, the total is only Rs. 170.2 billion. However, these data do not include transfers directly to the district governments by the center, that as already noted can be substantial (Rs. 150 billion in 2002).

**Table 4: Poverty programs in India, 1999-2000**

<b>Name of the Program/ Ministry</b>	<b>Budget allocation in 1999-00 (Rs billion).</b>
Rural Development Schemes	94.3
Food Subsidy	92.0
Subsidy on kerosene	80.4
Health & Family Welfare(only 70% of the outlay)	28.4
Social Justice & Empowerment Sector	12.1
Integrated Child Development Services	11.5
Mid day meal	10.3
DPEP	7.6
Watershed development through agriculture	2.3
Tribal Development	1.9
Swarnajayanti Shahari Rozgar Yojana (Urban Poverty)	1.8
<b>Total</b>	<b>342.6</b>

Source: Gol (2000), ch. 31

Although the estimates vary, they are quantitatively in the same order of magnitude. Nayak et.al. (2003) estimated total expenditures on schemes under CSS at approximately Rs. 250 billion in 2000, including direct transfers from center to the districts. This amount was almost 3-4 times higher than all Official Development Assistance to India in 2000, which was USD 1.49 billion or almost Rs. 70 billion (at an exchange rate of Rs. 47/USD 1). Thus, notwithstanding a relatively static trend in real terms through much of the 1990s, expenditures by Government of India on PTPs are higher by significant orders of magnitude compared to all ODA coming into the country. Not all CSS are narrowly defined poverty-targeted programs, since some of them may be more broadly targeted, focusing on irrigation or road development for example. At the same time, these amounts are also supplemented by expenditures made by state governments to share in costs of the schemes under CSS.

**Table 5: Distribution of Central Plan allocations through Gol Ministries (by heads of development)**

	Sixth Plan 1980/1- 85/6	Seventh Plan 1985/6- 1989/90	Eighth Plan 1992/3- 1996/7	Ninth Plan 1997/8- 2001/2	2002-03
Industry and Minerals, Energy, Communications	<b>51</b>	<b>44</b>	<b>25.3</b>	<b>16.9</b>	<b>13</b>

Agriculture, Irrigation, Rural development, Health and Family Welfare, Education, Water, Sanitation, Housing, Urban Development, SC's and ST's Welfare	<b>33</b>	<b>40.6</b>	<b>62.5</b>	<b>61.3</b>	<b>55.3</b>
Transport	<b>14.1</b>	<b>14.1</b>	<b>9.3</b>	<b>17.3</b>	<b>21.3</b>
Others	<b>1.9</b>	<b>1.3</b>	<b>2.9</b>	<b>4.5</b>	<b>10.4</b>
Total	100	100	100	100	100

Source: Government of India (2000), cited in Saxena and Farrington (2003).

Table 5 shows trends in the relative composition of schemes under CSS over the last two decades in terms of broad heads of development. Evidently, the share of schemes under agriculture and rural development and social sectors has been rising consistently, exceeding 60 percent in the previous decade, at the expense of schemes targeted at industry and minerals, energy and communications sectors. There was a marked increase in 2002-03, the first year of the Tenth 5 year plan, in the share of schemes directed at transport and in the share of "others", which is due to several new schemes announced for impoverished North-Eastern states of the country. The increased share of transport reflects a major expansion of road construction in India funded by the center but implemented by states

The large expenditures on poverty reduction through the CSS are difficult to track for two reasons. First, they are routed through different ministries of the Government of India with little centralization of the relevant information. For example, although the aggregate budget of the Government of India provides budgetary allocations on different schemes, the information is scattered across accounts of different ministries implementing the schemes. In addition, even within the relevant ministries, the funds are allocated across numerous schemes, some large and some quite miniscule.<sup>10</sup> As noted already, while the expenditures on the CSS in real terms have not risen sharply, the schemes themselves have proliferated resulting in numerous instances of renaming schemes accompanied by merging and restructuring of schemes that allocate specific components into other newly created/renamed schemes. The result is erosion of transparency.

Table 6 below presents an overview of direct poverty targeted programs in India, identifying major schemes under the CSS and the ministries implementing the schemes. Only schemes with central funding exceeding Rs 1 billion in 2001-02 are shown in the table.<sup>11</sup> Clearly, several ministries of the central government are involved in implementing PTPs, but the major entity involved is the Ministry of Rural Development, in terms of number of major schemes. This is natural given the vast majority of poor in India live in rural areas. Allocations are much higher for schemes implemented by the Department of Public Distribution under the Ministry of Consumer Affairs, that provides subsidized food under the PDS targeted to those below the poverty line, and the Ministry of Fertilizers, (Appendix 2). However, fertilizer subsidies are distributed to the producers rather than directed to poor farmers.

<sup>10</sup> For example, during the Ninth 5 year Plan the Department of Agriculture and Cooperation ran 147 schemes with a five year outlay of Rs. 92.3 billion, implemented by 7500 people working in 182 offices across the country. Similarly, there were 17 independent schemes under the Department of Women and Child Development – all aimed at development of women, (Government of India (2000), ch. 31).

<sup>11</sup> Table in Appendix 3 provides greater details on more schemes, including those with budgets far smaller than Rs. 1 billion in 2001-02.



**Table 6: Major poverty targeted programs of Government of India**

Ministry/Department	Schemes	Central Funding 2001-02 (INR billions)	%of Total Expenditure	%of GDP
<b>Ministry of Rural Development</b>	1. Swarn Jayanti Gram Swarozgar Yojana (SGSY)	5.5	0.15	0.026
	2. Jawahar Gram Samridhi Yojana (JGSY)	18.8	0.52	0.090
	3. Employment Assurance Scheme (EAS)	18.8	0.52	0.090
	4. Sampoorna Grameen Rozgar Yojana (SGRY)	87.5	2.41	0.418
	5. Indira Awas Yojana (IAY)	16.9	0.47	0.081
	6. National Social Assistance Program (NSAP)	6.4	0.18	0.031
	7. Annapoorna Scheme	1.0	0.03	0.005
	8. Pradhan Mantri Gram Sadak Yojana	25.0	0.69	0.120
	9. Integrated Wastelands Development Program (IWDP)	4.3	0.12	0.021
	10. Drought Prone Areas Program (DPAP)	1.6	0.04	0.008
	11. Desert Development Program (DPP)	1.2	0.03	0.006
<b>Ministry of Urban Development and Poverty Alleviation</b>	1.National Slum Development Program (NSDP)	2.8	0.08	0.013
<b>Department of Public Distribution, Ministry of Consumer Affairs</b>	1.Targeted Public Distribution System (TDPS) and Antyodaya Anna Yojana (AAY)	176.1	4.86	0.842
<b>Department of Education, Ministry of Human Resource Development</b>	1.Non Formal Education (NFE)	4.0	0.11	0.019
	2. National Programme for Nutritional Support to Primary Education	9.3	0.26	0.044
	3. Operation Blackboard Scheme	5.2	0.14	0.025
	4. Sarva Shiksha Abhiyan	5.0	0.14	0.024
<b>Department of Fertilizers</b>	1. Retention Pricing Scheme (RPS)	73.7	2.03	0.352
	2. Concession Scheme for de-controlled fertilizers	45.2	1.25	0.216
<b>Ministry of Agro and Rural Industries</b>	1. Prime Minister's Rozgar Yojana	1.9	0.05	0.009
	2. Rural Employment Generation Programme (REGP)	1.2	0.03	0.006
	3.Khadi and Village Industries Commission (KVIC)	2.5	0.07	0.012
<b>Ministry of Social Justice and Empowerment</b>	1. Special Central Assistance To Special Component Plan For Scheduled Castes	4.5	0.12	0.022
<b>Department of Women and Child Development, Ministry of Human Resource Development</b>	1. Integrated Child Development services (ICDS) Scheme	12.2	0.34	0.058

Source:., Appendix 3. Percentages with respect to GDP and total government expenditure derived from National Accounts Statistics.

#### IV. Targeting measures used in anti-poverty programs

There exist a large number of small and big PTPs in India, channeled through different ministries of the central government, and with different modalities of implementation. Some of these schemes are implemented by the state governments while others have larger proportion of funds flowing directly from the center to district administrations. Obviously, a comprehensive review of each and every PTP would be neither feasible nor desirable. The discussion below therefore centers on a select subset of the PTPs, based upon their relative quantitative importance, availability of information relating to their implementation monitoring and evaluation, and relevance to the objectives of the present analysis, based upon targeting design and effectiveness of the scheme. The schemes chosen include examples of pure income transfer, food for work, self-employment and infrastructure generation.

First, however, a brief discussion of targeting mechanism in the Indian context is useful. A widely used categorization of targeting mechanisms that can be used to classify PTPs is as listed below.

- **Self-targeting**:: Such schemes rely on differential incentives of agents in tackling the problem of asymmetric information between the principal (the government providing poverty relief) and the agents (households or individuals affected by the government schemes). The design of the schemes has the objective of making the scheme worth participating in only for those who are poor, not for others.
- **Activity targeting**: Relies on “broad” targeting, primarily through subsidized provision of goods and services whose benefit incidence will be progressive, i.e., falling largely on those poor rather than better-off. Examples typically include primary education, provision of primary health care and basic health services in rural areas, and broadly targeted subsidies for irrigation, power and fertilizers. As noted already, these broadly targeted interventions are not included in the analysis of the paper, but are briefly discussed in Appendix 2.
- **Location targeting**: Based on geographical distribution of poverty, seeking to target interventions in geographic areas with high concentration of the poor.
- **Indicator targeting**: Relies on non-income indicators that are meant to be correlated with poverty. These can include lack of or size of ownership of land, form of dwelling, social status, gender of head of household, etc.

Asymmetric information between the government, seeking to provide transfers to the poor, and individuals or households in the economy who can legitimately or otherwise seek these transfers, is the *raison de être* of targeting. The underlying rationale of these targeting mechanisms is that administrative and other costs of identifying those who are poor are high, potentially reducing the resources that would be transferred to the poor under the scheme. Targeting mechanisms are a contractual/program-design innovation in response to the information asymmetry and the high costs of overcoming the information barrier.

However, this framework is implicitly less than comprehensive in approach, in the sense of focusing only on one scheme at a time. In a context where the principal (in a principal-agent context) has several schemes in operation, the administrative costs *per scheme* (of overcoming information asymmetry) can get diluted substantially, thereby vitiating the need for indirect targeting mechanisms for any specific scheme. Put alternatively, the issue of whether or not the administrative costs of identifying the poor are undertaken by the government usually does not depend on any specific scheme. In an inter-temporal context, where the government does not know what specific schemes it may want to implement in near future, “tagging the poor” – **Administrative Identification** – may provide externalities in terms of greater choices of schemes and their designs.

This is an important issue, as shown by the Indian experience where a large number of government poverty-targeted schemes rely on “Administrative Identification” (AI) to select beneficiaries. As shown in the table in Appendix 3, the most common criterion used in government schemes is that beneficiaries should be households below the poverty line (or BPL households). Other criteria, such as focusing on SCs/STs (which *per se* would represent indicator targeting in the Indian context) are overlaid on the BPL status. As mentioned above, it may be argued that with an aggregate annual budget on CSS schemes exceeding Rs. 250 billion, it may be worthwhile for the government to undertake AI to better target the poor. Indeed, analytically it is perhaps more pertinent to ask why other targeting mechanisms should exist at all once AI has been undertaken. For example, some schemes listed in Appendix 3 rely on self-selection (e.g., food-for-work and rural employment scheme), geographical location, social category (SC/ST). Use of indirect targeting mechanisms in conjunction with AI may reflect in part the recognition that implementation of AI may be imperfect due to various reasons. In particular, the process itself may suffer from high Type I and Type II errors, as discussed below, resulting in exclusion of many poor and inclusion of many non-poor. In addition, the frequency of identification is necessarily spread apart in time, which would make it impossible to differentiate between transient and chronic poverty, (e.g., to differentiate the needy seeking food for work in face of natural calamity).

### ***Administrative Identification: Tagging BPL (Below Poverty Line) Families***

Since most PTPs currently in existence directly or indirectly rely on administrative classification of households into BPL and APL (Above Poverty Line), it is useful to briefly explain how this identification is undertaken. The exercise is intimately related to government efforts to provide food security to the population through the Public Distribution System (PDS). The PDS is a major component of aggregate subsidies spent by the GoI and is discussed more in Appendix 2.

The PDS, in its earlier forms, dates back to almost fifty years ago and was a general entitlement scheme with universal coverage until 1992. It provided rationed quantity of basic food (rice, wheat, sugar, edible oils) and some essential non-food items (kerosene oil and coal) at prices substantially below market prices. The central government was responsible for procuring, storing and transporting the PDS commodities up to central warehouses in each state/union territory, while the state government was responsible for distribution within the state.

While the universal coverage of PDS continued, the government introduced two major changes, the first in 1992, in the form of the Revamped PDS (RPDS) and, subsequently, in 1997 as the Targeted PDS (TPDS), both innovations targeted at poor households. The RPDS relied on geographical targeting, being introduced with universal coverage in only 1775 blocks in poor areas – mainly tribal and hilly, drought prone and remotely located areas. The TPDS, on the other hand, was implemented in all areas but was open only to those identified as BPL. Along with the introduction of the TPDS, the price differential between PDS shops and open market was almost eliminated, effectively providing subsidized food only to BPL families.

At the core of the TPDS was division of the entire population into BPL and APL categories, based on the poverty line defined by the Planning Commission of India for different states for 1993-94. Multiple criteria were adopted for classification of BPL households, which in addition to income also included qualitative parameters like household occupation, housing conditions, number of earners, land operated or owned, live-stock, and ownership of durables

such as TV, refrigerator, motor cycle/scooter, three wheelers, tractors, power tillers, combined threshers, etc. The responsibility for undertaking surveys and identifying the poor was with the state governments. However, the total number of BPL families in each state was capped somewhat arbitrarily at state-level estimates of the poor made by the Planning Commission using data for 1993-94, adjusted for growth in population in the interim.

### ***Identified shortcomings of the BPL/APL targeting***

Despite introduction in 1997, surveys for identification of BPL families were not completed in 18 out of 31 states by 2000 (CAG (2000)). Even in states where identification was completed, identification cards were not provided to a significant number of BPL families. Thus, implementation of the AI exercise has been slow and inefficient.<sup>12</sup>

A major criticism of the targeting is also that it has wrongly excluded a large number of eligible families. There are several reasons for this, both conceptual and operational. Conceptually, the main issue has been the appropriateness of income poverty to define the poor, specifically the absolute poverty line used by the Planning Commission. It is argued the official poverty line represents too low a level of absolute expenditure, which may exclude large sections of the population who experience low and variable incomes. If other criteria are used, such as nutrition, the number of households that can be deemed poor is much higher than ceiling figures estimated by Planning Commission in 1993-94, (GoI (2002)).<sup>13</sup>

Operationally, as noted, identification surveys have not been completed in 18 of 31 states and, across the nation, 18 percent of families identified as BPL do not have identification cards. Even where surveys have been conducted, there still remain concerns on accuracy given the difficulties of measuring income. Since there are no regular official estimates of actual household incomes, implementation of BPL identification is subject to substantial practical and administrative problems. For example, an evaluation of the TPDS in Uttar Pradesh – one of the poorest states in India – by the World Bank based on the UP-Bihar Survey of Living Conditions (1997-98) found that 56 percent of households in the lowest income quintile did not get BPL cards. In the next quintile, 63 percent of the households were without the identification cards.

Thus, the AI exercise to classify all households into BPL/APL has been implemented with several shortcomings. Its progress has been slow, inefficient/corrupt and the results are not always reliable, with substantial errors of both type II and I. However, this exercise is used by a majority of the schemes in operation today that are targeting the poor households.

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<sup>12</sup> In a case study of three villages in Uttar Pradesh, one of the largest and poorest states in the country, Srivastava (2004) documents the process of identification of BPL households. None of the villages had BPL cards issued, though the “survey” was completed. In practice, the survey was substituted by a list of BPL households in each village drawn up by the Village Development Officer in consultation with the village chief (instead of an open meeting of the village/Gram Sabha) and forwarded to the district level. At the same time, it was expected some names from the list would be deleted at higher levels of administration due to ceiling on total number of poor. Meanwhile, many village residents were confused by a profusion of color-coded cards allowing different privileges, due to cards issued earlier as part of the PDS as well as other cards issued under a state-government scheme targeting poor households.

<sup>13</sup> For example, according to the National Sample Survey, 70 percent or more of the total population consumed less than 2100 calories per day in all available years since 1993-94. Data from the National Nutrition Monitoring Bureau shows that 48 percent of all adults are malnourished while according to the National Family Health Survey, almost 47 percent of all children are malnourished, (Karat (2003)).

## V. Survey of impact of targeting measures

This section provides a selective survey of five major PTPs of Gol as listed below.

1. Rural employment program (Sampoorna Grameen Rozgar Yojana, or Comprehensive Rural Employment Scheme).
2. Self-employment scheme (Swarnajayanti Grameen Swarozgar Yojana (SGSY), or Golden Jubilee Rural Self Employment Scheme).
3. Rural Housing Scheme (Indira Awas Yojana (IAY)).
4. National Old Age Pension Scheme (NOAPS).
5. Drought Prone Areas Program (DPAP).

The first scheme in the list is the main program for rural employment generation for needy poor, and subsumes all food-for-work programs, while the second scheme is the national PTP geared towards assisting the poor through asset creation to generate self-employment. The third and fourth schemes (IAY and NOAPS) are the most important schemes for pure income transfer, while the last scheme aims at creating infrastructure for poor.

### Box 3: District and Village Level Administrative Structure in India

Each State and Union Territory in India is divided into distinct administrative units called Districts. Most state government departments are represented at the District level by their own officers. The districts have separate units for development and for revenue administration, (without necessarily a clear overlap between development units and revenue administration units). The development units are called Blocks, which were originally envisaged as having attached to them all development functionaries needed to provide development services. Over time, however, the Block office has evolved to focus primarily on Rural Development Programs. Each block has one or more Block Development Officer (BDO), along with Extension Officers and extension workers at the village level.

Under the 73<sup>rd</sup> Amendment to the Constitution, States were required to introduce a strengthened system of local government (*Panchayat Raj*). The government structure at district level and below is now three tiered, though the names of each tier occasionally vary across states. The three tiers are (1) **Zilla Parishad** at the District Level; (2) **Panchayat Samiti** at the Block Level; and (3) **Gram Panchayat** at the local level, typically comprising a group of villages. In addition, each village has a **Gram Sabha** or village assembly comprising all adults in the village, and to which certain development and other functions are allocated.

Although the effective transfer of power to lower tiers of government has varied across states, most CSS including PTPs are implemented through local government units.

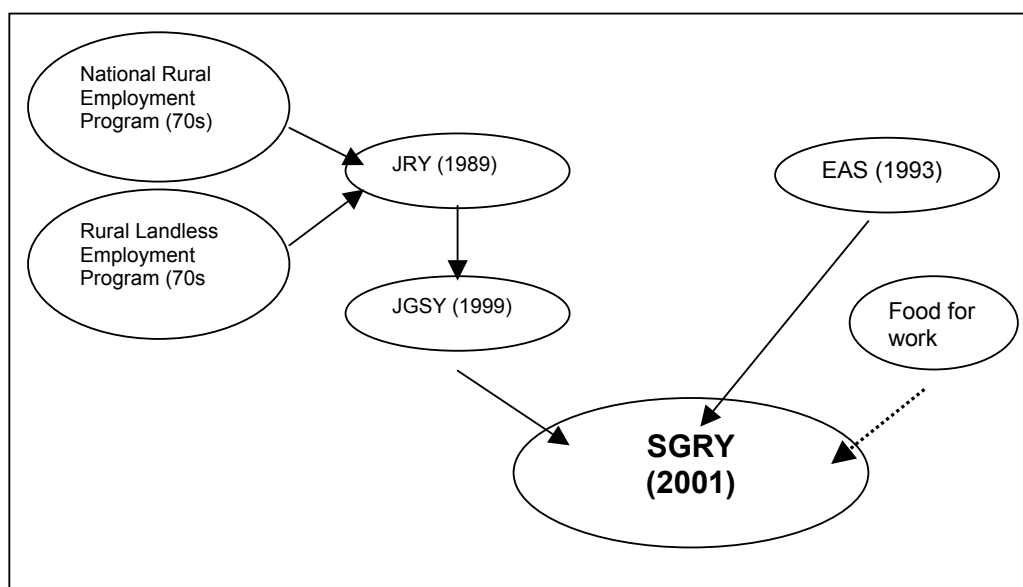
### 1. Rural employment program, including food for work – SGRY.

The SGRY, targeting poverty reduction through employment generation, has a long history in India, spanning several incarnations. Its genesis lies in the National Rural Employment Program and the Rural Landless Employment Program, both of which were initiated in the early 1970s, but subsequently merged into a new scheme called Jawahar Rogzar Yojana (JRY) or the Jawahar Employment Scheme in 1989. The JRY was meant to offer additional gainful employment to the unemployed and the under-employed people in rural areas through creation of rural economic infrastructure. However, the program fell short of objectives in several ways. Employment generation was too inadequate to be meaningful, with an average of roughly 11 days of employment created per person according to an evaluation in 1994 (Gol (2000)). The resources available were spread too thinly so as to increase coverage without concern for

duration of employment. The asset creation involved high material costs and was not particularly labor intensive, in flagrant violation of prescribed norms. Other routine violations included the use of contractors or middlemen who often hired outside laborers to lower the wage rates, and used trucks and tractors instead of labor intensive techniques. Fudging of muster rolls and measurement books was thus rampant. Only 17 percent of jobs generated under the JRY went to women, against a target ratio of 30 percent.

According to estimates presented by Dev and Evenson (2003), the cost of transferring one rupee under the JRY was rupees 2.28. This can be compared to a cost of rupee 1.85 per rupee transferred under the Maharashtra Employment Guarantee Scheme, a relatively better run program (see box 4) and a high ratio of rupees 6.68 per rupee transferred under the PDS (appendix 2). In view of its deficiencies, the JRY was restructured and transformed in 1999 into a new scheme – the Jawahar Gram Samrudhi Yojana (JGSY) or the Jawahar Rural Advancement Scheme, which explicitly prioritized asset creation as the primary objective, followed by wage employment. No evaluation studies of JGSY are available since it lasted only a short time before being merged into a new scheme, the SGRY.

**Figure 3: SGRY – Scheme History**



The transformation of the JRY into the JGSY was preceded by a parallel scheme launched in 1993 – the Employment Assurance Scheme (EAS) – that had similar objectives as the JRY/JGSY but with reversed priorities. The EAS, which was in implementation through most of the country by 1997-98, had the primary objective of creating additional wage employment for rural poor through manual work in periods of acute shortage of employment opportunities, with asset creation as a secondary objective. The EAS relied on self-targeting by setting of wage rates below market wages. However, the EAS showed similar failings in implementation as its close variant, the JGSY. For example, the scheme generated on average only about 17 days of employment per year per person according to a study by the Controller and Auditor General of India (GoI (2000)). The objective of the EAS was, by comparison, to provide assured employment of 100 days per year at statutory minimum wages. The self-selection targeting was subverted by routine use of contractors in most states, fudging of the employment rolls, and

violation of norms that called for a 60:40 split of wages and materials in asset creation. As a result, in three states – West Bengal, Gujarat and Haryana – the **estimated unit cost of generating a day's employment was Rs. 200 to Rs. 300, far in excess of wage rates**. For the country as a whole, the mid-term evaluation estimated only Rs. 15 of every 100 rupees' expenditure reached the beneficiaries wages, against a target of Rs. 60. No inventory of assets was kept, making it difficult to ascertain whether assets created were community assets or for individual benefit. In addition, with deteriorating finances of state governments, allocated funds did not reach the ground in many cases, in part due to lack of matching funds from state governments.

Amongst similar problems in the implementation of the EAS, a review by the Planning Commission (PEO(2000)) found effective rates of utilization of funds was only about 67 percent of the notional minimum allocations of administrative blocks. This reflected in part lack of matching funds from state government preventing release of funds, and also *ad hoc* and untimely release of funds by the governments. For example, the first part of central government allocation (40 percent of the total allocation) was to be provided at the beginning of the financial year, with the remaining to be released at receipt of utilization certificates. In practice, however, in more than half the 14 states studied, states received more than 50 percent of their allocation in the last quarter of the year. There was also evidence of significant diversion of funds, reflected in mismatch between allocation and expenditure of funds at different nodes of implementation of the scheme. This diversion was also noted by the report of the Controller and Auditor General of India (CAG (1997), No.3). PEO (2000) also found only 32 percent of villages were covered by the EAS in an average block, with little consistency in implementation within specific villages. Thus, only 5.4 percent of villages covered in a block typically had the EAS operations in each year during the first four years of the EAS (1993-97). Thus, coverage of villages within specific blocks was *ad hoc*, allowing discretion to district administrations, and there was little credibility in terms of providing assurance of employment in the villages actually covered. In addition, the study estimated that on average the EAS implementation covered only 16 percent of the target group in the chosen villages. Thus, the effective annual coverage of the target groups in ten of the 14 states was less than 10 percent, being as low as 1 to 3 percent in some states. Combined with the small number of days of employment generated per person on average, the impact of the EAS on household incomes was negligible. Although the EAS was quantitatively more significant as a source of income than other government wage employment programs running in parallel in the villages, it contributed only 11.5 percent of household annual income to the extremely limited group of selected beneficiaries.

Thus, in practice, there was little difference between the JGSY and the EAS, in terms of both objectives and implementation failures, with the only substantive difference being administrative. The JGSY was being implemented by the village-level institutions (PRIs) while the EAS relied on the state administrative apparatus.<sup>14</sup> In September 2001, on-going schemes under the EAS and the JGSY were merged into a new scheme – the SGRY. The objectives of SGRY are to provide additional wage employment in rural areas as also food security, alongside the creation of durable community, social and economic assets and infrastructure development. A part of wages to the workers is to be distributed in the form of 5 kilograms of food grains per manday. The cash component is shared by the central and state governments in the ratio of 75:25, while

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<sup>14</sup> Administratively, people seeking to work in EAS had to apply and get registered first. A project report had to be prepared initially, submitted to the district administrator (Collector), who then would seek funds from the central Ministry. In practice, "the Collector receives the funds first, then decides the area where the funds would be spent (the choice is often on political grounds), the government Department to whom these funds would be placed, followed by preparation of a project and in the end, during execution of the project, the Department gets application from those actually employed", (Gol (2000), p. 217).

the cost of food grains distributed to the states is borne entirely by the central government. The SGRY is implemented in two streams with each stream receiving half of the total resources available. The first stream is implemented through District and intermediate elected bodies (DRDAs/*Zilla Parishads* and *Block Panchayats*) while the other stream allocates funds to the village panchayats.

The SGRY also encompasses all “Food for Work” programs in the country, since it includes a special component for augmenting food security through additional wage employment in calamity affected rural areas. A certain percentage of foodgrains allotted under the SGRY is reserved for this purpose. Food grains under the Special Component can be utilized by any scheme of the central or state government that is implemented to generate additional employment in calamity affected areas. The cash component of the costs and costs of materials are, however, met from the scheme under which the Special Component is utilized.

Thus, administrative arrangements for implementing the SGRY involve coordination among three central ministries, namely, Agriculture, Food and Rural Development. The Food Ministry releases grains at the direction of the Ministry of Agriculture, while the Rural Development Ministry is responsible for administration and supervision. The scheme is self-targeting and available to rural poor (BPL or otherwise) who are in need of wage employment and willing to take up unskilled, manual work at specified wage rates. Preference is given to the poorest of the poor, women, SCs/STs, and parents of child labor withdrawn from hazardous occupations. The beneficiaries are selected by *Gram Panchayat* during meetings of the *Gram Sabha*.

The emphasis on payment in kind – via foodgrains – combined with the difficulty and cost of storing and transporting foodgrains reduces the scope of misappropriation of resources by officials. Nonetheless, responsibilities for storage, transport and distribution within districts are contracted out to “fair price” shops (that are part of the central government’s targeted public distribution system (PDS) of subsidized foodgrains) and the associated contractors. This has created substantial scope for fraudulent practices due to large gap between market prices and prices in fair-price shops (though the gap has been declining of late). Nayak et.al. (2003) estimate that the combination of malpractice among administrators at lower levels of government and contractors results in perhaps only 25 percent of the wage funds to which beneficiaries are entitled actually reaching them.

SGRY, the latest incarnation of employment-based, food-for-work PTP in India is too recent in vintage for any comprehensive evaluation studies to have been done. However, one recent study has reviewed the implementation of the SGRY in the state of Andhra Pradesh. Using primary data collected over 12 months between 2001 and 2002 from 6 villages, Deshingkar and Johnson (2003) find little has changed at the ground level in implementing the SGRY. Despite attempts at decentralization of decision making in the SGRY, village-level government (*Gram Sabhas and Panchayats*) are often controlled by the local (landed) elite. Beneficiaries were selected during meetings among the local officials (members of *Panchayat, Sarpanches, Mandal* officials) and contractors, and the decisions announced in the village meetings of *Gram Sabha*. In three villages, the largest number of laborers were hired from the hamlet of the *Sarpanch* (village head), while in another the largest share of hired labor belonged only to the caste of the village head.

There was also widespread use of contractors, contrary to the scheme guidelines, often in connivance with local officials. The contractors also obtained illegal profit by claiming the full food grain (rice) quota for partially and poorly completed works, claiming rice for old assets already completed under some other scheme, “double-dipping” by filing separate claims to



different departments for same work, and submitting inflated costs in works proposals. In addition, contractors often decided to pay labor only in cash since rice was released late to the contractors, or the contractor could sell the rice in the open market at profit.<sup>15</sup>

The impact of the scheme varied across the six villages, being relatively high in one village (which also had the lowest corruption in implementation), but miniscule in most others. On an average, 24.4 percent of households sampled in these villages had participated in the scheme (ranging from 65 percent in one village to 3 percent in the worst case). With the exception of the single village, the number of person days of employment created was also low, averaging less than 14 days per participating household. Two major reasons contributing to this, aside from corruption and leakage, were use of outside/migrant labor by contractors to minimize costs, and substantial use of labor-displacing machinery (often owned by contractors).

This brief review of employment generation and food-for-work type of PTP in India paints a fairly bleak picture, and several problems in implementation. Some of these problems are well known, such as the importance of appropriate wage setting in affecting screening efficiency (see Box 4). In case of SGRY in Andhra Pradesh, Deshingkar and Johnson (2003) document wages were too low in relatively prosperous villages, leading to use of migrant labor and machinery, while in poor villages the wages were much higher than prevailing rates, leading to crowding out of the really poor. A well designed scheme of self-selection (without quantitative rationing) should lead to virtually negligible levels of Type I and II errors, in that only the really poor would be willing to work at wages below prevailing rates, and all those willing to work at these rates would be accommodated. With only quantitative rationing (cap on total funds available), some needy poor may not be able to access wage employment leading to Type I error in targeting. In relatively prosperous villages, with wages set too low, local labor may not have participated but presumably the migrant poor willing to work at these wages were a justifiable target, implying little leakage in terms of Type I targeting error. In contrast, in poor villages where the PTP was really needed, the higher than prevailing rates created room for Type I errors, with the poor crowded out.

However, problems other than wage setting are of deeper and greater concern, stemming from institutional and governance constraints, and magnifying both types of targeting errors, II and I. While the government has sought to decentralize scheme implementation to create greater ownership of resulting assets, the local level administration and the PRIs are strongly susceptible to corruption. This has resulted in flagrant violations of government guidelines, including use of contractors/intermediaries, excessive reliance on labor-displacing machinery, payment in cash instead of kind, and doubtful selection/quality of the assets created. Greater reliance on labor-displacing machinery and payment in cash rather than cash and kind magnifies Type I errors leading to exclusion of benefits of those who are really poor at the expense of funds diverted to owners of the machinery and middlemen. Other corrupt practices magnify Type II errors by diverting funds and benefiting corrupt officials and middlemen who are not the intended beneficiaries of the program. Thus, even the most well-designed scheme, relying on the iron logic of self-selection will fail in implementation if employment rolls can be falsified, assets shown as created when they actually are not, and payments made that are below those legally mandated. Although employment generation using food for work continues to be a critical element of poverty targeting in areas adversely affected, the leakage of funds, corruption

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<sup>15</sup> In one of the six villages, the head (*sarpanch*) was also the owner of the subsidized food outlet, while in another the local administration had close ties to owner of a "toddy" (country-liquor) shop. Instead of the mandated wage of Rs. 56 per day, men in that village were given Rs. 40 and two bottles of toddy and women received Rs. 30 and one bottle, (Deshingkar and Johnson (2003)).

and poor governance result in the impact of these interventions on poverty being substantially diluted.

#### **Box 4: Employment Guarantee Scheme of Maharashtra**

An early food-for-work program implemented in the western Indian state of Maharashtra was widely regarded as very successful in its initial years, and indeed was the inspiration for the EAS introduced at national level. The Employment Guarantee Scheme (EGS) started on a pilot basis in 1965 in one district (Sangli) and a modified EGS was implemented across the state in 1972, following one of the most severe droughts in the region in recent history. The scheme was soon suspended for two years, replaced by central government schemes, but in 1974 the state government decided to set up a permanent scheme using only state resources, leading to resumption of the EGS. It was provided a statutory basis with the enactment of the Maharashtra Employment Guarantee Act of 1977. The scheme is financed by urban taxes (on professionals and motor vehicles) with matching grants from the state government.

The EGS is unique for several reasons, being one of the oldest such schemes in developing world, its large scale of operations at inception, and the fact that it guarantees employment (rather than merely assuring it). The EGS provides a guarantee of employment to all adults above 18 years of age who are willing to do unskilled manual labor on a piece-rate basis. Its primary objective is, thus, creation of employment opportunities with the secondary objective of creating rural assets to provide drought proofing, soil management and conservation. Starting from 4.5 million person-days of jobs created in its first year, the EGS was generating more than 100 million person days of employment by early 1980s (190 million in 1986), before declining to 80-90 million person days after 1989 (Dev (1995)). Cumulatively, the scheme spent Rs. 27 billion up to 1991 to create about 2.3 billion person days of employment in the state. Not surprisingly, the EGS is one of the most analyzed public-works programs in the literature, and received high marks in its initial years from most evaluations.<sup>\*</sup> Although quantitative data on type II errors due to leakage and corruption are not easily available, the scheme ranked high in terms of screening efficiency (low type I errors),

There was a sharp decline in the coverage of the EGS after 1988 following a virtual doubling of the wage rates in May 1988. Prior to that, EGS wage rates were less than market wages but this was reversed with the wage hike. According to some studies, this resulted in rationing of employment opportunities, leading to exclusion of eligible participants (and thus eroding the nature of the "guarantee"). In more recent years, observers have also noted a deterioration in other elements that translate the guarantee into actual delivery of the EGS benefits, including informal program guidelines, extensive monitoring, unscheduled field visits, vigilance tours by officials at various levels, and the advisory and supervisory roles of nonofficial statutory committees. Although type I targeting errors are not considered a source of major concern, the declining coverage, quality and maintenance of rural assets created and problems of governance (type II errors) are noteworthy, given the exemplary history of the EGS. For example, a recent review found wage employment generated through food for work continued to be important, contributing a significant 40-45 % of total family income of beneficiaries but the work was not organized in the lean season, and bribes had to be paid to obtain the employment, (PDI(2000)). Even more recently, a petition has been filed in the Bombay High Court accusing the state government of diverting money from the Employment Guarantee Fund of the EGS into its general-purpose budget (Bavadam.(2003)). Ironically, the legal action has been brought by a former member of the Planning Commission who is also a member of the committee set up by the state government to review the Maharashtra Employment Guarantee Act 1977. The government believes the trend decline in coverage of the EGS reflects a declining need for the scheme in view of improvements in rural economic conditions.

<sup>\*</sup> : For greater details on the EGS and the related literature, see for example Gaiha (1996), Datt and Ravallion (1994) and Dev (1995) and references cited therein.

## 2. Self-employment schemes – SGSY

SGSY (Swarnajayanti Grameen Swarozgar Yojana) or the Golden Jubilee Rural Self Employment Scheme is the main national scheme for rural self employment and was launched by the GoI in April 1999 as a single, holistic program to cover all aspects of self employment for the rural poor. The funding of the scheme was to be shared by the center and the states on a 75:25 basis and a central allocation of Rs. 26.7 billion was provided for the period 1999-2002.

The SGSY too is not a new scheme but a reincarnation of an earlier scheme – the Integrated Rural Development Program (IRDP).<sup>16</sup> The IRDP was the first major intervention for creating an income generating asset base to promote self-employment, using a mix of subsidy and institutional credit from the formal financial system. It was launched in 1976 in 20 selected districts on a pilot basis and soon extended to cover all the blocks in the country by 1980. As many as 54 million families were assisted by IRDP between 1980-81 and 1998-99, by providing Rs. 203 billion in credits with an average loan size in 1997 of Rs. 5,600. IRDP accounted for almost 35% of all small borrowers' accounts (SBAs) in commercial banks in India and 24% of the amount of SBAs outstanding.<sup>17</sup> The risk of the loans made by banks under IRDP was borne by the banks, and the recovery rates on these loans were poor, between 25 and 33 percent (Long and Srivastava (2002)). A concurrent evaluation of the IRDP showed that of the 54 million beneficiaries, only 1 in 7 (14.8 percent) managed to cross the poverty line (CAG(2003)).

Studies reviewing state-wise implementation of IRDP and its allied poverty-alleviation schemes for the Planning Commission showed substantial problems in implementation, that were also relatively consistent across the states. For example, MAKER (2002) reporting findings of a recent survey conducted in the states of Bihar and Jharkhand, found 24% of the beneficiaries of poverty alleviation programs had incomes above the poverty line while a large proportion of others were in the income slab just below the poverty line. Implementation of poverty schemes in all zones was steeped in corruption. To access the programs payment of bribes was an essential condition. Mis-utilization of funds was also prevalent since neither the authorities nor the beneficiaries took the schemes in the spirit intended. The authorities viewed them as a source of additional funds for their own priorities, while the beneficiaries took the assistance as a subsidy with no serious thought to the purpose of the assistance. In general, a considerable amount of funds were siphoned off by local authorities in connivance with local middlemen. Procedural delays and red-tape were also an endemic problem reported by beneficiaries. Similarly, a survey of 104 beneficiaries of four schemes in Maharashtra (including IRDP) found weak targeting with a third of the beneficiaries above the poverty line.<sup>18</sup>

The newest version of self-employment schemes – the SGSY – is a holistic program covering different aspects of self-employment including organizing the poor into self-help groups, training, credit, technology, infrastructure and marketing. It aims to establish a large number of microenterprises in the rural areas, and provides great emphasis on mobilization of the poor through formation of self-help groups (SHGs) among potential recipients. In consolidating numerous schemes including the IRDP and its associated schemes, the SGSY also aims at

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<sup>16</sup> A host of other schemes co-existing with the IRDP, such as the TRYSEM (Training of Rural Youth for Self Employment), DWCRA (Development of Women and Children in Rural Areas), SITRA (Supply of Improved Toolkits to Rural Artisans), MWS (Million Wells Scheme), etc. were merged into the SGSY.

<sup>17</sup> SBA's are defined as accounts with less than Rs. 25,000 outstanding, and accounted for 71 percent of total bank deposits in 2001.

<sup>18</sup> A large proportion of the beneficiaries of other schemes in the survey also reported having to pay bribes to receive benefits..

integrating the activities of different agencies, including the DRDAs, banks, line departments, PRIs and NGOs. At the Block level, identification of key activities in selected villages, verification of assets and review of the recovery performance are to be undertaken by Block level SGSY committees (working under DRDAs/ZPs at District level and State level SGSY committees). The individual beneficiaries have to be selected in the Gram Sabha with the involvement of banks and the district administration. There are also special safeguards under the SGSY for the vulnerable groups. For example, 50 percent of the SHGs to be formed are to comprise exclusively of women and 40 percent of the individual beneficiaries are to be women. In addition, SC/STs and physically disables are to respectively constitute 50 and 3 percent of individual beneficiaries.

Financial assistance under the SGSY to individuals or SHGs is given in the form of a subsidy by the government and credit by banks, as was the case with the IRDP. Banks can classify their lending under the SGSY as (central bank mandated) priority-sector lending but are liable for all the risks of these loans.<sup>19</sup> The subsidy allowed under the program is uniform at the rate of 30 percent of the project cost subject to a ceiling of Rs. 7500 per individual, and 50 percent of the project cost with a ceiling of Rs. 125,000 for group projects. For irrigation projects, there is no ceiling on the subsidy.

Instead of annual targets, the SGSY has targeted covering 30 percent of BPL families in five years of operations (1999-2004). As of March 31, 2001, SGSY had 1.03 million beneficiaries with bank credit of Rs 14.5 billion along with government subsidies of Rs 6.9 billion. By the end of the third year (March 2002), only 2.56 million BPL families were covered, comprising less than 5 percent of the 5-year target. Thus, there was no acceleration in coverage and pace of implementation; the number of BPL families covered by the erstwhile IRDP in the last two years of its implementation was 17 percent higher than covered in the first three years of SGSY implementation, (CAG(2003)).

Several other problems exist with the implementation of the SGSY. The intended integration of activities of different agencies has not happened. In most states, there was no evidence of proper planning that was crucial to setting in motion the overall process identified for implementation. Selection of key activities was undertaken without involving concerned agencies, including banks, as specified in the guidelines. Project reports for the selected activities were either not prepared or were highly deficient. Even the identification of individual beneficiaries and the formation of SHGs lacked involvement of line departments and banks, as envisaged. There is also no evidence of an overall shift of focus, as planned, from individuals to SHGs, in part because implementing agencies have been unable to ensure proper evolution of SHGs and there have been delays in release of funds to sustain SHG evolution.<sup>20</sup>

Subsidies combined with weak governance are an irresistible magnet for corruption, and the SGSY is no exception with pervasive malpractice by lower-level officials. State-wise surveys show a uniform pattern of deductions made by bank officials, as much as 10 percent of the amount, on loans sanctioned under SGSY. With the cooperation of local officials, banks have also made illicit 'charges' on the beneficiaries. In other cases, over 20 percent of the subsidy component was charged under different ways as 'speed money' or 'convenience charges'. Several instances have been found of local officials providing the assets to beneficiaries, in

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<sup>19</sup> Commercial banks in India are required to target 40 percent of their lending to priority sectors defined by the government.

<sup>20</sup> SHGs may be formed by NGOs or by officials of local government (or even banks). However, once formed, members of SHGs have to meet regularly over a period of at least six months, make regular contributions of funds, and maintain proper books before becoming eligible to receive funding from banks under the SGSY scheme.

collusion with intermediaries, in contrast to the requirement that assets be purchased by beneficiaries from approved suppliers in exchange from cash payment by the beneficiaries.

Malpractice is pervasive not just at the microlevel of implementation of SGSY. According to an audit test check of Rs. 9.9 billion spent on SGSY (of a total reported expenditure to date of Rs. 30.6 billion) as much as 53.5 percent of the funds (Rs. 5.3 billion) were either diverted, misutilized or misreported, (CAG (2003)). Of the Rs. 5.3 billion, about Rs. 1.2 billion were invested by the state governments in special term deposits, Personal Ledger Accounts, Civil Deposits, etc., Rs. 1.1 billion were accounted for by inflated expenditures, and Rs. 2.3 billion were attributable to irregularities in expenditure or misutilization of funds. This reflects both, extremely low levels of governance in implementation and the desperate fiscal situation in most states, which are seeking funds in any manner possible to finance their deficits.

The design innovation in SGSY – relying on SHGs rather than individuals – can help reduce type II targeting errors since the eligible SHGs are to comprise only BPL members. These groups are formed by a variety of sources, including village development officials, village government representatives and NGOs. This innovation can reduce type II errors relative to those in the predecessor IRDP and associated schemes that were as high as 25-33%. However, SHG formation is time consuming and not always feasible. SHGs, once formed have to be in operation for at least six months before becoming eligible for SGSY loans. Often such groups cannot sustain themselves due to differences (and even suspicion) amongst members, making it difficult for BPL households to access the SGSY, and leading to higher type I targeting errors. It is expected the type I errors will diminish over time if there is greater success in forming SHGs. However, the corruption and poor governance appear to have been immune to the design innovations of the SGSY. Their effect ultimately is to divert scheme resources to officials and middlemen, leading to higher type II targeting errors.

Finally, moving from implementation to impact of the SGSY, there are important problems constraining creation of a sustainable productive asset base for the low-income self-employed. Despite attempts at a holistic approach, in practice there are no services available to support assets acquired by the beneficiaries, such as technical and advisory services and marketing. Due to limited ability of government departments in identifying dynamic business opportunities, the implementation of SGSY has tended to focus excessively on one particular type of asset – such as dairy cows, sewing machines, or knitting – within limited areas so that effective marketing of products is often difficult. In several situations, the lack of adequate insurance for acquired assets such as livestock can make it impossible for beneficiaries to repay loans in case of accidental death. The acquisition of assets that ultimately prove unfruitful due to poor decision by beneficiary, inadequate support services, non-marketable output, or other constraints can result in transforming a large number of intended beneficiaries from being simply poor to being poor as well as defaulters to the formal financial system.

### **3. Rural Housing Scheme – IAY**

After being virtually neglected for the first three decades after Independence, rural housing was included as a major activity in 1980s in the National Rural Employment Program and the Rural Landless Employment Guarantee Program, both early predecessors of the SGRY rural employment scheme. In 1985, for the first time specific proportions of rural employment funds were earmarked for construction of houses for Scheduled Castes (SCs), Scheduled Tribes (STs) and freed bonded labor. This was the origin of the IAY (Indira Awas Yojana or Indira Housing Scheme) which continued as a sub-scheme of the JRY – another predecessor of the SGRY.

According to the 1991 Census, 3.4 million households were without shelter of any kind while 10.3 million households were living in unserviceable houses. Adjusting for the population growth, the GoI projected a net housing shortage between 1997-2002 as 18.8 million units, of which 8.5 million new houses would need to be constructed and another 10.3 million upgraded. A National Housing and Habitat Policy was adopted in 1998, aimed at providing 'Housing for All' and proposing facilitation of construction of almost 11 million units in the Ninth 5 Year Plan (1997-2002), against the projected shortage of 18.8 million units. The residual gap along with additional deficiency arising from population growth was envisaged as a target to be undertaken in the Tenth Plan. However, only 5 million units could be constructed between 1997-2002 under the IAY and other CSS schemes, (CAG (2003)). From 1997-98 to 2001-02, the total allocation to IAY by the center and states combined has been Rs. 14.4 billion, Rs. 18.5 billion, Rs. 21.3 billion, Rs. 21.5 billion and Rs. 21.6 billion respectively, with a cumulative total of Rs. 97.3 billion.<sup>21</sup>

The objective of the IAY is to provide dwelling units free of cost to the rural population below the poverty line. It specifically targets BPL households belonging to SCs/STs, freed bonded laborers and other specified categories (disabled, and since 1996, families of members of armed forces killed in action). Grants-in-aid are provided to beneficiaries with a ceiling of Rs. 20,000 in plain areas and Rs. 22,000 in hill/difficult areas. The scheme also allows up to Rs. 10,000 for upgrading of temporary and unserviceable units. The house is registered in the name of the female household member, or jointly in the name of husband and wife of the beneficiary household. In addition, an integral requirement of the IAY scheme is provision of smokeless *chulha* (cooking stove) and a sanitary latrine in the houses constructed.

The implementation of the IAY scheme follows the familiar pattern of delegation to the local units, with the DRDAs and *Zilla Parishad* entrusted with implementation, coordination, monitoring and evaluation at the district level. The roles are performed by Block Development Officers and *Panchayat Samitis* at the block level and the *Gram Panchayat* at the village level. Specifically, targets are decided at the state level based on estimates of number of people below the poverty line and the number of houseless, and district targets are developed based on the number of SCs/STs and (inverse of) agricultural productivity. Using these fixed targets, the DRDA/ZP decide the number of houses to be constructed in each *Panchayat* and inform the *Gram Panchayat*. Local community –based organizations and NGOs with proven track record, if available, are also associated with construction of IAY houses. The Gram Sabha in each village selects the beneficiaries restricted to the target allotted based on the list of eligible (BPL) households, and forwards the list to the *Gram Panchayat*.

The IAY enjoys considerable support since it creates a visible and valuable asset for beneficiaries, leading to improved security and economic and social status. Unlike other schemes where beneficiaries have to work in return for assistance, the IAY provides grants with minimal requirements on part of beneficiaries. Thus, in contrast to other PTPs, the IAY has not undergone major transformations or reincarnations since its inception almost two decades ago.

Nonetheless, there are also severe problems in its implementation, caused in part by its design of large, unencumbered grants. The lump sum payment of Rs. 20,000 is large enough to again attract substantial corruption. Local politicians, including Members of Parliament, Members of Legislative Assemblies, and even village heads view this as an important

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<sup>21</sup> Four other rural housing schemes have also been launched in the interim, since 1999, with a cumulative outlay of Rs. 11.7 billion between 1999-2002.

mechanism for patronage for supporters and there is clear evidence of high proportion of benefits being manipulated towards this end. These machinations are a natural outcome of the context of the scheme, since the total allocation of grants-based IAY, although substantial, is miniscule relative to potential demand based on number of BPL households without housed in the country.<sup>22</sup>

The substantial size of individual grants also makes this a popular scheme with local officials, since it is large enough to withstand large “unofficial” fees running into several thousands of rupees. As a consequence, safeguards built into the design of the scheme have stayed on paper. For example, payments for each stage of construction are to be made only when the preceding stage has been completed, and individuals are required to make their own arrangements for construction. In particular, officials are not allowed to engage contractors on behalf of the beneficiaries. According to a recent audit by the Auditor General, almost one-third (31.6 percent) of IAY funds were misused, (CAG (2003)). Of this, almost half was accounted for by depositing of funds by state governments into current accounts, civil deposits, or treasuries outside the government account. The remainder was due to misappropriation, unapproved works, and unauthorized activities. Almost 20 percent of the audited money was spent on construction of houses through contractors. Over inflated expenditures combined with poor quality of dwellings was a natural outcome. In particular, only half the houses constructed were provided smokeless stove and 43 percent of the houses were constructed without sanitary latrines.

Against this backdrop of corruption and poor governance in implementation of the IAY, it should be noted that the targeting performance of the IAY has not been too bad, with only about 2.2 percent of the beneficiaries not being eligible.<sup>23</sup> The problem with the IAY is not poor targeting given the low type I error, but is instead its small size relative to the eligible population (implying exclusion through rationing) and severe attrition in funds actually reaching the poor due to corruption (again raising type II targeting error).<sup>24</sup>

#### **4. National Old Age Pension Scheme – NOAPS**

India has virtually no comprehensive system of old age protection. Less than 10 percent of labor force has pension coverage, primarily in the formal sector and there was no central government scheme relating to old-age security until recently (although many state governments had assistance schemes for the poor aged). The Government of India introduced the NOAPS in 1995 as part of the National Social Assistance Program.<sup>25</sup> The scheme is relatively small with an allocation of less than Rs. 5 billion in 2000-01 relative to an estimated 70 million destitute aged in the country. However, it is one of the few successful PTPs in operation, with low targeting errors of both type II and I.

<sup>22</sup> The popularity of the IAY may be gauged also from the fact that it has become a contentious issue between Members of Parliament (MPs) and Members of Legislative Assemblies (state parliaments) with the former perceiving the supporters of state legislators gaining from a scheme that is centrally sponsored. MPs have recently demanded a greater quota for allotting a fixed number of houses under the scheme at their own discretion, though this has so far been resisted (Nayak et. al. (2003)).

<sup>23</sup> The CAG audit tested about a third of the expenditures under the IAY, which cumulatively built almost 5 million units during the reference period. Taking a third of this amount, i.e., roughly 1.6 million units, shows that roughly 2.2 percent of the beneficiaries (34,542) were found ineligible.

<sup>24</sup> For example, consider a situation where pre-existing houses of BPL households are shown as having been constructed under the scheme. This would show as good targeting though no money may have reached the intended beneficiary.

<sup>25</sup> There are two other CSS schemes under the National Social Assistance Program, namely, National Family Benefit Scheme and the National Maternity Benefit Scheme. The GoI is also introducing pension reforms to increase fiscal sustainability of its pension liabilities and expand coverage to the informal sector.

The NOAPS targets old persons who are considered destitute in the sense of not having any regular means of subsistence on their own or through financial support from family members. Applicants have to be above 65 years, and beneficiaries are expected to provide certificates of age and proof of their destitute status. At the launch of the scheme, each state had an initial ceiling on number of beneficiaries, not exceeding half the BPL population in the state above age 65. The targeting is done by selection of beneficiaries by Gram Panchayats based on targets communicated by state government. The amount of the pension is modest – Rs. 75 or USD 1.60 per month per beneficiary – though the state governments can add to this amount from their own resources.

Implementation of the program is done by authorities at the District level with the assistance of *Panchayats*. The latter assist in selection of beneficiaries and are also responsible for reporting the death of a pensioner, and have the right to stop or recover payments sanctioned on basis of false information. The central government transfers funds directly to the district administration through DRDAs/ZPs in bi-annual installments, while beneficiaries are paid through accounts in banks or other financial institutions. Cash payments are also allowed provided they are made in the public before the *Gram Sabha*.

Evaluations of the NOAPS scheme have shown the scheme is well functioning in terms of targeting and implementation without corruption and interference. The program has largely reached SC/ST populations and women; the coverage of women was 40-60 percent across the states. In evaluations done of project beneficiaries, a third of beneficiaries were found to be neglected by their family or living alone, another third were found to have a dependent (mostly spouse), and did not have a regular source of income in the remaining cases.

The delivery mechanisms for NOAPS benefits also appear to be functioning well. For example, benefits are transferred directly to beneficiaries through checks, postal money orders or cash payments in public meetings. A review by IMI (2001) in Orissa found this process worked well with cash payments made by village workers in the presence of the *Sarpanch* (village head) at a fixed time each month.

The implementation problems of NOAPS are primarily bureaucratic. First, since many states had pension schemes before the introduction of NOAPS, the implementation of NOAPS is under different agencies across the states. Thus, although the Ministry of Rural Development is the executing agency at the center, the agencies at the state level may be departments of labor, social welfare, or medical. These state departments have little or no interaction with the DRDAs, nor do they have any role in the flow of funds that are transferred directly from the center to the DRDAs. Consequently, state implementing agencies have little ownership in the NOAPS. There are too many entities involved in implementation without clear demarcation of responsibilities, (ORG (1998)). Another outcome of this is irregular timing of payments to beneficiaries, which can be problematic if the recipients are severely liquidity constrained.

Further, given that birth certificates are still issued only to a small part of the population, documenting proof of age is an extremely cumbersome and arbitrary process. The registration procedure requires several proofs and certificates. This problem applies even more strongly to proving a destitute status, since criteria for identifying destitute are not clear and different states follow their own norms. As a consequence, potential applicants have to undergo substantial transaction costs dealing with the bureaucracy in the application process. The fact that the size of the pot available is so small relative to potential demand makes the problem of red-tape worse for applicants.



In sum, therefore, NOAPS is a welcome contrast from the typical PTPs in India, actually transferring its modest benefits in entirety to intended beneficiaries, with little evidence of leakage to ineligible applicants. The absence of corruption can be related to the fact that the amounts involved are small and benefits are transferred directly into accounts of the beneficiaries. At the same time, given its modest benefits and delivery mechanism, resulting in minimal leakage, the scheme is unlikely to attract political backing, and grow in size.

## **5. Drought Prone Areas Program – DPAP**

The DPAP is another small but relatively more successful PTP in India, aimed at mitigating adverse effects of drought on production of crops and livestock and productivity of land, water and human resources. It also encourages restoration of ecological balance and seeks to improve the economic and social conditions of the poor and disadvantaged sections of the rural community. Initiated like many other PTPs in the early 1970s, the DPAP started as Rural Works Program in 1970-71, aimed at creating assets to reduce severity of drought wherever it occurred, and to provide employment in drought prone areas. The Rural Works Program became the DPAP in 1973-74. Unlike many other PTPs, the program has retained its identity over time, though it was restructured in 1986-87 to focus more explicitly on a narrower objective: creating long-term assets aimed at drought proofing.

The program was supplemented by guidelines issued in 1994 that were intended for all watershed programs implemented by the government, but were taken up primarily by the Ministry of Rural Development in its schemes. These guidelines laid special emphasis on active mobilization and participation of stakeholders in the program, including planning, implementation and subsequent management of assets created. Thus, the DPAP appears to be one of the few programs where evaluations have actually led to 'enlightened' policy design (Nayak et. al. (2003)).

Under the DPAP, beneficiaries (i.e., villages/watersheds) are selected by DRDAs/ZP at the district level. User groups (including SHGs) undertake area development by planning and implementing projects on a watershed basis through Watershed Associations and Watershed Committees constituted from among themselves. Their efforts are facilitated at the district level by the DRDAs/ZPs who provide funds and technical assistance. A Project Implementation Agency, constituted by government, non-government or private commercial entity and having requisite technical and social organizational skills, works with the Watershed Committee to prioritize, sequence and implement the rehabilitation over a five-year period. Funds are released directly to the DRDAs/ZPs to sanction projects and release funds to Watershed Committees and Project Implementation Agencies.

Evaluations have shown the DPAP to be working well, though the performance is uneven. The transfer of funds directly to DRDAs/ZPs and the involvement of community through user groups and NGOs has tended to discourage misappropriation of funds. In cases where local officials and local elite have strong influence, they can in principle and have in practice misutilized the funds. Local officials have contributed to diverting funds through providing misleading information about the status of work undertaken. In general, though, as noted by Rao (2000), context specific factors have affected the performance of DPAP. In Gujarat, committed NGOs led to positive outcomes while in Madhya Pradesh, success emanated due to a tradition of community participation in tribal regions. On the other hand, as noted by

Mahapatra (2001), large sums of DPAP funds, up to 30-40 percent, were diverted in the state of Rajasthan.

Design-related implementation problems of the DPAP are, in part, due to efforts at making it more participatory, which has tended to contribute to its success while making implementation difficult in other situations. For example, there have been problems in identifying suitable Project Implementation Agencies in several cases. Administrative field staff typically has no incentive in pursuing participatory approaches, leaving planning and execution of schemes to district officials. Strict orientation towards achieving physical targets has also led to too little time to undertake and promote social organization.

## **VI. Assessment of overall effectiveness of poverty targeting programs (PTPs)**

### ***Macrodevelopments and Financial Sustainability***

It is well recognized that sustained and equitable economic growth inevitably leads to poverty reduction. However, the impact of growth on poverty reduction can be lessened if the growth is accompanied by rising inequalities. In addition, substantial segments in the population may benefit less from growth, and may need targeted assistance. During 1980s and 1990s, India saw the highest GDP growth rates in the five decades since Independence. At the same time, poverty rates have declined steadily from a peak of more than 60 percent in late 1960s to approximately half of that in 1999. Substantial controversy has surrounded the latest estimates of poverty in India, but there is little doubt poverty declined in the 1990s, perhaps to roughly 30 percent. Using this estimate, poverty incidence as measured by head count ratio declined by 6-7 percent points during 1990s and by the same amount in 1980s. The average GDP growth rate during 1980s and 1990s was 5.7 and 5.8 percent respectively, placing India amongst some of the fastest growing economies over these twenty years, though inequality as measured by the Gini coefficient worsened from 0.29 to 0.38 in 1990s.<sup>26</sup> This clearly exemplifies the correlation between economic growth and poverty reduction.

However, during 1970s, with substantially lower growth rates, poverty declined equally sharply, from 55.6 percent in 1970 to 43 percent by 1983, with the largest decline occurring between 1978-83. This decline in poverty incidence coincides with the populist approach initiated by the Prime Minister at that time, Mrs. Indira Gandhi, which included policies like nationalization of the banking sector and adoption of the slogan "*Garibi Hatao*" (or "Eliminate Poverty"). Many of the PTPs in existence today were initiated in the first part of 1970s. It is arguable that these schemes have continued to date, albeit with mergers, restructuring and reincarnations, due to their political utility to the government. Successive changes in government at the center have not only continued with these interventions but added to them, leading to proliferation and multiplicity. Although several other factors could contribute to the popularity of these schemes, this also suggests the schemes are having an impact on the ground. However, two important questions in this context are, are these expenditures sustainable and how effective are these programs.

In terms of financial sustainability, it is useful to distinguish between the narrowly targeted PTPs and other CSS schemes of the government from the more broadly targeted expenditures due to subsidies. While the total size of the CSS is roughly Rs. 350 billion,

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<sup>26</sup> Poverty data are in Appendix 1. Data on inequality and growth rates are from UNDP/ESCAP, 2003, "*Promoting the MDGs in Asia and Pacific*".

aggregate central budgetary subsidies are in the range of Rs. 850 billion (details in Appendix 2). This amounted to 4.6 percent of the GDP and 53.4 percent of net receipts of the government. When expenditure on subsidies by state governments is also included, the picture is far worse. Aggregate budgetary subsidies of central and state governments combined were almost 13.5 percent of GDP in 1998-99. Some components of this aggregate, particularly food subsidy have been rising sharply in recent years. At the same time, budget deficits of the central government have ranged in 5-6 percent of GDP through much of 1990s, and in 2002, the total deficit of central and state governments combined exceeded 10 percent of GDP. In this context, the large expenditures on subsidies are unlikely to be sustainable in the long run. Moreover, they will also tend to squeeze out expenditures in other areas, including narrowly defined PTPs. Several recommendations have been made to streamline and reduce expenditures on subsidies, though the process will obviously face political constraints.

Within the PTPs, the self-employment schemes (IRDP in the past and SGSY now) have had a credit component combined with a subsidy. The implementation of these schemes has involved bank loans but repayment rates have been quite low. For example, almost 71 percent of all bank accounts in Indian banking system are SBA (Small Borrower Accounts) defined as accounts with credit outstanding of less than Rs 25,000. IRDP loans accounted for slightly more than one-third of all SBA accounts in the commercial banking sector. Low repayment rates on these accounts have contributed to worsening position of banks in terms of non-performing assets (NPAs). For the public banks, gross NPAs were 6% of assets and 2.9% net of provisions in 2000. For the Regional Rural Banks, catering specifically to rural areas, the figures were much worse with NPAs being 23.2% of assets in 2000. The higher level of NPAs in the latter reflects the poor performance of priority credits (including IRDP/SGSY) which have an NPA of 35%, much higher than on non-priority loans. Only about half of the SBA accounts in total were classified as standard assets by banks, with the rest being sub-standard, doubtful or loss assets. The World Bank estimates that provisioning for NPAs adds between 1 and 2 percentage points to the cost of credit in India.<sup>27</sup>

### ***Administrative Constraints and Lessons***

The brief review of some major schemes has covered several scheme categories, including food for work, self-employment, infrastructure development and pure income transfers. Some of the general issues emerging from the discussion are summarized below, which also suggest lessons for improving targeting.

- ◆ Targeted poverty schemes in India broadly rely on Administrative Identification, undertaken for providing food security to the population broadly and to the vulnerable poor in particular. Secondary targeting – using indicators such as social category (SC/ST), gender or geographical location – are used but in conjunction with AI. For requirements of the targeted public distribution system, the government has sought to implement administrative identification by dividing the population into BPL/APL families. However, this exercise has been implemented poorly for various reasons, leading to several ineligible families being included as BPL and families actually below the poverty line being excluded. Given the immense poverty in the country, with almost 80 percent of the population living at below USD 2 per day and a comparable proportion malnourished, attempts to overcome information asymmetries by directly tagging families as BPL have faced conceptual and operational problems, resulting in errors of both type II and I.

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<sup>27</sup> See Long and Srivastava (2002) for more details.

- ◆ Food-for-work schemes have used targeting based on self-selection, which in principle should lead to absence of either type of targeting errors. However, independent of the targeting mechanism used, there have been problems with leakage of benefits to ineligible recipients (contributing to type II error) and exclusion of targeted beneficiaries (type I). It is useful to distinguish between leakage in coverage versus leakage in benefits. Even though leakage in coverage may be low in some schemes (such as IAY), the leakage in benefits may be substantial. The problem is not of targeting as much as leakage of funds (or low type I and high type II errors).
- ◆ The core underlying problems generating this outcome are corruption and poor governance of schemes. Gross violations of prescribed norms and guidelines of implementation are common, resulting in use of intermediaries, falsification of records, and provision of false information from the ground level up. Problems of corruption and poor governance are not confined to the PTPs alone, but also affect more broadly large segments of government expenditures.
- ◆ The delegation of implementation to officials at local government level and PRIs should lead to greater ownership of the programs but often contributes to the problem of corruption and governance. Inadequate institutional capabilities of lower tiers of government and inequities in power within village allow capture by local elite, and corruption of government officials. Decentralization, an appealing solution at the conceptual level to improving delivery on the ground, can face severe problems at the level of actual implementation.
- ◆ PTPs with a large component of individual subsidy or large income transfers attract attention of corrupt officials and local elite. Substantial proportions of funds in such schemes are extracted from beneficiaries through illegal means (bribes and other special levies), aside from manipulating the benefits towards those not eligible. The effect in both cases would be to increase type II error, diverting resources to those not intended for coverage under the schemes.
- ◆ In contrast, schemes with small payments deposited into accounts of recipients have tended not to be worth the effort of funds diversion. However, for the beneficiaries, the “shoe-leather” transaction costs of these benefits can be high, specially in comparison to the size of receipts.
- ◆ Involvement of private commercial interests in any aspect of scheme implementation should be accompanied by close scrutiny due to repeated and widespread evidence of collusion between private operators, government officials and village elite. On the other hand, involvement of NGOs has usually been accompanied by relatively better implementation (though screening of NGOs is also critical).
- ◆ Corruption in schemes involving payment in kind (such as foodgrains) is concentrated at fewer points, and may be easier to monitor.
- ◆ The choice of assets in self-employment schemes has tended to be poor, leading to dissipation of assets acquired. This often reflects poor literacy and human capital level of the beneficiaries, but the problem is compounded by the absence of supporting services (technical, marketing, business support) to the recipients.
- ◆ The life of community assets developed through schemes depends critically on the social mobilization and community ownership of the assets. Technical departments of the government are typically ill-equipped to undertake this, nor do they have incentives for doing so. This is another area where NGOs and other community-based organizations may perform better.
- ◆ Multiplicity of schemes, and their sheer numbers, contributes to the problem of poor governance. Each scheme, with its own paperwork and bureaucratic requirements, adds to the load on the point of convergence – district-level administration – that is part of

implementation independent of whether funds are transferred via state government or directly from the center.

- ◆ Greater efforts at transparency and accountability have not materialized in parallel to the attempts at devolving powers to lower tiers of government. The combination of low literacy and human capital amongst the poorest of the poor, inequitable power structures within many rural areas, and lack of transparency allow greater room for corruption to flourish amongst officials and local elite. Schemes where disbursement of benefits and scheme-related decisions are undertaken in public show fewer opportunities for corruption. Greater involvement of beneficiary communities and community-based organizations such as NGOs should be attempted at each stage of implementation as part of program design. Shining a torch in areas darkened by lack of transparency manner will assist in curbing malpractice and corruption.

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### Appendix 1: Trends in poverty (head count ratio) in India

NSSO Round	Period	mid-point (decimal units)	Rural	Urban	National
3	Aug 51-Nov 51	1951.75	47.37	35.46	45.31
4	Apr 52-Sep 52	1952.50	43.87	36.71	42.63
5	Dec 52-Mar 53	1953.08	48.21	40.14	46.80
6	May 53-Sep 53	1953.54	54.13	42.77	52.15
7	Oct 53-Mar 54	1954.00	61.29	49.92	59.30
8	Jul 54-Mar 55	1954.88	64.24	46.19	61.07
9	May 55-Nov 55	1955.63	51.83	43.92	50.44
10	Dec 55-May 56	1956.17	48.34	43.15	47.43
11	Aug 56-Feb 57	1956.88	58.86	51.45	57.55
12	Mar 57-Aug 57	1957.42	62.11	48.88	59.77
13	Sep 57-May 58	1958.04	55.16	47.75	53.84
14	Jul 58-Jun 59	1959.00	53.26	44.76	51.75
15	Jul 59-Jun 60	1960.00	50.89	49.17	50.58
16	Jul 60-Aug 61	1961.08	45.40	44.65	45.27
17	Sep 61-Jul 62	1962.13	47.20	43.55	46.54
18	Feb 63-Jan 64	1963.58	48.53	44.83	47.85
19	Jul 64-Jun 65	1965.00	53.66	48.78	52.75
20	Jul 65-Jun 66	1966.00	57.60	52.9	56.71
21	Jul 66-Jun 67	1967.00	64.30	52.24	62.00
22	Jul 67-Jun 68	1968.00	63.67	52.91	61.60
23	Jul 68-Jun 69	1969.00	59.00	49.29	57.11
24	Jul 69-Jun 70	1970.00	57.61	47.16	55.56
25	Jul 70-Jun 71	1971.00	54.84	44.98	52.88
27	Oct 72-Sep 73	1973.25	55.36	45.67	53.37
28	Oct 73-Jun 74	1974.13	55.72	47.96	54.10
32	Jul 77-Jun 78	1978.00	50.60	40.5	48.36
38	Jan 83-Dec 83	1983.50	45.31	35.65	43.00
42	Jul 86-Jun 87	1987.00	38.81	34.29	37.69
43	Jul 87-Jun 88	1988.00	39.60	35.65	38.61
44	Jul 88-Jun 89	1989.00	39.06	36.6	38.44
45	Jul 89-Jun 90	1990.00	34.30	33.4	34.07
46	Jul 90-Jun 91	1991.00	36.43	32.76	35.49
47	Jul 91-Dec 91	1991.75	37.42	33.23	36.34
48	Jan 92-Dec 92	1992.50	43.47	33.73	40.93

NSSO: National Sample Survey Organization

Source: World Bank Poverty Data on India; <http://www.worldbank.org/poverty/data/indiadata.htm>; October 17, 2003.



## Appendix 2: Subsidies and Expenditures on Social Sectors

### 1. Food subsidy – Public Distribution System

The GoI has historically used the Public Distribution System (PDS) to maintain price stability, raise welfare of the poor by providing access to basic foods at reasonable prices and to provide rations during situations of scarcity.<sup>28</sup> PDS is operated under the joint responsibility of the central and state governments, with the former responsible for procurement, storage, transportation and bulk allocation of foodgrains. The state governments are responsible for distributing these foodgrains to consumers through a network of Fair Price Shops. This responsibility includes identification of families below poverty line (BPL), issue of BPL cards, and supervision and monitoring of the functioning of the Fair Price Shops.

Until 1992, the PDS had *universal targeting*, being available to all consumers. While this scheme has continued, the GoI introduced a revamped PDS (RPDS) in 1992 in limited areas, primarily drought prone, tribal and hilly, and remotely located. The RPDS was a purely location targeted scheme, being available to all in the selected area. In 1997, the government launched the Targeted PDS (TPDS), specifically aimed at people BPL in all parts of the country. States were required to undertake surveys to identify BPL families, defined using absolute income lines issued by the Planning Commission based on official poverty lines in 1993-94. In addition, other qualitative criteria were also adopted such as household occupation, land operated or owned, housing conditions, number of earners, and possession of various types of durables such as TV, refrigerators, motor cycles, tractors, etc.

Several problems exist in implementing the BPL identification. In particular, 18 out of 31 states have not completed the surveys, while in places where the surveys have been done, several families have not received the identification cards. Most importantly, the surveys have missed out many poor families.

Under TPDS, BPL families were provided a 10 kg (kilogram) ration per month at half the PDS price. Prices under the PDS scheme had been increased in 1997 closer to market prices, though still below them. The amount was increased to 20 kg per family per month in 2001, and subsequently to 35 kg per month in 2002. According to the Indian Council of Medical Research, a person requires about 11 kg of cereals per month, implying a minimum requirement of 55 kg per family for a household with 5 members.

According to CAG (2000), the monthly household income transfer due to PDS was less than Rs. 30, except in the North-Eastern states. Even after introduction of the TPDS, average income transferred per household per month for BPL population was between Rs. 22 to Rs. 46 across different states. In Punjab, it was less than Rs. 7.

The government incurs substantial costs to achieve these unimpressive transfers. These costs include, aside from subsidizing sale price, the costs of transportation and storage and, even more significant, minimum support prices paid to farmers (these are significantly higher than market prices). The resulting total subsidy cost was Rs. 410.8 billion during 1992-99 according to CAG (2000). The estimated cost of transferring 1 rupee of income to BPL households under the PDS was as high as Rs. 6.68 (Dev and Evenson (2003)).

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<sup>28</sup> The commodities distributed are wheat, rice, sugar, edible oils, and kerosene.

## 2. Aggregate budgetary subsidies

Government expenditures in India are broadly classified under three service categories: general, social and economic. General services include expenditure heads such as organs of state, fiscal and administrative services, which are in the nature of public goods. A recent study, Srivastava et. al. (2003) has estimated total budgetary subsidies in India of both central and state governments for the year 1998-99, where subsidies are defined as “unrecovered costs of public provision of non-public goods”.

Aggregate budgetary subsidies of the central government amounted to Rs. 798.3 billion in 1998-99, or 4.59 percent of the GDP. This also equaled 53.4 percent of the net revenue receipts of the central government. Table A2.1 below provides a break up of estimated central budgetary subsidies by major expenditure heads. The share of social services in total subsidies is relatively small at 18.7 percent, primarily because expenditures on social sectors are responsibility of the state governments and the participation of the center is limited in provision of these services. The recovery rate (by state governments) in social services was quite low, only 4.83 percent. The major central subsidies are in the provision of economic services where the recovery rate was 39.17 percent, still low but much higher than in social services.

Explicit subsidies of the central budget include those for food (including PDS and TPDS), fertilizers, and interest subsidy. The food subsidy includes subsidized sales of food items as well as differences between the (minimum) purchase price of foodgrains from farmers and the issue price of the same by the government, and carrying costs (storage and transportation). Food subsidies have grown sharply in the five years from 1997-98, by more than 200 percent. The increase is due not to greater subsidization of consumers but instead to higher subsidization of wheat and rice farmers combined with rising operational inefficiencies.

Subsidies by state governments aggregated to Rs. 1559.2 billion (8.96 percent of GDP) in 1998-99. Agriculture and irrigation; followed by elementary education, energy, secondary education, and medical and public health account for the largest share of states' subsidies. Taken together, the central and state government subsidies accounted for 13.5 percent of GDP in 1998-99, and almost 86 percent of combined revenue receipts of states and the center. While these subsidies are quite large quantitatively, some justification could be sought on grounds of their investment in social and human capital, which is not always optimal under purely market allocations. Unfortunately, at least at states level, per capita subsidies show a regressive pattern, implying they are higher in states with higher per capita incomes. The same regressive pattern also applies to subsidies for education and health, which are larger per capita in states with higher per capita incomes.

**Table A2.1: Central Budgetary Subsidies: 1998-99**

	<i>Rs.(billions)</i>	<i>% of total</i>
<b>Social Services</b>	<b>149.1</b>	<b>18.7</b>
General Education	50.1	6.3
<i>Elementary Education</i>	<i>23.1</i>	<i>2.9</i>
<i>Secondary Education</i>	<i>10.7</i>	<i>1.3</i>
<i>University and Higher Education</i>	<i>14.8</i>	<i>1.9</i>

<i>Other General Education</i>	1.5	0.2
Technical Education, Sports, Art, and Culture	13.4	1.7
Medical and Public Health	14.8	1.9
<i>Public health</i>	3.0	0.4
<i>Medical</i>	11.8	1.5
Family welfare	3.0	0.4
Water Supply and Sanitation	6.5	0.8
Housing	21.8	2.7
Urban Development	1.6	0.2
Information and Broadcasting	16.7	2.1
Welfare of SCs, STs, and other backward castes	3.0	0.4
Labor and Employment	7.7	1.0
Social Welfare and Nutrition	10.3	1.3
Other Social Services	0.1	0.0
<b>Economic Services</b>	<b>649.2</b>	<b>81.3</b>
Agriculture, Rural Development and Allied Activities	191.9	24.0
Irrigation and Flood Control	2.8	0.3
Energy	78.1	9.8
Industry and Minerals	171.0	21.4
Transport	83.0	10.4
Postal	15.6	2.0
Science, Technology and Environment	32.3	4.0
General Economic Services	74.6	9.3
<b>Total</b>	<b>798.3</b>	<b>100.0</b>

Source: Srivastava et. al. (2003), Tables 3.5 and 3.6.

### 3. Social expenditures

Like much of South Asia, India's social development indicators are poor (Table 1), and its expenditures on social sectors have been low as a percentage of GDP. At the inception of planning soon after Independence, the total expenditure on education by center and states amounted to only 0.68 percent of GNP, which reached to a high of 4.1 percent in 1990 before declining again through the rest of the decade, (Shariff et. al. (2002)). Thus, even after five decades of independence, the country spends less than 4 percent of its GDP on education and less than half that (1.8%) on elementary education. Similarly, the total expenditure of states and the center on medical, health and family welfare has stayed below 1.3 percent of GNP through all of 1990s. According to the World Bank, per capita expenditure on health in India was as low as USD 20 in 1995 and USD 23 in 2000.<sup>29</sup>

Nonetheless, in absolute amounts, given India's large population, these are substantial funds spent by the state. Since social sector expenditures are primarily the responsibility of states, the

<sup>29</sup> From <http://devdata.worldbank.org/hnpstats>, accessed August 12, 2003.

share of the center is relatively small in these expenditures, but has been rising in recent years. For example, the share of states in total expenditure on education decreased from 91 percent of the total to about 89 percent during 1990s, while the share of the center increased correspondingly to 11 percent by 1999-2000. The share of the center in expenditures in health sector is higher at roughly a quarter, with states accounting for the bulk of the spending. Table A2.2 summarizes major social sector expenditures by both center and states in recent years.

**Table A2.2: Total expenditure by center and states in health sector**  
(INR billion in constant 1993-94 prices)

Year	Education, sports, arts and culture	Medical, health and family welfare	Water supply and sanitation
1993-94	192.5	72.6	31.0
1994-95	204.1	74.7	34.8
1995-96	231.0	80.1	36.5
1996-97	241.0	85.1	39.8
1997-98	251.1	86.5	42.1
1998-99	286.8	93.9	47.1
1999-2000	370.3	118.4	53.8

Source: Shariff et.al. (2002)

These expenditures, large in absolute numbers but small relative to the national income and the total population, also suffer from well-documented inefficiencies (including clinics without doctors, schools without teachers, pupils without books, high rates of school drop outs at primary and middle levels of education, low rates of attainment for females, etc.).<sup>30</sup>

<sup>30</sup> For a recent review of the expenditure inefficiencies and poor delivery of services in social sectors in India, see World Bank (2004).

### APPENDIX 3

#### Selected Poverty Targeted Programs in India

Ministry/Department	Schemes	Objectives	Eligibility	Central Funding 2001-02 (INR millions)
Ministry of Rural Development	1. Swarn Jayanti Gram Swarozgar Yojana (SGSY)	To promote self-employment among the rural poor by providing them income-generating assets through a mix of bank credit and Government subsidy.	Rural families below the poverty line (BPL).	5250
	2. Jawahar Gram Samridhi Yojana (JGSY)	To create need based/demand driven rural infrastructure to boost rural economy in general and improve quality of life in particular.	Allocations made to states that route money to village governments.	16500
	3. Employment Assurance Scheme (EAS)	To create additional wage employment through manual work for the rural poor living below the poverty line, and to create durable community, social and economic assets for sustained employment and development.	Open to all needy rural poor below the poverty line with preference given to SC/ST and parents of child labor.	16000
	4. Sampoorna Grameen Rozgar Yojana (SGRY)	To take care of food security, additional wage employment in event of calamities, and village infrastructure	Launched in September 2001 to merge EAS and JGSY, but implemented as a single unit only starting in 2002-03.	87500
	5. Indira Awas Yojana (IAY)	Meet housing needs of rural poor through helping construction of dwelling units and upgradation of informal ( <i>kucha</i> ) houses.	Members of SC/STs, freed bonded laborers and non-Sc/ST rural poor living below the poverty line.	16138

	6. National Social Assistance Program (NSAP)	To provide social assistance to old persons with little or no regular means of subsistence, households below poverty line in case of death of primary bread winner and pregnant women BPL.	Three sub-schemes cater to each of the three objectives: the National Old Age Pension Scheme (NOAPS), National Family Benefit Scheme (NFBS) and National Maternity Benefit Scheme (NMBS).	6350
	7. Annapoorna Scheme	To provide food security with supply of 10 kg foodgrains per month free of cost.	Senior citizens eligible for pension but not receiving it at the moment.	1000
	8. Pradhan Mantri Gram Sadak Yojana	To connect all villages with more than 1000 population with good all weather roads by end 2003-04, and connect all villages with more than 500 population by 2007.	Implemented through designated executing agencies and district administrations.	25000
	9. Integrated Wastelands Development Program (IWDP)	Development of wastelands based on village/microwatershed plans with people's participation at all stages of development.	Generally sanctioned in areas not covered by DDP and DPAP.	4300
	10. Drought Prone Areas Program (DPAP)	Promoting overall economic development of watershed communities, by putting natural resources like land and water to optimum use to mitigate adverse affects of drought, besides employment generation through non-farming activities.	Areas constantly affected by severe drought conditions.	1575

	11. Desert Development Program (DPP)	Controlling desertification, developing land, water and other natural resources for restoration of ecological balance, and raising production, income and employment through irrigation, afforestation, dry farming, etc.	Covers hot desert areas of Rajasthan, Gujarat and Haryana, and cold desert areas of Jammu and Kashmir, and Himachal Pradesh.	1200
Ministry of Urban Development and Poverty Alleviation	1. Night Shelter Scheme for Footpath Dwellers	To provide night shelters and sanitation facilities to the houseless in urban areas.	Houseless in the urban areas - footpath dwellers who are unable to secure any kind of shelter against the vagaries of weather e.g. rain and winter, single women and children.	401 <sup>a</sup>
	2. Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	To provide gainful employment to the urban unemployed or underemployed through encouraging the setting up of self-employment ventures or provision of wage employment	Two special schemes: Urban Self Employment Programme (USEP) and Urban Wage Employment programme (UWEP), both benefitting urban poor below the urban poverty line living in local bodies with population less than 5 lakhs as per 1991 census. USEP additionally requires that beneficiaries not be educated beyond the ninth standard.	383.1
	3. National Slum Development Programme (NSDP)	Upgradation of urban slums by provision of community infrastructure and social amenities such as water supply, storm water drains, community bath, widening and paving of existing lanes, sewers, community latrines, street lights etc,	Slum Dwellers in Urban Areas	2824

Department of Public Distribution, Ministry of Consumer Affairs	Targeted Public Distribution System (TDPS) and Antyodaya Anna Yojana (AAY)	Ensuring availability of foodgrains at heavily subsidised rates to the poor who are nutritionally at risk with special emphasis on families below the poverty line.	Families below the poverty line	176120
Department of Education, Ministry of Human Resource Development	1. Non Formal Education (NFE)	To support the formal system in providing education to all children upto the age of 14 years and provide non formal education for school dropouts, for children from habitations without schools, working children and girls who could not attend whole day schools.	NFE centres run by NGOs	3990 <sup>b</sup>
	2. National Programme for Nutritional Support to Primary Education	To raise the nutrition status of primary school going children as almost half of them have nutrition levels below that required for healthy development of children of that age group.	Children attending primary school	9300 <sup>b</sup>
	3. Operation Blackboard Scheme	To bring about substantial improvement in physical facilities upto a minimum standard in Primary schools with the aim of improving retention.	All rural children below the age of 14 years.	5200 <sup>b</sup>



	4. Mahila Samakhya Programme	To set in motion circumstances for larger participation of women and girls in formal and non- formal education programmes, and to create environments in which education can serve the objectives of women's equality.	Eligible agencies include educational institutions, registered societies, public trusts and non-profit making companies having a proper constitution or article of association and which have been in existence for 3 years. Target group is Rural women socially and economically marginalised groups.	109 <sup>b</sup>
	5. Sarva Shiksha Abhiyan	To provide useful and relevant elementary education for all children in the 6 to 14 age group by 2010 and to bridge social, regional and gender gaps, with the active participation of the community in the management of schools.	All children age group of 6-14 years belonging to states not covered by District Primary Education Programme (DPEP)	5000 <sup>p</sup>
Department of Fertilizers	1. Retention Pricing Scheme (RPS)	To indirectly subsidise farmers by compensating fertilizer producers in order to maintain stable fertilizer prices and to keep food prices low.	Fertilizer producers	73700
	2. Concession Scheme for de-controlled fertilizers	To cushion the impact of increase in prices of decontrolled P&K fertilizers.		45150

Ministry of Social Justice and Empowerment	1. An Integrated Programme For Street Children	To prevent destitution of children and facilitate their withdrawal from life on the streets by providing them shelter, nutrition, health care, education, and recreation facilities. The programme seeks to protect street children against abuse and exploitation.	State Governments, Union Territory Administrations, Local Bodies, Educational Institutions and Voluntary Organizations are eligible for financial assistance. Target group is children especially vulnerable to abuse and exploitation such as those without homes, children of sex workers and children of pavement dwellers.	
	2. Special Central Assistance To Special Component Plan For Scheduled Castes	To bring SC families above the poverty line enhancing their productivity and income through income generating economic development schemes.	SC families below the poverty line	4525.2
	3. National Scheme Of Liberation And Rehabilitation Of Scavengers And Their Dependents	Time bound identification of Scavengers and their aptitude for alternative trades through a survey, training in identified trades with TRYSEM norms, rehabilitation in various trades and occupations through a prescribed financial package		740 <sup>b</sup>
	4. Assistance To Scheduled Castes Development Corporations (SCDCS)	To motivate SC families below the povert line to undertake income generating economic development schemes through arranging for bank loans, margin money assistance and subsidy and to improve their vocational skills.	All SCDCs. Target group are those below the poverty line SC families	

	5. National Scheduled Castes & Scheduled Tribes Finance & Development Corporation (NSFDC)	To provide funds at low interest rates to the target groups through the State Scheduled Castes Development Corporations (SCDCs) and other channelising agencies for implementing various economically feasible and financially viable self employment schemes/projects in sectors such as Agriculture, Horticulture, Animal Husbandry and Dairy Development, Minor irrigation, Small Industries, Trade and Services and Transport.	Beneficiary should be from Scheduled Castes Community with annual family income not exceeding double the poverty line (DPL) limit	100 <sup>b</sup>
	6. Pre-Matric Scholarships For The Children Of Those Engaged In Uncelan Occupations	To provide financial assistance to enable the children of scavengers, sweepers who have traditional links with scavenging, flayers and tanners irrespective of caste/religion to pursue pre-matric education	children of scavengers, sweepers who have traditional links with scavenging, flayers and tanners	109 <sup>b</sup>
	7. National Safai Karamcharis Finance & Development Corporation (NSKFDC)	To provide concessional financial Assistance for establishment of income generating and viable projects, as an alternate means of vocation to scavengers or their dependents.	Scavengers and their dependents	250 <sup>b</sup>
	8. Pre-matric Scholarship for OBC Students	To spread education amongst children of poorer OBC parents, especially amongst the girl child of weaker sections.	Children belonging to OBCs having family income below double the poverty line.	0.9 <sup>b</sup>

Department of Women and Child Development, Ministry of Human Resource Development	Integrated Child Development services (ICDS) Scheme	To improve the nutritional and health status of preschool children, pregnant women and nursing mothers through providing a package of services including Supplementary Nutrition, Pre-school education, Immunization, Health Checkup, Referral Services and Nutrition & Health Education.	Target group is most vulnerable groups of population including children upto 6 years of age belonging to poorest of the poor families and those living in disadvantaged areas including backward rural areas, tribal areas and urban slums.	8493.8
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Note:

- (a) Subsidy by the Government as of February 2001
- (b) Budget estimate

## APPENDIX 4

### Main provisions of the selected poverty targeted programs

	<b>Broad provisions</b>	<b>Administrative arrangements</b> i) agencies responsible for delivery ii) arrangements for draw down of resources iii) monitoring and evaluation	<b>Intended beneficiaries</b> i) target group ii) selection of beneficiaries iii) contribution by beneficiaries	<b>Financial provisions</b> i) allocation ii) expenditure	<b>Uptake</b> (number of beneficiaries /hectares covered)	<b>States</b>
<b>National Old Age Pension Scheme (NOAPS)</b>	i) social security assistance ii) minimum Rs75 monthly pension	i) district administration, PRLs ii) DoRD to Districts, then postal money order/ draft/ cash iii) committees, progress reports	i) over 65, destitute ii) by GP in GS iii) application form, proof of age	2000-1 i) Rs4470 million ii) Rs4398.8 million	1999-2000 4,980,951 beneficiaries	all
<b>Indira Awaas Yojana (IAY)</b>	i) free shelter ii) Rs20,000 per house, allotted to female or both spouses	i) DRDA/ZP, GP, no contractors ii) released directly to DRDA iii) evaluation studies	i) BPL, at least 60% SC/ST ii) selected in GS. iii) must make own construction arrangements	2000-1 i) Rs21,506 million ii) Rs21,858.1 million	1999-2000 9,27,679 houses constructed Since inception (1985): 67,51,727	all
<b>Drought Prone Area Programme (DPAP)</b>	i) tackle desertification, restore ecological balance ii) field unit 500 hectares for implementation over 4-5 years, costing depends on severity of problem	i) DRDA/ZP provides finance/technical assistance; PIAs (PRLs/NGOs) (ii) directly released to ZPs/DRDAs, then to Watershed Committees/ PIAs iii) independent evaluations	i) drought-prone areas ii) DRDAs/ZPs select villages/watersheds iii) self-help groups/user groups participate in planning, maintenance	1999-2000 i) Rs950 million ii) Rs894.4 million	1999-2000 947 Blocks of 161 Districts in selected States	Andhra Pradesh, Bihar, Chhatisgarh, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttaranchal, West Bengal
<b>Sampoorna Grameen Rozgar Yojana (SGRY)</b>	i) wage employment, food security, asset creation ii) minimum wage paid in 5 kgs grains/man day+cash. Free grain from Centre	i) PRLs /Line Departments/State Govt Corporations ii) 50% funds to GPs through DRDAs/ZPs, 20% to ZPs, 30% to Intermediate PRLs iii) retaining samples, committees	i) rural poor (BPL and APL), preference to SC/STs, parents of withdrawn child labour ii) GPs select beneficiaries iii) none	2001-2 i) total: Rs.49,967.4 million cash: Rs24,967.4 million foodgrain: Rs25,000 million ii) data not available yet	data not available yet	all
<b>Employment Assurance Scheme (EAS)</b>	i) wage employment, asset creation ii) allocationbased, works enumerated in annual plan	i) works selected by ZP/ DRDA, PRLs/local MP, MLA ii) DRDA to ZP (30%) and PS (70%). No interdistrict transfer iii) spending limits, live register	i) adult rural poor, priority to endemic labour exodus areas ii) self-selection, responsibility of GP iii) none	2000-1 i) Rs19,822.7 million ii) Rs18,611 million	2000-1 218.39 million man days generated	all

<b>Integrated Rural Dev't Programme (IRDPA)</b>	i) self employment ii) credit from FIs, govt. subsidy for incomegenerating assets	i) DRDA/ZP, GP (prepares plan), BDO/Gram Sewak (loan application) ii) funds directly to DRDA, then to beneficiaries iii) committees, field visits	i) rural BPL: 50% SC/ST, 40% women, disabled 3% ii) GS approves BPL list iii) repay loan	1998-9 i) Rs14,036.5 million (scheme discontinued in April 1999)	1998-9 1,677,182 beneficiaries percentage of women: 34.5%	all
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